



# Serbia Country Strategy

## 2018-2023

As approved by the Board of Directors at its meeting on 27-02-18



**European Bank**  
for Reconstruction and Development

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## Glossary of Key Terms

<b>ABI</b>	Annual Business Investment	<b>MW</b>	Megawatt
<b>ASB</b>	Advice for Small Business	<b>NPL</b>	Non-performing loan
<b>CPI</b>	Consumer Price Index	<b>ODA</b>	Official Development Assistance
<b>CSO</b>	Civil society organisations	<b>OPCO</b>	Operating company
<b>E&amp;S</b>	Environmental and Social	<b>PFI</b>	Partner Financial Institutions
<b>EBRD</b>	European Bank for Reconstruction and Development	<b>PTI</b>	Portfolio Transition Impact
<b>EE</b>	Energy efficiency	<b>RE</b>	Renewable energy
<b>EHS</b>	Environment, health and safety	<b>REEP</b>	Regional Energy Efficiency Programme
<b>EIB</b>	European Investment Bank	<b>SHPP</b>	Small hydro power plant
<b>EPS</b>	Electric Power Industry of Serbia	<b>SME</b>	Small and Medium Enterprises
<b>ESCO</b>	Energy service company	<b>SOE</b>	State-owned Enterprise
<b>ETI</b>	Expected Transition Impact	<b>TC</b>	Technical Cooperation
<b>EU</b>	European Union	<b>TFP</b>	Trade Facilitation Programme
<b>E&amp;S</b>	Environmental and Social	<b>WB</b>	World Bank
<b>FDI</b>	Foreign Direct Investment	<b>WiB</b>	Women in Business
<b>GCAP</b>	Green City Action Plan		
<b>GDP</b>	Gross Domestic Product		
<b>GET</b>	Green Economy Transition		
<b>GHG</b>	Greenhouse gas		
<b>ICA</b>	Industry, Commerce and Agribusiness		
<b>IFI</b>	International Financial Institution		
<b>IMF</b>	International Monetary Fund		
<b>MSME</b>	Micro, Small and Medium Enterprise		

# Strategy for Serbia - Executive Summary

Serbia is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement establishing the Bank.

Economic growth has returned, as the country has largely overcome the economic disruption in the wake of the severe floods in 2014. The pace of economic reforms has also accelerated, and Serbia was named among the top ten performers in the 2016 World Bank Ease of Doing Business report. A three-year agreement with the IMF was signed in 2015, with implementation of structural reforms a key element. Serbia continues to advance steadily on its path to EU membership and is an active participant in the Berlin Process, seeking closer integration with its Western Balkan neighbours. The EBRD supports these processes both through investments and policy engagement and will continue to do so – coordinating with multilateral and bilateral partners – in the coming strategy period.

Despite the progress made, Serbia still faces significant challenges in its transition to a sustainable market economy, as defined by the EBRD, i.e. one that is competitive, well-governed, green, inclusive, resilient and integrated, as large gaps exist in all six qualities. Cognizant of pressing transition needs, the government's reform agenda, and the Bank's own strengths relative to other IFIs and donors, the EBRD will prioritise assisting Serbia in enhancing **competitiveness and governance**, which are impacted by low productivity of unreformed SOEs and public utilities, as well as investment climate deficiencies, which hamper private sector led growth, and strengthening **integration**, a key regional priority in the Western Balkans, which is impeded *inter alia* by inadequate transport infrastructure. Promoting **green transition** will be another priority, as Serbia suffers from high levels of energy intensity and remains vulnerable to climate change.

With that in mind, the EBRD is set to pursue the following strategic priorities in Serbia in 2018-2023:

- Foster Competitiveness and Governance by enhancing private companies' capacity, and reforming selected SOEs and public utilities
- Enhance Integration by improving the transport network, supporting regional economic connectivity reform, and advancing energy interconnectivity
- Support Green economy by fostering energy efficiency, enhancing renewable energy, and promoting sustainable practices

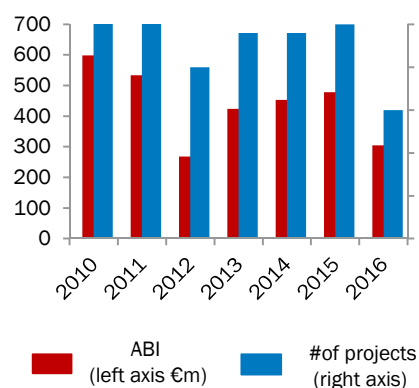
Through its projects, the EBRD will also aim to promote inclusive, gender-equal growth, in line with its Board-approved Gender Strategy and Economic Inclusion Strategy. The Bank will also continue to assist in the resolution of the NPL crisis at the NPL Working Group level.

# Serbia - EBRD Snapshot

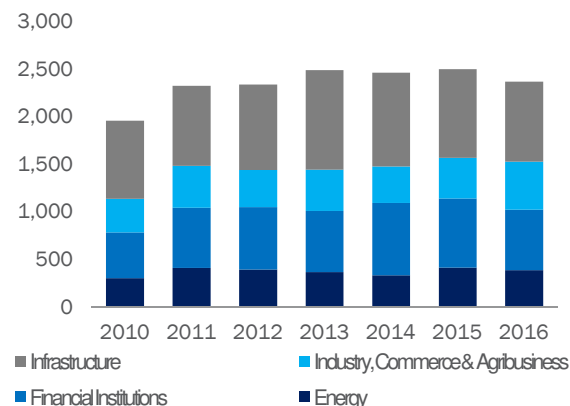
## EBRD Investment Activities in Serbia <sup>1</sup>

Portfolio	€2,244m	# of active projects	100
Equity share	13%	Operating assets	€1,529m
Private sector share of portfolio	44%	Net cum. investment	€4,538m

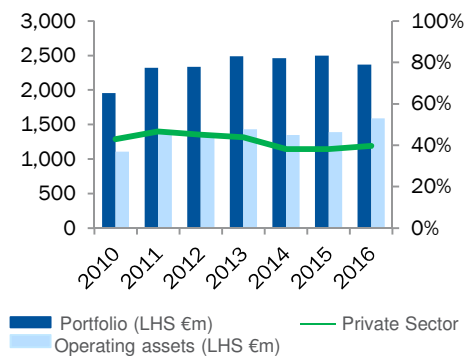
### ABI and Operations



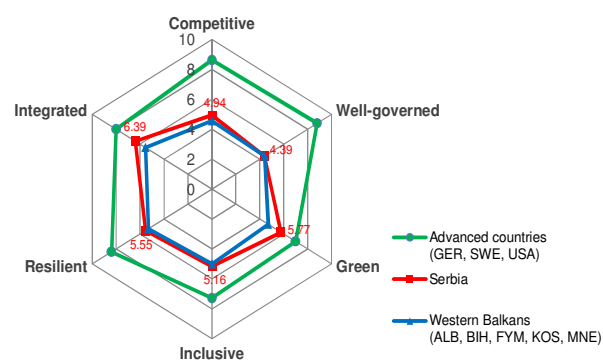
### Portfolio Composition (€m)



### Portfolio Dynamics



### Transition Gaps



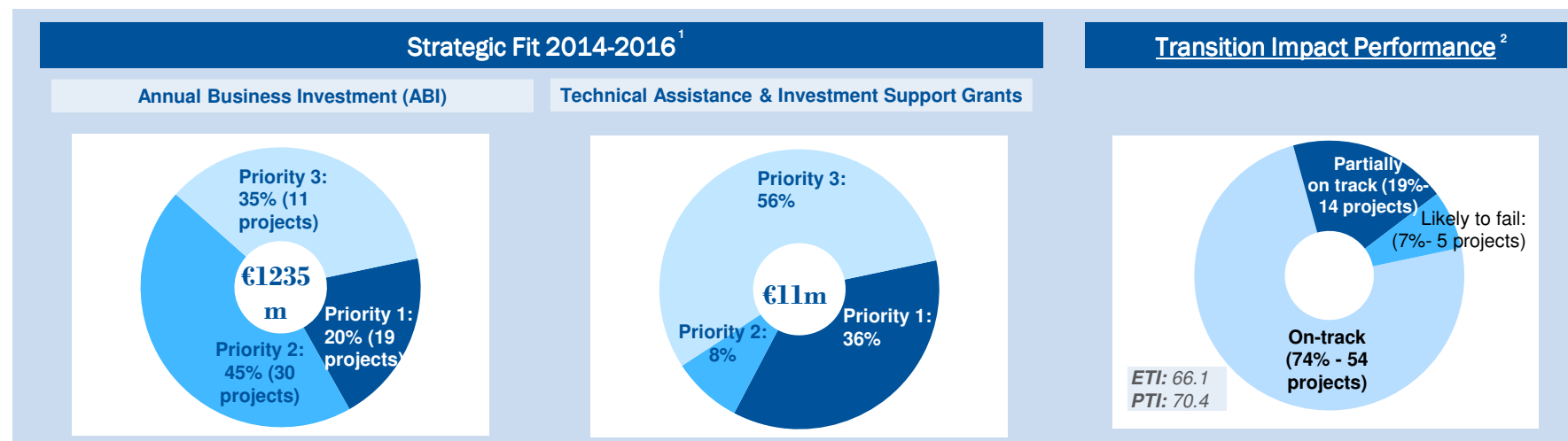
## Serbia - Key figures

Population (m)	7.0	2016
GDP per capita (PPP, USD)	14,493	2016
Global Competitiveness Index (World Economic Forum, rank out of 138)	78	2017-18
Unemployment (%) (Statistical Office of the Republic of Serbia)	15.3%	2016
Youth unemployment (%) (Statistical Office of the Republic of Serbia)	34.9%	2016
Female Labour participation (%) (International Labour Organization)	43.4%	2016
Energy intensity (TPES/GDP) (toe/thousand 2010 USD. Source: IEA)	0.35	2014
Emission intensity/GDP (kgCO2/2010 USD. Source: IEA)	1.01	2014

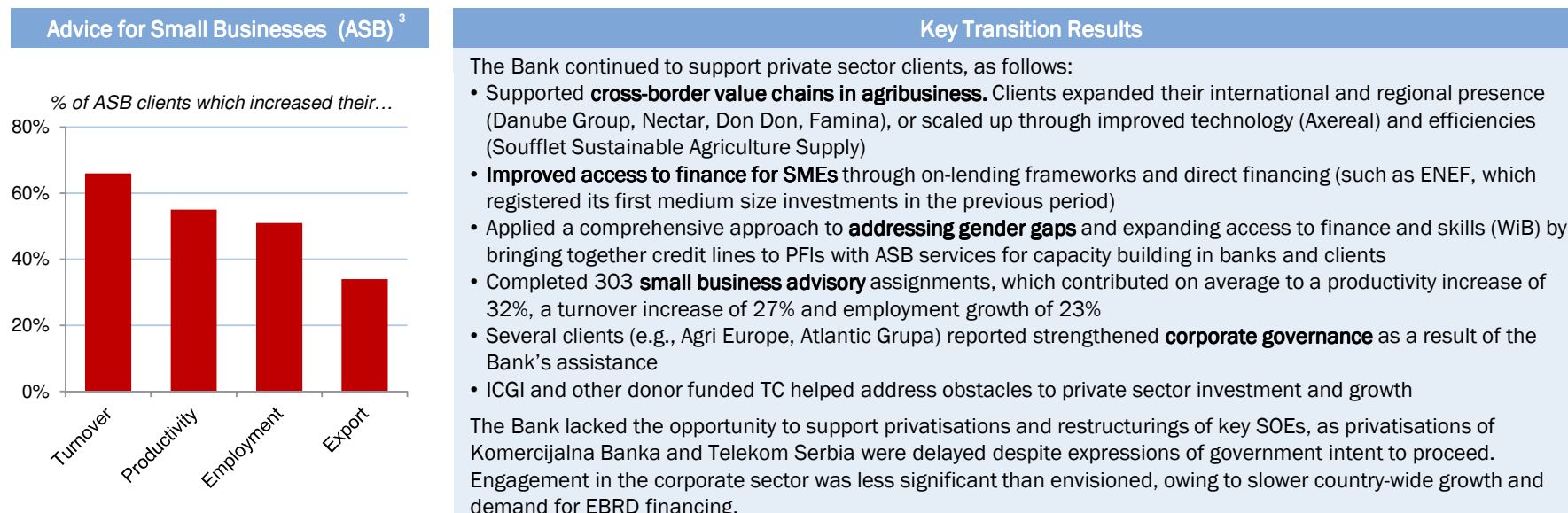
1. End-October 2017 data. Private sector share: cumulative Bank Investment 5 year rolling portfolio ratio

# 1. Implementation of Previous Strategy – 2014-2017

## 1.1. Key Transition Results achieved during previous strategy period



### Priority 1: Enhancing the role and competitiveness of the private sector



1. Strategic priorities 2014-2016: 1) Private Sector Competitiveness 2) Strengthening the financial sector; 3) Developing public utilities .  
2. Data as of end-2016. Transition impact performance reflects how likely projects are to achieve the transition **PUBLIC** was expected of them at signing.  
3. Evaluated projects 2014-2017



# 1. Implementation of Previous Strategy – 2014-2017

## 1.1. Key Transition Results achieved during previous strategy period

### Priority 2: Bolstering the banking sector and deepening financial intermediation

#### Key Transition Results

The Bank helped reduce currency exposure in the banking sector by **supporting local currency** funding:

- Issued the first ever local currency bond by an international institution. Used the proceeds of the bond for on-lending to support SME and MEI activities
- Facilitated local banks' reduction of portfolio currency risk through **cross currency basis swaps**
- Helped shore up public trust in the banking system, **enhancing sustainability of deposit insurance** by providing a credit line to the Deposit Insurance Agency (DIA), in combination with strategic TC initiative to strengthen the DIA's institutional capacity
- Pursued policy engagement within the NPL working group, which led to the government's **adoption of a NPL resolution strategy** and implementation of important legal reforms. The overall rate of NPLs was reduced in two years from 22% to 12%

The demand for the Bank's debt funding (whether in Euro or local currency) has, however, slackened due to:

- Ample liquidity in the banking sector and a low interest rates environment, which rendered EBRD's funds less attractive to end-borrowers
- Weak demand for long-term dinar funding

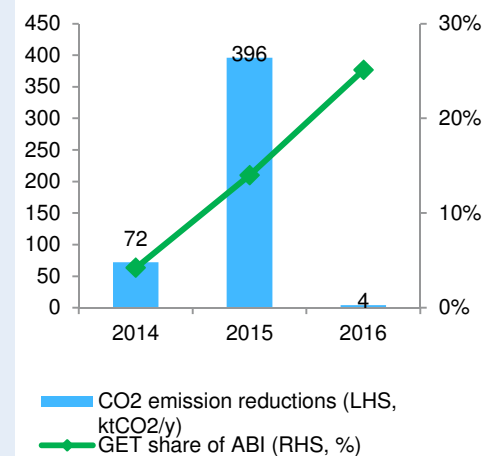
### Priority 3: Developing sustainable and efficient public utilities

#### Key Transition Results

The Bank continued its support for public utilities' transformation:

- Continued lending and policy advice for Serbia Railways, leading to the completion of the unbundling into three Opcos. Meanwhile, implementation continued on the **rehabilitation of Corridor X**
- Invested in broadcast sector **restructuring and development of broadband infrastructure** (Digital Switchover), which increased the share of rural households connected to TV and telecoms systems
- Combined lending with a **Corporate Governance Action Plan at EPS**
- Implemented a major loan to the **Public Transport Company of Belgrade**, combined with a corporate governance advisory programme which should increase operational and financial efficiency
- **Signed the ICGI MoU** – expanding key policy advisory projects to engage, among other initiatives, in policy dialogue to provide PPP assistance and strengthen regulator capacity on procurement

The Bank has been constrained in its ability to support PPPs due to low implementation capacity and legal and regulatory bottlenecks. The Bank is providing advisory assistance to address these issues.



# 1. Implementation of Previous Strategy – 2014-2017

## 1.2. Challenges to Implementation and Key Lessons

### Context for implementation:

- The Serbian economy was severely impacted by the flood damage in May 2014. The Bank responded with a number of urgent projects, including 1) restructuring of the Sava River Crossing 2) re-focusing of the Belgrade Municipal Infrastructure Reconstruction Programme (MIRP) and 3) preparation of the EPS Restructuring Loan. The economy returned to growth in 2015, driven by investment and stronger external demand. Serbia's Stand-By Arrangement with the IMF helped restore fiscal discipline, and implementation of structural reforms has begun to produce results in the investment environment. All parties recognise continuing obstacles to doing business, particularly regulatory uncertainty, poor tax administration, unanticipated para-fiscal charges and judicial system weaknesses. EBRD increasingly focused on municipal borrowers, and achieved success in the agribusiness sector. The low interest rate environment and high liquidity in the banking system affected demand for funding from corporates, EBRD partner banks and SME end-borrowers. SOE restructuring and/or privatisation remain a key priority which will require further support in the next strategy period. The government remains committed to EU accession, as well as to the Berlin process and Regional Economic Area, opening opportunities for regional integration in trade, infrastructure and energy.

### Implementation Challenges and Opportunities

- In a low rate environment, the Bank's more generic financing products proved less attractive to potential clients
- Weak corporate governance is a deterrent to restructuring through equity infusion in the highly-leveraged corporate sector
- Government has proceeded cautiously with privatisations and restructurings of SOEs, as well as the rollout of PPP projects (particularly outside Belgrade)
- Few opportunities to assist FDI, as international investors remain largely deterred by uncertain regulation
- EU accession and regional integration provide opportunities to enhance interconnectivity

### Key Lessons

- Seek to scale up lending frameworks (e.g., WiB), co-financing, and risk sharing products with local banks as alternatives to direct financing. Work with donors and Government in risk sharing arrangements
- Encourage corporates to consider equity as alternative to debt, and improve corporate and market governance to enable investment
- Need to accelerate commercialisation and restructuring of SOEs; enhance capacity of local governments and public utilities
- Implementation of the investment climate and governance initiative supports business environment reforms and enhances investment activities
- Expand cooperation with EU, IFIs and donors to spur economic and political rapprochement both with regional neighbours and the wider European region

## 2. Economic Context

### 2.1 . Macroeconomic Context and Outlook for Strategy Period

Serbia Main macroeconomic indicators				
	2013	2014	2015	2016
GDP growth (% y-o-y)	2.6%	-1.8%	0.8%	<b>2.8%</b>
CPI inflation (% avg.)	7.7%	2.1%	1.4%	<b>1.1%</b>
Government balance (% of GDP)	-5.5%	-6.6%	-3.7%	<b>-1.3%</b>
Current account balance (% of GDP)	-6.1%	-6.0%	-4.7%	<b>-4.0%</b>
Net FDI (% of GDP)	3.8%	3.7%	5.4%	<b>5.5%</b>
External debt (% of GDP)	74.8%	77.1%	78.3%	<b>77.8%</b>
Gross reserves (% of GDP)	32.7%	29.7%	31.0%	<b>29.9%</b>
Total investment to GDP (% of GDP)	17.7%	17.5%	18.9%	<b>18.1%</b>
General government gross debt (% of GDP)	61.1%	71.9%	76.0%	<b>74.1%</b>
Private sector credit (% of GDP)	43.6%	43.4%	43.4%	<b>44.1%</b>
Unemployment (%)	23%	19.9%	17.7%	<b>15.3%</b>
Nominal GDP (US\$bn)	<b>45.5</b>	<b>44.2</b>	<b>37.2</b>	<b>37.7</b>

Source: National Bank of Serbia, World Bank Group, Eurostat, IMF

- **Economic growth started to recover in recent years** after stagnating between 2009 and 2014. Severe floods in May 2014 damaged the energy and mining sectors in particular and led to a GDP decline of 1.8 per cent. The country returned to growth in 2015 (0.8 per cent), rising to 2.8 per cent in 2016. Driven by investment and exports, growth was also helped by supply-side factors – low oil prices and interest rates, recovery of the mining and energy sectors, and a strong agricultural season in 2016.
- **Medium-term growth prospects primarily depend on reform progress.** The economy is expected to slow down to 1.8 per cent growth in 2017 (due to drought and difficulties in mining and electricity generation) and pick up to 2.9 per cent in 2018. Exports and consumption should be the main growth drivers. An acceleration of medium-term growth depends on further business environment reforms, SOE restructuring, and increased investment in a more innovative and connected economy.
- With an investment-to-GDP ratio below 20 per cent, the **investment gap is still sizable compared to other countries at a similar level of development.** Bank lending is constrained by corporate NPLs and over-indebtedness, which are high even by regional standards.
- **Productivity growth is essential for faster convergence, especially in light of expected further population decline.** Greater inclusion of youth into employment, stronger institutions and improvements in business environment would support productivity the most. Enhancing the quality of infrastructure, increasing energy efficiency and improving further the macroeconomic environment are also important.



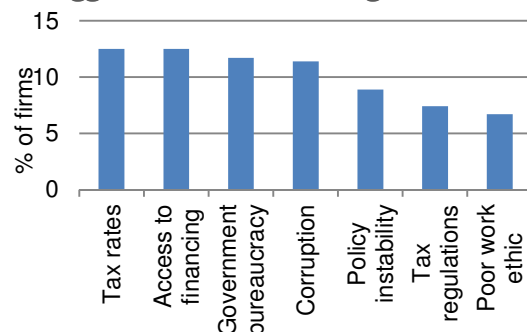
## 2. Economic Context

### 2.2 . Key Transition Challenges<sup>1</sup>

#### Competitiveness

- Low productivity of the economy dominated by inefficient SOEs in need of restructuring/privatisation
- Underperforming corporate sector in need of consolidation, and lacking capital investment
- More investment needed for long-term economic convergence
- Obstacles for SMEs: unpredictable business environment, high para-fiscal charges, difficult and costly access to finance
- Skills mismatches contributing to high youth unemployment and new training requirements

Biggest obstacles for doing business



Source: WEF's Global Competitiveness Index 2017-2018

#### Governance

- Weak performance in public governance due to:
  - Shortcomings in property rights protection and government effectiveness, as well as high regulatory burden
  - Insufficient transparency on state subsidies and government policy-making
  - Secondary legislation usually adopted with delays
  - Numerous non-transparent inspections and para-fiscal charges
  - Perception that some investors benefit from an uneven playing field
- Weak corporate governance of both public and private companies

Governance Indicators

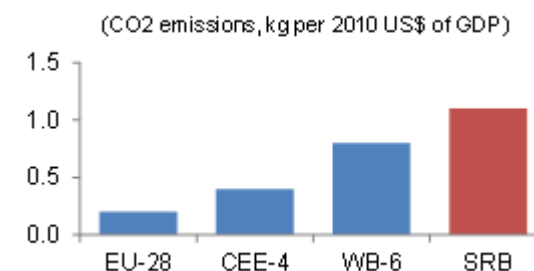


Source: The World Bank's Worldwide Governance Indicators database

#### Green Transition

- High energy/carbon intensity due to losses in production, transmission and distribution, outdated infrastructure, intensive use of coal and low energy efficiency at end-user level
- Poor air quality, especially in urban areas
- Renewables by 2020: 27 per cent of energy consumption vs. 15 per cent in 2014. Potential in wind, hydro, biomass
- Wastewater treatment remains the most underdeveloped sub-sector of water infrastructure
- Significant room for improvement in waste recycling

Carbon Intensity



Source: World Bank's World Development Indicators

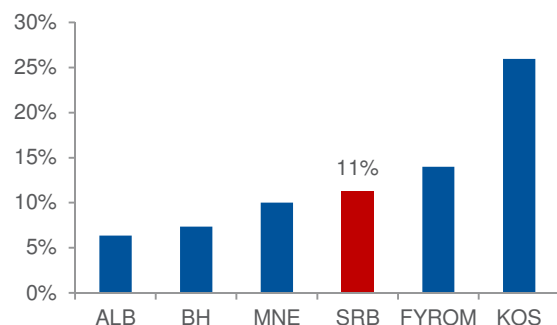
1. See EBRD Country Diagnostic for more details.

## 2. Economic Context

### 2.2 . Key Transition Challenges<sup>1</sup>

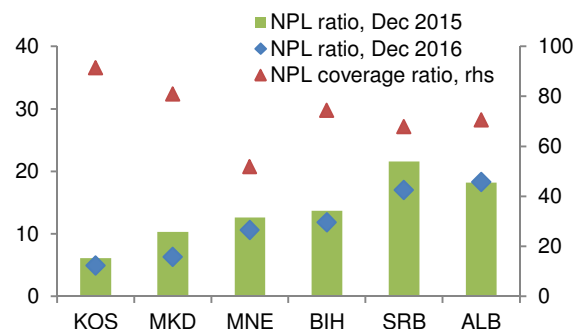
Inclusion	Resilience	Integration
<ul style="list-style-type: none"> <li>High levels of youth unemployment, including of higher education graduates</li> <li>Youth's limited access to training and resources</li> <li>Gender inequality: higher activity rates for men and difficulties for women entering labour market and gaining full-time employment</li> <li>Other vulnerable groups include the elderly, Roma, rural population</li> </ul>	<ul style="list-style-type: none"> <li>High NPLs and corporate indebtedness, even by regional standards</li> <li>Highly euroised banking sector, underdeveloped capital markets</li> <li>Energy security heavily reliant on coal from open-pit mines in electricity generation</li> <li>Vulnerability to climate shocks: damages of around 5 per cent of GDP from 2014 floods</li> </ul>	<ul style="list-style-type: none"> <li>In-country and cross-border integration hampered by poor-quality transport infrastructure (water, air, roads, railways)</li> <li>Potential to attract FDI through improvements to business environment, transport and energy infrastructure</li> </ul>

Inadequately educated workforce is a major or severe obstacle to current operations



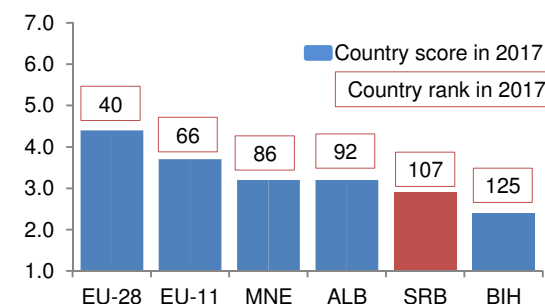
Source: EBRD BEEPS V

Non-performing loans (%)



Source: Vienna Initiative

Transport Infrastructure



Source: WEF's Global Competitiveness Index

1. See EBRD Country Diagnostic for more details.

# 3. Government Priorities and Stakeholder Engagement

## 3.1. Government Reform Priorities

- Continue EU approximation process and associated reforms
- Consolidate macro stability and reduce government debt burden, including implicit debts of SOEs and municipalities. Strengthen the financial sector, including dinarisation. Implement structural reforms
- Accelerate privatisation and restructuring of SOEs, using different mechanisms to bring strategic partners on board
- Continue business environment reforms to remove obstacles. Pursue E-Government initiatives for efficiency and transparency
- Promote entrepreneurship among the younger population through the educational system and support SMEs
- Strengthen innovation and digitalisation, including through innovation parks and the Innovation Fund

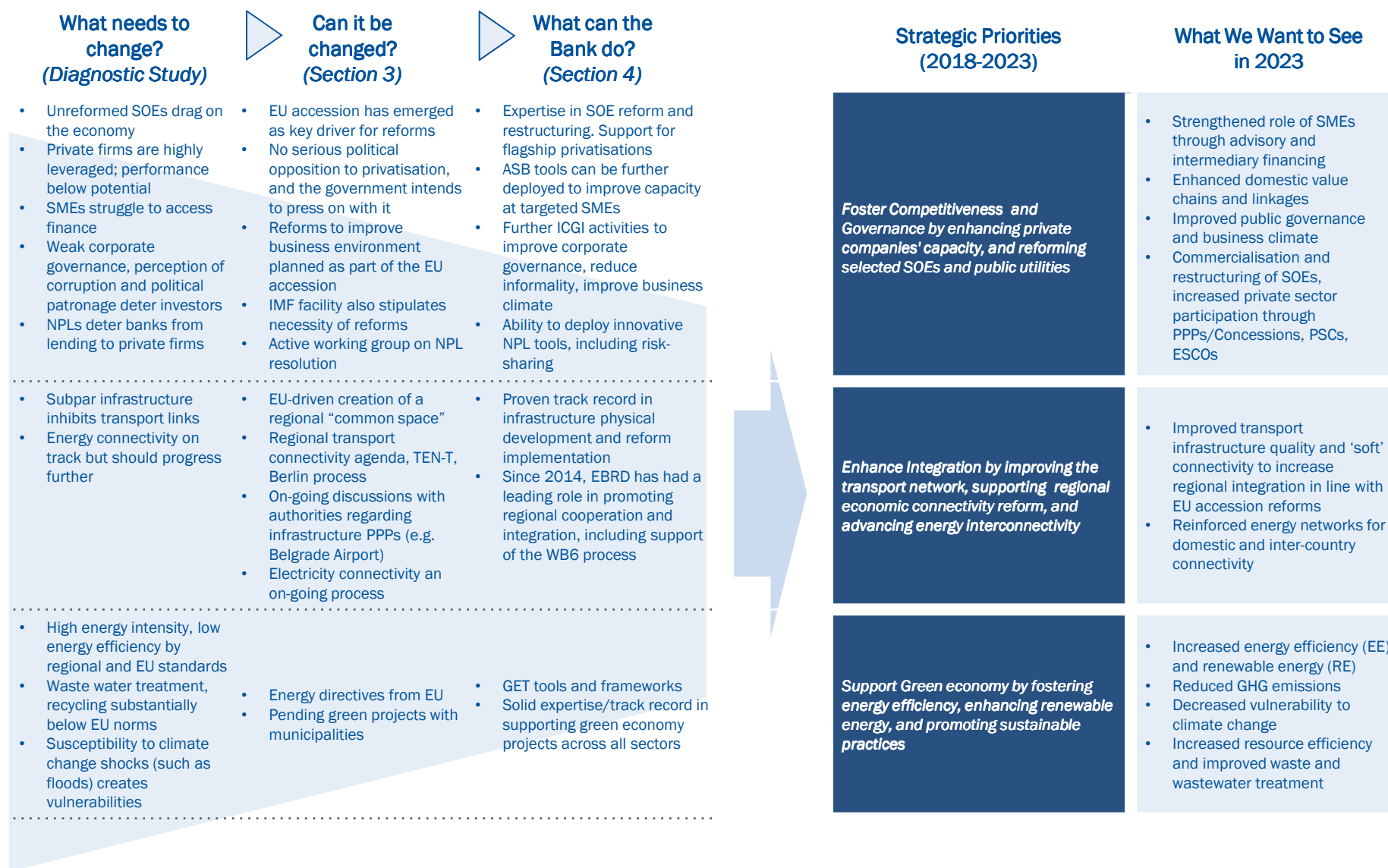
## 3.2. EBRD Reform Areas Broadly Agreed with the Authorities in line with EU reform agenda

- Supporting regional integration in line with the Berlin process and further connectivity measures
- Backing privatisation, reforms and commercialisation of SOEs
- Support for SMEs through business climate reforms, greater recourse to tools provided by ASB, and where possible targeted lending products
- Promoting youth inclusion, especially in rural areas, through training and internships, Private Sector Youth Initiative and possibly a Sector Skills Council
- Utilising ICGI to pursue reforms, including inspections, e-government, regulatory improvements and judicial reforms
- Energy efficiency and energy policy reforms
- Strengthening local governments' implementation capacity

## 3.3. Key Messages from Civil Society to EBRD

- Lack of transparency at government decision-making level persists, extending to monitoring of design and implementation of projects
- The energy sector (using IFI funds) is focused on short-term benefits of coal rather than long-term benefit of converting to sustainable production
- The lack of good jobs providing liveable wages leads to a continuing flow of productive workforce members leaving Serbia
- Local regions are cut off due to lack of rail and road connections – IFIs should consider greater financing of local rail connections as this is a sustainable solution
- The lacking regulation regarding microfinance is one issue which is hindering women-owned businesses from accessing finance

## 4. Defining EBRD Serbia Strategy Priorities



## 5. Activities and Results Framework

### *Priority 1: Foster Competitiveness and Governance by enhancing private companies' capacity, and reforming selected SOEs and public utilities*

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> <li>Strengthened role of SMEs through advisory and intermediary financing</li> <li>Enhanced domestic value chains and linkages</li> <li>Improved public governance and business climate</li> </ul>	<ul style="list-style-type: none"> <li>Leverage ASB tools and FI products to improve SME internal capacity, governance, financial performance and investment readiness, including through ENEF and the EU competitiveness facility; support select SMEs in scaling-up through “Blue Ribbon” programme</li> <li>Assist bankable corporates in growing value added products, deepening domestic value chains and domestic backward linkages</li> <li>Support new technologies and innovation, benefitting from digital switchover and broadband penetration in ICT</li> <li>Business climate improvement advocacy through the Investment Climate and Governance Initiative (ICGI): <ul style="list-style-type: none"> <li>Developing eGovernance, enhancing commercial mediation, strengthening PPP commission, improving procurement practices, promoting competition, fostering integrity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Total number/volume of SME loans provided/outstanding by PFIs, including WiB</li> <li>Number of ASB and corporate clients with increased productivity</li> <li>Legal, institutional and regulatory changes improving business climate as targeted</li> </ul>
<ul style="list-style-type: none"> <li>Commercialisation and restructuring of SOEs, increased private sector participation through PPPs/Concessions, PSCs, ESCOs</li> </ul>	<ul style="list-style-type: none"> <li>Support selected SOE restructurings and commercialisation, including, where possible, privatisations, concessions/PPPs</li> <li>Enhance PPP capacity at national and municipal level, including through PPP certification programmes and seminars</li> <li>Promote rail sector reform (including corporate governance, productivity improvement, tariff reform)</li> <li>Expand MEI activities to more small and mid-size municipalities,, including through frameworks</li> </ul>	<ul style="list-style-type: none"> <li>Improved performance, governance and/or efficiency metrics</li> <li>PPPs/Concessions implemented, PSCs signed</li> </ul>



## 5. Activities and Results Framework

### *Priority 2: Enhance Integration by improving the transport network, supporting regional economic connectivity reform, and advancing energy interconnectivity*

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> <li>Improved transport infrastructure quality and 'soft' connectivity to increase regional integration in line with EU accession reforms</li> <li>Reinforced energy networks for domestic and inter-country connectivity</li> </ul>	<ul style="list-style-type: none"> <li>Support development/extension of transport network corridors, incl. Serbia sections of Trans European Network (TEN-T) corridors, such as Corridor 10 (extension of railway, intermodal connections along the corridor), Route 7 (Merdere-Pristina "Peace Highway"), which is a part of the Western Balkans core network, and regional air-space integration</li> <li>Provide finance and TC to improve domestic infrastructure, including local and municipal roads, rail and ports</li> <li>Support further cross-border energy interconnections, integration into regional electricity grid and strengthening of the domestic grid</li> <li>Advise on policy reforms agreed under the Western Balkans 6 connectivity agenda and on prioritisation of investment projects under the Western Balkans Investment Framework ("WBIF")</li> <li>Support connectivity reform "soft" measures as part of a key EBRD regional priority and in line with EU accession reforms, including harmonisation of legislation, establishment of the regional chamber of commerce and digital integration (SEELink, and business registry portal SBRA)</li> <li>Seek bankable opportunities to support concessions in transport and other infrastructure</li> <li>Assist (policy, financing) in the development of private and public intermodal terminals, as well as logistics</li> </ul>	<ul style="list-style-type: none"> <li>Improved/increased infrastructure capacity through Bank-assisted projects</li> <li>Policy recommendations on connectivity reform measures accepted by relevant authorities and stakeholders</li> </ul>

## 5. Activities and Results Framework

### *Priority 3: Support Green economy by fostering energy efficiency, enhancing renewable energy, and promoting sustainable practices*

Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
<ul style="list-style-type: none"> <li>Increased energy efficiency (EE) and renewable energy (RE)</li> <li>Reduced GHG emission</li> <li>Decreased vulnerability to climate change</li> </ul>	<ul style="list-style-type: none"> <li>Provide intermediated financing through GEFF and other credit lines targeting SMEs to complement existing GET programs for multi-purpose buildings</li> <li>Engage in energy efficiency and energy policy reforms dialogue</li> <li>Finance low GHG emission technologies (e.g., windfarms, biomass district heating, SHPP) to improve energy mix</li> <li>Support projects that increase climate resilience in transport</li> </ul>	<ul style="list-style-type: none"> <li>Renewable energy capacity installed (MW)</li> <li>Total Energy saved (GJ/y)</li> <li>Total CO2e reduced/avoided (ton/y)</li> </ul>
<ul style="list-style-type: none"> <li>Increased resource efficiency and improved waste and wastewater treatment</li> </ul>	<ul style="list-style-type: none"> <li>Support modernisation of private sector industrial waste and wastewater treatment, as well as of recycling</li> <li>Promote 'green' urban investments in municipal and transport infrastructure incl. projects under the Green Cities framework (water and waste management, non-polluting transport through the implementation of GCAPs and REEP)</li> <li>Promote decarbonisation of transport by financing technology enhancements</li> </ul>	<ul style="list-style-type: none"> <li>Solid waste recovered/recycled (ton/y)</li> <li>Water saved (m3/y)</li> <li>Air emissions reduced (ton/y)</li> <li>Extension of infrastructure services to additional municipalities (<i>qualitative account</i>)</li> </ul>

# 6. Mapping of International Partners Complementarity in EBRD Business Areas

EBRD BUSINESS AREAS																						
		Sectors															Cross-Cutting Themes					
		Corporate				Energy		Infrastructure				Financial					Green Transition			Inclusion		
Indicative annual investment/ grants (2013-2016 average, excluding budget support,€ million)		Agribusiness	General Industry	Real Estate	ICT	Natural Resources	Electric Power	Water and Wastewater	Urban Transport	Roads	Railways	Banking	Insurance and other financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth	Regional Development
EU	783	€P					€P		€P	€P	€P			€P					€P	€P	€P	€P
World Bank	1.406		€P	P			€P			€P		€P										
EIB	809		€		€		€	€	€	€	€	€		€					€	€	€	€
KfW	122					€P	€P	€P				€	€	€								
IFC	214	€	€	€			€	€	€			€	€			€	€	€	€			
EBRD 2018-2023	1.500	€P	€		€P		€P	€	€	€P	€P	€P		€P			€P		€P	€P		

€

Area of significant investments

P

Area of significant policy dialogue

Focus mostly on private sector

Focus mostly on public sector











## Areas for Future Cooperation

- Competitive and Well-governed:**
  - Partner with IFC to co-finance lending to private sector. Work with World Bank, EIB and IFC to improve SOE competitiveness and governance (including PPPs)
  - Work with EU and EIB on expanding access to finance for SMEs
  - Liaise with bilateral donors and civil society (US, German, Swiss, Nordic) as well as business chambers to advance business climate and governance
- Integrated:**
  - Work together with EU, EIB and WB to:
    - advance commercialisation of railways;
    - leverage Berlin process for regional interconnections
    - improve municipal services and infrastructure
- Green:**
  - Collaborate with EU, KfW/GIZ, and IFC on investments in sustainable energy

Note: IFI activity mapping based on publicly available information. Significant IFI investment defined as projects exceeding 5% of annual investment and signed from 2013.

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# 7. Implementation Risks and Environmental and Social Implications

Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> <li>▪ <b>Vulnerability to political developments:</b> a reversal or slowdown of the EU accession process caused by either side, as well as a rise in regional tensions would adversely affect implementation of the strategy</li> </ul>			<ul style="list-style-type: none"> <li>▪ Assessment and Management of E&amp;S Impacts, Stakeholder Engagement: Ensure that impacts of projects are appropriately assessed and mitigated, and work with clients to ensure they have adequate implementation capacity. Labour and Working Conditions: Ensure that clients' HR policies and labour practices comply with EBRD PR2. EBRD will pay particular attention to potential discrimination towards minority groups. Large scale retrenchment may be associated with privatisation of State Owned Enterprises and will require specific retrenchment planning.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Lack of privatisation drive:</b> discernible systemic changes in the area of competitiveness would be difficult to realise if the government does not live up to its commitment to re-energise privatisation and restructuring of SOEs</li> </ul>			<ul style="list-style-type: none"> <li>▪ Resource Efficiency and Pollution Prevention and Control: Environmental legislation is well aligned with EU standards. The Bank's investment priorities will help reduce GHG emissions although total emissions will remain high due to carbon-intensive electricity generation. The Bank will support the development and implementation of Green City Action Plans and improve solid waste management</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Vulnerability to external shocks:</b> economy exposed to the risks of the Eurozone and neighbouring countries, which may affect demand for the Bank's products</li> </ul>			<ul style="list-style-type: none"> <li>▪ Health and Safety: EBRD will aim to improve occupational and community health and safety culture and practice. Road safety and client fleet management are priority issues for transport projects and may require TC funds.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Reversing macroeconomic stability:</b> the Country Strategy leverages the IMF programme, set to restore public finance health, promote structural reforms and increase resilience of the financial sector. A reversal would be a setback for the implementation of the strategy</li> </ul>			<ul style="list-style-type: none"> <li>▪ Land Acquisition, Involuntary Resettlement and Economic Displacement: We will encourage clients to improve consultation and information provision with affected people. Where occupiers have no legal titles, clients will need to ensure compensation and livelihood restoration are provided in accordance with the Bank's requirements.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Vulnerability to climate change factors:</b> floods highlighted the vulnerability of Serbia's energy system. A similar shock could disrupt orderly implementation of the strategy</li> </ul>			<ul style="list-style-type: none"> <li>▪ Biodiversity Conservation and Sustainable Management of Living Natural Resources: Renewable energy and infrastructure projects may have impacts through encroaching or fragmenting sensitive habitats, protected areas or proposed Emerald and Natura 2000 sites. To avoid or minimise such impacts, ensure robust biodiversity impact assessments of projects in sensitive locations are carried out and provide TC support where needed.</li> <li>▪ Cultural Heritage: Work with clients to identify and consult with key stakeholders and protect sensitive cultural heritage.</li> <li>▪ Financial Intermediaries: Ensure that FI partners have adequate E&amp;S capacity and risk management procedures in place.</li> <li>▪ Monitoring and supervision: Work with clients to monitor E&amp;S performance and address legacy issues associated with the Bank's portfolio.</li> </ul>

## 8. Donor Co-Financing Assessment

### 8.1. Grant Needs Assessment for the New Country Strategy Period

- Grants are required to prepare investment projects and build capacities of prospective clients, particularly in support of sustainable infrastructure, the Small Business Initiative (SBI), and the Green Economy Transition (GET). TC to support inclusive growth, good governance, and vocational training is also needed. In addition, investment incentives and risk sharing will further bolster access to finance and enhance the competitiveness of SMEs for e.g. in the agribusiness sector.
- At the regional level, existing programmes combining policy dialogue, loan financing and grants for consultancy and investment incentives will require additional support and will be expanded e.g. the Regional Energy Efficiency Programme (REEP) and the Western Balkans Enterprise Development and Innovation Facility (EDIF).
- Taking into account affordability criteria, past needs for donor finance and the grant intensity for some of the more innovative activities envisaged, grant needs are expected to rise as Serbia continues its path to accede to the EU.

### 8.2. Potential Sources for Grant Funds

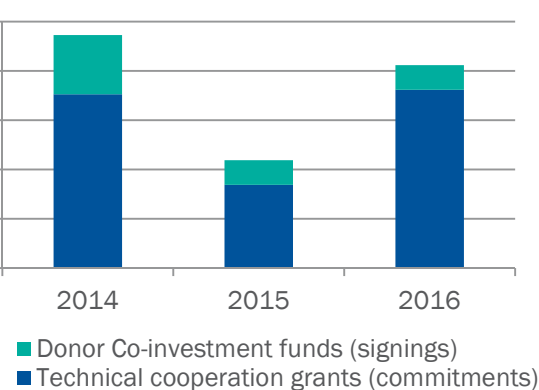
- Western Balkans Investment Framework** (beneficiary governments, EU, bilateral donors and IFIs): grants for priority infrastructure investments across the environment, transport, social and energy sectors. A national sector strategy is a prerequisite to apply, as is demonstrable progress in the implementation of policy reforms.
- EU:** priority areas under the Instrument for Pre-Accession include private sector development, energy efficiency and infrastructure.
- Bilateral Donors:** support via bilateral EBRD accounts for SBI, GET and sustainable infrastructure, as well as policy work to strengthen the investment climate and promote good governance.
- The EBRD Shareholder Special Fund:** complementary facility to donor resources, where advancing transition in the Western Balkans remains a priority.

Selected Affordability Indicators

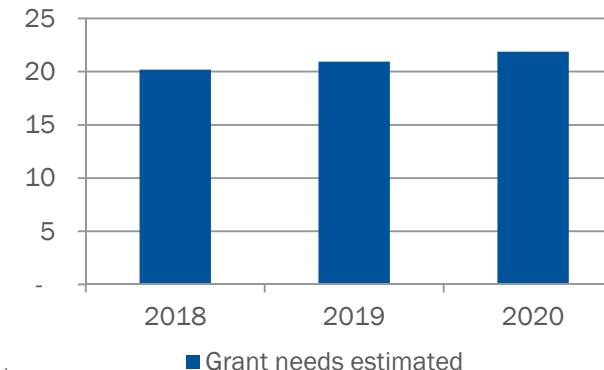
		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, current int. \$) <sup>2</sup>	14,493	43 <sup>th</sup>
ODA Country	YES	N/A
ODA as share of GNI (%) <sup>3</sup>	0.9	30 <sup>th</sup>
ODA per capita (USD – current prices) <sup>3</sup>	44.03	43 <sup>th</sup>

Sources: <sup>2</sup> IMF (2016), <sup>3</sup> OECD (2015)

Donor finance during last strategy (€m)<sup>4</sup>



Grant Needs Projection (€m)<sup>5</sup>



1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in case of ODA indicators) that are represented below Serbia.

4. The 2012-2015 TC data is based on commitments as at the end of March 2016 (the latest available date before publication in a new Donor Funds System). 2016 TC data is based on 2016 earmarks at the project level. 18

5. The projection is based on 2018 grant funding needs reported by operational teams across the Bank.



## *ANNEXES*

# Annex – Political Assessment in the context of Article 1

Serbia is committed to and applying the principles of multiparty democracy, pluralism and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank.

The constitutional and legislative framework for a pluralistic parliamentary democracy is in place. The separation of powers and checks and balances in the political system, guarantees for fundamental rights and the protection of minorities and for a meaningful role for civil society are largely in line with international and European standards, as assessed by the Council of Europe. Elections are generally conducted in a manner deemed by the OSCE and the Council of Europe to be free and in line with international standards.

In the period since the adoption of the previous Country Strategy, Serbia has made progress in democratic transition, to a great extent geared towards integration into the EU. Both the legislative and institutional frameworks have been improved, enabling the strengthening of democracy, the rule of law, and the protection of human rights and fundamental freedoms. Progress in particular has been made in the areas considered to be the key weaknesses in the Western Balkans countries, such as the functioning of institutions, the judiciary, public administration reform, and the business environment. Serbia's overall administrative capacity is relatively high by regional standards.

The progress in democratic reforms has been reflected in Serbia's accelerated approximation with the EU. Since the adoption of the previous Strategy, Serbia has taken major steps on its EU path, including the start of the EU accession negotiations. By the end of 2017 it has opened twelve (out of 35) negotiating chapters.

Nevertheless serious challenges remain in all of the above-mentioned critical areas, and especially in the rule of law. Maintenance of political will to fight corruption and organised crime is necessary to generate improvements in the business environment. The latter may further benefit from the EU accession negotiations, particularly on the chapters of the accession treaty that are related to the rule of law.

## Free Elections and Representative Government

### *Free, fair and competitive elections*

250 members of Serbia's unicameral parliament are elected for four-year terms in a single nationwide constituency under a proportional representation system. Mandates are distributed between candidate lists that surpass a threshold of five per cent of ballots. Parties representing ethnic minorities are exempt from this threshold. The President of the country is elected in direct elections for five years.

All elections that took place during the last decade have been competitive and offered a diverse choice to the electorate. The candidates are able to campaign freely. The Central Election Commission is a permanent body, appointed by the political parties represented in the parliament, and operates in an efficient and transparent manner.

The existing legal framework provides an "overall sound basis for the conduct of democratic elections".<sup>(1)</sup> The legal framework benefited from a series of reforms, including the adoption of a number of new laws and amendments that followed the recommendations by the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR) and by the Council of Europe's Commission for Democracy through Law (the Venice Commission). In particular, amendments to the Law on Financing Political Activities reduced public funding for parties' campaigning. However, some other recommendations have yet to be addressed, and the regulatory system, in view of OSCE, still does not ensure integrity and accountability of campaign finances.

1) OSCE, Office for Democratic Institutions and Human Rights (OSCE/ODIHR), Limited Election Observation Mission, Serbia, early parliamentary elections of 24 April 2016, Final Report, published on 29 July 2016, p.1

# Annex – Political Assessment in the context of Article 1

Among other key shortcomings are insufficient barriers for preventing abuse of administrative resources for campaigning and continuing lack in the electoral law, despite previous recommendations, of specific provisions for international and domestic observation (observation is regulated by the instructions of the Electoral Commission, which it issues for each election separately).<sup>(2)</sup> OSCE reports on both the 2016 general elections and the 2017 presidential elections noted the lack of even playing field for contestants, due to “blurring of distinction between state and party activities” and “unbalanced media coverage”.

## ***Separation of powers and effective checks and balances***

The constitutional and legislative framework for a parliamentary democracy – underpinned by the separation of powers and checks and balances in the political system, an independent legislature and procedures of legislative oversight in prescribed domains of decision-making – is in place in Serbia and largely in line with international and European standards, as assessed by the Council of Europe. The scope of powers of the legislature to hold the government to account is largely in line with international standards.

The functioning of the parliament is broadly in line with international standards and further progress has been made in strengthening its legislative role since the adoption of the previous Strategy. There are regular monthly Q&A sessions with the prime minister and members of the government. Overall, however, the parliament’s oversight role of the executive branch has not increased significantly and lacks a pro-active approach. The recommendation to strengthen this role of the parliament was included in a number of reports by PACE on honouring of obligations by Serbia.

## ***Effective power to govern of elected officials***

Serbia has established institutional, legal, and financial arrangements for elected officials to exercise effective power to govern, and they are not constrained by non-democratic veto powers or other undue influences.

## **Civil Society, Media and Participation**

### ***Scale and independence of civil society***

According to the Serbian Business Registers Agency, there are currently more than 24,000 civil society organisations (CSOs) registered in Serbia. There is a satisfactory legal and institutional framework for CSOs. The Office for Cooperation with Civil Society was established by the Government in 2011, after years of advocacy by civil society, as a mechanism designed to support the development of a dialogue between the government and CSOs. In 2014, the Serbian government adopted the “Guidelines for including civil society organisations in the law-making process”, through which CSOs are able to submit amendments to draft laws via the Office for Cooperation with Civil Society. A national Strategy for Creating an Enabling Environment for Civil Society Development has been adopted and outlines a set of measures to create enabling environment for civil society. While CSOs are engaged in a number of areas, they are particularly active in the promotion of democratic values, the rule of law and Serbia’s EU approximation.

2) *ibid*, p. 2; OSCE/ODIHR and Venice Commission Joint Guidelines for Preventing and Responding to the Misuse of Administrative Resources during Electoral Processes, 14 March 2016

# Annex – Political Assessment in the context of Article 1

The right to form trade unions is enshrined in law and labour and trade union rights are broadly respected in practice. However, the capacity of the Social Council remains limited and the trade unions are not satisfied with the existing social dialogue.

## ***Independence and pluralism of media operating without censorship***

Serbia has diverse media, comprising both public and private broadcasters and a wide range of print (over 700), television and radio (over 400) and online editions. Television is the most important source of information. Despite the drop in circulation, newspapers are still an important source, with their online editions growing in recent years. The internet penetration rate has been growing steadily, with 54 per cent of citizens having web access in 2016 compared to 27 per cent in 2006.<sup>(3)</sup> Social media is playing an increasingly important role with around 3.4 million Facebook users in 2016.<sup>(4)</sup>

A reform of the media legislation, undertaken in 2014, aimed to improve the media environment. However, according to OSCE, its effects remain limited due to deficiencies in implementation.<sup>(5)</sup> Privatisation of state media outlets has not, according to the EC, led to greater transparency of ownership or funding sources, including state funding (a longstanding shortcoming). EC's report on Serbia also mentions that a "number of recorded cases of threats, intimidation and violence against journalists remains a concern".<sup>(6)</sup> This issue has also attracted criticism by the European Parliament, including in its latest Resolution on Serbia.<sup>(7)</sup>

## ***Multiple channels of civic and political participation***

Multiple channels of civic and political participation are in place. Since the adoption of the previous Strategy a number of measures have been taken to improve the transparency and the consultation process by the parliament, including public hearings.

## ***Freedom to form political parties and existence of organised opposition***

The freedom to form political parties is both guaranteed by the Constitution and implemented in practice, as highlighted by the existence of an opposition able to campaign freely and oppose government initiatives. The last general elections were contested by eight parties and six coalitions of political parties. More than 20 political parties are currently represented in the parliament. The opposition representatives chair some of the parliamentary committees.

3) Internet Live Stats: <http://www.internetlivestats.com/internet-users/serbia/>

4) Internet World Stats: <http://www.internetworldstats.com/>

5) OSCE, Office for Democratic Institutions and Human Rights (OSCE/ODIHR), Limited Election Observation Mission, Serbia, early parliamentary elections of 24 April 2016, Final Report, published on 29 July 2016, p.12

6) European Commission, Serbia 2016 Report, 2016 Communication on EU Enlargement Policy, p.20

7) Resolution of the European Parliament of 14 June 2017 on the 2016 Commission Report on Serbia

# Annex – Political Assessment in the context of Article 1

## Rule of Law and Access to Justice

### *Supremacy of the law*

The key legislative and institutional safeguards for the supremacy of the law are in place. Constitutional guarantees of access to justice are in place. The right to a fair trial and freedom from arbitrary arrest and detention are enshrined in the Serbian Constitution and criminal code. Serbia continues to make gradual progress in comprehensive reforms of the judiciary and in aligning it with European standards.

While progress has been made in adopting and enforcing new laws and in applying international standards, much remains to be done in order to increase the efficiency of the judiciary. A new Strategy on judicial reform for 2013-2018 was adopted in 2013, stipulating further changes to the normative framework designed to harmonise it with the European standards. The new Civil Procedure Code, aimed at increasing efficiency in civil procedure, which accounts for two-thirds of all cases before the courts in Serbia, and Criminal Procedure Code have entered into force.

### *Independence of the judiciary*

The independence and impartiality of the judiciary are guaranteed by the Constitution and key safeguards are in place. This includes the role of the High Judicial Council (HJC) and the State Prosecution Council (SPC). At the same time, the legal framework still leaves room for undue political influence over the judiciary, in particular as regards parliament's power to appoint judges and prosecutors. The EC and the European Parliament have both recently noted that despite the progress achieved so far, "judicial independence is not assured in practice".<sup>(8)</sup>

Codes of ethic and disciplinary procedures are broadly in place. The accountability of the judiciary has increased due to a number of measures implemented in recent years, including steps taken to set up a disciplinary system.

### *Government and citizens equally subject to the law*

The track record in preventing and combating abuse of authority has improved. A number of verdicts have been issued against individuals for abuse of office and high-level corruption. The HJC introduced a disciplinary prosecutor and commission. The SPC adopted Rules on disciplinary procedure and liability.

### *Effective policies and institutions to prevent corruption*

Although corruption remains a serious concern, and is still perceived by citizens as a widespread phenomenon, authorities have made some progress over the last years in tackling the problem. According to the 2016 Transparency International Corruption Perception Index (CPI), Serbia was ranked 72nd out of 176 countries, ahead of most of its regional neighbours.<sup>(9)</sup>

In its latest (Fourth Evaluation Round) report the Council of Europe's Group of States against Corruption (GRECO) addressed to Serbia a number of recommendations related to corruption prevention in respect of members of parliament, judges and prosecutors. It acknowledged that the Serbian government has engaged in an ambitious reform process, which includes the National Anti-Corruption Strategy and the National Judicial Reform Strategy.<sup>(10)</sup> In the First, Second and Third Evaluation Rounds, GRECO had addressed altogether 40 recommendations to Serbia and almost all of them have been implemented.

8) European Commission, Serbia 2016 Report, 2016 Communication on EU Enlargement Policy, p. 12; Resolution of the European Parliament of 14 June 2017 on the 2016 Commission Report on Serbia

9) Transparency International, Corruption Perceptions Index 2016

10) GRECO, Fourth Evaluation Round, Corruption prevention in respect of members of parliament, judges and prosecutors, published on 2 July 2015.



# Annex – Political Assessment in the context of Article 1

The new National Anti-Corruption Strategy for 2013-2018 was adopted in 2013, proclaiming as its main objective “elimination of corruption as much as possible”, and defining as the priority areas political activities, public finance, privatisation, judiciary and police, spatial planning and construction, health, education and sport, and media. In accordance with GRECO’s recommendations, the Strategy seeks to eliminate shortcomings in the legal framework on the financing of political parties, strengthening of the mechanisms for internal financial control in the public sector, control of income and conflict of interest for officials, as well as establishing of efficient coordination between the police, prosecution, courts, monitoring bodies, and other sectors of the society fighting corruption.

While there is a track record of successful investigation and prosecution of corruption cases in general, there are not many convictions for high-level corruption. According to the latest report by the EC, corruption remains prevalent in many areas.(11)

## Civil and Political Rights

### ***Freedom of speech, information, religion, conscience, movement, association, assembly and private property***

The Constitution and relevant laws prohibit discrimination on grounds of sex, race, language, religion, national or social origin, property or social status. The Constitution guarantees the basic freedoms and rights of citizens recognised in international law, including the freedom of speech, information, religion and conscience, movement, association and assembly, and private property. Serbia is a signatory to, and has ratified all main international human rights instruments. At the same time, as the EC and European Parliament have repeatedly noted, the overall environment in Serbia “is not conducive to the full exercise” of the right of expression.(12)

18 religious organisations have been registered in addition to seven religious communities recognised under a law adopted in 2006. Although smaller religious groups complain about remaining inconsistencies and lack of transparency in the registration process, overall freedom of thought, conscience, and religion is respected. Some progress has been made with regard to the rights of persons with disabilities. However, while the overall legislative framework is in place, social integration of the persons with disabilities remains limited.

Actions to improve the protection of the LGBT population from discrimination, taken by the Ombudsman and the Commissioner for Equality, were hailed by the Council of Europe and the European Parliament. In 2017, an openly gay person was appointed as the Prime Minister of Serbia. The Prime Minister and several members of the government participated in the LGBT pride parade in Belgrade on 17 September 2017. Unlike some similar events in the past, it went on without incidents.

Progress has been made regarding property rights, particularly with respect to property confiscated under the communist regime.

The latest assessment of the track record of Serbia in the area of human rights in the framework of the United Nations Universal Periodic Review (UPR) was adopted in 2013. Among the top recommendations were those related to rights of the children (26 per cent of recommendations), women’s rights (21 per cent) and minorities (12 per cent). Serbia accepted 97 per cent of a total of 145 recommendations made through the review process.(13)

11) European Commission, Serbia 2016 Report, 2016 Communication on EU Enlargement Policy, p. 12

12) European Commission, Serbia 2016 Report, 2016 Communication on EU Enlargement Policy, p. 19; Resolution of the European Parliament of 14 June 2017 on the 2016 Commission Report on Serbia.

13) United Nations, Universal Periodic Review (UPR), Serbia, and UPR Info Statistics, available at [https://www.upr-info.org/database/statistics/index\\_sur.php?fk\\_sur=151&cycle=2](https://www.upr-info.org/database/statistics/index_sur.php?fk_sur=151&cycle=2)

# Annex – Political Assessment in the context of Article 1

## ***Political inclusiveness for women, ethnic and other minorities***

The legislative framework for the protection of ethnic minorities is broadly in place, in line with the Council of Europe Framework Convention on Protection of National Minorities, of which Serbia is a party, and is generally respected. According to the 2011 census, some 17 per cent of citizens identify themselves as non-ethnic Serbs (no significant change as compared to the 2002 census). Among 20 ethnic minorities, the largest groups are Hungarians (3.53 per cent); Roma (2.05 per cent); and Bosniaks (2.02 per cent). In the current Serbian parliament nine seats went to ethnic minorities' parties, not counting minorities' MPs on the lists of major political parties.

Inter-ethnic relations in Serbia are uneven and vary from region to region. They are broadly good in Vojvodina, but more tense in the area of Sandzak (with a large Bosniak community) and in three Albanian-populated municipalities of southern Serbia (Presevo, Bujanovac, and Medvedja), where the local Albanian population massively boycotted the 2011 census. Both Sandzak and the three above-mentioned municipalities remain underdeveloped.

Roma remain the most vulnerable and discriminated against minority, although some improvements have been achieved. The authorities have undertaken measures to improve the registration of Roma, as well as increase their social inclusion, and access to education.

The key legislative elements for promoting and enforcing gender equality are in place. There has been a steady increase in the number of women among candidates contesting elections and in the parliament. In the composition of the current Serbian parliament (elected in 2016), women represent an impressive 35 per cent of MPs. In 2017, Serbia elected the first ever (also in the wider Western Balkans region) female Prime Minister. There are also several female members of the Cabinet. In everyday life, besides under-representation in the labour market and pay gaps, the main issue of concern is domestic violence, which often goes unreported. Serbia signed the Council of Europe Convention on Preventing and Combating Violence against Women and Domestic Violence in 2012.

## ***Freedom from harassment, intimidation and torture***

Constitutional guarantees against harassment, intimidation, and torture are in place and are largely upheld in practice. A delegation of the Council of Europe's European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT) last carried out an ad hoc visit to Serbia in June 2017. The focus of the visit was to examine the treatment of persons deprived of their liberty by the police and the practical application of safeguards surrounding their detention.<sup>(14)</sup> The report has not been published yet. The latest report on the previous CPT periodic visit, published in 2016, among several recommendations expressed concern regarding the fact that the bulk of its previous recommendations in the field of prisons have not been implemented.<sup>(15)</sup>

14) Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), available at <http://www.coe.int/en/web/cpt/-/cpt-visits-serbia-to-look-into-policing-matters-and-the-situation-in-remand-detention>

15) Council of Europe, European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment (CPT), Visit to Serbia from 26 May to 5 June 2015, published on 24 June 2016.