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European Economic and Social Committee and the Committee of the Regions**

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1. INTRODUCTION

1.1 Context

Since the opening of Serbia's accession negotiations in January 2014, 12 out of 35 chapters have been opened, two of which provisionally closed. The overall pace of negotiations will continue to depend on Serbia's progress in reforms and in particular on a more intense pace of reforms on rule of law and in the normalisation of its relations with Kosovo*.

The European Council granted Serbia the status of candidate country in 2012. The Stabilisation and Association Agreement (SAA) between Serbia and the EU entered into force in September 2013. Serbia continued to implement the SAA, although a number of new compliance issues have emerged over the last year.

1.2 Summary of the report¹

As regards the **political criteria**, Serbia held presidential elections in April 2017. International observers found that the elections provided voters with a genuine choice of contestants, but that the playing field was tilted by several factors. The recommendations of international observers need to be fully addressed, including those related to the transparency and integrity of the election process during the electoral campaign.

Following the resignation of Prime Minister Vučić after his election as President, the new government, headed by Ana Brnabić, took office in June 2017. For the first time, a woman was elected Prime Minister. The parliament still does not exercise effective oversight of the executive. Transparency, inclusiveness, and quality of law making need to be enhanced and cross-party dialogue improved. The use of urgent procedures should be reduced. Actions which limit the ability of the parliament for an effective scrutiny of legislation must be avoided. The role of independent regulatory bodies needs to be fully acknowledged. Constitutional reforms are needed for alignment with EU standards in some areas.

Serbia is moderately prepared in the area of **public administration reform**. Some progress was achieved in the area of service delivery and with the adoption of several new laws. Serbia needs to implement its reform targets, professionalise and depoliticise the administration, especially regarding senior management positions, and ensure systematic coordination and monitoring of the public financial management reform programme 2016-20. Serbia's ability to attract and retain qualified staff in the administration dealing with EU issues will be crucial.

Serbia's **judicial system** has some level of preparation. Some progress was made, notably by reducing the backlog of old enforcement cases and putting in place measures to harmonise court practice. Improved rules for evaluating professional performance of judges and prosecutors were adopted. The scope for political influence over the judiciary remains a concern. A new draft of amendments to the Constitution in the domain of the judiciary was published in January 2018 and was put forward for public discussion before being sent to the Venice Commission for its opinion.

Serbia has some level of preparation in the **fight against corruption**. Some progress has been achieved, especially in adopting amendments to the Criminal Code in the economic crimes section; to the law on the organisation of state authorities in the field of fight against

¹ This report covers the period from October 2016 to February 2018. It is based on input from a variety of sources, including contributions from the government of Serbia, the EU Member States, European Parliament reports and information from various international and non-governmental organisations.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

corruption, organised crime and terrorism; and to the law on seizure and confiscation of proceeds of crime. However, there is a serious delay in adopting the new law on the Anti-Corruption Agency. Corruption remains prevalent in many areas and continues to be a serious problem. Operational capacity of relevant institutions remains uneven. Law enforcement and judicial authorities still need to prove that they can investigate, prosecute and try all high level corruption cases in an unbiased and operationally independent manner.

Serbia has some level of preparation in the **fight against organised crime**. Some progress was made in areas such as human resource management in the Ministry of the Interior and the police. The operational capacity in both the Prosecutor's Office for Organised Crime and the Prosecutor's Office for Cybercrime was improved. A new strategy and action plan to prevent and fight trafficking in human beings were adopted, a National Coordinator for Combating Trafficking in Human Beings was appointed, and a new Law on the Prevention of Money Laundering and Terrorist Financing was adopted. However, Serbia has yet to establish an initial track record of effective financial investigations, as well as of investigations, prosecutions and final convictions in money laundering cases. The number of convictions for organised crime remains low. Serbia needs to focus on the implementation of the action plan agreed with the Financial Action Task Force (FATF).

The legal and institutional framework for the respect of **fundamental rights** is in place. Its consistent implementation across the country needs to be ensured, including as regards protection of minorities. While Serbia has some level of preparation, no progress was made on **freedom of expression**, a matter of increasing concern. Further sustained efforts are needed to improve the situation of persons belonging to the most discriminated groups (Roma², LGBTI persons, persons with disabilities, persons with HIV/AIDS and other socially vulnerable groups). A gender equality law needs to be adopted.

Serbia overall remained constructively committed to bilateral relations with other enlargement countries and neighbouring EU Member States and an active participant in **regional cooperation**.

Regarding the **normalisation of relations with Kosovo**, Serbia has remained engaged in the dialogue. However, Serbia needs to make further substantial efforts on the implementation of existing agreements and contribute to the establishment of circumstances conducive to the full normalisation of relations with Kosovo, to be defined in a legally binding agreement.

As regards the **economic criteria**, Serbia has made good progress and is moderately prepared in developing a functioning market economy. Some of the policy weaknesses, in particular with regard to the budget deficit, were addressed. Growth fundamentals are sound and macroeconomic stability was preserved. Inflation was contained and monetary policy supported growth. Labour market conditions improved further. However, government debt is still high and the budgetary framework and its governance need to be strengthened. Major structural reforms of the public administration, the tax authority, and state-owned enterprises remain incomplete. Informal employment, unemployment and economic inactivity remain still very high, particularly among women and youth. The private sector is underdeveloped and hampered by weaknesses in the rule of law and the enforcement of fair competition.

Serbia is moderately prepared to cope with competitive pressure and market forces within the Union. Some progress was made to increase competitiveness. However, the level of investment activity is still below the economy's needs. Despite some improvements,

² All these groups are considered under the wider "Roma" umbrella term under the EU Framework for National Roma Integration Strategies.

companies face a number of challenges, including an unpredictable business environment, a high level of para-fiscal charges, and difficult and costly access to finance.

As regards its **ability to assume the obligations of membership**, Serbia has continued to align its legislation with the EU *acquis* across the board. Adequate financial and human resources and sound strategic frameworks will be crucial to maintaining the pace of reforms. Serbia has a good level of preparation in areas such as company law, intellectual property, science and research, education and culture, and customs. Serbia improved linking its investment planning to budget execution but has yet to develop a single mechanism for prioritising all investments regardless of the source of funding in accordance with the government's public finance management reform programme. In areas such as public procurement, statistics, monetary policy and financial control, Serbia is moderately prepared. Serbia needs to progressively align its foreign and security policy with the European Union's common foreign and security policy in the period up to accession. Serbia needs to address, as a matter of priority, issues of non-compliance with the SAA, regarding in particular restrictions on capital movements, state aid regulation, fiscal discrimination on imported spirits and restrictions on waste exports.

Serbia continued to manage the effects of the **migration and refugee crisis**. Serbia is in the process of negotiating with the EU the status agreement on actions to be carried out by the European Border and Coast Guard Agency in Serbia. Serbia adopted a new law on asylum and temporary protection, a law on foreigners, and a law on border control. A strategy and an action plan for 2017-2020 to counter irregular migration needs to be adopted. In this context, Serbia needs to put in place a robust return mechanism for irregular migrants, which is in line with the EU *acquis*, as well as to align its visa policy progressively with the EU's. Stronger coordination among the various state authorities involved in migration management has to be ensured. Serbia continued to cooperate with neighbouring countries and Member States, in particular at technical level, and made substantial efforts to provide shelter and humanitarian supplies, primarily with EU support. Serbia needs to increase its capacity to address special reception needs of unaccompanied minors.

2. FUNDAMENTALS FIRST: POLITICAL CRITERIA AND RULE OF LAW CHAPTERS

2.1. Functioning of democratic institutions and Public Administration Reform

2.1.1 Democracy

Elections

Serbia held presidential elections in April 2017. The Office for Democratic Institutions and Human Rights of the Organisation for Security and Cooperation in Europe (OSCE/ODIHR) found that the elections provided voters with a genuine choice of contestants, but that the playing field was tilted by several factors. Most of the recommendations of the OSCE/ODIHR are yet to be fully addressed, including those related to the transparency and integrity of the election process during the electoral campaign.

Presidential elections were held on 2 April 2017. The president is elected by popular vote for a five-year term. The turnout was 54 %. Eleven candidates took part; there were no women candidates. The candidate of the ruling coalition, the then Prime Minister Aleksandar Vučić, won in the first round with 55 % of the votes. Former Ombudsman Sasa Janković obtained 16 %, while newcomer candidate Luka Maksimović received 9 %, and former Minister of Foreign Affairs Vuk Jeremić 5 %. The remaining candidates received less than 5 % each.

The elections were observed by the OSCE/ODIHR Election Assessment Mission at the Serbian authorities' invitation. The OSCE/ODIHR found that the elections provided voters with a genuine choice of contestants, who were able to campaign freely. Opening, voting and counting were overall efficient and orderly. Some improvements have been made, including in areas related to secrecy of the voting, training members of polling boards, representation of national minorities, and participation of persons with disabilities.

However, the OSCE/ODIHR noted that the campaign was dominated by the candidate from the ruling coalition, who benefited from the effectively blurred distinction between campaign and official activities and unbalanced media coverage. The OSCE/ODIHR also reported credible allegations of pressure on voters and employees of state-affiliated structures, a misuse of administrative resources, and ineffective use of regulatory and oversight mechanisms to safeguard the fairness of competition.

In line with the OSCE/ODIHR recommendations, a comprehensive and inclusive review of the legal framework on elections is needed to regulate all essential aspects and address gaps and loopholes. Persistent shortcomings should be addressed, such as the transparency of party and campaign financing, the need for strict separation of party and state activities, and the need for independent regulatory bodies to exercise their monitoring and oversight role proactively and effectively.

Belgrade city elections were held on 4 March 2018. Domestic observers reported irregularities and assessed that these have not fundamentally affected the results.

Parliament

Transparency, inclusiveness, the quality of law making and effective oversight of the executive need to be enhanced and cross-party dialogue improved. The role of independent regulatory bodies needs to be fully acknowledged and supported. The use of the urgent procedure to adopt legislation decreased, but is still high. The effectiveness of the parliament in scrutinising legislation has on certain occasions been limited by deliberate actions by the ruling coalition.

Parliament's **legislative activity** was suspended between March and April 2017 during the presidential elections' campaign. Efforts continued to improve transparency and consultation. These included debates on Serbia's negotiating positions for EU accession chapters and exchanges with the core negotiating team and with the National Convention on the European Union (which brings together civil society organisations involved in the accession process). However, the former Head of the EU Delegation was for the first time ever prevented from presenting the country report on Serbia following obstruction in the parliament.

The parliament needs to be able to properly exercise its core function to scrutinise legislation. Although the use of urgent legislative procedures decreased from 65 % in 2016 to 44 % in 2017, it is still high. Genuine cross-party debate and political dialogue remain weak and risk undermining parliamentary effectiveness and the quality of legislation. No draft legislative proposals tabled by the opposition were discussed.

The parliament does not exercise effective **oversight of the executive**, as illustrated by the lack of holding regular question and answer sessions with the executive, very limited discussion and follow up to the State Audit Institution's audit reports and a lack of parliamentary discussion on the implementation of major laws and policies. Support for independent regulatory bodies did not improve. For three consecutive years, the parliament has not discussed any annual reports by independent bodies in plenary sessions. The parliament has not adopted its annual work plans for 2016 and 2017 and has yet to adopt its **code of conduct**.

The Law on Financing Political Activities provides for **political parties'** regular work and election campaign costs to be financed from public and private sources. The Anti-Corruption Agency monitors political party financing by means of annual financial reports and election campaign reports.

Governance

The new Serbian government, which took office in June 2017, reaffirmed EU accession as Serbia's strategic goal. Inclusiveness and transparency needs to be further strengthened. Constitutional changes are still needed to address issues of relevance to the accession negotiations.

Further to the resignation of the Prime Minister following his election as President, the new government took office on 29 June 2017. For the first time, a woman was elected Prime Minister. Out of 21 ministers, four are women. The government comprises two new ministries – for environment and for European integration. The latter took over the responsibilities of the Serbian European Integration Office. The new government remained committed to EU integration, as illustrated by the new Prime Minister's first visit abroad to the EU institutions. It also identified reforms, economic growth, education and digitalisation as key priorities.

The Serbian administration and negotiating team continued to demonstrate preparedness and professionalism in the accession negotiations process; however, adequate human and financial resources will need to be allocated to meet Serbia's ambitious objectives on EU accession negotiations.

Consultations with relevant stakeholders, including civil society organisations through the National Convention on the EU, continued. However, the inclusiveness and transparency of the reform process, in particular on EU accession-related issues, need to be further strengthened.

The role of independent regulatory bodies needs to be fully acknowledged and supported. Monitoring of the implementation and impact of the reform processes needs to be further improved. The administration acknowledges the importance of better communicating the benefits and obligations of EU membership to Serbian citizens, but further efforts are needed to promote European values in Serbian public debate and in education, including readiness for reconciliation.

Regarding local self-government, the law on Vojvodina's financing resources still needs to be adopted as provided for under the Constitution. Local administrative capacity remains weak and significant disparities between municipalities persist. Responsibilities continue to be borne at local level without proper analysis of the capacity and human/financial resources required. Consultation with local authorities on new legislative proposals with local implications improved, but remains discretionary.

Constitutional changes for alignment with European standards and recommendations of the Venice Commission have still not been adopted in areas of relevance to the accession negotiations such as on the independence of judiciary, the parliament's role in judicial appointments, the political parties' control of parliamentary office, the independence of key institutions, and the protection of human rights and freedoms including protection of right to privacy and personal data protection.

Civil society

No progress was made towards establishing an enabling environment for the development and financing of civil society. A national strategy for an enabling environment for civil society organisations (CSOs) and its accompanying action plan has not been adopted. Further efforts are needed to ensure systematic cooperation between the government and civil society.

An empowered civil society is a crucial component of any democratic system and should be recognised and treated as such by state institutions. CSOs and human rights defenders play a key role in raising awareness about civil and political rights in a climate not open to criticism, with negative statements made by government officials and echoed by the media on civil society in general and on funding of certain associations in particular. Human rights defenders have been the subject of harsh criticism from tabloid newspapers.

The National Convention on the EU (made up of representatives of governmental bodies, political parties, non-governmental organisations, experts, syndicates, private sector and representatives of professional organisations aiming to support a structured debate on Serbia's accession to the EU) continued to monitor and assess the progress of accession negotiations. Their expertise should be used more systematically by the authorities, in order to benefit from the Convention's full potential.

The relationship between the government and CSOs is still marked by fragmented cooperation and a selective approach towards individual CSOs. The adoption of laws using the urgent procedure limits democratic debate, as well as the effective inclusion of civil society in the process. A national strategy for an enabling environment for civil society and its action plan are still not adopted. A council for civil society cooperation still needs to be set up.

Following CSO consultations organised by the Office for Cooperation with Civil Society, amendments to the regulation on public funding to CSOs were adopted, aiming to harmonise the internal legal acts regulating public CSO funding and increase transparency, monitoring and evaluation of the overall process. Most Serbian CSOs lack stable funding, and especially at local level, criteria for public financial support need to be better defined to ensure overall transparency. The lack of financial sustainability of CSOs affects the potential of social entrepreneurship to address local community needs and stimulate employment and economic growth.

Civilian oversight of the security forces

Parliament continues to be responsible for oversight of the security forces. The parliamentary committee for oversight of the security forces continued to review the activities of the security-information, military intelligence and defence services. A law on access to state security files still needs to be adopted.

2.1.2. Public administration reform

Serbia is **moderately prepared** with the reform of its public administration. **Some progress** has been achieved in the area of service delivery and with the adoption of several new laws on public service salaries and employment relations, on local government and autonomous province salaries, and on the national training academy. However, the Commission recommendations from 2016 have not been fully addressed. In particular, political influence on senior managerial appointments remains an issue of concern, with an estimated 60 % of senior managers in acting positions, many for an extended period of time. Also, the implementation of the public administration reform action plan has experienced delays.

In the coming year, Serbia should in particular:

→ align the National plan for the adoption of the *acquis* (NPAA) with the government annual work programme, medium-term budget plan, provide costing for actions, and update it with a view to setting a legislative programme that promotes better regulation based on impact assessments and timely inter-institutional and public consultations;

→ amend the civil service law through an inclusive and evidence-based process to guarantee the neutrality and continuity of the public administration and ensure merit-based human resources management;

→ monitor and report on the implementation of the public financial management reform programme in line with the reporting established for the PAR strategy.

Policy development and coordination

While the institutions are in place to ensure a central government **policy-making system**, policy coordination faces challenges in practice due to a focus on formal and procedural issues rather than on substance. Quality of strategic planning continues to be weak. There are no established rules for the development of sector strategies, which are often not costed and which are not sufficiently linked to the medium-term fiscal planning.

The newly created Ministry for European Integration, incorporating the structures of the former Serbian European Integration Office, has continued to provide political guidance to coordination structures for European integration. The third revision of the National plan for the adoption of the *acquis* (NPAA) for the period 2018-2021 is completed. The NPAA should be aligned with the government annual work programme, it should be properly costed, and its implementation should be regularly monitored and reports published. Serbia's ability to retain qualified staff to develop and manage sector policies related to the EU is of great importance.

The public administration needs to further strengthen its capacity for **inclusive and evidence-based policy and legislative development**, including on the *acquis*. **Public consultations** on proposals are often conducted formalistically and too late in the process, not enabling all interested parties to provide timely and qualitative input. Line ministries have yet to develop internal rules on policy development and legal drafting, and improve *acquis* transposition costing. With regard to inter-ministerial consultations, high-level civil servants remain uninvolved in the process, and possible conflicts between services have to be resolved at the ministerial level. Regulatory impact assessments vary in quality and the Public Policy Secretariat does not have a mandate to return them for revision. Regulatory impact assessments are not submitted to the parliament together with legislative proposals. There are discrepancies between the financial impact assessments, which the Ministry of Finance coordinates, and financial information in the regulatory impact assessments, so better coordination is needed between the Ministry of Finance and the Public Policy Secretariat.

Public scrutiny of government work is affected by the fact that government agendas are not systematically available to the public, and that many reports, such as the implementation reports of the annual government work plans or reports on the implementation of the NPAA, have not been regularly published. The government monitoring reports and ministries' strategy monitoring reports should start to increasingly measure achievements against stated objectives rather than report on implemented activities.

Public financial management

Serbia continued to implement its comprehensive 2016-2020 **public financial management reform programme** which covers all the relevant sub-systems. A monitoring framework has been set up, but its efficiency and link with the PAR strategy monitoring need to be improved.

Implementation reports, which are regularly prepared and published, need to become a useful management tool. Implementation has suffered from limited human and financial resources, aggravated by fiscal consolidation measures. The planned revision of the reform programme in 2018 needs to be based on more realistic planning and costing, better sequencing, clearer emphasis on key reforms, and improved indicators.

Improvements have been made in the quality of macroeconomic forecasts, medium-term planning of budget beneficiaries, coverage of budget execution and quality of fiscal reports. Capital expenditure execution remains hampered by weaknesses in budgeting, planning and contract oversight. Serbia adopted in June 2017 a decree on capital investment management. It aims at linking investment planning to the budgetary process. However, EU funded investment projects are not covered by the decree. Rather, they are channelled through the National Investment Committee and the Single Project Pipeline. Serbia therefore still needs to develop a single mechanism for prioritising all investments regardless of the source of financing, as foreseen in the public financial management reform programme adopted by the government. Revenue projections have been more conservative and expenditures more realistically planned. In-year financial reporting has provided wider information and has been more readily available. The coverage of the financial management information system has been enlarged by inclusion of cultural organisations and prisons as of January 2018.

The budget calendar set up in the Budget System Law is still not fully respected, resulting in insufficient time allocated to proper preparation, assessment and debate among stakeholders. Although the budget is now structured by programmes, the link with strategic plans and the government's priorities remains weak. Procedures to ensure integration of capital projects planning and appraisal in the budget process are yet to be developed.

As regards **budget transparency**, a simplified citizens' budget is prepared and published. A transparency roadmap, a pre-budget statement, and a mid-year report have been planned but are still not published. The Ministry of Finance does not publish the annual budget execution profile, preventing an analysis of deviations from targets. Budget execution reports contain only basic elements, and do not break down expenditure figures for individual budget organisations. Budget oversight by the legislature needs to be improved. The 2018 budget was adopted by the parliament without substantive debate.

Public service and human resources management

The current civil service framework defines merit-based recruitment, promotion and dismissal procedures, but exemptions and transitional arrangements need to be addressed. **Merit-based recruitment** is still undermined by excessive discretion allowed to the political level in the choice of final candidates. Also, there are no clear criteria for organisation of the selection tests and composition of selection committees. Exemptions from the normal recruitment procedures are allowed for temporary staff, that continues to make up around 10 % of the civil service. The legal separation of political and public service positions is still not clearly enforced.

Political influence continues to play a key role in filling senior management posts. 60 % of senior civil servants are not appointed in line with the legal provisions, but they serve in 'acting' positions, many for a number of years. High turnover among senior civil servants and the consequent loss of institutional memory continue to be of particular concern. The weaknesses in the legal framework create the risk of abusive use of **dismissals** at both expert and management level, as dismissal is allowed after one negative appraisal followed by a confirmation of such appraisal through an additional evaluation after 30 days.

Human resources management continues to focus mainly on legal compliance. The performance appraisal system, with inflated appraisal grades, remains ineffective. The Ministry of Public Administration and Local Self-Government is responsible for central coordination of human resources management, but it lacks capacity to coordinate and harmonise the work of human resources units. The human resources management information system still does not interact with other national databases such as the treasury payroll registry, and it is not regularly updated. Regarding the civil service **remuneration system**, new laws on public service salaries and employment relations and on salaries of local government and autonomous province were adopted in December 2017.

With regard to **professional development**, Serbia adopted the Law on National Training Academy for public servants. The Academy will provide trainings for all public officials, including at the local level. Specific training modules targeting senior managers are an integral part of the national training curriculum. Implementation of the strategy for professional development of local government employees continued with accreditation of training programmes and the introduction of accreditation for the training providers. However, professional development is not yet consistently promoted and it is not linked with the performance appraisal system.

Integrity in public service is promoted by the 2015 code of ethics for civil servants. Attention needs to be given to the implementation of the second round of integrity plans in the judiciary and in the public administration. Efforts are needed to address prevention of corruption in local administration through adoption of local action plans.

Accountability of administration

"Rightsizing" of the state administration remains a key government priority. Since 2015 the number of public employees has been reduced by more than 29 175. The structure of the public administration is a key outstanding issue that needs to be addressed in order to maximise the impact of rightsizing.

Lines of accountability between agencies and their parent institutions continue to be blurred within the current organisation of the administration, contributing to overlapping functions, fragmentation and increased politicisation. Similar types of institutions may report to ministries, to the council of ministers or to the parliament. The political commitment to improve managerial accountability and more systematic delegation of responsibilities within institutions has still not delivered results. Institutions continue to have a bureaucratic and process-oriented approach to planning, budgeting and reporting of their activities. There has been no progress towards results-based management. (*see chapter 32 — Financial control*)

Citizens' right to good administration is protected through internal and external oversight mechanisms. The Ombudsman's Office plays a key role, and public authorities are obliged to report on implementation of its recommendations (*see under Governance*). For the last two years the government has not issued a report on the implementation of the Ombudsman's recommendations. **Citizens' right to access public information** is regulated in the law on access to public information, which is still not fully aligned with EU standards. Administrative silence, whereby public authorities fail to properly act on the citizens' information requests, continues to be a major issue. The law on access to public information still has not been strengthened to ensure enforcement of decisions taken by the Commissioner for free access to information of public importance.

With regard to **citizens' right to administrative justice**, the limited efficiency of the Administrative Court system risks undermining public confidence. An adequate regulatory framework for legal aid in administrative cases is not in place. The **right to seek**

compensation is regulated by law, but the lack of statistical data makes it impossible to monitor its implementation.

Service delivery to citizens and businesses

Creating a more **user-oriented administration** remains a key government priority. The government established a new Office for Information Technologies and e-government directly accountable to the Prime Minister. The e-government strategy is being implemented, and an action plan is under preparation. There is an increase in the provision of integrated e-services to citizens and businesses through one-stop-shops. However, mechanisms and resources to measure citizen satisfaction with the delivery of public services are not in place.

The legal framework for **simplification of administrative procedures** is in place with the law on general administrative procedures. However, the Ministry of Public Administration and Local Self-Government lacks the resources for efficient oversight of its implementation. Serbia still needs to harmonise a significant number of sector laws with special administrative procedures with the general law. Regulatory impact assessments can help to prevent and reduce administrative burdens, so their quality needs to be improved.

Strategic framework for public administration reform

Serbia is implementing its umbrella **public administration reform strategy**, which is further supported by additional strategic planning documents in public finance, anti-corruption, open government, e-government, professional development of civil servants and regulatory reform and public policy management. A new action plan for 2018-2020 is being finalised, with increased focus on the key reform actions. While the lead ministry has improved the monitoring and reporting system for the strategy, there have been serious delays in implementation, due to a lack of resources and weak planning and managerial capacity. Monitoring and reporting on the public financial management reform programme needs to be harmonised with monitoring and reporting on the PAR strategy.

Political support for public administration reform continues to be ensured through the Public Administration Reform Council, chaired by the Prime Minister. The **financial sustainability** is a concern, due to inconsistencies between planned allocations and actual appropriations. Financing relies heavily on external donor funding. The government needs to allocate sufficient resources in the annual budget and the medium-term expenditure framework.

2.2. Rule of law and fundamental rights

2.2.1. Chapter 23: Judiciary and fundamental rights

The EU's founding values include the rule of law and respect for human rights. A properly functioning judicial system and an effective fight against corruption are of paramount importance, as is respect for fundamental rights in law and in practice.

Serbia has **some level of preparation** to apply the *acquis* and European standards in this area. Serbia presented in January 2018 the long awaited draft of the constitutional reform for the judiciary that was put forward for public discussion before being sent to the Venice Commission for its opinion. **Some progress** was made, notably by reducing the backlog of old enforcement cases and putting in place measures to harmonise court practice, while preparations for amending the constitutional and legislative framework to further improve the independence of the judiciary are still ongoing. Corruption is widespread and remains an issue of concern. The legal framework on fundamental rights is mostly in place but remains incomplete and its implementation inconsistent. Freedom of expression has seen no progress. Independent and regulatory bodies need to be strengthened, including as regards budget and skilled staff, and their functional independence must be guaranteed in practice.

In the coming year, Serbia should in particular:

- strengthen the independence, accountability, impartiality, professionalism and overall efficiency of the judicial system;
- ensure an effective implementation of the national anti-corruption strategy and action plan, including by providing effective coordination and ensuring that all key institutions have adequate capacity and resources to fulfil their remits effectively;
- improve the situation as regards creating an enabling environment for freedom of expression and media freedom.

Serbia is implementing a detailed action plan which was adopted prior to the opening of the accession negotiations on this chapter in July 2016 and the country is in the process of revising its action plan with more realistic deadlines.

Functioning of the judiciary

Serbia's judicial system has **some level of preparation**. Serbia has partially fulfilled the 2016 recommendations. **Some progress** was made, notably by reducing the backlog of old enforcement cases and putting in place measures to harmonise court practice. Improved rules for evaluating professional performance of judges and prosecutors were adopted. The scope for political influence over the judiciary remains a concern.

In the coming year, Serbia should in particular:

- make significant progress on strengthening the independence of the judiciary and the autonomy of the prosecution through amendments to constitutional and legislative provisions related to appointment, career management and disciplinary proceedings of judges and prosecutors;
- ensure that the High Judicial Council and the State Prosecutorial Council can fully assume their role and achieve a coherent and efficient judicial administration in line with European standards, including regarding the management of the judicial budget;
- adopt and implement a human resources strategy for the entire judiciary including the establishment of a uniform and functioning case management system, which will in combination lead to a measurable improvement in efficiency and effectiveness of the justice system.

Strategic documents

The commission overseeing the implementation of the **national judicial reform strategy** and its action plan (2013-2018) met infrequently in 2017, and the impact of the strategy's implementation is limited. The national judicial reform strategy and the action plan for Chapter 23 are broadly aligned but need to be revised taking into account Serbia's new objectives and deadlines for the completion of accession negotiations and the resources available. Their monitoring should be improved to include a more precise assessment of the activities' results and impacts.

Management bodies

The High Judicial Council (HJC) and the State Prosecutorial Council (SPC) are responsible for independently managing the justice system, including judicial appointments, transfers and dismissals, and for helping to make judicial administration coherent and efficient. The 2018 budget of the Judicial Council is EUR 2.95 million (EUR 4.88 million in 2017). The 2018 budget of the Prosecutorial Council is EUR 1.02 million (2017: EUR 0.99 million).

While the Councils continued to build their capacity, they have not yet fully assumed their role due to legislative and administrative delays. In particular, the transfer of full responsibility for the judicial budget from the Ministry of Justice to the Councils has been delayed for the third time by one more year to January 2019. Both Councils need to improve their capacity for strategic, budget and human resources planning, as well as their public communication. Both Councils also need to improve the transparency of their work, including by giving full reasons for and publishing decisions on promotions and appointments.

Independence and impartiality

The current constitutional and legislative framework still leaves room for undue political influence over the judiciary. Little progress has been made in establishing a fully objective, transparent and merit-based system for the appointment of judges and prosecutors. Any future constitutional or legislative changes in this regard should be designed and implemented on the basis of European standards, and the current two-track system of access to the judicial professions should be gradually streamlined. In addition, the broad discretionary powers of court presidents and heads of prosecution offices over the work of individual judges and deputy prosecutors, respectively could affect their independence and impartiality.

The constitutional reform process on judicial independence was launched in May 2017 with a call for submission of amendments to the Constitution by civil society organisations. The subsequent organisation of a number of roundtables was envisaged as a first phase of a consultative process. A number of professional associations and civil society organisations left this process, citing the lack of an official government-sponsored draft constitutional text; they contested the arrangements for and legitimacy of the consultations. A new draft of amendments to the Constitution in the domain of the judiciary was published in January 2018 and was put forward for public discussion. A number of stakeholders withdrew from the consultative process criticising its format and atmosphere, and claiming a lack of genuine debate. They sent an open letter to parliament, government and the Ministry of Justice highlighting their concerns. The Serbian authorities and stakeholders need to enter into a broad, inclusive and meaningful public debate conducted in a constructive manner. This should raise awareness of the constitutional reform process in the country and its outcome of which should be reflected in the draft to be sent for the Venice Commission's opinion.

Other planned interim measures to improve the institutional independence of the Councils are still pending. These include the transfer of authority, from the Ministry of Justice to the Councils, over the entire judicial budget and the judicial administration, supervision of the courts, the collection of statistical data, and the adoption of the rules of procedure. In particular, no progress was made in amending the Law on Public Prosecution in this regard.

Pressure on the judiciary (including from authorities within the judiciary) remains high. Public comments by government officials, some at the highest level, on investigations and ongoing court proceedings continue and are perceived as pressure on judicial independence. Some progress was made in this respect: the High Judicial Council amended its procedural rules to react more efficiently in cases of alleged political interference in the judiciary upon requests filed by the judges. The amended rules do not foresee a mechanism for a regular HJC reaction. The procedure has only been used in a very limited number of cases. A more elaborate mechanism has been put in place by the State Prosecutorial Council for both *ad hoc* and regular reactions in cases of alleged political interference. The SPC's newly appointed Commissioner for Autonomy has a mandate to take action on individual complaints by deputy prosecutors and has already processed several cases.

Accountability

Track records in the enforcement of disciplinary accountability and of the codes of ethics for judges and prosecutors are still very limited. While the State Prosecutorial Council's Ethics Committee reviewed the code in the light of European standards, the High Judicial Council has yet to do this. **Disciplinary procedures** are in place for both judges and prosecutors. An analysis of the legal framework and practice regarding disciplinary matters is ongoing. In 2017, 588 disciplinary reports were filed with the Disciplinary Prosecutor and 15 disciplinary cases were processed by the 2nd instance Disciplinary Commission of the High Judicial Council, resulting in public warnings (3) and salary reductions (9). One judge was dismissed in March 2017, after he was sentenced for a criminal offence. During 2017, 179 disciplinary reports were filed with the Disciplinary Prosecutor for the State Prosecutorial Council, four cases were processed by the 2nd instance Disciplinary Commission, resulting in disciplinary penalties in three cases (public warning, salary reductions). There were no dismissals of public prosecutors. Judges and prosecutors have an obligation to **declare their assets** on an annual basis and to report possible **conflicts of interest**.

Mechanisms to detect breaches of integrity rules and to enforce disciplinary penalties need to become effective. Public awareness of existing complaint mechanisms should be further raised and it should be made possible to challenge the dismissal of complaints before the two Councils. Relevant decisions by Councils need to be justified better, and a case-law developed.

Professionalism and competence

Some progress was made with the adoption, in November 2016, and initial implementation of rulebooks using merit-based and transparent selection criteria and evaluation standards for first time appointments of judges and deputy prosecutors. Through a two-stage process, candidates were ranked and the lists proposed by the Councils to the parliament for appointment. However, the process for first-time deputy prosecutors was challenged in July 2017 and the Constitutional Court deferred further appointments. The State Prosecutorial Council published in 2017 competitions for election of 17 public prosecutors and 89 deputy prosecutors, in line with the Council's workload needs analysis from 2016. Following the decision of the Constitutional Court from July 2017 to assess the existing State Prosecutorial Council rulebook on criteria for evaluation of candidates, the Council followed the Constitutional Court's arguments and adopted a new rulebook whereby the oral exam no longer has any bearing on the candidate's ranking. This weakens the merit-based aspects of the selection process and the crucial role of the Council in selection. Elections for 57 positions in the prosecution service are underway. A system allowing effective and systemic evaluation of judges and prosecutors based on clear criteria, with the results feeding into their career paths, has yet to be fully implemented.

Delays in the appointment process for deputy prosecutors have reduced efficiency of the criminal prosecution, in particular since the adversarial model was introduced into the criminal procedure in 2013, increasing the responsibilities of the prosecution without being accompanied by the necessary staff increase.

Quality of justice

Judicial education needs to play a more prominent role in the evaluation process. The **initial and continuous training** programmes provided by the Judicial Academy need to be improved in terms of quality, and better respond to training needs by, for example, focusing on judicial skills. A rulebook on assessing training needs was adopted, while a quality review to evaluate the effectiveness and adequacy of judicial training has yet to be set up. The academy's expertise and administrative capacity to carry out such reviews needs to be strengthened. The Judicial Academy has 45 envisaged job positions, 37 are filled. There is a

need to ensure the academy's capacity to become a proper entry point to the judicial profession.

Harmonisation of court practice continued, in line with the national programme. Quarterly meetings between judges at higher and appeal levels and the judges of the Supreme Court of Cassation continued, these are recognised by the European Court of Human Rights as a good instrument for more **consistent interpretation of the law**. Instructions for improving consistency in the interpretation of the law are in place in all four appellate courts. A new electronic case-law database is being improved and filled. It should be up running for all courts, starting with the highest courts. In the medium term, this tool will also help to make case-law more consistent. The Supreme Court of Cassation also produced a new rulebook on anonymising court decisions to bring practice into line with European standards.

The 2018 budget for the judiciary is EUR 254.7 million (0.73 % of GDP), which is more than the 2017 budget (EUR 234.6 million and 0.67 % of GDP). Given that the bulk of the budget is spent on salaries, funding remains insufficient, in particular to cover investment needs and to improve the generally poor judicial infrastructure.

In 2017, the **total budget** for the courts was EUR 25.16 per inhabitant (2016: EUR 24.14) and the **total budget** for prosecution offices was EUR 5.37 per inhabitant (2016: EUR 5.28).

According to the annual report on the work of the courts published by the Serbian Supreme Court of Cassation, there were 2 586 full-time judges effectively working in courts in 2017 (2016: 2,569), i.e. 37 judges per 100 000 inhabitants (2016: 37). According to the annual 2017 report of the State Prosecutors Council, in 2017, there were 628 deputy prosecutors effectively working at all levels in 2017 (2016: 691), i.e. 9 per 100 000 inhabitants (2016: 10). The European Commission for the Efficiency of Justice puts the European average at 21 judges and 11 prosecutors per 100 000 inhabitants.

The judiciary continues to rely on unlinked information and communication technology (ICT) systems to process and manage cases and documents. Serbia is therefore not yet in a position to produce comprehensive statistical data which would facilitate measurement of the system's performance and help improve management and policy decisions. An automatic case allocation system, based on objective and pre-determined criteria and with proper technological support, is not yet in place for all courts. This is an essential tool to support judicial independence and impartiality, and for the efficient administration of justice. The ICT Council adopted general guidelines and a decision on the strategic orientation for the development of a case management system for the prosecution service and the prison administration. A roadmap of how to link the different systems was drafted. A better overall strategic vision and plan for ICT solutions in the judicial and prosecution networks is needed.

There are 174 **public notaries** in Serbia, but these do not yet cover the entire country, so citizens' access to justice is unequal. The Chamber of Notaries adopted its code of ethics and a disciplinary rulebook, and appointed two disciplinary prosecutors.

Little progress was made in introducing **alternative dispute resolution** mechanisms such as mediation. Awareness raising and promotion, including by relevant national associations, increased.

In June 2017, the Supreme Court of Cassation, High Judicial Council and the Ministry of Justice passed guidelines for enhancing mediation in Serbia. The use of mediation for alternative dispute resolution is still not satisfactory due to lack of systemic measures and support by all relevant institutions.

To become an effective alternative to court proceedings, a more efficient system for transferring court cases to mediation is needed, together with a much broader and

comprehensive promotion campaign. Use of ICT tools, up-to-date case management system and exchange of information between the courts and mediators are needed to improve statistics and reporting on mediation.

Efficiency

Implementation of the national **backlog** reduction programme continued under the supervision of the Supreme Court of Cassation. Its impact on the courts' efficiency is being felt, as the backlog of old enforcement cases shrinks. The number of enforcement cases was reduced by 811 322 cases in 2016 while in 2017 number of enforcement cases decreased by 143 519 cases. However, the overall age of the pending cases still remains a concern. The structure of pending backlog cases (at the national level), observed by types of courts, indicates that the largest number of backlog cases are in basic courts, which also have the largest number of cases dating back 10 years or more.

Significant differences in workload across the country continue to burden the judicial system. Lengthy proceedings, the lack of a free legal aid system, and failure in processing indemnity claims continue to hamper the quality of justice and citizens' access to justice (*see also Procedural rights*).

The amended Law on Enforcement and Security from July 2016 gave courts more scope to administratively close many enforcement cases, by extending the authority of **enforcement agents**. This law mainly affected the so-called 'utility bill' enforcement cases (for water, electricity, telecommunications, etc.), which accounted for the most of the pending cases in the Serbian judicial system. There is a need to further revise the legislation in order to resolve the issues of small claims cases.

With significant EU assistance, the total backlog of all cases was cut sharply in 2016 as 1 068 063 cases were solved: 895 184 enforcement cases, most of these were basic courts cases – 878 576. However, in 2017, in the absence of follow-up systematic measures significantly less old cases were solved – 495 708 out of which 310 990 were enforcement cases.

At the end of 2017, the number of all pending court cases in Serbia was 1 911 086, out of which 1 118 201 were regular cases and 792 885 enforcement cases, mostly under the jurisdiction of Belgrade's basic and misdemeanour courts. During 2017, all courts in Serbia disposed 2 335 760 cases, while 2 586 judges actually worked. In comparison with 2016, the total number of cases disposed in 2017 dropped.

Although the overall clearance rate in 2017 dropped to 106.04 % compared to 139.87 % in 2016 the judicial system was still able to resolve more cases than received, even with less judges working in 2017.

There is a delay in adopting a comprehensive **human resources management strategy**. Together with the ban on hiring in the public sector, these are serious constraints on improving the justice system. The number of permanent court staff has fallen over the past 10 years from over 13 000 to 10 420.

Domestic handling of war crime cases

According to the Prosecutor of the International Criminal Tribunal for the former Yugoslavia (ICTY), Serbia's technical cooperation on requests for assistance remained satisfactory. However, Serbia is in a state of non-cooperation in relation to the arrest of people indicted for contempt of court. This is an issue of serious concern: Serbia needs to return to full cooperation with the current Mechanism for International Criminal Tribunals. In addition, statements from senior politicians have on occasion called into question the rulings of the

ICTY. Such comments are not helpful for the broader respect of the rule of law, for Serbia's international obligations or for creating an environment in which war crimes cases can be processed calmly and effectively.

The implementation of the 2016 national strategy for the processing of war crimes is delayed and needs to be taken forward more decisively.

The war crimes prosecutorial strategy has been severely delayed. A draft has been published in March 2018. The strategy should be in line with Serbia's national strategy on war crimes prosecution as well as international standards to ensure the efficiency and effectiveness of war crimes prosecution. The action plan for Chapter 23 lists a number of key elements for the prosecutorial strategy, including investigating and prosecuting the perpetrators most responsible for the crimes irrespective of their rank, a victims-focused approach, particular attention being paid to the protection of witnesses, and a strengthened cooperation among various stakeholders. Bearing in mind the impact of the passing of time, clear criteria for prioritising cases and timelines for their investigation and prosecution need to be established.

One retired deputy prosecutor was replaced in March 2018 but no additional deputy prosecutors have been appointed; yet according to the action plan for Chapter 23, five additional deputy prosecutors should have been appointed by the end of 2017.

From January 2016 to May 2017, Serbia had no formally appointed War Crimes Prosecutor. A new War Crimes Prosecutor was appointed in May 2017. Responsibility for prosecutions fell to one deputy prosecutor who lacked the formal competencies to be the 'acting' War Crimes Prosecutor. This has been used by defence counsels to contest the validity of prosecution tasks carried out during this period. In seven cases the indictments were dismissed requiring that one indictment had to be re-submitted and in six cases the prosecution had to file a request to resume proceedings all but one of which were granted. These issues further delay already protracted war crimes trials.

Only three new indictments were filed in 2017 all of which were transferred cases from Bosnia and Herzegovina. So far, there have been no indictments against senior level military or senior level police officials for war crimes. There are currently 15 ongoing cases, the majority of which involve low-ranking military or police defendants. Many court hearings have been delayed, partially due to medical conditions of defendants and based on ill-health certificates issued by a military hospital. Serbia also has 926 cases at the pre-investigation stage, jurisdiction over which was transferred from the prosecution offices of general jurisdiction to the War Crimes Prosecutor's Office in 2015 and 2016.

A prosecution database on war crimes cases has yet to be created. A mechanism to retain specialist judges with extensive experience in processing complex war crimes cases is needed. The Judicial Academy needs to provide adequate training on war crimes.

Serbia continues to co-operate on war crimes cases at the regional level. Stronger efforts are required by all parties to ensure that regional co-operation effectively supports the fight against impunity.

In 2017, some positive steps were taken to improve regional institutional cooperation in search for the missing persons, accounting for 10 332. A prosecution liaison officer programme is operational with Bosnia and Herzegovina, but remains pending with Croatia.

Witness protection has improved following the signature in July 2017 of a protocol of cooperation between the Ministry of the Interior's Witness Protection Unit (WPU) and the War Crimes Prosecutor's Office. The protocol sets out arrangements for cooperation on urgent measures in relation to a person under protection during a criminal procedure. The analysis carried out in February 2016 was not followed up as to working conditions, lack of

specialised staff including psychologists, and legislative changes needed for a proactive change of identity. No changes were made to the legal framework granting social benefits to a restricted number of war crimes victims. The UN Human Rights Committee and the Commissioner for Human Rights of the Council of Europe expressed concerns as to the discriminatory nature of this law. Sexual violence in conflict has not been adequately addressed and further efforts are required in this area.

Overall, Serbia needs to demonstrate firmer commitment at all levels in this area, fostering mutual trust and reconciliation, to establish an atmosphere conducive to meaningful regional cooperation and to effectively address all war-crimes related issues. Statements made by, in particular, high-level officials and the actions of state bodies have a significant impact on the creation of such an atmosphere.

Fight against corruption

Serbia has **some level of preparation** in the fight against corruption. **Some progress** has been achieved, especially in adopting the amendments to the Criminal Code in the economic crimes section, to the Law on the Organisation and Jurisdiction of Government Authorities in Suppression of Organised Crime, Terrorism and Corruption, and amendments to the Law on Seizure and Confiscation of Proceeds of Crime. However, there has been a serious delay in adopting the new law on the Anti-Corruption Agency. The operational capacity of relevant institutions remains uneven and law enforcement and judicial authorities still need to prove that they can pro-actively investigate, prosecute and try all high-level corruption cases in an unbiased and operationally independent manner. There is as yet no measurable impact of anti-corruption reforms.

In the coming year, Serbia should in particular:

- further improve its track record on investigations, indictments and final convictions in high-level corruption cases, including seizure and confiscation of criminal assets;
- urgently improve the operational capacity of the institutions, allowing them to correctly implement the new legislation in this area;
- urgently adopt the new law on the Anti-Corruption Agency to strengthen its role as a key institution in a more effective fight against corruption;
- ensure a measurable impact through the effective implementation of the national anti-corruption strategy and action plan, including by providing effective coordination and sufficient resources.

Track record

As regards Serbia's track record of investigating, prosecuting and trying corruption cases, there were 2 140 first instance convictions in 2017. In 2017, there were 50 final convictions (41 based on plea agreements) for persons in relation to high level corruption offences, and 26 acquittals. In relation to public officials, in 2017 a total of 5 persons were convicted of high corruption (a judge and a president of a municipal court; a misdemeanour judge, the director of the labour inspectorate and the director of a public company).

The use of plea bargaining agreements needs to be carefully balanced against the public expectation that corruption-related crimes will be duly punished in accordance with the penalties laid down in law, particularly if they concern politically exposed persons. The track record on the final confiscation of assets needs considerable improvement.

To improve results in detecting and prosecuting corruption crimes, human resources and technical expertise are needed together with better coordination and data exchange between

all institutions involved. Serbia also needs to apply the concept of financial investigations in line with Financial Action Task Force (FATF) standards.

The Anti-Corruption Agency received 41 requests related to **conflicts of interest** in 2017 (2016: 1 761) and filed 20 requests for misdemeanour proceedings (2016: 8). The Agency initiated 203 procedures (37 based on complaints and 166 *ex officio*) (220 for 2016: 100 based on complaints and 120 *ex officio*) based on suspicion of accumulation of functions without prior approval of the Agency and 170 procedures for other situations related to conflict of interest or nepotism (101 based on complaints and 69 *ex officio*) (2016: 125 based on complaints and 38 *ex officio*). In 2017 the Agency received 11 first instance judgments of misdemeanour courts, issued upon requests for initiation of misdemeanour proceedings filed in 2016 and 2017, with mostly fines (2016: 29 first instance misdemeanour judgments).

The Agency submitted 86 **asset declarations**' requests for misdemeanour proceedings in 2017 (2016: 80) of which all cases were related to failure to submit asset declarations on time (2016: 79). Based on the work of the Agency in the previous years, misdemeanour courts issued 63 convictions in 2017 (2016: 123). The Agency filed 15 **criminal charges** in 2017 (2016: 17) due to reasonable suspicion that a public official had not reported assets or had given false information about assets with the intention of concealing the facts. Based on the Agency's previous work, 8 final judgements were issued, convicting 8 public officials, who were sentenced to imprisonment or probation, compared with 3 final judgements convicting 3 public officials to imprisonment or probation in 2016. Proceedings are under way in 16 cases; 5 acquittals have been issued, in 17 cases the criminal charge was dismissed, whereas in 12 cases deferring of a criminal prosecution was applied.

The Agency performs checks on the **funding of political activities and elections**, and submitted 273 requests for misdemeanour proceedings for violations of the Law on Political Party Financing in 2017 (against 407 in 2016). Based on final sentences, in 2017, the Agency published four decisions on the loss of the right of political entities to use public funds for their regular work during 2018 (against 22 in 2016). The Agency issued a report in November 2017 on monitoring the financing of the 2017 presidential election campaign, based on reports from all 11 political parties that participated in the campaign. The Agency noted a considerable increase (540 %) in the number of citizens directly contributing to the campaign: whereas in the 2012 campaign only 102 citizens directly provided donations, 7 591 did so in 2017, of whom 6 940 donated to one presidential candidate. The Agency concluded that the source and structure of the funding, in particular concerning citizen donations, needs to be further assessed.

Institutional framework

Prevention measures

Serbia's institutions for **preventing corruption** broadly meet international standards and continue to show good potential. However, its human resources situation, the way other institutions share information and the consideration given by the political level to the ACAs work require further improvement.

A new law enabling the **Anti-Corruption Agency** (ACA) to better assume its role as the key institution in this area needs to be adopted urgently. The former director of the Agency resigned in September 2017 and a new director was appointed in January 2018. The Agency continued to perform in some areas of its remit, despite limited resources and both legal and institutional obstacles, in particular the lack of human resources. Currently the Agency is operating with 86 personal. Its equipment is outdated. Efforts are needed to allow the Agency to increase its ability to collect and analyse data and its access to relevant databases. It must

receive and maintain the required human resources, tools and financial resources needed to carry out its mandate in an independent manner. Serbia's institutions need to cooperate with and respond to the Agency's reports and instructions as provided for under the law.

The implementation of the law on **Public Procurement** and the national anti-corruption strategy and action plan needs to be stepped up. In the public procurement legislation, largely in line with the *acquis*, inconsistencies remain regarding technical details, requiring a revision of the law. The public procurement office still lacks staff and technical capacity. The office needs to increase its supervision of other institutions and improve its monitoring, partly by setting up a centralised database. Inter-agency coordination needs to be strengthened.

Infrastructure projects, healthcare, education, construction and spatial planning, and privatisation of public enterprises remain **particularly vulnerable to corruption**. Controls and procedural transparency are inadequate and need to be increased. In the **education sector**, an anti-corruption action plan focusing on higher education and covering the period to 2020 was adopted. The Ministry of Health established a dedicated anti-corruption body. Tangible results from both initiatives have yet to be seen and their work should be monitored closely.

In December 2017, the Law on Employees in Public Services was adopted, including provisions related to conflicts of interest for this category of public employees. **Integrity plans** were adopted by 1 118 public sector institutions (out of 4 285) based on institutional corruption risk assessments. In order to better prevent and address corruption at local level, the Anti-Corruption Agency developed and provided local authorities with a model anti-corruption action plan, including guidelines for adoption, implementation and monitoring. But only 22 out of 145 have adopted their plan as required under the Anti-Corruption Agency guidelines. Only four set up a body to monitor its implementation. Provisions on conflicts of interest in public administration need to be further improved and disciplinary procedures added through amendments to the Law on Civil Servants.

The **Anti-Corruption Council**, in its advisory role to the government, remained active in exposing and analysing cases of systemic corruption. However, the government does still not systematically follow up on its recommendations, and the Council is yet to be systematically included in procedures for the adoption of legislation with relevance to corruption, in order, for example, to improve the quality of legal drafting. In July 2017, the government appointed two new members of the Anti-Corruption Council without consulting it as provided for under the Council's rules of procedure. The Serbian authorities urgently need to establish a more constructive relationship with the Council.

Serbia so far did not implement in a satisfactory manner any of the thirteen recommendations provided by the Council of Europe Group of States against Corruption (GRECO) in its last evaluation round on preventing corruption among parliamentarians, judges and prosecutors.

Law enforcement

The new Law on Organisation and Jurisdiction of Government Authorities in Suppression of Organised Crime, Terrorism and Corruption, which entered into force in March 2018, provides for specialised authorities for investigating and prosecuting corruption cases. It decentralises the prosecutor's offices in charge of corruption offences, which will be located in Kraljevo, Niš, Novi Sad and Belgrade. Special departments for fight against corruption have been formed in the higher courts in these four cities. A set of trainings on the implementation of the law have been organised for the members of the judiciary. Financial forensic expertise is to be located in the special prosecution offices. The latter have yet to be set up, along with designated liaison officers in local police directorates. The law also provides scope for using task forces to investigate corruption cases.

There is no secure platform for **electronic data exchange** or communication between the prosecution service, the police, tax and other authorities. There is still no system allowing **statistical monitoring** of criminal proceedings. Internal control departments continue to lack **equipment, resources and human capacity**. Reform of the inspection services was initiated to increase accountability. Effective supervision and deterrent penalties in cases of wrongdoing need to be applied consistently. The (operational) independence and accountability of all investigative and judicial bodies dealing with corruption need to be strengthened. There is a delay in introducing a team of economic forensic experts in the Public Prosecutor's Office and in other authorities as necessary.

Legal framework

The legal framework for the **fight against corruption is broadly in place**. In November 2016, amendments to the economic crimes section of the Criminal Code were adopted. The provision on 'abuse of position by a responsible person' has been slightly amended but concerns remain as to whether this will have the desired effect of stopping the overuse of this offence in the context of business disputes, which is harmful to the business climate and to legal certainty. In addition to the new Law on Organisation and Jurisdiction of Government Authorities in Suppression of Organised Crime, Terrorism and Corruption, the Law on Amendments and Supplements to the Law on Seizure and Confiscation of Proceeds from Crime was adopted. There is a serious delay in the adoption of the new law on the **Anti-Corruption Agency**. It should urgently address the shortcomings identified, in particular as regards conflicts of interests, asset declarations by public officials, combining public functions and access to information.

The **law on access to public information** needs to be further amended to ensure effective implementation. The improvements should be based on cooperation with the Commissioner for free access to information of public importance and with civil society. Requests for access to information which were refused mainly concern procedures with an impact on the budget. (*see also under Public administration reform*)

There is a delay in adopting amendments to the law on **political party financing**. This is needed to provide, among other things, for transparent financing of political entities and electoral campaigns, to introduce more efficient sanctions and to clarify duties between the Agency, the State Audit Institutions, the tax administration and other state authorities in this regard.

The **law on whistle-blower** protection has continued to be implemented. All courts in Serbia received during 2017 a total of 149 new cases of protection of whistle-blowers from retaliation (same as in 2016), and out of the total caseload of 229 cases, 158 cases were finalised (2016: 106).

Strategic framework

The implementation of several important measures in Serbia's **anti-corruption strategy and action plan for 2013-2018**, revised in June 2016, remains behind schedule. Adequate resources and human capacity to ensure their full implementation have not yet been allocated. There is a delay in extending the competences of the **inter-ministerial coordination group** chaired by the Prime Minister for the implementation of the national anti-corruption strategy to cover the relevant part of the action plan for Chapter 23. Furthermore, this body still does not ensure coordinated implementation of both these action plans.

There is a delay in amending the government's rules of procedure to make it obligatory for it to consider the Anti-Corruption Council's reports within three months of their submission. Furthermore, an obligation for the government to follow up on the recommendations of the

Anti-Corruption Agency's reports is yet to be established. An empowered civil society and improved coordination and monitoring, together with a stronger political commitment, are needed in order to achieve tangible results in the fight against corruption.

Fundamental rights

The legislative and institutional framework for upholding human rights is in place. However, consistent and efficient implementation of legislation and policies throughout the country is urgently needed. In addition to making substantial efforts to uphold freedom of expression, Serbia needs to address the shortcomings outlined below and in particular:

- strengthen human rights institutions and guarantee their independence, including via the allocation of the necessary financial and human resources;
- step up actions to protect the rights of the groups facing discrimination, including lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, persons with disabilities, people with HIV/AIDS and other vulnerable groups: actively pursue investigation, prosecution and convictions for hate-motivated crimes;
- give higher priority to the rights of the child: develop a national action plan for children and a national action plan to address violence against children; improve coordination and oversight of the child protection system and ensure that existing legislation and policies are effectively implemented; address the violations taking place in institutions;
- develop a comprehensive approach for the protection of national minorities by implementing its action plan on national minorities consistently across the country and amending the legal framework by means of an inclusive, transparent and efficient process;
- efficiently implement and monitor the strategy and action plan for Roma inclusion.

Serbia has ratified eight of the nine core human rights treaties. It has yet to become a party to the International Convention on the Protection of the Rights of All Migrant Workers and Members of their Families. Overall, the implementation of international human rights instruments still needs to be improved. The Report on Human Rights for the Universal Periodic Review – Third Cycle included 190 recommendations for Serbia of which it accepted 74 and said that the remaining 116 will be examined no later than June 2018. In 2017 it was reviewed by the Committee against racial discrimination, the UN Human Rights Committee and the UN Committee on the Rights of the Child. Serbia submitted a report to the Committee on the Elimination of Discrimination against Women in October 2017. Serbia is in the process of being granted observer status in the European Agency for Fundamental Rights. The participation of Serbia as observer in its work is an important step towards its gradual alignment with the *acquis* in the area of fundamental rights.

Since September 2016, the **European Court of Human Rights** (ECtHR) has found violations of the European Convention on Human Rights (ECHR) in 34 cases (out of 36) relating mainly to the right to a fair trial and the protection of property. During the reporting period, 1 910 new applications were registered by the Court. On 1 February 2018, the total number of applications pending before the Court was 960. There are currently 66 cases against Serbia under the enhanced supervisory procedure.

As regards **promotion and enforcement of human rights**, the office of the Protector of Citizens has been accredited to the Global Alliance of National Human Rights Institutions as being in full compliance with the Paris Principles. Following the resignation of the previous incumbent, a new Ombudsman was elected in 2017. To strengthen the independence and efficiency of the Ombudsman's Office, the Law on the Ombudsman needs to be amended. The Ombudsman has visited municipalities to raise citizens' awareness of their rights. In 2017

most complaints to the Ombudsman were on the right to good administration and on social and economic rights. However, the capacity of the Ombudsman's Office to handle such complaints needs to be increased. Cooperation with the parliament also needs to be improved. 90.6 % of the Ombudsman's recommendations were fulfilled during 2017. However, certain recommendations of significant public interest have still not been addressed.

In the field of **prevention of torture and ill-treatment**, the Public Prosecutor's Office and the Ministry of Interior adopted an official methodology for investigations into allegations of torture and other forms of ill-treatment. The Ombudsman's Office remained active in its capacity as the national preventive mechanism. Legislation needed to implement the law on the police, which should regulate the treatment of persons detained in police custody, is still lacking and penalties for ill-treatment and torture remain inadequate. A large number of recommendations of the European Committee for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment have yet to be applied. Proper legal safeguards to prevent torture and abuse in social institutions have yet to be adopted. No progress has been made towards de-institutionalisation, including of persons with mental disabilities and the elderly.

Regarding the **prison system**, measures were taken to improve infrastructure and living conditions in several locations. The strategy and action plan for reducing overcrowding in prisons was adopted in March 2017. However, serious understaffing in prison treatment and probation services is hampering progress in its implementation. Some initial steps were taken to reorganise the service for treatment and alternative sanctions. The number of prisoners in 2017 was approximately 10 500. Overcrowding and poor living conditions in some closed wards is still a matter of concern. Limited progress was made in improving access to healthcare and specialist treatment programmes. Cooperation with local self-government and civil society on alternative sanctions and reintegration needs to be systematised. There is a need to improve the functioning of the prison training centre to ensure specialised training for prison staff.

On the **protection of personal data**, the country has ratified the Council of Europe Convention 108 on the Protection of Individuals with regard to Automatic Processing of Personal Data and its additional protocol. In 2016, the Commissioner for Information of Public Importance and Personal Data Protection received 422 complaints and initiated 828 inspection procedures. Adequate resources are needed for the effective performance of the Commissioner's tasks. The government started working on a new law on personal data protection to harmonise the legislation with the new EU *acquis* entering into effect on 25 May 2018. On its part, the Commissioner proposed a draft model law reflecting the new EU legal framework. Work should continue in view of adopting a new legislation in line with the new General Data Protection Regulation and Directive. Inspections in several sectors (e.g. banking, health and education) indicate a lack of knowledge and protective measures, especially regarding sensitive data. The Commissioner's office remains understaffed.

Freedom of thought, conscience and religion is constitutionally guaranteed and generally respected. Religiously motivated incidents have continued to decrease. However, the lack of transparency and consistency in the registration process of religious communities remains one of the main obstacles preventing some religious groups from exercising their rights.

Freedom of expression

Serbia has **some level of preparation** concerning freedom of expression. However, there was **no progress** over the reporting period and this lack of progress is increasingly a matter of concern. The overall environment is still not conducive to the exercise of this right. Cases of threats, intimidation and violence against journalists are still a concern, while investigations

and final convictions remain rare. Serbian authorities need to react promptly to and publicly condemn hate speech and threats against journalists. Legislation on the media still needs to be fully implemented. Serbia's legal framework needs to provide for greater transparency of ownership and funding of media outlets. Co-financing of media content to meet public interest obligations needs to be implemented in line with the legislative framework. This requires transparent and fair procedures without interference by the state administration, especially at local level.

In addressing the shortcomings outlined here, Serbia should in particular:

→ create an enabling environment in which freedom of expression can be exercised without hindrance, and ensure that threats, physical assaults, the instigation of violence, and cases of invasion of privacy against journalists and bloggers are properly followed up by law enforcement and the judicial authorities, and publicly condemned by government officials;

→ ensure the full implementation of media laws and strengthen the independence of the Regulatory Body for Electronic Media;

→ adopt the new strategy for the development of a public information system, in a transparent and inclusive manner;

→ ensure adequate funding of public broadcasting services, and transparent and equitable co-funding for media content serving the public interest.

As regards *intimidation of journalists*, cases of threats, intimidation and violence against journalists remain a concern. There are numerous credible reports of verbal, physical attacks and attacks against property of journalists. In this respect, Serbia needs to elaborate guidelines clarifying their classification as criminal or other type of offences and closely monitor their follow-up by the law enforcement authorities. While several cases have been solved and some criminal charges have been filed, convictions are still rare. Serious efforts are needed to identify and prosecute those suspected of violating internet freedoms. A Memorandum of Understanding signed between journalists' organisations, the Prosecutor's Office and the Ministry of the Interior aimed at providing greater security for journalists at work has yet to lead to more efficient legal treatment of cases and ensure access to justice. The commission tasked with looking into three unresolved cases of murdered journalists from 1999 and 2001 has made progress in completing an investigation of one of these, for which the indictment is still pending. The trial for the murder of one media publisher is still ongoing while the third case is still being looked into by the commission.

There have been no significant changes to the *legislative environment* during the reporting period. The adoption of a new strategy for the development of a public information system through inclusive consultation with stakeholders is still pending.

As regards *implementation of the legislative framework*, the independence of the Regulatory Body for Electronic Media (REM) needs to be strengthened to allow it to safeguard media pluralism. It will also allow it to carry out its tasks in reacting to programme changes eroding editorial content and programme composition, as stipulated in the frequency licences, by giving it the power to issue commensurate fines. The REM failed to address imbalances in media coverage of the 2016 presidential campaign. Co-financing needs to be implemented in line with the legislative framework, using transparent and fair procedures and without interference by the state, especially at local level. Hate speech and discriminatory terminology is often tolerated in the media and is rarely tackled by regulatory authorities or prosecutors. The Press Council has recorded an increase of breaches of the Journalistic Code of Professional Conduct in print media (approximately 7 % rise in 2017). Political and economic influences over media result in widespread self-censorship. Statements by high-ranking state

officials on the investigative work of journalists have not been conducive to creating an environment where freedom of expression can be exercised without hindrance. Serbian authorities need to provide active support to independent bodies, human rights defenders and independent journalists, and promptly react to and publicly condemn hate speech and threats.

Funding available for the two *public service broadcasters* is insufficient. The temporary nature of the funding model – a combination of subscription fees, budget subsidies and commercial contributions – leaves them vulnerable to political influence. Public services should more actively engage in opening their programmes to a plurality of views and promoting public dialogue. Public broadcasting services in minority languages need to be strengthened, especially as regards the Radio Television of Serbia (RTS).

As regards *economic factors*, lack of transparency in ownership structures and financing from state resources, especially at local level, continue to be a feature of the media environment since the privatisation of the state media. Political and economic influence over media continues to be a source of concern. Serbian authorities should ensure that informal pressure on editorial policy is not exerted through the distribution of advertising funds, including from public companies, as well as project co-funding from local budgets. Co-funding of media content serving public interest should be brought into line with existing legislation and criteria, and implemented in a fair and transparent way which is not detrimental to market equality.

There are three main professional associations in Serbia. Journalists have little job security and the editorial environment, which favours ‘tabloidisation’, is not conducive to improving journalistic standards. The overall media environment encourages self-censorship. Journalists’ job security should be enhanced and press associations need to strengthen their role in trade union and employment matters.

Freedom of assembly and association are guaranteed by the Constitution and generally respected. Legislation is also generally in line with European standards, but has yet to be aligned with the Guidelines on Freedom of Peaceful Assembly of ODIHR. Secondary legislation necessary for full implementation of the law on freedom of assembly has not been adopted. Cases of excessive use of force by law enforcement bodies have been reported. Violent counter-assemblies are often not prosecuted, while penalties are often not proportionate or perpetrators not sanctioned at all.

Regarding **property rights**, the Agency for Restitution has adopted some 49 400 opinions and first instance decisions on return of confiscated properties (out of approximately 76 000 claims), concerning the restitution of 33 448 ha of agriculture and forest land, 6 016 buildings, apartments and business premises and 300 ha of construction land. The large majority of the decisions have been approved by the Ministry of Finance and property returned to owners. Implementation of the law on the restitution of heirless Jewish property has begun.

Non-discrimination legislation is broadly in line with the European standards, although further alignment with the *acquis* is still needed. In August 2017, a new sector for anti-discrimination policy and improvement of gender equality was established within the Ministry of Labour, Employment, Veterans and Social Affairs. The division of responsibilities between the new sector and the coordination body for gender equality needs to be clarified and an efficient institutional set up with adequate resources needs to be ensured. The Office for Human and Minority Rights has developed an e-learning tool to increase public awareness on identification and protection mechanisms. The Office of the Commissioner for the Protection of Equality held training sessions for police, the courts and local self-governments units. A code of equality that provides guidelines for creating an anti-discrimination policy for employers was also published. Concerns remain on the implementation of the national anti-

discrimination strategy (2014-2018), which has now expired and a new one has not been adopted yet. Amendments to the Criminal Code adopted in November 2016 further improved the prohibition and punishment of racial and other discriminatory criminal acts. The groups most discriminated against are women, persons with disabilities, Roma, LGBTI persons, people with HIV/AIDS and the elderly. Human rights defenders, together with LGBTI persons, often face hate speech, threats and violence. These abuses should be promptly and properly investigated, prosecuted and sanctioned.

Concerning **equality between women and men**, the new Gender Equality Law, drafted by the coordination body for gender equality, has still not been adopted. The national strategy and action plan for combating violence against women in family and partner relationships expired in 2015. The Law amending the Criminal Code and the Law on Prevention of Domestic Violence were adopted in November 2016 (in line with the Istanbul Convention). The latter law introduces emergency measures for perpetrators, multi-sectoral cooperation in preventing and responding to violence in the family, and increased responsibility and accountability of employees in the relevant institutions. In the first three months since its entry into force in June 2017, 9 403 cases of violence against women were reported to the Public Prosecutor's Office. A national action plan for the implementation of UN Security Council Resolution 1325 – Women, Peace and Security was adopted. The Statistical Office data on the position of women and men in Serbia show wide gender gaps in the areas of labour, time use, political participation, property and access to resources. Women with disabilities, older, rural and Roma women continued to be among the most discriminated against in society. The role of the media in perpetuating gender stereotypes and minimising gender-based violence remains a source of concern. Greater efforts should be made to change social attitudes to the roles and responsibilities of women and men.

On the **rights of the child**, the National Plan of Action for Children expired in 2015. The functioning of the National Council for Child Rights has been erratic. Ensuring more effective coordination and oversight of the child protection system should be prioritised and efforts made to ensure that policies are uniformly implemented. Statistical data on vulnerable groups are still not disaggregated, particularly on Roma children and children with disabilities. Violence against children remains a concern and a national strategy on this issue is lacking. Since July 2016, the Ombudsman has received 109 complaints reporting violence, abuse or neglect of children, a majority referring to violence at schools. A new Law on Juvenile Offenders and Protection of Minors in Criminal Proceedings has yet to be adopted. The Juvenile Justice Council should be re-established and its functioning ensured. Better protection should be ensured for child victims who testify in criminal proceedings. There are serious concerns over child rights violations taking place in large-scale institutions for children, particularly those with disabilities, who also face challenges regarding access to education. Integrated, community-based services should be further expanded.

Little progress has taken place on **the rights of persons with disabilities**, and the situation remains very difficult, in particular as regards access to services, employment and education. Serbia is a party to the UN Convention on the Rights of Persons with Disabilities (CRPD) and was reviewed in April 2016 by the UN Committee on the Rights of Persons with Disabilities. The adoption of a strategic framework on disability is still pending. Placement and treatment in social institutions of people with psychosocial and intellectual disabilities is still not regulated in accordance with international standards. Full deprivation of legal capacity on the basis of impairment remains common practice, although some progress was made on partial deprivation. (*see also Chapter 19 — Social policy and employment*)

As part of public awareness on the rights of **lesbian, gay, bisexual, transgender and intersex (LGBTI) persons**, both the Serbia Pride in June and the Pride Parade in September

2017 took place without incidents, the latter attended by the Prime Minister and other government representatives. Training on adequate social protection services for LGBTI persons and their families was provided for employees of social work centres. Anti-discrimination training has also been given to the police, and efforts are ongoing to improve communication with the LGBTI community. However, the situation remains difficult and activities in the action plan for the national anti-discrimination strategy that benefit LGBTI persons are behind schedule. There has also been a slight increase in violence against LGBTI persons. Investigation, prosecution and penalties for hate speech, threats and attacks against members of the LGBTI community are often inadequate. Centralised official data on hate crimes are still lacking. Transgender persons are particularly vulnerable to discrimination, family rejection, homelessness and violence. Provision of new official identity documents is slow, which affects their democratic rights. There is no law on gender recognition. Discriminatory content has been removed from two high school textbooks, with six more to be revised. Stronger, visible political commitment to promote social inclusion and respect for the rights of LGBTI persons is needed.

Issues of labour and trade union rights are covered in chapter 19.

Some initial steps were taken to align **procedural rights** with the EU *acquis*. An analysis of the national normative framework for implementing minimum EU standards on the rights and protection of victims of crime (under the relevant Directive) has been finalised, and new services established within the Public Prosecutor's Office, albeit limited to providing information and with limited staff. **Access to justice** is hindered by lack of an efficient free legal aid system, the poor availability and quality of performance of appointed defence lawyers, inefficient procedures for awarding compensation through civil proceedings, and weak enforcement of final judgments. The adoption of the Law on Free Legal Aid has been further delayed. Issues such as the purpose of the law, its beneficiaries and providers of free legal aid still need to be addressed. Civil society organisations continued to provide assistance to vulnerable groups. Cooperation between the War Crimes Prosecutor's Office and the Witness Protection Unit (WPU) improved following a protocol on urgent measures applied in the **witness protection** programme from April 2017. The analysis of the work of the WPU as to working conditions, lack of specialised staff and on legislative changes needed for a protective change of identity needs to be followed up. In 2017, the ECtHR found that Serbia had violated the right to liberty and security (in *Mitrović v. Serbia*) and the right to a fair trial (in *Krndija and others v. Serbia*). Serbia still lacks a national victim support system.

The legal framework for respect for and protection of **minorities** and cultural rights is in place and generally upheld, in line with the Framework Convention on National Minorities. While interethnic relations continue to be good and stable, regional differences persist. Overall, implementation of policies and legislation needs to be improved to address existing discrepancies. Some regions inhabited predominantly by national minorities remain among the most underdeveloped. The implementation of the action plan for the realisation of the rights of national minorities must be sped up and coordination and inclusion of stakeholders improved. The Republic National Minority Council has established good cooperation with national minority councils. The fund for national minorities is functioning and its funding has been increased. Local councils for interethnic relations have not been established in all the municipalities where such obligation is stipulated by the law. Furthermore, their role and mandate should be clarified. Alignment of the Law on Protection of Rights and Freedoms of National Minorities and the Law on National Minority Councils with the relevant Constitutional Court decision and sectoral laws is still pending. While the Regulation on the Work of the State Prosecutorial Council was amended to take into account the ethnic

composition of the population in the nomination of public prosecutors, national minorities remain underrepresented in public administration.

There has been progress in the area of education. The Ministry of Education has started to implement the rulebook on general standards of achievement for Serbian as a second language. Following the signing of a memorandum of understanding and relevant annexes with eight national minority councils on the publication of textbooks in minority languages, their preparation and printing of the books continues. Constructive dialogue with the National Minority Council is needed about preparing and printing textbooks in the Albanian language. Preparations for providing textbooks for secondary schools have not yet started. Access to religious worship in minority languages should be enabled throughout Serbia. Following media privatisation, broadcasting of programmes in minority languages remains vulnerable due to lack of sufficient funding and control of content. Public broadcasting in minority languages at national level still needs to be improved.

A strategy for **social inclusion of Roma 2016-2025**, together with an action plan has been adopted. A body was set up to monitor the implementation of the strategy but it rarely meets. Its work is supported by an expert group, which includes civil society organisations and the National Roma Council. Progress was made on reporting on the 2015 Roma seminar conclusions and a follow-up seminar took place in 2017. Job descriptions for local Roma coordinators should be uniform throughout Serbia and made official. Most Roma in Serbia have civil documentation (birth certificates and ID cards). The procedure for registering the birth of children whose parents lack personal documents needs to be monitored. During the reporting period, there was an increase in Roma students benefiting from affirmative action. Serbia has the highest number of Roma children enrolled in primary school (84 %). However, they still face barriers and lack adequate support in education. In 2017, only 17 % of marginalised Roma children attended kindergartens. Drop outs remain high, especially for Roma girls and only 14 % of Roma youth complete secondary education, one of the lowest rates in the Western Balkans. The percentage of those completing tertiary education remains extremely low. Segregation in education needs to be addressed. Marginalised Roma have low employment rates and the situation is worsening since 2011. Informal employment continues to be high among the marginalised Roma population, and the informality gap is the highest in the region. Further measures to facilitate the transition from education to the labour market are thus needed. In addition, Roma, are still underrepresented in public administration. The Law on Housing and Building Maintenance, regulating evictions and relocations, has come into force. An assessment for the legalisation of existing settlements should be carried out. The Ministry of Construction has provided some improvement of living conditions in informal settlements in 11 municipalities. These efforts should increase as many Roma households have no access to drinking water or connection to the sewage system. A large majority of Roma have health insurance. Child marriage and early and forced marriages remain a concern and there is a lack of support services for girls subject to child marriage. Domestic violence is also often unreported.

As of 1 July 2017 there were 201 047 **internally displaced persons (IDPs)** in Serbia, of whom one third remains in a vulnerable position. The government has taken some measures and adopted a strategy to solve the problems of refugees and IDPs, but solutions remain slow and limited, with a need for increased funding. The law on permanent and temporary residence, which allows people to apply for residence at social welfare centres, needs to be implemented more consistently. Five collective centres, accommodating 108 IDPs, are gradually being closed. Roma IDPs remain the most marginalised and vulnerable. Serbia is engaged in the regional dialogue on durable solutions for displaced persons from Kosovo (the ‘Skopje process’).

2.2.2. Chapter 24: Justice, freedom and security

The EU has common rules for border control, visas, external migration and asylum. Schengen cooperation entails the lifting of border controls inside the EU. There is also cooperation in the fight against organised crime and terrorism, and judicial, police and customs cooperation.

Serbia has **some level of preparation** to implement the *acquis* on justice, freedom and security. **Some progress** was made in areas such as human resource management in the Ministry of Interior and the police, and capacity in both the Prosecutor's Office for Organised Crime and the Prosecutor's Office for Cybercrime were improved. A new strategy and action plan to prevent and fight trafficking in human beings were adopted, a National Coordinator for Combating Trafficking in Human Beings was appointed in October 2017, and a new Law on the Prevention of Money Laundering and Terrorist Financing was adopted.

Despite a marked decrease in the migratory influx compared to 2015, Serbia remains the country most affected by the movements along the Western Balkans route. It significantly contributed to the management of the mixed migration flows by playing an active and constructive role and by cooperating effectively with neighbouring countries and Member States. Serbia adopted a new law on asylum and temporary protection, a law on foreigners, and a law on border control, as well as amendments to the law on police and the law on the national DNA registry.

Serbia needs to produce a convincing track record, particularly in the fight against high-level corruption and organised crime, including money laundering. There is a delay in the adoption of the strategy and action plan to counter irregular migration.

In the coming period, Serbia should in particular:

→ develop a strategic approach towards financial investigations, including by (i) adopting the Financial Action Task Force (FATF) concept on financial investigations; (ii) automatically implement financial investigations when dealing with organised crime, terrorism, money laundering and serious corruption cases; (iii) start financial investigations from the very start of the criminal investigation; and (iv) apply a multidisciplinary and proactive approach to financial investigations;

→ implement its integrated border management strategy and action plan;

→ implement the new law on asylum and temporary protection, the law on foreigners, and the law on border control;

→ adopt and implement the strategy and action plan to counter irregular migration.

Serbia is implementing a detailed action plan which was adopted prior to the opening of the accession negotiations in this chapter in July 2016 and the country is in the process of revising its action plan with more realistic deadlines.

Fight against organised crime

Serbia has **some level of preparation** in the fight against organised crime. **Some progress** was made in fulfilling the recommendations of the previous report. Serbia has yet to establish a convincing track record of effective financial investigations, and of investigations, prosecutions and final convictions in money laundering cases. The number of convictions for organised crime continues to remain low.

In addressing the shortcomings, Serbia should in particular:

- establish a convincing track record of investigation, prosecution, and convictions in organised crime cases, including money laundering, based on proactive investigations (including systematic tracking of money flows and the efficient use of special investigative measures to collect relevant evidence), and establish an initial track record of freezing and confiscating criminal assets;
- secure the operational autonomy of the police from the Ministry of the Interior during the pre-investigation and investigation phase;
- further enhance the independence and capacity of the internal control sector of the police.

Institutional set-up and legal alignment

The total number of police officers is 42 426. There are 601 police officers per 100 000 inhabitants, compared with the EU average of 211 in 2015.

The **legal framework** for police cooperation needs to be further aligned with the *acquis*. The role, competences and operational accountability of the police should be further clarified. The legal framework is insufficient to guarantee the operational independence of the police from the Ministry of the Interior, and thus to ensure full accountability only to the prosecution during the pre-investigation and investigation phase.

The reform of the human resource management system for the Ministry of the Interior and the police is being finalised. Progress has also been made on transparency in recruitment and transfer procedures, and on overall management of human resources. The rulebook on internal organisation and systematisation has not been adopted. A code of police ethics, a regulation on conducting disciplinary proceedings in the Ministry of the Interior and a rulebook on complaints procedure were adopted with a view to improving police integrity. The internal affairs sector of the Ministry of the Interior is undergoing substantial reorganisation. A new head of police was appointed.

Amendments to the Law on Seizure and Confiscation of Proceeds of Crime have been adopted and, in line with the *acquis*, allow for extended confiscation. The working arrangement between the Serbian Ministry of Interior and the EU Agency for Law Enforcement Training (CEPOL) has been signed in September 2017 and ratified in March 2018. A strategy for the prevention and suppression of **trafficking in human beings** has been adopted, together with the relevant action plan. A National Coordinator for Combating Trafficking in Human Beings was appointed in October 2017. A Law on the Prevention of Money Laundering and Terrorist Financing was adopted in December 2017.

Serbia has yet to adopt a strategy on **cybercrime**, a new financial investigation strategy and corresponding action plan and a strategy and action plan on small arms and light weapons for the period 2017-2021.

The Financial Investigation Unit has 63 staff, following reinforcement in 2017. Serbia needs to focus on the implementation of the action plan agreed with FATF. The establishment of an asset recovery office (ARO) in line with the *acquis* needs to be completed.

Implementation and enforcement capacity

As regards the **track record**, there has been little progress in dismantling criminal networks and establishing a track record of proactive investigations, prosecutions and convictions in the fight against organised crime. A number of new investigations into organised criminal groups in 2017 was initiated against 191 persons (out of which evidentiary activities against 28 persons were conducted in summary proceedings, after which motions for indictment were filed), compared with 143 in 2016. The number of final convictions in **organised crime cases** remains low compared to the estimated value of the criminal market in the region (final

convictions in 2017 were adopted against 110 persons compared with 123 in 2016).

Operational police cooperation at bilateral and regional level improved. Serbia is a very active partner in the region. A Serbian liaison officer has been appointed to Europol headquarters. Good cooperation with Europol on investigations has led to a series of successful operations. Serbia also provides good contributions to the Serious and Organised Crime Threat Assessment (SOCTA) report, and it trained and appointed a liaison officer to Europol's office in The Hague. The Prosecutor's Office for Organised Crime put in operation an advanced and comprehensive investigative intelligence tool to run investigations (Sidda/Sidna). The Ministry of the Interior is working on establishing the Fugitive Active Search Team.

Specialised units of the police need to be staffed and equipped, with the necessary national budgetary resources made available, in accordance with national and regional threat assessments.

As regards operational arrangements for special investigative measures, the police's **dependency on the security and intelligence agencies** in law and in practice to carry out certain special investigative measures in criminal investigations continued to be a matter of serious concern.

The level of **inter-agency cooperation**, information flow and exchange needs to be further improved. The Ministry of the Interior is working on setting up a central criminal intelligence system and harmonised data collection. Co-operation between the police and the Special Prosecution Office for High Tech Crime continues to improve. The latter received substantial staff reinforcement. In May 2017 two deputy public prosecutors have been transferred there; and currently there are four deputy public prosecutors and one special prosecutor acting in this office. When it comes to the administrative staff, two prosecutorial assistants were assigned to this Prosecutor's Office, so that there are now five of them in total. Moreover, three vacant positions for the administrative staff (positions for registrar officers) are expected to be filled.

The operational capacity of the Cybercrime Department of the Ministry of the Interior needs to be strengthened through the establishment of special investigative units on credit card fraud, e-commerce and e-banking, and on combatting illicit and harmful internet content.

Serbia is implementing its strategy and action plan for the prevention and suppression of **trafficking in human beings** for 2017-2022. The capacity of the Centre for Protection of Victims of Trafficking in Human Beings should be strengthened. A support fund for victims should be established, and the compensation mechanism in civil proceedings needs to be improved. Efforts to facilitate victims' reintegration in society require particular attention. The mixed migration flows passing through the country also offer new opportunities for traffickers: unaccompanied minors are at particular risk. Efforts should be stepped up to reduce children's vulnerability to trafficking and improve the identification of and assistance to child victims. A limited number of mainly low profile cases have been successfully investigated. Investigative capacity in this field was substantially increased by transferring competences from the Border Police Directorate to the Criminal Police Directorate. However, Serbia should more proactively investigate and gather evidence in order to rely less on victims' statements and to avoid re-victimisation.

On **trafficking in weapons**, Serbia successfully destroyed 18 009 pieces of confiscated weapons in 2017, which is evidence of the positive impact of the acts of legalisation and voluntary handover carried out in recent years. The Serbian Police Directorate also made significant progress in improving the physical security and stockpile management of weapons

and ammunition they are storing.

Serbia needs to start to input data on lost and stolen firearms into the Interpol-administered iArms Database, starting with data from 2012 onwards. Serbia should also step up its operational capacity (including cross-intelligence collection, analysis and exchange of information) and establish a centralised arms registry. Serbia should furthermore ensure the secure storage and destruction of confiscated weapons and ammunition.

Serbia should bring its legal framework in the field of weapons and ammunition further in line with the relevant EU *acquis* and ensure more stringent control over deactivation, marking, record keeping and secure storage of weapons and ammunition.

The majority of convictions in **money laundering** are for self-laundering connected to a domestic predicate offence. However, in 2017 there were seven persons convicted for third party laundering, out of which one based on foreign predicate conviction and one stand-alone conviction. Furthermore there was one money laundering conviction of legal entity. There were three outgoing money laundering-related mutual legal assistance (MLA) requests and international exchange of operational information has substantially improved.

Law enforcement agencies and prosecution services do not have direct access to relevant databases. Serbia needs to ensure that the judiciary has an appropriate level of technical understanding, and builds up relevant case-law on the admissible evidence in court in accordance with the applicable law. The Administration for Prevention of Money Laundering (APML) and the Republic Public Prosecutor signed an agreement to intensify their cooperation; the latter issued an instruction according to which relevant prosecution offices are obliged to act pro-actively upon receiving information from the APML.

No progress has been made on precautionary **freezing of assets** at an early stage of an investigation. The impact of the new Law on Seizure and Confiscation of the Proceeds of Crime has yet to be seen. Indirect or circumstantial evidence, especially in cases of inexplicable wealth, is rarely gathered or accepted by the courts. The capacity to carry out complex financial investigations alongside criminal investigations needs to be stepped up in order to track money flows and lead to the seizure and confiscation of criminal assets. Confiscation of criminal assets should become a strategic priority in the fight against organised crime, terrorism and high-level corruption in Serbia. Criminal groups engage in an increasingly wide range of profitable illegal activities, and reinvest substantial profits in the Serbian economy. Currently, Serbia's tools for freezing, managing and confiscating criminal assets are not adequately effective. It should therefore implement a more comprehensive and coherent legal framework for the confiscation of proceeds of crime. It should focus on implementing rules on the confiscation of assets which are not directly linked to a specific crime, but which clearly result from similar criminal activities committed by the convicted person (extended confiscation), rules on confiscating criminal assets that were transferred on purpose from the suspect to a third party (third-party confiscation). It should allow confiscation of criminal assets where a criminal conviction is not possible, in particular because the suspect is deceased, permanently ill or has fled (non-conviction-based confiscation), ensure that competent authorities make more systematic use of temporarily freezing assets that risk disappearing if no action is taken, subject to prompt confirmation by a court (precautionary freezing). In addition, it is crucial that financial investigations into a person's assets are allowed to continue for years after a criminal conviction in order to fully execute a previously issued confiscation order (effective execution). Finally, Serbia should urgently step up its capacity to manage frozen or confiscated assets so that they do not lose economic value (asset management).

Fighting organised crime and corruption remains fundamental to countering criminal infiltration of the political, legal and economic systems.

Fight against terrorism

Institutional set-up and legal alignment

Serbia's **legal and policy framework** is largely aligned with the *acquis* and international instruments on anti-terrorism. The new **Law Amending the Law on the Freezing of Assets for the Purpose of Terrorism Prevention** was adopted in December 2017. The national **strategy** and action plan for preventing and fighting terrorism (2017-2021) was adopted in October 2017. It covers prevention of violent extremism and radicalisation, elimination of terrorist threats, and response and prosecution in the event of terrorist attacks.

There is a need to establish a single database on terrorism-related information at national level, which will contribute to more efficient information exchange and better interinstitutional, regional and international cooperation.

Implementation and enforcement capacity

Cooperation between the Police Service for Combating Terrorism and Extremism and Europol has further intensified in 2017 and is at a very good level. Serbia is also participating in the implementation of the Western Balkan Counter Terrorism initiative (WBCTi). There is progress with prevention and anti-radicalisation activities, involving local religious leaders, local authorities and civil society through targeted activities with the OSCE mission to Serbia. Serbia should focus on developing the necessary capacity to detect and interrupt financial flows supporting terrorism. In this respect, the APML has changed its internal organisation by creating a Terrorist Financing Prevention Team to deal specifically with terrorist financing-related cases.

So far, Serbia has indicted seven people on terrorism-related charges (including radicalisation and recruitment), of whom six also face charges for financing terrorism. Serbia has been affected to some extent by the phenomena of radicalisation and of its citizens fighting in other countries for terrorist organisations. The authorities have evidence of around 49 Serbian citizens who are foreign terrorist fighters, and 10 returnees.

Legal and irregular migration

Institutional set-up and legal alignment

Serbia's legal framework is partially in line with the *acquis*. The Central Register Database on Foreigners has been created. Serbia has adopted a new law on foreigners, aiming to align its national legislation with the *acquis* in areas such as family reunification, the status of third-country nationals with long-term residence, the conditions for admission of third-country nationals for, inter alia, scientific research, and residence permits issued to third-country nationals who are victims of trafficking in human beings. The new law also aims at alignment with the Return Directive. Amendments to the Criminal Code were adopted, leading to increased penalties for smuggling and trafficking in human beings.

The **strategy** and action plan to counter irregular migration for 2017-2020 still needs to be adopted. Serbia adopted and regularly updated a response plan to cope with the increased number of migrants on its territory, but the latest one expired at the end of 2017. A robust return mechanism, in line with EU requirements, still needs to be put in place. A basic procedure for an early warning, preparedness and crisis management strategy is in place.

Responsibilities for **migration management** are divided between various state authorities: the Ministry of the Interior, the Commissariat for Refugees and Migration, the Ministry of

Foreign Affairs, the Ministry of Justice and the Ministry of Labour, Employment, Veteran and Social Policy. There is a need for enhanced coordination between these government and state institutions and the international and national organisations active in this field, including non-governmental organisations. Uncertainty over the respective responsibilities of the various institutions has led to protection gaps.

The department for the prevention of trans-border crime, irregular migration and trafficking in human beings within the Border Police Directorate deals with irregular migration. The task force on people smuggling, within the Criminal Police Department, has improved its operational capacity. Further strengthening of interinstitutional coordination and the capacity to respond to requests for international cooperation is needed.

Implementation and enforcement capacity

Serbia managed a significant influx of migrants and refugees and is making considerable efforts to ensure basic living conditions and services for all migrants stranded in the country. Serbia is making commendable efforts to provide formal education for all migrant children. The overall **staffing** situation in the area of migration remains insufficient, in particular against the background of continuous migration flows.

Serbia has one detention centre in Padinska Skela with a capacity of 30 places and works on upgrading are under way. It is expected that the increased capacity will fulfil European standards.

Most of the irregular migrants currently in the country do not have any legal status and are hosted in temporary accommodation facilities. 7 505 irregular migrants were detected by the authorities in Serbia in 2017. The number of asylum-seekers, migrants and refugees staying in the country went down to around 4 000 at the end of 2017 with more than 90 % accommodated in government centres. The remaining migrants are sleeping rough in the border areas with Hungary and Croatia and in the Belgrade city centre.

There is a need for systematic provision of psychosocial support, for suitable accommodation for unaccompanied children and for a sufficient number of legal guardians. Furthermore, the facilities need enough adequately trained staff. Coordination between all institutions involved in tackling irregular migration should be stepped up.

In 2016, 6 050 people were intercepted at the borders and 349 criminal charges were filed for **human smuggling** against 604 perpetrators who tried to smuggle 5 181 people. In 2017, the number of people intercepted at the border was 2 638; 161 criminal charges were filed against 269 perpetrators trying to smuggle 1 188 people. Migrant smuggling networks originating from and operating in Western Balkan countries remain active and continue to smuggle irregular migrants.

The number of people effectively **returned** to their country of origin remains low, although Serbia benefits from a programme for Assisted Voluntary Returns run by the International Organisation for Migration. In 2017, 234 people had agreed to return voluntarily by mid-November 2017. Serbia cannot return people if asylum decisions are negative, due to the lack of readmission agreements.

The **readmission agreement** with the EU is being implemented satisfactorily. There are 21 implementing protocols signed with the EU and they are well implemented when it comes to the readmission of own nationals. In 2016, 13 595 Serbian nationals have been ordered to leave the EU territory and the return rate reached 90 % in 2016. Nevertheless, Serbia's cooperation on the readmission requests of third country nationals remains very low and particular attention should be given to improving cooperation on this provision.

Serbia has concluded readmission agreements with Bosnia and Herzegovina, Denmark, Canada, Norway, Croatia, Switzerland, the former Yugoslav Republic of Macedonia, Moldavia, Montenegro and Russia. Negotiations are concluded with Turkey and ongoing with Ukraine, Algeria, Morocco, Iraq, Pakistan, Arab Emirates, Belarus and Georgia. Nevertheless, the return of the vast majority of the third country nationals present on Serbia's territory remains very difficult, due to the lack of readmission agreements with the four main countries of origin of the irregular migrants in Serbia, i.e. Afghanistan, Pakistan, Iraq and Iran. Serbia needs to conclude readmission agreements with those countries.

Serbia has been invited by the European Integrated Management Initiative Network to participate as an observer in their Country Working Groups on Afghanistan, Iraq and Iran. In January 2018, Serbia has signed a partnership declaration with the European Reintegration Network program. Serbia holds an observer status in the program and tailor made support will be developed for building Serbia's capacity in the field of return and reintegration.

Asylum

Institutional set-up and legal alignment

Serbia is party to the Geneva Convention on the status of refugees. A new law on asylum and temporary protection was adopted.

Serbia has the necessary **institutions** to handle asylum applications. The Asylum Office, a separate unit in the Border Police Directorate of the Ministry of the Interior, is responsible for determining asylum status. Appeals against its decisions can be submitted to the Asylum Commission and subsequently to the Administrative Court of Appeal as a final instance. The Asylum Commission did not work for several months because new members needed to be appointed and there was a backlog of decisions. New members of the Commission were appointed and the Commission is now operational.

Implementation and enforcement capacity

The Asylum Office of the Ministry of the Interior is only partially **staffed** (17 people out of the 29 planned). Nine new officers are in the process of being recruited.

Regarding the **asylum procedure**, the capacity to assess the merits of applications has improved, with country of origin information used and assessed. By-laws on integration of refugees have been adopted, providing for individual integration plans. Efforts to improve the access of beneficiaries of international protection to integration measures, including access to the labour market, should be sustained. Serbia needs to continue close cooperation with EU Member States and its neighbours with a view to ensuring effective access to international protection.

The Asylum Office registers asylum seekers in an electronic database. The border police registers asylum seekers in its own separate biometric database. The identification and registration process of irregular migrants could be further improved.

In 2017, the number of asylum seekers fell considerably compared with 2016, while cases processed and protection status granted increased in relative terms. In 2017, out of 6 195 (2016: 12 821) people who expressed an intention to seek asylum, 235 (2016: 574) people lodged an application, 3 (2016: 19) people received refugee status, 11 (2016: 23) people received subsidiary protection and 42 (2016: 40) people received a negative decision. In most cases the procedure was suspended because the applicant absconded.

The Commissariat for Refugees and Migration is the state authority responsible for the reception and accommodation of asylum seekers, management of asylum centres and integration of people who were granted international protection.

There are five regular asylum **centres** and 13 temporary accommodation facilities (transit and reception centres) with a total capacity of 6 030 long-term and 1 067 short-term places. There are three centres with a *de facto* capacity of 22 beds to host unaccompanied minors. Steps should be taken to gradually increase this capacity and Serbia should pay special attention to the needs of unaccompanied minors in line with international standards, given that in January 2018 alone there were 143 unaccompanied minors accommodated in asylum, reception and transit centres. All reception centres are open facilities, vulnerable to infiltration by people smugglers and other criminals. On the basis of a memorandum of understanding, the Minister of the Interior cooperates smoothly with the European Asylum Support Office (EASO). Serbia was granted observer status in the reception network organised by EASO.

Visa policy

Overall, the visa liberalisation benchmarks continue to be fulfilled. Further improvement of the implementation is expected, including the organisation of a high-profile information campaign on the rights and obligations of visa-free travel targeting areas particularly affected by irregular migration.

Serbia's visa issuing system is partially in line with the EU Visa Code. Interconnection of the integrated Serbian Visa Information System with all diplomatic and consular missions and other relevant databases is not yet complete, but has advanced further. The number of visas issued at borders was rather low throughout the reporting period and only undertaken in exceptional humanitarian circumstances.

The visa regime is in line with the EU lists of visa-required countries except for the nationals of Bahrain, Belarus, Bolivia, China, Cuba, Guinea-Bissau, India, Indonesia, Iran, Jamaica, Kazakhstan, Kuwait, Mongolia, Oman, Qatar, Turkey, Tunisia and Russia. For six of those countries, the visa-free regime was implemented during the reporting period. Serbia's recent decisions to grant visa-free travel to citizens of countries that are on the EU's negative list raise concerns. Serbia needs to monitor and control the implications of the visa-free regime with third countries, especially with Iran. Serbia is encouraged to refrain from further diverging from the EU common visa policy with which it is expected to progressively align.

Schengen and external borders

Institutional set-up and legal alignment

Serbia adopted a strategy and action plan for integrated border management 2017-2020. Legal, technical, infrastructural and human resource requirements for adopting a Schengen action plan have been assessed. A new law on border control has been adopted.

The border police is a specialised **civilian body**, part of the General Police Directorate under the Ministry of the Interior. It has eight regional centres and 47 local stations responsible for border surveillance as well as 40 stations for border control at the 94 border crossing points. Serbia needs to create a single coordination centre for the exchanging of police information, with a view to preparing to set up of a SIRENE (Supplementary Information Request at the National Entries) office.

Implementation and enforcement capacity

There is a good cooperation on border control with Serbia and EU Member States. There are already some joint controls with the presence of EU border police officers working with the Serbian border police. This will be further enhanced as a status agreement is being negotiated with the Commission, which would allow the deployment of European Border and Coast Guard teams with executive powers by the European Border and Coast Guard Agency in Serbia.

Serbia is a transit country for illegal migration and the smuggling of drugs, firearms and other commodities. Combating these phenomena and establishing appropriate border management, including management of 'green' (land) borders, needs to be further strengthened.

The border police has a total of 3 500 staff and has a Risk Analysis Unit. Risk analysis at the central level is conducted in accordance with CIRAM 2 (the Common Integrated Risk Analysis Model) and is harmonised with EU practice in terms of data collection methods, the reporting format and analysis of the vulnerability of borders.

Implementation of the **integrated border management strategy** and its action plan has started. The cooperation body provided for in the action plan has been appointed.

Meeting European standards requires adequate staffing at the border crossing points and border posts and further investment in infrastructure and equipment. Maintenance and repair of border facilities needs to be improved significantly. One of the challenges is the lack of a clear division of responsibilities for the management of the crossing points (in terms of planning, reconstruction, current and investment maintenance, and construction). Moreover, there is no regulation governing the procedure and requirements for the opening of border crossing points.

Most border crossing points are equipped with basic IT equipment, 3M passport readers, first line control devices and other technical devices for control measures to combat irregular migration. Some 65 % of the border crossing points are linked to Interpol databases. These account for 95 % of border traffic.

Cooperation with the neighbouring countries remains good, particularly at technical level. Joint patrols are also being organised with all neighbouring countries except Croatia. Unauthorised border crossing points at border sections with Bosnia and Herzegovina and Montenegro still need to be sealed off.

The Working Arrangement with the European Border and Coast Guard Agency (EBCGA) is being implemented smoothly. Following the new mandate of the EBCGA which enables it to carry out operations on the territory of neighbouring third countries, negotiations on an agreement with Serbia are still ongoing and should be concluded as quickly as possible.

Interim IBM common crossing points with Kosovo continue to be fully operational. There has been some progress in establishing the permanent IBM common crossing points with Kosovo in Merdare and Mutivode, and in establishing the additional interim common crossing points in Kapi and Izvor. Additional measures need to be taken to prevent illegal crossings and criminal activities.

The agreement on cooperation in the field of prevention and suppression of corruption at the border between the Republic Public Prosecutor's Office, the Ministry of Internal Affairs and the Ministry of Finance was signed.

Judicial cooperation in civil and criminal matters

Serbia has finalised assessments of its national legislation with a view to alignment with the *acquis* in this area. There is a need to also carry out a review of the administrative, budgetary and training needs in this regard. During the second half of 2017, Serbia successfully handled significantly more incoming judicial cooperation requests than during the second half of 2016 (1 281 compared to 2 254 in civil, and 1 969 compared to 2 054 in criminal matters), while there was a reduction in handling outgoing criminal matters cooperation requests compared with the second half of 2016 (961 compared to 788 for criminal matters). For civil matters there is an increase from 982 in 2016 to 1 042 in 2017. Overall, this resulted in fewer pending requests in December 2017 than in December 2016. The total of all pending cases was 23 176 in December 2017 compared to 23 474 in December 2016. Serbia needs to continue its efforts to addressing pending cases and handling cases within a reasonable timeframe.

Serbian courts have direct cooperation with courts of Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro and Slovenia. There is further need to facilitate direct cooperation on outgoing requests between Serbian and foreign courts and to centralise the receipt of requests for international judicial cooperation within the court system, in line with the findings of analysis, so they can be processed more efficiently. Present infrastructure used for replying to requests for mutual legal assistance and statistics need to be further improved for ensuring better monitoring and promptly reaction applying the mutual recognition principle subject to pending analysis of capacity needed to improve efficiency, including special legal and language skills.

Serbia has close cooperation with Eurojust. In 2017, Serbia was involved in 26 Eurojust cases, mainly cases concerning drug trafficking, money-laundering, corruption and organised property crime. Organised crime groups were involved in several cases. Serbia also participated in three coordination meetings organised by Eurojust and took part in four joint investigation teams supported by Eurojust. Serbia has not signed a (operational) cooperation agreement with Eurojust, due to a delay in harmonising the legislation on protection of personal data with the *acquis*.

On civil matters, the 2007 Hague Convention on Child Support has not yet been ratified even if its Protocol on applicable law was already ratified in 2013.

Cooperation in the field of drugs

Serbia is implementing its Strategy for Drug Abuse Suppression (2014–2021) and has implemented an accompanying action plan (2014–2017) which are both in line with the EU Strategy and Action Plan and reflect the main objectives of the renewed (2013) EU-Western Balkan Action Plan on Drugs.

The Law on Psychoactive Controlled Substances and the Law on Precursors have yet to be adopted.

The Service for Drug Addiction Prevention and Drug Trafficking Suppression within the Serbian Criminal Police Directorate suffers from lack of staff and equipment. Nevertheless, good regional and international cooperation continued, with important results in terms of drug seizures and of dismantling international drug smuggling chains. The national coordination office (Office for Combatting Drugs) is operational but remains understaffed and does not have the capacity to fully perform its duties.

In line with the national drugs strategy, a clear definition of the responsibilities and powers of the various institutions involved in inter-agency cooperation is still needed, as well as smooth exchange of data. An early warning system on new psychoactive substances has been established within the Centre for Monitoring Drugs in the Ministry of Health.

The lack of secure storage of seized drugs and drug precursors prior to destruction remains an issue of concern. An appropriate process for the destruction of precursors has yet to be set up.

Furthermore, according to current legislation, it is not possible to keep only a small drug sample as material evidence for court proceedings, but the entire seized quantity has to be stored. Overall, and although progress was made, this policy area would benefit from a more proactive and holistic approach.

The anti-drug department of the police investigated a number of drug-related cases in 2017 in a fruitful cooperation with third countries' police services, reaching important results and seizures. Serbian authorities confiscated 4 166 tonnes of drugs, mainly herbal cannabis (3 921 tonnes) but also 17.8 tonnes of heroin and 12.7 tonnes of cocaine. In this respect 8 392 criminal offences have been recorded by Serbian authorities involving 4 130 offenders. Serbian authorities destroyed 5 465 tonnes of narcotic drugs during 2017.

Customs cooperation

Regional and international customs cooperation continued, including through joint actions (*see also Chapter 29 — Customs union*). The investigative powers of customs officers and their ability to exchange data with other agencies need to be broadened. Training and further by-laws are needed for the implementation of the Naples II Convention upon accession, in particular on hot pursuit, cross-border surveillance and controlled delivery.

For measures against **counterfeiting of the euro**, see *Chapter 32 — Financial control*.

3. FUNDAMENTALS FIRST: ECONOMIC DEVELOPMENT & COMPETITIVENESS

Key economic figures	2015	2016	2017
Gross domestic product per capita (% of EU28 in PPS)	36	37	
GDP growth (%)	0.8	2.8	1.9
Unemployment rate (female; male) (%)	17.7 (18.8; 16.8)	15.3 (16.1; 14.6)	13.5 (14.3; 12.9)
Economic activity rate for persons aged 20–64: proportion of the population aged 20–64 that is economically active (female; male) (%)	63.6 (55.6; 71.6)	65.6 (58.1; 73.1)	
Current account balance (% of GDP)	-4.7	-3.1	-5.7
Net Foreign direct investment (FDI) (% of GDP)	5.4	5.5	6.6

Source: Eurostat

In line with the conclusions of the June 1993 European Council in Copenhagen, EU accession requires the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the EU.

The monitoring of these economic criteria should be seen in the context of the central importance of economic governance in the enlargement process. Each enlargement country prepares an Economic Reform Programme (ERP) annually, which sets out a medium-term macro-fiscal policy framework and a structural reform agenda aimed at ensuring competitiveness and inclusive growth. The ERPs are the basis for country-specific policy

guidance jointly adopted by the EU, the Western Balkans and Turkey at ministerial level in May each year.

3.1 The existence of a functioning market economy

Serbia has made **good progress** and is **moderately prepared** in developing a functioning market economy. Some of the policy weaknesses, in particular with regard to the budget deficit, were addressed. Growth fundamentals are sound and macroeconomic stability was preserved. Price pressures were subdued and monetary policy supported growth. The restructuring and privatisation of state-owned enterprises partially advanced. The stability and performance of the financial sector strengthened. Labour market conditions improved further.

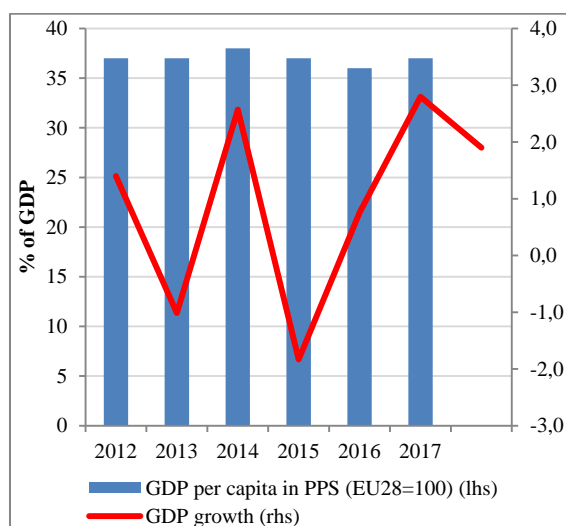
However, government debt is still high and budgetary framework and governance need to be strengthened. External imbalances increased. Major structural reforms of public administration, the tax authority, and state-owned enterprises (SOEs) remain incomplete. Unemployment and economic inactivity are high, particularly among women and youth. The private sector is underdeveloped and hampered by weaknesses in the rule of law and the enforcement of fair competition.

In order to support long-term growth, Serbia should pay particular attention to:

- sustain good fiscal results in order to lower government debt and improving revenue collection in a systematic and business-friendly way;
- continue the restructuring and privatisation of state-owned enterprises and public administration reform;
- enhance labour market participation and employment especially for women and youth.

Economic governance

Figure 1 Serbia GDP growth



Source: Eurostat, national sources

Despite delays in key structural reforms, the authorities remain committed to creating a functioning market economy. The implementation of the Stand-By Arrangement with the International Monetary Fund was completed successfully in February 2018. The policy guidance jointly adopted in May 2017 has been partially implemented. The strong budget performance continued unabated and, along with low inflation and well-anchored inflationary expectations, it allowed additional monetary policy relaxation. Reforms of the public administration, the tax administration, and the restructuring of large state-owned enterprises advanced slowly. Financial stability strengthened. Following recent strides in improving the business environment, efforts in this area weakened.

Macroeconomic stability

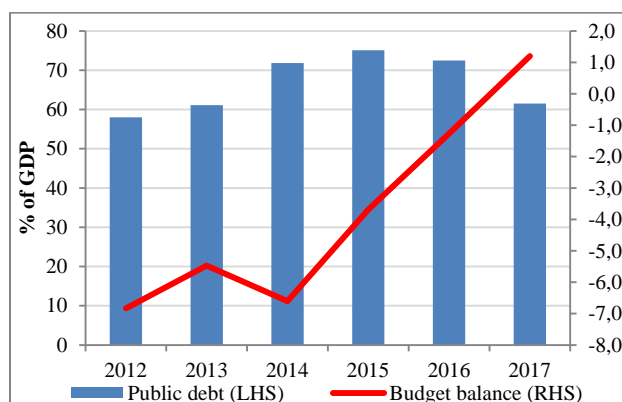
Growth fundamentals and prospects are sound. Although economic growth decelerated to 1.9 % in 2017 due to temporary shocks in energy and agricultural production, the underlying growth trend remains vibrant. Economic activity continues to be supported by a strong export expansion and rising investment. This growth model is further sustained by foreign direct investment in tradable sectors. Private consumption, underpinned by higher income and

employment levels, went up in 2017 and is poised to increasingly contribute to and drive the growth momentum of the economy. The income gap with the EU remained broadly unchanged: in 2016, per capita GDP in purchasing power terms stood at 37 % of the EU average, the same level as in 2012.

External imbalances increased but their financing was healthy and buffers remained adequate. After several years of decline, the current account deficit went up again to 5.7 % of GDP in 2017, driven by lower exports of agricultural goods as a result of a drought, worsening terms of trade, higher direct investment income outflows, and surging imports due to buoyant domestic demand. The deficit was, however, fully covered by net foreign direct investment which continued to be broad-based and increased for a third year in a row to reach 6.6 % of GDP. The level of external debt was broadly stable over previous years before declining to around 70 % of GDP in 2017. External risks were cushioned by sizeable official foreign exchange reserves which have consistently covered around six months' worth of imports of goods and services.

Inflation stayed close to the target and monetary policy further supported growth. 2017 ended with inflation at 3.0 %, exactly in the centre of the band targeted by the central bank. Price pressures remained subdued and inflation expectations contained. The continuing strong fiscal consolidation and dinar appreciation due to significant capital inflows were instrumental in achieving price stability. They also allowed monetary policy to become more accommodative: cuts in the key policy rate resumed in the autumn when it was lowered in two steps of 25 basis points each, to 3.5 %, followed by another 25 points cut in March. Lending conditions improved further and credit activity increased, boosted by past monetary policy easing and reduced risk premiums. The central bank intervened on the foreign exchange market buying a net EUR 0.7 billion in 2017.

Figure 2 Serbia fiscal developments



Source: Eurostat, national sources

Strong fiscal consolidation was decisive in instilling confidence in the economy and supporting the recovery. Between 2014 and 2017, the general government budget turned from a deficit of 6.6 % of GDP to a surplus of 1.2 %. Final budget outcomes outperformed significantly initially planned targets mainly because of an unexpectedly strong revenue performance, including some one-offs, like revenues from 4G licences, superdividends from state-owned companies etc. The structural improvement in the budget balance over this period was around 6 % of GDP,

driven both by improved revenue collection and subdued current expenditure. The successful implementation of the consolidation programme created space for additional wage and pension increases which continued with the 2018 budget as well. For the first time, this year's budget also included a limited reduction of labour taxation, mainly in the low-income segment. As a result of prudent fiscal policy, the growth of government debt was reversed: after peaking at 74.6 % of GDP in 2015, it fell to 61.5 % of GDP in 2017. Although interest payments have declined, they are still significant and debt service costs remain sensitive to interest and exchange rate fluctuations.

Good fiscal results need to be sustained in view of the still high indebtedness and elevated risks. The share of mandatory expenditure is large and restrains the scope to

increase productive spending. The unfinished reform of state-owned enterprises, in particular in the petrochemical, mining and energy sectors, remains a constant source of contingent liabilities and could easily undermine the hard-won fiscal sustainability. Improved tax revenue collection has been a major element of the recent consolidation. Preserving revenue gains, thus, calls for avoiding further delays in implementing the tax administration transformation programme which was updated in December 2017. Some elements of the cost-cutting programme of the previous years, like the partial employment freeze and the targeted reduction of pensions have been retained in 2018 but they are not a substitute for a systemic approach to expenditure restraint and constitute an implicit liability.

There are still important weaknesses in the budgetary framework and governance systems and efforts to strengthen them progressed slowly. Public administration reform advanced with delays. In particular, the implementation of the wage system reform in the public sector was postponed, and its introduction is now planned with the 2019 budget. There are still important shortcomings in the capital budgeting system. Capital expenditure execution underperformed last year despite efforts to improve the project appraisal process and establish a single project pipeline. As part of the public finance management programme, a new public internal financial control strategy was adopted in May 2017, together with a 2017-2018 action plan. The system of fiscal rules is weak as it is not sufficiently binding and relevant for policy-making, but work on its strengthening has been slow.

The macroeconomic policy mix was appropriate. It brought macroeconomic stability and improvement in major economic indicators. Although there are still significant economic challenges and headline economic growth was slow, the restrictive fiscal stance and accommodative monetary policy ensured price stability, stimulated investment activity, increased employment, and reduced the country risk premium. Full implementation of the public sector reforms and strengthening of key fiscal institutions would help sustain these results and support convergence with the EU.

Functioning of product markets

Business environment

The business environment improved somewhat, but significant weaknesses still need to be addressed. Over the last few years Serbia improved its standing in various international business rankings. This was mainly due to reforms facilitating the process of dealing with construction permits and registering property. The institutional and regulatory environment, however, remain weak. Business-relevant laws continue to be adopted under urgent procedures, without the necessary consultation of interested groups. Delays in the adoption of secondary legislation hamper the implementation of adopted laws. The courts enforcing property rights remain overburdened with a significant, although declining, backlog of cases. Property restitution continued, with more than half of the cases resolved, and restitution in kind is almost complete. Fair competition is negatively affected by the size of the informal economy, which remains considerable, estimated at up to 30 % of GDP. Unpredictable and unjustified para-fiscal charges continue to hamper the business environment. Licensing procedures under different authorities often lack transparency, creating a discriminatory business environment. More efforts are needed to streamline the work of different inspectorates.

State influence on product markets

The state presence in the economy slightly declined. The share of administered prices (estimated at 19 % of the consumer basket) was broadly unchanged. Advances in the privatisation and restructuring of state-owned enterprises (together with cyclical factors stemming from favourable international market developments) helped improve their financial performance. As a result, the level of direct state aid to them has fallen. Nevertheless, some enterprises accumulated new arrears and the non-transparent practice of taking over part of their debt by the state, in particular towards the electricity company EPS and the gas supplier Srbijagas, continued. Electricity prices increased slightly as of October 2017. Administrative capacity and political willingness to manage subsidies remains weak. The provision of budget subsidies to foreign investors, in a non-transparent manner and without systematic control of the state aid authority, also continued.

Privatisation and restructuring

Privatisation and restructuring of state-owned enterprises advanced, although challenges remain. After the Privatisation Agency closed in 2016, most of the companies in its portfolio went into bankruptcy proceedings. There were several successful privatisations of companies that had been a burden on public finances for years. Nevertheless, around 140 companies, employing some 50,000 people, remain to be resolved. A big part of the employment is concentrated in several large enterprises in the petrochemical and mining sectors. The authorities have committed to either launching privatisation tenders for them or seeking strategic investors in the first half of 2018. The restructuring of key utilities advanced with varied speed and success. "Railways of Serbia" has taken important steps towards reorganising its assets, network and staff. The state-owned power utility Elektroprivreda Srbije followed its restructuring plans only partially. The company also has to address corporate governance and management issues. These issues were a factor in the temporary decline in electricity production in early 2017. The payment collection rate of Srbijagas continued to improve and future investment decisions by the enterprise should be based on a new appraisal methodology. The delayed unbundling of the company and further strengthening of its operational and financial performance remains a priority.

Functioning of the financial market

Financial stability

The performance of the financial sector improved. The liquidity position of the banking system remained strong, while capital adequacy increased further from an already high level. The benign economic environment and lower provisioning needs boosted profitability to levels not seen before the 2008 crisis. The implementation of the resolution strategy for non-performing loans supported a reduction of the gross non-performing loans ratio to 11.1 % in November 2017 — its lowest value since 2009 and down by nearly half since its peak in 2015. In 2017, banks wrote off non-performing loans worth 2.3 % of GDP — most of it due to a central bank decision requiring the accounting write-off of fully provisioned non-performing loans. Despite these strong results, the level of non-performing loans is still high, and their reduction was uneven and less pronounced in state-owned banks. With the exception of preparations for steering Banka Postanska Stedionica towards retail banking, restructuring and privatisation plans for state-owned financial institutions have been delayed amid persistent governance issues. In the last 2 years, the proportion of overall deposits and loans in dinars rose, although still only slightly, driven mainly by higher dinarisation of household loans and deposits. Financial stability was enhanced by continuous improvements in the regulatory and macroprudential framework and in particular the introduction of Basel III standards last year.

Access to finance

Lending activity accelerated and access to finance improved. The financial system is dominated by foreign-owned commercial banks, which hold three quarters of banking system assets. The banking sector consolidated following the merger or sale of several small banks. State control of key entities in both the banking and insurance sectors has remained unchanged, as privatisation plans have been delayed. Lending conditions improved. The cost of corporate and household borrowing declined rapidly from the beginning of the monetary easing cycle in September 2013 until mid-2016, and has continued falling since then, although at a much lower pace. At the same time, in the last two years, demand for new loans started recovering and commercial banks eased their credit standards, contributing to increased credit activity. This was particularly marked in some segments of the market such as cash loans to households, which grew to rival housing loans and will need to be managed carefully to limit excesses and reduce financial system vulnerabilities. Total commercial bank lending to the non-monetary sector, excluding effects from the exchange rate and non-performing loan write-offs, increased by close to 10 % in 2017. However, it remained rather low, at an estimated 46 % of GDP.

Functioning of the labour market

Labour market conditions improved further, although unemployment is still high. In 2017 the employment rate reached 46.7 % — its highest level since the start of the (revised) labour force survey in 2014. The structure of employment improved slightly, as informal and agricultural employment declined, although both remained significant at around one fifth of total employment. Employment in industry and services and registered private sector employment increased. Wages grew only moderately. Unemployment fell significantly as gains in employment outweighed the number of those entering the labour market. However, at 13.5 % in 2017, it is still high. Long-term unemployment, i.e. the number of unemployed people looking for a job for more than a year, declined by around 35 % over the last three years. The position of women and youth on the labour market improved as well, although their rates of activity, employment and unemployment remained far worse than those of men.

Figure 2 Unemployment in Serbia (% of active population)

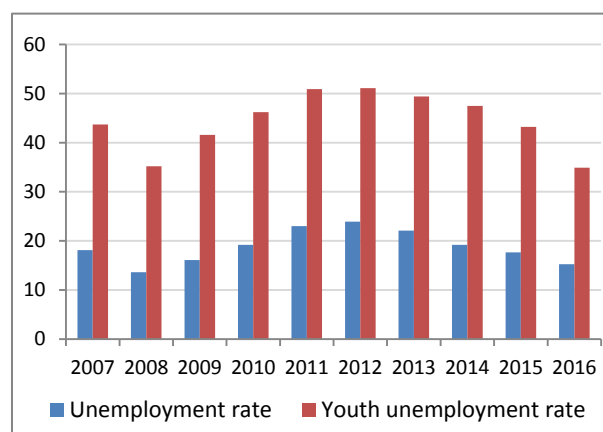
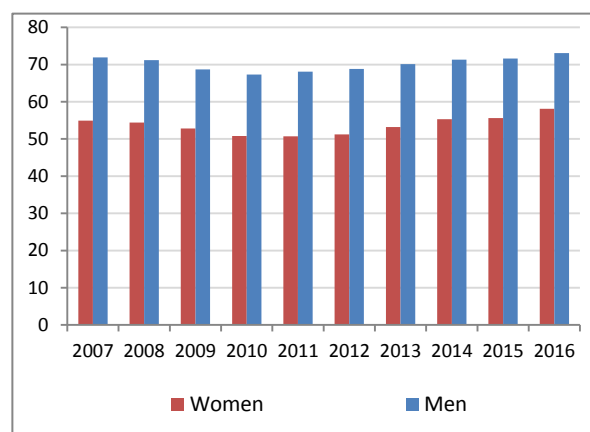


Figure 34 Participation rates in Serbia (% of labour force)



Source: Eurostat, national sources

Limited steps were taken to address major structural problems of the labour market. Demographic trends are very negative: the population is rapidly declining and aging. While demand for labour is growing, job creation is still inadequate. Emigration of the highly educated remains a serious challenge. Almost a quarter of all unemployed completed tertiary education, which points to a considerable gap between acquired skills and labour market

demand. About 1 in 5 in the age group 15-24 is not in employment, education, or training, albeit there have been some improvements. Active labour market measures target young people, women, redundant workers released in the process of restructuring state-owned enterprises, and long-term unemployed. However, these measures are too limited, given the number of unemployed, and predominantly one-off like job counselling and job fairs. In an attempt to boost job creation, reduce undeclared work, and limit the impact on cost competitiveness of the decision to increase the minimum wage by 10 %, the government increased the non-taxable personal income threshold from the beginning of 2018. However, labour taxation, in particular the social security burden, remained disproportionately high for lower wages.

3.2 The capacity to cope with competitive pressure and market forces within the EU

Serbia has made **some progress** and is **moderately prepared** to cope with competitive pressure and market forces within the EU. The structure of the economy improved and economic integration with the EU increased further.

However, the quality, equity and relevance of education and training do not fully match societal and economic needs. The level of investment activity is also below the economy's needs. Despite some improvements, SMEs face a number of challenges, including high and unpredictable para-fiscal charges, and difficult and costly access to finance.

In order to support long-term growth, Serbia should pay particular attention to:

- continue to improve the quality, equity and relevance of the education system;
- stimulate private investment and improving prioritisation and management of public infrastructure projects;
- better regulate and reduce para-fiscal charges.

Education and innovation

The education system faces a number of structural challenges. Serbia's population is ageing and shrinking by around 0.5 % per year. Public spending on education as a percentage of GDP is comparable to that of EU countries, but outcomes in terms of skills and key competences are weaker. Serbia ranked below all EU Member States in the 2017 World Economic Forum human capital index, with particularly weak results in the 15-24 age group. The level of research investment is below 1 % of GDP and cooperation between researchers in the public and private sector is not systematically supported.

The quality, equity and relevance of education and training have to be improved in order to better match societal needs. Both employers and graduates believe that the country's education institutions do not equip students with key soft skills, such as problem solving and decision-making. National strategic documents and recently adopted legislation aim to address the outdated curricula and obsolete teaching methods in pre-university education; however, the implementation is yet to follow. The Law on national qualifications framework has been adopted and should now be linked with a progressive reform of the education system at all levels, including non-formal and informal learning.

Physical capital and quality of infrastructure

The stock and quality of infrastructure is poor and below the economy's needs. The share of total investment in the economy is low at below 20 % of GDP. Work on major infrastructure projects intensified in recent years but the level of public investment remained suboptimal. Foreign direct investment has been on the rise in the last three years, staying

above 5 % of GDP. A large share of it was channelled into greenfield projects in tradable sectors, thus further increasing the production and export base.

Structural reforms in the transport and energy sectors could support new investment. In order to ensure efficient use of public resources, the investment appraisal, implementation, and monitoring processes need to be further strengthened. The transport and energy sectors require improvement in traffic management, maintenance and road safety, and in energy efficiency and diversification. Information and communication technology infrastructure continued to expand. Almost two thirds of households have internet access at home and the use of online public services increased. The authorities have made digitalisation one of their top priorities.

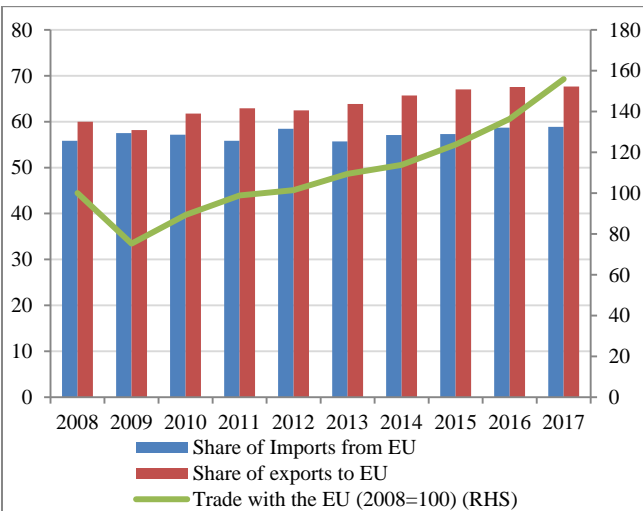
Sectoral and enterprise structure

The structure of the economy continued to change incrementally. Due to its high dependency on weather conditions, agricultural performance was volatile. Nevertheless, its share of GDP has fallen for several years in a row, confirming a shift in economic activity towards other sectors. However, at 6.5 % of GDP and close to a fifth of total employment, agriculture is still relatively important in comparison to peer countries. Services and industry remained dominant in the economy, both in terms of value added — with shares of slightly above half and one fifth of GDP respectively — and employment. The recent influx of foreign direct investment helped reviving manufacturing activity. However, some of the foreign investments benefit from state aid and remain technologically less sophisticated. Further, sustained investment in industry and manufacturing is needed to safeguard and upgrade skills, improve productivity and ensure the integration of a larger number of domestic firms into cross-border value chains.

Horizontal support to small and medium-sized enterprises increased. Small and medium-sized enterprises (SMEs) are particularly active in construction, retail and tourism services. In order to further encourage SME development, the government extended the activities of the 2016 Year of Entrepreneurship to the whole decade and is providing various programmes of financial and non-financial assistance to the sector. Nevertheless, SMEs face a number of challenges, including an unpredictable business environment, and are most vulnerable to the high and unpredictable para-fiscal charges. Despite recent improvements, access to finance also remains difficult and costly.

Economic integration with the EU and price competitiveness

Figure 5 Serbia trade integration with the EU



Source: Eurostat, national sources

Economic integration with the EU increased further.

Trade openness rose above 110 % of GDP in 2017 as both imports and exports grew by double digits in euro terms. The EU is by far Serbia's main trading and investment partner, accounting for around two thirds of total trade and more than three quarters of net foreign direct investment inflows. It is followed by the Central European Free Trade Agreement (CEFTA) countries, which represented around a fifth of exports but less than 5 % of total imports last year. The development of a Regional Economic Area based on EU rules and standards, to which all Western Balkan economies have committed, has the potential to generate untapped growth. The national quality infrastructure still does not fully support trading operators and there are non-tariff barriers impeding intra-regional trade as well as the trade with the EU. Better services could be offered to support the internationalisation of companies, in particular SMEs, and to bring domestic and foreign companies together. The dinar appreciated against all major currencies in 2017, reducing price competitiveness. However, non-price competitiveness improved further due to rising foreign direct investment in tradable sectors.

4. REGIONAL ISSUES AND INTERNATIONAL OBLIGATIONS

There are no outstanding issues concerning Serbia's respect for the *Dayton/Paris Peace Agreement*. Serbia continues to support Bosnia and Herzegovina's path to joining the EU and the sovereignty and territorial integrity of Bosnia and Herzegovina. As envisaged by the Dayton agreement, Serbia continues to preserve special relations with Republika Srpska, with whom a joint governmental session was held in Belgrade in November 2017.

According to the Prosecutor of the International Criminal Tribunal for the former Yugoslavia (ICTY)/Mechanism for International Criminal Tribunals (MICT), Serbia's cooperation on requests for assistance remained satisfactory over the reporting period. In December 2017, both the former ICTY President and ICTY Prosecutor, however, raised again concerns as to the lack of cooperation of Serbia in connection with the ongoing contempt of court case against Serbian citizens. MICT has since confirmed its jurisdiction over this contempt case and decided to consider whether to refer for trial this case to national authorities, as provided for under its Statute. In this regard, the Serbian authorities indicated that Serbia "is prepared to conduct criminal proceedings" against the accused persons. MICT further granted the *Amicus Curiae* Prosecutor's request to make submissions on this referral to Serbia, including as to whether it would serve the interests of justice, the expediency of the proceedings and would respect the right of the accused to a fair trial. The decision to refer the case will eventually have to be taken by MICT.

Serbia needs to fully and unequivocally accept and implement the ICTY's rulings and decisions and to show preparedness to face its recent past. There have been instances in which state authorities have provided public fora for ICTY-convicted war criminals. One of these cases is the appointment of an ICTY-convicted war criminal as guest lecturer at the Serbia's military academy. This is a worrying development which raises concerns.

Domestic handling of war crimes

Serbia does not have bilateral immunity agreements granting exemption from the jurisdiction of the *International Criminal Court* and complies with the EU common positions on the integrity of the Rome Statute together with the related EU's guiding principles on bilateral immunity agreements.

Along with Bosnia and Herzegovina, Croatia and Montenegro, Serbia has continued to cooperate closely under the *Sarajevo Declaration Process*, which aims to find sustainable

solutions for some 74 000 people who became refugees or displaced persons as a result of the armed conflicts in former Yugoslavia in the 1990s. In Serbia, some progress has been made on implementing the upgraded plan for 6.289 housing units worth EUR 105 million funded by the EU; so far 1 100 housing solutions have been delivered. The implementation is behind schedule but picking up. The issue of refugees' pensions between Croatia and Serbia continues to be unresolved.

The unresolved fate of *missing persons* who disappeared in the conflicts of the 1990s remains a humanitarian concern in the Western Balkans. In March 2018 a total of 10 332 people were still missing as a result of the conflicts in the region. Of these, 6 675 cases are related to the conflict in Bosnia and Herzegovina, 2 057 to the conflict in Croatia and 1 658 to the conflict in Kosovo. The lack of information on gravesites and difficulties in identifying the human remains exhumed up to now continue to be the key obstacles to solving the remaining cases of missing persons in the region. Efforts must continue to find information on potential gravesites and clarify the fate and whereabouts of those still unaccounted for. Two sessions of the Belgrade-Pristina Working Group on Missing Persons, chaired by the International Committee of the Red Cross (ICRC), were held in 2017. An extraordinary session took place at ICRC Headquarters in Geneva, convened in the framework of the round table organised by the United Nations Interim Administration Mission in Kosovo (UNMIK), under the auspices of the Office of the United Nations High Commissioner for Human Rights (OHCHR), to boost the clarification of the fate of missing persons in Kosovo. After over 18 months of excavation works at the location of potential gravesite at Kizevak mine, Raska municipality, the Serbian authorities officially closed the site in June 2017 and have found no trace of any victims. The Serbian Ministry of the Interior has been cooperative in providing information from its archives to ICRC, related to persons missing in Kosovo 1998-1999. No information has been provided by the Ministry of Defence. In November 2017 a meeting of Serbian and Montenegrin commissions for missing persons took place in Belgrade and relevant information was exchanged. No progress has been made in cooperation between Serbia and Croatia. The commissions of the two governments last met formally in June 2015.

Regional cooperation and good neighbourly relations form an essential part of Serbia's European integration process and contribute to stability, reconciliation and a climate conducive to addressing open bilateral issues and the legacies of the past. Serbia maintained its engagement in a number of regional cooperation initiatives in south-east Europe, such as the South-East European Cooperation Process, the Regional Cooperation Council, the Central European Free Trade Agreement (CEFTA), the Adriatic-Ionian Initiative, the European Union Macro-Regional Strategies for the Danube Region (EUSDR), the Adriatic and Ionian Region (EUSAIR), the Brdo-Brijuni process, the Western Balkan Six initiative and the Berlin process. The Serbian Prime Minister also participated in an informal meeting of regional leaders in Durres, Albania in August 2017. Serbia took over the yearly rotating chairmanship of CEFTA in 2017. It continued to actively support the Coalition for Reconciliation Commission and Igman initiatives on regional reconciliation.

The impetus given through the Berlin process and the Western Balkan Six initiative, especially on the connectivity agenda, has continued to foster increased regional cooperation. Building on the results of previous summits, the July 2017 Trieste summit saw further advances on the 'connectivity agenda' but also opened cooperation in new areas, on setting up a regional economic area (REA). Serbia has participated actively and swiftly appointed a national coordinator for the REA. The implementation of the REA multiannual action plan will strengthen trade links in CEFTA to allow further economic integration within the region, based on EU rules and standards. Serbia also needs to reinforce efforts to implement the connectivity reform measures it committed to under the connectivity agenda, in particular

those enabling a regional electricity market. The implementation of the connectivity reform measures remains crucial for the functioning of integrated transport and energy networks.

Serbia remained constructively committed to *bilateral relations* with other enlargement countries and neighbouring EU Member States. Bilateral conventions on regional cooperation (under Article 15 of the SAA) are in force with Montenegro and the former Yugoslav Republic of Macedonia. The convention with Bosnia and Herzegovina has been signed in January 2018 and is yet to be ratified. Serbia initiated the process of concluding a convention with Albania.

Relations with *Albania* remained stable overall. The first visits in decades by Albanian's President to Serbia, in March and November 2017, were a major step forward. The Albania-Serbia Joint Chamber of Commerce was established in Tirana. Bilateral ties were also strengthened on the occasion of regional and international events attended by both Prime Ministers. Serbia also cooperates with Albania under the Albania-Serbia-Italy Trilateral. The latest trilateral meeting took place in February 2018.

Relations with *Bosnia and Herzegovina* remained good. The first visit of the newly elected Serbian President in the region to Sarajevo in September 2017, which was also the first visit of such nature since 2011, was a major milestone. Members of the Bosnia and Herzegovina Presidency in return visited Belgrade in December 2017. Ministers of Foreign Affairs of Serbia, Bosnia and Herzegovina and Turkey met in Belgrade in December 2017. The Chair of the Council of Ministers of Bosnia and Herzegovina visited Belgrade in January 2017 and the Chair of Bosnia Herzegovina Presidency in January 2018. Serbian President and Bosnian member of the Presidency met in Istanbul in January 2018.

Relations with *the former Yugoslav Republic of Macedonia* were good overall. Sporadic tensions, such as those in August 2017, were swiftly resolved. The Prime Minister of the former Yugoslav Republic of Macedonia visited Belgrade in November 2017.

Relations with *Montenegro* continued to be good. The joint committee of the governments of Montenegro and Serbia in the context of the EU accession met for the second time in November 2016. The Montenegrin Prime Minister visited Belgrade in February 2017 as his first bilateral visit following his election. In July 2017, the Serbian Prime Minister took part in an international meeting in Podgorica and met with her Montenegrin counterpart. Serbian Minister of Foreign Affairs visited Podgorica in January 2018. There were no developments on issues related to citizenship rights in the two countries. The demarcation of borders is still pending.

Relations with *Turkey* deepened. In October 2017, the Turkish President visited Serbia. On this occasion, several agreements were signed, including on the establishment of a High Cooperation Council. Extension of the existing bilateral FTA was initialled by the two Presidents while the additional protocols were formally signed in January 2018 in Ankara and are now pending for parliamentary ratification. The Serbian and Turkish Presidents also met in July 2017 at the World Petroleum Forum in Istanbul, on the occasion of the annual UN General Assembly in September 2017 and in Istanbul in January 2018.

Relations with neighbouring EU Member States *Hungary, Romania and Bulgaria* remained good. A joint session of the Serbian and Hungarian governments and a bilateral business forum took place in November 2016 in Niš, Serbia. Frequent ministerial meetings were held. The Serbian Prime Minister visited Romania in November 2016. The Serbian President took part in meetings with Bulgarian, Greek and Romanian Prime Ministers in October 2017 in Varna and in December 2017 in Belgrade. Relations with *Croatia* continued to be mixed. The

Croatian President attended the inauguration ceremony of the new Serbian President. The Serbian President visited Croatia in February 2018.

5. NORMALISATION OF RELATIONS BETWEEN SERBIA AND KOSOVO

Work under the EU-facilitated dialogue has continued throughout the reporting period. Four official high-level meetings took place under the facilitation of HRVP Mogherini in July, August and September 2017, as well as March 2018. Presidents Vučić and Thaçi agreed to work on a new phase of the dialogue with a view to a comprehensive normalisation of relations between Serbia and Kosovo. This work is currently ongoing and needs to be accelerated. Meetings at technical level resumed early 2018.

January 2017 saw an attempt to send a train, emblazoned with Serbian nationalist slogans, from Belgrade to the north of Kosovo. Following heavy pressure from the EU and other international partners, the train did not enter northern Kosovo.

Implementation of the **25 August 2015 Agreements** has overall been slow. Progress has been made on the **Association/Community of Serb majority municipalities** in Kosovo. On 4 April 2018, Kosovo has given a mandate to the Management Team to start drafting the statute of the Association/Community. The **energy** agreement between Serbia and Kosovo must be implemented without further delay in order to avoid that this longstanding dispute has further consequences for energy stability and security in Serbia, Kosovo and countries across Europe. These consequences have become more acute and visible in recent months. Serbia needs to register and license the two Serbian energy companies to be established in Kosovo as a matter of urgency. A wall in North Mitrovica alongside the bridge was illegally constructed in December 2016. It has since been dismantled. The **Mitrovica bridge**, on which works have started in August 2016, should be opened without further delay or obstructions. The **telecoms** agreement is now fully implemented. Kosovo has been allocated a dialling code for its use and operation in November 2016. Serbia established a telecommunications company as subsidiary of Srbija Telekom under the Kosovo legal and regulatory framework.

Further progress has been made on the implementation of the **April 2013 ‘First agreement of principles governing the normalisation of relations’**. The **justice** agreement is now fully implemented. In October 2017, Kosovo President Thaçi decreed 40 Kosovo Serb judges, 13 prosecutors and their respective support staff, thus finalising the recruitment process of the judicial personnel for the north. All former Serbian judicial personnel is now fully integrated into the Kosovo system, as are Kosovo Serb **police and civil protection** personnel. In the context of the **liaison arrangements**, official visits are directly arranged by liaison officers in line with the relevant agreement but on occasions the agreement is not fully respected. Events in March 2018 surrounding the entry procedures and the treatment of Serbian government official Marko Djuric heightened tensions.

Some of the **Technical Dialogue Agreements (2011-2012)** are not being implemented. Both sides need to remain committed to the continued implementation of the agreement on representation and participation of Kosovo in **regional forums**. The issue of **university diplomas** recognition is yet to be solved as are the **licence plate** related elements of the agreement on freedom of movement. Serbia has yet to address the issue of re-located Serbian administrative **customs** structures with Kosovo denomination that operate from within Serbia, and to cease the issuance of documentation or affixing of stamps with denomination that contravenes to the related agreement. On **IBM**, while the interim crossing points are fully operational, Serbia has obstructed progress in constructing four out of six permanent common crossing points in Tabavije/Bërnjak, Jarinje/Jarinjë, Konculj/Konqul and Mucibabe/Muçibabë. Additional measures need to be taken by Serbia to close illegal

crossings. Requests for **mutual legal assistance** are being processed. Serbia provides support for the judicial process led by **EULEX**.

Overall, Serbia has remained engaged in the dialogue. However, Serbia needs to make further substantial efforts and contribute to the establishment of circumstances conducive to a comprehensive normalisation of relations with Kosovo. A legally binding agreement is urgent and crucial so that Serbia and Kosovo can advance on their respective European paths. In Serbia, President Vučić has launched an internal dialogue on Kosovo in July 2017.

6. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

6.1. Chapter 1: Free movement of goods

The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules, the principle of the free movement of goods prevents these creating unjustified barriers to trade.

Serbia is **moderately prepared** in the area of free movement of goods. **Some progress** was made in adopting and implementing harmonised and sectoral area legislation.

In the coming year, Serbia should in particular:

→ adopt an action plan for compliance with Articles 34-36 of the Treaty on the Functioning of the European Union (TFEU);

→ adopt a strategy and an action plan for the implementation of the EU *acquis* in this chapter, covering both the sectoral ('New Approach' and 'Old Approach') and horizontal legislation and organisations;

→ provide adequate administrative capacities to ensure the implementation of the European Regulation on Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH), as well as at the Directorate for Measures and Precious Metals.

General principles

There was no progress in the area of **general principles** of free movement of goods. Serbia has still not adopted an **action plan for compliance with Articles 34-36 of the TFEU**. Serbia has also not yet adopted a strategy and action plan for implementing the *acquis* on this chapter. Administrative structures for technical regulations, standards, accreditation, metrology, conformity assessment and market surveillance require further strengthening.

Non-harmonised area

Some progress was made in the **notification of technical regulations**, with the adoption of the law on technical requirements for product and conformity assessment which aims to set up the legal basis for the functioning of the Product Contact Point in compliance with the *acquis*. Networks of contact points among authorities and among economic operators benefiting from the current notification procedure have been established.

Harmonised area: quality infrastructure

The legal basis for technical regulations, standards, conformity assessment, metrology and accreditation exists and is designed with the aim of aligning with the *acquis*; however, administrative capacities and financial resources need further improvement in the areas of market surveillance, metrology, accreditation and standards.

On **standardisation**, the Serbian Institute for Standardisation (ISS) became a full member of the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC) in January 2017. As of January 2018, the rate of adopted European standards has reached 98 % (CEN and CENELEC standards). ISS also adopted 26.5 % of European Telecommunications Standards Institute's standards.

The ISS administrative and financial capacities have slightly improved, but require further strengthening.

The equipment for improving **conformity assessment** services was upgraded. Currently there are 552 **conformity assessment bodies** in Serbia and 180 more are in the process of being accredited.

More efforts are needed for the effective implementation of presumption of conformity, in relationship to imports of goods from the EU.

Concerning **accreditation**, the Accreditation Body of Serbia (ABS) was re-evaluated successfully in a peer evaluation by the European Co-operation for Accreditation Association in 2017, enabling ABS to maintain its status in the European Accreditation Multilateral Agreement.

On **metrology**, the Directorate for Measures and Precious Metals has a very low administrative capacity, preventing it from carrying out its daily operations as well as its supervisory role. The number of internationally recognised national standards for calibration and measurement stand at 147. No progress was made on **market surveillance**, as the amendments to the law on general product safety, aiming to further align with the *acquis*, remain to be adopted. The market inspection's administrative and financial capacities remain inadequate. In 2017 the market surveillance authorities carried out 5,254 inspections in the area of compliance and product safety; 1,228 dangerous products were removed from the market, in the proactive and reactive market surveillance activities.

Harmonised area: sectoral legislation

In the area of the **'New and Global Approach' product legislation**, implementing legislation on equipment and protective systems intended for use in potentially explosive atmospheres, recreational crafts, transportable pressure equipment and aerosol dispensers, as well as a law on medical devices were adopted in 2017, aiming to ensure full alignment with the *acquis*. Implementing legislation on measuring instruments has been adopted in 2018, with the aim of fully aligning with the *acquis*. Further alignment is needed in the areas of cableways, radio and telecom equipment, pressure equipment, construction products, civil explosives, pyrotechnic articles, toy safety, eco-design, energy efficiency, and on **civil explosives**. Companies report all transactions regarding civil explosives to the Ministry of the Interior.

In the field of **'Old Approach' product legislation**, the legislation on tractors, motor vehicles, non-road mobile machinery emissions is not in line with EU law. The legislation on REACH and the legislation on chemicals classification, labelling and packaging (CLP) aims to align with the *acquis*. The CLP law is in line with the UN Globally Harmonised System of Classification and Labelling of Chemicals. The adoption of implementing legislation and the provision of adequate implementing capacity is needed for effective implementation of REACH. The administrative and inspection capacity necessary for the implementation of REACH and CLP require strengthening. On **fertilisers**, the current legislation needs to be amended to ensure accreditation of the relevant conformity assessment bodies.

A licensing and regulation system for economic operators dealing with **drug precursors** is in place, obliging economic operators to report suspicious orders or transactions. The

mechanisms to detect drug precursors smuggling are in place as well. Legislation on **good laboratory practices** is in place and aims at full alignment with the *acquis*.

On **procedural measures**, Serbia implemented the military control lists for dual-use goods in line with the EU and international export control regime; however national legislation is not in line with EU law with regard to **firearms**, or **defence products**. Serbian legislation on pricing of **medicinal products** and on the return of **cultural objects** unlawfully removed from the territory of an EU Member State needs to be aligned with the *acquis*.

6.2. Chapter 2: Freedom of movement for workers

Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.

Serbia is **moderately prepared** in the area of freedom of movement for workers. **Some progress** was made in the reporting period.

In the coming year, Serbia should in particular:

→ continue enhancing cooperation with EU Member States on co-ordination of social security systems.

No new legislation on **access to the labour market** was adopted. Procedures for issuing work permits to EU citizens, who are currently covered by rules for third country nationals, need to be further simplified. EU citizens will have fully free access to the labour market (without a work permit) only from the date of Serbia's accession to the EU.

There has been no progress on preparations for joining **EURES** (the European network of employment services).

Relating to **coordination of social security systems**, a new agreement with Romania has been ratified, while an agreement with Greece has been signed. Preparations for agreements on electronic exchange of social security data with Bulgaria, Hungary and Italy have started. Electronic exchange of social security data is operational with Slovenia, Croatia, the former Yugoslav Republic of Macedonia and Montenegro. Legislative and technical conditions for social security institutions to cooperate with their counterparts in EU Member States should be further improved.

There has been no progress on the **European Health Insurance Card**.

6.3. Chapter 3: Right of establishment and freedom to provide services

EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on mutual recognition of qualifications. Postal services are gradually being opened up to competition.

Serbia is **moderately prepared** in these areas. **Some progress** was made on legislative alignment in the fields of postal services and mutual recognition of professional qualifications.

In the coming year, Serbia should in particular:

→ adopt the umbrella law on services, continue to harmonise sectoral regulation with the umbrella law and the *acquis* and establish a point of single contact as a one-stop-shops for service providers to obtain information and complete administrative formalities online;

→ adopt a new law on mutual recognition of professional qualifications and implement the adopted strategy and action plan;

→ adopt the law on postal services and relevant implementing legislation to further open up the postal market; increase the capacity for postal services inspection.

There were no developments on the **right of establishment**. No point of single contact has been established.

On **freedom to provide cross-border services**, the umbrella law on services has not been adopted yet. An action plan to align sectoral laws with the umbrella law and the Services Directive was adopted in December 2016.

In September 2017, the government adopted the 2017-2020 strategy for **postal services**. The law on postal services, aiming to align with the second and third Postal Directives, is at an advanced stage of preparation but is yet to be adopted. Implementation of this law should help to further liberalise the market and increase the powers of the postal services regulator in line with the *acquis*. Capacity for postal services inspection is still insufficient. The public postal operator still needs to be transformed into a private company.

In November 2017, the government adopted a strategy for harmonising, transposing and implementing the *acquis* in the field of **mutual recognition of professional qualifications**.

6.4. Chapter 4: Free movement of capital

In the EU, capital and investments must be able to move without restriction and there are common rules for cross-border payments. Banks and other economic operators apply certain rules to support the fight against money laundering and terrorist financing.

Serbia is **moderately prepared** on free movement of capital. **No progress** was made on meeting the recommendations set out in 2016.

In the coming year, Serbia should in particular:

→ further liberalise capital movements in line with its obligations under the Stabilisation and Association Agreement (SAA);

→ further align its legislation with the latest *acquis* on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, increase the capacity of the Administration for the Prevention of Money Laundering and enhance cooperation between all stakeholders to improve investigation and reporting.

Certain restrictions on **capital movements and payments** remain in breach of the SAA and are not in line with the *acquis*. These concern financial loans by Serbian legal entities to non-resident borrowers and the purchase of agricultural land by EU nationals on the same conditions as those for Serbian citizens. Amendments to the law on foreign exchange operations, aimed at lifting restrictions on non-resident borrowers, have been agreed but have yet to be adopted.

There were no developments in **payment systems**; Serbia's legislation is already mostly in line with the *acquis* in this area.

Regarding the **fight against money laundering** and terrorism financing, a new law on the prevention of money laundering and of the financing of terrorism was adopted in December 2017, further aligning the legislation with the EU Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (AML/CFT). However a number of strategic shortcomings remain, including on the preventive measures on AML/CFT as well as limited supervisory action in the financial and non-financial sector to mitigate the risks. The Financial Action Task Force (FATF) assessed that Serbia has not taken sufficient corrective actions to correct strategic deficiencies identified in the 2016 Moneyval's

report and invited Serbia to prepare an action plan. In February 2018, FATF included Serbia on its grey list of jurisdictions with strategic deficiencies in their AML/CFT regime. The Administration for the Prevention of Money Laundering (APML) operates as a financial intelligence unit within the Ministry of Finance. In 2017, the problem of inadequate premises was solved and new staff were hired. However, the APML continues to be understaffed and its capacity for supervision remains weak. In 2017, 2 417 suspicious transactions were reported. The highest number came from banks, with over 752 reports on suspicious clients. The APML transferred information on 354 reports to relevant enforcement authorities. 44 reports were submitted by the APML to the prosecution, which resulted in the conviction of 10 persons for money laundering. Cooperation among stakeholders in this area is still insufficient to ensure proper investigation and prosecution of offences.

6.5. Chapter 5: Public procurement

EU rules ensure that the public procurement of goods, services and works in any Member State is transparent and open to all EU companies on the basis of non-discrimination and equal treatment.

Serbia is **moderately prepared** in this area. **No progress was made** during the reporting period. Significant efforts are needed to further improve competition, efficiency and transparency in public tenders.

In the coming year, Serbia should in particular:

- ensure further alignment with the EU Directives on public procurement, including concessions;
- ensure that intergovernmental agreements concluded with third countries and their implementation do not unduly restrict competition and are in line with the national legislation and the EU *acquis*;
- continue to strengthen the capacity of the Public Procurement Office, the Republic Commission for the Protection of Rights in Public Procedures and the administrative courts.

Institutional set-up and legal alignment

The **legal framework is broadly in line with the *acquis***. The legislation on defence and security procurement still contains too many exemptions that are excessively applied without justification. Serbia should ensure that intergovernmental agreements concluded with non-EU countries and their implementation are in line with the principles of equal treatment, non-discrimination, transparency and competition and are fully consistent with the EU *acquis and national legislation*. The law on public-private partnerships and concessions was amended in December 2016, among other things to allow scope for awarding a concession in phases if the estimated value of the contract exceeds EUR 50 million. The government adopted in January 2017 the relevant implementing legislation in relation to this amended law. The legislation is not yet in line with the new Directive on concessions.

In December 2016, the government adopted an action plan for implementation of the public procurement **strategy for 2017**. Implementation of this action plan has been partial with delays in adopting new legislation. In December 2017, the government adopted a new action plan for 2018.

The **Public Procurement Office (PPO)** supervises compliance with the law on public procurement and maintains the public procurement portal. The PPO published four manuals/instructions and one model for tender documentation for contracting authorities to help them apply of the law.

Implementation and enforcement capacity

In the first half of 2017, Serbia's public procurement market decreased slightly as a percentage of GDP to 7.2 % following the 2016 trend. In 2016, it had fallen to 8 % from 8.9 % in 2015, following three consecutive increases. The average number of bids per tender improved in the first half of 2017 to 3.3, from 2.9 bids per tender in both 2016 and 2015. The share of contracts awarded to foreign bidders fell to 1 % in the first half of 2017 after increasing to 5 % in 2016, from 2 % in 2015.

Monitoring of contract award and implementation remained stable. The proportion of negotiated procedures without prior notice remains low, having fallen to 3 % in the first half of 2017 and in 2016, from 4 % in 2015. Open procedures increased to account for 93 % of the total value of contracts in the first half of 2017 and in 2016, from 89 % in 2015 enhancing transparency. Centralised public procurement contracts rose to represent 15 % of the total annual procurement budget in 2016 and the first half of 2017, from 10.7 % in 2015. This should have a positive impact on efficiency. However, the use of the most economically advantageous tender criterion fell sharply to 12 % in 2016 and the first half of 2017 from 19 % in 2015. The increasing use of the lowest price as the selection criterion might ultimately lead to higher product life-cycle costs for Serbian citizens. No progress has been made in the field of e-procurement using e-tools, such as e-submission and e-auctions. A detailed and comprehensive plan for the roll-out of e-procurement needs to be prepared. Irregularities were found in 10 % of tenders inspected by the State Audit Institution in 2016, down from 28 % in 2015, pointing to potentially positive trends in tender implementation.

Capacity to manage public procurement processes was further improved through the certification of 670 additional public procurement officials in 2016 and another 474 in 2017. The PPO received approval in 2017, for the first time, to increase its staff and to hire eight new employees. Recruitment is under way. However, with a total of 28 staff members at present and a wide range of responsibilities, the PPO still lacks the administrative capacity to carry out many of its tasks. The Commission for Public-Private Partnerships and Concessions is also understaffed with only the Vice-President of the Commission working full time on project proposals.

There were no developments in **integrity and handling conflicts of interest**.

Efficient remedy system

The legislation on the **right to legal remedy** is broadly in line with the *acquis* and is enforced by the Republic Commission for the Protection of Rights in Public Procedures, an independent state body.

The Republic Commission took 1,370 decisions on requests for protection of rights in 2016 and another 834 in the first nine months of 2017. Public procurement procedures were partially or fully annulled in 786 cases in 2016 (57 % of all decisions) and in 515 cases in the first nine months of 2017 (61 % of all decisions). The Republic Commission reviewed the implementation of all its decisions ordering a partial or total annulment of public procurement procedures. The number of contracting authorities not complying has fallen to below 1 % of all decisions taken. In 2016, the Republic Commission issued fines to 11 contracting authorities that failed to comply with its decisions and orders. It took a number of other decisions in line with its broad mandate, including decisions on complaints about the conclusions of contracting authorities in 203 cases in 2016 and another 162 cases in the first nine months of 2017.

On **implementation capacity**, the Republic Commission prepared an internal action plan to improve its work. It gained new members in December 2016, in line with 2015 amendments

to the law on procurement that increased its membership from 6 to 8. It has not used its power to initiate and conduct misdemeanour procedures in the first instance because of inconsistencies between the procurement and misdemeanor legislation. This impedes the access of contracting parties to judicial review by the Republic Commission in this field.

Administrative courts' capacity to deal with more complex and numerous public procurement cases remains weak and proceedings are very lengthy.

6.6. Chapter 6: Company law

The EU has common rules on the formation, registration, and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.

Serbia has a **good level of preparation** in company law. **No progress** was made within the reporting period.

Serbia should pay particular attention in the coming year to:

→ adopt the company law under preparation, and continue to improve alignment with the company law *acquis*, notably on takeovers and the transparency requirements for listed companies;

→ align its accounting and statutory audit legislation with the *acquis* and ensuring adequate funding and resources for the public audit oversight system.

Amendments to the **company law**, which will include provisions on cross-border mergers, are at an advanced stage of preparation but have yet to be adopted. Further alignment is needed on transparency requirements for listed companies and in remaining areas on takeover bids. Serbia's Corporate Governance Code is based on EU's best practice and on OECD principles. Amendments to the law on companies and the law on the procedure for registering with the Serbian Business Registers Agency aim to facilitate e-registration procedures for business entities, including single-member companies. Serbia continues to enhance exchange with EU Member States' business registers.

Concerning **corporate accounting** and **auditing**, the legislative framework is not yet aligned with the *acquis*. The system of public audit oversight will be reorganised; here, close attention should be paid to requirements for quality assurance, investigations and penalties relating to public-interest entities. Serbia applies International Financial Reporting Standards (IFRS) and the IFRS for small and medium-sized companies.

6.7. Chapter 7: Intellectual property law

The EU has harmonised rules for the legal protection of intellectual property rights (IPRs), as well as rules for the legal protection of copyright and related rights. Rules for the legal protection of IPRs cover, for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programmes and broadcasting.

Serbia has a **good level of preparation** on intellectual property rights. There was **no progress** in this area. The recommendations set out in 2016 have not been met.

These remain valid and Serbia should therefore, in particular:

→ further align the law on copyright and related rights, the law on topographies of semiconductor products, and the laws on patents and trademarks with the *acquis*;

→ further strengthen enforcement capacity and coordination of different stakeholders.

The new law on **copyright and related rights** and the law on the protection of topographies of semiconductor products remain to be adopted. The process for adopting legislation in this area is slow.

On **industrial property rights**, the law on patents and the law on trademarks need to be further aligned with the *acquis*. The Intellectual Property Office is relatively well staffed and efficient.

Concerning **enforcement**, the number of counterfeit and pirated goods confiscated by the Market Inspectorate increased significantly in 2016 and then dropped sharply in 2017 but the number of requests submitted to it by economic operators has increased. The number of items destroyed by the customs administration almost halved in 2016 and this trend continued in 2017. The number of software legality checks performed by the tax administration decreased slightly in 2016 and then increased in 2017. The number of indictments brought by the Public Prosecutors Office increased in 2016 and again in 2017. IPR legislation still needs to be aligned with the Directive on the Enforcement of Intellectual Property Rights. The permanent coordination body for the enforcement of IPR established in October 2014 did not meet in 2016. Its three working groups were active in awareness raising activities, drafting of the revised IPR strategic framework and information exchange for IPR enforcement. Coordination among different institutions involved in IPR enforcement requires further strengthening, through adequate IT infrastructure. A revised strategic framework for IPR has yet to be adopted.

6.8. Chapter 8: Competition policy

EU rules protect free competition. They include antitrust rules against restrictive agreements between companies and abuse of dominant position, and also include rules on concentrations between companies which would significantly impede competition. EU rules also prevent governments from granting State aid which distorts competition.

Serbia has **some level of preparation** / is **moderately prepared** in the area of competition policy. **No progress** has been made in the field of legislative alignment and enforcement of state aid rules.

Serbia should pay particular attention in the coming year to:

- make significant progress in the alignment of its legislation on state aid, in particular to repeal the exemption of enterprises in the process of privatisation from state aid control, in line with its obligations under the Stabilisation and Association Agreement;
- take additional steps to align existing schemes, in particular the fiscal state aid schemes (namely the Law on Corporate Income Tax, the Law on Personal Income Tax and the Law on Free Zones) with the *acquis*;
- step up its efforts to make the Commission for State Aid Control more independent and effective.

Antitrust and mergers

The **legislative framework** remains broadly in line with Article 101 (restrictive agreements) and Article 102 (abuse of dominant position) of the TFEU and with the relevant provisions of the SAA. The law on protection of competition provides for *ex ante* control of mergers, following the principles of the Merger Regulation. Implementing legislation continues to be progressively aligned with the *acquis* in the areas of antitrust policy and mergers.

On the **institutional framework**, the Commission for Protection of Competition (CPC) is the main institution responsible for implementing the legal framework. It is an operationally

independent authority whose four members and President are appointed by the parliament, the CPC acts upon a complaint, notification (e.g. for mergers) or on its own initiative. Its decisions may be appealed before the Administrative Court.

Regarding **enforcement capacity**, the CPC has enough staff (46, including 29 case handlers). On **implementation**, the number of antitrust cases and the relative size and significance of companies under investigation has increased. The CPC adopted five decisions on restrictive agreements in 2016 and 2017 each. There were also three decisions on abuse of dominance cases in 2016 and 2017 each. The level of fines imposed over the past two years was twice that of the previous three years (2013-2015) at over EUR 3.5 million in 2016 and 2017. The CPC imposed remedies in only two merger cases over the past two years and has still never prohibited a merger. The CPC's investigations of large private and public companies contributed to improving its credibility and public image. Competition advocacy activities increased. Over the past two years, the CPC issued a total of seven opinions on draft legislation in the fields of communal services, services, criminal law, railways and interbank charges, postal services and road transport of freight. The CPC's decisions have been increasingly upheld by appeal courts; however, the capacity of the judiciary to handle complex competition cases needs to be strengthened significantly.

State aid

As regards the **legislative framework**, the national law on state aid control broadly reflects mostly Articles 107 and 108 of the TFEU and the relevant provisions of the SAA. However, some provisions in the implementing legislation on certain forms of aid and specific sectors need to be aligned with the *acquis*. These concern the exemption from state aid rules for companies in the process of restructuring and privatisation. Existing aid schemes particularly the fiscal state aid schemes included in the Law on Corporate Income Tax, the Law on Personal Income Tax and the Law on Free Zones, need to be aligned with the *acquis*. To comply with the SAA, the Commission for State Aid Control (CSAC) needs to step up its efforts to provide to the European Commission with information on a number of individual decisions approving large amounts of state aid to important actors in the economy in line with its obligation under Article 73(5) of the SAA. The regional aid map has yet to be drafted.

On the **institutional framework**, the CSAC is responsible for implementing the law on state aid control. The CSAC's decisions may be appealed against the Administrative Court. The five members of the CSAC are mostly appointed by aid-granting ministries and its secretariat is administratively part of the Ministry of Finance. As a result, the CSAC cannot be considered as operationally independent, as required by the SAA.

The **enforcement capacity** of the CSAC remains insufficient. With only 5 full-time staff members in its secretariat, it needs to be significantly strengthened. There was no progress on **implementation** of the law on state aid. In 2016 and 2017, the CSAC took 49 decisions upon notification and 39 decisions of its own initiative. This number is comparable to the number of decisions taken in the previous years (2013-2015), which may demonstrate proactivity. However, the CSAC has not yet taken a single decision prohibiting state aid, nor conditional decision or a decision in favour of recovery. Monitoring of compliance in this area needs to be significantly strengthened, including compliance with the conditions for "cumulation" of aid. In November 2017, a European Commission's investigation confirmed that Protocol V of the SAA does not apply in the case of aid granted to the steel mill in Smederevo before its assets were privatised. Serbia needs to ensure that this aid is claimed and recorded when liquidating the company Zelezara Smederevo. Awareness of state aid rules among stakeholders remains low, especially among the authorities granting aid. This is indicated in particular in the low

number of CSAC decisions that were appealed against the courts. Advocacy activities need to be significantly stepped up.

Liberalisation

The law on protection of competition and the law on state aid control apply to public undertakings and undertakings with special or exclusive rights, except where this would prevent them from carrying out the particular tasks assigned to them to provide services of general economic interest, in line with Article 106 of the TFEU and with the SAA. In particular, the rules on the financing of services of general economic interest are largely in line with the state aid *acquis*. In 2016, the CPC reached three important decisions related to an abuse of dominant position affecting large public companies. Enforcement of competition rules on public companies needs to continue. There are no monopolies of a commercial character within the meaning of Article 37 of the TFEU.

6.9. Chapter 9: Financial services

EU rules aim to ensure fair competition between and the stability of financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on the authorisation, operation and supervision of these institutions.

Serbia is **moderately prepared** in the area of financial services. **Some progress** was made in this field, especially in the field of banks and financial conglomerates, but more work is required to implement the financial services *acquis*.

In the coming year, Serbia should in particular:

→ take additional steps to align with the Capital Requirements Directive and Regulation (CRR/CRD IV package) and the Solvency II Directive.

On **banks and financial conglomerates**, the National Bank of Serbia (NBS) started in June 2017 to implement its plan to align with the Basel III standards. The end 2017 deadline was not met and efforts need to continue in 2018. The NBS adopted an action plan and a supervision manual aiming at improving the bank supervisory process. Legislation on financial conglomerates has yet to be adopted.

With regard to **insurance and occupational pensions**, the NBS adopted the strategy for the implementation of the Solvency II Directive in July 2016. In the first phase of the strategy, a detailed analysis of compliance was produced. In the second phase, a quantitative impact study is being implemented. There were no developments on alignment with the Directive on the activities and supervision of institutions for occupational retirement provision in the areas of cross-border activities, investment rules and regulation of technical provisions. Administrative capacity remains weak, notably in the NBS, Ministry of Finance, Deposit Insurance Agency and Ministry of Labour. There were no developments in **financial market infrastructure**.

In the **securities markets and investment services**, amendments to the law on financial collaterals have not yet been adopted. The Ministry of Finance's administrative capacity to regulate securities markets remains weak.

6.10. Chapter 10: Information society and media

The EU supports the good functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect consumers and support universal availability of modern services.

Serbia is **moderately prepared** in the field of information society and media. **No progress** can be reported over the past year, regarding the implementation of the previous recommendations.

In the coming year, Serbia should in particular:

→ finalise the harmonisation of the legislative framework in electronic communications with the 2009 EU regulatory framework;

→ ensure the financial and operational independence of the two regulators, namely RATEL – for electronic communication and postal services and REM – for electronic media;

→ take effective measures to improve market operators' access to telecommunication infrastructure, in particular to ducts, antennas and fibre optic infrastructure;

→ develop a national strategy on cybersecurity.

There was some progress in the field of **electronic communications and information and communication technologies**, with the adoption of a law on e-document, e-identification and trust services in e-business, in line with the *acquis*. A law on electronic communications aimed at alignment with the 2009 EU regulatory framework, as well as a law on broadband and the Next Generation Networks Strategy until 2023, based on the Digital Agenda, have yet to be adopted. The country's broadband coverage remains low. The administrative capacity of the Ministry of Trade, Tourism and Telecommunications on these issues continues to be inadequate.

The European emergency number 112 has not yet been implemented and its permanent financing has still to be ensured.

RATEL's financial and operational independence remains limited. Its administrative capacity improved slightly; however, further strengthening is needed. Competitive safeguards have yet to be fully implemented. Access to infrastructure is regulated, however the implementation is not effective and, in practice, operators have difficulties in accessing ducts, fibre optic cables and antennas.

In the field of **information society**, progress was made with the establishment of an office for IT and e-government with horizontal tasks and reporting to the Prime Minister. Progress was also made with the adoption of the law on e-government and with the further introduction and development of e-services, including at the National eGovernment Portal. Full harmonisation of the law on information security with the Directive on network and information systems is pending. 49 % of companies are currently active through e-business.

No progress has been made **audio-visual policy**.

The media department of the Ministry of Culture is in charge of developing the public information system. Two independent regulatory bodies – the Republic Agency for Electronic Communications and Postal Services (RATEL) and the Regulatory Authority for Electronic Media (REM) – regulate the electronic media sphere.

A registry of media services was established. A rulebook on the procedure for issuing an authorisation for the provision of media services on demand and guidelines for identifying media services on demand were adopted in 2017. However, the media services registry does not currently have any records of on-demand media service providers.

REM's Council still operates with six out of nine members, which however is a sufficient quorum for decision-making. While REM is legally and financially independent, politicization, in particular through the appointment of its Council members, persists.

The REM needs to adopt a new strategy for developing radio and audio-visual media services. REM continues to fail to monitor broadcasters effectively. In the 2016 and 2017 monitoring reports, REM assessed that none of the commercial stations met all programme content obligations under the law on electronic media, but issued no sanctions, which raises questions as to the institution's effectiveness in enforcing the market rules.

The stability and predictability of the legislation establishing sources of financing for the public service broadcasters needs to be strengthened.

No measures have been taken by the government to systematically include media literacy in the educational system. The Ministry of Culture and Information has been playing a proactive role in the area of promoting and supporting media literacy initiatives, but on the project level.

6.11. Chapter 11: Agriculture and rural development

The Common Agricultural Policy (CAP) supports farmers and rural development. This requires strong management and control systems. There are also common EU rules for quality policy and organic farming.

Serbia has **some level of preparation** in agriculture and rural development. **Good progress** was made by achieving entrustment with budget implementation tasks for all the measures included in the IPARD II Programme and amending the law on agriculture and rural development.

In the coming period, Serbia should in particular:

→ implement the measures entrusted under the IPARD II programme and seek entrustment with budget implementation tasks for other measures of the programme;

→ finalise and proceed with implementation of the action plan for *acquis* alignment in agriculture and rural development.

As regards **horizontal issues**, the action plan for *acquis* alignment in agriculture and rural development still needs to be adopted. The National Program for Agriculture for the period 2018-2020 was adopted in 2017 while the program for rural development still needs to be adopted. A fully functional IPARD agency was established. The amendment to the law on agriculture and rural development established the legal basis for IPARD and also for the future **Integrated Administration and Control System (IACS)**, which is yet to be developed. Further alignment with EU policies requires decoupling of payments from production and linkage of area based payments to cross-compliance standards. The **Farm Accountancy Data Network (FADN)** is established, formal institutional responsibilities designated, and aligning legislation has been adopted. Serbia has a **farm advisory system** in place.

In the area of the **common market organisation (CMO)**, a number of implementing legal acts aiming at further alignment in the wine sector were adopted. Serbia should take steps towards aligning with the other elements of the CMO, including sector specific schemes, marketing standards, support for public and private storage, marketing and producer organisations, market intervention.

On **rural development**, Serbia has taken a significant step forward in being entrusted by the European Commission with budget implementation tasks for two investment measures under the IPARD II Programme. Serbia should focus on spending EU funds while, at the same time, prepare remaining IPARD measures for implementation in 2018.

Progress is slow in the area of **quality policy**. Legislation in the area of agricultural products and foodstuffs needs to be aligned to facilitate policy development in this field. Legislation

pertaining to quality wine products also needs to be fully aligned with the *acquis*. As regards **organic farming**, Serbia has established a competent authority for organic production, a system of accreditation of control bodies and a system of certification of organic production. Further alignment with the *acquis* on organic production is however needed. A national action plan for the development of the organic sector has yet to be adopted.

6.12. Chapter 12: Food safety, veterinary and phytosanitary policy

EU hygiene rules for foodstuff production ensure a high level of food safety. Animal health and welfare and the safety of food of animal origin are safeguarded together with quality of seeds, plant protection material, protection against harmful organisms and animal nutrition.

Serbia is **moderately prepared** in the area of food safety, veterinary and phytosanitary policy. There has been **no progress** in the reporting period.

In the coming year, Serbia should:

- develop a comprehensive strategy for transposition, implementation and enforcement of the *acquis* on food safety, veterinary and phytosanitary policy;
- substantially strengthen the administrative capacity of the veterinary, phytosanitary and national reference laboratories directorates;
- consistently apply and improve the risk based approach to sanitary control at borders.

In the area of **general food safety**, Serbia has yet to define a strategy and action plan for full transposition of the *acquis*. Serbia needs to increase the effectiveness of controls, in particular by strengthening its administrative capacity for inspections, applying risk-based checks at borders, establishing clear provisions on conflicts of interest, using specific methodologies to audit staff regarding their task performance, improving coordination, and drafting integrated multiannual control plans. Serbia should further align its legislation on management of emergency situations regarding food and feed safety with the *acquis*. On **food safety rules and specific rules for feed**, the permitted level of aflatoxins in milk has remained higher than that permitted by the *acquis*. The national reference laboratory for milk testing has been opened but it is yet to be accredited so that it can perform official controls. On **veterinary policy**, the annual programmes of animal health protection measures for 2017 were adopted. Serbia is yet to decide on the timing of steps for an *acquis*-harmonised approach to combating classical swine fever. The implementation of the multiannual programme to eradicate rabies in wildlife was only partly completed in 2017. The Veterinary Directorate remains understaffed and its administrative capacity further deteriorated, threatening to reach critical levels. The enforcement of legislation on animal welfare, in particular during the time of slaughter, needs to improve.

In relation to the **placing of food, feed and animal by-products on the market**, Serbia adopted a national strategy for upgrading agri-food establishments in January 2017, but its implementation needs to start. The strategy for management of animal by-products has yet to be adopted. A national monitoring and control programme for food of animal origin was adopted but is still to be implemented.

In the area of **phytosanitary policy**, the annual programmes of plant health measures were adopted. A legal framework for the sustainable use of pesticides and a national action plan to reduce the impact of pesticide use – a known risk factor for public health and environment – needs to be adopted and implemented. The plant variety list is not aligned with the *acquis*. While the Ministry of Agriculture established the Council for the Assessment of Risk on Food Safety, there was no progress on aligning the law on **genetically modified organisms (GMO)** with the *acquis*.

6.13. Chapter 13: Fisheries

The common fisheries policy lays down rules for management of fisheries, protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules for markets and aquaculture as well as support for fisheries and coastal communities.

Serbia is **moderately prepared** in the area of fisheries. **Some progress** was made by adopting a rulebook on catch certification.

In the coming year, Serbia should in particular:

→ adopt an action plan that will ensure full compliance with the requirements of the *acquis* by the date of accession, in particular regarding organisation of the markets, aquaculture, data collection and control measures against illegal, unreported and unregulated fishing.

Serbia still does not have any **structural actions** in place for small-scale fisheries or inland fisheries. Administrative capacity in the sector needs to be strengthened. Policies should be put in place on **market-related activities** and **data collection** regarding fish and fishery products, in line with the *acquis*. While the rulebook on catch certification was adopted in February 2017, its implementation and full alignment with the *acquis* concerning **illegal, unreported and unregulated fishing** need to be ensured.

Statistical data collection on aquaculture for 2016 was carried out in line with the *acquis*.

6.14. Chapter 14: Transport

The EU has common rules for technical and safety standards, security, social standards, State aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.

Serbia is **moderately prepared/has a good level of preparation** in this area. **Good progress** was made on the 2016 recommendations on road safety and rail reform, which remain a priority. Administrative capacity for all modes of transport needs to be further strengthened.

In the coming year, Serbia should in particular:

→ improve road safety by taking measures to reduce fatalities and advance in Intelligent Transport Systems (define the strategic framework, adopt legislation, and improve capacity for implementation and enforcement);

→ continue to focus on implementing rail reform including market opening, the network statement, infrastructure management and market monitoring;

→ comply with the requirements under the first transitional phase under the European Common Aviation Agreement (ECAA).

As regards the **general transport *acquis***, key strategic documents for the transport sector are in place. Updates need to be adopted (transport strategy, strategy for the transport of dangerous goods) and strategies for air and road transport prepared. Serbia's legislation is fully aligned with the *acquis* on summertime arrangements, and criteria for the award of public service obligations contracts are implemented. While overall administrative capacity needs to be strengthened by means of a streamlined organisation and better trained staff, some improvements have been made by increasing the number of staff in the line ministry. Resources and staffing in the accident investigation body covering air, rail and waterborne transport need to be further increased for it to become fully operational. EU passenger rights legislation needs to be implemented in all modes of transport.

On **road transport**, Serbia has a reasonable level of alignment. Legislation on the transport of dangerous goods is in place but needs to be further aligned with the *acquis*. Serbia made good progress in implementing legislation on the legal entities responsible for conformity assessment of existing equipment under the law on carriage of dangerous goods. Legislation on road freight and passenger traffic is well aligned with EU law, allowing market access for national and international goods and passenger transport. In February 2017, Serbia further harmonised its legislation on transport licences.

In early 2018, Serbia adopted new road safety legislation. The rising trend of fatal road traffic accidents was halted, with the number of accidents falling from 607 in 2016 to 580 in 2017. However, the number of road fatalities is still significantly above the EU average. Further efforts are needed to reduce them, e.g. by implementing and enforcing road safety legislation, by education and awareness raising as well as measures to make roads and vehicles safer for users. Further progress on enforcement of roadside checks and the enforcement capacity of inspection officers was made. Efforts to draft legislation on clean and energy-efficient road transport vehicles and on intelligent transport systems need to be stepped up and legislation on the deployment of infrastructure for alternative fuels further developed. The issue of road charges potentially discriminating against foreign operators in relation to road charges needs to be addressed.

On **rail transport**, Serbia's state railways consist of a holding company and separate subsidiaries for infrastructure management, passenger and freight operations. Progress towards the operational and financial sustainability of independent railway service/infrastructure operators needs to be sustained. The network statement is regularly updated. Recent statements were improved regarding compliance with Serbia's general negotiating framework and inclusion of information on railway facilities but further efforts are needed. Good progress has been achieved on rail market opening. Track access has been available to domestic railway companies since 2016, and three companies had entered the market by early 2018. However, further efforts are required to ensure full opening of the rail market.

Railway safety legislation is in place but further improvements in training capacity, examination methods and licensing procedures are pending. Some technical specifications for interoperability have been published, but publication of the others is needed to allow full implementation of existing legislation.

The legislation on **maritime transport** is well aligned with the *acquis*; however, no progress was made in developing adequate implementation capacity. The law on maritime navigation complies with the *acquis* on vessel traffic monitoring and information systems. In the area of satellite navigation, Serbian participation in the Galileo programme has not started yet.

In **inland waterway** transport, Serbia has a high level of alignment. The river information services system is operational and highly interoperable with systems in EU Member States. An authority responsible for inland waterways has been set up within the line ministry. Serbia actively participates in the EU strategy for the development of the Danube Region (EUSDR). It has signed the main international agreements on inland waterways and bilateral agreements with neighbouring countries. Administrative capacity still needs to be strengthened, in particular for international cooperation. Serbia needs to take further measures regarding the river ports network statement.

Serbia has achieved a good level of alignment with the *acquis* on **aviation** and has made considerable progress with implementing the first and part of the second transitional phase of the European Common Aviation Agreement (ECAA). On the Single European Sky (SES), Serbia completed transposition and local implementation of SES I and SES II on air traffic.

Legislation on aviation safety is aligned. Working arrangements with the European Aviation Safety Agency (EASA) cover all aspects of the *acquis* in civil aviation safety and environmental protection of products, organisations and personnel. The suspension of articles on the licensing of air carriers and access to air routes should be lifted before the entry into force of the second transitional phase of the ECAA. Further engagement in technical discussions on normalising the lower airspace regime over Kosovo is needed within the Balkans Aviation Normalisation Meetings chaired by NATO.

As regards **combined transport**, specific legislation is not yet ready. This mode is covered in the existing general transport master plan and development plan for 2015-2020. The construction of the first modern intermodal terminal in Belgrade has yet to start. One privately operated intermodal terminal became operational in 2017.

6.15. Chapter 15: Energy

EU energy policy covers security of supply, the internal energy market, energy efficiency, renewable energy sources, nuclear energy, nuclear safety and radiation protection.

Serbia is **moderately prepared** in the field of energy. **Some progress** was made on the recommendations set out in 2016, though it was limited to promoting investments in energy efficiency and in renewable energy, in addition to progress on nuclear safety.

In the coming year, therefore, Serbia should in particular:

- fully unbundle Srbijagas and develop competition in the gas market;
- fully implement the connectivity reform measures;
- strengthen human capacity and promote investment in energy efficiency and renewable energy; and initiate reforms to introduce cost-reflective electricity tariffs fully taking into account investment needs for EU integration and social security implications.

Serbia achieved a high level of alignment on **security of supply** and established a central stockholding body; it still has, however, to implement the action plan for the Directive on minimum oil stocks. Oil stocks increased slightly compared to the previous year, corresponding, at the beginning of 2018, to 18 days of average daily consumption. Following significant reductions in electricity production in early 2017, production recovered but coal reserves remain at a low level. Planning capacity in Serbia's state-owned public power company EPS needs to be strengthened. Serbia continued with preparatory activities for two stretches of the Trans-Balkan electricity corridor and finalised works on the interconnector with Romania. Preparations for building a gas interconnector with Bulgaria slowed down in 2017 and need to accelerate.

Electricity power exchange increased in 2017. The Framework and Inter-TSO Agreement between Serbia's transmission system operator EMS and the Kosovan operator KOSTT needs to be fully implemented without any further delay. In December 2017, Serbia signed an agreement with the Joint Allocation Office Luxembourg for its border with Croatia while it has yet to establish regionally coordinated auctions with its other neighbouring countries.

As regards the **internal energy market**, Serbia's primary legislation is compliant with the third energy package. The natural gas grid code has been drafted but third-party access and other features cannot be implemented because the transmission system operators Srbijagas and Yugorosgaz have not yet been unbundled. The transfer of staff and assets from Srbijagas to Transportgas Srbija has yet to start. The functional unbundling of EPS' distribution system operator has to be completed. Both the electricity and natural gas markets are open, with all customers having the right to choose their suppliers. In both sectors, households and small customers have the right to be supplied under regulated prices. The non-regulated marked

accounted for 43.3 % of total end-user electricity consumption in 2016. Electricity tariffs do not reflect the level of investment and maintenance in the electricity sector needed for Serbia's energy and climate reforms.

The Serbian Energy Agency is legally distinct and functionally independent from any other public entity. The agency's capacity is insufficient for it to take on all regulatory tasks provided for under the third energy package and the new *acquis* upfront. Staff levels should increase from the current 38 staff members to 56 by 2020.

In **hydrocarbons**, Serbia has yet to align its law with the hydrocarbon licensing Directive, especially regarding conditions for granting and using authorisations for prospection, exploration and production.

Serbia's law on energy partly transposes the **renewable energy** Directive. During the reporting period, Serbia adopted several by-laws. The by-law on bio-fuels is still pending. Serbia's national renewables target for 2020 is set at 27 % of gross final consumption of energy. The latest data (2015) show renewable sources accounted for 21.8 % share of energy. The new model of power purchase agreement increased investments slightly and additional wind power projects with a volume of 483 MW are in the pipeline. However, Serbia is not yet on course to achieve its 27 % target.

Serbia adopted its third **energy efficiency** action plan in December 2016. By the end of 2015, Serbia had achieved 49 % of its goal of 9 % savings in final energy consumption for 2010-2018. In June 2017, Serbia submitted the first annual report under the energy efficiency Directive. The current legislation on efficient use of energy and on the energy performance of buildings is partly in line with the corresponding EU Directives. Alignment with the energy efficiency *acquis* continued through the adoption of several by-laws but implementation remains critically low in terms of consumption based metering and billing in district heating, among other topics. Administrative capacity needs to be increased considerably at all levels. Capacity in the Ministry of Mining's department for energy efficiency is insufficient to implement the *acquis*. Serbia lacks a system of sustainable financing for energy efficiency measures.

On **nuclear energy, nuclear security and radiation protection**, Serbia's legislation is partially in line with the *acquis*. Serbia is a signatory of a number of key conventions, treaties and agreements including those on non-proliferation, protection of nuclear material and notification of nuclear accidents. In 18 December 2017, Serbia deposited its instrument of ratification of the Convention on Nuclear Safety and the Joint Convention on the Safety of Spent Fuel Management and on the Safety of Radioactive Waste Management. Serbia has one nuclear site with two nuclear research reactors and radioactive waste storage, and one abandoned uranium mine. In addition to the newly built radioactive waste storage facility, two old storage facilities were licensed in November 2016. An action plan has yet to be drafted for decommissioning research reactor A at the Vinca site. Preparatory activities for improving the radiological and security situation at the Vinca site are under way. The Radiation Protection and Nuclear Safety Agency is insufficiently staffed to perform its duties. In February 2018, the number of permanent staff posts was 24. Inspection functions have not yet been transferred to the Agency. The Agency's budget is insufficient to ensure its proper functioning.

6.16. Chapter 16: Taxation

EU rules on taxation cover value added tax and excise duties as well as aspects of corporate taxation. They also deal with cooperation between tax administrations, including the exchange of information to prevent tax evasion.

Serbia is **moderately prepared** in the area of taxation. **Some progress** was made in legislative alignment, but the reform of the tax administration has slowed down.

In the coming year, Serbia should pay particular attention to:

→ remove discrimination in the application of excise duties on imported spirits,

→ step the implementation of the tax administration reform programme to further simplify tax procedures, streamline the tax administration's activities and ensure sufficient human and IT resources, improve tax collection and combat the informal economy.

Legislation on **indirect taxation**, adopted in December 2016 and entering into force as of January 2018 removed the discrimination in the excise duties applied to imported coffee. However, the excise duties continue to be applied on imported spirits in a discriminatory manner, in breach of the SAA. At the end of 2016, some steps were taken to further align the law on value added tax (VAT) with the *acquis*, as concerns the application of VAT rules to services provided to foreign persons. From December 2017, VAT for foreigners export of personal goods valued carried on their personal luggage over EUR 100 is refunded, further aligning the legislation with the *acquis*. In **direct taxation**, the Corporate Tax Law further simplified write-off procedures for non-performing loans. The law on personal income tax increased non-taxable thresholds and introduced a "tax holiday" for start-ups. The public consultations carried out before this legislation was adopted were insufficient since only a few business associations were consulted and they were not given enough time to comment.

There was some progress on **administrative cooperation and mutual assistance**. In the beginning of 2018, Serbia joined the Inclusive Framework to Prevent Base Erosion and Profit Shifting and the Global Forum on Transparency of Information for Tax Purposes. It committed to ratifying the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters by the end of 2019.

On **operational capacity and computerisation** of the tax administration, positive developments in previous years resulted in electronic filing accounting for a high percentage of total tax revenues. There were sustained efforts to fight tax evasion, notably on VAT and excise duties. The tax administration still lacks administrative capacity. Implementation of the 2015-2020 general programme for transformation of the tax administration slowed down. The government adopted a revised 2018-2023 action plan for its implementation. The programme proposes the removal of non-core activities from the tax administration's portfolio and proposes a further reduction of the tax administration's local branches. Further efforts to improve the predictability of tax decisions and services to tax payers are still needed. Appeal procedures against tax administration decisions remain lengthy.

6.17. Chapter 17: Economic and monetary policy

EU rules require the independence of central banks and prohibit them from directly financing the public sector. EU Member States coordinate their economic policies and are subject to fiscal, economic and financial surveillance.

Serbia is **moderately prepared** and has established a good institutional and administrative framework in the area of economic and monetary policy. **Some progress** was made as regards alignment with the *acquis*, especially through progressive improvement of the Economic Reform Programme.

In the coming year, Serbia should in particular:

→ improve economic policy coordination, particularly in designing and implementing structural reforms;

→ put in place a more relevant system of fiscal rules in order to strengthen the budgetary framework.

On **monetary policy**, the legal framework for the central bank (National Bank of Serbia - NBS) guarantees its independence; however, further efforts are needed to comprehensively ensure the NBS's functional and institutional independence, in line with the EU *acquis*. Monetary policy has gradually been further relaxed, while the exchange rate remained stable and the NBS reduced the scope of its interventions in the foreign exchange market. Foreign exchange reserves are kept at an appropriate level. With regard to **economic policy**, further alignment with the Directive on requirements for budgetary frameworks is needed. Further steps in aligning fiscal reporting with the European System of National and Regional Accounts are necessary. The statistical coverage and definition of the general government should be improved. Programme budgeting needs to be strengthened and administrative and IT capacity reinforced. Fiscal rules are weak, non-binding and not respected. Although the authorities recognise the need for new fiscal rules, they have not taken effective steps to strengthen them. The Fiscal Council is a respected and independent institution that actively participates in debates over economic and fiscal policy. The mandate of its members was recently renewed, which ensured continuity of the work and quality of debate.

The 2018-2020 **Economic Reform Programme** was submitted on time. Its analytical diagnostics further improved, as did consultation of stakeholders. The structural reform framework is coherent and sufficiently comprehensive. However, further efforts are needed to improve the capacity for economic planning, inter-ministerial coordination and implementation.

6.18. Chapter 18: Statistics

EU rules require that Member States are able to produce statistics based on professional independence, impartiality, reliability, transparency, and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.

Serbia is **moderately prepared** in the area of statistics. **Some progress** was made in further aligning some sectoral statistics with the *acquis*. Serbia notified to the European Commission its nomenclature for statistical regions and it was accepted as compatible with the NUTS Regulation. The transmission of statistical data to Eurostat has also improved. The Statistical Office needs to retain highly qualified staff to meet the obligations of the *acquis*.

In the coming year, Serbia should in particular

→ adopt the new statistical law to increase the independence of the Statistical Office;

→ improve compilation of macroeconomic statistics in line with the European System of Accounts (ESA) 2010.

The legal framework for **statistical infrastructure** is largely in line with the European Code of Practice. The professional independence of the Statistical Office of the Republic of Serbia (SORS) needs to be enhanced. In this regard, a draft law provides for the SORS to report directly to parliament. Despite recruitment in 2017, the SORS needs to be further strengthened by increasing staff numbers and improving their skills. The SORS has signed memoranda of understanding with a large number of the administrative data providers, but further efforts are needed to broaden and develop this cooperation. Data transmission to Eurostat has further developed, but data coverage needs to be increased. The main classifications (NACE Rev. 2, ISCO-08) are aligned with the EU *acquis*.

Concerning **territorial classification**, Serbia notified to the European Commission its classification of territorial units in October 2017. The definition of territorial units in the

notification is now in line with the EU Regulation on the common nomenclature of territorial units for statistics. Serbia should communicate its regional GDP in line with this classification to the European Commission as soon as possible.

Regarding **macroeconomic statistics**, the SORS continued to compile quarterly and annual GDP in current and constant prices. Quarterly sector accounts are not yet compiled. Serbia has advanced work on the compilation of supply-use and input-output tables, however regular production of these tables needs to be established. The SORS transmits good-quality monthly data on trade in goods in the required breakdown by mandatory partner country. The NBS compiles the monthly balance of payment (BOP), quarterly BOP and quarterly international investment position data, in compliance with the Balance of Payments and International Investment Position Manual (BPM6). It transmits annual data on trade in services in accordance with the BOP Vademecum. The SORS continues to provide the Commission with notification tables for the excessive deficit procedure (EDP). The quality and completeness of the EDP notification data and the government finance statistics need to be further improved. Financial accounts need to be further developed. Continued efforts are needed to produce the complete data required by the ESA 2010 transmission programme.

With regard to **structural business statistics**, data coverage is not yet fully in line with the *acquis*. Some data on national tourism is collected. For transport, road, railway and inland waterways data is collected but need to be further harmonised with the *acquis*. Air transport statistics are already broadly compliant. Serbia fully complies with the EU *acquis* in research and development and GBARD (Government Budget Allocations for Research and Development) statistics. The Community Innovation Survey is conducted every two years and the data is sent to Eurostat. The annual surveys on information and communication technology (ICT) partially meet EU standards and are carried out regularly.

Serbia is partially in line with the *acquis* on **social statistics**. The Survey on Income and Living Conditions is regularly carried out in compliance with EU standards and data sent to Eurostat. The European system of integrated social protection statistics, labour market statistics, and labour cost statistics are in line with the *acquis*. Regarding the Labour Force Survey, data sets for 2014Q3-2017Q2 were transmitted to Eurostat in 2017 and consequently validated; the SORS provided good quality annual quality reports from 2013 till 2016. Statistics on structure of earnings was transmitted to Eurostat in 2016 according to EU regulations. Work to produce statistics on job vacancies progressed, but further efforts are needed. Public health statistics in line with the *acquis* are not yet available. Statistics on external migration and asylum are collected by the Ministry of Interior, and are only partly harmonised with the relevant EU requirements – the legal base and databases need to be further harmonised. Serbia needs to prepare the methodology and the technical specifications for the next population and housing census in 2020/2021.

Regarding **agriculture statistics** Serbia has aligned its Annual Crops statistics system with the *acquis* and has made very good progress towards compliance in animal and milk statistics. Further efforts should be made in developing poultry statistics and continuing the development of vineyard register and orchard statistics. Serbia submitted aquaculture data to Eurostat for the first time in November 2017 and is fully compliant with EU *acquis* in fishery statistics.

Annual **energy statistics** are produced for all relevant energy sources. In addition to monthly coal and electricity data, the SORS started transmitting monthly gas data since January 2017. **Waste and water statistics** have been collected and broadened, and only data on waste treatment infrastructure remains incomplete. Some **environment statistics** are produced.

6.19. Chapter 19: Social Policy and employment

Serbia is **moderately prepared** in the area of social policy and employment. **Some progress** was made in further aligning the relevant legislation with the *acquis*, mainly in the area of health and safety at work, and the functioning of social dialogue. Active labour market policies have been consolidated albeit with very limited coverage of the unemployed.

In the coming period, Serbia should in particular:

- increase financial and institutional resources for employment and social policies to more systematically target the young, women and long-term unemployed;
- improve the adequacy of the social benefit system to provide more effective support for parts of the population most in need;
- significantly strengthen the bipartite and tripartite social dialogue at all levels.

In the field of **labour law**, there have been no changes in legislation. The law adopted in 2014 remains only partially aligned with the *acquis*. Legislative work has stalled in areas such as the right to strike, the legal framework for the operation of private employment agencies and seasonal work. A regulation on preventive measures for the safety and health at work of young people was adopted in the first half of 2017. A Regulation on the identification of hazardous child labour came to effect as of January 2018. The share of undeclared work, which stood at 21.8 % in 2017.Q3, 2.3 % down from 2016.Q3, requires the development of a comprehensive approach in order to achieve a significant reduction. Labour inspectorate activities have been intensified, notably in relation to combating undeclared work. However, the labour inspectorate's capacities need to be further strengthened including by filling vacancies and providing it with the necessary equipment and training.

In the area of **health and safety at work**, a number of by-laws and rulebooks were adopted. These relate to the prevention of sharp injuries in the hospital and healthcare sector, protection of health of pregnant workers and workers who have recently given birth or are breastfeeding, and protection of young people at work.

Social dialogue remains weak, in particular regarding the involvement of the Social Partners in policy developments relevant to them. Collective agreements are mainly concluded in the public sector; in the private sector company level bargaining is dominant but no aggregate figures are available. Four sectoral collective agreements have been signed (musicians and performing artists, agriculture, construction, chemicals and non-metal industry). Two on musicians and performing artists, and on agriculture are already in force, the others were cancelled by the employers' side. The legal framework needs to be adjusted and the capacity of social partners strengthened in order to foster the use of collective bargaining. No progress has been made regarding the tripartite dialogue. However, the budgetary allocation for the Economic and Social Council doubled in 2017. In the second half of 2017, there was agreement between the government and the social partners to raise the minimum hourly wage by 10 %.

On **employment policy**, the labour market indicators continued to improve in 2017. The employment rate for the 15-64 years old increased from 45.2 % in 2016 to 46.7 % in 2017. In 2017 4Q, informal employment rate was 19.8 %. Unemployment went down from 15.3 % in 2016 to 13.5 % in 2017, while activity rate increased to 54 %. Unemployment for youth has decreased from 35 % in 2016 to 32 % but remains high. Severe challenges regarding the integration of long-term unemployed, redundant workers and young people into the labour market still remain. Access to the labour market is particularly difficult for Roma, women, persons with disabilities and youth, especially with secondary education. Budget allocations

for active labour market policies have been maintained in 2017, but are too low to cover the number of jobseekers. Only one sixth of registered unemployed (617 000 in December 2017) benefit from a measure, and only 20 000 jobseekers benefit from a longer training or work measure. The mid-term performance review of the 2011-2020 National Employment Strategy has been finalised and the 2018 National Employment Action Plan has been adopted. The release of the first report on implementation of Serbia's Economic and Social Reform Programme is still pending.

There were no developments as regards the **European Social Fund**.

In the area of **social inclusion and protection**, in 2016, 7.3 % of the population was considered to live in absolute poverty. About half a million people are unable to meet basic subsistence needs. The share of persons at-risk-of-poverty or social exclusion is the highest among all European countries conducting statistics on income and living conditions (SILC), standing at 38.7 % (SILC 2017). The at-risk-of-poverty rate is 25.5 %, implying some 1.8 million people. The law on financial support for families with children has been adopted, while the amendments regarding the laws on social welfare and family law are still pending. 3.7 % of the population had benefited from financial social assistance in 2016. The Ministry of Labour, Employment, Veterans, and Social Affairs allocated RSD 700 million in 2017 for the earmarked transfers aimed at developing existing and establishing new social protection services. The overall allocation is 50 % higher than in 2016. This is urgent given that the coverage and adequacy of cash benefits to provide for essential needs is insufficient. In addition, the quality of service needs to improve, and oversight and regulatory mechanisms, monitoring and evaluation should be strengthened. The draft Law on Financial Support to Families for Children has been adopted and foresees increased levels of child allowance to children with disability and increased coverage with parental leave benefits for certain categories of women who were previously not recognised as eligible. No progress was made in the local-level social care services or de-institutionalisation process. The system of earmarked transfers introduced by the social welfare law needs to be implemented more systematically and transparently.

In the field of **non-discrimination in employment and social policy**, the Commissioner for Protection of Equality published the guidelines for the development of anti-discrimination policy for employers in Serbia ('Equality Code of Practice') in June 2017. Serbian authorities should follow-up on its recommendations.

In the area of **equal opportunities between women and men in employment and social policy**, the employment rate for men is now 14.7 % higher and their activity rate 15.7 % higher to those for women. Women's inactivity reflects unpaid work in the household, inadequate support to women in reconciling work and family responsibilities, employers' discriminatory treatment of young women, the existing wage gap, lower statutory retirement age, as well as the existence of a statutory minimum social insurance contributions base, which discourages formal part-time work.

6.20. Chapter 20: Enterprise and industrial policy

EU enterprise and industrial policy strengthens competitiveness, facilitates structural change and encourages a business-friendly environment that stimulates small and medium size enterprises (SMEs).

Serbia is **moderately prepared** on enterprise and industrial policy. **Some progress** was made on promoting entrepreneurship and facilitating access to finance for SMEs.

In the coming year, Serbia should in particular:

- develop a comprehensive industrial policy based on EU principles and using the findings of the smart specialisation exercise;
- make efforts to improve the predictability of the business environment, with the emphasis on addressing the issue of unpredictable parafiscal charges.

The main tool of **enterprise and industrial policy** remains the strategy and policy for industrial development 2011-2020. It has been implemented only partially and with a focus on restructuring and regional development rather than on competitiveness. The strategy to support the development of SMEs, entrepreneurship and competitiveness 2015-2020 is being implemented. In order to stress the importance of SMEs for the economy, the year of entrepreneurship in 2016 was extended to a decade of entrepreneurship. Serbia is implementing the Small Business Act recommendations, although again only partially.

Serbia needs to increase predictability in the business and administrative environment for SMEs. To this end, the country should develop performance measurements for policy-making activities and put more emphasis on implementing the ‘think small first’ principle. It needs to assess the adverse impact of widespread and unpredictable parafiscal charges on SMEs. The regulatory impact assessment and the SME test need to be systematically performed when making laws and bylaws.

On **enterprise and industrial instruments**, Serbia continues to use budgetary subsidies for newly-created jobs as an incentive for foreign direct investments. Favourable loans and guarantees for SMEs are provided by the Development Fund and through joint programmes with commercial banks, including through COSME. Access to finance remains costly and is a key obstacle to further development of the sector. Payment discipline is weak. In response, Serbia should speed up alignment of its rules on payments, indemnity interest rates, expedited recovery procedures and compensations with the EU Directive in this area.

In **sectoral policies**, Serbia has started working on the development of a new sector-based industrial strategy and should step up this work by enhancing administrative capacity and taking into account the findings of its smart specialisation pilot project.

6.21 Chapter 21: Trans-European networks

The EU promotes trans-European networks in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.

Serbia is **moderately prepared** for trans-European networks. **Some progress** was made on the 2016 recommendation on the gas interconnector with Bulgaria and on operational planning and infrastructure development.

In the coming year, Serbia should in particular:

- increase the number of staff working on transposing, implementing and enforcing the Trans-European networks *acquis*;
- advance the adoption of maintenance plans for the entire core network;
- accelerate preparations for the construction of the gas interconnector with Bulgaria; in particular, finalise land acquisition, the geotechnical survey, and the design for building permit.

On **transport networks**, Serbia continues to play an active role in the Western Balkan 6 connectivity agenda, and made good progress on connectivity reform measures. Serbia continues to align its legislation on interoperability. Serbia needs to ensure alignment with the TEN-T Regulation in implementing planned transport network projects including railway

projects on the routes Budapest to Belgrade and Belgrade to the border with Montenegro. In 2017, moderate progress was made on improving infrastructure for navigation in Serbian waterways.

In 2017, Serbia ratified the Transport Community Treaty and adopted a Railway Infrastructure Programme. Adoption of the updated transport strategy for 2016-2025 is still pending. The railway border-crossing agreement between Serbia and the former Yugoslav Republic of Macedonia has been signed but adequate infrastructure needs to be built for it to become effective. On road infrastructure, major sections of the Orient East-Med corridor's South and East branches have been finalised. Construction of the final part of the Belgrade bypass has begun. Serbia needs to continue to implement its priority projects on the core and comprehensive networks.

On trans-European **energy networks**, Serbia progressed by adopting the 2017/2018 implementation programme for the energy development strategy in October 2017. Administrative capacity for transposing and implementing the trans-European energy networks is insufficient and needs to be strengthened. Serbia continued preparations for two stretches of the Trans-Balkan electricity corridor. The Resita-Pančevo 400 kV electricity interconnector between Romania and Serbia was completed on the Serbian side, and put into operation in December 2017. Serbia continues to actively participate in the Central and South Eastern Europe Gas Connectivity initiative. Preparations for building a gas interconnector between Serbia and Bulgaria slowed down in 2017 and need to accelerate.

6.22. Chapter 22: Regional policy and coordination of structural instruments

Regional policy is the EU's main tool for investing in sustainable and inclusive economic growth. Member States bear responsibility for its implementation, which requires adequate administrative capacity and sound financial management of projects' design and execution.

Serbia is **moderately prepared** on regional policy and coordination of structural instruments. **Some progress** continued to be made in gaining experience in managing EU funds under indirect management.

In the coming year, Serbia should, as in the past, in particular:

- adopt and start implementing an action plan setting out clear objectives and timeframes in order to meet the requirements of the EU cohesion policy;
- continue to ensure adequate capacity to implement indirect management programmes.

Some preparatory work was done to introduce **the legislative framework** for EU cohesion policy in the national system. The transposition of key legislation under other chapters (e.g. EU law on environmental impact assessment, anti-discrimination legislation, public procurement, state aid control, etc.) is a necessary prerequisite for effective implementation of European structural and investment funds. Multi-annual budget planning is regulated through the Law on the Budget System. Credibility of the medium-term budgetary framework which is defined in the Fiscal Strategy is hampered by the fact that it does not include financial projections at the sector strategy or programme levels. National co-financing for EU programmes is ensured at project level but a systematic approach for ensuring national multi-annual co-financing of cohesion programmes needs to be developed.

The **institutional framework** for the management of EU pre-accession assistance (IPA) has been established and is operational; however, the implementation capacities need to be further tested.

Persistent weaknesses in **administrative capacity** in key institutions managing EU funds were partially addressed in 2017 by increasing the number of staff in the

decentralised/indirect management structures. However, staff turnover remains an issue of concern and a staff retention policy still needs to be developed and implemented. Capacity building and training activities for the management of EU funds under IPA at national level have increased. The staff has also gained experience through the management of decentralised/indirect management programmes. A pilot capacity building programme has been prepared as a first step towards introducing a systemic approach for strengthening administrative capacity for EU cohesion policy.

Some progress has been made in **programming** with the progressive introduction of the sectoral approach under the IPA. However there is a proliferation of strategies in some sectors, which need to be consolidated, costed and properly linked to budget planning. As regards investments, in June 2017 Serbia adopted a decree to better link investment planning to the budgetary process. EU funded projects were excluded from its application. EU funds are prioritised through the National Investment Committee and Single Project Pipeline. In view of efficient resource allocation and the need to build sector pipelines for future structural fund management, Serbia should develop these existing parallel structures into a single mechanism for prioritising all investments regardless of the source of financing, in accordance with the PFM reform programme adopted by the government.

On **monitoring and evaluation**, the monitoring committees under indirect management have been set up and meet regularly. The evaluation plan for decentralised IPA funds has been adopted but implementation has not started yet. A management and information system still needs to be strengthened.

On **financial management, control and audit**, the national systems were further developed to comply with the requirements for indirect management of IPA funds. A Head of the Audit Authority was recruited, and the capacities of the institution have been strengthened.

6.25. Chapter 25: Science and research

The EU provides significant support to research and innovation. All Member States can benefit from the EU's research programmes, especially where there is specific excellence and solid investment in research.

Serbia is at a **good level of preparation** in the area of science and research. **Some progress** was made with regard to innovation policy and participation to the EU programmes for research. In the coming year, Serbia should in particular:

→ implement the national research strategy, and in particular stimulate cooperation between industry and academia.

The main priorities of the **European Research Area** are incorporated in the strategy for scientific and technological development, adopted at the beginning of 2016. However, there has been no progress in the implementation as the strategy remains without an action plan. The national level of investment in research remains low at 0.9 % of GDP with only one third of this amount coming from the private sector. Statistics on the number of researchers are not fully aligned with international standards. This impedes more thorough policy dialogue in this area.

Serbia continues to be active and successful in the **EU research programme** Horizon 2020 as well as in EUREKA, COST and the NATO Science and Peace for Security programmes. In particular, the number of early-stage or experienced researchers participating in Marie Skłodowska-Curie Actions has increased steadily over the last years, counting a total of 126 funded talented researchers since 2014. Progress was achieved by joining and actively participating in the European Social Survey.

On measures for **innovation**, the Serbian Innovation Fund continues to be active with additional budget contributions from the ministry. In order to step up cooperation with businesses and increase private sector investment, Serbia proactively engaged in the smart specialisation exercise, in cooperation with the European Commission. It should follow up with concrete measures on the recommendations of the exercise.

6.26. Chapter 26: Education and culture

The EU supports cooperation in education and culture through funding programmes and the coordination of Member State policy through the open method of coordination. Member States must also prevent discrimination and facilitate the education of children of EU migrant workers.

Serbia is at a **good level of preparation** in the area of education and culture. **Some progress** was made in improving the curricula and establishing the Erasmus+ national agency.

In the coming year, Serbia should in particular:

→ increase participation in early childhood education, in particular by children from disadvantaged backgrounds;

→ finalise the establishment of the national qualifications framework system.

In the area of **education and training**, the education strategy and its action plan is being implemented, albeit with delays. There have been few public consultations on recently adopted regulations. Enrolment and attainment rates in pre-university education are consistently high. However, the participation of children below the age of 6 in early childhood education remains low. The rate of early school leavers fell to 7.5 % in 2015, from 8.5 % in 2014, while lifelong learning remains low at 5 % (the EU 2020 target is 15 %). Comprehensive training of school staff is needed to complement the ongoing outcome-based curricular changes. The training should focus on developing students' key competencies.

Study programmes in higher education needs to better match requirements in the labour market. The unemployment rate for graduates with tertiary education (up to 24 years of age) has dropped, yet remains high at 35.9 % in 2017. Emigration by young, skilled people remains high. Education remains a high risk sector for corruption, especially in higher education.

Some progress was achieved in the development of vocational education and training (VET) curriculum to better meet the needs of the labour market. As the next step, the national work-based learning model in VET should focus on setting up quality assurance and monitoring mechanisms. The plans for reducing VET enrolment and enlarging the general secondary education should continue by making the curricula more relevant and increasing the attractiveness and quality of general secondary education. The national qualifications framework needs to be finalised and institutional capacities put in place.

Some progress was made in increasing the participation of Roma students in all levels of education. The implementation of measures to reduce the Roma drop-out and segregation should be strengthened, in particular on the local level. Some progress has been achieved in integrating migrant children in the education system, but further support to these efforts is needed.

Serbia will participate in the next round of PISA testing (in 2018) after it abstained in the 2015 round. Serbia has formed a working group with a view of achieving substantive improvements in reducing the number of low achievers in mathematics, science and reading – the areas which were recognised as weak in PISA. Serbia continues to participate successfully in the Erasmus+ programme as a third country with around 3,000 incoming and outgoing

mobilities last year, with an overall number of mobilities set above 8 000. The country has been performing outstandingly in the Capacity Building for Higher Education action, with 26 projects selected over the last three calls (65 % acting as coordinating institution). Participation in the Jean Monnet programme significantly increased with five selected projects. Preparations to set up a national agency for Erasmus are progressing well. Serbia will participate in Erasmus+ under the same conditions and opportunities as the EU Member States as of January 2019, which is a significant step forward.

The **Youth** Strategy Action Plan 2018-2020 is being drafted. The youth policy coordination mechanisms at local level should be further strengthened. The local branch office of the Regional Youth Cooperation Office (RYCO) has been established in Belgrade.

The Ministry of **Culture** and Information drafted the Strategy of the Development of Culture 2017–2027. The process was criticised for lacking consultations with stakeholders. The strategy includes a very ambitious and potentially unrealistic increase of the budget for culture from the current 0.68 % to 1.68 % of GDP by 2027. Serbia is implementing measures under the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expression.

Serbia is participating successfully in the Creative Europe Programme.

6.27. Chapter 27: Environment and climate change

The EU promotes strong climate action, sustainable development and protection of the environment. EU law contains provisions addressing climate change, water and air quality, waste management, nature protection, industrial pollution, chemicals, noise and civil protection.

Serbia has **some level of preparation** in the area of environment and climate change. **Some progress** has been made in further aligning with the *acquis*, strategic planning and addressing the 2016 recommendations.

In the coming year, Serbia should in particular:

- enhance administrative and financial capacity by strengthening the Environmental Protection Agency, operationalising and adequately resourcing the Green Fund and further improving interinstitutional coordination, in particular between central and local levels;
- intensify implementation and enforcement work, such as closing non-compliant landfills, investing in waste separation and recycling, reinforcing air quality monitoring, advancing river basin management and preparing for Natura 2000;
- implement the Paris Agreement, including by developing a comprehensive strategy for climate change, consistent with the EU 2030 framework for climate and energy policies and well integrated into all relevant sectors.

Environment

In the area of **horizontal legislation**, Serbia has achieved a high level of alignment with the *acquis*. The new financing facility (the Green Fund) is not yet operational. Predictable financing based on the *polluter pays* principle is needed to raise investment levels in the sector. The quality of public consultations is gradually improving but Serbia's capacity to carry them out needs to increase, particularly at local level. The environmental impact assessment process needs further strengthening, especially for transboundary projects and projects in the extractive industries. Strategic environmental assessments need to cover all relevant plans and programmes including the national emission reduction plan. Further progress is needed on transposing and implementing the remaining horizontal legislation, in

particular the Liability Directive. Efforts to implement the Environmental Crime Directive and the INSPIRE Directive are ongoing. The capacities of the environmental inspectorate need to be further strengthened both at central and local levels.

In the field of **air quality**, Serbia has a good level of alignment with the *acquis*. Available data show an alarming degree of over-polluted air in some of Serbia's main cities. The quality, availability and accessibility of air quality data needs to improve. Serbia needs to adopt a national air protection strategy. Six agglomerations have been identified where the tolerant value is exceeded. Only three air quality plans exist, one for Bor (2013), one for Belgrade (2016) and a third for Pančevo (2017). Air quality plans and functioning monitoring systems for relevant areas where data is still not available need to be developed. Further efforts are needed to finish transposing and implementing the EU Directive on volatile organic compound emissions, and to comply with EU requirements on the sulphur content of liquid fuels.

Regarding **waste management**, there is a good level of alignment with the *acquis*. Efforts are ongoing to improve the implementation in this sector, which is at an early stage. The national waste management strategy and municipal waste management plans need to be updated to reflect legal provisions on waste minimisation and waste separation at source, and to include quantitative targets for waste recovery and recycling. The share of recycled waste in overall waste management is still low. Increased efforts are needed to close Serbia's non-compliant landfills more quickly and invest in waste separation and recycling. A national integrated waste management plan and additional economic instruments for special waste streams need to be developed. No progress has been made on medical waste. In Subotica, the first regional transfer loading stations were put in operation; this should be replicated in other regions.

The level of alignment for **water quality** is moderate. In December 2016, Serbia adopted a strategy for water management running until 2034. A national strategy and action plan on water protection have yet to be adopted. Untreated sewage remains the main source of pollution. Serbia needs to make significant efforts to further align its legislation with the *acquis*, and to strengthen administrative capacity, in particular for monitoring, enforcement and interinstitutional coordination. Local governance should be improved, in particular, through establishing clear rules on responsibilities for the operation and maintenance of facilities. A code of good agricultural practice needs to be adopted and implemented.

The level of alignment with the *acquis* in the field of **nature protection**, in particular the Habitats and Birds Directive is moderate. Gaps in transposition allowing hunting of non-huntable birds have not yet been addressed. Funds earmarked in 2017 for the national ecological network and preparation for Natura 2000 remained unused. The institutional framework for Natura 2000 needs to be streamlined and adequately resourced. EU standards on prohibited means of capturing and killing wild animals need to be fully incorporated in all legislation, including legislation on hunting. Enforcement capacities for meeting Serbia's obligations under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) should be strengthened. The institutional set-up and national and local administrative capacity need to be substantially strengthened, focusing on improving enforcement.

As regards **industrial pollution and risk management**, alignment with most of the *acquis* is at an early stage. Capacity constraints hamper progress in implementation across the sector. The necessary legal basis for issuing permits for mining waste management has been established. Law enforcement on industrial pollution needs to be stepped up. Serbia needs to address the *acquis* requirement for either a fully integrated permitting process covering all areas or formal consultation between permitting authorities.

There is a high level of alignment with the *acquis* on **chemicals**. Further efforts are required regarding the REACH and CLP Regulations, and alignment is pending for the legislation on animal experiments, asbestos and biocides. Serbia needs to boost its administrative capacity to implement the legislation in these areas, and ensure proper monitoring of persistent organic pollutants.

Serbia has a good level of alignment with EU rules on **noise** but implementation is at an early stage. Serbia needs to build administrative capacity for drafting strategic noise maps and action plans.

Serbia is moderately prepared as regards **civil protection**. Progress has been made on applying tools for the civil protection mechanism, such as post disaster need assessments and flood risk mapping. A strategic framework for civil protection has been developed including an action plan on disaster risk management, although the corresponding law has not been adopted. As an active member of the EU Civil Protection Mechanism, Serbia needs to further strengthen its capacity for disaster prevention, disaster risk reduction and disaster risk management including flood risk management. As a precondition to access to the Common Emergency Communication and Information System (CECIS), Serbia needs to establish relevant Secure Trans European Services for Telematics between Administrations (sTESTA) connections. Serbia needs to ensure that the Niš Humanitarian Centre does not duplicate the role of the Emergency Response Coordination Centre of the European Commission and does not contradict its membership in the Union Civil Protection Mechanism.

Climate change

Serbia has achieved some level of preparation but implementation is at a very early stage. A national cross-sectoral strategy on climate change, consistent with the EU 2030 framework for climate and energy policies, is currently being developed. It also addresses adaptation to climate change. The National Climate Change Committee should do more to integrate climate action into other sectors. In May 2017, Serbia ratified the Paris Agreement. In October 2017, Serbia submitted its second communication to the UN Framework Convention on Climate Change (UNFCCC). However, the accuracy of data provided needs to be improved.

On legislative alignment, Serbia's environmental protection agency continues to improve greenhouse gas inventories. Work on addressing greenhouse gas emissions from land use, land use change and forestry started. Serbia needs to reinforce its administrative and technical capability to fully align with climate *acquis* monitoring and reporting. Drafting of legislation on greenhouse gas emissions monitoring, reporting and verification in line with the EU emissions trading system and effort sharing regulation was finalised in November 2017. Transposition and implementation of legislation on fluorinated gases and ozone depleting substances continues, including preparations to ratify the Kigali amendment to the Montreal Protocol. A number of by-laws were adopted on the Fuel Quality Directive. Considerable strengthening of administrative capacity is needed, together with awareness-raising activities.

6.28. Chapter 28: Consumer and health protection

EU rules protect consumers in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, patients' rights in cross-border healthcare, and serious cross-border health threats including communicable diseases, as well as medicines for human and veterinary use.

Serbia is **moderately prepared** in consumer and health protection. **Some progress** was made with the adoption the law on medical devices and the laws on transfusion medicine and bio-medically assisted fertilisation.

In the coming period, Serbia should in particular:

→ strengthen the administrative capacity of relevant authorities for consumer protection, market surveillance and sanitary inspection;

→ strengthen the overall managerial capacities and human resources as well as the financial sustainability of the public health insurance fund.

Little progress can be reported on horizontal aspects of **consumer protection**. In the institutional framework, the department for consumer protection remains the main authority for developing the consumer protection policy and enforcing collective consumer rights, initiating collective redress cases. The National Council for Consumer Protection was re-established in April 2017. The national consumer complaint register is operational and it became publicly accessible in the reporting period. The number of complaints filed by consumers in the reported period amounted to 16 928, out of which 25 are currently being solved in court and 14 were solved by out-of-court procedures. A better cooperation mechanism between the line ministries and consumer organisations needs to be established. The administrative capacity of the authorities for consumer protection and inspection services in charge of consumer protection, product safety and non-safety related issues requires further strengthening.

No progress was made on **product safety-related issues**, as the amended law on general product safety focusing, *inter alia*, on misleading products and the law on safety items of general use, regulating issues regarding cosmetics, remain to be adopted. Sanitary inspection administrative capacities need to be strengthened, particularly in view of staff retirement, while sanitary inspection standard control procedures need to be adjusted with a strict and systematic application of risk-based controls. Coordination amongst the relevant Product Safety Council stakeholders has improved.

On **non-safety-related issues**, some progress was made with the adoption of the law on medical devices in 2017. Serbia needs to align to the remaining *acquis* in this area.

In the area of **public health**, national legislation on healthcare is partly aligned with the *acquis*. There has been no progress in ensuring the sustainability of the public health fund. The national plan for human resources in the health sector is still not implemented, with an increased number of physicians leaving the country. The EU-funded centralised electronic health record system is still not used and compliance with EU Health Indicators is not yet ensured.

No progress was made on the preparation of a new strategy on **tobacco control**, the implementation of pictorial warnings or an increase in the price of cigarettes. There has been a small increase in the percentage of smokers among women and teenagers in the reporting period. In May 2017, Serbia adopted a law on the confirmation of the protocol to eliminate illicit trade in tobacco products, in line with the WHO Framework Convention on Tobacco Control. Tobacco control legislation is partly aligned with *acquis*, and the use of tobacco in public places is not aligned with EU recommendations.

There was limited progress on aligning with the *acquis* on **blood, tissues, cells and organs**, following the adoption of a law on transfusion medicine and on bio-medically supported fertilisation, both designed to be fully aligned with the *acquis*. They will be implemented as of January 2019. EU-level quality, safety standards and inspection services have yet to be developed. The overall administrative and technical capacities of the Directorate for Biomedicine to perform oversight of the sector as the competent authority are still quite weak.

On **serious cross-border health threats including communicable diseases**, surveillance and response capacities remain limited and require modernisation. A centralised health information and communication system is yet to be implemented.

No progress has been made in harmonising with the Directive on the application of patients' rights in **cross-border healthcare**. An **e-Health** Unit at the Ministry of Health needs to be established in order to coordinate the complex activities involved in the implementation of a comprehensive health information system at all levels of care.

More attention needs to be given to effective, sustainable financing of disease-specific strategies, including the national HIV/AIDS strategy and awareness-raising, particularly on the importance of child vaccination. Additional work is needed on surveillance of antimicrobial resistance and quality control and standardisation of laboratories. Prescribing of antibiotics needs to be strictly controlled to strengthen the fight against anti-microbial resistance.

Health promotion regarding **non-communicable diseases** is still not advanced. National **cancer screening** for colorectal, breast and cervical cancers is slowly progressing but in many regions of the country is still only sporadic and not performed in a systematic manner. The National Cancer Register is maintained by the National Institute for Radiology and Oncology.

There was no progress in the development of community-based **mental health** services.

Regarding **nutrition and physical activity**, no progress is noted.

There were no developments on **medicines for human and veterinary use**, or on maximum sale prices criteria for medicines. On **cosmetics** there was no progress in the reporting period. There was also no progress on **drug abuse prevention**.

Regarding the prevention of harmful use of **alcohol**, a national programme to reduce the harmful effects of alcohol and alcohol induced disorders in the Republic of Serbia has been adopted.

On **health inequalities**, access to healthcare services needs to be improved for people with disabilities, people living with HIV, children and adults who use drugs, prisoners, women in prostitution, LGBTI people, internally displaced persons and Roma.

6.29. Chapter 29: Customs union

All Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment, adequate implementing and enforcement capacity, and access to the common computerised customs systems.

Serbia is at a **good level of preparation** in the area of customs union. **Some progress** was made by streamlining some customs processes.

In the coming year, Serbia should in particular:

- further upgrade the customs processing system by integrating risk management;
- further improve the IT system of the national customs to enable integration with the EU system.

As regards **customs legislation**, there is a high level of alignment with the *acquis*. Serbia is a member of the common transit area, applying EU rules on transit movements. Rules on customs enforcement of intellectual property rights are broadly in line with the EU *acquis*. The Regional Convention on Pan-Euro-Mediterranean (PEM) preferential rules of origin is applied in Serbia. The customs tariff nomenclature has been aligned with the 2017 EU Combined Nomenclature. In June 2017 Serbia ratified the Protocol to the WHO Framework

Convention on Tobacco Control to Eliminate the Illicit Trade in Tobacco Products. However, legislation on duty relief, drug precursors, cultural goods, free zones, and security aspects still needs to be aligned with the *acquis*. Moreover, fees charged to lorries entering customs terminals to discharge customs obligations are not in line with the *acquis*.

The customs administration continued to strengthen its **administrative and operational capacity**. Customs duty collection continued to increase by 6.8 % in 2016 and by 8.8 % in 2017. Since the successful launch of common transit operations in February 2016, the number of transit declarations issued by the customs administration has been rising by 13 % in 2016 and by 17 % in 2017.

The customs administration's new business strategy and the accompanying action plan 2017-2020 were adopted in November and December 2017, respectively. Strategic and modern management techniques, including quality assurance and change management, are lacking. The IT strategy also needs to be updated. Work on setting up a functional, interconnected IT system progressed, but the IT division continues to lose qualified staff. A system for retaining qualified IT engineers should be established. Significant effort and investment are needed to ensure interconnectivity and interoperability with EU IT systems.

The risk management system needs to be strengthened. Pre-arrival/pre-departure risk analysis should be conducted consistently and across the board and harmonised with the Union Customs Code. Work on strengthening the capacity of the customs laboratory has started, but the laboratory needs to be further equipped.

6.30. Chapter 30: External relations

The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules in the field of humanitarian aid and development policy.

Serbia is **moderately prepared** in the area of external relations. **No progress was made in the last year and capacity to pursue key challenges in trade policy weakened.**

In the coming year, Serbia should in particular:

- urgently remove the recently imposed export restrictions on non-hazardous waste, which are not justified under the Stabilisation and Association Agreement and which point to weaknesses in administrative capacity to implement trade policy;
- complete its WTO accession by adopting a WTO and EU *acquis*-compliant law on genetically modified organisms and complete remaining bilateral market access negotiations;
- strengthen administrative capacity in the Ministry of Trade, Tourism and Telecommunications for dealing with trade with the EU, CEFTA and WTO accession, in particular view a view to implement the multiannual action plan for the regional economic area.

On the **common commercial policy**, no progress was made on Serbia's accession to the World Trade Organisation (WTO). WTO membership remains dependent on the adoption of a WTO and EU *acquis*-compliant law on genetically modified organisms (GMO), and on the completion of market access negotiations with a small number of WTO members.

Since May 2017, Serbia has introduced a number of restrictions concerning the exports for recovery of non-hazardous waste leading to a temporary halt in the issuance of new export licences. Serbia should remove these restrictions without delay and avoid applying such measures unless fully justified.

In November 2017 the Government set up a coordination body for trade facilitation. This body should ensure cooperation across different ministries dealing with trade policy as well as with external stakeholders. The capacity of the administration to collect market statistics is an issue that needs to be addressed. The administrative capacity of units in the Ministry of Trade, Tourism and Telecommunications in charge of trade with the EU, CEFTA and WTO accession needs to be strengthened.

Serbia aligned its national control list of **dual-use goods** with the latest EU regime on exports, transfer, brokering and transit of these items in May 2017. In December 2017, Serbia adopted a new regulation on the export and import of goods which could be used for capital punishment, torture or other cruel, inhumane or degrading treatment or punishment. It is aligned with the relevant EU regulation. Serbia needs to continue its efforts to join the Wassenaar Arrangement.

Serbia took important commitments at the occasion of the Western Balkans Summit in Trieste to implement a Multiannual Action Plan for the development of a Regional Economic Area (REA) in the Western Balkans. The implementation of the action plan will allow the deepening and widening of economic integration within the region, based on EU rules and standards. It is important for Serbia to play a constructive role within CEFTA to allow for the timely and smooth implementation of the REA Multiannual Action Plan.

As concerns **bilateral agreements with non-EU countries**, Serbia completed negotiations on further liberalisation of trade with Turkey under the existing bilateral free trade agreement. Serbia is still negotiating a free trade agreement with Ukraine. In November 2016, Serbia signed a bilateral investment treaty (BIT) with Qatar. Serbia needs to ensure compatibility of its bilateral investment treaties with the EU *acquis*.

Some progress has been made on **development policy** and **humanitarian aid**. Serbia has still not established a policy or legal frameworks in this area, and development assistance and humanitarian aid is granted on an *ad hoc* basis. Serbia participates in the EU Civil Protection Mechanism.

6.31. Chapter 31: Foreign, security and defence policy

Member States must be able to conduct political dialogue under the foreign, security and defence policy, to align with EU statements, to take part in EU actions and to apply agreed sanctions and restrictive measures.

Serbia is **moderately prepared**. **Some progress** was made as Serbia started the review of its security and defence strategies and the implementation of its law on restrictive measures.

In the coming year, Serbia should in particular:

- complete the review of its national security and defence strategies fully reflecting Serbia's EU orientation in these areas;
- continue to apply its law adopting international sanctions, including EU restrictive measures, and monitor its implementation;
- improve alignment with EU declarations and Council decisions on common foreign and security policy.

The **political dialogue** between the EU and Serbia on foreign and security policy issues was further strengthened, with the first CFSP/CSDP informal consultations held in Belgrade in October 2017. The review of Serbia's 2009 national security and defence strategies is ongoing and needs to be finalised to move towards a policy based on the EU's guiding principles for international action, in line with Serbia's strategic goal of EU membership.

(For more information on developments in bilateral relations with other enlargement countries and EU Member States, see Political criteria — Regional issues and international obligations.)

The institutional framework enabling Serbia's participation in the common foreign and security policy (CFSP) and security and defence policy (CSDP) is in place.

On the **common foreign and security policy (CFSP)**, Serbia supported the global strategy for the European Union's foreign and security policy. When invited, Serbia aligned with 34 out of 65 EU declarations and Council decisions, representing an alignment rate of around 52 % during the reporting period. Serbia did not align with EU restrictive measures related to Russia and Ukraine, among other matters. A database for monitoring the imposition and implementation of restrictive measures needs to be established, as provided for in Serbian law on the implementation of international sanctions, including EU restrictive measures. Serbia continued to declare support for the territorial integrity and sovereignty of Ukraine, including Crimea.

(For more information on developments concerning the International Criminal Court, see Political criteria — Regional issues and international obligations.)

Serbia continued with intense relations and strategic partnerships with a number of countries world-wide. Frequent high-level contacts and regular bilateral visits with Russia were maintained, together with military technical cooperation, including joint military drills, sustained relations with the Collective Security Treaty Organisation and arms trade arrangements. Serbia ratified an agreement on cooperation and joint action between its Ministry of Interior and the Russian Federal Protective Service. Serbia needs to make sure that implementation of this agreement does not infringe on its obligations under EU accession negotiations related, inter alia, to data protection and exchange of classified information. Serbia maintained good relations with the US. Serbia also participated in over 20 military joint drills with the US and NATO in 2017. Serbia continued to further strengthen its political and economic relations with China. Serbia actively supported the Chinese 'Belt and Road' initiative.

Serbia supported EU measures and documents on *conflict prevention*. Serbia chaired the OSCE Forum for Security Cooperation during the last trimester of 2017.

Serbia continued to participate in some, but not all, international export control arrangements and instruments on *non-proliferation*. Serbia applied for membership of the Australia Group in March 2017 and ratified the Convention on Nuclear Safety in November 2017. Serbia complied with the Chemical Weapons Convention and had the legislation and administrative structures in place. A small arms and light weapons national registration system and database, together with a stockpiling system, were in place but needed upgrading. The process for collecting and destroying illegally possessed weapons and ammunition continued. Serbia's ratification of the Additional Protocol to its Safeguards Agreement pursuant to Article III of the Nuclear Non-Proliferation Treaty was still pending. Serbia's 2009 application to join the Wassenaar Arrangement is still pending.

Serbia continued to engage actively with *international organisations*. Serbia maintained its policy of military neutrality but cooperation with NATO continued.

Serbia was implementing its agreement with the EU on **security procedures** for exchanging and protecting classified information.

Serbia continued to actively participate in **military crisis management missions** under the **common security and defence policy** notably the EU training missions in Mali, Central

African Republic and Somalia, and EU NAVFOR Atalanta. Serbia continued to participate in the roster of the EU Battle Groups. Serbia also participated in UN peacekeeping missions.

6.32. Chapter 32: Financial control

The EU promotes the reform of national governance systems to enhance managerial accountability and sound financial management of income and expenditure and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the euro against counterfeiting.

Serbia is **moderately prepared** in this chapter. **Some progress** was made in all areas. The Commission recommendations from 2016 were partially implemented. High level political support will remain instrumental for implementation of Public Internal Financial Control (PIFC) reforms at all levels of the administration and in state-owned companies.

In the coming period, Serbia should in particular:

→ start preparing a policy document that defines and explains the national approach to the implementation of managerial accountability, including how it applies to institutional responsibilities, resource allocation, reporting on the achievement of objectives, and financial management;

→ provide a mandate for the Central Harmonisation Unit to implement quality reviews of internal control systems in individual institutions and ensure that the Central Harmonisation Unit starts to implement such reviews;

→ take necessary measures to ensure that the system for detection of irregularities works in practice, both for the EU funds and for the national budget.

Public internal financial control

The **strategic framework** is not fully in place. A PIFC strategy until 2020 was adopted in May 2017, but it focuses mostly on the activities of the Central Harmonisation Unit. Some deliverables from the action plan to this strategy are already overdue. A policy approach on PIFC in the public sector, focusing on managerial accountability, needs to be developed. A mechanism for effective coordination, monitoring and reporting of the public administration, public financial management and PIFC reforms needs to be still put in place.

Managerial accountability still needs to be fully embedded in the administrative culture of the public sector. There are weaknesses in accountability lines between (semi) independent bodies and their natural parent ministries and in linking government strategic and financial planning. In addition, the management culture is centralised with little delegation of decision-making powers to middle management. Ministers and senior management are involved in technical decisions, which distract them from key strategic functions. Managerial accountability is further limited by the focus on compliance (*see Public Administration Reform*).

The legal framework for **internal control implementation** is broadly in line with the internal control framework of the Committee of Sponsoring Organisations and the guidelines of the International Organisation of Supreme Audit Institutions (INTOSAI). However, amendments to the Budget System Law are still needed to reinforce managerial accountability. Also, the FMC manual needs to be upgraded. Implementation of internal control remains generally weak. Irregularity management and risk management need to be further developed. The Ministry of Finance has integrated all ex-post control functions under one department. This functional consolidation is expected to ensure that centralised financial inspection will be compatible with PIFC requirements.

Internal audit practice in the public sector is still developing and the situation across the public sector is diverse. While the legal requirements are in place, clarity is still needed about all institutions required to establish an internal audit function. Senior management still needs to better understand and actively support internal audit. Most of the central institutions have an audit charter and perform audit activity according to strategic and annual audit plans. The number of certified auditors, internal audit units and conducted audits has increased, as well as the number of recommendations implemented. The Central Harmonisation Unit has done internal audit quality review in 10 ministries, but quality assurance needs to further improve.

The **Central Harmonisation Unit (CHU)** is gradually shifting its focus from training activities to methodological guidance. The CHU annual report now attempts to better identify weaknesses and propose corrective measures. Future reports should assess both the implementation of the PIFC strategy and the recommendation of the previous year's report. While the CHU has the possibility to employ 13 staff, 9 posts are currently filled.

External audit

The State Audit Institution's (SAI) **constitutional and legal framework** is in line with INTOSAI standards. The SAI law provides for a comprehensive audit remit and guarantees its functional, organisational and financial independence. The SAI does not, however, audit all public institutions annually.

On **institutional capacity**, the SAI is governed by a Council with 5 members nominated by the parliament. The SAI has 426 posts. Currently 326 posts are filled, of which 285 are filled by audit staff. The SAI has an internal audit unit with one internal auditor. The SAI's Strategic Development Plan for 2016-2020, which focuses on improved audit quality and performance management, is being implemented. The SAI continues to detect errors and file misdemeanour, economic offence and criminal charges against individuals with the competent authorities. This requirement of the SAI law needs to be reviewed in the medium term and addressed in light of the overall national arrangements for budget inspection.

The SAI is continuously improving the **quality of its audit work**. The sector for audit methodology and quality control has been strengthened and internal guidance has been issued. Performance audit work is gradually expanding.

To increase the impact of **audit work**, the SAI has set up internal procedures to follow up on the implementation of audit recommendations. The SAI annual audit report is discussed in the relevant parliamentary committee, but effective parliamentary scrutiny and follow-up to SAI reports and audit findings is not yet ensured. The SAI continued to proactively improve its cooperation with stakeholders and increase its communication with the media.

Protection of the EU's financial interests

Serbia has ensured a high degree of **acquis alignment**, but it needs to assess alignment with the new EU Directive on the fight against fraud to the Union's financial interests by means of a criminal law. The **anti-fraud coordination service (AFCOS)** was set up in August 2017 as a unit in the Department for control of public funds in the Ministry of Finance. The envisaged number of staff is 9, but currently has only 3. The amended legal provisions require AFCOS to conduct administrative checks of reported irregularities. The AFCOS network is operational and meets regularly. A national anti-fraud strategy for the protection of the EU's financial interests was adopted in October 2017.

Serbia ensures **cooperation with the European Commission** and reports on irregularities and suspected fraud cases via an online Irregularity Management System. 22 cases have been reported through the system since 2012, including 12 cases in 2016 and 1 case in 2017. The respective national responsibilities for reporting still need to be clarified. Although

cooperation in investigative activity has continued well on a case by cases basis, Serbia needs to further develop a solid track record on investigations and reporting on irregularities.

Protection of the euro against counterfeiting

Serbia has achieved a high degree of *acquis alignment*. In December 2017 the National Bank of Serbia adopted a decision on authentication of euro coins and banknotes and the handling of euro coins unfit for circulation. Serbia has signed the International Convention for the Suppression of Counterfeiting Currency. The **technical analysis** is performed by the National Bank. The National Bank has formal **cooperation** agreements with the European Commission on coins and the European Central Bank on banknotes. Cooperation with neighbouring countries is ongoing. Serbia takes part in the actions of the Pericles 2020 programme.

6.33. Chapter 33: Financial and budgetary provisions

This chapter covers the rules governing the funding of the EU budget ("own resources"). These resources mainly consist of i) contributions based on the gross national income of each Member State; ii) customs duties; and iii) a resource based on value-added tax. Member States must have the appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources.

Serbia is at an **early stage of preparations** in this area. A group for the coordination and management of the EU's own resources has been set up. **Some progress** was made in the underlying policy areas affecting the correct functioning of the own resources system.

In the coming year, Serbia should, in particular;

→ take further steps to boost the administrative capacity of the coordination group and the various institutions involved in the own resources system;

→ develop the organisational and procedural links between these institutions.

There was some progress in the underlying policy areas indirectly affecting the own resources system (*for progress in these areas, see chapters 16-Taxation, 18-Statistics, 29-Customs union and 32-Financial control*). There was some progress towards meeting the specific administrative conditions for own resources, in particular formally establishing the coordination structure.

Regarding **traditional own resources**, higher collection of customs duties was recorded in 2016 and the upward trend continued in 2017. As regards **value added tax (VAT)-based resources**, increased efforts by the tax administration to fight tax evasion have led to increased collection of VAT. As regards **gross national income-based resources**, national accounts have further improved. However, Serbia will still need to make further efforts to ensure compliance with the European System of Accounts (ESA 2010) and the exhaustiveness of the national accounts and gross national income (GNI) calculations. Despite some positive results, instruments and mechanisms to fight and reduce tax evasion and informal economy need to be further strengthened.

Regarding **administrative infrastructure**, the capacity of the institutions in charge in the relevant policy areas needs to be further strengthened. A group for the coordination and management of own resources of the EU tasked with ensuring correct calculation, accounting, forecasting, collection, payment, control and reporting on implementation of the EU's own resources policy and rules has been established in the Ministry of Finance.

ANNEX I – RELATIONS BETWEEN THE EU AND SERBIA

Within the framework of the **accession negotiations**, twelve chapters have been opened (5 – public procurement; 6 – company law; 7 – intellectual property law; 20 – enterprise and industrial policy; 23 – judiciary and fundamental rights; 24 – justice, freedom, security; 25 – science and research; 26 – education and culture; 29 – customs union; 30 – external relations; 32 – financial control; 35 – other issues / normalisation of relations between Serbia and Kosovo), two of which have been provisionally closed (chapters 25 and 26). Serbia tabled its negotiating positions on chapters 9, 13, 33, 17 and 18. Serbia was also invited to table its negotiating positions on chapters 2, 4, 10, 14, 21, 27 and 28.

Serbia is participating in the **Stabilisation and Association Process**. Serbia has continued to build a track record in implementing the obligations of the Stabilisation and Association Agreement (SAA). Compliance issues remain in the area of state aid and fiscal discrimination on alcohol. As of 1 September 2017, capital flows between the EU and Serbia should have been fully liberalised. However, restrictions on intra-company lending and sales of agricultural land remain. Since May 2017, Serbia has introduced a number of restrictions concerning exports of non-hazardous waste leading to a temporary halt in the issuance of export licences. Serbia should address all these compliance issues as a matter of priority.

Regular political and economic dialogue between the EU and Serbia has continued. Meetings of the Stabilisation and Association (SA) Council took place in December 2016 and November 2017. Sub-committee meetings were held, together with a meeting of a special group on public administration reform. The SA Parliamentary Committee met in September and December 2017. Serbia continues to participate in the multilateral economic dialogue with the Commission and EU Member States to prepare for participation in multilateral surveillance and EU economic policy coordination. As part of the new approach to economic governance, Serbia adopted its fourth economic reform programme and is implementing reforms recommended by the Economic and Financial Affairs Council. Further efforts are needed to improve the capacity for economic planning, inter-ministerial coordination and implementation.

Visa-free travel for citizens of Serbia travelling to the Schengen area has been in force since December 2009. A **readmission** agreement between the European Union and Serbia has been in force since 2008. As part of the visa suspension mechanism report, the Commission is monitoring and reporting on the continuous fulfilment of the visa liberalisation benchmarks. The mechanism enables the EU, under certain conditions, to temporarily suspend visa-free travel for nationals of a certain country in case of a substantial increase of migratory or security risk as well as in case of non-fulfilment of visa liberalisation benchmarks. The first monitoring report under the suspension mechanism has been adopted on 20 December 2017.

Under IPA II, Serbia continues to benefit from **pre-accession assistance** with a total indicative allocation of EUR 1.5 billion for the period 2014-2020. The IPA National Programme 2017 amounts to EUR 138.2 million overall, with most of the funding supporting alignment with the EU *acquis*, justice, energy and environment. An additional EUR 25 million have been allocated to the IPA Rural Development programme (IPARD). To support Serbia in border and migration management following the refugee crisis of 2015-2016, the Commission has allocated up to EUR 77.6 million which are already under implementation, while in December an action of EUR 12 million has been approved by the Board of the EU Trust Fund in response to the Syria Crisis to support Serbia in responding to the needs of the migrants present in Serbia, covering in particular costs incurred in food provision and protection. In addition, Serbia is benefiting from the European Instrument for Democracy and Human Rights (EIDHR).

Serbia continues to actively participate in EU programmes, including Horizon 2020; COSME; Customs and Fiscalis 2020; Erasmus+ and Creative Europe; Europe for Citizens; Employment and Social Innovation.

ANNEX II – STATISTICAL ANNEX**STATISTICAL DATA (as of 16.02.2018)****Serbia****Basic data**

Population (thousand)							
Total area of the country (km ²)							

National accounts

Gross domestic product (GDP) (million national currency)							
Gross domestic product (GDP) (million euro)							
GDP (euro per capita)							
GDP per capita (in purchasing power standards (PPS))							
GDP per capita (in PPS), relative to the EU average (EU-28 = 100)							

Real GDP growth rate: change on previous year of GDP volume (%)							
Employment growth (national accounts data), relative to the previous year (%)							
Labour productivity growth: growth in GDP (in volume) per person employed, relative to the previous year (%)							
Unit labour cost growth, relative to the previous year (%)							
**3 year change (T/T-3) in the nominal unit labour cost growth index (2010 = 100)							
Labour productivity per person employed: GDP (in PPS) per person employed relative to EU average (EU-28 = 100)							
Gross value added by main sectors							
Agriculture, forestry and fisheries (%)							
Industry (%)							
Construction (%)							
Services (%)							
Final consumption expenditure, as a share of GDP (%)							
Gross fixed capital formation, as a share of GDP (%)							
Changes in inventories, as a share of GDP (%)							
Exports of goods and services, relative to GDP (%)							
Imports of goods and services, relative to GDP (%)							

Gross fixed capital formation by the general government sector, as a percentage of GDP (%)							
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Business

Industrial production volume index (2010 = 100)							
Number of active enterprises (number)							
Birth rate: number of enterprise births in the reference period (t) divided by the number of enterprises active in t (%)							
Death rate: number of enterprise deaths in the reference period (t) divided by the number of enterprises active in t (%)							
People employed in SMEs as a share of all persons employed (within the non-financial business economy) (%)							
Value added by SMEs (in the non-financial business economy) (EUR million)							
Total value added (in the non-financial business economy) (EUR million)							

Inflation rate and house prices

Harmonised consumer price index (HICP), change relative to the previous year (%)							
**Annual change in the deflated house price index (2010 = 100)							

Balance of payments

Balance of payments: current account total (million euro)							
Balance of payments current account: trade balance (million euro)							

Balance of payments current account: net services (million euro)							
Balance of payments current account: net balance for primary income (million euro)							
Balance of payments current account: net balance for secondary income (million euro)							
Net balance for primary and secondary income: of which government transfers (million euro)							
**3 year backward moving average of the current account balance relative to GDP (%)							
**Five year change in share of world exports of goods and services (%)							
Net balance (inward - outward) of foreign direct investment (FDI) (million euro)							
Foreign direct investment (FDI) abroad (million euro)							
of which FDI of the reporting economy in the EU-28 countries (million euro)							
Foreign direct investment (FDI) in the reporting economy (million euro)							
of which FDI of the EU-28 countries in the reporting economy (million euro)							

**Net international investment position, relative to GDP (%)							
Year on year rate of change in gross inflow of remittances (in national currency) from migrant workers (%)							

Public finance

***General government deficit / surplus, relative to GDP (%)							
***General government gross debt relative to GDP (%)							
Total government revenues, as a percentage of GDP (%)							
Total government expenditure, as a percentage of GDP (%)							

Financial indicators

Gross external debt of the whole economy, relative to GDP (%)							
Gross external debt of the whole economy, relative to total exports (%)							
Money supply: M1 (banknotes, coins, overnight deposits, million euro)							

Money supply: M2 (M1 plus deposits with maturity up to two years, million euro)							
Money supply: M3 (M2 plus marketable instruments, million euro)							
Total credit by monetary financial institutions to residents (consolidated) (million euro)							
**Annual change in financial sector liabilities (%)							
**Private credit flow, consolidated, relative to GDP (%)							
**Private debt, consolidated, relative to GDP (%)							
Interest rates: day-to-day money rate, per annum (%)							
Lending interest rate (one year), per annum (%)							
Deposit interest rate (one year), per annum (%)							
Euro exchange rates: average of period (1 euro = ... national currency)							
Trade-weighted effective exchange rate index, 42 countries (2005 = 100)							
**3 year change (T/T-3) in the trade-weighted effective exchange rate index, 42 countries (2005 = 100)							
Value of reserve assets (including gold) (million euro)							

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External trade in goods

Value of imports: all goods, all partners (million euro)							
Value of exports: all goods, all partners (million euro)							
Trade balance: all goods, all partners (million euro)							
Terms of trade (export price index / import price index * 100) (number)							
Share of exports to EU-28 countries in value of total exports (%)							
Share of imports from EU-28 countries in value of total imports (%)							

Demography

Crude rate of natural change of population (natural growth rate): number of births minus deaths (per thousand inhabitants)							
– Infant mortality rate deaths of children under							

	one year of age (per thousand live births)							
-	Life expectancy at birth: male (years)							
-	Life expectancy at birth: female (years)							

-	Labour market							
-	Economic activity rate for persons aged 20-64: proportion of the population aged 20-64 that is economically active (%)							
-	*Employment rate for persons aged 20-64: proportion of the population aged 20-64 that are in employment							

	(%)							
-	Male employ ment rate for persons aged 20-64 (%)							
-	Female employ ment rate for persons aged 20-64 (%)							
-	Employ ment rate for persons aged 55-64: proporti on of the populati on aged 55-64 that are in employ ment (%)							
-	Employ ment by main sectors							
-	Agricul ture, forestry and fisherie s (%)							
-	Industr y (%)							
-	Constru ction (%)							
Services (%)								

–	People employed in the public sector as a share of total employment, persons aged 20–64 (%)						
–	People employed in the private sector as a share of total employment, persons aged 20–64 (%)						
–	Unemployment rate: proportion of the labour force that is unemployed (%)						
–	Male unemployment rate (%)						
–	Female unemployment rate (%)						
–	Youth unemployment						

	rate: proportion of the labour force aged 15–24 that is unempl oyed (%)							
	– Long- term unempl oyment rate: proporti on of the labour force that has been unempl oyed for 12 months or more (%)							
	– Unempl oyment rate for persons (aged 25–64) having complet ed at most lower seconda ry educati on (ISCED levels 0-2) (%)							
	– Unempl oyment rate for persons (aged 25–64) having complet ed tertiary							

	education (ISCED levels 5-8) (%)							
	– Social cohesion							
	– Average nominal monthly wages and salaries (national currency)							
	– Index of real wages and salaries (index of nominal wages and salaries divided by the inflation index) (2010 = 100)							
	– GINI coefficient							
	– Poverty gap							
	– *Early leavers from education and training : proportion of the							

	populati on aged 18–24 with at most lower seconda ry educati on who are not in further educati on or training (%)							
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	– Standa rd of living							
	– Number of passeng er cars relative to populati on size (numbe r per thousan d populati on)							
	– Number of mobile phone subscri ptions relative to populati on size (numbe r per thousan d populati on)							
	– Mobile broadba nd penetrat ion (per 100							

	inhabitants)							
-	Fixed broadband penetration (per 100 inhabitants)							

-	Infrast ructure							
-	Density of railway network (lines in operation per thousand km ²)							
-	Length of motorways (kilometres)							

-	Innova tion and researc h							
-	Public expenditure on education relative to GDP (%)							
-	*Gross domestic expenditure on R&D relative to GDP (%)							
-	Govern							

	ment budget appropriations or outlays on R&D (GBAO RD), as a percent age of GDP (%)							
	– Percent age of househ olds who have internet access at home (%)							

	– Enviro nment							
	– *Index of greenho use gas emissio ns, CO ₂ equival ent (1990 = 100)							
	– Energy intensit y of the econom y (kg of oil equival ent per 1 000 euro GDP at 2010 constan t prices)							
	– Electric ity							

	generat ed from renewa ble sources relative to gross electrici ty consum ption (%)							
-	Road share of inland freight transport (based on tonne- km) (%)							

-	Energy							
-	Primary product ion of all energy product s (thousa nd TOE)							
-	Primary product ion of crude oil (thousa nd TOE)							
-	Primary product ion of solid fuels (thousa nd TOE)							
-	Primary product ion of gas							

	(thousand TOE)							
-	Net imports of all energy products (thousand TOE)							
-	Gross inland energy consumption (thousand TOE)							
-	Gross electricity generation (GWh)							

-	Agriculture							
-	Agricultural production volume index of goods and services (at producer prices) (2010 = 100)							
-	Utilised agricultural area (thousand hectares)							
-	Livestock							

	ck number s: live bovine animals (thousa nd heads, end of period)							
	- Livesto ck number s: live swine (thousa nd heads, end of period)							
	- Livesto ck number s: live sheep and live goats (thousa nd heads, end of period)							
	- Raw milk availabl e on farms (thousa nd tonnes)							
	- Harvest ed crop product ion: cereals (includi ng rice) (thousa nd tonnes)							
	- Harvest ed crop product ion: sugar beet (thousa nd							

	tonnes)							
-	Harvested crop production: vegetables (thousand tonnes)							

: = not available
b = break in series

- e = estimate
- p = provisional
- * = Europe 2020 indicator
- ** = Macroeconomic Imbalance Procedure (MIP) indicator
- *** = The government deficit and debt data of enlargement countries are published on an "as is" basis and without any assurance as regards their quality and adherence to ESA rules.

Footnotes

- 1) Break due to the introduction of a new estimation method.
- 2) - Gross index.
- 3) - Data might not be comparable due to the process of updating the register.
- 4) - 2005: based on the 2005 manual edition.
- 5) - Secondary income.
- 6) - The money stock in euro currency in circulation includes current and capital transfers from the owners of the liabilities, including the accounts of the banks in other words payments carried out under restrictions.
- 7) - The money stock includes other short-term and long-term debt.
- 8) - The money stock includes short-term currency deposits and frozen foreign assets.
- 9) - The total financial assets are the sum of all liabilities excluding capital.
- 10) - Arithmetic mean.

- 11) exchange rate
euro on worki
- 12) 2014: change
- 13) 2005: wages
employees of
wages and sa
legal entities
enterprises.
- 14) Density rela
(including infl
land area.
- In 2014, a ne
including sar
Time series 1
2007.