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INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FOR

THE REPUBLIC OF SERBIA

FOR THE PERIOD FY12-FY15

July 30, 2014

South East Europe Country Unit
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

Currency Unit = Dinar
Dinar 1.00 = US$ 0.012
SDR 1.00 = Dinar 130.9
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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	IMF	International Monetary Fund
CAD	Current Account Deficit	NPLs	Non-performing Loans
CEM	Country Economic Memorandum	PDNA	Post-Disaster Needs Assessment
CPS	Country Partnership Strategy	PISA	Program for International Student Assessment
DIA	Deposit Insurance Agency	PSIA	Poverty and Social Impact Analysis
DILS	Delivery of Improved Local Services	PPP	Purchasing power parity
DPO	Development Policy Operation	SILC	Survey of Income and Living Conditions
EBRD	European Bank for Reconstruction and Development	SNS	Progressive Party [Serbian acronym]
EC	European Commission	SOEs	State-Owned Enterprises
EU	European Union	SPS	Socialist Party
FDI	Foreign Direct Investment	STEP	Skills Toward Employment and Productivity
FINSAC	Financial Sector Advisory Services Center	UN	United Nations
IFI	International Financial Institution	VAT	Value-Added Tax

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COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

REPUBLIC OF SERBIA

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I. Introduction

1. **This Progress Report assesses implementation of, and outlines modifications to, the FY12-15 joint Bank-IFC Country Partnership Strategy (CPS) for the Republic of Serbia.** It also provides initial details on the impact of the catastrophic flooding that occurred during the finalization of this report, and on the Bank's response.

2. **In mid-May 2014 continuous rainfall caused severe floods, affecting over 1.5 million people and some 39 municipalities.** About 38,000 people were displaced. Villages and municipalities were cut off by blocked roads and suffered power outages and water shortages. Some key power plants were damaged. The agriculture and energy sectors are most affected. The government is working on a Post-Disaster Needs Assessment (PDNA) with the European Union (EU) and the United Nations (UN). In support of flood recovery, the Bank has offered: (i) grant support to the PDNA; (ii) restructuring of ongoing projects and redirecting funds to emergency recovery, in particular through the US$100 million Road Rehabilitation project; and (iii) an Emergency Recovery Loan. The floods will require a thorough re-assessment of the macro-fiscal situation. Their full impact will be considered in the context of the *Systematic Country Diagnostic* and incorporated into the new Country Partnership Framework being prepared in FY15.

3. **The CPS was designed to mitigate the negative impact on Serbia of the deepening Eurozone crisis.** With a longer-term objective of accelerating the EU accession process, the CPS focused on strengthening competitiveness and improving the efficiency and outcomes of the government's social spending. The World Bank Group (WBG) also indicated it would remain engaged in support of environmental sustainability, the third component of the ECA and *Europe 2020* strategies. The WBG adopted a coherent approach to strengthening Serbia's competitiveness and restoring economic growth, with IFC (complemented by associated MIGA guarantees) focusing stepped-up support to the financial sector as well as agribusiness, infrastructure and clean energy.

4. **Important economic, social and political changes have occurred in Serbia since the inception of the CPS in FY12.** Average consumption and consumption of the bottom 40 percent both declined, at about the same rate. Economic recovery since the 2008 global and Eurozone crises proved slower and more painful than anticipated, with a double-dip recession in 2012 and a fledgling recovery in 2013. The lack of growth exacerbated high levels of unemployment and inactivity, and reversed earlier gains in poverty reduction. Complicated coalition politics and underlying economic conditions weakened fiscal discipline and the will to undertake needed structural reforms in the first two years of the CPS. Most recently, the emergency caused by the floods has diverted the government's attention and energy to dealing with their impact and damage recovery.

5. **Implementation under the ongoing CPS has been mixed, with significant delays in program delivery reflecting the government's weak reform efforts in FY12-13.** Through a turbulent political period, the Bank maintained strong analytic and advisory work in order to build support for eventual reforms. The initial portfolio also performed reasonably well, but only one of four planned new operations was delivered in the first two years of the CPS. Two planned development policy operations (DPOs) were stalled by shortcomings in the macroeconomic framework or derailment of an earlier IMF Stand-By Arrangement. In FY14, the Bank delivered two operations, a planned second health reform project and a results-based financial sector operation. IBRD lending under the CPS reached US$340 million by end-FY14 instead of FY13 as initially planned. Today the ongoing portfolio of six operations includes one rated unsatisfactory. The Bor

Regional Development Project has been restructured, and the government must now accelerate implementation. Progress toward CPS outcomes has been quite mixed, with only 12 out of 26 mid-term milestones achieved and another nine partially achieved (see Annex 1).

6. **IFC has significantly increased its investment program in line with the strategy to provide countercyclical support to the financial sector and selectively finance private sector projects in the real sector.** Total IFC investments during the CPS period reached US$590 million, complemented by parallel loans of US$72 million and by significant mobilization of MIGA guarantees for IFC clients of about US$550 million, the highest volume globally of IFC-MIGA joint activities. IFC's own investments were evenly distributed between the financial, manufacturing and agribusiness sectors. The major portion of the IFC program was delivered in the first two years of the CPS period, tapering off in FY14 due to the continued sluggish performance of the economy and deleveraging in the financial sector. Investments in the infrastructure sector, where IFC prioritizes renewable energy, have been delayed due to the slower than expected pace of implementation of the required regulatory reforms. The envisaged privatization of IFC's client banks with state participation has also been delayed due to challenging market conditions and changing government priorities. While the IFC portfolio in Serbia has remained profitable, its quality deteriorated as a result of weaker financial performance of some of the clients affected by the lower growth environment, coupled with persisting weaknesses in corporate governance and financial management. The level of non-performing loans (NPLs) has increased from nearly zero in FY12 to 10 percent in FY14, because of a single loan. Some of IFC's agribusiness clients in Serbia are also struggling to meet their debt service obligations in a timely manner.

7. **The two original CPS pillars remain relevant, and fundamentally interrelated.** Serbia's ability to compete will be more important as growth returns to the Eurozone, and given that poverty and unemployment have grown since the crisis while room for a robust fiscal response has deteriorated, getting more impact from each dinar of public spending will remain a core challenge. Actions within the second pillar will be enhanced to address cross-cutting public expenditure issues. No modification of the pillars has been proposed for the second half of the CPS period.

8. **A renewed reform commitment by the government underpins a planned increase in lending in FY15.** The original CPS outlined lending of US$340 million for FY12-13, and did not provide an indicative envelope for the second half of the CPS period. The lending approved in FY14—for strengthening the Deposit Insurance Agency (DIA) to help ensure continued financial sector stability, and for health sector reform to improve the quality of spending—directly advances the two CPS pillars. In FY15, the Bank will lend to Serbia commensurate with the extent of implementation of fiscal and structural reforms, our lending capacity, and demand from other borrowers. Early efforts will focus on flood recovery. With greater reform impetus from the government, it is expected that the country will move ahead with a long-awaited DPO for state-owned enterprise (SOE) reform. Also in support of the competitiveness pillar is a proposed operation for critical land and property issues that constrain investment. The second pillar will be supported through a proposed public expenditure and public employment operation. The WBG will continue to provide support to Serbia only in areas where: (i) government demand is high; (ii) a sound analytical basis exists; and (iii) the WBG has a comparative advantage to deliver desired outcomes.

II. Country Context

9. **Serbia's political environment has changed significantly since the CPS was presented to the Board.** At the time, the country was governed by a Democratic-Socialist coalition. Elections in late 2012 brought a new coalition to power with a renewed impetus to reform, led by the Progressive Party (SNS), with the Socialist Party (SPS) as its main partner and headed by Prime Minister Dacic of the SPS. Several smaller parties joined as well, but some exited in July 2013 amid tensions within the coalition. A government reshuffle in August 2013 improved cohesion, but not sufficiently to drive through critical structural reforms required to address growing fiscal problems. Snap elections called in March 2014 allowed the SNS to consolidate power under the leadership of Prime Minister Vucic, with a stronger mandate and a platform promising difficult but necessary reforms. These may bring the CPS fully on track if implemented.

10. **The consensus for EU membership remains.** The outgoing government accelerated the EU accession preparation process, including engagement on critical issues such as justice sector reform and rule of law, resulting in the start of EU membership negotiations in January 2014. The negotiation process and the reforms to meet the obligations of EU membership will pose significant political and administrative challenges. Serbia faces a large, overdue structural reform agenda, encompassing transforming ownership in the economy, stimulating growth, reducing unemployment, strengthening the financial sector, improving the investment climate, and reducing the fiscal deficit.

11. **Serbia has made strides in 'normalizing' relations with Kosovo**. The Brussels Agreement reached in April 2013 established a framework for cooperation with Kosovo, culminating in the largely successful participation of ethnic Serbs in Kosovo elections, including in the North Kosovo municipalities, in November 2013. That constituted a remarkable achievement for the authorities on both sides, and paved the way for the launch of Serbia's EU membership negotiations.

Macroeconomic Developments

12. **Serbia's economy has remained sluggish since the global financial crisis, contracting by 3.5 percent in 2009 and after a timid recovery in 2010 and 2011 retreating by 1.5 percent in 2012 (Table 1).** The 2012 double-dip recession was driven by spillovers of the Eurozone crisis, which dampened external demand; severe weather conditions (record low temperatures in the winter and a summer drought); and the closure of the largest exporter, US Steel. Growth in IT and communications services (10.3 percent) and financial services (4.4 percent) could not offset the declines in agriculture output (-17.1 percent), industry (-3.4 percent) and retail trade (-4.0 percent).

13. **In 2013, real GDP is estimated to have grown by 2.5 percent.** This performance has been supported by improved agricultural and energy production and a rise in industrial exports, especially from the large FIAT automotive company. Agriculture is estimated to have grown by more than 20 percent in 2013, energy production by 13.2 percent, and manufacturing by 5.5 percent. Prior to the floods, weak domestic demand and a relatively weak external environment, in particular in the Eurozone – which accounts for about 60 percent of Serbia's total trade and 80 percent of foreign direct investment (FDI) and remittances – continued to hamper stronger economic recovery.

14. **Macro projections in this report were prepared prior to the floods, and will be updated later in the year once the floods-related damage and loss assessment is completed and further information on the 2014 supplementary budget becomes available.** The impact of the recent floods on future economic activity in Serbia is being assessed. The updated data will not be available

for incorporation into this Progress Report. Early estimates show that the floods will put downward pressure on economic activity in 2014 and further strain public finances. Preliminary information indicates that energy production, SOEs (utilities in particular), agriculture and mining are especially affected. Reconstruction efforts later in 2014 and in 2015 will partially counteract the negative effect on economic activity, provided adequate financing for reconstruction becomes available. A pickup in construction activities, investment and consumption (as lost items are gradually replaced) is expected. A supplemental budget is expected to be approved by September 2014, reflecting the impact of the floods as well as further policy measures particularly on the fiscal side.

15. **The crisis has led to a steadily increasing and stubbornly high unemployment rate, currently about 20 percent.** Youth unemployment, at 49 percent, is of particular concern. While the informal sector served as a buffer for low employment rates in the past, informal employment now also seems to be decreasing. Many young people are leaving the country in search of jobs.

Table 1: SERBIA: Key Macroeconomic Indicators and Projections
As percentage of GDP, unless otherwise indicated

	2010	2011	2012		Projections		
				2013[e]	2014	2015	2016
Real economy							
GDP real growth	**1.0**	**1.6**	**-1.5**	**2.5**	**1.0**	**1.8**	**2.0**
GDP in USD billion	***37.0***	***43.7***	***38.5***	***43.5***	***44.8***	***47.0***	***49.1***
Investments, percent GDP	**17.2**	**20.1**	**21.3**	**19.3**	**20.5**	**21.3**	**21.7**
Consumer price inflation (e-o-p)	**10.2**	**7.1**	**12.2**	**2.2**	**5.5**	**5.0**	**4.5**
Public sector (as percent of GDP)							
Revenues	**42.5**	**40.6**	**42.1**	**40.6**	**39.5**	**38.9**	**38.3**
Expenditure	**47.5**	**45.8**	**49.8**	**46.5**	**46.7**	**44.0**	**41.5**
o/w Capital expenditure	**3.6**	**3.6**	**3.6**	**2.3**	**3.3**	**3.6**	**3.1**
Fiscal Balance, after grants	**-5.0**	**-5.2**	**-7.7**	**-6.0**	**-7.1**	**-5.2**	**-3.2**
Total public debt	**44.5**	**47.2**	**59.9**	**63.6**	**67.7**	**68.3**	**68.2**
External position							
CAD after grants (percent of	**-6.7**	**-9.1**	**-10.6**	**-5.0**	**-4.5**	**-4.0**	**-3.5**
External debt (percent of GDP)	**84.9**	**76.7**	**86.2**	**80.7**	**76.4**	**70.2**	**65.9**
Reserves (US$ billion)	***13.3***	***15.6***	***14.4***	***15.4***	***13.2***	***13.3***	***13.5***

Source: Ministry of Finance, IMF, and World Bank staff. The macro projections for 2014-16 were prepared prior to the floods, and will be updated at a later date once the floods-related damage and loss assessment is completed and further information on the 2014 supplementary budget becomes available in September 2014. The authorities are currently preparing a supplementary budget which will, among other things, reflect the impact of the floods, introduce further policy considerations, and update the macroeconomic projections for 2014.

16. **Inflation and the real exchange rate have been volatile.** Since the adoption of inflation targeting in 2009, inflation has fluctuated between 3 and 15 percent, reaching 7.8 percent in 2013. Its volatility owes to: (i) a large pass-through from depreciation due to the exceptionally high Euroization; (ii) food price shocks from external protection of agricultural markets; and (iii) fiscal policy. At the end of 2013 restrictive monetary policy, lower food prices, and low aggregate demand had limited inflation to 2.2 percent, which is below the target band of 4.5 percent +/- 1.5 percent. The real effective exchange rate has also fluctuated: it appreciated between 2008 and 2010, depreciated in 2011, and has since appreciated continuously (by about 6.8 percent in 2013).

17. **A current account adjustment is underway, supported by faster export growth.** The current account deficit (CAD) is estimated to have fallen from 10.6 percent of GDP in 2012 to about 5 percent in 2013. In 2013, Serbia's exports increased by over 25 percent, driven by strong auto and other exports, while imports grew by less than 5 percent. Most of the CAD has been financed by FDI and long-term borrowing. A declining CAD will result in a decreasing share of external debt in GDP, from around 81 percent currently to about 66 percent of GDP by 2016.

18. **Serbia's consolidated general government fiscal balance has deteriorated since the crisis.** Revenues fell by about 2 percent of GDP over 2008-11 but in 2012 showed a modest recovery, returning to near pre-crisis levels mainly due to increases in the value-added tax (VAT) rate. Expenditures, however, have grown since the crisis, by approximately 5 percent of GDP. The result has been a deteriorating general government fiscal deficit from around 2.7 percent of GDP in 2008 to about 7.7 percent in 2012 and 6 percent in 2013. Several events contributed to the high fiscal deficits in 2012 and 2013: lower than projected revenues; structural factors associated with an expanding gray economy; the failure of state banks (Agrobanka and Development Bank of Vojvodina); arrears clearance for the Health Insurance Fund and Roads of Serbia; and called guarantees to SOEs. In July 2013, the government adopted a supplementary budget with additional revenue and expenditure measures which succeeded in reducing the fiscal deficit relative to 2012, but these were not sufficient to contain the fiscal deficit to the planned 2013 target of 3.5 percent.

19. **Serbia's public debt, including guarantees, has more than doubled since 2008, from 29 percent of GDP to 63.6 percent in 2013.** Guarantees, issued principally to SOEs, jumped from 2.9 percent of GDP in 2008 to 8.9 percent at end-2013. In the same period, domestic public debt grew from 10 to 24.8 percent of GDP, while external public debt rose from 17 to 38.7 percent of GDP.

20. **The government signaled in its economic program a commitment to address the fiscal imbalances and has put forward a fiscal consolidation program, with the goal of stabilizing and setting public debt on a downward trajectory over the medium term.** The aim is to reduce the general government spending from 46.5 percent in 2013 to 41.5 percent of GDP by 2016, mostly through cutting recurrent spending. The revenue-to-GDP ratio is projected to decline slightly, reflecting the country's difficult economic context.

21. **The critical fiscal measures currently underpinning Government's program on the revenue side are:** (i) pay and grading reform starting with a temporary "solidarity tax" on public sector wages whereby higher tax rates are imposed for net wages above RSD 60,000 and further for those above RSD 100,000; raising the lower VAT rate from 8 percent to 10 percent; increasing the collection of excise duties (in particular on tobacco); abolishing tax relief and exemptions for corporate income tax; and combating the shadow economy. **Measures on the expenditure side include:** restrictive indexation of public sector wages and pensions; restriction of performance-based bonuses for public sector employees; reduction of subsidies through the national and local budgets;

additional funds for the Transition Fund; reduction of expenditure on goods and services through streamlined procurement; reduction of interest expenditure through refinancing of expensive public debt through softer bilateral loans; increase in expenditure for social welfare and family allowance.

22. **Even as Government is putting forward a fiscal consolidation program, the fiscal deficit in 2014 is projected to be higher than in 2013 (at 7.1 percent of GDP).** This is principally due to three one-off factors: allocation to finance redundancies of SOE employees; higher allocation and more realistic budgeting for activated guarantees; and an increase in bank recapitalization needs. The fiscal deficit is projected to be substantially lower in 2015 and 2016. Still, the proposed fiscal consolidation program faces significant downside risks, stemming from: lower than expected growth, in particular in the Eurozone; the difficulty of enforcing the policy of "no new guarantees to public enterprises and local governments" from mid-2014 onwards without reforms to public utilities such as the natural gas monopoly Srbijagas; a failure to reduce subsidies as envisaged; and uncertainty around whether fiscal measures aimed at combating the shadow economy and reducing interest payments through debt restructuring will be implemented fully.

23. **Given these risks, additional expenditure reductions are needed to stabilize public debt and enhance the sustainability of the medium-term macro framework.** Serbia did not use the opportunity to push difficult structural reforms during the global crisis, and now—with significant fiscal deterioration—the government acknowledges that these reforms can no longer be delayed and that reforms related to the restructuring of SOEs, banks, consolidation of public finances, including public administration reform and wage bill reduction, are all needed to provide the necessary fiscal savings and impetus for growth. It is working closely with its development partners (in particular, the IMF, World Bank, and EC) toward that goal. The supplemental budget is expected to reflect these considerations, including the government's objective to reach agreement on a new IMF program.

Social Developments

24. **Poverty increased following the crisis**. Poverty fell significantly before the global and Eurozone crises, from 14 percent in 2002 to just over 6 percent in 2008. The recoil was strong and quick. In 2010 poverty[1] stood at 9.2 percent and extreme poverty[2] at 1.3 percent[3].

25. **The bottom 40 percent has been hit hard by the crisis.** During 2007-2010 average household expenditure shrank for all in Serbia, but at a higher rate for the less well-off: the mean expenditure of the bottom 40 percent of Serbians declined at an annualized rate of nearly 1.8 percent, faster than the pace of decline of the country's average mean expenditure (-1.3 percent). Moreover, among those in the bottom 40 percent, households have experienced larger average losses in consumption than average gains: - US$46 ppp per year as opposed to + US$10 ppp per year. In Serbia, being unemployed or inactive, being elderly, or belonging to a rural or large household increases the probability of being in the bottom 40 percent.

26. **Boosting shared prosperity in Serbia hinges on job creation**. Employment is the main and most sustainable mechanism to turn GDP growth into higher household income. Prior to 2009, job creation in Serbia outpaced losses. The pre-crisis economy, however, was buoyed by a growth model

[1] Share of individuals whose adult equivalent household total expenditure is lower than RSD 280.9 per day.
[2] Share of individuals whose per capita household expenditure is lower than US$2.50 ppp.
[3] According to the latest available data (Household Budget Survey, 2010).

based on public sector borrowing and domestic-led consumption. Today, with fiscal space depleted, job creation will rely on increased competitiveness. Reform is vital, particularly public enterprise restructuring; addressing disincentives for employment (especially for low-wage, part-time workers) in the tax and social safety net system; and closing the skills gap.

27. **The bottom 40 percent face poorer labor market outcomes than the rest of the population.** Their labor market participation is low; the inactivity rate is 13 percent in the bottom two quintiles versus six percent in the top three. The share of working-age unemployed is twice that of the top 60 percent (26 compared to 13 percent), the highest differential anywhere in the Western Balkans. In sum, less well-off individuals seem to face disproportionately more barriers to employment. Potential disincentives to work arising from social protection systems might further curtail employment prospects for the less well-off. The structure of social contributions, for instance, disproportionately penalizes low-wage earners. Improving the efficiency and equity of education expenditures, including through shifting toward capitation-based education financing, will be critical in the medium- to long-term to ensure students have the skills demanded by employers.

Box 1: Understanding and Addressing Gender Inequities

Serbia has made significant progress on promoting gender equality in education and health, yet significant gaps persist in access to economic opportunities and agency, and among certain population groups. Most notably, gender disparities exist in labor markets, with low female labor force participation rates (18 percentage point gap in activity rates between men and women) and persistent gender wage gaps. This suggests the presence of barriers to employment for women, including limited access to child care. Inequalities in access to employment are exacerbated for ethnic minorities in Serbia. Moreover, gender inequalities in agency also exist in the country, with relatively fewer women than men participating in politics and in leadership positions in firms.

The Bank is conducting various gender-related activities and analytical work to inform its engagement and contribute to filling knowledge gaps in Serbia. Serbia will benefit from Analytic and Advisory Activities (AAA) with important gender components, including analytical work on employment and job creation, and a recently completed qualitative survey identifying barriers to employment for men and women. Further, the four-year Trust Fund "Promoting Gender Equality in the Western Balkans," with financial support from the Swiss Agency for Development and Cooperation, covers activities for Serbia. In this context, the Bank conducted country consultations in 2013 to ensure that the program reflects priorities and knowledge gaps in the country, and to carry out the activities in close coordination with local stakeholders. Several cross-sectoral activities are included under this Trust Fund for Serbia, specifically: a survey on child and elder care demand and supply; a compendium on gender-related interventions in the country aimed at better understanding which programs or activities have worked or not worked to address gender inequalities; a comprehensive skills survey (Skills Toward Employment and Productivity, or STEP) to understand whether there are gender gaps in skills that are limiting women's employment; and capacity building for the Government and other stakeholders to tackle specific issues to open up economic opportunities for women.

28. **The government has undertaken reforms to increase safety net coverage of the poor.** One example is a new law on social assistance, improving targeting accuracy, coverage and benefit adequacy. Coverage of the last resort social assistance program now reaches 15 percent of the

poorest quintile, up from below 7 percent. The law aims also to improve coordination with noncash social assistance, such as social care and employment services, which are institutionally separated and poorly coordinated. Implementation challenges remain, including necessary by-laws and operational manuals. A recent note on labor activation[4] will help address the broader social safety net and activation agenda in Serbia. Key areas include introducing earnings disregards in social benefit design, stronger coordination between employment services and social welfare centers, and profiling social assistance beneficiaries to link them with targeted activation programs.

III. Continued Relevance of the CPS

29. **Recent economic, social and political changes in Serbia have reinforced the relevance of the original pillars for the remainder of the CPS period.** The original CPS was designed against a backdrop of post-crisis recession with rising unemployment and poverty rates. Recovery of economic growth and fiscal sustainability were the dominant concerns, at a time of increased demand for public services, especially basic social services. A slower than expected recovery and a loss of fiscal discipline have since exacerbated many of these problems and enhanced the relevance of the original pillars and their unfinished reform agendas. Diagnostics such as the FY12 *Country Economic Memorandum* and the FY14 *First Insights into Shared Prosperity in the Western Balkans* led to an unambiguous conclusion that a focus on competitiveness, economic recovery and private sector job creation must remain the centerpiece of the Government and WBG strategy in Serbia. At the same time, the loss of fiscal discipline and rapid increase in public debt only heightened the urgency to rationalize social spending and improve public expenditure efficiency and effectiveness.

Pillar 1: Strengthening Competitiveness

30. **The *Country Economic Memorandum (CEM)* conducted in FY12 reconfirmed the primacy of competitiveness in tackling Serbia's long-run growth constraints.** The analysis demonstrated that Serbia's pre-crisis model of growth, driven largely by domestic demand and reliance on excessive inflows of capital and credit, improved living standards but failed to produce sustained growth and job creation. Previously ample capital inflows dried up in the wake of the global financial crisis, and are unlikely to fuel further episodes of domestic demand expansion. The CEM argued that if Serbia is to achieve sustained growth and job creation over the medium to long term, it must shift to export-driven growth. That is a strategy that other small middle-income economies in Europe and globally have successfully embraced. To accomplish the rebalancing, reforms to support major gains in competitiveness and productivity will have central importance.

31. **Serbia's transition to a market economy remains incomplete and weak competitiveness remains a major obstacle to growth.** Resolving the massive, unaffordable and highly inefficient SOE sector is vital to the country's development and critical to both pillars of the CPS. With some 1,300 SOEs, in nearly every sector of the economy, private investment is crowded out and valuable labor, capital and land are poorly allocated. Public sector employment is as large as that in the formal private sector. In 2010, public enterprises had aggregate losses of some 3.5 percent of GDP, and the cost of supporting them exceeded 2.5 percent of GDP. The country is poorly integrated in regional and global markets. Goods exports represent only around 30 percent of GDP. Export relationships are fragile and productivity remains relatively low, in particular in key sectors like manufacturing.

[4] World Bank (2014) "Activation and Smart Safety Nets in the Western Balkans: Toward an Integrated Approach".

Doing Business indicators show a mediocre business climate, around the 50th percentile in the global rankings, with particular issues in property rights, construction permitting and contract enforcement.

32. **The CPS identified the financial sector as a generally strong core element under the competitiveness pillar.** IFC interventions, targeted to help Serbia maintain financial resilience, have proceeded as planned, with positive results. IFC supported client banks by providing short-term liquidity, capital injections, and long-term finance for on-lending to the agribusiness sector. Complementing these traditional instruments, IFC mobilized MIGA guarantees for the Serbian subsidiaries of Western European banks, helping them manage increased capital adequacy requirements and maintain presence. During the past two years, discrete but important vulnerabilities in the financial system emerged. Four small banks, including three in which the state had an ownership stake, have failed since 2012, due to poor oversight and governance that led to significant deteriorations in asset quality. Privatization of two IFC's client banks also has been slower than anticipated. One is in process with completion expected end September 2014; with regard to the other, the privatization process is to restart in September, with privatization expected end-2017.

33. **Analytic and advisory work drilled down on key constraints to competitiveness**. In addition to the CEM, diagnostics during the first few years of the CPS helped to elucidate the constraints to competitiveness and growth, design appropriate reform programs and build public support for deeper reform. Analytics and technical assistance have been conducted in SOE reform, financial sector stability and development, justice sector reform, investment climate reform, real estate management and promotion of research and innovation (see Annex 2). These analyses reconfirm the relevance of the CPS pillar and have informed new lending in the FY14-15 period.

34. **A focus on competitiveness is well-aligned with the WBG's twin goals.** Although the CPS preceded the articulation of the twin goals, the focus on competitiveness is central to eliminating poverty and promoting shared prosperity. Serbia is facing stagnant domestic demand, fiscal consolidation, and a likely reduction in public sector employment with already high unemployment. While real growth has been positive since 2010 (aside from 2012), available data indicate the bottom 40 percent have benefitted less from that limited growth. The first order of business must be to place the country on an accelerated and sustainable growth path with a higher level of job creation.

Pillar 2: Improved Efficiency and Outcomes in Public Spending

35. **A strong analytic base guided the original focus on efficiency and outcomes of social spending.** The CPS outcomes under this pillar were: (i) Strengthened fiscal performance with sustained improvement in human development outcomes through more efficient, effective social spending; and (ii) More informed and effective policymaking to reduce poverty and increase social inclusion. The initial analytic foundations and evidence underpinning this pillar identified a lack of fiscal sustainability, poor efficiency in social services and weak outcomes in terms of health, education, old-age security and poverty alleviation for vulnerable groups.

36. **Subsequent analytic work has reconfirmed the continued relevance of the pillar while expanding the scope of action to address cross-cutting public expenditure issues.** Work undertaken during the CPS has deepened analysis on poverty, vulnerability and social spending. Key products include the: 2012 *Country Economic Memorandum*; *Western Balkans Poverty Assessment*; 2013 *Survey of Income and Living Conditions* (SILC); *Western Balkans Programmatic Gender Monitoring*; ongoing *Poverty and Social Impact Analysis* (PSIA); analysis on financing education options and learning outcome monitoring; country studies undertaken as part of regional analyses,

including Activation and Safety Nets, regional jobs technical assistance, and pensions; and various health sector work, including on enhancing efficiency of pharmaceutical spending. Overall, the picture is of continued high unemployment and inactivity rates combined with inadequate skills in the workforce and poor quality of education. Issues also include the quality of health and social assistance services, and critical gaps in terms of quality and coverage of services across the social sectors, particularly for vulnerable populations. Entitlement spending (especially pensions), subsidies and guarantees to SOEs, and a rising public sector wage bill are the main causes of the growing public spending—along with an ill-planned 2011 decision to decentralize revenues to municipal governments. The Bank undertook a two-phased *Municipal Public Expenditure Review* in FY13 and FY14 in order to help the government grapple with the implications of this decision.

37. **Enhancing the efficiency and outcomes of public spending is critical to advancing the Bank's twin goals.** Although Pillar 2 was designed prior to the articulation of the twin goals, it is entirely aligned with them. In light of growing fiscal pressures in Serbia, more efficient and effective social spending–i.e. increased value for money–is indispensable to expanding social services in health, education and social protection. Improved service delivery can in turn enhance productivity and promote human capital and equality of opportunities, giving the bottom 40 percent of the population a chance to participate in the growth process over the long term. The enhancement of the effectiveness of social assistance is critical to protecting those who are extremely poor and highly vulnerable, even as the poor acquire the human capital needed to transition to work and employment.

38. **While not a CPS pillar, environmental sustainability remains an important cross-cutting theme.** The Bor Regional Development project constitutes the main direct Bank intervention in this area, while IFC has continued to promote resource efficiency and renewable energy. To this end, IFC InfraVentures Fund made its first investment in Serbia to support development of a 100MW wind power plant, but generally, introduction of greater private sector participation in infrastructure finance has been delayed. Environmental sustainability remained critical to other operations in the Bank portfolio, including the recently closed Agriculture and Irrigation projects.

IV. Progress Toward Achieving CPS Outcomes

39. **CPS implementation has been mixed, with significant delivery delays reflecting the government's weak reform efforts in FY12-13.** The initial portfolio performed reasonably well, but only one of four planned new operations was delivered in the first two years of the CPS. The two planned DPOs were stalled by shortcomings in the macroeconomic framework and derailment of an earlier IMF Stand-By Arrangement. In FY14, the Bank delivered two operations, a planned second health reform project and a results-based financial sector operation. As of end-June 2014, the Bank's portfolio in Serbia includes six investment operations for total commitments of US$799 million. Three of the projects in the portfolio predate the current CPS, though one will close by September 2014. Two operations have performed poorly. The first is the Bor Regional Development Project, approved in mid-2007 and restructured in February 2014 to focus solely on mitigating the probability and impact of a catastrophic environmental accident. The second is the Corridor X Road Transport Project, which remained in problem status for over a year. It too was restructured, and was recently upgraded reflecting recent progress on the ground. Continued hands on implementation support will be provided to ensure that associated CPS outcomes are achieved. These portfolio performance problems, coupled with significant delays in lending delivery, resulted in mixed CPS implementation

with only 12 of 26 CPS milestones achieved at midterm, and another nine partially achieved. Details of progress to date and updated indicators are reflected in the revised Results Matrix (Annex 1).

40. **The challenging macroeconomic environment, portfolio problems and delivery delays slowed progress toward CPS outcomes for Pillar 1.** The original CPS identified 19 outcomes for Pillar 1. Of the 13 milestones in the revised Results Framework, four have been achieved, seven partially achieved and two not achieved. Envisaged policy lending was delayed, as explained above. Despite reform delays, progress was made in improving the legal and regulatory framework for SOEs and in developing a land cadaster and improving property registration. Good progress was made in expanding irrigation and flood control infrastructure to help boost agricultural yields and provide flood protection for a larger population. Outcomes were also achieved with respect to promoting innovation start-ups. Still, progress was less than expected for road infrastructure and safety, and particularly weak on resolution of loss-making SOEs.

41. **As of May 2014, Serbia was IFC's fourth largest exposure in ECA with a committed portfolio of about US$690 million, all of which disbursed, in 24 projects.** Most of these investments were made during the CPS period when IFC committed US$590 million for its own account in 12 projects, or 70 percent more than IFC's investments during the previous FY08-11 CPS and in line with the lower range of the investment volume envisaged for the whole CPS period. IFC's own account investments have been complemented by mobilization from commercial banks in the amount of US$72 million, as well as MIGA guarantees facilitated by IFC for its clients in the amount of US$550 million. Significant focus has been placed on the financial sector, with investments in numerous banks. In the real sector, IFC's investments were focused on the agribusiness and automotive sectors. While the general experience and results of this increased level of IFC investment activity in Serbia has been positive, several projects have suffered from the challenging macroeconomic environment or poor corporate and financial governance.

42. **Good progress was made in enhancing the efficiency of health and social protection spending, with more limited progress on education and employment, under Pillar 2.** Of the eight milestones included in the revised results framework, six have so far been achieved, one partially achieved and one not achieved. The First Serbia Health Project supported reforms initiating output-based payment methods and improving quality of service delivery in hospitals as well as introducing a new payment system to increase primary care efficiency and productivity. The Consolidated Collection and Pension Project helped reduce administrative costs associated with the pensions system as well as the reporting burden of employers. The Delivery of Improved Local Services (DILS) project contributed to substantial improvements in access, efficiency, and quality of local health and social protection services, but progress was only modest in rationalizing education spending and adopting an employment strategy. DILS also piloted social inclusion initiatives–such as Roma health facilitators and disability grants–that were subsequently mainstreamed into the budget. The Survey of Income and Living Conditions (SILC) survey was conducted and analyzed with delay.

43. **Pillars 1 and 2 were complemented by continued supervision of a portfolio aimed at enhancing environmental sustainability.** Of the three CPS outcomes identified for environmental sustainability, the two milestones related to energy efficiency of public buildings were achieved. The milestone associated with the poorly-performing Bor Regional Development Project was only partially met and has been revised substantially to reflect the restructuring of the project.

V. Modifications to the Strategy

44. **No modification of the pillars has been proposed for the remainder of the CPS.** Actions within the second pillar will be expanded beyond social spending to address cross-cutting public expenditure issues. IFC's strategy remains the same as outlined in the original CPS. A renewed reform commitment by the government underpins a planned increase in IBRD lending in FY15. The original CPS outlined IBRD lending of US$340 million for FY12-13 and did not provide an indicative envelope for the second half of the CPS period. In FY15, Bank lending is expected to increase in line with Government's deepening of the economic reform agenda; this will depend on IBRD's lending capacity, country performance, and demand from other borrowers (see Table 2). Subject to client demand and opening of the infrastructure sector for private investments, IFC is planning investments in the range of US$200-250 million at its own account for the remainder of the CPS period, which could be complemented by mobilization from partners. The WBG will carry out a *Systematic Country Diagnostic* in FY15 to selectively identify priorities for support under a new Country Partnership Framework for FY16-20.

Pillar 1: Strengthening Competitiveness

45. **In the second half of the CPS period, the Bank is supporting strengthened competitiveness through a continued focus on financial sector stability, SOE reform and investment climate reforms related to property rights.** A policy note, *Strengthening Competitiveness to Accelerate Growth and Create Jobs,* will be completed in early FY15. IFC will remain engaged in the financial sector, as well as focus on agriculture and agri-business exports, renewable energy projects (wind, biomass and small hydro) and private sector participation in infrastructure projects through public-private partnerships.

46. **The vulnerabilities in the Serbian banking system that arose in the past two years caused significant concerns about potential for a larger crisis of confidence.** Fortunately, actions taken by the DIA, the National Bank and the Ministry of Finance helped prevent such a crisis. IBRD has been providing advisory support through the Western Balkans Financial Sector Technical Assistance facility as well as through the Vienna-based Financial Sector Advisory Services Center (FINSAC) program. In FY14, IBRD channeled support for the financial sector through a results-based operation on Strengthening the DIA to ensure that this critical institution has the governance structures and financing to play fully its role in restoring confidence in the financial sector. In FY15, IFC will continue supporting the privatization of its two portfolio banks and possibly assist with the privatization of the biggest state insurer. IFC will stand ready to support resolution of NPLs and distressed assets if the regulatory framework is modified to remove the remaining legal impediments. In addition, IFC has been supporting improvements in the legal framework that would ultimately allow IFIs to engage in dinar lending. Complementary to these efforts and subject to required legal changes, IFC expects to issue dinar-denominated bonds in 2014 - 2015.

47. **Ownership transformation in the economy remains an unfinished agenda that undermines competitiveness and growth.** Establishing a legal process to free assets—especially land—from State hands will help stimulate private investment and, ultimately, job-creating economic activity. Serbia also needs to do a better job operating enterprises that will remain state owned. Unreliable and costly public services, particularly public utilities, not only have a disproportionate impact on the poor, but are an impediment to operating a business. For the past two years, the Bank has provided analytic and advisory services to build support for SOE reform. With a renewed

impetus from the incoming government, the Bank expects to move ahead in FY15 with the first in a programmatic DPO series aimed at improving governance, performance monitoring, and accountability of the sector while reducing the levels of direct and indirect state support. The DPOs address three policy areas, including resolution of ownership and reduction of state support for socially-owned enterprises; strengthening governance of the regulatory framework, and mitigating the social and employment impacts of the reform program. The authorities estimate that SOE restructuring could result in loss of up to 30,000 jobs. Many of these workers will have a difficult time finding new jobs—many are older and less than half have completed secondary education. As part of the DPO, the government has allocated resources for severance payments. For those workers who can be retrained and look for new jobs, the government will finance active labor market programs. In addition, the Bank will work with the EU to support development of a medium-term comprehensive jobs strategy for Serbia. While the Bank focuses on reform of state- and socially-owned enterprises, IFC will continue to focus on corporate governance improvements in the private sector through company-level interventions, developing local capacity in the delivery of corporate governance services, and raising awareness of the importance of corporate governance. Progress in this area will be essential to increasing private investments in the economy and putting private sector development in Serbia on a sustainable path after the state footprint in the economy is reduced.

48. **Selective investment climate reforms—particularly related to property rights—are highest priority.** Serbia's competitiveness is severely undermined by weaknesses in land management and property rights. It ranks 102 out of 130 countries globally in the area of physical property rights[5], and 182 out of 189 countries with respect to construction permitting in the Bank's Doing Business index. Under the Real Estate Cadastre and Registration Project, which established a cadastre and single system for real property registration, time to register transactions fell, cadastral offices were renovated, geodetic infrastructure built, and customer satisfaction increased. Despite these improvements, Serbia's land and real estate management systems remain well below EU standards and continue to undermine private sector competitiveness and hurt the poor and more vulnerable groups, including war refugees, migrants, the elderly and women (despite a legal framework establishing gender equality before the law). The proposed FY15 Land and Real Estate Management project aims to improve the efficiency, transparency and reliability of Serbia's real property management systems, and address security issues for vulnerable groups and women.

49. **Serbia has a comparative advantage in agriculture, one of the largest potential sources of exports and job creation.** More than 65 percent of its land area is used for agriculture (20 percentage points higher than the EU27 average), and agricultural production accounts for some 16 percent of GDP (2 percent for the EU 27) and nearly a quarter of exports. Moreover, about 55 percent of the population lives in rural areas, the majority of whom earn incomes placing them in the bottom 40 percent. Agriculture labor makes up about a quarter of the workforce, five times the EU27 average. Agriculture sector transformation will be pursued through regulatory improvements, investment promotion and development of infrastructure. IBRD will provide technical assistance for a dialogue on reforms. IFC is preparing a new regional advisory project to improve the productivity and competitiveness of the agribusiness sector in the Western Balkans, including in Serbia. IFC will continue to support the private sector to be more competitive by implementing better standards (e.g. food safety and corporate governance) and improving resource efficiency.

[5] For details and updates, see International Property Rights Index, www.internationalpropertyrightsindex.org

Pillar 2: Improved Efficiency and Outcomes in Social Spending

50. **Analytic and lending activities during the second half of the CPS period continue to focus on social spending and efficient services, while taking a broader approach to overall public expenditure management**. Analysis and advice in FY15 will be provided through ongoing technical support, including on inclusive education and through the programmatic Western Balkans poverty assessment, gender monitoring and regional health systems support. Technical support on *Mainstreaming Roma Inclusion* will enhance Roma inclusion in Bank-supported activities, and possibly leverage sector budget support proposed by the EU. Complementary technical work is underway to help meet the needs of Roma youth, with a focus on girls, including a skills survey. Ongoing analytic work on activation and social safety nets will also continue to inform policy dialogue and lending. Finally, and in collaboration with the EU, the Bank will look broadly at public financial management, and complete the second phase of the *Municipal Public Finance Review*.

Table 2: CPS Lending Program: Projected and Revised

CPS Lending program (original in CPS) (est. US $ million)		**CPS Progress Report Lending Program (Actual)** (est. US $ million)	
FY 12		**FY12 Actual**	
Public Expenditure DPO	100		
Total FY12	100	*Total FY12*	
FY13		**FY13 Actual**	
Private/Financial Sector (PFDPO) 1	100		
Road Rehabilitation and Safety	100	Road Rehabilitation and Safety	100
Health Sector	40		
Total FY13	240	*Total FY13*	100
FY14		**FY14 Actual**	
PFDPO 2		Health Sector Enhancement	40
Energy Efficiency		Deposit Insurance Agency	200
Investment Operations*			
Total FY14		*Total FY14*	240
FY15		**FY15 Proposed ***	
PFDPO 3		*State-owned Enterprises DPO*	250
Possible project (tbd)		*Land and Real Estate Management*	50
		Public Expenditure and Public Employment Reform	50
		Emergency Recovery Loan (amount TBC)	150
Total FY15			
		Total FY15	500
Total lending FY12-13	340	**Proposed Total lending FY12-15**	840

* Overall lending in FY15 will depend on IBRD lending capacity, country absorption, and demand from other borrowers. The allocation of lending between instruments is subject to revision depending on the outcome of the PDNA, the extent government will need to draw on the ERL for urgent reconstruction financing, and the adequacy of the macroeconomic policy framework.

51. **The Bank built on earlier successes in health sector reform with a follow-on Second Serbia Health Project in FY14, one year later than planned.** The government, with input from a 2009 *Public Expenditure Review*, has moved the health system toward better financial sustainability. Still, Serbia spends almost twice per capita on health care as comparable countries, with similar health outcomes. And coverage remains an issue for underserved populations, such as Roma and migrant workers, and for women, particularly in rural areas. The result is inadequate prevention and treatment of non-communicable disease and continued high out-of-pocket health spending, striking

hardest at the poor and bottom 40 percent. The FY14 Second Serbia Health Project is expected to improve coverage, increasing the incentives to provide standard gynecological and antenatal care, particularly in rural areas. It will also save money; the adoption of a new centralized system for the procurement of pharmaceuticals demonstrated savings of over US$33 million in 2014.

52. **In FY15 the Bank will seek to support public expenditure management reforms through results-based financing.** This support will assist the implementation of fiscal consolidation and structural reforms, including short and medium term measures to rationalize public wage policies, streamline the wage bill, and enhance the organization and delivery model of selected sectors. The government is also working on ways to strengthen revenue mobilization and reform tax policy to reduce fiscal pressure on labor. In addition to IBRD support, IFC is engaging with the government through advisory services on 'ease of paying taxes' within the broader Doing Business context, and simplification of tax procedures and transfer pricing through its regional tax project.

53. **The Bank is preparing up to €200 million in emergency support for flood recovery**. The exact amount will be determined once the PDNA and mobilization of donor financing are completed.

VI. Risks

54. **With a significant portion of FY15 lending proposed to support the high-reward SOE restructuring, a derailment of the reform process would severely affect the overall outcomes of the CPS.** While financial turmoil from the Eurozone crisis posed the most immediate risk when the CPS was written, 2014 found Serbia having weathered the crisis but with its own financial and fiscal dynamics in stress, compounded by the mid-year floods. The possibility that reforms face vigorous opposition cannot be discounted. There is a risk to the Bank program in FY15, particularly to the proposed SOE DPO, should the macroeconomic framework not be adequate to support Development Policy Lending and the authorities not take adjustment measures to secure agreement on an IMF program. Should these risks materialize, the Bank would work with the government to advance strategic investment operations, including results-based financing to support defined public expenditure management outcomes consistent with the CPS pillars and twin goals. The Bank will also support the authorities in communicating benefits to the public in order to preserve political momentum for reforms, while IFC will continue to promote improvements in corporate governance at the firm and country level, and will stand ready to provide pre- and post-privatization support.

55. **Portfolio implementation and management risks will remain.** Bank-supported investment operations will continue to face implementation hurdles as a result of cumbersome political processes and weaknesses in capacity. Bank staff and management can continue to work to reduce this risk through close cooperation with project staff on the ground and through engagement in Belgrade and Washington. Indeed, the Ministry of Finance has shown renewed interest in assessing the strategic trade-offs of Bank and other partners' investment lending, aligning all donor support with the new medium term framework, and taking a much more proactive position on non-performing projects. Portfolio risks for IFC will also remain prominent and will be addressed through active portfolio management by the regionally-based team. IFC will also work closely with its problematic clients to find mutually acceptable solutions to resolve existing under-performing loans. In addition, the WBG will continue to strengthen its communication with the EU, EBRD and other development partners to coordinate assistance and advice, and to sequence interventions in areas where we work jointly. This cooperation is well underway through annual meetings between the WBG and EC staff working on the Western Balkans and, increasingly, through the Western Balkans Investment Framework.

Annex 1: Revised CPS Results Matrix

Original CPS Outcomes	Revised and new CPS Outcomes	Progress to date	CPS Instruments and Partners
Pillar I - Competitiveness			
Country Development Goals Infrastructure Irrigation Systems and Institutional Framework to Support Increased Agricultural Production Investment Climate Innovation Capacity Strengthened Fiscal Performance with Sustained Improvement in Human Development Outcomes Through More Efficient, Effective Social Spending More Informed and Effective Policymaking to reduce poverty and Increase Social Cohesion and Equality Strengthened Banking System **Issues and Obstacles** Missing links on the Serbian portion of Corridor X (one of the Pan-European Corridors of which Serbia is a key transit country); Road safety a concern. Dilapidated water sector impairs functionality of essential drainage and flood control infrastructure in Serbia. Strong Water User Laws needed; and stronger flood defense. The role of the state in the corporate sector remains pervasive, with fiscal implications in the form of direct and indirect subsidies and consequences for growth and competitiveness: Inadequate infrastructure and weak institutional and enforcement capacity in the judiciary erodes public and business confidence. The capacity for planning, budgeting, allocating, executing and controlling public funds needs strengthening. Corporate financial reporting has improved but lags behind EU practices. Low levels of insurance against natural disasters The current system and composition of R&D funding does not support Serbia's agenda to modernize and enhance its competitiveness.			
<u>Road Transport</u>			
Increased transport efficiency and improved traffic safety on the project sections of Corridor X, between Nis and Dimitrovgrad, and Grabovnica and Donji Neradovac. Indicated by:	***Revised CPS Outcome:*** Motorway network expanded as a foundation for future improvement in transport efficiency, as indicated by: ***Revised Indicator:*** Number of km constructed on two motorways (E-75 and E80): Baseline (2009): 0 km Target (2016): 40.57 km	**Partially Achieved:** All four lots on the E-75 were awarded in March 2012. The works started in May 2012 and completion is expected by September 2015. Road construction on the three lots of E80 average 63% completed. Physical completion rates are currently 45% for E75 and 68% for E-80.	***SPN:*** FY10 Corridor X project (P108005) **AAA**: Supporting Rail Policy Reform (EW) **<u>New financing since CPS:</u>** FY13 Roads rehabilitation and Safety Project

Reduction in road user costs for road section Nis-Dimitrovgrad: **Baseline** (2009): 1.31 **Target** (2015): 1.00	***Dropped Indicator:*** These results will not be achieved as envisioned as Corridor construction has been delayed. These outcomes will be addressed under next CPF. The specific construction milestones remain and progress is well underway.		***TF:*** Supporting Rail Policy Reform (EW)
Reduction in road user costs for road section Grabovnica to Donji Neradovac: **Baseline** (2009): 1.07 **Target** (2015): 1.00	***Dropped Indicator*** - As above		
Reduction in the rate of road crash-related deaths and serious injury on road section Nis Dimitrovgrad: **Baseline** (2009): 44.10% **Target** (2015): 39.70%	***Dropped Indicator*** - As above		
Action plan for reform of PEPS adopted by 2015.	***Retained Milestone.***	**Partially achieved:** Action plan drafted and awaiting formal adoption by the government	
National Road Safety Strategy developed and launched by 2015.	***Milestone:*** Adoption of National Road Safety Strategy and implementation of Road safety pilot projects. Baseline (2009): No strategy Target (2015): Strategy adopted and four pilot projects implemented. Results indicator(s) in this area to be developed under next CPF.	**Achieved:** A Lead Agency has been established under the new Road Safety Law; and the National Road Safety Strategy, a road safety cost model and terms of reference for the accident database have been prepared. Two road safety pilot projects completed.	

Irrigation			
Improved agriculture sector resilience to drought indicated by flood protection schemes strengthened for 550,000 ha and 1.8 million people along Danube, Sava, Tisa and Tamis rivers. **Baseline** (2006)**:** n/a **Target** (2013): 550,000 ha and 1.8 million people	***Revised CPS Outcome:*** Improved agriculture sector resilience to floods and improved agricultural yields, as indicated by:		***SPN:*** FY06 Irrigation and Drainage Project (P087964) ***IFC investments*** in the under-served segments of the economy: SME, agribusiness, energy efficiency and renewable energy, municipalities, and rural areas.
Creation of new and/or rehabilitation of existing irrigation schemes: **Baseline** (2006): 0 **Target** (2013): 10	***Revised CPS Outcome Indicator:*** Number of additional flood protection schemes: Baseline (2006): 0 new or rehabilitated schemes Target (2013): 42 flood protection schemes covering 550,000 ha and 1.8 million people along Danube, Sava, Tisa and Tamis rivers.	**Partially Achieved:** Activities on rehabilitating flood control and drainage rehabilitation infrastructure are completed on more than 40 schemes. Since the inception of the CPS, over 440,000 hectares country-wide have been protected from floods, providing an increased level of protection to approximately 1.1 million people. Target number of schemes to be strengthened was scaled down due to the late adoption of the Water Law. The recent floods demonstrated that a critical gap remains.	
Improved capacity for increased agricultural yields **Baseline** (2006): 0% **Target** (2013): 20%	***Retained CPS Indicator:*** Improved capacity for agricultural yields in areas covered by Project: **Baseline** (2006): Wheat yield 3.5 tons/ha, corn yield 2.2 tons/ha **Target** (2013): 20% increase in average yields	**Achieved:** The interventions under the Project to improve drainage and irrigation increased crop production up to 25%, taking into account total effects of the yields increase and cost reductions.	
Improved water resources management and strengthened water resource management institutions and policies.	***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe**.**		

State Owned Enterprise Reform			
Resolution of the majority of the Privatization Agency Portfolio.	***Dropped CPS Outcome.*** The SOE DPL did not materialize as planned in the original CPS.		***Lending:*** SOE DPL ***IFC:*** banking and insurance privatization;
Privatization/resolution of select large SOEs operating in contestable markets	***Dropped CPS Outcome.*** The SOE DPL did not materialize as planned in the original CPS.		***IFC:*** PPPs in infrastructure; Support infrastructure projects at municipal level;
Improvement of corporate governance model for SOEs, by introducing rules for management appointments, increasing accountability and transparency of their performance, to be implemented by a dedicated and resourced unit within the government in charge of the state enterprise portfolio	***Retained CPS Outcome and Indicator.*** Lending will be delivered late in CPS.	**Milestone Achieved:** The Parliament has adopted new PE Law, introducing objective rules for appointments, improving governance structures, and increasing transparency through various enhanced reporting requirements.	***IFC investments: (***i) short-term financing and trade products; (ii) mezzanine and equity investments; (iii) SME funding support through financial intermediaries. ***AAA:*** FY12 Country Economic Memorandum;
Improvement in efficiency of non-private enterprises via benchmarking, PPPs, management contracts, better regulations, etc.	***Dropped CPS Outcome.*** No instrument to help achieve this outcome, and no indicator to measure its achievement.		***AAA.*** Municipal Finance Expenditure review, 2013, (P145374) ***IFC Advisory Services***: investment climate; corporate governance.
Managing the potential social impact via social protection measures and active labor market measures to support transactions.	***Revised CPS Outcome:*** Potential social impact of SOE reform managed via payment of allocated funds to redundant workers: Baseline: RSD 0 in 2013 budget Target: RSD 18 billion in 2014 budget	**Partially Achieved:** The Government has allocated sufficient resources in the budget to provide severance payments to redundant workers. In the draft budget for 2014, RSD 18 billion have been allocated for severance packages, which could compensate about 20,000-25,000 redundant workers.	

Judicial Performance			
Government accepts and adopts finalized legal aid law and Parliament passes the new law on legal aid. **Improved efficiency and services of the judiciary through supporting the Government's justice sector reform agenda and Serbia's EU accession process.**	***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe**.** ***Retained CPS Outcome:*** Improved efficiency and services of the judiciary through supporting the Government's justice sector reform agenda and Serbia's EU accession process, as measured by: Progress in negotiations under Chapter 23 and 24 of the EU Accession Agenda	**Partially Achieved:** EC Progress Report found some progress in the judiciary. Functional review of the Serbian Judiciary provides evidence base for opening of the negotiations under the Chapter 23. Provided input to National Judicial Reform Strategy 2013-2018.	***TF***: FY11 Justice Sector Support ***TF:*** FY12-16 Justice Sector Support (MDTF) **AAA**: FY11-14 Western Balkans Public Financial Management & TF supported projects ***AAA:*** FY11-14 Programmatic Western Balkan Financial Sector TA
Public Financial Management			
Improved public financial management as measured by the PEFA framework through increased ratings in PEFA indicators, associated advice and technical support. **Strengthened supervision of the financial sector focusing on non-bank financial institutions.** **Strengthened transparency of corporate financial reporting in line with EU standards.**	***Dropped CPS Outcome.*** PEFA was carried out in 2009, prior to this CPS. ***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe. ***Revised CPS Outcome.*** Legal framework in place for strengthened transparency of corporate financial reporting in line with EU standards.	**Partially Achieved:** Two laws, namely Law on Accounting and Law on Auditing were passed in July 2013, marking visible progress in bringing the legislative and institutional environment in the area of corporate financial reporting closer to EU *acquis communautaire.*	***AAA:*** Regular Economic Reports ***AAA***: FY12 Regional REPARIS

Catastrophic Risk Insurance			
Reduced risk of damage from flooding to land, crops, property, infrastructure, and life loss from flooding	***Revised CPS Outcome:*** Monetary impact of floods reduced by the provision of catastrophe insurance, as indicated by: Increase in total coverage of firms and individuals brought about by Europa Re. Baseline: 2% Target: 15%	**Not Achieved:** Law supporting the functioning of the Europa Re was adopted in December 2013. Financial products of Europa Re are currently being reviewed by the NBS. Insurance policy will start to be sold in next 4 months.	***SPN***: SEE Catastrophic Risk Insurance Fund (P110910)
Innovation Capacity			
Established institutional capacity to stimulate innovative activities in the enterprise sector, indicated by: **Serbia Innovation Fund made operational Piloted financial instruments for technological development and innovation in enterprises; and Research and development institutes engaged in technology transfer and commercialization, and assisted in formulation of RDI reform policy.** **Strengthened research and innovation capacity through consensus building and stimulated research cooperation at the regional level. Developed cooperation between R&D, higher education and business sectors.**	***Retained CPS Outcome.*** Established institutional capacity to stimulate innovative activities in the enterprise sector, indicated by: ***Revised Indicator 1.*** Additional funds raised by Serbia Innovation Fund to support innovation: Baseline 2011: €0 Target 2014: €20 Million ***Revised Indicator 2.*** Startups have been financed and new products and processes have been launched by beneficiary enterprises. Baseline 2011: 0 startups financed and no new products Target 2014: 10 startups financed and 8 new products and processes ***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe.	**Achieved:** Established and fully operational Innovation Fund successfully deployed pilot financial instruments resulting in financing of the startups and companies. **Achieved:** Total funds raised so far amount to: €35 million. **Achieved:** 53 start-ups have been financed and 8 new products have been launched.	***New Financing***: FY12 Serbia Innovation Fund (P126229); ***AAA:*** FY11-14 Western Balkans TA on Science, R&/Innovation (TF); ***AAA:*** FY13Western Balkans Study on Employment and Innovation (TF); FY 12-FY 15 Innovation (TF) ***Key Partners:*** EU Delegation

Strengthened Banking Sector			
Enhanced financial and institutional capacity in the Deposit Insurance system	***Retained CPS Outcome:*** Enhanced financial and institutional capacity in the Deposit Insurance system, as measured by: ***Revised Indicator 1:*** Cumulative inflows into the DIF Baseline: NA Target: US$150 mil ***Revised Indicator 2:*** DIA performing its legally mandated technical functions in any future bank failures in which DIF resources are utilized Baseline: NA Target: Yes	**Not Achieved.** Effectiveness of Deposit Insurance Strengthening IPF expected end-July	***New Lending:*** *Deposit Insurance Strengthening IPF* ***(FY14)*** ***TA: FINSAC*** **IFC:** Support for the privatization of two state owned banks (Cacanska banka and Komercijalna banka) ***Key Partners****:* EBRD
Pillar II – Improved Efficiency and Outcomes in Social Spending			
National Priorities Strengthened fiscal performance More informed and effective policymaking to reduce poverty and increase social inclusion **Issues and Obstacles** Health spending is inefficient Pension reform agenda remains unfinished Public sector remains too large; input financing needs to be reformed. Poverty data needs to be more fully assessed Gender needs to be better mainstreamed			

Health Spending			
Number of accredited PHCs (Ministry of Health) Baseline (2008): 0% Target (2014): 25%	***Revised CPS Outcome:*** Accountability and quality of public health spending improved, as measured by: Percent of PHCs adopting clinical pathways Baseline: 0% of PHCs have adopted clinical pathways Target: 25% PHCs using fully operational health management information system (HMIS) platform. Baseline (2008): 0% Target (2014): 85%	**Achieved:** Accountability and quality: 39.62% of PHC have adopted clinical pathways and 86 percent of PHCs use fully operational health management information system (HMIS) platform.	**SPN*:*** FY08 DILS Project (P096823) **AAA:** Education TA, Phase 2 (P118286) **IFC:** Investments and advisory in health PPPs. ***New Operation:*** **Second Serbia Health project:** Year One Results expected change by end of CPS.
Number of Roma children vaccinated through Roma health mediators supported by the project. Baseline (2008): 0 Target (2014: 18,795	***Revised CPS Outcome:*** Needs of vulnerable groups being addressed by trained medical staff and associates, as measured by: Number of Roma children vaccinated through Roma health mediators: Baseline (2008): 0 Target (2014): 18,795	**Achieved:** Nearly 500 medical staff and associates trained to recognize the needs of vulnerable groups; 15 Roma health mediators financed from the loan funds resulting in 19,818 vaccinated children, over 2,500 registered with a primary health care (PHC) physician, 600 pregnant and new mothers receiving health checks, and more than 1,200 women able to choose a gynecologist. In 2012, Government institutionalized Roma health mediators by funding their salaries from national budget	

Disability Financing			
Improved framework established in the Ministry of Labor and Social Protection allowing equal access to and transparent utilization of State disability funds in addressing disabled people's needs. Baseline (2008): 20% Target (2014): 100%	***Dropped CPS Outcome.*** Not measurable. ***New CPS Outcome:*** Innovative services for the disabled developed, piloted, and scaled up across the country, as indicated by: Sign language interpretation services for the deaf and escort services for the blind and people with impaired vision available Baseline: Not available Target: Available across the country	**Achieved:** Internal operating procedures of the Disability Fund of the Ministry of Labor and Social Policy (MoLESP) have been reformed to enable funding of the results-oriented projects. Innovative services have been developed, piloted, and scaled up across the country (sign language interpretation services for the deaf, and escort services for the blind and people with impaired vision)	**SPN:** FY08 DILS Project (P096823)
Pension Administration			
Effectiveness of administration improved and indicated by administrative costs/pension expenditures: Baseline (2005): 4% Target (2012): 2.5% **Progress in administrative consolidation of the 3PIOs:** Baseline (2005): 0% Target (2012): 100%	***Retained CPS Outcome (clarified):*** Effectiveness of pension administration improved, as indicated by: Decline in administrative costs/pension expenditures Baseline (2005): 2.2% Target: 1.5% ***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe.	**Achieved:** Improvements in effectiveness of administration indicated by administrative costs/pension expenditures achieved. Revised target of 1.5% achieved. The original 2005 baseline figure was revised from 4% to 2.2% (in 2005).	**SPN:** FY08 DILS Project (P096823) **SPN*:*** FY05 Consolidated Collection and Pension Administration Reform Project (P090418) PEDPL Series (P108759 and P120399)

Reduce employers' reporting burden, measured by fewer reporting forms required: Baseline (2005): 28 types of forms Target (2012): 17 types of forms	***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe.		
Further pension reform measures to improve long-term sustainability, adequacy and transparency of the pension system: Baseline (2005): total pension expenditure to GDP ratio 13.4% Target (2012): ratio of 12%	***Revised CPS Outcome:*** Long-term sustainability, adequacy and transparency of the pension system improved, as indicated by: Total pension expenditure to GDP ratio Baseline (2005): 13.4% Target: 12%	**Not Achieved**: Spending on wages and pensions increased although indexation formulas were implemented. Spending on pensions increased to 13.8 percent of GDP in 2013 (compared to 12.4 percent of GDP in 2008). Spending on public sector wages increased as well – 11.2 percent of GDP in 2013 compared to 11 percent in 2008. The primary instrument for Bank support in this area was the PEDPL series, of which the third was cancelled.	
Improve client service in the pension system, measured by the average time required for resolution of one case: Baseline (2005): 2 hours Target (2012): 1 hour	***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe.		
<u>Other Social Spending</u>			
Gradual decline in spending on teachers' salaries (as percent of GDP) as capitation formula for school financing is implemented. Fiscal policy improves as Fiscal Council reviews budget preparation.	***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe.		PEDPL Series (P108759 and P120399) ***SPN*** FY08 DILS Project (P096823)
External auditing and debt management improve.	***Dropped CPS Outcome*** to consolidate the number of outcomes and use more specific, measurable outcomes that are expected to be generated within the CPS timeframe.		

	New CPS Outcome: Better-informed decision-making on public expenditures, as indicated by: Fiscal Council established and operational Baseline: Fiscal Council not operational Target: Fiscal Council operational and State Audit Institution completes external audit of final accounts for RoS and at least 10 other external audits	**Partially Achieved:** Fiscal Council is now established and operational. The State Audit Institution (SAI) audits final accounts of the RoS continuously since 2008. The SAI increased its capacity and number of annual audits during the CPS period. Latest data relates to 2012 financial statements, for which the SAI issued more than 60 audit reports, including those of final accounts of the RoS, stand-alone financial statements of various ministries, local self-governments, State Owned Enterprises, the National Bank of Serbia etc.	
Central and local per capita funding formulas in the education sector tested (Ministry of Education and Science)	***Retained CPS Outcome.*** Baseline: No funding formulas Target: Formulas tested and rolled out.	**Achieved.** Central and local per capita funding formulas have been piloted in 15 municipalities	
<u>Poverty Analysis and Monitoring</u>			
Topical policy notes based on micro-economic data are produced.	***Dropped CPS Outcome:*** Not an outcome.		**<u>AAA:</u>** Western Balkans Programmatic Poverty Assessment Western Balkans Smart Safety Nets and Activation FY12-13 Survey of Income and Living Conditions (TF) FY13-15 Poverty and Social Impact Analysis FY12-13 Regional Monitoring and Evaluation (TF) Western Balkans Programmatic Gender Monitoring Western Balkans Jobs TA
The SILC survey is collected for the first time and an analytical report is produced.	***Revised CPS Outcome:*** Poverty analysis and monitoring more closely aligned with EU methodology, as indicated by: Completion and publishing of the SILC survey. Baseline: SILC survey results not published Target: Published.	**Achieved:** SILC Completed. First results published in December 2013; Bank is providing quality control. The next round starts in May 2014.	
PSIA section of PFDPO document addresses concerns about distributional impact of its actions.	***Dropped CPS Outcome:*** Not an outcome.		
New projects prepared under CPS mainstream gender in design and monitoring.	***Dropped CPS Outcome:*** Not an outcome.		

Environmental Sustainability			
National Priorities Address urgent environmental legacy issues arising from mining sector restructuring in the Bor region Increase Energy Efficiency **Issues and Obstacles** The old and polluting copper mining complex has been extremely harmful to the environment, with legacies that continue to threaten the area. Serbia remains one of the most energy inefficient countries in ECA.			
Environmental Condition of Bor Region			
Address urgent environmental and social legacy issues arising from mining sector restructuring and promote new sources of economic growth and job creation in the region. Indicated by: **Improved environmental conditions in the areas associated with past and present mining operations** **Improved capacity to monitor environmental conditions.**	***Revised CPS Outcome.*** Urgent environmental legacy issues addressed, as indicated by: ***Revised Indicator:*** Reduction of environmental risks related to the poor state and risk of possible failure of the Veliki Krivelj collector Baseline: collector at risk of collapse Target: Works have been completed and collector replaced ***Dropped indicator:*** PDOs related to selected environmental remediation activities as well as social and job training activities. ***Dropped indicator:*** PDOs related to selected environmental remediation activities as well as social and job training activities.	**Partially Achieved:** Design for the new collector completed. Contract for civil works awarded in January 2013. In mid-2013, the closing date of the Bor project was extended September 2015. In extending, the Bank and the authorities agreed to significantly reduce the scope of its activities, including: (1) cancellation of the environmental remediation activities and monitoring activities, other than those related to the construction of Veliki Krivelj Collector bypass; and (2) discontinuation of the activities related to socio-economic component.	**SPN:** FY08 Bor Regional Development project (P092999)
Energy Efficiency			
Improve energy efficiency in public buildings to lower the heating bill and improve health and environment for users.	***Retained CPS Outcome.*** ***Revised Indicator 1:***	**Achieved** **Achieved:** Savings from the energy system rehabilitation are around US$2.5	**SPN:** FY04 Energy Efficiency Closed, April 2013. (P075343)

	Lower heating bills for public buildings: Baseline: No savings Target: US$2.5 million per year saved ***Revised Indicator 2:*** Emissions targets achieved in four categories (SO2, NOx, Ash and CO2): Baseline: 0 emissions targets met Target:	million per year. **Achieved:** CO2 emissions reduction: 52% Project achieved targets in reducing emissions in all four categories (SO2, NOx, Ash, and CO2).	**IFC**: Advisory and financing energy efficiency and renewable energy projects

Annex 2: AAA Program and Contribution to CPS Pillars

Country Specific and Regional FY12-15

AAA Product	Pillar	Delivered	Planned in FY11 CPS	Description
Country Economic Memorandum	1	FY12	X	The focus of this report was on policy and institutional reforms necessary to increase Serbia's export competitiveness in order to promote an export-led growth model over the short to medium term. The report identified sector where the growth potential is highest and discussed obstacles for their faster growth.
Education TA (Phase 2)	2	FY12	X	Assisted the Client Ministry in addressing the challenges of increasing efficiency of education spending for better student performance (education finance and quality) in pre-university education. This TA also included introduction of BOOST methodology to construct the public expenditure database, analyzing the available financial and education data and training officials in use of this database, ultimately helping better policy making in this sector.
FY 12-FY 15 Innovation (TF)	1	FY12-15	X	The Innovation Serbia TF includes a component that provides TA to Research and Development Institutes. Detailed assessment reports for four R&D institutes have been completed and the Bank team will work with these institutions on the implementation of their reform programs. The TF also includes TA to line ministry for developing new strategy for financing R&D.
Survey on Income and Living Conditions (TF)	2	FY14-15	X	The Project aims to build capacity in the Serbian Statistical system to implement EU type survey of living standards. The main purpose is to ensure sustainable monitoring and poverty and living conditions overall which is needed to facilitate the design and monitoring of policies aimed at fighting poverty and social inclusion.
Justice Sector Support (MDTF)	1	FY12-16	X	This activity aims to facilitate Serbia's justice sector EU integration process, establish a justice sector performance framework, and strengthen aid coordination in Serbia's justice sector. This is done through: (a) provision of the targeted short-term technical assistance and

AAA Product	Pillar	Delivered	Planned in FY11 CPS	Description
				analytic/policy support to the Serbian authorities for their key justice sector capacity-building and modernization needs and (b) facilitation of the communication between key stakeholders in Serbia's judicial reform process.
Poverty and Social Impact Analysis	2	FY13-15	X	This activity provided just in time analysis of poverty; gender and social impacts for a major WB operation under preparation at the time - the Public Finance DPO, first in the series of 2 DPOs focused on public sector reforms in Serbia.
Municipal PFR1	1	FY13	X	The report informed the debate over structural changes in the assignment of revenues and expenditures to local governments and provided advice to the new Government, including recommendations of reforms that could be undertaken by individual local governments and reforms in the overall framework in which municipal governments operate.
Municipal PFR2	1	FY14		The report (done as Phase 2 to the FY 13 Municipal PFR) will identify ways how local governments can increase efficiency and do more with existing resources. The focus is on staffing of local governments, performance of local utility companies and public financial management.
Energy Strategy	1	FY14	X	*Dropped*
Serbia Real Estate Management TA	1	FY14		Assisting the Serbian authorities in identifying policy and regulatory reforms needed to improve land and real estate management and strengthen institutional capacity in the land management sector. There were three separate policy notes as outputs of this TA: 1) on construction permits; 2) property rights, and 3) on property tax. The TA helped the Government of Serbia (GOS) to define priorities in terms of policy and regulatory reforms, clarify roles and responsibilities of different institutions, and identify the capacity building needs.
Serbia Government Debt and Risk Management TA	1	FY11-FY17		The project aims to contribute to Serbia's sound macroeconomic and fiscal management and reduce vulnerability to financial shocks through

AAA Product	Pillar	Delivered	Planned in FY11 CPS	Description
				strengthened debt management staff capacity and institutions, and deeper domestic debt markets. In 2011 and 2012 the TA provided support to preparation of the medium term debt management strategy and the corresponding internal annual borrowing plan and the resulting strategy documents have been published by the Client. A detailed report with recommendations regarding the internal organization of Public Debt Agency had also been prepared in December 2012 and, while it still remains to be implemented, the new Government has indicated that they would reorganize the unit based on recommendations provided. Support was also provided to establishment and implementation of a derivatives framework to manage the risks of the public debt portfolio. Additional activities are being discussed with the Government.
Belgrade Debt Management TA	1	FY14		The TA aims to strengthen capacities of the City of Belgrade administration which should enable the city government to improve its debt management and help it develop programmatic multi-year fiscal framework. TA is delivered as a series of hands-on trainings and workshops.
Supporting Rail Policy Reform (EW)	1	FY14		This Policy Note will identify the unfinished reform agenda and selected immediate and mid- to long-term incremental policy options that the Government could implement to successfully and gradually make the railway sector an efficient and competitive transport mode, in line with the EU policies.
Country Fiduciary Assessment	2	FY14		*Dropped*
Macro Modeling Support TA	2	FY14		The TA aims to upgrade capacities for macroeconomic modeling within the Serbian Ministry of Finance. This activity supports the installation and implementation of the new macro model: the Dynamic Stochastic General Equilibrium (DSGE) model. This new model will help the Ministry to improve its strategic documents (including the Fiscal Strategy) and to prepare better informed budgets.
Agriculture Sector Dialogue TA		FY15		The proposed program will inform policy makers of the agriculture sector constraints and of the impact of the earlier support measures in

AAA Product	Pillar	Delivered	Planned in FY11 CPS	Description
				Serbia and of similar measures elsewhere. It will provide private sector perspective of different government policy and budget support measures. The Bank team's recommendations will recognize the need to conform to the broader macroeconomic considerations and be in line with the requirements of the EU accession.
Serbia inclusive Education		FY15		The proposed program aims to help the design of a quality assurance system for inclusive education, including the tools (instruments/mechanisms) for regular monitoring and evaluation of inclusive practices that will be used to: a) Support daily work of the education professionals at the school and municipal level, and b) Inform further inclusion-related policy design and implementation.
Regional AAA				
Western Balkans REPARIS -Follow on EU REPARIS (Road to Europe – Program of Accounting Reform and Institutional Strengthening)	1	FY13-17	X	The objective is to support candidate and potential candidate countries of Southeast Europe with the implementation of corporate financial reporting frameworks that are aligned with the EU *acquis communautaire*. This will contribute to an improved regulatory framework for innovative and high-potential enterprises in Southeast Europe in general, and specifically help stimulate the build-up of a supportive venture capital ecosystem for high-potential SMEs which in turn will create jobs and promote shared prosperity.
Western Balkans TA Science, R&D and Innovation [renamed: Western Balkans Regional Research & Development Strategy for Innovation]	1	FY12-FY14	X	Technical Assistance aims to identify funding instruments for the implementation of their R&D action plans.
Western Balkans Programmatic Financial Sector Development	1	FY12-FY14	X	This programmatic facility aims to assist the Western Balkan countries in: (i) developing or improving institutional capacity of the regulatory entities for the oversight and mitigation of the key financial sector risks; (ii) supporting ad hoc requests for bank intervention or resolution related TA or policy advice; and (iii) providing policy and intellectual leadership for implementation of strategic financial sector development goals in this region. The activities under the FY 14 TA facility focus on

AAA Product	Pillar	Delivered	Planned in FY11 CPS	Description
				the following areas: (i) vulnerabilities of Western Balkan Financial Sectors in the context of European economic fragility; (ii) compliance of the supervisory regimes with Basel III and EU accession requirements (including Capital Requirements Directive); and (iii) mechanisms for resolution of NPLs.
Regional Monitoring and Evaluation (TF) [renamed: Monitoring and Evaluation Capacity Development for the Western Balkans and Turkey]	2	FY14	X	A regional project designed to provide technical support to strengthen institutional capacity for monitoring and evaluation (M&E) of strategy implementation in up to five sectors.
Regional Smart Safety Nets	2	FY13-FY14	X	Explores design and implementation characteristics of safety nets, the labor market institutions, as well as tax and benefit systems, which are encouraging or discouraging of undertaking activation of beneficiaries and facilitating their transition from social benefits to work. It develops methodology and performs analysis of the profile of the current beneficiaries of social assistance and proposes a mix of activation measures that would be suitable for the identified vulnerabilities and employment impediments for the respective groups. It gives cross-country review of last-resort social assistance key program design parameters which influence the behavior of working-age able-bodied beneficiaries and their families with respect to making the transition from welfare to work. Third, it gives calculations of benefit phase-out and benefit withdrawal rates in the Western Balkan countries using the OECD tax-benefit calculator, proposing changes in benefit design and in policies that would promote activation.
Western Balkans Programmatic Gender Monitoring	2	FY13-FY15	X	Proactively enhancing the inclusion of the gender dimension in the World Bank's engagement with the countries. The work aims at (i) incorporating gender in the CPS' and CPSPRs; (ii) monitoring gender inequalities; (iii) including gender in the portfolio; (iv) addressing knowledge gaps.

AAA Product	Pillar	Delivered	Planned in FY11 CPS	Description
Western Balkans Programmatic Poverty Assessment	2	FY13-FY15	X	Provides: (i) regular monitoring of poverty, inequality and exclusion indicators; (ii) statistical support and strengthening capacity in areas related to the measurement of poverty and exclusion; and (iii) addressing knowledge gaps on poverty and distributional issues, particularly as they relate to Bank supported reforms and projects.
Promoting Employment through Skills Development TA	1	FY13	X	*Dropped (Serbia is participating in the Programmatic Western Balkans Jobs Challenges TA)*
Western Balkans Public Fin. Mgt/PEFA (TF)	1	FY13-FY15	X	*Dropped*
Western Balkans Regional Health AAA	2	FY13-FY16	X	This programmatic ESW aims to establish the evidence base on setting priorities in health to make health systems in the Western Balkans more equitable and efficient, and control the development of their costs. The ESW products are expected to assist knowledge exchange and policy development on implementing and setting priorities in the Western Balkan countries. In particular, Component 3 of the Program will assess the equity and efficiency outcomes under current approaches of setting and implementing priorities in health care in Serbia (and a second Western Balkan country) to develop hypothetical patient journeys that demonstrate inequities and resulting inefficiencies in health care based on analyses of the treatment for a set of tracer conditions. The component will include a menu of core and optional diagnostics.
Mainstreaming Roma	1	FY14		The TA aims (i) to identify gaps and opportunities to enhance Roma inclusion in Bank supported activities; (ii) to raise awareness and create a better understanding of the importance of Roma inclusion; and (iii) to eventually inform the way clients improve Roma inclusion in selected sectors/countries.
Western Balkans Jobs Challenges	1	FY13-FY16		Identifies the main labor market incentives, determines policy priorities and discusses policies to improve labor market outcomes.

Annex 3: Key Economic & Program Indicators - Change from Last CPS

Prepared for all CASs/Progress Reports, but included in Board version of Progress Reports Only

	Forecast in Last CAS				*Actual*				*Current CAS Forecast*		
Economy (CY)	*2010[a]*	*2011[b]*	*2012[b]*	*2013[b]*	*2010[c]*	*2011[c]*	*2012[c]*	*2013[a]*	*2014[b]*	*2015[b]*	*2016[b]*
Growth rates (%)											
GDP	1.0	2.0	3.0	4.5	1.0	1.6	-1.5	2.5	1.0	1.5	2.5
Exports	17.3	26.7	11.3	14.5	17.2	20.1	-4.9	30.0	9.0	10.7	11.0
Imports	4.2	20.9	7.4	8.6	4.2	20.7	-4.7	8.6	4.1	7.1	7.6
Inflation (average, %)	6.3	7.1	3.4	3.4	6.2	11.1	7.3	7.8	4.0	4.5	4.0
National accounts (% GDP)											
Current account balance	-7.4	-7.8	-8.6	-8.3	-6.7	-9.1	-10.6	-5.0	-4.5	-4.0	-3.5
Gross investment	23.0	25.1	25.2	24.0	17.2	20.1	21.3	19.3	20.5	21.3	21.7
Public finance (% GDP)											
Fiscal balance	-4.7	-4.5	-3.9	-2.8	-5.0	-5.2	-7.7	-6.0	-7.1	-5.2	-3.2
Foreign financing	1.1	3.5	2.3	1.3	1.4	4.2	4.9	5.2	-4.6	-3.4	-2.1
International reserves											
(as months of imports)	9.7	8.9	7.6	7.0	10.0	10.5	9.2	9.0	7.8	7.3	6.9
Program (Bank's FY)	FY11[a]	FY12[b]	FY13[b]	FY14[b]	FY11[a]	FY12[b]	FY13[b]	FY14[a]	FY14[a]	FY15[b]	FY16[b]
Lending ($ million)	200	100	240	NA	500	0	100	240	240	500	
IBRD total debt outstanding ($ million)*	1,818	2,063	2,264	2,516	1,818	1,859	1,915	1,973	1,973		

*End of calendar year data

a. Estimated year

b. Projected year

c. Actual outcome

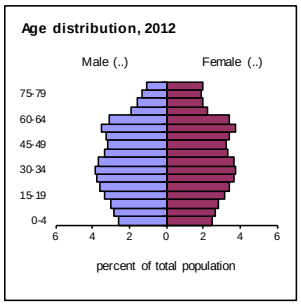
The macro projections for 2014-16 were prepared prior to the floods, and will be updated once the floods-related damage and loss assessment is completed and further information on the 2014 supplementary budget becomes available in September 2014.

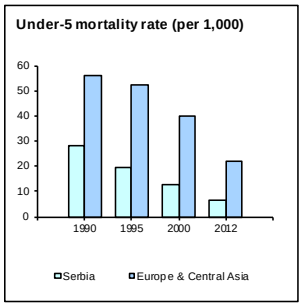
Annex 4: Serbia at a Glance

Serbia at a glance

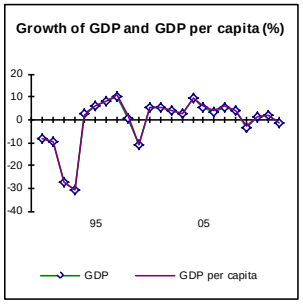
3/13/14

Key Development Indicators	Serbia	Europe & Central Asia	Upper middle income
(2012)			
Population, mid-year (millions)	7.2	271	2,391
Surface area (thousand sq. km)	88	6,479	43,472
Population growth (%)	-0.5	0.7	0.8
Urban population (% of total population)	57	60	61
GNI (Atlas method, US$ billions)	38.1	1,804	16,661
GNI per capita (Atlas method, US$)	5,280	6,664	6,969
GNI per capita (PPP, international $)	11,430	11,946	10,621
GDP growth (%)	-1.7	1.8	5.0
GDP per capita growth (%)	-1.2	1.1	4.2
(most recent estimate, 2005–2012)			
Poverty headcount ratio at $1.25 a day (PPP, %)	<2	1	8.4
Poverty headcount ratio at $2.00 a day (PPP, %)	<2	2	19.5
Life expectancy at birth (years)	75	72	74
Infant mortality (per 1,000 live births)	6	19	16
Child malnutrition (% of children under 5)	2	2	3
Adult literacy, male (% of ages 15 and older)	99	99	96
Adult literacy, female (% of ages 15 and older)	97	97	91
Gross primary enrollment, male (% of age group)	93	101	111
Gross primary enrollment, female (% of age group)	93	100	110
Access to an improved water source (% of population)	99	95	93
Access to improved sanitation facilities (% of population)	97	94	74





Net Aid Flows	1980	1990	2000	2012
(US$ millions)				
Net ODA and official aid	..	..	1,134	1,090
Top 3 donors (in 2012):				
European Union Institutions	..	..	471	885
Germany	..	..	99	53
United States	..	..	108	42
Aid (% of GNI)	..	..	18.7	3.0
Aid per capita (US$)	..	..	151	151
Long-Term Economic Trends				
Consumer prices (annual % change)	..	..	71.1	7.3
GDP implicit deflator (annual % change)	..	..	77.4	5.5
Exchange rate (annual average, local per US$)	..	..	63.2	87.9
Terms of trade index (2000 = 100)	..	..	100	139



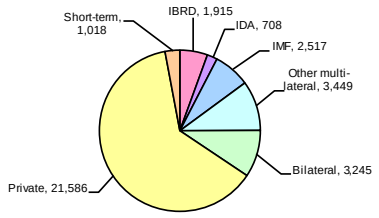
	1980	1990	2000	2012	1980–90	1990–2000	2000–12
					(average annual growth %)		
Population, mid-year (millions)	7.4	7.6	7.5	7.2	0.3	-0.1	-0.3
GDP (US$ millions)	..	..	6,083	37,489	..	-4.2	3.3
			(% of GDP)				
Agriculture	..	..	19.9	*9.0*	..	..	*1.1*
Industry	..	..	30.5	*26.6*	..	..	*2.0*
Manufacturing	..	..	23.8	*15.6*	..	..	..
Services	..	..	49.6	*64.3*	..	..	*5.4*
Household final consumption expenditure	..	..	88.3	70.8	..	..	*0.8*
General gov't final consumption expenditure	..	..	19.6	18.9	..	..	*5.0*
Gross capital formation	..	..	8.8	26.3	..	..	*16.0*
Exports of goods and services	..	..	23.9	38.2	..	..	*9.6*
Imports of goods and services	..	..	40.5	54.2	..	..	*7.9*
Gross savings	..	..	13.3	*18.7*			

Note: Figures in italics are for years other than those specified. .. indicates data are not available.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	**2000**	**2012**
(US$ millions)		
Total merchandise exports (fob)	1,645	13,833
Total merchandise imports (cif)	3,227	20,950
Net trade in goods and services	-1,441	-7,128
Current account balance	-153	-4,231
as a % of GDP	-2.5	-11.3
Workers' remittances and compensation of employees (receipts)	..	2,763
Reserves, including gold	517	14,403
Central Government Finance		
(% of GDP)		
Current revenue (including grants)	42.4	42.7
Tax revenue	*34.4*	36.9
Current expenditure	42.1	42.9
Overall surplus/deficit	-0.3	-4.3
Highest marginal tax rate (%)		
Individual	*10*	*15*
Corporate	*20*	*10*
External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	11,573	34,438
Total debt service	124	5,869
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	190.3	91.9
Total debt service (% of exports)	5.8	31.0
Foreign direct investment (net inflows)	52	355
Portfolio equity (net inflows)	0	-24

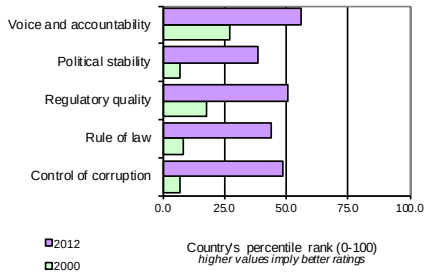
Composition of total external debt, 2012



US$ millions

Private Sector Development	**2000**	**2012**
Time required to start a business (days)	–	12
Cost to start a business (% of GNI per capita)	–	7.7
Time required to register property (days)	–	11
Ranked as a major constraint to business (% of managers surveyed who agreed)	**2000**	**2012**
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	*4.9*	19.9
Bank capital to asset ratio (%)	*18.3*	*16.0*

Governance indicators, 2000 and 2012



Source: Worldwide Governance Indicators (www.govindicators.org)

Technology and Infrastructure	**2000**	**2012**
Paved roads (% of total)	63.0	*63.5*
Fixed line and mobile phone subscribers (per 100 people)	..	156
High technology exports (% of manufactured exports)	..	..
Environment		
Agricultural land (% of land area)	..	*58*
Forest area (% of land area)	28.1	*31.6*
Terrestrial protected areas (% of land area)	5.7	6.3
Freshwater resources per capita (cu. meters)	..	*1,158*
Freshwater withdrawal (% of internal resources)	..	*49.0*
CO2 emissions per capita (mt)	..	*6.3*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	3.6	*4.4*
Energy use per capita (kg of oil equivalent)	1,826	*2,230*

World Bank Group portfolio	**2000**	**2012**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	1,097	1,915
Disbursements	0	96
Principal repayments	0	74
Interest payments	0	49
IDA		
Total debt outstanding and disbursed	0	708
Disbursements	0	20
Total debt service	0	20
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	–	528
of which IFC own account	–	491
Disbursements for IFC own account	–	229
Portfolio sales, prepayments and repayments for IFC own account	–	81
MIGA		
Gross exposure	–	–
New guarantees	–	–

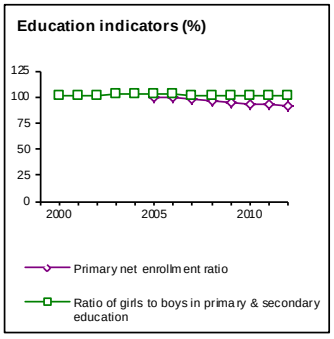
Note: Figures in italics are for years other than those specified.
.. indicates data are not available. – indicates observation is not applicable.

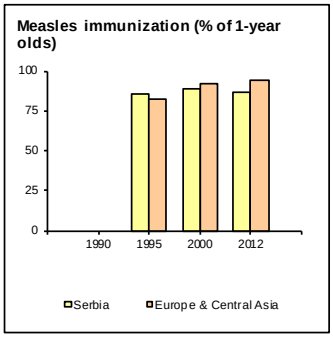
3/13/14

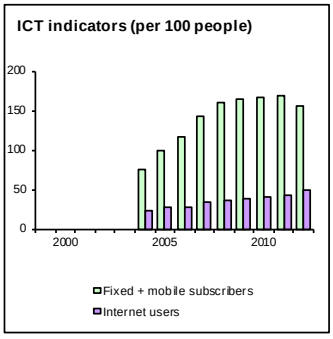
Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Serbia			
Goal 1: halve the rates for extreme poverty and malnutrition	**1990**	**1995**	**2000**	**2012**
Poverty headcount ratio at $1.25 a day (PPP, % of population)	..	..	*<2*	*<2*
Poverty headcount ratio at national poverty line (% of population)	..	..	*14.0*	*9.2*
Share of income or consumption to the poorest qunitile (%)	..	..	*8.0*	*8.4*
Prevalence of malnutrition (% of children under 5)	..	..	..	*1.6*
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	..	91
Primary completion rate (% of relevant age group)	..	..	..	93
Secondary school enrollment (gross, %)	..	..	91	92
Youth literacy rate (% of people ages 15-24)	..	..	..	*99*
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	101	101
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	40	44	*46*
Proportion of seats held by women in national parliament (%)	..	..	..	33
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	28	20	13	7
Infant mortality rate (per 1,000 live births)	24	17	11	6
Measles immunization (proportion of one-year olds immunized, %)	*82*	86	89	87
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	23	25	12	*12*
Births attended by skilled health staff (% of total)	..	..	98	*100*
Contraceptive prevalence (% of women ages 15-49)	..	..	59	*61*
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	..	23
Tuberculosis case detection rate (%, all forms)	..	..	..	87
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	99	99	100	99
Access to improved sanitation facilities (% of population)	96	96	96	97
Forest area (% of land area)	26.4	..	28.1	*31.6*
Terrestrial protected areas (% of land area)	5.5	5.4	5.7	6.3
CO2 emissions (metric tons per capita)	..	..	..	*6.3*
GDP per unit of energy use (constant 2005 PPP $ per kg of oil equivalent)	4.5	3.2	3.6	*4.4*
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	..	..	..	38.4
Mobile phone subscribers (per 100 people)	..	..	..	117.8
Internet users (per 100 people)	..	..	..	48.1
Households with a computer (%)	..	..	..	60.3







Note: Figures in italics are for years other than those specified. .. indicates data are not available. 3/13/14

Development Economics, Development Data Group (DECDG).

Annex 5: Bank Portfolio Performance and Management

As Of Date 5/12/2014

Indicator	2011	2012	2013	2014
Portfolio Assessment				
Number of Projects Under Implementation [a]	12	8	5	6
Average Implementation Period (years) [b]	5.4	6.6	4.7	3.2
Percent of Problem Projects by Number [a, c]	8.3	12.5	60.0	16.7
Percent of Problem Projects by Amount [a, c]	2.3	5.8	73.2	3.2
Percent of Projects at Risk by Number [a, d]	8.3	12.5	60.0	16.7
Percent of Projects at Risk by Amount [a, d]	2.3	5.8	73.2	3.2
Disbursement Ratio (%) [e]	10.4	23.2	17.8	13.2
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	23	6
Proj Eval by OED by Amt (US$ millions)	733.2	239.2
% of OED Projects Rated U or HU by Number	4.3	16.7
% of OED Projects Rated U or HU by Amt	0.0	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 6: Proposed IBRD Base-Case Lending Program

As of 06/19/2014

Fiscal year	Proj ID	US$(M)	Strategic Rewards b (H/M/L)
2015	State-owned Enterprises DPO	250.0	
	Land and Real Estate Management	50.0	
	Public Expenditure and Public Employment Reform	50.0	
	Emergency Recovery Loan	150.0	
Overall Result		500.0	

Annex 7: IFC Investment Operations Program

	FY12	FY13	FY14*	Total
Original Commitments (US$ million)				
IFC Own Account and Participants	423	151	87	**662**
IFC Own Account	351	151	87	**590**
Original Commitments by sector (%), own account				
Agribusiness	20.3	59.3	0.0	**27.3**
Manufacturing	7.7	0.0	0.0	**4.6**
Finance	72.0	40.7	96.0	**67.5**
Energy	0.0	0.0	4.0	**0.6**
Total	100.0	100.0	100.0	**100.0**
Original Commitments by instrument (%), own account				
Loan	75.3	59.3	0.0	**60.0**
Guarantee	2.3	40.7	96.0	**26.0**
Quasi-Equity (Loan Type)	19.0	0.0	4.0	**11.9**
Straight Equity	3.4	0.0	0.0	**2.1**
Total	100.0	100.0	100.0	**100.0**

* As of end of May 2014

Annex 8: Operations Portfolio (IBRD/IDA and Grants)

As Of Date 5/12/2014

Closed Projects 34

IBRD/IDA *

Total Disbursed (Active)	165.66
of which has been repaid	4.25
Total Disbursed (Closed)	1,122.32
of which has been repaid	80.57
Total Disbursed (Active + Closed)	1,287.98
of which has been repaid	84.82
Total Undisbursed (Active)	619.72
Total Undisbursed (Closed)	3.54
Total Undisbursed (Active + Closed)	623.26

Active Projects

Project ID	Project Name	Last PSR Supervision Rating: Development Objectives	Last PSR Supervision Rating: Implementation Progress	Fiscal Year	Original Amount in US$ Millions: IBRD	IDA	GRANT	Cancel.	Undisb.	Difference Between Expected and Actual Disbursements [a/]: Orig.	Frm Rev'd
P092999	BOR REG DEVT	U	U	2007	33	10		17.74938272	15.29465	33.229442	
P108005	CORRIDOR X HIGHWAY P	MS	MS	2010	388				256.9362	-46.22056	-46.2206
P146248	Deposit Insurance Strength	#	#	2014	200				200		
P096823	LOCAL SERVICES DELIVI	S	MS	2008	46.4				7.486236	10.256423	8.003809
P127876	ROAD REHABILITATION A	S	MS	2013	100				100	3.3333333	
P129539	Serbia Health Project	#	#	2014	40				40		
Overall Result					807.4	10		17.74938272	619.7171	0.5986338	-38.2168

Annex 9: IFC Committed and Outstanding Investment Portfolio

As of end of May 2014

		Committed						Disbursed Outstanding					
FY Approval	Company	Loan	Equity	Quasi Equity*	GT/RM**	Total own account	Participants	Loan	Equity	Quasi Equity*	GT/RM**	Total own account	Participants
2006/ 08/ 12	Banca Intesa Beo	-	57	-	-	**57**	-	-	57	-	-	57	-
2011/ 12	Cacanska Banka	5	9	-	-	**14**	-	5	9	-	-	14	-
	Carnex	12	-	-	-	**12**	-	12	-	-	-	12	-
2011/12/13/14	Eurobank Serbia	31	-	-	46	**77**	-	31	-	-	46	77	-
2011	Farmakom M.B.	54	-	-	-	**54**	**41**	54	-	-	-	54	41
2013	Grand Prom	15	-	-	-	**15**	-	15	-	-	-	15	-
2014	IVICOM	-	-	4	-	**4**	-	-	-	-	-	-	-
1990	Jugobanka	0	-	-	-	**0**	**0**	0	-	-	-	0	0
2012	Komercijalna BG	-	-	68	-	**68**	-	-	-	68	-	68	-
2010	Kronospan SRB	23	-	-	-	**23**	-	23	-	-	-	23	-
2012/ 14	MK Doo	43	-	-	-	**43**	-	43	-	-	-	43	-
2012	PMC Automotive	27	-	-	-	**27**	-	27	-	-	-	27	-
2009	Porr Jagodina	-	-	2	-	**2**	-	-	-	2	-	2	-
2009	Porr Leskovac	-	-	2	-	**2**	-	-	-	2	-	2	-
2002/03/07/10	ProCredit Serbia	12	-	-	-	**12**	-	12	-	-	-	12	-
2008	ProCredit Lease	2	-	-	-	**2**	-	2	-	-	-	2	-
2010/ 12	SocGen Serbia	115	-	-	-	**115**	-	115	-	-	-	115	-
2005/ 12	Unicredit Bank	70	-	-	-	**70**	-	70	-	-	-	70	-
2013	Victoria Group	78	-	-	-	**78**	-	78	-	-	-	78	-
2012	Vino Zupa	17	-	-	-	**17**	-	17	-	-	-	17	-
Total Portfolio		**504**	**66**	**76**	**46**	**692**	**41**	**504**	**66**	**73**	**46**	689	41

* Quasi Equity includes both loan and equity types.

**GT/RM includes guarantees and risk management products

Annex 10: Map


IBRD 34847R
SERBIA
SELECTED CITIES AND TOWNS
OKRUG (DISTRICT) CAPITALS
POKRAJINE (PROVINCE) CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
OKRUG (DISTRICT) BOUNDARIES
POKRAJNE (PROVINCE) BOUNDARIES
INTERNATIONAL BOUNDARIES
This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.
HUNGARY
ROMANIA
CROATIA
BOSNIA AND HERZEGOVINA
MONTENEGRO
KOSOVO
ALBANIA
FYR MACEDONIA
BULGARIA
VOJVODINA
SERBIA
BELGRADE
Novi Sad
Subotica
Kanjiža
Senta
Kikinda
Ada
Bečej
Bačka Topola
Sombor
Apatin
Sivac
Kula
Temerin
Elemir
Zrenjanin
Bačka Palanka
Šid
Fruška Gora
Ruma
Indija
Sremska Mitrovica
Šabac
Zminjak
Prnjavor
Loznica
Vlasic Planina
Obrenovac
Mladenovac
Smederevo
Pančevo
Bela Crkva
Alibunar
Vršac
Požarevac
Kovin
Golubac
Kladovo
Deli Jovan
Homolske Planina
Majdanpek
Petrovac
Negotin
Žagubica
Bor
Beljanica
Veliko Plana
Ljubovija
Valjevo
Jovan
Maljen
Rogačica
Gornji Milanovac
Kragujevac
Ravni Gaj
Ćuprija
Jagodina (Svetozarevo)
Paraćin
Rtan
Zaječar
Užice
Požega
Cačak
Zlatibor
Juhor
Kraljevo
Soko Banja
Knjaževac
Zaglavak
Balkan Mts.
Ivanjica
Aleksinac
Kruševac
Cemerno
Ušće
Veliki Jastrebac
Zelgin
Niš
Midzor (2168 m)
Prijepolje
Javor
Sjenica
Golija
Raška
Novi Pazar
Rogozna
Prokuplje
Beloljin
Bela Palanka
Suva Planina
Pirot
Radan
Prepolak
Leskovac
Vlasotince
Priboj
Surdulica
Vranje
Bosilegrad
Bujanovac
Preševo
Danube
Sava
Tisa
Velika Morava
Zapadna Morava
Južna Morava
Drina
Velika
To Kiskoros
To Szeged
To Arad
To Timisoara
To Vinkovci
To Bijeljina
To Sarajevo
To Gorazde
To Podgorica
To Priština
To Carbunari
To Gura Vaii
To Vidin
To Sofia
To Pernik
To Kumanovo
19°E
20°E
21°E
22°E
46°N
45°N
44°N
43°N
0 25 50 75 Kilometers
0 25 50 Miles
SERBIA
JULY 2009