

BTI 2010 | Serbia Country Report

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Key Indicators

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|------------------|--------|------|------------------------------|------|----------------------|----|-------|
| Population | mn. | 7.4 | HDI | 0.83 | GDP p.c. | \$ | 10248 |
| Pop. growth | % p.a. | -0.4 | HDI rank of 182 | 67 | Gini Index | | 30.0 |
| Life expectancy | years | 73 | UN Education Index | 0.89 | Poverty ² | % | - |
| Urban population | % | 51.9 | Gender equality ¹ | 0.58 | Aid per capita | \$ | 112.9 |

Sources: UNDP, Human Development Report 2009 | The World Bank, World Development Indicators 2009.

Footnotes: (1) Gender Empowerment Measure (GEM). (2) Percentage of population living on less than \$2 a day.

Executive Summary

In the period between 2007 and early 2009, numerous significant events shaped Serbia's democratic and economic development. These included the independence of Kosovo, two parliamentary elections, presidential, local and provincial elections, the signing of a Stabilization and Association Agreement (SAA) with the European Union, and the shock of the global economic and financial crisis.

On 17 February 2008, Serbia's former autonomous province of Kosovo declared its independence. Major Western states subsequently recognized Kosovo, but Serbia opposed it on the grounds that Kosovo was a part of its territory under transitional international administration. To reinforce its claim on Kosovo, the Serbian government, among other actions, called upon Kosovo Serbs to boycott the elections in Kosovo and organized municipal elections against the will of the U.N. administration in Kosovo. In November 2008, the government agreed to the deployment of the European Union's Rule of Law Mission in Kosovo, provided that the mission would be status-neutral under the umbrella of the United Nations.

Two parliamentary elections strengthened the pro-European political forces in Serbia. In the parliamentary elections of 21 January 2007, the center-left Democratic Party (DS), together with the conservative Democratic Party of Serbia (DSS) and the G17 Plus party of economic reformers, won a majority. After lengthy negotiations, in May 2007 these parties formed a government headed by Prime Minister Vojislav Kostunica. Tensions between the DS and DSS culminated in the wake of Kosovo's independence declaration, when Kostunica and his DSS refused to sign the SAA with EU member states that had recognized Kosovo. The governing coalition broke apart and preterm elections were held on 11 May 2008, together with the regular provincial and local elections. The "For a European Serbia" (ZES) coalition, which consisted of DS, G17 Plus and several smaller parties, won the national elections. ZES agreed with the Socialist Party of Serbia to establish a new government under the leadership of Prime Minister

Mirko Cvetkovic. The government took office in July 2008 with the support of the majority of the deputies in parliament, including six deputies representing ethnic minorities. The power of the DS leadership was further enhanced when the incumbent President of Serbia and DS chairman Boris Tadic won reelection on 3 February 2008.

To support Serbia's pro-European forces, the European Union and its member states signed an SAA with Serbia on 30 April 2008, immediately before the parliamentary elections. Serbia ratified the agreement on 9 September 2009, thereby taking an important step towards EU membership. The European Union, however, delayed the entry into force of the agreement's trade-related parts in order to pressure Serbia to cooperate with the International Criminal Tribunal for the former Yugoslavia.

In winter 2008-2009, the global financial and economic crisis caused outflows of foreign capital from Serbia, a sharp decline in foreign trade and a massive depreciation of the Serbian dinar. The ensuing domestic economic downturn and macroeconomic imbalances forced the government to request a Stand-By-Arrangement from the International Monetary Fund. This was approved in January and augmented in May 2009.

History and Characteristics of Transformation

Serbia's transition to democracy and market economy has been fraught with statehood conflicts that led to the disintegration of the former Yugoslavia and caused a series of wars in the Balkans. The toleration and emergence of political pluralism in the Socialist Federative Republic of Yugoslavia and its six constituent republics brought political elites into power who used nationalist ideologies and stereotypes to advance their nation-state projects. Led by Slobodan Milosevic, Serbia's state socialist party won the first democratic elections in 1990 and sought to retain its political power by re-establishing a centralized federation and blocking economic reform. The political leaders of the republics of Slovenia and Croatia wanted to advance the decentralization and the confederal reorganization of the federation, partly in the interest of facilitating market transition and liberalization and partly to exit the federation. Irreconcilable aims and nationalist mobilization led to the collapse of the federation and the emergence of Bosnia and Herzegovina, Croatia, Macedonia and Slovenia as independent states. In Bosnia and Herzegovina, Croatia and Slovenia, wars of different duration and intensity began when the Yugoslav National Army attacked the republics, assisting the rebellions of ethnic Serb communities in Bosnia and Croatia against the secessions.

Facilitated by the wars and nationalist mobilization, Serbia's President Milosevic established a semi-authoritarian system in the remaining parts of Yugoslavia and remained in power until 2000. His regime was based on clientelist networks in the state administration, police, military and the state-dominated economy. These networks gave Milosevic control over the electronic

media, the ability to forge election results and the power to effectively divide and isolate the political opposition. Responding to its deepening integration and legitimation crisis, the regime increased political repression in Serbia proper and its violent military repression of ethnic Albanians in Kosovo. The country then slid into a full-scale war. NATO air strikes forced the regime to abandon its control over Kosovo and contributed to the demise of Milosevic. That said, the democratic breakthrough in October 2000 was driven primarily by the united opposition and student protest movement and the electorate's growing discontent with Serbia's worsening economic and social situation.

The Democratic Opposition of Serbia (DOS), a coalition of 18 liberal, social democratic and moderate nationalist parties, won the federal parliamentary and presidential elections as well as the Serbian local and parliamentary elections in 2000. The opposition leaders Vojislav Kostunica and Zoran Djindjic became federal president and Serbian prime minister. Once the governing coalition had achieved its main aim, the overthrow of the Milosevic regime, internal tensions grew over fundamental policy choices. The heterogeneity of the coalition and the assassination of Prime Minister Djindjic in March 2003 limited the government's capacity to sustain its initially dynamic policy of economic and political reform. The breakup of the governing coalition necessitated elections in December 2003, which led to the formation of a four party coalition government headed by Kostunica.

Serbia's state framework has changed several times since the dissolution of communist Yugoslavia. Between 1992 and 2003, Serbia and Montenegro, the two still united republics of the former Yugoslavia, constituted the Federal Republic of Yugoslavia. In 2003, Serbia and Montenegro replaced this state with a more loosely integrated state union mediated by the European Union. The main aims of this union were EU accession and the creation of an internal market in accordance with EU principles and standards. The state union's powers were essentially limited to the enforcement of international law and cooperation with international courts, military issues and defense, standardization, intellectual property rights, statistics, borders, asylum, immigration and visa issues. Following a referendum in May 2006, Montenegro became an independent state and the state union was dissolved.

As a consequence of its military defeat in the Kosovo war, Serbia had to accept a U.N.-led interim administration in Kosovo. This administration has exercised political authority over the territory since 1999, based upon Resolution No. 1244/1999 of the U.N. Security Council. Serbia's government and major political actors interpret this resolution as the legal basis assigning Kosovo to Serbia as the successor state of the state union. Most Kosovo Albanians refuse to be citizens of Serbia because of their experience of violent repression and expulsion under the Milosevic regime. On 17 February 2008, Kosovo declared its independence, which was subsequently recognized by the major Western states but opposed by Serbia. The Kosovo conflict continues to burden the consolidation of a market-based democracy in Serbia and the country's path toward membership in the European Union.

Transformation Status

I. Democracy

1 | Stateness

The Republic of Serbia has the monopoly on the use of force over its territory with the exception of its formerly autonomous province of Kosovo and Metohija (in the following: Kosovo), the status of which is disputed. Serbia opposed the Kosovar parliament's declaration of independence in 2008 and sustained its claim on Kosovo. By July 2009, about 60 states had recognized Kosovo as an independent state, although the U.N. Security Council did not agree on supporting Kosovo's independence. Thus, the status of Kosovo continued to be defined by Resolution No. 1244/1999, which established a U.N. mission to exercise political authority over the province.

Monopoly on the use of force

Organized crime in Serbia is still conspicuous, but improvements in police organization and capacities have reduced its threat to public order and safety. A new law from October 2008 allows the state to confiscate property attained through criminal acts. The parliament ratified three conventions against human trafficking and terrorism and adopted a Law on the Prevention of Money Laundering and the Financing of Terrorism in March 2009. The members of the "Zemun Clan," the criminal network responsible for the assassination of former Prime Minister Zoran Djindjic, were convicted and received long prison sentences in 2007-2008.

The constitution defines Serbia as the state of the Serbian people and all citizens who live in Serbia. In the population census of 2002, 17% of Serbia's citizens identified themselves as belonging to national minorities. National minorities include ethnic, linguistic and religious minorities who live predominantly in Vojvodina (ethnic Hungarians), Sandzak (Bosniaks) and southern Serbia (ethnic Albanians). The situation of these groups has improved during the review period. Political parties of national minorities are represented in parliament. Serbia adopted an anti-discrimination law in March 2009, which banned, among other things, discrimination on grounds of nationality or ethnicity. The constitution envisaged the creation of National Minority Councils to facilitate the political participation and consultation of minorities, but the state-level council did not meet for several years.

State identity

A Ministry for Human and Minority Rights was established in 2008, and efforts were taken to increase the percentage of minorities in public administration.

To address concerns of the ethnic Albanian minority, the government has also established a regular consultation with local Albanian leaders in the municipalities of Presevo, Bujanovac and Medvedja. Inter-ethnic tensions grew in January 2009, when local Albanians demonstrated against the arrest of ten Albanians who were accused of war crimes during the 1999 conflict in Kosovo.

Most political elites and a majority of citizens still consider Kosovo to be a part of the Serbian nation-state. In February 2008, mass demonstrations occurred against Kosovo's unilateral declaration of independence. Groups of violent protesters attacked several foreign embassies.

Refugees and displaced persons from the former Yugoslavia have increasingly been naturalized under the 2005 Law on Citizenship. Their numbers decreased to less than 100,000 and 200,000, respectively.

Serbia is defined as a secular order and its society is largely secular. Religious dogmas have no noteworthy influence on politics or the law. However, the Serbian Orthodox Church has a dominant role in religious, social and political life. Critics have argued that the Serbian Orthodox Church enjoys certain privileges compared to other religious communities.

No interference of religious dogmas

Serbia has a differentiated administration that extracts and allocates state resources throughout the country, albeit with limited efficiency.

Basic administration

2 | Political Participation

During the review period, two parliamentary elections and the presidential election were held in accordance with European and international standards. The National Assembly is elected according to a proportional system with a single nationwide constituency and a five percent electoral threshold. The electoral turnout was 61% for both parliamentary elections in January 2007 and May 2008. Presidential elections were held in two rounds on 20 January and 3 February 2008, based upon a new law on the election of the president of the Republic of Serbia. In December 2007, the parliament also adopted a new law on municipal elections that abolished the direct election of mayors and introduced a proportional system of electing members of municipal assemblies. The members of the Assembly of the Autonomous Province of Vojvodina are elected according to a mixed proportional-majoritarian system.

Free and fair elections

The electoral legislation constrains the ability of citizens to choose their candidates by allowing parties to arbitrarily distribute mandates among the candidates on their

lists after the elections. This provision aimed at eliminating practices of vote-buying and deals over changing of party caucus. International organizations, however, have criticized it for blurring the transparency of the electoral process.

Serbia's democratically elected government has the effective power to govern. The National Assembly supervises the army and the secret services. In December 2007, new laws on the army, defense and the secret services strengthened parliamentary oversight of these organizations. For example, the head of the secret service is obliged to provide information if requested by the parliamentary committee on defense and security. This committee also scrutinizes police activities. The government adopted a national security and defense strategy in April 2009, which envisaged cooperation with NATO.

Effective power to govern

The freedoms of association and assembly are constitutionally guaranteed and unrestricted within the basic democratic order. The new Law on Associations, which regulates the establishment, legal status and structure of associations, was adopted on 8 July 2009.

Association / assembly rights

The freedom of media is adversely affected by numerous attacks on journalists, a weak regulatory framework and pressures of commercialization. The media system is pluralist, but many media outlets are financially weak and depend on economic interest groups. Of the 306 media outlets surveyed by the Organisation for Security and Cooperation in Europe (OSCE) in April and May 2008, 61% faced serious obstacles to media freedom.

Freedom of expression

According to the OSCE report, in 2008 journalists were subject to 76 physical assaults, 62 verbal attacks and various other attempts to impede their work. In April 2007, unknown perpetrators attempted to murder Dejan Anastasijevic, a journalist for the national weekly Vreme who had reported about Serbian war crimes.

The Council of the Republican Broadcasting Authority awarded licenses to five broadcasters in an opaque manner that showed a lack of respect for the country's licensing procedures. The Supreme Court of Serbia criticized this action. In October 2008, the national daily Politika dismissed its editor-in-chief, provoking allegations of political interventions by the ruling Democratic Party. Serbia's media system still lacks institutions of self-regulation that could deal with complaints against violations of professional standards by journalists.

3 | Rule of Law

The parliament and judiciary are fundamentally independent institutions and hold the executive accountable. Inefficiencies and a lack of capacities, however, weaken their powers.

Separation of powers

In November 2007, the parliament adopted a new Law on the Constitutional Court. The parliament and the president then appointed two-thirds of the judges so that the court, which had not been operational for more than a year, was able to resume its work. During the period from May to October 2008, the court dealt with 188 constitutional complaints and 251 investigations of the constitutionality of laws and regulations.

In December 2007, the parliament adopted new laws on local self-government, the status of the capital city and on the territorial organization of Serbia. These laws expanded the powers of municipalities by, among other things, entitling them to manage their own property and establish municipal police organizations. The Provincial Assembly of Vojvodina adopted a new autonomy statute, but its approval by the National Assembly was blocked because of political controversies over the province's degree of autonomy.

The judiciary is established as a distinct profession and operates relatively independently, but its functions are partially restricted by corruption, politicization and inefficiencies. The fiscal and administrative autonomy of the courts is limited. In December 2008, the parliament adopted a set of laws on the organization of courts, the election of judges, the High Judicial Council, the powers of the public prosecutor and the administrative power and jurisdiction of courts. These laws were intended to improve the independence, efficiency and accountability of judges and to align the judicial system with the new constitution. The municipal courts merged into fewer and larger basic courts, the number of judges was reduced and judges were given more assistants. The reforms mandated the establishment of a Supreme Court of Cassation, four appellate courts and specialized commercial, administrative and criminal courts.

Independent
judiciary

According to Serbia's constitution, parliament elects judges upon the proposal of the High Judicial Council (Visoki savet sudstva, VSS). The VSS is an independent body consisting of the president of the Supreme Court of Cassation, the minister of justice, the president of the authorized committee of parliament and six judges, a lawyer, and a professor of law elected by parliament. The National Assembly also elects public prosecutors based on a list of candidates prepared by the State Prosecutorial Council with input from the competent committee of the Assembly.

The Venice Commission, an advisory body of legal experts attached to the Council of Europe, criticized the Serbian system on the grounds that the election of all judges, prosecutors and VSS members by parliament could lead to a politicization of appointments. According to the commission, Serbia's parliament "hitherto has not limited its role to confirming candidates presented by the High Judicial Council but it has rejected a considerable number of such candidates under circumstances where it seemed questionable that the decisions were based on merit." To reduce the influence of political considerations on appointments, the 2008 Law on the High

Judicial Council authorized only the professional associations of judges, lawyers and the law faculties to nominate candidates for the VSS and obliged these nominators to present only a single candidate to parliament.

International organizations also warned that the re-appointment of all judges, envisaged in the Constitutional Law on the Implementation of the Constitution and the Law on Judges, would provide opportunities for partisan political influences. The main motive for introducing a re-appointment of acting judges seems to have been the fear that judges appointed under the Milosevic regime would not be held accountable for biased decisions or malfeasance. By February 2009, the Ministry of Justice had prepared assessments of all judges, which reviewed the number of completed cases and the quality of their judgments.

The professional associations of judges and prosecutors submitted a constitutional complaint against the new laws, arguing that the re-election of judges would risk a politicization of the judiciary and undermine its independence. The Constitutional Court rejected their complaint, and the VSS subjected all judges to a re-appointment procedure.

In November 2007, the parliament and the president appointed the minimal number of ten judges required for the Constitutional Court to become operational again. The court had not been operational since October 2006.

Corrupt officeholders are prosecuted under established laws but also slip through political, legal and procedural loopholes. The courts have successfully prosecuted few cases of high-level corruption. In October 2008, the Cvetkovic government demonstrated its commitment against corruption by arrested the mayor of Zrenjanin and a prominent politician of the governing DS on charges of corruption.

Prosecution of
office abuse

The 2004 law on conflict of interest did not include judges and lacked effective monitoring and sanctioning procedures. According to the EU Commission's 2008 progress report, more than one-third of state officials did not declare their assets in 2008. To regulate the ministers' conflicts of interest more precisely, the state amended the law on government in November 2007 and in February 2008 adopted a Code of Conduct of Public Servants. In October 2008, the parliament also amended the law on financing political parties in order to replace the Republican Electoral Commission and the parliamentary committee on finances with the envisaged Anti-Corruption Agency. This amendment was meant to strengthen the monitoring and enforcement of the rules on transparent party finances.

National minorities, Roma, women and lesbian, gay, bisexual and transgender people still face widespread discrimination in Serbia. Incidents of violence against national minorities increased in the wake of Kosovo's declaration of independence. Extremist political groups insulted and attacked non-governmental organizations and individual advocates of human rights. According to a report by the Council of

Civil rights

Europe's human rights commissioner, Roma constitute not only the most marginalized and discriminated group, but they often lack personal identity documents, which hinders their access to basic human rights and increases their susceptibility to statelessness. Domestic violence remained a serious problem and caused, according to an NGO report quoted by the commissioner, the death of 21 women in 2008. The commissioner's report also noted that police abuse still occurred, though it had decreased since 2004.

Serbia has further improved its institutional and legal framework to protect civil rights. On 26 March 2009, parliament adopted an anti-discrimination law that prohibited all forms of discrimination of individuals and groups in accordance with EU anti-discrimination rules. The law also established a commissioner for the protection of equal rights and defined procedures of legal action against instances of discrimination.

Serbia's first ombudsman was elected in June 2007. In October 2008, the ombudsman's office was supplemented by four deputy ombudsmen. By June 2009 the ombudsman's office had received 2300 complaints, mainly on violations of socioeconomic rights and citizens' rights regarding measures of public administration. Notably, Serbia's administrative law limits legal action to individual administrative acts and does not allow citizens to challenge normative acts of the administration before the courts.

The Cvetkovic government established a new Ministry for Human and Minority Rights to replace the previous government agency. The government took efforts to improve the share of national minorities in public administration, the judiciary and the police. Parties of national minorities are exempted from thresholds to enter the national, provincial and municipal assemblies. In July 2009, the parliament discussed a law on councils of national minorities at the local, provincial and national level. The councils were to be elected by persons belonging to national minorities and to provide consultation on issues concerning the cultural, education and language interests of national minorities.

Since their creation in 2003, the Office of the War Crimes Prosecutor and the War Crimes Chamber of the District Court Belgrade have been very active in prosecuting war crimes. According to the EU Commission's 2008 progress report, trials were conducted against 123 individuals suspected of involvement in war crimes within the territory of the former Yugoslavia.

4 | Stability of Democratic Institutions

Democratic institutions perform their functions in principle, but the role of Serbia's parliament is weakened by inefficient procedures, a lack of capacity and political

Performance of
democratic
institutions

showcasing. For example, the newly established parliament was not able to start its legislative session in July 2008, because the Serbian Radical Party (SRS) and the Democratic Party of Serbia – New Serbia bloc obstructed the parliament's work. The parties argued that their concerns were not placed on the parliamentary agenda and that signing the Stabilization and Association Agreement (SAA) with the European Union would imply an implicit acknowledgment of Kosovo's independence. In addition, the SRS demanded an investigation of alleged police brutality at an SRS-organized protest against the extradition of the indicted war criminal Radovan Karadzic, which led to the death of a SRS supporter. The parliament reconvened only in September 2008, after it agreed to investigate the SRS allegations and to supplement the SAA by a declaration stating that Kosovo was part of Serbia.

In early 2009, opposition deputies again boycotted parliamentary proceedings to protest against the public broadcaster's decision to abandon its live coverage of parliamentary sessions.

The parliament debates the majority of bills directly in its plenary session, which contributes to lengthy debates that are overshadowed by polemical disputes often unrelated to issues on the agenda. To avoid these inefficiencies, many laws were adopted by urgent procedure, thereby limiting the scope for substantive debate. On 17 February 2009, parliament amended its rules of procedure to streamline parliamentary debate, speed up the ratification of international agreements and the adoption of EU-related laws, and to restrict the opportunities for blockades of the parliamentary debate. In 2009, parliament began preparing a Law on the National Assembly and new rules of procedure.

The executive dominates lawmaking because of the weak administrative and professional capacities of parliament, but also because of the pressures of transposing EU rules and fulfilling EU requirements. Of the 95 bills submitted to parliament between July 2008 and July 2009, 82 (86%) were drafted by the government. According to a survey of legislation published by the Open Society Fund in 2007, nine out of 10 laws adopted in 2005 originated from government bills. The 250 members of parliament have a paltry staff of 250 assistants.

The 2006 constitution introduced party-administered parliamentary mandates by stipulating (Art. 201) that, "A deputy shall be free to irrevocably put his/her term of office at the disposal of the political party upon which proposal he or she has been elected a deputy." This provision has provided a constitutional basis for the parties' practice of forcing their designated deputies to sign blank resignations prior to entering parliament. The party leadership uses such resignations to strip disloyal deputies of their mandates.

For example, the opposition Serbian Radical Party (SRS) struggled to control the mandates of a breakaway faction of its deputies, who had joined the newly established Serbian Progressive Party (SNS). In February 2009, the parliament's administrative committee refused to return three mandates to the SRS although the party provided resignations of the respective deputies.

All relevant political and social players accept democratic institutions as legitimate. Within the Socialist Party of Serbia, a traditionalist minority does not accept the legitimacy of Serbia's democratic upheaval in October 2000. The Serbian Radical Party is still committed to its 1996 program of forming a Greater Serbia including Republika Sprska, the Bosnian Serb-dominated entity of Bosnia and Herzegovina, Montenegro and territories of Croatia that constituted ethnic Serb settlement areas prior to the wars. The party, however, has been severely weakened by the break with its moderate wing in September 2008.

Commitment to
democratic
institutions

5 | Political and Social Integration

Serbia's party system is fundamentally established and only moderately polarized, though it is weakly rooted in society and mostly dominated by individual personalities.

Party system

The Coalition for a European Serbia (ZES) led by the Democratic Party (DS) won the parliamentary elections of 11 May 2008. The ZES obtained 39.3% of the vote and emerged as the strongest political force, controlling 102 seats in the 250-seat parliament. 30.1% of the voters chose the Serbian Radical Party (SRS), which with 78 seats in parliament preserved its position as the main opposition party. These results further strengthened the socioeconomic and sociocultural cleavages in the Serbian party system. The socioeconomic cleavage reflects not only the historic distinctions between a small, educated urban middle class, larger traditional rural groups and the industrial workforce, but also the emerging gap between the winners and losers of recent economic reforms. Whereas the SRS combined more leftwing, interventionist economic policy positions with nationalist-traditionalist positions on socio-cultural issues, DS integrates more liberal economic policies with pro-European, modernist sociocultural positions. In contrast, the SRS and SPS, as parties associated with the Milosevic regime, have become less clearly opposed to parties associated with the democratic opposition movement against Milosevic, indicating a weakening of the authoritarian-democratic cleavage.

The main loser of the 2008 elections was the coalition of former Prime Minister Vojislav Kostunica's Democratic Party of Serbia (DSS) and the New Serbia (NS) party, which lost 4.5 percentage points and 17 seats in comparison with the elections of January 2007 (now 12.1% of the vote and 30 seats). The electoral alliance led by the Socialist Party of Serbia (SPS) performed better than expected,

winning 7.8% (20 seats). The Liberal Democratic Party (LDP), a DS splinter party, attained 5.4% of the vote and 13 seats. In addition, seven representatives of ethnic minorities returned to parliament, as the electoral threshold of five percent does not apply to their parties.

If these alliances and parties are taken into consideration, Serbia's July 2008 parliament could be described as moderately fragmented with the effective number of parties having decreased by more than one point to 3.5 in comparison with the elections of January 2007. However, the ZES and the SPS-led alliances integrate several smaller parties and thus are likely to be less coherent than the single party organizations. ZES consists of the center-left DS, the G17 Plus party of economic reformers, the Serbian Renewal Movement (SPO), two regionalist parties – the Sandzak Democratic Party and the League of Vojvodina Social Democrats – and one representative of an ethnic Croatian party. Of these parties, G17 Plus formed its own parliamentary group. The SPS had a coalition with the United Serbia (JS) party and the Party of United Pensioners of Serbia (PUPS), of which the latter established its own parliamentary group.

A conflict between the imprisoned SRS Chairman Vojislav Seselj, who was on trial by the International Criminal Tribunal for the former Yugoslavia in The Hague, and its Deputy Chairman Tomislav Nikolic over the signing of the Stabilization and Association Agreement with the European Union led Nikolic to resign and create his own Serbian Progressive Party (SNS) in September 2008. The newly established SNS controlled 21 of the SRS's 78 seats in parliament. In October 2008, the SNS sought to demonstrate its center-right political orientation by renouncing the long-standing SRS aim of annexing ethnic Serb-dominated parts of Bosnia and Croatia.

Altogether, 23 individual parties were represented in parliament at the beginning of 2009, indicating a much higher degree of fragmentation than before. This situation was one motive for President Tadic to propose higher thresholds for registering and retaining political parties, the replacement of the proportional by a majoritarian electoral system, and a reduction of the number of parliamentary deputies. On 12 June 2009, the parliament adopted a law on political parties that imposed stricter conditions for the registration of political parties, requiring 10,000 signatures of adult citizens every eight years in order to register and prove the continued activity of the party. Parties of national minorities and those having at least one elected member of parliament are exempt from this regulation.

The network of interest groups is relatively close-knit. Trade unions have little influence and are best organized in the state sector. In April 2009, trade unions organized a demonstration in Belgrade to protest against the government's austerity measures. Workers of recently privatized textile companies in Kragujevac and Novi Pazar started hunger strikes to win the payment of wage arrears. In 2005, the state created a tripartite Socioeconomic Council to facilitate social dialogue. Thus far, the

Interest groups

council has not become a core institution of interest intermediation and economic policy coordination. Business interests are organized in a system of local, regional and national economic chambers with mandatory membership. These chambers provide technical assistance and dispute settlement procedures to their members, and function as interest associations. On 13 May 2009, the parliament amended the law on economic chambers, which made membership voluntary. With this amendment, the government hoped to liberalize the representation of business interests and to provide incentives for existing economic chambers to improve their services. A few oligarchs and managers of publicly owned companies, however, still dominate domestic business interests,

Consent to democracy is high and the constitutional framework is fully accepted. According to representative opinion polls conducted by the Serbian political scientist Zoran Stojiljkovic between 2005 and June 2007, 52% of Serbian citizens consider democracy to be the best possible regime. Nearly two-thirds of the respondents were not satisfied with the functioning of democracy. In addition, the poll showed that trust in specific democratic institutions was relatively low. For example, only 21% of the citizens surveyed trusted in government. Approximately one-third of the citizens felt sufficiently competent to understand political issues, and 62% declared they could have no impact on political decision-making.

Consent to
democratic norms

There is a robust web of autonomous, self-organized groups, associations and organizations, which enjoy solid trust among the population. The new law on associations provides a stable and clearer legal framework for civil society activities.

Associational
activities

Many NGOs depend on foreign donations, which exposes them to critique from nationalist and extremist groups. NGOs that address war crimes or past injustices have faced public criticism, threats and intimidation. Despite the relatively large number of NGOs, only few citizens have expressed confidence in them. Even fewer citizens participate actively. According to a December 2006 survey published by the European Bank for Reconstruction and Development, 30% of the respondents declared to have some or complete trust in other people.

II. Market Economy

6 | Level of Socioeconomic Development

With a gross national income of \$9,830 per capita in 2007 (at current exchange rates, World Bank data), Serbia belongs to the upper-middle income countries of the world. Serbia ranks lower than Croatia and Bulgaria, but higher than Macedonia and Bosnia and Herzegovina. Social exclusion is quantitatively and qualitatively limited. According to a survey of living standards conducted by the World Bank in 2007, 6.6% of the population lived below the national poverty line of 8,883 dinars (\$152) per month. Whereas this absolute poverty rate declined between 2002 and 2007, the Gini coefficient of income inequality increased from 30 (2002) to 37 in 2007. The relative poverty rate (60% of median consumption per adult equivalent) was 14.6% in 2007. The decline in poverty resulted from the period of economic growth until 2008 and from Serbia's relatively effective strategy of poverty reduction.

Socioeconomic
barriers

Other indicators of social exclusion have been less positive. For example, the rate of long-term unemployed did not decrease during the economic boom years and the share of long-term unemployed among the total number of unemployed even increased to 81.2% in 2007 (National Statistical Office data). This high share indicates a very low mobility of job seekers and a relatively rigid official labor market. Many unemployed persons and dropouts from the official statistics work in the informal sector, which is estimated to comprise approximately one-third of total employment. There are significant regional disparities both in employment and unemployment rates. The residents of rural areas of southeast Serbia, less educated, unemployed, elder persons, households with many children and persons belonging to the Roma minority are particularly affected by poverty and social exclusion.

| Economic indicators | | 2004 | 2005 | 2006 | 2007 |
|---------------------------|----------|---------|---------|---------|-----------------|
| GDP | \$ mn. | 24517.9 | 26193.4 | 30527.3 | 40121.9 |
| Growth of GDP | % | 8.4 | 6.2 | 5.7 | 7.5 |
| Inflation (CPI) | % | 11.0 | 16.1 | 11.7 | 6.4 |
| Unemployment | % | 18.5 | 20.8 | 20.9 | 18.1 |
| Foreign direct investment | % of GDP | 3.9 | 6.1 | 14.7 | 7.8 |
| Export growth | % | 5.7 | 14.4 | 4.9 | 16.3 |
| Import growth | % | 15.2 | -4.9 | 2.8 | 23.9 |
| Current account balance | \$ mn. | - | - | - | -10928.6 |
| Public debt | \$ mn. | 8122.4 | 7621.4 | 7472.7 | 8223.9 |
| External debt | \$ mn. | 14320.2 | 15943.8 | 19521.6 | 26280.4 |
| Total debt service | % of GNI | 3.7 | 4.8 | 7.3 | 8.5 |
| Cash surplus or deficit | % of GDP | - | - | - | -0.9 |
| Tax Revenue | % of GDP | - | - | - | 22.9 |
| Government consumption | % of GDP | 19.9 | 17.9 | 17.0 | 17.7 |
| Public expnd. on edu. | % of GDP | 3.3 | 3.4 | 3.7 | 3.7 |
| Public expnd. on health | % of GDP | 5.7 | 5.8 | 5.7 | - |
| R&D expenditure | % of GDP | 0.3 | 0.4 | 0.5 | 0.3 |
| Military expenditure | % of GDP | 3.0 | 2.4 | 2.3 | 2.4 |

Sources: The World Bank, World Development Indicators 2009 | UNESCO Institute for Statistics | International Labour Organization, Key Indicators of the Labour Market Database | Stockholm International Peace Research Institute (SIPRI), Yearbook: Armaments, Disarmament and International Security.

7 | Organization of the Market and Competition

Since 2000, Serbia has established an institutional framework of market competition, but the scope of the informal and state sectors remains significant. According to the World Bank's 2008 survey on Doing Business, the business environment deteriorated in Serbia relative to 180 other countries. Whereas registering property was considered less costly than in previous years, dealing with construction permits became more time-consuming. Entrepreneurial decisions are constrained by legal uncertainty, widespread corruption and red tape. State budget subsidies to companies were reduced between 2007 and 2008.

Market-based
competition

A Commission for the Protection of Competition approves mergers and acquisitions and monitors the formation of cartels and abuses of dominant market positions. However, the commission is not empowered to impose fines on companies violating the competition rules. It also lacks competent staff to use its legal powers effectively. On 8 July 2009, the parliament adopted new laws on the control of state aid and the protection of competition in order to comply with EU competition policy rules. The new anti-monopoly law enabled the commission to fine companies that abused their dominant position. It also provided more precise criteria for the definition of relevant markets and strengthened the commission's operational independence.

Anti-monopoly
policy

Some sectors of Serbia's economy are still characterized by oligopolist or monopolist ownership structures. For example, Delta Holding, Serbia's biggest company, controls approximately 70% of the domestic food trade.

Foreign trade is liberalized in principle, but significant exceptions remain, including differentiated tariffs and special rules for individual sectors. Tariff structures have been relatively stable, and no quotas have been applied – such that world and domestic relative prices for tradable goods are largely aligned. In 2005, exports and imports to and from the European Union comprised 56 and 54 percent of total exports and imports, respectively (EU Commission data). Serbia participates in the renewed Central European Free Trade Agreement but had not joined the World Trade Organization. Serbia unilaterally applies the reduction of customs duties for EU imports envisaged in the Interim Trade Agreement with the European Union.

Liberalization of
foreign trade

The banking system and capital market are differentiated and oriented to international standards, but their dependence on foreign capital makes them vulnerable. The restructuring and privatization of the banking system made further advancements in 2007 and 2008. In 2007, foreign banks owned about 75% of assets in the banking sector. Of the 34 banks operating in Serbia in 2008, the state held a majority in four banks. Foreign exchange denominated and indexed loans comprised 74% of total loans in 2008. The sharp decline of capital inflows in fall 2008 and the associated depreciation of the Serbian dinar contributed to a rapid increase of non-performing loans in the portfolios of commercial banks. According to the IMF, the share of non-performing loans amounted to 6.6% of total loans in February 2009.

Banking system

These developments did not fundamentally jeopardize the stability of the banking system, as the capital adequacy ratios of banks were and remained far above the minima recommended by the Basel Accords. Nevertheless, the Central Bank and the government took various measures to improve the liquidity of banks. In 2008, they increased the amount of guaranteed deposits, eliminated the tax on savings income and reduced the reserve requirements for the foreign borrowing of banks.

In May 2009, the government adopted a program to support the financial sector and to ensure its external financing and liquidity. One important element of the program was to persuade foreign parent banks with subsidiaries operating in Serbia to continue their engagement and keep their subsidiaries capitalized. The contacted parent banks publicly declared that they would work toward making specific exposure commitments in the context of the program. In addition, the program supported the conversion of FX and FX-linked loans into dinar loans, the restructuring of loans, and the access to liquidity.

8 | Currency and Price Stability

Controlling inflation and an appropriate foreign exchange policy are recognized goals of economic policy, but have not been consistently followed. The inflation rate nearly doubled in 2008 and reached 11.7 percent (annual average, IMF data), which continued to be one of the highest in Southeast Europe. The Central Bank continued to target inflation based upon its monetary policy framework from September 2006. High inflation prevented the Central Bank from lowering interest rates in order to improve access to capital.

Anti-inflation /
forex policy

Serbia's exchange rate regime is a managed float. The volatility of the exchange rate increased in 2008 mainly because of the change of government and the depreciation of the Serbian dinar in the wake of the global financial crisis. The dinar lost 20 percent of its value against the euro between September 2008 and April 2009. This rapid depreciation contributed to the high inflation rate.

Serbia's government is generally committed to macroeconomic and fiscal stability, but the external shock of the global financial crisis and more expansive fiscal policies in 2007 and 2008 have seriously challenged this commitment. Capital outflows exceeded inflows in winter 2008-2009, and the current account deficit deteriorated to 17% of GDP in 2008 (IMF data). The general government deficit increased to 1.9 and 2.5% of GDP in 2007-2008. Since approximately two-thirds of government expenditure goes for pensions and public wages based on legal entitlements, governmental discretion over spending cuts is restricted. At the same time, Serbia's external debt grew further and reached 63.6% of GDP by the end of 2008, with private sector debt accounting for more than 70% of the total external debt (IMF data).

Macrostability

In October 2008, the government requested a Stand-By-Arrangement (SBA) with the International Monetary Fund (IMF), which was approved on 16 January 2009 and extended a credit of €394 million. The deterioration of Serbia's external and financial environment necessitated a new SBA on 15 May 2009. The new SBA amounted to €2.9 billion and was extended until mid-April 2011.

To restore the fiscal balance, the government froze all wages and salaries in general government and public enterprises in nominal terms until 2010. In a letter to the IMF, the government also committed itself to “extend the nominal freeze of pension benefits to end-2010; ... freeze hiring at all levels of government; cut ... discretionary budget allocations in all ministries of the Republican budget ...; [return] to the Republican budget 40 percent of own resources of budgetary institutions in 2009; and [reduce] transfers to local governments ... and ... to the health fund.”

9 | Private Property

Property rights and the regulation of the acquisition of property are well defined in principle. Municipal courts and cadastral offices dealing with property registration are highly susceptible to corruption. The 2006 constitution allows foreign citizens to obtain real estate property but restricts the tradability of agricultural land.

Property rights

Churches and religious communities may claim the restitution of their nationalized property on the basis of a law from October 2006. As of July 2009, parliament had yet to adopt the envisaged law on the restitution of other assets confiscated during the communist regime and Nazi occupation. The association of former owners contested the privatization of some of the disputed properties.

In 2007, private companies produced 55% of Serbia’s GDP, but state and socially owned companies still comprise a significant share of the economy. According to the Ministry of Finance, in 2008 the state owned 33 public companies with approximately 8,6000 employees, not including the oil conglomerate Naftna Industrija Srbije (NIS) and the Serbian Telecommunications company. Municipalities owned approximately 600 public companies, which together employ about 66,000 workers. As of January 2009, these companies had not been restructured and privatized. Oligopolies are tolerated by the state.

Private enterprise

In 2008, the government privatized the oil conglomerate NIS and negotiated a joint venture between the car manufacturer Zastava and Fiat. The sales of the airline JAT and the copper mining company RTB Bor failed due to lack of interest. According to the Ministry of Finance, the Privatization Agency sold 626 socially owned companies between 2007 and 2008, obtaining revenues of approximately €800 million. The state hopes to privatize the remaining socially owned companies by the end of 2009. In December 2007, the parliament adopted a law on the free distribution of shares in six state-owned companies to citizens and former employees of these companies.

10 | Welfare Regime

Although social safety nets do not cover all risks for all strata of the population, poverty is confined to unemployed, less educated and elderly people. Roma are particularly disadvantaged. Social assistance, pension, unemployment and health insurance schemes compensate for broad social disparities, but these schemes are limited in scope and quality. The replacement rate of net pensions to net wages was 54.9% in 2007 (National Statistical Office data). Voluntary private pension funds have existed since January 2006.

Social safety nets

The average life expectancy at birth, which can be interpreted as an aggregate measure of the health system's effectiveness, increased to 71 and 76 years for the male and female population in 2006, but this remains well below the EU averages (National Statistical Office data). Existing services for long-term care cover only a small portion of the elderly population. In January 2008, the state integrated the pension systems for employees, self-employed persons and farmers into a single system in order to improve administrative efficiency. In May 2009, the parliament adopted a new law on employment and unemployment insurance in order to create a more flexible and competitive labor market.

A number of institutions work to compensate for gross social differences, though they remain insufficient to deal with the scope of the problem. Women are underrepresented in public offices and leading positions. For example, the ombudsman's annual report noted that only 54 of the 250 parliamentary deputies elected in May 2008 were women. Roma are a particularly vulnerable group and face considerable discrimination on the labor market and in the education system.

Equal opportunity

On 26 March 2009, parliament adopted an anti-discrimination law that prohibited all forms of discrimination of individuals and groups in accordance with EU anti-discrimination rules. The government also drafted an action plan for the empowerment of women and the advancement of gender equality. The system of ombudspersons was expanded in 2008.

11 | Economic Performance

Serbia's real GDP grew by 6.9 and 5.4% in 2007 and 2008 (IMF data). Industrial production and trade declined significantly at the beginning of 2009, reflecting the global economic crisis. Inflation increased in 2008, but fell in early 2009 due to the economic contraction. The unemployment rate decreased to 14% in 2008, but surveys indicate that the informal sector pushes the real unemployment rate even lower. Serbia's current account deficit widened to approximately 17.1% of GDP in 2008, caused by high capital inflows, strong domestic demand and a relatively weak export performance rooted in the lack of competitive domestic production.

Output strength

Foreign direct investment inflows decreased to approximately \$2.5 billion in 2008. At the end of 2008, the global economic recession caused it to slow sharply (EBRD data). The recession is expected to cause a drop in GDP and a reduction of the large current account deficit.

12 | Sustainability

Environmental concerns tend to be subordinated to growth efforts. Serbia's intensive agricultural production has caused problems of soil pollution and water eutrophication. The state has neglected the infrastructure of wastewater and solid waste treatment for years. The systems now require substantial state investment to modernize. Electricity and heating production relies mostly on lignite and brown coal, which are combusted in outdated power plants that are inefficient and produce significant pollution.

Environmental
policy

In May 2009, the parliament adopted a set of environmental laws required for alignment with EU legislation. The laws, among other things, refer to chemicals, packaging and packaging waste, solid waste treatment, air protection, and nature protection. In addition, parliament amended the existing laws on environmental impact assessment and environmental protection. In September 2007, Serbia also ratified the Kyoto Protocol of the U.N. Convention on Climate Change. However, in October 2008 the EU Commission noted that the administrative structures to implement the protocol were not in place. It is uncertain how Serbia will manage to effectively implement this new and ambitious regulatory framework.

State and private institutions for education, training and research and development are strong and in some cases quite advanced. According to the EU Commission, public spending on education was 3.7% of GDP in 2007, which is much lower than the EU average. Serbia also remained significantly under the average of OECD member countries in comparative studies of learning achievements, such as the Program for International Student Assessment (PISA). The education system is still highly centralized and inefficiently organized (e.g., a large number of small schools).

Education policy /
R&D

Transformation Management

I. Level of Difficulty

In Serbia, the structural constraints on governance are moderate. On the one hand, unresolved statehood problems and the economic, social and political legacies of the Yugoslav wars have burdened Serbia's path to democracy and market economy. On the other hand, Serbia's population is relatively well educated and the country's level of economic development has traditionally been relatively high. Ethnic tensions in Serbia proper and negative effects of the semi-authoritarian Milosevic period, such as a distorted, uncompetitive economic structure and widespread corruption, pose additional difficulties for the political leadership.

Structural
constraints

Serbia has moderately strong traditions of civil society. This is initially because Yugoslavia's socialist system conceded niches for a small segment of urban intellectuals and subsequently because the opposition protests against the Milosevic regime in the course of the 1990s turned into a broad popular movement, which involved and mobilized many citizens beyond urban intellectuals. Numerous civil society organizations have persisted from this period and contribute to public accountability.

Civil society
traditions

Serbian society and the country's political elite are polarized along ethnic issues such as Kosovo, Vojvodina and ethnic Serbs in Bosnia or Croatia. Increasingly, social issues (wages, public services, living conditions, corruption) are causing further polarization. Radical political actors have continued to mobilize support for ethnopolitical issues, such as the annexation of ethnic Serb settlement areas in Croatia or Kosovo.

Conflict intensity

II. Management Performance

In the period under review, three governments held office in Serbia. The first cabinet was led by Prime Minister Vojislav Kostunica and consisted of the Democratic Party of Serbia, the Serbian Renewal Movement, and the New Serbia party. Lacking a parliamentary majority, Kostunica's government depended on the

support of the Socialist Party of Serbia and in some cases also from other opposition parties. The elections of January 2007 led to the formation of a majority government consisting of the Democratic Party (DS) and G17 Plus in addition to the previous governing parties. This cabinet took office first in May 2007 and was again headed by Kostunica. After Kosovo's declaration of independence on 17 February 2008, the governing parties disagreed over whether Serbia should sign the Stabilisation and Association Agreement with the European Union and its member states or whether signing the agreement would imply a recognition of Kosovo. The breakup of the governing coalition resulted in new elections that were won by the DS and its allies in May 2008. The DS-led electoral alliance "For a European Serbia" formed a coalition government together with the Socialist Party of Serbia and its electoral alliance. The new government under the leadership of Prime Minister Mirko Cvetkovic controlled a majority of the seats in parliament only because it gained the support of six deputies representing ethnic minorities.

14 | Steering Capability

In the period between 2007 and January 2009, Serbia's political leadership sought to build democracy and a market economy, but it sometimes postponed long-term aims in favor of short-term political benefits. Successive governments demonstrated a strong commitment to European integration and to the reforms required to fulfill EU standards regarding democratic principles, the rule of law as well as a functioning and competitive market economy. President Tadic and Foreign Minister Jeremic, however, declared that Serbia would not join the European Union if that would require accepting Kosovo's independence. The conservative and rightwing parts of the political elite also showed their willingness to prioritize the claim on Kosovo over EU integration, even though a Kosovo with an impoverished population that rejected Serbian sovereignty would entail a burden for Serbia's democracy and market economy rather than an advantage.

Prioritization

All governments in office during 2007-2008 were committed to democracy and a market economy, but the two elections and the lengthy negotiations on the formation of new governments in 2007 and 2008 delayed the adoption of new laws. The parliament adopted 72 laws in 2007 and 48 laws in 2008. Notably, the number of adopted laws increased considerably in 2009. The government successfully privatized the car manufacturer Zastava by agreeing to a joint venture with the Italian automobile corporation Fiat.

Implementation

In addition, the governing majority demonstrated its capacity to implement fiscal adjustment measures when the parliament in April 2009 approved several laws to reduce public spending and increase tax revenues. The cuts included planned allocations to ministries and local governments. Income taxes on dividends and royalties, excise taxes, as well as property and car taxes were increased.

Government initiatives froze pensions and salaries of civil servants for 2009 and 2010, cut higher salaries in the public sector by 10-15%, and reduced the number of public employees by 10-13% (current level: 60-80,000).

The implementation of structural reforms in education, health care, the judicial system, the pension system and public administration still poses significant challenges for Serbia. The government failed to achieve parliamentary approval for the new autonomy statute of Vojvodina. The Provincial Assembly adopted the statute and submitted it for approval by the National Assembly as envisioned by the constitution of 2006. The rightwing opposition parties and also some DS politicians criticized that the statute would pave the way to a federalization of Serbia and a future secession of Vojvodina. President Tadic and most DS politicians, including the DS head of the Vojvodina government, supported the statute.

The government also failed to seize and extradite the former Bosnian Serb wartime military commander Mladic during 2007 and 2008, although the capture of Mladic was a key precondition for the implementation of the 2008 Stabilization and Association Agreement.

Serbia's political leadership quickly adapted its economic policies to the global economic downturn and the decline of foreign capital inflows. At the same time, the government took a rigid position denying Kosovo independence. This policy ignored the political concerns of the broad majority of Kosovo Albanians and the rationales that motivated major Western powers to recognize Kosovo.

Policy learning

15 | Resource Efficiency

The Kostunica and Cvetkovic governments improved efficiency in their use of resources in some respects, but continued to struggle with widespread corruption, political patronage and nepotism. Governing parties still view ministerial posts and public offices as spoils to reward their supporters and preserve their loyalty. The Kostunica government divided into 21 ministries to accommodate the needs and demands of its constituent parties. The number of ministries increased even further to 24 under the Cvetkovic government. Since this fragmentation entailed high costs and inefficiencies, in May 2009 President Tadic proposed to reduce the number of government ministries from 25 to 15 or 20.

Efficient use of assets

As of January 2009, the State Audit Institution was not yet fully operational, although over two years had passed since the National Assembly appointed five members of the Supreme Audit Council to lead it. As a consequence, the parliament was unable to approve the final accounts. An internal audit unit was established in the Ministry of Finance, but other ministries still lacked such units.

The 2006 Law on Civil Servants defines the scope of the civil service and differentiates between political appointees and civil servants. It contains unified principles guiding the civil service, including equal access, the rule of law, neutrality, performance assessment, professionalism and merit-based recruitment and promotion. These principles were intended to foster the de-politicization and continuity of the civil service. The government restructured the payment system for civil servants in order to improve the remuneration and performance orientation of civil servants. However, a wide scope of managerial discretion over appointments persists and restricts the professionalism of the civil service.

According to an IMF report, some state-owned financial enterprises carried out functions on behalf of the government, which were not clearly identified, quantified or disclosed. The executive has the authority to determine the size and composition of in-year spending relatively autonomously, because the Budget System Law does not specify a formal ceiling for the budget reserve and this reserve exists separately from the budget. The IMF also noted that budget outcomes deviated substantially from projections in some major components of expenditure and revenue.

Municipalities have been tasked with the collection and administration of local taxes, capital investments in primary healthcare, the organization of transport for pre-school children, and the management of social work services. The state introduced a new financial equalization scheme based on objective criteria. Municipalities may possess and manage their own property, but municipal property has not been clearly delimited from state property.

During the Cvetkovic government, a high degree of segmentation and the lack of a political center of power within the ruling coalition hampered policy coordination. The government had 27 members and 24 ministries, three deputy prime ministers, and one minister without portfolio. This large number of offices reflected the composition of parties supporting the government and led to overlaps and frictions between the different portfolios.

Policy
coordination

Key politicians of the smaller coalition parties joined the cabinet of Prime Minister Cvetkovic and used their ministries to sharpen the profile of their parties. For example, Mladjan Dinkic, the chairman of G-17 Plus and deputy prime minister responsible for economy and regional development, opposed the sale of the oil company NIS to Russia's Gazprom. Milutin Mrkonjic, the deputy chairman of the Socialist Party of Serbia and infrastructure minister, threatened to resign when the government cut his ministry's budget in order to comply with IMF requirements. In contrast, Prime Minister Cvetkovic is not a member of the Democratic Party (DS) and thus lacks a strong political basis within the governing coalition. Political power lies outside the government, with Serbia's President and DS chairman Tadic.

An advantage of this constellation has been that previous conflicts between governments and presidents of different political positions ended when the DS became the leading party in government. In addition, the requirements of EU integration have led to improved inter-ministerial coordination. The government set up coordinating bodies for EU affairs at the cabinet and working levels.

The role of the General Secretariat of the Government, however, is still essentially limited to administrative rather than policy coordination. It does not have an independent capacity to review policies and monitor the implementation of cabinet decisions. Ministries do not sufficiently consult their draft bills with other ministries, which shifts coordination tasks to the political level, overburdens cabinet meetings with essentially administrative work and contributes to the production of low quality legislation.

Most integrity mechanisms function in Serbia with limited effectiveness. In October 2008, the parliament adopted the Law on the Anti-Corruption Agency, an independent government body designed to supplement the existing Anti-Corruption Council and to become the new institutional focus of corruption prevention. The government plans for the agency to monitor and enforce the rules regulating conflict of interest and the financing of political parties. In October and December 2008, parliament also adopted laws on the criminal liability of legal entities and public procurement. It ratified the Civil Law Convention on Corruption and the Additional Protocol to the Criminal Law Convention on Corruption in November 2007. As of January 2009, the State Audit Institution was not fully operational, although in September 2007 the National Assembly had appointed five members of the Supreme Audit Council to lead it.

Anti-corruption
policy

16 | Consensus-Building

There is a basic consensus about democracy and market economy among Serbia's current political leadership. The two parties that had supported the semi-authoritarian Milosevic regime, the Serbian Radical Party (SRS) and the Socialist Party of Serbia (SPS), have undergone a process of democratic change and reorientation. In September 2008, the SRS split into a traditionalist SRS and a moderate Serbian Progressive Party (SNS). The SPS joined a government of the former opposition to Milosevic in July 2008.

Consensus on goals

In the period under consideration, the Kostunica and Cvetkovic governments strengthened the parliamentary accountability of the army and the secret services. Police reforms helped reduce the influence of organized crime.

Anti-democratic
veto actors

Serbia's political leadership took some efforts to prevent the escalation of conflicts based on ethnic and national cleavages. The government and all major political

Cleavage /
conflict
management

actors refused to accept Kosovo's declaration of independence, but the government defended its position on Kosovo by peaceful and diplomatic means and largely in accordance with international law. For example, Serbia requested the U.N. General Assembly to seek an advisory opinion from the International Court of Justice (ICJ) on the legality of Kosovo's declaration of independence. Notably, the government refrained from suing states that had recognized Kosovo before the ICJ. In November 2008, the government also agreed on the deployment of the EU's Rule of Law Mission in Kosovo, although it opposed the closure of the U.N. Mission in Kosovo (UNMIK).

Within Serbia proper, the political leadership has sought to integrate the remaining national minorities.

The political leadership has sought to take the civil sector into account, most notably in preparing the law on associations and in communicating the government's EU accession policy. Parliament and ministries publish information bulletins and the government has established a commissioner for public information to represent the concerns and protect the rights of citizens. Civil society organizations have the right to attend sessions of parliament. The overall role of civil society organizations, however, is still insufficiently understood by parts of the state administration.

Civil society
participation

Serbia's political leadership has not yet fully addressed the republic's responsibility in the wars of the 1990s. In 2008, the police arrested the wartime Bosnian Serb President Radovan Karadzic and three other indicted war criminals, who were then transferred to the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague. According to the EU Commission's 2008 progress report, the War Crimes Chamber of the Belgrade District Court conducted trials against 123 individuals suspected of involvement in war crimes on the territory of the former Yugoslavia.

Reconciliation

However, the Council of Europe's Commissioner for Human Rights noted "an absence of successful transitional justice processes, such as formal truthseeking efforts, reparations to victims, and the vetting of officials who may be implicated in past crimes. ... There is a tendency for state institutions to diminish the role of Serbia in the conflict."

Self-critical accounts of Serbia's role in the Yugoslav wars remain confined to a narrow segment of urban intellectuals. Cooperation with the ICTY is largely driven by the conditionality of external aid and EU accession, not by a broad-based domestic recognition of the necessity of coming to terms with the past.

17 | International Cooperation

Serbia's governments have worked with international donors and effectively used international assistance for most items of their domestic reform agenda. Technical assistance was, among other things, used to achieve long-term objectives in the reform of public administration, the judiciary and various areas of economic reform. The Serbian government has only reluctantly accepted international advice on issues related to perceived key national interests, notably Kosovo.

Effective use of support

The Kostunica and Cvetkovic governments have tried to assure their international partners of their credibility and reliability. In December 2008, the prosecutor of the International Criminal Tribunal for the former Yugoslavia declared that Serbia's cooperation with his office had significantly improved. While Serbia's governments have extradited key indicted war criminals to the tribunal, they failed to locate, arrest and transfer the wartime Bosnian Serb military commander Ratko Mladic.

Credibility

By granting Stand-By-Arrangements in January and May 2009, the IMF signaled its confidence in the government's capacity and determination to cope with the macroeconomic imbalances and implement fiscal adjustment measures as agreed. In May 2009, foreign banks with subsidiaries in Serbia signed a public statement to express their willingness to sustain specific exposures in Serbia.

Serbia has contributed to its international credibility by complying with the Dayton Peace Agreement for Bosnia and Herzegovina. Most Serbian political actors have refrained from publicly supporting the Bosnian Serb calls for a right of secession in the event of Kosovo's independence. However, several Serbian politicians criticized that decisions of the High Representative in Bosnia and Herzegovina violated the Dayton Peace Agreement.

The political leadership cooperates with many neighboring states and complies with the rules set by regional and international organizations. Serbia signed and ratified the Stabilization and Association Agreement with the European Union and its member states in April and September 2009. This agreement calls for the gradual liberalization of trade and the institutionalization of a regular political cooperation between Serbia and the European Union. Serbia has actively participated in regional cooperation initiatives such as the Central European Free Trade Agreement, the Regional Cooperation Council, the Central European Initiative and the Black Sea Economic Cooperation. The government improved its cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY), which has been a crucial precondition posed by the European Union for a closer relationship with Serbia. Serbia signed an agreement on social security with Montenegro and agreed with Croatia to cooperate in the prosecution of war crimes. Serbia has complied with the Dayton Agreement and maintained good neighborly relations with Bosnia and Herzegovina. Cooperation with Republika Srpska was intensified in line with the Dayton Agreement.

Regional cooperation

Serbia has been less cooperative regarding Kosovo. On the one hand, in November 2008 Serbia agreed on the deployment of the EU's Rule of Law Mission in Kosovo, provided that the mission would be status-neutral under the umbrella of UNMIK. On the other hand, the government called upon Kosovo Serbs to boycott the elections in Kosovo and organized municipal elections against the will of the U.N. administration. Serbia also recalled its ambassadors from states that had recognized Kosovo.

Strategic Outlook

Since the end of the Milosevic regime in 2000, Serbia has made impressive progress in political and economic reforms aimed at consolidating democracy and a market economy. Until 2008, a favorable international economic and political environment facilitated this reform effort. The global financial and economic crisis has ended this coincidence and poses a serious challenge to Serbia's newly established political and economic institutions.

As domestic savings are not sufficient to replace the missing foreign capital, the restructuring and modernization of Serbia's economy will be delayed. Access to capital will become more expensive and difficult, resulting in higher thresholds to new investments. The dramatic decline of foreign trade has hit the competitive sectors of the economy and reduced an important source of revenue. To restore macroeconomic stability, rebalance the state budget and comply with IMF conditions, the government had to cut public expenditures and jobs.

These developments are likely to exacerbate existing social and political divisions and increase political instability. In particular, the externally induced economic downturn tends to weaken the societal basis of support for the Democratic Party and other parties with a liberal, pro-Western orientation. These parties, which have dominated government since July 2008, have legitimized political and economic reforms by promising that an international economic and political integration would produce wealth for most of the population in a midterm perspective. Moreover, these political actors have also referred to the broad benefits of EU integration in order to justify a Kosovo policy that respects international law and uses diplomatic means.

From a Serbian point of view, there is a sense of tragedy in the fact that the most democratic political elites in Serbian history will have to pay the ultimate bill for Milosevic's destructive policy and bore political responsibility when Kosovo declared its independence in February 2008.

Kosovo's independence has not only been fully endorsed by its Kosovo Albanian majority population, but has also found broad international support. The United States, 22 of the 27 EU member states and other neighboring countries have extended diplomatic recognition to Kosovo. As the independence of Kosovo does not appear to be reversible without waging another war, Serbia's political leadership should consider accepting an independent Kosovo. Moreover, they should communicate this acceptance to their citizens.

Losing territory may be bitter for those who associate control over this territory with national pride and identity. One may, however, question whether controlling territory is still an indispensable feature of nationhood in times characterized by transnational integration, functional interpenetration and multi-layered jurisdictions. Moreover, consolidated democracy, socioeconomic development and European integration all constitute objectives that would be more difficult to reach with a less-developed and unruly Kosovo.

Such insights must emerge and gain ground from within Serbian society and politics. The European Union is unable to impose such a change of deeply entrenched notions and beliefs. The European Union should therefore not force Serbia to recognize an independent Kosovo as a condition for EU membership.

Rather, the European Union should provide a clear roadmap for Serbia's accession that links precise benchmarks with binding commitments from the union itself. Such a strategy would reinforce the credibility of EU membership among citizens and those political actors in Serbia who have based their own political credibility on the promise of European integration. Full cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) should be one benchmark of such a roadmap, but this condition does not have to be equated with arresting the ICTY indictee Mladic. If the Serbian authorities can prove that they have made serious efforts to capture Mladic, EU member states should unblock the entry into force of the Interim Trade Agreement signed in April 2008.

The pro-European parties that have formed the Cvetkovic government after the elections of May 2008 will have to continue reforming state institutions in order to prepare the country for EU membership. In particular, these reforms include establishing an impartial, professional and efficient judiciary and public administration, as well as effective integrity mechanisms preventing corruption. The governing majority has already managed to prepare the legislative foundations for these reforms, but the government will still have to demonstrate the capacity to implement the new legal frameworks. Strengthening the political basis of governmental authority along the lines suggested by President Tadic can help overcome implementation problems if such reforms are accompanied by improvements to the capacities of parliament, the judiciary and public administration. These institutions should be transformed into a functioning arrangement of checks and balances that prevent abuses of executive powers and increase the rationality of executive governance.

The major task of economic reform is to restructure the remaining state-owned and socially owned enterprises. The government will have to either liquidate them and sell their assets or attract strategic investors who will modernize their outdated capital stock. Both strategies will entail mass layoffs. The private sector will not be able to create enough new jobs to absorb these layoffs unless something is done to spark dynamic development. Private sector growth should be driven both by more foreign greenfield investment and by the spread and maturing of domestic business. The economic crisis has made this reform strategy more, but no convincing alternative to it exists.