

SERBIA'S SUSTAINABLE DEVELOPMENT:

HOW ARE WE DOING?



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CEVES

CENTAR ZA VISOKE
EKONOMSKE STUDIJE
CENTER FOR ADVANCED
ECONOMIC STUDIES

SERBIA'S SUSTAINABLE DEVELOPMENT:

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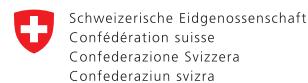
BELGRADE, 2018

ABOUT CEVES

CEVES is an independent think-and-do tank dedicated to the sustainable socio-economic development of Serbia and the Western Balkans, based on entrepreneurship, solidarity and civic initiative. At present, CEVES' energy is focused on identifying and researching the most important determinants of sustainable socio-economic development in Serbia and the region, as well as offering innovative, responsible and evidence-based solutions and policies, not only for the state but also for the wider society – primarily to those directly affected by these issues (entrepreneurs, employees / unemployed, scientific institutions, etc.). CEVES is committed to the nationalization and achievement of sustainable development goals in Serbia, as a particularly suitable framework for directing societal development and for embodiment and quantification of European values, especially in areas not prescribed by the Acquis.

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Goal 1: End poverty in all its forms everywhere



Goal 2: End hunger, achieve food security and improved nutrition and promote sustainable agriculture



Goal 3: Ensure healthy lives and promote well-being for all at all ages



Goal 4: Ensure inclusive and quality education for all and promote lifelong learning



Goal 5: Achieve gender equality and empower all women and girls



Goal 6: Ensure access to water and sanitation for all



Goal 7: Ensure access to affordable, reliable, sustainable and modern energy for all



Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all



Goal 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation



Goal 10: Reduce inequality within and among countries



Goal 11: Make cities inclusive, safe, resilient and sustainable



Goal 12: Ensure sustainable consumption and production patterns



Goal 13: Take urgent action to combat climate change and its impacts



Goal 14: Conserve and sustainably use the oceans, seas and marine resources



Goal 15: Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss



Goal 16: Promote just, peaceful and inclusive societies



Goal 17: Revitalize the global partnership for sustainable development

ACRONYMS

BATUT	Institute of Public Health of Serbia
CEVES	Center for Advanced Economic Studies
EC	European Commission
EU	European Union
EUROSTAT	Statistical office of the European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
GVA	Gross value added
HD	Human development
HDI	Human Development Index
IT	Information Technology
LSG	Local Self-government
LUC	Local utility companies
NMSEU	New member states of European Union
OECD	Organisation for Economic Co-operation and Development
PISA	Programme for International Student Assessment
RER	Renewable energy resources
SBRA	Serbian Business Registers Agency
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
SORS	Statistical Office of the Republic of Serbia
UN	United Nations
UNPD	United Nations Development Program
WGI	Worldwide Governance Indicator
WHO	World Health Organization
WTO	World Trade Organisation

FOREWORD

Serbia needs to step more decisively on an accelerated and sustainable development path. For this, she needs to turn her thoughts to the future: to invest in it and shape it. But first, she needs to decide—what should this future look like? What kind of country does Serbia want to be?

The Agenda 2030 adopted by the United Nations (UN) in 2015 gives us an opportunity to open a society-wide dialogue to shape this vision. It sets 17 global sustainable development goals (SDG) and commits the 193 countries that have subscribed to it, Serbia among them, to do their part to attain them. The countries have committed to “nationalize” the goals – meaning, specify goals for themselves that meet the criteria and work toward their realization. They have also committed to set national implementation and monitoring frameworks to accomplish the “nationalized” goals. The responsibility for their attainment is shared among all parts of society – not only the government but also the business community, academia, other stakeholders, and civil society.

To forge a vision, many questions need to be answered. How do we want our economy, society and environment to work and look like by 2030? Clearly, Serbia wants to be a “European country”, but the

28 European Union member countries are all “European” in different ways. What do we want to improve most, what first? Were they to receive a windfall of one billion euros, each EU member country would have different priorities in spending them. What would be Serbia’s? A clear answer requires a shared understanding that can only be reached through a broad and thorough dialogue.

The present document sets a baseline for such a dialogue. It does not attempt to assess every one of the 169 targets through which the 17 SDGs are formulated, and it is not organized goal by goal. Instead, it is a discussion of Serbia’s most important sustainable development challenges and the strengths it should build on – as we see them. We do not attempt to give answers to the above questions. However, we do not shy away from giving our views of the direction in which these answers should be sought, by being selective about the issues we discuss. Not everyone will agree. Even we may change our minds. That would mean the dialogue had been fruitful.

We look forward to it!

Kori Udovicki

SUMMARY

Nearly three decades since Serbia's stormy transition begun, the country's GDP per capita still stands below the 1989 level, and its human development is still catching up to its full potential. A new economy has, nevertheless, gradually developed which is reaching a significant size.

Serbia's key development challenge is that only a small part of the economy built during socialism has been transformed into a new, modern economy. The new economy employs a very small share of the total population. To reach average European employment levels in decent jobs, today's formal jobs in the private sector would need to be doubled (and this assumes all formal employment in Serbia is "decent", which it is not). Raising employment to normal levels would go a very long way in reducing inequality and poverty to better-than-average European levels, where they should be considering Serbia's socialist past and current values. As it is, Serbia suffers some of the highest poverty and inequality rates in Europe, as well as one of the sharpest population declines.

The high levels of poverty and inequality would also be greatly alleviated if Serbia's significant taxes and social transfers accomplished the significant redistributive effect they have in the European Union (EU). More needs to be done particularly for vulnerable groups and to protect minority rights, although in these regards significant advances were made over the past decade and a half.

Economic growth does seem poised to accelerate in the coming period. The new economy has been growing on the foundations built in the past, driven by foreign investors as well as domestic mainly SME entrepreneurs. It is now finally reaching a size that can take the country forward. Importantly, since the 2009 crisis the new economy has been led by exports. Serbia's opportunities lie in the three factors that have underpinned its conquest of export markets: fertile land and a long-standing agribusiness tradition, very solid and competitive mid-technology industrial know-how, and a self-mobilizing creative and knowledge-products community (especially in IT).

Economic growth can be further spread and accelerated through "greening", especially in rural areas. This requires a more coordinated and organized management of non-mineral natural resources, especially for eco- and health-related tourism, renewable energy production, and sustainable agriculture.

One key challenge that the new economy needs to overcome is the need for integration. As it is, Serbia's generally small companies often face global markets alone.

A particular challenge is also the highly inefficient management of the country's resources, particularly in the energy sector. Serbia recycles only 34% of its generated waste (excluding mineral waste), lower than any EU member country, whose average stands at 75%. Its energy intensity is double that of the EU average, although it does not have a very large heavy industry. Serbia has no strategy for the time, expected not long after 2030, when the hydrocarbon reserves she presently relies on are depleted.

European values and the EU accession process firmly frame Serbia's institutional and political goals as goals in and of themselves. However, the acceleration and greater sustainability of Serbia's development requires a business environment that encourages entrepreneurship and investment. Above all, this requires predictability—the rule of law and that priorities are more clearly set and maintained. Also, policy implementation requires that Serbia's administration change practices that make its institutions particularly ineffective. The dialogue proposed here can contribute to overcoming these problems by linking institutional operation to specific desired results.

Finally, it is at the community level that development reaches citizens. Serbia's local communities provide basic needs at relatively high levels, but largely as a legacy of socialist times. Local and regional development is highly uneven and there is some evidence that the relatively high level of resource transfers carried out by the central government could be better targeted to have developmental effects. Local governments need greater autonomy, in order for local communities to come together in taking initiative and responsibility for accomplishing greater local-level results.

Serbia's development faces both challenges and opportunities. Both need to be recognized by its citizens, business and other stakeholders of development. They need to engage with Serbia's national and local institutions to accelerate and make sustainable Serbia's development. An SDG framework clearly linking goals to institutional capacities to deliver them, as intermediate targets, can greatly help in getting Serbia to become what its citizens want it to be.

BACKGROUND

The present document is a baseline review of Serbia's human development and environmental challenges as well as the assets and limitations it faces in advancing towards attainment of sustainable development goals (SDGs). It provides background information for the design of a society-wide dialogue to help shape Serbia's nationalization of SDGs in line with its commitment to the UN 2030 Agenda. The document focuses on SDG dimensions, grouped in four pillars, that we consider key for Serbia's human development, and it does not address existing policy goals or options, nor their implementation.

Figure 1. SDG dimensions are grouped in four pillars – according to Serbia’s socio-economic development potential and issues.



Pillar I - “Serbia’s Human Development: Dimensions and Challenges” is dedicated to the dimensions of human development (HD), largely covering the issues under Goals 1-5 and 10 (poverty, hunger, health, education and inequality), as well as overall income generation capacity and particularly employment (Goal 8, emphasis on 8.5). We start the review focusing on issues related to income generation capacity, because that is by far the lowest ranked dimension (84th in the world) of Serbia’s human development index (which ranks 66th overall).

Pillar II - “Prosperity on a green corner of the planet: assets and challenges” refers to the Serbia’s assets and constraints, which represent the starting point for fostering quality economic growth, i.e., accomplishing Goal 8. We organize these assets and constraints roughly along the logic of economic factors of production, but also “mainstreaming” the fact that economic growth needs to be such as to meet not only the targets under Goal 8, but also Goal 9 (focusing on infrastructure, industrialization and innovation), Goal 7 (energy), parts of Goal 6 (water management), Goal 12 (sustainable production and consumption), and Goal 15 (forests and biodiversity).

Pillar III - “Institutional Capacity and Partnership” deals with the role of institutions, and particularly with their capacity to deliver the SDGs. As Serbia’s values and aspirations with regards to the development of its institutions are firmly framed in its European path, in general, nationalized Goal 16 should closely follow the results framework adopted in the EU Accession context. In as far as these goals are goals in and of themselves, the EU’s progress reports’ assessments are comprehensive. Therefore, we focus on institutional effectiveness and the system’s capacity to deliver desired development results.

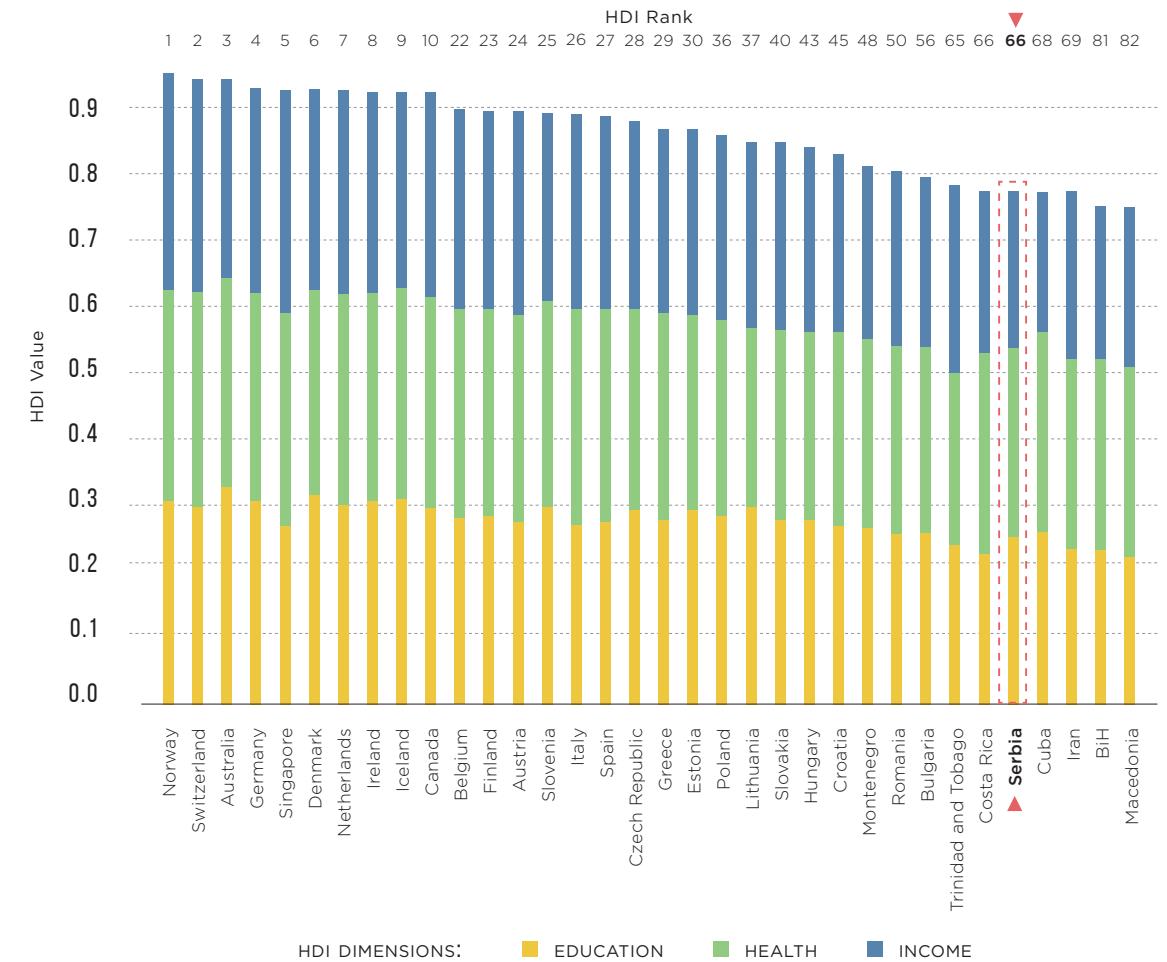
Pillar IV - “Prosperous and Healthy Communities” covers issues related to delivering human development at the community level. Essentially, this is a cross-cutting approach that presently incorporates questions of territorial distribution of powers, management of regional/territorial development and the extent to which the basic human development needs and resilience are met at the local level {parts of SDG 6 (clean water and sanitation) and SDG 11 (sustainable cities and communities)}.

PILLAR I - SERBIA'S HUMAN DEVELOPMENT: DIMENSIONS AND CHALLENGES

• SERBIA'S HUMAN DEVELOPMENT LIES WELL BELOW ITS POTENTIAL.

Over the past few years, Serbia has ranked 66th in the world in terms of human development - lower than any EU member country and Montenegro, and above Macedonia and Bosnia and Herzegovina (B&H). There is little doubt that this ranking is substantially lower than such comparisons would have shown thirty years ago. Serbia's human development imploded in the 1990s and has not been able fully to recover since, because of the very gradual recovery and transformation of the economy. Hence, Serbia has not been able to keep pace with the countries it compares itself with. This matters to our analysis because the challenges and opportunities that Serbia faces often differ from what would be expected in a country that arrived at a similar level of human development while never having been better off. It also matters because it frames Serbia's citizens' expectations, affecting both their wellbeing and economic behaviour.

Figure 2. Serbia is one of the lowest ranked European countries in terms of the level of human development, as measured by the HDI.



Source: UNDP

• IT IS IN THE INCOME DIMENSION OF THE HDI COMPONENTS THAT SERBIA RANKS LOWEST.



In terms of a decent standard of living (GDP pc), Serbia ranks the lowest (88th), mostly because it has the lowest total employment level in Europe. Employment among the working-age population (15-64 years) in Serbia is only 55%, compared to 67% for the EU28 and the NMS on average. In addition, too many jobs in Serbia are of low quality (more than a quarter (700,000) of the total employed (2,719,000) hold informal jobs), and quantity (e.g., low work intensity). The productivity of the employed part of the population is low but closer to that of comparable countries. For example, Serbia's total production per formally employed is higher than Bulgaria's, but because its employment rate is 15% (8 pp) higher and its vulnerable employment is 68% (18 pp) lower, Bulgaria's GDP per capita is 38% higher as well. If Serbia had had the same employment level as Bulgaria in 2015 (63.5% of working-age population) and a similar employment structure - keeping Serbia's current productivity for each employment segment unchanged - her GDP/capita would have been higher than Bulgaria's.

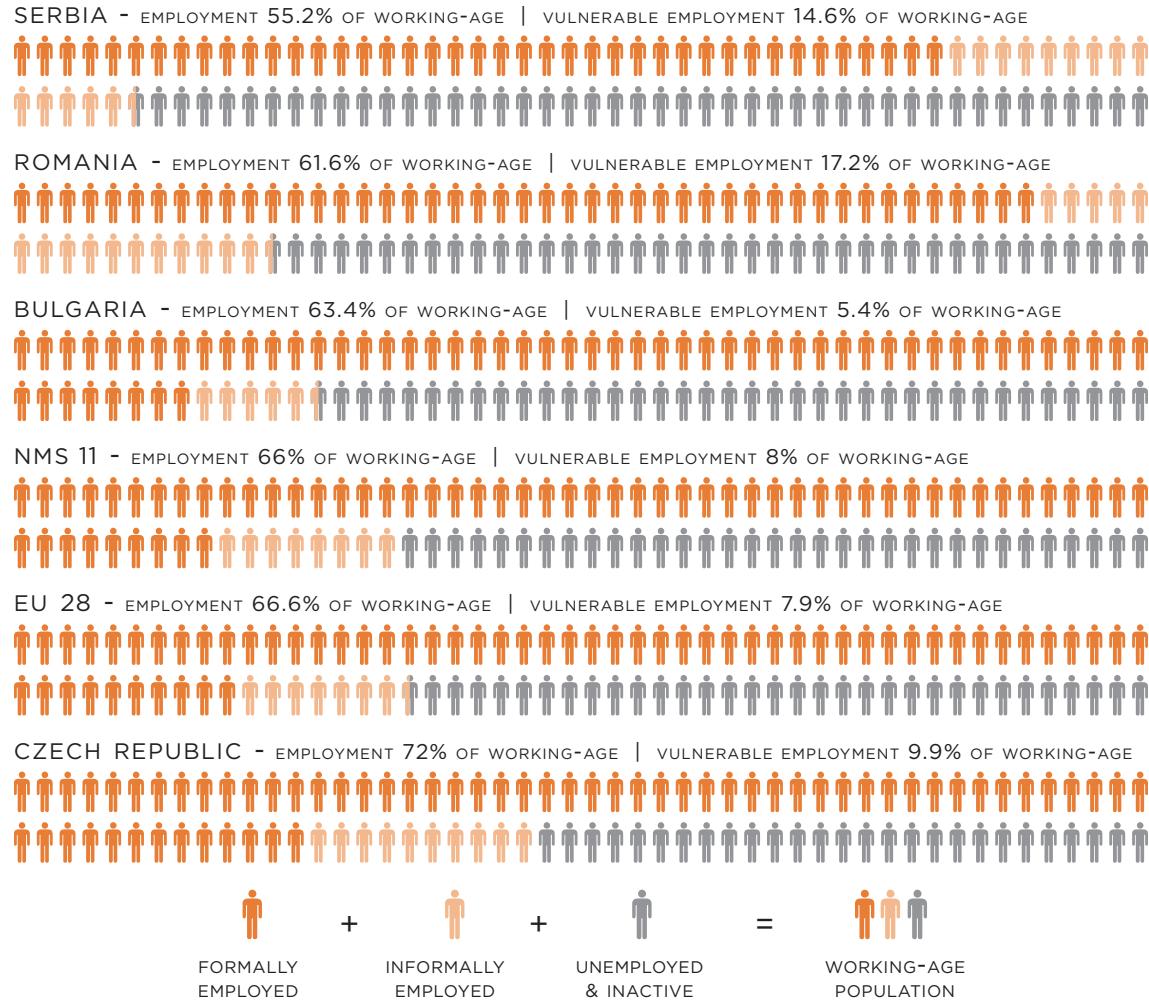
Figure 3. Serbia's GDP per capita (4,905 euros) is among the lowest in Europe, and it stands nearly 40% below that of Bulgaria, the lowest among EU member states.

GDP PER CAPITA (EUR), SERBIA AND SELECTED COUNTRIES



Source: Eurostat, SORS

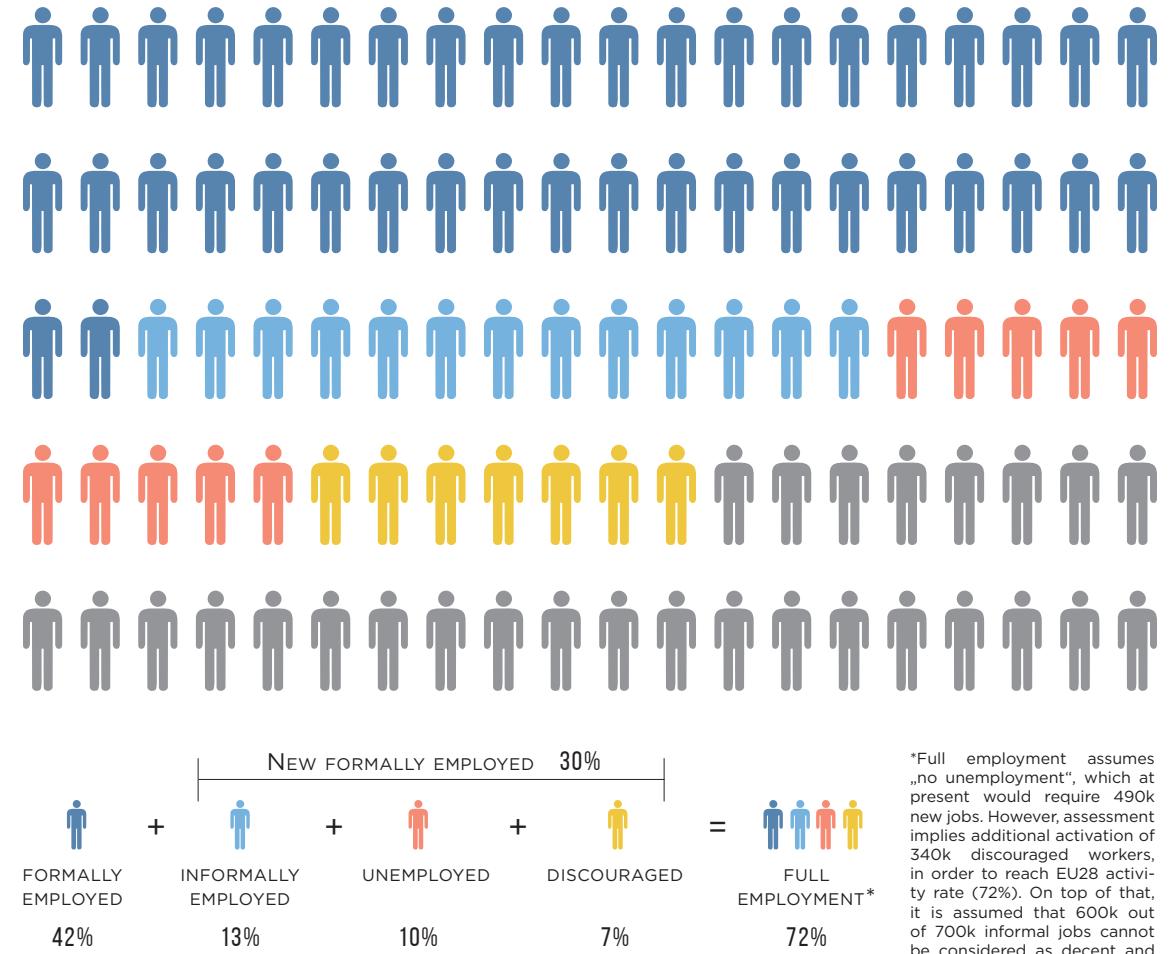
Figure 4. The key problem is an exceptionally low total employment level, and especially of the decent kind.



Source: Eurostat, SORS, World Bank

* All of the above information refers to working age population (aged between 15-64).

Figure 5. Full employment in decent jobs requires an increase of almost 75% (1.45 million) in the current number of formal jobs - to employ the unemployed, the discouraged, and those working informally.



Source: CEVES' calculations on Eurostat and SORS data.

*Full employment assumes „no unemployment“, which at present would require 490k new jobs. However, assessment implies additional activation of 340k discouraged workers, in order to reach EU28 activity rate (72%). On top of that, it is assumed that 600k out of 700k informal jobs cannot be considered as decent and should be transformed.

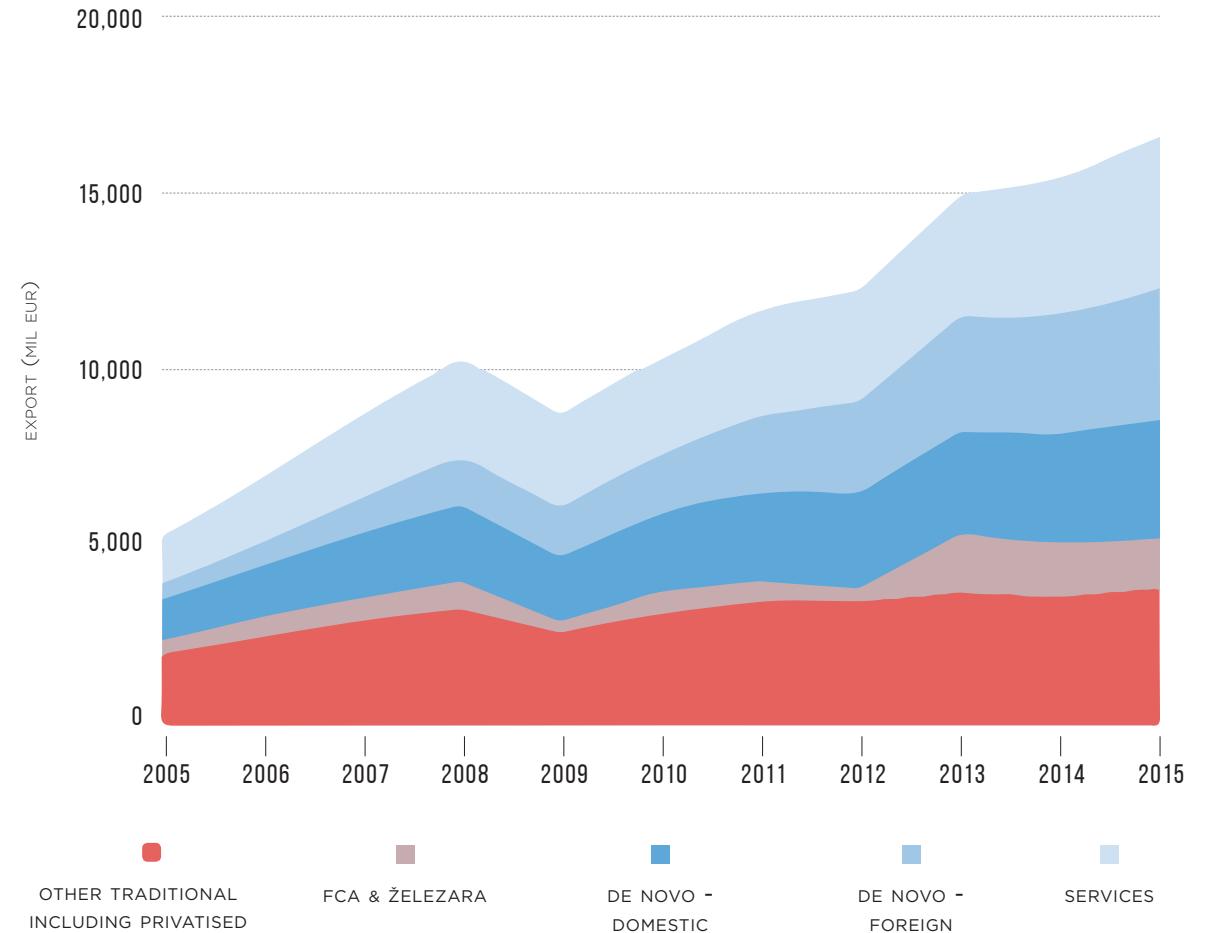
• **ECONOMIC GROWTH HAS RECENTLY ACCELERATED, LED BY A SMALL BUT COMPETITIVE AND EXPORT-ORIENTED NEW ECONOMY.**



Serbia's economic structure can be divided into two segments: traditional and new, which exhibit different business paradigms and performance. By "traditional economy", we denote the untransformed state-owned or socialist-owned sector. By "new economy", we mean the private corporate sector - including fully transformed privatized companies. The new economy emerged gradually from the transformation of a small share of the resources built in socialist times and new investments. While the comparative productivity of the new economy that has developed since the 1990s is undoubtedly closer to historical expectations, it is the high level of inactivity or low-intensity employment, as well as the low productivity of the large and slowly transforming traditional economy, that pull Serbia's GDP down.

Trends since the global crisis are indicate that Serbia has finally turned towards export orientaton while the exit of unsustainable tradition companies has recently accelerated. The new economy has finally reached a sufficient size to determine the pace of the country's growth. It is now supported by the strong growth of the European economy and a balanced macroeconomic framework, after the recent fiscal consolidation. The new economy's exports are based primarily on the rich land and agricultural tradition of Serbia, mid-technology industrial know-how, and IT and other knowledge-based services.

Figure 6. Only exports of the new economy grew throughout the period, reaching 93% of total exports in 2015 and indicating that the transformation of the economy is in its final stage.



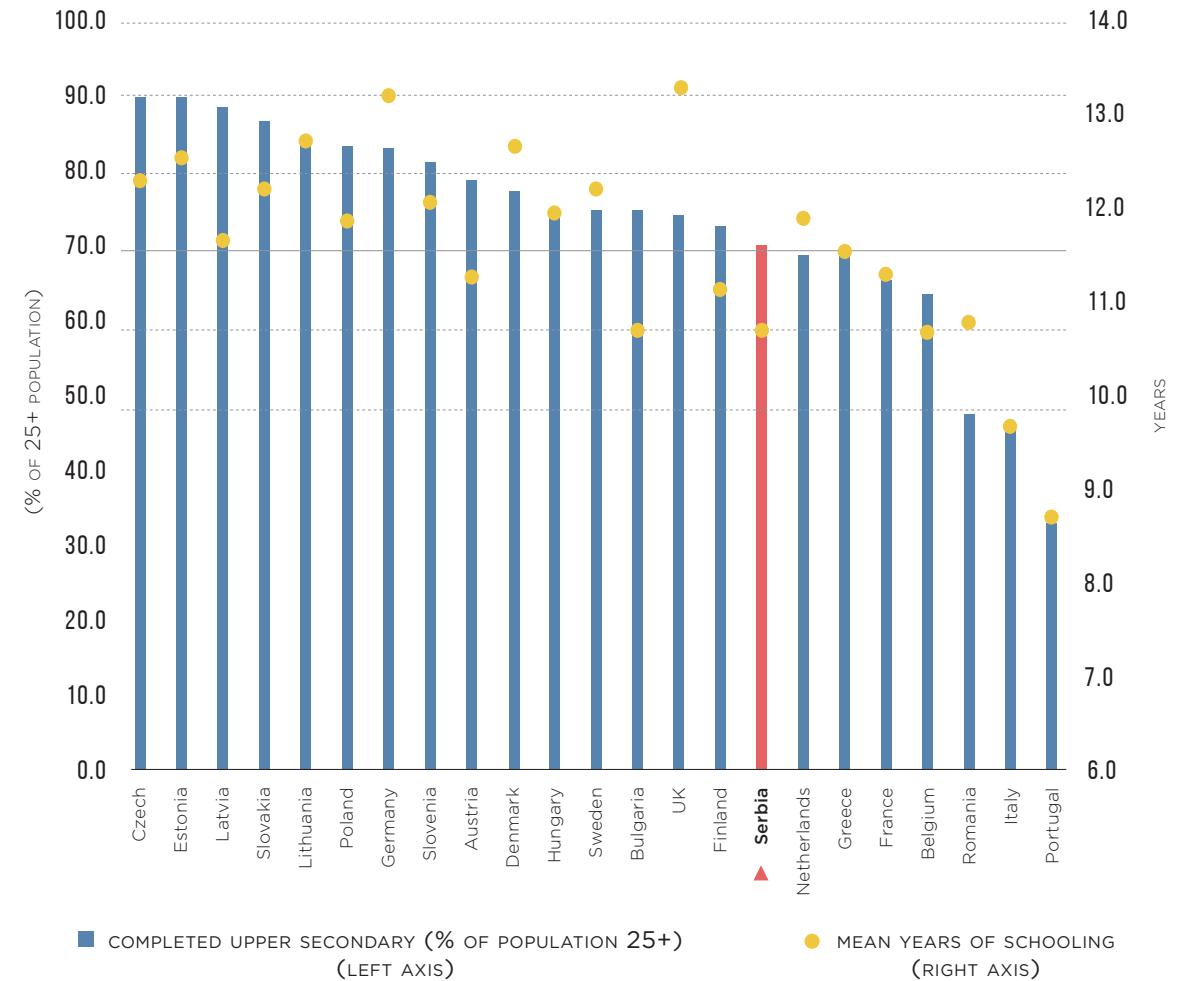
Source: CEVES' calculations on Cube Administration

• SERBIA'S STRONGEST HUMAN DEVELOPMENT ASPECT IS ITS EDUCATIONAL ATTAINMENT (55TH), MEASURED BY QUANTITY - YEARS OF SCHOOLING.



Thanks to greater educational system coverage and demographic changes, the educational level is rising. In 2015, about 71% of people over 25 years of age completed at least upper secondary education – 77% of men and 65% of women. At this level, Serbia still ranks below the NMSEU (81.7%) but is catching up with them.

Figure 7. Educational coverage is similar to EU levels, while the educational level is rising



Source: UNDP, World Bank, SORS

• **THE QUALITY OF EDUCATION DOES NOT FULLY PREPARE YOUTH FOR TODAY'S LABOR MARKET - EITHER AS EMPLOYEES OR AS ENTREPRENEURS.**

Citizens of Serbia are, on average, still less educated than the citizens of new EU member countries. Serbia's participation in PISA 2012 shows that the country faces problems with educational outcomes. For example, in mathematics, Serbia ranked 42nd in a group of 65 countries, according to OECD data. With such a ranking, Serbia was well below all PISA-participating European countries except for Bulgaria, Romania, and Montenegro.

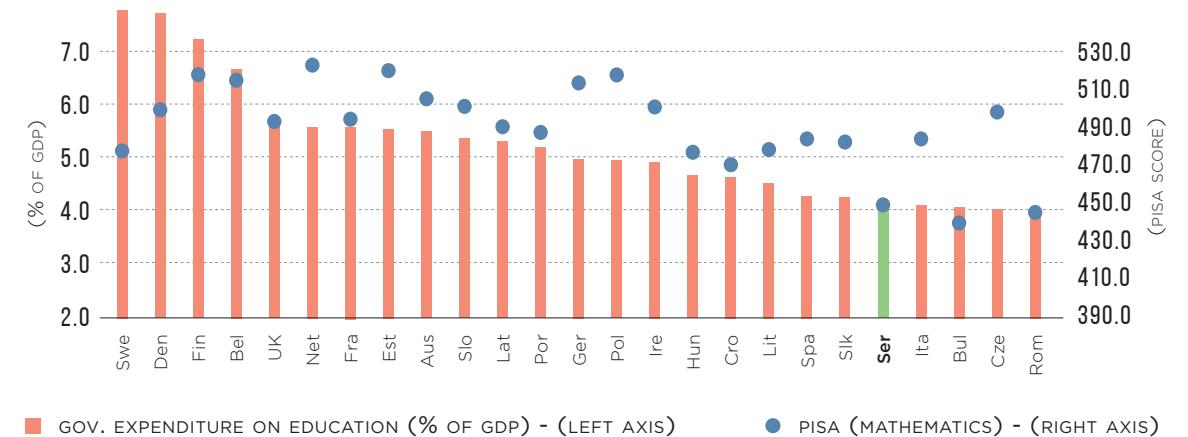


The education system has not yet adapted to the major changes of the 21 century, although the recent expansion of IT curricula is an important step in the right direction. The fundamental problem is that curricula are still designed for old-fashioned rote learning, rather than to teach students to think - which leads to the issue of either a high share of unemployment, or poor quality and unsustainable employment. Examples of schools that have succeeded to adapt curricula to labor market requirements and needs are limited, and progress is colud be faster - too many students are trained in skills that are not employable any more. In the current economic environment this is even more pronounced, since the chances for youth to be employed are three times lower, while the quality of jobs for those who are employed often does not meet the criteria of the definition of "decent work". The unemployment rate among students who have graduated is around 42% in Serbia, while almost a half of employed youth are informally employed. According to

the official Labor force survey in Serbia, 20.8 % of employed youth are estimated to be engaged on a part-time basis. On the other hand, 18.8% of youth are over-qualified for the work they perform.

One of the key reasons for the relatively weak outcomes could probably be found in the low level of public expenditure for education. In Serbia, this expenditure is around 4.2% of GDP, which is significantly lower than the EU average (5.2% of GDP) and NEUMS average (4.6% of GDP). Bearing in mind that expenditure for higher education is similar to the EU average, and that since private primary and secondary education in Serbia has not yet become fully developed, we can conclude that total educational expenditure (both private and public) to even greater extent negatively deviates from the EU average. The only comparable countries that spend less than Serbia are the Czech Republic, Bulgaria and Romania.

Figure 8. Education outcomes are still weak - with low expenditure likely playing an important role.



Source: UNDP, World Bank, SORS

• **HEALTH IS RANKED LOW, ESPECIALLY CONSIDERING THE STRONG YUGOSLAV LEGACY, REFLECTING OVERALL INSTITUTIONAL WEAKNESSES.**

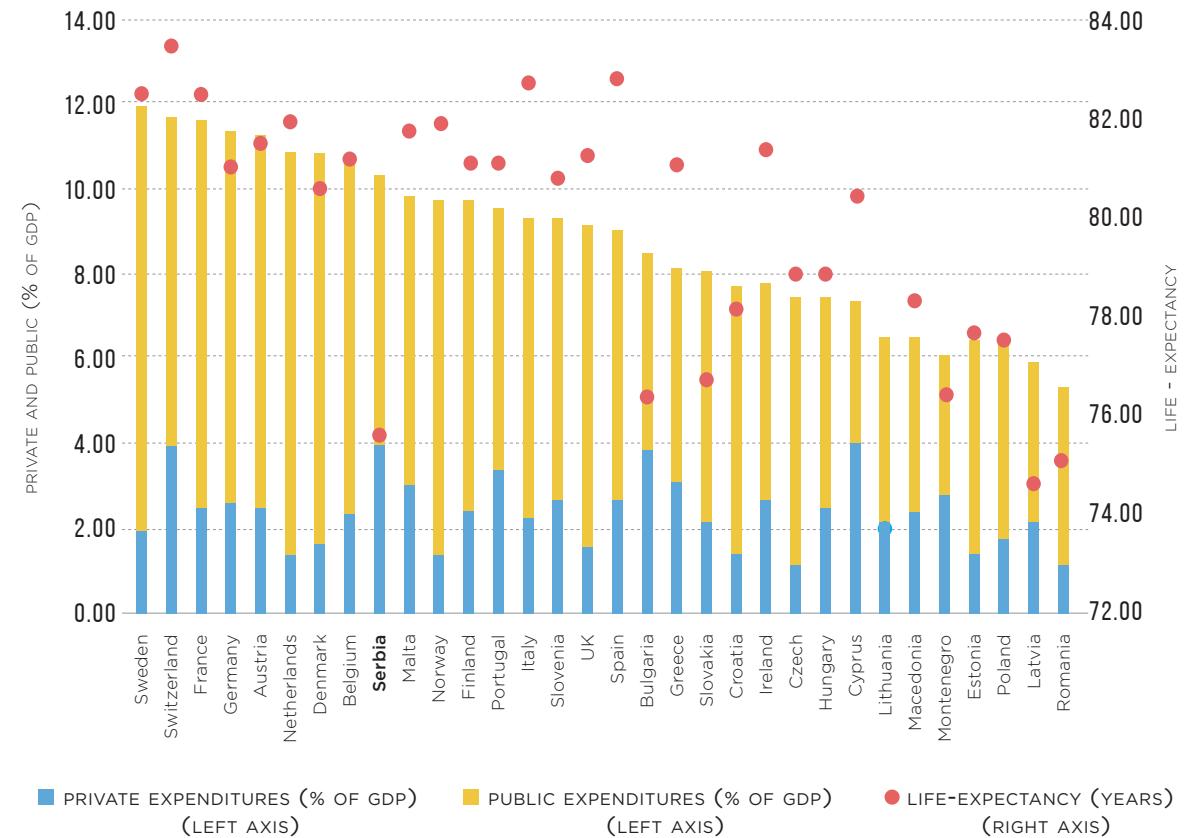


Serbian citizens' health is poorer (69th) than expected given the level of socio-economic development, funding and the strong legacy in the health care system. Among the key indicators of overall health attainment, the most comprehensive and one of the most telling indicators of the general health status of a country's population is the **life-expectancy indicator**. According to WHO estimates, the life expectancy at birth indicator in Serbia in 2015 was 75.6 years, which was shorter than that of any EU member state or other former Yugoslav republic, except for Romania, Bulgaria, Latvia and Lithuania. One of the highest 'out-of-pocket' health care payments by citizens, an unnecessarily high mortality rate, a lack of strategic documents and the unresolved role of the private sector paint a picture of unresolved systemic issues.

The infrastructure of the health system changed little over several decades despite market changes in demographics and in the health priorities, resulting in limited institutional effectiveness. For example, Serbia's health care system has performed well with regard to infectious diseases based on systems established decades ago. On the other hand, systems and programs for the prevention of non-communicable diseases have not been developed commensurably. Cancer, diabetes and heart diseases mortality rates are high, even in situations where highly effective prevention measures are available.

Figure 9: There is a marked disproportion between Serbia's total level of spending (% of GDP) on health, by the government and out-of-pocket, and the level of its citizens' life expectancy.

HEALTH EXPENDITURES (PRIVATE & PUBLIC, % GDP) AND OUTCOMES (LIFE EXPECTANCY IN YEARS)



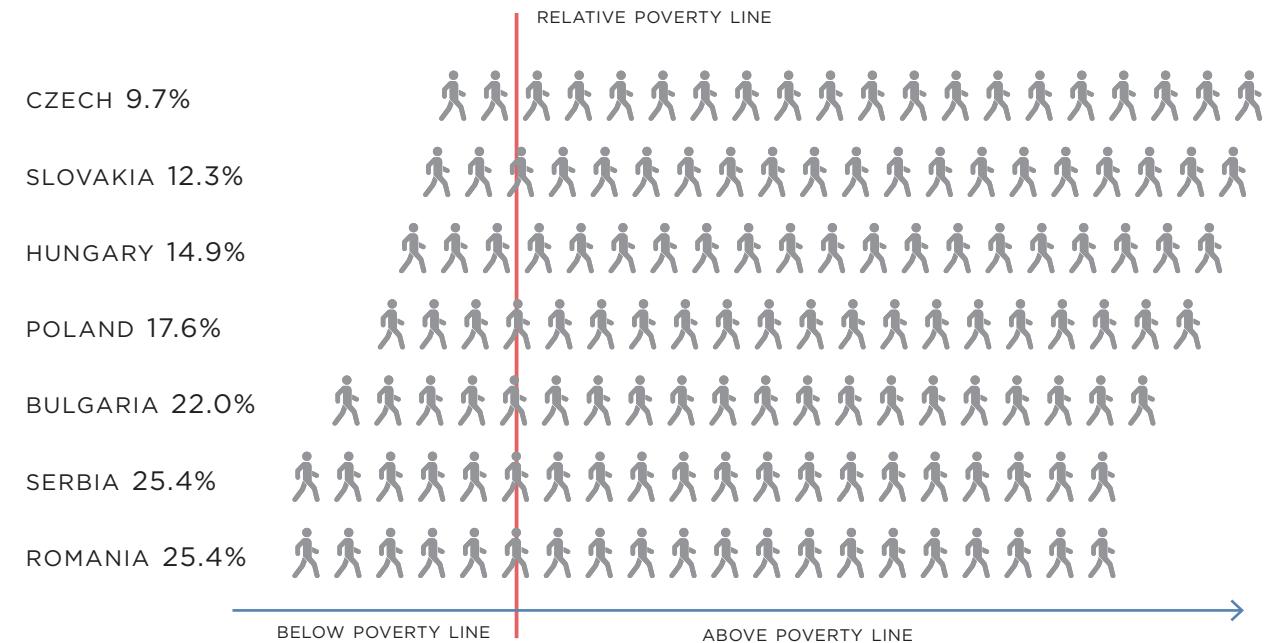
Source: WHO, Batut Institute

- **POVERTY AND INEQUALITY REMAIN HIGH, DUE TO THE LOW EMPLOYMENT LEVEL AND LOW RE-DISTRIBUTIVE EFFECT OF FISCAL POLICIES.**



Relative poverty in Serbia is among the highest in Europe, leaving many people behind. As much as 25% of people in Serbia earn less than 60% of the median income. Absolute poverty is also high, since as much as 7.3% of the population, or about half a million, is estimated to fall below the conservatively set absolute poverty line in 2016. Still, it is important to note that there are some positive trends. In the past ten years the more extreme measure of poverty – the population whose consumption falls below 80% of the poverty line—did halve, from 4% to 2%. Also, measures of poverty based on access to consumption put Serbia in a better position. **Measured by material deprivation** in dimensions such as the level of education, health and standard of living (access to electricity, drinking water, sanitation, living space, access to information – radio, tv, telephone), the poverty rate in Serbia amounted to 19.5% in 2016, which is better than a few EU member countries (such as Greece, Bulgaria, and Romania), and has been gradually declining since 2010. The rate of inequality is similar to European averages, but not improving, as recent research has indicated

Figure 10: Every fourth person in Serbia is below the relative poverty line (i.e., earns less than 60% of median income) – one of the highest shares in Europe.



Source: Eurostat, SORS

The primary reason behind the high levels of poverty and inequality is the low decent employment rate. Also, the low re-distributive effect of fiscal policies does not do enough to improve the status of those that fall behind. Social transfers reduce inequality to a lesser extent than in the EU: social assistance and child allowances are only 0.6% of GDP vs the average of 1.1% of GDP in EU countries, while pensions, which amount to a very large share of GDP (11.5% in 2016) have limited redistributive effects because they themselves are unequal, and not universal.

- **VULNERABLE POPULATION GROUPS ARE PARTICULARLY AFFECTED BY POVERTY AND INEQUALITY OF ACCESS.**



There are some particularly vulnerable population groups that present particular challenges and deserve special attention with regard to their human development: These are women, persons with disabilities, internally displaced persons, Roma, young people, the rural population and the elderly.

Gender equality has been established by law, but inequality still persists, roughly in line or somewhat more than European levels, in employment, earnings, executive power, as well as in the perception of the role of women in the Serbian society. Not only are men more likely to be employed, but there is a more striking gap between men's and women's earnings. In jobs with the same characteristics (education, work experience, profession, industry sector, etc.), women earn about 11% less than men. In other words, women in Serbia practically work for free as of the 23rd of November onwards.



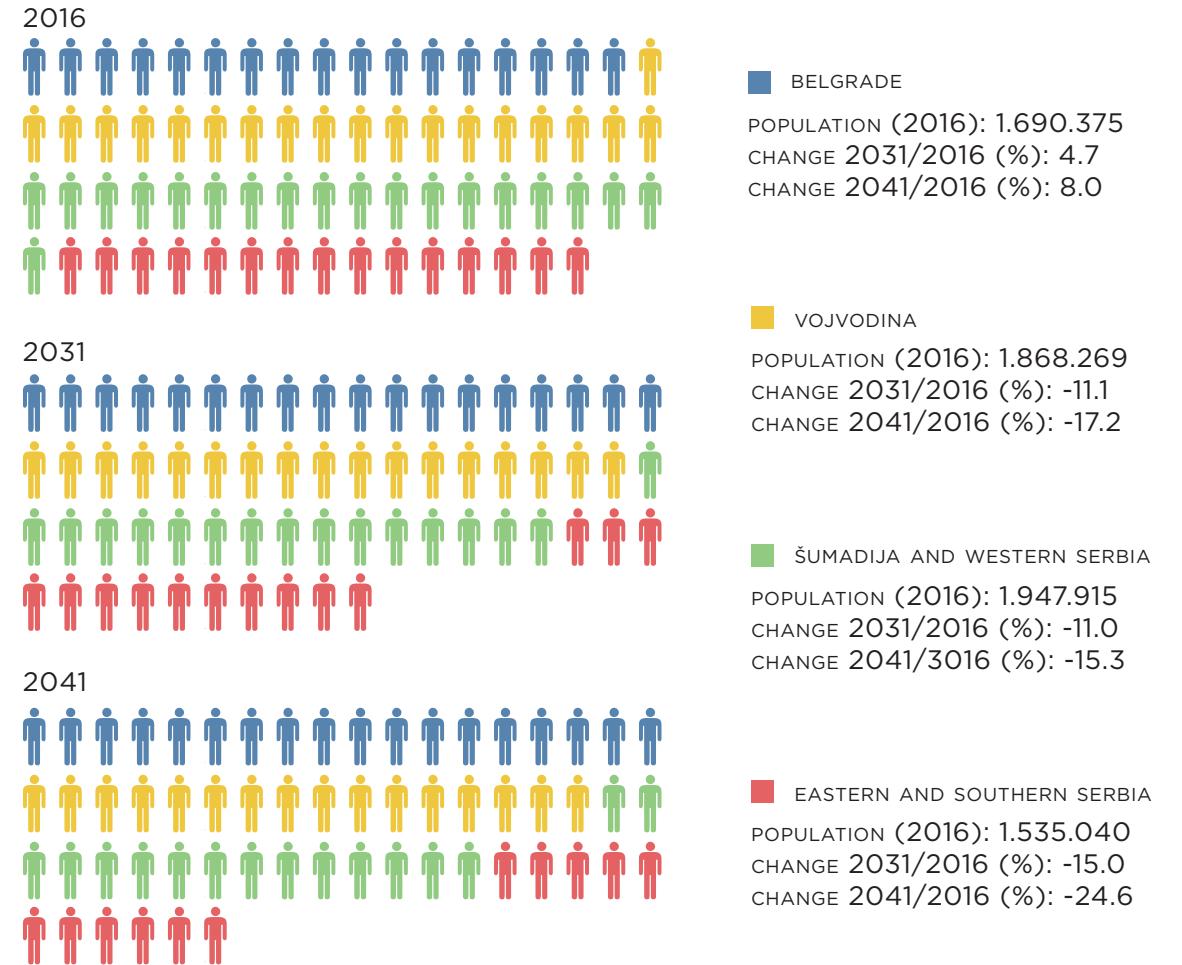
The Roma remain side-lined in social life as the least educated and poorest social group; they often live in unsanitary settlements and face discrimination in many spheres of social life. Notable advances have been made thanks to the implementation of the previous Roma Inclusion Strategy, and it will be important to keep this same focus in the period covered by the new Strategy: 2016-2020.

Although Serbia has made some progress, and the rate of that inequality is similar to European averages, in order to achieve the goals of equal opportunities for all categories of the population, as well as the absence of any discrimination, it is important to conduct systematic and continuous monitoring in the period ahead.

• SERBIA FACES ONE OF THE FASTEST RATES OF POPULATION DECLINE IN EUROPE.

We conclude the HD review with a big and worrisome issue not explicitly covered by the SDGs: the strong negative population growth, which is the most intractable long-term challenge. According to projections, the population of Serbia is likely to decrease by 8% by 2031 and by 12% by 2041 – and substantially more in the region of Southern and Eastern Serbia. This, in and of itself, will affect the sustainability of economic growth as it could increase decent job wages faster than productivity. It is also certain to threaten the sustainability of the pension system. This issue needs to be studied much more and come to be better understood, through comprehensive scenarios.

Figure 11: Assuming that current demographic trends continue, Serbia's population is likely to shrink by almost 600.000 (8%) citizens by 2030.



Source: SORS



PILLAR II - PROSPERITY ON A GREEN CORNER OF THE PLANET: ASSETS AND CHALLENGES

- SERBIA'S SUSTAINABLE DEVELOPMENT OPPORTUNITIES LIE IN THE VERY STRENGTHS THAT TODAY DRIVE ITS EXPORT GROWTH.

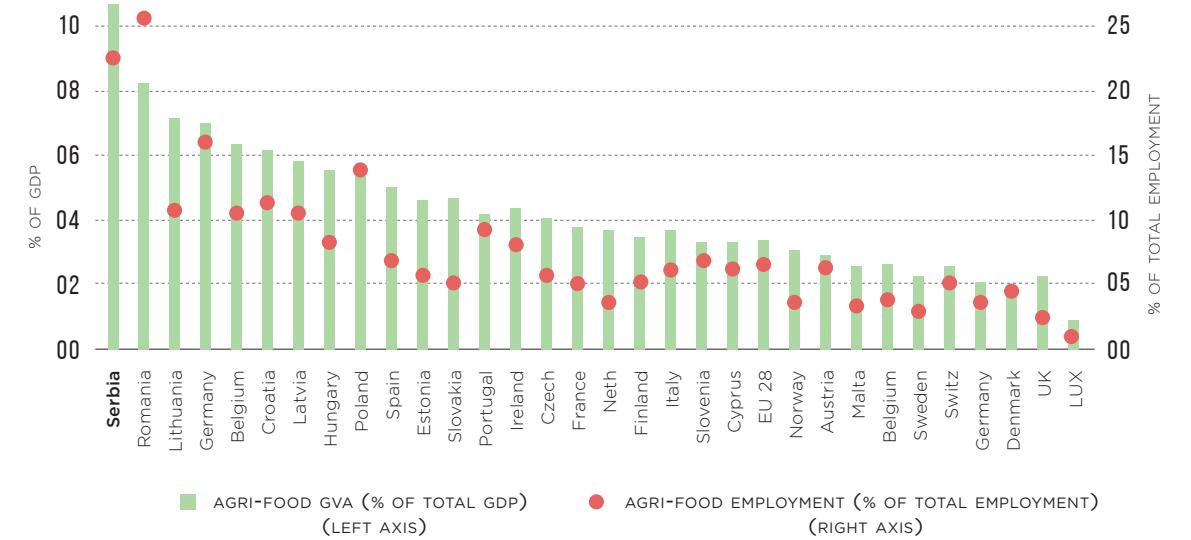
By export growth drivers, we refer to the economic structures that the country can rely on, or develop, in order to achieve quality growth more quickly, as manifested by existing economic activity and the resources it is based on. These include natural assets such as agricultural land, tourism and mineral resources, capital, physical and other infrastructure, skills and knowledge (human capital), as well as broader concepts of "resources" such as access to capital and global markets, entrepreneurship and social trust.

- SERBIA CAN BECOME AN AGRI-FOOD POWERHOUSE AND LIFT ITS RURAL AREAS OUT OF POVERTY AND ISOLATION.



The agri-food sector in Serbia is more important to the economy than it is in any other European country, contributing 10.7% of GDP and employing 120,000 people formally, or over 600,000 in total (formally and informally) – almost a quarter of the total employed. This is underpinned by the relative abundance of agricultural land, favorable climate conditions, a long tradition, and deep linkages of Serbia’s population (both rural and urban) to the land. Moreover, inelastic domestic demand saved the sector from deeper destruction in the 1990s and favorable trade agreements give it further support today. Access to land in Serbia is very broad, and while poverty is higher in rural areas, hunger and malnutrition are social safety net and health-related issues; in other words, food security is not a problem for the population.

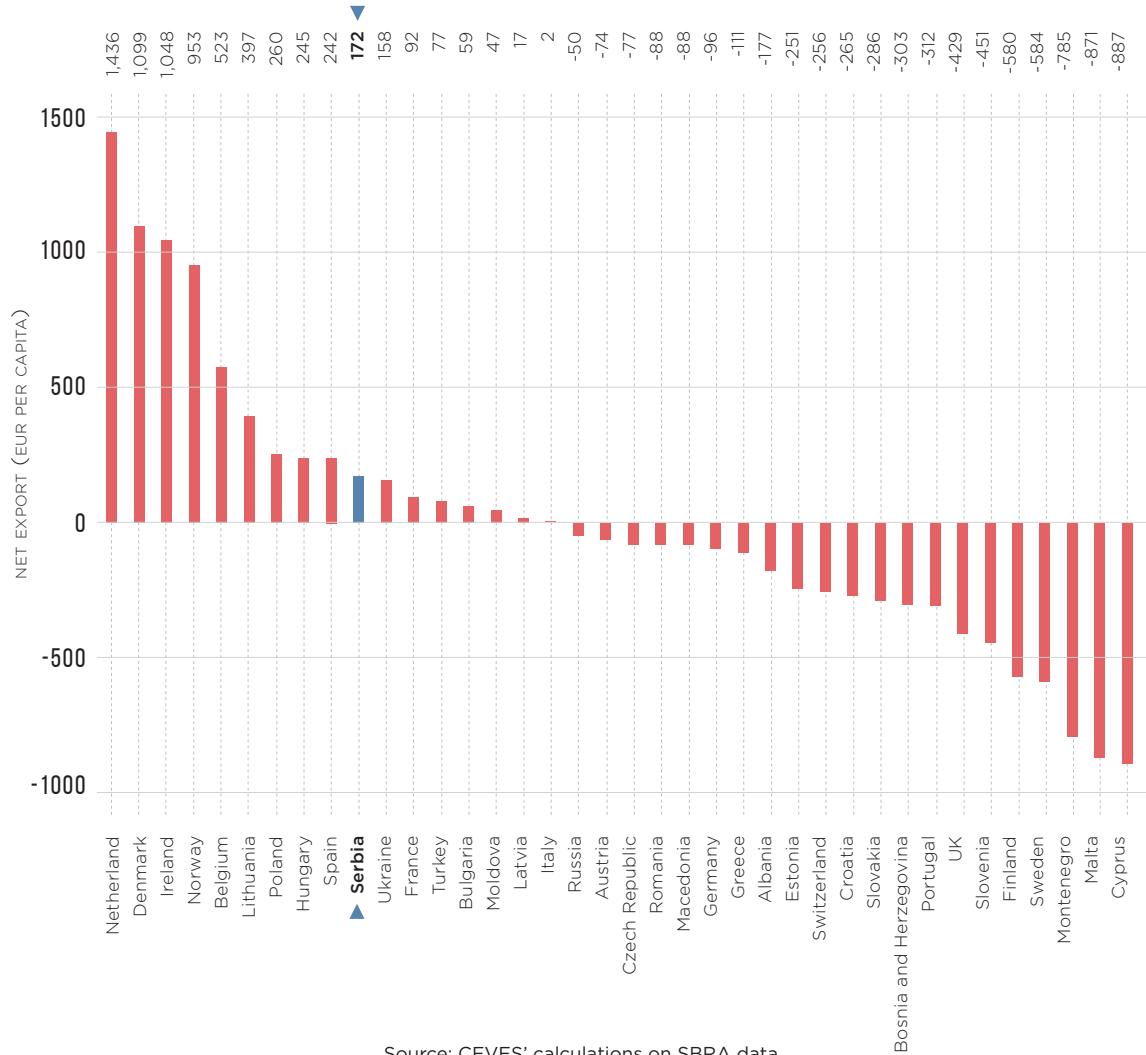
Figure 12. The contribution of the agri-food sector to GDP and total employment in Serbia is exceptionally high.



Source: Eurostat, SORS

Serbia has long been a net exporter of food and today is ranked 9th in this respect in Europe (out of 36 countries and 13 net food exporters in total). It exports primary agricultural products, processed food, beverages and tobacco products. These together account for 16% of Serbia’s total exports of goods in 2017 and have shown a tendency to be strongly competitive in recent years. Since 2009, agri-food exports have expanded by 1.325 million euros, 70% of which was due to expanding market share in more than 60 countries (960 million euros, 45% of which was due to new market share, excluding tobacco products). However, around two-thirds of this expansion has come from just five low value-added agricultural products: corn, wheat, raspberries, apples, and animal feed.

Figure 13. Serbia is among the top 10 European net exporters of agricultural and food products.



The potential of the agri-food sector to expand decent employment needs to be further explored but it is undoubtedly large – on the condition that some important challenges are overcome. The key challenges that need to be tackled are the fragmentation of land and the characteristics of food processing, which tends to be carried out mostly by small to medium-sized enterprises (SME). Serbia’s average yields per hectare of cultivated land are 37% lower than the EU average, but this is because 70% of the landholdings are smaller than 5 hectares and further fragmented into, on average, four to five parts. Most of these farms use obsolete traditional methods, or marginal engagement of family labor. Many of them are elderly. In addition, 11% of arable land lies unused (out of which 80% south of Vojvodina).

At the same time, Serbia has a growing number of highly productive farms and companies, especially in the fruit and vegetable sector – such as Van Drunnen (dried fruits), Inter-funghi (dried vegetables), Marbo (canned vegetables) and Nectar (juices). If a substantial part of the former type of agriculture producer is transformed into the latter kind, Serbia has great scope for adding value and increasing its productivity. The challenge is less on the production side, where relatively small farms and businesses can be used effectively to reduce poverty and generate employment. As the Italian example shows, the shortcomings can be overcome with cooperation. However, on the side of market management, it is imperative that Serbia become able to consolidate its presence on global markets, under terms that favor its producers.



- **A STRONG ENGINEERING AND METALWORKING TRADITION IS GIVING RISE TO A RECOVERY IN THE MID- AND MID-TO-HIGH LEVEL TECHNOLOGY INDUSTRIES.**



Serbia has the engineering/technical skills to underpin the development of a productive, modern, high-income generating industry. Know-how and skills underlie the current fast growth of some mid-level technological manufacturing industries, generating decent jobs based both on foreign investment and a vibrant — if small — SME community.

- Not surprisingly, more than 40% of Serbia’s merchandise exports is carried out by large foreign direct investment (FDI) companies. The most convincing comparative advantage is exhibited in the fast-growing rubber and plastics (R&P) industry, with exports by large, well-established foreign companies (Michelin, Cooper Tire). In addition, companies producing electrical equipment and machinery

— such as home appliances (Gorenje), wind generators (Siemens), and engine parts (Albon/Agena) – have also exhibited a high level of competitiveness. Despite being very large exporters, FDI companies in the apparel, automobile and steel industries are still creating comparatively little added value. They have been the recipients of massive government subsidies, and while the value added in the exports of these industries has certainly been increasing, there is no clear sign of sustained growth in the exports of any of these sectors.

- Domestically owned SMEs have also been able to find their place on international markets, with a share of 25% of total merchandise exports (overwhelmingly by newly started companies) and well over a half of that is made by small or micro firms. About a third of domestic SME exports consist of agri-food products; the rest comes from all industries, but with more noticeable shares for rubber and plastics, fabricated metal products, machinery, and furniture and wood products.

Serbia also faces limitations that would need to be very carefully addressed to ensure quality growth. High quality technical and experienced skills are not abundant, while process and market management skills are, in fact, rather limited. Together with the limitations faced by the largely SME domestic economy – i.e., the lack of access to capital and know-how, as well as internal organizational and motivational limitations — there is a real risk that these industries will continue to employ only a relatively small share of the total **workforce**. Whether their expansion is sustained and whether they generate a significant number of decent jobs critically depends on the effectiveness of Serbia’s education and science services as well as the society’s/government’s capacity to attract quality foreign investment and support the sustained growth of its SMEs. Critical in this regard is greatly improving the **business environment**.

Figure 14a. Export growth of mid- and mid-to-high level technology industry has been dynamic since the crisis.*

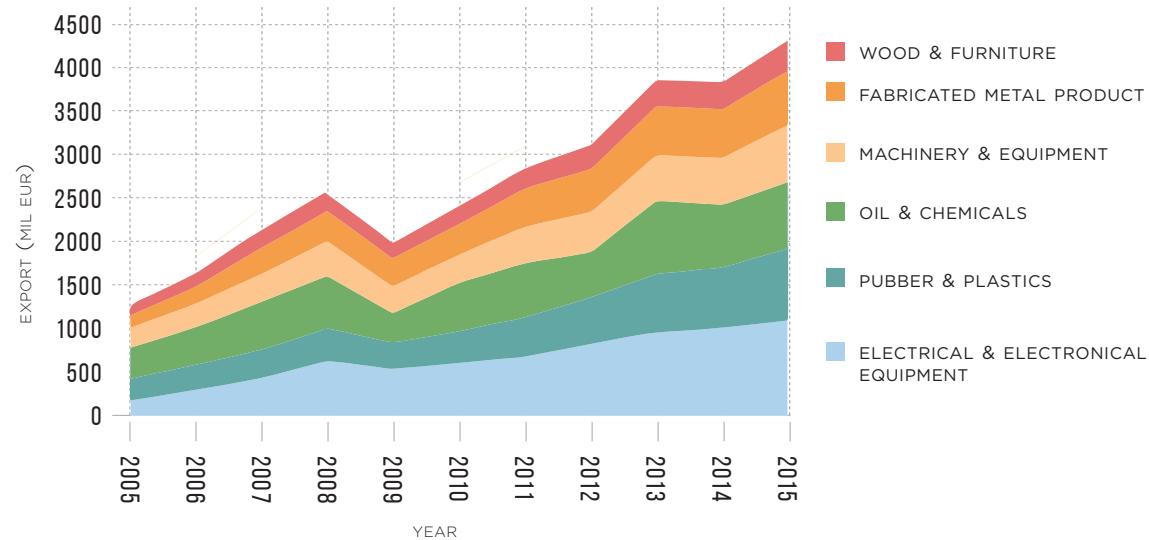


Figure 14b. Domestic enterprises — specially small and medium ones, significantly contributed to export growth of majority of manufacturing sectors.*



Source: CEVES' calculations on SBRA data

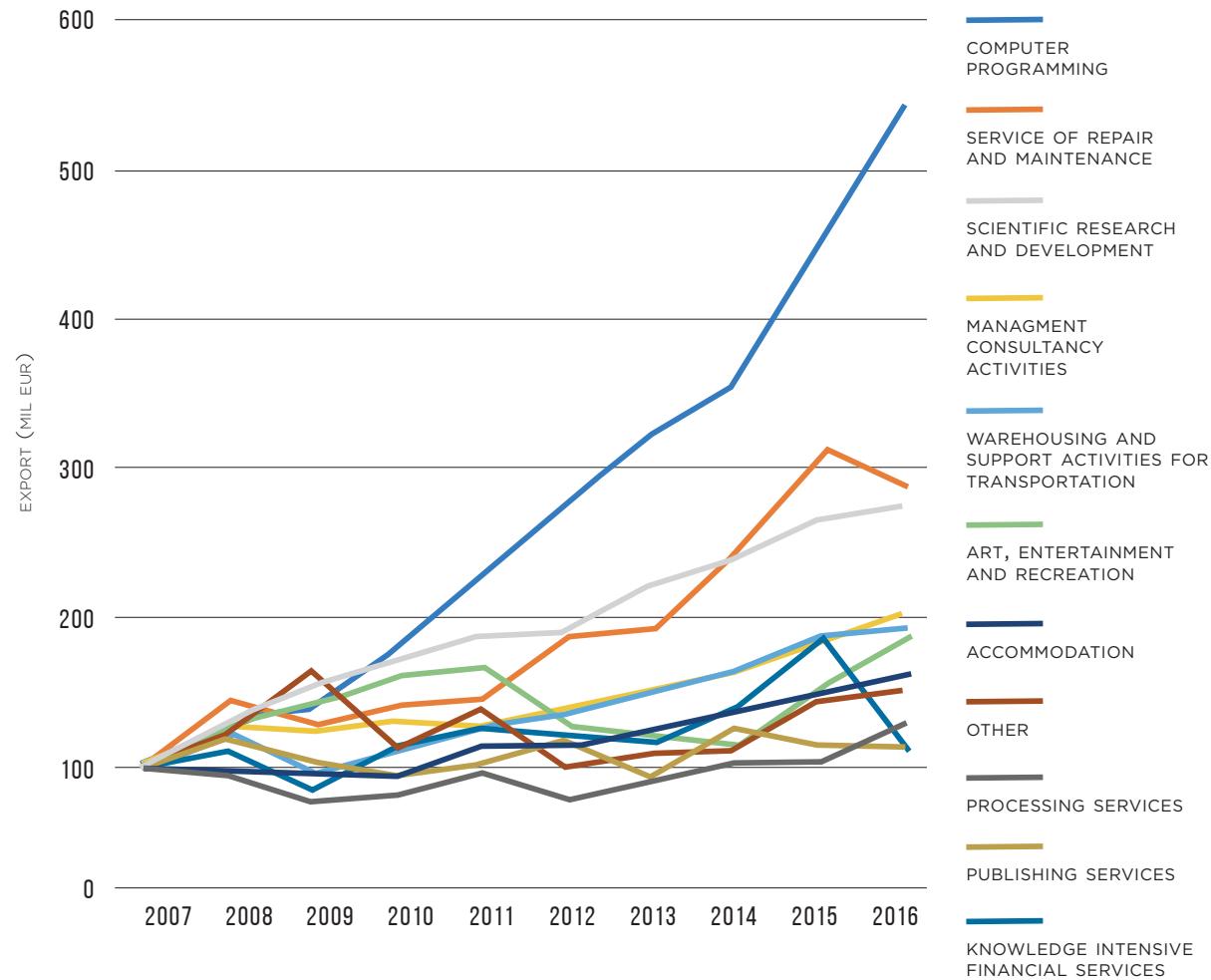
* Manufacturing of motor vehicles and basic metals is excluded from this observation.

• **SOME VERY HIGHLY-SKILLED GRADUATES THAT STAY IN SERBIA ARE GIVING RISE TO A HIGH-KNOWLEDGE CONTENT SERVICE INDUSTRY.**

A particular opportunity for Serbia to catch up exists in the high-knowledge content service and intangible creative products industries, especially in the context of Industry 4.0. It is significant that a larger share of Serbia's economy is comprised of these products/services than in Europe on average. Export of these products & services has been growing by 10% annually since 2009, while net export growth has been particularly high from 2013 (annual growth rate of 32% from 2013 to 2017). Professional services and especially high-tech knowledge, largely computer programming, have been particularly competitive and are growing fast. By 2011, this segment began noticeably to affect the total, especially net service exports. This is clearly because Serbia's highly trained graduates have less opportunities to obtain employment in other industries. However, it also represents an undoubtable comparative advantage. The question is how far this industry can spread and absorb the currently unemployed or under-employed labor? This potential has not, to our knowledge, been gauged yet. It is clear, nevertheless, that the sustained expansion of these services and products critically depends on the effectiveness of Serbia's education and science services as well as on policies and collective actions that can ensure that exports shift from a low-wage to high-productivity basis.



Figure 15. The export of services – especially computer programming – is growing fast.



Source: CEVES' calculations on NBS data

• A MULTITUDE OF GREEN GROWTH OPPORTUNITIES LAY UNEXPLOITED AND COULD PROVIDE THE EDGE NEEDED TO LIFT SUSTAINABLY SERBIA'S DEVELOPMENT TO A HIGHER LEVEL.

Serbia is moderately rich in non-mineral natural resources that offer much needed, mostly green, development opportunities, particularly for rural areas. In particular, Serbia has a reasonably large and relatively low-quality forest cover, plentiful water resources (although 92% comes from external flows, making this resource vulnerable) and quite rich geothermal resources.

These lay the foundations for several sources of increased and green income. Income from the growing rural tourism could be increased substantially further if it was “greened”—relying on increased protection of Serbia’s substantial biodiversity, on ethno-content connected to sustainable agriculture content, and on the sustainable exploitation of geothermal waters (spas). Furthermore, the development of renewable energy sources—particularly, biomass from agriculture and forests, and solar energy—could boost both economic growth and stakeholder cooperation within local communities, increasing their social, economic and environmental resilience.





Organic, or at least natural, farming of land, is also a green way to substantially increase the value of Serbia's agri-food industry, and its developmental potential needs to be studied further. It is likely that it would increase the environmental sustainability of agriculture and reduce chemical pollution of water. Most importantly, it may be a way to increase the economic sustainability of cultivation on Serbia's very small farms. Also, while the use of GMO seeds and products is regulated so as to facilitate a very belated membership in the WTO, Serbia's non-GMO food tradition and capacity needs to be harnessed for increased export value-added: this primarily refers to cereal- and oil-based products - fodder, soybean oil or other segments of the mill and confectionery industry.



Better management and policy coordination are much more important to improved exploitation of natural resources than increased financing, although the latter is more often cited as a need. In particular, there is almost no integrated management of water and forest resources, although an integrated approach to each, and coordination between the two, could go a very long way in improving outcomes across a broad range of issues—from climate mitigation, to water quality, biodiversity and non-agricultural land use. Only 6,8% of Serbia's territory is under protection (Slovenia has 53.6%, Croatia 37.7%, Macedonia 9.7%, Montenegro 4.1%, B&H 1.3%). Just to illustrate the potential of better environmental management — total value of fly-fishing tourism in upper Soča region in Slovenia (population around 5.000) is 2 million EUR every year. In addition, an important problem is that the majority of Serbia's natural resources are managed by public enterprises. Their management suffers from well-known problems of efficiency and, of great importance in this case, lack of transparency and participation. Moreover, environmental sustainability is not one of their major objectives.

• EU ENVIRONMENTAL REGULATIONS REGARDING TRANSPARENCY, IMPACT ASSESSMENT, AND THE CIRCULAR ECONOMY HAVE LARGELY BEEN ADOPTED, BUT ARE ALL TOO OFTEN NOT IMPLEMENTED.

Serbia's EU membership aspirations set the highest standards globally for its environmental quality. It is well understood that Serbia may not have the financial means to implement them in the near future. However, much progress can be attained, as well as more funding secured, by a more consistent and participatory monitoring of the quality of air and water, and environmental impact assessments, and identification of polluters. While the necessary regulations are mostly in place, environmental impact assessments need to be conducted more thoroughly, be of higher quality, and be treated consequently. This is particularly true of licensing the construction of mini-hydroelectric power plants which is threatening the existence of 350 km of rivers and biodiversity in them, most of them in scenic, some even protected, areas. Only a small number of industrial polluters treat their waste waters, and by far most of the large polluters are actually under state ownership (the thermal power plants, the mines around Bor and Sjenica as well as Kolubara). Finally, the legacy of historical pollution to be cleaned is huge.

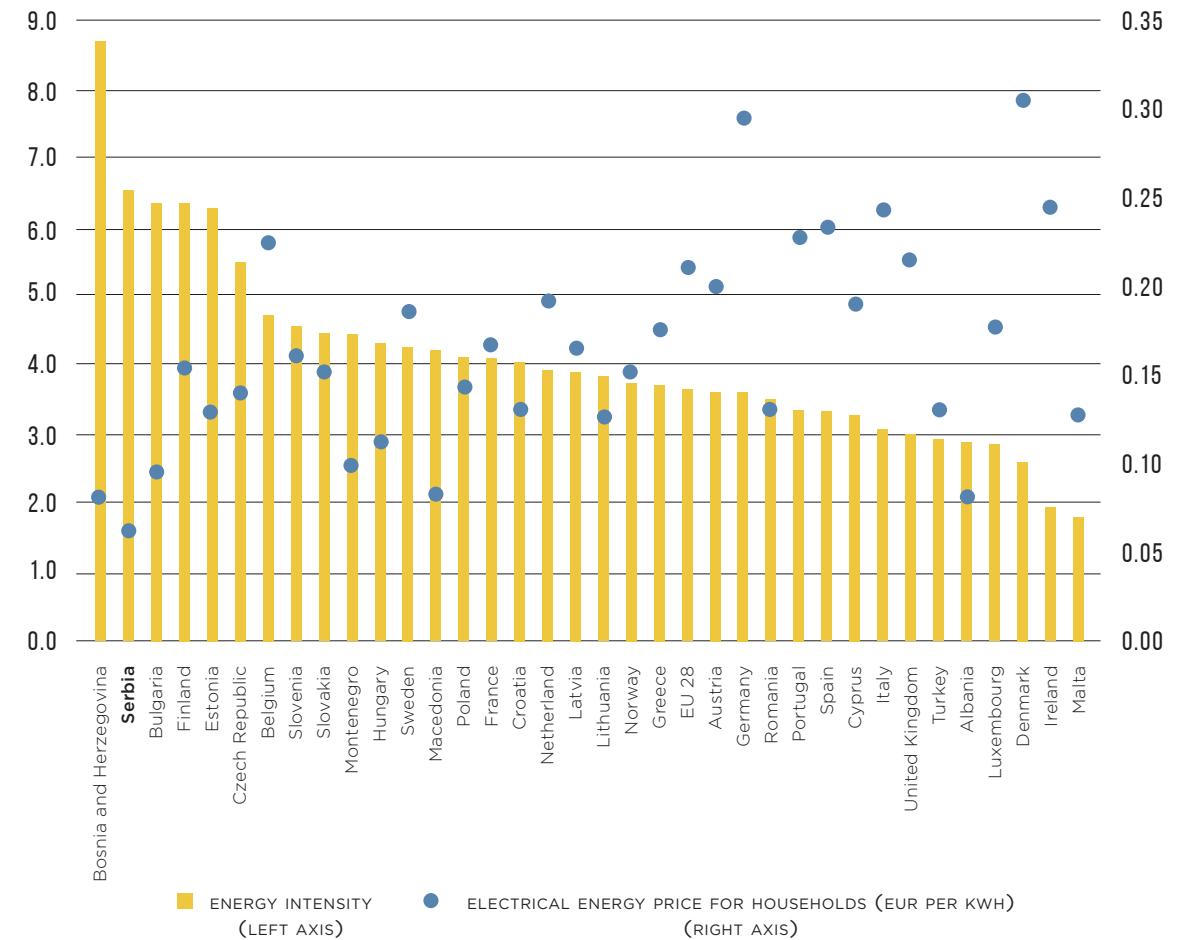


• **SERBIA WASTES ENERGY THAT COULD BE PUT IN THE SERVICE OF SUSTAINABLE DEVELOPMENT AS WELL AS CONTRIBUTE TO MITIGATING CLIMATE CHANGE.**



Decisive action to manage its energy resources more deliberately and economically would contribute to a broad array of development goals in Serbia as well as improve its energy security. Serbia's energy efficiency, at half the EU average level, is lower than any EU member country. In other words, Serbia could maintain its present economic performance and human development while using about half as much energy as it uses today. Yet, contrary to widespread belief, Serbia is not an energy rich country. The hydrocarbon reserves on which it presently relies for about 60% of its energy consumption will be depleted soon after 2030. Serbia does not have a clear strategy for dealing with this problem at present. Whatever strategy Serbia chooses to take, it will involve serious hikes in electric energy prices, to pay for imports or for replacement capacity. The longer that Serbia delays determining this strategy, the steeper the price hike will be, the more crucial it will be to straighten the system for safeguarding the most vulnerable segment of the population from it.

Figure 16. Serbia has the lowest electricity price and the second highest energy intensity among comparable countries.



Source: Eurostat, SORS

Certainly, an avenue that deserves urgent and open investigation is the potential for increased reliance on renewable energy resources (RER). These are currently assessed conservatively, under the assumption of the continued absence of structural change in the electric energy production/distribution system over the medium to long term. In view of the expected depletion of domestic hydrocarbons, and their unlikely full replacement from Kosovo coal, structural change will happen and needs to be planned and prepared for. In addition to the likely higher potential for wind and solar power than is currently envisaged in the country's energy strategy, the use of wood as biofuel needs to be carefully explored. On the one hand, generating biomass for renewable energy, including wood, holds great economic potential. On the other, presently much consists of heating based on traditional wood stoves which have negative health effects. Moreover, Serbia does not have institutional systems that ensure the wood consumed is being duly replaced.

- **WHILE SERBIA'S GEOSTRATEGIC POSITION IS AN OPPORTUNITY, OTHER CROSS-CUTTING ISSUES ARE LARGELY CHALLENGES.**

Serbia's very favorable geostrategic position with a tradition of cultural ties and entrepot trade, now free trade agreements with the EU but also Russia and the SEE region represent a major opportunity. It could be better supported by the transport infrastructure, which is, nevertheless, not quite a limitation to growth.

On the negative side, the culture, and particularly the public administration, are not very friendly towards entrepreneurship. There is an overall low level of social capital and mutual trust. Together with the low predictability and high costs of the regulatory environment (more in the next chapter) all together these represent substantial obstacles to the thriving entrepreneurship and investment needed to accelerate Serbia's development. Finally, neither the government nor general public have yet begun to promote awareness and implement regulations concerning the need for more sustainable production and consumption patterns overall, as well as to mitigate and adapt to climate change. And yet, these are not only good for the environment, but for economic sustainability over the longer run.



PILLAR III – INSTITUTIONAL CAPACITY AND PARTNERSHIP

• THE EU'S PRIORITIES FOR SERBIA'S ACCESSION IN THE POLITICAL AND INSTITUTIONAL REALM AMOUNT TO GOAL 16 NATIONALIZED IN LINE WITH THE HIGHEST GLOBAL STANDARDS.



Serbia's values and aspirations with regard to institutional and political development are firmly framed by its European Union accession path. The reforms envisaged are not only about aligning with the Acquis, which most often determines rules about "how" something can, or cannot, be done. They are also about alignment with European values. European values set the highest goals regarding democracy, fundamental freedoms, the rule of law, institutional quality, and peace and security. The EU's accession priorities for Serbia in these areas, and their mapping into the targets under SDG 16 are shown on Table 1. It can be seen that the EU accession targets can be viewed as a maximum-standard interpretation of SDG 16.

Progress on attaining the entire list of institutional goals is monitored by the European Commission (EC) in its annual Progress Reports. This is a complex exercise that assesses progress in outcomes as well as the reform steps planned to accomplish them. It is a comprehensive effort that takes very significant resources and Serbia is fortunate to have the EC investing in it.

Table 1. Mapping SDG 16 Targets to the EU's accession priorities for Serbia

SDG 16 - Targets	EU Indicative Country Strategy Paper for Serbia for Instrument of Pre-accession Assistance 2014-2020 - expected results
SDG Target 16.7 Ensure responsive, inclusive, participatory and representative decision making at all levels	Strengthen democratic institution oversight (especially by the parliament); strengthen CSOs as well as their cooperation with public institutions;
SDG Target 16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements	Ensure fundamental rights, protection of minorities (Roma, LGBTI persons); improve access to justice; implement antidiscrimination policies; improve transparency of EU media standards - media freedom and pluralism.
SDG Target 16.3 Promote the rule of law at the national and international levels and ensure equal access to justice for all	Improve judicial independence, impartiality and efficiency; strengthen professionalism of judges, prosecutors and court administrators through merit-based criteria; reduce the duration of proceedings; Improve the consistency of jurisprudence.
SDG Target 16.5 Substantially reduce corruption and bribery in all their forms	Implement an effective system of prevention and fight against corruption, enable a legal framework; strengthen the capacities and efficiency of the relevant bodies (especially the Anti-Corruption Agency); implement an effective system for the protection of whistle-blowers.
SDG Target 16.1 Significantly reduce all forms of violence and related death rates everywhere SDG Target 16.2 End abuse, exploitation, trafficking and all forms of violence against and torture of children SDG Target 16.4 By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime	Implement an integrated approach to organized crime; improve the capacity of policy for investigations; implement a centralized criminal intelligence system; improve inter-agency cooperation; enhance the protection of witnesses in organized crime cases and victims of human trafficking; implement an integrated border management (IBM) approach and improve risk assessment, data collection and databases systems.
SDG Target 16.6 Develop effective, accountable and transparent institutions at all levels SDG Target 16.9 By 2030, provide a legal identity for all, including birth registration	Enhance the coordination of public administration (PA) reforms and establish a policy coordination, planning and development system; put into place a civil service system based on merit; improve PA governance and service delivery; enhance macroeconomic stability through multilateral surveillance and implementation of the Economic Reform Programme; reform public financial management; reform customs, tax administration, and statistics to meet acquis requirements.

• **GOOD INSTITUTIONS MATTER ALSO IN ORDER TO BETTER ATTAIN ALL THE OTHER SIXTEEN SDGS**



Most of the institutional reforms are planned in order to establish European values as a way of life – they are goals in and of themselves. However, many of them are also very much needed as an instrument, to create an environment and develop the institutional capacity necessary to put Serbia on a faster and more sustainable development path. Of key importance to this are; 1) Establishing a business environment that is supportive of thriving investment and entrepreneurship. Above all, such an environment requires predictability, the rule of law, including clear rules defining market relations, and stability of policies and regulations; 2) Meaningful policy planning but also stable and consistent policy implementation are needed for the accomplishment of any long-term results; 3) The design of good policies requires transparency and significant stakeholder involvement and participation; 4) Finally, the public administration needs to be capable of delivering the policies that the government may choose to adopt – i.e. it needs a measure of effectiveness.

The above issues have been amply studied and argued, especially in documents linked to the EU accession process and by the World Bank. **According to in-depth expert assessment methods, Serbia's administrative effectiveness is somewhat above the lower end of the preparedness of new EU member states before they acceded to European Union membership.** Indices that heavily rely on citizen/stakeholder perception assess the quality of Serbia's institutions lower. This may be because Serbia's stakeholders have higher expectations.

However, of particular concern to this exercise are that policy prioritization (at the heart of policy planning), as well as its effective implementation can be particularly difficult even when all the necessary conditions typically assessed by experts—such as regulatory framework and civil service capacity – are present.

- **TOO OFTEN THE STATUS QUO WINS OVER PROCLAIMED POLICY PRIORITIES.**



Serbia has real difficulty in setting policy priorities, and there is a risk that this may invalidate the present SDG nationalization exercise, as it so many other plans. Serbia has many strategies and policy planning documents, and most of them tend to present too many issues as priorities to constitute true guidance for policy actions. Actual policy priorities are revealed in policy implementation – when some actions and stakeholders receive more funding and attention than others. However, by this measure, it can be said that major shifts in policies have generally been rare over the past decades, and that few policy priorities stand out as priorities. Nor have policy changes been accomplished through consistent incremental change over several years. Serbia’s development policies have tended to revolve around the status quo: every budget year the departures from last year’s budget have tended to be marginal and/or unsystematic.

The inclination to preserve the status-quo is particularly visible in the provision of public services. Certainly, it is notable that Serbia’s public system structures, both the physical and the organizational ones have changed very little over several decades, even though the demographic, socio-economic and political changes in the meantime have been vast. One reason for the strong entrenchment of the status quo is that those interested in it, or too concerned to risk change, tend to be better organized. Another is possibly lack of clear information and credibility of what could be accomplished through change.

All too often public service provision is adjusted to the needs of those providing the services, rather than the needs of the beneficiaries. Take the example of the education system. It has been clear for some time now that secondary school curricula are much too fragmented, that high-school pupils cannot learn well if they have 10-15 subjects per year. Yet, a fundamental change in the way the curriculum is organized is hard to imagine, not least because it would require both a change in the way teachers become qualified to teach particular subjects, and a reduction in the number of high-school teachers altogether. Similarly, the geographic distribution of the public health, education and court system structures reflect Serbia’s demographic structure of several decades ago much better than the structure of today.

This is why it is extremely important that it be clear that the dialogue we propose here is about policy options, about the choices that need to be made. If some policies are chosen, others may need to be abandoned, or postponed. Such a dialogue would help the reform efforts aimed at policy planning and coordination by raising awareness about everything society stands to gain from setting clearer priorities, and following them consistently.

- **EVEN WHEN THE POLITICAL WILL IS NOT LACKING, IT IS HARD TO CALL IMPLEMENTERS TO ACCOUNT.**



However, contrary to widespread perception, difficulties in policy implementation are not always a matter of a lack of political will. On the contrary, the problem is that the implementation of certain complex policies may not be possible unless it is accompanied by a concerted political effort – mobilization, campaigning, and even pressure. In other words, some measure of politicization in Serbia seems to be necessary for complex policy implementation to happen. This is a structural problem that needs to be understood and resolved if Serbia is ever to develop a rules-based, effective, institutional system. We see two reasons for this.

One reason is that it is often impossible to identify clear and feasible accountability for tasks/results. Although the government administration seems to follow a reasonable organizational structure, the regulatory framework and distribution of competences (and tasks)

among them does not match each organizational unit with clear competences. Many institutions, including both government levels, are involved in decision-making, even over non-strategic matters. Moreover, none of them quite have the authority, competence, and autonomy needed to take the initiative and full responsibility for the results. Therefore, none can be called to account. The roots of this problem probably lie in the past, when the country was presumably run by highly participatory self-management decision making, yet no formal political bodies were given the authority to actually make decisions and take final actions. These were made by the communist party in the background, through informal, parallel processes.

The second phenomenon is that regulatory practice is highly detailed, prescriptive, and formal. As such, it simply precludes the definition and pursuit of meaningful results. For example, the manager of an organizational unit is not given funding with which to staff his organization and produce results. Instead, the number and profiles of staff that can be hired and most other expenditure decisions he/she makes are prescribed in great detail with rules and formal criteria. Of course, some such constraints are present in every administration, but in Serbia they are extreme. This releases her or him from making judgments and decisions that could ensure the result is being accomplished.

- THE CAPACITY OF SPECIFIC INSTITUTIONS TO DELIVER SPECIFIC SDG TARGETS SHOULD BE MONITORED AS INTERMEDIATE TARGETS.



Ultimately, we are interested in identifying instruments/indicators that would help assess trends in the capacity of specific, relevant institutions to deliver results. These could be seen as important elements of the results framework developed to monitor and encourage progress towards the accomplishment of nationalized SDGs. For example, as seen in these pages, drawbacks in the delivery of education and health services can, among other things, be linked to the institutional inability to change. We might want to measure if there is appropriate organizational change, as an indicator of intermediate institutional capacity and progress towards accomplishing the SDGs in those areas. Or, we might want to support the predictability of the business environment, and hence the accomplishment of GDP growth and employment targets by measuring the consistency with which specific government programs are being implemented.

Such a process would complement the high-level institutional reform monitoring effort conducted every year by the EC, as well as mobilize stakeholders to understand better how their interests are linked with these reforms.



PILLAR IV – PROSPEROUS AND COHESIVE COMMUNITIES



Local communities are where all aspects of development are set in motion and interact, so most SDGs and targets affect them.

People live with each other and interact mostly in their local communities; this is where they create value, where they are inspired or affected by the environment, and where they should not leave their neighbors behind. Not only do many nationwide policies require involvement and participation at the local level, but quite a few are best left fully in the competence of communities, to conceive and implement.

- IN SERBIA LSG UNITS PERFORM A BROAD ARRAY OF TASKS, BUT THERE ARE FEW AREAS IN WHICH THEY TRULY EXERCISE SOVEREIGN POWER.

Fully in the competence of local self-governments (LSG) units are culture, recreation, preschool education, communal services, and local roads and housing—each in the realm of different SDGs. In order to perform their tasks, LSGs establish local public companies, such as utility companies for water supply and waste water, solid waste disposal, and district heating, as well as institutions and organizations in various areas (education, culture, sports, social policy, etc.). In many of the remaining areas—such as social protection, education, health and environmental protection—the republic (and autonomous provinces) can and does delegate responsibilities. To date, however, in these areas policies are largely made by the republic, which has kept the ultimate decision-making power and most of the funding. LSGs tend to be their implementers. This is a substantially more centralized set-up than is customary in Europe, particularly considering that Serbia has some of the largest LSGs units in Europe. LSGs have a relatively limited taxing and revenue collection authority (mostly based on taxing property) and depend on tax revenue-sharing and transfers from the republic for the bulk of their revenues.



- **OWN HOUSING PROVIDES ECONOMIC SECURITY, BUT COMMUNAL SERVICES, ESPECIALLY WASTE MANAGEMENT, NEED IMPROVEMENT.**



Widespread home ownership is a legacy shared with other post-communist countries. In Serbia, 80% of the population lives in family owned dwellings not burdened by mortgages. Another 2% owns and pays mortgages. For nearly one half of the remaining population—7% of households— however, housing expenses comprise more than 50% of their budget expenditures. With population numbers declining, this strength will be maintained.

It is a problem, also, that the affordability of communal services is attained at the expense of quality, and with a reduction in developmental potential. Local utility companies (LUCs) are managed under the heavy influence of politics. They often underprice their services and manage their operations with weak financial discipline, instead of securing explicit, possibly selective, subsidies paid to those that need them. The consequence is low service quality, underinvestment, wasted resources, and missed opportunities.

As regards local transport and access to water and sewage, the experience is similar to other post-communist countries, servicing a good number but falling short of some of the population's needs. **Eighty-four percent** of households are connected to water supply system, and 59% are connected to sewage systems. While access to sewage has been improving over recent years, increasing by 10% over 2012-16, ensuring clean drinking water continues to be a challenge in parts of Vojvodina with high levels of arsenic in underground waters, and elsewhere in municipalities where maintenance and investment have been inadequate. Affordable transport is an extremely important condition for the inclusion and employability of people living in less developed or remote areas of the country. In rural areas today there is still a significant share of the population that faces difficulties accessing public transport, even roads, and hence accessing schools, health-care and jobs.

In the area of waste management, however, Serbia does fall seriously short, both in comparison with other countries and its own potential. The coverage of municipal waste collection is at 80%, while 20% of waste does not end up in municipal landfills. In and of itself this proportion is not satisfactory, and most of these landfills do not satisfy EU regulations. There are only 10 operating sanitary landfills, and there are no composting centers or incinerator facilities. Moreover, there are an estimated 3000 wild dumpsites. The situation is even worse with wastewater treatment and disposal, with only 17% of wastewaters treated (only 35 of 50 water treatment plants are operational). The improvements in this area envisaged by the Waste Management Strategy are not being met, although they primarily require better community mobilization and local-national policy coordination, at costs that are affordable.



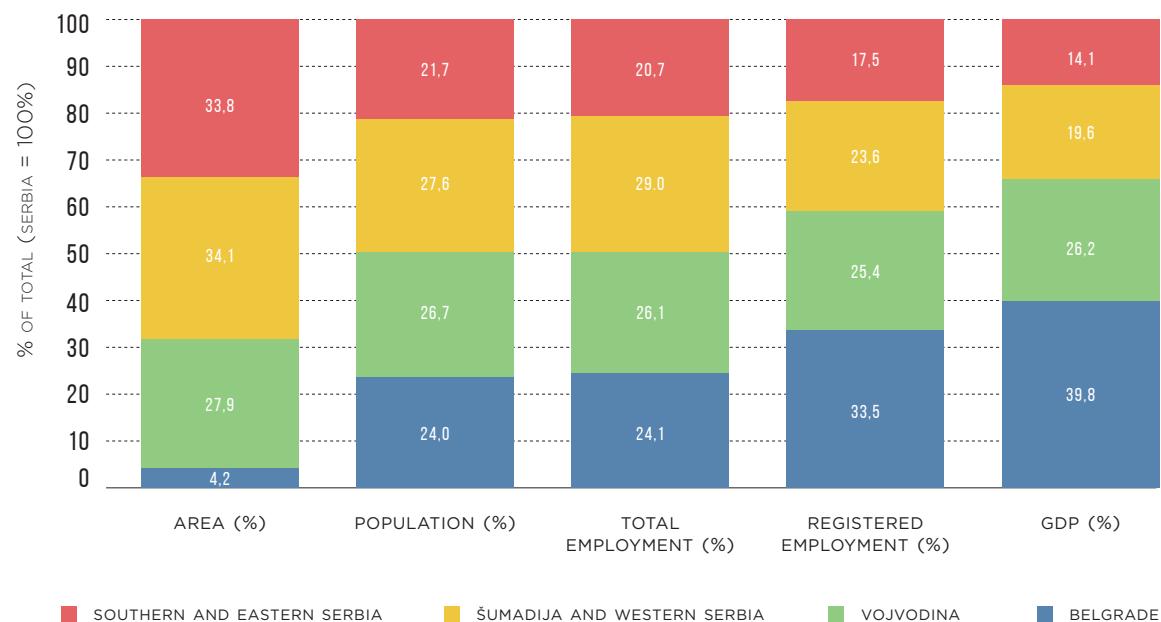
A particularly telling problem wholly in the realm of local governments is the extent and persistence of illegal construction over the last two decades. It is estimated that the share of all informal settlements is 5-25% (similar to neighboring countries). These informal settlements are classified either as large suburban residential areas, with family houses built on private or public land, or as slums, built on public land, mostly populated with vulnerable groups like Roma (the latter are less frequent). The absence of any planning in their development saddles them with long-term developmental problems, such as insufficient space allocated to the satisfaction of shared, public needs – such as streets and parks. They also usually suffer from a low level of communal services and infrastructure problems, particularly with the sewage and heating systems.

- **THE CENTRAL GOVERNMENT'S COMPETENCE IN MOST DEVELOPMENT ASPECTS HAS NOT REDUCED REGIONAL DIFFERENCES IN OUTCOMES.**

Regional development differences in Serbia are deep, and the transition has further exacerbated them. The global shifts in production over the 1990s and the transition in Serbia have particularly hit heavy industrial production and the towns that strongly depended on them. At the same time, the provision of services grew, similarly reflecting global trends, but also making up for the underdevelopment which occurred under the socialist economy. As in the post-communist countries, this has benefited Belgrade and Novi Sad far more than the rest of the country. The key macro indicator, GDP per capita, indicates that Belgrade, followed by Vojvodina, is much more developed than the rest of the Serbia, with GDP per capita 2.5 times higher than in the least developed region of Southern and Eastern Serbia. Although the region of Southern and Eastern Serbia contributes 22% of the total population, it generates only 14% of country's GDP. Poverty is primarily concentrated in non-urban areas, especially in Southern and Eastern Serbia. The poverty rate in this region was as high as 13%, twice the levels in Vojvodina, Western Serbia and Sumadija, and three times that of Belgrade. In addition, the population at risk of poverty (i.e., the share of the population living below 60% of the median income) was also highest in this region.



Figure 17: The 24% of Serbia's citizens that live in Belgrade produce 40% of Serbia's GDP.



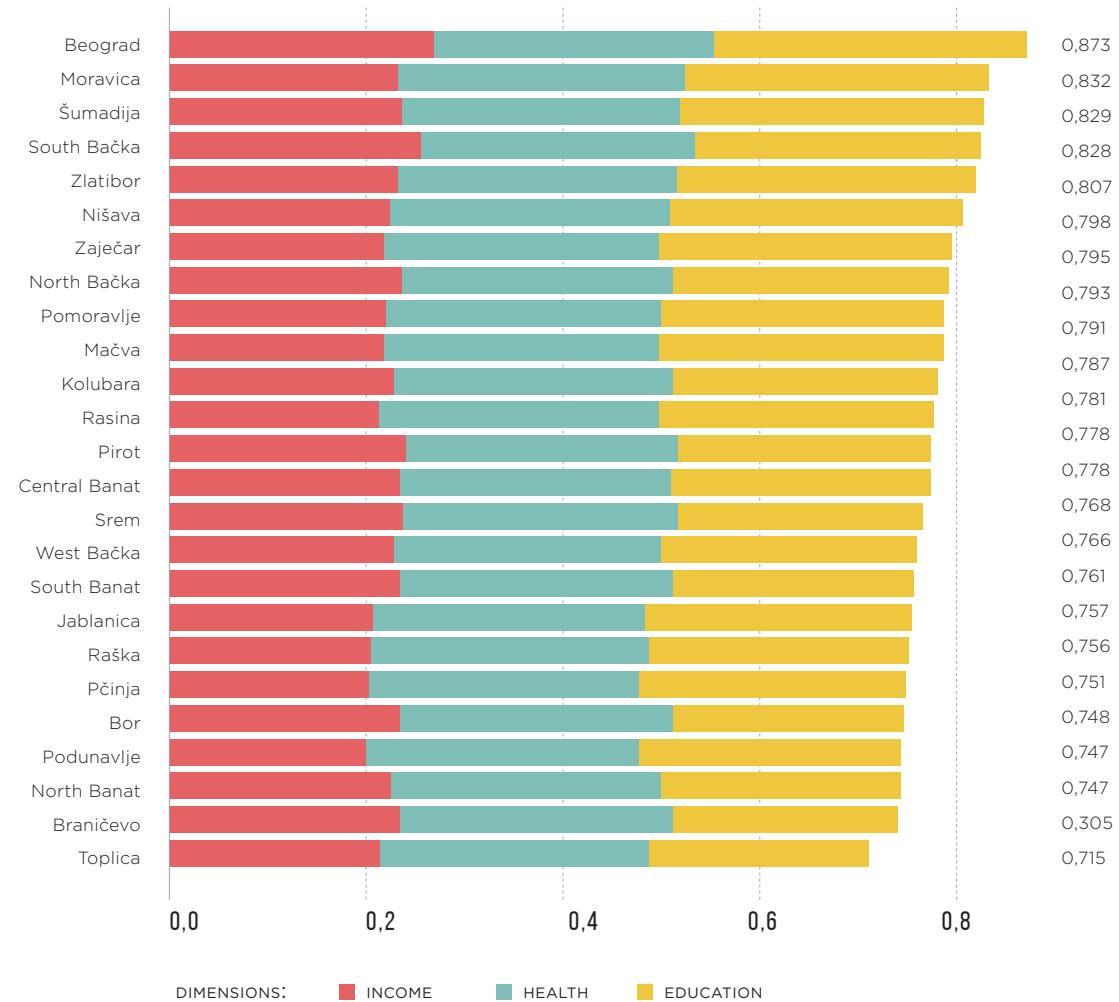
Source: SORS

The provision of central funding and public services contributes to reducing inequalities, but this is accomplished less by equalizing productive capacity and more through subsidized consumption. Substantial financial transfers are being made to incentivize investors, and fund employment in the public sector. However, development would be better served if more of these resources were invested in building productive capacity, such as knowledge and physical infrastructure.

Ultimately, differences in regional economic and social development in Serbia are sharp even if Belgrade is excluded from the analysis. While Vojvodina's GDP per capita is 1.5 times larger than that of the region of Southern and Eastern Serbia, the differences are even sharper within the regions themselves. Gross value added per capita in the most developed district in the region of Southern and Eastern Serbia (Pirotski) is more than 2 times larger than that of the least developed district in the same region (Podunavski). This is creating a "leopard skin" of economic development and disconnected economic environments.

If broader concept of development (similar to HDI) is used as a measure, level of development among districts is different than when measured only through GDP per capita - but differences between districts are still sharp and significant. For example, Pirotski district has GVA per capita higher than Moravicki, but in Pirotski, life expectancy at birth is about 2.5 years shorter and completion rate of secondary school is 12 percentage points lower than in Moravicki, resulting in Moravicki having a higher development index value than Pirotski. However, differences between socio-economic development of regions are still strong - level of development of Belgrade district is similar to the level of development of Hungary or Croatia, level of development of Moravicki district is similar to the level of development of Azerbaijan or Georgia, while level of development of Serbia's least developed district - -Toplicki, is similar to the level of development of Jamaica or Suriname.

Figure 18: Differences in the level of socio-economic development are even sharper within the regions themselves.



Source: CEVES' calculations on UNDP, SORS, and World Bank data



1. WEST BAČKA 0,77
2. NORTH BAČKA 0,79
3. NORTH BANAT 0,75
4. SOUTH BAČKA 0,83
5. CENTRAL BANAT 0,78
6. SREM 0,77
7. SOUTH BANAT 0,76



9. MAČVA 0,79
10. KOLUBARA 0,79
11. ZLATIBOR 0,82
12. MORAVICA 0,83
13. ŠUMADIJA 0,83
14. POMORAVLJE 0,79
15. RAŠKA 0,76
16. RASINA 0,78



17. PODUNAVLJE 0,75
18. BRANIČEVO 0,74
19. BOR 0,75
20. ZAJEČAR 0,80
21. NIŠAVA 0,81
22. TOPLICA 0,71
23. JABLANICA 0,76
24. PIROT 0,78
25. PČINJA 0,75

- HIGHEST LEVEL OF DEVELOPMENT AMONG SERBIA'S DISTRICTS
- MEDIUM / AVERAGE LEVEL OF DEVELOPMENT AMONG SERBIA'S DISTRICTS
- LOWEST LEVEL OF DEVELOPMENT AMONG SERBIA'S DISTRICTS

- **LOCAL COMMUNITIES LACK THE TOOLS AND AUTONOMY THEY NEED TO FULLY TAKE RESPONSIBILITY FOR SOLVING DEVELOPMENT PROBLEMS.**



The wide regional/local disparities in human development and economic conditions require different and locally adapted policy responses. **However, the key challenge in local development, especially in large cities, is for its citizens themselves to confront complex local problems and tackle them together, as communities.** The many urban, environmental, safety and societal problems that characterize human settlements are very specific to each locality and require local action. Yet, only with such action can the great sustainability challenges facing humanity, both social and environmental, be overcome. Stemming global warming and conserving natural resources require radical changes in the way we conduct everyday life—from reducing and recycling waste, to reshaping urban transportation systems. Ensuring that these changes do not bypass the vulnerable is also a particular challenge, most often requiring localized solutions. Just as central planning proved to be incapable of distributing goods where they were needed, so it is the local communities, not central governments, that know who needs help, and what kind. Solving such challenges together is what makes a community, and it adds up to much more than the sum of the development aspects mentioned above.

Most of Serbia's LSG units struggle with the challenges of local sustainable development because they lack the necessary autonomy and tools to resolve them. It does not help that the territorial distribution of power fogs accountabilities, along the lines described in Chapter III. Serbia's LSG level does not lack in the number of development aspects in which it is involved. The problem is that for the most part it is the implementer of national policies, rather than the creator of its own policies. Furthermore, the national government often tasks the local level with incomplete, or underfunded tasks. It also prescribes in minute detail how tasks, even those fully in the local competence, are to be carried out. It is true that some LSG units lack the necessary capacity to deal with their development needs, but this is less important than is usually believed. Finally, shared solutions require social trust and citizen participation, and these are much lacking in Serbia, as in the post-communist countries.

To illustrate, local governments run secondary schools, through locally elected boards, but centrally appointed directors. These schools' curricula should adjust to local economic development needs and visions, but to change their profiles, local governments not only have to follow some central government guidelines, but also lobby until the central profile allocations have been changed. The budgets of all providers of social services, schools included, are completely compartmentalized, with the central government funding teachers' salaries, local governments funding school infrastructure, and very little regular funding dedicated to school program development by either. For some reason, national regulations do not permit the LSGs to provide transportation for high-school students, and the LSG units that do it are in fact defying the law.

It does not help that the institutional framework for regional/local development management needs much improvement. Regional and sub-regional development policies are much needed but few are in place. The policy framework in this regard lacks a number of elements: (a) The weak framework for policy coordination and planning at the national level affects, of course, the local level as well; (b) the gap is particularly acute at the intermediate level (i.e., right below the national level), in cases where several LSG units need to coordinate their efforts, and when development projects (such as those involving watersheds or transport) affect larger territories; (c) dedicated institutional capacities are weak and periodically weakened by political turnarounds; (d) there is no regional development strategy or plan at the national level, which would serve as the basis for the alignment of specific regional strategies and ensure a coordinated approach in financing territorial cohesion and the reduction of regional disparities.

- **STAKEHOLDER ENGAGEMENT IN FOSTERING LOCAL SDGs COULD MAKE AN IMPORTANT CONTRIBUTION TO LOCAL DEVELOPMENT!**

SDGs provide a framework that can be very useful in disentangling the constraints that weaken local initiative and accountability. Serbia's tradition involves strong local competences and initiative. However, the muddled system of accountabilities is, as mentioned above, also a deep legacy. Together with conflicting incentives and constraints, it all too easily orients the energies of local communities towards extracting central authority favor and support, rather than relying on their own resources. This turns development efforts into a zero-sum game for redistributing the pie, rather than expanding it. Inclusion into the global effort to meet SDGs could help spread awareness of what can be accomplished, and of the many ways these goals can and are being accomplished throughout the world.



LIST OF FIGURES

FIGURE 1:

SDG dimensions are grouped in four pillars — according to Serbia's socio-economic development potential and issues.

FIGURE 2:

Serbia is one of the lowest ranked European countries in terms of the level of human development, as measured by the HDI.

FIGURE 3:

Serbia's GDP per capita (4,905 euros) is among the lowest in Europe, and it stands nearly 40% below that of Bulgaria, the lowest among EU member states.

FIGURE 4:

The key problem is an exceptionally low total employment level, and especially of the decent kind.

FIGURE 5:

Full employment in decent jobs requires an increase of almost 75% (1.45 million) in the current number of formal jobs – to employ the unemployed, the discouraged, and those working informally.

FIGURE 6:

Only exports of the new economy grew throughout the period, reaching 93% of total exports in 2015 and indicating that the transformation of the economy is in its final stage.

FIGURE 7:

Educational coverage is similar to EU levels, while the educational level is rising

FIGURE 8:

Education outcomes are still weak – with low expenditure likely playing an important role.

FIGURE 9:

There is a marked disproportion between Serbia's total level of spending (% of GDP) on health, by the government and out-of-pocket, and the level of its citizens' life expectancy.

FIGURE 10:

Every fourth person in Serbia is below the relative poverty line (i.e., earns less than 60% of median income) – one of the highest shares in Europe.

FIGURE 11:

Assuming that current demographic trends continue, Serbia's population is likely to shrink by almost 600.000 (8%) citizens by 2030.

FIGURE 12:

The contribution of the agri-food sector to GDP and total employment in Serbia is exceptionally high.

FIGURE 13:

Serbia is among the top 10 European net exporters of agricultural and food products.

FIGURE 14a:

Export growth of mid- and mid-to-high level technology industry has been dynamic since the crisis.

FIGURE 14b:

Domestic enterprises – specially small and medium ones, significantly contributed to export growth of majority of manufacturing sectors.

FIGURE 15:

The export of services – especially computer programming – is growing fast.

FIGURE 16:

Serbia has the lowest electricity price and the second highest energy intensity among comparable countries.

FIGURE 17:

The 24% of Serbia's citizens that live in Belgrade produce 40% of Serbia's GDP.

FIGURE 18:

Differences in the level of socio-economic development are even sharper within the regions themselves.

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