Data Sheet

USAID Mission:	Serbia
Program Title:	Economic Reform, Restructuring and Policy
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	169-0130
Proposed FY 2004 Obligation:	$17,000,000 AEEB
Prior Year Unobligated:	$2,500,000 AEEB
Proposed FY 2005 Obligation:	$17,000,000 AEEB
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2006

Summary: The USAID Economic Reform and Restructuring program in Serbia has delivered technical assistance in three principal areas: stabilization, restructuring, and integration. The first, stabilization, was largely accomplished in 2003. In 2004 and beyond, the focus will be on restructuring, targeting the macro-economy; the legal, judicial and fiscal obstacles to growth and integration, focused on enterprise development, trade and finance.

Inputs, Outputs, Activities:

FY 2004 Program:
Restructuring ($10,000,000 AEEB, $2,046,000 AEEB carryover). Restructuring involves the transfer of state-owned assets to the private sector, legal and institutional reform, and financial and fiscal (tax and pension) systems reform that promote open, transparent, broad and deep markets. USAID/Serbia's enterprise restructuring activity has served as a model for other donors' efforts. USAID's privatization activity will conclude in FY 2004 with the restructuring of a major conglomerate and the auction of several of its subsidiaries. Institution-building and reform activities have focused on the executive, legislative, and judicial branches of government. These efforts enlist USAID implementers working in close concert with U.S. Treasury Advisors. A major Commercial Court Administrative Strengthening Activity (CCASA) will be launched in mid-2004 and will be closely allied with broader court reform and rule-of-law programming. Contractor: BearingPoint (prime) and to be determined.

Integration ($7,000,000 AEEB, $454,000 AEEB carryover). Market integration comprises competitiveness-building, and enterprise finance activities that focus on micro-, small- and medium-sized enterprises (SME), and on re-joining the World Trade Organization (WTO). USAID launched a significant competitiveness activity in late 2003. This effort is focused on enterprise and industry clusters, and is supported by Opportunity Stedionica International (OSI). OSI has performed well since inception, and as a result was awarded an additional $9.96 million cooperative agreement late in 2003 to support increased lending to micro firms and SMEs, and mortgage and home equity finance. Assisting Serbia to re-join the WTO remains an important program activity, though it was delayed in 2003 by political circumstances. Contractor: Booz Allen and Hamilton (prime). Grantee: OSI.

FY 2005 Program:
Restructuring ($12,310,000 AEEB). The Mission will continue work in institution-building and reform, financial and fiscal systems reform. Assistance in drafting the body of commercial legislation, ensuring harmonization with EU and international norms, will continue in FY 2005. CCASA will receive substantial funding in its first full year of implementation, when project costs will be significant. Ensuring that commercial law is better and more fairly adjudicated is a priority for business development and investment promotion. A Value-Added-Tax (VAT) will be introduced in late 2004 or early 2005, and in conjunction with a substantial new award designed to promote pension system reform, will comprise the body of fiscal system reforms being advanced by USAID. Contractor: To be determined.

Market integration ($4,690,000 AEEB). Fueling growth, job creation and prosperity will remain central to USAID's mission, and will depend upon technical assistance delivered under the competitiveness initiative, and credit provided by OSI. Re-joining the WTO will be a pillar of the economic growth program, and will contribute substantively to EU accession efforts. Contractor: Booz Allen and Hamilton. Grantee: OSI.

Performance and Results: This program met its objectives in 2003. However, progress on all fronts was aggravated by profoundly unsettling political events. As a result, macroeconomic reforms stalled mid-year, and were further delayed by the parliamentary elections. The principal obstacles to enterprise development and job creation were poor legal/regulatory, judicial and fiscal regimes, and shallow finance and banking systems. The significance of these obstacles is manifest in the 2003 World Economic Forum Competitiveness Index which ranked Serbia 77th out of 102 countries, behind all comparable neighbors. According to the European Bank for Reconstruction and Development (EBRD), Serbia scores at the bottom of the rule of law and governance index, ahead only of Belarus and Turkmenistan.

USAID collaborated on many laws in 2003, and while some were ratified, legal/regulatory reform was generally unimpressive, with critical new laws (Company, Bankruptcy and Executions) stalled in Parliament. USAID-supported institution-building proved effective. The Public Procurement Office saved more than $7 million, and the Anti-Money Laundering Commission processed 78,000 currency and 165 suspicious transactions reports, and referred 6 cases to the Prosecutor General. Both contributed to anti-corruption and anti-financial crimes initiatives. The jointly-conceived USAID/U.S. Treasury Tax Policy and Administrative Reform project continued to improve collections, audit, taxpayer service, information technology (IT) and other areas. Progress is satisfactory, and should accelerate with the introduction of a VAT in 2004 or 2005. USAID commenced work on broad fiscal reform (including pension), which is critical to keeping the social benefits systems afloat when foreign debts come due, privatization proceeds decline, and demographic trends exacerbate the existing deficit.

At year-end, USAID's privatization project completed the restructuring of Zorca, a major conglomerate. This effort supported the Government's privatization effort, which demonstrated sterling success in 2003 when 940 companies were sold for €1.2 billion. Modest foreign direct investment and a slowly-growing number of micro and SMEs boosted the private sector share of GDP above 40%, though GDP growth was anemic. Competitiveness-building activities are, however, gaining momentum and helped drive exports higher in the two target industry clusters. Future gains are expected because of the restoration of normal trade relations with the U.S.

State-owned bank assets fell to less than 42% of the total, well-ahead of target, though much of the work occurred in early 2002 when the four largest banks were closed. Ever since, weak management and poor leadership have plagued banking system reform. With banking system assets of €5 billion, and loans registering less than 15% of GDP versus 25%-50% in neighboring countries, breaking the credit logjam is a major impediment to growth and job creation. USAID supported two credit facilities: OSI and ProCredit. OSI disbursed nearly 2,000 loans valued at €3.3 million, and created 945 jobs. The portfolio is sound, with no write-offs and less than 1% of the 1,643 loans past due. OSI lends to agriculture, production, services and trade, with women comprising 42% of its borrowers. USAID provided ProCredit Bank with technical assistance, helping to drive assets from €12 million in 2001 to more than €125 million in 2003. Both work actively with other USAID projects, including the Community Revitalization through Democratic Action Project (CRDA), originating more than $1 million in loans to CRDA beneficiaries in northern Serbia alone.