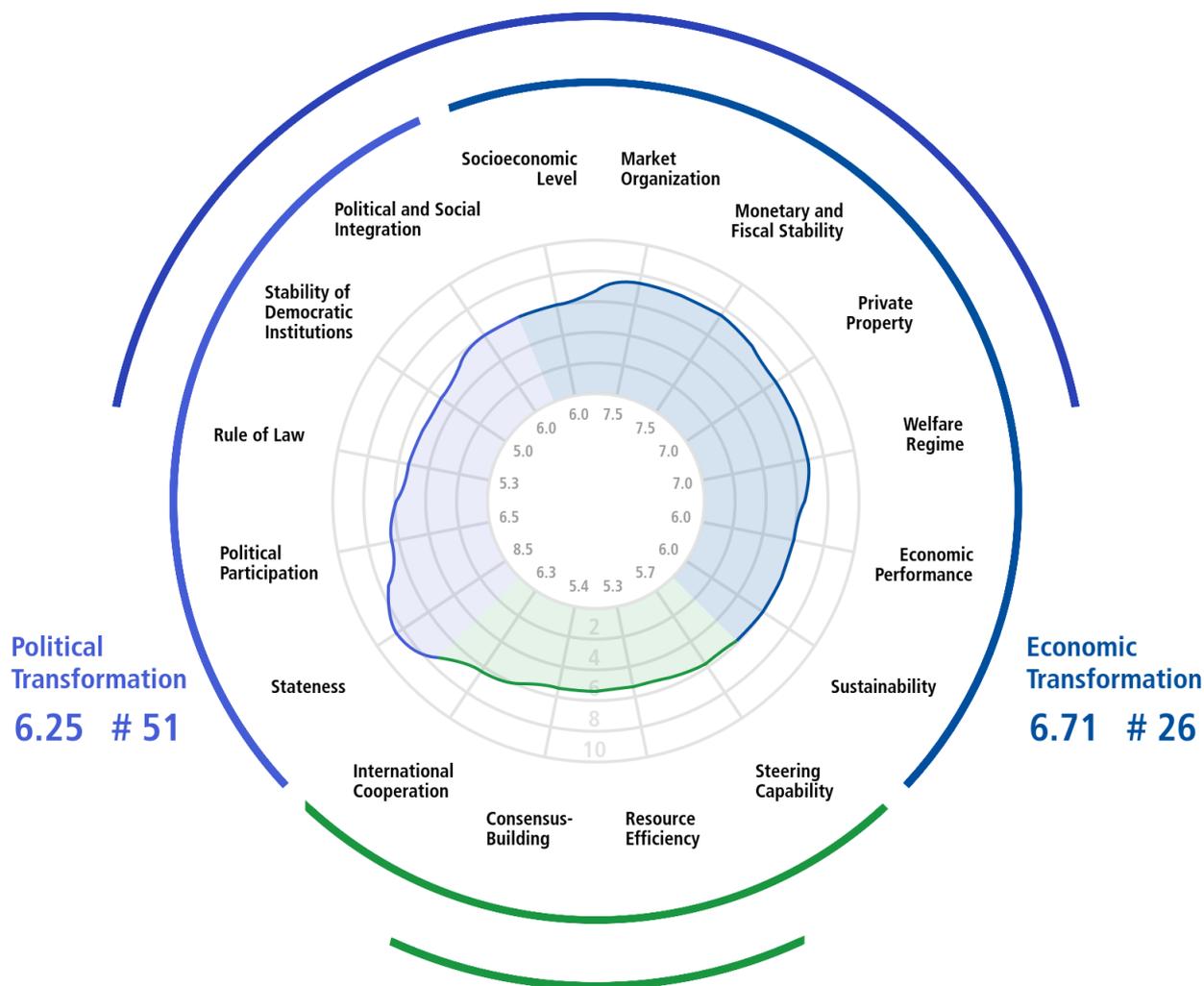


Serbia

Status Index

6.48 # 33

on 1-10 scale out of 137



Political Transformation
6.25 # 51

Economic Transformation
6.71 # 26

Governance Index

4.89 # 65

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

| | | | | | | |
|--------------------------|--------|-------------|--------------------------------|--------------|----------------------|--------------|
| Population | M | 6.9 | HDI | 0.806 | GDP p.c., PPP \$ | 19231 |
| Pop. growth ¹ | % p.a. | -0.5 | HDI rank of 189 | 64 | Gini Index | 36.2 |
| Life expectancy | years | 75.7 | UN Education Index | 0.783 | Poverty ³ | % 8.9 |
| Urban population | % | 56.4 | Gender inequality ² | 0.132 | Aid per capita \$ | 82.2 |

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Serbia's political system continued to be characterized by the dominance of one political party – the Serbian Progressive Party (SNS) – on the national and provincial levels, and in most local government units. In 2020, parliamentary, provincial and local elections were held, despite the high risk posed by the COVID-19 pandemic and with previous election irregularities continuing to echo. Due to the main opposition parties' boycott of the election, for the first time in its democratic history, Serbia has a parliament with no real opposition, which seriously undermines democracy and political dialogue.

Parliamentary oversight over the executive remains limited, weakening the democratic accountability of the executive. This was particularly obvious during the outbreak of the COVID-19 pandemic when the balance of power shifted further toward the government. The parliament's jurisdiction and practical ability to scrutinize the actions of the government during the state of emergency was seriously undermined, in particular with regard to overseeing the emergency measures introduced during the pandemic. The status of several independent bodies such as the ombudsman, and the commissioner for information of public importance and personal data continued to deteriorate, limiting their public impact.

Minority rights are, in general, respected in accordance with the constitution, which defines Serbia as a multi-cultural country. Media independence and pluralism continue to face serious and increasing challenges. The judiciary is not free of political influence, and is further plagued by inefficiency, nepotism and corruption. Corrupt practices provide space for wide clientelistic networks, which are used to obtain or remain in power through elections. The judiciary and the Prosecutor's Office are under the influence of the executive, and many corruption scandals escape investigation and litigation.

Unemployment remains high, with a significant number of people active in the shadow economy and in vulnerable jobs. Income inequality is high, and almost a quarter of people are at risk of poverty and social exclusion; 7% of the population live in absolute poverty. Although the government has introduced several important economic and fiscal reforms since 2014, slow

economic growth is a serious problem for society, with incomes failing to converge to the EU average. The public sector remains bloated, lacks accountability and is inefficient, while the quality of public services is low. While the overall business environment is good, SOEs remain under tight political control and the government retains a significant presence in the economy. Privatization continued modestly, with the selling of the third-largest bank in the country (the Komercijalna bank) and several other smaller companies. Public finances were in good shape prior to the COVID-19 pandemic, allowing the government to implement economy-wide measures to tackle the resulting recession. The level of public debt significantly increased in 2020 but is expected to remain below 60% over the coming years. The economy contracted 1.5% during 2020, a much better result than previously expected due to the measures introduced by the government and the structure of the economy. A rapid recovery is expected.

The precise boundaries of the territory over which the Serbian state exercises jurisdiction continue to be disputed, since the status of Kosovo is yet to be resolved. Relations with neighboring Western Balkan countries did not improve significantly in 2019 and 2020, primarily due to the political statements and actions of certain state officials. EU accession remains the country's main strategic goal, but the process has significantly decelerated, with only two negotiation chapters opened in 2019 and none opened in 2020.

History and Characteristics of Transformation

Serbia's transition to democracy and a market economy has been fraught with statehood conflicts. The communist successor party, led by Slobodan Milošević, won the first democratic election in 1990, when Serbia was the largest constituent republic of Yugoslavia. Whereas Milošević and his allies sought to preserve a centralized federal state, the newly elected Slovenian and Croatian leaders wanted further decentralization or to exit the federation. Irreconcilable aims and nationalist mobilization led to the collapse of the federation, several wars and the creation of several independent states.

President Milošević established a semi-authoritarian regime in the remainder of Yugoslavia. Clientelist networks in the state apparatus and state-dominated economy enabled him to control electronic media, forge election results, and effectively divide and isolate the political opposition. The regime increased political repression in Serbia and military repression of ethnic Albanians in Kosovo. The country slid into a full-scale war until NATO airstrikes forced the regime to abandon control over Kosovo. The military defeat, deepening socioeconomic crisis, a student protest movement and a broad alliance of opposition parties contributed to Milošević's ousting in October 2000.

The opposition won the federal parliamentary and presidential elections, and the Serbian local parliamentary elections in 2000. Opposition leaders Vojislav Kostunica and Zoran Djindjic were elected to be the federal president and Serbian prime minister, respectively. The heterogeneity of the coalition and the assassination of Djindjic in 2003 limited the government's capacity to sustain policies of economic and political reform. Successive elections until 2008 generated majorities for parties and candidates committed to liberal democracy and European integration. In 2006, Serbia adopted a new constitution, and, in 2008, the Stabilization and Association Agreement was signed with the European Union.

In 2008, a group of politicians led by Tomislav Nikolić and Aleksandar Vučić left the anti-EU Serbian Radical Party (SRS) and created the pro-EU Serbian Progressive Party (SNS). Together with the Serbian Socialist Party (SPS), the SNS won the elections and Nikolić was elected president in 2012. Since then, the SNS has been the governing party in different coalitions in a period marked by frequent elections. Between 2012 and 2021, four parliamentary elections, two presidential, three provincial and numerous local elections took place. The frequency of elections has hindered policy development, and the pursuit of mid- and long-term reform processes. According to reports from the European Union and other international organizations, Serbia has faced serious challenges to the rule of law, media freedoms, participatory democracy, and inclusive and evidence-driven political dialogue between political parties across the ideological spectrum, and between the state and non-state actors.

Serbia's state framework has changed several times since the dissolution of Yugoslavia. After 1992, Serbia and Montenegro constituted the Federal Republic of Yugoslavia (FRY) until this was replaced by an EU-facilitated union with limited powers in 2003, which was in turn dissolved in 2006 following Montenegro's independence referendum.

Following defeat in the Kosovo war, Serbia had to accept that the Kosovo Force (KFOR), a NATO-led international peacekeeping force, took over control over the province in June 1999. The U.N. Mission in Kosovo (UNMIK) was established to help normalize and advance regional stability in the Western Balkans. It has exercised nominal political authority over the territory following the U.N. Security Council Resolution No. 1244/1999. Serbia's government and major political actors interpret the resolution as the legal basis for Kosovo's status as part of Serbia. Following mass unrest and attacks on minority communities in 2004, the international community initiated negotiations between Serbia's government and Kosovo Albanian representatives on Kosovo's future status. The talks failed, and the United States and other major Western states backed an internationally supervised process of independence for Kosovo. In 2008, the Albanian-dominated government in Pristina declared Kosovo's independence, which was subsequently recognized by major Western states but opposed by Serbia, U.N. Security Council members Russia and China, and five EU member states. In 2013, Belgrade and Pristina agreed to integrate the ethnic Serb-dominated northern Kosovo into Kosovo's legal framework in exchange for guaranteed representation and veto rights. This so-called Brussels Agreement, and the arrest and extradition of several indicted war criminals by Serbia's government, paved the way for the opening of EU accession negotiations in 2014.

Serbia's EU integration process started in 2000 with the signing of the Framework Agreement between the European Union and the Federal Republic of Yugoslavia, which made the provision of EU assistance for political and economic reforms possible. Serbia applied for EU membership in 2009 and in 2012 the European Council granted Serbia candidate status. Accession negotiations opened in 2013. By the end of 2020, Serbia had opened 18 out of 35 negotiation chapters (two of which have been negotiated and provisionally closed). However, in 2020, Serbia did not open a single chapter – the first time since the beginning of the accession negotiations.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Serbian state has the monopoly on the use of force over its territory, except for the area of Kosovo that it still considers to be a Serbian autonomous province. Serbia does not accept the independence proclaimed by an Albanian-dominated Kosovan parliament in 2008, nine years after a NATO-led military intervention forced Serbia to withdraw from Kosovo. In 2021, Kosovo's independence was recognized by 98 countries, including 22 out of 27 EU member states. U.N. Security Council member states Russia and China also do not recognize the secession. The NATO-led multinational peace force KFOR, the U.N. mission and the EU rule of law mission EULEX continue to operate in Kosovo but on a much more limited scale than initially following the intervention in 1999.

In Serbia itself, the strengthening of police, security and intelligence agencies have reduced the threat to public security and order posed by organized crime. However, several dozen alleged gangsters have been killed over the last 10 years, with only a fraction of these murders having been resolved. Several media outlets have reported that these killings are part of a feud between the “Kavač” and “Škaljari” clans from Montenegro. Reports in the media critical of the government have raised suspicions that these criminal groups have ties with the authorities. Early in 2021, Serbian President Aleksandar Vučić proclaimed a crackdown on criminal groups.

Serbia, according to its constitution, is the state of the Serbian people and all citizens who live in Serbia. While the constitution emphasizes the ethnic Serbian majority, it also provides rights for ethnic minorities. According to the 2011 census, the population (excluding Kosovo) is dominated by ethnic Serbs (83%), with Hungarians (3.5%), Roma (2%) and Bosniaks (2%) the largest ethnic minorities. National minority councils are established for 19 minorities. The use of minority languages in education, the judicial system, and municipal and other representative bodies is allowed. The Autonomous Province of Vojvodina has six official languages (Serbian, Hungarian, Croatian, Romanian, Slovakian and Ruthenian).

Question
Score

Monopoly on the
use of force

9



1

State identity

9



1

Ethnic Serbs in neighboring countries are entitled to hold dual citizenship, with the exception of Montenegro where citizens must renounce other citizenships. Aside from Kosovo, there are no intensified disputes over the issue of the current nation-state concept. Recently, there were no strong appeals for regional autonomy of specific ethnic groups (Hungarians, Bosniaks, Albanians), as was the case before. Some political forces advocate more autonomy for the Autonomous Province of Vojvodina (Vojvodinian Front), the historical region of Sandžak (Party of Democratic Action) and southeastern Serbia (Party for Democratic Action). These parties were supported by less than 3% of voters in the 2020 parliamentary and provincial elections.

Serbia is constitutionally a secular state, but the current government treats the Serbian Orthodox Church (SOC) with obvious preference. The population (excluding Kosovo) is 84.5% Serbian Orthodox, 5% Roman Catholic and 3% Muslim. The SOC exerts political and cultural influence. The church strongly opposes Kosovo's independence, same-sex marriage and abortion. The late patriarch opposed opposition party protests and supported the government. Recently, the SOC has reiterated its intent to pay no taxes and thus considers itself above the rest of the society. Media critical of the government insist that the authorities interfered in the election of the new patriarch in 2021.

In some non-Orthodox communities, clergy dogmas prevail. This was particularly the case in the conflicts between leaders of the Muslim communities in the region of Novi Pazar and neighboring local self-governments. This was in essence a conflict between the two Islamic communities of Serbia, one seated in Belgrade and the other in Sarajevo. The former leader of the Islamic community in Serbia, mufti Muamer Zukorlić, established the Justice and Reconciliation Party and became a member of the parliament. Although suspected of corruption in cases linked to an illegal construction in Novi Pazar, as a member of parliament, the former mufti enjoys immunity from state laws and for the moment cannot be prosecuted.

Serbia has a relatively modern administration, which extracts and allocates resources throughout the country for jurisdiction, tax authorities and law enforcement. However, the state's efficiency and effectiveness are limited in some areas with the enormous backlog of pending court cases causing particular concern.

The precise number of employees in public administration is unknown. The government's Human Resources Management Service does not publish this data for all levels of governance. Another trend in recent years has been the appointment of officials as "acting officers" (currently, there are about 200), who are appointed for a limited time period (up to six months) after which they are required to be permanently appointed. However, many acting officers have illegally remained in their position for several years without being appointed to a permanent position. Acting officers cannot fully execute their powers and remain under the government's (i.e., ruling party's) strict control.

No interference of religious dogmas

8



1

Basic administration

8



1

During the coronavirus crisis, state efficiency and the effectiveness of services declined due to the state's inability to provide services. Although public administration called on Serbians to switch to using e-government tools, recent research showed that the citizens did not use these tools to a greater extent than before the crisis. Because of the lack of capacity and resources (e.g., medical staff and equipment, and space for medical treatment), the provision of health care services has faced serious difficulties.

In 2019, 99% of the population had access to improved drinking water and 96% to improved sanitation. Still, according to a 2019 WHO report, Serbia ranked bottom among European countries in terms of the urban population's access to drinking water, because of the country's old sanitation facilities and unregulated surface water resources.

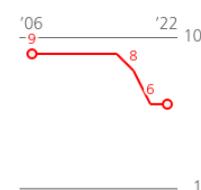
2 | Political Participation

Between 2012 and 2021, four parliamentary elections, two presidential, and numerous provincial and local elections took place. Some of them were called by the governing coalition merely to capitalize on the weakness of opposition parties and the popularity of President Aleksandar Vučić. In 2020, parliamentary, provincial and local elections were held on June 21, despite the high public health risk posed by the COVID-19 pandemic. The government canceled the curfew imposed three weeks earlier in order to hold the elections. This decision was criticized by experts and opposition parties; later reports showed that the number of COVID-19 infections significantly increased before and immediately after the elections. Health protection measures were introduced for the election day. For example, people were required to use disinfect before entering a polling station, limits were placed on the number of people allowed into a polling station at any one time and the wearing of face masks was made mandatory. However, numerous reports complained that the regulations were not observed in many polling stations, including by President Vučić himself.

A proportional electoral system with party lists in a single nationwide constituency was used. The electoral threshold for entering the parliament was lowered to 3% (from 5%) soon after the opposition parties that had formed the Alliance for Serbia coalition decided to boycott the elections as conditions for holding a fair election, particularly equitable access to information media, were unlikely to be met. Electoral irregularities multiplied compared to previous elections. Serious complaints were raised about the accuracy of the voter register, lack of transparent campaign finance and biased media coverage. The latter was especially acute in the regional and local media that covered the campaign activities of ruling parties much more extensively than those of other political actors. Previous Office for Democratic Institutions and Rights (ODIHR) recommendations were not met,

Free and fair elections

6



especially those related to election administration, media, campaign finance, dispute resolution and sanctions for electoral violations (ODIHR special election assessment mission, 2020). Electoral turnout for the parliamentary election (49%) was the lowest since the re-establishment of the multiparty system.

President Vučić holds all veto power in the country. He does not respect the constitutional limitations to his powers but imposes his will on the other state institutions. Without his consent, neither the government nor the parliament undertakes any action. Under the legal framework, the Parliamentary Defense and Security Committees exercise oversight over the army and secret services. However, the committees are almost exclusively composed of members of parliament from the governing parties. Thus, the parliament serves to support and approve proposals from the executive rather than control and correct them. The clergy has some impact on the elected representatives in the government and in the parliament (e.g., the Serbian Orthodox Church benefits from immunity from paying taxes).

Although the government has claimed to have banned domestic and foreign business tycoons from interfering in the policymaking process, they continue to influence decision-making through informal channels – particularly in cases of significant capital investment. Examples of ventures by the United Arab Emirates and Chinese investors, such as Belgrade Waterfront and the Bor copper mining complex, highlight such influence.

The freedoms of association and assembly are guaranteed by the constitution, and the government generally respects these rights in practice. In 2020, due to the COVID-19 pandemic, the government declared a state of emergency, and strict restrictions on assembly and public gatherings. These measures did not come with criteria for restricting working hours and had different rules for residents and non-residents. Their compliance with the constitution has been questioned given that the state of emergency and measures were not approved by the parliament. The freedom of assembly and association in Serbia seriously deteriorated during the COVID-19 pandemic. Restrictive measures placed on gatherings (which were limited to five people) and on shop opening hours remained in force in January 2021.

LGBTQ+ activists held the Pride Parade in Belgrade in 2019. The parade was organized as an online event in 2020, while the pandemic restrictions were in force. In 2019, “One of Five Million” opposition protests took place almost daily all around the country. Although peaceful, protests escalated on several occasions, such as the protest that resulted in a break in to the premises of Radio Television of Serbia and the protest around the presidential residence. Another wave of protests occurred in July 2020 in response to the announced curfew. These were suppressed, with the police using tear gas and batons against protesters. The police also beat up several journalists who were reporting on the protests.

Effective power to govern

8



1

Association / assembly rights

7



1

The constitution guarantees freedom of expression and freedom of the press. However, the independence and pluralism of the media has continuously declined in recent years. This is due to the dominance of the ruling political parties, opaque media ownership and funding, the weak financial base of private media outlets, and a corresponding dependence on business and political interest groups. The privatization of several media outlets has been highly disputed and has impacted the quality of available information. In a controversial takeover, state-owned Telekom Serbia took over the cable operator Kopernikus (whose management is close to Serbia's ruling party), which improved its reach through the latter's cable capacities. Kopernikus used the proceeds to acquire the national broadcasting rights of television outlets Prva and O2. The ruling party increased its dominance over private cable operators and independent television outlets, and shrank the media space available for opposition political parties.

Political actors exert influence over the editorial policies of print and electronic media. The media outlets that are most critical of the government are attacked publicly. Journalists face threats, violence and intimidation. The number of such attacks is growing constantly. In 2019, 38 such incidents were registered, which increased to 82 in 2020. Serbia has dropped to 93rd place in the global World Press Freedom Index 2020. Self-censorship among journalists still exists when journalists interview or report on members of the establishment. Legal proceedings involving attacks on and intimidation of journalists are sporadic.

In 2020, the Strategy for the Development of Public Information System was adopted. It was developed over several years amidst conflicts between the government and media associations. The strategy should set the basis for safeguarding journalists, but also for improving the work of the Regulatory Authority for Electronic Media (REM). The REM is an independent regulatory body appointed by the parliament, which should ensure the quality and diversity of the content on electronic media. The REM is constantly criticized by media associations and opposition parties due to its inactivity and lack of independence.

3 | Rule of Law

The constitution and legislative framework stipulate a separation of powers between the legislative, judicial and executive branches. In reality, the executive branch dominates over the legislative. Parliamentary oversight of the executive remains purely formal and does not ensure the democratic accountability of the executive branch (European Commission 2020).

In the 2020 parliamentary elections, the ruling Serbian Progressive Party (SNS) won a record majority of 188 seats (out of 250) with the remaining seats occupied by parties close to the SNS. The elections were boycotted by the main opposition parties, highlighting the increased level of political polarization. The OSCE mission

Freedom of expression

5



Separation of powers

4



raised concerns about the dominance of the ruling party in the media. The Local Open Society Foundation organized a structured dialogue to address the principles and best practices for organizing the elections. This dialogue involved members of all relevant political parties and civil society, but ultimately resulted in a failure.

President Vučić has continued to exceed his constitutional prerogatives. For example, Vučić signed the Washington Agreement with Kosovo Prime Minister Hoti and actively supported the SNS in the election campaign. The independent bodies (e.g., the ombudsman, and commissioner for information of public importance and personal data protection) have been subject to intense political pressure. The Global Alliance on National Human Rights Institutions, an international association of national human rights institutions, questioned whether the ombudsman has applied the Paris principles to his work (i.e., minimum standards that legitimate, promote and protect human rights).

During the COVID-19 pandemic, the parliament was suspended in practice and its capacity to oversee the executive was limited. The suspension of the parliament allowed the president and the government to unilaterally introduce measures, such as limiting freedom of movement for citizens. The government restricted media freedoms by centralizing and keeping a strict control over information about the spread of COVID-19.

The new government submitted constitutional amendments related to the judiciary in December 2020 without proper consultation with the expert community. CSOs and practitioners active in this area pointed out several issues in this regard, such as the composition, jurisdiction and work of the High Judiciary Council and Council of Prosecutors, and the role of the Judicial Academy.

The government, as well as political, business and other interests with connections to the ruling party exercise significant influence over the judiciary. International indices suggest that the Serbian judiciary is prone to political influence. The Global Competitiveness Report 2018 ranked Serbia 107 out of 140 countries for judicial independence (World Economic Forum). Meanwhile, the Rule of Law Index suggests that the rule of law in Serbia is weak, especially in the area of improper government influence (World Justice Project). The courts are slow and inefficient (the average length of a court case is 635 days). Litigation incurs very high costs, over 40% of the claim at hand (World Bank, Doing Business 2018). There is a significant backlog of old unresolved cases, which creates further delays.

The biggest problem regarding political influence concerns the process of judicial appointments. Holders of judicial offices are appointed by the parliament and, after three years, are re-elected by the High Judicial Council, a professional body mostly composed of judges. This process leaves substantial room for political influence. Reforming it is a prerequisite for further integration into the European Union, but this will require constitutional changes. The necessary constitutional changes have

Independent
judiciary

6

'06 '22 10



1

been delayed, even though they were envisaged to be finalized in 2017. The main impediment is the government's unwillingness to give up influence over the judiciary by making the appointments more independent. The Venice Commission has criticized the drafted constitutional changes, according to which judges would in first and second instances be appointed by the High Judicial Council. The council would include representatives from the Ministry of Justice, prominent lawyers and legal scholars, allowing political parties to appoint their members and hold a majority in the council. Recent appointments to the High Judicial Council indicated that even under the political influence of the executive, a degree of independence remained within the judicial branch.

Political control is even more pronounced over the Prosecutor's Office. In many politically sensitive cases involving high state officials or party members, investigations have never advanced to litigation. Notable examples include the "Savamala" case in which a group of masked men razed down a block in Belgrade city center, and the "Krušik" cases, which involved political corruption and the illegal trade of arms produced by a state-owned defense manufacturer.

Serbia's legal framework for fighting corruption and abuse of power continues to be improved. For example, the Law on the Protection of Whistleblowers was recently introduced. Nevertheless, the implementation of these regulations is weak and attempts to tackle corruption have proved unsuccessful.

Senior public officials are rarely found guilty of corruption or other felonies. At the same time, the government and loyal media outlets use allegations of corruption against their critics. High-profile revelations by investigative journalists that implicate members of the government in corruption fail to receive the attention of the Prosecutor's Office, in spite of solid evidence. For example, the Minister of Interior could not explain the source of €200,000 he used to buy an apartment, while others were mentioned in the Panama Papers and accused of business transactions with criminal gangs.

Amendments to the Law on Free Access to Information of Public Importance and the Law on the Ombudsman, which aimed to strengthen their capacities and were initiated in 2019, have still not been enacted.

Serbia has established a strong system for guaranteeing and protecting civil rights and protecting citizens against discrimination. However, some minorities, such as the Roma and LGBT communities, continue to face prejudice and discrimination. "Da se zna," an LGBT+ NGO, runs a database of crimes motivated by homophobia and transphobia, according to which the number of such attacks increased in 2019 (63 attacks were recorded in total).

Equal rights between men and women are guaranteed by the legal system and official state policies. Nevertheless, gender inequality still exists in labor affairs and

Prosecution of office abuse

4

'06 '22 10



1

Civil rights

7

'06 '22 10



1

public institutions. According to the Global Gender Gap Report, Serbia ranked 78 out of 153 countries analyzed concerning wage equality for similar work, and 82 concerning the proportion of legislators, senior officials and managers who are women (World Economic Forum). In 2020, amendments were made to the laws on local and national elections, which require at least 40% of electoral lists to be men and 40% to be women. Reports of family violence and torture have increased in recent years, particularly during the COVID-19 pandemic. Some notable cases of sexual assaults were finally exposed to the public and prosecuted. For example, Milutin Jeličić, a former president of the Brus municipality, was found guilty of sexual harassment.

Disabled persons face discrimination regarding access to public services, although a 2019 Ombudsman report showed that the number of related cases had slightly decreased compared to previous years (from 150 to 125).

Serbia continues to host one of the largest populations of displaced people in Europe. It was one of the countries on the so-called Balkan Migration Route, along which refugees fled the Middle East for Europe. Migrants were subjected to harassment from the far-right group Levijatan and the so-called People's Patrol (an informal militia).

4 | Stability of Democratic Institutions

The ruling SNS controls all branches of power, subverting the constitutional system. The role of members of parliament is degraded because of the government's control over the ruling majority in the parliament and the absence of opposition.

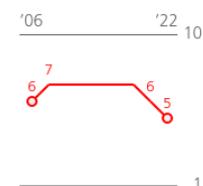
The work of the commissioner for information of public importance and personal data protection was undermined during 2019 and 2020. The majority of public institutions in Serbia ignore the commissioner's activities. Only one-third of the nearly 4,000 obliged institutions submitted their reports to the commissioner in 2019.

The ombudsman elected in 2017 has been less visible than his predecessor and has not raised any issues regarding violations of civic and human rights, although his annual report indicates that a high number of complaints have been submitted (e.g., during the violent protests in July 2020). The parliament has repeatedly delayed discussing and adopting reports submitted by the commissioner, the ombudsman and the State Audit Institution.

Public administration is undergoing reform. The new Public Administration Reform Strategy is about to be adopted. The previous reform strategy achieved modest results. The number of complaints submitted by citizens regarding transparency and

Performance of democratic institutions

5



the work of public institutions remains high. In 2020, official data on the pandemic lacked transparency and was manipulated. The Balkan Investigative Reporting Network reported that the official number of infections and deaths caused by COVID-19 in Serbia was much lower compared to the real number.

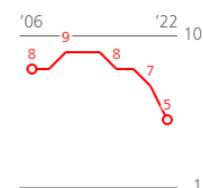
Democratic institutions are partially accepted as legitimate by the relevant actors. The biggest issue is the composition of the national parliament, which consists almost entirely of representatives of the ruling parties. 243 out of 250 members of parliament (97%) belong to the ruling Serbian Progressive Party or parties affiliated to the ruling party. In 2020, the new parliament adopted 50 laws with only one public hearing. Debates on proposed legislative solutions do not occur in practice. After a delay of six months, the commissioner for gender equality was appointed following a closed and untransparent procedure. The Code of Conduct for members of parliament was enacted during the review period. However, the code was immediately breached due to the open, nonargumentative attacks on prominent representatives of civil society and media by several members of parliament from the ruling party. The governing coalition has weakened the resources available to the ombudsman, and the commissioner for information of public importance and personal data. A worrisome trend has been the dependence of these independent bodies on their parent institutions, particularly the National Assembly. Several international reports have noted the constant pressure from the executive.

Government officials have also misused administrative resources and control the state media to ensure electoral support for the governing parties. The negative trend of public officials from the ruling party using public resources and claiming credit for the success of measures achieved by using public resources reached a peak during the election campaign in 2020.

During the COVID-19 pandemic, the government and the president tried to exclude other relevant stakeholders from participating in decision-making and the management of the crisis. In particular, the government and president tried to marginalize the work of the parliament and independent bodies (e.g., the State Audit Institution, ombudsman, and commissioner for information of public importance and personal data protection). Government officials were subject to criticism for their activities and decisions made during the pandemic crisis (e.g., the measures imposed, and the lack of transparency over official figures, including the number of people that infected or killed by the coronavirus). The most flagrant example was the minister of interior's order that restricted freedom of movement, which could only be enacted by the government together with the president, according to the article 200, paragraph six of the Serbian constitution. The Chamber of Commerce argued that the introduction of the curfew in Serbia was unconstitutional, since there was no definitive reason for why the National Assembly could not meet at that point.

Commitment to democratic institutions

5



5 | Political and Social Integration

The Serbian party system is highly fragmented, increasingly polarized and mostly dominated by individuals, many of whom have been active in Serbian politics for more than two decades. The Serbian Progressive Party (SNS), led by President Aleksandar Vučić, dominates the party system. Other political parties struggle to make a significant impact and data on their popularity is ambiguous. Data cited by the opposition political party, the Party of Freedom and Justice, indicated that up to 42% of citizens supported opposition parties. On the other hand, a poll by Ipsos Strategic Marketing (December 2020) indicated that the opposition could count on less than 10% support.

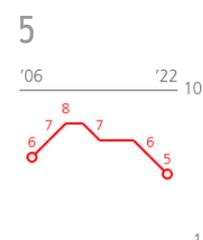
In January 2021, the parliamentary majority consisted of the SNS, the Socialist Party, the Patriotic Alliance and their associates. The coalition holds 230 seats and is supported by some national minority parties. The current parliamentary opposition comprises only six members of parliament from ethnic minority parties and one independent member of parliament. All parliamentary parties support EU accession, while the extra-parliamentary opposition is divided between pro-EU and anti-EU camps. Several opposition parties (e.g., the Democratic Party, Dveri, the People's Party, and the Party of Freedom and Justice) boycotted the last elections, while others failed to clear the 3% electoral threshold. Women comprise one-third of all members of parliament, while almost half of the ministers in the government are women (including Prime Minister Ana Brnabić).

One of the issues affecting the party system in Serbia is related to clientelism. Membership in the ruling political parties is seen as an opportunity for employment and promotion, and to fulfill one's own interests. This is reflected in the fact that the SNS has a membership of around 750,000 people.

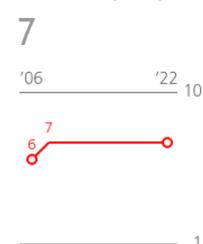
Civil society organizations (CSO) participate in public discussions at the national and local level, but this practice is rather scarce. Public discussions fail to satisfy expectations and current legal provisions regularly miss key elements (e.g., relevant documents or initial analysis). CSOs have the greatest impact through their individual or concerted initiatives in areas such as the EU accession process, or youth or security issues.

There are around 30,000 CSOs in Serbia. This number is constantly rising and is complemented by the NGOs organized by the government and political parties (GONGOs). The presence of GONGOs has been particularly visible in project support for CSOs organized on the local level. Meanwhile, several dubious calls launched by line ministries have provided grants to GONGOs following opaque procedures. In several cases, the GONGOs were only established a few days before the launch of the call for proposals.

Party system



Interest groups



Trade unions are organized into several traditional associations. Although present in intersectoral bodies (e.g., the Socioeconomic Council, which is in charge of creating policies related to workers' rights), the actual impact of trade unions and the ability of trade unions to mobilize their constituencies are very limited. There are several business sector associations (e.g., the Chamber of Commerce of Serbia, AmCham, the Serbian Association of Managers and the Employers Union), with no mutual coordination of activities related to improving the overall environment for business development. The line of polarization between associations relates to how closely affiliated they are to the ruling party.

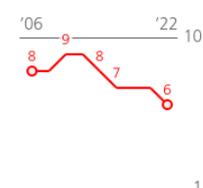
Information about the exact number of CSOs engaged in certain areas or their networks does not exist. There are several civil society networks and coalitions, such as Coalition 27, which was established to monitor the EU accession process regarding accession chapter 27. Some CSOs actively offer services to tackle social problems, such as domestic violence, trafficking, consumer protection and access to free legal aid. Worryingly, GONGOs are increasingly trying to undermine the work of CSOs. GONGOs either actively and enthusiastically support government representatives and the activities of prominent Serbian Progressive Party members, or openly attack the representatives of other CSOs, independent media and opposition representatives. This is generally done through smear campaigns, which lack any evidence and data supporting the GONGOs' claims.

Citizens generally approve of democratic norms and procedures, and accept the constitutional framework. Yet, according to a 2020 survey, Serbians tend not to trust the national parliament (only 18.1% of people trust the parliament) or the government (only 20.2% of people trust the government). These figures are close to the average for EU member states, although the level of trust decreased between 2019 and 2020. This can be linked to the absence of opposition parties in the current parliament. According to other research, citizens distrust the motives of members of parliament – 63% believe that members of parliament care more for the interests of their parties than of citizens. Only 18% of citizens think that the parliament is able to exercise oversight over the executive and 14% that members of parliament represent the interests of ordinary citizens. Traditionally, the army leads the opinion polls on the trustworthiness of institutions.

There are no studies examining the impact of the state's response to COVID-19 on citizens' trust in democratic institutions. Some government institutions gave contradictory information related to the pandemic, and some of the imposed measures were widely criticized for their effectiveness, proportionality and scope of impact.

Approval of
democracy

6

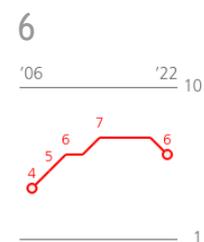


According to the 2017 European Values Study, only 17.2% of Serbians believe that people can be trusted. Studies have shown a level of social distance between ethnic Serbs and national minorities (e.g., unease about familiar or social relationships), although its intensity varies (Institute of Social Sciences, 2020). Generally speaking, distrust is greatest toward ethnic Albanians and Roma.

Approximately one-third of Serbians believe that someone in their local area is concerned by the challenges facing other citizens (Center for Research, Transparency and Accountability, 2019). However, only 13% of citizens reported having initiated or actively participated in solving problems or decision-making in their communities. An overwhelming majority (95%) do not participate in civil society organizations (IPSOS, 2019).

Since the start of the pandemic, local communities, businesses and civil society organizations have demonstrated solidarity and engaged strongly in volunteering activities, especially supporting older people whose movement was restricted due to the physical distancing measures that were introduced (UNDP, 2020).

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

Serbia ranks among upper-middle-income countries, according to its GDP per capita (World Bank). In terms of the Human Development Index (HDI, 0.806), Serbia ranked 64th in the world in 2019 – lower than all other European countries, except for Albania, Bosnia and Herzegovina, Ukraine, Northern Macedonia, and Moldova. The overall loss in HDI due to inequality was 12.5%.

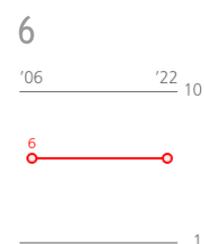
In 2019, 31.7% of the population was at risk of poverty or social exclusion, considerably higher than the average for the EU-27 (20.9%, Eurostat). Risk of poverty and social exclusion are higher among children and young people under the age of 24, the unemployed, households with three or more children and single-parent households. Overall, 7.1% of the population lives in absolute poverty, with the rate is significantly higher in rural areas (National Statistical Office, 2018).

Income inequality is among the highest in Europe. The S80/S20 income quintile ratio was 6.46 in 2019 – down from 11.0 in 2016, but still higher than for most

European countries (EU average: 4.99), and for Croatia and Slovenia (4.76 and 3.39, respectively). The Gini coefficient was 33.3 in 2019, lower than in previous years but still among the highest in Europe. In 2019, the Gender Inequality Index was 0.132, 35th in the world (UNDP).

Question Score

Socioeconomic barriers



Preliminary assessments show that the COVID-19 pandemic has exacerbated inequalities and severely increased poverty, exclusion, precarity and vulnerability (UNDP, 2020; Friedrich Ebert Stiftung, 2020). The position of the Roma population in informal settlements is estimated to be particularly difficult (Social Inclusion and Poverty Reduction Unit, 2020).

| Economic indicators | | 2017 | 2018 | 2019 | 2020 |
|---------------------------|----------|---------|---------|---------|----------------|
| GDP | \$ M | 44179.1 | 50640.7 | 51475.0 | 52960.1 |
| GDP growth | % | 2.1 | 4.5 | 4.2 | -1.0 |
| Inflation (CPI) | % | 3.1 | 2.0 | 1.8 | 1.6 |
| Unemployment | % | 13.5 | 12.7 | 10.4 | 9.1 |
| Foreign direct investment | % of GDP | 6.6 | 8.0 | 8.3 | - |
| Export growth | % | 8.2 | 7.5 | 7.7 | -5.9 |
| Import growth | % | 11.1 | 10.8 | 10.7 | -3.5 |
| Current account balance | \$ M | -2322.7 | -2459.1 | -3535.3 | -2235.6 |
| Public debt | % of GDP | 58.6 | 54.4 | 52.8 | 58.4 |
| External debt | \$ M | 34279.1 | 34223.1 | 35896.2 | 44276.0 |
| Total debt service | \$ M | 4963.0 | 5722.1 | 7305.3 | 6225.3 |
| Net lending/borrowing | % of GDP | 0.8 | 0.6 | 0.2 | - |
| Tax revenue | % of GDP | 24.1 | 23.6 | 24.1 | - |
| Government consumption | % of GDP | 16.1 | 16.5 | 16.6 | 18.7 |
| Public education spending | % of GDP | 3.7 | 3.6 | 3.6 | - |
| Public health spending | % of GDP | 4.7 | 5.1 | - | - |
| R&D expenditure | % of GDP | 0.9 | 0.9 | - | - |
| Military expenditure | % of GDP | 1.8 | 1.6 | 2.2 | 2.1 |

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

An institutional framework for market competition has been established and is mostly upheld in Serbia. The private sector contributes to greater share to GDP generation and employment. Nevertheless, the state has a pronounced role in the economy, with numerous state-owned enterprises (SOE) in strategic sectors. The state sector is usually inefficient, with an elevated wage bill and many companies rely on state support via budget transfers (e.g., direct subsidies or state guarantees for loans). There are issues with ensuring an equal playing field since companies with political connections can bypass rules. Legally, there is no discrimination based on the type of ownership (private or public). SOEs often enjoy regulatory benefits, especially regarding barriers to entry into network industries. With the exception of EU nationals, foreign persons cannot own agricultural land personally, but can do so through domestic legal entities.

Setting up a new company is easy and inexpensive – it takes seven days and seven procedures, and costs 2.3% of per capita income (World Bank, Doing Business 2019). Regulation for established companies is not business-friendly: administrative procedures are numerous and burdensome, often with overlapping authorities and regulations. Corruption and unfair treatment by state officials is widespread and enabled by centralized clientelist networks. The legal framework is inconsistent and prone to significant unexpected changes.

The shadow economy, measured as the tax gap, is almost equal to the formal economy in the field of product consumption and production, with VAT and income tax receipts being 20% lower than expected given macroeconomic indicators. Shadow employment in Q3 of 2020 stood at 17% of the total labor force (Labor Force Survey). The main drivers behind the shadow economy are the dual nature of the labor market, high tax wedge (especially due to the minimum social contributions, which are regressive for low wages and part-time employment), and the relatively high minimum wage compared to the median wage.

The legal framework for competition policy is mostly in line with EU regulations. The law on competition adopted in 2009 and last amended in 2013 established the Commission for the Protection of Competition in order to uphold anti-monopoly rules, although the implementation of the anti-monopoly rules remains deficient. The commission is an independent body charged with preventing restrictive practices, such as collusion agreements, and authorizing market concentration. The commission did not perform at full capacity in 2020, with the commission employing 55 people instead of the envisaged 70. Its work is undermined by the lack of relevant expertise. Political control by the executive remains the biggest obstacle. The commission is mostly passive and investigates a low number of cases. Prior to 2018, only seven instances of collusion and two instances of dominant position were investigated, most of which ended with acquittals. The commission is yet to give a single negative opinion on concentration.

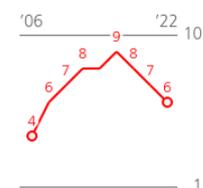
Market organization

7



Competition policy

6



State aid is a big problem for competition policy. The existing legal framework is mostly consistent with EU regulations but is scarcely implemented due to strong political pressure for financial assistance, which is channeled to SOEs, and FDI through subsidies and tax referrals. Total subsidies are high compared to other transition countries, standing at 2.2% of GDP in 2019, which significantly impacts on local competition. State aid is not transparent, which leads to alleged corruption.

Although there are no commercial monopolies per se, liberalization of network industries in which SOEs operate is very slow and below the level of EU transition countries, even though some progress has been made in rail freight, electricity and gas distribution.

Foreign trade is mostly liberalized, with a simple most favored nation (MFN) tariff rate of 6.4% (WTO trade profile). Since Serbia is a rare case of a European country that is not a member of WTO, the bulk of foreign trade is conducted via bilateral free trade agreements or generalized preferential schemes. Serbia's most important trade partners are EU member states, which account for 65% of total trade, followed Central European Free Trade Agreement (CEFTA) countries, which account for 20% of total trade. Smaller but still important trade partners are China, Russia and Turkey. In 2019, the free trade agreement with Russian was expanded to other members of the Eurasian Economic Union (EAEU), such as Belarus, Armenia, Kazakhstan and Kyrgyzstan.

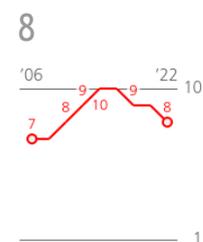
Accession to the WTO has not been high on the political agenda. Serbia has banned not only the production of genetically modified products (GMO) but also their trade, which is incompatible with WTO rules. Tariffs for agricultural products are more pronounced than those for industrial ones, but the bigger obstacle to trade comes from non-tariff trade barriers in the fields of product standardization and certification.

Although international trade procedures are considered efficient (Serbia ranks 23rd for trading across borders in the World Bank's Doing Business 2020), the customs office is poorly organized and equipped, and uses obsolete electronic systems from 1996. The transit of goods has been improved with the New Computerized Transit System (NCTS), but the low quality of transport infrastructure (most notably rail and ports) still imposes barriers, as do long custom procedures at border crossings.

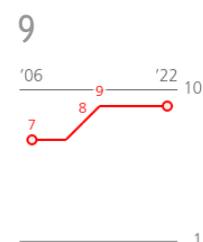
The Serbian banking system is considered to be solid and efficient. Historically, it dominates the financial system, since the capitalization of the stock market is low. The banking sector is under the supervision of the central bank, which imposes the Basel standards.

Currently, 26 banks operate in Serbia, while foreign banks dominate the market with 85% of total assets. In February 2020, the largest remaining state-owned bank and the third-largest bank (the Komercijalna bank) was sold to the Slovenian NLB

Liberalization of foreign trade



Banking system



bank, significantly decreasing the government's banking portfolio. Only three banks in specialized areas remain state-owned and account for less than 10% of the total bank capital.

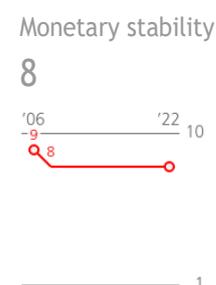
The quality of the central bank's supervisory activities substantially increased following the 2013 bailouts. Serbia fully implemented the Basel III standards since 2015. Capital requirements are in line with international practice. The average bank capital adequacy ratio is above 20%, much higher than the nationally stipulated 12% or Basel III standard of 8%. Total bank net balance assets stood at €34.8 billion in 2019 (or 78% of GDP), an 8% increase over the previous year. The problem of a high proportion of non-performing loans, which peaked in 2012 at 21.5%, is now considered resolved following several waves of asset write-offs. The level of NPLs in December 2020 was just 3.4%. The central bank provided an optional five-month freeze on loans. Furthermore, the government supported the provision of loans through an extensive state guarantee scheme for bank loans, which aimed to support private companies hit by the COVID-19 crisis.

8 | Monetary and fiscal stability

In theory, the National Bank of Serbia (NBS) uses the monetary policy of inflation targeting. However, since the Serbian economy and financial system exhibits a high level of euroization, the monetary policy framework is ineffective, as most bank loans and savings are denominated in euros. Effective interest rates are influenced more by the European Central Bank (ECB) than the NBS. Recently, the NBS reoriented toward exchange rate targeting: high euroization effectively means a strong pass-through effect of the exchange rate on local prices, not only through imported goods but also through rents, salaries and the cost of capital.

Inflation has been low and stable at 2% or less since 2014, after peaking at 12.2% in 2012. In 2017, the inflation targeting band was narrowed from 4% to 3% (+/-1.5%) and CPI has remained within the band. The key policy rate of the NBS has steadily declined from 3.5% in 2018 to 2.25% in 2019. It was cut to 1% as part of the economic measures introduced to mitigate the economic fallout from the COVID-19 pandemic in 2020.

Foreign exchange is a managed or dirty float regime. The national currency, the dinar, has been relatively stable in recent years, with the exchange rate falling from RSD 123 per €1 in 2016 to RSD 117.5 per €1 in 2019–2020. The real effective exchange rate appreciated from 122 in 2017 to 127 in September 2020 (2005 = 100), and the dinar remains overvalued by 20–30% against most foreign currencies. Foreign reserves are relatively high (€13 billion in 2020), which is enough to cover more than six months of imports, double the IMF minimum requirements.



Public expenditure is in line with most European countries, with general government expenses reaching 42% of GDP in 2019, down from 44.4% in 2016. Serbia has a significantly higher level of public consumption compared to other economies at similar levels of development (about 35% of GDP in Albania, Macedonia, Bulgaria and Romania).

Exports have recorded vigorous growth in recent years but so too have imports. Overall, the trade deficit has deepened, falling from -4.8% of GDP in 2018 to -6.9% in 2019. The total export of goods in 2019 reached €23.3 billion (50.8% of GDP), while imports stood at €28 billion (60.8% of GDP). The trade account deficit was offset by the financial account surplus following an inflow of FDI and foreign loans.

Serbia recorded a small budget surplus in 2017–2019 after a fiscal consolidation program curbed deficits. Public expenses on interest payments stood at 2% of GDP in 2019 because of the decrease in the overall level of public debt and the fall in interest rates caused by the European Central Bank policy. In 2019, Standard and Poor's, and Fitch increased Serbia's credit rating slightly to BB+ from BB in 2018, although Serbian government bonds remain non-investment and speculative "junk bonds."

Until recently, public debt was decreasing, falling from a peak of 70% of GDP in 2015 to 52% in 2019. This made public finances more secure and created the fiscal space for the government to introduce anti-recession measures in response to the COVID-19 pandemic. The government increased spending on medical supplies and workers' salaries, and implemented a wide range of economic measures during 2020, including government guarantees for bank loans, direct transfers to households and grants for private companies to retain workers. The government's anti-COVID-19 package is estimated to stand at 12.7% of GDP in total. Consequently, public debt increased to almost 60% of GDP by the end of 2020 and a moderate fiscal policy will be necessary to cut the high 7% of GDP deficit recorded in 2020 to a more sustainable level.

The transfer of €100 to all adults as part of the fiscal stimulus was heavily criticized for being wasteful and non-targeted by economists. In addition, this program was implemented a couple of weeks before the parliamentary elections, making it look like a vote-buying mechanism.

Fiscal stability

7



1

9 | Private Property

The legal framework defining and protecting property rights in Serbia is mostly in place. However, its actual implementation faces many challenges. There are strong out-of-court influences on the judiciary and the Prosecutor's Office, mostly involving the political elite from the executive branch and businesspeople with political connections. This has a substantial impact on court proceedings and the protection of private property rights, the most infamous example of which is the Savamala case from 2016.

Courts are slow and inefficient, which leads to lengthy legal procedures that on average last 622 days, and costs can reach 40% of the value of the claim (Doing Business, World Bank). There are many commercial cases that last a decade or more and there is a significant backlog. Resolving insolvency is also inefficient, with a typical case lasting two years on average and a low recovery rate of one-third of the original claim (World Bank, Doing Business). First-level commercial courts often lack expertise and knowledge, especially in specialized areas such as intellectual property rights and tax rules.

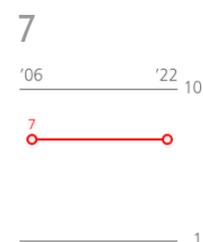
Registering property is streamlined and Serbia ranks 58th by this parameter in the Doing Business report (World Bank). Land registries do not cover significant parts of the territory outside major cities and undeclared real estate remains an issue. An estimated 700,000 homes have been built without a building permit. Corrupt practices in courts and cadastral offices also pose a significant problem.

The restitution of private property seized after World War II is not finished, although it has continued. A total of 7,085 objects and 77,000 hectares of land had been returned to their rightful owners by October 2020. In some instances involving government development projects, pecuniary compensation was offered instead of the return of land, which led to legal disputes.

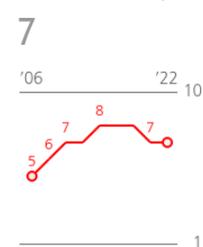
Private enterprises (including foreign and multinational companies) are the backbone of the Serbian economy. In recent years, the high inflow of foreign capital significantly increased the footprint of multinational companies in Serbia: 20% of private sector employees were employed by a foreign-owned company in 2019.

State-owned companies are still present in many industries, including those where government intervention is usually avoided in Europe (e.g., mining, agriculture, food processing and telecommunications). Network industries and utilities are fully controlled by the state. Many SOEs continue to enjoy a privileged market status or even an outright monopoly. The total number of SOEs with public duties (which cannot go bankrupt since the government is legally obliged to maintain the provision of their services) reached 549 in 2019, with approximately 115,000 employees, which is 10% of all employees outside of the public sector (Business Registers Agency).

Property rights



Private enterprise



Companies in the process of restructuring have been undergoing privatization or liquidation for quite some time, but this process has been very slow. Most of these 502 companies have been resolved since 2014 but the remaining companies still employ some 40,000 people. Investor interest in them is limited due to their poor performance, high debt and insignificant assets, but the government continues to support them in return for political support.

Privatization is not transparent, with many contracts hidden from the public, even when the commissioner for information of public importance stipulated that the reports must be published. In many cases, either the potential buyer was announced in advance of the tender or only one company showed an interest. Allegations of corruption involving privatizations have been numerous, but litigation has been limited – almost no one was investigated for the accusations raised by the European Parliament involving 24 dubious privatizations. Recently, a few enterprises were privatized, most notably the Bor mines were sold to the Chinese SOE Zijin, Komercijalna bank was sold to the Slovenian bank NLB and the concession of Belgrade airport was sold to the French company Vinci.

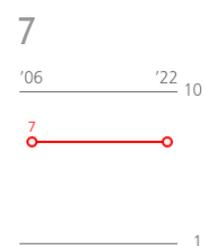
During the COVID-19 pandemic, the government refrained from equity stakes and mostly concentrated on providing pecuniary transfers to companies through its job protection program. The only exception was the national airline, Air Serbia, in which the government increased its equity from 51% to 82% through a recapitalization program, although the government has not published a plan for the future of the company and the role of the previous strategic partner, Etihad.

10 | Welfare Regime

The social safety net in Serbia is based on mandatory social contributions for health care and retirement insurance. Retirement benefits are envisaged to be the main source of income for people in old age, with high-income replacement rates, depending on the average wage during one's working life and the number of years worked. The average pension is 50% of the average net wage in the country. The mandatory retirement age is 65 for men and is being slowly increased to 65 for women. The minimum threshold of 15 years of paid contributions leaves approximately 250,000 elderly people without benefits. The system provides relatively good coverage, leading to lower poverty levels among the elderly than among the population at large. The government has recently returned to the Swiss formula, tying the future increase in retirement benefits to economic performance.

Demographic changes, most notably the low fertility rate (1.49 children per woman in 2018) and high emigration rate have led to a significant decrease in population. This has put more pressure on the already stretched welfare system due to the increase in spending on health care and retirement benefits, which fall on an ever-shrinking working-age population. Total pension transfers stood at 10.3% of GDP in 2019, a significant reduction from its 2014 peak (12.2%).

Social safety nets



The health care system is considered inefficient and expensive, with total health care expenditures reaching 9.1% of GDP in 2016 (World Development Indicators), significantly above the regional average of 6%. Serbia ranks 18th in the European Health Care Consumer Index 2018, with recent improvements due to the dissemination of an electronic special care booking system, which curtailed waiting times and introduced electronic prescriptions, and further investments in radiology equipment. However, overall health care outcomes have not improved and the perceived level of corruption in the state health care system is high.

There are many special programs aimed at certain segments of the population (e.g., students, disabled persons and army veterans) and various social goals apart from only poverty alleviation. Numerous bureaucratic procedures often prevent citizens who are entitled to various social assistance programs from exercising their rights. The Tested Financial Social Assistance program does reach households with the lowest incomes, but with somewhat limited coverage.

Although simulations that take government support schemes into account found that the COVID-19 crisis is likely to increase poverty by 0.7 percentage points, it is also estimated that the increase in poverty could have been limited with a much smaller budget by targeting the most vulnerable groups for a longer period (World Bank, 2020).

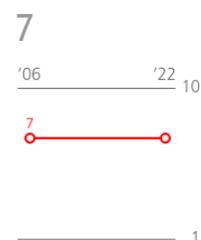
During the COVID-19 pandemic, the government introduced a broad job protection program, providing pecuniary transfers to support the wages of private sector employees and two universal transfer programs that provided one-off lump-sum payments. The former included transfers of RSD 5,000 (approximately €40) to all retirees and the second included a transfer of €100 to all individuals above the age of 18. This program was advertised as a means of supporting private demand and thereby boosting economic recovery, not as a social assistance program.

The government has adopted the Strategy for the Social Inclusion of Roma (2016–2025) and Strategy for Improving the Position of Persons with Disabilities (2020–2024). The accompanying action plans are yet to be adopted. The adoption of the new Law on Gender Equality has been delayed, but it has been announced that it will be carried out in 2021 along with amendments to the Law on Prohibition of Discrimination.

In 2019, most complaints to the commissioner for the protection of equality addressed discrimination in employment or at work (32.2%), proceedings before public bodies (21.8%), and education and vocational training (14.3%). Complaints most often mentioned discrimination based on disabilities, gender and health status.

Equal rights of men and women are guaranteed by the legal system and official state policies. Gender inequality still exists in labor affairs and public institutions. According to the Global Gender Gap Report issued by the World Economic Forum,

Equal opportunity



out of 153 countries, Serbia ranked 78 concerning wage equality for similar work, and 82 concerning the percentage of women among legislators, senior officials and managers. In 2020, laws on local and national elections were amended to require electoral lists to comprise at least 40% men and 40% women.

In the 2018 Gender Equality Index, Serbia ranked below the EU average (55.8 compared to 66.2). The largest gaps are in the domains of power, time and money, with smaller gaps in the domains of health, knowledge and work. The female labor participation rate is significantly lower than the rate for men – 61.3% compared to 76.1% – and unemployment is slightly higher for women – 9.9% compared to 9.2% (Labor Force Survey III quarter 2018). The adjusted wage gap is 12.5%, after controlling for differences in educational and job characteristics (Anić and Krstić, Economic Annals 2019). There is a negligible gender gap in education, with women completing 15.3 years of schooling on average compared to 14.2 years for men (UNDP Human Development Report).

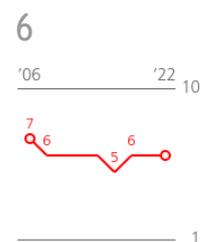
The Roma community faces a high level of discrimination, particularly in education and employment. Recent data (UNICEF, 2019) shows that only 7% of children from Roma settlements aged 3–4 attend an organized early childhood education program and, while 92% of children of primary school age from Roma settlements attend school, only 28% attend secondary school. The Roma are defined as a hard-to-employ category by the National Employment Service.

11 | Economic Performance

Serbian GDP recorded a growth rate of 4.2% in 2019. After several years of stagnation, economic growth picked up after 2016, relying on the positive external situation (e.g., low-interest rates and growth in the eurozone), a relatively high inflow of foreign capital and increased investment in public infrastructure. However, once one-off events are discarded, the baseline economic growth rate is moderate at 3.5% of GDP, considering the country's low level of economic development and higher growth achieved by Serbia's regional peers. Growth is widespread across the economy but is most visible in construction, agriculture, manufacturing and ICT services. Prices are in line with the central bank target (the CPI increased by only 2% in 2019).

The economic situation in 2020 was impacted by the COVID-19 pandemic: many supply chains were cut, economic partners from Europe experienced a deep recession and domestic private demand was cut due to the measures introduced to stop the spread of the coronavirus. However, the Serbian economy contracted approximately 1.5% and did not experience as deep a recession as many other countries in the region because of the structure of the local economy, which combines a high share of essential products such as food, and a low share of tourism, hospitality and high-value-added manufactured products in GDP. Exports grew strongly at 10% in 2019 (National statistical office), but imports also

Output strength



increased at a similar rate. Serbia has experienced a trade deficit due to high capital inflows (e.g., remittances, FDI inflows and bank borrowing), which rose to -6.9% of GDP in 2019.

Serbia remains one of the poorest countries in Europe in terms of GDP per capita, which was slightly above \$18,800 in PPP, only exceeding Albania, and Bosnia and Herzegovina in Europe. Investments are low compared to other transition countries, reaching 22% of GDP in 2019, up from 17.7% in 2015 (IMF). This rise reflects more efficient public infrastructure investments and higher FDI, with the increase in FDI attributable to state aid programs that provided subsidies for each new job created and low labor costs. FDI is high by regional comparison – the inflow of FDI amounted to 8.3% of GDP in 2019 (World Bank). However, the total FDI stock is low compared to other Central and Eastern European (CEE) countries, reaching €36.5 billion (National Bank of Serbia) or below €5,200 per capita in 2019.

Unemployment plummeted to 10.3% in 2019, after peaking at 25% in 2012. Although the unemployment rate for men and women is almost identical, the female inactivity rate is substantially higher (38% compared to 23% for men). This is attributable to the lower retirement age and longer time spent in school but also to traditional family roles involving child-rearing and caring for the elderly and sick relatives. The NEET (not in employment, education, or training) rate stood at 12.5% in 2019 for 15- to 25-year-olds. Active labor market programs are limited and receive little funding, less than 0.8% of GDP in 2018.

12 | Sustainability

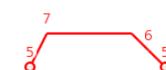
The Serbian government has not prioritized environmental policy. Serbia needs to enhance its administrative capacities in order to intensify enforcement, and more effectively implement environmental legislation and policies, especially with regard to closing non-compliant landfill sites; investing in waste reduction, separation and recycling; improving air quality monitoring; advancing river basin management; and preparing for the Natura 2000 strategy (European Commission Serbia Country Report 2020).

The system for financing environmental protection and climate change remains far from functional. Budget allocations for environmental protection are lower than required. The Report of the Fiscal Council states that in 2019 the government had the fiscal space to increase investment in communal infrastructure and the environment but chose not to do so. Over the past nine years, national and local governments have spent around €487 million, which were primarily gained from environmental taxes intended for purposes other than environmental protection. In 2020, the Green Fund was repealed at the national level. Although the country is a member of the Energy Community and committed to achieving carbon neutrality, investments in the coal sector remain very high, amounting to €41.7 million in 2019.

Environmental policy

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The legislative framework to secure the protection of the environment against the harmful effects of plans and projects has still not been improved. Public interest and/or participation remains limited and rarely has any effect or leads to the engagement of the judiciary. Citizen initiatives related to participation in environmental decision-making are growing, with some initiatives reaching the national level (e.g., the citizens' movement *Odbranimo reke Stare Planine* on the issue of constructing mini-hydropower plants without the participation of local communities).

According to the Serbian Environmental Protection Agency, approximately 2.5 million people (one-third of the population) have been exposed to excessively polluted air and this issue is rapidly gaining public attention. In January 2020, when air pollution peaked, the Serbian government established the Working Group for the Systematic Solution of Air Protection Issues. So far, the working group has failed to draft any meaningful measures to address the most significant contributing factors to air pollution. The challenges of waste management remain the same: poor control of the use of groundwater, poor control of the use of river sediments, and illegal and unregulated construction along rivers. Untreated industrial wastewater remains a key cause of groundwater and soil pollution.

Public expenditure on education stood at 3.6% of GDP in 2018 (World Bank). A fiscal austerity program ended in November 2018 as wages were increased, with further wage increases introduced in 2019–2020, which is expected to raise educational expenses and bring them in line with the Strategy for Education Development's (2012) 6% target for 2020.

Primary and secondary school enrollment rates are high (95% and 92% in 2018, World Bank) as are the overall literacy rate (98.8%) and the median years of schooling (11.2, U.N. Human Development Report). The U.N. Education Index (0.783 in 2019) has increased and is around the regional average. However, many 15-year-olds score poorly: 38% fail to achieve the minimum requirement for reading and science, and 40% do not achieve the minimum for mathematics (PISA, 2018).

Primary and secondary schools continue to be financed through antiquated expenses formulas. A per capita financing reform supported by the World Bank was abandoned due to political pressure from trade unions. Due to the prevalence of small schools, significant resources are spent on salaries, with little remaining for investment in equipment. Teacher salaries are close to the average wage in Serbia but remain flat over one's career, providing few incentives for good performance.

The tertiary education enrollment rate was 68% in 2018 (World Bank). However, according to the last available census data (2011), only 10.6% of the general population holds a university degree. There are nine public universities and 50 public colleges, and 10 private universities and 24 private colleges. Most students

Education policy /
R&D

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(86% in 2019) are enrolled in public universities. Only the University of Belgrade is included in international rankings (401–500 in the Shanghai University World University Rankings). Several prominent cases of corruption and the plagiarism of PhD theses have surfaced for which the official response has been slow. There is a widespread perception that universities are not connected to the wider economy and thus do not provide students with employable skills.

Expenditure on R&D (0.9% of GDP in 2019) has increased and is in line with other Central and Eastern European transition countries but lag significantly behind the EU-28 average (2.2%). The public sector is the source of most R&D funding, as the private sector accounts for only 10% of funds. However, this data can be misleading due to practices of reporting investments and business expenses under R&D, since the tax code does not provide sufficient incentives for these activities.

The total number of patent applications was 290 in 2019 (World Intellectual Property Organization) and Serbia ranked 53rd in the Global Innovation Index 2020, a small improvement compared to the previous two years. The recently proposed Strategy for Science and Technology (2021–2025) outlines increased investment in R&D, in particular through intensifying cooperation with the private sector.

Governance

I. Level of Difficulty

Structural constraints on governance remain significant in Serbia. The impact of the economic crisis a decade ago can still be felt – job quality and security have decreased, while until recently wages remained stagnant in real terms. Serbia experienced sluggish economic growth and only in 2016 did it reach its pre-crisis level of GDP. Emigration from the country is high, not only among the young and educated but even among more senior and less qualified workers; the most visible impact of this social change is on the health care system.

Economic issues such as unemployment and low wages (alongside corruption) remain the most important issues in public opinion polls. Governance capacities are significantly undermined by the clientelistic nature of hiring and promoting civil servants, which negates meritocracy. The workforce is relatively well educated compared to other countries with a similar level of GDP per capita.

The dissolution of Yugoslavia, and the ensuing conflicts and international sanctions, had a heavy toll on Serbian society. Serbia accommodated 740,000 refugees and displaced persons, adding up to nearly 10% of the population (UNHCR survey 1996). In addition to several hundred military and civilian casualties, the military action in 1999 had a devastating effect on the economy. The Serbian economy has yet to reach its pre-1989 level of GDP (approximately 80% in 2019).

Parts of Serbian society are deeply conservative, which inhibits the process of modernization. The dissolution of Yugoslavia and especially the unresolved status of Kosovo were a traumatic experience for a significant proportion of the population, with the population torn between cooperation with the East and the West. This became even more pronounced during the COVID-19 pandemic, particularly when Serbia received assistance and vaccines first from China and Russia, and later from the United States and the European Union.

Although natural disasters are rare, the floods in 2014 led to 33 deaths, more than 30,000 people being evacuated and an estimated damage of 2–3% of GDP. Infrastructure is deficient due to a lack of investment since the 1990s. For overall quality of infrastructure, Serbia ranks 75 out of 138 countries (World Economic Forum, Global Competitiveness Report 2017–2018). Although recent investments in public transport have cleared some bottlenecks, overall public infrastructure

Structural
constraints

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remains underdeveloped in comparison to EU member states in the region, while infrastructure in areas such as public services, the environment, health care and education is yet to gain policy attention. Total public investment has risen slowly to 3.5% of GDP in 2018 from a low of 2.5% in 2013, but part of this increase has been used to finance new military equipment.

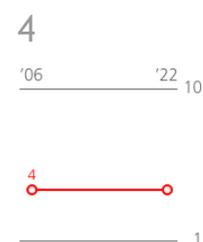
The effect of the pandemic on the economy has been mild, with GDP contracting by 1.1% in 2020. COVID-19 cases per million inhabitants was above the European average, although deaths per million inhabitants was below (58,000 cases and 591 deaths, as of January 31, 2021). However, these figures are disputed, investigative journalists have found evidence of the underreporting of COVID-related deaths – total mortality in 2020 was 14,000 above the annual average.

Civil society traditions in Serbia are rooted in dissident movements that began under communist rule and were later directed at the Slobodan Milošević regime. There are 33,463 citizen associations, 911 endowments and foundations (2,090 new associations, four endowments, and 70 foundations were registered in 2019). The overall environment for civil society has deteriorated in recent years. Violations of freedom of association, expression and assembly have been recorded by the Monitoring Matrix on Enabling Environment for Civil Society Development for Serbia. Since 2017, an increasing number of government-organized non-governmental organizations that are closely related to political parties have been set up. Although the framework for transparent state funding of these CSOs exists, there are gaps in the framework, which has been subject to misuse, especially at the local level. Further efforts are needed to ensure systematic cooperation between the government and civil society (European Commission, Serbia Country Report 2019). Citizens report a fairly low level of trust in CSOs' capability to solve problems. The establishment of government-organized NGOs (GONGOS) has also been recognized as a negative trend.

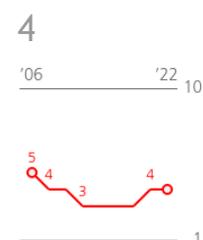
Laws regarding planning and local self-government, as well as several additional bylaws have introduced new modalities for CSO participation in policy development and decision-making. Further operationalization (e.g., additional bylaws and amendments to the related legal acts) and new approaches (e.g., an e-portal for citizen participation in decision-making) to the implementation of this framework are needed.

The greatest polarization in Serbia is related to the political conflict between the ruling coalition and the extra-parliamentary opposition. This has resulted in a total lack of dialogue, a parallel system of information, and waves of protest and unrest. The COVID-19 crisis did not have a significant effect on the confrontational nature of politics, the mobilization along existing cleavages and violent confrontations. Protests were initiated in response to the measures announced as part of the second lockdown, which was introduced to tackle the COVID-19 pandemic. The protests in July 2020 were violently suppressed by the police forces.

Civil society traditions



Conflict intensity



Serbian society and the political elite continue to be polarized along ethnic issues, such as the question of an independent Kosovo and relations with neighboring countries. Prominent issues (related to ethnic and religious conflicts) from a few years ago – such as the status of the Autonomous Province of Vojvodina, and tensions in Novi Pazar and with the neighboring local self-government units in the southeast of Serbia – have disappeared. Polarization based on economic and social status is rising, particularly in the southeast and southwest of Serbia. Over the last 10 years, local self-government units in the southwest and southeast of Serbia have lost around 700,000 inhabitants. Polarization also exists in relation to international issues (e.g., EU accession, and relations with Russia and neighboring countries) and domestic policies (e.g., capital projects, rule of law, crime and scrutiny measures).

II. Governance Performance

14 | Steering Capability

In December 2019, the government launched the Serbia 2025 Program, a five-year development plan involving investments worth over €14 billion. However, Transparency International Serbia has suggested that, rather than being a strategic document, the plan merely constitutes a “statement of reform vision.”

The government elected in 2020 established six priority goals: 1) fighting COVID-19 and strengthening the health care system, 2) maintaining the vital interests of Serbs in Kosovo, 3) tackling organized crime and maintaining the independence of decision-making in Serbia, 4) strengthening the rule of law, 5) speeding up reforms on the path to EU accession, and 6) strengthening the economy. Most of the goals were carried over from the previous government’s goals.

The COVID-19 pandemic has impacted on the prioritization of policies, especially in health care policy (e.g., support for health care systems to provide pandemic-related services), and economic measures to support individuals, SMEs and economic sectors most severely hit by the crisis.

The national plan for the adoption of the EU acquis and the government annual work program has still not been synchronized, despite the expert community’s frequent critiques.

Question
Score

Prioritization

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The government is struggling to consistently pursue or achieve its policy goals because of frequent elections and a lack of structured dialogue. Changes in government, the large turnover in professionals and experts across all levels of governance, the lack of dialogue, and the difficulties associated with incorporating non-government actors in the determining priorities pose hurdles to the process.

The capacity of the executive branch needs strengthening for inclusive and evidence-based policymaking, and the monitoring of policy implementation. The capacity for administrative data collection and its systematic use in policymaking varies between ministries. Impact assessments are not consistently applied prior to submitting documents to the parliament. There is no formal system for monitoring the achievement of government goals, which is only done in particular policy areas by non-state actors (CSOs or international organizations).

The finalization of the EU accession process remains one of the nominal strategic goals of the government. However, Serbia failed to adopt or close any negotiation chapters in 2020, while only two chapters were opened in 2019 (financial services and the free movement of capital). While one of the key strategic priorities for the new government is to finish the EU accession process, the current state of democracy and the weak rule of law explain the slowness of the reforms. The last report on the progress of the National Program for the Adoption of the EU Acquis (NPAA) was published in November 2019 according to which the government had so far adopted 49% of regulations.

Serbia is one of the few countries in Europe that suspended its parliament during the COVID-19 pandemic. All government decisions took the form of decrees, without clear and transparent parliamentary procedures supported by careful explanations and related data. Declaratively, the government continued to pursue all six priorities announced in 2020. But, in practice, the focus was on supporting the health care system and mitigating an economic contraction – the result of these attempts is yet to be evaluated.

The policy process has many flaws, stemming from the unwillingness of the government to let independent outsiders participate or its discretionary powers be constrained. Therefore, civil society organizations (CSOs) and even independent state bodies (e.g., the Fiscal Council, the Anti-corruption Agency and the State Audit Institution) are not embraced as partners in policy planning and implementation. Dissenting expert opinions are used as a pretext by high-ranking politicians and government-supported tabloids to personally attack members of these bodies. Even policies on which experts widely disagree have been promoted by the government in order to gain political support. For example, leading politicians stubbornly prioritized the economic performance over health outcomes during the COVID-19 pandemic.

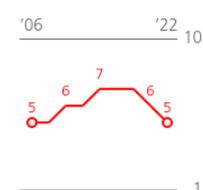
Implementation

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Policy learning

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Unconstitutional veto players connected to different groups within the ruling coalition wield substantial influence over policymaking, while advocacy and lobbying are unregulated, and conducted through backdoor channels. President Aleksandar Vučić wields an unconstitutionally high level of influence over all segments of the administration through his tight control over the SNS and often overrides other policy decisions-makers. The influence of his cabinet, advisers, closest entourage and family members is often greater than that of cabinet ministers. Without the permission of the president’s cabinet, little policy work can be done at all.

The process of public consultation is weak – it is mostly avoided or superficial at best, and most new legislation is not subject to consultation. Hardly any debate accompanies the adoption of legislation, especially since the absence of parliamentary opposition following the 2020 electoral boycott. Key reform procedures backed by international financial institutions (e.g., the IMF and World Bank) and other international donors have the greatest chance of being successfully implemented due to the desire of the government to be portrayed as cooperative in the international arena. However, even in these areas, most of proposals have not been fully implemented or have been repeatedly postponed for years.

15 | Resource Efficiency

The Serbian public sector is inefficient, with an exuberant number of public sector workers and a low quality of service provision. State entities (e.g., SOEs, municipalities and even the state property company) often fail to keep a record of the assets that they should be managing.

The most important reason for this is the lack of meritocracy in the recruitment and promotion of civil servants – job placements in the civil service are regarded as the “prize” of the governing parties, providing lucrative posts with little responsibility to party loyalties. This creates a network of clients, and a system of nepotism in which party membership and personal connections are more important than actual skills for obtaining jobs. In SOEs, people with little or no relevant experience are appointed to managers. To cement control over them, the government appoints them (against the law) on a temporary rather than permanent basis.

Wages in the public sector are 20% higher than those in the private sector and come with a high level of job security. Public sector wages have been growing at an unsustainable rate since 2016 (surpassing the combination of inflation and economic growth) and its share in GDP has increased, surpassing 10% of GDP.

Low-skilled public sector workers benefit from a wage premium, but there is also a wage penalty for those with high skills compared to the private sector, which causes many high-skilled individuals to leave the public sector. The freeze on new

Efficient use of assets

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employment is still in place even though it has had a negative effect on the quality of public services. The adoption of a law that would systematize public sector wages (ensuring that people with the same skills and responsibilities earn the same wage) has been repeatedly postponed.

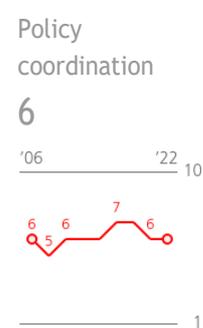
Prudent fiscal policymaking created a fiscal buffer, with public debt in 2019 at 52% of GDP (down from 70% in 2014). However, the COVID-19 pandemic led to an increase in public debt (59% of GDP in December 2020). Prudent fiscal policy is, therefore, necessary over the medium term to ensure that public finances remain feasible. Budget execution has mostly been in line with planning, although there were significant deviations stemming from fiscal risks connected to SOEs, such as payments on accumulated debts.

In 2019, necessary bylaws were adopted in order to implement the Law on Planning System, which was introduced to ensure the coordinated implementation of various policy documents that involve both central and local levels of governance. After two years, the law remains sporadically implemented and its aim is far from being achieved in practice. For example, the law obliged local self-governments to enact local development plans by 2021, but only a few achieved this.

The Public Policy Secretariat (PPS), the government body in charge of supporting policy coordination, did not fully exercise its mandate. This is because PPS opinions addressed to line institutions are mandatory (the PPS must be consulted in the drafting of new policy documents and legislative acts) but are not legally binding. It is not possible to track whether the PPS's comments have been incorporated into policymaking or whether the final drafts of laws and policy documents are compliant with the legislation. Better coordination between the Ministry of Finance and the PPS has yet to be established, as such discrepancies exist between financial impact assessments and financial information in the regulatory impact assessments.

There is only a partial balance between policy goals, and the entire policy coordination framework is inhibited by the dominance of the executive over the legislative branch and the interference of President Vučić in policy prioritization. The quality of strategic planning and related documents is weak – strategies are often not meaningfully linked to fiscal planning.

The role of parliament was marginalized during the state of emergency due to the COVID-19 pandemic. The executive took over policy coordination, using decrees (often enacted in a very opaque manner) as an instrument to address the challenges of the COVID-19 pandemic. The government adopted a top-down approach toward local municipalities, making municipalities largely the executors of government measures and narrowing the possibility for municipalities to be included in providing solutions to the challenges of the COVID-19 pandemic.



The institutional and legal framework for preventing corruption in Serbia is formally established. The quality of some legislation is good even by international standards (e.g., the Freedom Information Act). However, the actual implementation of this regulatory framework in practice is weak. The biggest problem is the lack of political will, since corrupt practices provide a space for wide clientelist networks to obtain or retain power. The judiciary and the Prosecutor's Office are under the influence of the executive, and many corruption scandals remain uninvestigated or are not prosecuted. Independent public bodies are mostly committed to their work, but their prerogatives are limited, and they are often understaffed and under-financed.

The Freedom of Information Act is liberal, and frequently used by the media, CSOs and citizens. This law is not implemented to its fullest. In practice, if the government does not adopt an administrative act that obliges the public entity to reveal requested information, the entity will only pay a moderate fine without having to disclose the information. No government has adopted a single act like this since the law was adopted in 2004; some entities simply ignore information requests and just pay the fines. The process of amending the law was started in 2019 and the government tried to curb the existing level of information freedom by excluding SOEs from the scope of the law.

The Anti-corruption Agency (ACAS) oversees conflicts of interest involving state officials, their declared property and the financing of political parties. However, oversight is ineffective, and few transgressions are found and even fewer are prosecuted. The agency has come under government pressure in several leading cases involving senior state officials (e.g., the current ministers of the police and finance) in which ministerial transgressions (e.g., failing to declare significant foreign assets or domestic income) were not prosecuted.

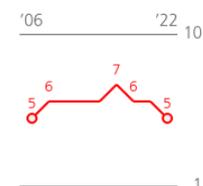
The national strategy for tackling corruption for the 2013–2018 period was implemented, but progress was slow, uneven and largely unsuccessful. Even though the strategy expired in 2018, a new strategy is yet to be drafted.

The State Audit Institution (SAI) oversees public spending, but the scope of its audits is severely restricted by its limited resources. Even when cases of embezzlement or unlawful public spending are found, they seldom end in criminal charges against public officials and only a small fraction of people that are charged are prosecuted. SAI proposals to improve the public spending system have mostly been ignored.

Public procurement remains the area most prone to corrupt activities. In 2019, according to the Public Procurements Institution (PPI) the total number of tender bids was low, only 2.5 on average per tender. The situation is even worse than that, since the PPI counts several smaller bids submitted by one entity within a bigger procurement process as multiple bids, inflating their total number. A quarter of all

Anti-corruption
policy

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public procurements in 2019 were conducted outside of procurement legislation. In 2019, the PPI raised only four charges against entities that broke the procurement law, while there were more than 122,000 procurement cases.

16 | Consensus-Building

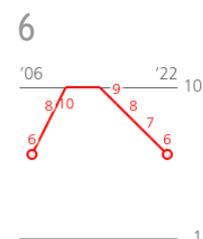
A general consensus exists between the ruling party and the opposition on upholding parliamentary elections and a market economy as strategic, long-term goals. The main political actors nominally perceive democracy as one of the most valued objectives. However, in practice, democracy has deteriorated as decision-making is concentrated in the hands of a single person, the president. The executive holds the real power, exercising control over the legislative branch, while the judiciary is mostly inefficient and sometimes corrupt. The disproportionately large number of seats that the ruling party won in the parliament elections in 2020 raises concerns regarding breaches of parliamentary procedures and the absence of meaningful legislative debates. Other political parties represented in the parliament are close to the ruling party, while the main parties that are critical of the SNS and President Vučić boycotted the elections. The president and government marginalized the parliament following the outbreak of the COVID-19 pandemic. Parliamentary sessions have mostly been used to denigrate the president's political opponents, even opponents who are not members of the parliament.

The development of a market economy was set as a key priority of the new government. The Economic Reform Program (ERP), a strategic framework of the Ministry of Finance, continues to represent a key policy document for the development of the Serbian economy and is part of the ongoing EU accession process. Sustainable development and the ever-growing problem of pollution are seldom addressed. According to the European Commission's Serbia 2020 Report, some progress has been made in developing a functional market economy, but structural weaknesses still exist.

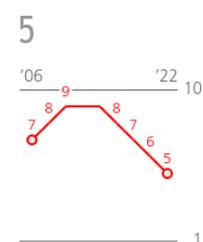
The president, the government and the ruling parliamentary majority are the most important anti-democratic actors in the country. They neglect the constitution, abuse their power, and foster a political culture of intolerance and hate toward not only political opponents but anyone who thinks differently.

Overly extremist and anti-democratic parties failed to surpass the 3% electoral threshold and, therefore, did not enter the parliament in 2020. Yet, such movements are active. For example, the nationalist and animal rights-oriented Levijatan organized militias to attack the Roma population and immigrants from the Middle East. On the other hand, some formerly anti-democratic movements have become their opposites. However, numerous extremist right-wing webpages and publications exist and have the potential to become influential among the general public.

Consensus on goals



Anti-democratic actors



The political leadership prevents potential conflicts based on ethnic, national or religious cleavages from escalating. The political leadership continues to oppose Kosovo's unilateral independence. In 2020, the previously halted dialogue between Belgrade and Pristina over the implementation of the Brussels Agreement continued, facilitated by the European Union. The halt in 2018 was due to Kosovo's decision to levy a 100% tax on all products imported from Serbia. This measure was imposed in reaction to Serbia's campaign of opposing Kosovo's proposed membership in various international organizations.

An additional dialogue facilitated by the United States improved economic relations in terms of sharing energy resources and establishing a "mini-Schengen zone." Still, tensions on some issues, such as the non-existence of the Community of Serb Municipalities or the unresolved assassination in 2018 of Oliver Ivanović, a prominent Kosovo-Serb politician, may hinder the EU-facilitated dialogue.

CSO sustainability has deteriorated in terms of the legislative framework, organizational capacities, advocacy and public image. Although the organizational strength of CSOs has grown moderately, their financial sustainability and service provision remain low (Civil Society Sustainability Index 2019). Citizen trust in civil society is rather low – very few (15%) recognize CSOs as problem-solvers in their communities (Research on citizens' participation in decision-making processes 2019, CRTA).

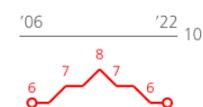
The constitution, and laws on the National Parliament, State Administration, Planning System and Rules of Procedure provide a framework for stakeholder involvement in the legislative process and policy planning. In practice, civil society participation in policymaking and legislative processes remains largely ad hoc, and the full potential of the sector is yet to be realized. The Strategy and Action Plan for an Enabling Environment for Civil Society is yet to be adopted.

The capacity of CSOs to engage in policy dialogue varies throughout the sector. Mechanisms for dialogue and cooperation between civil society and the state are voluntary and based on goodwill, which is often unclear and diminishes the participatory role of CSOs.

The legal framework for volunteering needs to be improved. Tax exemptions that could stimulate philanthropy need to be adopted. The existing draft Law on Social Entrepreneurship significantly undermines the efforts of CSOs to act as providers of social services. CSOs struggle to secure funding and the government fails to ensure the transparency of public funding of CSOs (especially on the local level) – here one must note the negative trend in public funding of GONGOs.

Cleavage /
conflict
management

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Civil society
participation

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According to the latest European Commission country report (2020), Serbia still needs to show genuine dedication to investigating and adjudicating cases of war crimes in order to foster reconciliation.

The present regime in Serbia is ideologically and personally rooted in the Milošević regime of the 1990s. An often revisionist narrative about the roots of the armed conflicts in former Yugoslavia still dominates the public sphere. Political leaders appear unwilling to address or overcome the region's conflict-laden past. Civil society representatives have pointed to a lack of real progress in dealing with the past and government officials have not supported attempts to address all war crimes from the 1990s. Some government officials (e.g., the minister of police affairs) often use xenophobic rhetoric when talking about ethnic Albanians in Kosovo, without condemnation from the government.

17 | International Cooperation

Serbia continues to receive financial and technical aid, especially through the EU Instrument for Pro-Accession Assistance (IPA) II, which is designed to support reforms necessary for European integration. A new round of pre-accession support will start in 2021, following the adoption of the EU Multi-Annual Financial Framework. Serbia also receives development grants from the United States, Germany, Norway, Sweden and Switzerland. In response to the COVID-19 pandemic, the latest framework included the so-called Recovery Instrument.

According to the European Commission report in 2020, Serbia is moderately prepared to use EU funds, while there is a need to speed up the implementation of the ongoing IPA II in order to avoid last-minute contracting.

During the COVID-19 pandemic, Serbia received logistic support and help from the European Union in order to import much-needed medical equipment. However, compared to the help Serbia received from China and Russia, the EU assistance received much less coverage in the national media.

In addition to EU member states, and Norway, Switzerland and the United States, foreign aid is provided by Japan (2.50%) and China (0.60%). Serbia increasingly looks toward Russia, China and Middle Eastern countries for investment.

Reconciliation

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Effective use of support

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In 2020, Serbia did not manage to open any EU accession negotiation chapters. In total, 18 chapters out of 35 remain open, while two were temporarily closed. The greatest shortcomings in Serbia's integration into the European Union are related to the rule of law. Accession to the European Union remained Serbia's most important strategic goal and most of government policy actions follow from this agenda. The Brussels Agreement aimed to normalize relations between Kosovo and Serbia, but it did not manage to do so fully – the entire dialogue between the two sides was reopened in 2020.

Although EU membership remains Serbia's clear strategic goal, there is a large gap regarding the compliance of Serbian foreign policy decisions with decisions adopted in Brussels. According to the latest assessment, Serbia complies with nearly 53% of all decisions adopted by the European Union. However, compliance with the European Union's Common Foreign and Security Policy has regressed, and Serbia did not align its positions with respect to countries such as Russia or Venezuela.

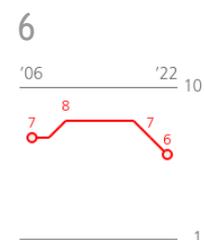
Regarding judicial cooperation, in 2017, Serbia's lack of cooperation with the Mechanism for International Criminal Tribunals, the successor to the International Crime Tribunal for the Former Yugoslavia, was noted.

Disputes remain with neighboring countries over borders and ethnic issues (Croatia, Bosnia and Herzegovina, Montenegro, and Kosovo), legal issues (Croatia, Montenegro and Kosovo) and diplomatic issues (Kosovo). When it comes to relations with Kosovo, the Brussels Agreement is yet to be implemented, as the Community of Serb Municipalities, along with other aspects of the agreement, have not been established. Additionally, a dialogue between Kosovo and Serbia was facilitated by the United States, which resulted in the Washington Agreement – the aim of which is to improve economic relations between the two sides, but this has yet to be implemented.

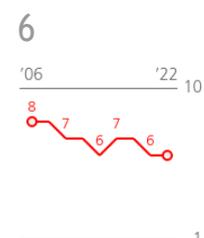
Serbia maintains very good connections with the right-wing government in Hungary. Relations with Bulgaria and Albania, however, vary depending on Serbia's position toward dialogue with Kosovo and the political situation in North Macedonia. The Serbian Orthodox Church strongly opposed the enactment of the law on religious freedoms and organized massive rallies in this regard at the beginning of 2020, which gathered representatives from all religious groups in Montenegro.

Serbia presided over several regional initiatives, including the Southeast European Cooperation Process and the Central European Initiative. Serbia, along with other Western Balkan countries, participates in the so-called Berlin Process. Along with other southeast European states that are not members of the European Union, Serbia is a signatory to the Central European Free Trade Agreement. One of the latest initiatives to be undertaken is related to establishing a "mini-Schengen" among the Western Balkan countries. Officially started in 2020, the initiative aims to ensure the free flow of goods, persons, services and capital.

Credibility



Regional cooperation



Strategic Outlook

Serbia is an EU candidate country, which is in the process of accession negotiations. This is one of the key strategic goals of the government established in 2020. However, the accession process has stagnated, with Serbia unlikely to become an EU member state any time soon. This is partially due to the fact that democracy in Serbia has deteriorated (which is now becoming a worrisome trend), but also due to the fact that enlargement is not and will not be a priority for the European Union over the coming period. In 2020, no new chapters were opened, even though a new methodology was imposed and accepted.

Opposition is virtually absent from the Serbian parliament and the ruling parties show no dedication to engaging in a dialogue with their opponents. Overall, the polarization between those who support and oppose the ruling parties deepens daily. The dreary situation needs to change, real opposition needs to return to parliament, the power of the legislative branch needs to be restored, and the government and the president need to abide by their constitutional roles. The enabling environment for civil society needs to improve, and civil society needs to be meaningfully and effectively involved in policy development and decision-making.

The low level of economic growth in the country since 2008 is attributable to low institutional quality, including weak rule of law and omnipresent corruption. In order for incomes in Serbia to converge with the European Union, significant improvements are required. High emigration due to a lack of economic opportunities and limited public services domestically continues to pose a significant challenge for governance.

The COVID-19 crisis has not yet posed a significant economic challenge to the country. In the medium term, the crisis might even have a positive impact, since it will make Serbia given its close proximity to EU markets more competitive for manufacturing, which would attract more FDI into high value-added sectors.

In geopolitical terms, Serbia is balancing its complex strategic position between the European Union, Russia and China. The country remains stretched between its European perspective; the intensive presence of China through infrastructure loans and vaccine diplomacy, which go beyond pure business interests and medical support; and Russia's sustained presence and influence, particularly in the energy sector and issues related to relations with Kosovo. In the medium term, this is not a sustainable position and Serbia will have to make a strategic decision regarding whether it will align its activities with the obligations and perspectives arising from its EU integration path.