Serbia Gap Analysis
Europe and Eurasia Bureau, USAID
Strategic Planning and Analysis Division
September 2012

Highlights

Overview. Serbia's development progress is equal to or greater than the average progress in the Balkans in all five Monitoring Country Progress (MCP) dimensions. Serbia is the most advanced in *human capital* followed by *democratic reforms*. It lags the most in *economic reforms* and in *macroeconomic performance*. *Peace and security* in Serbia is E&E average.

Economic Reforms. *Macroeconomic reforms* did not readily begin until Slobodan Milosevic was ousted as Serbia's leader in 2000. After an initial economic reform surge in 2001-2002, Serbia's macroeconomic reform progress has been on par with the pace of progress in the Balkan region; i.e., largely favorable and steadily gaining on progress in the E&E graduate countries. Serbia lags behind the Balkan average in *microeconomic reforms* and, at least in relative terms, has made no progress in the past several years.

Democratic Reforms. Democratic reforms are further along in Serbia than in all other Balkan countries. Similar to the pattern in economic reforms, Serbia experienced a surge in democratic reforms in 1999-2000 after years of reform stagnation. However, unlike macroeconomic reforms where steady progress has been maintained, Serbia has achieved virtually no measurable progress in democratic reforms overall since the mid-2000s. Such stagnation has been common throughout Central and Eastern Europe.

Macroeconomic Performance. Economic growth in Serbia and in the Balkans in the several years leading up to the 2008-2009 global economic crisis was equal to or greater than the global average. However, Serbia and most of its Balkan neighbors were disproportionately affected by the global economic contraction in 2009. Since then, economic recovery has been modest in Serbia, less than 2% annually on average from 2010-2012, and well below global standards. Serbia's economic recovery from the global economic crisis has contributed to a sharp increase in the current account deficit, and inflationary pressures persist as do high fiscal deficits and external debt. The unemployment rate in Serbia could be as high as 25%. Of the six Balkan countries, only in Serbia has the unemployment rate increased from 2000-2012. The most recent measures of economic inequality in Serbia suggest that economic disparities are low by global standards.

Human Capital. Human capital in Serbia compares favorably to the Balkans average as well as to the E&E graduate country average. The health dimension stands out as the most advanced area of Serbia's human capital. UNICEF data show gross enrollment rates in basic education and upper secondary education in Serbia to be greater than the Balkan average but less than the E&E graduates.

Peace and Security. Serbia ranks fourteen out of twenty-nine E&E countries in the MCP peace and security index. Serbia's profile is similar to that in the Balkans overall; most advanced in security sector reform while lagging the most in combatting weapons of mass destruction and counter-narcotics.

Serbia Gap Analysis

Europe and Eurasia Bureau, USAID
Strategic Planning and Analysis Division
September 2012

Introduction and Method. This gap analysis of Serbia utilizes the dataset and methodology developed by the Europe & Eurasia (E&E) Bureau's Strategic Planning and Analysis Division in developing the Monitoring Country Progress (MCP) system. The core of the MCP system consists of five indices: economic reforms, democratic reforms, macroeconomic performance, human capital, and peace and security. Public, well-established data sources are used, and the metrics are standardized to a 1 to 5 scale, in which a 5 represents the most advanced standards worldwide.

Primary data sources include previous E&E Bureau publications, *Economic and Democratic Reforms in Eastern Europe & Eurasia: Current Trends and Projections* (June 2012) and *Monitoring Country Progress in Eastern Europe & Eurasia*, No. 13 (October 2011); the EBRD, *Transition Report* (November 2011); Freedom House, *Nations in Transit* (June 2012); the IMF, *World Economic Outlook* (April 2012); UNICEF, *TransMONEE Database* (2012); the World Health Organization, *World Health Statistics* (2011); and the World Bank, *Poverty Update for the Republic of Serbia: Trends 2007-2009* (June 2011), *Doing Business* (2012), *World Development Indicators* (2012), and *Golden Growth: Restoring the Lustre of European Economic Model* (2012).

The twenty-nine E&E countries are categorized into four country groups in the analysis below. (1) The E&E graduates include the eleven countries which have graduated from USG foreign assistance: Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic, Romania, Bulgaria, and Croatia; (2) the six Balkan countries include Albania, Bosnia-Herzegovina, Macedonia, Serbia, Kosovo, and Montenegro; (3) the seven E&E Eurasian countries include Armenia, Azerbaijan, Belarus, Georgia, Moldova, Russia, and Ukraine; and (4) the five Central Asian Republics (CARs) are Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan.

Further elaboration and explanation of the MCP methodology may be found in *MCP #13 Appendix 1* (available at the E&E Bureau website).

Overview (Figures 1-3). *Figure 1* provides an overview of Serbia's development profile along the five dimensions tracked in the MCP system and compared to the averages of the eleven E&E graduates and the six Balkan countries. Serbia lags behind the E&E graduate countries in all five dimensions, most notably in economic reforms. However, its progress is equal to or greater than the average progress in the Balkans in all five dimensions. By this standard, Serbia is the most advanced in human capital followed by democratic reforms. Its progress is only Balkan average in both economic dimensions; i.e., in economic reforms and in macroeconomic performance.

Figures 2 and *3* show the dimensions of the five MCP indices in the MCP spider charts format. The blue volume represents Serbia's progress which is contrasted with the progress of the eleven E&E graduate countries, depicted by the red outline. These charts underscore Serbia's relatively advanced human

capital, particularly with regard to health indicators. They also underscore key lagging areas in the economic sector, most notably in second-stage economic reforms (which include competition policy, enterprise restructuring or governance, financial sector reforms, and infrastructure reforms). In first-stage economic reforms, Serbia falls behind considerably in large-scale privatization. In macroeconomic performance, Serbia's labor market is significantly underperforming (with a very high unemployment rate) and the export sector is struggling to compete. Energy security and macroeconomic stability also are considerably below global average (although no more so than progress in these areas in the E&E graduate countries). Counter-narcotics is the lagging peace and security dimension in Serbia, and security sector reform is the leading dimension. Anti-corruption and rule of law lag the most in Serbia's democratic reforms; civil society is the most advanced democratization dimension.

Economic Reforms (Figures 4-10). This section examines trends in macroeconomic and microeconomic reforms. Macroeconomic reform measures are drawn from the EBRD, and consist of the nine components shown in *Figure 2*. As shown in *Figures 4-6*, Serbia had a late start in advancing macroeconomic reforms. For the most part, reform progress did not begin until Slobodan Milosevic was ousted as Serbia's leader in 2000, which in turn followed the conclusion of war with Kosovo. After an initial economic reform surge in 2001-2002, Serbia's macroeconomic reform progress has been on par with the pace of progress in the Balkan region; i.e., largely favorable and steadily gaining on progress in the E&E graduate countries. Serbia's macroeconomic reform profile differs some by Balkans standards (*Figure 6*); i.e., Serbia's first-stage reforms (of liberalization and privatization) lag behind the Balkan average while its second-stage reforms surpass the Balkan average. Progress in first- and second-stage macroeconomic reforms is more balanced in the case of Serbia.

Trends in microeconomic reforms are drawn from the World Bank's *Doing Business* or business environment dataset (*Figures 7-10*). These reforms focus on ten areas of business regulation including starting a business, expanding a business (e.g., getting credit and enforcing contracts), business operations (e.g., paying taxes and getting electricity), and closing a business (or resolving insolvency). Serbia lags behind the Balkan average in terms of these reforms and, at least in relative terms, has made no progress in the past several years; i.e., Serbia's business environment global percentile rank has remained around 50% since 2007, down from 60% in 2006 (*Figure 7*). Among the Balkan countries, only Kosovo and Bosnia-Herzegovina have poorer business climates than Serbia (*Figure 8*). Macedonia, Montenegro, and Albania have all made significant gains in these reforms in recent years, in contrast to Serbia's stagnation.

Figure 9 illustrates Serbia's ranking in the world in business environment, 92nd out of 183 countries. Countries outside of E&E with roughly comparable business environments by this measure include Italy (87th), Uruguay (90th), China (91st), Belize (93rd), Morocco (94th), Yemen (99th), and Greece (100th). *Figure 10* tallies the most problematic business constraints in the Balkans drawing on the World Bank dataset. The three most significant constraints (out of ten) for each country were tallied. "Dealing with construction permits" was in the top three constraints in all six Balkan countries. Serbia ranked 175th out of 183 countries worldwide in this constraint. "Paying taxes" was the next most problematic in Serbia (with a rank of 143rd) followed by "resolving insolvency" (113th rank).

Democratic Reforms (Figures 11-18). *Figure 11* shows the results of a democracy and governance index created by the MCP team in order to compare democratization in E&E with the rest of the world.[1] The index includes three indicators from Freedom House (independent media, political rights, and civil liberties) and two from the World Bank's *Governance Matters* (rule of law and control of corruption). By this measure, democracy and governance in Serbia is slightly more advanced than the global average (of 153 countries). Alongside Montenegro, democracy and governance in Serbia is more advanced than all other Balkan countries as well as the E&E Eurasian countries and CARs, although it is behind all of the eleven E&E graduate countries (although only slightly compared to Romania).

Figures 12-15 draw primarily on Freedom House's E&E region-specific dataset from its annual *Nations in Transit* report. By these measures, democratic reforms are further along in Serbia than in all other Balkan countries, although they are notably behind the E&E graduates. Similar to the pattern in macroeconomic reforms, Serbia experienced a surge in democratic reforms in 1999-2000 after years of reform stagnation. However, unlike Serbia's macroeconomic reforms, where steady progress has been maintained, Serbia has achieved virtually no measurable progress in democratic reforms since the mid-2000s. As shown in *Figures 12* and *13*, democratic reform stagnation since the early to mid-2000s has been a common characteristic throughout Central and Eastern Europe.

Figure 15 provides a more detailed look at the trends in democratic reforms over time in Serbia. Since 2003, four democratization areas have advanced in Serbia: civil society, governance (combining local and national governance), anti-corruption reforms, and, very moderately, electoral process reforms. Two areas have regressed in this time period; most notably free media, and to a lesser extent, rule of law.

Partly to compare and "triangulate," and partly to take the analyses further through disaggregation, *Figures 16-18* provide democratization measures from sources other than Freedom House. According to IREX's *Media Sustainability Index*, Serbia's media lags the most in "business management" and "professional journalism" (*Figure 16*). According to USAID's *Civil Society Organizations Sustainability Index*, Serbia's civil society lags the most in "financial viability" followed by "public image" (*Figure 17*). The economic or business dimension of each democracy sector emerges as a relatively substantial gap.

It is worth noting a possible contradiction in findings between sources: Freedom House shows overall greater progress in the development of independent media and civil society in Serbia than the Balkan average (*Figure 14*), while the *Media Sustainability Index* and the *Civil Society Organizations Sustainability Index* show Serbia below Balkan average in these sub-sector dimensions (*Figures 16* and *17*). One explanation could be that the indicators are measuring somewhat different aspects of media and civil society. Another explanation, true in any event, is that democratization remains a very difficult development dimension to measure.

According to Freedom House, anti-corruption efforts are one of the lagging democratization aspects in Serbia, although they are somewhat more advanced than Balkan average (*Figure 14*). *Figure 18* shows

[1] Initially developed in J. Swedberg and R. Sprout, *Democracy and Governance in Eurasia: A Global Comparison*, E&E/USAID Working Paper #9 (September 2008).

the 2010 results of Transparency International's *Corruption Perceptions Index*. Corruption in Serbia is perceived to be less problematic than perceived corruption in most E&E countries in the Balkans and in Eurasia, although it is still more problematic by E&E graduate country standards and by OECD standards. Serbia's most recent (2011) score is 3.3, which is much closer to the poorest score globally (Somalia and North Korea score 1.0) than it is to the most advanced score globally (which is New Zealand at 9.5). Four other countries had the same corruption perceptions score as did Serbia in 2011: Sri Lanka, Jamaica, Panama, and Bulgaria.

Economic and Democratic Reforms and Phase-out Thresholds (Figures 19 and 20). *Figure 19* provides the most recent snapshot of progress in economic and democratic reforms in the twenty-nine E&E countries compared to reform phase-out thresholds (of the average reform progress in Romania, Bulgaria, and Croatia in 2006). A comparison of countries against these reform thresholds is the initial stage of an analysis and review of when to phase out USG foreign assistance in a given country according to AEECA phase-out guidance from EUR/ACE.[2] Of the E&E countries with bilateral USG foreign assistance programs, Serbia is the most advanced in democratic reforms and comes closest to the democratic reform threshold. However, in contrast, Serbia has much farther to go in achieving the economic reforms threshold and trails Macedonia, Albania, Georgia, Armenia, and Russia.

Figure 20 shows the average of Serbia's economic and democratic scores over time and compares this score with a combined economic and democratic reform phase-out threshold. Economic and democratic reform progress in Serbia is projected into the future by extrapolating the average annual trends from 2007-2011. The projection shows Serbia's reform progress closing the gap vis-à-vis the overall phase-out threshold, although not within the next five years. These projections are done annually in June when reform data for the previous year become available. Last year (June 2011), projections worsened in one-half of the countries (nine out of the eighteen countries in which USG foreign assistance bilateral programs are maintained) from the previous year, and improved in five countries. This year, the projections deteriorated in more countries (eleven, including Serbia) and improved in fewer countries (only two).[3]

Economic Structure and Macroeconomic Performance (Figures 21-33). The structural transition in the E&E economies from public sector driven economies to private sector economies has been substantial since the collapse of communism. At the outset, from 1989-1991, according to EBRD estimates, private sector share of GDP ranged from 5-15% throughout the E&E economies. Today, private sector share of GDP is more than 80% in the E&E graduates and on par with OECD standards, close to 70% in the Balkans, 65% in E&E Eurasia, and a little more than 50% in the CARs. *Figure 21* highlights the trajectory of the E&E graduate countries in terms of this indicator over time as well as the handful of lagging economies in this indicator among the Balkans and E&E Eurasia. Serbia and Bosnia-Herzegovina are the Balkan poorest performers, both with still 40% of their economies in the public sector. This aligns with both countries trailing in progress in privatization (*Figure 2* for Serbia).

[2] Office of the Coordinator of U.S. Assistance to Europe and Eurasia, *Guidance for Revised AEECA Phase-Out Framework* (December 2010).

[3] Strategic Planning and Analysis Division, E&E/USAID, *Economic and Democratic Reforms in Eastern Europe & Eurasia: Current Trends and Projections* (June 2012).

Figures 22 and *23* highlight Serbia's financial sector relative to CEE countries and to Western Europe. A broad measure of the size and structural change of the financial sector is the amount of domestic credit as a percent of GDP (*Figure 22*). Domestic credit relative to GDP has grown significantly in Serbia since 2002, similar in trajectory to that of the E&E graduate countries as well as the Balkans. By this measure, the financial sector in Serbia is slightly larger than the Balkan average, though significantly smaller than E&E graduate average; domestic credit as percent of GDP is close to 50% in Serbia vs. 80% in the E&E graduate countries. Moreover, the E&E graduate country average falls far short of the OECD average. According to the World Bank, the High Income countries of the world have an average domestic credit as a percent of GDP of slightly more than 200%.

A more comprehensive look of the financial sector in Serbia is provided by the *Financial Sector Benchmarking System*, developed by Deloitte Consulting in consultation with the Economic Growth Office of the E&E Bureau and as part of the USAID Partners for Financial Stability (PFS) Project. As shown in *Figure 23*, there are six components to this financial sector tool. Each of the six components has multiple indicators ranging in number from four to ten, with thirty-nine indicators total.[4]

Figure 23 shows the financial sector profile of Serbia's economy relative to two benchmarks: the development of the financial sector in the Southern Tier CEE countries (i.e., the six Balkan countries plus Romania, Bulgaria, and Croatia) and that of the seventeen country Eurozone average. As with other Southern Tier CEE countries, Serbia lags considerably and the most in the sophistication of financial services. This is followed by access to financial services; here Serbia lags notably behind both Eurozone and Southern Tier CEE averages.

Perhaps of greatest concern related to Serbia's financial sector, given the ongoing economic fragility in the EU, is the stability of Serbia's financial sector and related, macroeconomic stability in Serbia's economy. In terms of macroeconomic stability, as noted in the PFS' *Regional Comparison and Financial Sector Overviews for 12 Countries in Southeast Europe and Eurasia* (February 2012), the economic recovery in Serbia from the global economic crisis of 2008-2009 has contributed to a sharp increase in the current account deficit; inflationary pressures persist as do high fiscal deficits and external debt. *Figure 24* highlights these key aspects of Serbia's macroeconomic challenges and also underscores that many countries in CEE and Western Europe (as well as the U.S.) share these challenges.

According to the PFS February 2012 report, the "Serbian financial sector is largely stable, relatively well-capitalized and provisioned. However, high levels of both foreign exchange lending and non-performing loans combined with continuing financial turmoil in the Eurozone mean continued worries for Serbian authorities…Serbia's ten largest banks include three from Greece, two from Italy, two from Austria, and one from France…Influence of the Euro is significant at fifty two percent of all bank loans and seventy percent of all bank deposits."[5]

[4] For elaboration of the methodology of the *Financial Sector Benchmarking System*, see USAID Partners for Financial Stability Project, *Methodology: Financial Sector Benchmarking System* (November 2011).
[5] Deloitte Consulting, *Regional Comparison and Financial Sector Overview for 12 Countries in Southeast Europe and Eurasia*, USAID and Partners for Financial Stability (February 2012), p. 61.

As is the case throughout the Balkans, Serbia's export sector remains small, although it has grown from 25% of GDP in 2000 to 35% of GDP in 2010 (*Figure 25*). Low labor productivity in Serbia likely contributes to its economy's challenge to competing globally (*Figure 26*). Labor productivity (gross value added divided by employment in industry and services) in Serbia is average for the Balkans. However, the Balkan average is dwarfed by labor productivity in the EU15 countries. *Figure 26* shows that productivity in Serbia and in the Balkans is growing and at a somewhat faster pace than in the EU15. However, convergence in labor productivity between CEE economies and Western Europe is far off in the future at best. In the context of considerable differences in the levels of competitiveness within the EU itself, and considerable challenges toward attaining productivity convergences within the EU, it is hard to imagine realistic prospects of EU membership expanding much in the coming years.

Figure 27 combines two elements of energy security: energy dependency (net energy imports as a percent of energy use); and energy efficiency (GDP per unit of energy use). The greater the output per energy input, the greater is the energy efficiency. Quadrant II of *Figure 27* shows countries which are the most energy insecure on these two dimensions; i.e., countries where output per energy use is below the global average (of 6.9 GDP in $ per unit of energy use) and where energy imports are needed to supplement domestic energy production to satisfy domestic energy use. Serbia, as with many E&E countries as well as the United States, is located in this energy insecure quadrant. Energy efficiency in Serbia is well below global average, and among the lowest, alongside Bosnia-Herzegovina, Estonia, and Bulgaria in the CEE countries. Roughly 30% of Serbia's energy usage needs to be imported. By these two dimensions, Serbia's energy security profile is comparable to that of Tajikistan's.

Economic growth in Serbia as well as more broadly in the Balkans in the several years leading up to the 2008-2009 global economic crisis was equal to or greater than the global average (*Figure 28*). However, Serbia and most of its Balkan neighbors were disproportionately affected by the global economic contraction in 2009. Since then, economic recovery has been modest, particularly in Serbia, well below global patterns of recovery.

The longer-term economic activity picture in the Balkans is no more promising than the trends in the past several years. *Figure 29* illustrates the trends over time in the size of the Balkan economies relative to 1989 GDP. There are significant caveats that should accompany the interpretation of these calculations, and in that vein, a case can be made that economic contraction in the early transition years has been overestimated while economic expansion in subsequent years has been underestimated. In that context, *Figure 29* suggests that all of the Balkan countries experienced a substantial transition depression in the 1990s (although most notably Bosnia-Herzegovina). Subsequently, Albania has proven to be the Balkan economic growth outlier, with strong and sustained economic growth over the longer term (extracting from the 1997 pyramid schemes crisis). According to these data, Albania's economy restored its pre-transition GDP size by 1999. In striking contrast, the economies of Serbia, Bosnia-Herzegovina and Montenegro have yet to attain their 1989 GDP (and Macedonia's economy has done so only very recently).

Lackluster economic growth may certainly have something to do with the very high unemployment rates in the Balkans (*Figure 30*). The unemployment rate in Serbia could be as high as twenty-five percent;

unemployment rate estimates are higher still in Kosovo, Macedonia, and Bosnia-Herzegovina. What separates Serbia's unemployment rate from those in the neighboring countries is the trend over time. Of the six Balkan countries, only in Serbia has the unemployment rate increased from 2000-2012. With the exception of Macedonia, the unemployment rates in the other countries show a clear downward trend over time; in the case of Kosovo, Bosnia-Herzegovina, and Montenegro, it is a substantial decline.

Consistent with these very high unemployment rates in the Balkans are the substantial remittances received in-country from workers abroad; workers who have presumably found better economic opportunities outside of their country (*Figure 31*). World Bank estimates that remittances into Serbia constitute around 10% of GDP. This is high by global standards. Within the E&E region, Albania receives a comparable magnitude or remittances as a proportion of GDP as does Serbia. Countries outside of E&E within this magnitude include Senegal, Haiti, Philippines, Nicaragua, Togo, Guatemala, the Gambia, Cape Verde, and Bangladesh; i.e., countries which are much less developed and much poorer than Serbia. Per capita income in Serbia (in purchasing power parity) is close to $12,000; five of these peer countries in terms of remittances (Senegal, Haiti, the Gambia, Bangladesh, and Togo) have per capita incomes from US$1,000 to $2,000.

The most recent measures of economic inequality in Serbia suggest that economic disparities are low by global standards. The favorable "4.9" scoring of income inequality in Serbia in *Figure 3* stems from a World Bank 2009 estimate of the ratio of income of the top quintile population in Serbia to the bottom quintile. According to this estimate, the top population quintile in Serbia received 4.1 times more income than the bottom population quintile. This ratio is lowest in the Balkans (discounting Kosovo where such data are not available) compared to 9.3 in Macedonia, 6.4 in Bosnia-Herzegovina, 5.3 in Albania, and 4.6 in Montenegro.

Figure 32 shows another measure of economic inequality in Serbia, inequality in per capita expenditures as measured by the gini coefficient, by sub-region and rural vs. urban.[6] This is complemented by the distribution of poverty rates in Serbia in *Figure 33*. Both figures draw from the World Bank's June 2011 *Poverty Update for the Republic of Serbia* report. These data show that poverty and inequality are more prevalent in rural Serbia than in urban areas. However, according to this study, the overall national Serbian poverty rate and income inequality as measured by the gini coefficient are relatively low. Serbia's national poverty rate in 2009 was 6.9%, down from 8.3% in 2007. Even the gini coefficient in rural Serbia, close to 27, is low by global standards. To compare: it is 35 in Albania, 43 in Macedonia, 40 in Russia, in the 50s in a number of Sub-Saharan African countries, and highest worldwide in South Africa at 63.1.

Human Capital (Figures 34-46). *Figure 34* shows the MCP human capital index scores for the twenty-nine E&E countries. Nine of the eleven E&E graduates are well out front in this dimension, followed by Montenegro and Serbia, 10th and 11th, respectively. As shown in *Figure 3* and *Figure 35*, this is an index which includes measures of health, education, and average income. Human capital in Serbia compares

[6] The gini coefficient ranges from 0 to 100; the higher the number, the greater is the inequality.

favorably to the Balkans average (*Figure 35*) as well as to the E&E graduate country average (*Figure 3*). The health dimension stands out as the most advanced area of Serbia's human capital. Serbia's under-five mortality rate is lowest in the Balkans, comparable to the E&E graduate country average (7 deaths per 1,000 children), and continues to decline (*Figure 36*). Adult mortality in Serbia is low compared to the E&E average although is nevertheless the highest in the Balkans (*Figure 37*). Life expectancy continues to increase in Serbia as it does elsewhere in the Balkans (Montenegro's trend is more ambiguous) (*Figure 38*). Life expectancy in Serbia is 74 years, roughly Balkan average, and close to the life span in Montenegro and Macedonia. Tuberculosis incidence has steadily dropped in Serbia since the transition began; among the lowest of all the E&E countries (*Figure 39*). The adult HIV Incidence rate in Serbia is also very low (*Figure 40*).

Figure 41 shows results of an effort to measure environmental health across the countries of the world. It is an index of three parts (and five indicators): (1) environmental burden of disease (measured by the disability- adjusted life expectancy); (2) air pollution's effects on humans (indoor air pollution or the percentage of the population using solid fuels, and outdoor air pollution or urban particulates); and (3) water pollution's effects on humans (access to water and to sanitation). This environmental health index represent 50% of the *Environmental Performance Index*, which is produce by Yale University's Center for Environmental Law and Policy and Columbia University's Center for International Earth Science Information Network. By this measure, Serbia ranks 36 out of 163 countries in environmental health. Of the twenty-seven E&E countries for which data exist, Serbia ranks 4th, only behind the Czech Republic, Slovakia, and Slovenia. Generally, the more developed the country, and/or the higher its per capita income, the more favorable is its environmental health. The OECD countries rank among the best in environment health, with Iceland, Canada, and Sweden on top. All of the worst performers are found in Sub-Saharan Africa.

A primary source for education enrollment trends in E&E has been UNICEF's Transmonee dataset, an E&E region-specific dataset on human capital trends. However, in the past two years, UNICEF significantly changed the methodology and revised results of some of its education statistics for the region. Some data, previously available, are now unavailable. Education data from different sources, in particular from UNICEF, UNESCO, and the World Bank, do not always align closely.

With these considerable caveats in mind, UNICEF data show gross enrollment rates in basic education and upper secondary education in Serbia to be greater than the Balkan average but less than the E&E graduates (*Figure 42*); decreasing some in basic enrollments rates (although still high at 97%), while increasing modestly in upper secondary rates (to approximately 85%). According to a World Bank study, almost 20% of Serbia's population in the age range of 30-34 years has attained a tertiary education (*Figure 43*). This is an attainment rate comparable to that of the E&E graduate countries, although well below EU15 countries (with a rate of 31%).

Serbia's high school students have scored reasonably well on the OECD's standardized assessment, the *Program for International Student Assessment* (PISA). The PISA assessment measures students' abilities to apply math, science, and reading to practical "real world" (market economy) problems; i.e., the ability to function in a market economy. The most recent results (in 2009) show Serbian students trailing

behind their counterparts in the OECD countries on average and in most E&E graduate countries, although they were more advanced than Bulgarian and Romanian students, and comparable to the performance of students in Chile (*Figure 44*). The improvement in Serbia's PISA scores from 2006 to 2009 was substantial, among the greatest gains within E&E countries (*Figure 45*).

To what extent is the high and rising unemployment rate in Serbia due to the skills and education of the workforce? *Figure 46* provides data which suggest that labor force skills and education are at least part of the problem in Serbia and more broadly a growing problem throughout E&E. Close to 40% of the Serbian businesses surveyed by the World Bank and EBRD believed that the skills and education of the workforce was a significant business constraint in 2008, almost twice the proportion as compared to 2005.

Peace and Security (Figures 47-48). *Figure 47* compares peace and security in Serbia to that of other E&E countries as well as to a handful of countries outside of the region. *Figure 48* and the peace and security web chart in *Figure 3* provide a picture of the sectors of peace and security in Serbia compared to the Balkans (*Figure 48*) and the E&E graduate countries (*Figure 3*).

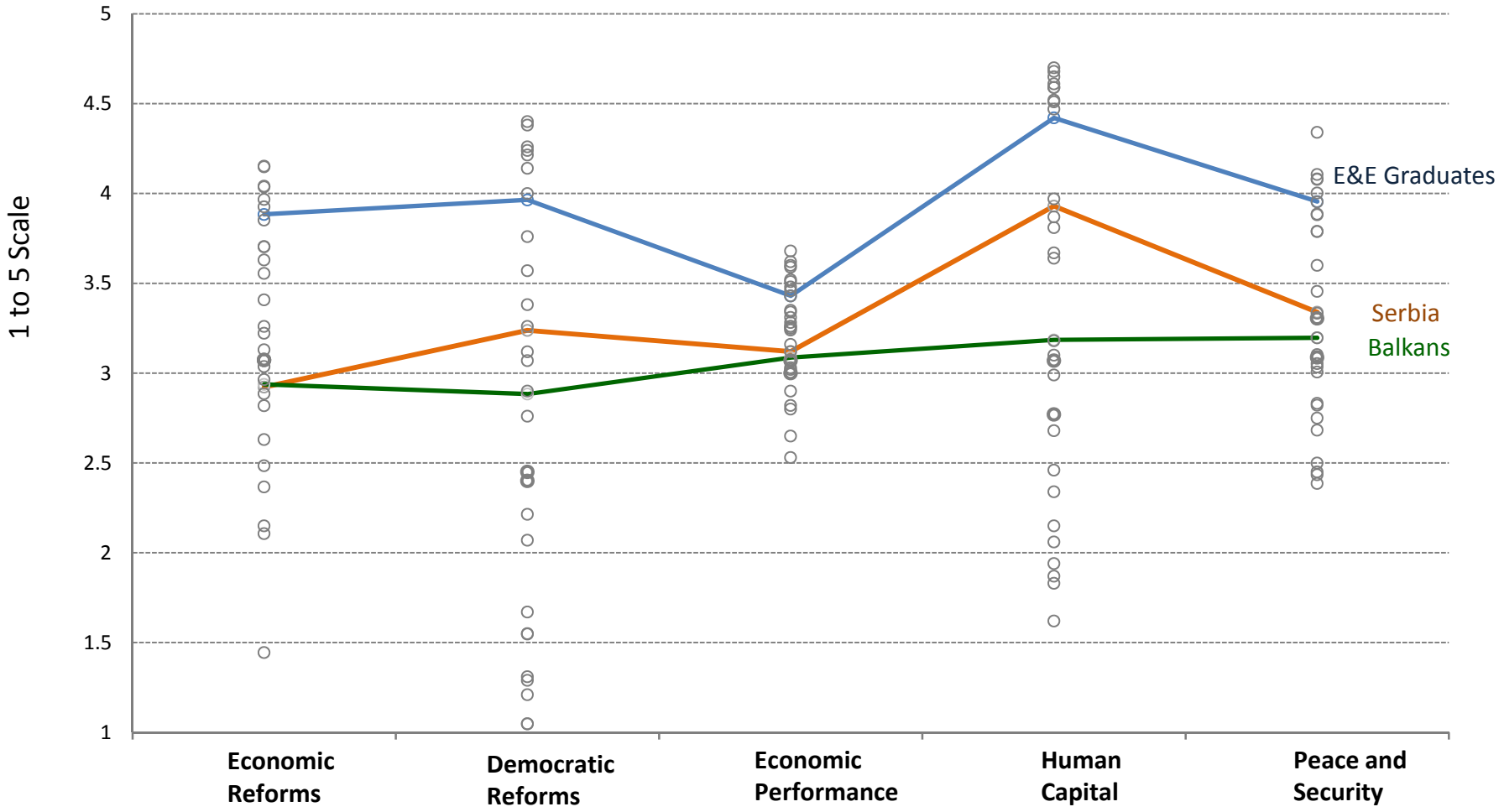
By these measures, peace and security in Serbia is average for the E&E region. Serbia ranks fourteen out of twenty-nine E&E countries in the index, behind the eleven E&E graduate countries as well as Ukraine and Montenegro (*Figure 47*). Serbia's peace and security profile is similar to that in the Balkans overall (*Figure 48*); most advanced in security sector reform while lagging the most in combatting weapons of mass destruction and counter-narcotics.

Serbia Gap Analysis

USAID
E&E Bureau
Strategic Planning and Analysis Division
August 2012

Figure 1

Serbia's Development Profile vs. Countries of Central and Eastern Europe

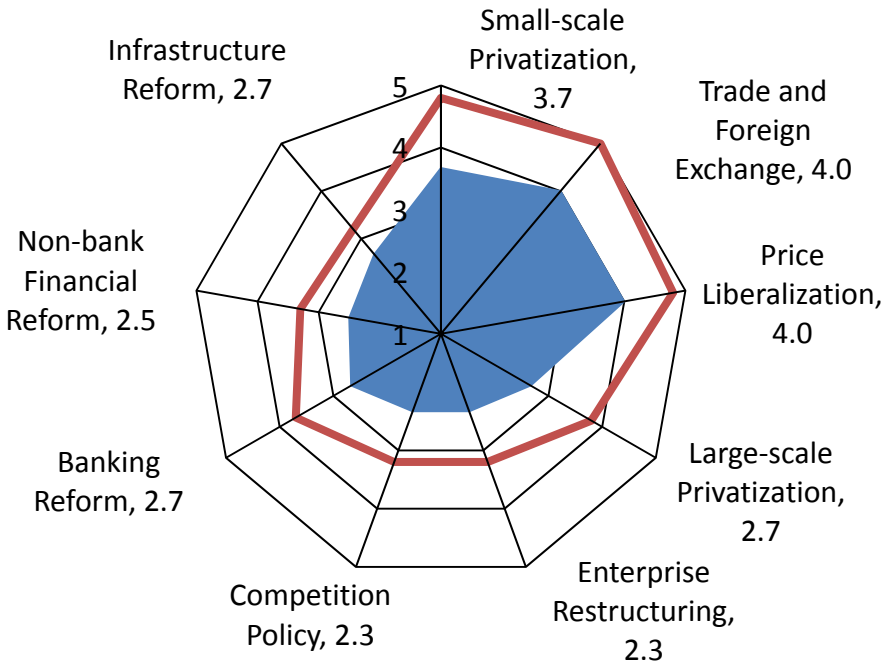


USAID, *Monitoring Country Progress (MCP)* system. E&E Graduates (n=11): Bulgaria; Croatia; Czech Republic; Estonia; Hungary; Latvia; Lithuania; Poland; Romania; Slovakia; and Slovenia. Balkans (n=6): Albania; Bosnia-Herzegovina; Kosovo; Macedonia; Montenegro; and Serbia.

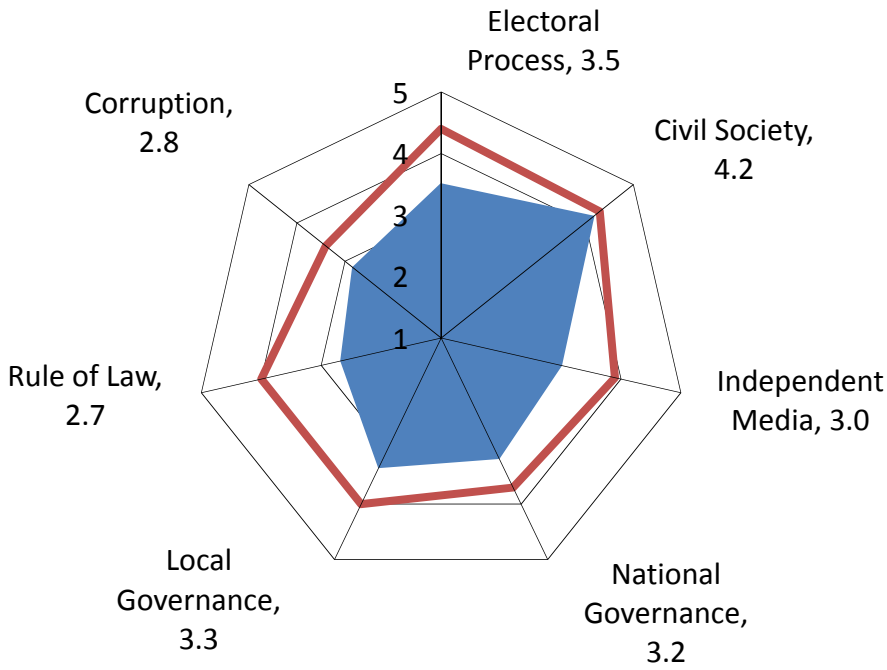
Figure 2

Serbia Profile

Economic Reforms, 2011



Democratic Reforms, 2011



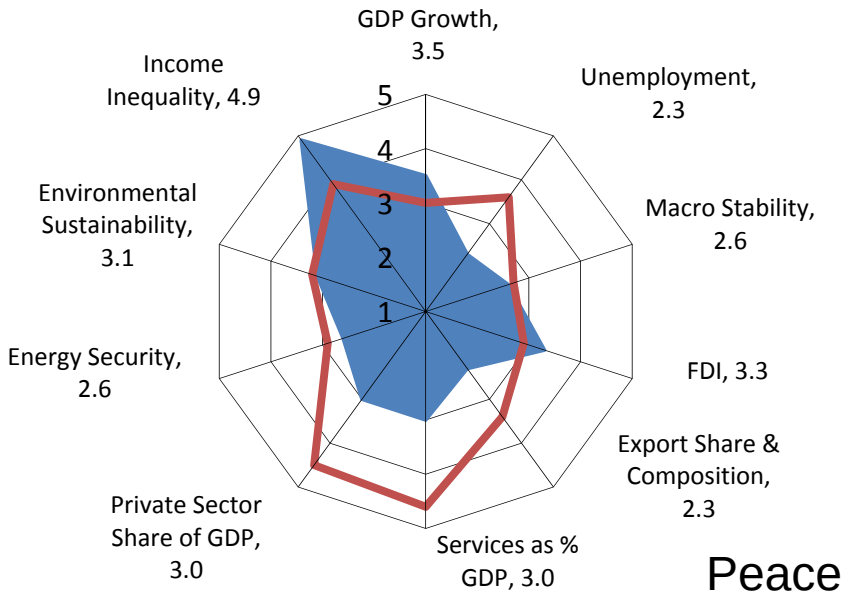
USAID Country Graduates

Country graduates = Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

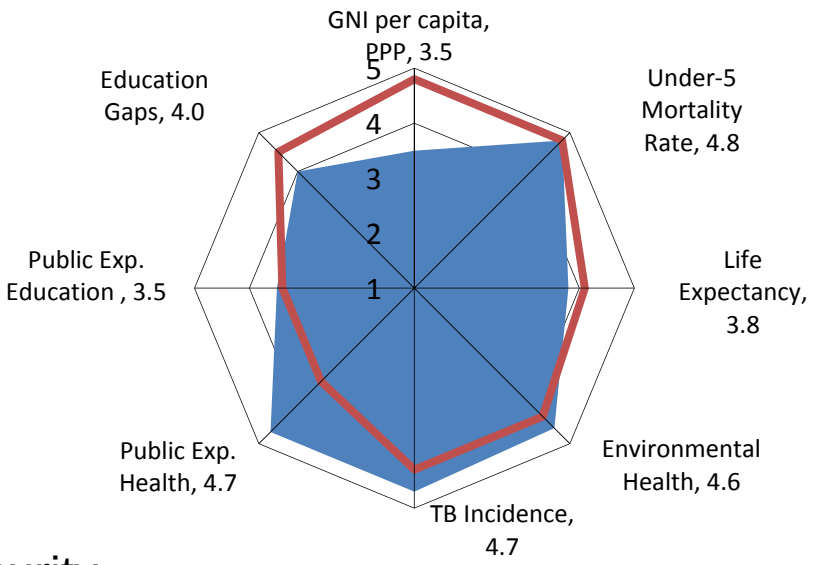
Figure 3

Serbia Profile

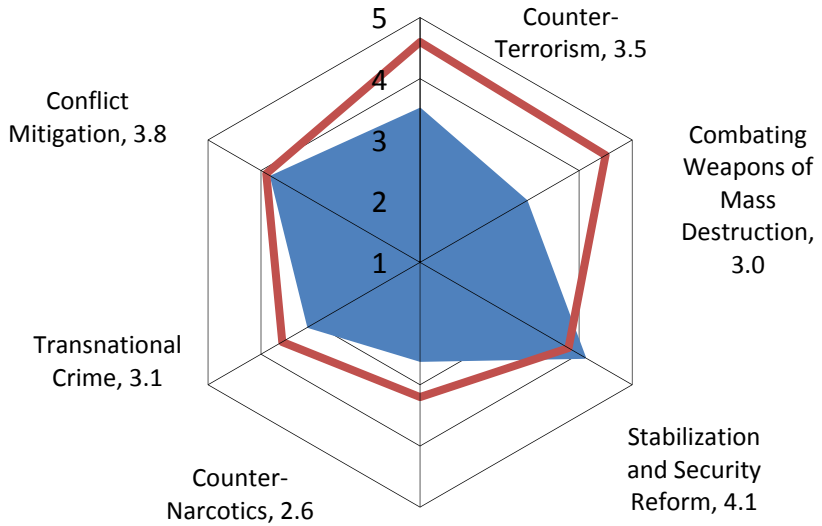
Economic Performance, 2008-2010



Human Capital, 2008-2010



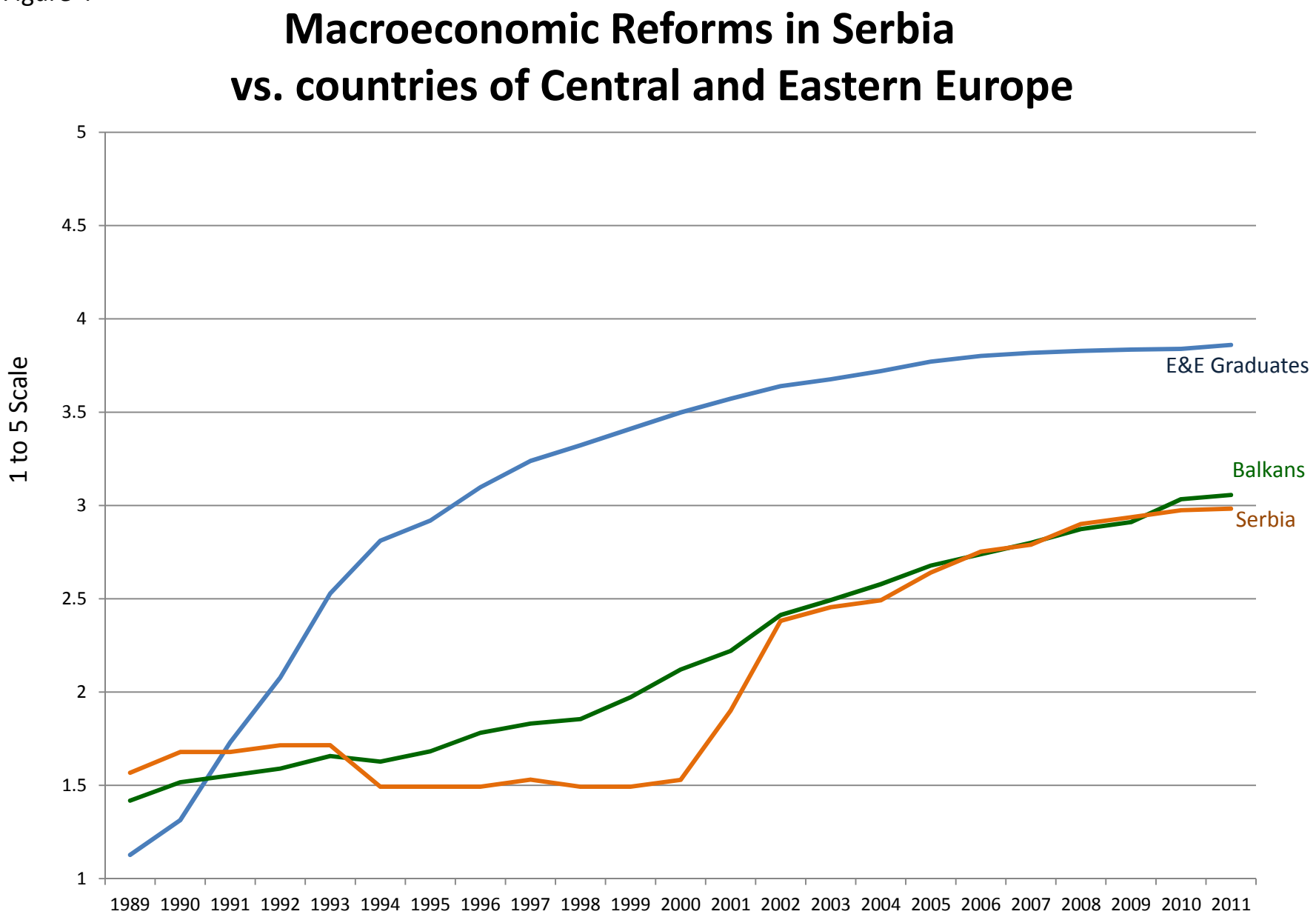
Peace & Security, 2011



USAID Country Graduates

Country graduates = Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

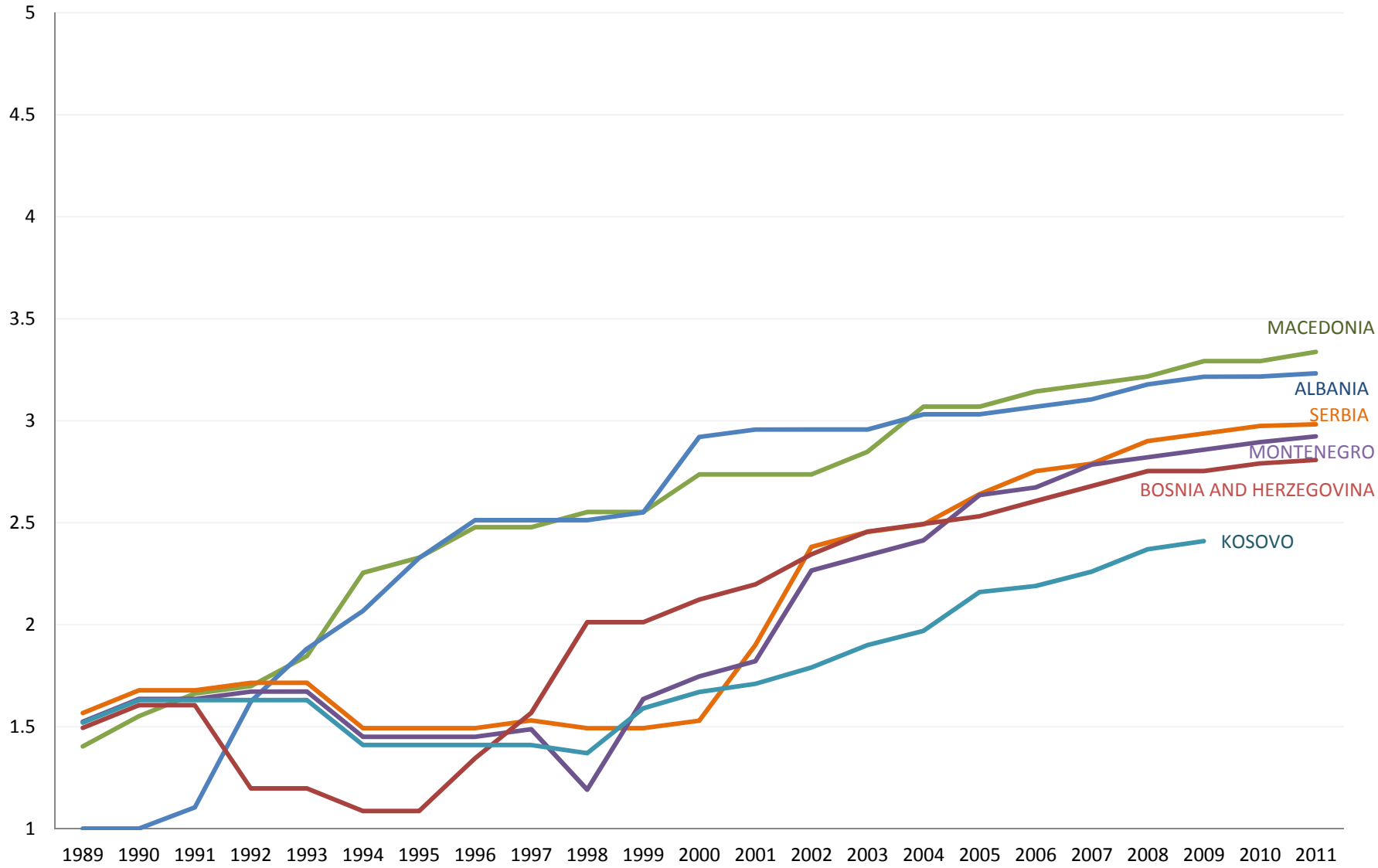
Figure 4



Drawn from the EBRD, *Transition Reports*. Scores are based on 1 to 5 scale, with 5 representing the most advanced.

Figure 5

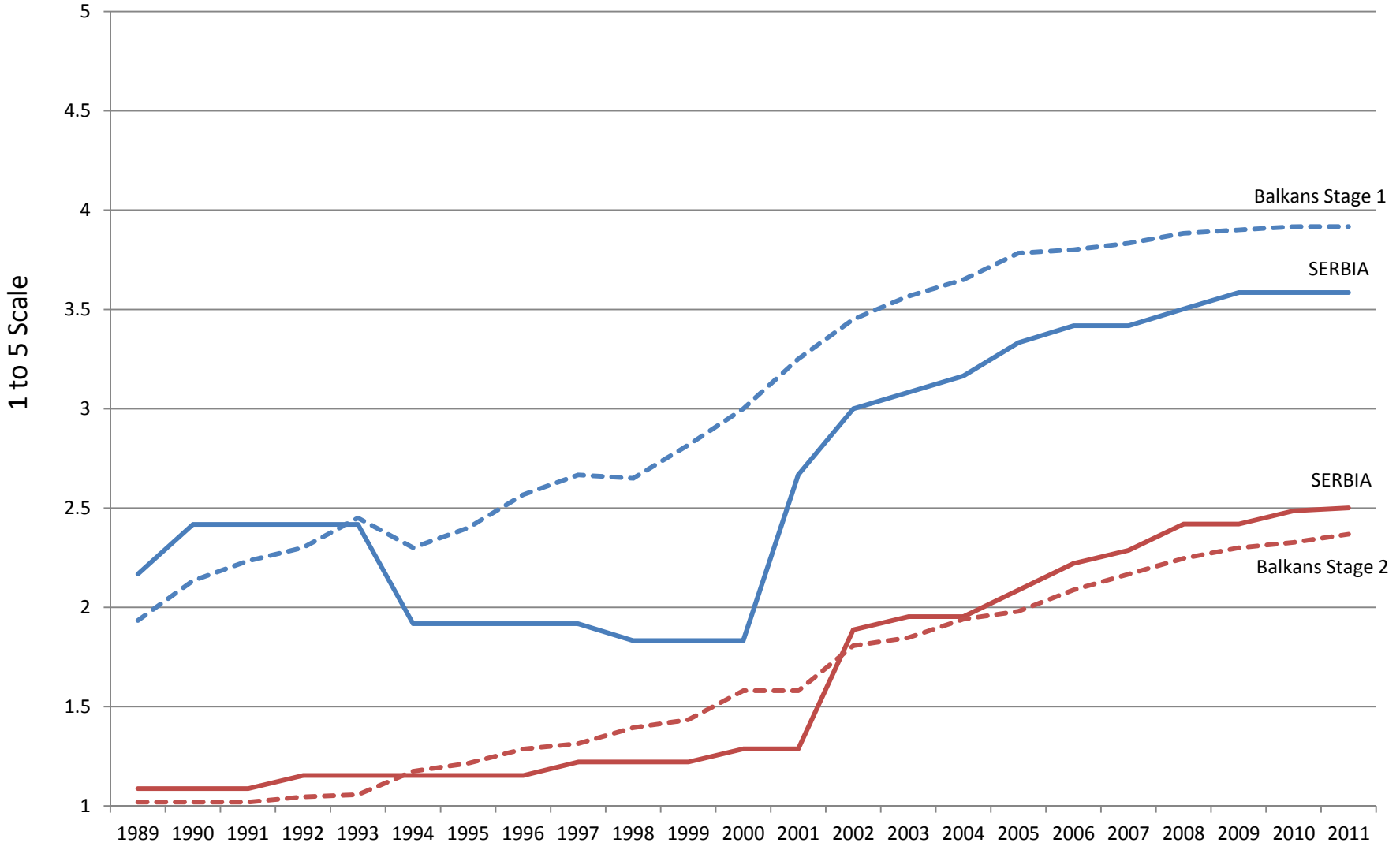
Macroeconomic Reforms in The Balkans



Drawn from the EBRD *Transition Report* (2011 and earlier editions).

Figure 6

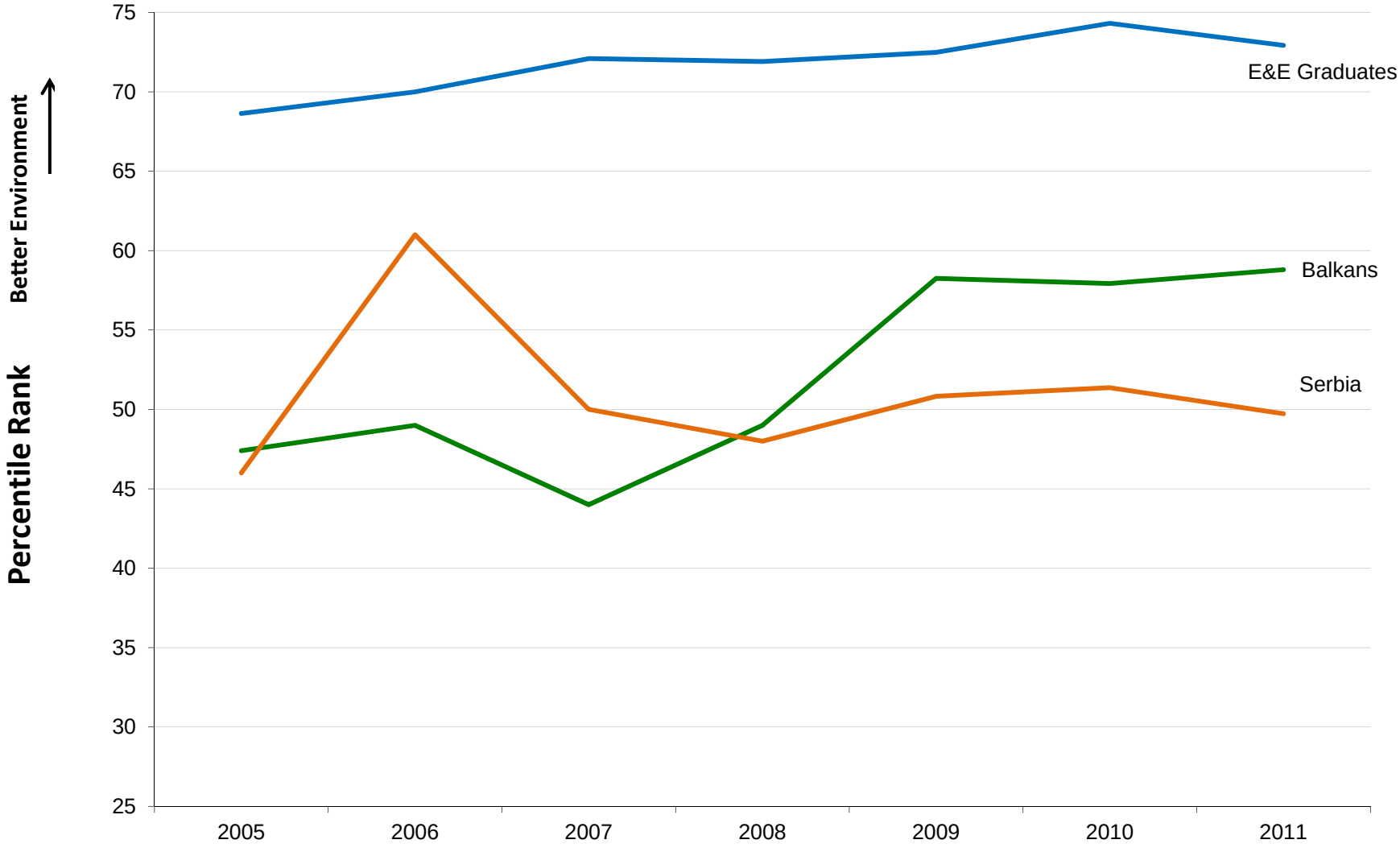
Macroeconomic Reforms in Serbia vs. the Balkans: Stage 1 and Stage 2



Data are drawn from the EBRD, *Transition Report* . Stage 1 Reforms: Small Scale Privatization, Trade and Foreign Exchange, Price Liberalization, Large Scale Privatization. Stage 2 Reforms: Enterprise Reform, Competition Policy, Banking Reform, Non-Bank Financial Reform, and Infrastructure. Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

Figure 7

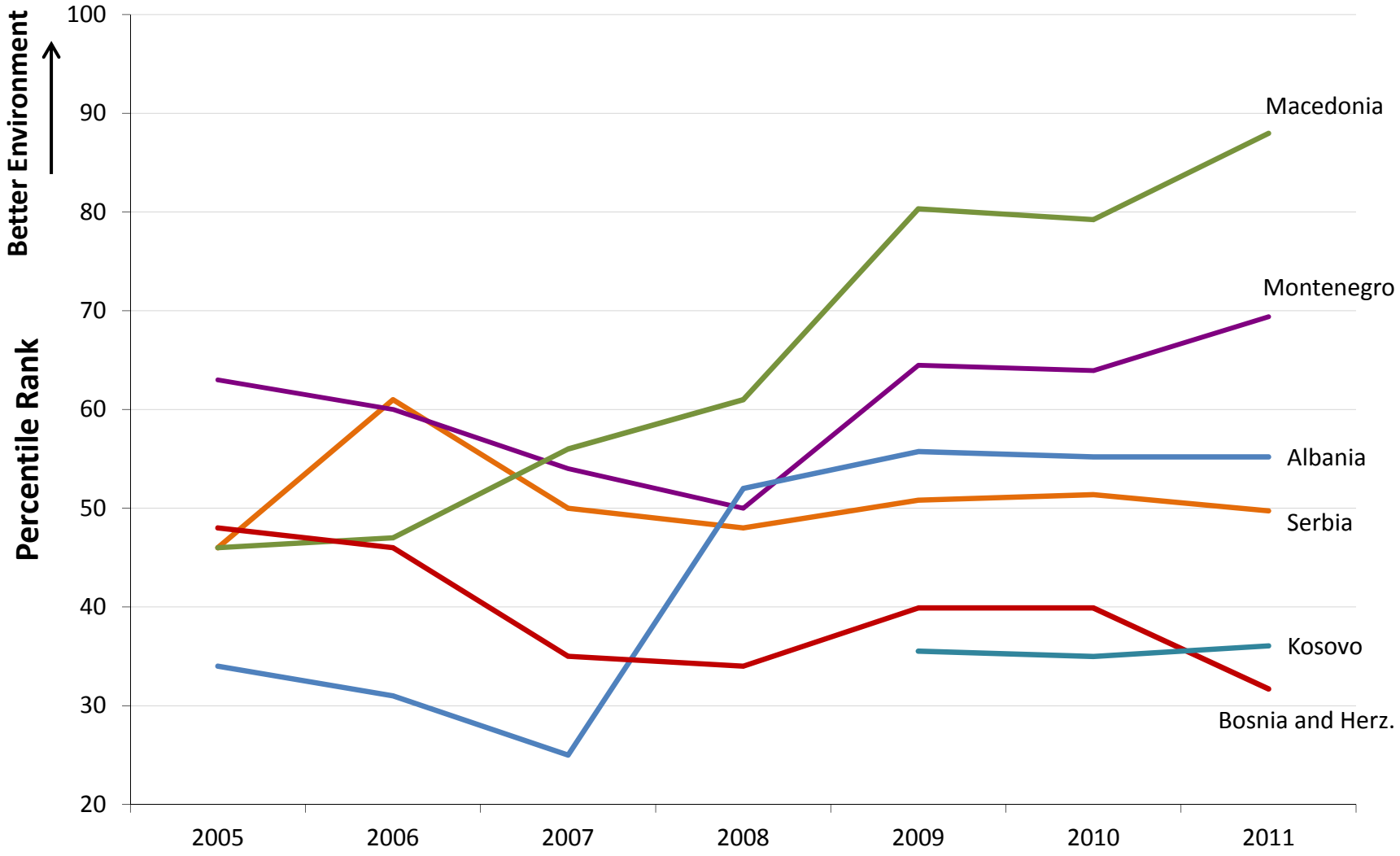
Microeconomic reforms (the Business Environment) in Serbia and the CEE countries



World Bank, *Doing Business* 2012 (October 2011). These reforms focus on 10 areas of business regulation including starting a business, expanding a business (e.g., getting credit and enforcing contracts), business operations (e.g. paying taxes and getting electricity), and closing a business (or resolving insolvency).

Figure 8

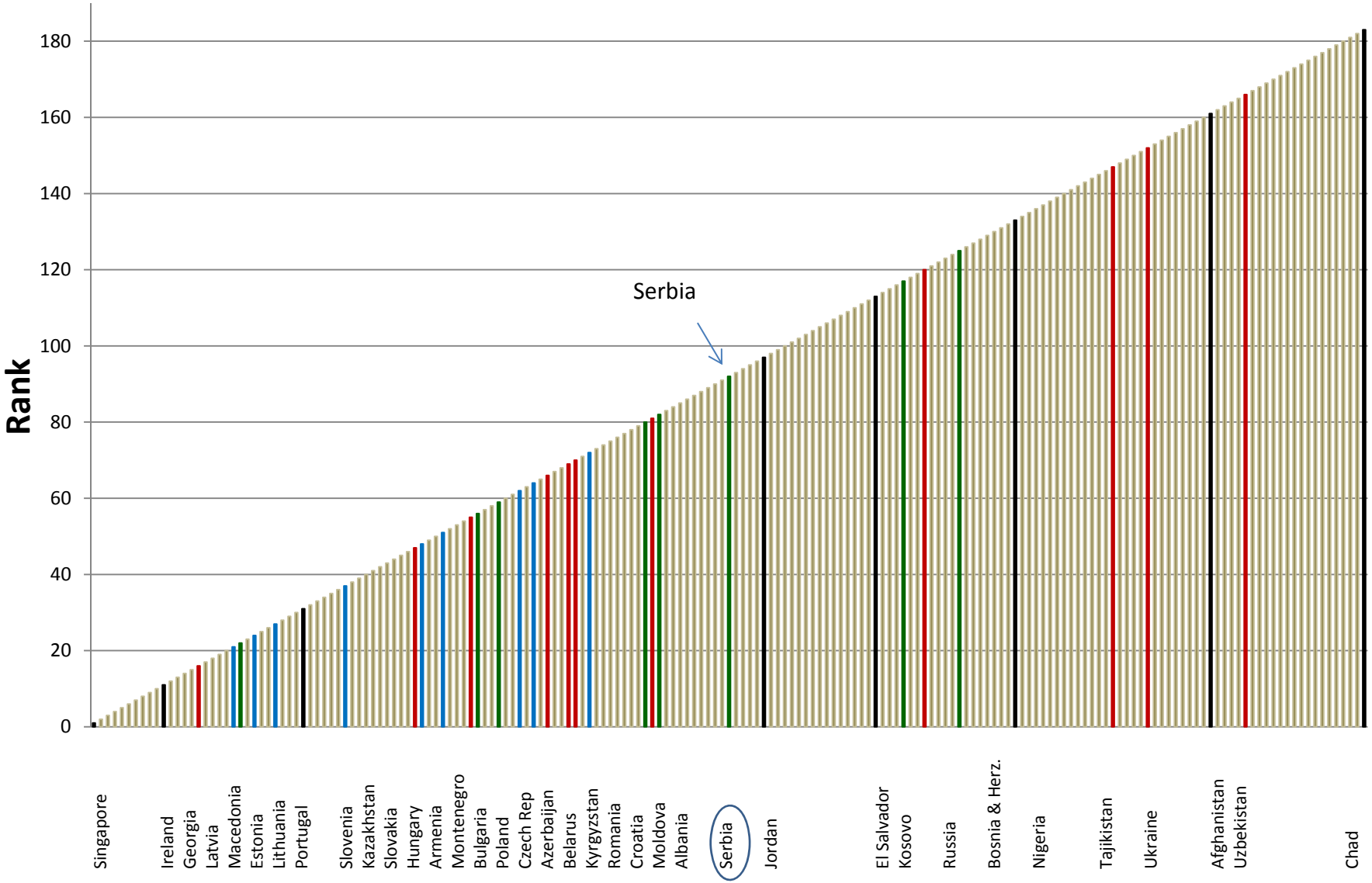
The Business Environment in the Balkans



World Bank, *Doing Business 2012* (October 2011). These reforms focus on 10 areas of business regulation including starting a business, expanding a business (e.g., getting credit and enforcing contracts), business operations (e.g. paying taxes and getting electricity), and closing a business (or resolving insolvency).

Figure 9

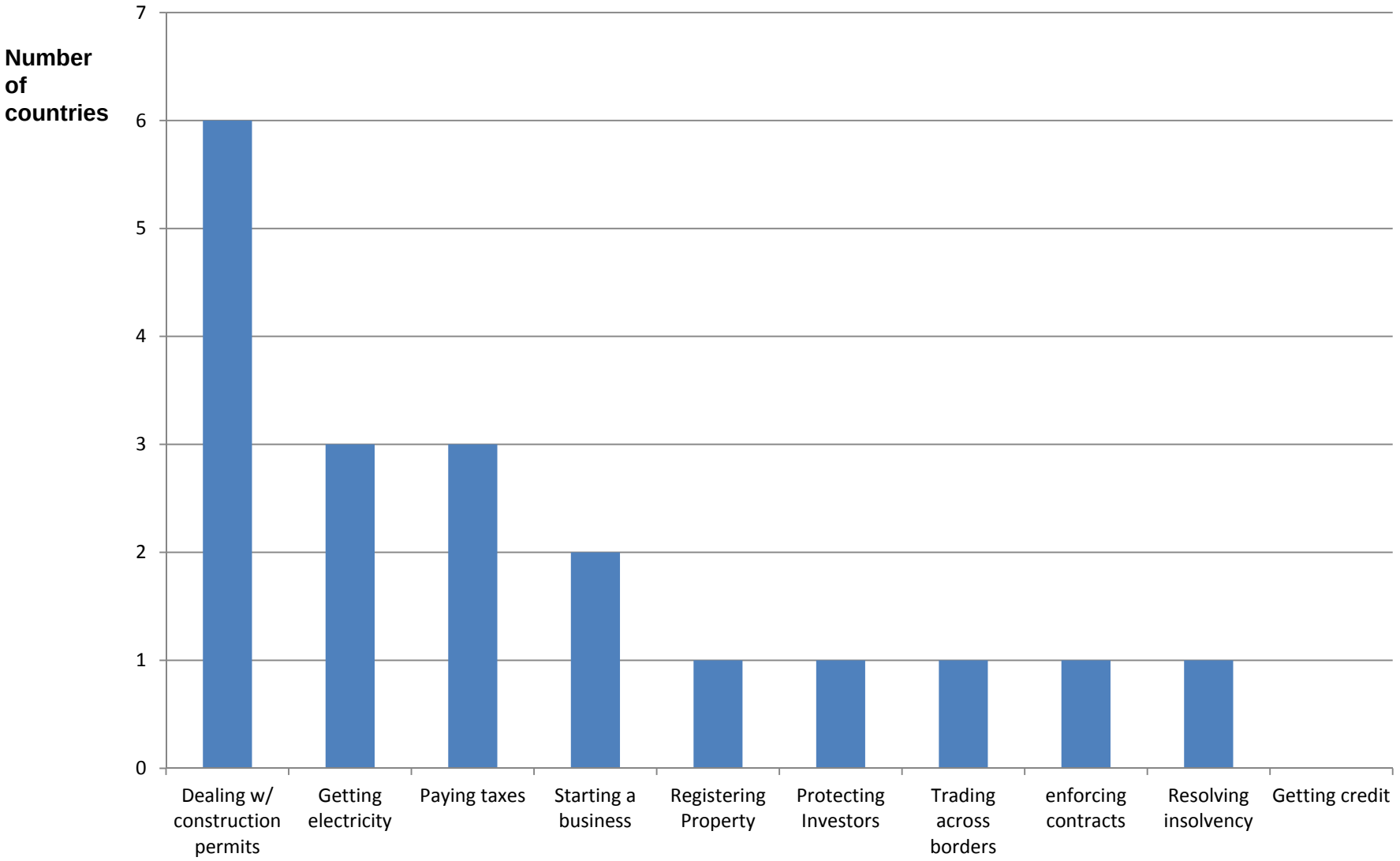
Serbia in the World: The Business Environment in 2011



World Bank, *Doing Business* 2012 (October 2011). 183 countries are included in the analysis. These reforms focus on 10 areas of business regulation including starting a business, expanding a business (e.g., getting credit and enforcing contracts), business operations (e.g. paying taxes and getting electricity), and closing a business (or resolving insolvency).

Figure 10

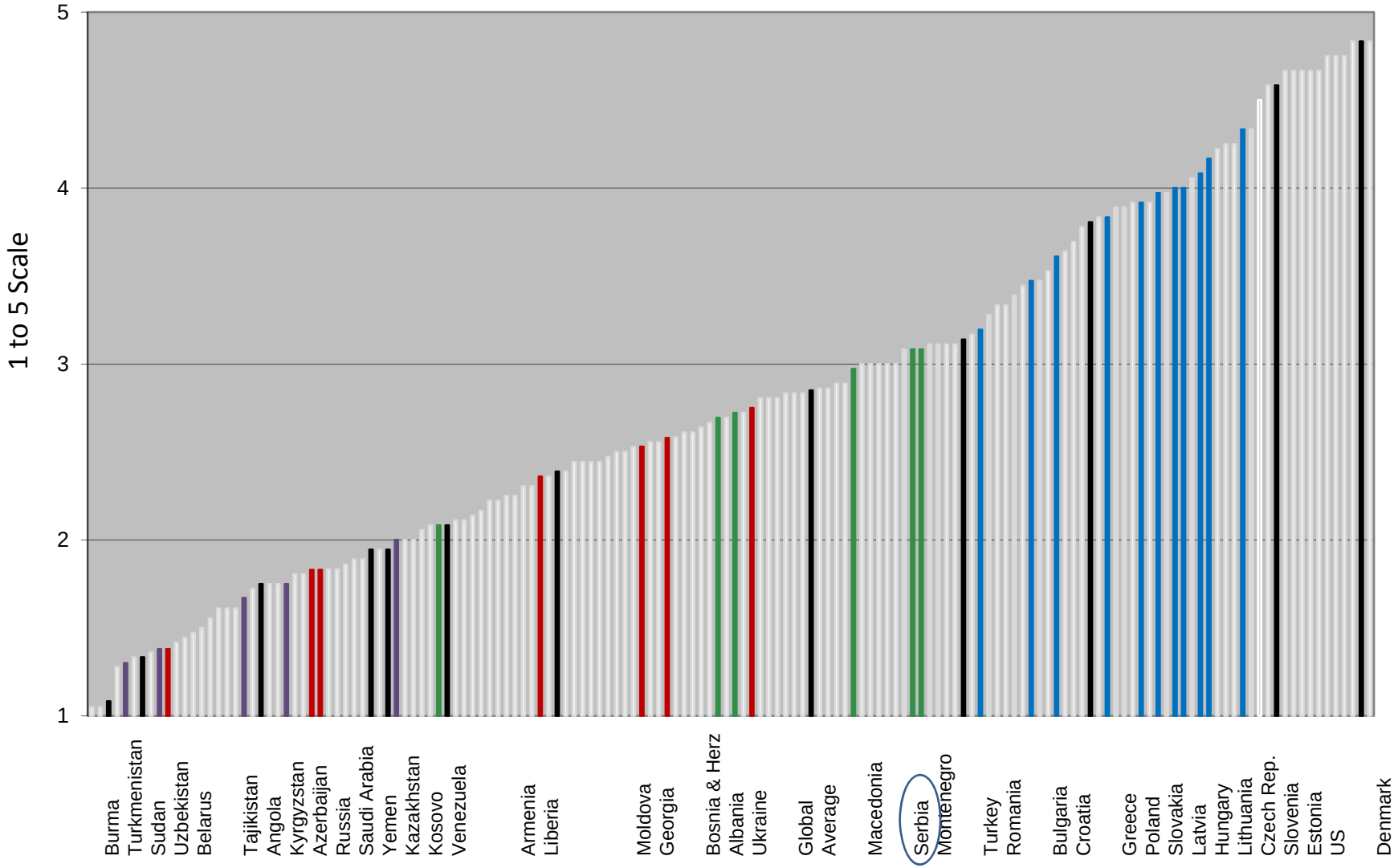
Most Problematic Business Constraints in the Balkans



World Bank, *Doing Business* (2012). The three most significant constraints (out of 10) for each country were tallied. For example, "dealing with construction permits" was in the top three constraints in all of the six Balkan countries.

Figure 11

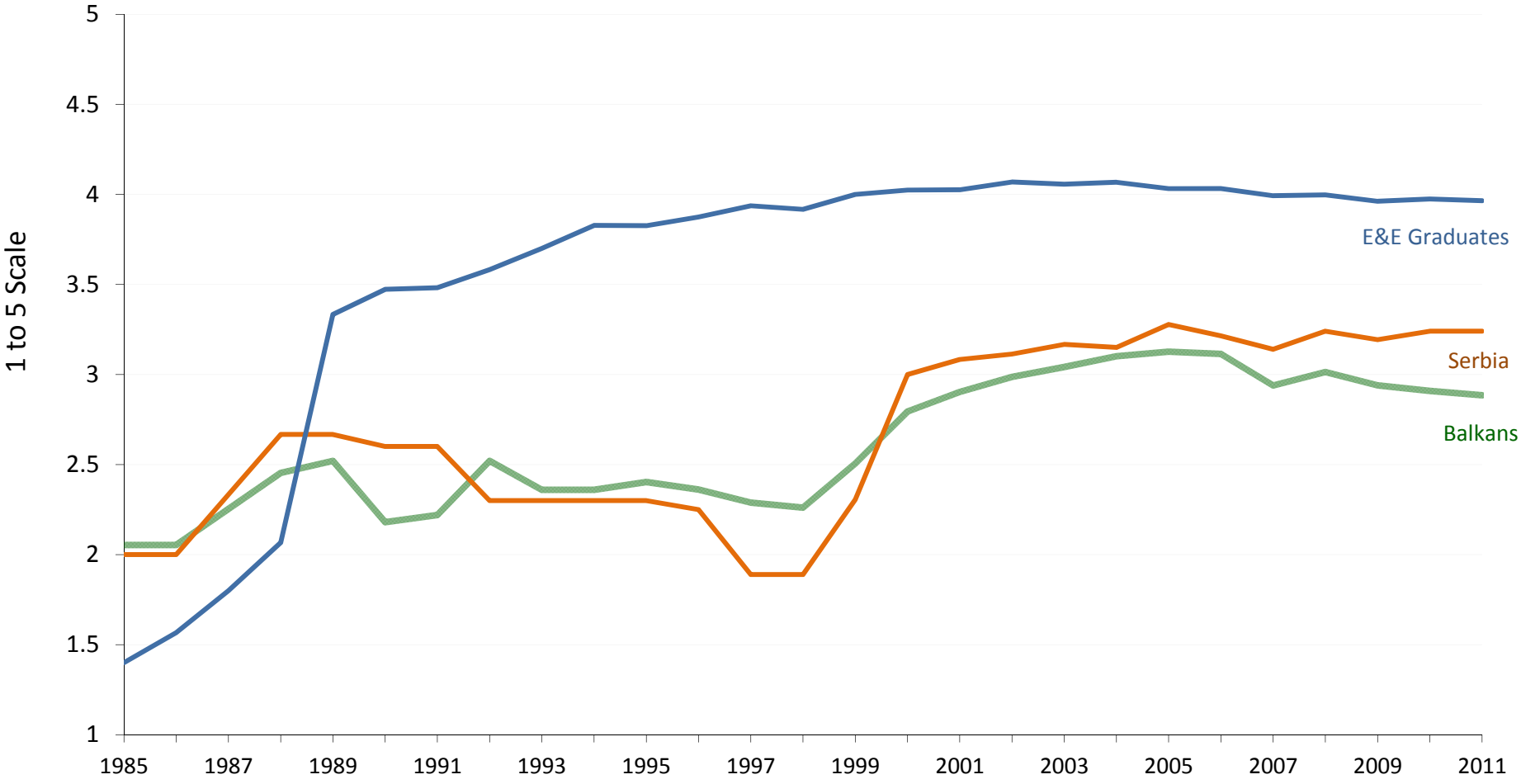
Democracy and Governance in the World



Drawn from World Bank Institute, *Governance Matters Indicators* (2010); Freedom House, *Freedom in the World* (2010) and *Freedom of the Press* (2010). N=153. Ratings are based on a scale from 1 to 5, with 5 representing the most advanced. An index of 5 indicators: rule of law; anti-corruption; free media; political rights; and civil liberties.

Figure 12

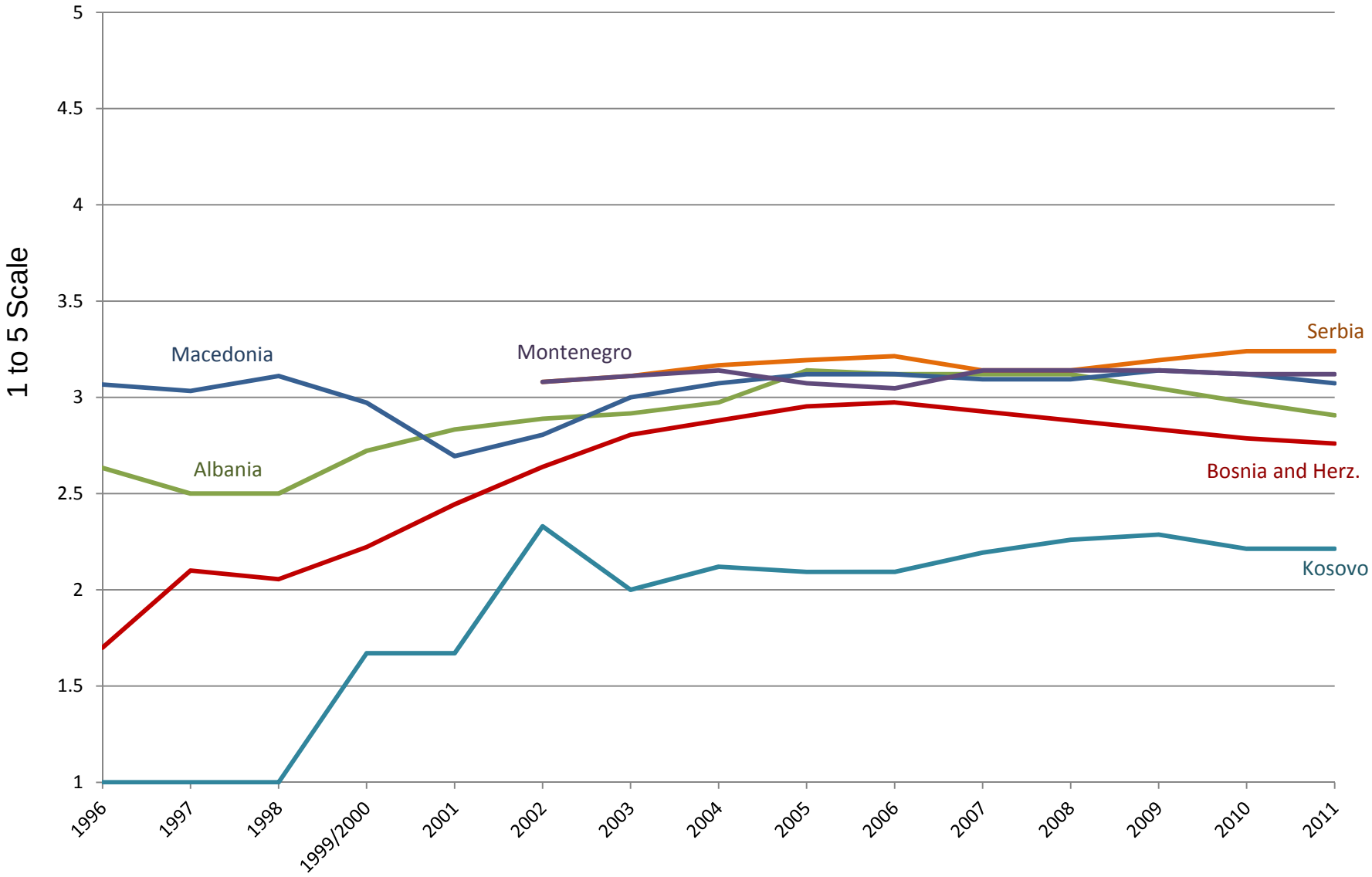
Democratic Reforms in Serbia and CEE



USAID MCP system Data drawn from Freedom House, *Nations in Transit* series and *Freedom in the World* series. The E&E Graduates (n=11) consist of Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia, Czech Republic, Romania, Bulgaria, and Croatia. The Balkans (n=6): Albania, Bosnia & Herzegovina, Macedonia, Kosovo, Serbia, and Montenegro.

Figure 13

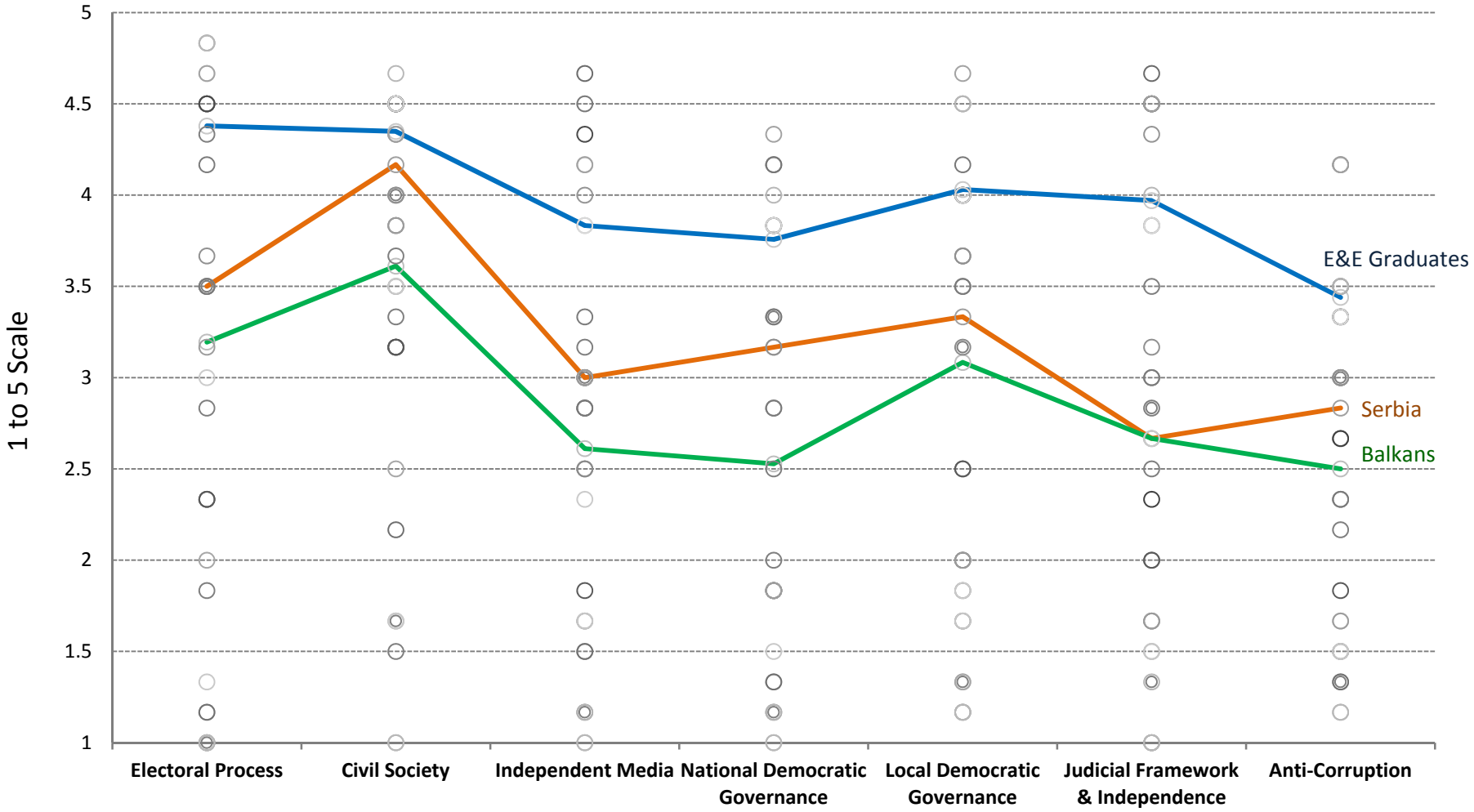
Democratic Reforms in the Balkans, 1996-2011



Scores calibrated on MCP 1 to 5 scale. Source: Freedom House, *Nations in Transit*. Scores for Kosovo before 2003 are taken from *Freedom in the World*.

Figure 14

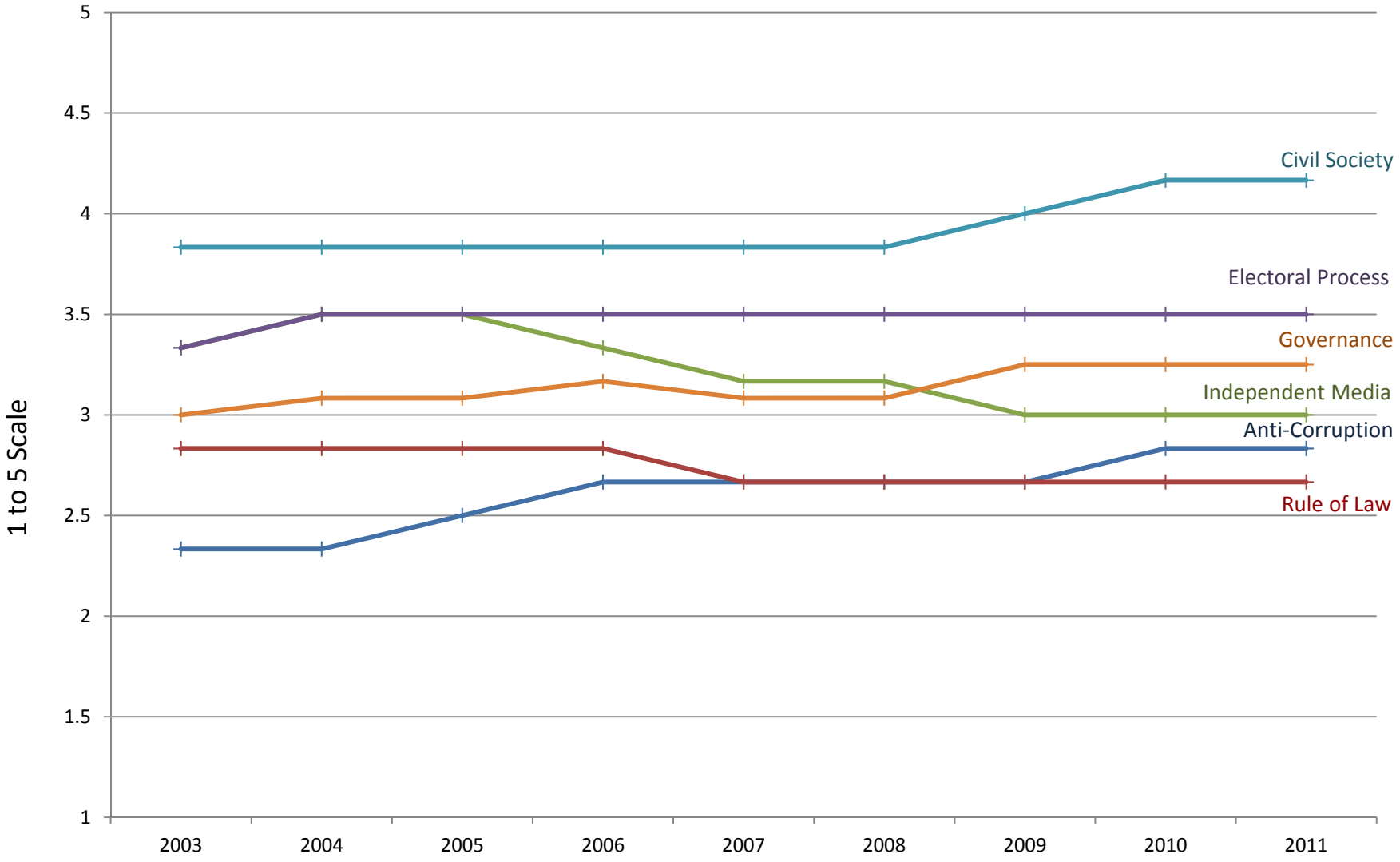
Serbia's Democratic Reform Profile vs. CEE



Drawn from Freedom House, *Nations in Transit* (June 2012). Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.

Figure 15

Democratic Reforms in Serbia, 2003-2011



Scores calibrated on MCP 1 to 5 scale. Source: Freedom House, *Nations in Transit*.

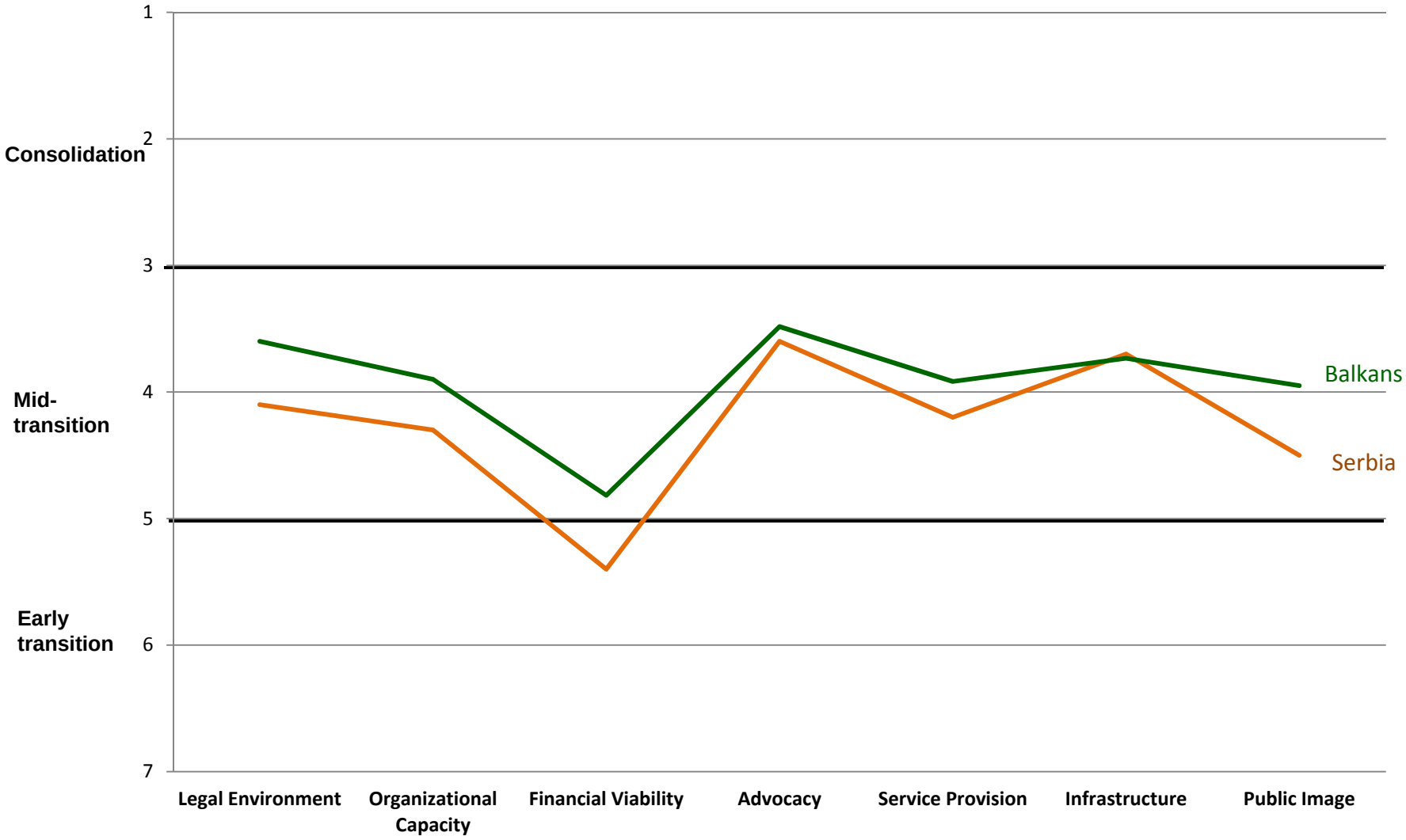
Figure 16

Independent Media in Serbia and the Balkans

IREX, *Media Sustainability Index 2012.* Scale of 0 to 4 where 4 is the most advanced.

Figure 17

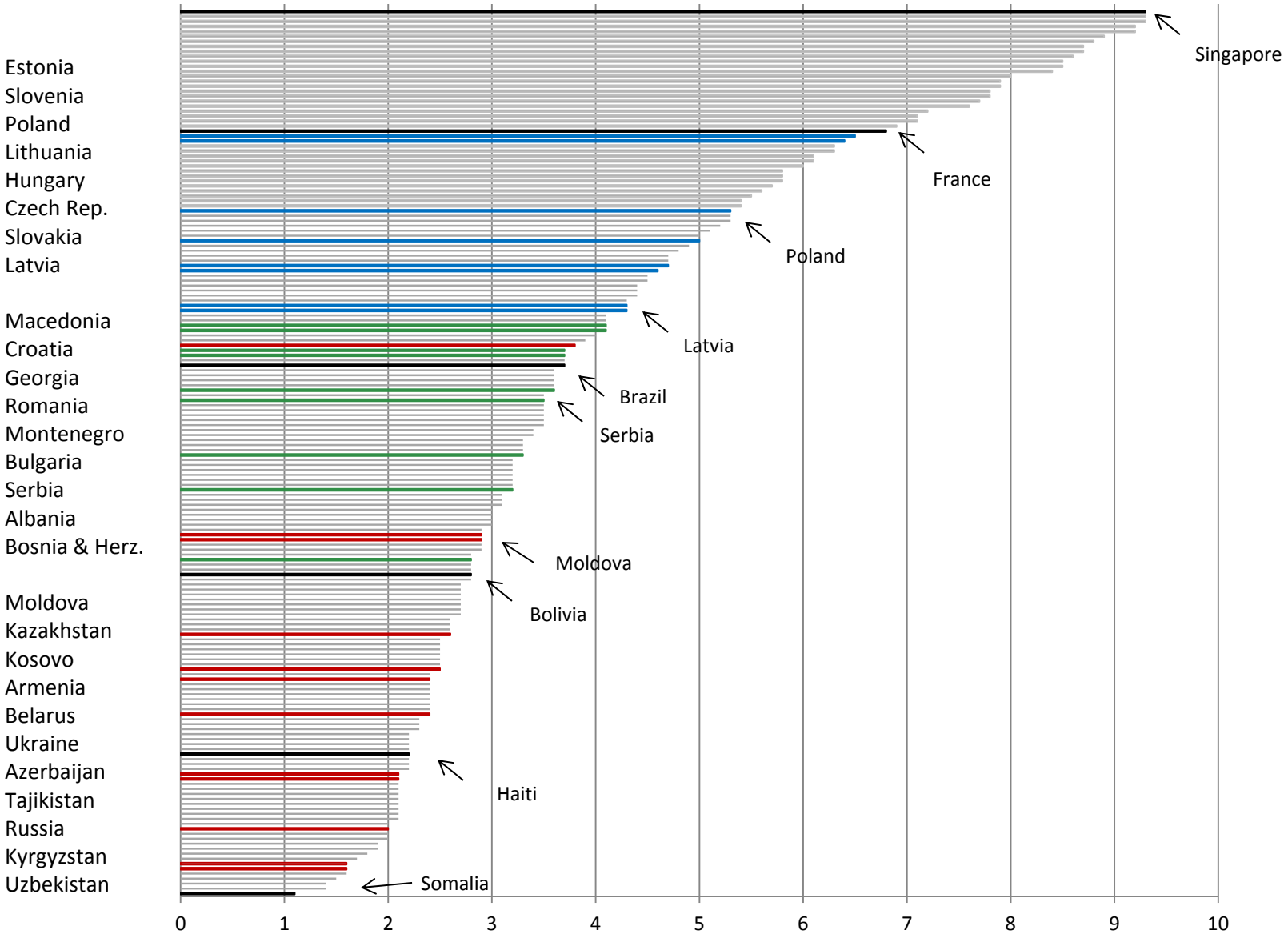
Civil Society in Serbia and the Balkans



USAID, *2011 CSO Sustainability Index for Central and Eastern Europe and Eurasia*, 15th Anniversary Edition (2012). Scale of 1 to 7, with 1 representing the most advanced.

Figure 18

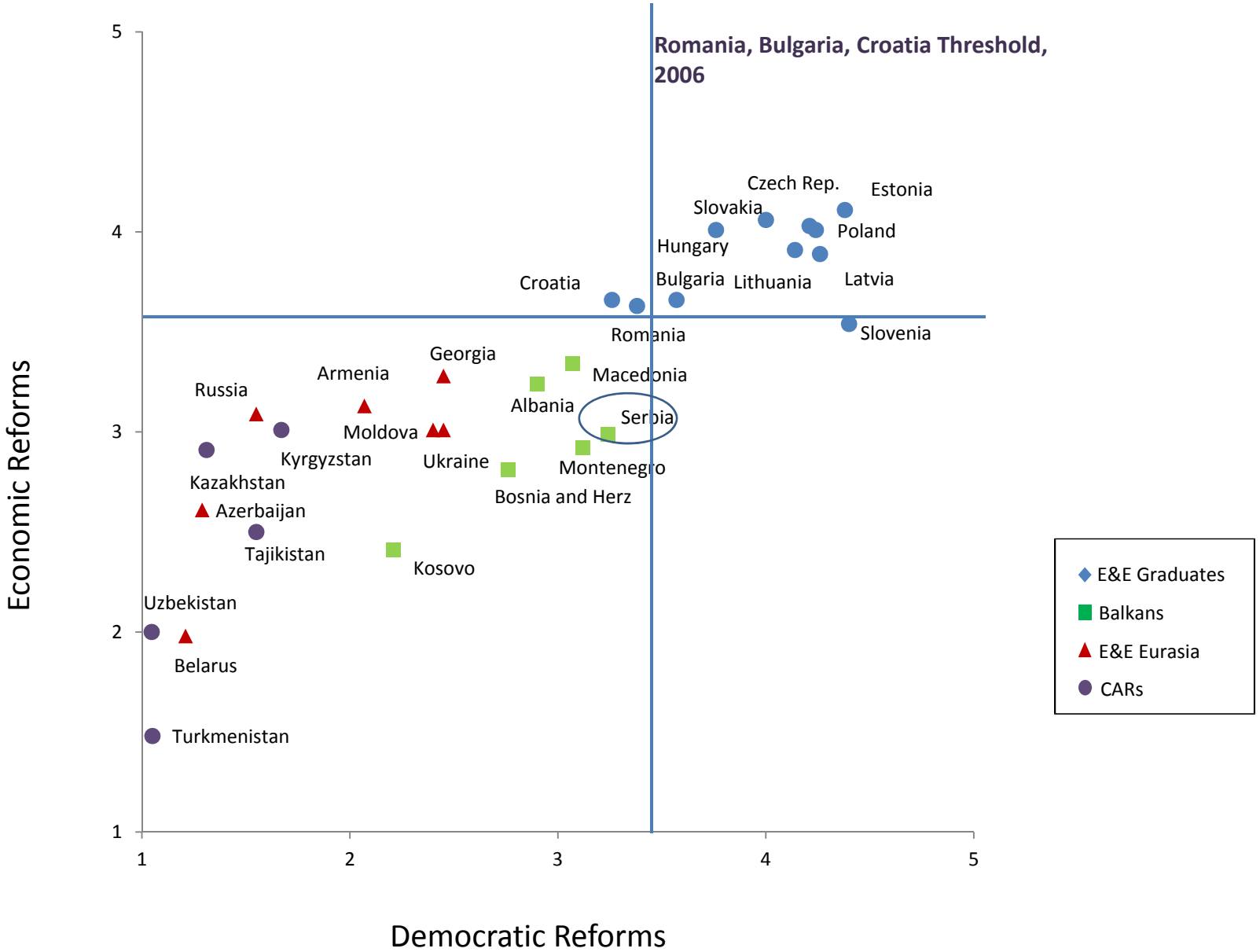
Corruption Perceptions Index



Transparency International, *Corruption Perceptions Index*, 2010. Scores are based from 0 (highly corrupt) to 10 (very clean).

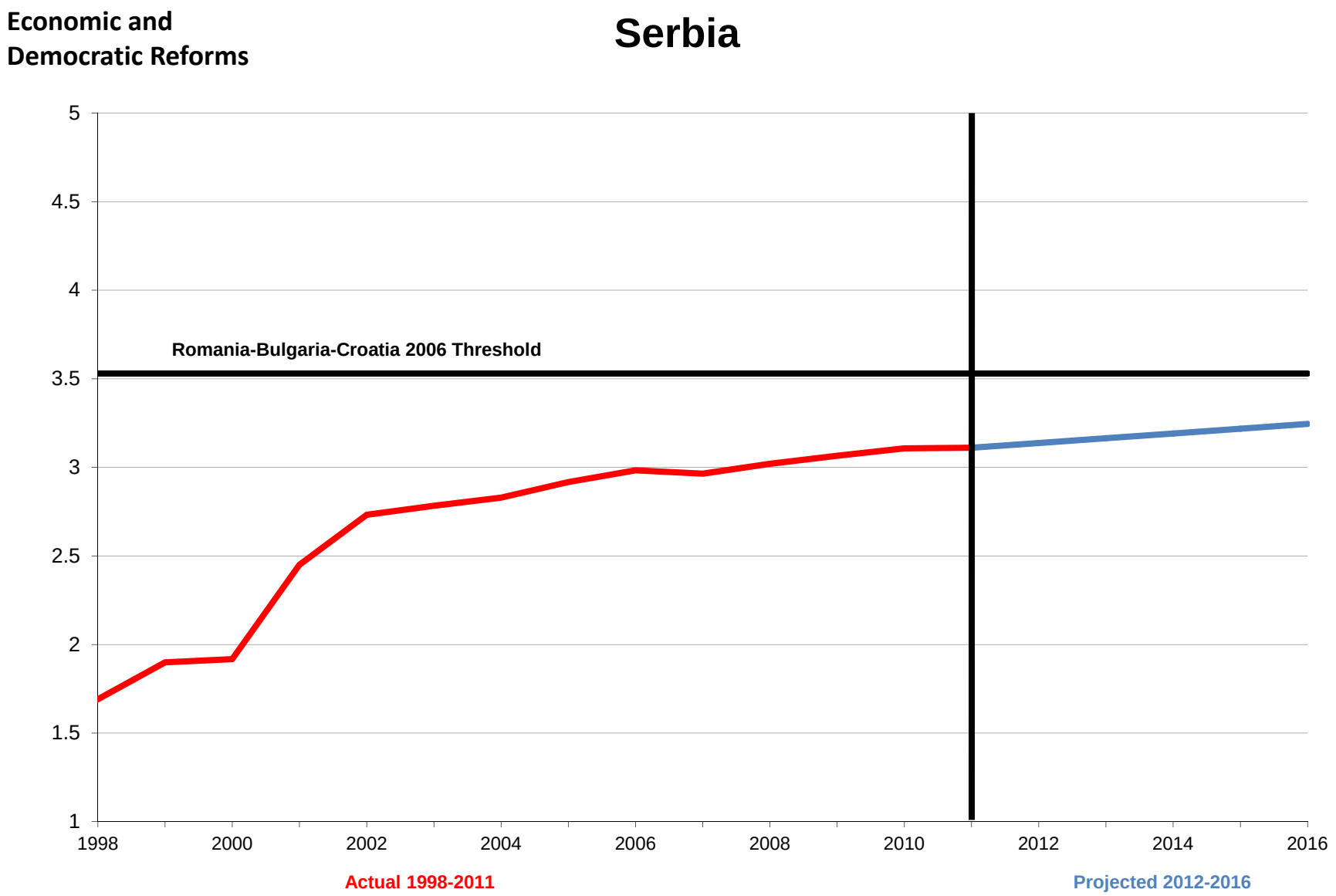
Figure 19

Economic and Democratic Reforms, 2011



Ratings are based on a 1 to 5 scale, with 5 most advanced. Freedom House, *Nations in Transit* (June 2012), & EBRD, *Transition Report 2011* (November 2011).

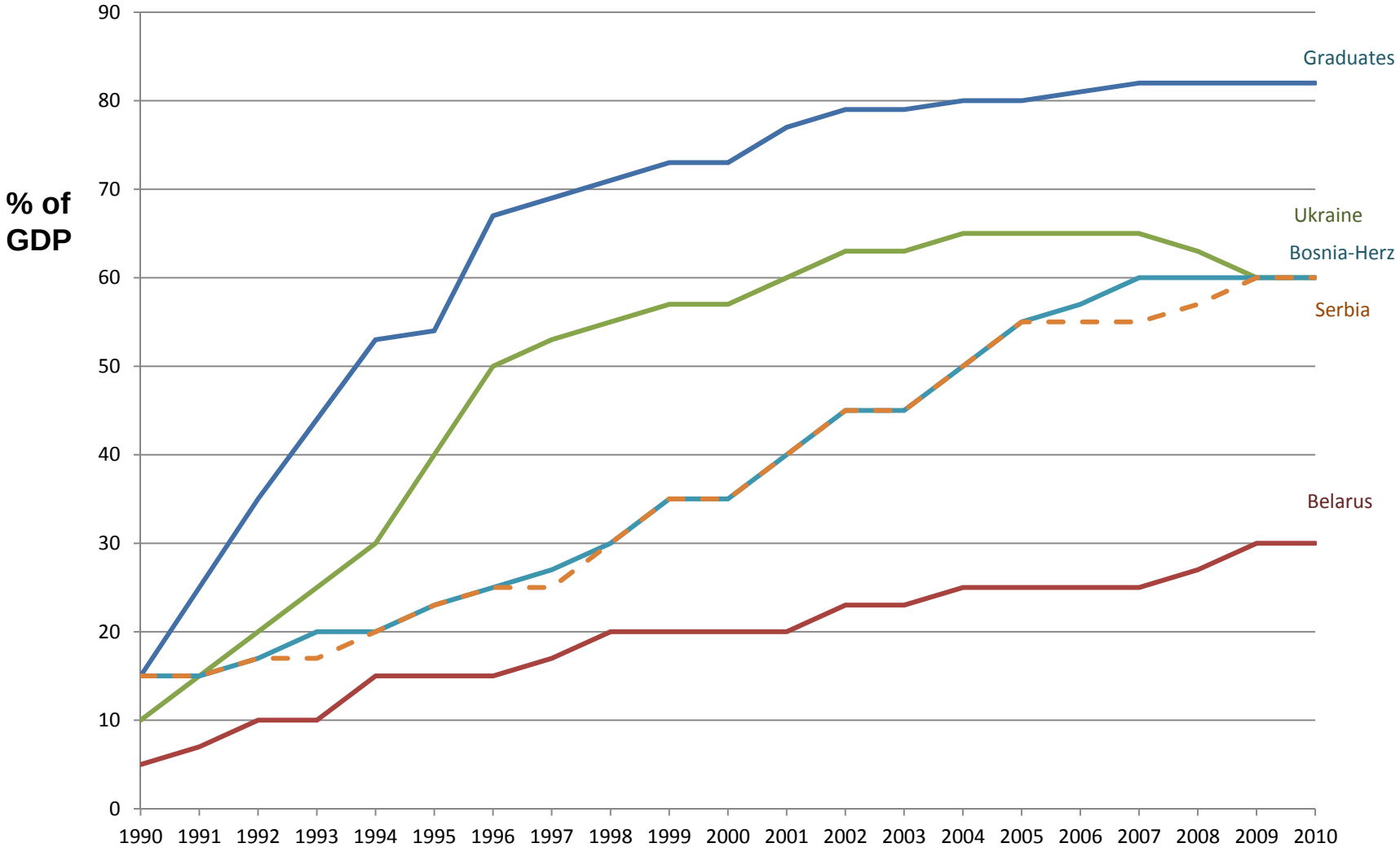
Figure 20



The projections are extrapolations from the average annual trends from 2007-2011. The economic reform data are drawn from the EBRD's annual *Transition Report*, and the democratic reform data are drawn from Freedom House's annual *Nations in Transit*.

Figure 21

The Lagging Economies in Economic Structural Change vs. the Graduates: Private Sector Share of GDP



EBRD, *Transition Report* (2011 and earlier editions). The lagging economies from among the Balkans (n=6) and the E&E Eurasian countries (n=7).

Figure 22

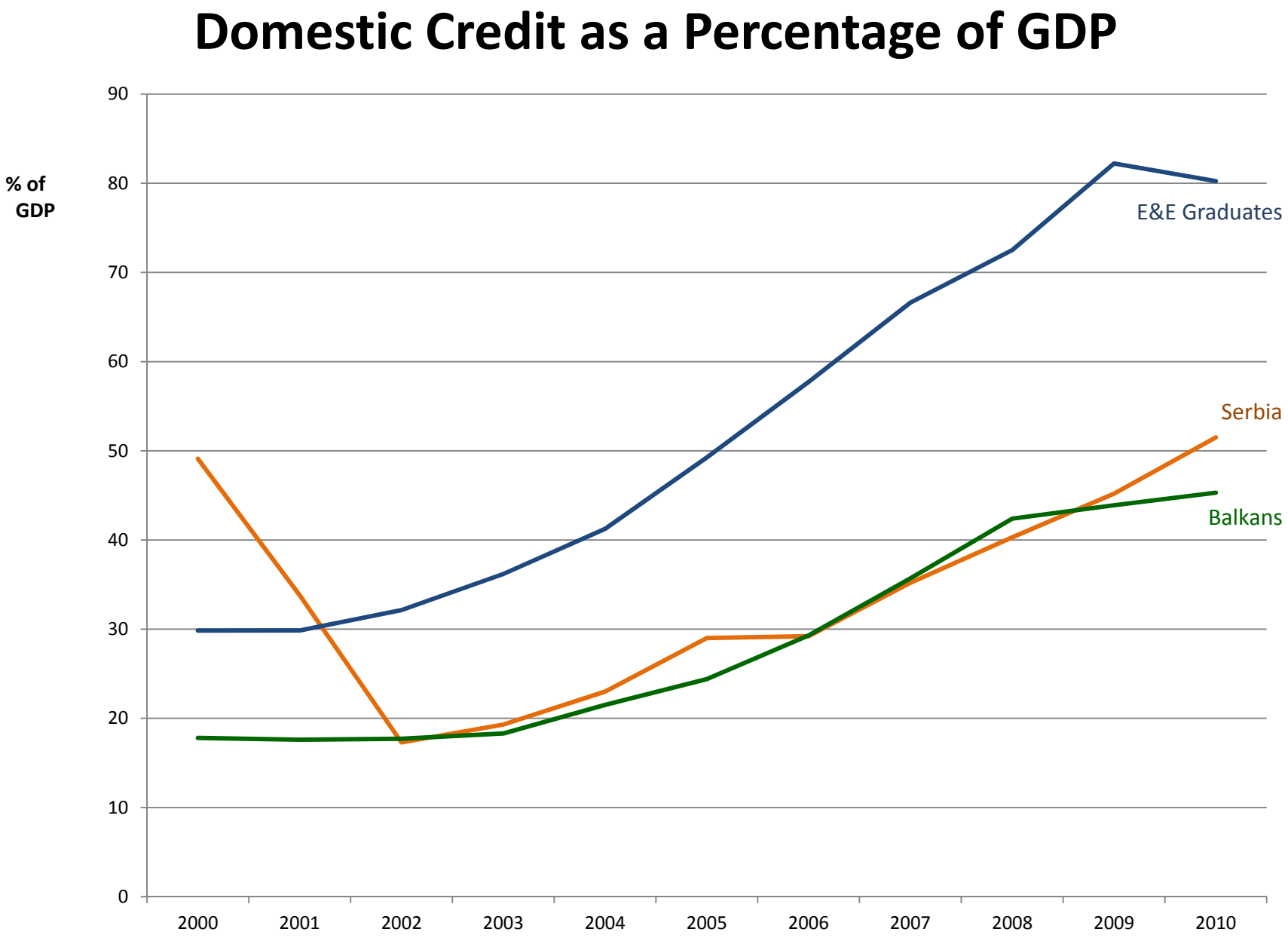
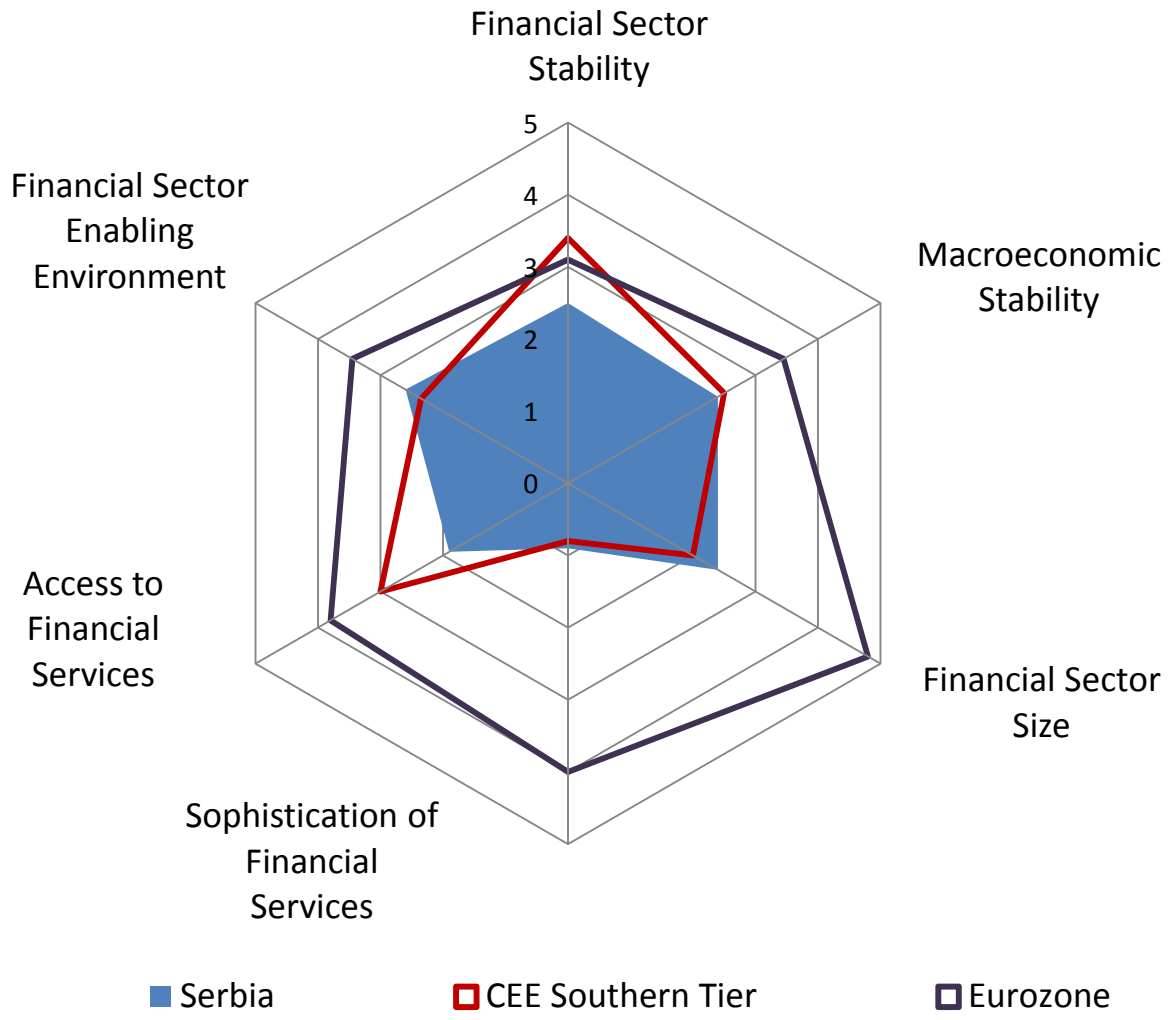

Domestic Credit as a Percentage of GDP
% of GDP
90
80
70
60
50
40
30
20
10
0
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
E&E Graduates
Serbia
Balkans

Figure 23

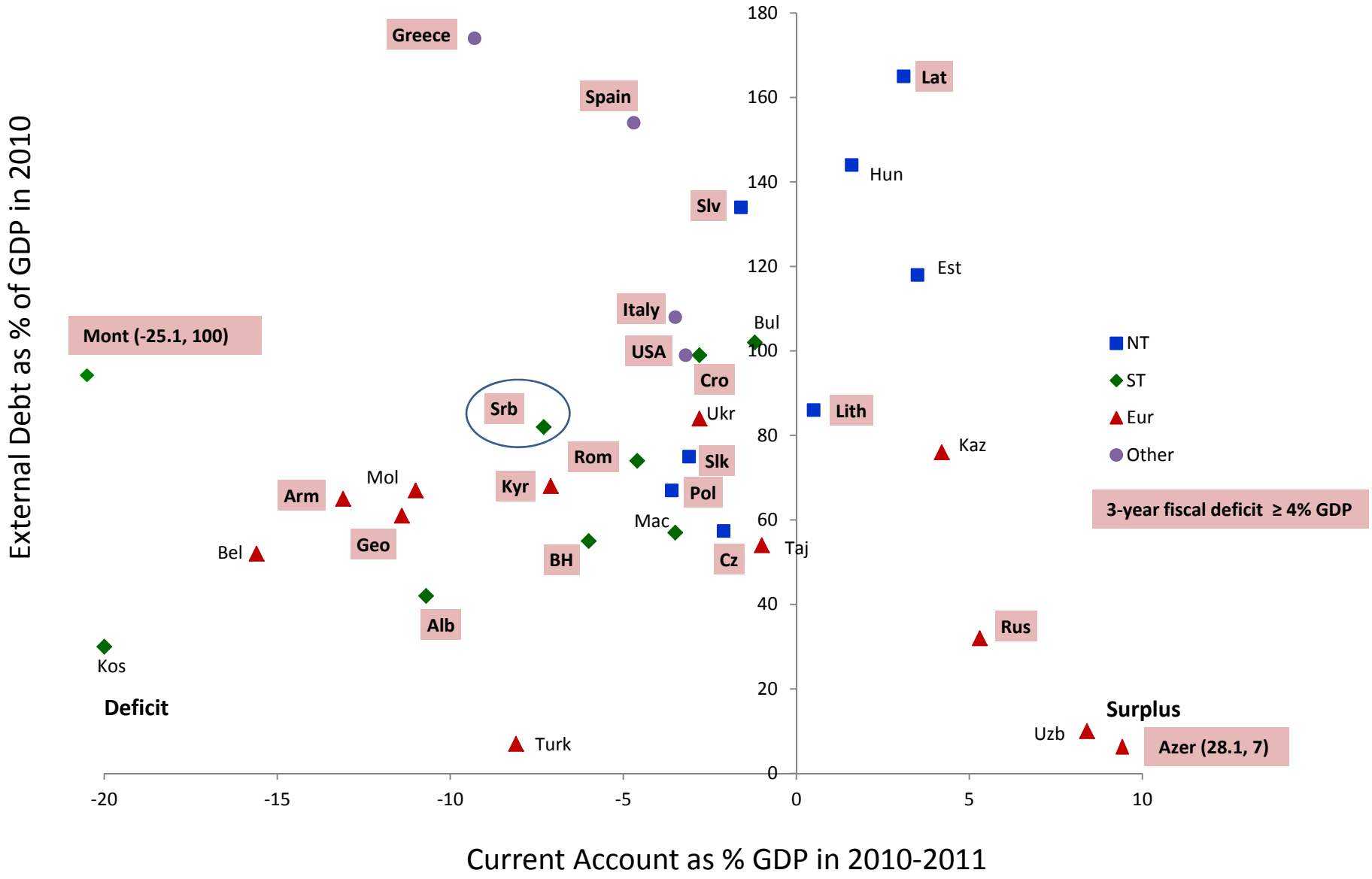
The Financial Sector in Serbia



Drawn from the Partners for Financial Stability, *Financial Sector Benchmarking System (*2012).

Figure 24

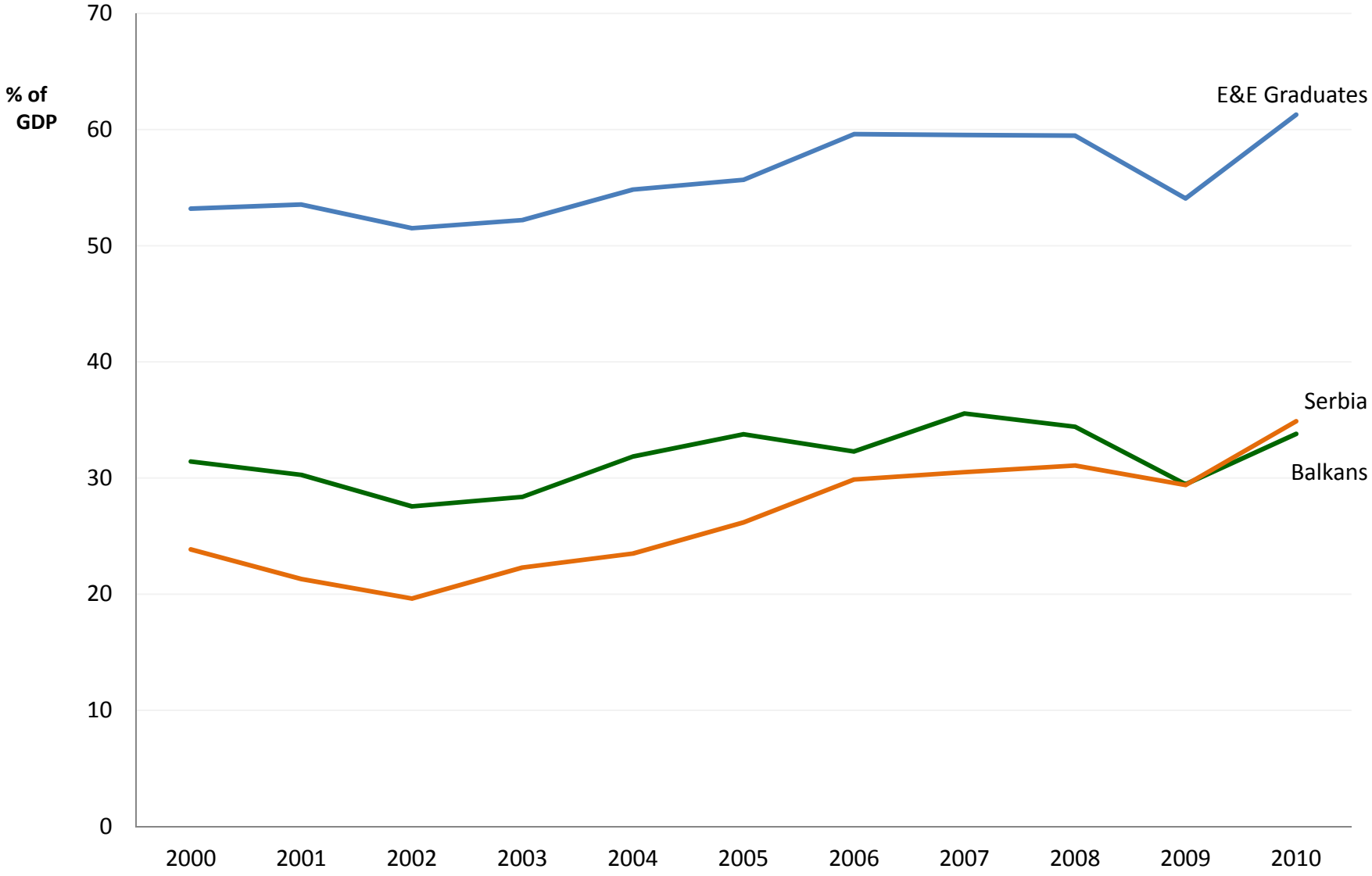
Current Account Balance and External Debt in 2010-2011



EBRD, *Transition Report 2010* (November 2010) and IMF, *World Economic Outlook* (June 2011).

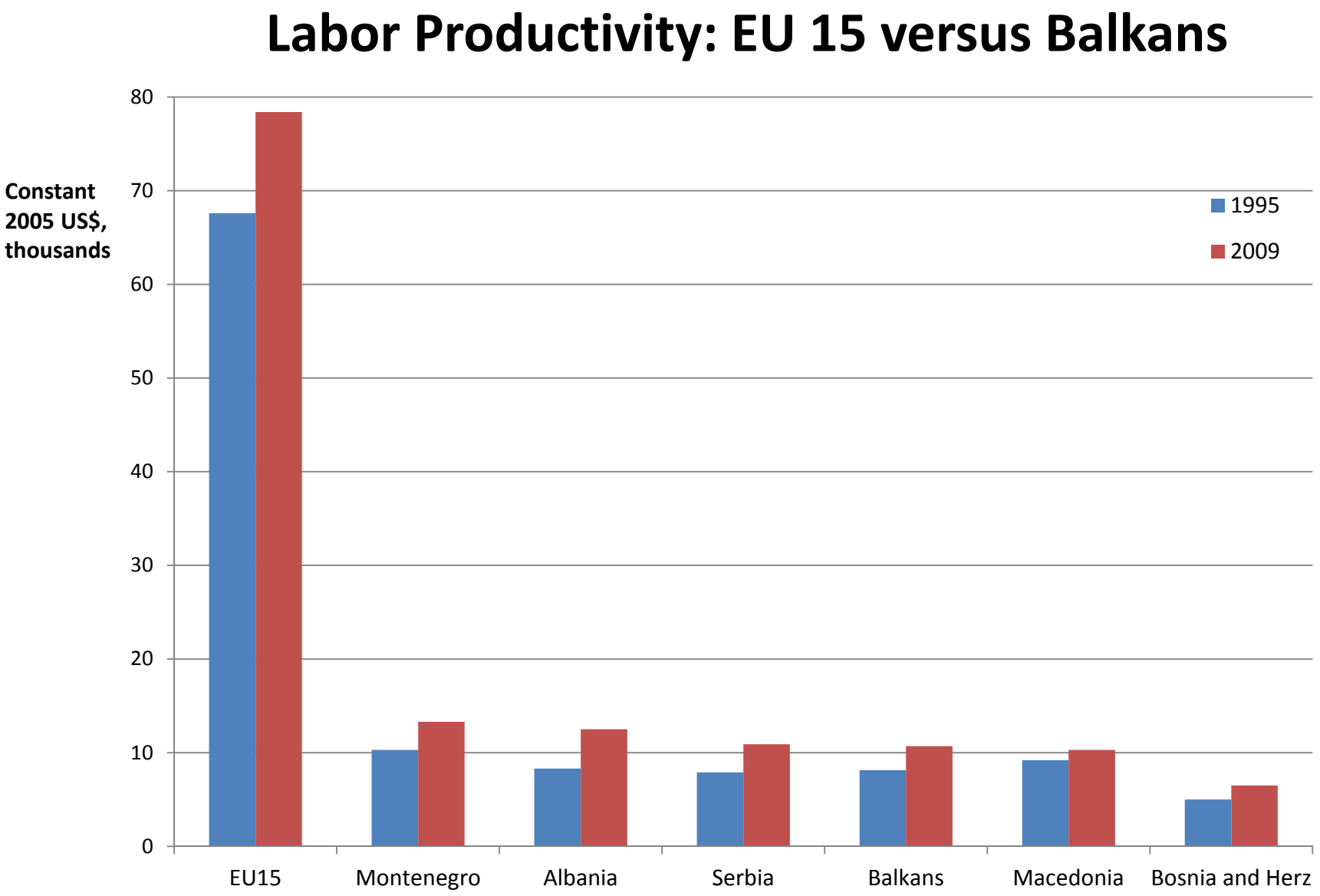
Figure 25

Exports as a Percentage of GDP



World Bank, *World Development Indicators (*2011); International Monetary Fund (2011).

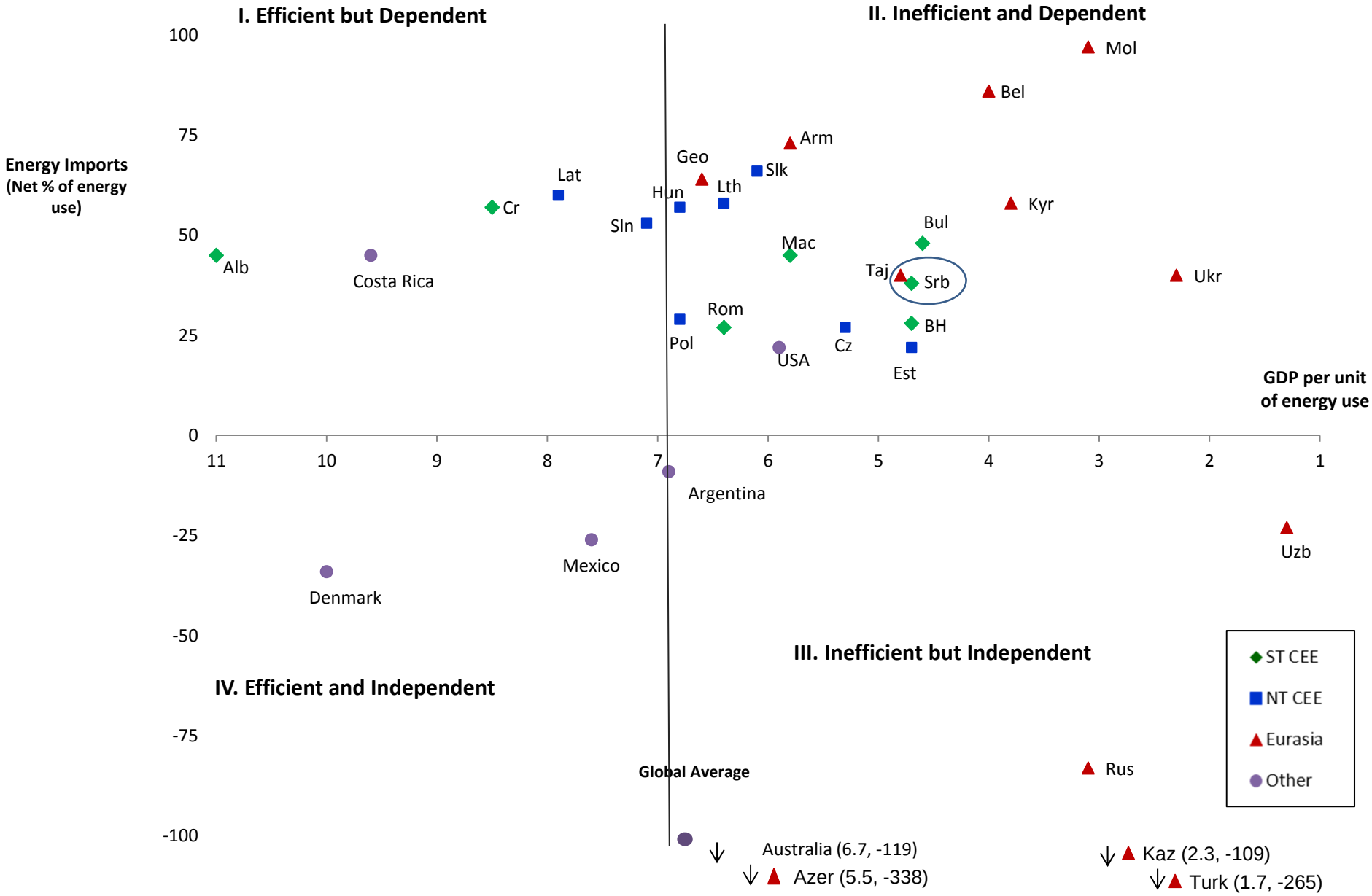
Figure 26



Drawn from I. Gill and M. Raiser, *Golden Growth: Restoring the Lustre of the European Economic Model*, World Bank (2012).

Figure 27

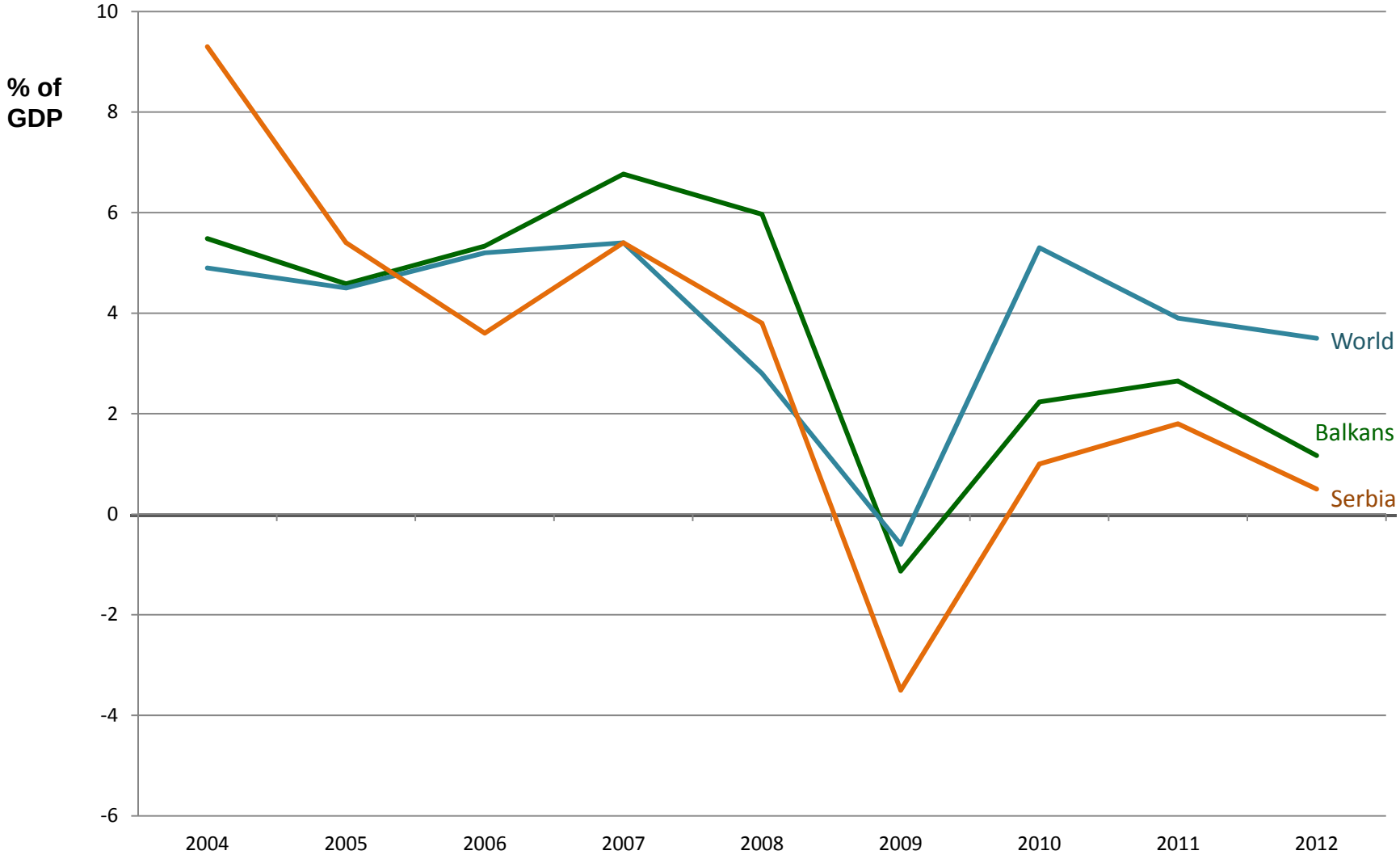
Energy Security, 2010



World Bank, *World Development Indicators (*2011).

Figure 28

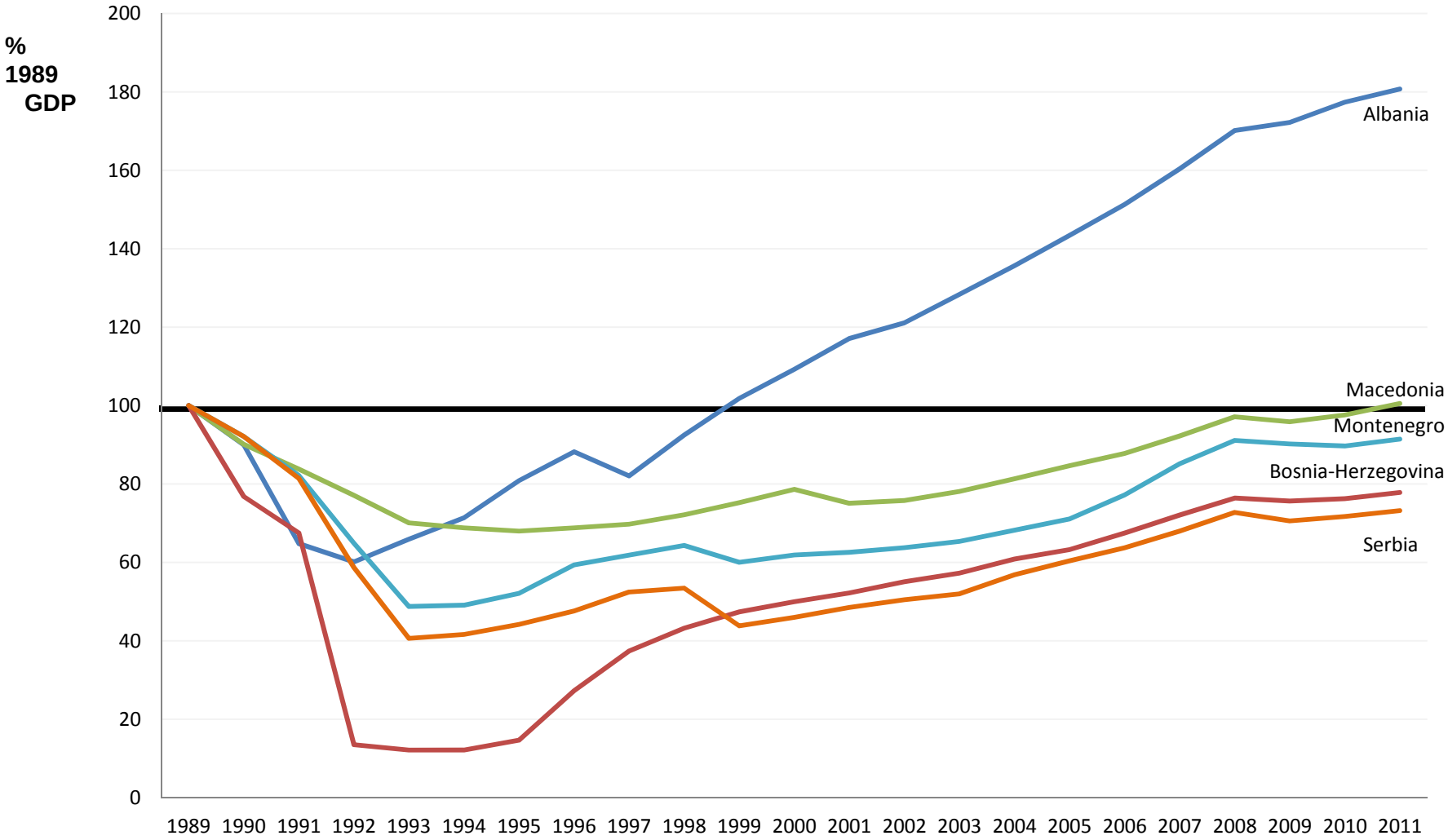
Economic Growth and Contraction in Serbia, the Balkans, and the World, 2004-2012



IMF, *World Economic Outlook*, April 2012.

Figure 29

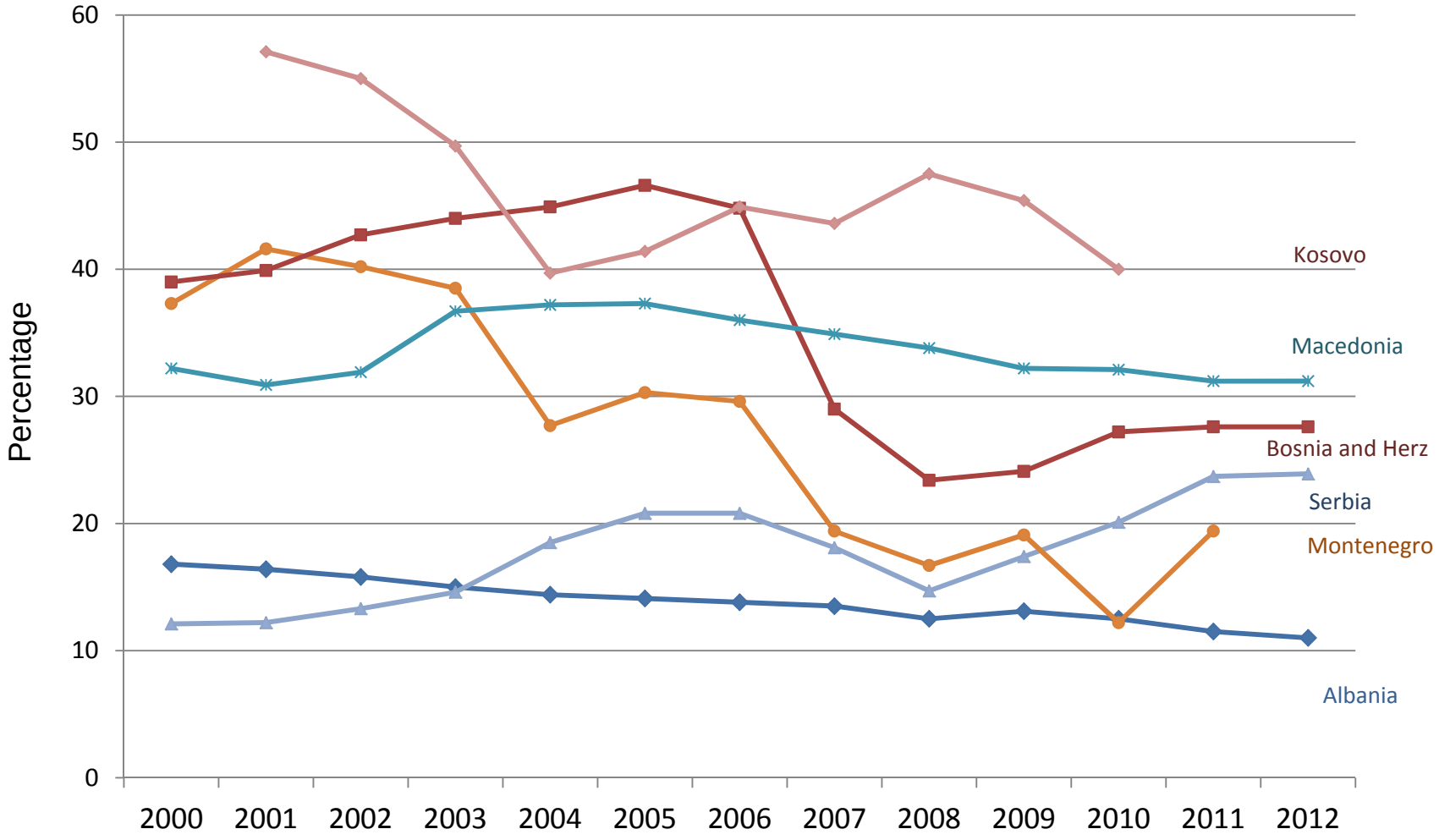
Economic Performance in the Balkans: Real GDP as a Percentage of 1989 GDP



EBRD, *Transition Report* (November 2011).

Figure 30

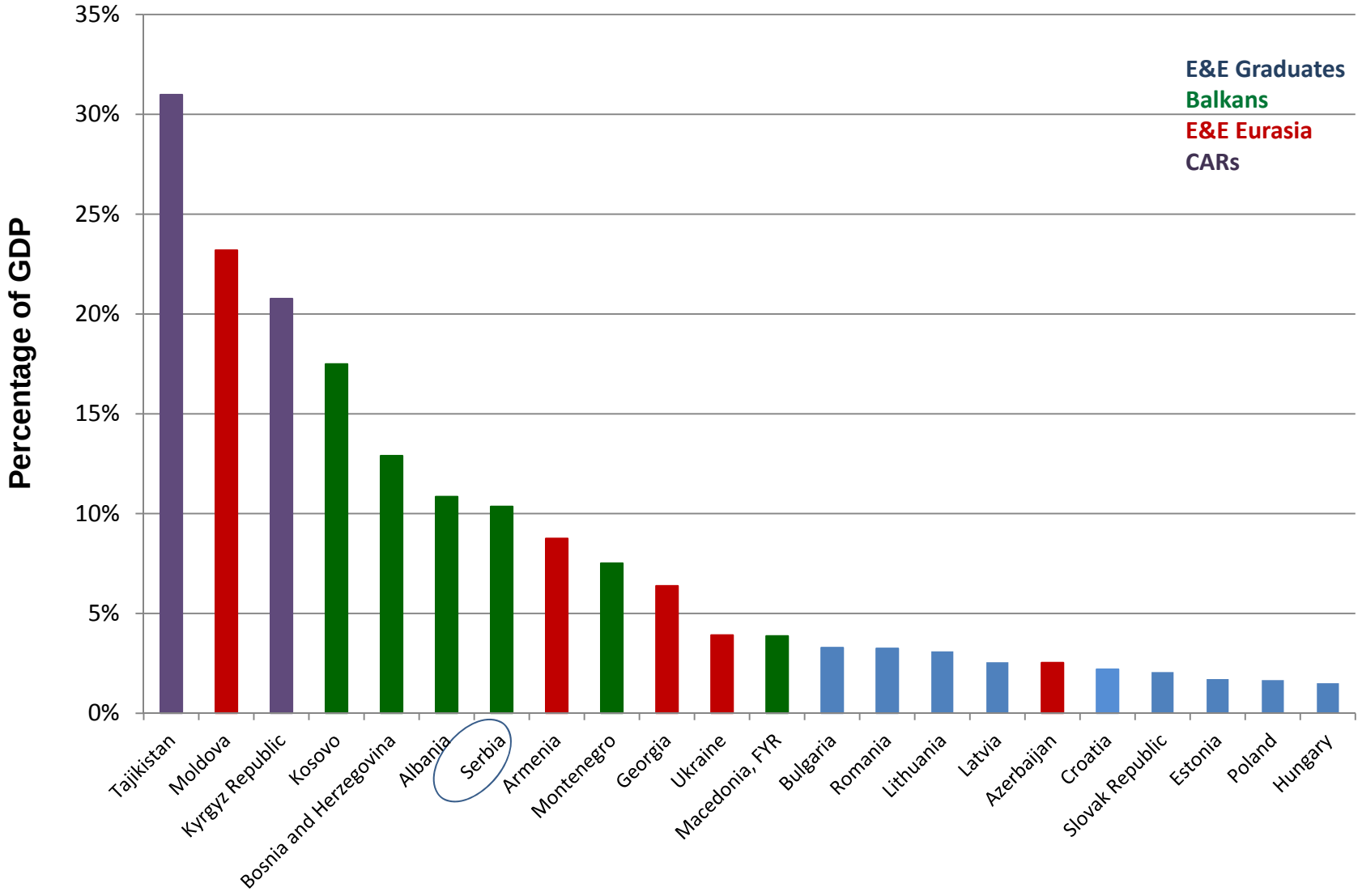
Unemployment Rates in the Balkans



Primary sources: Eurostat (2012) and IMF *World Economic Outlook* Database (April 2012). Data on Kosovo from European Commission, *Kosovo 2010 Progress Report*, Brussels, 9 November 2010.

Figure 31

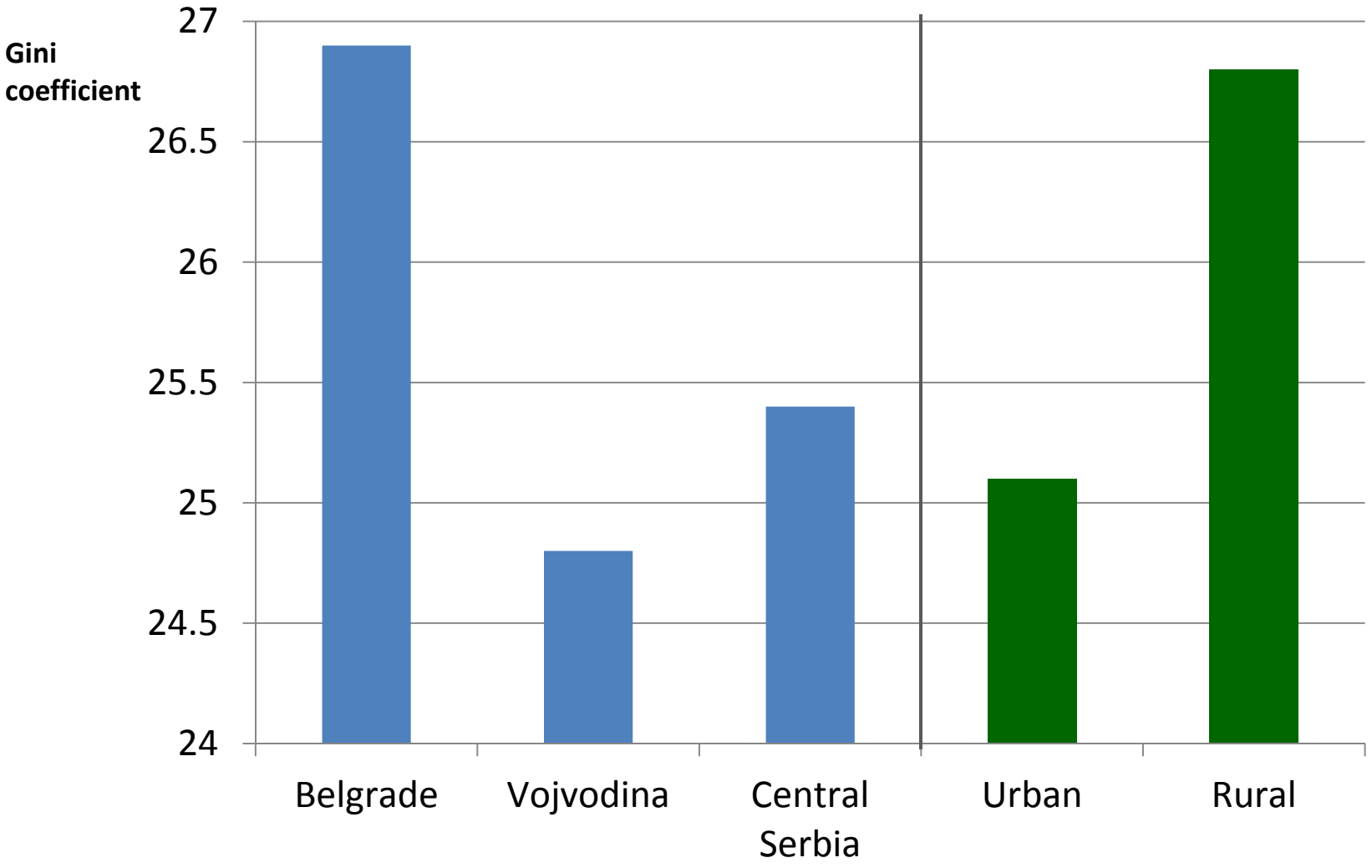
Top Remittance Receiving Countries in Eastern Europe and Eurasia, 2011



Inflow remittances for Czech Republic, Belarus, Slovenia, Russia, and Kazakhstan are all below 1%. World Bank, Annual Remittances Data, 2011.

Figure 32

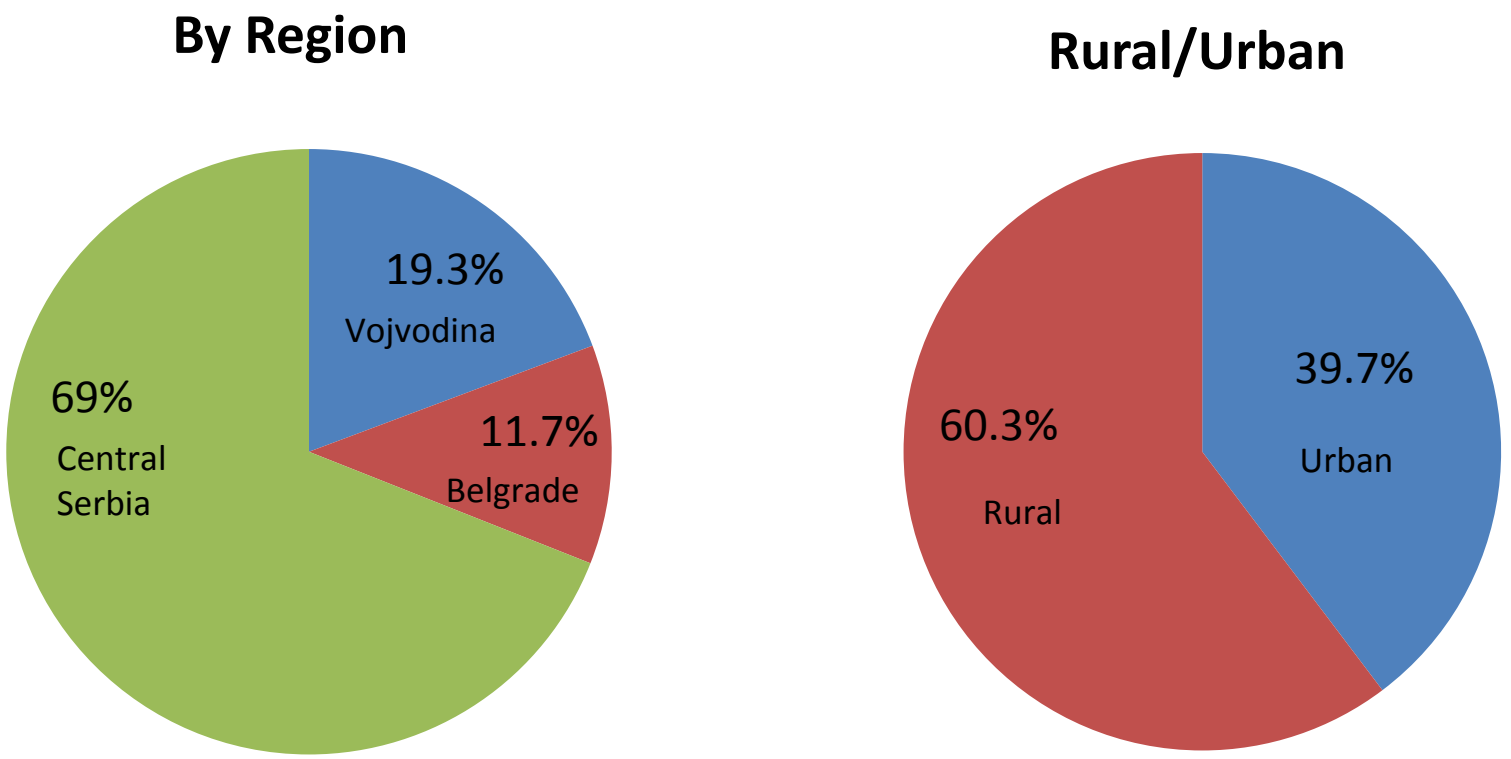
Inequality in per Capita Expenditure in Serbia, 2009



World Bank, *Poverty Update for the Republic of Serbia* (June 2011).

Figure 33

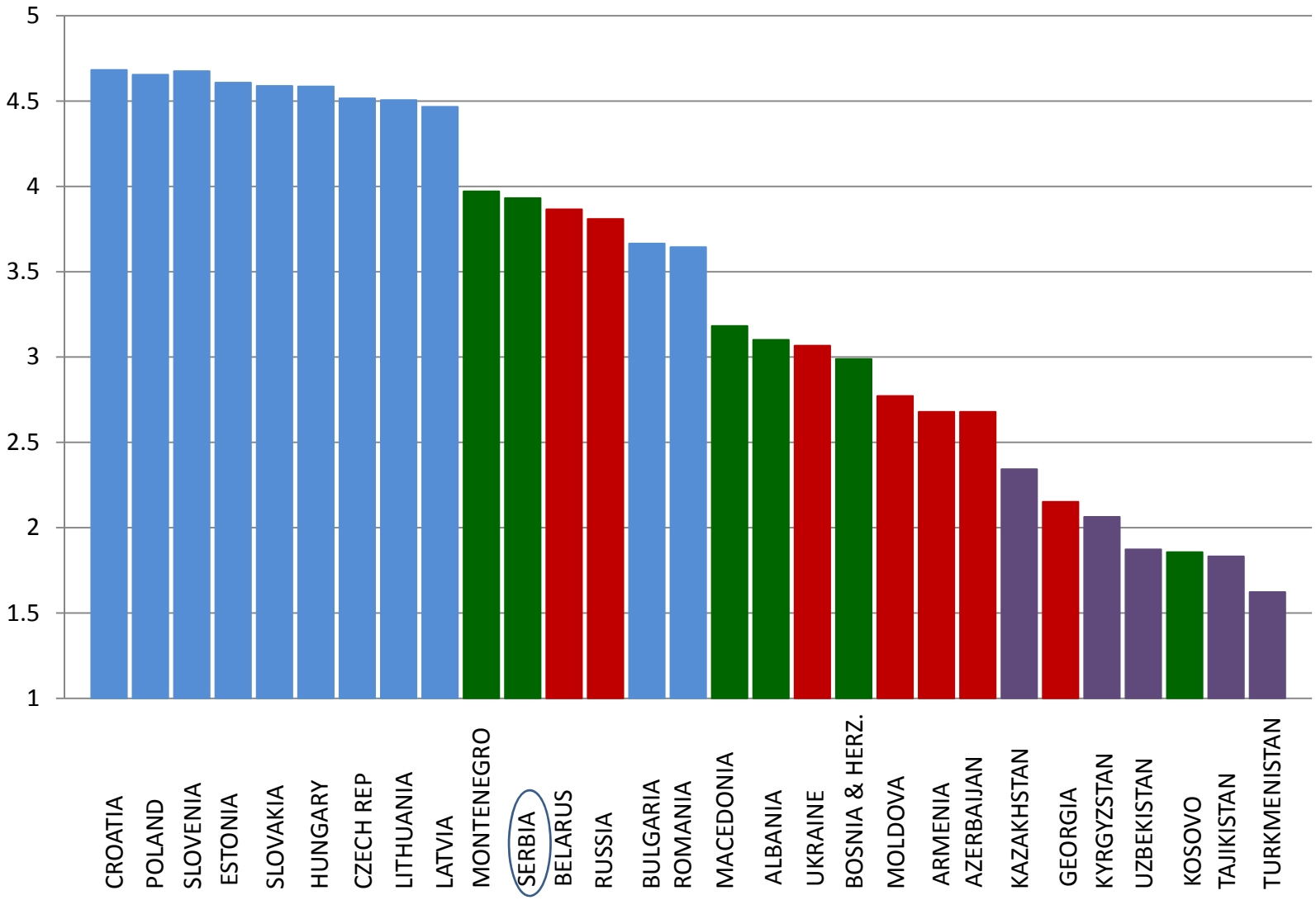
Distribution of Poverty in Serbia, 2009



World Bank, *Poverty Update for the Republic of Serbia* (June 2011).

Figure 34

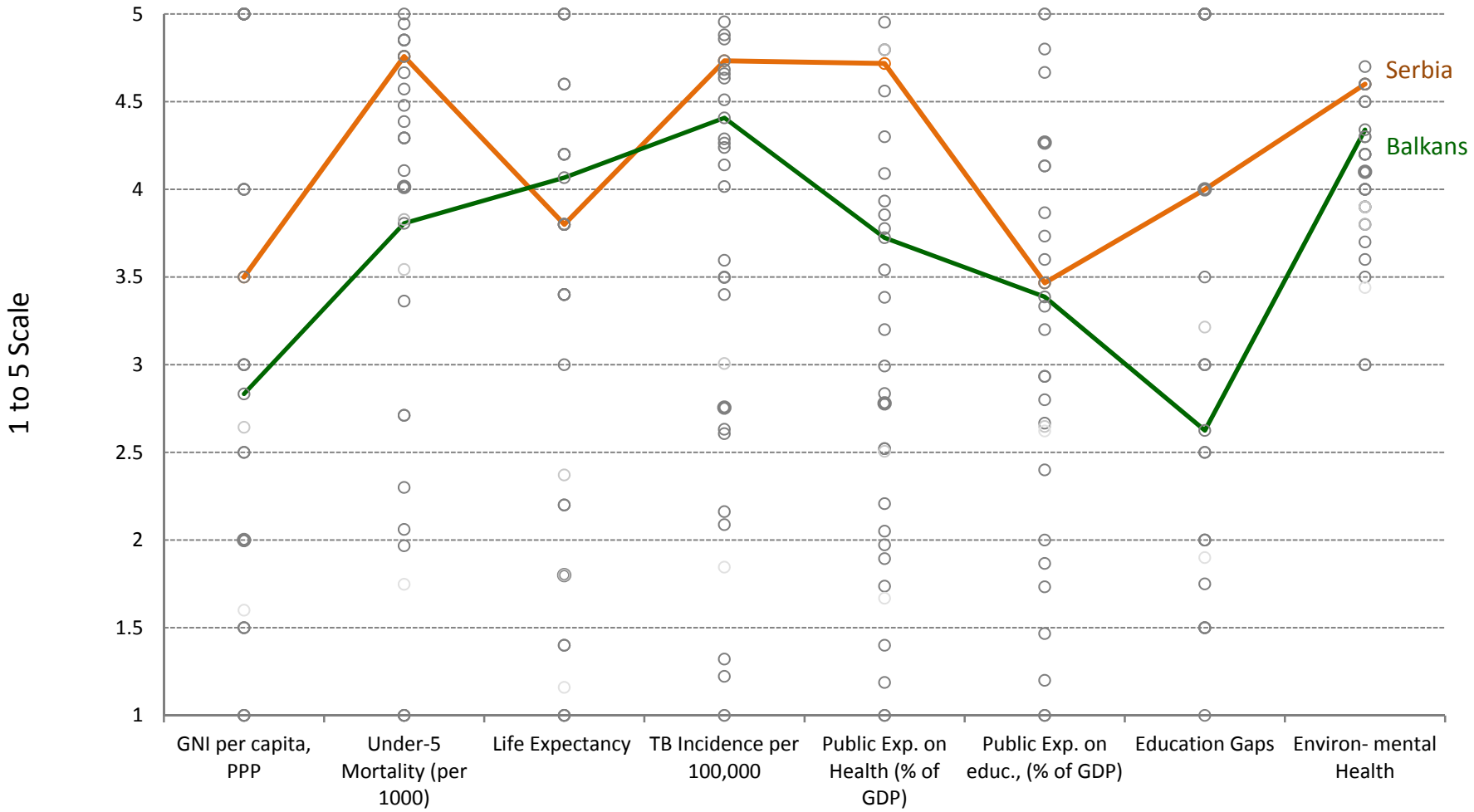
Human Capital in Serbia and E&E



USAID MCP, Human Capital Index.

Figure 35

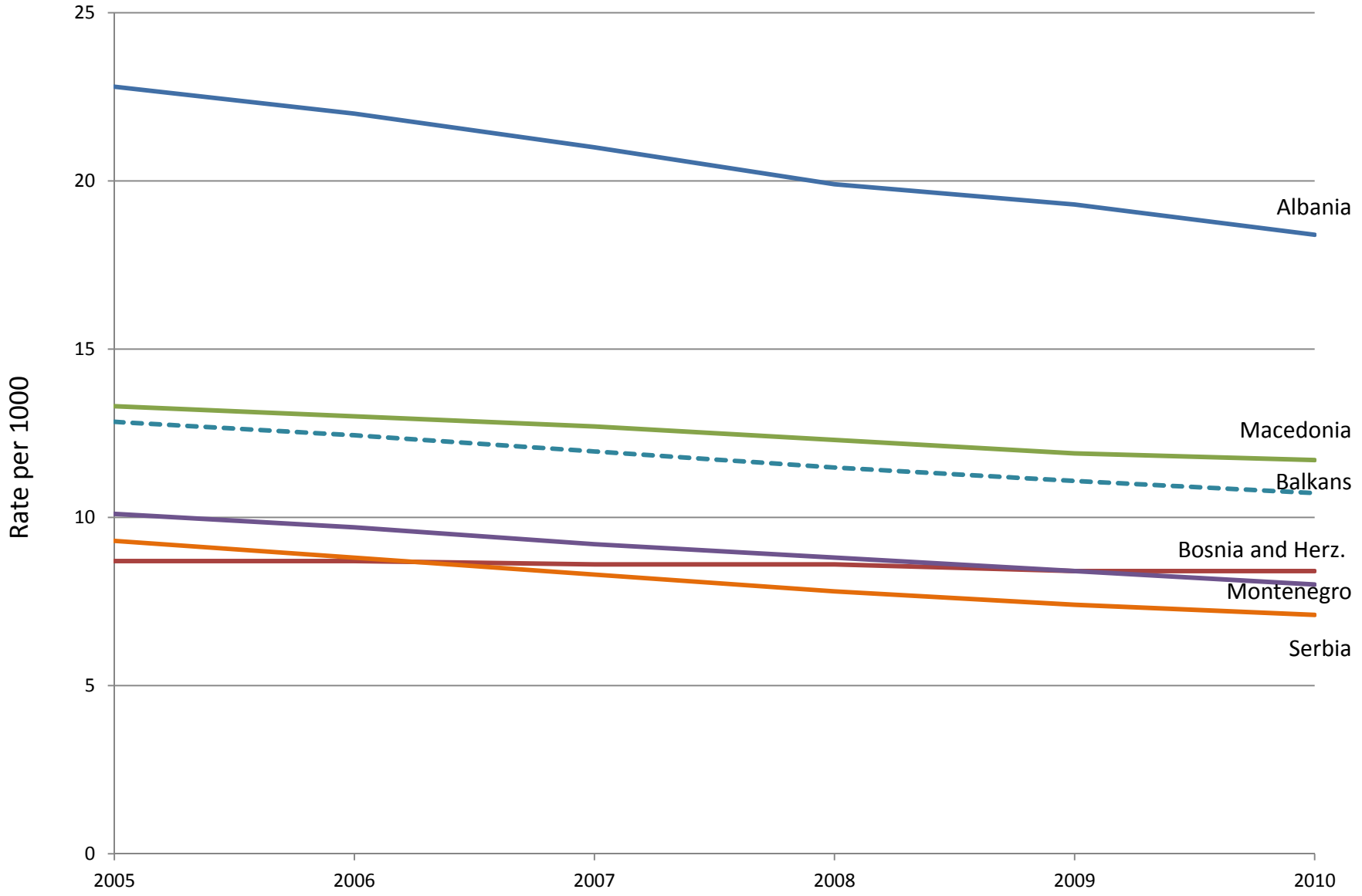
Human Capital in Serbia and the Balkans



USAID MCP, Human Capital Index.

Figure 36

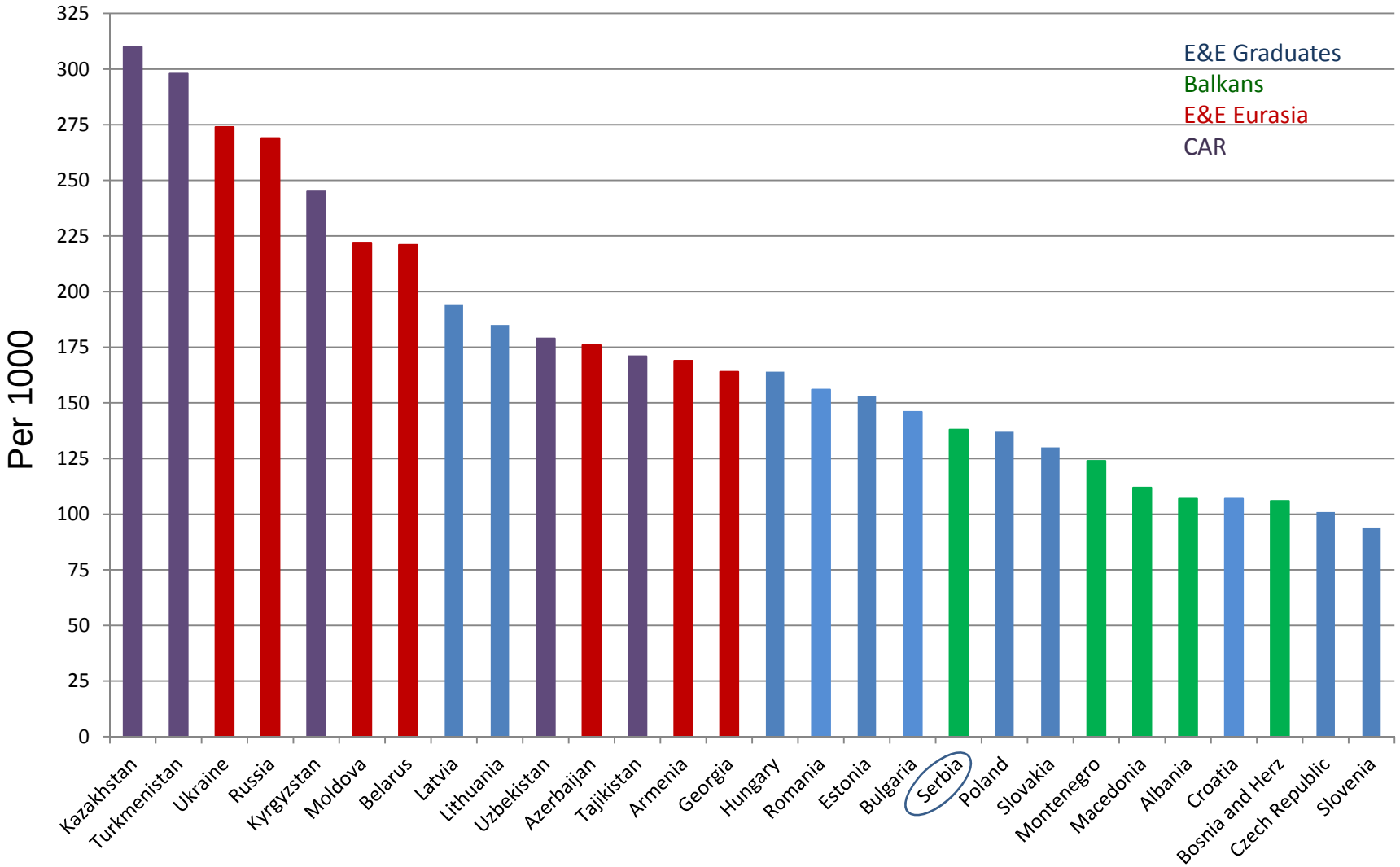
Under-5 Mortality Rate in the Balkans



World Bank, *World Development Indicators* (2011).

Figure 37

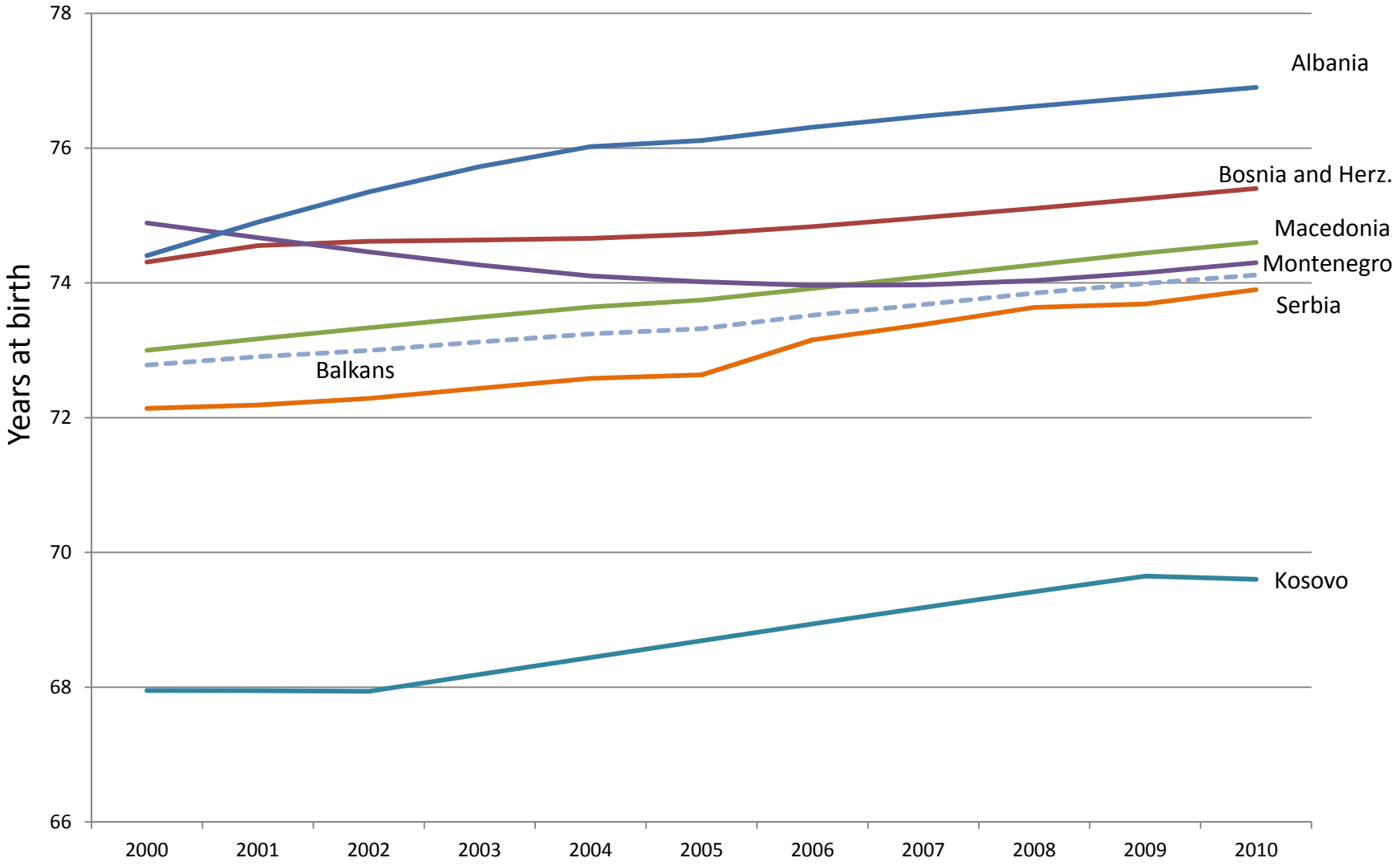
Adult Mortality Rate in Eastern Europe and Eurasia, 2009



World Health Organization, *World Health Statistics (*2010). AMR is the probability of dying between the ages of 15-60 per 1000 population.

Figure 38

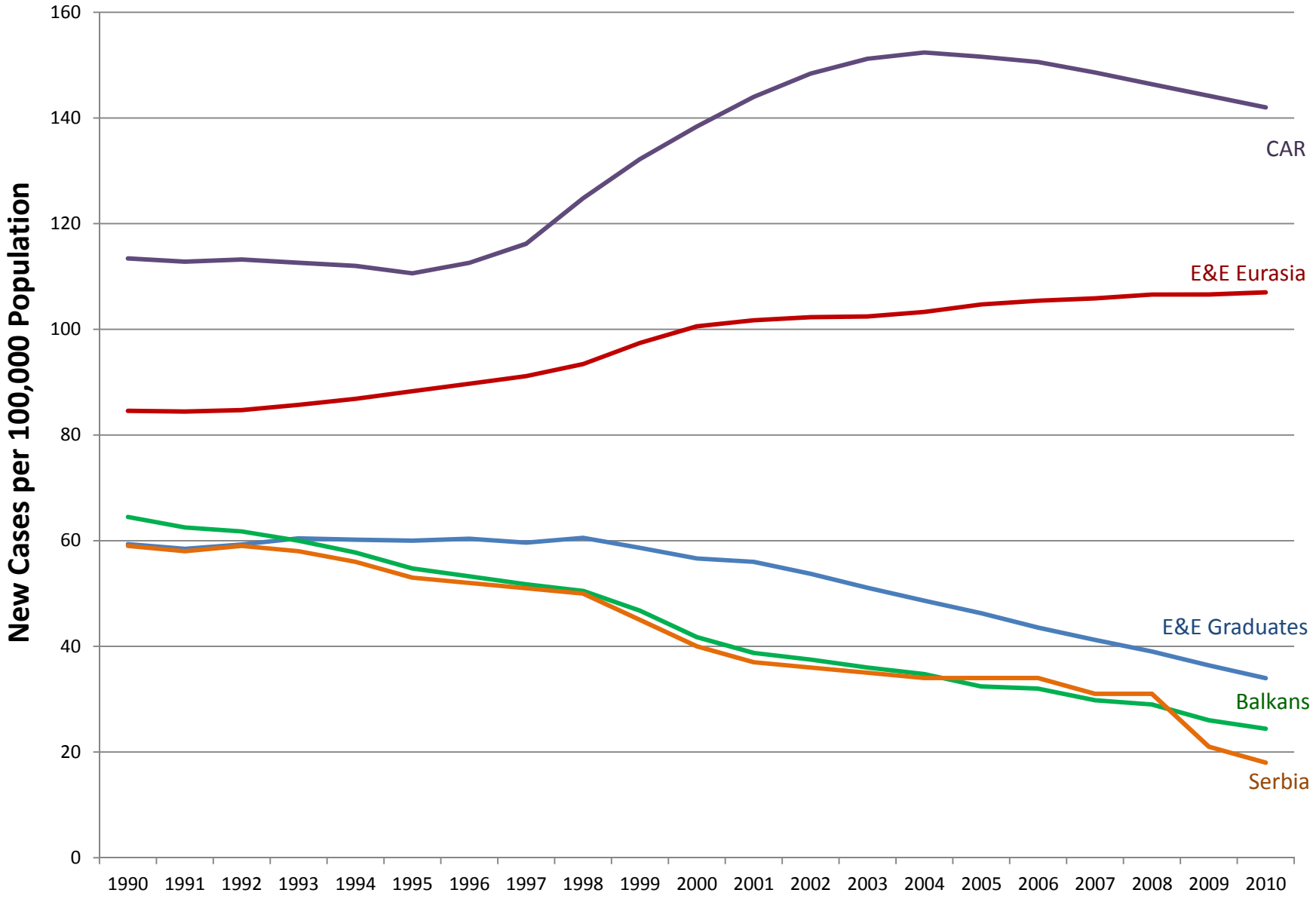
Life Expectancy at Birth



World Bank, *World Development Indicators* (2011).

Figure 39

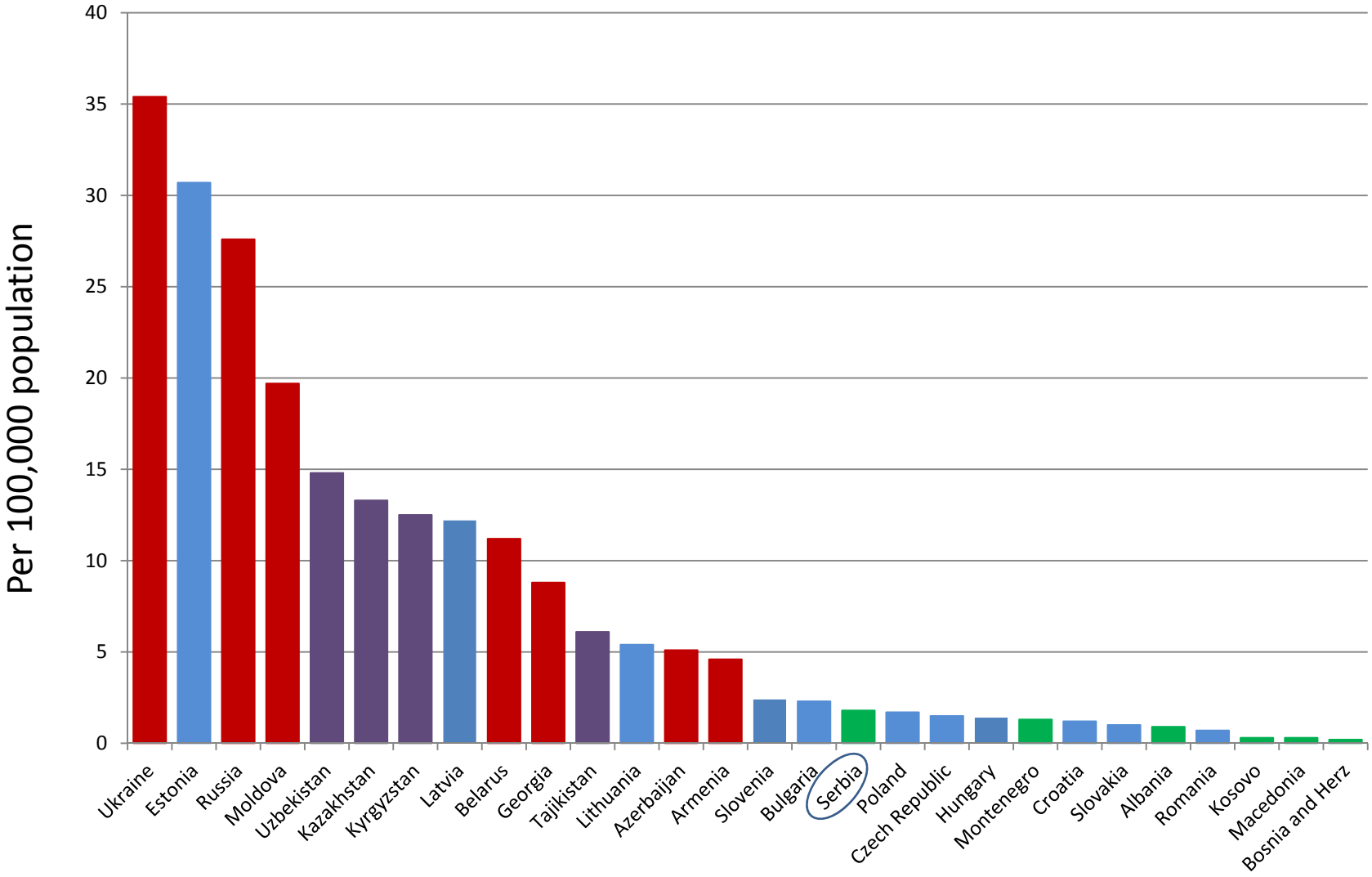
Tuberculosis Incidence



World Health Organization, *Global Tuberculosis Control* (2011).

Figure 40

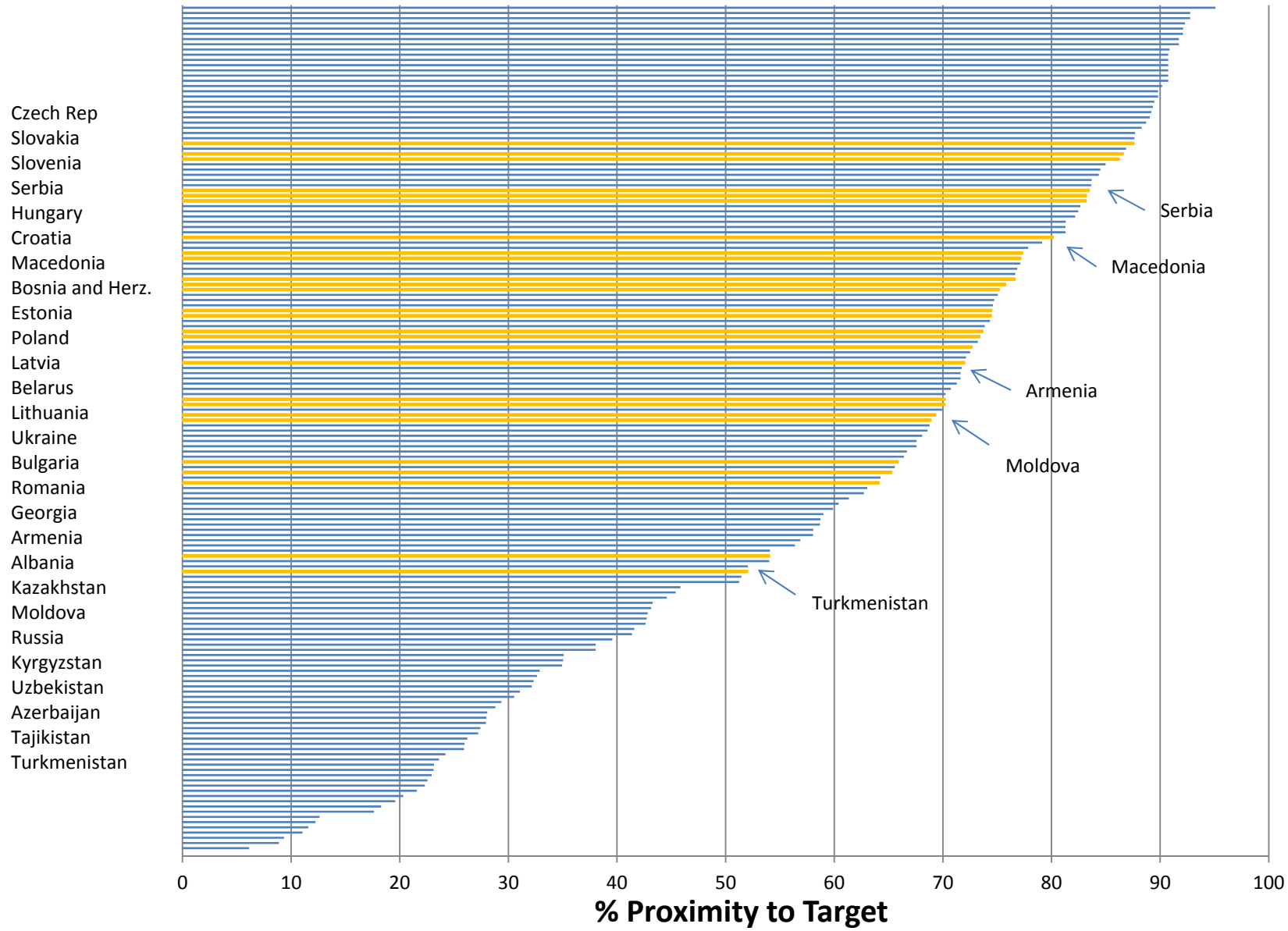
Adult HIV Incidence Rate, 2009



European Centre for Disease Prevention and Control (ECDC), HIV/AIDS *Surveillance in Europe 2009*.

Figure 41

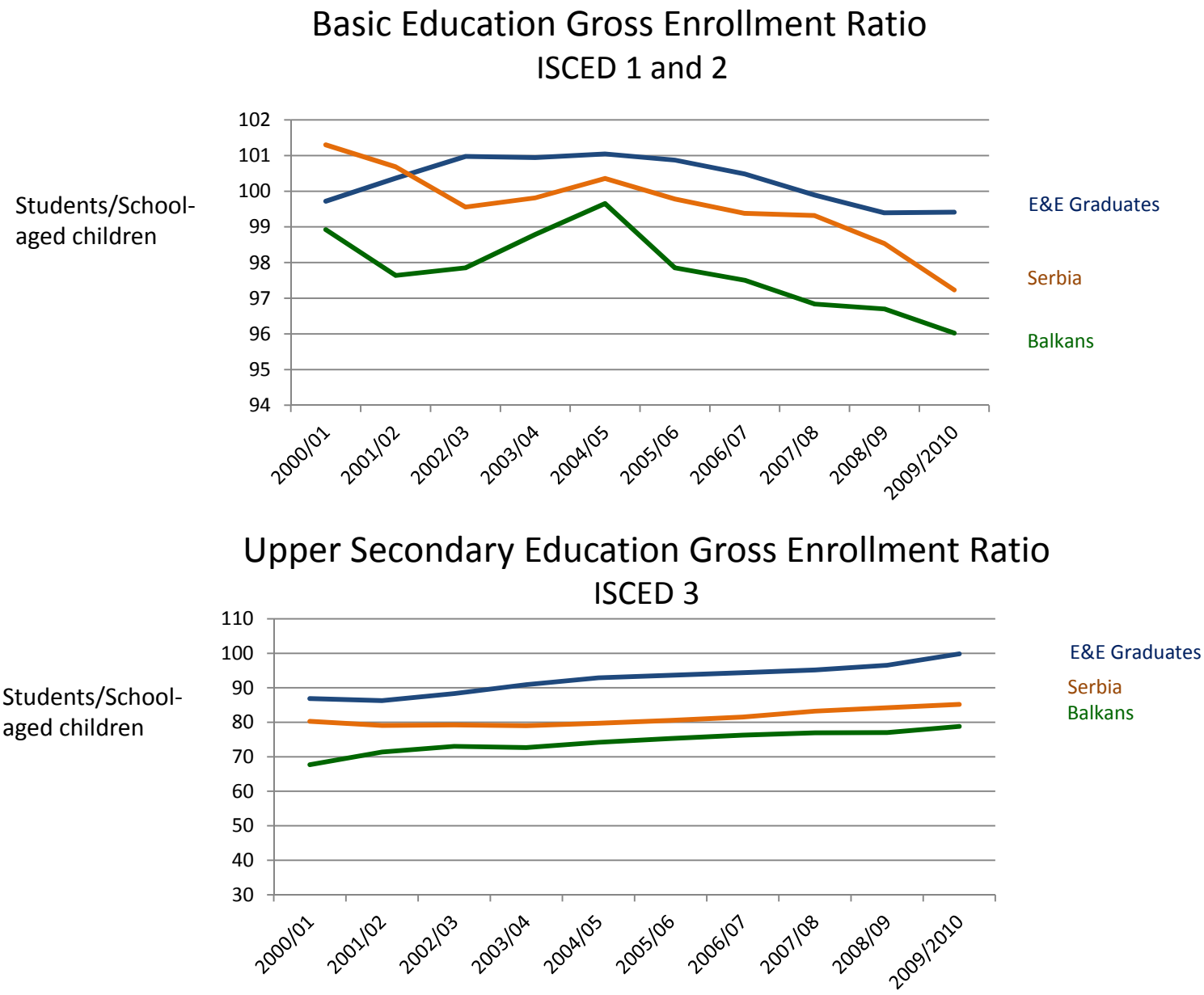
Environmental Health



Yale Center for Environmental Law & Policy and Center for International Earth Science Information Network, Columbia University, *2010 Environmental Performance Index* (2011).

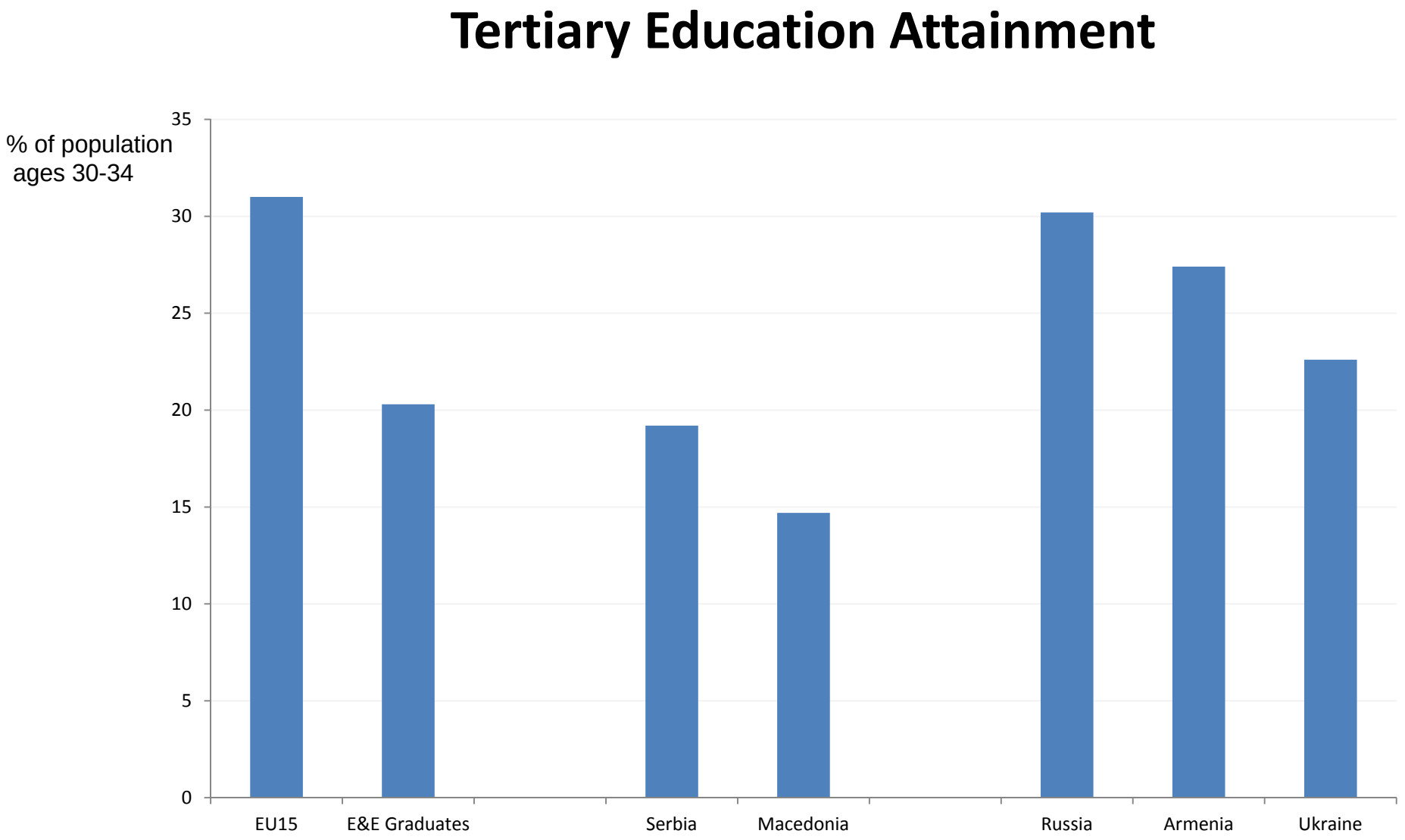
Figure 42

Education Enrollment Rates in Serbia and CEE



Upper secondary education is the final stage of secondary education. It begins at age 15-16 and lasts three to five years. UNICEF, *TransMONEE Database* (May 2011 and earlier editions).

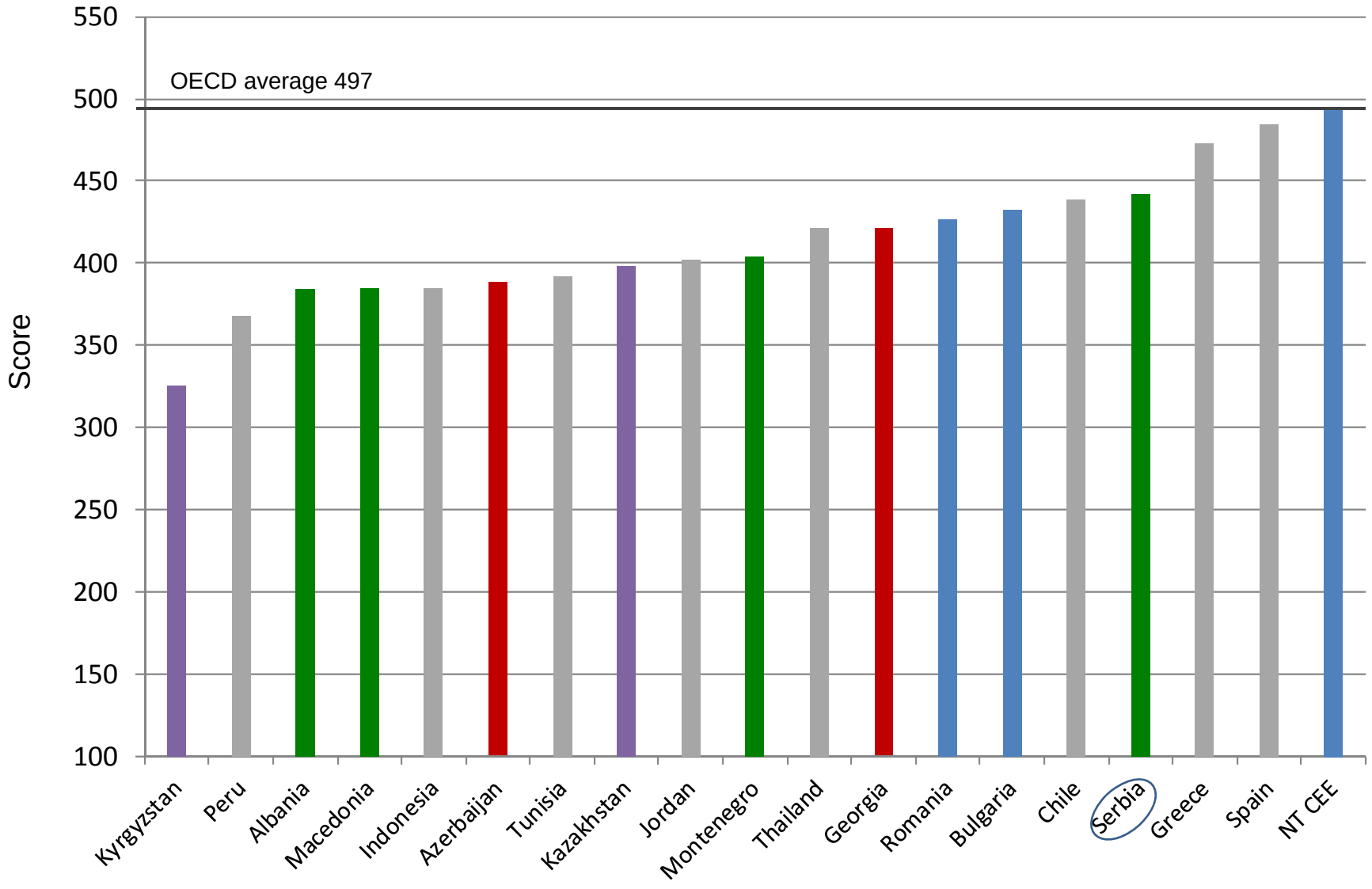
Figure 43



I. Gill and M. Raiser, *Golden Growth: Restoring the Luster of the European Economic Model*, World Bank (2012).

Figure 44

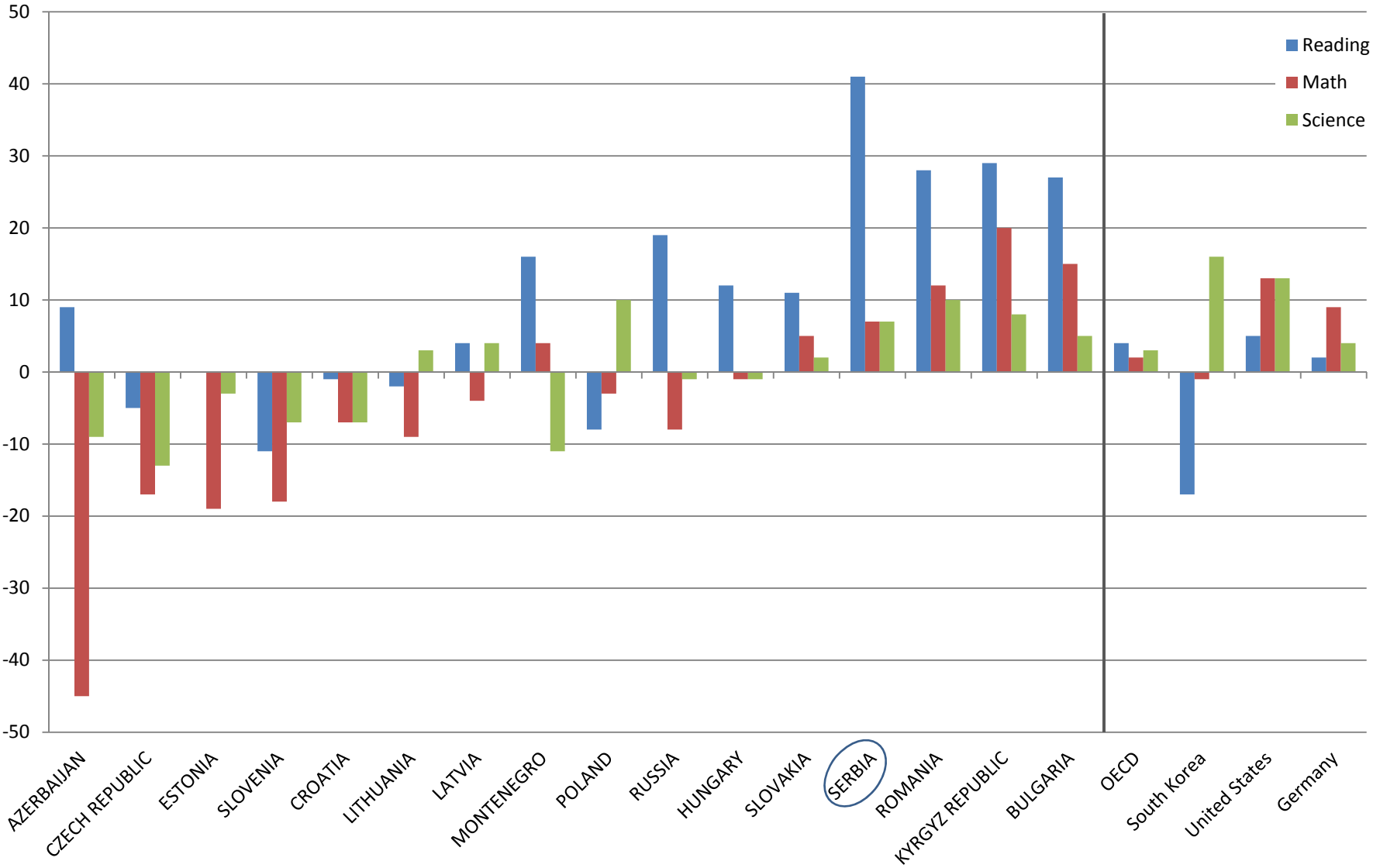
Functional Literacy in 2009



OECD, *Program for International Student Assessment* or PISA (2010). Macedonia's score is for 2006.

Figure 45

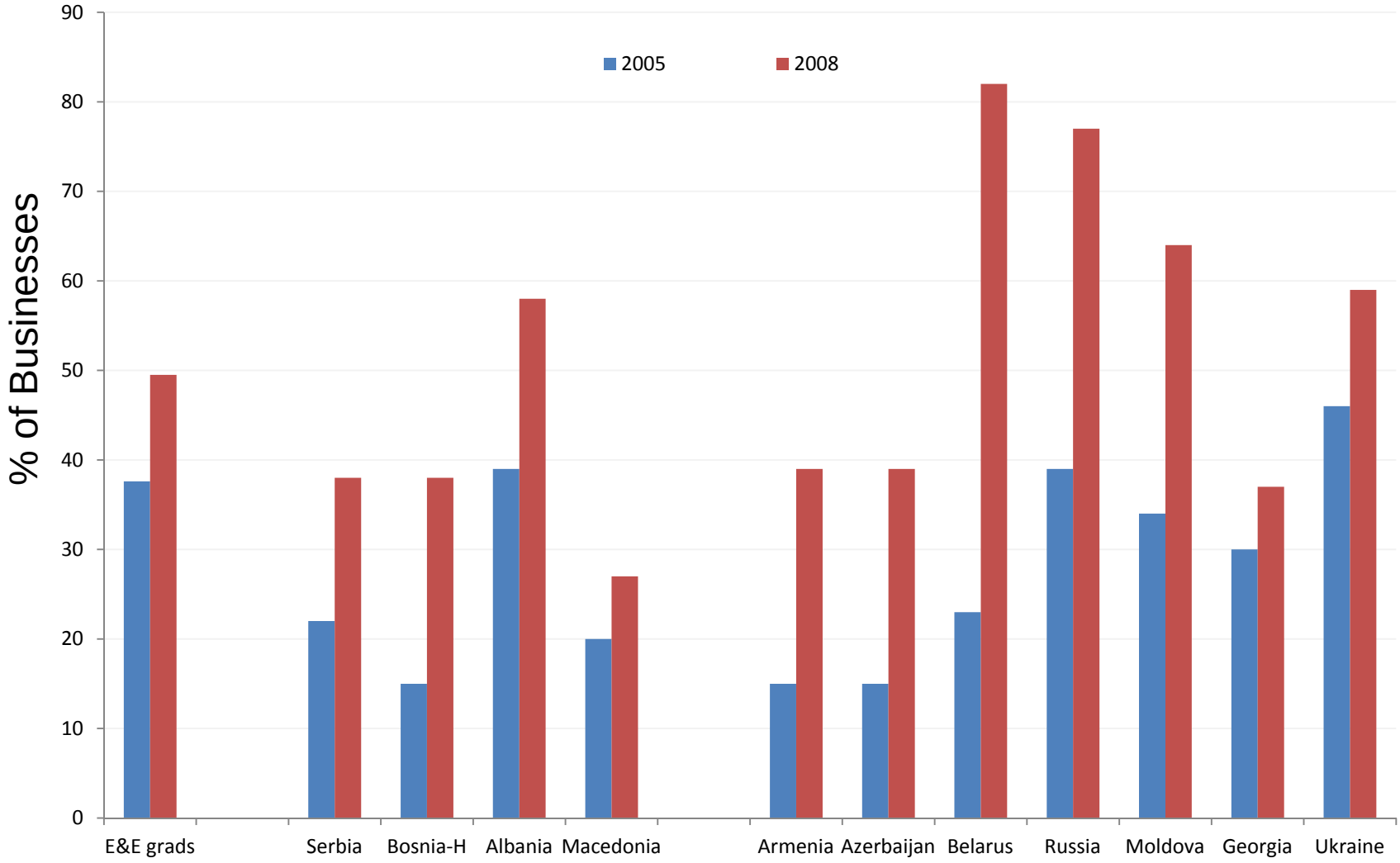
Functional Literacy: Changes in PISA Scores, 2006 to 2009



OECD, *Programme for International Student Assessment* (2010 and 2007). Earlier period reading scores for the U.S. are 2003.

Figure 46

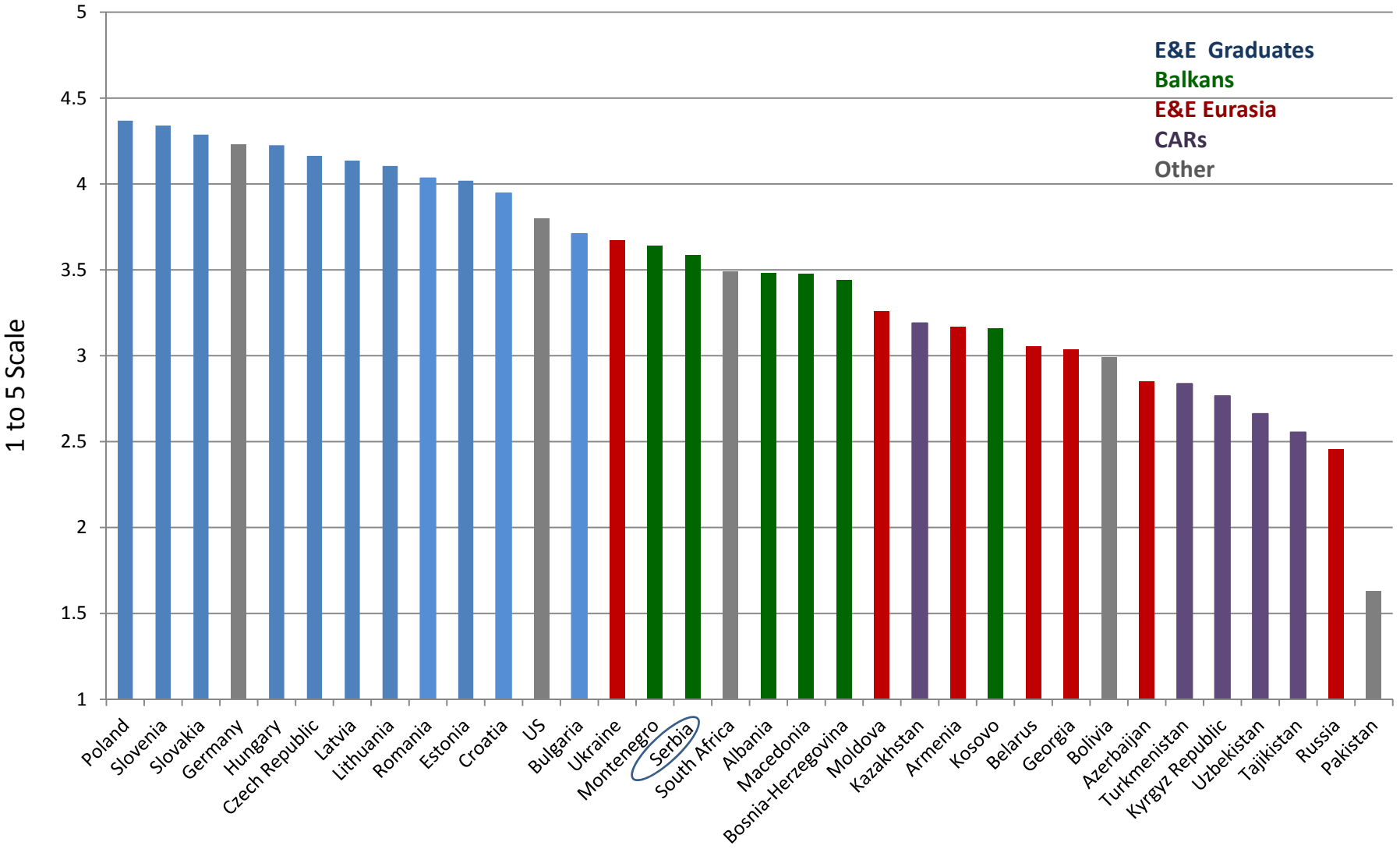
Skills and Education of the Workforce as a Business Constraint



World Bank and EBRD, *Business Environment and Enterprise Performance Survey* (2009). The percentage of businesses which perceives labor skills to be a significant business constraint.

Figure 47

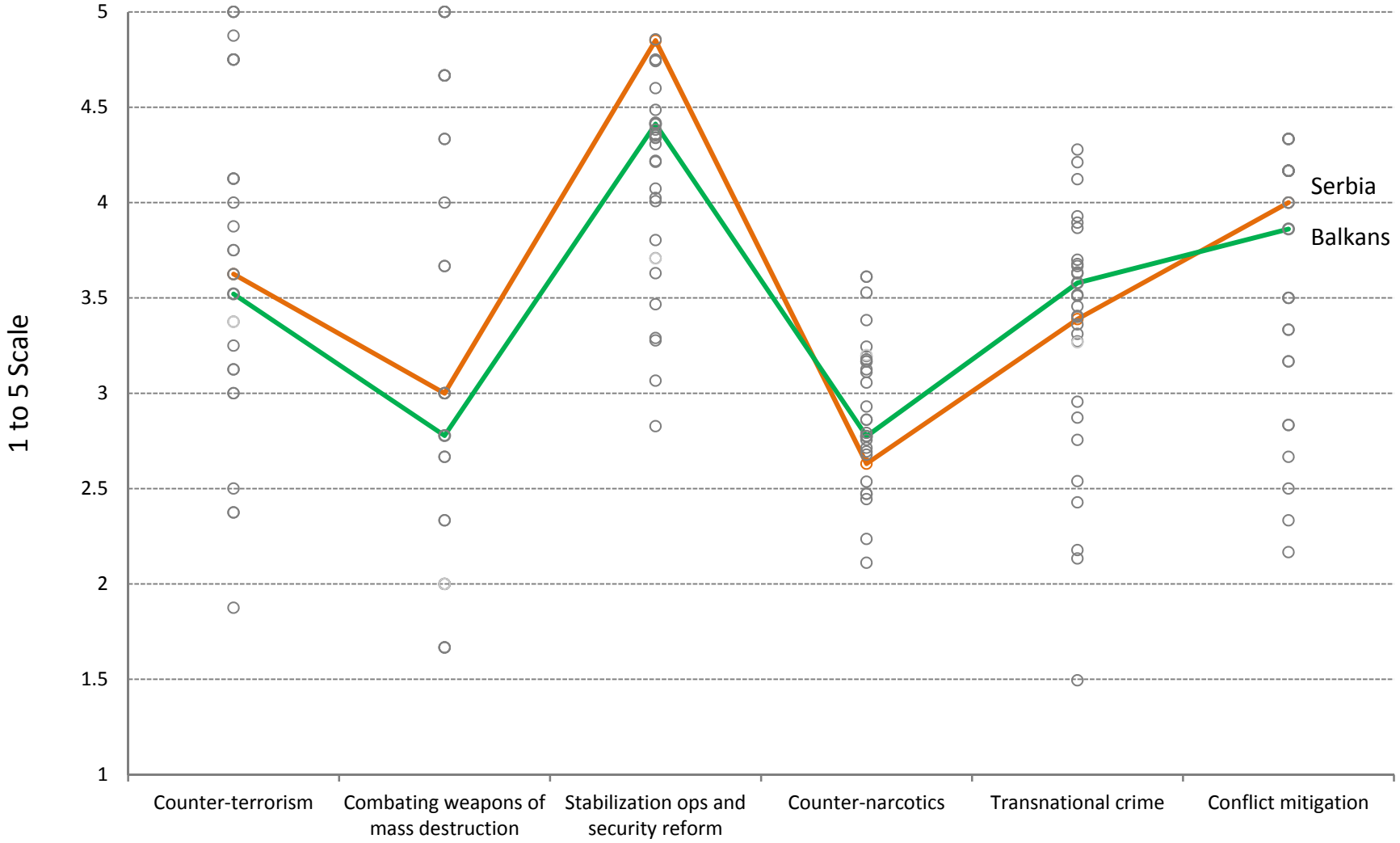
Peace and Security in Europe and Eurasia, 2010-2011



See *Appendix* for elaboration of the methodology. Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.

Figure 48

Peace and Security in Serbia and the Balkans



See *Appendix* for elaboration of the methodology. Scores calibrated on MCP 1 to 5 scale, with 5 representing the most advanced.