



**USAID** | **SERBIA**  
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# **Abbreviated Country Development Cooperation Strategy**

**Fiscal Year 2013 – 2019**



## **SERBIA**

**Original Dates: July 2013-July 2018**

**Extended through: August 2019**

**Updated on: August 11, 2016 and July 5, 2017**

**Executive Summary**



## **Addendum: Updates to USAID/Serbia Country Development Cooperation Strategy (CDCS)**

USAID/Serbia has updated its CDCS Results Framework at the Intermediate Results (IR) level twice and extended the duration of the strategy to August 2019. The extension is the result of a USAID-wide extension of CDCSes globally. Those extensions were granted on April 27, 2017.

On August 11, 2016, USAID/Serbia updated the IRs and sub-IRs under Development Objective (DO) 2 as follows:

1. Under IR 2.1, added sub-IR 2.1.4, “System of Public Private Dialog Established”;
2. Removed IR 2.2 “Economic Opportunities Increased in Targeted Regions” and its description and replaced it with “Private Sector Networks Strengthened to Enhance Competitiveness” and the description of the IR. The description is, “Inclusive, multi-stakeholder dialogs to build the conditions for sustainable economic development will be established”;
3. Removed all original Sub-IRs under IR 2.2 and their descriptions and replaced them with:
  - a) 2.2.1: Select Value Chains Developed. Definition: Value chains in Serbia will be strengthened to improve quantity, quality and continuity of production in a selected sector;
  - b) 2.2.2: Economic and Business Development Services Enhanced. Definition: Services that help SMEs within a selected sector or value chains address issues such as adopting demand-driven skills, increasing product innovation, upgrading production and management techniques, increasing information sharing throughout a sector or value chain(s), and organizing to address value chain and sector-wide needs;
  - c) 2.2.3: Resources for SME Growth Mobilized. Definition: SMEs in selected sectors will have the information and skills necessary to access financial resources to fund their expansion.

**Justification:** The decision to update the IRs and sub-IRs under DO 2 were based on a number of factors, such as new analyses, assessments, budget projections, and internal portfolio reviews. For example, a recent competitiveness assessment and political economy analysis (PEA) steered the Mission to adopt assistance approaches that address systemic gaps that hinder Serbian small and medium enterprises from growing. These gaps are nationwide and are not confined to a specific region. Thus, the Mission decided to remove the geographic focus of IR 2.2 and develop sub-IRs that focused on systemic issues. It should be stressed, that removing the geographic focus does not prevent the Mission from working in the



previously targeted regions. Likewise, experience with our business enabling work demonstrated the importance of public-private dialogue. Considering this to be an essential element for effective reforms, the Mission added the sub-IR under IR 2.1.

On July 5, 2017, USAID/Serbia updated the IRs and sub-IRs under DO 1 as follows:

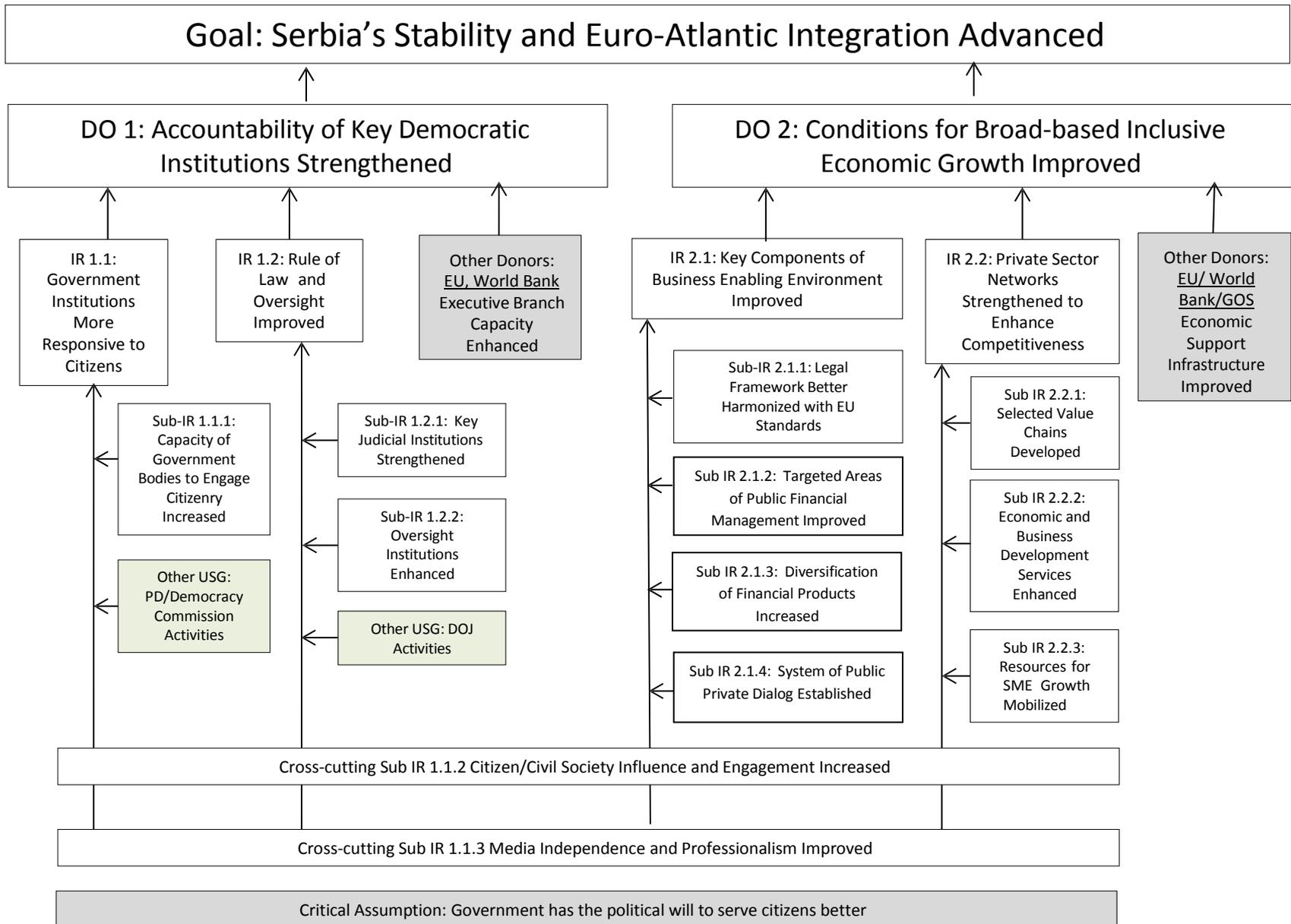
1. Removed Intermediate Result (IR) 1.1 “Parliament and Local Governments are More Responsive to Citizens” and its description and replaced it with “Government Institutions More Responsive to Citizens” and an updated description;
2. Removed all previous Sub-IRs under IR 1.1 and their descriptions and replaced them with:
  - a) 1.1.1: Capacity of Government Bodies to Engage Citizenry Increased. Definition: Government bodies show an increased ability to incorporate citizens in the decision making process and to provide laws and services that reflect the stated needs of the citizenry;
  - b) Cross-cutting 1.1.2: Citizen/Civil Society Influence and Engagement Increased. Definition: Public demand for more accountable government and policy advocacy initiatives increased;
  - c) Cross-cutting 1.1.3: Media Independence and Professionalism Improved. Definition: Media’s ability to play its role in providing professional and independent news to citizens, so that it can be more effective in holding the government and its officials accountable, is increased.

Justification: While USAID has had success in its efforts to support local governments in the 2001-2015 period, due to a decrease to the annual funding since the approval of the CDCS, the Mission decided through a selectivity and focus process to remove its emphasis on local governments. The revised IR language is more expansive, but it does not block assistance from being provided at the local level. Instead, it allows the Mission to respond to opportunities across Serbia’s government institutions (national and sub-national).

In regard to sub-IR 1.1.2, a recent Citizen Engagement PEA recognized that cooperation between the government and civil society still needs to be improved and a mechanism ensuring transparent dialogue with CSOs is needed. The CSO sector's participation in policy making is still to a large extent ad hoc, which limits the full potential of the sector. The revised sub-IR focuses on building practices—particularly by increasing engagement between civil society organizations and constituents—to strengthen the sector’s efficacy.

Media plays an important role in helping governments to become more responsive to their citizens. Sub-IR 1.1.3 was added as reviews and analyses demonstrated that systemic issues prevented Serbia’s media sector from playing an effective role in helping to keep government accountable, as well as helping the government respond to citizens’ needs. This sub-IR includes assistance to help improve the media enabling environment, the implementation of the laws and regulations, and the adoption of business models that foster greater financial independence. Thus, this sub-IR was added and USAID assistance to the media sector was developed.

# USAID/Serbia Updated CDCS Results Framework



## I. INTRODUCTION

The strategy, following Washington guidance, sets forth the path of the U.S. Agency for International Development's (USAID) critical assistance delivery for Serbia in preparation of a possible last year of bilateral funding in FY 2017. It conforms to and supports the goals of both the post's draft Integrated Country Strategy (ICS) as well as those contained in the Joint Regional Strategy 2014-2016 of the State Department's Bureau of European and Eurasian Affairs (EUR) and the USAID Europe and Eurasia (E&E) Bureau. The strategy is aligned with host-country priorities, U.S. foreign policy, and USAID initiatives, in particular the USAID Forward focus area of Local Development Solutions (LDS). A core principle for USAID will be the sustainability of its investments following the closure of its programs. The Mission is committed to being accountable for the achievement of the development objectives (DOs) outlined in this abbreviated Country Development and Cooperation Strategy (CDCS), though efforts will be complemented by other U.S. government actors and other donors. Achievement of the CDCS goal will require both diplomatic and assistance efforts on the part of the U.S. government and broader donor community, and is subject to a number of risks and assumptions.

Building on its partnership with the Government and people of Serbia, USAID proposes to allocate approximately \$70 million in new USAID development resources over the next five years to achieve the goal of **Serbia's Stability and Euro-Atlantic Integration Advanced**. USAID will strategically focus its limited resources on two DOs:

- (1) Accountability of key democratic institutions strengthened; and,
- (2) Conditions for broad-based inclusive economic growth improved.

Through focused investments, USAID will partner with the Government of Serbia and other host-country entities to promote more accountable and transparent governance that will contribute to more responsive and enduring democratic institutions. By concentrating on the achievement of select national-level reforms and support for local economic development in targeted regions within the country, USAID will improve the conditions for increased competitiveness of the country, of targeted municipalities, and of targeted value chains, thereby improving the conditions for sustainable economic growth in the selected regions and advancing stability. Programming under this strategy will develop and employ host-country systems and champion USAID Forward reform goals. CDCS crosscutting themes include gender equality, human and institutional capacity development, youth, and transparency and accountability.

## II. DEVELOPMENT CONTEXT

Despite having gained EU candidate status in March 2012, Serbia's current reform path is not yet irreversible. Following elections in May 2012, Serbia has a new President and a new, inexperienced government that is still struggling to identify its policy priorities. Crucially, the new government quickly reaffirmed its support for Serbia's membership in the EU, an important U.S. goal that is central to our vision of a Europe whole, free, and at peace. Belgrade's continued support for the onerous process of EU accession is not a given. Indeed, support for EU membership among the Serbian public has dropped below 50 percent and is weakest among younger Serbs. In part, these discouraging numbers reflect frustration with the long and arcane accession process, as well as a widely shared view that the EU has applied a stricter standard to Serbia than to other aspirant countries. The eurozone's economic travails have also served to undermine the argument of proponents that EU membership is a secure path to prosperity.

Tensions between the center and the periphery in Serbia are another fact of political life. Differences over revenue sharing and the scope of authority of Serbia's autonomous province of Vojvodina represent a particular challenge. Underdevelopment in the Bosniak-majority Sandžak region and the Albanian-majority communities in South Serbia are complex problems requiring comprehensive solutions and the direct involvement of the international community.

The economic situation in Serbia poses yet another risk to the country's political stability. Although Serbia has taken steps to establish a functioning market economy and has achieved some degree of macroeconomic stability, economic growth has been uneven in recent years. Serbia is now the least competitive country in the region based on World Economic Forum rankings. While the new Government of Serbia has demonstrated initial political will to tackle critical barriers to economic growth in the business-enabling environment, increasing Serbia's competitiveness during the current eurozone crisis is a challenging, long-term task.

### III. DEVELOPMENT HYPOTHESIS

#### Overview

The U.S. government's long-term objective in Serbia is a democratic and prosperous Serbia that is a full member of the Euro-Atlantic community. Since 2001, USAID's efforts have been based primarily on the political goal of increasing regional stability in the Balkans by assisting Serbia to integrate into Euro-Atlantic institutions. Conforming to the goals of the EUR/E&E Joint Regional Strategy, in particular Goal 6 "Balkans Fully Integrated into Euro-Atlantic Institutions," USAID contributes to U.S. government objectives in Serbia and in the greater Balkans region. Its targeted assistance programs will help Serbia carry out the reforms needed to expand its economy and to strengthen the accountability and responsiveness of key institutions and thereby assist the country in meeting the requirements for membership in the EU and other Euro-Atlantic organizations.

***USAID's strategic goal is: Serbia's Stability and Euro-Atlantic Integration Advanced***

During the coming five-year period, USAID will focus on key components of the many actions that Serbia must take to reinforce its internal stability and to become fully integrated into Euro-Atlantic institutions. Key themes that run through most of the proposed activities include civil society, gender equality, youth, and human and institutional capacity development. The development hypothesis supporting the goal and each of the objectives is outlined below.

While these objectives are necessary for the attainment of this goal, they are not sufficient as USAID's resources are necessarily limited to a few targeted activities of the many that will be required before Serbia will be eligible to become a member of the EU. Programs financed by other donors will contribute to the attainment of the CDCS goal and will reinforce DO-level efforts. Limited as they may be, our efforts, limited, are nonetheless critical, given USAID's comparative advantages, and support the efforts of other donors, in particular the EU and the World Bank, to move Serbia towards EU accession by building the capacity of Serbian institutions to absorb other donor funding. Based on the experience of Romania and Bulgaria, which left significant EU funding unused because of their inability to design and use funds, and on Serbia's own similar experience with limited capacity to develop and implement projects and feasibility studies, USAID assistance will build the absorptive capacity of Serbian institutions, thus ensuring that our efforts are continued, where necessary, by other donors, especially the EU, which will remain in Serbia after USAID has departed.

#### Development Objective 1: Accountability of Key Democratic Institutions Strengthened

Accountable governance systems are based on the separation and constraint of political power and on citizen oversight of government. Even with positive reforms in a number of areas, Serbia still lacks adequate checks on central authority and sufficient opportunities for citizens to hold their government and elected officials accountable. Enhancing accountable and representative governance over the life of this strategy will help to strengthen and sustain Serbia's democratic transformation. However, as the DO itself and the ordering of intermediate results (IRs) suggest, USAID is intensively focusing on those key democratic institutions where we can have a significant and sustainable impact by the end of the five-year strategy.

Linking DO 1 to the overall USAID goal is the following development hypothesis: strengthening the accountability of key democratic institutions, such as the judicial system, the independent oversight agencies, Parliament, and local governments, will improve governance and thereby further Serbia's drive for EU accession. The DO recognizes that Serbia needs on-going support to strengthen its democratic institutions because unless they become more accountable and representative, the country will not achieve many of the requirements for accession. By stringently focusing resources, USAID can target its limited funding to achieve significant improvements in key democratic institutions that the EU and other donors are not extensively assisting, but that are important to Serbia's democratic transition. In some cases, such as in the area of judicial reform, USAID is laying the foundation on which the EU and other donors can build. DO 1 reinforces and supports DO 2 below in a variety of important ways. Civil society plays a key role in democratic governance as well as economic growth. Strengthened rule of law, enhanced integrity, and more effective anti-corruption measures improve the investment climate, build consumer and investor confidence, and create economic efficiencies.

More responsive representative bodies can develop legislation and policies that target economic priorities more effectively.

## Development Objective 2: Conditions for Broad-based, Inclusive Economic Growth Improved

USAID's DO 2 builds upon the past achievements and relationships forged through our engagement in economic growth and addresses priority reforms identified by Government of Serbia counterparts and economic assessments. Our hypothesis is that if entrepreneurs and small- and medium-sized enterprises (SMEs) have equal opportunity to enter the market, can access capital and skilled labor, and operate within a fair and predictable business environment, then Serbia will experience economic growth that provides for sustained increases in employment and incomes. Furthermore, our hypothesis is that if all groups of society, including men, women, disabled people, and ethnic minorities, across social classes and regions, benefit from economic growth, then Serbia will be stable and productive. By ensuring that our efforts and the efforts of our partners include all groups of society, we will improve the conditions for economic growth to be more inclusive, which we define as including opportunities for all groups of society to participate. We will improve the conditions for this broad-based, inclusive economic growth by assisting clusters of municipalities across Serbia to create the local conditions for economic growth, and by supporting the growth of select value chains that emanate from the economically devastated regions of South Serbia and Sandžak. Through our efforts to increase employment opportunities and economic growth in these targeted areas, we will also contribute to better linkages between businesses across Serbia and between local governments around the country. These improved linkages and economic opportunities will lead to increased stability. Improving the conditions for broad-based, inclusive economic growth will enable Serbia to benefit from the opportunities of being part of the EU, to better withstand the increased competition that comes with EU accession, and to meet the needs of its population with regard to income generation opportunities and improved public services.

### USAID Forward

To support USAID Forward LDS efforts and to improve the cost effectiveness and sustainability of our assistance, the Mission will increase the amount of program funding through local systems. The Mission is utilizing the concepts of selectivity and focus to reduce the number of IRs and is concentrating on funding local entities in the interest of sustainability. We plan to employ direct funding of Serbian governmental and non-governmental organizations as part of our legacy strategy. During the first two years of the strategy, USAID will focus on building the capacity of local NGOs, private sector organizations, and public agencies, in order to create a portfolio of direct grants to local organizations. Over the five-year strategy period, wherever possible and appropriate, the Mission will work with local Serbian organizations to directly implement a significant portion of its portfolio.

### Critical Assumptions and Risks for Achieving Development Objectives

Critical assumptions include the following:

- The political and security environments will continue to improve within Serbia and in the region at large;
- The new governing parties in Serbia hold to a pro-EU agenda and remain committed to pursuing the reforms necessary for EU accession;
- Economic recession does not derail national economic and political reforms;
- The eurozone crisis is resolved and the EU remains willing to expand;
- Serbia increases political will at the highest levels to attack corruption; and
- Regional tensions do not result in renewed violence.

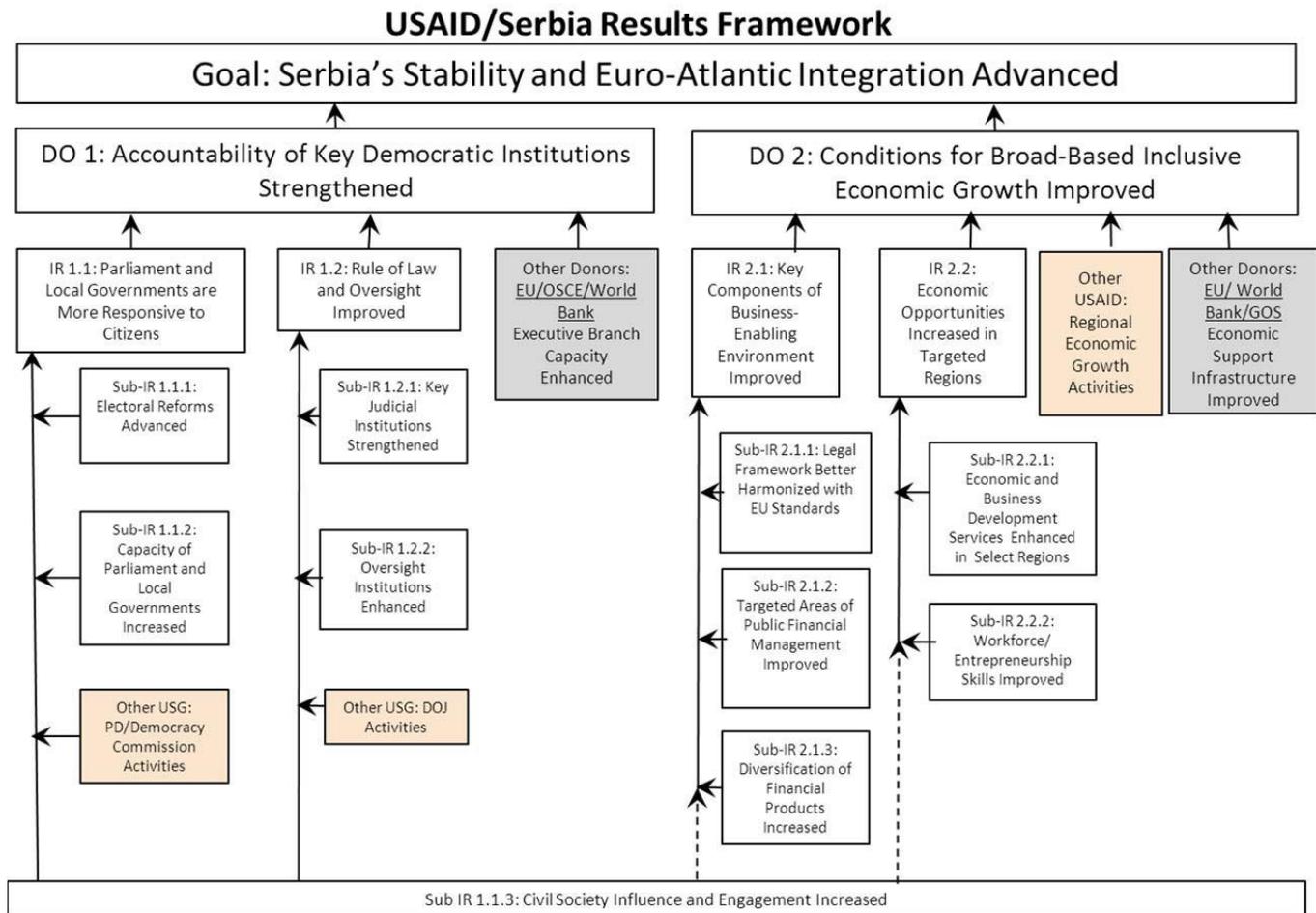
Risks include the following:

- Lack of progress and/or backsliding on EU accession reform criteria;
- Eurozone crisis fuels euro-skepticism in the new governing parties in Serbia;
- A major regional and/or global economic crisis that results in capital outflows and substantial reduction in demand for Serbian exports;
- The economic recession derails economic and political reforms; and
- Regional disparities within Serbia fuel social and ethnic conflict.

## IV. RESULTS FRAMEWORK

### Introduction

USAID/Serbia proposes to focus and concentrate resources to assist Serbia to strengthen its political stability and advance its democratic, free-market, and Western-oriented transformation. Through focused investments, the Mission will promote rule of law and representative government institutions that will contribute to more accountable and enduring democratic institutions. Through our economic growth efforts on select national-level reforms and local economic development, we will advance economic governance and broad-based, inclusive, and more sustainable growth. This proposed strategy will set forth the exit path of USAID from Serbia and leave behind sustainable results that will further the country's Euro-Atlantic integration.



### Development Objective 1: Accountability of Key Democratic Institutions Strengthened

Development Objective 1 will address the challenges associated with the accountability of key democratic institutions by enhancing the rule of law and oversight, and by helping Parliament and local governments become more responsive to the electorate. The tightly focused DO will directly strengthen key democratic institutions and processes through achievement of its IRs, described below. As a result, the targeted institutions will be more accountable and will become increasingly responsive to Serbian citizens' needs and aspirations. With the institutionalization of mechanisms for stronger and more vital links between Serbian society and Parliament and between citizens and local governments, Serbia's democratic institutions will become more accountable, and democratic processes will become more robust.

## IR 1.1: Parliament and Local Governments are More Responsive to Citizens

Activities under this IR will promote good governance by providing technical assistance and training to Parliament and elected local governments. The overall objective of this assistance is to help elected bodies better fulfill their roles in representing and responding to citizens' interests. By strengthening representation, USAID assistance will help expand and deepen connections between representatives and the electorate. Enhanced linkages, connections, and capabilities will help local and national deputies better understand and respond to citizen priorities – a critical component of governmental accountability. Initiatives will help Parliament become more open, effective, accountable, independent, and representative. Planned activities will increase the effectiveness of the Parliament by institutionalizing connections between Parliament and the voters, improving the skills of newly elected Members of Parliament (MPs) and staff, facilitating intra-parliamentary dialogue on key reform issues, and facilitating working groups on reform legislation, research, and analysis. Also, USAID programming will increase the participation of civil society in local decision-making, improve municipal service delivery through performance management and program budgeting, and assist local and regional authorities to maximize their effectiveness by integrating the different needs of men and women into their planning and activities.

### Sub-IR 1.1.1: Electoral Reforms Advanced

USAID will support advocacy efforts aimed at raising public awareness of: a) the role and authority of Parliament; b) the obligations and responsibility of MPs towards citizens as opposed to responsibility and obligations of elected officials towards political parties; c) the necessity for appropriate parliamentary representation across administrative regions; and d) the benefits of voting for a person, not just a party list, in order to ensure the accountability of MPs to the electorate. USAID will provide technical assistance and training in support of further developments in the electoral system, including but not limited to the Law on Financing Political Parties, Law on Election of MPs, Law on Local Elections, central electoral database, and Republic Electoral Committee. USAID will also engage political parties in discussions and other efforts aimed at understanding electoral legislation and improving party election practices.

### Sub-IR 1.1.2: Capacity of Parliament and Local Governments Increased

Activities under this sub-IR will support institutional capacity building that will encompass administrative and managerial competence, as well as improving transparency and accountability of officials and reducing opportunities for corruption. USAID will work with elected officials on strengthening constituent outreach practices to promote greater inclusion of citizens in the political process and strengthening the capacity of parliamentary staff to implement legislative procedures effectively. USAID will promote activities such as off-site or “Mobile Parliament” sessions, which involve informal committee meetings conducted in partnership with municipal governments, civil society groups, and citizens where the MPs engage with constituents, explain their roles and duties, and gain a more complete understanding of citizens' needs and priorities. At the local level, USAID will provide technical assistance and training to local governments to improve their ability to respond to citizen needs and to engage them in local policymaking, including the use of e-governance tools.

### Sub-IR 1.1.3: Civil Society Influence and Engagement Increased

As strong public participation is essential for sustainable democratic systems, through this sub-IR, USAID will support robust public participation at all levels of government. It will establish sustainable mechanisms for government officials to engage with their constituent groups – businesses, membership associations, and ordinary citizens, including vulnerable groups such as youth, women, the LGBT community, and ethnic minorities. USAID will continue to support NGOs that raise awareness of, and advocate for, gender equality. This sub-IR is so essential to the success of USAID's strategy that it contributes to the achievement of both DOs and their respective IRs. To advance more representative and responsive government institutions, USAID will:

- Promote dialogue on electoral reform with political parties through public and other fora and also support public debate on the issue of the representation in the Parliament and local government councils, as well as on the duties and responsibilities of MPs.
- Support local civic activism and policy advocacy initiatives enhancing Serbia's EU accession prospects, particularly outside Belgrade and major cities; improve prospects for local Serbian philanthropy to expand

potential sources of support; strengthen civil society capacity, networks/linkages, and innovation to better address community and social challenges through collective action.

- Support activities aimed at improving linkages and communication between elected officials and citizens by engaging civil society, media, MPs, political parties, the National Assembly of Serbia and local councils.
- At the local level, we will foster the active involvement of civil society in municipal government through capacity-building of local or sub-national civil society organizations (CSOs) in participation and networking techniques.
- Support CSOs that advocate for gender, LGBT, and minority rights and to address related issues, including but not limited to, gender-based violence (including against members of the LGBT community), improved gender and protection mechanisms, and gender neutral regional development capacities (moving toward harmonization of national legislation with the broader international gender policy framework).
- Help women become more involved in local and regional planning by participating in panels, public meetings, NGO summits and provided with grants for fostering women's participation in elections and decision-making processes at the local level.

## IR 1.2: Rule of Law and Oversight Improved

Strengthening the rule of law and combating corruption are stated goals of the Serbian government and key EU accession requirements. Crucial issues affecting rule of law in Serbia include the inconsistent and unequal application of the law and the pervasiveness of corruption. A justice system that provides for the protection of human rights, and allows for the constructive and equitable resolution of disputes may be one of the most fundamental services a government provides its citizens. If, by expanding access to justice and increasing the capacity of government anti-corruption agencies, Serbia's rule of law and oversight can be strengthened, then governance will be more responsive to its citizens' needs for an equitable arena in which to operate, and an important check on government power will have been established. Consistent and predictable application of the rule of law would also greatly reinforce efforts under DO 2. Programs under IR 1.2 will improve judicial capacity by creating a more effective and objective court system and will strengthen the abilities of the independent government agencies to fulfill their oversight functions.

### Sub-IR 1.2.1: Key Judicial Institutions Strengthened

Activities under sub-IR 1.2.1 will expand access to justice by strengthening key judicial institutions. Rule of law, and specifically judicial reform, are key areas identified as challenges to Serbia's EU accession efforts. To achieve success in this area, USAID will partner with courts and other relevant bodies or actors to make hearings routine, dignified, accessible, safe, efficient, and fair. Support will be given to these judicial bodies to reduce backlogs and improve case processing times and procedures. USAID will work with the Misdemeanor Courts, High Misdemeanor Court, and the Administrative Court, which historically have not received technical assistance from donors and were under-resourced by the Government of Serbia. New to the court network and previously serving as administrative bodies, these courts represent the institutions of justice where most Serbian citizens are likely to experience an encounter with a judicial proceeding. Accordingly, through capacity building and modest facility improvements to these courts, USAID will help improve public access, openness and transparency, and case management efficiency, improving delivery of justice at the local court level most widely accessed by Serbian citizens. In addition, USAID will continue to support the courts in monitoring court proceedings for gender equality to determine whether hearings are equally accessible, dignified, and safe, and that attorneys are gender balanced as advocates.

### Sub-IR 1.2.2: Oversight Institutions Enhanced

Activities under this IR will address the problem of corruption and help make government at the national and local levels more responsive and accountable to citizens' demands. To achieve this IR, USAID will provide capacity-building assistance to targeted oversight institutions to increase the accountability, efficiency, and transparency of judicial, legislative, and executive processes. USAID support for institutional capacity and service delivery will encompass administrative and managerial competence, as well as improve transparency and accountability of officials and reduce opportunities for corruption. Under this sub-IR USAID will:

- Strengthen the enforcement capacities of the Anti-Corruption Agency and its governing board to: a) enhance its ability to implement conflict of interest and property registration provisions of the law; b) detect violations of those provisions of the Anti-Corruption Law; and c) initiate and conduct proceedings to establish if violations of

the Law have occurred. USAID will aid the Anti-Corruption Agency in developing and implementing investigative, monitoring, and enforcement procedures governing the financing of political parties and election campaigns.

- Continue its work with the Commissioner for Equality, primarily to address domestic and family violence safety issues in courts and more broadly to support efforts in decreasing discrimination and increasing protection of basic human rights. USAID will improve the ability of the independent agencies to work with each other to monitor and improve administrative practices and other government operations.
- Train CSOs on how to perform a watchdog function by monitoring and reporting on public hearings and reports by the independent agencies. USAID will enhance the capability of Parliament to conduct oversight of governmental operations, while improving Parliament's own public accountability.
- Strengthen the tools for systematic parliamentary oversight over the work of the executive authority, through the development of institutional practices for cooperation with independent institutions and the establishment of an efficient and effective working relationship between the Parliament and independent bodies.
- Support the professionalization and transparency of elected and appointed local government officials through capacity-building in results-oriented management of public utility companies, reduction of administrative barriers, and effective management of municipal assets.
- Support key political parties, including minority parties, to develop their policy, oversight, and negotiation skills. Political process work with parliamentary party caucuses and committees will focus on oversight, constituent outreach and accessibility, and transparency.

## Development Objective 2: Conditions for Broad-based, Inclusive Economic Growth Improved

Improving the conditions for broad-based, inclusive economic growth in Serbia is the focus of this DO. USAID will accomplish this through targeted interventions that improve key components of the business-enabling environment and by increasing economic opportunities in targeted regions of the country. We will strengthen the business-enabling environment through improved legislation, through the predictable and efficient implementation of existing laws and regulations, and through greater dialogue and transparency in exchanges between public and private sector actors. USAID will increase economic opportunities through the improved capacity of economic development actors, such as local governments and business support service providers, to address economic development issues that will lead to improved local conditions for doing business, improved internal and export market linkages, and increased productivity. This will lead to employment generation and increased stability in targeted regions, some of which are in economically devastated and conflict-prone areas.

### IR 2.1: Key Components of the Business-Enabling Environment Improved

An improved business-enabling environment includes the implementation of reforms and/or enforcement of laws that promote a transparent and consistent set of rules for all companies, and reduce the burden on businesses of complying with these rules and regulations. It also extends to effective public financial management, including increased revenues and prudent expenditures. An improved business-enabling environment will require mechanisms that encourage public-private dialogue to inform economic policy and expand the role and influence of civil society and the private sector with respect to research and advocacy in economic reform. Improvements in the overall business-enabling environment will benefit all firms in Serbia, improving their competitiveness and attracting further investment. They will also improve the appeal of the country as a destination for foreign direct investment, further fueling economic growth. The selection of specific activities under this IR is informed both by extensive, in-depth USAID research of the most critical barriers inhibiting economic growth in Serbia, including annual surveys of 1,000 businesses, and discussions with Government of Serbia representatives regarding their willingness to embrace the reform recommendations.

#### Sub-IR 2.1.1: Legal Framework Better Harmonized with EU Standards

Activities under this sub-IR will provide targeted assistance to the Government of Serbia to help in reforming and implementing laws, regulations, and policies that improve the Serbian business environment while ensuring appropriate regulatory oversight. By fully implementing regulatory reform and cutting red tape, millions of euros in savings can be realized for Serbian companies, thus making them more competitive. USAID will assist the Government of Serbia to streamline bureaucratic procedures and help draft and implement a strategy for regulatory reform in the areas such as: construction permitting process, nontransparent and unpredictable government inspections, excessive non-tax para-fiscal

charges and fees, new Law on Contract Enforcement, complex and rigid labor laws, etc. Progress toward this sub-IR will be reinforced by efforts to increase the influence and engagement of civil society organizations such as business associations and professional groups under sub-IR 1.1.3 of DO 1, which will contribute to sustainability by developing systems and mechanisms for consultation with and feedback from private-sector stakeholders that will continue beyond

#### Sub-IR 2.1.2: Targeted Areas of Public Financial Management Improved

Serbia's poor public financial management has led to a high level of public debt that is undermining the country's economic stability and growth, and could lead to austere cuts in public sector spending that likely would result in greater unemployment and a further reduction in domestic consumption. Coordinating with other institutions such as the World Bank and the International Monetary Fund, USAID will provide targeted support in several areas. USAID will provide capacity-building assistance to the Ministry of Finance and Economy (MoFE) to improve its ability to conduct fiscal analysis and formulate strategies. These improvements are essential to help the Government of Serbia promote the right mix of policies to encourage business growth while ensuring sustained fiscal balance and maintaining the macroeconomic stability of the country. Similarly, USAID will provide technical assistance to the MoFE to facilitate the transition to program budgeting and performance-oriented budgeting as a critical step to improving the transparency, efficiency, and effectiveness of government spending. Support for this reform, requested by the MoFE, will help the Serbian government to achieve a delicate balance of fiscal consolidation and economic growth, by doing more with less. Program- and performance-based budgeting offer a path for Serbia to improve growth opportunities, increase prosperity, and provide better services to its citizens.

#### Sub-IR 2.1.3: Diversification of Financial Products Increased

Serbia ranks below many of its regional peers and lower than in previous years in the World Economic Forum's competitiveness rankings on many indicators of financial sector development. The stability of the financial sector in Serbia is threatened by the almost 20 percent share of non-performing loans, high exposure to foreign currency volatility, and a contraction in lending. USAID will help to diversify the options for financing through improvements to the business-enabling environment. We will look for opportunities in which USAID/Washington's new regional economic growth project can provide limited, targeted additional support in the area of financial sector stability. Under this sub-IR, USAID will support changes to the enabling environment that will lead to improved SME access to finance. We will complete our assistance to the Government of Serbia in the drafting of by-laws for the recently adopted Law on Capital Markets so that it can be fully implemented. The Mission will explore support for drafting a new law on non-banking financial institutions and, if adopted, support its implementation.

### **IR 2.2: Economic Opportunities Increased in Targeted Regions**

Activities implemented under this IR will work through and with a wide range of host-country entities, including local governments, regional development agencies, local firms, and civil society organizations, to improve economic and business development opportunities in select areas around the country, building capacity and demonstrating models that can be replicated nationwide. In our work with local governments, USAID will target 32 municipalities throughout Serbia, which have joined together to form eight inter-municipal clusters focused on area-based (regional) development. In our work with these clusters, USAID will help local governments to identify, design, and implement economic development projects that support private sector growth that will generate jobs. USAID will support the development of feasibility studies and project designs that will enable local governments to apply for and eventually receive EU infrastructure funds. In addition, our work with value chains, which will be implemented through Serbia's National Agency for Regional Development (NARD) and its network of Regional Development Agencies (RDAs), USAID will focus on the economically devastated regions of South Serbia and Sandžak. As discussed previously, support for economic growth will also lead to greater stability in these conflict-prone areas with high minority populations. This assistance will also increase the ability of businesses in these regions to compete on foreign markets, mitigating the risk that an export-led growth strategy will benefit only the northern half of the country.

#### Sub-IR 2.2.1: Economic and Business Development Services Enhanced in Select Regions

USAID assistance under this sub-IR will enhance the capacities of municipal governments – in concert with other public and private stakeholders – to improve the conditions for larger, area-based investment, business growth, and business retention. Building on the success of previous USAID projects that helped individual local governments to establish local economic development offices, USAID will now assist local governments to “think regionally” in order to jointly leverage

the economies of scale and the combined resources and benefits that are embodied in the larger regions represented by the municipal clusters. We will also support them as they work together to improve their services, including their ability to identify, design, and implement projects that will help businesses to be more competitive, increase their investment, and create jobs.

#### Sub-IR 2.2.2: Workforce/Entrepreneurship Skills Improved

Under this sub-IR, USAID will address the mismatch between the skills that workers can offer SMEs and those that the SMEs need, which is one factor contributing to the high rate of unemployment, especially among youth. Nationwide the average unemployment rate is 25 percent, while South Serbia and Sandžak suffer from 50 percent unemployment. This sub-IR will support the transfer of skills and competencies required by modern manufacturing processes and will provide business development and support services for entrepreneurs of all ages. However, special attention will be paid to support for women and minority entrepreneurs, two groups that are underrepresented in the workforce, especially in South Serbia and Sandžak. Building on the Mission’s highly successful Women in Agribusiness program launched under a completed project, which catalyzed municipal and provincial authorities to provide support, we anticipate implementing a training and grants program aimed at women and youth-owned businesses in South and Southwest Serbia.

## V. MONITORING AND EVALUATION

USAID/Serbia will establish a separate Performance Management Plan (PMP) to monitor results and progress over the life of the strategy. The PMP will finalize the indicators, set targets, and establish the monitoring tools, including the regime and frequency of data collection for overall progress on the Mission’s DOs. The PMP will re-institute a formalized and consistent, multi-year monitoring process. The Mission will perform quality control and verification through evaluations and assessments.

<b>Illustrative Indicators</b>		
	<b>Indicator</b>	<b>Source</b>
<b>Goal: Serbia’s Stability and Euro-Atlantic Integration Advanced</b>	Benchmarks of Serbia’s EU Accession Process.	Annual EU Progress Report
	Percentage of EU IPA funds implemented by the Government of Serbia and local organizations	Ministry of Finance, Government of Serbia
<b>DO 1: Accountability of Key Democratic Institutions Strengthened</b>	Serbia’s Democracy Score	Freedom House “Nations in Transit”
<b>IR 1.1 Parliament and Local Governments Are More Responsive to Citizens</b>	Survey of trust in the National Parliament and political parties	Euro-barometer
	Government Effectiveness Score for Serbia	World Bank Governance Indicators
	NGO Sustainability Index for Serbia	USAID
<b>IR 1.2 Rule of Law and Oversight Strengthened</b>	Survey of Trust in the National Parliament and Government	Euro-barometer
	Serbia’s Index Score	Gallop World Poll
<b>DO 2: Conditions for Broad-based, Inclusive Economic Growth Improved</b>	US dollar value of domestic and foreign investment in targeted regions	Municipal LED offices, RDAs, Chambers of Commerce, SLDP annual project report published
<b>IR 2.1: Key Components of Business-enabling Environment Improved</b>	Decrease in the "Burden of Government Regulations" addressing Government Inefficiency	World Economic Forum's annual report
<b>IR 2.2: Economic Opportunities Increased in Targeted Regions</b>	Change in annual revenues of USAID client companies in targeted regions	Serbian Business Registry APR (available in April for the previous year); Annual project reports
	Number of jobs created in targeted regions	Annual project reports