

UNCLASSIFIED

USAID | SERBIA

FROM THE AMERICAN PEOPLE



COUNTRY DEVELOPMENT COOPERATION STRATEGY

December 2020 – December 2025

Table of Contents

Acronym List	3
Executive Summary	4
Country Context	7
Strategic Approach	12
Monitoring, Evaluation and Learning	24
Annex	25

Acronym List

CDCS	Country Development Cooperation Strategy
CLA	Collaborating, Learning, and Adapting
CSO	Civil Society Organization
CSR	Corporate Social Responsibility
CSS	Competitiveness Systems Strengthening
DFC	U.S. International Development Finance Corporation
DRM	Domestic Resource Mobilization
E&E	Europe and Eurasia
EU	European Union
FSR	Financing Self-Reliance
GDP	Gross Domestic Product
GOS	Government of Serbia
ICT	Information & Communication Technology
IR	Intermediate Result
ISDACON	Intersectoral Development Assistance Coordination Network
J2SR	Journey to Self-Reliance
LGBTI	Lesbian, Gay, Bisexual, Transgender, and Intersex
LMIC	Low and Middle Income Countries
MEL	Monitoring, Evaluation and Learning
PMP	Performance Management Plan
RDR	Redefining the Relationship
SME	Small and Medium-sized Enterprises
SNS	Serbian Progress Party
Sub-IR	Sub-Intermediate Result

I. Executive Summary

Country Development Cooperation Strategy (CDCS) Goal: USAID’s strategic goal over the next five years is to foster: *“A more economically-productive and democratic Serbia pursuing Euro-Atlantic integration and self-reliance.”* USAID will help Serbia advance political and economic reforms, and sustainably advance to self-reliance. The estimated total five-year budget for this CDCS is \$115 million.

Journey to Self-Reliance (J2SR): Serbia has high capacity and significant, but declining, commitment to self-reliance. This CDCS focuses on supporting the citizens of Serbia in their efforts to achieve self-reliance via government reform and economic growth. Over the next five years, USAID will seek to enable the conditions for J2SR by amplifying private sector engagement to accelerate inclusive economic growth, strengthen commitment to inclusive development, and mobilize public and private resources to address social development initiatives, and biodiversity protection.

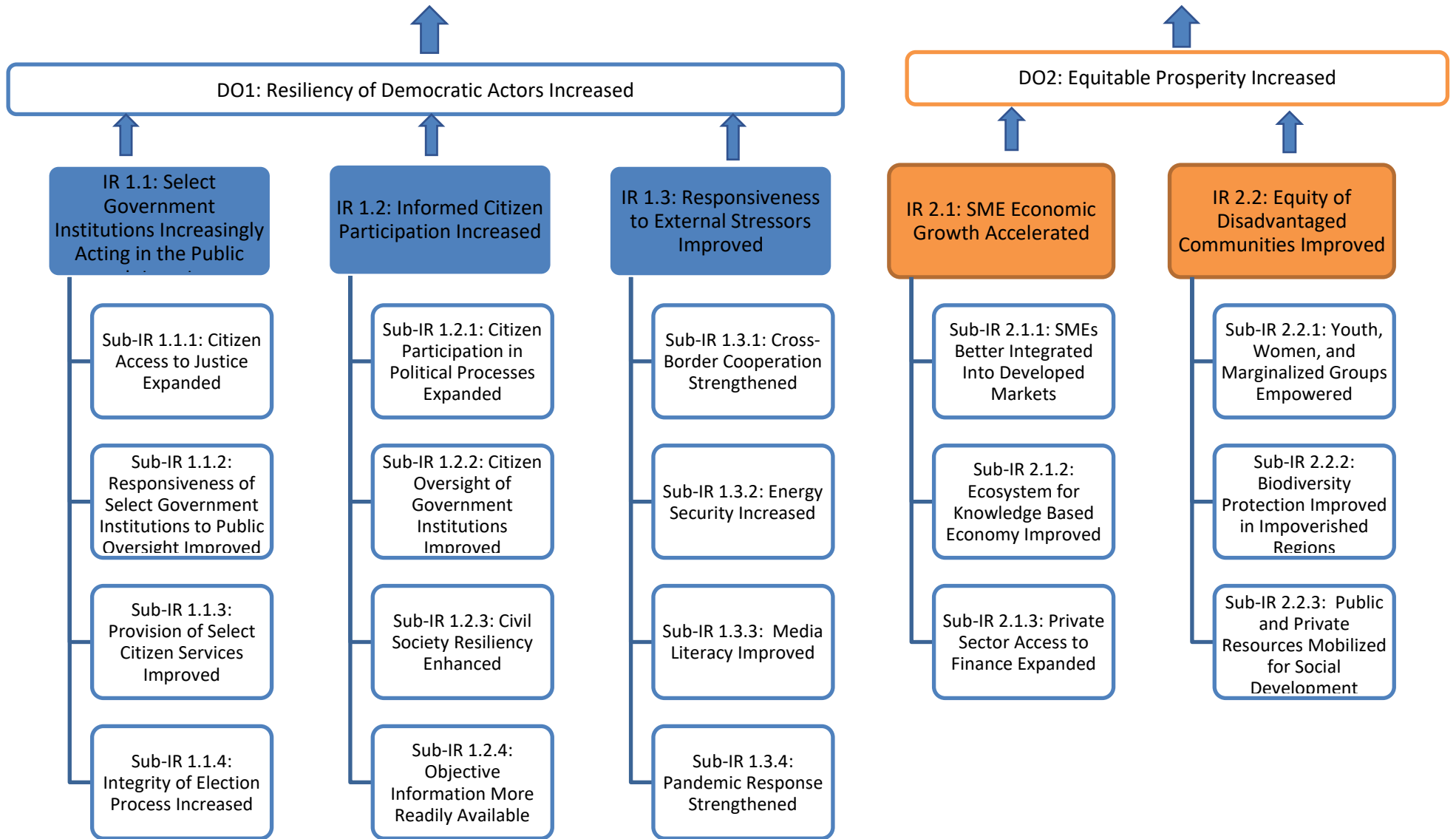
Resiliency of Democratic Actors Increased (Development Objective (DO) 1): USAID will focus its efforts on three areas to achieve this first objective: the responsiveness of government institutions, citizen capacity and ability to engage their government, and the responsiveness to external stressors. DO1 adopts a flexible approach to engage a broader spectrum of democratic actors in efforts to support Serbia’s commitment to self-reliance.

Equitable Prosperity Increased (DO2): USAID will increase equitable prosperity in Serbia by accelerating the growth of Micro-, Small-, and Medium-Size Enterprises (SMEs) and assisting disadvantaged communities to achieve greater equity through locally-led development initiatives. Programming will assist Serbia in addressing multifaceted challenges, including: weak economic governance, inequality, poor natural resource management, and poor access to finance. DO2 will enable the conditions for Serbia’s Journey to Self-Reliance (J2SR) by

amplifying private sector engagement and engaging broader communities in their own development.

Cross-Cutting Priorities: Engagement with youth, businesses, women and gender minorities holds significant opportunities to advance both CDCS objectives. USAID engagement with these populations throughout CDCS programming will help to mainstream these groups in society, assist them to meet their potential, gain influence in their government and society, and achieve greater prosperity. Per the U.S. Department of State's report on International Religious Freedom, Serbia is not identified as a country of concern nor on the Special Watch List.

Goal: A More Prosperous and Democratic Serbia Committed to Euro-Atlantic Integration and Self-Reliance



Cross-Cutting Priorities: Youth Engagement; Gender Equality; Private Sector Engagement; and Development Diplomacy

II. Country Context

Overview: Serbia faces multifaceted challenges that have slowed democratic consolidation and progress towards its goals of self-reliance, Euro-Atlantic and regional integration, and accelerated economic growth.

Journey to Self-Reliance: Serbia occupies a strategic juncture at the social, political, and geographic crossroads between Eastern and Western Europe. Having progressed significantly in its J2SR, Serbia demonstrates strong capacity but declining commitment to reach its vision of self-reliance and Euro-Atlantic and regional integration.¹

Serbia's commitment to self-reliance ranks in the 35th percentile out of 136 low- and middle-income countries (LMIC). This commitment to self-reliance has been negatively affected by a slowing of democratic progress. In terms of commitment, Serbia's strength lies in its focus on EU accession, and its weakest J2SR score is related to Biodiversity and Habitat protection. Serbia scores lower than the subregion average on Freedom of Association Index, Clean Elections Index, Legislative Constraints on the Executive Index, Judicial Constraints on the Executive Index and Freedom of Expression and Alternative Sources of Information Index. More importantly, Serbia scores poorly on Civil Society Organization (CSO) Repression, Harassment of Journalists, Freedom of Discussion for Women, Print/Broadcast Media Critical, Government Censorship Effort-Media, CSO Participatory Environment, Freedom of Academic and Cultural Expression, Media Self-Censorship, Print/Broadcast Media Perspectives, Freedom of Discussion for Men and Media Bias.

Serbia's capacity to achieve self-reliance is significant. Serbia is in the 7th percentile rank in capacity out of the LMIC. Within the Balkan subregion, Serbia scores equal to or higher than the average on Export Sophistication, Education Quality, Information & Communication Technology (ICT) Adoption, Tax System Effectiveness, Safety & Security, Poverty Rate (\$5/Day), gross domestic product (GDP) per Capita (PPP), Economic Gender Gap and Government Effectiveness and lower than the subregion average on Business Environment, Open Government, Trade

¹ United States Agency for International Development (USAID). Journey to Self-Reliance Roadmap, Serbia. Washington, DC: United States Agency for International Development (USAID), 2020. <https://selfreliance.usaid.gov/country/serbia>

Freedom, Child Health, Social Group Equality, Civil Society & Media Effectiveness, Liberal Democracy and Biodiversity & Habitat Protections. However, institutional, and cultural barriers continue to limit the engagement of women, minorities and youth in governance and business. Despite attention given to youth advancement, as well as gender equality and social inclusion, persistent gaps continue to exist.² Youth, women, and marginalized groups remain underrepresented in political participation and advocacy and have higher rates of unemployment.³ These barriers continue to drive emigration, especially among youth (aged 18-30) and the highly-educated.⁴

Political Context

Serbia's democratic transition began in 2000, nearly a decade later than other countries in the region. Democracy in Serbia faces four critical challenges: weak separation of powers; political polarization; low citizen engagement and closing space for civil society; and outdated economic policies.

The 2020 parliamentary and local elections were held in the context of intense political polarization and the COVID-19 pandemic.⁵ The largest opposition block boycotted the elections citing the government's failure to implement electoral system reforms. While the opposition sought to convince the majority of eligible voters to abstain from voting, voter turnout was 49%, of which 61% voted for the current governing Serbian Progress Party (SNS). These results secured the SNS a supermajority in the Serbian Parliament with 188 out of 250 seats. Similarly, SNS prevailed in local elections. Electoral quotas for gender and ethnic diversity resulted in 38% of national assembly seats for women and 8% for minorities. Perceptions of corruption

² Balkan regional platform for youth participation and dialogue. Youth Mobility in The Western Balkans The Present Challenges And Future Perspectives: Bosnia And Herzegovina, Montenegro, Kosovo, Serbia, The Former Yugoslav Republic Of Macedonia. Strasbourg: Balkan regional platform for youth participation and dialogue, 2016. https://www.alda-europe.eu/public/doc/Youth_Mobility_in_the_Western_Balkans.pdf

³ United States Agency for International Development (USAID) Serbia. Final Gender Analysis Report 2020. Belgrade: 2020. https://pdf.usaid.gov/pdf_docs/PA00WNPZ.pdf

⁴ European Council on Foreign Relations. Vracic, Alida. Brain Drain and Prosperity in the Western Balkans. London: European Council on Foreign Relations, 2018. https://www.ecfr.eu/publications/summary/the_way_back_brain_drain_and_prosperity_in_the_western_balkans

⁵ The Office for Democratic Institutions and Human Rights, Organization for Security and Co-operation in Europe. ODIHR Special Election Assessment Mission. Belgrade: The Office for Democratic Institutions and Human Rights, Organization for Security and Co-operation in Europe, 2020. <https://www.osce.org/files/f/documents/8/e/455155.pdf>

have not improved over the course of the last 10 years. The World Bank's World Governance Indicator identifies a decline in control of corruption from 48% in 2010 to 42% in 2018.⁶ Transparency International's Corruption Perception Index found a worsening situation over the same period.⁷ Additionally, the volume and scope of cybercrime is also on the rise.⁸ Prevailing gender norms exacerbate this dynamic, as women are disempowered to speak out as whistleblowers against corruption. Overall, corruption is believed to have reduced economic investment, especially among foreign investors, and slowed growth.

Public and political life are heavily influenced by the quality and accuracy of media reporting. However, the growing use of social and electronic media has made it far more difficult to discern accurate information from disinformation. Independent local media outlets, which do provide accurate information, lack resources to gain market share and adapt to the new media landscape. Citizens, likewise, have limited understanding of the tools or skills to access the veracity of information in a rapidly changing media environment.

Economic and Demographic Context

Serbia is a transition economy with high growth potential. Serbia has a strong foundation of human capital, stable macroeconomic conditions, and close proximity to the economic powerhouses of Western Europe. After a post-financial crisis slump between 2010 and 2015, economic growth reached 4% annually, before the COVID-19 economic recession. Serbia implemented fiscal consolidation and reforms under a Policy Coordination Instrument with the International Monetary Fund from 2015-2018, which provided a solid macroeconomic foundation for growth. In mid-2020, its public debt remained manageable at 57.5% of GDP.

The COVID-19 pandemic forced the temporary shutdown of large portions of the economy in 2020, leading to an estimated increase in inactivity from an average of 31.9% for the working

⁶ The World Bank Development and Research Team. The Worldwide Governance Indicators: Methodology and Analytical Issues. Washington, DC: The World Bank Development and Research Team, September 24, 2010.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682130

⁷ Transparency International. Corruption Perception Index. Berlin: Transparency International, 2019.
<https://www.transparency.org/en/cpi/2019>

⁸ Organization for Security and Co-operation in Europe. Rizmal, Irina; Radunović, Vladimir; Krivokapić, Đorđe. Guide Through Information Security in the Republic of Serbia. Belgrade: Organization for Security and Co-operation in Europe, 2016.
<https://www.osce.org/files/f/documents/2/7/272171.pdf>

age population in 2019, to 34.8% in the second quarter or 2020. GDP growth is projected at -3% this year, compared to 4.2% in 2019, with lower external demand, weaker foreign direct investment and remittances, disruptions in regional and global supply chains, and domestic supply constraints. As of October 2020, the economy is slowly recovering from recession and forecasts for growth in 2021 range widely between 2.9% and 6%. However, risks to the outlook remain substantial given the uncertainty about the evolution of the epidemic.

Weak economic governance persists and is the primary constraint to economic growth. Despite Serbia's economic strengths, prevalent and fundamental weaknesses in economic governance undermine the country's growth potential. This weak economic governance props up inefficient state-owned enterprises and weakens the business enabling environment due to corruption, poor rule of law, lack of accountability, and anti-competitive behavior.

Poverty rates are unusually high for a country of Serbia's level of development, indicating that economic gains are not well distributed across income groups and geographies. As of 2016, the latest year of official World Bank data, Serbia's poverty headcount ratio at the \$5.50 per day level was 23.4%, among the highest in Eastern Europe.⁹ However, that number declined from 26.7% in 2013 to 23.4% in 2016, suggesting that recent economic growth has contributed to poverty reduction. In addition to the standard headcount statistics, the Government of Serbia maintains statistics on the percentage of the population "at risk" of poverty. As of 2018, 24.3% of the population is considered to be at risk, which is down slightly from 26.7% in 2015.¹⁰

Unemployment is significant, at 10.9% for the working age population (15-64) in 2019, of which 10.4% for men and 11.5% for women. Labor markets continue to show significant inequality. Multiple segments of the population—in particular youth, Roma, persons with disabilities, lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, and rural populations—face additional hurdles in accessing employment.¹¹ Unemployment among youth (15-24) for 2019

⁹ The World Bank Group. Serbia Systematic Country Diagnostic Update 2020. Washington, DC: The World Bank Group, December 2019.

¹⁰ Statistical Office of the Republic of Serbia. Statistical Release PD10 Number 281, Survey on Income and Living Conditions. Belgrade: Statistical Office of the Republic of Serbia, 2019.

¹¹ United States Agency for International Development (USAID) Serbia. Final Gender Analysis Report 2020. Belgrade: 2020. https://pdf.usaid.gov/pdf_docs/PA00WNPZ.pdf

was at 27.5%, of which 26.1% for men and 29.9% for women.¹² The unemployment rate for Roma hovers at just greater than 60%, whereas the unemployment rate for the overall population is approximately 25%.¹³ Many of these inequalities are also mirrored in access to other resources, including property, land, financial markets, transport, and support programs for businesses.

Income inequality is also very high. Serbia has a Gini coefficient (measuring distribution of income across a population) of 39.6,¹⁴ the second highest in Europe and Central Asia behind Turkey. According to the World Bank's PovCalNet database, the top 10% of the population earns 28.7% of total income while the bottom 10% earns just 1.3% of income.

As a result of high poverty, unemployment and inequality, outmigration is growing. One-third of Serbia's youth are expected to migrate outside the country after completing school,¹⁵ even as the median age of Serbia's remaining population grows. Serbia has a large elderly population (17.2% of its citizens are 65 years or older) and a low fertility rate.¹⁶ Taken together, these dynamics are driving a major population decline. Serbia's overall population is projected to decline 17% between 2015 and 2050.

Much of Serbia's recent growth is attributed to high levels of foreign direct investments attracted by high government subsidies and major infrastructure construction. However, moderate improvements in the business enabling environment and fiscal stability have also created opportunities for market development and diversification. After rising five places in 2018, Serbia's competitiveness ranking fell seven places in 2019, putting Serbia in 72nd position out of 141 countries.¹⁷

¹² Statistic Office of the Republic of Serbia. Labour Force Survey in The Republic of Serbia. Belgrade: Statistical Office of the Republic of Serbia, 2020. <https://publikacije.stat.gov.rs/G2020/PdfE/G20205658.pdf>

¹³ Ibid.

¹⁴ The Gini coefficient is a measure of inequality in which 100 indicates perfect inequality (all wealth is held by one person), and 0 indicates perfect equality (wealth is evenly distributed across all people).

¹⁵ World Bank Group. *Serbia Systematic Country Diagnostic Update*. 2020. <http://documents1.worldbank.org/curated/en/941541588367005122/pdf/Serbia-Systematic-Country-Diagnostic-Update.pdf>

¹⁶ World Population Review, <https://worldpopulationreview.com/countries/serbia-population>

¹⁷ Schwab, Klaus, World Economic Forum, The Global Competitiveness Report. Geneva: World Economic Forum. 2019. http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

SMEs have significant growth and employment potential in Serbia. SMEs in Serbia account for 66% of employment and 57% of value added. In 2012-2017, SME value added increased by 33%, while SME employment increased by 12%.¹⁸ However, SMEs are not well-served by Serbia's business enabling environment and financial services, which largely focus on the needs of large corporations and residual state-owned enterprises. A recent Enterprise Survey estimates that just 49% of small firms use banks to finance investments, compared to 73% for large firms.¹⁹

Serbia is a net energy importer that currently receives 70% of its crude oil and more than 80% of its natural gas from Russia. While Serbia's long-term plans include the diversification of its oil and gas supply, progress remains slow and substantial diversification is expected to take at least 5-10 years.

Transition Planning: Serbia is not expected to graduate from foreign assistance during the strategy period. However, the CDCS will lay the groundwork for the longer-term goal of transitioning from a recipient of development assistance to an enduring diplomatic, economic, and security partner. During the life of this CDCS, USAID will pursue a dialogue and test new partnership arrangements with the GOS that will demonstrate a clear path toward self-reliance and an evolved relationship from donor recipient to a partnership for growth. By strengthening engagement with the private sector and promoting improvements in SMEs, USAID will also promote economic growth and increase the competitiveness of Serbian firms required for sustainability.

III. Strategic Approach

J2SR: The CDCS focuses on using capacity strengths to improve commitment to self-reliance. USAID strategy is oriented to leverage the strengths of citizens, businesses and their government to renew the country's commitment to self-reliance and address its development challenges. The strategic approach is multifaceted to address the complex interplay of

¹⁸ European Commission. Small Business Act Fact Sheet Serbia. Brussels: European Commission, 2019. https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/sba-fs-2019_serbia.pdf

¹⁹ The World Bank Group. Enterprise Surveys, Serbia 2019 Country Profile. Washington, DC: The World Bank Group, 2019. <https://www.enterprisesurveys.org/content/dam/enterprisesurveys/documents/country/Serbia-2019.pdf>

democratic backsliding, economic growth, and regional. By leveraging the high capacity of its citizens, businesses, civil society and political reformers, this partnership approach is seen as the most direct method to securing improvements in Serbia's overall commitment to democracy.

Broad Engagement Approach: This strategy will broaden societal engagement with the government to strengthen democratic institutions, expand civic space, and improve the enabling environment for business. This approach will adapt to support the implementation of reform agendas as opportunities arise.

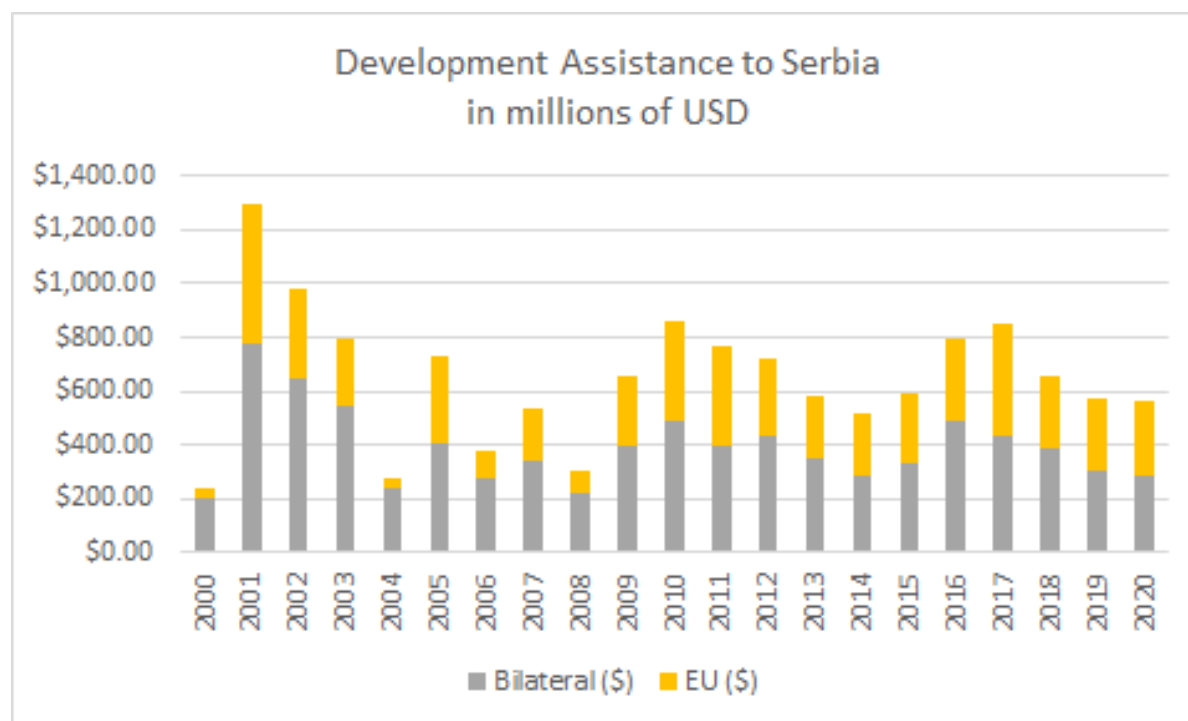
Redefining the Relationship (RDR): USAID will seek to improve partnership with the Government of Serbia (GOS) through an approach that combines development programming in agreed reform areas and engagement on joint funding of initiatives, within a broader context of development diplomacy to expand commitment to self-reliance. The GOS's development vision focuses on enhancing the Serbian economy through support of private sector growth by developing competitiveness, business infrastructure, internationalization, and expanding the transfer of knowledge and technology. Recently re-elected Prime Minister Ana Brnabic articulated their six topline goals: fighting the coronavirus pandemic and strengthening the health care system, preserving the vital interests of the Serbs in Kosovo, fighting organized crime, maintaining Serbia's independence and independent decision making, the rule of law and speeding up reforms on the European path and strengthening the country's economy. Brnabic said her cabinet's first priority is protecting the health of the population and supporting the health care system. The new government also noted its priority of improving economic productivity via investments in roads, railways and river transit. The strategic objective of Serbian economic policy²⁰ is to accelerate European integration/EU accession by implementing the systematic reforms needed to meet the Copenhagen criteria.

²⁰ 'National Priorities for International Assistance in the Republic of Serbia 2014-17, with projections until 2020, [http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20\(english\).pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20(english).pdf)

Private Sector Engagement and Leveraging Host-Country Capacity: USAID/Serbia will seek to leverage resources from the private sector and other donors. We will support the engagement of citizens and businesses to improve fiscal transparency, the enabling environment for private investment and the availability of finance for SMEs. USAID will engage the government and financial institutions to develop internal financial markets and expand access to finance for SMEs, via loans and equity and debt investment vehicles. USAID will also adopt a business approach to programs for independent media. By treating media as businesses, the Mission will improve the economic sustainability of Serbian independent media that will enable key media stakeholders to be competitive and self-sustainable in the 21st century media environment.

Financing Self-Reliance: Based on feasibility, USAID will pursue efforts under three Financing Self-Reliance (FSR) pillars for programming and engagement: fiscal transparency and accountability, enabling environment for private investment, and domestic resource mobilization (DRM). Areas of focus may include efforts to improve public procurement processes, the enabling environment for private investment, and access to capital for SMEs. USAID will also support programs to mobilize public and private resources to build and sustain social, environmental and other community initiatives.

Chart 2. Development Assistance to Serbia 2000-2020²¹



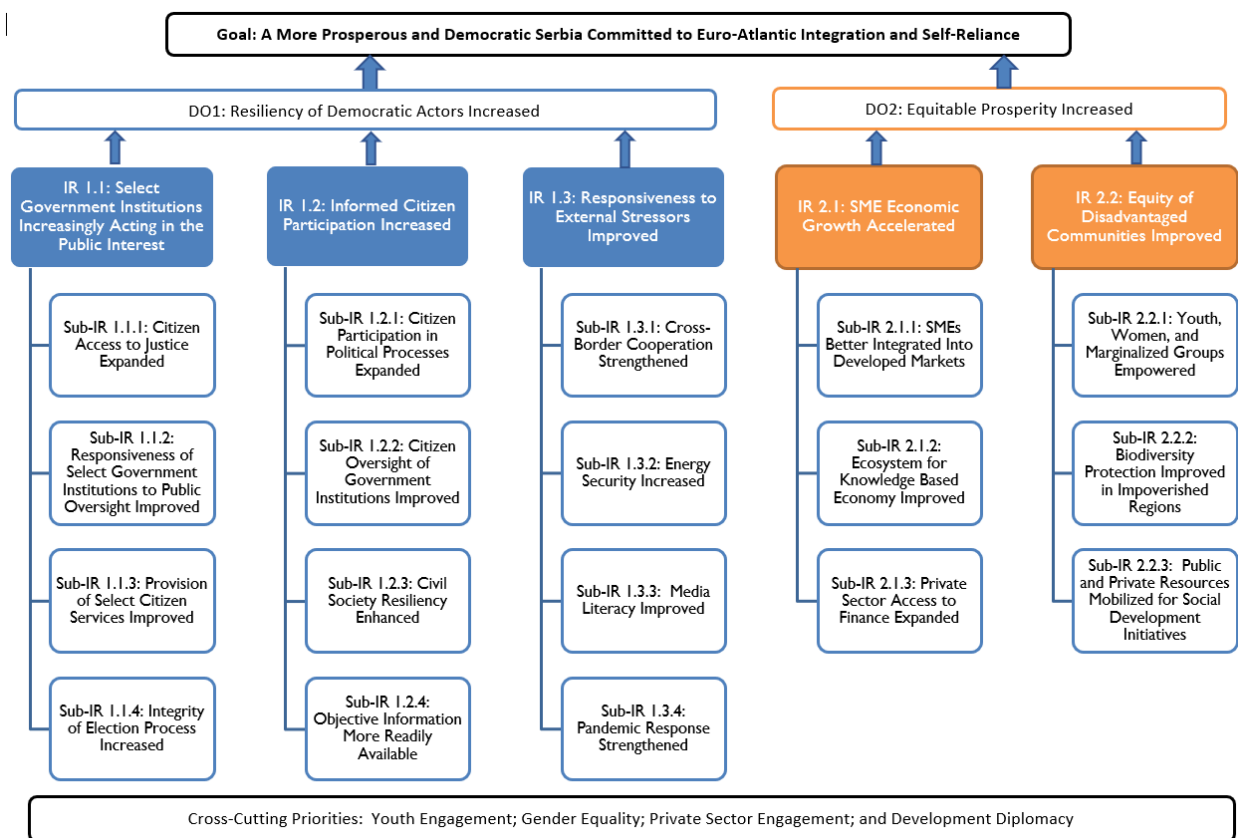
Coordination: USAID will coordinate efforts to achieve US foreign policy objectives by fostering synergies in programs wherever possible. USAID will also coordinate programming with the EU and bilateral donors to achieve greater progress over the strategy period (see Chart 2 above). Throughout the CDCS period, USAID is forecasted to remain one of the largest bilateral donors in Serbia and will use its country presence to facilitate collaboration, serve as a technical leader in several sectors, and implement a proactive communications strategy. USAID will utilize the GOS’ donor coordination mechanisms and bilateral donor coordination to create synergies that expand the reach of USAID investments.

IV. Results Framework

This CDCS supports the goal of “A more prosperous and democratic Serbia committed to Euro-Atlantic integration and self-reliance.” USAID’s strategy supports Serbia’s ambition to achieve greater Euro-Atlantic integration and greater prosperity for its citizens. To achieve their vision,

²¹Government of the Republic of Serbia Ministry of European Integration. Intersectoral Development Assistance Coordination Network (ISDACON) Database. Belgrade: Government of the Republic of Serbia Ministry of European Integration, 2020. <http://www.evropa.gov.rs/Evropa/PublicSite/index.aspx>

greater commitment to effective and responsive democratic institutions must be developed and broadly-shared economic growth must be expanded.



Development Objective (DO) 1 Results Statement and Narrative:

IF select government institutions increasingly act in the public interest and IF participation of informed citizens increases and IF responsiveness to stressors improves THEN the resiliency of Serbia's democratic actors will increase. The public's engagement with its government ("demand side" programs) will be essential for the government to prioritize necessary reforms and strengthen its democratic institutions. Demand side programs will be paired with support for government institutional reform ("supply side" programs) where opportunities exist to advance positive change that supports improvements in democracy, transparency, government performance, or Euro-Atlantic integration. This DO will seek to expand the capacity of citizens, civil society organizations, women and youth organizations, and free media. By harnessing

Serbia's high civil society capacity,²² programs will support improvements in transparent elections, a fair and efficient legal system, policies that meet the needs of businesses and citizens, and equitable provision of government services.

Given the additional stresses created by COVID-19 and unsettled regional dynamics, supply and demand side programming will be augmented with targeted interventions that build the resilience²³ of Serbia's citizens and institutions. Interventions in this area will seek to support regional integration efforts, increase energy security, and strengthen media literacy and health systems that are necessary to address the ongoing pandemic.

USAID will link economic partners under DO 2 with civil society organizations under DO 1 to build broader coalitions of support for the reform objectives of Intermediate Result (IR)'s 1.1, 1.2, 2.1 and 2.2. Opportunities include: closer collaboration of civic organizations with the private sector on philanthropy, facilitating the establishment of a media investment fund supported by the private sector, and introduction of low-cost advanced technologies to ensure financial viability in the energy sector. These linkages will be made deliberately by incorporating cross-cutting objectives into activity designs and work plans.

USAID will support the supply side of democratic reform by identifying opportunities to assist select government institutions to implement reforms that strengthen their integrity and responsiveness. Programs will seek to improve the rule of law, elections and other government functions. To ensure equity and inclusion, programs will utilize gender-sensitive approaches and facilitate the participation of women, youth, persons with disabilities and LGBTI persons.

IR 1.1: Programs will be developed to assist the Government of Serbia to enact reform agendas that are ready to proceed with public support. Over the course of the next five years, these may include work with the Administrative and Misdemeanor Courts on increasing the quality and speed of delivery of justice and transparency of proceedings. USAID may also support efforts to improve the capacities of select oversight independent institutions, such as the State Audit

²² FHI360. Civil Society Organization Sustainability Index, Central and Eastern Europe and Eurasia, Washington, DC: FHI360, 2019. <https://www.fhi360.org/resource/civil-society-organization-sustainability-index-reports>

²³ "Resilience is the ability of people, households, communities, countries, and systems to mitigate, adapt to and recover from shocks and stressors in a manner that reduces chronic vulnerability and facilitates inclusive growth." USAID. Resilience at USAID. 2019. <https://programnet.usaid.gov/file-download/download/private/4173>

Institution and the Commissioner for Data Protection. USAID may also support the improvement of the capacities of public institutions to respond to and act upon the oversight and improve their provision of services. Working with the Republic Election Commission, USAID will also seek to improve the integrity of elections.

IR 1.2: Programs will also support the demand side of democratic reform by empowering citizens to take an active role in society, so they are better informed and able to achieve their individual political, economic, and life goals. Through support for citizens, USAID will seek to support more effective and efficient citizen-government. USAID will help civil society organizations and youth and women's organizations to better aggregate and represent citizen interests and to engage in dialogue with the GOS regarding those interests and the overall enabling environment for civil society. Such engagement is expected to increase the accountability of government institutions and align government programs to better meet the needs of the broader public. USAID will also support citizen engagement in the political process through programs that improve interaction between political parties and citizens.

Informed and engaged citizens are essential for a democratic society. USAID will utilize a forward-looking approach to ensure that Serbian citizens are able to access accurate and relevant information on political, economic, and social topics of importance. USAID's approach to media development will consider rapid technological changes that shape media and information sectors and changing audience preferences in media consumption while ensuring the long-term sustainability of independent media actors. Programming will focus on business practices, digitalization, and investment readiness.

IR 1.3: USAID will develop programs to mitigate specific stressors on Serbia's government and society. USAID will use an adaptive approach to provide developmental support to regional initiatives that arise from diplomatic engagements in the Western Balkans. USAID will support efforts to improve Serbia's energy security, through support of renewable energy, energy efficiency, and energy sector policy reforms. USAID will build citizens' media and digital literacy skills, and seek to institutionalize digital and media literacy skills building incentives through cooperation with the private sector, educational institutions, public administration, civil society and government. Media literacy programming will work in conjunction with programs under IR

1.2 and may support COVID-19 awareness, depending on changing needs. USAID will also support Serbia's e-health system development (the use of information and communication technologies for healthcare) and COVID-19 response. The digital transformation of the health system is one of the new key priorities of the government of Serbia which will lead to the better living standard for all citizens. The Mission may also support Serbia's health system through the provision of specialized medical equipment for COVID-19 response and tailored technical assistance, as needed.

DO 2 Results Statement and Narrative:

IF SME growth is accelerated and IF equity of disadvantaged communities improves through locally-led development, THEN equitable prosperity will increase, thereby advancing Serbia's journey to self-reliance. The outcome of increased equitable prosperity will be achieved by expanding opportunities for underserved businesses and communities for economic and social growth. Economic growth programs will leverage Serbia's capacity to expand SME market access, promote knowledge-sharing, and increase access to finance; and community programs will improve the equitable provision of services and management of natural resources for underserved communities.

Serbia faces multifaceted challenges to its sustainable economic development. These include: weak economic governance, inequality, poor natural resource management, and weak support structures and poor access to finance for SMEs.²⁴ As the J2SR Roadmap indicates, Serbia's lowest commitment score is for Biodiversity Protection (0.43). In addition, scores for the Economic Gender Gap (0.66) and Social Group Equality (0.68) show that more efforts are needed in these areas to ensure commitment to inclusive development and economic policy. At the same time, Export Sophistication score (0.63) and other FSR scores indicate existing capacity and opportunities for market expansion and EU market linkage. Together, these dynamics necessitate programming to facilitate market integration, SME development, and equitable and sustainable growth.

²⁴ USAID/Serbia Country Economic Review, April 2020.

Women, youth, ethnic and gender minorities, and rural communities face special challenges in accessing opportunities. Despite increases in economic growth, high gender inequality still limits access to economic resources, including jobs, property, land, financial markets, transport, support programs for businesses, and agricultural loans.²⁵ Among young women (15-24) in rural areas, the unemployment rate is at 30.7% and inactivity rate at 70%, compared to unemployment at 22.6% and inactivity at 53% for young men in those locations.²⁶ Even more worrisome is the fact that less than 45% of Serbian youth have an optimistic outlook as to the future of the country. Discrimination against persons with disabilities ranks even higher than gender-based discrimination in the labor market. LGBTI populations as well as ethnic minorities, and people in rural areas face similar challenges in the economic, social and decision-making arenas. USAID will provide support to specific underserved communities to improve their equitable access to opportunities for personal and community advancement.

Serbia's J2SR weakness in environmental protection presents a clear issue for sustainability and a specific challenge for EU accession. Public activism and government interest in environmental protection has grown in the past few years, creating a natural opportunity to deepen partnership. Major direct threats to Serbian biodiversity include the interrelated factors of 1) land use conversion; 2) agriculture; 3) alteration of natural waterways; 4) logging; 5) mining; 6) water pollution; and 7) overexploitation of plant and animal species. The brunt of these threats is felt most by the rural, poor communities near Serbia's remote protected areas.

DO2 will improve equitable prosperity, as measured by the economic and social well-being of citizens in the Serbian context. DO2 will focus on stimulating accelerated growth in segments of the economy that advance Serbia's self-reliance. Throughout DO2, USAID will seek to broaden collaboration with the private sector and other donors and increase the Government of Serbia's co-investment in programs to achieve longer-term success, ensure the sustainability of efforts, and identify opportunities to replicate interventions across different economic sectors.

²⁵ USAID/Serbia Gender Equality Assessment, 2020

²⁶ Statistic Office of the Republic of Serbia. Labour Force Survey in The Republic of Serbia. Belgrade: Statistic Office of the Republic of Serbia, 2019. <https://publikacije.stat.gov.rs/G2020/PdfE/G20205658.pdf>

USAID will link civil society organizations under DO1 with business and local partners under DO2 to advocate for necessary reforms that accelerate economic growth and social equity objectives under IR's 2.1 and 2.2. Opportunities include: closer collaboration of civic organizations with the private sector on community challenges and environmental issues; expansion and linkage of public-private partnerships and resource mobilization efforts with social reform initiatives; and philanthropy and corporate social responsibility to support locally-led development and social equity initiatives. These linkages will be made deliberately by incorporating these objectives into activity designs and work plans.

IR 2.1: IR 2.1 seeks to accelerate growth by helping SMEs meet their potential for sales, employment and expansion into global markets. SME's comprise 98% of Serbia's businesses but they only contribute to approximately 28% of the GDP.²⁷ SME development also offers women greater opportunities for employment. Given obstacles women face in finding wage employment, women have increasingly become entrepreneurs, accounting for approximately 34% of all SME owners in 2014.²⁸

To support sector growth and advance regional integration, USAID programs will assist SMEs to identify and utilize opportunities for regional trade. Programs will also assist businesses to build the necessary capacity and linkages to enter and compete in new markets and access affordable, adequate finance for their operations. Market-driven approaches may include: assisting businesses to comply with relevant standards; helping introduce new financial products suitable for SME financing (such as crowd-lending platforms and other fin-tech financial solutions); supporting SMEs with e-commerce expansion; and creating ecosystems²⁹ that facilitate innovation, technological upgrades, and professional skills development. USAID support programs that build the capacity and market connections of SMEs hold significant

²⁷ Statistical Office of the Republic of Serbia. Structural Business Statistics Database

²⁸ Babović, Marija, *The Status of Women in the Business Sector in Serbia* (Belgrade: SeCons Development Initiative Group, 2014).

²⁹ An "innovation ecosystem" is the term used to describe the various players, stakeholders, and community members that are critical for innovation. An innovation ecosystem includes universities, government, corporations, startup accelerators, venture capitalists, private investors, foundations, entrepreneurs, mentors, and the media. Each plays a significant role in creating value in the larger ecosystem by transforming new ideas into reality through access and financial investment. Local, state, and federal entities can and should play a part in developing the ecosystem. Mike Millard, "What Is an Innovation Ecosystem and How Are They Essential for Startups?" MassChallenge, November 1, 2018, <https://masschallenge.org/article/startup-innovation-ecosystem-explained>

potential to increase equitable economic growth and more open, free markets, such as in the agriculture sector.³⁰ To improve equitable access to opportunities, programming will support women’s business and entrepreneur networks for mentoring and networking and economic empowerment and entrepreneurship programs for targeted marginalized groups. It will also support programs working with businesses from which women are traditionally excluded, such as information and communication technology, helping women sharpen their business acumen and leadership skills through mentoring and other support. Final sector and technical approaches will be selected based on further assessment of economic potential and consultation with SMEs.

This next step in Serbia’s economic development will be achieved by adding value to goods and services, utilizing more sophisticated production processes and skills and applying innovative solutions to improve competitiveness and expanding access to diverse financing opportunities. Through our engagement in these areas, USAID programs will help SMEs increase their ability to meet the demands of more sophisticated and developed markets. In line with next generation market expansion, USAID will support programs that improve the enabling environment for innovation-driven startups and broader business expansion. USAID will assist businesses to develop clusters with other businesses, suppliers, regulators, and research and development institutions to increase innovation, diversification, productivity and competitiveness. Building on successful loan guarantee experience, USAID will work with the U.S. International Development Finance Corporation (DFC), local banks and private equity firms to increase the amount and diversity of financing options available for SMEs in Serbia. Approaches may include expansions of SME loan guarantees co-financed with the GOS and the development of debt/equity funds for media companies and SMEs. USAID also intends to synergize work in this area with the DFC, deploying parallel technical assistance, where needed, to effectively roll out DFC investments.

³⁰ USAID/Serbia mid-term performance evaluation of the competitiveness systems strengthening (CSS) activity: final report. https://pdf.usaid.gov/pdf_docs/PA00WCPR.pdf

IR 2.2: Accelerating the growth of SMEs will not, in itself, achieve DO2. Additional efforts are required to improve the equity and sustainability of growth. IR 2.2 focuses on improving social equality and sustainability through three targeted efforts focused on specific challenges to self-reliance. Each initiative leverages Serbian social development initiatives for this purpose.

The first initiative seeks to provide additional support to specific underserved communities to improve their equitable access to opportunities for personal and community advancement. Women along with ethnic and other minorities face special challenges that limit their opportunities for economic and social well-being. Addressing these inequalities is therefore critical for greater equitable prosperity. Programs may include supporting CSOs and youth to improve their issue-based advocacy and leadership skills to lobby for implementation of laws related to equality, discrimination, and incentives to ensure equal access to economic and social opportunities; working with private sector partners to provide mentorship programs for youth and women in developing career goals and pathways towards achieving them; and expanding networking opportunities between entrepreneurs from marginalized groups, investors and business associations to enhance productivity. USAID will seek to mobilize the private sector to support economic empowerment for underrepresented communities, including women, youth, LGBTI people, ethnic minorities, persons with disabilities, and vulnerable groups from rural communities. While each group may require a unique approach, programming may include: identifying needless administrative obstacles for realization of certain rights and opportunities; support for simple, innovative and creative social initiatives that could help in changing behaviors and improve community cohesion; and economic empowerment of groups through support for start-ups, social enterprises and direct engagement with private sector.

The second initiative focuses on Serbia's J2SR weakness in environmental protection, a clear issue for sustainability and a specific challenge for EU accession. Programming will support environmental initiatives that improve biodiversity and sustainability. The third focuses on expanding domestic resource mobilization to sustain social and environmental reform initiatives. USAID will support programs to mobilize public and private resources and actors to support and sustain social, environmental and other community initiatives. Through previous

pilots, USAID has identified significant opportunities to catalyze philanthropy and CSR to support locally-led development and social equity initiatives. By addressing the involvement and empowerment of wider segments of society in priority-setting and decision-making processes, supporting actions that protect the physical environment where people live to improve their quality of life, and engaging local actors in providing resources and leadership to support local development ideas, this IR will support locally-led development as an important driver for overall citizen prosperity, including social and economic well-being.

USAID therefore intends to expand and link public-private partnerships and resource mobilization efforts with social reform initiatives.

V. Monitoring, Evaluation and Learning

The CDCS will utilize an adaptive approach to track progress in development programming and J2SR commitment and capacity. The Mission will adopt an integrated approach to Monitoring, Evaluation and Learning (MEL) to clearly connect activities to the CDCS Results Framework, improve program execution over time through a consistent, structured approach to management, and enable identification and resolution of problems while highlighting innovation and excellence. This integrated approach will include extensive context monitoring related to J2SR, as well as other strategic assumptions and risks. Approaches will be grounded in evidence-based decision making and adaptive management based on collaborating, learning and adapting (CLA) principles. The Mission's MEL approach and CLA plans will be detailed in the Performance Management Plan (PMP).

The PMP will include robust learning agendas based on appropriate monitoring and evaluation approaches, which may include direct collection of performance data and complexity-aware methods such as social network analysis, outcome harvesting, contribution analysis, and stakeholder dialogue. The PMP will incorporate salient performance monitoring indicators, baselines, targets, and third-party verification when appropriate, as well as specific J2SR roadmap metrics as context indicators. To complement routine performance monitoring, the Mission PMP will include a multiyear evaluation plan to generate evidence on project effectiveness, sustainability, and overall contribution to Serbia's J2SR. The PMP will be used to

strengthen accountability, stimulate learning and improved performance and organizational decision-making across the portfolio. Learning priorities will assist in refining CDCS programming and evaluating progress towards development objectives and J2SR. To track programmatic outcomes and J2SR progress, the Mission will combine rigorous monitoring by technical officers with cross-sectoral political economy assessments.

USAID will track programmatic results through performance and context indicators and conduct rigorous, independent evaluations. The Mission will plan for portfolio reviews, performance reviews and formal mid-course stocktaking exercise that will allow for a discussion regarding this strategy and Serbia's J2SR. Such intentional, regular reflection will be used to learn from successes and failures and identify needed adaptation. Evaluation and assessment findings will be communicated and disseminated so that results and findings are shared widely across the Mission and with key stakeholders. Data sharing and analysis will expand via the establishment of communities of practice consisting of Mission, implementing partners, and, where possible, other donors and GOS partner staff to build confidence in programs and facilitate broader programmatic learning. This learning commitment will ensure that the strategy serves as a living document, providing guidance and reference points for implementation, learning, and course correction as required, including potential shifts to operationalizing plans for alternative scenarios dictated by significant country context changes.

The Mission will also adopt a serious approach to monitor and assess progress towards cross-cutting objectives, including gender equity and youth. Performance targets for programmatic elements for gender and youth will be included in the PMP and assessed as core programmatic objectives. Outcomes related to other disadvantaged groups, gender minorities, and people with disabilities will also be tracked throughout the strategy performance period.

VI. Annex

1. Serbia Journey to Self-Reliance Country Roadmap

Annex 1: Serbia Journey to Self-Reliance Country Roadmap



SERBIA

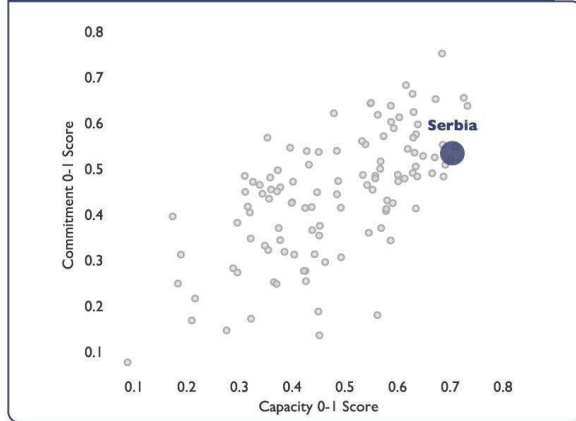
JOURNEY TO SELF-RELIANCE:
FY 2021 COUNTRY ROADMAP



LEGEND



LOW- & MIDDLE-INCOME COUNTRY SNAPSHOT

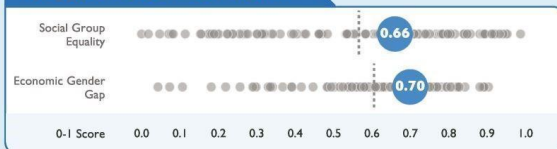


COMMITMENT

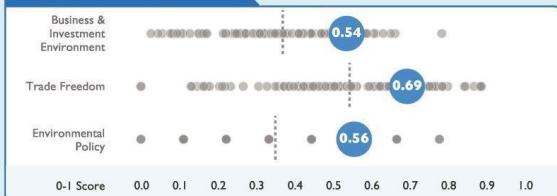
OPEN AND ACCOUNTABLE GOVERNANCE



INCLUSIVE DEVELOPMENT



ECONOMIC POLICY

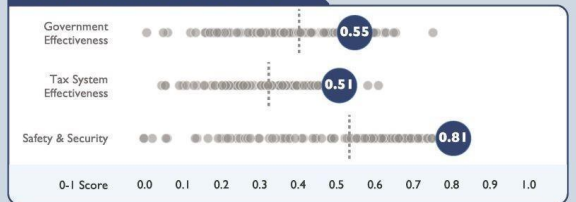


RISK OF EXTERNAL DEBT DISTRESS

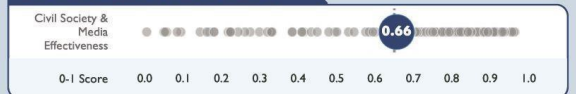
Recent IMF Risk of External Debt Distress rating not available for this country. See the USAID J2SR Country Roadmap Methodology Guide for more information and the Journey to Self-Reliance Secondary Metrics Compendium for additional tools to explore the issues of fiscal policy and outlook.

CAPACITY

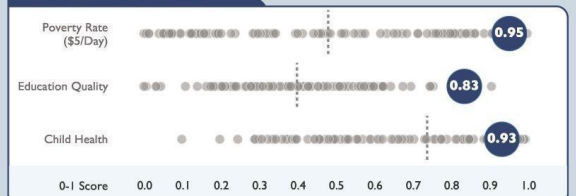
GOVERNMENT CAPACITY



CIVIL SOCIETY CAPACITY



CITIZEN CAPACITY



CAPACITY OF THE ECONOMY

