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USAID'S BUSINESS ENABLING PROJECT

YEARLY REPORT: 2013

January 10, 2014

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USAID'S BUSINESS ENABLING PROJECT

YEARLY REPORT: 2013

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Cardno Emerging Markets USA, Ltd.

Submitted to:

USAID Serbia

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1. EXECUTIVE SUMMARY

BEP accomplished all aspects of its Work Plans in the first three years, including 2013, with all planned activities accomplished. PMP indicators are being met or exceeded.

BEP is partnering with all Government of Serbia (GoS) institutions active in economic policy, business regulation and finance, as well as all major Serbian business associations. BEP is a leader in reforms in the areas of business regulation and economic governance, public financial management, and financial market development. BEP's role in reform efforts includes facilitation, technical assistance, publicizing and communicating, and monitoring.

BEP's approach continues to be quite effective. The project's studies and analysis provide the basis for several major reform efforts, including construction permits, labor law, inspections, program budgeting, and SME access to finance. The project has been very successful in mobilizing coalitions of business associations and government officials and staff. The project's communications and outreach have been very effective in motivating Government leaders to embark on reform efforts and gaining support for the reforms from within the Government, in the business community, and among the public. As a result, the GoS has requested BEP assistance in nearly all Task areas of the project, and in most areas the Government has asked BEP to take a leadership role. For example, the GoS has asked BEP to lead public-private dialogue and legislative drafting in construction permits, labor law, and access to finance. BEP is co-leading several legal and institutional reforms with the GoS, including program budgeting, public debt management, inspections, and public-private partnerships.

BEP had several major accomplishments in Year 3. After the BEP Standard Cost Model analysis and the BEP/NALED "Ask When" television spot on the burdensome regulations relating to maternity leave, the Ministry of Health asked BEP and NALED to help reform the regulations, leading to a reduction of procedures from 11 to four. BEP has helped eliminate most of the contentious issues between labor unions and employers relating to Labor Law reforms. 138 para-fiscal charges were eliminated and public institutions' ability to introduce new para-fiscal charges was limited. BEP accomplished significant reforms in factoring and leasing, which will unleash hundreds of millions of Euros in new financing, and BEP's assistance to the Securities Commission has laid the groundwork for new issuances of equity and debt securities.

BEP is on track to help the Government of Serbia (GoS), business community, and other stakeholders accomplish several reforms that can transform the economy and lay the groundwork for rapid economic growth over the rest of the decade and beyond. This includes a comprehensive overhaul of construction permitting under BEP's leadership, a modern Labor Law that BEP provided key inputs for and organized several public-private dialogue events to facilitate, a framework and process for inspections reform led by BEP, and program budgeting reform, which BEP is managing. BEP is also helping improve public debt management, saving the GoS millions of Euros in borrowing costs.

The success of BEP's approach was confirmed by USAID's Independent Evaluation of the Business Enabling Project: "There is wide agreement among stakeholders, confirmed by available data, that this is an excellently managed project, even exemplary in providing not just highly appreciated know-how and expertise in improving operational processes, but also sincere dedication to achieve effective and sustainable results. In particular, stakeholders value the demonstrated flexibility of the BEP team in responding to the needs of beneficiaries and partner organizations. Several interviewed stakeholders further remarked that they were especially impressed by the support provided by the entire USAID team and the US Embassy in Belgrade, including the Ambassador's role in encouraging the reform process. However, while acknowledging this, stakeholders and surveyed businesses found that, with some exceptions, relatively little improvement has been produced in the past two years of the project's operations in the key policy areas. This implies that select activities with higher prospects of success would need to be completed with greater support during the implementation phase, and this would mean dropping or carefully limiting those activities that are less promising in order to increase the project's effectiveness.

2. PROJECT OVERVIEW

USAID's Business Enabling Project, implemented by Cardno Emerging Markets USA, is a five-year initiative launched in January 2011. The purpose of the Project is to help the Government of Serbia (GoS) improve the competitiveness of the Serbian economy and its private sector businesses. The Project provides technical assistance, training, and other support to improve the business enabling environment, maintain macroeconomic stability, and further develop financial markets. The Project is demand driven: all activities are based on the priorities of the private sector and GoS.

The Business Enabling Project (BEP) consists of three major components:

Component 1, Business Regulation and Economic Governance, streamlines laws, regulations, and institutions; improves regulators' capacity to implement laws; and improves analysis and public-private dialogue.

Component 2, Macroeconomic Policy and Public Financial Management, helps the Government implement new budget and fiscal responsibility laws, improve budgeting, increase public disclosure and transparency, strengthen public debt management, and improve economic analysis and forecasting.

Component 3, Financial Market Development, improves regulatory frameworks for non-bank institutions, develops capacity to strengthen and expand capital markets, and improves conditions for debt market development.

The project's approach to achieving reforms is to help the GoS work closely with the private sector and outside experts to make reforms that improve business competitiveness. The reforms reduce the time and money spent by Serbian businesses to comply with laws and regulations and help the GoS to be more efficient. The reforms also enable businesses to attract necessary investment at an appropriate cost. As result, Serbian businesses have a better chance to be competitive in the global economy, leading to export-led economic growth and increased employment.

BEP uses an 18 person staff (17 Serbians, one expatriate), substantial Serbian and expatriate medium and short term advisors, four interns, and a grants fund to provide technical assistance to GoS and other counterparts.

Current Status of Affairs

BEP has a leadership role in many of the key policy reforms in Serbia, and BEP has managed to move the reform efforts forward in all of its activities. In fact, the reforms that BEP has been pursuing are now among the Government's priorities. This appears to be due to BEP's approach to policy reforms that includes having comprehensive and clear recommendations in each area that are supported by exhaustive research and analysis, effective communications through the media, building business association coalitions, and quality technical assistance to implement the recommendations. Specific elements of BEP's approach include:

- **Work organization:** BEP staffing is organized around the three main components. Within the three components the project has Task Managers, who are responsible for all aspects of their Task, and Activity Management Teams that implement each Activity under the Task. Activity Management teams also include staff responsible for cross-cutting activities (grants, public outreach, PMP, and public sector capacity building), and often include STTA experts and GoS counterparts' staff. The project is supported by a field office and home office management and administration team. This organization reflects BEP's project management approach which makes individual staff responsible for Tasks and Activities. This structure also ensures that project management teams made up of BEP staff, STTA, and counterparts collaborate effectively to accomplish objectives and indicators. To ensure the success of this approach, Cardno provides BEP staff with training from the Serbian Management Center (SMC) on project management, strategic management, time management, and communications. Our counterparts have also received similar training through BEP's grant for public sector capacity building (implemented by SMC). BEP's project management approach is perfectly suited to the current phase of the project, which emphasizes the sustainable implementation of policies and laws.

- **Partnering with Stakeholders:** BEP continues to work on a regular basis (in most cases daily or weekly) with its government and private sector partners. This includes on-site consulting and training, regular consultations and reviews of joint plans, grants to local organizations, and workshops, focus groups, and surveys. As a result, the GoS has requested BEP assistance in nearly all Task areas of the project, and in most areas the Government has asked BEP to take a leadership role. For example, the GoS has asked BEP to lead public-private dialogue and legislative drafting in construction permits, labor law, and access to finance. Among the dialogue that BEP facilitated with the business community were roundtables throughout Serbia to advise businesses of ongoing reform efforts and hear from businesses on their main issues in the areas covered by the project. In March and April the project organized roundtables in Valjevo, Novi Sad, Subotica, Nis, Novi Pazar, Kragujevac and Vranje.
- **Outreach Activities:** BEP supports each activity with an outreach campaign to continue pressure on the GoS to carry reforms. Outreach to pressure the GoS to move forward includes media publications and advocacy – direct from the project and through business associations.
- **Cooperation with Other Donors:** We have worked with several donor projects during the first three years of BEP, and we have consulted with many others. There is wide scope for collaboration – in fact it is imperative given the breadth and complexity of the reforms that are needed – and so far we have had some fruitful joint efforts with other donors and have avoided duplication of efforts.

Public Sector Capacity Building Initiatives

BEP has two cross-cutting programs that help improve the public sector's ability to improve the business environment: the Government Internship Program implemented with grantee the Belgrade Open School (BOS), and the Management Assistance Program implemented with grantee the Serbian Management Center (SMC). The "Better Public Administration through Internship" program has placed 15 interns with BEP's GoS partners for a period of six months. The interns are recent graduates, mostly from law and economics, and will work full time for six months. The "Management Training Program for GoS counterparts" is providing BEP's GoS partners with management training and consulting. The following BEP partners in the GoS are participating in both programs: Ministry of Finance and Economy (Budget Department, Macroeconomic and Fiscal Department, Sector for SMEs, Financial System Department, and Public Debt Administration), Ministry of Labor (Sector for Labor); Ministry of Trade and Telecommunications (Trade Legislation Sector); Office for Regulatory Reform and RIA; Securities Commission; and the National Assembly (Committee on Finance, State Budget and Control of Public Spending).

Key Achievements to Date

BEP is accomplishing all aspects of its Work Plan. Activities and achievements during 2013 included:

- **The Government of Serbia implemented more of BEP's recommendations for eliminating or reducing para-fiscal fees and charges.** One of key recommendations in BEP's Report on Parafiscal Charges was for the Government to adopt a transparent methodology for calculating the amount of fees charged for administrative and other services to businesses. With BEP's technical support, the Ministry of Finance and Economy enacted the Rulebook on Methodology for Determining Costs of Provision of Public Services on February 13. The Methodology sets the amounts of public fees on objective grounds. Key principles that this Methodology introduces are that amounts of fees should be based on actual costs of public bodies in providing services, and that all inputs used for calculation of fees need to be verifiable. The Government also developed a new draft Law on Charges for the Use of Public Resources which follows the Methodology and is based on another BEP recommendation.
- **BEP helped develop new legislation on construction permits.** BEP's draft concept for construction permitting was accepted by the GoS and the Government asked BEP to draft the legislation necessary to implement the concept. BEP prepared a draft, but unbeknownst to BEP, the Ministry of Construction and Urbanism (MoCU), and a group organized around an envisioned GoS Office for Quick Responses were also preparing draft laws. The Minister of Construction and Urbanism, Velimir Ilic, insisted that the MoCU draft should be the basis for a draft to be supported by all three parties. After a long and difficult process, BEP, the MoCU, and Office for

Quick Responses came to agreement on the outline of a new Law on Planning and Construction. However, with the MoCU taking the lead and using its draft law as a basis, the draft was quite deficient, despite BEP's efforts to work with the MoCU to try to improve the MoCU's draft. Nonetheless, on October 24, the Ministry of Construction and Urban Planning released the Draft Law on Spatial Development and Construction for public comments. The Draft Law introduces several critical concepts promoted by BEP, including: streamlining the construction permitting procedure by transferring responsibilities from civil servants to licensed engineers; differentiated permitting procedures based on a classification of construction projects by their complexity; new One-Stop-Shops and project coordinator concepts; e-permitting; and transparency through mandatory publication of all relevant documents. But the released Draft had some major deficiencies, and there is a danger that the current Draft will be enacted and will not streamline the permitting process. BEP will continue to advocate to the Ministry of Construction and Urban Planning, other parts of the GoS, and Parliament to make the necessary amendments to ensure a streamlined construction permitting process. In addition, USAID organized donors meetings during which the World Bank, European Union, and GIZ agreed on joint communications to the GoS on the need to improve the draft law and pledged to implement pieces of BEP's Roadmap to Construction Permitting Reform.

- **BEP helped move labor law reform forward.** BEP organized a series of discussions between stakeholders on: improving GoS institutions involved in the labor market; the status of special categories of employees, such as pregnant women and trade union representatives; severance payment; workforce redundancy; unnecessary administrative obstacles ("red tape"); types of labor contracts; and other means to increase labor flexibility. The discussions gathered representatives of the state, employers and employees to focus on the current state of affairs and legal and institutional solutions to spur employment and increase firms' competitiveness. The meetings have led to substantial progress on these issues, and BEP and other participants provided draft Labor Law articles reflecting agreement of the participants. BEP organized a retreat of the Labor Law Working Group, which was opened by Minister Krkobabic. The participants made significant progress in drafting a new law. The Working Group held several more meetings before the trade unions announced a boycott of the Working Group. Later, the trade unions disrupted public hearings on the draft Law, which caused the Ministry to cancel all public hearings and instead accept comments and suggestions via email and post. At the request of Minister of Economy Sasa Radulovic, BEP developed and began implementing an outreach strategy designed to spur enactment of Labor Law amendments soon. BEP also supported the GoS in its revision of the draft law before public release, and assisted in behind the scenes dialogue between trade unions and the GoS on the draft.
- **BEP helped implement program budgeting.** BEP and the Budget Department of the Ministry of Finance (MoF) have successfully finished the first two stages of the budgeting process reform, and are moving ahead with the implementation. In the initial stage BEP focused on awareness and knowledge building of the Ministry of Finance, budget users and other stakeholders in the budgeting process. The second stage entailed intensive joint work with the Budget Department team on development of the program budget framework, methodological guidelines for budget users, and budget preparation software. The latest phase is roll out of the new program budgeting framework to all direct budget users. In 2013, BEP helped the Budget Department develop program budgeting methodology which includes instructions for program budgeting development at the national and local levels. BEP also worked with representatives from selected municipalities and the Standing Conference of Towns and Municipalities – the organization that will support the implementation of program budgeting at the municipal level – to develop a list of common programs and program-linked performance indicators developed by BEP based on municipalities' legal mandates. BEP supported the Budget Department in redesigning the procedure for determining priority areas of financing and spending limits of budget users – budget users are required to link their proposed expenditures to strategic goals and policy measures through programs and projects. In the third, current, phase, BEP and the MoF Budget Department completed workshops with six ministries and six independent budget users that submitted their 2014 budgets in program budgeting format (a year ahead of the 2015 statutory deadline) and

delivered two series of individual workshops with 48 independent budget users and 40 representatives of administrative districts. BEP also continued its assistance to the National Assembly Committee on Finance, State Budget and Control of Public Spending (Finance Committee) and Support Staff to increase and improve its role in GoS budget review and oversight. Introduction of program budgeting will lead to more efficient government spending as the GoS better controls line ministries' programs. Once program budgeting is implemented, the GoS will be able to better evaluate and plan its spending options, as well as monitor and evaluate the cost-effectiveness of programs. BEP will continue to provide support to the MoF's Budget Department and remaining budget users who will be transitioning to program budgeting in 2015, in accordance with Serbia's legislation.

- **BEP finalized and released a groundbreaking study on the shadow economy in Serbia.** BEP developed the study, "Shadow Economy in Serbia: New Findings and Recommendations for Reform," in order to increase awareness among the general public of the risks and costs to society linked to undeclared work; positive effects of full payment of taxes and the insurance nature of social security contributions, as well as the need for political support for urgent reforms to combat the shadow economy. This was the first study dealing with this topic in the last fifteen years. The study was based on the analyses of the key stakeholders, combined macroeconomic and microeconomic statistical data, as well as on the geographical and sectorial analyses based on a survey of 1251 business entities. It presents a landmark for combatting the shadow economy in Serbia, focusing on specific issues and recommendations, including the sectoral analysis. It was discussed during a panel at the Kapoanik Business Forum and at a conference in Belgrade organized by BEP that received substantial media coverage.
- **BEP helped move forward legislation to establish commodities exchanges.** BEP is a member of the GoS Working Group that is developing a new Law on Commodities Exchanges. The Government of Serbia included the Commodity Exchange Law as one of the priorities in its 2013 legislative action plan. The Commodity Exchange Working Group visited the Produktna Berza Novi Sad, completed a detailed assessment of the current practice and experiences in commodity trading in Serbia, developed a concept paper to be used as a starting point in law drafting, and made significant process in drafting this new law. The first draft of the Commodity Exchange Law was completed by the Expert Drafting Group, which included BEP experts. The draft was released for initial stakeholder feedback. The Working Group subsequently developed the regulatory impact assessment for the legislation. BEP and the MoTT conducted unofficial and official consultations during the quarter, including high level events with agribusinesses and banks, and focus groups with brokers, investment funds, accountants, tax experts, and grain exporters. The Working Group was also aided by a BEP-organized study tour to the Commodity Future Trading Commission's (CFTC) International Training Program in Chicago. BEP also conducted training for the National Assembly Finance Committee and held a journalist breakfast on the law.
- **BEP and the Ministry of Justice and State Administration developed the first draft of a new Law on Inspections.** After two years of pushing by BEP and its business association and inspectorate partners, the GoS finally moved forward with this long awaited reform. The Ministry of Justice and State Administration (MoJSA) formed the Drafting Group and nominated two BEP regulatory reform and business regulation experts to the Drafting Group. The MoJSA and BEP developed the Draft Law and presented it to members of the Drafting Group for discussion and endorsement. The adoption of this new legislation will pave the way to a much-needed and long-overdue overall reform of business inspections, and will result in a decreased administrative burden and greater regulatory compliance by businesses. The new legislation will include the introduction of a risk-based system; prevention rather than sanctioning; and transparency and coordination of inspections. The drafters will also amend sectorial laws that cover inspection oversight, and will draft bylaws needed to implement inspections reform.
- **The Law on Factoring was adopted in July 2013.** BEP was an active member and the contributor in the Working Group that drafted the law. BEP also led advocacy and education efforts in the law adopting process, including training for MPs in the Serbian National Assembly. The Law was praised by all parliamentary parties, and all amendments proposed in the Parliament

were rejected. The Law was also praised by the International Factoring Group. This new Law is a major breakthrough in providing sources of finance for Serbian SMEs. Factoring makes it possible for businesses – particularly SMEs – to obtain working capital finance and protection from credit risk and to manage receivables and ensure they are collected.

- **The Payments Law**, which BEP provided comments and suggestions on, appears to be having impact on the public sector side, providing liquidity to businesses that sell to the GoS. The Ministry of Finance and Economy reported that in the first 45 days since the application of the related law started, state budget beneficiaries paid RSD13.4 billion to private businesses, but RSD 89.6 million in payments are overdue. The Ministry is halting budget transfers to the delinquent institutions until they pay the overdue obligations. However, as we expected, the law appears to be going less well on the private sector side. Businesses have informed us that it is impractical for some businesses with different payment and cash flow cycles, such as agribusinesses with long production cycles. Larger businesses appear to be getting around the law by using consignment or changing purchasing patterns to smaller, more frequent orders. Once we have more information from businesses we will inform the Ministry of the issues.
- **Public-Private Partnership (PPP) Commission adopted the Value-for-Money Methodology (VfMM)** developed by BEP. The adoption of the VfMM allows the commission to analyze and approve PPP proposals from local and national governments. The Law on PPP and concessions request that PPP project proposals contain business plans, which includes value-for-money analysis. The VfMM contains economic, financial and technical guidelines for sound and thorough development and implementation of PPP projects.
- **BEP finished the series of roundtables on improving access to finance for SMEs.** The roundtables took place in Šabac, Zaječar, Zrenjanin, Kruševac, Subotica, Niš and Čačak. They enabled BEP to discuss ideas from its "White Paper on SME Finance" with more than 150 businesses. Nina Samardzic, Assistant Minister of Finance and Economy was actively involved in the discussion with the business representatives. The Ministry's main objective was to collect relevant inputs for drafting the Development Strategy for SMEs and provide information about the activities and future plans of the Ministry. Participants at the roundtables included representatives of women business association, food processing cluster, craftsman association, and different business unions and associations.
- **BEP Presented Two Major Studies of the Business Environment.** USAID'S third annual Survey of 1,000 Serbian Businesses found that Serbian executives believe the business environment in Serbia improved slightly during 2013, though lengthy and expensive regulatory procedures continue to harm their companies' competitiveness. Most respondents said they continued to face the same problems as in previous years in critical areas such as inflation, wage and value added taxes, and exchange rates. Business executives complained that inadequate sources of funding stifled expansion. The survey also found that just 7 percent of Serbian companies export goods; 70 percent operate exclusively in their home municipality. BEP's second Standard Cost Model (SCM) study found that Serbia's administrative costs in 2012 amounted to approximately 3.7 percent of the Gross Domestic Product (GDP), or € 1.07 billion. This is a significant reduction from 2010, when administrative costs constituted 4.2 percent of the GDP.
- **BEP Worked with the National Bank of Serbia (NBS) and Stakeholders to Improve Real Estate Valuation.** BEP presented recommendations for improvement of the valuation profession in Serbia and a proposed national database on real estate transactions. The database would information necessary for sound collateral valuation, detailed analysis of the real estate market, and calculation of the real estate value index for Serbia. The Association of Serbian Banks and



National Bank of Serbia are both interested in hosting the database.

3. PERFORMANCE MANAGEMENT

BEP has covered a wide range of activities but our assistance has also been quite deep. Our assistance includes drafting policies, laws and procedures; training GoS staff; leading advocacy and communications initiatives; and consulting and management within GoS partners. BEP Task Manager and Activity Management Team is assigned to (and often embedded with) each GoS partner.

BEP narrowed the scope of its activities after several tasks were completed in Year 3. Most of our work in Year 4 will be focused on implementation and ensuring sustainability. In Year 3, even though much of BEP's assistance focused helping the GoS and private sector implement policies, laws, and procedures (e.g. program budgeting, PPPs, factoring), BEP also developed crucial legislation (e.g. laws on construction permits, labor, inspections, NBFIs). The continued focus on developing legislation was due to the extremely slow pace of the GoS in committing to and drafting new legislation.

BEP's progress versus its performance monitoring plan is set forth in Annex 3.

Successfully completed Tasks include:

- Component 1, Objective 1, Task 5, "Support for Implementation of the new Company Law." BEP trained judges on the new law, helped develop a new Codex on Corporate Governance, and publicized the Codex. 32 companies have already notified the Chamber of Commerce that they are implementing the Codex.
- Component 1, Objective 3, "Improve the Regulatory Review Process and RIA Process." BEP conducted training on RIA and law implementation trainings for over 100 GoS staff. 45 substantial RIAs were developed by the GoS in 2013. BEP also developed and presented the Standard Cost Model (SCM) Study in 2011 and 2013. This study measures regulatory and administrative burdens on Serbian businesses, (i.e. administrative costs). BEP helped modify the Rules of Procedure of the GoS to introduce more transparency, public-private dialogue and predictability in the regulatory rulemaking process. BEP continues to support the Regulatory Index of Serbia (RIS) and NALED's Quarterly Reports on Business Environment, and the media campaigns "Ask When?" and "Business Heartbeat - Reform Advocates."
- Component 1, Objective 4, "Create Enabling Environment for PPPs," including Task 1, "Finalize Legal Framework for PPPs," and Task 2, "Build interest and capacities of public and private partners to engage in PPPs." BEP provided crucial assistance in finalizing the Law on PPPs and Concessions, organization of the PPP Commission and development of bylaws, particularly development of the Value-for-Money Methodology in PPPs and Concessions. BEP provided seven trainings to stakeholders from the public and private sectors - more than 260 participants were trained. So far the PPP Commission has issued six positive opinions on PPP project proposals.
- Component 2, Objective 1, Task 1, "Capacity Building Assistance to the Fiscal Council and Improvements to Fiscal Responsibility." BEP provided substantial assistance to the Fiscal Council that enabled it to publish key analyses and reports, including the Assessment of the 2013 Proposed Budget and Assessment of the 2013-2015 Fiscal Strategy, both of which were very influential in improving the budget balance and putting the GoS on a path toward deficit reduction.
- Component 3, Objective 1, Task 3, "Improve capital market legislation." BEP helped the GoS develop 21 new bylaws to implement the Law on Capital Markets covering issuance of securities; licensed participants; disclosure and transparency; investor protection fund; and supervision. BEP helped develop the content of and reporting standards for municipal bonds, and helped develop amendments to the Law on Public Debt to enable the public issuance of these bonds. BEP did substantial outreach on the new Law and regulations, including organizing a conference on the

new Capital Market Law to encourage a close public-private partnership between the government and the private sector to ensure that policies are formulated with guidance from both sectors.

In addition, some Tasks are nearing completion and will be successfully concluded in the first half of Year 4:

- Component 2, Objective 1, Task 2, "Improvements to fiscal analysis and strategy by the MoF." BEP has helped the MoF Macro-Fiscal Department develop capacity to provide the MoF and GoS with sophisticated economic analysis and prognostications to use in budgeting. The Department now has sophisticated tools and a trained staff that can use them. BEP's final activity in Year 4 will be to finalize two models: the DSGE model that we are co-funding with the World Bank, and a Bridge Model that we have planned with the Department.
- Component 3, Objective 1, Task 1, "Assistance to Build Capacity of the Securities Commission." BEP helped build supervisory capacity and systems, and increase external outreach. BEP executed a training plan covering instruction on risk-based supervision, international practices, and other issues. BEP cofunded the attendance of several members of the Commission's staff at the senior-level International Institute for Securities Market Development program, the flagship global training program of the United States Securities and Exchange Commission (SEC). BEP is currently co-funding a new IT system for the Securities Commission.
- Component 3, Objective 1, Task 2, "Improve disclosure of information in compliance with the legal requirements and best international practice." BEP helped with regulatory drafting that set new standards of information disclosure and developed the new IT platform described in the previous bullet point. Our final assistance is to finish setting up the on-line website.

4. BUDGET EXECUTION

	BILLING TO DATE	TOTAL BUDGET	REMAINING BUDGET	PERCENTAGE COMPLETE
Salaries and Wages	\$ 2,289,648.04	\$ 3,684,997.42	\$1,395,349.38	62.13%
Fringe Benefits	\$ 190,743.63	\$ 261,344.12	\$ 70,600.50	72.99%
Overhead	\$ 1,359,340.22	\$ 2,168,942.15	\$ 809,601.94	62.67%
Travel, Transportation, and Per Diem	\$ 190,564.35	\$ 521,752.74	\$ 331,188.39	36.52%
Allowances	\$ 406,142.59	\$ 664,749.34	\$ 258,606.75	61.10%
Other Direct Costs	\$ 1,283,427.43	\$ 2,417,168.84	\$1,133,741.41	53.10%
Equipment and Supplies	\$ 62,513.26	\$ 97,674.02	\$ 35,160.76	64.00%
Participant Training	\$ 109,046.74	\$ 64,634.18	\$ (44,412.56)	168.71%
Subcontracts	\$ 914,331.73	\$ 1,596,493.07	\$ 682,161.34	57.27%
Grants Under Contract	\$ 908,413.55	\$ 1,674,584.21	\$ 766,170.66	54.25%
G&A on Grants Under Contract	\$ 108,393.91	\$ 192,409.73	\$ 84,015.82	56.33%
G&A	\$ 807,340.13	\$ 1,318,794.16	\$ 511,454.03	61.22%
TOTAL ESTIMATED COST	\$ 8,629,905.58	\$14,663,543.99	\$6,033,638.42	58.85%
Fixed Fee	\$ 413,256.47	\$ 815,859.91	\$ 402,603.44	50.65%
<i>Level of Effort in Hours</i>	<i>69,807.50</i>	<i>137,816.00</i>	<i>\$ 68,008.50</i>	<i>50.65%</i>
TOTAL ESTIMATED COST PLUS FIXED FEE	\$ 9,043,162.05	\$15,479,403.90	\$6,436,241.86	58.42%

5. ADMINISTRATION AND PROJECT MANAGEMENT

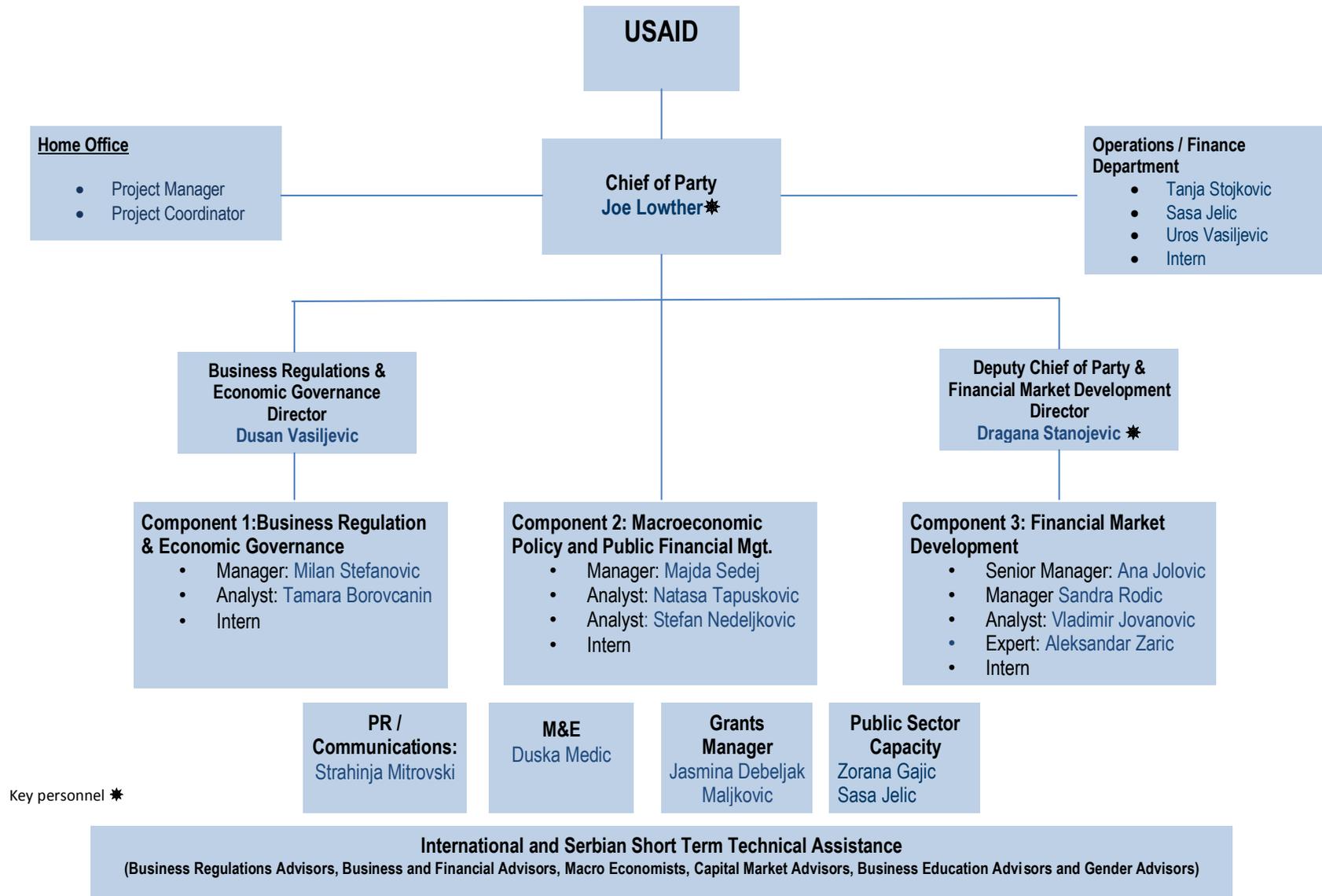
The project organizational chart is attached as Annex 1.

BEP's second and third set of interns were selected 2013. The project has four interns every 6 months providing research and logistical support. Interns also participate in a training program. The interns completed a BEP training program and participated in external trainings, seminars and workshops. The interns made substantive contributions to BEP's success, including important research and analysis in the areas of labor law reform and access to finance.

BEP developed annual plans with business associations. In February, BEP met with the Serbian Chamber of Commerce (SCC), AmCham, FIC, NALED, Association of Employers and SAM to discuss the status of project activities and implementation of the Project's 2013 Workplan. BEP and the associations discussed the main joint activities and all associations committed to continue their involvement and cooperation in the project's activities. Construction permits reforms are priorities of BEP and the SCC, FIC and AmCham; labor law reform is a priority in cooperation with AmCham, FIC, SAM and Association of Employers; and inspections are the focus of the project's work with the SCC, FIC and NALED. Access to finance improvements are high on the list of reforms for the SCC and Association of Employers. BEP agreed with each of the associations on the concrete steps and follow-ups, starting with a forum of business associations planned for the end of March 2013.

BEP began transferring its government management training program to GIZ. BEP's Chief of Party and Deputy Chief of Party conducted three pilot training programs through the GoS Human Resources Office (SUK). These successful trainings provided modules, methodologies, agendas, exercises and materials that the GIZ Legal Reform Project will use in its new program with SUK, which BEP helped the GIZ and SUK develop. The transfer to the new GIZ trainers will take place during a series of meetings and workshops in April.

ANEXX 1: BEP WORK ORGANIZATION



Key personnel *

ANEXX 2: LIST OF COUNTERPARTS/BENEFICIARIES

- General Secretariat of the Government, 0113633481
- Ministry of Agriculture, Forestry and Water Management, office@minpolj.gov.rs , 0112120493
- Ministry of Construction and Urbanism, kabinet@mgsi.gov.rs 011/3619 833
- Ministry of Finance, kabinet@mfin.gov.rs, 0113613245
- Ministry of Justice and Public Administration, kontakt@mpravde.gov.rs 0113616381
- Ministry of Foreign and Internal Trade and Telecommunications, kabinet@mtt.gov.rs 0113113432
- Ministry of Labor, Employment and Social Policy, sekretar@minrzs.gov.rs, 0113616599
- Public Debt Administration, 0113202461
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- Serbian Association of Employers, info@poslodavci.org.rs 011 31 60 248
- Serbian Association of Managers- SAM, office@sam.org.rs 011 3087605
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ANNEX 3: PROGRESS VERSUS PERFORMANCE MONITORING PLAN

Project Results / Objectives	Indicators	Measurement Unit	Data Collection Method	Schedule of Collection	Baseline	Targets Years 1-5	Status Q3
Mission Assistance Objective: Create A More Competitive Market Economy							
IR 1.1: Business Enabling Environment Improved	Decrease in the "Burden of Government Regulations" addressing Government Inefficiency	Numeric Value	WEF GCI Reports	Annual	2011: 2.34	Yr 1: 2.34 Yr 2: 2.34 Yr 3: 2.44 Yr 4: 2.57 Yr 5 : 2.71	2.3 by the WEF GCI published in September 2013
Sub-IR 1.1.1: More Effective Business Regulation	Decrease in costs for businesses to comply with regulatory framework	Numeric Value	Standard Cost Modeling (SCM)	Annual	2011 Total Administrative Cost: RSD 124.6 billion (4.2% of GDP)	Yr3: Total Administrative cost decreased by RSD 4 billion plus inflation (3.2% reduction) Yr5: Total Administrative burden decreased cumulatively by RSD 10 billion plus inflation (8% reduction plus inflation)	3.34
IR 1.4: Macroeconomic Environment Improved	Increase in Foreign Direct Investment	Numeric Value	National Bank of Serbia (NBS)	Annual	2010: 3.07% GDP	Yr1: FDI at 3.3% of GDP Yr2: FDI at 3.3% of GDP Yr3: FDI at 4% of GDP Yr4: FDI at 5% of GDP Yr 5: FDI at 6% of GDP	Net FDI / GDP for 2012 = 0.8% MoFE Table on Basic macroeconomic indicators, updated March 18, 2013 New data expected in March 2014

Sub-IR 1.4.1: Improved Fiscal Policy	Improvements in the Open Budget Index ("OBI") Score as reported by the International Budget Partnership	Numeric Value	OBI Survey	Bi-Annual	2010: 54	Yr 1: N/A Yr 2: N/A Yr 3: OBI score 54 Yr 4: N/A Yr 5: OBI score 57	2012: 39 Reason for this score: No longer producing a Pre-Budget Statement, and publishes a less comprehensive Executive's Budget Proposal.
	Improved Government Budget Balance as percentage of GDP	Numeric Value	MoF	Annual	2010: -4.4 % (actual fiscal deficit)	Yr1: -4.5% of GDP Yr2: -4.5% of GDP Yr3: -3.5% of GDP ¹ Yr4: -1.9% of GDP Yr5: -1.0 % of GDP	Q1: 2012 deficit is -6.6% of GDP- source FREN's Quarterly Monitor 31 and MoFE Public Finance Bilten for January 2013 Q2: -4,6 % of GDP
Sub-IR 1.4.2: Financial Markets Developed	Improved score in WEF GCI "Financial Market Development" (formerly 'Sophistication') The VIII WEF GCI Pillar	Numeric Value	WEF GCI reports	Annual	2011: 3.74	Yr1: 3.74 Yr2: 3.80 Yr3: 3.84 Yr4: 3.88 Yr5: 3.92	3.5 by the new WEF GCI published in September 2013 (WEF 2013/14)
	Credit to private sector as a percentage of GDP	Numeric Value	National Bank of Serbia (NBS)	Annual	2010: 40%	Yr 5: 60%	2011: 43.7 % 2012: 54%
	Number of person hours of training of journalists from publications that cover business	Numeric Value	Project Report	Annual	N/A	Yr 1: 400 Yr.2: 800 Yr 3: 800 Yr 4: 800 Yr 5: 400	812
Component 1: Business Regulation and Economic Governance Improved							
1. Improve and	Number of commercial laws	Numeric Value	Project Reports	Annual	2011: 3	2011: 3 2012: 10	8

¹ Projected deficits by Fiscal council for 2013, 2014, 2015

streamline business regulation lowering the costs to businesses and government from business regulations	and regulations simplified and implemented in accordance with international standards as a result of USG assistance					2013: 10 2014: 10 2015: 10 2016: 3 ²	
	Average time spent by management on working with inspections	Numeric Value	Business Survey ³	Annual	59 hours	Yr. 2: 58 Yr. 3: 55 Yr. 4: 50 Yr. 5: 45	Yr2: 34 hours Yr3: 17 hours
	Number of Professional Enforcement Officers trained, passed the exam, and ready to get appointed	Numeric Value	MoJ Data	Annual	N/A	Yr 2: 300	Yr 3: 103
	Number of days to enforce a judgment	Numeric Value	World Bank Doing Business Report	Annual	2011: 635	Yr 3: 530 Yr 4: 475 Yr 5: 417	By WB DB Report published in October 2012 Serbian result is 635 days
	Number of days dealing with constructions permits	Numeric Value	World Bank Doing Business Report	Annual	2011: 279	Yr 5: 220	By WB DB Report published in October 2012 Serbian result is 269 days
	Business perception of the burden of laws and regulations improves	Qualitative	Business Survey	Annual	2011: 17% agree that there was improvement	Yr. 2: 18% Yr. 3: 20% Yr. 4: 24% Yr. 5: 28%	Yr2: 26% agree that there was improvement Yr3: 36.7% agree that there was

² Project will end 3 months into the 2016 fiscal year.

³ This refers to the annual BEP Survey of Serbian Businesses.

							improvement
	Significant progress of realization of new labor legislation recommended by the 2011 White Book by the Foreign Investors Council in Serbia	Qualitative	Foreign Investors Council in Serbia	Annual	N/A	Yr.2: 1 Yr 3: 2 Yr.4: 6 Yr 5: 6	No significant changes to the status of the recommendations in the White Book 2013
	Decrease in percentage of businesses responding that labor law has negative impact on business	Qualitative	Business Survey	Annual	2011: 75%	Yr. 3: 65% Yr. 5: 55%	Yr2: 66% Yr3: 78.4%
2.Business effectively partners with Government in developing and implementing regulatory reforms	Increase in business sector participation on laws improving regulatory environment	Qualitative	Business Survey	Annual	2011: 19% of businesses agree that there was improvement	Yr 2 : 21% Yr. 3: 25% Yr. 4: 28% Yr. 5: 32%	Yr2: 25% Yr3: 36,6%
	Number of public private dialogue mechanisms/ events on business regulation issues created by the project	Numeric Value	Project Reports	Annual	N/A	Yr1: 3 Yr2: 5 Yr3: 5 Yr4: 5 Yr5: 2	Q1=18 Q2=21 Q3=7 Q4= 20 66
3. Improve and support	Number of substantial RIAs	Numeric Value	Project Reports/ Office of Regulatory	Quarterly	2010: 8	Yr 1: 10 Yr 2: 15	Q1=2 Q2=12

the regulatory review process and RIA process	conducted by GoS		Reform Reports			Yr 3: 20 Yr 4: 25 Yr 5: 30	Q3=7 Q4= 6 27
	Business perception of transparency and predictability increases	Qualitative	Business Survey	Annual	2010: 23% agree that transparency and predictability increased	Yr. 2: 25% Yr. 3: 28% Yr. 4: 32% Yr. 5: 35%	Yr2: 23.5% Yr3:45,1%
5. Improve corporate governance standards, policies and regulations	Improvement in Doing Business Strength of Investor protection Index	Qualitative	World Bank Doing Business	Annual	2011: 5.3	2012: 5.3; 2013: 6; 2014: 6.5; 2015: 7	By WB DB Report published in October 2013 Serbia has a score of 5.3
	Number of Commercial Court judges trained in implementation of the Company Law	Numeric Value	Project Reports	Quarterly	N/A	Yr 1: 20	We don't have a target for Year 3
6. Create enabling environment for PPPs	Number of training hours of representatives of public sector entities and private companies trained in PPP	Numeric Value	Project Reports	Annual	N/A	Yr.2.: 200 Yr 3.: 200	Q1=322,5 Q2= 105 Q3= 0 Q4: 150 577.5
	Completion of regulatory framework (bylaws and methodologies) for PPP	Qualitative	Project records	Annual	Nonexistence of complete normative framework (bylaws and methodologies) for PPP	Yr2.: 0 Yr..3: Complete normative framework (bylaws and methodologies) for PPP (specifically 1-Methodological materials in the field of public-private partnerships and concessions; 2-Bylaw on public contracts registry; 3-Bylaw on Supervision over Implementation of Public Contracts	Q1=0 Q2=1- completed Bylaw on supervision over Implementation of Public Contracts Q3= Value for Money Methodology adopted by the PPP commission Q4: Finalize legal framework for PPPs (provided Proposal of Provisions Governing PPP in Draft Law on Development of Space and Construction, also sent to PPP Commission)

Component 2: Macroeconomic Policy and Public Financial Management Enhanced

1. Improve GoS budgeting, fiscal policy analysis, and financial management efficiency	Improvement in the quality of Medium Term Budgeting and Prioritization	Qualitative	Project Reports	Annual	No effective budgeting framework is in place	Yr 1: Fiscal Strategy Report (FSR) contains estimates of potential GDP Yr2: FSR contains estimates of structural deficit Yr3: FSR contains estimates on tax expenditures Yr 4: Budgets among ministries better reflect their strategic priorities.	FSR contains estimates of structural deficit
	PEFA Multi- Year Score perspective in fiscal planning , expenditure policy and budgeting	Qualitative	PEFA Assessment (due Nov 2013)	Annual/ Results published every 3 years	2010: Scored C	Yr 5: Score B	The 2013 PEFA Assessment scheduled for November 2013. – Not published yet
	PEFA Assessment Score on predictability in the availability of funds for government expenditures	Qualitative	PEFA Assessment (due Nov 2013)	Annual/ Results published every 3 years	2010: Scored C+	Yr 5: Score B	The 2013 PEFA Assessment scheduled for November 2013.- Not published yet.
	Number of articles published in the area of fiscal policy containing research and analysis provided through BEP assistance that support changes in fiscal policy	Numeric Value	Project Report	Monthly	N/A	Yr 1: 2 Yr 2: 3 Yr 3: 3 Yr 4: 2 Yr 5: 2	Q1=1 Q2=0 Q3=0 Q4= 0 1
	Number of activities related to macroeconomic	Numeric Value	Project Report	Annual	N/A	Yr 1: 2 Yr 2: 3 Yr 3: 4	Q1=5 Q2=1 (Presentation of shadow economy to Working Group for combating shadow

	and fiscal issues aimed at improving public-private dialogue ⁴					Yr 4: 4 Yr 5: 3	economy in Serbian Chamber of Commerce.) Q3= 1 (Presentation of the Shadow Economy -Pozarevac) Q4= 1 (Roundtable on the Shadow Economy –Belgrade Chamber of Commerce) 8
2. Improve public debt management and conditions for Government financing	Value of dinar denominated debt	Numeric Value	PDA (Public Debt Administration)	Annual	2010: Value of dinar debt is 14% of total borrowing	Yr 5: Proportion of borrowing increases to 20%	Yr2: 18.9% (on December 31, 2012) May 31 st 2013: 16.19% Aug 31 st 2013: 18,7%
	Government initiates a public issue of debt to more diversified investor base	Qualitative	PDA (Public Debt Administration) ad hoc report	Annual	Baseline end of March 2011 according to PDA: Banks own 87,1% on 31.03.2011	Yr 5: Banks own 75% or less of government debt in dinars	43,45% on May 31 st 2013
	Operational status of debt management system and number of reports developed to manage debt risks and strategy	Numeric Value	PDA (Public Debt Administration) ad hoc report	Annual	N/A	Yr 1: 0 reports (system not functional); Yr 2: 2 reports(system operational); Yr 3: 6 reports; Yr 4: 8 reports; Yr 5: 10 reports.	BEP Senior Expert continued assistance by helping the PDA test potential new debt management system (developed by Commonwealth Secretariat) and delivering a 26-page "Review of Tested Functionalities of the Debt Recording and Management System" (DRMS).
	Proportion of key PDA staff trained in debt management,	Numeric Value	Project records	Annual	N/A	Yr 1: 10% Yr 3: 50%	Cumulatively 80% of key staff trained thus far.

⁴ The new indicator “Number of activities related to macroeconomic and fiscal issues aimed at improving public-private dialogue” replaces the indicator “Quality of public dialogue and debate on macroeconomic and fiscal issues.” The new indicator is a more objective and attributable measurement of the project’s work to achieve this Objective.

	economic and risk analysis					Yr 5: 75%	<p>Q1= 10-sessions training was organized this quarter on advanced public debt risk management – Debt Sustainability Assessment model.</p> <p>Q2=2-sessions training was organized this quarter on debt sustainability assessment report structure. The remaining work on this Scope of Work is being conducted as on-job-assistance.</p> <p>Q3=no activities</p>
3. Improve macroeconomic policy and strategy	Improvements in WEF GCI on "Macroeconomic Environment" addressing Nation's Savings Rate, as % of GDP	Numeric value	WEF GCI reports	Annual	2011: 14.8	Yr 5: 18	8.0 by the new WEF GCI published in September 2013
	Number of published studies and articles containing research and analysis provided through BEP assistance that support changes in macroeconomic policy	Numeric Value	Project Report	Annual	N/A	Yr1: 2 Yr2: 5 Yr3: 8 Yr4: 8 Yr5: 6	<p>Q1=2 Q2=0 Q3=0 Q4=0</p> <p>2</p>
	Awareness of Government's Economic Growth Strategy	Qualitative	Business Survey	Annual	2011: 20% of businesses agreed that they have some	Yr. 2: 20% Yr. 3: 25% Yr. 4: 30% Yr. 5: 35%	<p>Yr2: 38%</p> <p>Yr3: 49,9%</p>

					awareness and understanding of the strategy		
	Number of person hours of training of GoS staff on macroeconomic policy and public financial management topics	Numeric Value	Project Reports	Annual	N/A	Yr1: 500 Yr2: 1000 Yr3: 1000 Yr4: 750 Yr5: 300	Q1=379 Q2=44 Q3=202 Q4=197 822
Component 3: Increased Financial Market Development							
1. Increase capital available to business through the creation of a regulatory framework for NBFIs	Value of credit financed from NBFIs to businesses increases	Numeric	NBS Publications, Stock Market, and Securities Commission Reports	Annual	EUR 1.388 bn	Yr.1: 0 Yr.2: 0 Yr.3: 5% Yr.4: 10% Yr.5: 10%	0
	Status of the legal and market framework for a commodities exchange	Qualitative	Project Report/MoF Report	Annual	Regulatory framework currently not in place	Yr 2: Commodities exchange law and regulatory framework established Yr 3 : Establishment of the commodities exchange	Public discussions held, final draft finished, adoption expected in Q1 2014
2. Strengthen integrity of the capital markets by helping the GoS to build capacity to ensure equity issuers and brokers comply with	Number of intermediaries trained and advised about upcoming securities laws	Quantitative	Securities Commission and Project Report	Annual	Majority of intermediaries trained and advised	Yr 1 to Yr 4: Will depend on the speed of implementation of new law and agreement with Securities Commission and MoF Yr5: 75% of intermediaries trained and advised on changes and benefits brought by new securities laws	Up to now 417

securities laws							
3. Improve the GoS' access to finance through the development of long term, liquid debt public market	Value of dinar denominated debt	Numeric Value	Statistics Office	Annual	2010: Value of dinar debt is 14% of total borrowing	Yr 5: Proportion of borrowing increases to 20%	Yr2: 18.9% (on December 31, 2012) May 31 st 2013: 16.19% Aug 31 st 2013: 18,7% October 31 st 2013: 20%
	Government initiates a public issue of debt to more diversified investor base	Qualitative	PDA (Public Debt Administration) ad hoc report	Annual	Baseline end of March 2011: Banks own 87,1% of debt (3/31/11)	Yr 5: Banks own 75% or less of government debt in dinars	November: 80,38%
4. Strengthened public-private dialogue on the financial sector and its role in economic development	Increased awareness of the role of the financial sector in economic development	Qualitative	Project Survey (a.k.a. BEP Business Survey)	Annual	Around 25% of businesses expressed a sort of an agreement that there is awareness	Yr 5: 50% increase in awareness	Yr2: 83.9 % Yr3: 88.3%
5. Strengthen the disclosure and transparency	Compliance with IOSCO standards in areas of securities intermediaries and	Qualitative/ Numeric Value	Project and IOSCO Reports	Bi-Annual	50%	Yr 5: Compliance improves to 60% or better	New Capital Market Law Regulations is expected to raise compliance level above 60% . Next IOSCO assessment TBD.

supporting new investment by assisting the GoS to implement required accounting, audit and disclosure standards	equity issuance improves						
6. Improved access to finance for SMEs	Improved access to finance	Qualitative	Business Survey	Annual	2011: 25% of businesses agree that access to finance has improved	Yr. 3: 30% Yr. 5: 35%	Yr2: 23.2% Yr3:35.5%
	Increase in average value of loan size and borrowing by SME's ⁵	Qualitative/numeric	Project Survey (BEP Business Survey)	Annual	2011: 89,475 EUR	Yr.2.: 0 % points increase from baseline Yr.3.: 10 % point increase Yr.4.: 15 % point increase Yr.5.: 20 % point increase	2012: 57,927 EUR 2013: 67,695 EUR

ANNEX 4: REPORTS, SUCCESS STORIES AND OTHER RELEVANT DOCUMENTS

(Electronic version has already been sent to USAID)