



*Gap Analysis of Serbia*  
*Europe & Eurasia Bureau, USAID*  
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*Summary*

This analysis takes stock of Serbia's progress in its transition to a market-oriented democracy. By first examining Serbia's progress through the prism of four standard indices from the Europe and Eurasia Bureau's *Monitoring Country Progress* system – economic reforms, democratic reforms, economic performance, and human capital – this study endeavors to identify where progress has been made and where gaps remain. Gaps against economic and democratic reform thresholds are examined first. To help ensure that these reform gains are sustained, we next look to see if progress in economic performance and human capital is advancing towards plausible thresholds as well. Peace and security indicators are also examined.

Overall, Serbia has been made significant gains in economic and democratic reforms and in economic performance since 2000, though the reforms have slowed considerably recently. Current tensions stemming from Kosovo's independence add additional uncertainty. Given the stagnation in reforms and economic performance (and regression in human capital) during the Milosevic years in the 1990s, Serbia lags considerably behind many CEE standards particularly in the economic sector. Despite strong economic growth in recent years, Serbia's economy suffers from growing external and financial sector vulnerabilities. Moreover, labor market trends are very problematic, though improving. Serbia's human capital is high relative to transition standards, though (still) not quite back to the levels attained in the early to mid 1990s. Roughly 80% of the Serbian population surveyed in 2006 felt that their existing economic situation was worse than what it was in 1989.

Extrapolating from the past several years, Serbia may close economic sector gaps against the Romania-Bulgaria-Croatia in 2006 thresholds in 2014-2018. Democracy thresholds are not likely to close before 2011-2014. Serbia's human capital gap (broadly defined to include health, education, and vulnerable groups) is closed against the Romania-Bulgaria-Croatia in 2006 threshold. The most significant peace and security gaps for Serbia are in conflict mitigation.

## *Introduction and Method*

This analysis attempts to take stock of Serbia's progress in its transition to a market-oriented democracy with a focus on Serbia's bid to achieve phase-out thresholds from USG Assistance. On January 13, 2004, the Executive Committee of State/USAID Joint Policy Council approved the use of a methodology to help determine the timeframe for the phase out of SEED and FSA assistance programs. This methodology uses the four E&E/USAID *Monitoring Country Progress (MCP)* indices (of economic reforms, democratic reforms, economic performance, and human capital) to help determine when countries are likely to achieve benchmark standards based on the average of the scores that Romania and Bulgaria achieved in 2002. This degree of progress was sufficient for those two countries to earn NATO membership and receive positive indication from Western Europe that EU accession was likely. These standards were established with the intent to be proxies for when the path to political and economic reform has become irreversible.

In this current analysis, we add another threshold, the progress of Croatia, Romania, and Bulgaria in 2006, and make it our primary threshold focus. 2006 was the last year of new USG funding for all three countries and hence represents the actual phase-out year for these countries.<sup>1</sup>

The *MCP* method employs a two step analysis. First, we examine reform progress (both economic and democracy) and compare country progress against plausible phase-out thresholds. Next, we examine progress in macroeconomic performance and human capital. If reform gains are to be sustained, then sufficient progress needs to occur in terms of a reasonably well functioning economy and one that is favorably affecting social conditions or human capital. The sequence is important here. A country must achieve the reform gains before crossing acceptable thresholds in economic performance and human capital. Otherwise the reform gains may not be sustained. Belarus and Kazakhstan lag considerably in reforms and yet are doing relatively well in economic performance (in the case of Kazakhstan) and/or human capital (in the case of Belarus). Yet, the assumption or assertion here is that those favorable indicators will not likely be maintained in the absence of reform progress. It's also important to bear in mind that, in some circumstances, progress in economic performance can forestall reform progress, such as seems particularly plausible in the case of energy-exporting economies.

Another key consideration in the analysis is the importance of the causal relationships between the transition sectors. Economic progress contributes to democratization and vice-a-versa; so, too the relationship between the economic sector and the social sector

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<sup>1</sup> Other sets of thresholds have also been examined and may be worthy of consideration. This includes the progress of the eight Northern Tier CEE countries at the time of graduation from USG assistance (which ranged from 1996 in the case of Estonia to 2000 in Lithuania, Poland, and Slovakia). This also includes efforts to measure sustainable partnerships with the U.S. In this regards, we've introduced two measures: *full sustainable partnership* with the U.S., measured as the standards of progress of the ten CEE countries that are now members of the EU at the time that they became members; and *near sustainable partnership*, measured as the progress of the 11 CEE countries the year that they began accession negotiations with the EU.

(or human capital), and democratization and human capital. These inter-relationships were not explicitly taken into account during the phase-out reviews in 2004. However, they do suggest that sustaining the gains in any one sector is less likely to occur if other sectors are lagging considerably.

We attempt to estimate when Serbia may cross a threshold in the future largely by extrapolating from the past provided a trend in the past is discernable. Adjustments to this extrapolation can then be made on the basis of any additional relevant information. For example, one might expect progress in democratization to slow in a country as it approaches the “ceiling”; i.e., OECD standards. This is certainly what we’ve seen in the case of the Northern Tier CEE countries. External events will no doubt influence the pace of change as well. In the Balkans, two key such influences are the prospect of EU membership and Kosovo’s independence. On the one hand, in regards to EU membership prospects, there might be certain positive influences of possible EU membership that might suggest that the pace of progress in some dimensions would increase somewhat in the future when and if EU membership approaches (again as we saw in the case of the Northern Tier CEE countries). On the other hand, should EU membership not become a possibility for the foreseeable future, then the costs of being excluded could conceivably outweigh the gains deriving from incentives to join for Serbia. There may already be more trade diversion than trade creation, e.g., in the case of the neighboring countries of the EU. In any event, given the inevitable uncertainties in all country situations, perhaps three scenarios of future trends make sense and are hence used in this analysis.<sup>2</sup>

Ultimately, phase-out or graduation decisions are based on a number of considerations. In addition to the empirical trends and analyses, the phase-out of USG assistance in a country depends in part on the strategic importance of the country to the United States, the effectiveness of USG assistance activities including progress towards developing sustainable partnership mechanisms and institutions, the receptivity of the recipient country to that assistance, and the involvement of other donors.

### ***Economic and Democratic Reforms***

*Figure 1* provides a bird’s eye view of reform progress in Serbia in 2007 vis-à-vis the rest of the transition countries and vis-à-vis two plausible phase-out thresholds. Broadly, Serbia’s reform progress is close to Southern Tier CEE average on democratic reforms, though well below Southern Tier CEE average, and closer to Eurasian average, on economic reforms. It is notably closer to the Romania-Bulgaria 2002 and the Romania-Bulgaria-Croatia in 2006 thresholds in democracy than in economic reforms.

***Economic Reforms*** Economic reforms in Serbia essentially did not begin until 2001 (*Figure 2*). Economic reforms initially advanced impressively since 2001, though the

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<sup>2</sup> This method of estimating how long it might take a country to achieve a certain threshold differs from the method used during the EUR/ACE-led 2004 phase-out reviews; the latter was based in large part on the pace of change that occurred in Romania and Bulgaria (and not in the country under review).

pace has slowed considerably recently if not stalled. Of the nine economic reform areas tracked by the EBRD, only competition policy measurably advanced in 2007. However, progress was made towards a stabilization and association agreement (SAA) with the EU (the EU initialed an SAA with Serbia in November 2007). The IMF recently concluded that Serbia's progress in structural reforms stalled in 2006-07.<sup>3</sup> It seems plausible that Serbia's progress in economic reforms (as measured by *MCP*'s economic reform index which draws from EBRD indicators) will meet Romania-Bulgaria 2002 standards anywhere from 2012 to 2016, and the standards of Bulgaria, Romania, and Croatia at phase-out from 2014 to 2018.

*Figures 3 and 4* highlight the components of the economic reform index and Serbia's 2007 level of economic reform progress in each component relative to standards of advanced industrial market economies (a score of "5" by definition), to the Romania-Bulgaria-Croatia in 2006 thresholds, and relative to economic reform progress in Serbia in 1999. Progress has been made across the board since 1999, though gaps remain vis-à-vis the Romania-Bulgaria-Croatia in 2006 thresholds in all nine economic reform indicators. Serbia lags the most in competition policy (despite progress in 2007), non-bank financial reforms, and infrastructure reforms.

*Figure 5* shows results from the World Bank's *Doing Business* survey. These microeconomic reform indicators complement the more macro economic reform indicators from the EBRD that go into the *MCP*'s economic reform index. Overall, Serbia's business climate ranked 86<sup>th</sup> out of 178 nations worldwide in 2007; i.e., Serbia has considerable room for improvement. Of the ten business climate indicators that go into the ranking, Serbia scored the worst (i.e., ranked the highest) in dealing with licenses (149 rank), followed by paying taxes (121 rank), registering property (rank 115), and employing workers (rank 110). Serbia's overall rank was considerably better in 2006 (68 out of 175 economies) than in 2007.

**Democratic Reforms.** Serbia made very impressive democratic reform gains following the 2000 fall of the Milosevic regime, although progress since 2002 has slowed to a much more moderate pace (*Figure 6*). No democratization gains were recorded in 2007 in Serbia according to Freedom House in its aggregate political rights and civil liberties scores. Some observers have even noted recent backsliding in democratization (as governance has become more centralized). The more rigorous, disaggregated measures from Freedom House's *Nations in Transit* for 2007, likely not available until June 2008, should shed further light on this. Serbia's democratic reform progress is not likely to meet Bulgaria-Romania-Croatia in 2006 standards before 2011-2014.

There are a number of democratic reform gaps vis-à-vis the Bulgaria-Romania-Croatia in 2006 thresholds, though most are relatively small gaps (*Figure 7*), and all democracy areas have witnessed impressive gains in Serbia since 1999 (*Figure 8*). The largest gap vis-à-vis the Romania-Bulgaria-Croatia thresholds is in the electoral process and rule of law (*Figure 7*). The largest democratization gap relative to Western standards is in the fight against corruption (with Serbia scoring a "2.7" out of "5" as shown in *Figure 7*).

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<sup>3</sup> IMF, *Serbia Country Report* (February 2008), p. 3.

According to Transparency International's measures, the perception of corruption in Serbia is also high, though not quite at the "rampant" corruption level (by Transparency International's definition) and comparable to other Southern Tier CEE countries (*Figure 9*).

Serbia's independent media is "nearly sustainable" and Southern Tier CEE average, according to IREX's *Media Sustainability Index (Figure 10)*. Five components go into the index: free speech; professional journalism; plurality of news sources; business management; and supporting institutions. Progress along these five dimensions in most of Southern Tier CEE tends to be balanced or comparable. Serbia's media profile is relatively unique, with a clear leading area in business management and a lagging area in professional journalism. By this measure, Serbia's media lags both Montenegro and Kosovo in professional journalism, free speech, and plurality of news sources; it leads both Montenegro and Kosovo in business management.

Serbia's NGO sector is in "mid-transition," and well short of "consolidation," according to USAID's *NGO Sustainability Index (Figure 11)*. According to this measure, Serbia's NGO sector has regressed since 2003, and is less developed than the Southern Tier CEE average (including Kosovo and Montenegro), though much more advanced than NGO sectors in Eurasia on average. Serbia's NGO profile is common to the Southern Tier CEE profile; i.e., financial viability is the lagging NGO component while advocacy is a leading component (alongside infrastructure). The *NGO Sustainability Index* measures eight components towards a sustainable NGO sector. In six of eight of those components, Serbia lags behind both Montenegro and Kosovo.

### ***Economic Performance and Human Capital***

Drawing from the (newly-revised) *MCP* indices, Serbia's economic performance is among the poorest of the Southern Tier CEE countries and roughly Eurasian average (*Figure 12*). Within the Southern Tier CEE countries, only Macedonia's economic performance is worse. Serbia's human capital is more advanced in relative terms; roughly comparable to that of Bulgaria's in the Southern Tier CEE. Serbia has far to go towards attaining the Romania-Bulgaria-Croatia in 2006 economic performance threshold. In contrast, Serbia has met the human capital standards of Romania-Bulgaria-Croatia in 2006.

***Economic Performance.*** *Figure 13* shows Serbia's economic performance trends over time. Similar to the economic and democratic reform trends, Serbia's economic performance stagnated through the early 2000s, and since then (with Milosevic's ouster) has advanced impressively, particularly in the early post-Milosevic years. Assuming continued good progress in the near term, Serbia could achieve the Romania-Bulgaria-Croatia in 2006 threshold in years ranging from 2012-2018.

*Figure 14* disaggregates the economic performance index and shows the gaps against the Romania-Bulgaria-Croatia in 2006 thresholds. Economic performance gaps are

significant even though economic growth in Serbia in recent years has been quite high, almost 7% average annual from 2004-2007 which is higher than the transition region average (*Figure 15*). Despite relatively high growth in recent years, Serbia's GDP today remains far below 1989 GDP, less than 70% (*Figure 16*). Of all the transition countries, perhaps only Moldova and Georgia have a lower current GDP to 1989 GDP ratio than does Serbia.

Serbia's export share of GDP remains low, from 21% to 27% depending on the data source, though it is slowly increasing (*Figures 17 and 18*). Serbia's export share is low relative to those economies of similar size (*Figure 17*), and low and troubling given how large is the current account deficit (*Figure 19*). External debt at 62% of GDP is also quite high. The IMF cites these data to support in part its observation that Serbia is "among the vulnerable countries in the region, with rising external and financial sector vulnerabilities."<sup>4</sup> The IMF cites the rapid growth of household credit and high euroization as key aspects of the manifestation of Serbia's financial vulnerabilities.

Foreign direct investment (FDI) flows have increased notably, particularly since 2003, though cumulative per capita FDI in Serbia remains well below CEE standards (*Figure 20*). Private sector share of GDP remains low in Serbia at 55% of GDP in 2007 (*Figure 21*). Of all the transition countries, only the three Eurasian non-reformers have lower private sector shares (Belarus and Turkmenistan at 25% of GDP; and Uzbekistan at 45%).

Profitability among Serbian private enterprises is increasing and financial losses among the public enterprises are decreasing (*Figure 22*). In contrast to 2004 and 2005, profits among private and public profit-making enterprises as a percent of GDP (far) outweighed the financial losses among the loss-making private and public enterprises in 2006.

Labor market trends are very problematic in Serbia, though the most recent evidence from the 2007 Living Standards Measurement Study (LSMS) for Serbia shows improvements. Serbia's employment rate and employment levels are low (*Figures 23 and 24*). (*Figure 23* shows an employment rate estimate of 50% for Serbia in 2006; the 2007 LSMS shows the employment rate increased in 2007 to 51.5%).<sup>5</sup> Despite strong economic growth in recent years, total employment in the Serbian economy in 2006 was lower than the 2001 level (*Figure 24*). However, private sector employment growth has been strong during this period, almost offsetting public sector employment contraction.

Serbia's unemployment rate, at 21-22% in 2006, is among the highest in the transition region (*Figure 25*). It has increased considerably from the early 2000s when it was closer to 13%. (The 2007 LSMS data show the unemployment rate falling to 18.8% in 2007).<sup>6</sup> Female unemployment rate is considerably higher than male unemployment. According

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<sup>4</sup> IMF, *Serbia, Selected Issues* (February 2008), p. 9.

<sup>5</sup> 2007 *Living Standards Measurement Study for Serbia*, Chapter 9. Employment Status, p. 4.

<sup>6</sup> *Ibid.*, p. 4.

to the EU, the Serbian female unemployment rate in 2006 was close to 25% while male unemployment was 18%.<sup>7</sup>

According to a 2005 labor force survey, the unemployment rate is uniformly high throughout Serbia; even in Belgrade (*Figure 26*). However, this contrasts with wide disparities in poverty rates by regions in Serbia (*Figure 27*) according to the Government of Serbia.<sup>8</sup> Poverty rates are notably higher in rural areas than in urban areas, and are considerably lower in Belgrade than anywhere else. (The 2007 LSMS data show large disparities in regional poverty rates as well, though all at a lower level: Belgrade (3.1% poverty rate); Vojvodina (6%; 3.3% urban and 7.5% rural); Western (8.4%); Eastern (10.1%); and South East Serbia (13.3%). According to the LSMS, Serbia's national poverty rate decreased from 14% in 2002 to 6.6% in 2007).<sup>9</sup>

Long term unemployment is particularly high in Serbia. The 2007 LSMS data show 75% of those unemployed in 2007 were unemployed for more than one year in Serbia. This is slightly down from 81% in 2006 (*Figure 28*).<sup>10</sup> Youth unemployment and youth informal sector employment in Serbia are also very high (*Figures 29-31*), though estimates from different sources vary widely. According to the IMF (February 2008), the youth unemployment rate (among ages 15-24) is almost fifty percent, or more than 2.5 times the adult unemployment rate.<sup>11</sup> The 2007 LSMS data show the unemployment rate among Serbian youth from ages 15 to 24 at 25%, considerably less than that IMF estimate of 48%. Moreover, the LSMS data show unemployment rates by age to be highest among Serbians aged 25-34; namely 31%.<sup>12</sup>

How do these economic data align with perceptions of living standards and the economic situation of households (*Figures 32 and 33*)? Here we draw from 2006 World Bank and EBRD household surveys (Life in Transition Survey) done throughout the transition region. Overall, the most pessimistic views across the transition region are found within much of the former communist Yugoslavia, Bosnia-Herzegovina, Serbia, Montenegro, and Macedonia in particular. In Serbia, more than 60% of the population surveyed in 2006 felt that their living standards were worse in 2006 than in 1989. Only 20% of the population felt living standards were better. When asked more specifically about economic aspects of their living standards (i.e., views on their present economic situation), Serbians were even more pessimistic. Roughly 80% in 2006 felt that their present economic situation was worse than that in 1989, while only 10% felt it was better.

Finally, we add one more aspect of economic performance for consideration: Serbia's economic and population size relative to its Southern Tier CEE neighbors (*Figure 34*). While Serbia's economic role in the region is clearly important, its economic size is quite small, constituting only 10% of Southern Tier CEE GDP in purchasing power parity

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<sup>7</sup> Commission of the European Communities, *Serbia 2007 Progress Report* (June 2007).

<sup>8</sup> Government of Serbia, *Second Progress Report on the Implementation of the Poverty Reduction Strategy in Serbia* (August 2007).

<sup>9</sup> *2007 LSMS for Serbia*, Chapter 6. Poverty Profile in Serbia, p. 10.

<sup>10</sup> *2007 LSMS for Serbia*, Chapter 9. Employment Status, p.12.

<sup>11</sup> IMF, *Republic of Serbia: Selected Issues* (February 2008).

<sup>12</sup> 2007 LSMS. Chapter 9. Employment Status. p. 5.

terms. Romania has far and away the largest economy of the region (44%), though the economies of Bulgaria (at 17%) and Croatia (13%) are also larger than the Serbian economy. In addition, Serbia's relative economic size is smaller than its relative population size. Serbia's population constitutes 18% of the region (vs. 10% of the economic pie), suggesting below Southern Tier CEE average productivity.

**Human Capital.** Serbia's human capital, as measured by the *MCP* index, is quite high relative to Southern Tier CEE and Eurasian standards (*Figures 12* and *35*), though falls short of the levels attained in the Northern Tier CEE countries as well as in Croatia and Montenegro. Serbia's human capital level exceeds the Romania-Bulgaria-Croatia in 2006 threshold. However, current levels are less than what they were in the 1990s, though human capital may have bottomed out in 2000.

*Figure 36* disaggregates the human capital index and shows the gaps against the Romania-Bulgaria-Croatia in 2006 thresholds. Basic health and education indicators are quite favorable. Serbia's under five years of age mortality rate is 9.2 per 1,000 children, not quite as low as Northern Tier CEE standards, but notably lower than Southern Tier CEE average. Life expectancy in Serbia among males was almost 71 years in 2006; for females, almost 76 years (*Figure 37*). Life expectancy for both males and females has been increasing. These levels are comparable to life expectancy in Estonia, Bulgaria, Slovakia, Macedonia, Hungary, Bosnia-Herzegovina, and Armenia. However, the latest estimates of TB incidence for Serbia and Montenegro combined is quite high; at 47 per 100,000, this is higher than that found in all other CEE countries except Romania (131), Bosnia-Herzegovina (59), Latvia (65), and Lithuania (61).

According to the Government of Serbia, 51% of Serbian adults in 2006 had their own medical doctor (or general practitioner), an increase from 43% in 2000.<sup>13</sup> However, only 35% in 2006 had a dentist, slightly down from 36% in 2000. Thirty-four percent of adults smoked in 2006, down from 41% in 2000. Sixteen percent of young people (aged 15-19) smoked in 2006, down from 23% in 2000.

The weakest indicator for Serbia within the human capital index is per capita income. Whether measured in purchasing power parity terms or in U.S. dollars via official exchange rates, Serbia's average income is well below the Romania-Bulgaria-Croatia in 2006 average and much lower still than the Northern Tier CEE country standards (*Figures 38* and *39*). Income and poverty rates vary widely by regions within Serbia and by population deciles. Rural poverty rates are at least two times greater than urban poverty rates and more than three times greater than poverty rates in Belgrade (*Figure 27*). Wage rates across the various districts in Serbia range widely (*Figure 40*). In Belgrade, the average net wage is 40% higher than the national average; in Jablanicki, it is almost 40% lower. By at least one measure, wage inequality in Serbia and Montenegro is high by transition country standards (*Figure 41*). However, the Government of Serbia cites an inequality measure (a Gini coefficient of 0.28) for Serbia

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<sup>13</sup> Government of Serbia, *Second Progress Report on the Implementation of the Poverty Reduction Strategy in Serbia* (August 2007), p. 80.



in 2006 that is roughly Southern Tier CEE average.<sup>14</sup> The 2007 LSMS data show a comparable measure for 2007, a gini index of 29.7.

Serbia and Montenegro's vulnerable population as defined by poverty rates of children and elderly is a relatively small proportion of the population. At a poverty threshold of \$2.15 per day, the most recent poverty rate for children in Serbia and Montenegro is seven percent, and for the elderly, eight percent. These rates are somewhat higher than those found in the Northern Tier CEE countries, including Estonia (6% and 4%, respectively), Poland (5% and 1%), and Hungary (1% and 0%). No data are available on the rate of institutionalized children in Serbia, data which we combine when available with children and elderly poverty rates to measure vulnerable populations.

The Government of Serbia estimates that total secondary enrollment in Serbia ranged from 76% to 86% in 2005, an increase from 71% in 1991.<sup>15</sup> The 2007 LSMS estimates secondary school enrollment at 82% in 2007 in Serbia.<sup>16</sup> Roughly 50% of Serbian high school students are enrolled in a vocational program.

Pre-primary school enrollment in Serbia was 39% in 2005 (according to the Government of Serbia), low by transition country standards. While primary schools are mandatory and free, the dropout rate of children at enrollment into primary schools was 5% on average in 2005, though much higher among rural children (almost 20%). The most recent estimate of tertiary enrollments in Serbia and Montenegro from UNICEF's TransMonee database is 25% in 2001 (*Figure 42*). This is well below that found in most of CEE countries and only slightly higher than what it was in Serbia and Montenegro in 1989. However, the 2007 LSMS estimates that higher education enrollment is notably higher in recent years: 40% in 2007 (comparable to that found in Bulgaria and Romania), and an increase from 35% in 2002.

In addition, Serbia has participated in two survey efforts that attempt to measure the quality of education across countries: the PISA or the Program for International Student Assessment and the TIMSS or Trends in International Mathematics and Science Study. Fourteen year old children are tested in the TIMSS in math and science. Fifteen year old children are tested in PISA in math, science, and reading to meet real world challenges. 2003 results for Serbia and Montenegro combined underscored that Serbia and Montenegro lag considerably relative to OECD and Northern Tier CEE standards, though are comparable to Bulgaria and Romania standards (*Figures 43 and 44*). 2006 Pisa test results disaggregated Serbia and Montenegro and show little change in Serbia relative to the 2003 test results, and show Montenegro scoring notably poorer (424 in Serbia vs. 401 in Montenegro in 2006 vs. 500 in OECD vs. 428 in Serbia and Montenegro in 2003) (*Figure 45*). Serbian fifteen year olds scored better in 2006 in science and math (436 and 435, respectively) than in reading (401).

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<sup>14</sup> Government of Serbia, *Second Progress Report* (August 2007), p. 24.

<sup>15</sup> Government of Serbia, *Second Progress Report* (August 2007), pp. 14 and 92.

<sup>16</sup> *2007 LSMS for Serbia*. Chapter 8. Education, p. 13.

## *Peace and Security*

Finally, we provide some very preliminary analysis in regards to peace and security in Serbia. As part of the *Monitoring Country Progress* system, and in an attempt in part to better align our empirical system with the DFA foreign assistance framework, we are engaged in developing a peace and security index. It's very preliminary, both in terms of how we are proposing to measure peace and security dimensions as well what dimensions to include. On the latter, we have not yet adequately addressed a means to measure defense and police reforms. At this stage, we have developed measures for five main components to the index, though in some countries, including Serbia, we do not yet have data on one of those dimensions, namely political engagement, intended as a measure of political integration among the nations of the world.

Fairly significant gaps exist in Serbia vis-à-vis Romania-Bulgaria-Croatia in 2006 standards in three of the four areas measured: conflict mitigation; counter-terrorism; and transnational crime (*Figure 46*). *Figures 47-50* disaggregate these data and reveal that the largest gaps are found in conflict mitigation (in relatively poor scores on the Fund for Peace's *Failed States Index* or FSI, and in conflict history), and in transnational crime (in the criminalization of the state in particular, a sub-component of the FSI).

Still, various measures of crimes and illicit drugs show relatively favorable outcomes in Serbia and Montenegro. Drawing from UNODC data, we estimate that the production and/or seizure of illicit drugs in Serbia and Montenegro is roughly Southern Tier CEE average, ranging from "very low" (in the case of cocaine) to "medium" (for opiates and cannabis). Serbia is now "tier 2" in the State Department's classification of trafficking in persons, an improvement from the tier 3 designation in the early 2000s. Neither Serbia nor Montenegro are designated by USG as "high" or "lower" priorities in terms of piracy of intellectual property rights. Serbia is not classified by State/INL as a major money-laundering country. Serbia and Montenegro's homicide rate is low (lower than Northern Tier CEE rates and much lower than that found in Eurasia), and has been falling.

According to the State Department's *Country Reports on Terrorism*, Serbia and Montenegro incurred 37 total incidents with eight victims from 2006 through March 2007 for a "severity" rating of 45 (which combines incidents with victims). This is nowhere near the order of magnitude found in Russia (which had a severity rating of 533, let alone such countries as India, 8,515, Afghanistan, 4,561, or Colombia, 2,649). However, it is quite high by transition country standards.

*Figures 51* and *52* further highlight findings from the Fund for Peace's *Failed States Index*. Overall, Serbia falls into the FSI's *warning* range where most of the transition countries lie. Of the transition countries, only Uzbekistan falls into the *alert* range, and only the Northern Tier CEE countries plus Montenegro fall into the *moderate* range. No transition country is considered *sustainable* on the FSI index.

Twelve aspects contribute to the overall rating in the FSI. *Figure 52* shows where Serbia falls short the most and why it scores quite poorly on this index. The most problematic

areas are the rise of factionalized elites (or the fragmentation of ruling elites and state institutions along group lines and the use of nationalistic political rhetoric by ruling elites) and the massive movement of refugees or internally displaced persons creating complex humanitarian emergencies. This is followed by uneven economic development (or group-based inequalities in education, jobs and economic status, group-based impoverishments, and the rise of communal nationalism based on group-based inequalities), group grievance (the degree to which ethnic or religious groups suffer injustices, atrocities, repression, and scapegoating) and the criminalization and/or delegitimization of the state (including corruption or profiteering by ruling elites, and growth of crime syndicates linked to ruling elites).

Serbia scores an “8” out of a possible “10” in refugees. Other countries with a comparable score include Kenya (8), Bosnia-Herzegovina (8), Ethiopia (7.9), and Israel (7.9). Serbia also scores an “8” in factionalized elites. Other countries with a comparable score include Liberia (8.1), Kenya (8.2), Mauritania (7.9), Georgia (7.8), and Cuba (7.8). Serbia scores a “7.7” in group grievance, similar to scores in Russia (7.7), Saudi Arabia (7.7), Ethiopia (7.8), and Georgia (7.6). Serbia also scores a “7.7” in “uneven development, similar to scores in Jordan (7.7), Egypt (7.8), Philippines (7.6), and Somalia (7.5). Finally, Serbia scores a “7.5” in criminalized state, comparable to the scores found in Lesotho (7.5), Venezuela (7.5), Kazakhstan (7.5), Ukraine (7.5), Russia (7.6), Bosnia-Herzegovina (7.6), and Zambia (7.6).

*Figures 53-59* attempt to provide a broad comparison of peace and security in Serbia relative to a handful of other countries. In broad strokes, peace and security in Serbia (as currently measured) lags substantially behind the Bulgaria-Romania-Croatia in 2006 standards, and even more so in the case of Slovenia. Serbia’s profile compares favorably to Ukraine’s on two dimensions (counter-narcotics and crime), and unfavorably on two dimensions (conflict mitigation and counter-terrorism). Serbia’s peace and security measures are much more favorable than those found in Russia, Pakistan, and Colombia.

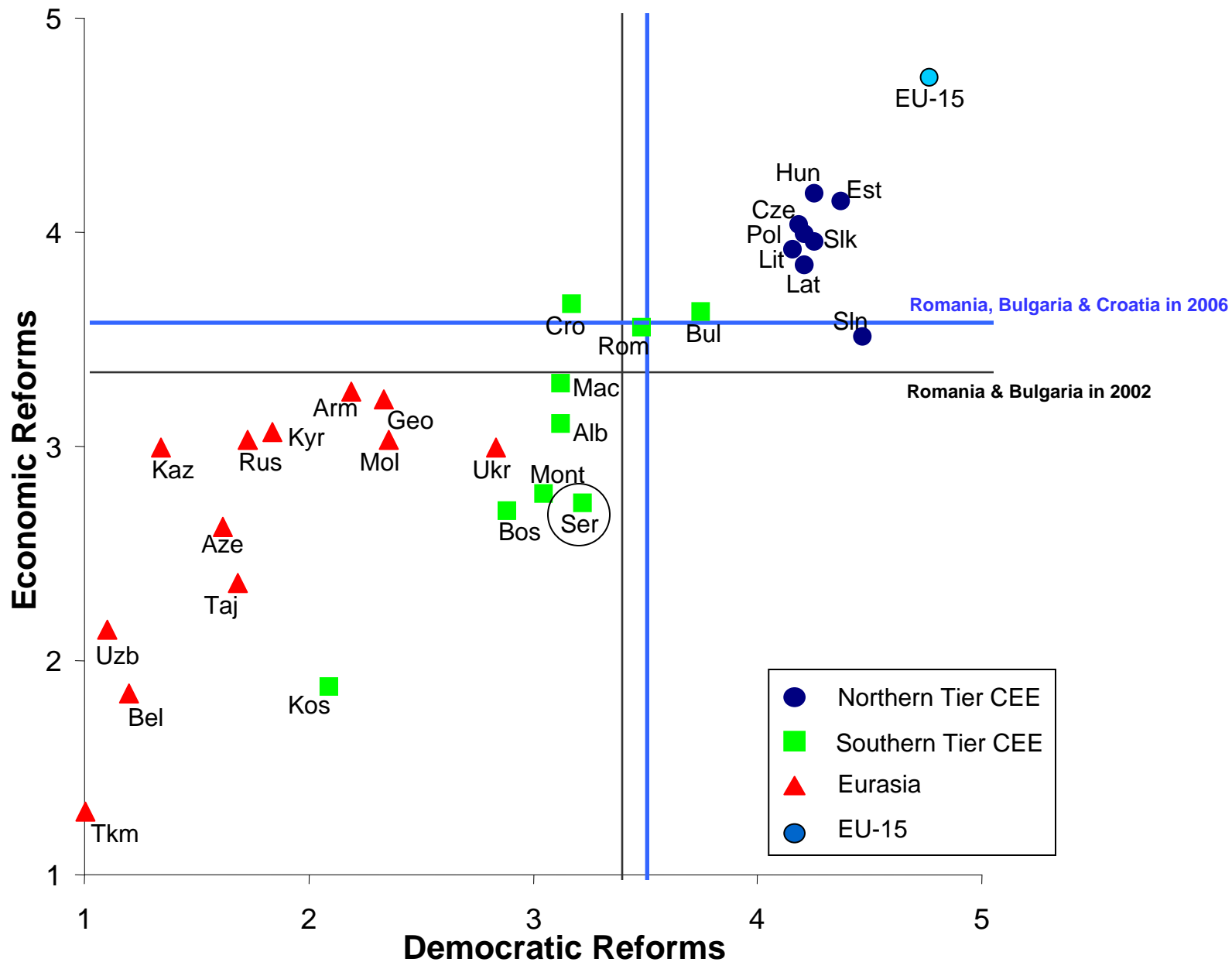
# Monitoring Country Progress in Serbia

Program Office  
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March 2008

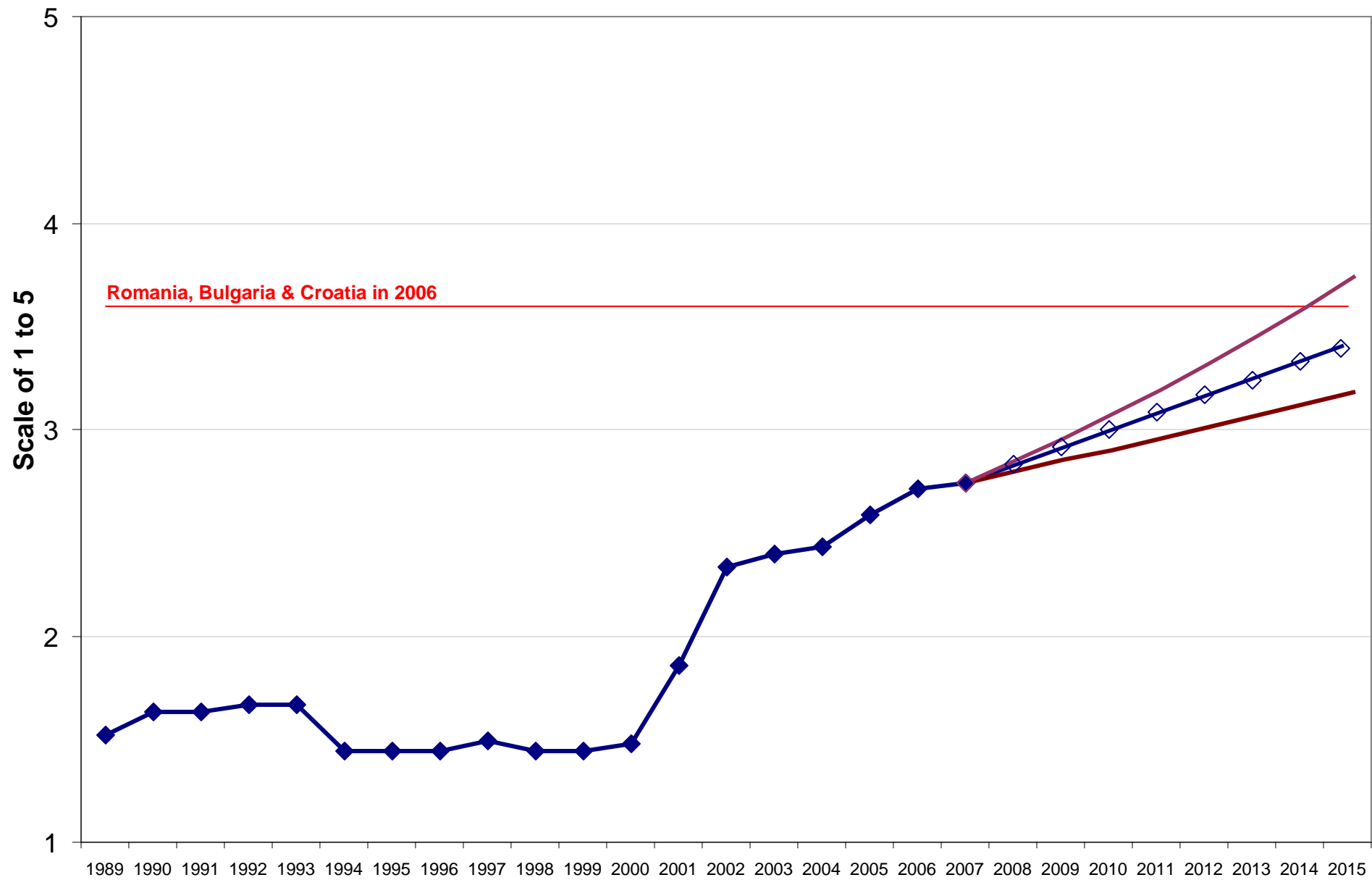


# Economic and Democratic Reforms in 2007



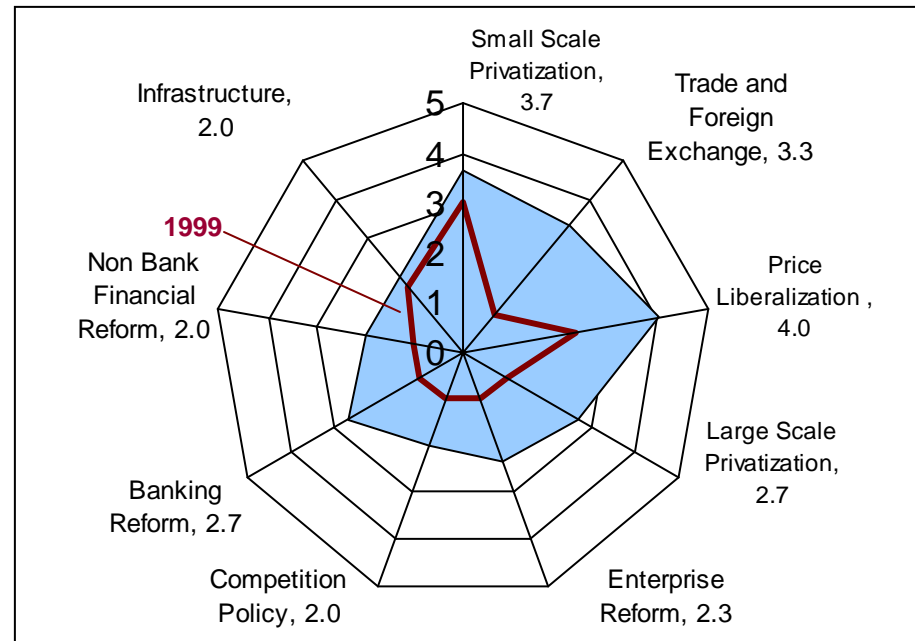
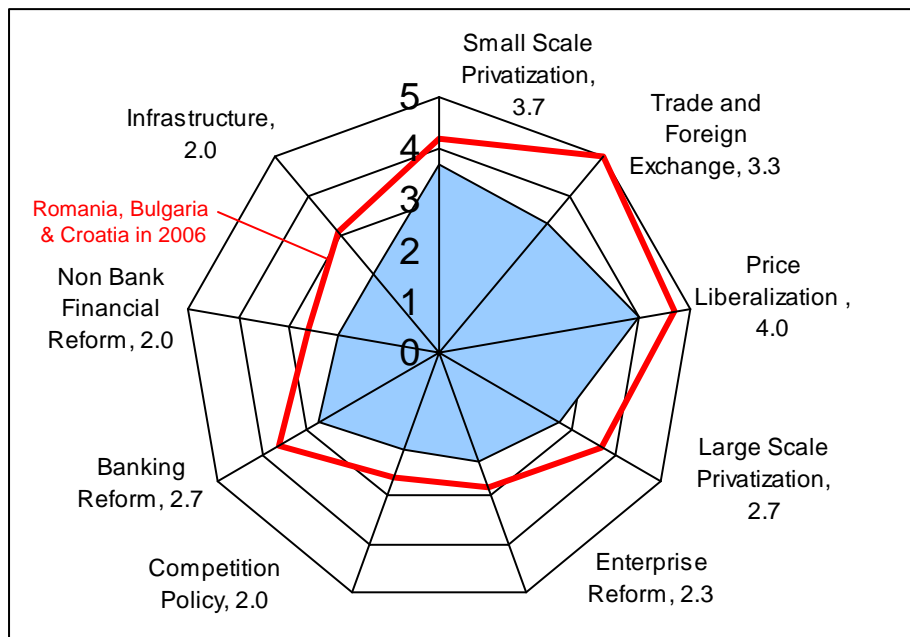
Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2007* (2007) and *Freedom in the World 2008* (2008); EBRD, *Transition Report 2007* (November 2007).

# Economic Reform in Serbia

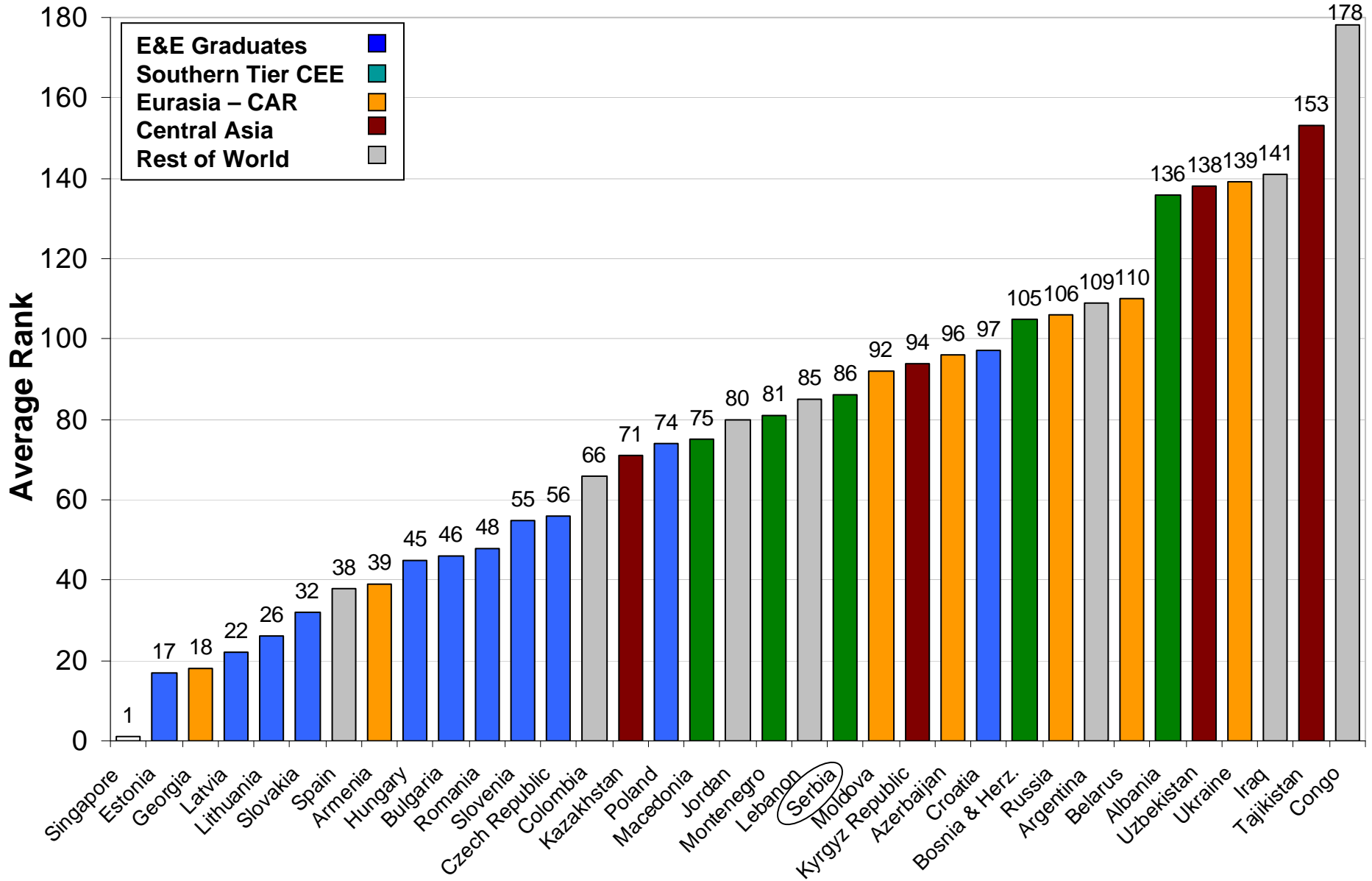


Ratings are based on a 1 to 5 scale, with 5 representing most advanced. USAID, Monitoring Country Progress in CEE & Eurasia system drawing from EBRD, *Transition Report 2007* (November 2007).

# Economic Reform in Serbia in 2007



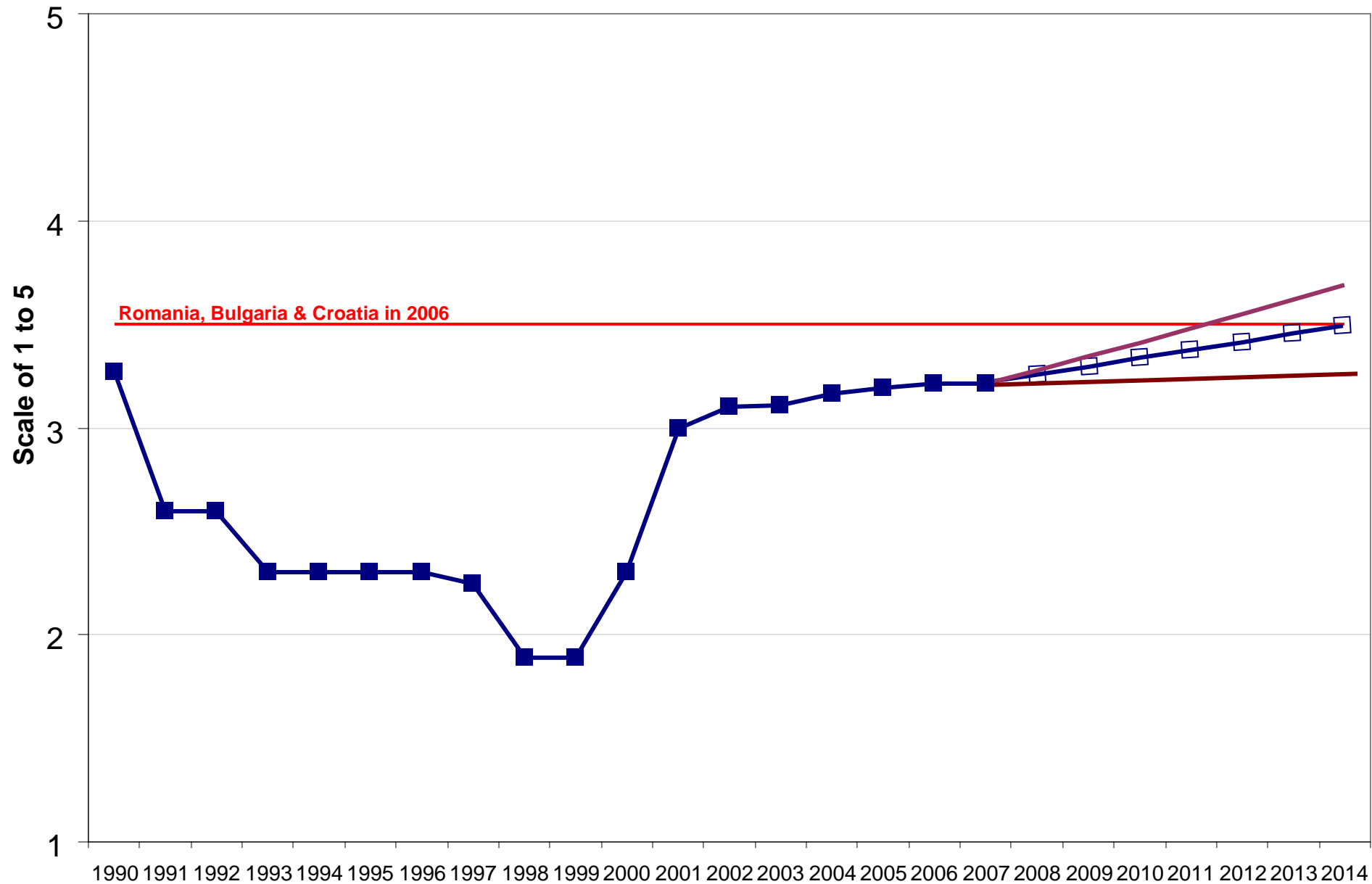
# Business Environment in 2007



World Bank, *Doing Business in 2008* (2007). Worldwide scores range from 1 to 178 and include 10 topics: starting a business, dealing with licenses, hiring and firing workers, registering a property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, closing a business.

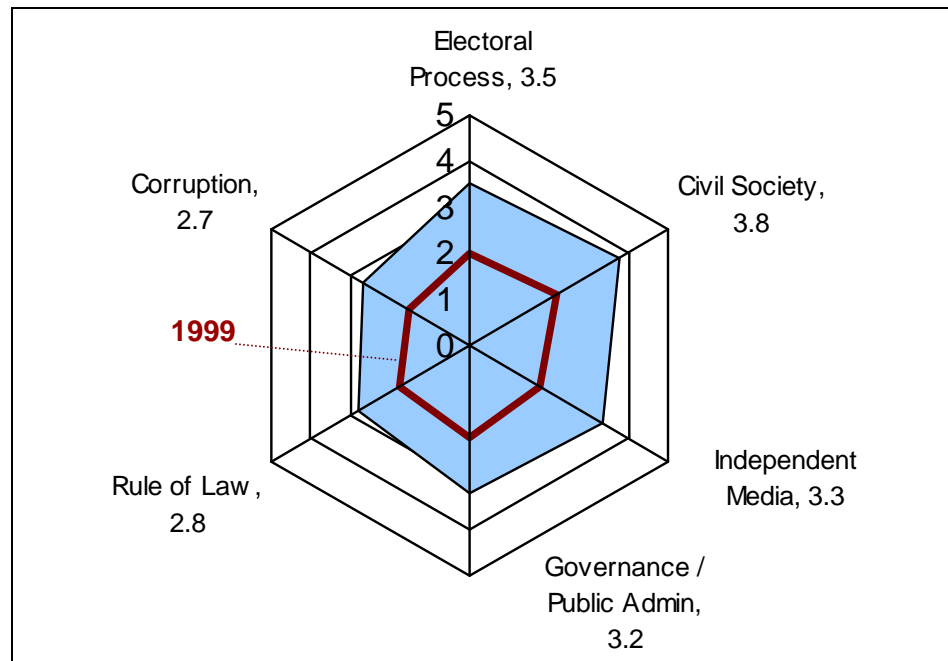
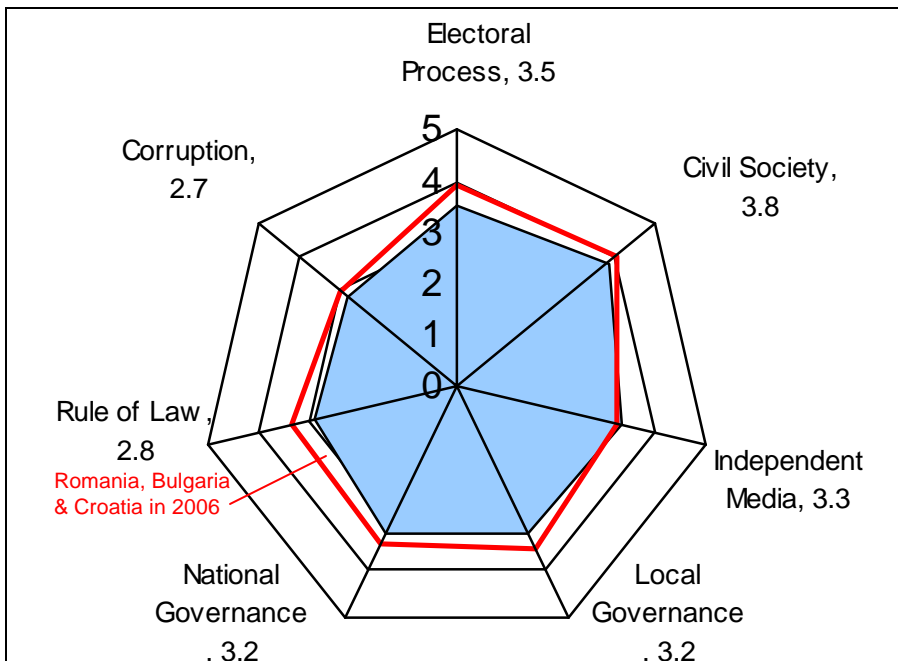


# Democratic Reform in Serbia



Ratings are based on a 1 to 5 scale, with 5 representing most advanced. Freedom House, *Nations in Transit 2007* (2007) and *Freedom in the World 2008* (2008).

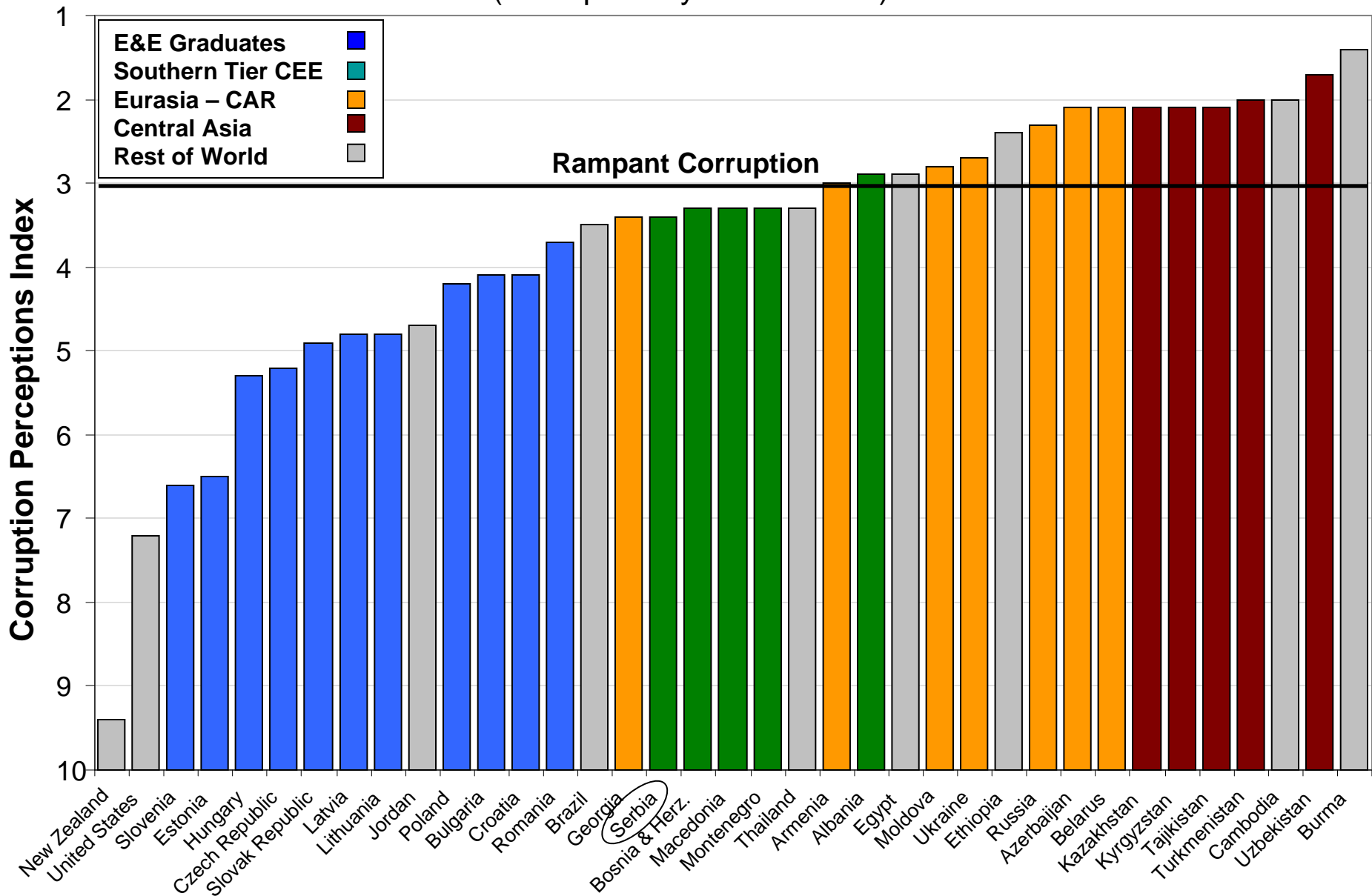
# Democratic Reforms in Serbia in 2006



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, *Monitoring Country Progress in CEE & Eurasia #11* (2007 forthcoming) drawing from Freedom House, *Nations in Transit 2007*. \* Disaggregated data for Serbia not available for 1999.

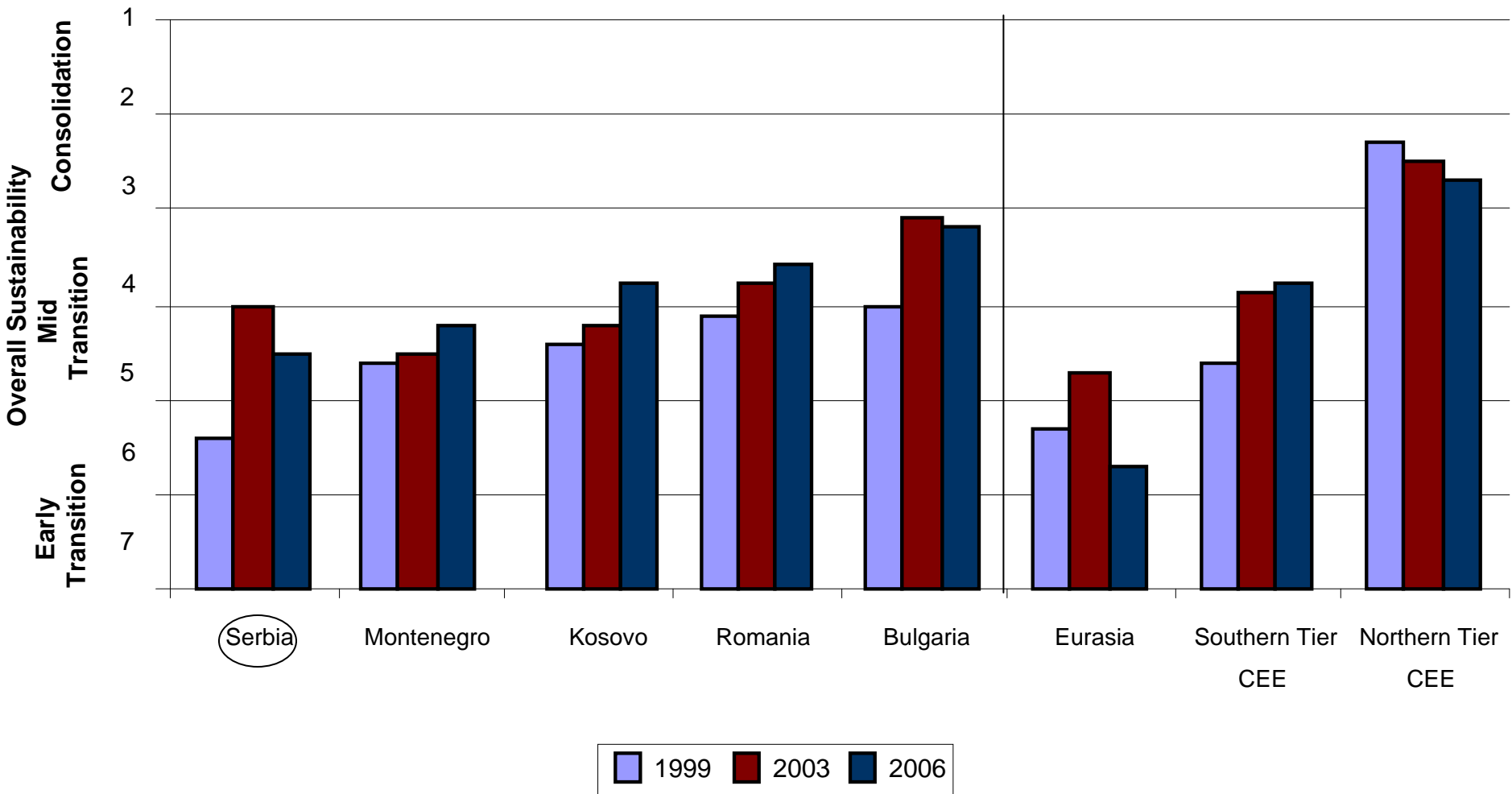
# Corruption Perceptions in 2007

(Transparency International)



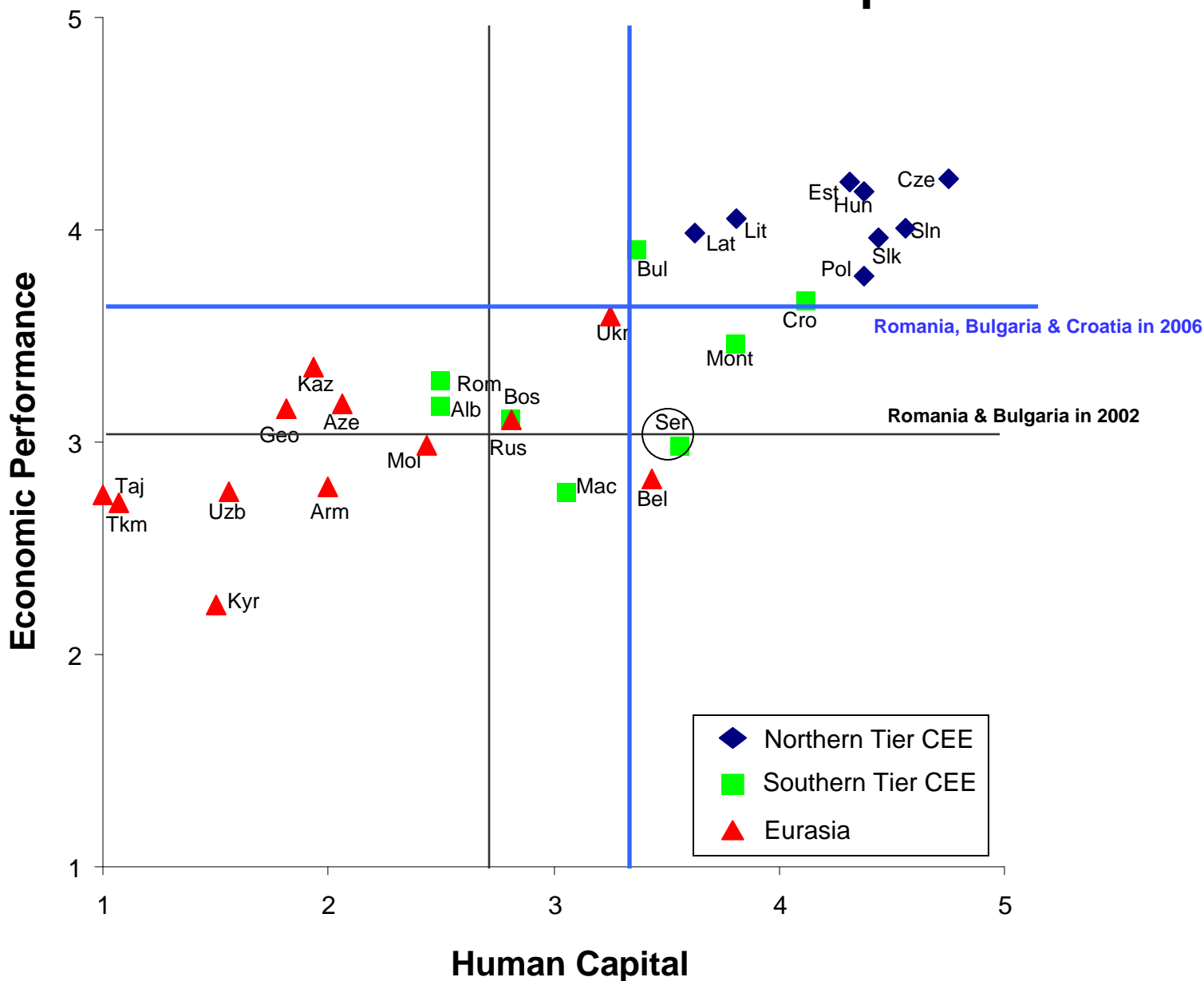


# NGO Sustainability Index



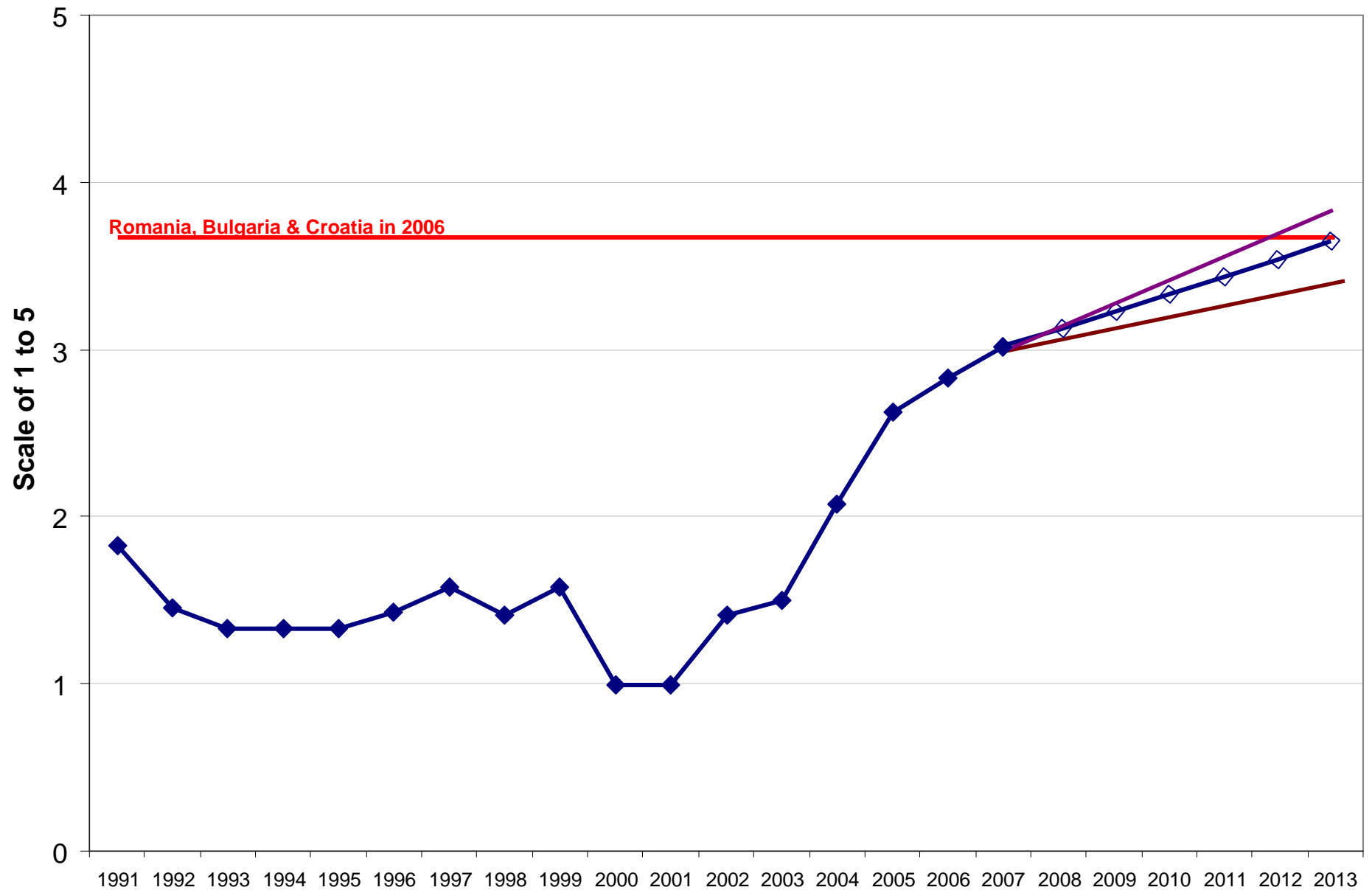
The NGO Sustainability Index is an average score of seven indicators; legal environment; organizational capacity; financial viability; advocacy; service provision; Infrastructure and public image. These are scored on a scale of 1-7 with 1 being the most sustainable. USAID/E&E/office of Democracy. Governance and Social Transition, 2006 NGO Sustainability Index for Central and Eastern Europe and Eurasia.

# Economic Performance and Human Capital in 2005-2007



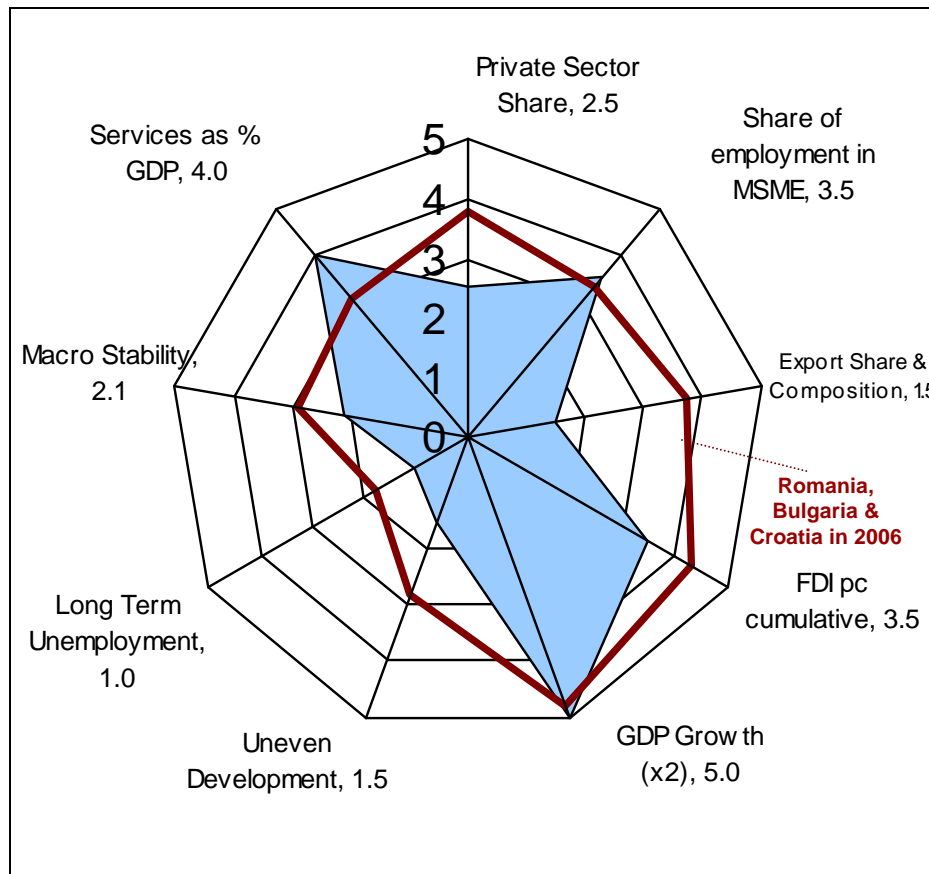
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from World Bank, *World Development Indicators 2007* (2007); EBRD, *Transition Report* (November 2007), UNECE, *Statistical Division Database* (2007); Fund for Peace, *Failed States Index* (2007); IFC & World Bank, *MSME Database* (2007); UNICEF, *TransMONEE Database* (2007); World Health Organization European Health For All Database (2007); IEA, *TIMSS 2003 International Mathematics Report* (2004), *TIMSS 2003 International Science Report* (2004) and *PIRLS 2001 International Report* (2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).

# Economic Performance in Serbia



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from World Bank, *World Development Indicators 2007* (2007); EBRD, *Transition Report* (November 2007), Fund for Peace, *Failed States Index* (2007); IFC & World Bank, *MSME Database* (2007).

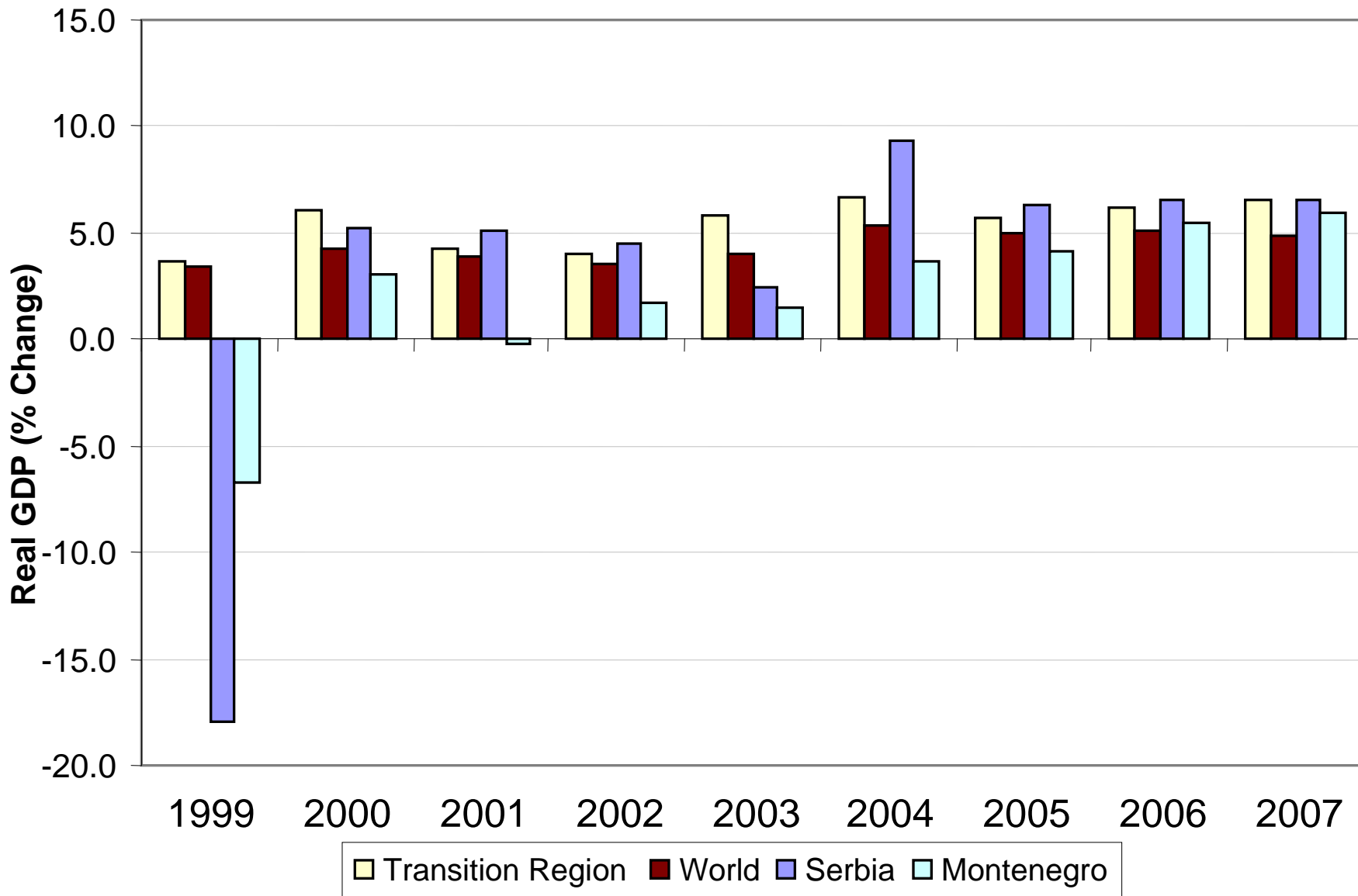
# Economic Performance in Serbia in 2005-2006



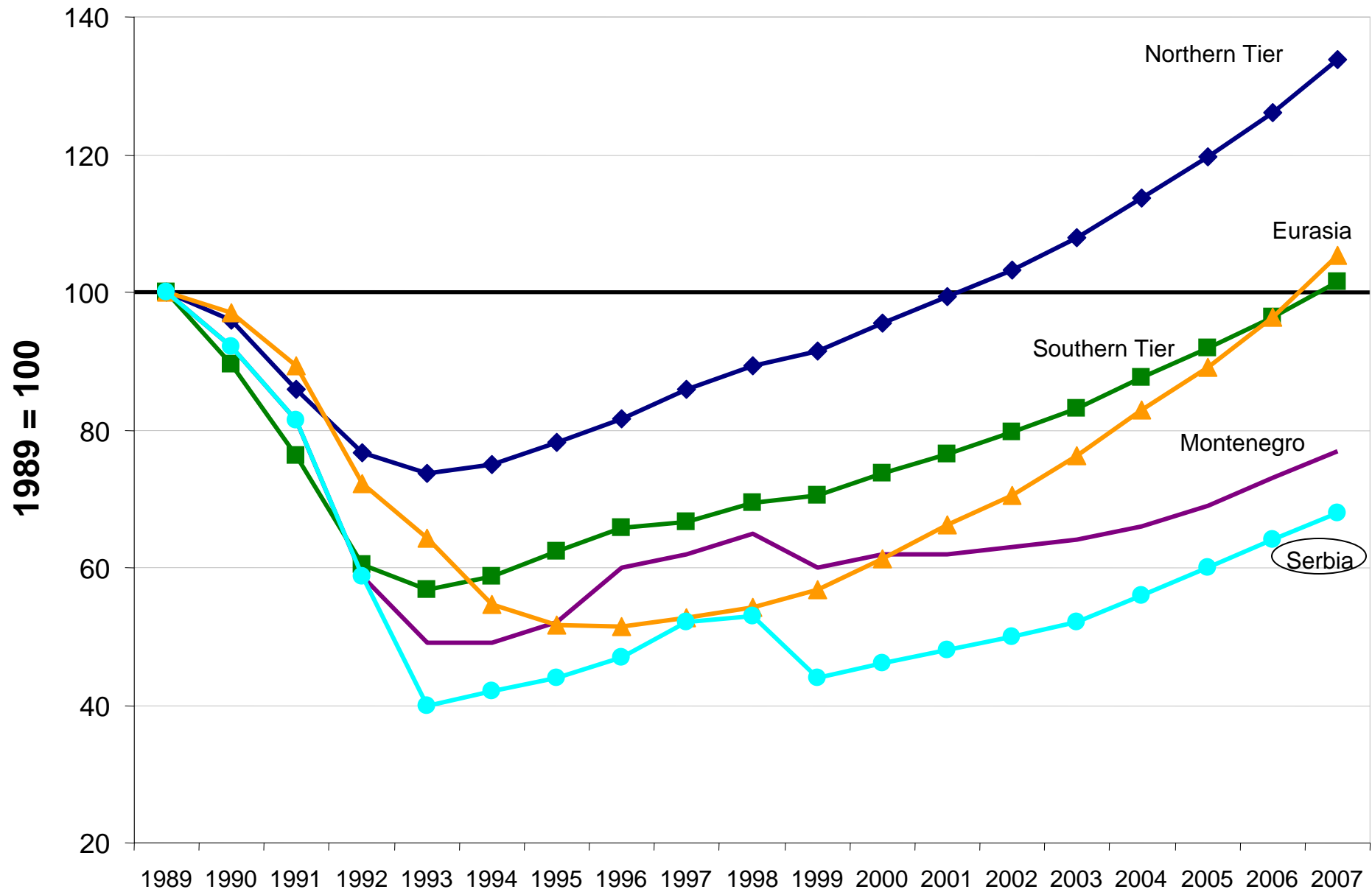
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from World Bank, *World Development Indicators 2007* (2007); EBRD, *Transition Report* (November 2007), Fund for Peace, *Failed States Index* (2007); IFC & World Bank, *MSME Database* (2007).



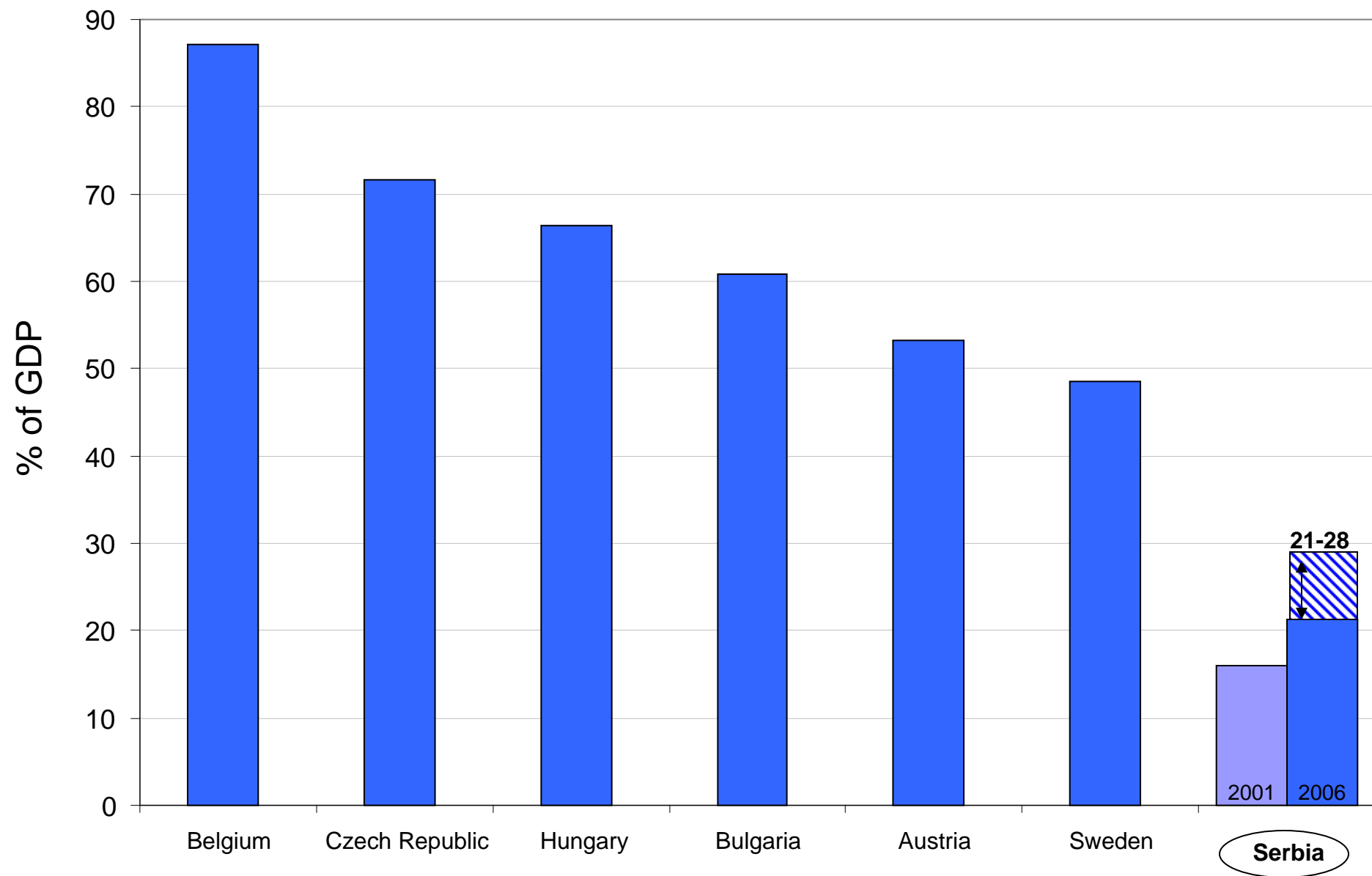
# Economic Growth Trends Worldwide



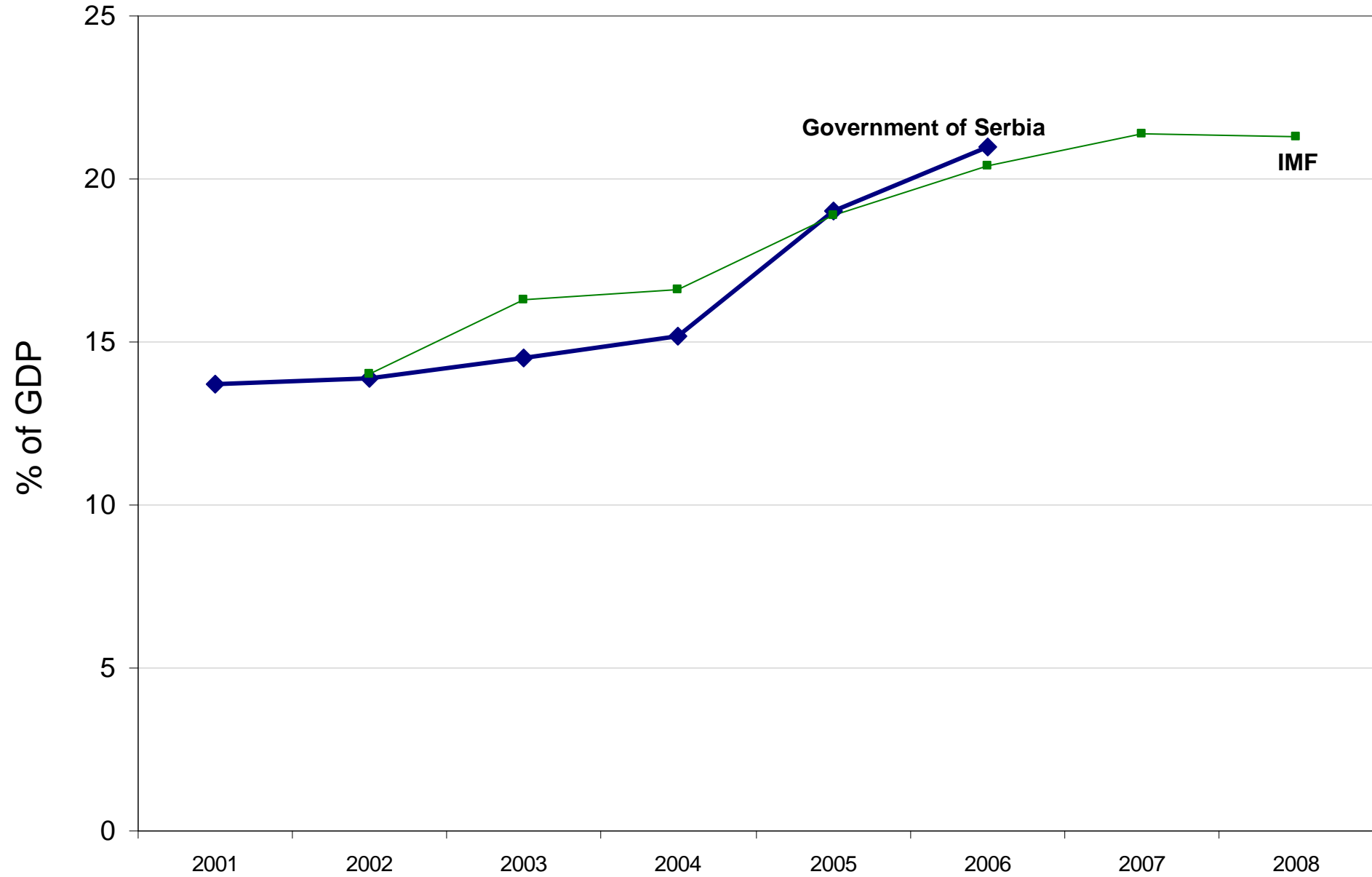
# GDP as % 1989



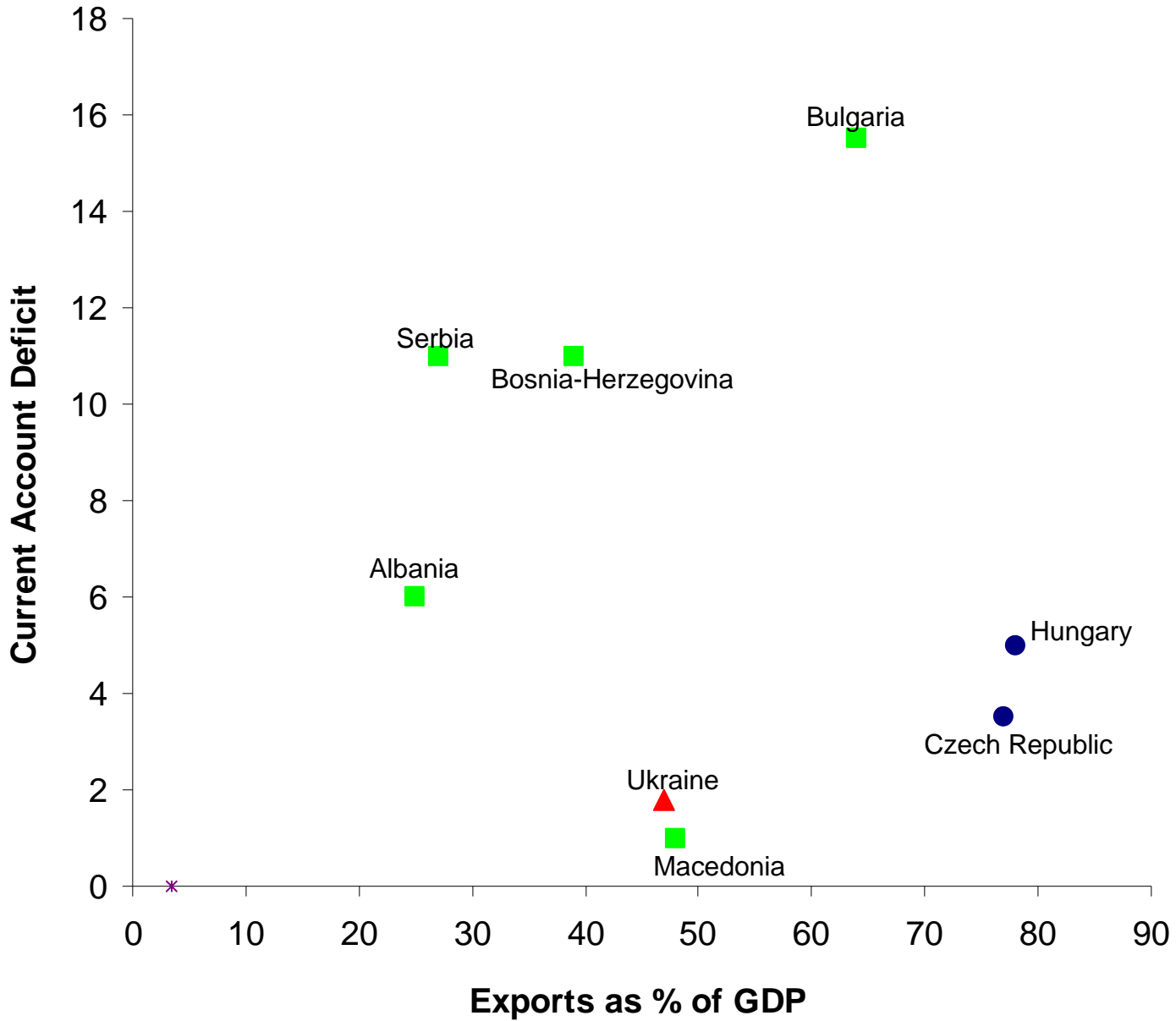
# Exports of Goods and Services as % of GDP in 2005-2006



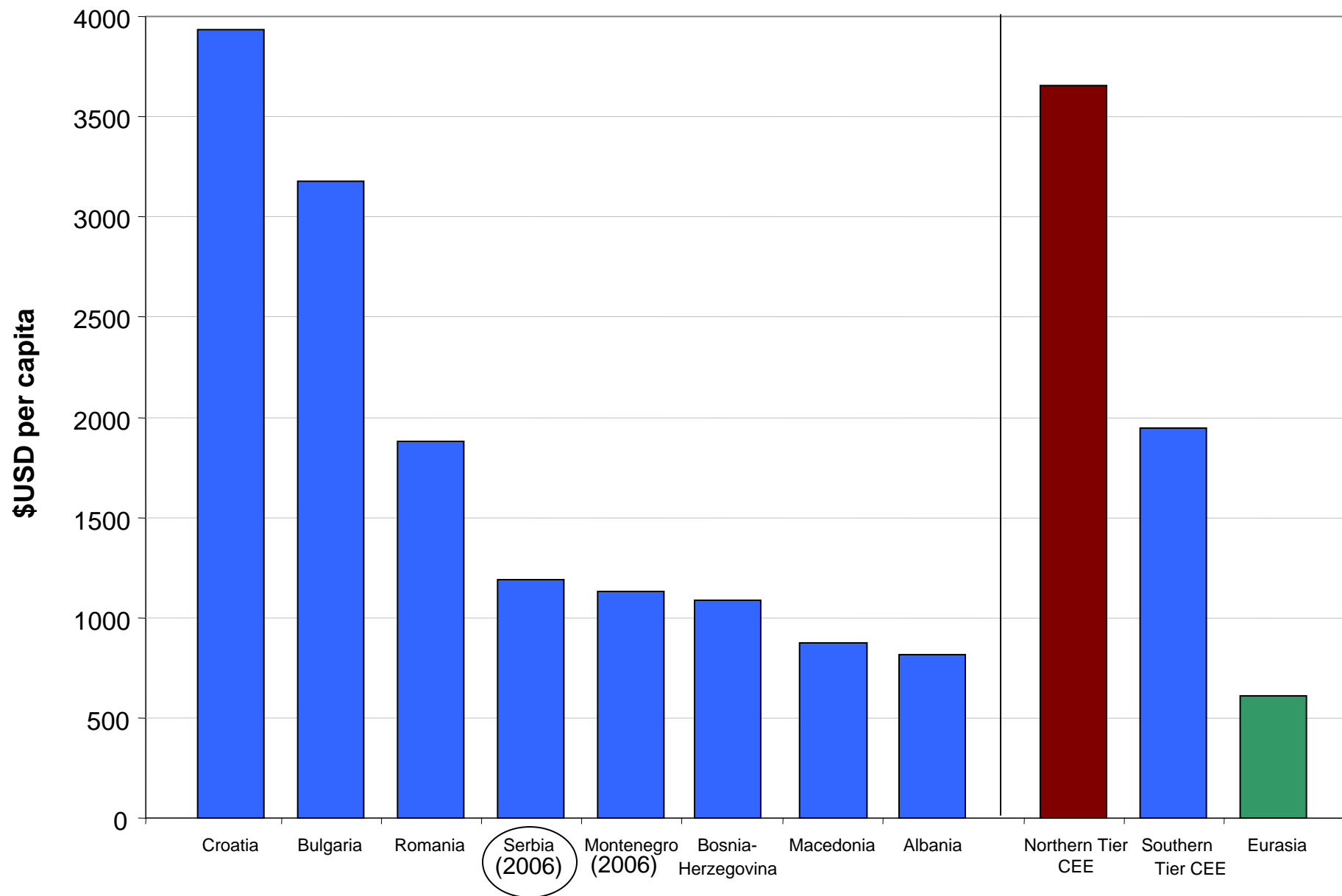
# Exports of Goods and Services as % of GDP in Serbia



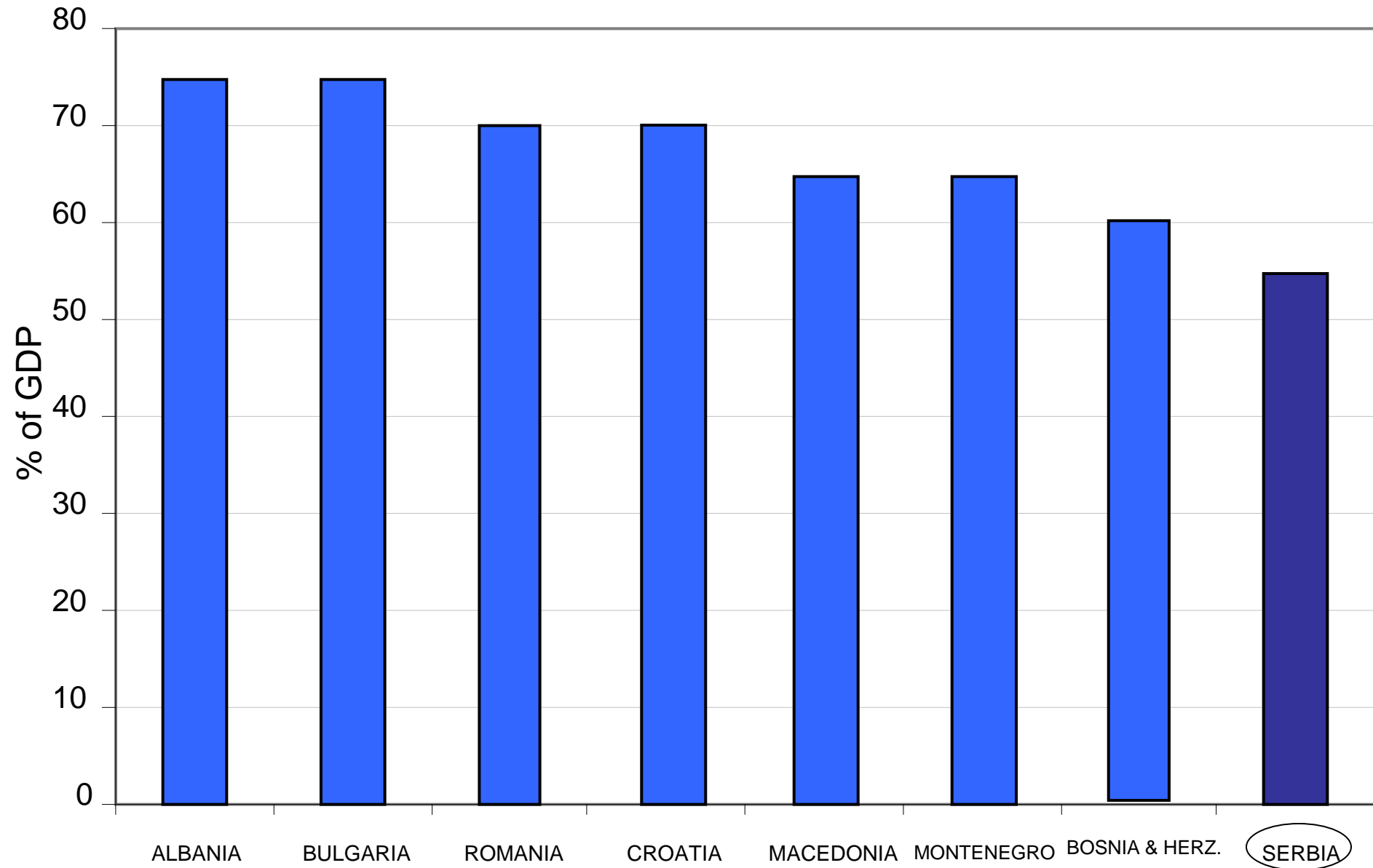
# Current Account Balance and Exports in 2006 (as % GDP)



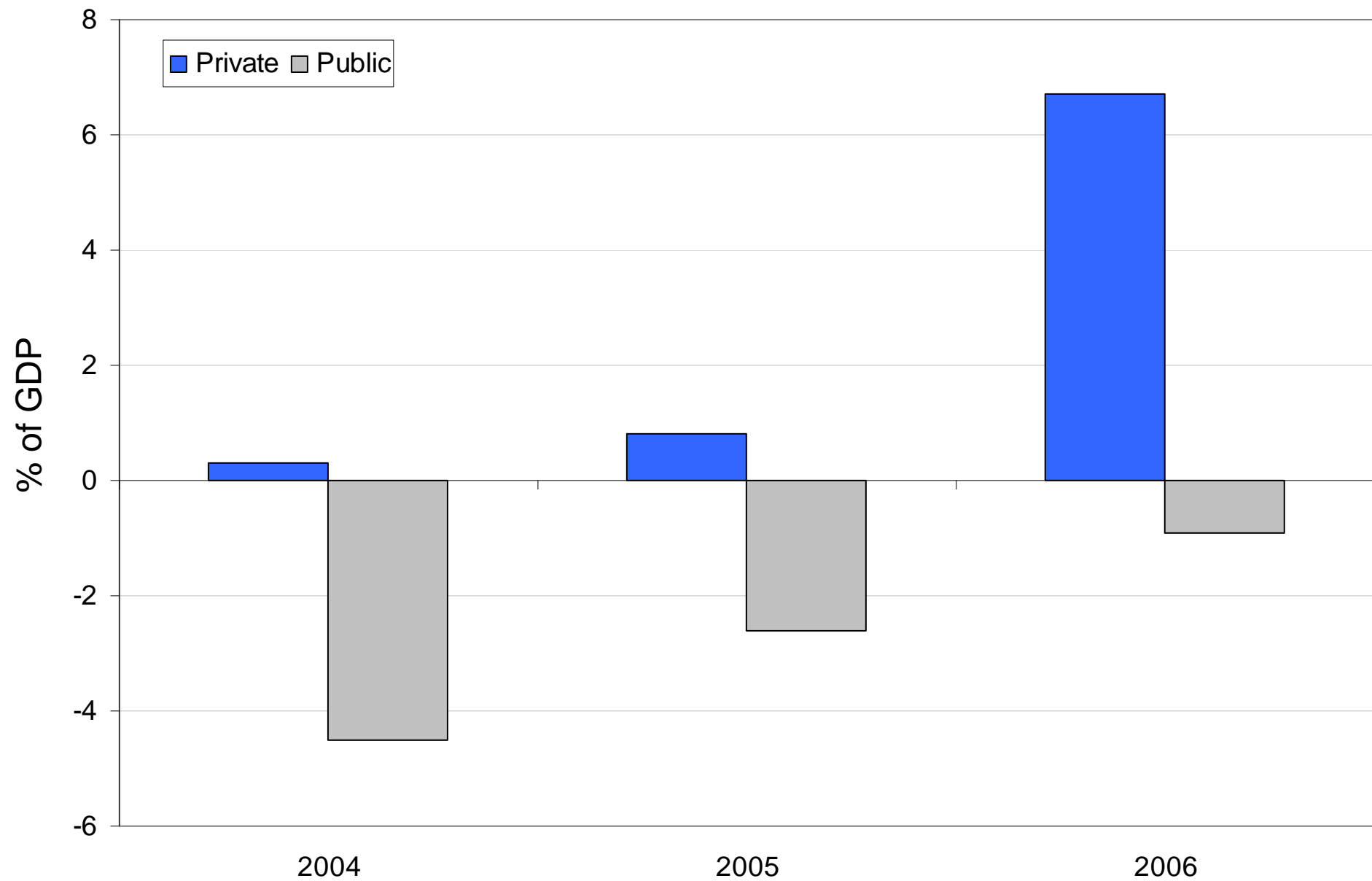
# Cumulative Foreign Direct Investment 1989-2007



# Private Sector Share of GDP in 2007

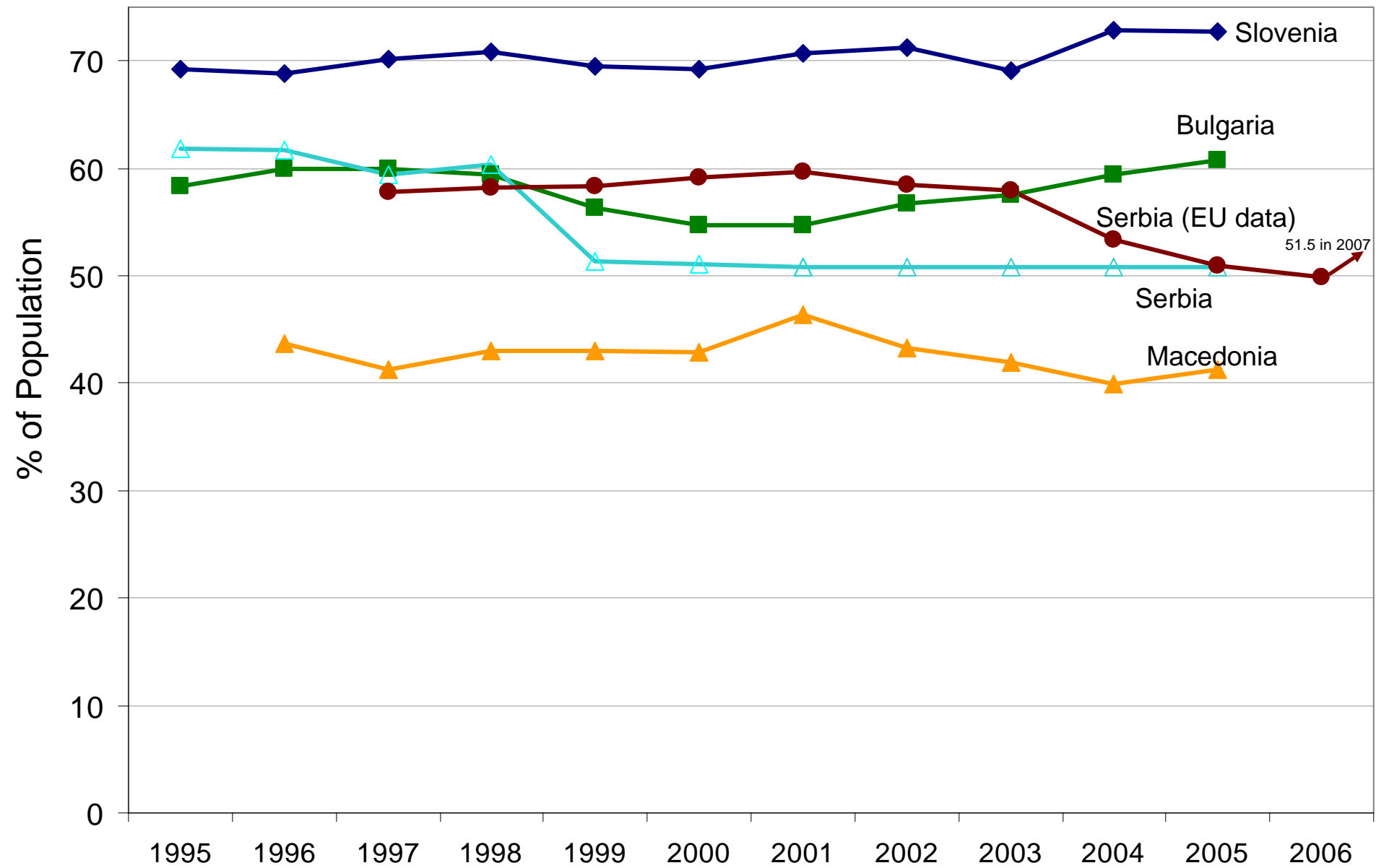


# Profits and Losses of Enterprises in Serbia, Net



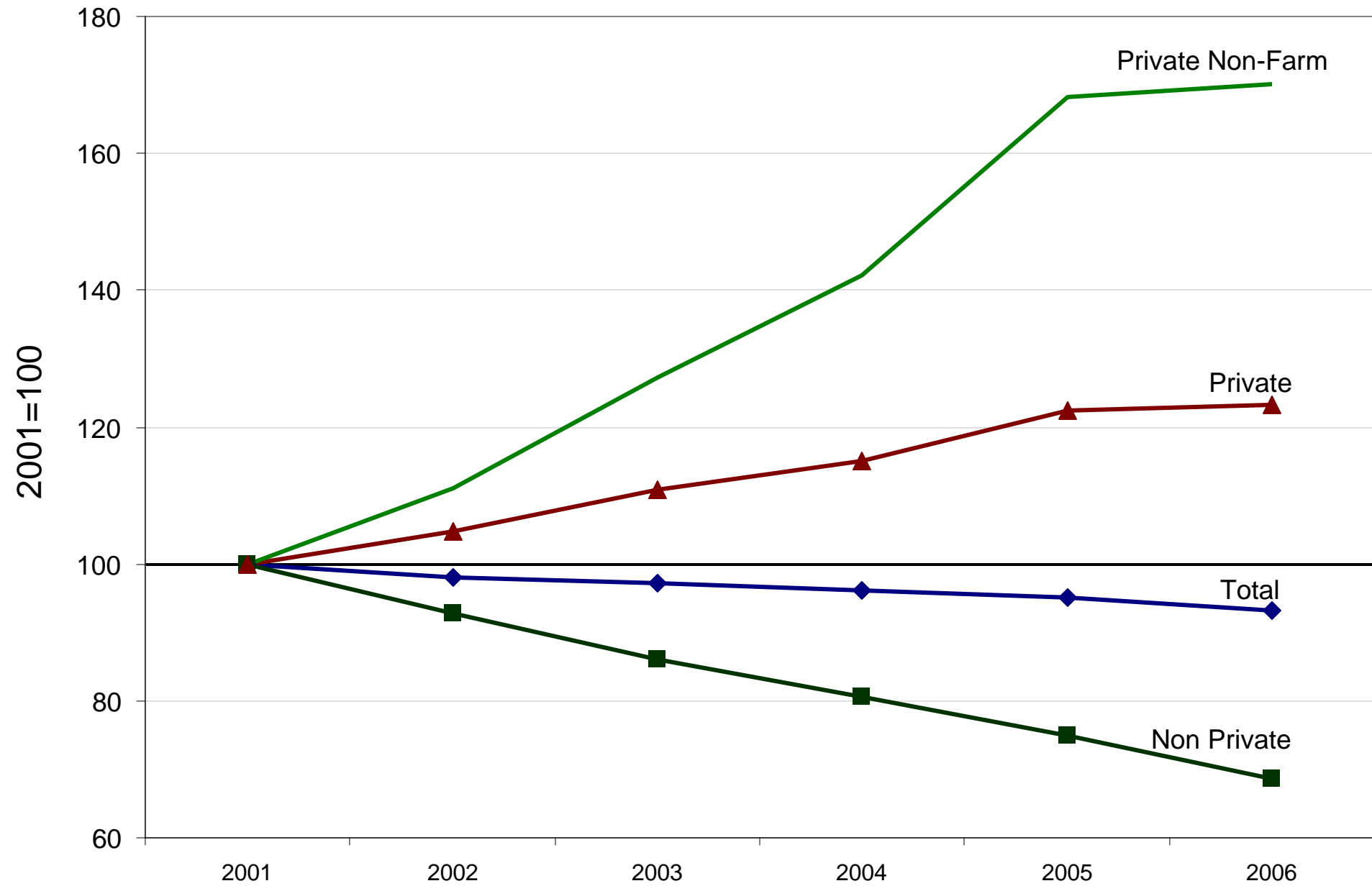


# Employed as % of Population aged 15-59

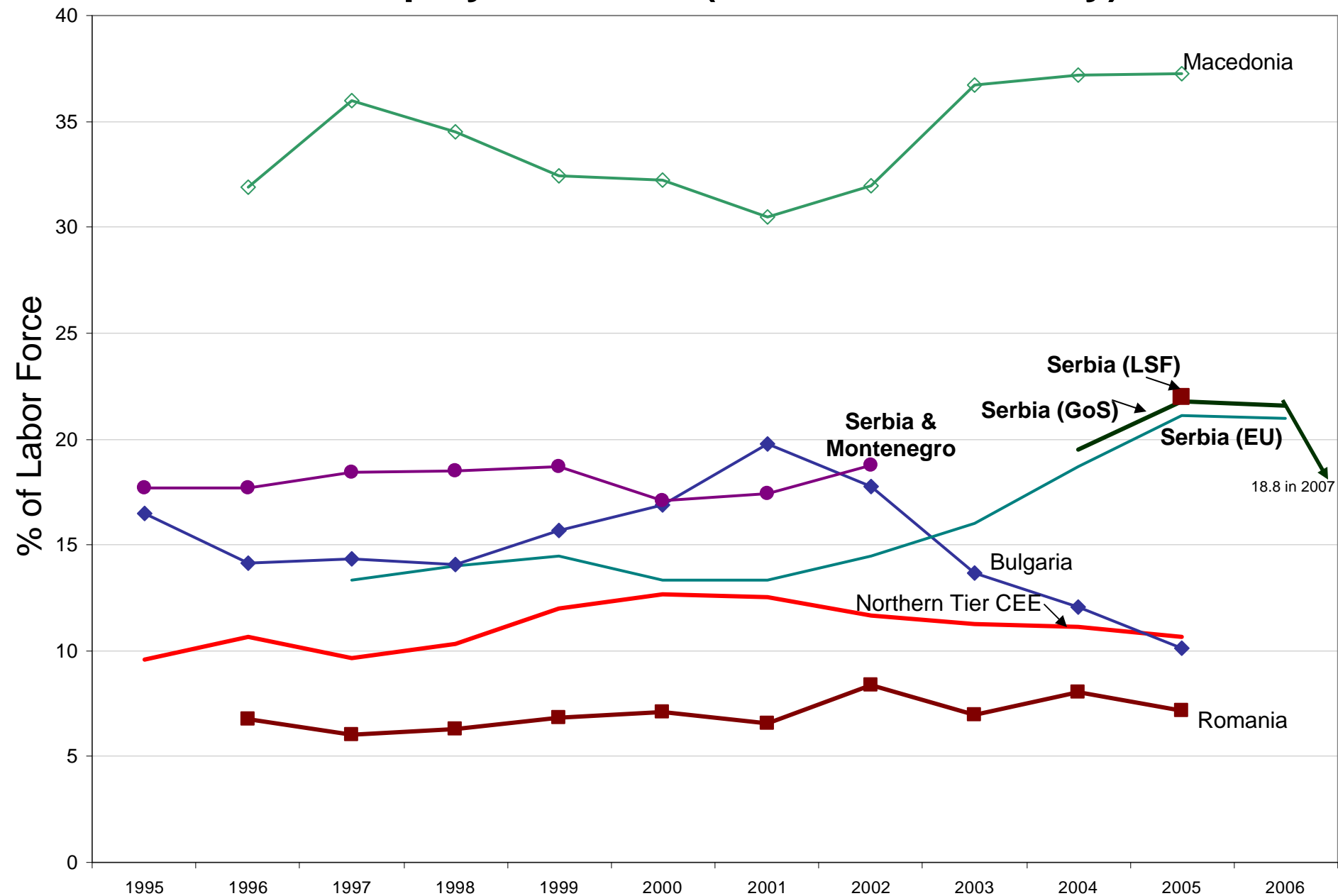


UNICEF, *TransMONEE 2007*; Commission of the European Communities, *Serbia 2007 Progress Report* (June 2007) and World Bank, *Living Standards Measurement Survey* (2008). Data pre 2001 is for Serbia and Montenegro.

# Employment in Serbia

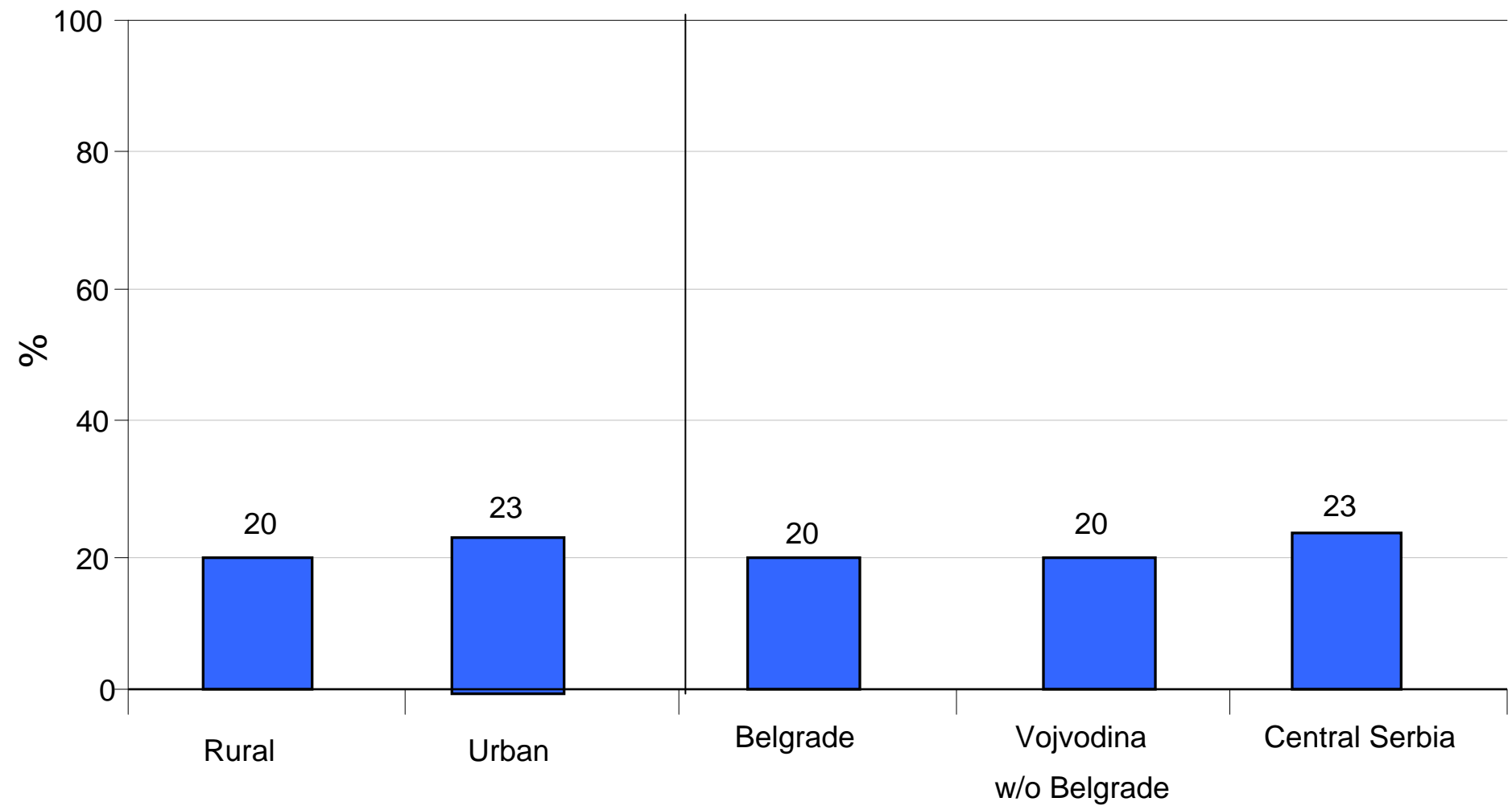


# Unemployment Rate (Labor Force Survey)

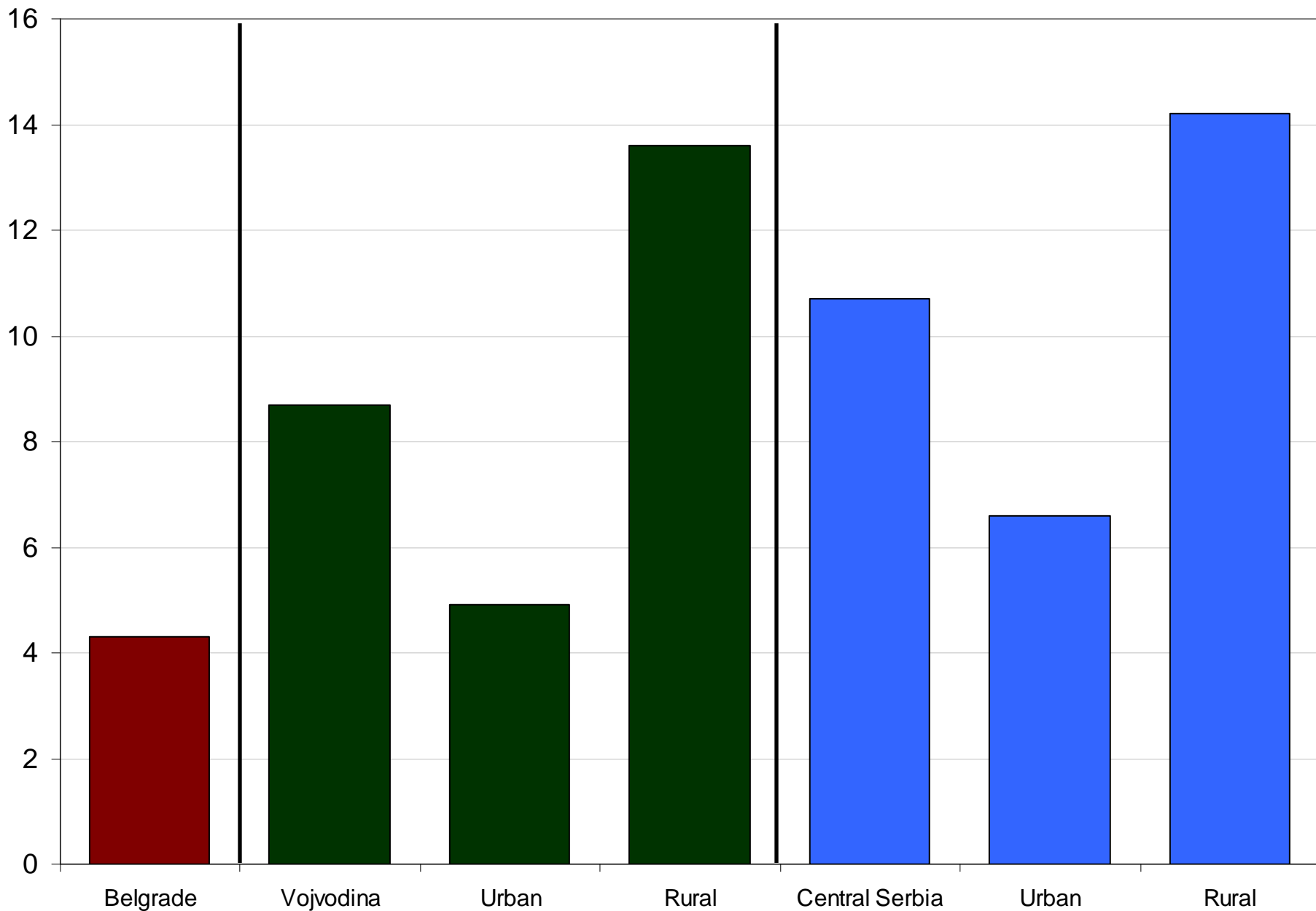


UNICEF, *TransMONEE 2007*; Commission of the European Communities, *Serbia 2007 Progress Report* (June 2007); Government of Serbia, *Selected Progress Report on the Implementation of the Poverty Strategy in Serbia* (August 2007) and World Bank, *Living Standards Measurement Survey* (2008).

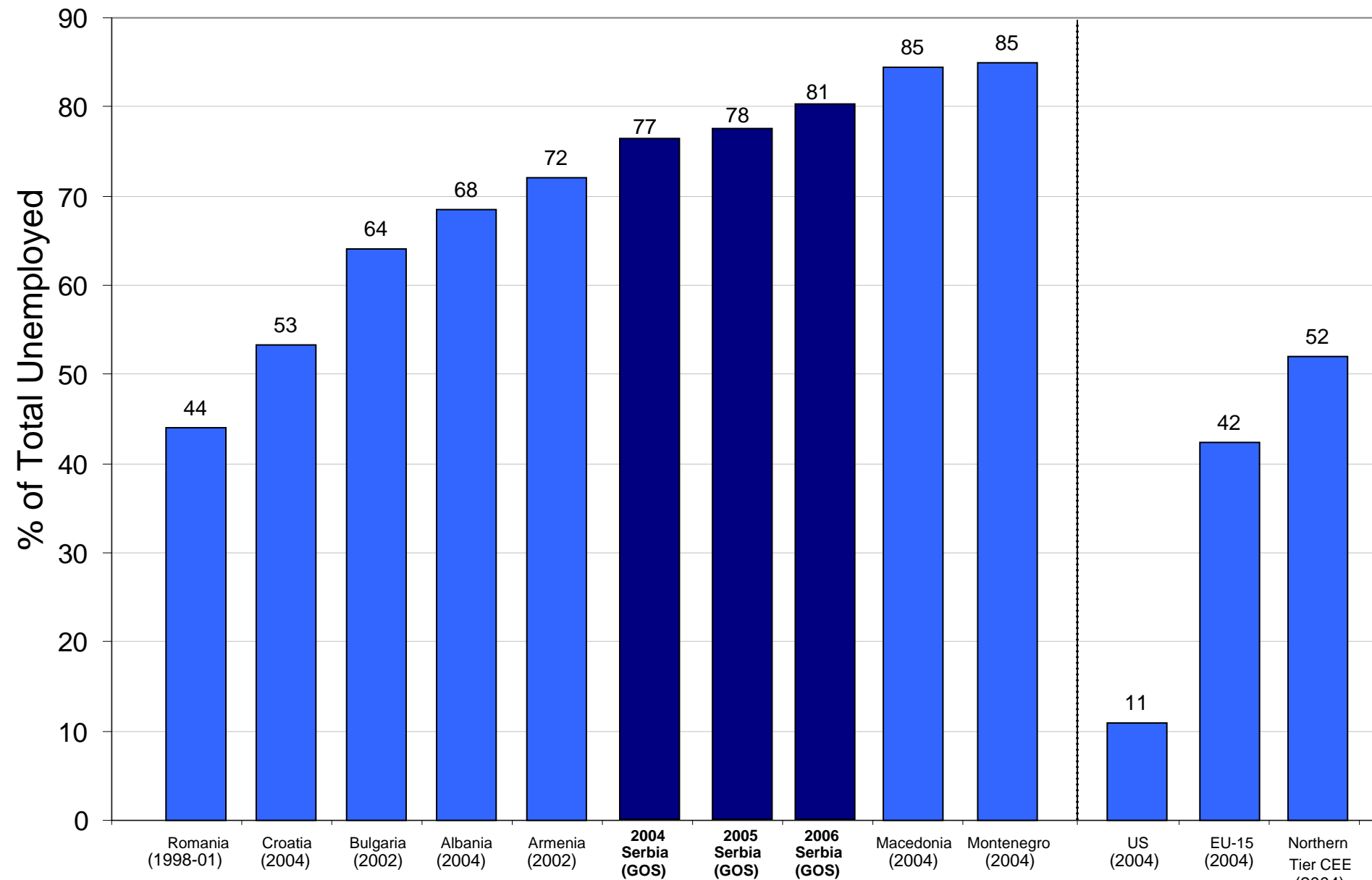
# Unemployment by Region 2005 in Serbia



# Poverty Rates by Region in Serbia

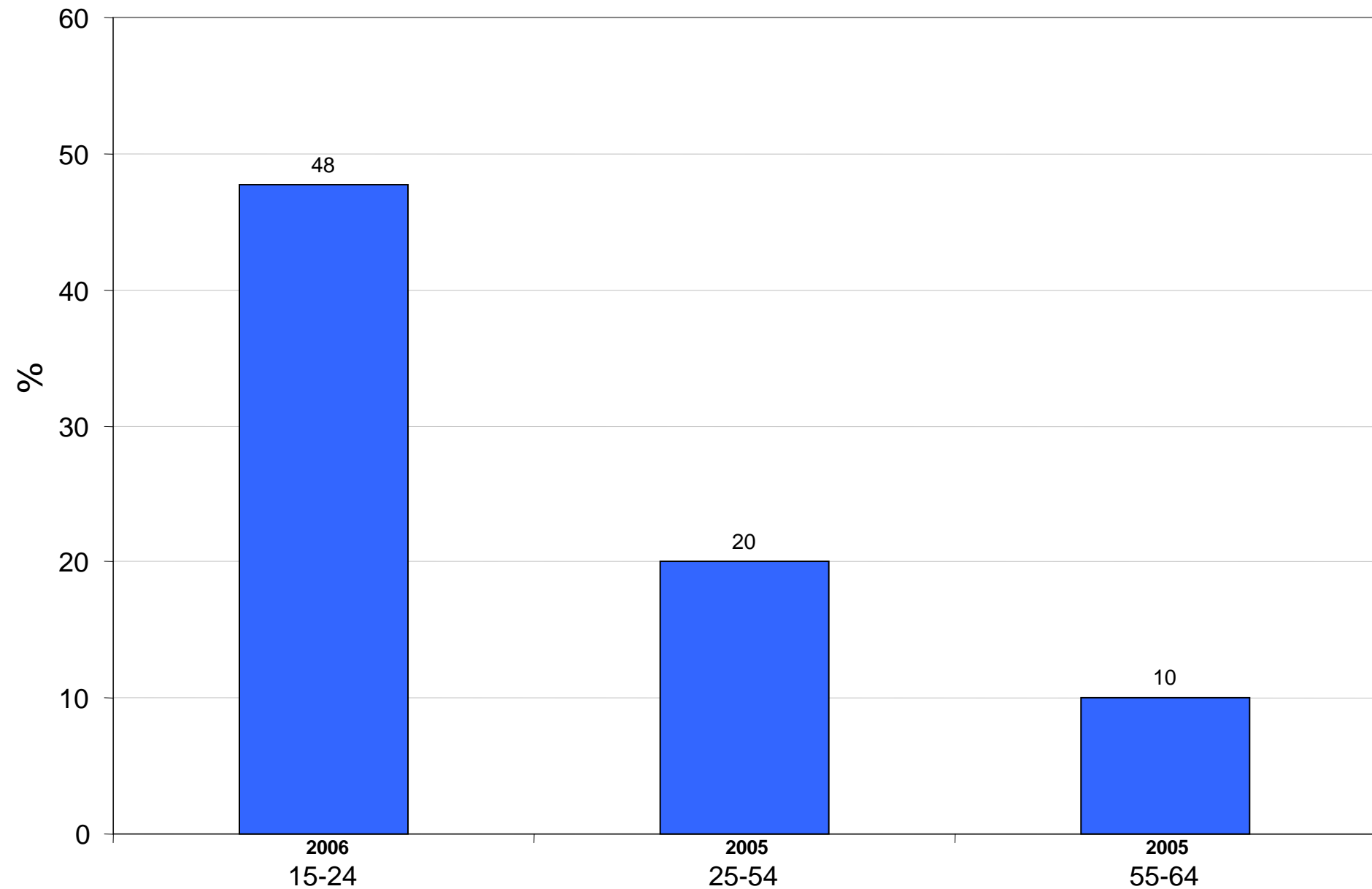


# Long Term Unemployment

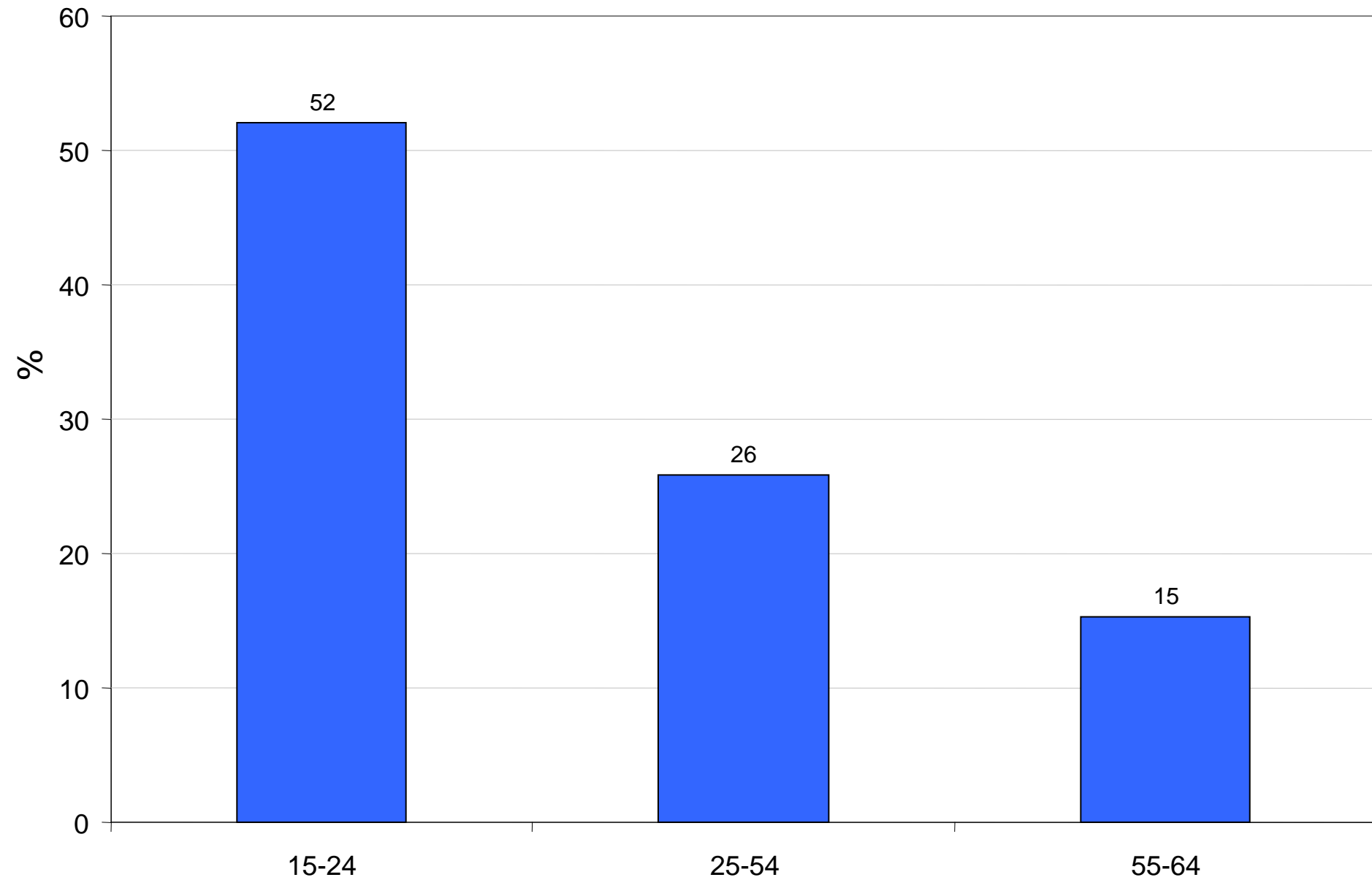


IMF, *Country Reports* (2007). World Bank, *World Development Indicators*; C. Allison and D. Ringold, *Labor Markets in Transition in Central and Eastern Europe: 1989-1995*; World Bank, *Social Challenges of Transition Series* (December 1996); Bureau of the Census, *Populations at Risk in CEE: Labor Markets, No. 2*, prepared for USAID/ENI/PCS (February 1995). Government of Serbia. *Selected Progress Report on the Implementation of the Poverty Strategy in Serbia* (August 2007).

# Unemployment by Age in Serbia, 2005-2006

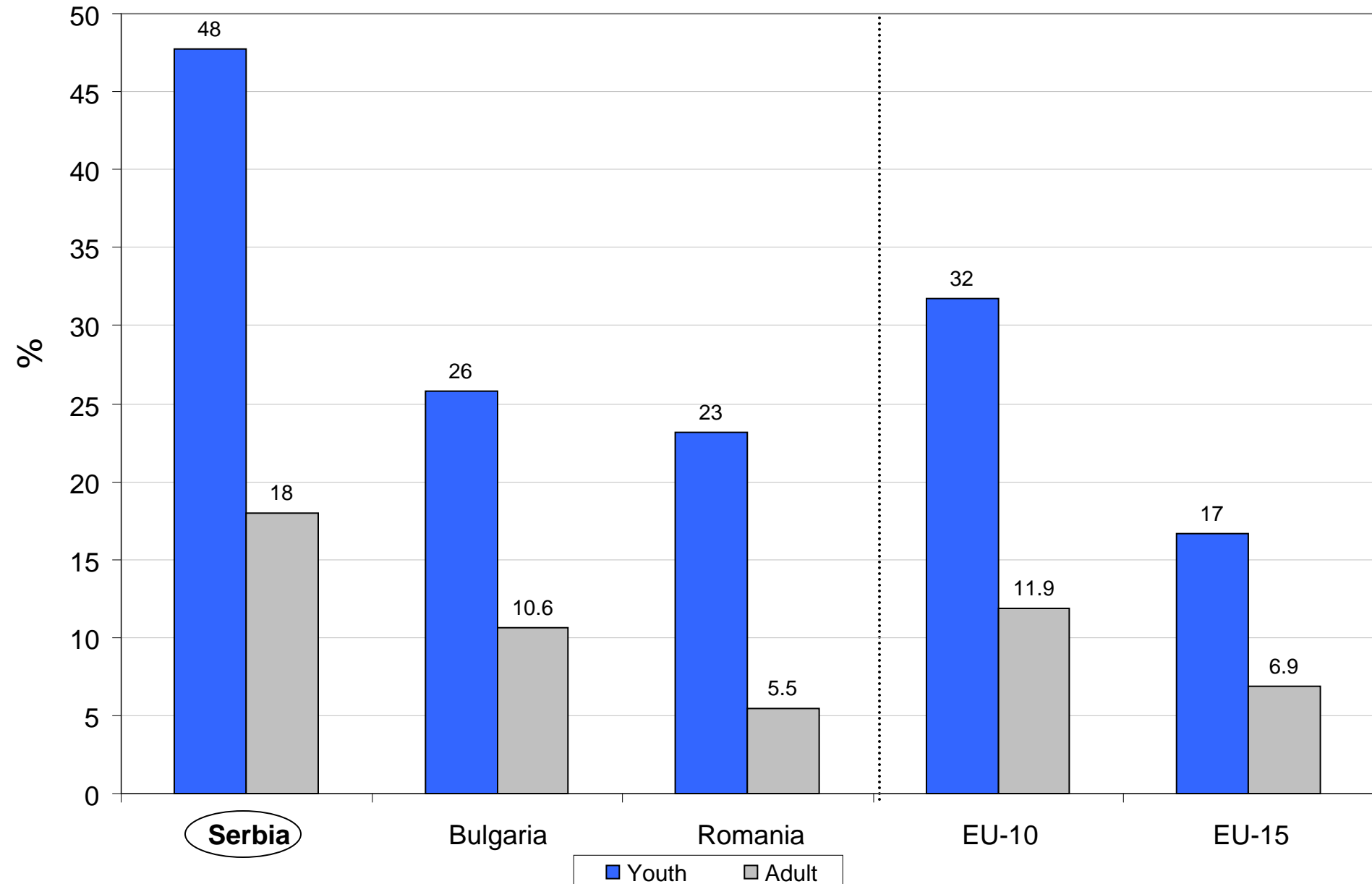


# Informal Sector Employment by Age in Serbia, 2005



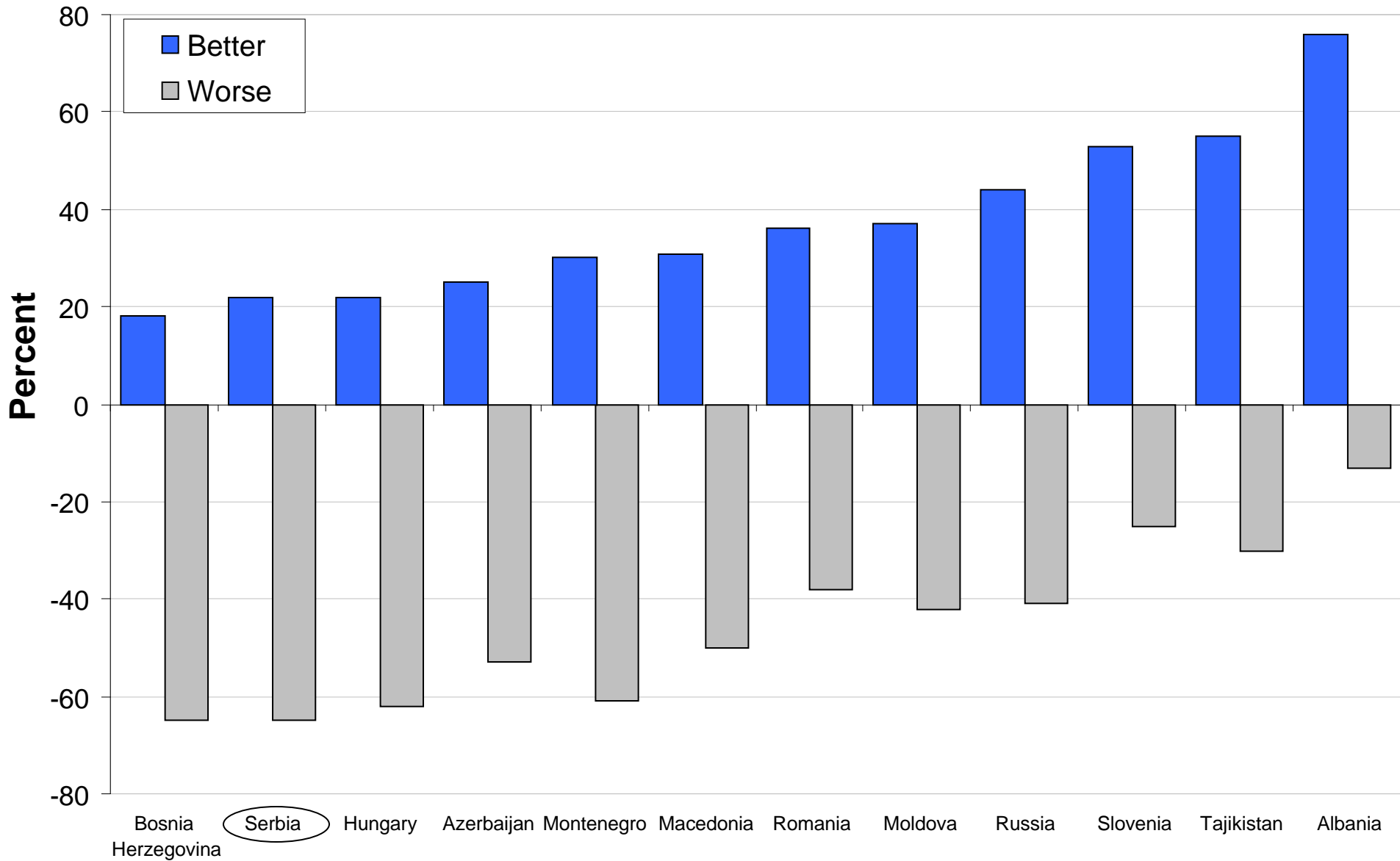


# Youth & Adult Unemployment Serbia, 2005



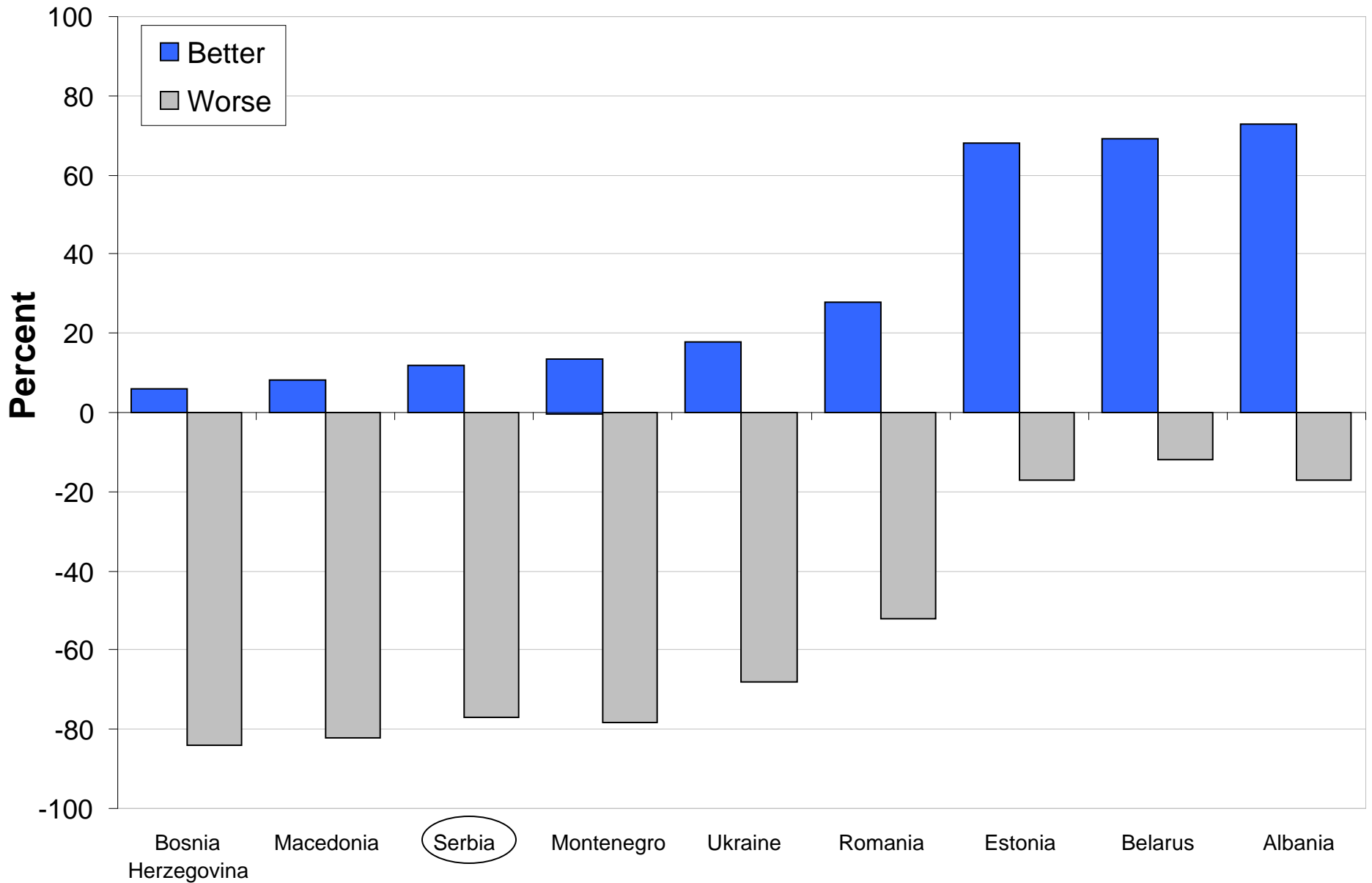
# Views on Living Standards

## 2006 compared with 1989



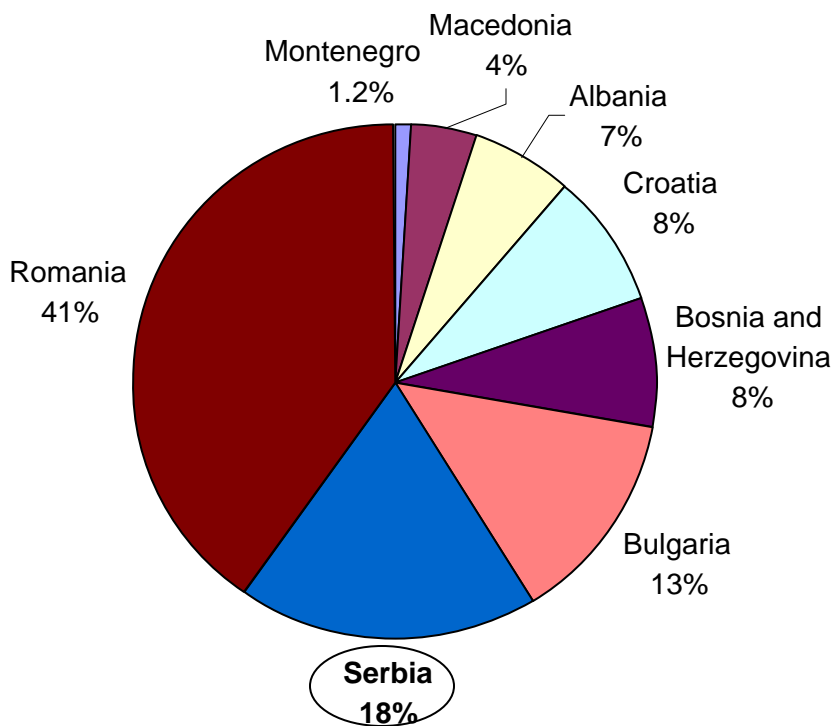
# Views on Present Economic Situation

2006 compared with 1989

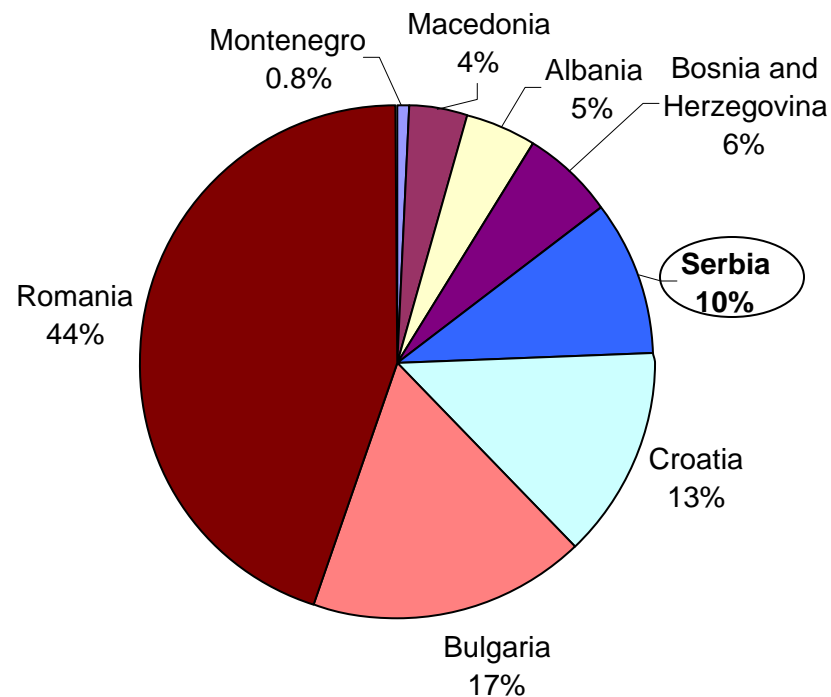


# Size of Economy and Population in the Southern Tier CEE

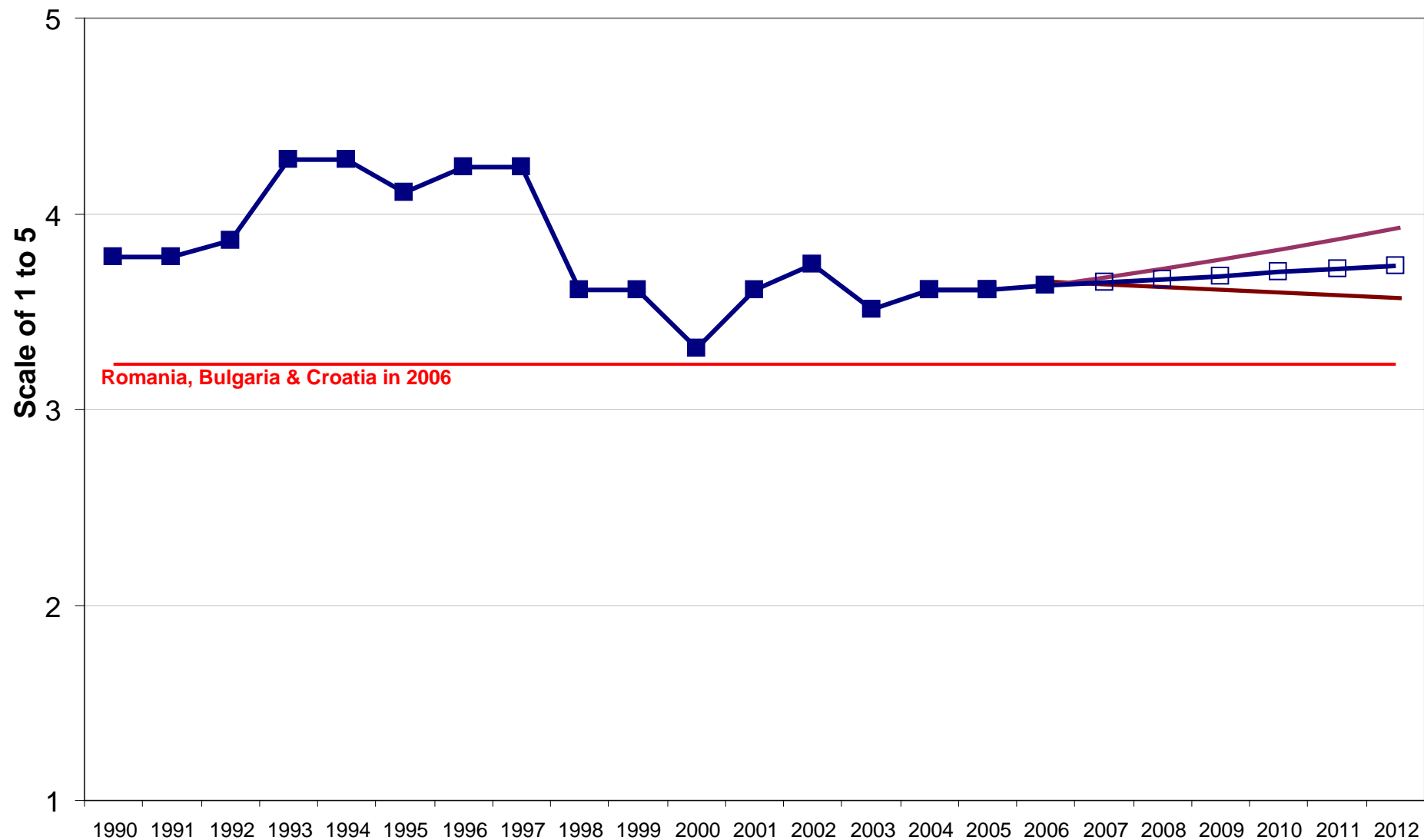
**Population**



**GDP (PPP)**

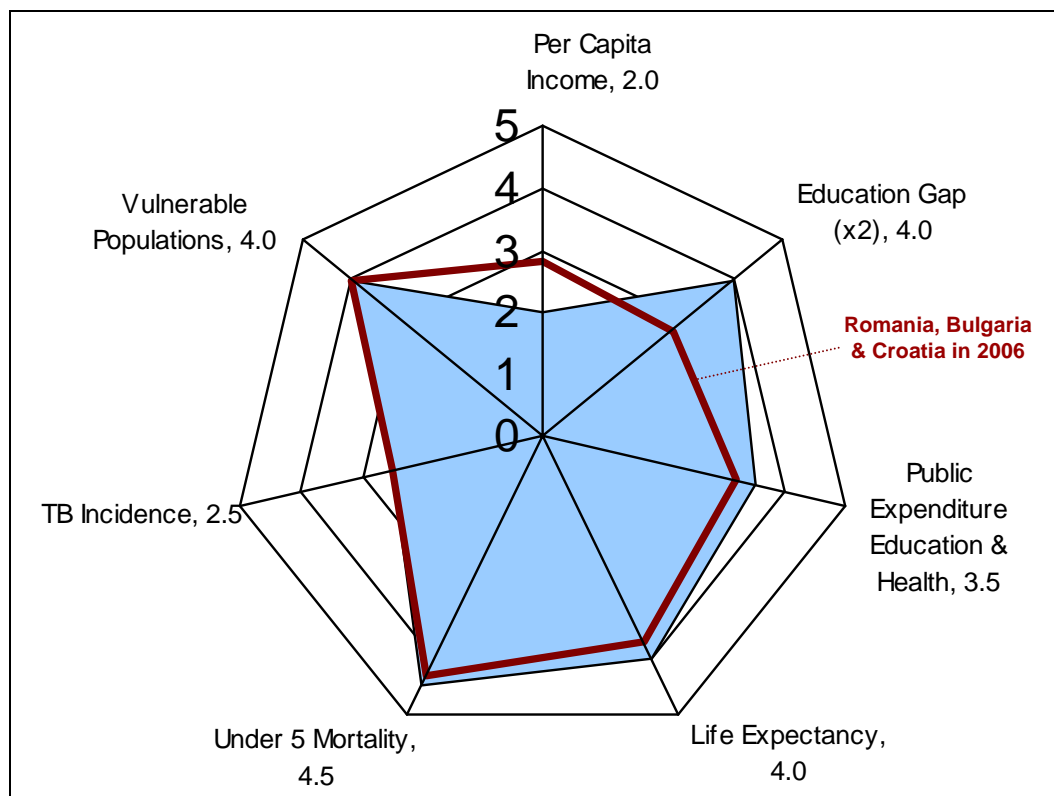


# Human Capital in Serbia

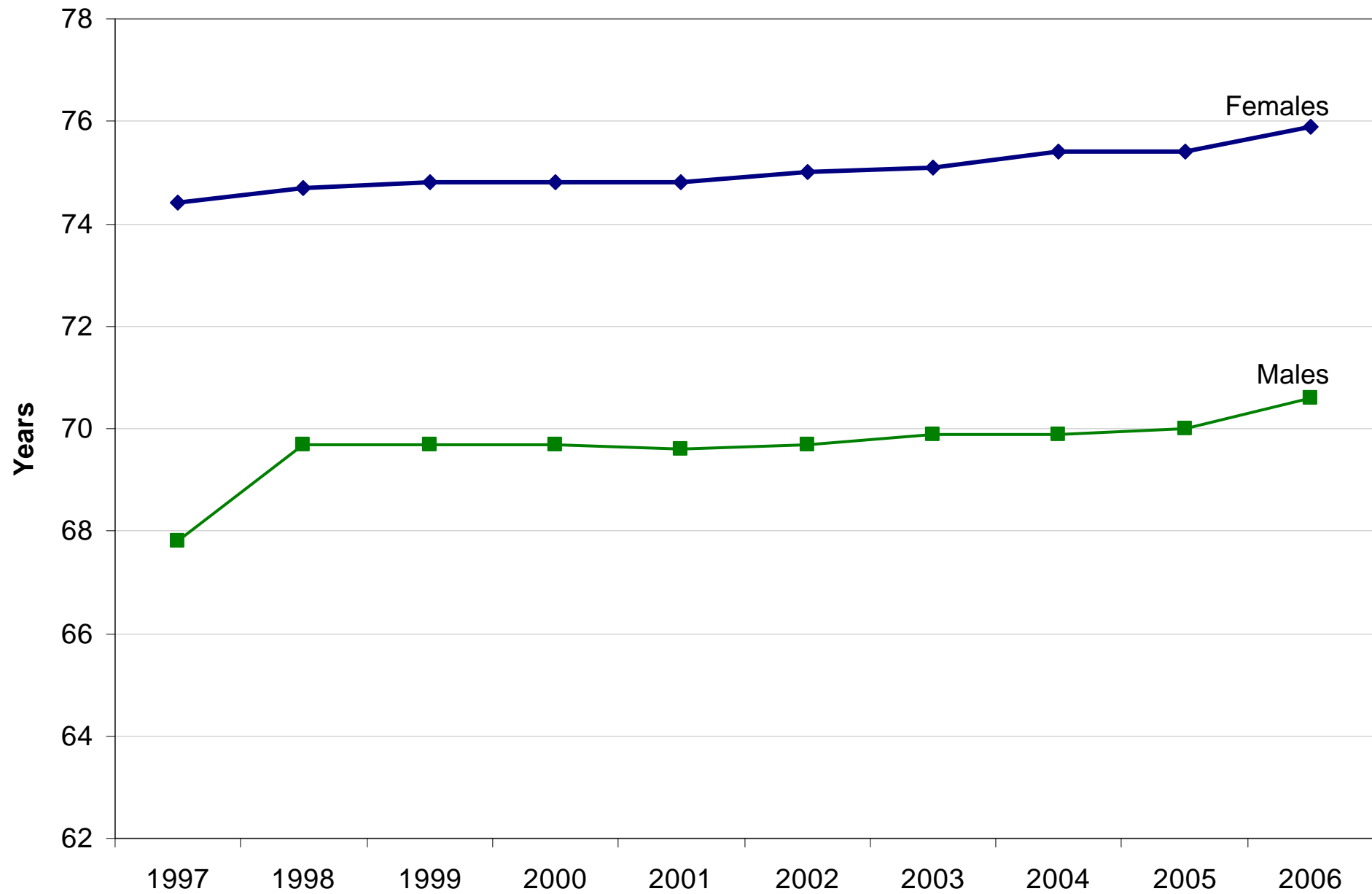


Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from World Bank, *World Development Indicators 2007* (2007); UNICEF, *TransMONEE Database* (2007); World Health Organization European Health For All Database (2007); IEA, *TIMSS 2003 International Mathematics Report* (2004), *TIMSS 2003 International Science Report* (2004) and *PIRLS 2001 International Report* (2003); OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003), *First Results from PISA 2003* (2004) and *International Adult Literacy Survey* (2000).

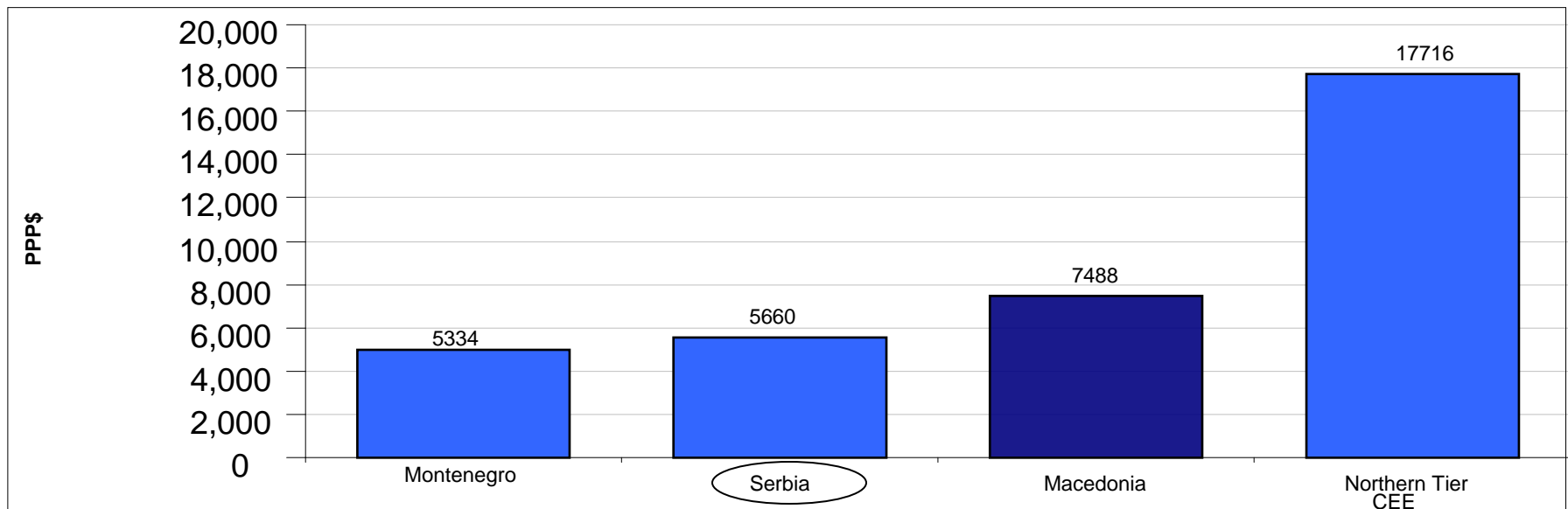
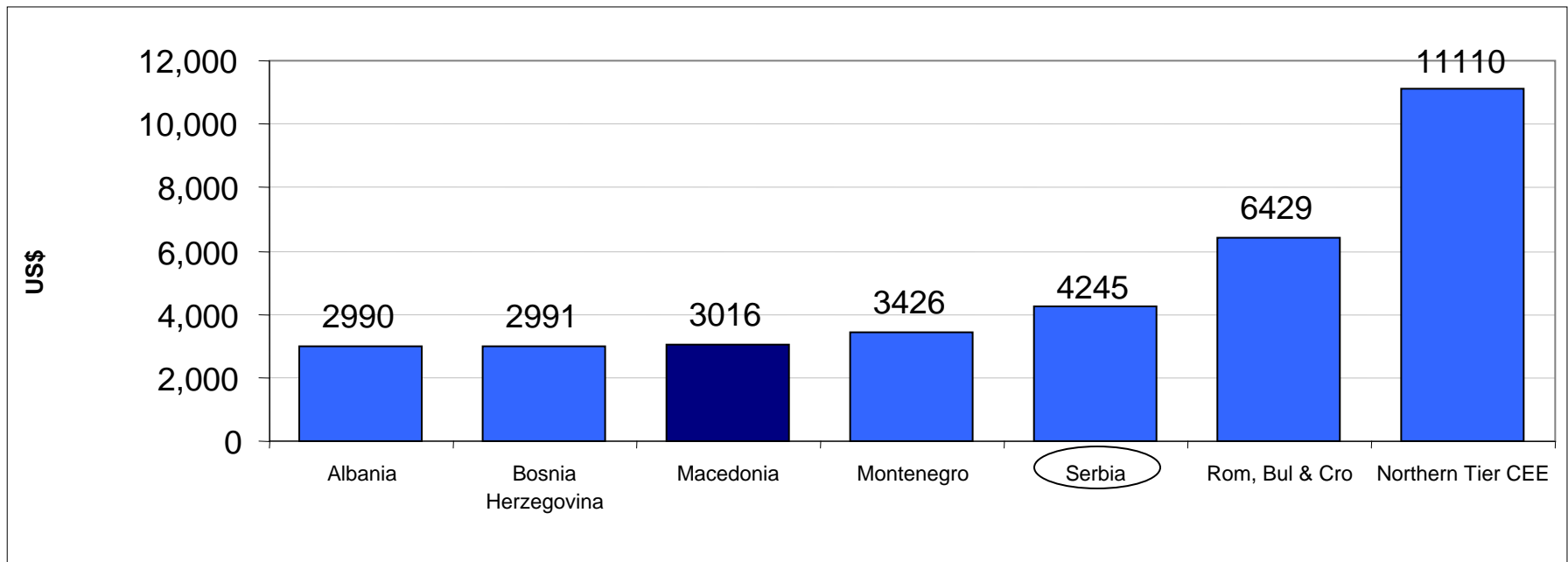
# Human Capital in Serbia



# Life Expectancy in Serbia

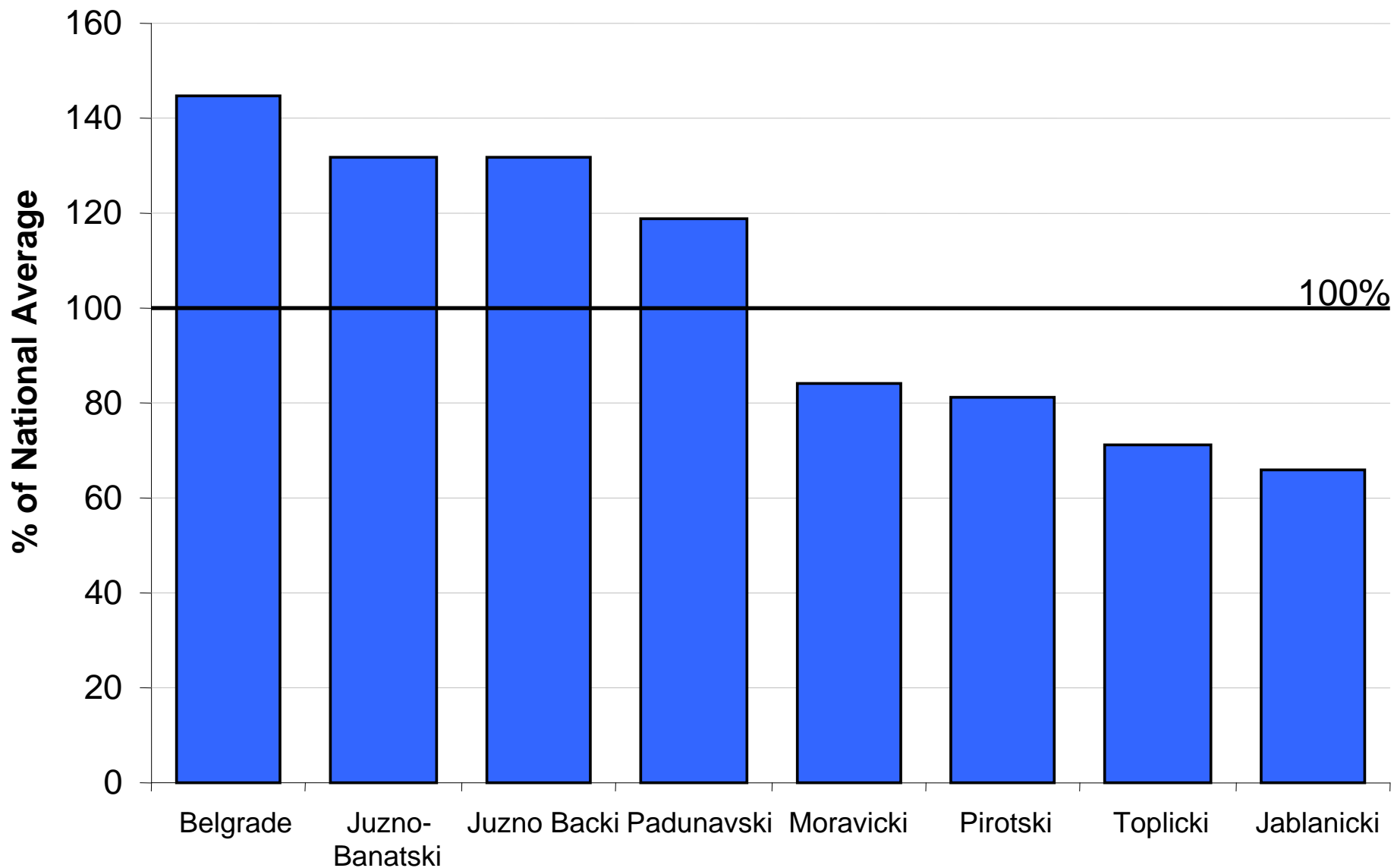


# Per Capita Income in 2006

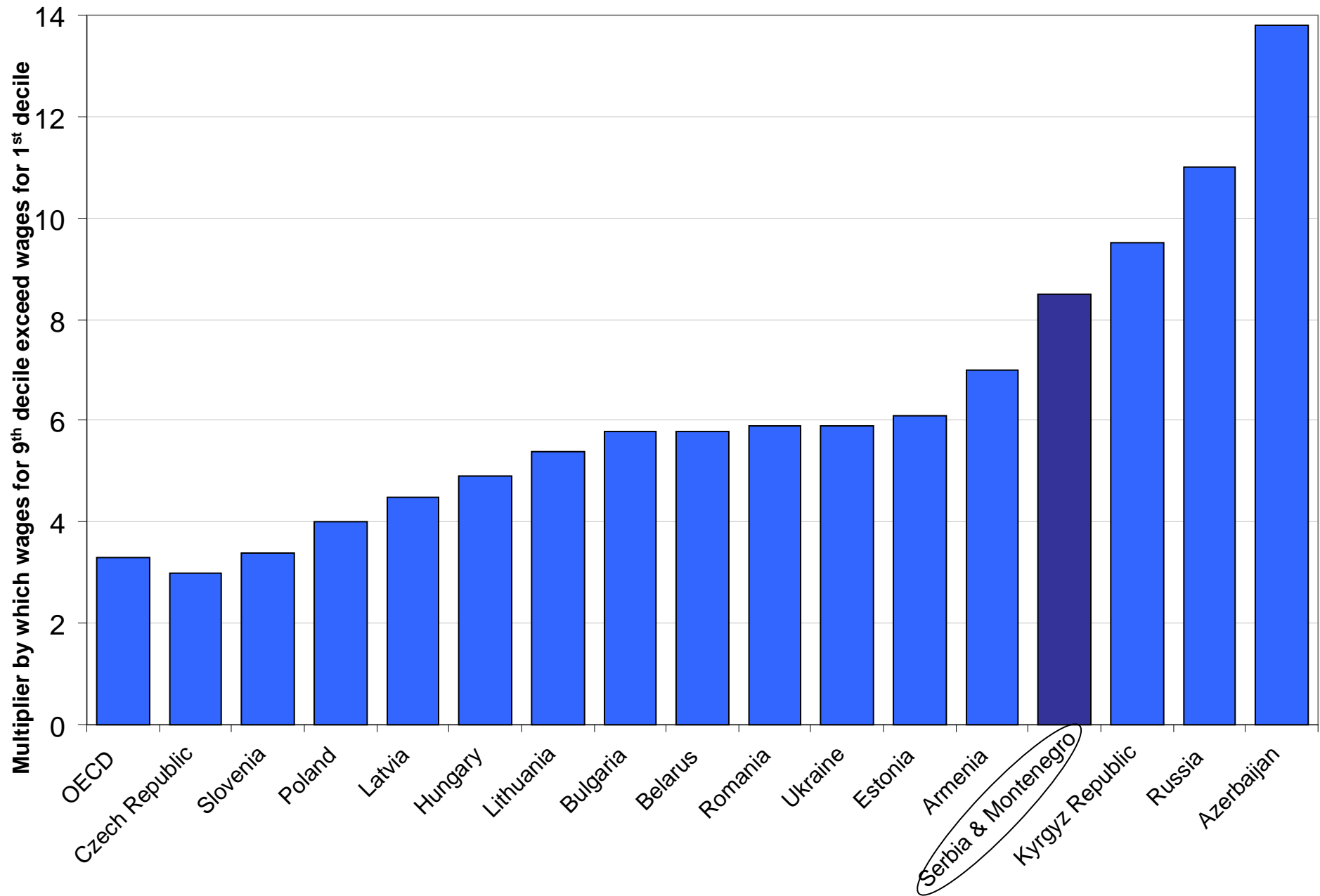




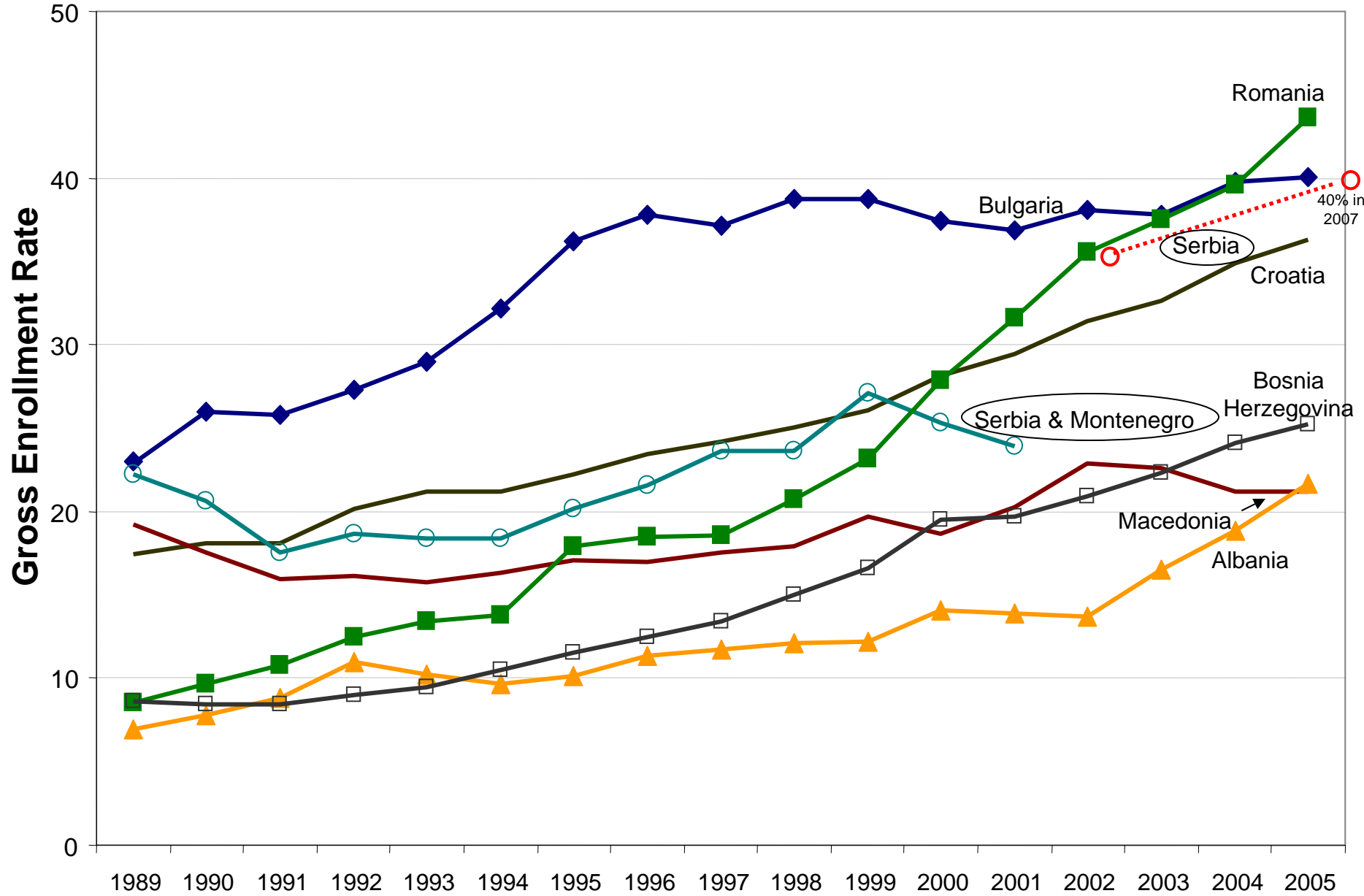
# Average Net Wages in Selected Counties (2005)



# Wage Inequality (9<sup>th</sup> decile to 1<sup>st</sup>)

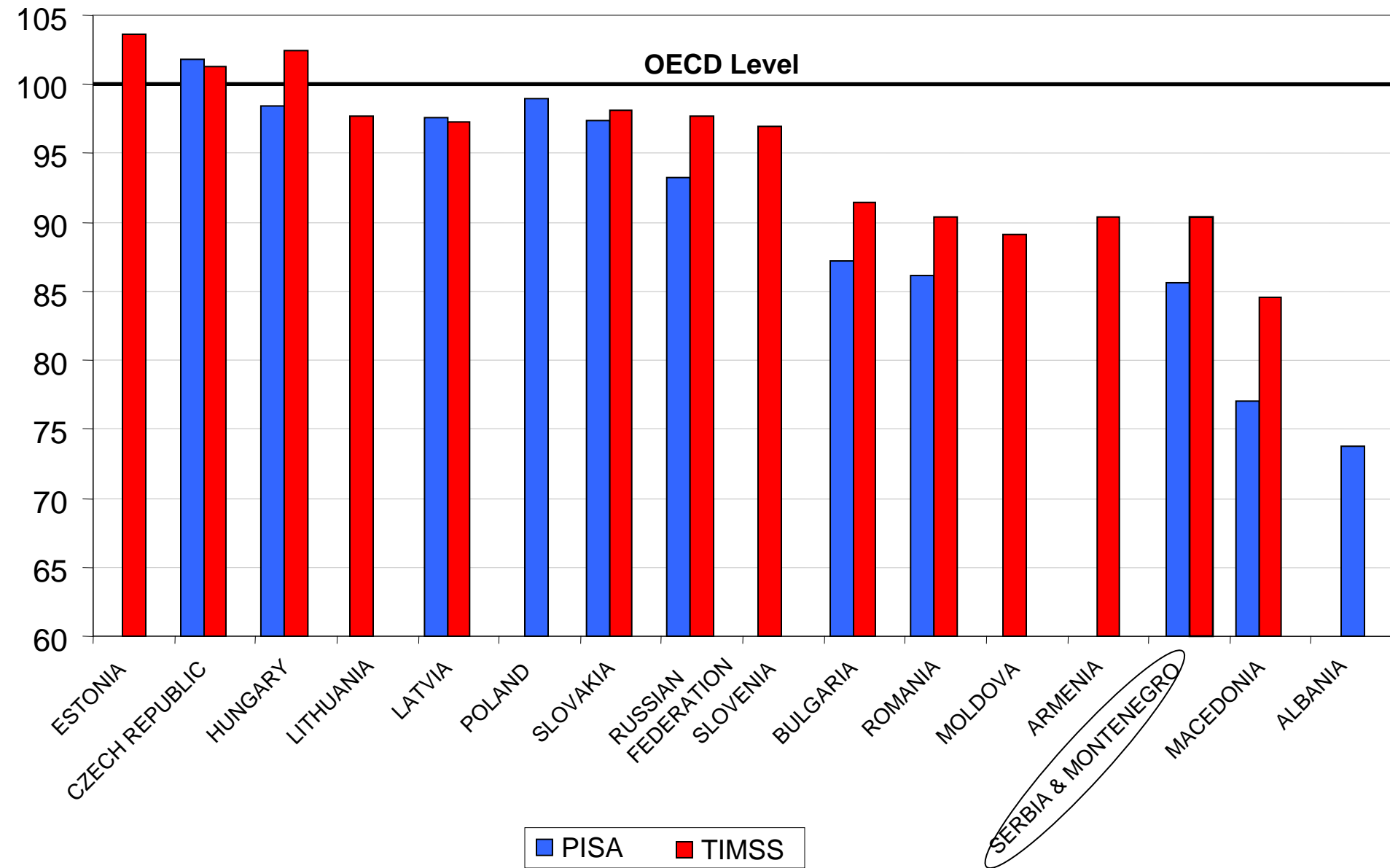


# Higher Education Enrollment: Southern Tier CEE

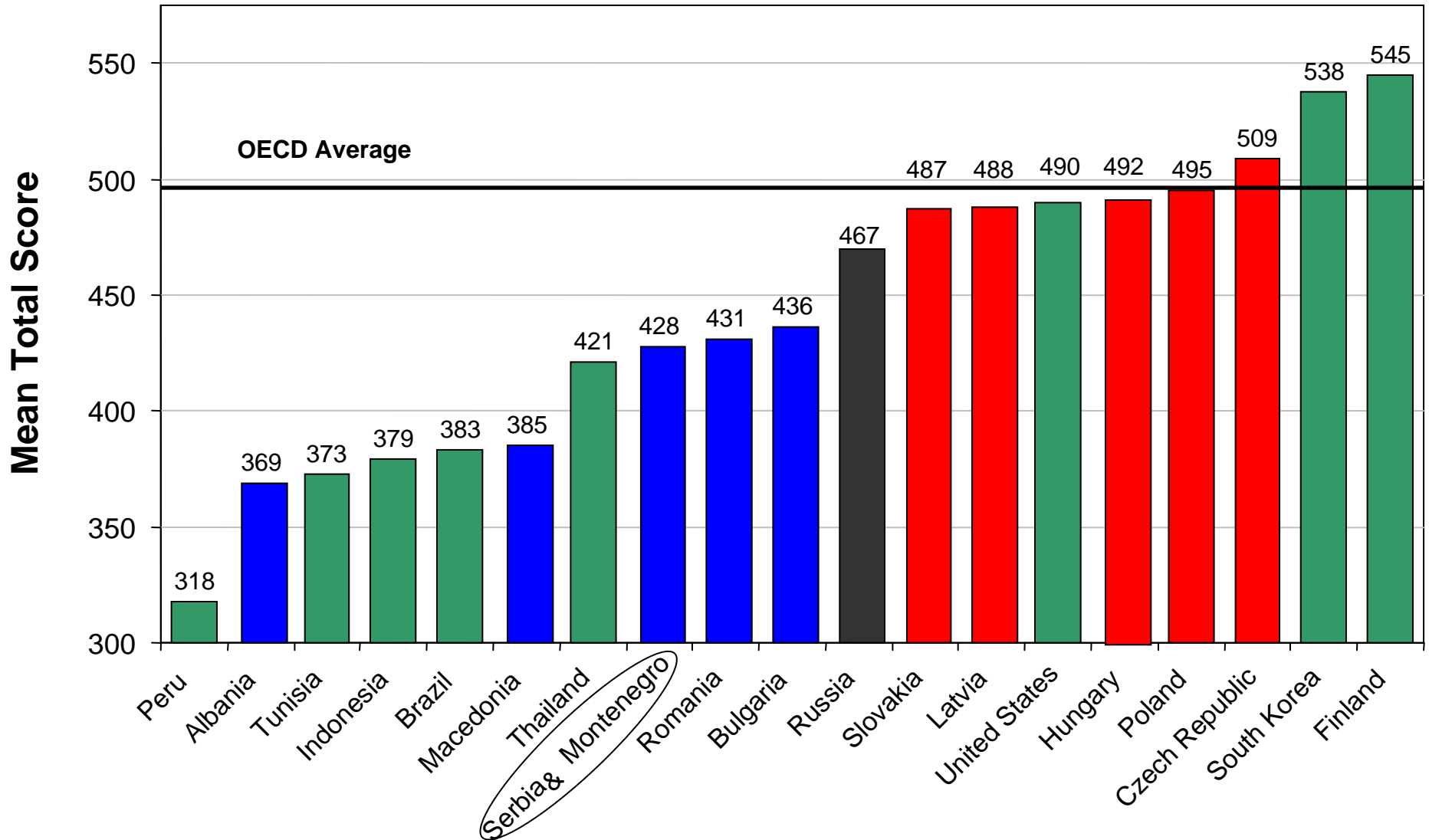


# Functional Literacy in 2003

**PISA** (Program for International Student Assessment) VS. **TIMSS** (Trends in International Mathematics and Science Study)

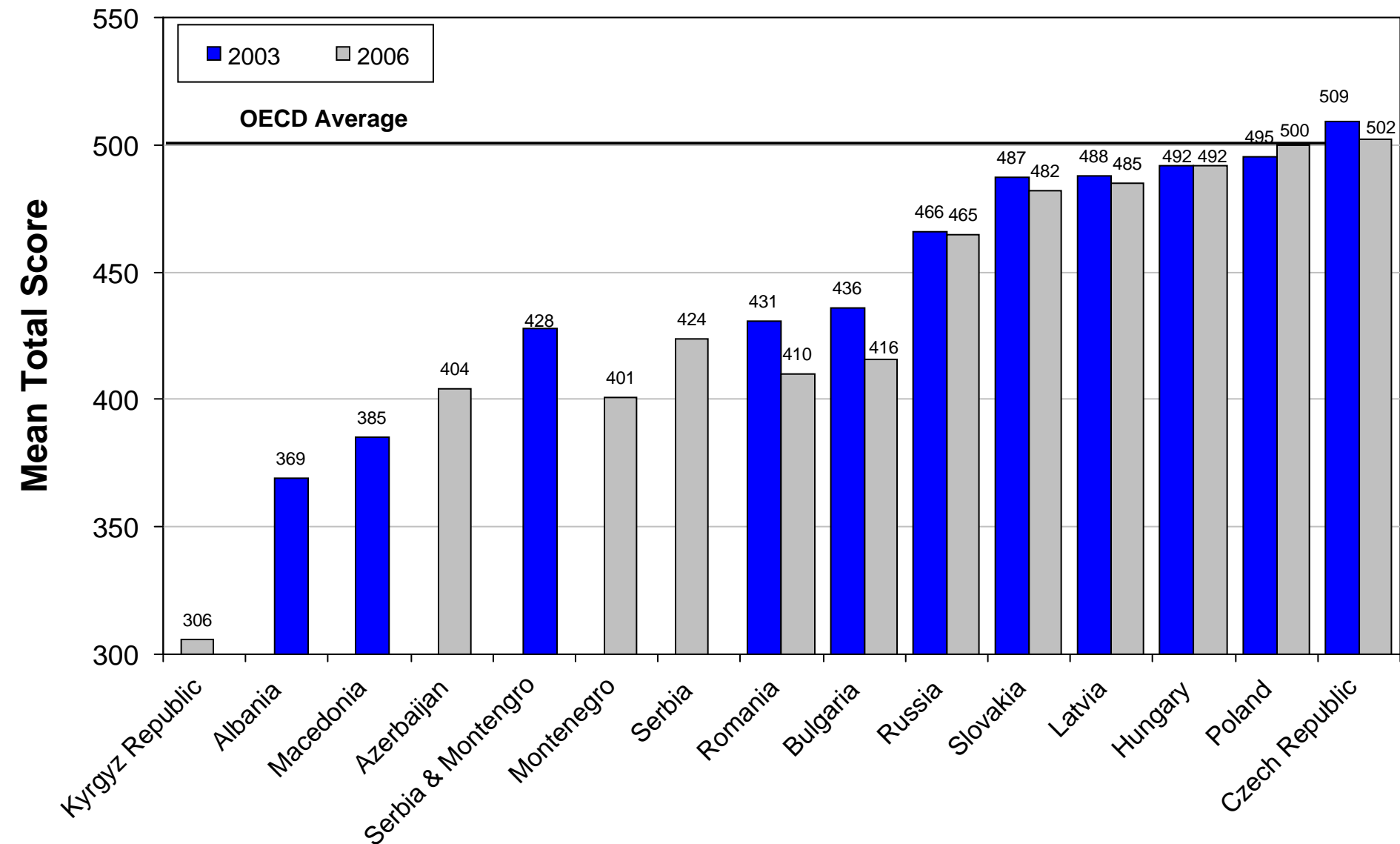


# Functional Literacy (PISA 2003)



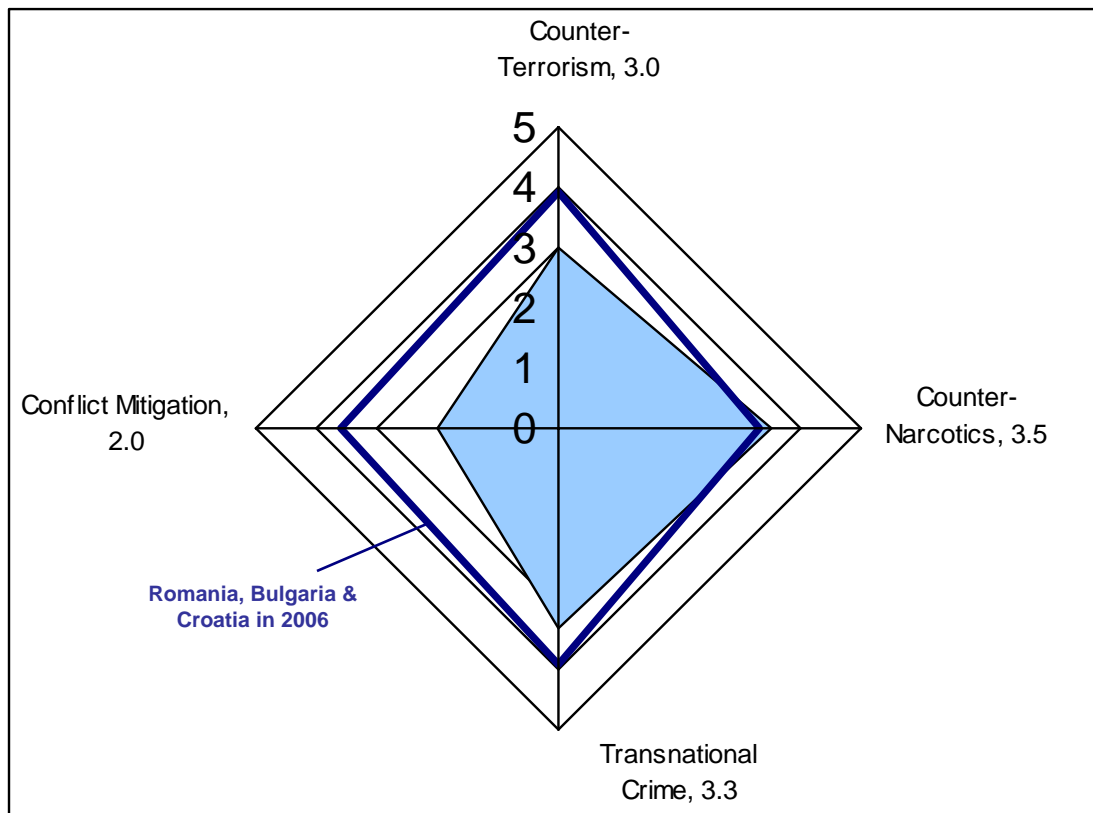
Mean total score is the average of the reading, math, and science domains. Results taken from most recently administered assessment available. Albania, Macedonia, Romania, and Bulgaria use PISA 2000; Serbia & Montenegro, Russia, Slovakia, Latvia, Hungary, Poland, Czech Republic, the OECD, and all non-E&E, excepting Peru, countries use PISA 2003. OECD, *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000 (2003)*. OECD, *Learning for Tomorrow's World: First Results from PISA 2003 (2004)*.

# Functional Literacy (PISA 2003 vs. 2006)



Mean total score is the average of the reading, math, and science domains. Albania, FYR Macedonia, Romania, and Bulgaria use PISA 2000 instead of 2003. OECD, *Assessing Scientific, Reading and Mathematical Literacy: A Framework for PISA 2006* (December 2007); *Literacy Skills for the World of Tomorrow: Further Results from PISA 2000* (2003) and *Learning for Tomorrow's World: First Results from PISA 2003* (2004).

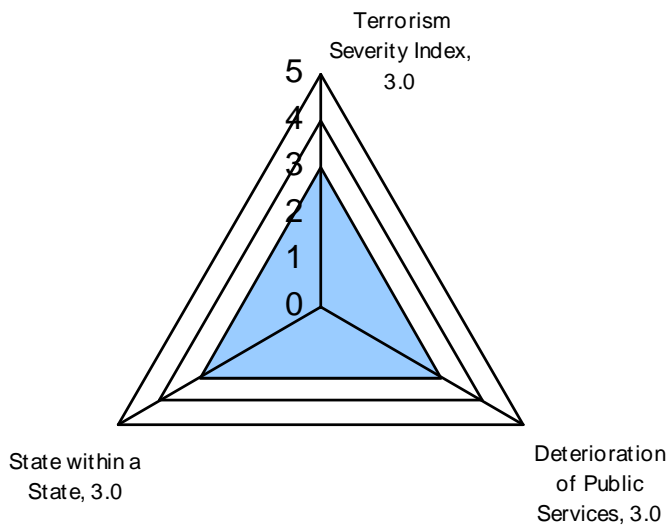
# Peace & Security in Serbia



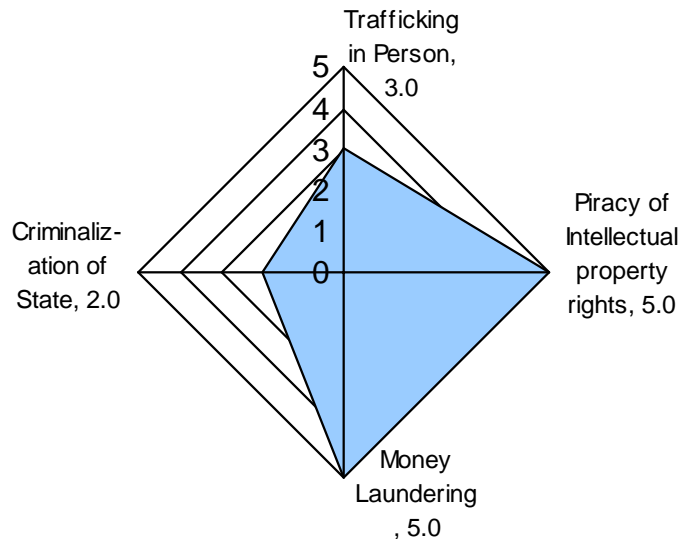
Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from Fund for Peace, *Failed States Index* (2007); The United Nations Office on Drugs and Crime (UNODC), *2006 World Drug Report*; State Department, International Narcotics and Law Enforcement Affairs, Strategy Report (March 2007); Marshall & Gurr, *Peace & Conflict, A Global Survey of Armed Conflicts, Self Determination Movements and Democracy*; Foreign Policy & A.T. Kearney, *Globalization Index 2007*. Score for Counter-narcotics is for Serbia & Montenegro. No data exists for Political Engagement.

# Peace & Security in Serbia

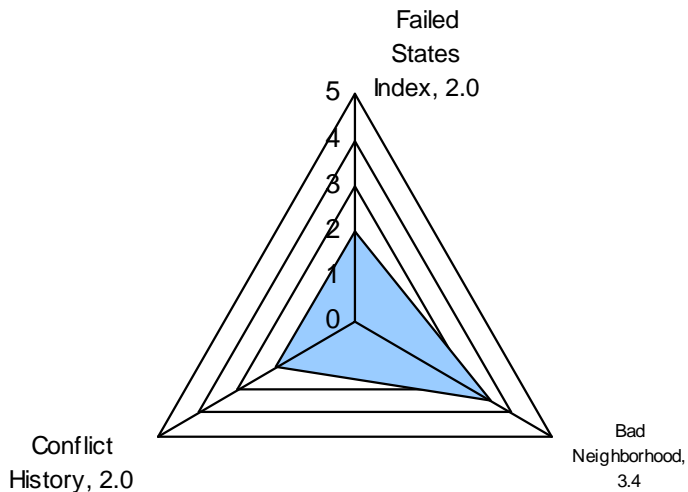
## Counter-terrorism



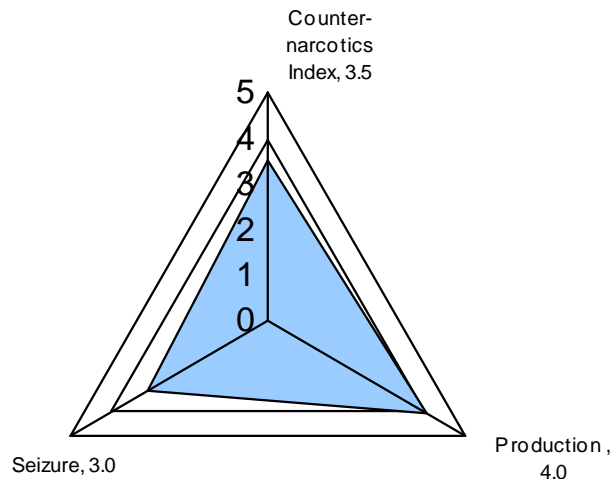
## Transnational Crime



## Conflict Mitigation



## Counter-narcotics

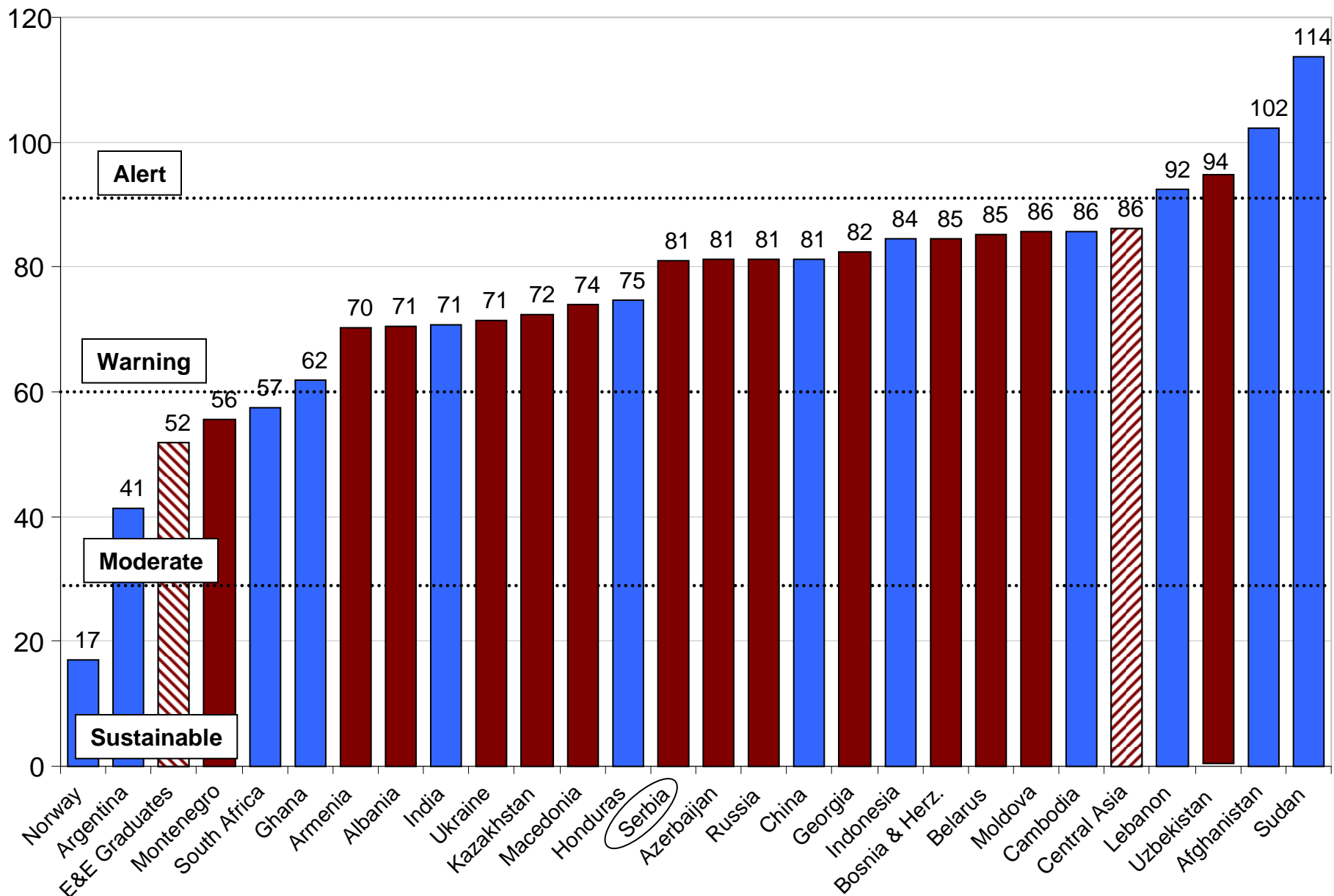


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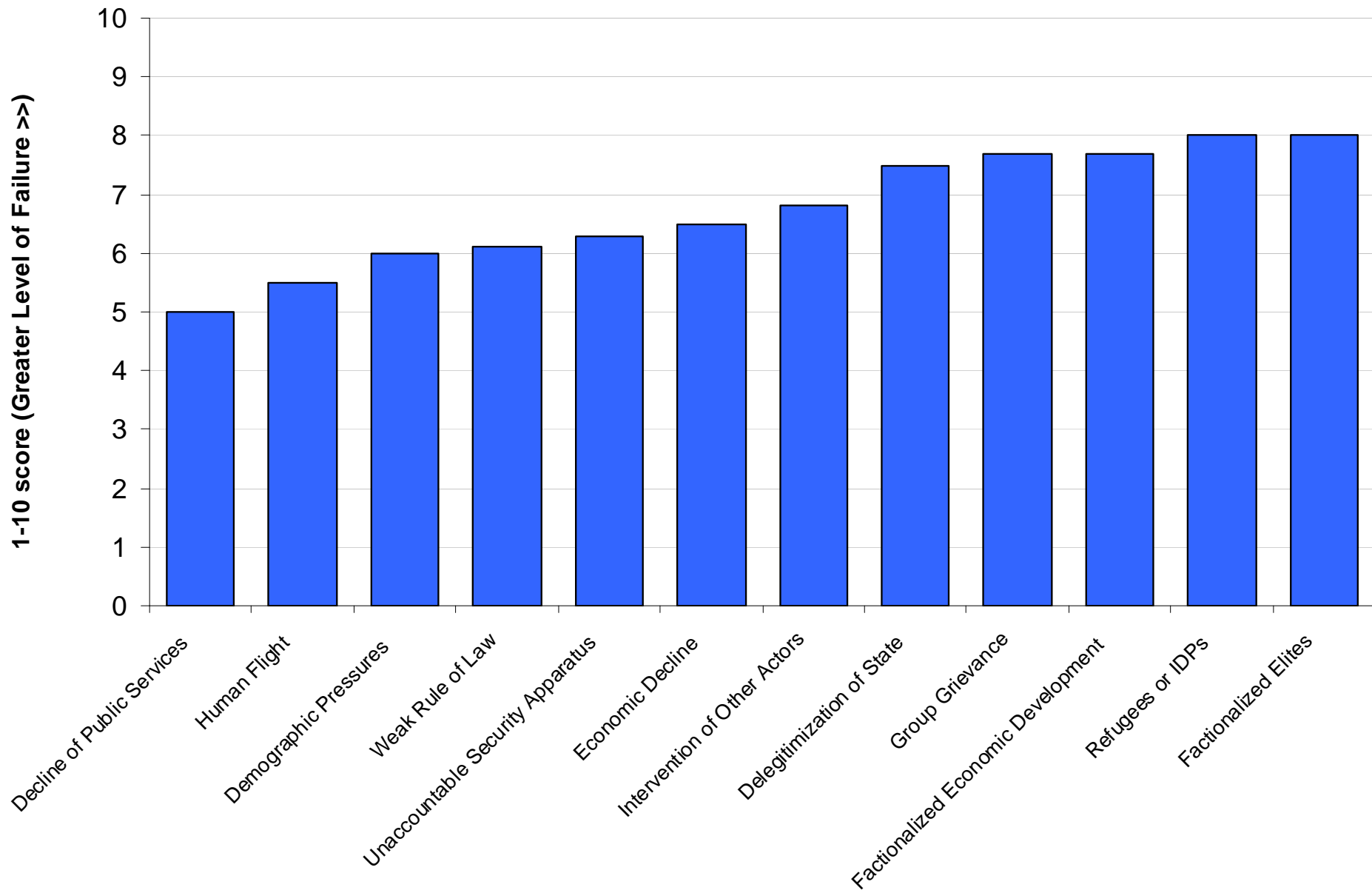


# Peace & Security: Failed States Index

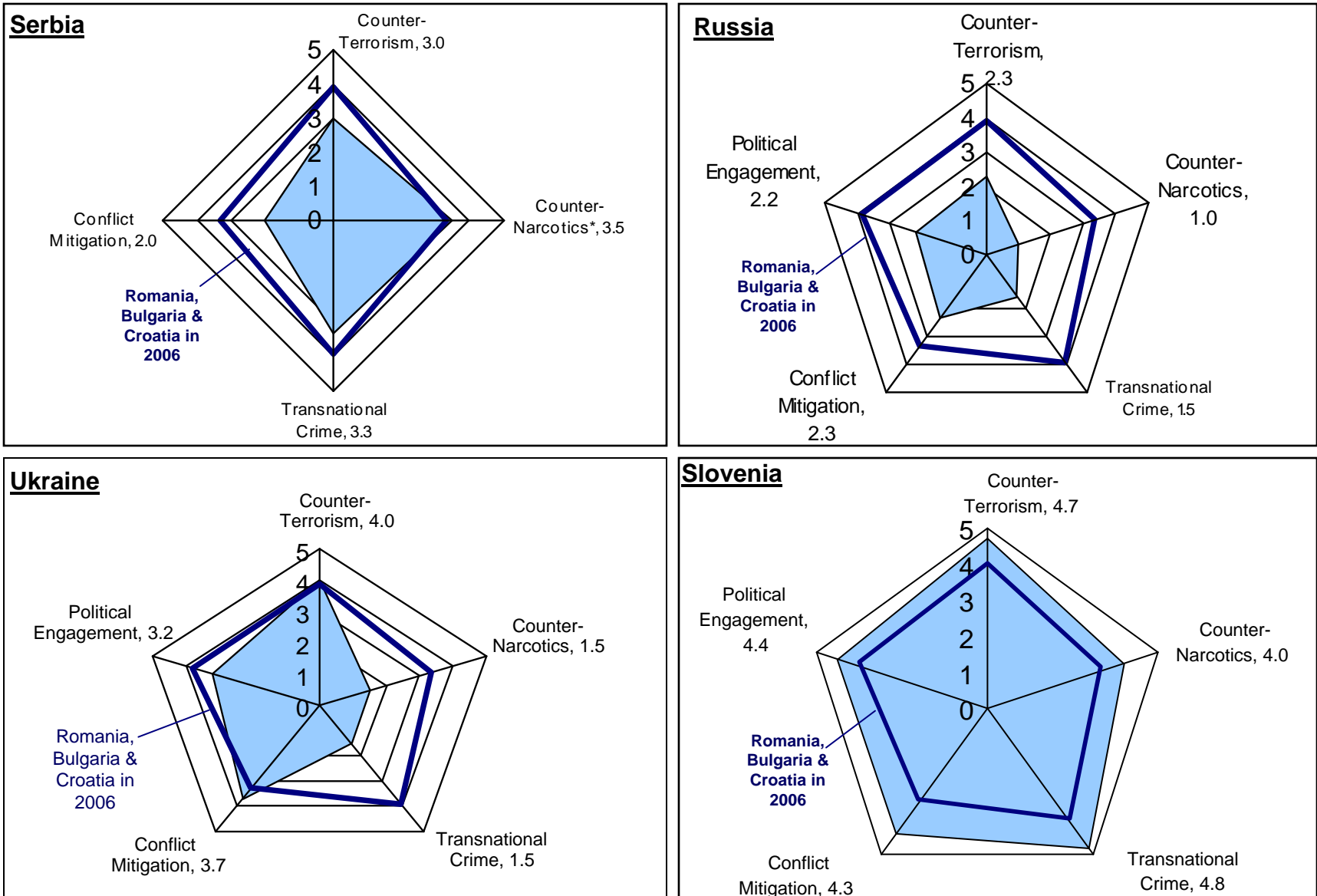
Scale of 12-120



# Failed States Index in Serbia

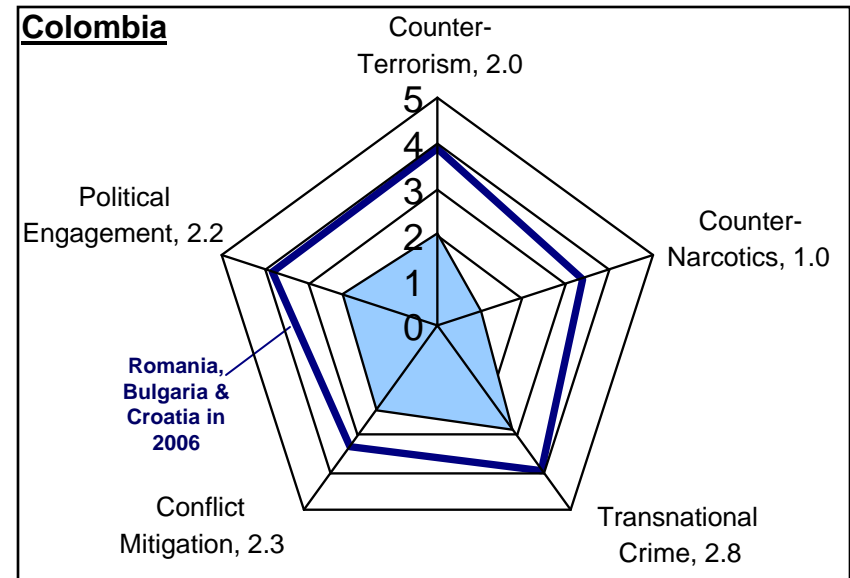
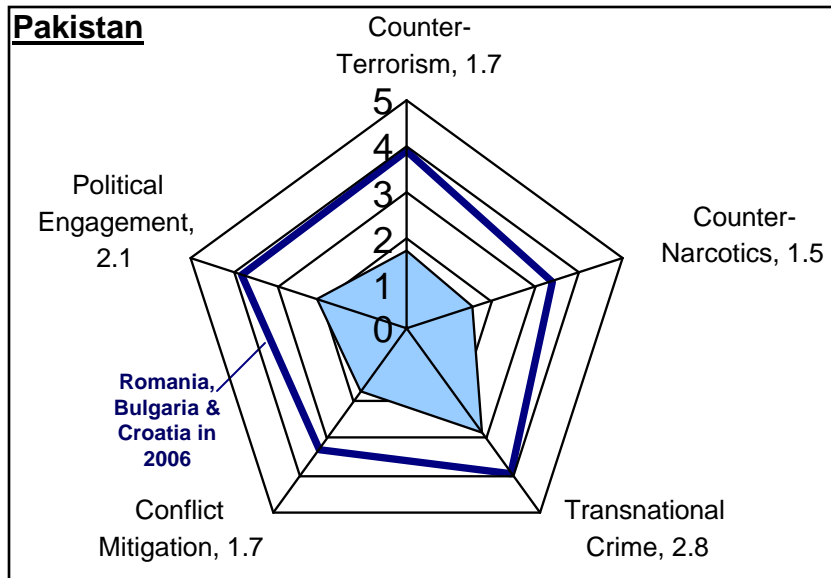
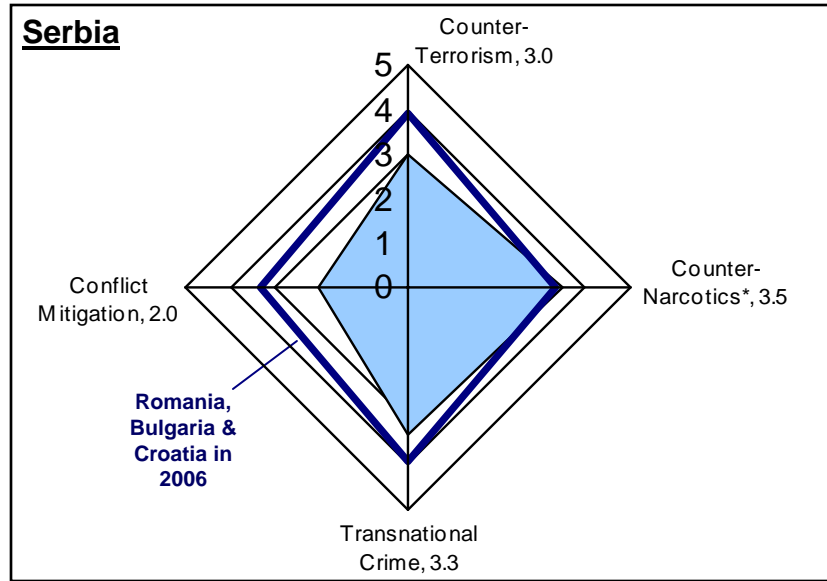


# Peace & Security



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from Fund for Peace, *Failed States Index* (2007); The United Nations Office on Drugs and Crime (UNODC), *2006 World Drug Report*; State Department, International Narcotics and Law Enforcement Affairs, Strategy Report (March 2007); Marshall & Gurr, *Peace & Conflict, A Global Survey of Armed Conflicts, Self Determination Movements and Democracy*; Foreign Policy & A.T. Kearney, *Globalization Index 2007*.

# Peace & Security



Ratings are based on a scale from 1 to 5, with 5 representing the best score. USAID, Monitoring Country Progress in CEE & Eurasia #11 (2008 forthcoming) drawing from Fund for Peace, *Failed States Index* (2007); The United Nations Office on Drugs and Crime (UNODC), *2006 World Drug Report*; State Department, International Narcotics and Law Enforcement Affairs, Strategy Report (March 2007); Marshall & Gurr, *Peace & Conflict, A Global Survey of Armed Conflicts, Self Determination Movements and Democracy*; Foreign Policy & A.T. Kearney, *Globalization Index 2007*.