Report No: PAD4559

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED LOAN

IN THE AMOUNT OF EUR $27.7 MILLION
(USD EQUIVALENT OF US$30 MILLION)

TO THE

REPUBLIC OF SERBIA

FOR A

CATALYZING LONG TERM FINANCE THROUGH CAPITAL MARKETS PROJECT

February 22, 2023

Finance, Competitiveness and Innovation Global Practice
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2023)

Currency Unit =	
EUR 0.9228 =	US$1
US$ =	SDR 1

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Anna M. Bjerde
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ABBREVIATIONS AND ACRONYMS

AP	Approach Paper
BELEX	Belgrade Exchange
CAR	Capital Adequacy Ratio
CBI	Corporate Bond Issuer
CBIP	Corporate Bond Issuer Program
CC	Chamber of Commerce
CEE	Central and Eastern Europe
CEM	Country Economic Memorandum
CFU	Central Fiduciary Unit
CMDS	Capital Market Development Strategy
CMSF	Capital Market Strengthening Facility
CMPRU	Capital Markets Policy and Regulatory Unit
CPF	Country Partnership Framework
CSD	Central Security Depositary
DPO	Development Policy Operation
ECA	Europe and Central Asia
ESF	Environmental and Social Framework
ESG	Environmental, Social and Governance
EU	European Union
FMI	Financial Market Infrastructure
FSB	Financial Stability Board
GDP	Gross Domestic Product
GFC	Global Financial Crises
GoS	Government of Serbia
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
J-CAP	Joint Capital Markets Program
MiFID	Markets in Financial Instruments Directive
MoF	Ministry of Finance
MoFFS	Ministry of Finance, Financial System
MoU	Memorandum of Understanding
NBS	National Bank of Serbia

NPL	Non-Performing Loans
PBC	Performance Based Conditions
PDO	Project Development Objective
PIU	Project Implementation Unit
PLR	Performance and Learning Review
POM	Project Operations Manual
SBRA	Serbian Business Registries Agency
SCD	Systematic Country Diagnostic
SECO	Swiss State Secretariat for Economic Affairs
SFF	Sustainable Long-Term Finance Facility
SOB	State Owned Banks
SOFI	Stated Owned Financial Institutions
SSC	Serbia Securities Commission
TA	Technical Assistance
WBG	World Bank Group

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name	
Serbia	Catalyzing Long Term Finance through Capital Markets	
Project ID	Financing Instrument	Environmental and Social Risk Classification
P176069	Investment Project Financing	Moderate

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[✓] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[ ] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	[ ] Hands-on Enhanced Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
16-Mar-2023	31-Aug-2028
Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

The project's overall objective is to (i) improve the enabling environment for capital markets development and (ii) deepen the corporate bond market, including through green and other thematic issuances.

Components

Component Name	Cost (US$, millions)

Component 1: Institutional, Legal and Regulatory Reforms	20.00
Component 2: Corporate Bond Issuer Program	10.00

Organizations

Borrower:	Republic of Serbia
Implementing Agency:	Ministry of Finance

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	50.00
Total Financing	50.00
of which IBRD/IDA	30.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	30.00

Non-World Bank Group Financing

Commercial Financing	20.00
Unguaranteed Commercial Financing	20.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2023	2024	2025	2026	2027	2028	2029
Annual	0.50	2.00	6.50	7.50	7.50	6.00	0.00
Cumulative	0.50	2.50	9.00	16.50	24.00	30.00	30.00

INSTITUTIONAL DATA

Practice Area (Lead)

Finance, Competitiveness and Innovation

Contributing Practice Areas

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
10. Overall	Moderate

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [✓] No

Does the project require any waivers of Bank policies?

[ ] Yes [✓] No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Relevant
Community Health and Safety	Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Conditions

I. STRATEGIC CONTEXT

A. Country Context

1. **Serbia's economy rebounded strongly from the pandemic-induced recession in 2020, supported by effective government policy response.** Economic growth averaging 3.2 percent between 2015 to 2019 turned negative in 2020 as the economic impacts of the COVID-19 pandemic started to materialize. The drop in GDP of 0.9 percent in real terms in 2020 could have been even more substantial had the government not provided a sizable policy response to mitigate the negative economic impacts of the pandemic. The measures supported both households and businesses through wage increases, cash transfers, new loans to SMEs, deferment of labor taxes, state guarantee schemes, debt repayment moratoria, and others. The total value of the stimulus package in 2020 was approximately EUR 5.4 billion, equivalent to approximately 11.6 percent of GDP. The sizable policy response was made possible by Serbia's strong macroeconomic position before the pandemic after successful fiscal consolidation since 2014.[1] Due to the large fiscal response, the government public debt to GDP ratio increased from 52.8 percent of GDP at the end of 2019 to 57.8 percent by the end of 2020. In 2021, the government announced a new stimulus package of about 4.4 percent of GDP; nearly half of it for loan guarantees to businesses. As a result, the economy experienced a strong recovery in 2021 of 7.5 percent y-o-y growth, led by consumption and investment, and continued to grow strongly in the first half of 2022.

2. **Serbia's growth outlook remains positive, but risks have been building in 2022.** By mid-2022, the sustained fiscal pressures compounded by the economic impacts of Russia's invasion of Ukraine, particularly the increase in energy prices amid Serbia's dependence on Russia's gas and oil, has strained the macroeconomic position of the Government of Serbia (GoS). The need to import electricity, coal and gas at very high prices has not only created large fiscal costs but also increased inflation. This is overshadowed by the overall weaker external demand from Europe, its main trading partner, and a rise in global food prices. As a result of these impacts, growth for 2022 is projected at 2.5 percent with a fiscal deficit of approximately 4 percent of GDP, while inflation accelerated to 15 percent in October 2022. As a response to rising inflation, the NBS increased the key policy rate continuously since April 2022 to reach 5.25 percent in January 2023. The Serbian dinar held steady in 2022, primarily due to timely NBS interventions on both sides (FX sell and FX buy) of foreign exchange market, supported by a comfortable level of international reserves. As a result of sustained fiscal pressures, in December 2022, a new 24-month IMF Stand-by Arrangement for EUR 2.4 billion was approved by the IMF Board.[2] Despite rising global risks, Serbia's credit rating remains only one (Fitch and S&P) or two (Moody's) grades below Investment Grade.

3. **In the face of a challenging global macroeconomic outlook, sustaining economic growth will**

[1] As a result of fiscal consolidation, Serbia's fiscal position improved from having a fiscal deficit of -6.8 percent of GDP in 2012 to having a fiscal surplus or a balanced budget after 2017. The substantial improvements were achieved through increased revenues and decreased expenditures and were matched by an environment of relatively low inflation (ranging from 0 to 4 percent) and declining policy interest rates of the National Bank of Serbia (NBS) (from 8 to 2 percent) in the same period. Between 2015 to 2019, the Government of Serbia (GoS) successfully reduced the central government public debt from 71.2 percent of GDP to 52.8 percent.

[2] https://www.imf.org/en/News/Articles/2022/12/20/pr22447-serbia-imf-executive-board-approves-a-24-billion-eur-stand-by-arrangement.

require financing from public and private sources, both of which remain constrained. Serbia's earlier macroeconomic achievements have been noteworthy, particularly as they provided important fiscal space to handle the economic impact of COVID-19; however, given the constrained fiscal environment, public financing alone will fall short of bringing sufficient economic growth to align with Europe's living standards. Serbia's 2020 Systematic Country Diagnostic (SCD) identified several enabling factors which need to be addressed for stronger economic growth; one significant factor included expanding investments and financing.[3] The SCD states both public and private investments are critical to achieve higher economic growth. Yet, public sector investment in Serbia dipped between 2008 to 2018 from 3.8 percent of GDP to 2.5 percent of GDP, then back up to 3.8 percent of GDP in 2019; which is overall below the annual average of 4.5-5.0 percent found amongst Central and Eastern Europe countries (CEE) during the same period.[4] While in 2020-2022, public spending investment levels increased, the focus of the investments was closely associated with the immediate and short-term pandemic measures and addressing the energy challenges. Importantly, private sector financing for investment has been anemic. Serbia's domestic private investments average 10.5 percent of GDP in 2010-2018, much lower than the average of 13.6 percent and 16.3 percent of GDP in the Western Balkans and CEE respectively.[5]

4. **Diversifying financing sources to support a sustained and resilient economic recovery from COVID-19 and long-term economic growth are crucial.** It is estimated that if Serbia doubled its private sector credit to GDP from 44 percent to 80 percent, the EU average, annual real GDP growth could increase by approximately 1.3 percentage points.[6] Serbia's private sector financing is predominantly obtained from commercial banks. Domestic investors have limited alternatives to bank financing for investments. Serbia's capital markets and institutional investor base remain underdeveloped; voluntary private pension and mutual funds are very small. Relying on commercial bank financing alone will be insufficient to support broader economic growth as bank financing is relatively short-term in nature and hence not well-suited to support long-term investments; such as often required for infrastructure financing.[7] Instead, a diversification of financing sources and instruments is needed, coupled with financial sector deepening to support a long-term, sustained economic recovery and growth. Furthermore, the aim of having a resilient and robust economic recovery implies preparing the sector to enable green growth investments. On September 17, 2021, Serbia issued its first sovereign green bond worth EUR 1 billion.[8] The bond and its use of proceeds are aligned to Serbia's newly issued Green Bond Framework.[9] Green-orientated investments will be important for strengthening climate resilience, given Serbia's vulnerabilities to the anticipated impacts of climate change, notably floods, wildfire, earthquakes, landslides, water scarcity and extreme heat.[10] For all these matters, continuing the development of the capital markets from a green finance perspective will be important, including the fact that taking actions towards green finance will support the goals of the Paris Agreement and the UN Framework Convention

[3] World Bank. Serbia Systematic Country Diagnostic Update. April 2020.
[4] World Bank. Serbia Systematic Country Diagnostic Update. April 2020.
[5] World Bank. Serbia Systematic Country Diagnostic Update. April 2020.
[6] World Bank. Serbia's New Growth Agenda Forging a New Future. Country Economic Memorandum 2019. Based on model simulations.
[7] In the first 11 months of 2017, new bank loans to non-financial corporates amounted to RSD 926.9 billion, more than 75 percent granted for less than five years. World Bank: Republic of Serbia – Technical Note Capital Market Development. February 2019.
[8] The bond had a seven-year maturity with a coupon rate of 1 percent and yield rate of 1.26 percent.
[9] *https://executivenews.rs/wp-content/uploads/2021/09/sep17pet.pdf* and *https://mfin.gov.rs/en/activities/the-government-adopted-the-green-bond-framework-2*
[10] https://thinkhazard.org/en/report/2648-serbia

on Climate Change.

B. Sectoral and Institutional Context

5. **Serbia's financial sector is bank-centric and stable; yet, credit penetration levels have remained within a relatively narrow band in the past few years.** As of November 2022, there are 22 banks operating in Serbia – 2 state-owned banks (SOBs), 3 local private banks, 17 foreign-owned banks. Collectively, the banking sector holds over 90 percent of all financial sector assets. The role of the state in the financial sector – a major source of risk in previous periods – has been considerably reduced since 2018; aided by IBRD support. Most SOBs have been privatized or sold, including the largest SOB, Komercijalna Banka, at the end of December 2020. Domestic credit to the private sector peaked in 2010 at 47 percent of GDP and has remained steady at 42 percent for the past six years as of 2019.[11] While this is below the EU's average of 85 percent, Serbia also trails behind its Western Balkan peers with only Albania having a lower rate of 34 percent in 2019. Despite global and domestic macroeconomic challenges, the banking sector remained adequately capitalized with a capital adequacy ratio (CAR) of 19.4 percent in Q4 2022, well above the Basel III minimum requirement of 8 percent. Banks' liquidity levels also remained high, with liquid assets to short-term liabilities at 43.3 percent. Surplus liquidity is channeled to government security investments. The asset quality of the banking sector remains stable with a relatively low percentage of non-performing loans (NPLs) at 3.3 percent in Q4 2022.[12] However, a rise in NPLs is possible in 2023 due to a delayed impact of COVID-19, high inflation, rising interest rates, as well as the possibility of an economic slowdown in 2023, domestically and of major trading partners.

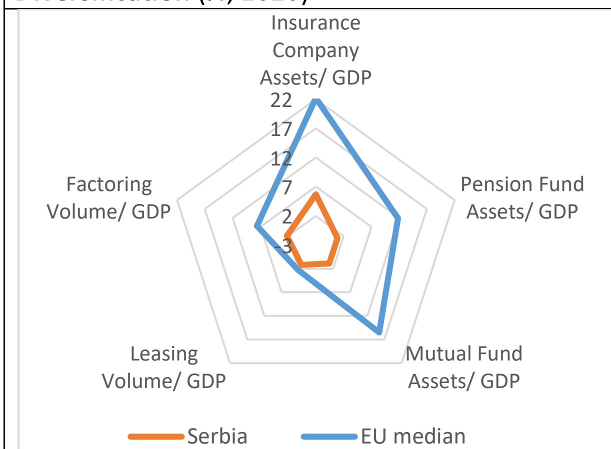
6. **The GoS and banks have implemented measures to deepen lending to private sector enterprises, but these measures remain lacking, particularly for long-term financing needs.** Banks make use of partial credit guarantees and credit lines offered by IFIs to increase their exposure to riskier lending segments, such as small and medium enterprises (SMEs). The government-supported credit guarantee scheme, launched in 2020 and expanded in 2021 in response to COVID-19, serves the same objective while also supporting firms during the crisis and their recovery. Domestic development finance institutions[13] have not been able to move the needle on credit penetration and have themselves suffered from a myriad of issues in the past. Outside of these programs, the banking sector itself is primarily funded through short-term deposits. As of December 2019, 41 percent of assets (including loans) had a maturity between one and five years, while 18 percent of liabilities (including deposits) had a maturity of one to five years. The discrepancy rises with longer maturity terms; 21 percent of assets had maturities of over five years but only four percent of liabilities. Banks can issue corporate bonds to manage asset maturity mismatches. However, only one bank (amongst 26 banks) has issued a corporate bond in recent years.[14] Given the sovereign green bond issuance in 2021, banks may be encouraged to consider issuing green and other thematic securities.

7. **Financial sector diversification is needed for firms to grow and expand and to shield the financial and private sectors from fluctuations in credit cycles.** Factoring and leasing are underutilized in Serbia. The insurance sector, pension sector and mutual funds are small (Figure 1). The assets of these institutions

[12] National Bank of Serbia. November 2021.
[13] Specifically, the Development Fund and the Export Credit and Insurance Agency (AOFI).
[14] Erste Bank issued a corporate bond in 2019.

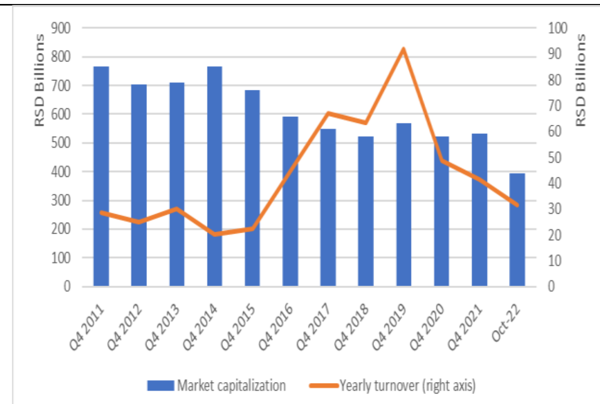
amount to approximately 9 percent of overall financial sector assets.[15] Market capitalization and yearly turnover on the stock exchange (BELEX) are on a downward trend; market capitalization has decreased by around 44 percent since the Global Financial Crisis (GFC) and about 34 percent since 2016 (Figure 2). Annex 4 gives further detail on the state of the equity markets in Serbia. Ultimately, a weakly diversified financial sector means if firms want to grow or expand, there is limited private sector financing sources offered beyond banks. In addition, as banks remain the predominant source of financing, the sector is vulnerable to credit downturns – as experienced during the GFC. Research notes by having deeper and more diverse domestic markets, including sources of long-term financing, the more likely the sector will be insulated from swings in global risk sentiment.[16] Evidence also suggests that such markets not only allow for the absorption of larger amounts of government debt without crowding out credit to the private sector, but they also help buffer swings in capital.[17] The ability to absorb larger amounts of government debt may be particularly relevant in the current macro-fiscal environment of increasing fiscal pressures related to COVID-19 challenges and the European electricity crisis.

Figure 1: Indicators of Financial Sector Diversification (%, 2020)



Source: FinStats, 2021

Figure 2: BELEX market capitalization



Source: BELEX – Annual Statistics

8. **In an effort to expand the non-bank financial sector and develop alternative financing instruments, the Serbian authorities have prioritized the deepening and broadening of capital markets, beyond the relatively well-functioning government bond market.** Recent assessments and diagnostics[18] of the financial sector noted that the contribution of capital markets to financing the economy is negligible. A detailed in-depth World Bank diagnostic was completed in 2019 and updated in 2021.[19] The analysis notes that the government securities market functions relatively well. Due to the introduction of the benchmark government bond issuance a few years ago, the liquidity and functioning of Serbia's RSD denominated government bond market has improved. Foreign investors are active participants in the local

[15] National Bank of Serbia.
[16] IMF and World Bank. Guidance Note on Developing Government Local Currency Bond Markets. March 2021. Institute of International Finance. Macro Notes – Deep Local Financial Markets Provide Backstop. February 24, 2021.
[17] Institute of International Finance. Macro Notes – Deep Local Financial Markets Provide Backstop. February 24, 2021.
[18] World Bank. Serbia's New Growth Agenda – Forging a New Future (CEM) 2019, IMF. Republic of Serbia. Fifth Review Under the Policy Coordination Instrument. January 2021.
[19] World Bank. Serbia: Technical Note: Capital Market Development. February 2019.

currency government bond market; however, their share has been steadily declining since the beginning of 2020, accounting for 14.7 percent of the RSD government securities in September 2022.[20] On June 30, 2021, three Serbian dinar dominated bonds[21] were included in the J.P. Morgan Government Bond Index – Emerging Markets Global Diversified Index; one of the most widely benchmarked bond indices issued in local currencies of emerging economies in the asset class.[22] This is expected to further boost market development and trigger increasing foreign investor activities. However, other capital market segments are negligible – in September 2022, there was only one corporate bond listed on the Open Market segment of BELEX; it accounted for not more than 0.06 percent of GDP; total capitalization of the equity market is less than 8.3 percent of GDP.

9. **Importantly, investor confidence has yet to fully rebound from the GFC, particularly in the stock market; yet a few recent trends may provide new momentum for market expansion.** Prior to the GFC, more than 4,000 new companies were listed on BELEX, attracting foreign and domestic mutual funds, investing heavily in equities. However, the stock market collapsed in 2008, causing considerable losses to investors, who consequently lost their confidence in the equity market.[23] The stock exchange has undertaken initiatives and invested in infrastructure upgrades to attract prospective companies to use the capital markets for their financing; nevertheless, it has yet to rebound to pre-GFC levels.[24] Furthermore, due to a series of mass privatization efforts between the years 1989-2010, as of 2017, Serbia had approximately 5 million dormant accounts holding an estimated EUR 2.9 billion. An in-depth 2017 regional EBRD study, which analyzed the dormant account issue, proposed three potential resolution options regarding the dormant accounts issue. Selection of one of the three resolution options or an alternative and implementation of it could help revitalize confidence in the market given the sizable volume and number of potential participants the dormant accounts would catalyze should the accounts become active. [25] Given the recent history, risk aversion of both institutional and retail investors remains high and regaining investor trust would be fundamental to revitalize this market segment. However, the recent global trend of increasing retail participation[26], adoption of technologies and solutions to facilitate market participation and the demand for higher returns in a higher inflation and increasing rate environment may bring momentum for market expansion. Regional integration could also help to improve the market operations.

10. **The corporate bond market has shown signs of growth potential and could be a promising avenue for corporate financing in the medium term.** Both supply and demand side factors support this assumption. On the supply side, interest from corporates in issuing securities has recently picked up, see further below. On the demand side, fixed income securities such as bonds are an attractive asset class as it provides investors with fixed periodic interest payments involving less volatility and risk. Furthermore,

[20] MoF Public Debt Administration. Monthly Report PDA – September 2022.
[21] Three benchmark issues of dinar bonds, with an original maturity of 7, 10, and 12.5 years, maturing in 2026, 2028, and 2032. The weight of dinar bonds in GBI-EM Global Diversified equals 0.3%. Source: J.P. Morgan
[22] More than USD 240 billion AUM according to J.P. Morgan
[23] World Bank. Serbia. Technical Note: Capital Market Development. February 2019.
[24] In 2018, Serbia had its first IPO since 1940 in the energy sector.
[25] EBRD. Cross Regional Dormant Accounts Study. November 2017. The three potential resolution options outlined pre-requisites required for any proposed solution and the three options involved: i) intermediary distribution, ii) pooled funds and iii) government interventions.
[26] Risks of such an increase in retail participation should be closely monitored. IOSCO is in the consultation process for a report by its Retail Market Conduct Task Force: ***https://www.iosco.org/library/pubdocs/pdf/IOSCOPD698.pdf***

bonds do not face the same challenges as shares in terms of current owners accepting dilution of control or earnings, and the possible need for financial restructuring and the overhaul of corporate governance. They can be tailored to the needs of institutional investors and are more intuitive for retail investors. The steady improvements to the GoS yield curve also mean that they are now much easier to price. Lastly, corporate bond financing does not generally require pledging assets as security. Often, banks will require borrowers to pledge assets that are valued in multiples of the borrowed amount. Given the heavy reliance of Serbian corporates on bank financing, this may indicate that many corporates may have already pledged a significant portion of their assets to the banks. Thus, corporate bond financing could be an attractive alternative source of long-term financing, especially for growth or innovation-focused companies that may not have significant assets to use as collateral.

11. **Nevertheless, there remain challenges to be overcome; the World Bank diagnostic concluded that while the necessary macroeconomic preconditions are present, other preconditions need to be improved for corporate bonds to develop further.** Serbia benefits from having relatively stable macroeconomic fundamentals, a sound banking system, a good institutional and regulatory framework, and a solid and efficient financial market infrastructure. Recent developments in the trading and financial market infrastructure, include: i) in February 2020, the Ministry of Finance (MoF) and the International Central Securities Depository, Euroclear, signed a Memorandum of Understanding (MoU) with the eventual goal of creating a link between the two clearing, settlement and depository systems. This is an important advance as this integration would eventually improve foreign investors' access to the government securities market by enabling seamless clearing and settlement between Serbia and its foreign investors and ii) in August 2021, Hellenic Exchanges, the operator of the Athens Stock Exchange (ATHEX), announced it will acquire 10.24 percent equity stake in BELEX. In the deal, BELEX decided to improve its trading infrastructure by transferring its trading activities to the trading platform of the ATHEX. The capital markets diagnostic also concluded that the legal and regulatory framework for the corporate bond market is largely in place and is not considered an obstacle but did note a number of shortcomings in both demand and supply. These included the following: a limited number of companies ready to issue corporate bonds, complex procedures, a shallow investor base, and low financial education and general awareness regarding the benefits of financing through the capital market. These will need to be addressed (see Annex 4). In addition, rising interest rates could increase financing costs and may have impacts on the corporate bond market in the short term.

12. **As the basic fundamentals are in place, the authorities have recently taken steps to catalyze the corporate bond market,** particularly spurred by the COVID-19 impacts, by: i) streamlining the issuance process for corporate bonds, and ii) NBS included corporate bonds in the list of eligible collateral for monetary operations.

i) *Streamlining the Issuance Process***.** A comparative study[27] analyzed the corporate bond market amongst nine countries in the region including four Western Balkan countries; regarding: 1) the cost effectiveness and efficiency of issuance of debt securities (both by the government and by corporates), and 2) the costs associated with trading and holding a portfolio of debt securities. The study concluded that Serbia's issuance efficiency ranking was last amongst its peers (9/9), while its cost effectiveness ranking was comparable to its peers (3/9). On

[27] European Bank for Reconstruction and Development. Effectiveness and Efficiency of Debt Capital Markets – A Comparative Study Transactions Costs and Timing for Issuance, Listing and Trading of Locally Issued Debt Securities. February 2020.

December 23, 2021, the National Assembly of the RoS adopted the new Law on Capital Markets[28] aimed at improving issuer efficiencies, substantially reducing the cost and time required for issuing corporate bonds in the domestic market. Specifically, the legal changes simplified prospectus requirements, aligning it with European legislation; lowered the cost of issuance of corporate bonds; and shortened the time period for the SSC and stock exchange to review and approve listing documentation. The simplification is estimated to have reduced the cost of issuance from approximately RSD 10,000,000 lasting 45 procedural days, to RSD 1,200,000, lasting 15 days, and helped increase interest in corporate bond issuance. Despite these efforts, the costs and processing steps involved are still considered onerous by the market.

ii) *NBS Open Market operations with Corporate Bonds.* In May 2020, the Executive Board adopted amendments to relevant NBS's decisions (published in RS Official Gazette, No. 74/2020) that that set out the conditions under which corporate bonds might be used in NBS monetary operations involving outright purchases from commercial banks on the secondary market and repos in open market operations, or the use of corporate bonds as collateral for daily and short-term liquidity loans.

13. **As a result of these initiatives, between 2020 to 2021, 16 corporate bonds were issued with an aggregate nominal value of RSD 50.4 billion (EUR 427 million), of which 15 were issued through private placement and one was a public offering.** Corporate bond issuances ranged from small issuances of RSD 3.96 million to larger issuances of RSD 23 billion. The bonds ranged in maturity from one to five or more years. The largest issuers included three state-owned companies for energy, telecom, defense, and private companies involved in construction, manufacturing, and professional services. Two private companies specialize in combat systems and hazardous waste. All issuances were registered with the CSD; however, in 2020 and 2021 there were no requests for admission to trading on BELEX. Only one company - Energoprojekt - applied for admission to BELEX for secondary trading (Annex 4, Table 2). In the first ten months of 2022, there were nine additional corporate bond issuances by eight issuers, each through private placements. The total issuance volume slightly exceeded RSD 12 billion. Two issuers, Borbeni složeni sistemi and Jugoimport, were repeat issuers after their debut transactions in 2020.[29] None of the corporate bonds issued were tagged as green, climate, or other thematic bonds.[30] However, the recent Green Bond issuance by the GoS is expected to provide momentum and increase interest in thematic issuances by corporates going forward.

14. **A high-level analysis of the corporate landscape indicates that there may yet be a number of companies able to issue bonds.** The Serbian Business Registries Agency (SBRA) maintains lists of the top 100 companies[31] in terms of total assets, revenues, profitability, and capital. A high-level analysis of this list suggests some companies may be suitable for corporate financing through bonds. The list includes both private companies and state-owned companies. The list has registrations of 128 large companies (250+ employees, EUR 50 million+ in annual revenues and more than EUR 43 million in total assets); of

[28] *https://www.mfin.gov.rs/en/decrees-2/law-on-the-capital-market-rs-official-gazette-no-312011-1122015-1082016-and-92020-unofficial-translation-by-the-rs-securities-commission-2*
[29] Websource: Central Securities Depository - *http://www.crhov.rs/?Opcija=5&TipHartije=kratkorocne*
[30] See definition of thematic bond in Section II.A.
[31] https://www.srbija.gov.rs/dokument/45678/strategije-programi-planovi-.php

the 34 large SOEs and partially government-owned companies, 22 reported profits in the most recently filed year. Within the category of medium sized enterprises (50+ employees, more than EUR 10 million in annual revenues and more than EUR 10 million in total assets) of 38 companies, 33 reported net profits. This list could be a preliminary resource to further explore interest levels of enterprises to issue corporate bonds as well as financial suitability.

15. **To reignite the domestic capital markets, the GoS has adopted a comprehensive Capital Markets Development Strategy (CMDS) from 2021 to 2026 and an Action Plan, which includes reinvigoration of the corporate bond market.**[32] The overall goal of the CMDS is to stimulate capital markets to support economic growth, employment, and a higher quality of life for Serbian citizens. The CMDS and Action Plan aim at restoring confidence in the domestic capital markets and attracting issuers, while in parallel developing a roadmap to advance compliance with EU directives. The document addresses the fundamental challenge of growing the supply of candidates for issuance and diversifying the investor base. The CMDS has identified specific measures related to: i) improving the regulatory framework for further development of the capital market, ii) improving the institutional framework, iii) introducing new investment products and issuers on the domestic capital market, iv) attracting new investors, v) strengthening the technological and human capacities of institutions, and vi) promotion of opportunities to participate in the capital markets and training of all potential market participants. The CMDS was adopted by the Government of the Republic of Serbia in November 2021; the Action Plan was finalized in December 2021. The authorities anticipate requiring implementation support for the Strategy and have requested IBRD engagement for selected activities, complementary to support that will be provided by other IFIs (Annex 5: CMDS). Notably, the CMDS is an embedded activity with the MoF's draft Economic Reform Program (ERP) 2022-2024.[33] The ERP envisages a structural reform[34] which will develop a competitive, highly efficient, transparent and productive capital market through a range of financial instruments and services, comparable to leading regional and European financial markets. Accomplishment of this structural reform endeavor will be guided by the CMDS 2021-2026.

16. **The MoF and SSC could benefit from institutional strengthening in order to adequately execute the 2021-2026 CMDS and its Action Plan.** The CMDS was produced by a Working Group led by the MoF and composed of various capital market authorities and the private sector. The CMDS identifies a number of areas in which the MoF and the SSC would need to act – regulatory improvements involving amendments to existing regulations, implementation of a simplified taxation framework for capital market products and transactions, administrative processing steps, and the institutional investor landscape, and the need to improve the overall public financial literacy with regard to capital markets (Annex 5: CMDS). Nevertheless, as of October 2022, both the MoF and SSC do not have sufficient technical and personal capacity to ensure the successful medium/long-term execution of the CMDS; the MoF had 2 staff members focused on capital markets and the SSC had 38 staff members. In addition, the public capital market institutions – SSC and CSD – may benefit from further aligning with the relevant international principles, i.e. the International Organization of Securities Commission (IOSCO) Principles of Securities Regulation. A Serbia IOSCO assessment has not taken place in the past 10 years. Likewise, on the market infrastructure, BELEX will need to undertake an ICT upgrade -both hardware and software- to

[32] https://www.mfin.gov.rs/propisi/javna-rasprava-o-predlogu-strategije-za-razvoj-trita-kapitala-za-period-od-2021-do-2026-godine
[33] https://www.mfin.gov.rs/propisi/nacrt-programa-ekonomskih-reformi-erp-2022-2024
[34] Structural Reform #6: Developing the capital market through the Introduction of New Law Institutes and ensuring a greater level of Investor Protection.

support the recent merger with the ATHEX.

17. **The CMDS identifies a number of remaining challenges to be tackled in the general areas of enabling environment for capital market development as well as specific actions to be taken to improve both the demand and supply side of corporate bond issuance** (Annex 5: CMDS):

- A comprehensive analysis of the tax regulations and procedures was completed in 2022 with the intention to better understand tax disincentives and create a level playing field for different capital markets products. Concerns that have been raised regarding taxation include (i) tax exemption for government bond investments while investments in corporate bonds and equities are subject to tax, and (ii) complicated administrative procedures (such as a mandatory local tax representative for non-residents) contributing to reduced foreign investor demand on the non-government-bond markets. Based on this analysis, a simplified taxation framework is planned to be implemented.
- Some of the main institutional investor challenges that will need to be analyzed have been identified in the CMDS as (i) investment policies for pension funds and insurance companies prescribed by the NBS that limit to a certain extent their investment in capital market instruments, and (ii) potential tax disincentives for private pension funds to grow. Resolving the issue of dormant accounts – while not likely to be achieved in the short term – is identified as having potential for increasing domestic demand in the medium to longer run. The investment fund industry has been suffering from a lack of trust since the GFC. Nevertheless, the authorities expect that the adoption of the new Law on open-ended investment funds and the Law on alternative investment funds creates momentum for stronger growth of the industry; 2021 already demonstrated strong growth, albeit from a low basis.
- Public financial literacy regarding the benefits of capital markets financing in general, as well as specifics on corporate bond financing in comparison to bank financing is low.
- Finally, while potential new bond issuers may exist, specific dedicated technical support in order to adequately prepare potential corporate bond issuers are missing (e.g., the lack of a credit rating agency in Serbia); particularly, technical assistance for underexplored market segments involving green/thematic bond issuance or women-owned enterprises is notably absent. This links well with the explicit reference in the CMDS that the government intends to grow the green and thematic bond market.
- The CDMS also includes ongoing analysis regarding the portfolio of public enterprises and companies with majority ownership by the State which may be evaluated on their potential and capacity to enter the capital markets.

C. Relevance to Higher Level Objectives

18. **The operation is aligned with the WBG Country Partnership Framework (CPF) for Serbia FY22-26.**[35] One of Serbia's FY22-26 CPF Higher Level Outcomes is "Growth that is Greener and More Resilient." Under this outcome, this project is aligned to Objective 1.1 – Stronger macro-fiscal framework and structural reforms for greener growth. This project directly supports the associated indicator – number of corporate bond issuances by first time issuers/majority women-owned firms. In 2019, the Performance and Learning Review (PLR) of the CPF noted that progress was being made in creating a more stable and

[35] Discussed by the Board of Executive Directors on May 26, 2022.

accessible financial sector, yet an emerging lesson from the PLR stated that increasing private sector financing should be explored. The FY22-26 CPF was guided by the 2019 Country Economic Memorandum (CEM), which prioritizes the 'green growth' agenda, including policy reforms and associated investments.

19. **The project fits under Pillar 3 and Pillar 4 of the Green, Resilient and Inclusive Development (GRID) Agenda – Global Crisis Response Framework (GCRF).** The project aligns with Pillar 3: Strengthening Resilience of the GCRF, in which the targeted green bond issuance supports climate resilience, and the financial sector nature of the operation supports financial sustainability. The project also supports Pillar 4 of GCRF: Strengthening Policies, Institutions, and Investments for Rebuilding Better Institutional Strengthening. The institutions focused on capital market development – MoF, SSC, CSD and BELEX will receive institutional support through the project.

20. **The underdevelopment of Serbia's capital markets has been noted in the World Bank's (IBRD) and IMF's most recent analytical assessments; the capital markets merit strengthening as a critical factor for economic growth.** Serbia's 2019 CEM focused on its Growth Agenda, which included an in-depth background paper[36] focused on financing for growth. Both the CEM's and the in-depth background paper's analysis identified the limited contribution of the capital markets towards private sector financing and recommended the capital markets need to be reignited in order to increase private sector credit levels to support economic growth. Serbia's 2020 Systematic Country Diagnostic (SCD) Update detailed that the underdeveloped capital markets and institutional investor base limit alternative forms of financing, beyond banks. Similarly, IMF analysis concluded that the capital markets were underdeveloped, given nascent domestic bond market volumes, a small corporate bond market and limited stock market activity.[37] The authorities are encouraged to continue implementing the CMDS under the IMF Stand-By Arrangement that was approved in December 2022.[38]

II. PROJECT DESCRIPTION

A. Project Development Objective

PDO Statement

21. The project's overall objectives are to (i) improve the enabling environment for capital markets development and (ii) deepen the corporate bond market, including through green and other thematic issuances.[39]

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[36] World Bank. Serbia's New Growth Agenda: Forging a New Future. Country Economic Memorandum 2019. Background Paper: Financing for Growth. 2019.
[37] IMF. Republic of Serbia. Staff Report for the 2019 Article IV Consultation and Second Review under the Policy Coordination Instrument. July 2019.
[38] https://www.imf.org/en/News/Articles/2022/11/02/pr22366-imf-staff-reaches-sla-with-serbia-on-third-review-under-pci-and-stand-by-arrangement-request
[39] Thematic bonds are instruments that contribute toward broad ESG-related goals and objectives and are labeled as such. Climate financing is a particular focus for thematic issuances. Thematic bonds may include instruments in which the proceeds are earmarked for specific purposes (e.g., green, social, or sustainability bonds), as well as those for which the financial and/or structural characteristics vary depending on whether the issuer achieves predefined sustainability or ESG objectives

PDO Level Indicators

22. The key results of this operation will be measured through the following PDO indicators:

- Compliance achieved in the focus areas identified by the assessment of implementation of IOSCO Objectives and Principles of Securities Regulation *(Associated to PDO section related to enabling environment)*
- Number of corporate bond issuances by first-time issuers *(Associated to PDO section related to deepening the corporate bond market)*
- Number of green and other thematic corporate bond issuances *(Associated to PDO section related to green/thematic issuances)*

These key results would be supported by the following intermediate results:

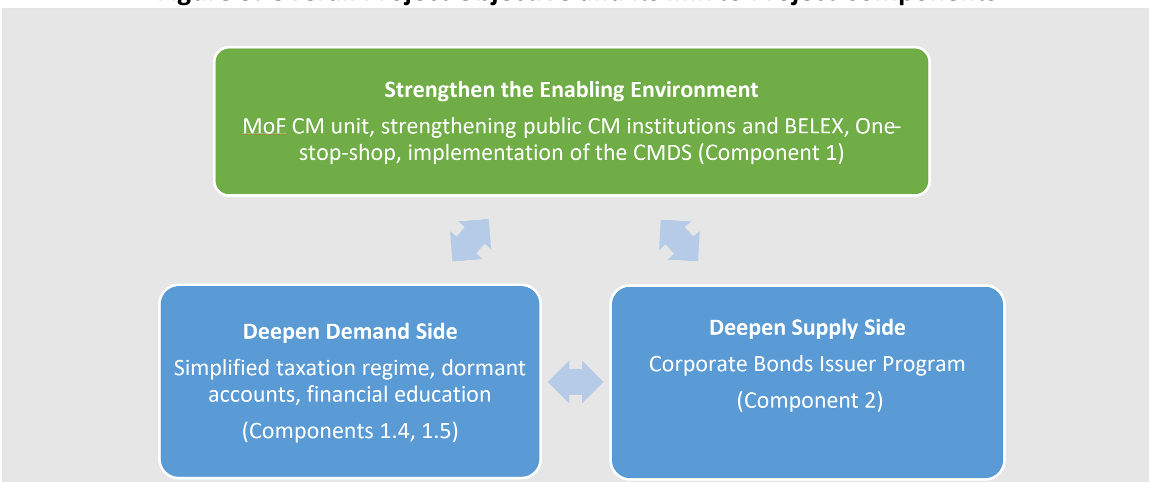
- One-stop shop established with interactive web portal, including the number of site visits by unique IP addresses
- Simplified tax framework in place for capital market development
- Time-bound action plan adopted for resolving the issue of dormant accounts
- Number of companies participating in the Corporate Bond Issuer Program, including the number of women managers participating in the Corporate Bond Issuer Program
- Total number of corporate bond issuances, including total number of green and other thematic bonds
- Total volume of corporate bond issuances, including volume of green and other thematic bonds
- Volume of corporate bonds issued by majority women-owned firms (Gender Indicator)
- Number of corporates that received financial education/were informed about alternatives to bank financing
- Share of Corporate Bond Program beneficiaries satisfied with the Corporate Bond Program support via periodic surveys (Citizen Engagement Indicator)

B. Project Components

23. **The project's objective will be addressed from three angles, with two components and several sub-components.** The three angles are: *(1) improving the enabling environment* – by (i) setting up a capital markets unit in the Ministry of Finance (MoF) and strengthening the capital market institutions, particularly the SSC and the CSD by aligning them with the relevant international principles (i.e., the IOSCO Principles); (ii) creating a one-stop shop and supporting technical assistance (TA) for implementing the CMDS as well as for strengthening BELEX, *(2) deepening the supply side* (issuing more corporate bonds

(sustainability-linked bonds). These bonds follow internationally accepted standards and principles, including use of proceeds, selection of projects, monitoring and reporting, sustainability performance targets, and key performance indicators. Non-labeled instruments may or may not specifically earmark proceeds for ESG purposes or follow generally accepted standards. Source: World Bank, 2020. "Engaging with Investors on Environmental, Social and Governance (ESG) Issues - A World Bank Guide for Sovereign Debt Managers," https://thedocs.worldbank.org/en/doc/375981604591250621-0340022020/original/WorldBankESGGuide2020FINAL.11.5.2020.pdf and/or other non-government securities instruments) – by creating a corporate bond issuance program, including a specific focus on green and other thematic issuances, with an explicit emphasis on climate financing, and *3) deepening the demand side* (attracting more investors) – by simplifying the taxation regime for capital markets based on a comprehensive analysis completed in 2022 and aiming to identify a solution for dormant accounts. The project design will be structured around two main components with several sub-components: Component 1 - Institutional, Legal and Regulatory Reforms and Component 2 - Corporate Bond Issuer Program (Figure 3).

Figure 3: Overall Project Objective and its link to Project Components



24. **An overarching output of the project will be the development of a special unit focused on capital markets (one-stop-shop) for capital markets services.** The objective of the one-stop shop will be to provide a comprehensive set of services related to capital markets development. It will be comprised of qualified staff from MoF and SSC and relevant government agencies and will be housed within the MoF.[40] The one-stop shop is expected to be responsible for all capital market related activities involving the general public and/or private sector entities. The one-stop shop will monitor the implementation of the CMDS, support the implementation of non-regulatory activities, coordinate inter-institutional cooperation, manage the web-based portal, and provide centralized support to market participants. For example, the one-stop shop will lead the creation of an interactive web-based portal based on the internet in which the public will have a centralized, digitalized system of information related to corporate bond issuance and other capital markets products involving investment opportunities and legal regulations for both domestic and international investors. It will also be the main web-based portal for issuers looking to address requirements of the key authorities. The interactive web-based portal would be a deliverable of the one-stop shop amongst other capital market development activities. The one-stop-shop can contribute to financial education with the introduction of capital market products and knowledge materials placed on the website. It can also raise awareness regarding the need to develop green and climate financing in the country. The one-stop shop will execute critical tasks and activities under both Component 1 and 2 as described below. The CMDS identified the creation of an online, portal-based one-stop shop as crucial to centralize the current disparate, fragmented nature of capital markets investing in Serbia – information spans across various agencies and linkages across several existing policies and legal

[40] The One-Stop Shop will be housed in the MoF under the Department for Digitalization in the area of Finance.

frameworks. Similar initiatives have taken place in Sri Lanka to streamline capital markets information.[41]

Component 1: Institutional, Legal and Regulatory Reforms *(approx. EUR 20mn)*

25. **This component will focus on supporting the government in strengthening the institutional, legal, and regulatory framework for capital markets development.** The subcomponents are: 1.1 MoF Capital Markets Unit, 1.2 Strengthening Serbia's Securities Commission and Central Securities Depository, 1.3 Strengthening of BELEX, 1.4 Capital market taxation reform, and 1.5 Other Technical Assistance to support implementation of the Capital Markets Development Strategy.

26. **Across the component, support will be provided to the MoF (MoFFS and CFU) for project management and operating costs**, including the financing of costs related to procurement, financial management, monitoring and evaluation, reporting, safeguards and technical oversight, policy coordination, PBC's independent verification, and carrying out independent technical audits and the Project's independent financial audits.

Component 1.1: MoF - Capital markets policy and regulatory unit

27. **This component will support the establishment and operation of a capital markets policy and regulatory unit (CMPRU) in the Ministry of Finance's Department in charge of overseeing the financial sector (MoFFS)** through the provision of technical advice and trainings in line with the CMDS. The new unit will be tasked with implementing the strategy, coordinating all capital markets activities, working with the new task force required for Component 2, and aligning all involved stakeholders. Overseeing the creation of the one-stop shop with other stakeholders and the implementation of the Corporate Bond Issuer Program (Component 2) as well as the creation of the interactive web-based portal will be notable early responsibilities for the unit, amongst others. The MoF unit will hire highly qualified professionals as technical consultants and advisors, who will provide capacity building support to advance this agenda, including the implementation and execution of the recently adopted CMDS. The MoFFS will be responsible for collecting data required for monitoring and coordination of project activities in accordance with the indicators included in the Results Framework.

Component 1.2: Strengthening the Serbian Securities Commission (SSC) and the Central Securities Depository (CSD)

28. **The component will support the strengthening of the SSC that oversees and regulates the capital markets as well as the CSD that operates the capital markets securities depository** by aligning them with the relevant international principles, i.e., the IOSCO Principles of Securities Regulation. In particular, this will involve an assessment of the implementation of the relevant principles by these institutions. Based on the assessment and any shortcomings identified, the component will support any needed legal, regulatory or institutional reforms to bring these core capital markets institutions in alignment with those principles. During the assessment phase the institutions tasked with maintaining stability in the financial system of Serbia will need to be consulted to ensure that any reforms are aligned with financial stability objectives.

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[41] Sri Lanka Securities and Exchange Commission: *https://www.sec.gov.lk/*)

Component 1.3: Strengthening of Belgrade Stock Exchange (BELEX)

29. **This component will focus on the strengthening of BELEX.** The component will support upgrading of the Information and Communication Technology (ICT) system for BELEX -both hardware and software - in order to facilitate connection with other exchanges and enabling regional cooperation. As part of the upgrade, a mobile application is also being considered to allow all citizens to trade domestic securities and enhance retail investor participation in the domestic stock exchange. In addition, rebranding efforts will be supported with the aim to attract new instruments and investors to the domestic capital markets. More specifically, following the commencement of cooperation between BELEX and ATHEX, BELEX trading infrastructure will be migrated into a Common Trading Platform operated by ATHEX which will enable the former to further integrate into the global capital markets, further increase the collaboration with other regional and/or international stock exchanges, and boost its securities trading. Therefore, the introduction of an upgraded ICT for BELEX is necessary to connect its platform with ATHEX to execute the transfer of securities to the Common Trading Platform. Furthermore, additional implementation support is required to integrate these platforms. In order to achieve this, an analysis has been completed which recommends that BELEX requires an overhaul of its image and brand as well as a promotional strategy in order to attract new investors and issuers as well as promote new financial products that are planned to be introduced into the Serbian capital market. The same analysis recognized the low awareness and opportunities it provides to the general public; therefore, a mobile app will be developed and introduced to promote and facilitate the easy trading of securities listed on the stock exchange. The mobile app will be connected to BELEX and is expected to help enhance retail investors' participation.

Component 1.4: Taxation reform

30. **This component will support the implementation of a simplified taxation framework for capital market products and transactions based on a comprehensive analysis of the taxation regime completed in 2022.** The aim of the simplified framework is to harmonize tax treatment along products and investors (domestic, foreign, legal, natural) in order to create a level playing field and attract new investors to the market. Implementing such a simplified framework is anticipated to require changes to several laws as well as, importantly, seeking consensus between all involved stakeholders. More specifically, the activities will focus on the regulatory challenges that the current tax framework poses to capital market development. The current tax framework of the RoS contains a number of challenging provisions that hinder the active participation of investors; both domestic and foreign. The MoF has undertaken an in-depth study analyzing the tax framework. Some of the identified impediments consist of administrative burdens that discourage natural or legal persons to participate in the capital markets, regulatory obstacles for foreign natural or legal persons, a lack of incentive policies, and complex tax procedures that are burdensome for SMEs or natural persons. Based on the completed in-depth tax analysis, a time-bound action plan will be completed to resolve the legal complexity and implement the necessary tax reforms that are currently impeding the demand for capital markets development

Component 1.5. Other Technical Assistance for implementing the Capital Markets Development Strategy

31. **This component will directly support the implementation of the CMDS** through needed consulting support, feasibility studies, and other services needed (described below) to achieve the

necessary changes. Legal and regulatory reforms will better align Serbia's framework with the principles of EU directives regarding capital markets as part of implementation of the *acquis*; including alignment to the EU's Sustainable Financing Initiatives.[42] Technical assistance for the development of specific products, such as green/ thematic bonds, municipal bonds, and other products in line with the strategy can be supported. A specific focus will be increasing the availability of climate finance instruments. Funding raised through green bonds will be used for implementing green projects, aimed at reducing greenhouse gas (GHG) emissions and incentivizing the creation of Paris-aligned transition plans, while requiring detailed information on the use of funds and verification that funds are used for the intended purpose. Alignment with the EU Green Bond Standard and broader labels for green financial products developed at the EU level will be important.[43] The IFC ESG program could provide complementary support by working with BELEX on improving ESG disclosure and reporting, in addition to broader work around ESG disclosures. Climate-related financial disclosure frameworks require disclosure of Scope 1, Scope 2 and, if appropriate, Scope 3 (GHG) emissions and the related risks, among other aspects.[44]

32. **Within the supported technical assistance, ways to deepen the investor base will be explored.** Options include aiming to identify solutions for dormant accounts and a review of other options for stimulating or removing obstacles to increased demand. Dormant accounts have been identified as a significant potential source for improved operations of the capital market in Serbia and its institutions. The MoF, CSD, commercial banks, and others are currently assessing solutions to unlock the potential of dormant accounts. However, additional support will be needed to assess the best regulatory and legal approaches to the issue.

33. **The component will also support studies to evaluate the feasibility of:** (i) a Serbian Bond Market Development Fund with the explicit objective of strengthening the demand side of the capital markets and act as a cornerstone investor for bond market issues, and (ii) a Bond Guarantee Fund in order to provide a backstop guarantee for corporate bond issuances. The fund would provide guarantees on certain credit worthy corporate bond issues. The fund would need to obtain a credit rating by an eligible rating agency in order to provide the requisite to comfort the market. The fund would appoint a trustee to administer the fund. This would require tenders for the service providers of legal, accounting and investor relations support. If these feasibility studies should point to significant potential, they could inform future support.

34. **The component will also support financial education and awareness raising around corporate bonds, alternatives to bank financing, and more widely on capital market development in general.** Narrow, in-depth financial education will also be provided to potential corporate bond issuers (CBIs) under Component 2. Activities under this component will support a broader approach to financial education around capital markets, including the benefits to publicly list companies versus debt financing via banks, and broader financial education for the population regarding long-term saving options, including insurance and pension funds, which may indirectly support expansion of the institutional investor base. Financial education on green financing instruments and sensitization of corporates to the impact of climate change on their businesses will also be provided. Lastly, a promotional campaign for access to the

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[42] https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en.
[43] https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/eu-green-bond-standard_en
[44] See the recommendations provided by the Task Force for Climate-Related Financial Disclosures (TCFD): https://www.fsb-tcfd.org/recommendations/

Serbian capital markets is envisaged to be supported under this component.

35. **The component will also finance three performance-based conditions (PBC) expenditures related to the implementation of the CMDS.** PBCs 1 through 3 are related to the institutional, legal, and regulatory reforms supported under this Component. The PBCs focus on important reforms that are of essence for the success of the Project. PBC 1: Completing an assessment of implementation of the relevant IOSCO principles by the public capital market institutions is a prerequisite to strengthening these institutions. PBC 2: Complete installation of hardware and software upgrade and launched new website for BELEX. Finally, PBC 3: the web-based portal on capital markets is an important deliverable from the one-stop shop that will improve transparency and visibility. PBCs 1-3 amount to EUR 9.5 million for Component 1. Expenditures required to achieve the PBCs will include marginal additional expenditures of the MoF and SSC required to implement and execute the CMDS, over and above the procurable items supported through this component. These MoF and SSC expenditures are included under MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004" and SSC budget under Financial Plan for 2022, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", respectively. The CSD budget line will be "CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer." The MoF, SSC and CSD will confirm that these expenditures were incurred because of the CMDS implementation and would not have occurred otherwise.

Component 2: Corporate Bond Issuer Program (CBIP) *(EUR 10mn)*

36. **This component will focus on expanding the corporate bond issuer base.** Broadly, this component will facilitate corporate bond issuances in local currency (Serbian Dinar, RSD) starting from the identification of potential CBIs to the completion of issuance of bonds either privately placed or publicly listed. In select cases, post-issuance activities will also be supported, especially around green and thematic bonds. A special taskforce in the MoF supported by the SSC and other relevant stakeholders will identify an initial long list of potential CBIs, assess their needs regarding technical assistance, training, and guidance to enable these companies to prepare for issuance, and then guide them through the bond issuance process. This will involve building a comprehensive program by working with entities such as law firms, financial advisory firms, credit rating agencies, and other critical professional service providers as needed. Participating and selected CBIs will not receive funds from the project directly. Thus, the project will provide capacity building and technical assistance to the MoF to support potential CBIs throughout the preparatory process to issue corporate bonds. The MoF and SSC consider that that over 200 companies may have potential for being admitted to the program, of which approximately 15 to 20 non-financial companies may be made ready for issuance in the near term if they are provided support.[45]

37. **The initial step will be the establishment of the task force and the identification of companies for the long list of firms accepted into the program.** The MoF-led task force will administer and implement the corporate bond issuer program (CBIP) with acceptable staff and procedures in place to successfully execute the program. The task force will – at a minimum – include the MoF, SSC, and Chamber

[45] The sectors which have been preliminarily identified with the highest possibility of near-term corporate bond issuance are within the construction and housing sectors. The expectation is over time other sectors would also be more active in the corporate bond market, including the banking sector.

of Commerce. A representative from the institutional investors would also be beneficial. The task force will cast a wide net to elicit interest from potential CBIs by building on the SBRA list, the work undertaken as part of the preparation of the CMDS, and a collaboration with the Chamber of Commerce, which has excellent connections to companies across sectors. Preliminary criteria for firms to be admitted to the long list and be able to benefit from the assistance include, among others: (i) willingness expressed through a letter of commitment to go through necessary improvements to corporate governance and financial processes, as identified, and to accept transparency requirements with bondholders, (ii) no negative information in relevant credit registries, (iii) profit making for three years – with exception for 2020 if COVID-19 related, (iv) minimum operational revenue, (v) maximum debt/ equity ratio and minimum interest coverage ratio, and (vi) not involved in sectors that fall within the negative list of the WBG (such as sectors that conflict with WBG ESG requirements and may pose reputational risks to the WBG and MoF/SSC/the program.) There will be no sectoral focus in the program as long as corporates meet these requirements. Annex 2 provides more details related to these preliminary criteria which will also be included in the Project Operations Manual.

38. **Once admitted to the CBIP, participating CBIs will be able to receive support in different ways, depending on the identified needs.** Assistance can be provided for corporate governance reviews, potential restructuring assistance, especially related to corporate governance or financial processes, training around capital market products and activities, professional auditing, obtaining a credit rating (including, as necessary, supporting the costs of ratings by foreign agencies)[46], financial/ legal advisory fees, and preparing a prospectus, among others. The aim of this assistance is to ready these firms for eventual bond issuance, either privately placed or publicly listed. Corporates interested in issuing green or other thematic bonds will also be able to receive support for obtaining a green certification. This will encourage the issuance of climate finance related instruments. Annex 2 provides more details of the potential costs covered and on possible controls. The aforementioned professional advisory assistance will be financially retained by the MoF for the benefit of the participating CBIs.

39. **Following the initial support, participating CBIs will be considered for transfer from the long list to a ready-to-issue list of selected CBIs based on additional, more stringent, criteria.** These criteria are aimed at identifying corporates that are considered ready to issue. They will include, among others, (i) a minimum list of corporate governance features, (ii) externally audited financial statements, with no significant qualifications, (iii) an issuer credit rating, and (iv) a clear business plan for the use of proceeds. Annex 2 provides more details as to these criteria which will also be included in the Project Operations Manual. Selected CBIs will receive additional support for preparing the documentation for issuance, for obtaining a credit rating for the issuance (including the annual credit rating review in the first three years), covering financial intermediaries' fees (for underwriting/sponsor/arranger/bookrunner etc.), follow-up audit needs, and costs associated with publicly listing the bonds. In addition, the fees required for listing the securities on BELEX and for the CSD will be covered for first-time issuers. Corporates willing to issue green or thematic bonds will be able to benefit not only from the initial certification but also from support for preparing the needed green and climate financing related disclosures and the annual verifications required for thematic issuances to ensure that proceeds are used for the intended purpose.[47] In order to encourage listing and green/thematic certification, the related annual fees will generally be paid by the

[46] Credit Rating Agencies registered or certified by the European Securities and Market Authority. *https://www.esma.europa.eu/supervision/credit-rating-agencies/risk*
[47] Similar incentive programs for green issuances have been successfully implemented in several Asian countries.

CBIP on behalf of corporates to maintain the green/thematic certification for the first three years after the bond issuance. The corporates will be able to draw upon the general financial education within Component 1 to understand the general benefits of issuing green/thematic bonds. The expectation is with the support of the CBIP, approximately 12-20 corporates will be able to successfully issue corporate bonds by mobilizing private financing through investors.

40. **Support received through the program will be made partly repayable.** For first-time issuers, who will have higher up-front costs, 25 percent of the amount spent on the initial issuance will be reimbursable to the program upon successful issuance. Repeat issuers may participate in the program but will be expected to reimburse the program 75 percent of incurred costs after successful issuance. The Program will be capped per participating entity to a maximum of three issuances. This requirement will ensure that only corporates sincerely interested in issuing securities will participate. An incentive will be offered to majority women-owned firms by eliminating the repayment obligation upon successful bond issuance. It will also allow the program to support more companies over time as funds repaid can be used to support additional firms. In the implementation of the program, it will be important to consult all relevant institutions, including those tasked with maintaining the stability of the financial system.

41. **The component will also finance two related PBC expenditures linked to the following PBCs:** PBC 4 will support the establishment of a task force to administer and implement the CBIP and PBC 5 is directly related to the number of corporate bonds issued by first-time issuers, a PDO indicator under the Project. Incorporating these conditions into the Project encourages the early creation of the task force that will be in charge of the CBIP, a prerequisite for this program to be effective. At the same time, linking conditions with one of the key expected outcomes of the project, the number of corporate bonds issued by first-time issuers, ensures that PBCs are outcome oriented and encourage progress with corporate bond issuance. PBC 5 is also an incentive to ensure the PDO is achieved. The PBCs 4-5 amount to EUR 5.0 million under this Component. Expenditures required to achieve the PBCs will include marginal additional expenditures of the MoF and SSC required to implement and execute the CMDS, over and above the procurable items supported through this component. These MoF and SSC expenditures are included under MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004" and SSC budget under Financial Plan for 2022, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", respectively. The CSD budget line will be "CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer." The MoF, SSC and CSD will confirm that these expenditures were incurred because of the CMDS implementation and would not have occurred otherwise.

42. The below table summarizes the total five PBCs with their assigned value and the expected year of achievement.

PBC	Description	Value	Expected year of achievement
PBC1	Assess the SSC's and CSD's institutional, legal, and regulatory frameworks to align them with the relevant IOSCO Principles	EUR 1,000,000	2023

PBC2	Upgrade BELEX's information and communication technology system (both hardware and software), including by developing a new website to promote and facilitate the easy trading of securities listed on the stock exchange, to facilitate connection with other exchanges and enable regional cooperation	EUR 3,500,000	2025
PBC3	Create a publicly accessible, interactive web-based portal on capital markets	EUR 5,000,000	2025
PBC4	Establish a Task Force to administer and implement the CBIP	EUR 500,000	2023
PBC5	Twelve corporate bonds, each bond issued by a different Selected CBI for the first time	EUR 4,500,000	June 2028

C. Project Beneficiaries

43. **The primary project beneficiaries will be the: i) MoF, ii) SSC, CSD, BELEX and iii) selected Serbian corporates.** The MoF, SSC, CSD, and BELEX will benefit from the increased capacity through technical assistance and upgrades. The increased capacity will directly aid the execution of project activities and indirectly it will support increased subject knowledge of capital markets for the MoF and public capital markets institutions staff in the medium term. Selected Serbian corporates would directly benefit from the CBIP. The program will provide a comprehensive suite of technical, financial, and advisory services. The corporates will benefit from in-depth, individually tailored assistance for corporate debt financing. On a secondary level, the selected corporates will benefit from diversified corporate debt financing sources (beyond bank financing), which will enhance the financial acumen of the corporates and improve the availability of long-term financing for issuers and their resilience during the credit cycle. The primary beneficiary of the project is intended to be Serbian corporates and Serbian local investors – institutional and retail investors as the project is in line with the Serbian Capital Markets Development Strategy aimed to support diversification and deepening of the local capital market.

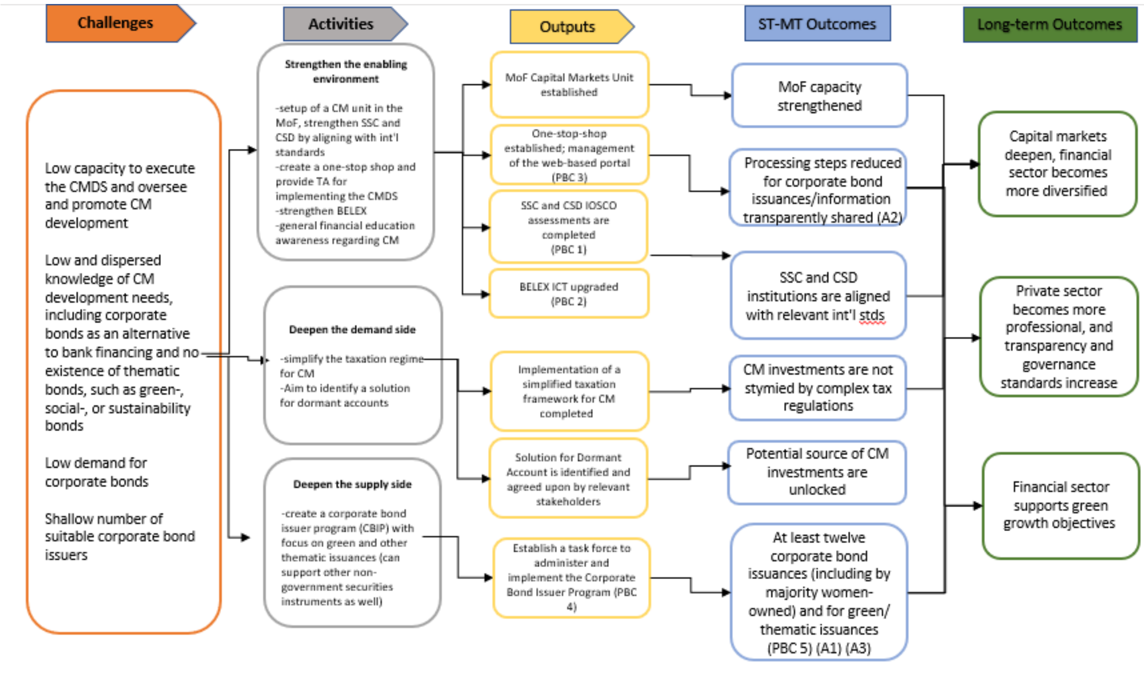
44. **Secondary beneficiaries of the project will be the broader financial sector participants – corporates, commercial banks, and non-bank financial institutions.** The new portal, the one-stop shop, and the financial education programs embedded within both aspects and the selected TA will improve the overall market knowledge about capital markets, including the benefits of corporate debt financing from sources beyond banks.

D. Results Chain

45. **The theory of change below explains the causal pathways of how the project's interventions and activities will help achieve the project's PDO.**

Challenge: Serbia's Capital Markets are shallow and underdeveloped; particularly the corporate bond market.

Theory of Change



A1: Assumption: There is a sizable number of suitable corporate bond issuers
A2: Assumption The one-stop shop will have appropriate information, content, and public visibility by the right market participants to deem it effective
A3: Assumption: There will be sufficient domestic and foreign investors for the issued corporate bonds

E. Rationale for Bank Involvement and Role of Partners

Rationale for Bank Involvement

46. **The World Bank is uniquely positioned to advise and support public authorities in capital markets development due to its close relationship with international standard setting bodies.** The WB has a long-standing engagement with the International Organization of Securities Commissions (IOSCO), who's aim is to ensure that international standards regarding regulation and supervision of the capital markets can be proportionally applied in emerging markets. Likewise, the WB contributed to the G20 particularly in regard to the development of local currency bond markets. The WBG also participates in the Financial Stability Board (FSB), in particular within the work streams to ensure that capital markets develop under a solid footing. The WB has a long history in leveraging this international convening power to support capital markets development in emerging markets. More specifically, recent global engagements in India, Indonesia and Vietnam have focused on the areas of corporate bond market development.

47. **The next stage of Serbia's capital markets development requires interventions in the public policy domain, rationalizing the use of public financing, including public financing from international financial institutions such as the World Bank.** Strengthening supervision and oversight of the capital markets requires revisiting the existing policy and regulatory frameworks and increasing the current low technical capacity of the authorities. Stimulation of the market will require reviewing issuing structures,

exploring incentives for issuance and removing obstacles, and advising possible new market entrants (i.e. green/ thematic financing issuers). Bridging this gap warrants the use of public financing in order to catalyze market development and address the public goods nature of the current challenges which involve strengthening of financial regulation and oversight of the capital markets and spurring undeveloped markets such as green/thematic financing in Serbia.

48. **Substantial direct and indirect benefits for the resilience of an economy can be expected from deepening capital markets within the country's financial sector.** Research from the 2008 GFC has shown that post-recession recoveries and investment are stronger in countries with deeper bond markets relative to bank credit. In the same vein, measures of financial systemic risk increase with bank credit deepening and contrarily diminish with corporate bond market and stock market capitalization. In the case of Serbia, a resilient economic recovery and growth would mean increasing the number of issuers to deepen the current shallow base; such interventions may involve incentivizing and/or increasing financial literacy for corporates to issue securities. By working within a selected segment of investors, it may thereby increase the probability of success. This demonstrative effect may prove to be catalytic in helping other corporates and investors reenter the market and revive market confidence once again. For example, issuers focused on green investments may be a selected segment, which is largely absent in today's market and may encourage new potential issuers into the market. With respect to indirect benefits of capital market development, markets value increased transparency. Issuers are thereby required to publicly disclose information regarding their corporate governance and financial standings in order to attract market investors.[48] These indirect effects positively impact the economy as a whole, as the private sector becomes more professional and competitive internationally.

49. **Overall, well-functioning capital markets help channel capital toward areas that are essential for development and poverty reduction.** A World Bank evaluation of the global capital market sector[49] noted that well-run capital markets help ensure the financial system's efficiency, stability, and risk management, prevent costly crises, and help channel savings toward capital that is essential for economic development and poverty reduction. Capital markets provide competition to bank finance, encouraging banks to increase their efficiency and giving them additional tools with which to manage risks associated with medium to long-term bonds; they also facilitate the creation and growth of investment and savings vehicles, and enable households and firms to better manage their risks, especially their longer-term risks.

Role of Partners

50. **The project is part of a comprehensive, broad effort to develop Serbia's capital markets through complementary activities and/or building upon existing capital markets assistance by several development partners: notably, IBRD, IFC, EBRD and the IMF.**

- *IBRD/ IFC – J-CAP and Sustainable Long-Term Finance Facility TF.* Serbia was selected as a focus Joint Capital Markets Program (J-CAP) country based on detailed analysis and then approval by the World Bank and IFC in April 2020 as the only ECA country. J-CAP is a WBG coordinated approach to capital market development work between IFC's Financial Institutions Group, IFC Treasury, the World Bank's Finance, Competitiveness and Innovation

[48] World Bank. Capital Markets Development: Causes, Effects, and Sequencing. December 2019.
[49] World Bank. Independent Evaluation Group. The World Bank Group's Support to Capital Market Development. 2016.

Global Practice, and the World Bank Treasury, in effect spanning the full spectrum from regulation and policy to institution-building to demonstration transactions. J-CAP's objective is to assist in the tailored development of local capital markets – with an emphasis on local currency debt and equity markets – and to increase private sector engagement in critical areas such as infrastructure, housing, and real sector financing, thereby enabling the development of new markets. At the same time, J-CAP broadens investment opportunities for pension funds, life insurance companies, and institutions managing social safety-net funds in emerging markets.

- J-CAP will be partly supported by the *Sustainable Long-Term Finance Facility (SFF)*, a Global Trust Fund funded by Switzerland's State Secretariat for Economic Affairs (SECO) in support of long-term finance and capital markets development. SFF is the second, renamed phase of the SECO Capital Market Strengthening Facility (CMSF) with broader scope and priority of Sustainable Development Goals (SDGs) and FinTech. Serbia was included amongst a new group of countries and as the only ECA country for the second phase. SFF is broadly structured around 6 components: 1) Upstream reforms to support the supply of investable assets linked to Climate Change and SDGs, 2) Instrument design and demonstration transactions, 3) Strengthening long-term investor demand, 4) Digital Financial Services for more efficient, competitive, and inclusive financial disintermediation, 5) Market architecture, infrastructure, and regulations and 6) Government debt markets. The proposed activities within this Project, focusing on corporate bonds, would complement Serbia's broader J-CAP and SFF activities regarding overall capital market development. Synergies between this project and the IFC ESG program, which aims at fostering transparency through improved ESG practices and non-financial reporting of corporates and offers training on ESG themes, will be explored throughout project implementation.

- *EBRD* – This operation has close synergies with completed and ongoing work by the European Bank for Reconstruction and Development. EBRD has had an active engagement within the financial sector; particularly, within the capital markets area. In 2017, EBRD conducted a regional analysis regarding the existence of dormant security accounts and their impact on capital market development in the region.[50] The study noted the relatively large share of dormant accounts in Serbia and outlined potential resolution approaches. EBRD also supported an IPO Go[51] program in the past that was meant to stimulate equity market development, however, was not particularly successful as the market was not ready. EBRD supported the GoS with a prioritization exercise as input for the development of the CMDS and completed an in-depth study on institutional investors, a key constraint for capital market development in Serbia. This operation builds upon the capital markets work of the EBRD; there is a close collaboration between EBRD and IBRD on this topic.

- *GIZ* – This operation will have close synergies with anticipated financial education work by GIZ, which is still in the preparatory phase.

[50] European Bank for Reconstruction and Development. Cross Regional Dormant Accounts Study. November 2017.
[51] IPO Go was launched in 2018 with the support of Belgrade Stock Exchange, EBRD and PwC with the aim to increase the awareness and demand for IPOs and bring at least a few IPOs through the stock exchange.

- *IMF* – Lastly, Serbia's Stand-By Arrangement with the IMF acknowledges the importance of continuing the development of its capital market.

F. Lessons Learned and Reflected in the Project Design

51. The project builds upon several lessons learned through prior project interventions by the World Bank and other entities in Serbia.

52. **In its focus on corporate bonds, the project builds upon several lessons learned from initiatives to promote equity market development in Serbia, more specifically the IPO GO program.** These include the resistance of the Serbian corporate landscape, particularly family-owned companies, to the dilution of control and earnings that comes with issuance of equity shares; the reluctance to go through any financial restructuring that may be necessary before a share listing, and the challenges inherent in implementing effective practices of corporate governance, (particularly but not exclusively in partially and fully state-owned companies). Corporate bonds may avoid some of these issues, particularly related to the dilution of control. In addition, collaboration with local partners could help target the willingness and readiness of potential issuers more effectively.

53. **This project also benefits from previous experience with the World Bank-supported Azerbaijan Capital Markets Modernization project.** The project (P120321) aimed to increase the use of equity and corporate debt as financing and/or investment instruments by adopting an effective capital markets regulatory framework and infrastructure. The project had similar elements to the proposed Serbia project, namely: strengthening the legal and regulatory framework, stimulating supply of issuers by reaching out to corporates to promote benefits of the capital markets as a funding alternative to banks, development of a training center for corporates and incorporation of technical assistance related to institutional capacity building. Ultimately, the project helped Azerbaijan increase its issuance of corporate bonds to 14 percent (market capitalization of non-oil GDP) from a baseline of 1.9 percent in nearly six years. The project's outcome was rated Satisfactory by IEG.

54. **The project also incorporated lessons from previous and ongoing financial sector engagements in Serbia.** The US$50 million State Owned Financial Institutions (SOFI) Strengthening Project (P156837) was approved by the Board on March 20, 2018. It is under implementation with a satisfactory rating and will close on April 30, 2023. The project's PDO is to improve the performance of Banka Poštanska Štedionica AD Beograd and promote the reform of Development Finance Institutions and Other State-Owned Financial Institutions. A key lesson learned in designing and implementing the SOFI loan in the Serbian financial sector is the value of incorporating technical assistance in the form of hiring technically competent financial professionals. This was critical for the successful implementation of the SOFI project as well as building medium-term technical capacity for the MoF. The new Serbian capital markets project will build upon the current capacity at MoF by leveraging the expertise of financial advisers. The SOFI project also showed the value added of incorporating PBCs – or Disbursement-Linked Indicators in the case of the SOFI project – for aligning project implementation and outcomes with the PDO. In addition, the capital markets project will benefit from earlier WB projects which created a Central Fiduciary Unit within the MoF, which is intended to provide fiduciary support for all WB-financed projects.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

55. **The implementing agency for the operation will be the Ministry of Finance, more specifically the Ministry of Finance's Department in charge of overseeing the financial sector, MoFFS.** The project will be building upon the MoFFS's successful experience in implementing previous World Bank financial sector projects.[52] This project will hone and strengthen MoFFS's capacity to execute specific capital markets activities within the financial sector through the establishment of the CMPRU under the MoFFS; project financing has been allocated accordingly for this purpose. Given the specific nature of the project, the MoFFS will be closely working with the SSC on the implementation of this project in order to properly align it with the oversight and regulatory requirements of the capital markets framework in Serbia. Notwithstanding that the governance of the project is expected to include a task force with, at the minimum, the MoF, SSC and the Chamber of Commerce represented, in order to improve the coordination of (and commitment to) all project components, the ultimate leadership will be with the MoF, and oversight of the project will be in the hands of the MoFFS, which will house the CMPRU.

56. **The Central Fiduciary Unit (CFU) within the MoF will be in charge of fiduciary responsibilities for the project.** The CFU was established within the MoF in 2017, with the aim to provide fiduciary support to all World Bank supported projects in Serbia. It was agreed that the CFU would be responsible for procurement and financial management activities for all new World Bank supported projects. The CFU is currently managing fiduciary responsibilities for nine ongoing WB projects, with costs shared proportionally and one grant. The CFU is adequately staffed with experienced and qualified finance and procurement professionals. Additional needs that may result from more projects being added to the CFU portfolio are assessed on a continuous basis. The PBC part of the project is intended to finance expenditures included in the state budget that are incurred as a result of the implementation of the CMDS. The selected budget lines from the MoF, SSC and CSD will include salaries and contract services that are required to implement and execute the CMDS.

B. Results Monitoring and Evaluation Arrangements

57. **The results monitoring and evaluation arrangements will be undertaken by the MoFFS**. The additional financial technical consultants hired to implement this project will also be accountable for monitoring the results of the project's activities. The MoFFS will work in close coordination and collaboration with the SSC in monitoring results of the project activities. The performance-based conditions verification will be conducted by a consultant hired through the project who will provide independent verification of results achievement and report the findings to the MoFFS for onward submission to the World Bank.

58. **A beneficiary survey will be designed and conducted within the project implementation timeline.** The beneficiary survey will request feedback twice during project implementation – Year 2 and Year 4 – regarding the training provided through the project. Component 2 will involve tailored

[52] World Bank: Serbia – State-Owned Financial Institutions Strengthening Project (P156837) and Serbia – Deposit Insurance Strengthening Project (P146248).

professional, advisory, and financial services to corporates. This will only be feasible by training and working closely with management and staff of the selected corporates and taking into account specific enterprise needs to support corporate bond issuance.

C. Sustainability

59. The sustainability of the project will be ensured through two dimensions: i) the MoF budget and ii) the CBIP will incorporate an exit policy for the selected corporates. The MoF anticipates that the forthcoming Serbia national budget for 2023 will include appropriations within the national budget cycle to finance the execution of Serbia's CMDS. The selected project activities being supported by this project are subset activities of the broader CMDS. Thus, it is reasonably expected that development of the capital markets in Serbia, including corporate bonds, will continue beyond the project timeframe. For example, continued operation of the one-stop-shop and portal will exist beyond this project timeframe and will be financially operated and maintained through institutional budget. Secondly, the CBIP will incorporate policies which will involve a partial repayment of financial support received upon successful corporate bond issuance and exiting selected companies from the Program's support. The program may also include a sunset clause.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

Technical Analysis

60. **The project's technical design has been extensively informed by several underlying capital market diagnostics and analytical work as well as the efforts of the GoS to develop a comprehensive CMDS, including its more recent initiatives to spur its corporate bond market.** The project is part of a broader concerted effort by the GoS to develop its capital markets. Recent analysis of the capital market sector began in 2018 starting with three analytical pieces including the WB Capital Markets Diagnostic, EBRD's regional report focused on the dormant securities accounts as well as a comparative analysis on efficiency and effectiveness of debt capital markets. The analyses were followed by three specifically targeted efforts by the GoS: i) IPO GO Program supported by the EBRD, ii) SSC streamlining processes, and iii) most recently the NBS's Open Market Operations with Corporate Bonds. Both the analyses and GoS efforts have been underlined by extensive information provided by market participants. Furthermore, the various analyses and efforts have culminated in a comprehensive Capital Market Development Strategy. The loan is building upon these collective efforts of the past five years.

61. **The specific technical project design has been shaped by GoS authorities, Serbian market participants, and international principles and norms within the capital markets sector**. The institutional strengthening component was selected given the large agenda to develop the broader capital markets agenda, including the execution of project specific activities and also the forthcoming efforts to strengthen capital markets oversight as well as broader policy considerations such as green financing. Due to the expected increase in capital market activities in the local market, and in line with international principles and norms, efforts to increase capacity should be proportional to the increased policy and regulatory

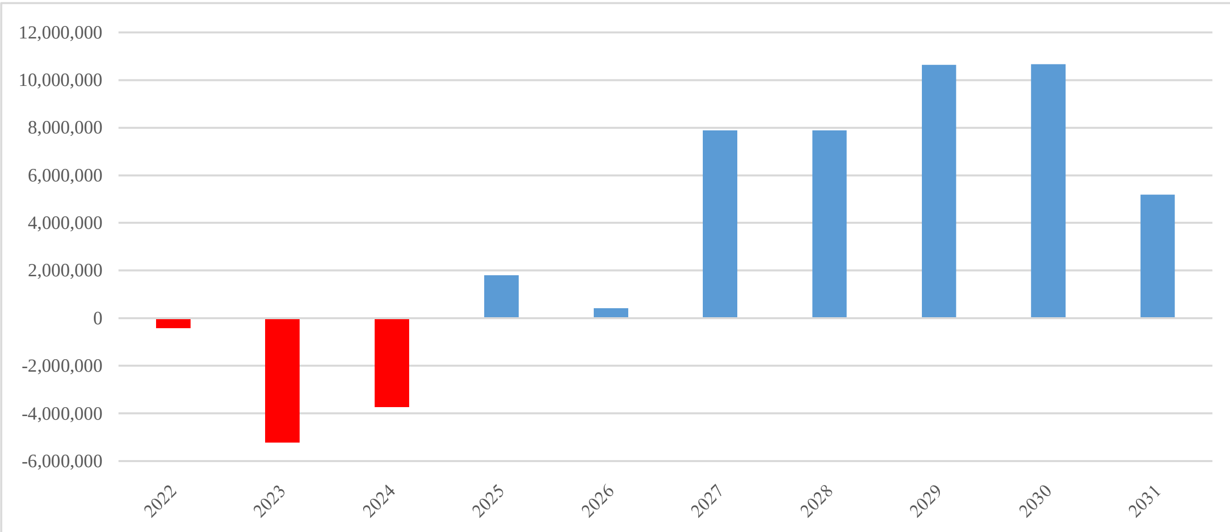
monitoring and oversight expected by the authorities. The selected TA interventions have been chosen based upon consistent and repeated market feedback. For example, the need for increased awareness and in-depth financial education regarding capital markets was a repeated theme. Likewise, further in-depth analysis is required prior to taking specific tax policy measures for corporate securities as requested by market participants and an in-depth analysis is required to better understand the investment limitations hindering institutional investors.

62. **The CBIP was technically designed based on the specifics of the Serbian corporate bond market and its associated regulations**. It was also informed by successfully executed capital market readiness programs implemented in Azerbaijan and Colombia. The preliminary criteria for the long- and ready-to-issue-list of potential corporate bond issuers to be supported under the project will include, among others, (i) financial indicators such as revenue, profitability, debt/ equity ratio, and interest coverage ratio, (ii) business and sector-specific indicators including a track record of audited accounts, good standing with relevant credit registries, preference for green and majority women-owned firms, and an exclusion of sectors that fall within the negative list of the WBG, see Annex 2 for more details. Further details regarding these indicators will be included in the Project Operations Manual.

Economic and Financial Analysis

63. **The Economic Net Present Value (ENPV) of the total project amounts to USD 22.2 million at a 5 percent discount rate with an Economic Internal Rate of Return (EIRR) of 35.9 percent.** Benefits and costs are estimated for the period from year one of project implementation until 2032 (i.e., from 2023 until 2032), spanning a 10-year investment horizon including five years of project implementation. Increasing the number of years to include in the analysis would add to the effectiveness of the project given that the bond issuance activity expected to be generated by the Project will continue. Estimated quantifiable benefits include four main areas: i) coverage and reduction of bond origination cost for issuers covered by the Program, ii) reduction of bond origination cost for issuers not covered by the Program (i.e., those issuing after the program has expired), iii) savings from reduced workload due to optimized issuance procedures, iv) output growth due to increased investment activity. Other non-quantifiable benefits include: increased capacity of Government officials, deepening of an alternative financing instrument – corporate bonds – compared to bank credit as well as the climate and social impacts related to the thematic/green bond issuances. Estimated economic costs include: cost of investment (the amount of the loan plus associated interest and fees), staff time for project implementation, and the cost incurred from the envisaged expansion of the MoF in terms of staffing. Figure 4 shows the net economic benefits over the entire investment horizon. Annex 3 contains a detailed Cost Benefit Analysis of the Project.

Figure 4. Net economic benefits from the Project, in USD



B. Fiduciary

(i) Financial Management

64. **The Centralized Fiduciary Unit (CFU), established in the Ministry of Finance, will be in charge of fiduciary responsibilities for the project.** The overall responsibility and technical aspects of implementation will remain within the MoFFS. While the governance of the project is expected to include a task force with the MoF, SSC and Chamber of Commerce represented, in order to improve the coordination and commitment to all project components, the ultimate leadership will be with the MoF. The Project Operations Manual (POM) will detail implementation arrangements, including the division of responsibilities between the CFU, MoFFS, and other institutions.

65. **The PBC part of the project is intended to partly finance marginal additional expenditures included in the state budget incurred due to the implementation of the CMDS.** These expenditures are included under the MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004". The selected marginal SSC salaries that are required to implement and execute the CMDS are budget line items included under the SSC Financial Plan of the Securities Commission for 2022 as Line 520 "Cost of Salaries and fringe benefits (gross) and Line 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer." The CSD budget line will be "CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer." The financial management arrangements for the PBC part will rely on the country systems, including budget preparation, budget execution, financial reporting, and internal controls. The CFU will be in charge of collecting financial information on expenditures related to the budget from the MoF quarterly reports and presenting those in the project Interim Unaudited Financial Reports (IFRs).

66. **The TA part will relate to technical assistance and traditional implementation arrangements will apply.** A **separate** Designated Account (DA) for the TA part will be opened in the NBS in Euros and used solely for inflows and outflows related to the TA part of the project. For local currency payments, the

funds will be converted to a sub-account within Treasury Administration opened solely for the purpose of use of project funds for payments in local currency. The disbursement method used for this part will be primarily advances, with methods of direct payment and reimbursement being also allowed as alternatives. Disbursement will follow a traditional model and be based on statements of expenditures. The CFU will be responsible for the preparation of financial reports for TA elements of the project.

67. **There will be a designated account opened for the PBC part.** The funds will be disbursed based on (i) expenditures incurred related to the CMDS implementation and (ii) verification of achievement of PBCs. The method of disbursement is envisaged to be a combination of advancements and reimbursements. The advances may be up to the Ceiling (the maximum amount of funds from the Loan account that may be deposited into a designated account as mentioned in the DFIL). Advances for PBCs need to be refunded should the PBCs (or any of its part) not be achieved by the end of the Project, even if expenditures have been incurred

68. **The CFU will prepare quarterly interim financial reports (IFRs) for the PBC part and the TA part.** They will have to be delivered to the World Bank within 45 days after the end of the reporting period. The information for the IFR for the PBC part will be sourced from quarterly budget execution reports of the MoF, while the IFR for the TA part will be based on the CFU accounting records. The CFU has appropriate accounting software that will be used for project accounting and reporting, including principal financial reports such as IFRs and annual project financial statements.

69. **Annual project financial statements for the PBC part and the TA part will be audited by a private audit firm acceptable to the Bank.** The audit will be delivered to the Bank within six months after the end of the audited period. The audit will be based on ToRs for financial audit, while responsibility to collect relevant documentation for achievement of PBCs will rest with the MoF. Independent verification of achievement of PBCs will be conducted by external consultants to be hired under the project. The consultants will review the credibility and accuracy of the supporting documentation provided by the MoF.

70. **The Component 2 Corporate Bond Issuer Program will facilitate corporate bond issuances starting from the identification of potential corporate bond issuers to the completion of issuance.** Support received through the program will be made partly repayable. For first-time issuers, 25 percent of the amount spent on the initial issuance will be reimbursable to the program upon successful issuance. Repeat issuers may participate in the program but will be expected to reimburse the program 75 percent of incurred costs after successful issuance. The CBP will be capped with a maximum of 3 issuances per participating entity. In addition to prescribing the eligibility criteria and required documentation, the Project Operations Manual will further detail the procedures and process of repayments of incurred costs of the program.

71. **Internal controls and procedures to be used on the project will be described in the Project Operations Manual.** The complete draft of the Project Operations Manual is expected to be prepared by negotiations, but certain sections (e.g., on ESF) to be prepared by appraisal. This will minimize risk of an error, safeguard project’s assets, and ensure use of funds for intended purposes. Application of the controls and procedures in practice will be verified by the Bank’s supervision.

72. **Based on the above arrangements and the project design, the overall financial management risk for the project is moderate.** The Project Operations Manual has been drafted. The POM will have to be adopted latest 30 days after the Project effective date.

(ii) Procurement

73. **The procurement risk rating for the project is Moderate.** The activities to be financed under the TA component are, for the most part, individual consulting services. Both the MoF and the CFU have experience in the selection of firms and individual consultants under the SOFI project and across the Serbia projects under the fiduciary responsibility of the CFU. While the selection of individual consultants will fall under post review, the Bank team will exercise due diligence in reviewing the selection of critical positions. The CFU staff will brief Evaluation Committee members on the procedures for evaluation of both individual consultants and firms to ensure that the best qualified consultants are selected.

74. **The CFU within the MoF will be in charge of fiduciary responsibilities for the project, while the MoF will be the primary implementing entity and responsible for all technical aspects of implementation.** At present, the CFU provides financial management and procurement functions to nine ongoing WB-financed projects and one grant. The CFU currently is composed of a CFU Director, a Head of Operations, three Procurement Specialists, and three Financial Management Specialists. The MoF provides office and equipment for the CFU staff, while their salaries are paid on a rotation basis by the investment projects that the CFU supports. If necessary, the CFU will be strengthened with additional procurement and financial staff as per norms established by the Bank and CFU Operation Manual. The adequacy of this arrangement has been assessed and found suitable.

75. **Procurement of goods, consulting services and non-consulting services will be conducted in accordance with the World Bank's Procurement Regulations for IPF Borrowers**: Procurement in Investment Project Financing – Goods, Works, Non-Consulting and Consulting Services (July 2016, Revised November 2017, August 2018, and November 2020) and the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016. The prior review thresholds for Moderate projects as provided in Annex 1 (Mandatory Procurement Prior Review Thresholds) of the Bank Procedure, Procurement in IPF and other Operational Procurement Matters issued on July 18, 2018 and became effective on August 1, 2018, will apply: Goods, IT System and Non-Consulting Services – $4,000,000; Consulting Firms – $2,000,000; and Individual Consultants – $400,000. Direct Selection will be in accordance with paras. 6.8 to 6.10 for Goods, Works and Non-Consulting Services and paras. 7.13-7.15 for Consulting Services of the Procurement Regulations. The PPSD and a preliminary procurement plan for the initial 18 month of project implementation have been prepared by the Client and has been finalized.

C. Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

D. Environmental and Social

76. **The environmental and social risks are rated as Moderate since the project is not expected to have significant environmental and social impacts**. The project will neither finance nor support any civil works and will not directly support any investment activities of the beneficiary corporates, therefore no adverse impacts on biodiversity, habitats, and cultural heritage are expected. Social risks and impacts are limited in scope and duration and may be managed with standard mitigation measures. The project will not cause any involuntary land acquisition and resettlement, nor impact on livelihoods. Since the project will mostly provide TA for the corporates, alongside with hardware and software upgrade for BELEX, and will not support any investments nor will the corporates' activities after the completion of issuance be related to the project, the potential environmental impacts are only related to the sectors in which potential beneficiary corporates operate. In terms of corporates' eligibility, sectoral focus is not narrowed, nevertheless corporates must meet the defined financial and environmental and social requirements. Social risks mainly relate to terms and conditions of employment and stakeholder engagement, and these were assessed as low. It is not anticipated that the project will adversely affect any vulnerable or disadvantaged groups. The Project will aim to contribute to narrowing gender equity gaps by targeting women-led firms. The sexual harassment (SH) and sexual exploitation and abuse (SEA) risk have been estimated to be low. Nevertheless, staff of implementing entities will follow national regulations which prohibit SEA/SH behaviors. Overall, Project activities are not expected to have large-scale, significant, and/or irreversible environmental and social impacts. Furthermore, the Project aims to bring some positive environmental impacts in terms of supporting alignment of Serbia's framework to the EU's Sustainable Financing Initiatives and with the EU Green Bond Standard and broader labels for green financial products. The Project will also support the establishment of a specialized capital markets units within the MOF and a One-Stop-Shop for capital markets services that could also broadly raise awareness regarding the need to develop green and climate financing in the country. While the intrinsic social and environmental risks and impacts of the direct project activities are low, the contextual risks of the sectors in which beneficiary corporates operate result in an overall E&S risk rating of Moderate. Possible environmental and social impacts could emerge under Component 2 Corporate Bond Issuer Program, which foresees to facilitate corporate bond issuances starting from the identification phase in seeking potential corporate bond issuers to the completion of the issuance.

77. **The MOF has prepared Environmental and Social Procedures (ESP), Stakeholder Engagement Plan (SEP) and Labor Management Procedures (LMP).** The ESP outlines the environmental and social eligibility criteria for corporates to participate in the Corporate Bond Issuer Program, screening process, and roles and responsibilities for ES screening and management. The Project will apply the World Bank Group Exclusion List, and in addition will not support any corporates engaged in oil and coal exploration and production; and child and forced labor. Beneficiary corporates will commit to following national environmental, labor, occupational health and safety (OHS) legislation and other relevant laws and regulations providing for gender equality and preventing any forms of discrimination and harassment. In addition, corporates with pending or on-going litigation, or outstanding disputes that may pose reputational risks to the WBG, MoF, SSC, or the bond issuance program, including but not limited to any significant outstanding environmental fees, fines or penalties or any other environmental liabilities (e.g., pending legal proceedings involving environmental issues etc.) will not be eligible to participate in the bond issuance program. ESP will be included in the POM and may be further revised and updated after the effective date of the project. MoF disclosed draft SEP, ESP, LMP and ESCP on December 6, 2021 on its

website[53] in Serbian and English languages and carried out stakeholder consultations on December 21, 2021. Finalized SEP and LMP were disclosed on January 14, 2022 on the MoF website in Serbian and English languages.[54]

Corporate Commitments

78. **Gender.** The labor force participation of women in enterprises as full-time workers, managers or their representation within the firm's ownership is relatively on par or exceeds averages found in Europe and Central Asia (ECA). For example, 18.2 percent of firms have a female top manager compared to 18.5 percent in ECA, and only 28.5 percent of firms have part female ownership. Being aligned with the ECA average masks the fact that female representation in management positions and firm ownership is unfavorable across the region. Within relatively larger firms, representation of women is even less favorable. Women also earn around 17 percent less than men, even when characteristics such as education and work experience are accounted for. In terms of vertical segregation, employed women, on average, have better jobs than men. Almost half of employed women (44.7 percent) work in the four most highly paid occupations (managers, professionals, technicians, and clerks), compared with fewer than one third of men (30.2 percent) (World Bank 2016).

79. **An analysis was conducted regarding the potential to support participation of women-owned corporates to issue corporate bonds.** An analysis of the top 100 corporates both in terms of operating income and net profit were investigated to better understand the universe of companies in which ownership by women is greater than 51 percent. Based on the latest public data of 2019, 3 of the top 100 corporates in terms of operating income and 1 company amongst the top 100 corporates according to net profit had a greater than 51 percent women ownership. Nevertheless, the universe of women-owned firms of smaller corporates that may be interested in issuing corporate bonds may be larger. In 2022, there were two smaller corporates that were 100 percent women-owned which issued corporate bonds.[55] Pre-identification of corporates that are interested in issuing bonds will mainly be determined by financial readiness of the firm to seek bond financing in order to ensure financial sustainability of the bond issuances as well as governance and transparency considerations. Nevertheless, specific outreach will made to the corporates who have a majority women ownership structure and may have an interest in participating in the CBP. Training regarding the benefits of higher levels of inclusion from a gender perspective will be included in the financial education program and the corporate bond issuance program. Furthermore, the Corporate Bond Issuer Program will eliminate the repayment obligation for majority women owned firms which have successfully issued a corporate bond under the Program, a dedicated financial incentive for women-owned corporates, and the project has included an intermediate indicator within the result framework to monitor progress of this incentive by tracking the number of corporate bond issuances by women-owned corporates.

80. **Climate Co-Benefits.** The project will incentivize green and thematic corporate bond financing under Component 2. Climate financing is a particular focus for thematic issuances. Funding raised through green corporate bonds will be used for implementing green projects, aimed at reducing greenhouse gas

[53] *https://www.mfin.gov.rs/dokumenti2/pokretanje-dugoronog-finansiranja-kroz-projekat-trita-kapitala*

[54] The environmental and social documents will be redisclosed on an ongoing basis, as necessary.

[55] In 2022, within the universe of corporate bond issuances, A&M Solution Team DOO and Sagittarius Project System DDO issued corporate bonds for a total volume of RSD 5,720,000; both companies are 100 percent women-owned.

(GHG) emissions by these corporates and incentivizing the creation of Paris-aligned transition plans. Specifics regarding the issuance and intended use of funds will need to be disclosed through the prospectus and related documentation required specifically for thematic issuances. A requirement for annual verification ensures that proceeds are used for the intended climate-related purpose. The project will also raise awareness regarding the need to develop green and climate financing in the country through the One-Stop-Shop under Component 1 and through specific outreach and awareness raising through the Corporate Bond Program. Legal and regulatory reforms and improvements regarding ESG disclosures will align with the EU's Sustainable Financing Initiatives. A specific framework will be established for green and other thematic corporate bond issuances, including a standardized disclosure framework that is aligned with the relevant EU taxonomy and standards. Climate-related financial disclosure frameworks will require corporates to disclose Scope 1, Scope 2 and, if appropriate, Scope 3 (GHG) emissions and the related risks, among other aspects.[56]

81. **Citizen Engagement.** Citizen engagement will ensure that beneficiary firms receive information and provide feedback to the design and rollout of the Corporate Bond Issuer Program (CBP) under Component 2, which will require close and constant collaboration between the government authorities in charge of the CBP and the Serbian firms who may potentially be eligible for the Program. To ensure broad interest and engagement with the CBP, pro-active dialogue and interaction with Serbian firms that are interested in participating in the CBP will be facilitated. Citizen Engagement is embedded in the design of Component 2 through the following mechanisms:

(i) an independent needs assessment and participatory planning activities will ensure the professional services of the CBP are tailored to the needs of the firms to issue corporate bonds. This process will include semi-annual face-to-face or virtual feedback interviews with interested firms and will help to design the CBP in a participatory manner. This will help to appropriately tailor the professional services required to issue corporate bonds for each corporate entity. These ongoing feedback interviews/discussions will ensure a two-way engagement with (potential) beneficiary firms on a continuous basis to enable feedback on the Program's functionality (ease of access, transparency, quality). Moreover, potential beneficiary firms will be able to receive information on the CBP and if necessary, to improve the Program;

(ii) a beneficiary survey after the project's second and fourth year of implementation, which will offer opportunities to the participating firms of the CBP and capital markets training programs to provide feedback on the satisfaction with the programs under Component 2. The feedback from the survey will be used to further improve the design of the programs and services offered under Component 2 for the latter years of its implementation. To close the feedback loop, the survey results will be disseminated and discussed during the ongoing feedback discussions.

82. The project operations manual will detail the design and implementation processes/ procedures of all citizen engagement mechanisms, including the staffing and budget to implement them. One indicator is included in the results framework to measure beneficiary satisfaction and effectiveness of the engagement processes (i.e., Share of Corporate Bond Program beneficiaries satisfied with the Corporate Bond Program support via periodic surveys).

[56] See the recommendations provided by the Task Force for Climate-Related Financial Disclosures (TCFD): https://www.fsb-tcfd.org/recommendations/

V. GRIEVANCE REDRESS SERVICES

83. Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance redress mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, please visit https://accountability.worldbank.org.

VI. KEY RISKS

84. **The overall risk of the project is Moderate**. The two risks rated as Substantial are Technical Design Risks of the Project and Institutional Capacity for Implementation and Sustainability. All other risks are rated as Moderate. One overall mitigation factor is the high government commitment to capital markets development. Initial steps have already been undertaken by the authorities, namely drafting and approving the Capital Markets Development Strategy, and adopting the new Law on Capital Markets. This demonstrates the authorities' willingness and commitment to improving the Serbian capital markets.

85. **One key technical design risk is that institutional investor demand for capital market instruments may not materialize.** While activities have been identified to further develop institutional investors, these activities remain largely exploratory at the initial stage with agreements still to be reached during the lifetime of the Project on more substantial reforms. A lack of demand could also undermine the achievements under the Corporate Bond Issuer Program. A mitigating factor is that many of the issues hampering development of the institutional investor base have been clearly identified in the approved CMDS, showing commitment by the MoF and other authorities to address this important challenge. Furthermore, the adoption of the Law on Open-Ended Investment Funds and the Law on Alternative Investment Funds are expected to support the growth of the investment fund industry. The project also envisions a time-bound decision on the current dormant accounts which may revitalize the capital markets outside of the institutional investor source.

86. **Other technical design risks include potential challenges with identifying a sufficient number of corporates interested in and willing to participate in the CBIP and preparing them adequately for issuance.** In particular, corporates may be reluctant to go through the detailed corporate governance and/or financial restructuring that may be required prior to issuance and may also have reservations about the increased transparency that comes with public issuance. In addition, there may already be a high degree of collateralization of corporate assets to the banks based on lending from banks. These risks

will be mitigated by casting a wide net for potentially interested corporates, collaborating with the Chamber of Commerce to identify suitable firms from a long list of over 200 companies, offering targeted advisory services and targeted incentives through the project, and simplifying the issuance process where possible.

87. **In terms of risks related to institutional capacity for implementation, Serbia has not implemented a corporate bond issuance program before; thus, institutional capacity is low for this program.** The project will mitigate this risk by incorporating advisors and training staff in the MoF and SSC for project implementation. Project-specific governance risk is also substantial as the task force spearheading the Corporate Bond Issuance Program will have to be specifically created. The project will mitigate the governance risk by establishing clear guidelines, criteria for adding corporates to the long and ready-to-issue lists, and a decision-making framework for the task force. The project will also require participation of a broad stakeholder group in the task force, including relevant private sector stakeholders, to increase transparency and accountability. The importance of creating this task force for the success of Component 2 is mirrored in the incorporation into a dedicated PBC through which it will be ensured that the task force is established with staff and procedures acceptable to the Bank.

VII. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Serbia
Catalyzing Long Term Finance through Capital Markets

Project Development Objectives(s)

The project's overall objective is to (i) improve the enabling environment for capital markets development and (ii) deepen the corporate bond market, including through green and other thematic issuances.

Project Development Objective Indicators

Indicator Name	PBC	Baseline	End Target
Improve the enabling environment for capital markets development			
Compliance achieved in the focus areas identified by the assessment of implementation of IOSCO Objectives and Principles of Securities Regulation (Yes/No)	PBC 1	No	Yes
Deepen the corporate bond market			
Number of corporate bond issuances by first-time issuers (Number)	PBC 4, 5	0.00	12.00
Increase green/thematic corporate bond issuances			
Number of green and other thematic corporate bond issuances (Number)		0.00	1.00

Intermediate Results Indicators by Components

Indicator Name	PBC	Baseline	End Target
Component 1: Institutional, Legal and Regulatory Reforms			
One-stop shop established with interactive web portal (Yes/No)	PBC 3	No	Yes
The number of site visits by unique IP addresses (Number)		0.00	500.00
Simplified tax framework in place for capital market development (Yes/No)		No	Yes
Time-bound action plan adopted for resolving the issue of dormant accounts (Yes/No)		No	Yes
Component 2: Corporate Bond Issuer Program			
Number of companies participating in the Corporate Bond Issuer Program, including the number of women managers participating in the Corporate Bond Issuer Program (Number)		0.00	30.00
The number of women managers participating in the Corporate Bond Issuer Program. (Number)		0.00	5.00
Total volume of corporate bond issuances, including volume of green and other thematic bonds (Number)		0.00	30,000,000.00
Total number of corporate bond issuances, including total number of green and other thematic bonds (Number)		0.00	20.00
Volume of corporate bonds issued by majority women-owned firms (Number)		0.00	20,000,000.00
Number of corporates that received financial education/were informed about alternatives to bank financing (Number)		0.00	60.00
Share of Corporate Bond Program beneficiaries satisfied with the Corporate Bond Program support via periodic surveys (Percentage)		0.00	70.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Compliance achieved in the focus areas identified by the assessment of implementation of IOSCO Objectives and Principles of Securities Regulation	Focus areas of improvement will be identified in the IOSCO Assessment of recommendations. Compliance means at minimum 75 percent of the focus areas have been addressed and are considered either fully or broadly implemented based on the international standards.	The data will be collected annually.	The data source will be the MoF.	The IOSCO assessment will be based on the following methodology: https://www.iosco.org/library/pubdocs/pdf/IOSCOPD562.pdf	The MoF will be responsible for data collection.
Number of corporate bond issuances by first-time issuers	This PDO indicator will measure the number of corporate bonds issued by first time issuers between 2023-2028 with the support of the Corporate Bond Issuer Program.	The indicator will be measured annually.	The source of this data will be from the Corporate Bond Issuer Program.	The Corporate Bond Issuer Program will count the number of corporate bonds which have been publicly listed or privately placed.	The MoF will be responsible for data collection.
Number of green and other thematic corporate bond issuances	The PDO Indicator will measure the number of green and other thematic corporate bonds issued under the Corporate Bond Issuer Program.	The data will be measured annually.	The data source will be from the Corporate Bond Issuer Program.	Definition of Thematic bonds: Thematic bonds are instruments that contribute toward broad ESG-related goals and objectives and are	The MoF will be responsible for data collection.

				labeled as such. Thematic bonds may include instruments in which the proceeds are earmarked for specific purposes (e.g., green, social, or sustainability bonds), as well as those for which the financial and/or structural characteristics vary depending on whether the issuer achieves predefined sustainability or ESG objectives (sustainability-linked bonds). These bonds follow internationally accepted standards and principles, including use of proceeds, selection of projects, monitoring and reporting, sustainability performance targets, and key performance indicators. Non-labeled instruments may or may not specifically earmark proceeds for ESG purposes or follow	

				generally accepted standards. <u>Source:</u> World Bank, 2020. “Engaging with Investors on Environmental, Social and Governance (ESG) Issues - A World Bank Guide for Sovereign Debt Managers”. The Corporate Bond Issuer Program will count the number of green/thematic bonds issued.	

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
One-stop shop established with interactive web portal	This intermediate indicator will monitor whether the one-stop shop has been created by the GoS authorities.	The data will be collected annually.	The data source will be the MoF.	The methodology of the data collection will be to note: i) the creation of the one-stop shop and ii) the operationalization of the one-stop shop - the one-stop shop is appropriately staffed and has the ability to	The MoF will be responsible for the data collection.

				service market participants. Both conditions will need to be met in order to achieve the indicator.	
The number of site visits by unique IP addresses	Once the web portal is established and public, the web-portal will be monitored to note the number of site visits by unique IP addresses.	The data will be collected annually.	The data source will be the MoF.	The web-portal will have counter to monitor the number of unique IP address visits.	The MoF will be responsible for data collection.
Simplified tax framework in place for capital market development	In November 2022, the Ministry of Finance completed a capital market taxation framework analysis. Subsequent to the tax analysis the aim is to have simplified tax framework in place for capital market development.	The data will be collected annually.	The data source will be the MoF.	The methodology will be to observe whether a simplified tax framework is in place for capital market development.	The MoF will be responsible for collecting the data.
Time-bound action plan adopted for resolving the issue of dormant accounts	The intermediate indicator will monitor whether a time-bound action plan that addresses the issue of dormant accounts has been adopted.	The data will be collected annually.	The data source will be the MoF.	The methodology will be to observe whether the action plan has been adopted.	The MoF will be responsible for collecting the data.
Number of companies participating in the Corporate Bond Issuer Program, including the number of women managers participating in the Corporate Bond Issuer	The indicator will count the total number of companies admitted to and participating in the	The data will be collected annually.	The data source will be the Corporate	The methodology will be to count the total number of companies admitted to and	The MoF will be responsible for data collection.

Program	Corporate Bond Issuer Program, including the number of women managers participating in the Corporate Bond Issuer Program.		Bond Issuer Progra m.	participating in the Corporate Bond Issuer Program, including the number of women managers participating in the Corporate Bond Issuer Program.	
The number of women managers participating in the Corporate Bond Issuer Program.	Amongst the number of corporates participating in the Corporate Bond Issuer Program, the CBIP will count the number of women managers participating in the Program.	The data will be collected annually.	The data source will be the Corporate Bond Issuer Program.	The methodology will be to count the total number of companies admitted to and participating in the Corporate Bond Issuer Program, amongst this number, the number of women managers admitted and participating in the Corporate Bond Issuer Program will be noted.	The MoF will be responsible for data collection.
Total volume of corporate bond issuances, including volume of green and other thematic bonds	The intermediate indicator will capture the total volume of corporate bonds issued, including green/thematic bonds. The volume is in USD.	The data will be collected annually.	The data source will be the Corporate Bond Issuer Program.	The methodology will be to total the volume of all corporate bonds issued, including green/thematic bonds. The baseline will be considered the start of the Corporate Bond Issuer Program.	The MoF will be responsible for data collection.

Total number of corporate bond issuances, including total number of green and other thematic bonds	The total number of corporate bond issuances, including total number of green and other thematic bonds will be captured. This number will count each time a bond is issued within the CBIP.	The data will be collected annually.	The data source will be the Corporate Bond Issuer Program.	The total number of corporate bond issuances, including total number of green and other thematic bonds will be captured. This number will count each time a bond is issued within the CBIP. The baseline will be considered the start of the Corporate Bond Issuer Program.	The MoF will be responsible for collecting the data.
Volume of corporate bonds issued by majority women-owned firms	This intermediate indicator will capture the number of corporate bonds issued by majority women-owned firms, defined as firms with at least 51 percent corporate ownership by women. The volume is in RSD.	The data will be collected annually.	The data source will be the Corporate Bond Issuer Program.	The methodology for this data collection will be to investigate the ownership for each corporate that issued bonds. Each company that has a predominantly women ownership structure and that has issued a corporate bond will be noted. The baseline will be considered the start of the Corporate Bond Issuer Program.	The MoF will be responsible for the data collection.

Number of corporates that received financial education/were informed about alternatives to bank financing	The intermediate indicator will measure the increasing awareness of Serbian corporates regarding the benefits of alternative corporate debt financing, beyond bank financing.	The data will be collected annually.	The data source will be the MoF.	The methodology will be an initial survey sent to relevant corporates seeking their interest level of corporate debt financing from capital markets. It also includes the total number of unique corporates who would attend financial education and financial training programs designed for raising awareness of corporate debt financing beyond banks.	The MoF will be responsible for the data collection.
Share of Corporate Bond Program beneficiaries satisfied with the Corporate Bond Program support via periodic surveys	The intermediate indicator will measure the share of Corporate Bond Program beneficiaries satisfied with the Corporate Bond Program support via periodic surveys. It is intended to measure beneficiary satisfaction and effectiveness of the engagement processes and to capture the WB corporate commitment of	The a beneficiary survey will conducted after the project's second and fourth year of implementation.	The data source will be the Corporate Bond Issuer Program.	The methodology for collecting the data will be a beneficiary survey after the project's second and fourth year of implementation.	The MoF will be responsible for data collection.

	citizen engagement.				

Performance-Based Conditions Matrix

PBC 1	Assess the SSC's and CSD's institutional, legal, and regulatory frameworks to align them with the relevant IOSCO Principles			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Yes/No	1,000,000.00	2.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2023	Yes		1,000,000.00	100.00
2024	Yes		0.00	0.00
2025	Yes		0.00	0.00
2026	Yes		0.00	0.00
2027	Yes		0.00	0.00
2028	Yes		0.00	0.00

PBC 2	Upgrade BELEX's ICT system (both hardware and software), including by developing a new website to promote and facilitate trading of securities listed on the stock exchange, to facilitate connection			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Intermediate Outcome	No	Yes/No	3,500,000.00	7.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2023	No		0.00	0.00
2024	Yes		0.00	0.00
2025	Yes		3,500,000.00	100.00
2026	Yes		0.00	0.00
2027	Yes		0.00	0.00
2028	Yes		0.00	0.00

PBC 3	Create a publicly accessible, interactive web-based portal on capital markets			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	5,000,000.00	10.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2023	No		0.00	0.00

2024	Yes		0.00	0.00
2025	Yes		5,000,000.00	100.00
2026	Yes		0.00	0.00
2027	Yes		0.00	0.00
2028	Yes		0.00	0.00
PBC 4	Establish a Task Force to administer and implement the CBIP			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Output	No	Yes/No	500,000.00	1.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	No			
2023	Yes		500,000.00	100.00
2024	Yes		0.00	0.00
2025	Yes		0.00	0.00
2026	Yes		0.00	0.00
2027	Yes		0.00	0.00
2028	Yes		0.00	0.00

PBC 5	Twelve corporate bonds, each bond issued by a different Selected CBI for the first time			
Type of PBC	**Scalability**	**Unit of Measure**	**Total Allocated Amount (USD)**	**As % of Total Financing Amount**
Outcome	Yes	Number	4,500,000.00	9.00
Period	**Value**		**Allocated Amount (USD)**	**Formula**
Baseline	0.00			
2023	0.00		0.00	0.00
2024	2.00		500,000.00	11.20
2025	4.00		1,000,000.00	22.20
2026	6.00		1,000,000.00	22.20
2027	8.00		1,000,000.00	22.20
2028	12.00		1,000,000.00	22.20

Verification Protocol Table: Performance-Based Conditions

PBC 1	Assess the SSC's and CSD's institutional, legal, and regulatory frameworks to align them with the relevant IOSCO Principles
Description	The PBC will measure if an IOSCO assessment of the SSC and CSD has been completed. The assessment will need to contain an action plan, agreed upon by the relevant authorities. The assessment and action plan will need to be acceptable to the World Bank.
Data source/ Agency	The data will be provided by the MoF.

Verification Entity	Achievement of the PBC will be independently verified by a consultant to be hired under the project based on ToRs acceptable to the Bank. The consultant will verify that a technical note was completed by an independent party assessing the implementation of the relevant IOSCO principles by SSC and CSD.
Procedure	The means of verification will be an official letter from the MoF confirming that the IOSCO assessment has taken place and that a technical note was completed, with a copy of the assessment attached. Prior to submission, the assessment will have to be reviewed by the World Bank and comments from the World Bank will need to be incorporated into the assessment prior to finalization. The assessment will need to include an action plan, agreed upon by the relevant authorities. The final IOSCO assessment and action plan need to be acceptable to the World Bank. The PBC is expected to be achieved in 2023 but is not time-bound. Once the required evidence has been compiled and independently verified, a request for verification of the evidence can be submitted to the World Bank. Interim unaudited financial reports (IFRs) on eligible expenditures need to accompany each submission.

PBC 2	Upgrade BELEX's ICT system (both hardware and software), including by developing a new website to promote and facilitate trading of securities listed on the stock exchange, to facilitate connection
Description	The PBC will measure if BELEX's reform has taken place. This includes an upgrade of its hardware and software system as well as the launch of a new website for BELEX.
Data source/ Agency	The data will be provided by the MoF.
Verification Entity	Achievement of the PBC will be independently verified by a consultant to be hired under the project based on ToRs acceptable to the Bank.
Procedure	The means of verification will be an official letter from the MoF confirming BELEX's hardware and software has been purchased and installed and the website is publicly operational. The website will need to be deemed acceptable by the World Bank. The PBC is expected to be achieved in 2025 but is not time-bound. Once the required evidence has been compiled and independently verified, a request for verification of the evidence can be submitted to the World Bank. Interim unaudited financial reports (IFRs) on eligible expenditures need to accompany each submission.

PBC 3	Create a publicly accessible, interactive web-based portal on capital markets
Description	The PBC will confirm that the interactive web portal on capital markets is publicly accessible and that it contains centralized and digitalized information related to capital markets products.
Data source/ Agency	The data will be provided by the MoF.
Verification Entity	Achievement of the PBC will be independently verified by a consultant to be hired under the project based on ToRs acceptable to the Bank.
Procedure	The means of verification will be an official letter from the MoF confirming that the interactive web portal on capital markets is publicly accessible and that it contains centralized and digitalized information related to capital markets products, with links included. The PBC is expected to be achieved in 2025 but is not time-bound. Once evidence of achievement has been compiled and independently verified, it can be submitted to the World Bank for verification. Interim unaudited financial reports (IFRs) on eligible expenditures need to accompany each submission.

PBC 4	Establish a Task Force to administer and implement the CBIP
Description	The PBC will confirm that a task force to administer and implement the Corporate Bond Issuer Program (CBIP) has been established with acceptable staff and procedures in place to successfully execute the program.
Data source/ Agency	The data will be provided by the MoF.
Verification Entity	Achievement of the PBC will be independently verified by a consultant to be hired under the project based on ToRs acceptable to the Bank.
Procedure	The means of verification will be an official letter from the MoF that confirms that a task force to administer and implement the CBIP has been established with acceptable staff and procedures in place to successfully execute the program. The task force will be led by MoF and – at a minimum – include the SSC, and Chamber of Commerce. The PBC is expected to be achieved in 2023 but is not time-bound. Once evidence of achievement has been compiled and independently verified, it can be submitted to the World Bank for verification. Interim unaudited financial reports (IFRs) on eligible expenditures need to accompany each submission.

PBC 5	Twelve corporate bonds, each bond issued by a different Selected CBI for the first time
Description	The PBC relates to the number of corporate bonds issued by Selected CBIs for the first time between FY2023-2026 with the support of the Corporate Bond Issuer Program.
Data source/ Agency	The data will be provided by the MoF with support from the Corporate Bond Issuer Program.
Verification Entity	Achievement of the PBC will be independently verified by a consultant to be hired under the project based on ToRs acceptable to the Bank.
Procedure	The means of verification will be official letters from the MoF confirming the successful issuance of a corporate bond by CBIs for the first time, with the prospectus and web links to public statements regarding the issuance attached. Disbursement is scalable. After each successful issuance and once the required evidence has been compiled and independently verified, a request for verification of the evidence can be submitted to the World Bank. Interim unaudited financial reports (IFRs) on eligible expenditures need to accompany each submission.

Annex 1: Implementation Arrangements and Support Plan

COUNTRY: Serbia
Catalyzing Long Term Finance through Capital Markets

1. **The Project Implementing Agency for the Project will be the Ministry of Finance, more specifically the Ministry of Finance's Department in charge of overseeing the financial sector, MoFFS.** The Capital Markets Policy and Regulatory Unit (CMPRU) will be part of the MoFFS and it will be the MoFFS's responsibility to set up this new unit. MoFFS was also in charge of implementing the State-Owned Financial Institution Strengthening Project and is hence an experienced Project Implementing Agency. The CMPRU, which will be created through the Project, will report to the Assistant Minister, Department of Financial System. The MoFFS will have the responsibility for overseeing and executing all of the project activities, including M&E and project progress reporting. Project implementation will rely on current resources, with the additional support of consultants that will be established under the technical assistance activities of the Project.

2. **The Central Fiduciary Unit within the MoF will be in charge of fiduciary responsibilities for the Project.** The CFU was established in October 2017 and will have overall financial and procurement responsibilities, including providing a consolidated report on PBC expenditures. Costs will be shared proportionally with other projects which will be managed by the CFU. The rotation model is described in the CFU Operating Manual, last updated on January 1, 2021. The CFU Operating Manual is subject to World Bank No Objection.

3. **The MoFFS will be responsible for results monitoring and evaluation.** The MoFFS will be responsible for collecting data required for monitoring and coordination of project activities in accordance with the indicators included in the Results Framework. The CFU will submit semi-annual progress reports prepared by the MoFFS, documenting analysis of implementation progress toward achievement of the PDO, including monitoring of the results framework and PBCs, as well an evaluation of fiduciary and environmental and social aspects.

4. **The Project Operation Manual (POM) has been drafted with the POM to be adopted latest 30 days after the Project effective date.** The POM describes the objectives, targets, PBC verification protocols, implementation arrangements, financial management, procurement, and monitoring arrangements, and the environmental and social management agreements.

Financial Management and Disbursement

Implementing Entities and Staffing

5. The CFU will be in charge of fiduciary responsibilities for the project. The overall responsibility and technical aspects of implementation will remain within the MoFFS. While the governance of the project is expected to include a task force with the MoF, SSC and the Chamber of Commerce represented, in order to improve the coordination and commitment to all project

components, the ultimate leadership will be with the MoF. The Project Operations Manual (POM) will detail implementation arrangements, including the division of responsibilities between the CFU, MoFFS, and other institutions.

6. The CFU is currently managing fiduciary responsibilities for nine WB projects, and one grant. At the moment the CFU team consists of Director, Head of Operations, three Procurement Specialist, and three Financial Management Specialists. Additional needs that may result from more projects being added to the CFU portfolio are assessed on a continuous basis. The cost of CFU staff is shared across all the portfolio of projects supported by them based on the CFU Operating Model agreed with the Bank.

Planning and Budgeting

7. The project will rely on the country's budgeting system for the PBC part. The system is assessed to be sufficiently credible by observing the process and procedures, as well as deviations of execution to the originally approved budget.

8. The MoFFS and the CFU, both within the MoF, will prepare plans and budgets with regard to the TA part. There is sufficient capacity for planning and budgeting within the CFU in order to manage project funds in terms of optimal allocation, liquidity and overall performance. Variances of actual versus budgeted figures should be monitored on a regular basis, appropriately analyzed, and corrective actions taken. The CFU will prepare in-year financial plans and cash forecasts based on the project's budget, thus ensuring adequate liquidity management and withdrawal of funds. The POM will provide further guidance with regard to the planning and budgeting process and responsibilities.

Accounting System

9. Acceptable accounting software is in place and administered by the CFU, and it will be used for project accounting and reporting for the TA component. Accounting records should include appropriate analytics of expenditures per contract and each specific payment. The project will follow cash basis of accounting (cash based IPSAS), recording transactions when actual payment is done, rather than when they are incurred. Transactions should be accounted for within 8 days after incurring the expenses. There should be appropriate back up of accounting records on external drives, as well as appropriate security regulation with regard to access, and editing rights of the financial information. The financial information for the PBC part will rely on the country system accounting.

Internal controls

10. Financial management arrangements for the PBC part will rely on the country systems, including internal controls. For the TA part, procedures and controls to be applied on the project will be detailed in the Project Operations Manual (POM). The POM should detail procedures and processes regarding planning and budgeting, accounting, financial reporting, internal controls, flow of funds and external audit for the project. It should also describe roles and responsibilities and communication channels and modes between the MoF, SSC and BELEX, and the CFU. This will minimize risk of an error, safeguard project's assets and ensure use of funds for intended purposes. Application of the controls and procedures will be verified by the Bank's supervision. Some of the key internal controls to be applied for the project should include:

(i) appropriate authorizations and approvals of all purchases, relevant documentation, transactions of payments, etc;
(ii) segregation of duties as different persons are to be responsible for different phases of a transaction;
(iii) reconciliations between project accounting records and other relevant sources of information (Client Connection, bank account statements etc.) performed at least monthly by senior finance staff; and
(iv) original documentation supporting all project transactions properly filed.

Financial Reporting

11. The CFU will prepare quarterly interim financial reports (IFRs) for the PBC part and the TA part and deliver them to the Bank within 45 days after the end of the reporting period. The information for the IFR for the PBC part will be sourced from quarterly budget execution reports of the MoF, while the IFR for the TA part will be based on accounting records for the TA maintained in the CFU software.

12. The format of the IFRs will be agreed between the GoS and Bank and attached to the minutes of negotiation and the POM. The CFU has acceptable accounting software, and it will be used for project accounting and reporting, including quarterly IFRs and annual project financial statements. The following financial reports will be submitted to the Bank:

- The Statement of Cash Receipts and Payments,
- The Statement of Expenditure by Activity,
- Designated Accounts Statements,
- Notes to the Statements.

External audit

13. Annual project financial statements for the PBC part and the TA part will be audited by a private audit firm acceptable to the Bank. The audit will be delivered to the Bank within six months after the end of the audited period. The audit will be based on ToRs for financial audit, while responsibility to collect relevant documentation for achievement of PBCs will rest with the MoF. Independent verification of achievement of PBCs will be conducted by external consultants to be hired under the project. The consultants will review the credibility and accuracy of the supporting documentation provided by the MoF.

Financial management covenants

14. The financial management legal covenants for the project, included in the Disbursement and Financial Information Letter (DFIL) will be as follows:

(i) CFU to maintain an adequate financial management system.
(ii) CFU to prepare interim un-audited financial reports (IFRs) quarterly and deliver to the Bank no later than 45 days after the end of the reporting quarter.
(iii) Annual project financial statements audited by a private audit firm acceptable to the Bank, and such audit to be delivered to the Bank not later than six months after the end of the audited period.

Funds Flow and Disbursement Arrangements

15. There will be a designated account opened for the financing of expenditures against the achievements of PBCs and the funds are expected to flow to a Designated Account opened in the NBS. . The funds will be disbursed based on (i) eligible PBC expenditures and (ii) verification of achievement of PBCs. The method of disbursement is envisaged to be a combination of advancements and reimbursements. The advances may be up to the Ceiling (the maximum amount of funds from the Loan account that may be deposited into a designated account as mentioned in the DFIL). Advances for PBCs need to be refunded should the PBCs (or any of its part) not be achieved by the end of Project, even if expenditures have been incurred.

16. The funds for the TA part will flow through a separate foreign currency designated account for TA part. The Designated Account (DA) will be opened in the National Bank of Serbia and used solely for inflows and outflows related to the TA part of the project. For local currency payments, the funds will be converted to a sub-account within the STA opened solely for the purpose of using project funds for payments in local currency. The disbursement method used for this part will be primarily advances, with methods of direct payment and reimbursement being also allowed as alternatives. It will be a EURO account. Disbursement will follow a traditional model and will be based on SOEs.

17. The Component 2 Corporate Bond Issuer Program will facilitate corporate bond issuances starting from the identification of potential corporate bond issuers to the completion of issuance. Support received through the program will be made partly repayable. For first-time issuers, 25 percent of the amount spent on the initial issuance will be reimbursable to the program upon successful issuance. Repeat issuers may participate in the program but will be expected to reimburse the program 75 percent of incurred costs after successful issuance. This requirement will ensure that only corporates interested in issuing securities will participate. It will also allow the program to support more companies over time as funds repaid can be used to support additional firms. In addition to prescribing the eligibility criteria and required documentation, the Project Operations Manual will further detail the procedures and process of repayments of incurred costs of the program.

Procurement – Initial Procurement Plan

18. The initial procurement plan for the first 18 months of project implementation is contained in the associated Project Procurement Strategy for Development document (PPSD).

Strategy and Approach for Implementation Support

19. The following implementation support strategy is proposed, considering the risks and mitigation measures related to the Project:

- **Technical Support.** WB implementation support will include Financial Sector Specialist(s) and dedicated Capital Markets Experts to guide the Ministry of Finance during project implementation. On-site implementation support missions will be conducted at least twice per calendar year. Implementation support will be further supplemented through the joint WB-IFC J-CAP program.

- **Financial Management and Procurement.** During project implementation, the WB will supervise financial management and procurement arrangements and provide implementation support through a Financial Management Specialist based in Serbia and a Procurement Specialist based in WB HQ.

- During project implementation, the World Bank will supervise the project's financial management arrangements in two main ways: (i) review the project's interim un-audited financial reports for each calendar semester as well as the annual audited project financial statements and auditor's management letter; and (ii) perform on-site supervision with the frequency based on the assessed project's risk and performance. The on-site supervision will include the review of the following areas of project's financial management: staffing arrangements, planning and budgeting, accounting and reporting, funds flow, internal control procedures and external audits. Sample transactions review will also be conducted. Implementation support and supervision will be performed by the Bank accredited Financial Management Specialist. The World Bank supervision may also be performed virtually as an alternative to on-site visits.

- **Safeguards.** Implementation support will be provided as needed by the WB Specialists on Environmental and Social Safeguards, based in the WB's office in Serbia and Vienna respectively.

Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate
Year 1	Task management	Project management (HQ/ Vienna based, TTL/co-TTL)	12 staff weeks (SWs)
	Technical advice	Financial Sector Specialists (2 Capital Markets Experts)	8 SWs
	FM supervision	FM Specialist (Belgrade based)	3 SWs
	Procurement supervision	Procurement specialist (HQ based)	3 SWs
	Safeguards	Safeguards specialists (Belgrade & Vienna based)	3 SWs

Time	Focus	Skills Needed	Resource Estimate
Year 2-5	Task management	Project management (HQ/ Vienna, TTL/co-TTL)	10 SWs per year
	Technical advice	Financial Sector Specialists (2 Capital Markets Experts)	7 SWs per year
	FM supervision	FM Specialist (Belgrade based)	3 SWs per year
	Procurement supervision	Procurement specialist (HQ based)	3 SWs per year
	Safeguards	Safeguards specialists (Belgrade & Vienna based)	3 SWs per year

Project Expenditure Composition and PBCs

Component/ Sub Component Activity	Of which, PBC-based and pure input-based	Description and Amount of Expenditures		Identification of PBC expenditure-sharing (if relevant)
		Procurable Inputs	Non-Procurable Inputs	
Component 1: Institutional, Legal and Regulatory Reforms (EUR 20 million)				
Component 1.1: Capital markets policy and regulatory unit	Traditional input financing:	Consulting services, non-consulting services to support the capital markets policy and regulatory unit in implementing and executing the CMDS	N/A	N/A
Component 1.2: Strengthening SSC and CSD	Traditional input financing:	Consulting services, non-consulting services to support the SSC in implementing and executing the CMDS	N/A	N/A
	PBC 1: Complete an assessment of the implementation of the relevant IOSCO principles by the public capital market institutions: **EUR 1,000,000**	Consulting Services	Incremental additional salary and operational expenses of MoF, SSC and CSD related to CMDS implementation and included under MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004" and SSC budget under Financial Plan for 2022, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", respectively.	The majority of the PBC expenditure will be derived from the procurable input.
Component 1.3: Strengthening of Belgrade Stock Exchange	Traditional input financing:	Consulting services, non-consulting services, goods, related to implementing the CMDS	N/A	N/A
	PBC 2: Complete installation of hardware/software upgrade and launching of new website for BELEX: **EUR 3,500,000**	Consulting services, non-consulting services, goods related to the hardware/software of BELEX	Incremental additional salary and operational expenses of MoF, SSC and CSD related to CMDS implementation and included under MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004" and SSC budget under Financial Plan for 2022, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits	The majority of the PBC expenditure will be derived from the procurable inputs.

			charged to employer", respectively.	
Component 1.4 Taxation Reform	Traditional input financing:	Consulting services, non-consulting services, goods, related to implementing the CMDS	N/A	N/A
Component 1.5 Other Technical Assistance for implementing the Capital Markets Development Strategy	Traditional input financing	Consulting services, non-consulting services, goods, related to implementing the CMDS	N/A	N/A
	PBC 3 (Creating a publicly accessible, interactive web-based portal on capital markets): **EUR 5,000,000**	Consulting/Advisory Services	Incremental additional salary and operational expenses of MoF, SSC and CSD related to CMDS implementation and included under MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004" and SSC budget under Financial Plan for 2022, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", respectively.	The majority of the PBC expenditures will be derived from the procurable inputs.
Component 2: Corporate Bond Issuer Program (EUR 10 million)				
Component 2: Corporate Bond Issuer Program	Traditional input financing: US$10million	Consulting services, non-consulting services, issuance costs (incl. financial incentives, fees), related to the implementation of the Corporate Bond Issuer Program	N/A	N/A
	PBC 4 (Establishing a Task Force to administer and implement the CBIP): **EUR 500,000**	Consulting/Advisory Services	Incremental additional salary and operational expenses of MoF, SSC and CSD related to CMDS implementation and included under MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004" and SSC budget under Financial Plan for 2022, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", respectively.	The majority of the PBC expenditures will be derived from the procurable inputs.
	PBC 5 (Twelve corporate bonds, each bond issued by a different Selected CBI for the first time):	Consulting/Advisory Services	Incremental additional salary and operational expenses of MoF, SSC and CSD related to CMDS implementation and included	The majority of the PBC expenditures will be derived from

	EUR 4,500,000		under MoF budget under "Financial System Department, Chapter 16, program 2301, Program Activity 0004" and SSC budget under Financial Plan for 2022, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", CSD budget under Financial Plan for 2023, 520 "Costs of salaries and fringe benefits (gross)", and 521 "Costs of taxes and contributions on salaries and fringe benefits charged to employer", respectively.	the procurable inputs.

Annex 2: Preliminary Criteria and Features of the Corporate Bond Issuer Program

COUNTRY: Serbia
Catalyzing Long Term Finance through Capital Markets

1. **This Annex provides further details on the following:**

(a) Criteria for the long list of potential corporate bond issuers to participate in the Corporate Bond Issuer Program;

(b) Criteria for the ready-to-issue list of potential corporate bond issuers;

(c) Types of assistance that can be provided to participants in the Corporate Bond Issuer Program based on needs assessment, and cost sharing arrangements.

2. The criteria and types of assistance are preliminary and will be further detailed in the Project Operations Manual (POM).

(a) Criteria for the long list of potential corporate bond issuers to participate in the Corporate Bond Program

- Corporates should not be included in NBS or other credit registers with any default events. Candidates with outstanding loans categorized as non-performing by banks should also be excluded.
- Corporates should be profit making for the last three years. An exception may be granted for 2020 if the source of the loss was clearly linked to Covid-19. Other exceptions may be considered, for example if the company has been recently formed.
- Corporates should be able to show a minimum operational revenue of at least RSD 500 million or such other amount agreed to by the Bank and set forth in the POM.
- Corporates should have a maximum Debt/Equity Ratio of 150 percent or such other ratio agreed to by the Bank and set forth in the POM.
- Corporates should have a minimum interest coverage ratio (EBIT/gross interest expense) of 2 or such other ratio agreed to by the Bank and set forth in the POM.
- Corporates will be required to sign a letter of commitment to participate in the program and demonstrate their willingness to go through potentially necessary improvements regarding corporate governance and financial processes, and to accept transparency requirements with bondholders.
- The MoF needs to confirm that the corporates meet national environmental, labor, occupational health and safety (OHS) legislation and other relevant laws and regulations providing for gender equality and preventing any forms of discrimination and harassment. In addition, the POM will include the Environmental and Social Procedure (ESP) which outlines the environmental and social eligibility criteria for corporates to participate in the Corporate Bond Issuer Program, screening process, roles and responsibilities.

- The Project will apply the World Bank Group Exclusion List, and in addition will not support any corporates engaged in child and forced labor.
- The Project will not support corporates engaged in the extraction and production of coal and oil.
- Corporates may not be involved in sectors that fall within the negative list of the WBG.
- Corporates and their owners should not have major pending or on-going litigation or disputes outstanding that may pose reputational risks to the WBG, MoF, SSC, or the program.

(b) Criteria for the ready-to-issue list of potential corporate bond issuers

- Criteria listed under (a) apply.
- Corporates need to be able to present externally audited financial statements with no significant qualified opinion.
- Corporates need to have obtained a credit rating.
- Corporates should be able to demonstrate a history of a trusted relationship with a single bank.
- Corporates need to comply with minimum requirements regarding acceptable corporate governance. These may include a functioning Board, existence of non-executive directors, and an acceptable code of conduct, to be further specified in the POM.
- All directors of corporates to be accepted for issuance should have gone through the capital markets training associated with the program.
- Corporates need to have a CFO with experience and well-defined and controlled financial processes.
- Corporates need to be able to demonstrate complete separation of assets of founders from those of the company.
- Corporates need to present a clear business plan for the use of proceeds.
- While not a requirement to be admitted to the ready-to-issue list, preference will be given to corporates that demonstrate any of the following:
    - Engagement in green or social sectors (following the EU taxonomy);
    - Corporates with significant growth opportunity;
    - Market leaders (e.g., top 3 in terms of market share in their respective sector);
    - Interest in promoting the corporate bond market for its long-term interests, willing to be identified publicly as supporter of and participant in the program.

(c) Types of assistance that can be provided to participants in the Corporate Bond Program based on needs assessment, and cost sharing terms

- Corporate governance review.

- Restructuring assistance based on the corporate governance review, for financial restructuring or corporate restructuring.
- Capital market training for directors and management of corporates. Training will include benefits of incorporating ESG elements into the company and specific training on greening and diversified management structures in terms of gender.
- Obtaining external audits of financial statements.
- Obtaining credit ratings for the issuer and separately, the issuance.
- Preparation of documentation for issuance, including legal fees.
- Covering financial intermediary fees for underwriting, sponsor, arranger, bookrunner, and others as needed.
- Obtaining a green certification and two years of annual verification regarding the use of proceeds.
- Support for roadshows and investor work.
- Coverage of listing fees for BELEX and CSD fee on issuance and for two years post issuance.
- For green or thematic bond issuers, support for preparing the needed green and climate financing related disclosures and the annual verifications required for thematic issuances to ensure that proceeds are used for the intended purpose.
- Cost-sharing terms will include the following:
    1. First-time issuers will be expected to repay to the MoF 25 percent of the issuance costs after successful issuance, or such other percentage agreed to by the Bank and set forth in the POM. Issuance costs are defined as those costs incurred once the corporate has entered the ready-to-issue list.
    2. Repeat issuers can participate in the program but are expected to repay 75 percent of the issuance costs to the MoF after successful issuance, or such other percentage agreed to by the Bank and set forth in the POM.
    3. Majority women-owned corporates will be particularly incentivized to issue by eliminating the repayment obligation upon successful bond issuance.
    4. The CBP may introduce a maximum of 3 issuances per participating entity or a requirement for cost sharing beyond a specific amount, with those details to be defined in the POM.

Annex 3: Cost-Benefit Analysis

COUNTRY: Serbia
Catalyzing Long Term Finance through Capital Markets

1. The economic analysis of the project considers benefits and costs associated with changes in economic welfare arising from the project. The reforms proposed under the project are expected to generate significant economic benefits, mainly in the form of output growth driven by additional investment activity and efficiency gains. The process of quantifying these benefits depends on the availability and reliability of data. This analysis provides estimates of benefits and costs using data obtained from the publications made available through websites of the National Bank, Securities Commission, Ministry of Finance and Statistical Office of the Republic of Serbia.

2. The activities envisaged under the project are expected to generate significant financial and non-financial benefits to the public sector and local companies. The project is designed to contribute to capital market development by focusing on support to the corporate bond segment which has been lagging behind the relatively well-developed portfolio of government securities. Project activities are split into two components of which one is formulated to achieve institutional, legal and regulatory reforms including training and expansion of human capacities across public sector institutions in charge of capital market development and supervision. Some of the objectives under this component include law modifications, tax system optimization and establishment of a one-stop shop for corporate bond issuers. The second component is foreseen as a vehicle providing direct financial and various forms of technical support to businesses in the process of issuing corporate bonds. Benefits to the public sector will accrue to the Ministry of Finance (MoF) and the Securities Commission (SSC). These include savings from reduced workload due to optimized corporate bond issuance procedures, institutional development and strengthening of internal resources and expertise as well as other capacities of MoF and SSC with regard to capital market development in Serbia. Benefits to the local businesses looking for alternative ways to raise debt to finance their investments will accrue in the form of savings from reduced workload in the corporate bond origination process as well as from more affordable and flexible financing mechanisms.

3. The detailed rationale for the estimation of all categories of quantified economic benefits is discussed below:

a) Reduction (coverage) of bond origination cost for issuers covered by the Program

Component 2 of the project will directly cover all bond origination (issuance) fees incurred normally by the issuer within the Corporate Bond [Issuance] Program. According to a recent SSC publication[57] and a review of capital market development in Serbia prepared by EBRD[58], the cost of issuing a bond consists of five components of which three are administrative (i.e., non-market). They are the fees paid to the SSC, Belgrade Stock Exchange (BELEX), and the Central Securities Depository (CSD). The amount of fees depends on the size of the bond and

[57] Accessible at: https://www.sec.gov.rs/index.php/sr/документи/166-publikacije/7285-корпоративне-обвезнице
[58] Internal document

is capped to a maximum amount in all three cases. The other fee categories include two market type fees: bond underwriting (agent) fee and legal advisor fee, as well as the credit rating fee and the expenses related to successive follow-up external audits. The undiscounted value of total benefits expected to be realized through the coverage of bond origination fees within the Program is USD 1.8 million over the 5 years of Project implementation. This amount is defined by the current level of fees and the expected size of the Corporate Bond [Issuance] Program in terms of total volume of corporate bonds issued and the number of them. The current level of administrative fees is estimated to include USD 17,820 at the time of origination and additional USD 3,500 every year while the credit rating fee is estimated to be USD 75,000 per issuance. In addition, the market-driven (underwriting and legal) fees are estimated through an overview of in-country and regional experience so far and are assumed to be at the level of 1.5 percent of the nominal value in case of the underwriting fee and 0.5 percent in case of the legal advisor fees. The size of the Program is expected to reach USD 30 million with 7 bonds of first-time issuers and 10 total issuances of an average face value of USD 3 million with maturity of 5 years.

b) Reduction of bond origination cost for issuers not covered by the Program

Legal and regulatory changes achieved through Component 1 of the Project are expected to directly decrease all of the administrative fees associated with corporate bond issuance. As stated above this group includes the fees paid to the SSC, BELEX and CSD and is split into a one-off part paid up front and annual maintenance fee. Reduction of origination fees together with streamlining and optimization of issuance procedures is expected to boost corporate bond issuance activity beyond the size of the Program. The size of the additional volume of capital raised through corporate bonds as a result of Project implementation is estimated at USD 120 million and is expected to accrue in the second half of the investment horizon (i.e., from 2026 until 2032). The number of issuances is proportional to the size of the bond issuance under the Program such that the number of bonds issued is 40 with the same face value and maturity. The aggregate undiscounted value of benefits accruing this way is estimated at USD 753,000. This estimation assumes that market fees are intact while the reduction of existing administrative fees will be 20 percent on average.

c) Savings from reduced workload due to optimized issuance procedures

These benefits will originate from the reduction of time input for completion of the issuance procedure of all parties involved – the issuer, SSC and BELEX. They refer both to Program and non-Program sponsored bonds. The total undiscounted estimated value of these benefits is USD 0.4 million. The distribution of benefits over the 10-year horizon is determined by the number and size of bonds issued on one hand, and on the other by the progress of Component 1 of the Project and the pace at which it achieves the optimization of procedures and business processes. The current time input required to successfully launch a corporate bond is estimated at 600 working hours from the issuer, 120 working hours from the SSC and 80 working hours from BELEX. The input is assumed to gradually decrease over time reaching the minimum at the end of the Project implementation period (i.e., 2026) at the level of 280 hours from the issuer, 48 hours from the SSC and 20 hours from BELEX.

d) Output growth due to increased investment activity

Finally, the list of quantifiable economic benefits is completed by the expected growth of national output as a result of increased investment activity from the resources mobilized through incremental corporate bond issuance. The aggregate amount of benefits expected to materialize through additional investing is USD 67.5 million spread over the 10-year investment horizon. This amount of benefits is driven by the size and time-distribution of corporate bonds issued as a result of the Project implementation – both those that are covered by the Program and those that are not, and the estimated effect of investment on output growth.

Based on the above, the cumulative size of expected corporate bond issuance is USD 150 million of which USD 30 million are Program and USD 120 million are non-Program bonds. Certainly, not all of the expected bond issuance volume will represent additional investment activity since these funds could be raised by the issuer through other means (e.g., bank credits). Thus, we conservatively assume that 30 percent (i.e., USD 75 million) will be incremental investment as a result of Project implementation.

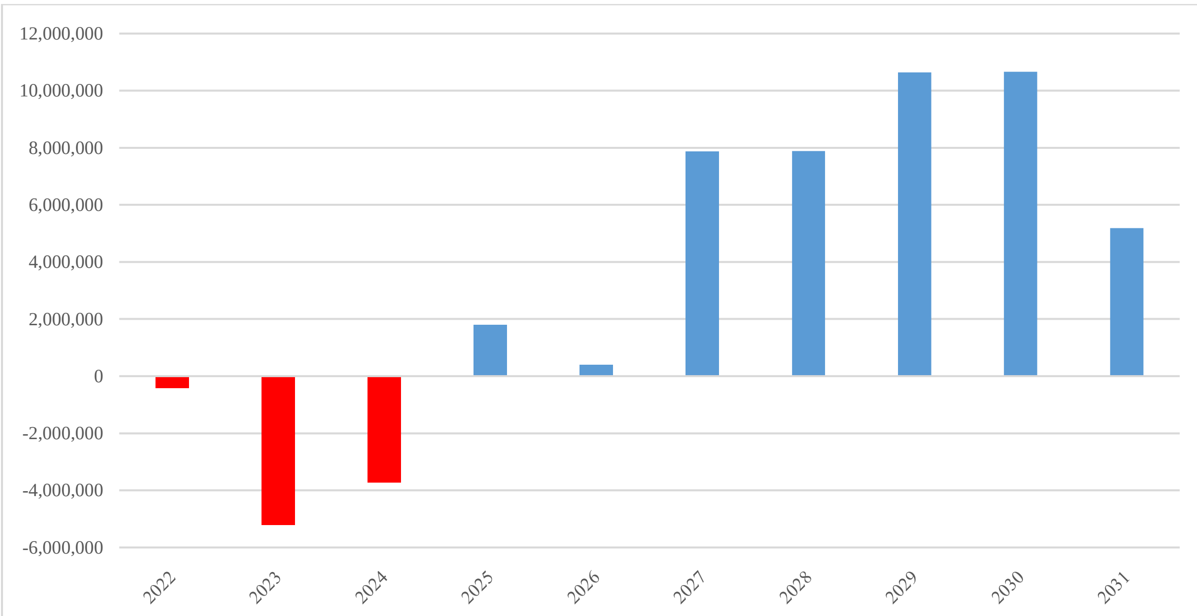
The relationship between investment and growth is defined by the Keynesian investment multiplier which describes how much of an additional dollar invested translates into output. The value of an investment multiplier is not an official statistic and is usually estimated analytically. By definition, the size of the investment multiplier is positively related to the marginal propensity to consume (MPC). Higher values of MPC are an inherent characteristic of emerging economies and they result in higher multiplier values. Another factor resulting in relatively high multiplier values in emerging versus developed economies is the low level of capital stock which opens the door for higher marginal efficiency gains. Following this intuition, Iziquerdo et al (2019)[59] find very high values of public investment multipliers in economies with a low capital stock level (e.g., 1.1 in Czech Republic, 1.4 in Peru, 1.3 in Argentina) versus those with a high capital stock level (e.g., Japan 0.2, Germany 0.8, Italy 0.8). Additionally, Petrovic et al (2014)[60] look at a sample of emerging European economies to come up with a value of their fiscal multiplier[61] close to 1 on average depending on their openness and foreign exchange regime. Having in mind the structure of the Serbian economy, which is characterized by a low capital stock, high or higher propensity to consume rather than invest given the country's overall wealth, and finally that investments generated by the Project are private rather than public, which adds to their efficiency – we assume the value of investment multiplier to be at 1.5 for the purpose of our analysis. A sensitivity analysis is added to identify the minimum investment multiplier that would need to be achieved to make the Project economically meaningful.

4. As a result of the above quantifiable elements, the Economic Net Present Value (ENPV) of the total project amounts to USD 22.2 million at a 5 percent discount rate with an Economic Internal Rate of Return (EIRR) of 35.9 percent. Benefits and costs are estimated for the period from year one of project implementation until 2032 (i.e., from 2023 until 2032), spanning a 10-year investment horizon including five years of project implementation. The assumed 10 years investment horizon is considered standard

[59] Full paper available at: https://www.imf.org/-/media/Files/Publications/WP/2019/wpiea2019289-print-pdf
[60] Full paper available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2402170
[61] Measuring output reaction to the combined value of both consumption and investment of the general government

for projects of this type. Increasing the number of years to include in the analysis would add to the effectiveness of the project given that the bond issuance activity expected to be generated by the Project will continue. Estimated economic costs include: cost of investment (the amount of the loan plus associated interest and fees), staff time for project implementation, and the cost incurred from the envisaged expansion of the MoF and SSC in terms of staffing. Figure 1 shows the net economic benefits over the entire investment horizon.

Figure 1. Net economic benefits from the Project, in USD



5. Several benefits have not been quantified in this analysis although they were to an extent implicitly included in the calculation of some of the benefits presented above. For example, the benefits which would materialize indirectly on other parts of the capital market as a result of increased activity on the corporate bonds segment. This is particularly linked to the development of capacities within the MoF and SSC and enhancing the overall capital market policy formulation and strategic management framework. Also, the development of financial instruments as an alternative to bank credit is expected to boost competition and result in lower financing costs. It will also reduce portfolio risks of all capital market participants who will benefit from diversification opportunities. The Project is expected to strengthen the overall economic resilience to external shocks due to a larger investor base and more liquid debt market. Finally, the Project is expected to contribute to the goals established under Serbia's green agenda anchored in its recently adopted Law on Climate Change and draft Low Carbon Development Strategy. The investments financed through green or other thematic corporate bond issuance will be driven towards climate responsible objectives, which will be achieved through certification and subsequent monitoring to ensure compliance.

6. The main assumptions underlying the economic analysis include the following:

- The investment horizon starts in the first year when the loan is assumed to become effective, which is 2023 and lasts until 2032. The assumed 10 years investment horizon is considered standard for projects of this type.

- The cost of government staff time used for implementation is determined based on an assumption that there will be an equivalent of 20 employees working on project implementation in year 1, 30 of them in years 2 to 4 and finally 20 of them in year 5 (i.e., 2026). The employees are assumed to spend on average of 25 percent of their working time on these activities.
- Incremental O&M cost associated with project implementation are driven by the assumption that there will be 4 additional staff employed by the MoF and SSC in year 1 of Project implementation, 8 in year 2 and 10 in the remaining part of the project's implementation – from 2025 to 2032.
- The USD:RSD exchange rate used is 110, the USD:EUR exchange rate used is 1.
- A discount rate of 5 percent is used. The choice of discount rate is motivated by the fact that 5 percent discount rate is suggested to be used in EU Cohesion countries as noted in the 2016 WB GN on Discounting Costs and Benefits in Economic Analysis.

7. A sensitivity analysis related to the Project's economic performance indicator was carried out by altering assumptions behind the estimation of the key benefits. Figure 2 shows the percentage change of ENPV caused by altering the key drivers of the project's economic performance by 10 and 20 percent in both directions, as well as their breakeven values.

Figure 2. Sensitivity assessment of ENPV performance indicator

% change in input value of	10.00%	5.00%	0.00%	-5.00%	-10.00%	Breakeven value
Volume of bonds issued under the Program	43.2%	21.6%	0.0%	-21.6%	-43.2%	$19,100,000
Investment multiplier	22.0%	11.0%	0.0%	-11.0%	-22.0%	0.81

8. The ENPV is highly sensitive to the success of the Corporate Bond Issuance Program as it is assumed to enable and induce issuance activity will last beyond the Project's duration. This investment activity is then reflected in value added through output growth measured through the investment multiplier. The breakeven values of the analyzed factors are USD 19.1 million for the minimum value of bond issuance and 0.81 for the minimum investment multiplier. This means that the project becomes economically insignificant if the volume of bonds issued under the Program drops below USD 19.1 million, holding other inputs constant. Likewise, if the investment multiplier is lowered to 0.81 from the currently assumed value of 1.5 – the project could be considered economically irrelevant.

Annex 4: Key Changes and Developments since the February 2019 Technical Note on Capital Market Development (as of November 2022)

COUNTRY: Serbia
Catalyzing Long Term Finance through Capital Markets

SUMMARY

1. **This document is a summary of key changes to the Capital Market environment in Serbia since a detailed Technical Note of February 2019**. It does not repeat the content of the 2019 Technical Note but does adopt the broad structure of that Note, to give a summary of the state of the market as November 2022 and of key initiatives undertaken since 2018.

2. **In short, the state of development of the domestic capital markets has not changed significantly since 2018, with the exception of the market in government bonds**. The government bond issuance program has successfully extended the duration of the bond portfolio. The longest maturities include a 25-year EUR denominated bond and a 12.5-year RSD denominated bond. In September 2021, Serbia issued its first sovereign green bond worth EUR 1 billion based a newly issued Green Bond Framework.[62] The authorities have also continued the process of dinarization of the bond portfolio with issuances in recent years heavily inclined to RSD issuance and have strengthened the benchmarks with the result that, in May 2021, more than half of all secondary market trading is in two key benchmarks. Over 90 percent of all trading continues to be carried out on the OTC market rather than through the BELEX.

3. **In addition, three Serbian domestic bonds are being included in the JP Morgan Government Bond Index-Emerging Markets (GBI-EM) index from 30 June 2021**. This is expected to bring additional international investors into the domestic market, improving liquidity and price formation in the key bonds. In February 2020, it was announced that the authorities had signed a Memorandum of Understanding with Euroclear to create a link with the domestic settlement system. Although the creation of such a link can take many years, once operational it would greatly facilitate the acquisition of Serbian domestic bonds by international investors, with settlement and custody remaining within the Euroclear framework.

4. **However, other markets continued to be challenged.**

- Between 2018 to mid-2021, the money markets have changed little despite the implementation of an insolvency carve-out for repo transactions in the Law on Financial Collateral. It will be important to identify why financial institutions participants continue to prefer the unsecured interbank market.

[62] *https://executivenews.rs/wp-content/uploads/2021/09/sep17pet.pdf* and *https://mfin.gov.rs/en/activities/the-government-adopted-the-green-bond-framework-2*

- Equity markets have seen a steady fall in numbers of companies and in trading. The number of companies admitted to the regulated but non-listed Open Market fell from 26 in December 2017 to 10 in November 2022, while the number of shares admitted to the unregulated multi-lateral trading (MTP) platform fell from 591 to 312. There continue to be seven shares on the listed market: four on the Primary Listing market segment and three on the Standard Listing market segment, but trading levels remain very low.
- There is only one corporate bond admitted to BELEX, in the non-listed Open Market. Furthermore, it has never seen any secondary market trading.
- In May 2020, as a part of its response to the COVID-19 pandemic, the National Bank of Serbia extended the universe of securities eligible for its monetary policy operations to include corporate bonds issued before 31 December 2020. As a result, financial institutions that had bought eligible bonds could sell them to the NBS on the secondary market or use them to obtain finance through repo transactions. A total of 16 bonds with aggregate nominal value of RSD 50.4 billion were issued. Most of the bonds were relatively small and short-term, at approximately one year's maturity. Five of the 16 bonds were relatively large bonds, totaling RSD 50.3 billion, and for relatively longer durations of five years and upwards.

5. **Investment Funds continue to grow and have more than doubled in size since 2017, reaching an aggregate RSD 51.8 billion (EUR 440 million) by December 2020, but are still a very small part of the financial sector**. By December 2021 Investment fund reached RSD 75,4 billion (EUR 641 million) representing an increase of 46 percent vs 2020. Two new laws which are being applied from April 2020 are expected to improve the environment for investment funds: the law for Alternative Investment Funds and the Law for Open-Ended Investment Funds. These are aimed at aligning the Serbian legal and regulatory framework with that of the EU and should facilitate the creation of a wider range of funds.

6. **Voluntary Pension Funds also continue to grow but remain a small part of the financial sector: aggregate assets under management in December 2021 was RSD 49.1 billion (USD 430 million) compared to RSD 36.2 billion (EUR 307 million) at the end of 2017**. The number of members has increased from 185,000 members in 2017 to 205,000 in December 2020, estimated to represent 9.5 percent of employees. The number of members in December 2021 was 210,700, estimated to represent 9.5 percent of employees. The regulations setting out their ability to invest have not been changed significantly in the period and they remain subject to a 2011 regulation which they regard as out of date and an obstacle to growth. The investments of Pension Funds remain highly concentrated in government bonds (77 percent of assets), but this has reduced slightly in the period (84 percent in December 2017). The portfolio of voluntary pension funds did not include corporate bonds at the end of 2021. Term deposits and equities accounted for 5.7 and 13.6 percent, respectively.

Supply of Issuers

7. **There remain a very limited number of listed shares and bonds available on BELEX: four Prime listings and two Standard listings; and no standard listed bonds**. As of November 2022, there were also 10 shares admitted to the unlisted Open Market and 312 shares (for 306 issuers) on its unregulated Multilateral Trading Platform (MTP), making a total of 328 listed shares on the exchange. There have

been no new IPOs since the Fintel Energija listing in 2018, and the total number of traded companies has continued to fall, as shown in Table 1 below. There is only one corporate bond on the BELEX in the lowest regulated segment - the (unlisted) open market. Trading is also thin. During Q3 2022, of the four shares in the Prime Listing segment, two of them saw trading on only thirteen and nineteen days over three months. In addition, the number of BELEX member firms has fallen from 32 at the end of 2017 to 21 in November 2022.

Table 1. Shares on BELEX 2018 to end of October 2022

Year	Number of listed/quoted/ included shares	Number of traded companies (all segments)	Market Capitalization at year end / EUR M	Annual Trading Volume /EUR million
2018	572	160	4,419	534
2019	496	143	4,838	781
2020	443	117	4,452	415
2021	364	114	4,536	351
Oct-22	322	103	3,350	269

Source: BELEX

8. **An analysis of the corporate landscape indicates that there may yet be a number of companies able to list in the medium term**. The Serbian Business Registries Agency (SBRA) maintains lists of the top 100 companies in terms of total assets, revenues, profitability, and capital. An analysis of those lists indicates the following:

Large companies

- There are 128 companies that can be classified as large (having more than 250 employees, more than EUR 50 million in annual revenues and more than EUR 43 million in total assets).
- These include 94 wholly private companies, 21 State-Owned Enterprises (SOEs) and 13 partially government-owned companies.
- The SOEs and partially government-owned companies include three of the companies that issued large corporate bonds within the NBS program during 2020 (described later). They also include three of the four companies listed on the BELEX Prime Listing segment.
- Of the 34 large SOEs and partially government-owned companies, 22 reported profits in the most recently filed year. Of the 94 private large companies, 91 reported profits.

Medium companies

- A further 38 companies can be classified as medium sized (having more than 50 employees, more than EUR 10 million in annual revenues and more than EUR 10 million in total assets).

- These include 8 SOEs, 1 partially government-owned company and 29 wholly private companies.
- Of the 38 companies, 33 reported net profits.
- Of the 29 private companies, many were relegated to this class by the number of employees, 14 reported revenues above EUR 100 million.

BELEX IPO GO Initiative

9. **In 2018, BELEX launched its Listing Support initiative, IPO GO, financed by the Special Shareholders Fund of the European Bank for Reconstruction and Development (EBRD), and designed and implemented by PwC.** The objectives of the initiative were to raise awareness with corporates of the possibility of raising finance through a listing on BELEX, and to support demonstration issuances of equities. Only wholly private companies were targeted by the initiative. The initiative included promotional activities, regional presentations, an official website, various IPO materials and workshops with case studies. Approximately 300 companies were initially identified as interested, which was cut down to a shortlist of 60. After further filters for readiness, listing criteria, and interest, this was cut down to two companies. In the end, neither of the IPO GO candidate companies completed an IPO under the program. The Fintel Energija IPO in November 2018 mentioned earlier had not been in the IPO Go program. The initiative was officially closed on 30 June 2019. PwC identified a number of reasons why companies did not complete the IPO process, including the following:

- *Readiness* - needed to go through restructuring, needed to define strategy, business not stable.
- *Loss of Interest* - concern about loss of control, about sharing future profits, and about disclosing strategic information.

10. **Notwithstanding the presence of a pool of companies with reported size and profits, the issues highlighted by the IPO GO initiative will need to be addressed if private sector companies are to be attracted successfully to the capital markets**. In interviews with the market during 2021, intermediaries and investors expressed ongoing concern about the readiness of companies, about their governance, and about the quality of audits.

Government Securities Market

11. **Public Debt as a proportion of GDP continued to decrease significantly in 2018 and 2019 and although it was naturally impacted by the COVID-19 pandemic, the ratio remained below 60 percent in 2020 and has decreased since then**. As of September 2022, the ratio stands at 53.7 percent compared to the pandemic related peak of 57 percent in December 2020. The public debt remains highly exposed to foreign exchange risk as the external debt accounts for 74.6 percent of the public debt in September 2022.[63]

[63] Source: PDA Monthly Report, September 2022

12. **The PDA embarked on a set of measures to improve the liquidity of the RSD government bond market through development of a benchmark yield curve**. Starting in 2016, the primary market issuance was focused on three-, five-, seven-, and (later) 10-year benchmark bonds, with reopening used to build the stock of benchmark issues to the equivalent of about USD 1 billion. The longest tenor currently is 12.5 years in the RSD denominated government bond market. To minimize refinancing risks when these bonds mature, in 2018 the PDA began liability management exercises (such as buybacks) prior to maturity.

13. **The development of a benchmark yield curve also attracted foreign investors and allowed Serbia to meet the conditions for inclusion in the JP Morgan Government Bond Index-Emerging Markets (GBI-EM).** The first three Serbian RSD-denominated bonds were included in the index in June 2021. The index inclusion was expected to attract more foreign investors to the Serbian local currency government bond market; however, the deteriorating global market conditions adversely affected the Serbian market as well in the last one year. Consequently, the foreign investors' outflow somewhat accelerated, and the share of foreign investors declined to 14.7 percent in September 2022 from 26.3 percent at the end of 2020.

Corporate Bond Market

14. **Although Serbia's corporate bond market remains nascent and shallow, there have been several initiatives to help promote the issuance of corporate bonds, especially in response to the COVID-19 pandemic**. This included the streamlining of issuance processes for corporate bonds in April 2020, and the expansion of NBS monetary policy operations to include eligible corporate bonds.

Streamlining of issuance processes

15. **On 10 April 2020, the Regulation on the Procedure for Issuance of Debt Securities in the period of the state of emergency (No 54/2020) was issued by the GoS for immediate implementation**. The aim of the Regulation was to facilitate access to financing, decrease costs of issuance, and simplify prospectuses. The changes made by the regulation were incorporated into the Law on Capital Markets on 22 December 2020. The improvements introduced to issuance processes included the following:

- Incorporation by reference – instead of including information in full in the prospectus when it was already available publicly (for example, audit reports and other issuer information). It would be possible to include a link to where the information could be found.
- Waiver of need to prepare a short-form prospectus, in addition to the full prospectus.
- The SSC is required to approve a prospectus for first time issuers (including debt program prospectuses) within ten days of receiving a complete set of documents, (reduced from 20 days).

- SSC also reduced its fee for approval to publish a prospectus for a bond. The EBRD February 2020 report on costs of issuance in the region[64] (based on 2018 data) showed Serbia having the second highest initial costs of issuance for both small bonds and large bonds (respectively EUR 11,252 and EUR 105,352). As a result, the December 2020 issuance of the RSD 3.3 billion Energoprojekt bond mentioned below, had aggregate approval costs of RSD 1.4 million (EUR 11,700).

NBS Open Market operations with corporate bonds

16. **The NBS initiative mentioned earlier to provide liquidity to the banking sector through corporate bonds generated a pulse of activity, albeit primarily in the private placement market.** In May 2020, the Executive Board of NBS adopted amendments to relevant NBS's Decisions (published in RS Official Gazette, No. 74/2020) that set out the conditions under which corporate bonds might be used in NBS monetary operations involving outright purchases and repos in open market operations, or the use of corporate bonds as collateral for daily and short-term liquidity loans. The key conditions were the following: (a) Dinar denomination only, (b) Domestic company (excluding entities supervised by NBS) with solvency scoring of D or higher from the SBRA[65], (c) Maximum ten-year maturity, (d) Issued before 31 December 2020, (e) Aggregate limit of RSD 55 billion (EUR 466 million), (f) Individual limit per issuer of RSD 11 billion (EUR 93 million), (g) Maximum 70 percent of any one issue or tranche.

Between 1 January 2020 and June 2021, 16 bonds were issued with an aggregate nominal value of RSD 50.4 billion (EUR 427 million), of which 15 were issued through private placement and one was a public offering. Eleven of the bonds were very small and of relatively short duration. The individual sizes were between RSD 3.74 million and RSD 16.4 million (respectively EUR 32,000 and EUR 140,000), which are too small for a public market and are unlikely to have been taken to the NBS for financing. They were also generally for one year's maturity. However, five of the bonds were for five- or seven-years' maturity and had an aggregate value of RSD 50.3 billion (EUR 426 million).

Corporate bonds on BELEX

17. **As of 30 September 2022, there was only one corporate bond admitted to trading on BELEX, although only in the Open Market which is not an official listing segment.** The bond was issued by Energoprojekt in 2020 (and was also eligible for the NBS initiative mentioned above). According to data on the BELEX website, this bond has ever seen any secondary market trading.

Enabling Environment

Capital Market Development Strategy

[64] Effectiveness and Efficiency of Debt Capital Markets – A Comparative Study: Transactions Costs and Timing for Issuance, Listing and Trading of Locally Issued Debt Securities, EBRD February 2020

[65] The SBRA maintains company registers and receives filings of financial statements. As a commercial service they use elements of the financial statements and public registers of defaults on loans to assign between 100 and 500 points to a company and give a solvency score of between A and E. Score A corresponds to 451 points or more; B to 351 to 450; C to 251 to 350; D to 151 to 250 ("acceptable solvency"); and E ("very weak solvency") 100 to 150.

18. There has been very significant advance over the period under review in relation to the definition of a Capital Market Development Strategy for Serbia.

19. In February 2020, a cross-institutional Working Group for Capital Markets Development delivered its outline of a Capital Markets Development Strategy. The Working Group, which was established and led by the Ministry of Finance (MoF), included representatives of the Ministry of Economy, NBS, Serbian Securities Commission, the Treasury, BELEX, the Central Securities Depository (CSD) and Clearing House, and the Serbian Development Agency. Following extensive consultation with public and private sectors, the Working Group identified an aggregate of 35 specific initiatives focused on advancing four pillars of strategic development: Regulatory; Institutional; Stimuli; and Education.

20. At the request of the MoF, the EBRD set up a team to review and prioritize the initiatives, which reported back to the MoF in April 2021. The EBRD consulted widely with the market and with the World Bank Group, IMF, UNDP, and EU. The report included detailed analysis of the 35 initiatives and of an additional 22 related potential initiatives. It organized the initiatives around seven discrete strategic goals (creating attractive investment products, increasing issuers; attracting investors; eliminating tax obstacles; optimizing the regulatory system; upgrading technology; and building market credibility) and identified a specific priority and a recommended timing for each initiative.

21. In September 2021, the MoF released the draft Capital Markets Development Strategy (CMDS) for public consultation, which was adopted in October 2021. The draft took the EBRD analysis into account, and the comments and advice from other entities. The overall goal of the CMDS is to stimulate capital markets to support economic growth, employment, and a higher quality of life for Serbian citizens. It aims at restoring confidence in the domestic capital markets and attracting issuers, while in parallel developing a roadmap to advance compliance with EU directives. The draft Strategy has identified specific measures related to: i) improving the regulatory framework for further development of the capital market, ii) improving the institutional framework, iii) introducing new investment products and issuers on the domestic capital market, iv) attracting new investors, v) strengthening the technological and human capacities of institutions, vi) promotion of opportunities to participate in the capital market and training of all potential market participants. The CMDS and a time-bounded Action Plan for 2021-2023 were adopted in October 2021.

Financial Market Infrastructure

22. The financial market infrastructure (FMI) required to support the development of the capital markets remains solid. All the necessary financial infrastructure exists to provide clearing, settlement and recording/deposit services for securities. The NBS operates a real time gross settlement system (RTGS) which permits financial sector participants to adequately manage their credit and liquidity risks, and enables them to view their payment transactions, account balances and changes in the sequence of payment execution orders in real-time. The Central Securities Depository and Clearinghouse (CSD) provide for securities depository and securities settlement system. As of November 2022, the number of CSD participants was 35, of which 13 were brokerage companies and 20 commercial banks as well as the Republic of Serbia and the NBS.

23. **In February 2020, it was announced that the Ministry of Finance and the International Central Securities Depositary, Euroclear had signed a Memorandum of Understanding (MoU) with the eventual goal of creating a link between their settlement systems**. Euroclear is one of the key providers of settlement and depositary services in Europe. A link between Euroclear and the domestic settlement systems would mean that international investors could acquire domestic bonds in the Serbian market and then have the transaction settled through Euroclear and custodied within the Euroclear system. This not only reduces risks but also avoids the need to open banking and custody services within Serbia.

24. **With the entry of Serbia into the JP Morgan GBI-EM indices, this Euroclear-able link would make it easier and more cost effective for international investors to invest in Serbia, in both the primary and secondary markets**, and therefore widen the international investor base and contribute to additional liquidity. The Euroclear link will also facilitate the direct distribution of tranches of securities to international investors and the settlement in any one of the currencies that Euroclear administers. The process to create the link is however not necessarily a rapid one, as it may require changes to laws, regulations and operational processes. Based on the recent update provided by the CSD, the required legal and regulatory changes have already been adopted and the Euroclear link may go into live before the end of 2023.

New and Amended Laws

25. **With a focus on alignment with European Directives, a number of new capital market related laws have been introduced since 2017, and several existing laws amended**. The table below shows the key laws and their existing status:

Table 6. Status of Key Capital Markets Laws, June 2021

Law	Introduced / Amended	Notes
Capital Market Law	Updated 12 February 2020 and 30 December 2020 and 23 December 20221	Key changes • to permit clearing and settlement of government bonds by a foreign institution • to facilitate the issuance of bonds (codification of the COVID-19 changes described above) • to clarify the moment when a public company ceases to be public • ability of limited liability companies to issue bonds A new law in late 2021 was adopted for harmonization with EU Directives
Law on Financial Collateral	Commenced 1 January 2019	See earlier section • Implement EU Directive on Financial Collateral Arrangements • Carve out for repo transactions

Law	Introduced / Amended	Notes
Law on Alternative Investment Funds	In force 19 October 2019, Applied from 20 April 2020	See below Related Regulations implemented in May 2020
Law on Open-ended Investment Funds subject to Public Offering	In force 19 October 2019, Applied from 20 April 2020	See below Related Rulebooks implemented in May 2020
Law on Money Laundering and the Financing of Terrorism	Amended 1 January 2020 and December 2020	• Changes to requirements for reporting entities • Alignment with FATF recommendations
Law on Digital Assets	Published 21 December 2020, for implementation end June 2021	• Issuance, secondary and market trading of two types of digital asset: virtual currencies and digital tokens • Supervision by SSC – for digital tokens and NBS – for virtual currencies • Digital asset crowdfunding • Carve out from Capital Markets Law
Law on Commodity Exchange	Commenced 1 May 2020	Relevant Rulebooks adopted on 1 February 2020
Law on Privatization	No change	Commenced May 2015 Conditions and procedures for change of ownership over socially owned and public capital and assets. Replaced Act implemented in 2001 and amended 2005
Law on the Protection of Financial Services Consumers in Distance Contracts		Underlying law introduced September 2018. Rights of consumers in relation to distance selling and contracting of financial services
Law on Takeovers of Joint Stock Companies	No change	Introduced 2006, Last amended May 2017
Law on Auditing	New Law adopted in 2019, starting implementation from January 1, 2020	Update of law adopted in July 2013 to comply with EU Directive and International Standards on Auditing, replacing 2003 Law on Accounting and Auditing
Law on Accounting	Amended 1 January 2020	Update of law adopted in July 2013 to implement IFRS and define small medium and large companies. Created register of accountants and requirement to have a professional title.
Law on Bankruptcy	Amended in 2018	Amended in 2018 to align with new Law on Financial Collateral.

Law	Introduced / Amended	Notes
Companies Law	Large amendment 9 June 2018, 1 October 2018 and (EU harmonization) 1 January 2022 Later amendment affective 1 January 2020	Overhaul of June 3, 2011 law. Includes new framework for valuations of joint stock company shares. Note: Further amendments published for consultation in June 2021
Law on Voluntary Pension Funds and Pension Schemes	No change	Law from 2005, last amended in 2011
Law on Climate Change	Adopted 18 March 2021	Setting up regime and requirements for limiting greenhouse gas emissions including obligation to create cross institutional low-carbon development strategy.

Law on Alternative Investment Funds

26. **The law on Alternative Investment Funds, passed in October 2019, came into force in April 2020, facilitating the creation of venture capital and private equity funds**. The new law harmonizes Serbian law with the EU Directive on Alternative Investment Fund Managers and related Regulations. These funds, which require licensing by the SSC, can be set up as funds subject to public offering or funds subject to private placement. The provisions relating to public offering were applicable from 1 January 2021. Public offering funds can be sold to all investors, but private offer funds can only be sold to professional investors (financial entities) and semiprofessional investors (willing to purchase a minimum of EUR 50,000). The new law permits a wider range of investment policies including investment in small and medium sized enterprises. The detailed Rulebooks on the funds, the types of funds and operating requirements for the funds and fund depositaries were published by the SSC on 1 May 2020. They include a wide range of permitted investments for both types of funds, including the use of public offering funds as index trackers and real estate funds, and for private placement funds' investment in small and medium sized enterprises and any type of asset so long as envisaged in their operating rules.

Law on Open-Ended Investment Funds

27. **The law on Open-Ended Investment Funds subject to Public Offering was also implemented on 19 October 2019 and came into force on 20 April 2020.** The new law harmonizes Serbian law with the EU Directive on Undertakings for Collective Investment in Transferable Securities. It explicitly introduces five types of fund with different focuses (growth; income; money market; balanced; and general) and sets out mandatory investment parameters for each. It also permits the creation of an Umbrella Fund with two or more sub-funds

Taxation

28. **There has been no change to the tax regime for issuance: neither the creation of incentives, nor removal of disincentives**. Government bonds are still the only securities exempted from general tax law, and securities, including both shares and bonds, are subject to taxation on income earned and on capital gains, including any gains earned if bonds are allowed to run to maturity and redemption at par**.**

Annex 5: Government of Serbia: Capital Markets Development Strategy (excerpt)

COUNTRY: Serbia
Catalyzing Long Term Finance through Capital Markets

The Government of the Republic of Serbia adopted and published the 2021-2026 Capital Markets Development Strategy in November 2021. The goal of the Strategy is to activate the capital market in the function of economic growth, employment and better quality of life for citizens.

This Annex highlights specific expected activities to be taken across six broad areas in order to accomplish the Strategy's goal by 2026. The six areas are briefly described below in terms of their respective binding constraints within each area. The six main areas are:

i) **improving the regulatory framework for further development of the capital market.** The Law on Capital Markets was adopted by the National Assembly on December 2, 2021. The amendment sought to harmonize the Capital Markets Law with the EU. The next critical steps are to harmonize the accompanying regulations at the level of all relevant institutions (CSDCH, SC, Tax Administration, Belgrade Stock Exchange, etc.) The overall aim of all legal and regulatory improvements is to achieve the status of "Markets in Financial Instruments" Directive 2014/65/EU (MIFID II, which is precondition for attracting domestic and international institutional and individual investors and for more transparent and efficient functioning of the capital markets). In this light, the MoF and SSC have identified a compendium of nearly 40 laws and regulations which would need to be harmonized with the EU and with relevant international standards. The current project will focus on the amendment of 7 critical regulations.

ii) **improving the institutional framework.** The market has repeatedly expressed challenges to capital market development related to factors ensuring an efficient, competitive and stimulating institutional framework. Repeated barriers include the tax policy for foreign investors, the taxation level of uniform income from insurance investment products and treatment of taxation amongst government bonds versus corporate bonds. The CMDS has prioritized taxation across the various segments as a critical area to resolve in order to develop the capital market.

iii) **introducing new investment products and issuers on the domestic capital market.** The CMDS acknowledges a wide range of capital market instruments exists; however, some instruments already exist and need refinement (e.g. corporate bonds, classic investment funds) while other instruments need to be developed (e.g. covered bonds). The goal is to focus on simple types of instruments with the acknowledgement that more advanced financial instruments will require significant additional financial education of market participants.

iv) **attracting new investors.** The key to reviving this market is the ability to trade more quality securities on the Belgrade Stock Exchange. With this in mind, the goal is to look at the portfolio of all companies in which the state has full or partial ownership and to bring state-owned companies to the capital market through initial public offering processes. Private Serbian companies have also been identified as having significant potential to enter into the market; however, there are barriers to entry that should be resolved (taxes, fees, etc.) through the proposed measures.

v) **strengthening the technological and human capacities of institutions.** While the current infrastructure is sufficient – Belgrade Stock Exchange and the Payment System Infrastructure; harmonization with the MIFID and EU require significant IT/technological changes.

vi) **promotion of opportunities to participate in the capital market and training of all potential market participants.** The promotion of the capital market requires investors to be well-informed regarding the potentially complex financial instruments. Currently, the market is well-informed about bank financing; however, regarding other capital markets instruments – covered bonds, municipal bonds, digital assets, etc. – there needs to be broader financial literacy including investor rights.

The full Strategy is located on the Ministry of Finance's website.[66]

Improving the regulatory framework for further development of the capital market

Activity:	Body implementing the measures	Partner bodies in the implementation	Deadline for completion	Source of funding
1.1.1. Adoption of a new Law on the Capital Market, with the aim of harmonization with the EU acquis and achieving the status of MIFID II harmonized market	Ministry of Finance	SC, CSDCH, Ministry of Economy, Public Debt Administration, Belgrade Stock Exchange, National Bank of Serbia	2021	-
1.1.2. Adoption of a new Law on Takeovers of Joint Stock Companies	SC	Ministry of Finance	2022	-
1.1.3. Amendments and supplements to the Law on Companies	Ministry of Economy	Ministry of Finance	2021	-
1.1.4. Amendments and supplements to the Law on Factoring	Ministry of Finance	National Bank of Serbia	2022	-
1.1.5. Preparation of the Draft Law on Group Financing	National Bank of Serbia	Ministry of Finance, Ministry of Economy	31/12/2022	-
1.1.6. Preparation of an analysis of the effects of the introduction of multilateral settlement in the Republic of Serbia	Ministry of Finance	-	2022	Donor funds
1.1.7. Harmonization of all other laws affected by the changes, if deemed necessary	Ministry of Finance	Ministry of Economy, National Bank of Serbia, SC,	2022	-

[66] *https://www.srbija.gov.rs/dokument/45678/strategije-programi-planovi-.php*

		CSDCH, Publilc Debt Administration, etc.		

Improving the institutional framework

Activity:	Body implementing the measures	Partner bodies in the implementation	Deadline for completion	Source of funding
1.2.1. Comprehensive analysis of tax regulations and procedures, reporting, tax duplication, repo tax, tax duplication, repo tax and secured loans, dviations in the treatment of similar financial products.	Ministry of Finance	Tax Administration	2022	Donor funds
1.2.2. Adoption of all relevant bylaws in order to effectively implement laws in the field of capital markets	Ministry of Finance	SC, CSDCH, Public Debt Administration, Belgrade Stock Exchange, National Bank of Serbia, Tax Administration, Administration for the Prevention of Money Laundering	2022	-

Introduction of new investment products and issuers on the domestic capital market

Activity:	Body implementing the measures	Partner bodies in the implementation	Deadline for completion	Source of funding
2.1.1. Analysis of the effects of the implementation of the IPO GO Program of the Belgrade Stock Exchange in order to review the lessons learned that resulted in the failure of this program	Belgrade Stock Exchange	Ministry of Finance	2021	Donor funds
2.1.2. Establishment of an initiative for education of issuers of securities in the Republic of Serbia in order to increase the number of issues (all types of financial instruments)	Ministry of Finance	SC, Belgrade Stock Exchange, CSDCH	2022	Donor funds
2.1.3. Comprehensive analysis and market comparison of	Ministry of Finance	SC, Belgrade Stock Exchange, CSDCH,	2022	Donor funds

costs and administrative process for issuance, maintenance and trading of all securities that are the focus of the Strategy, in order to develop a single cost policy at the level of all participants and institutions		National Bank of Serbia, Chamber of Commerce and Industry of Serbia		
2.1.4. Implementation of a single cost policy at the level of all participants and institutions	Ministry of Finance	SC, Belgrade Stock Exchange, CSDCH, National Bank of Serbia, Chamber of Commerce and Industry of Serbia	2022	Donor funds
2.1.5. Analysis of the best practice and legal framework for the introduction of the covered bonds instrument in the Republic of Serbia	Ministry of Finance	National Bank of Serbia	2023	Donor funds
2.1.6. Analysis of challenges and obstacles for the issuance of municipal bonds and green municipal bonds in order to develop support programs for their issuance	Ministry of Finance	Ministry of Public Administration and Local Self-Government	2022	Donor funds
2.1.7. Implementation of the program for issuing municipal bonds and green municipal bonds	Ministry of Finance	Ministry of Public Administration and Local Self-Government	2023	Donor funds
2.1.8. Analysis of the complete portfolio of state-owned companies, in order to prepare for participation in the capital market	Ministry of Finance	Ministry of Economy	2022	Donor funds / Budget of the Republic of Serbia
2.1.9. Implementation of the initiative to support the issuance of investment tokens.	Ministry of Finance	Belgrade Stock Exchange, SC	2023	Donor funds

Attracting new investors

Activity:	Body implementing the measures	Partner bodies in the implementation	Deadline for completion	Source of funding
2.2.1. Creating a single web platform that will bring together all relevant information, processes and procedures, data and costs in a simple and transparent way. Using the principle of three	Ministry of Finance	Ministry of Economy, SC, Belgrade Stock Exchange, CSDCH, National Bank of Serbia, Tax Administration,	2022	Donor funds

clicks, the aim of this measure is to facilitate access to all relevant information for potential participants on the supply and demand side		Public Debt Administration, Administration for the Prevention of Money Laundaring		
2.2.2. Connecting to at least ne reputable international securities depository (Euroclear, Clearstream, SIX SIS) in order to increase the number of investors in government securities	Ministry of Finance	National Bankn of Serbia, SC, CSDCH, Public Debt Administration	2022	Budget of the Republic of Serbia
2.2.3. Analysis of limiting factors for the participation of pension funds and insurance companies in the capital market, in oder to activate the investment potential of these companies	Ministry of Finance	National Bank of Serbia	2022	Donor funds / Budget of the Republic of Serbia
2.2.4. Preparation and implementation of solutions to the issue of inactive accounts.	Ministry of Finance	SC, CSDCH	2023	Donor funds
2.2.5. Establishment of a system of primary dealers and development of an appropriate supervisory framework in the phases from 2022 (pilot) to 2025 (full implementation)	Ministry of Finance	Public Debt Administration, SC, CSDCH, Belgrade Stock Exchange	2025	Donor funds / Budget of the Republic of Serbia

Strengthening the technological and human capacities of institutions

Activity:	Body implementing the measures	Partner bodies in the implementation	Deadline for completion	Source of funding
3.1.1. Establishment of a special unit for the capital market in order to monitor the implementation of the strategy, implementation of non-regulatory activities, coordination of inter-institutional cooperation, management of the web platform, and providing centralized support to market participants	Ministry of Finance	SC, Public Debt Administration	2022	Donor funds
3.1.2. Development and implementation of the new	CSDCH	Ministry of Finance, Public	2022	Budget of the Republic

software for the CSDCH		Debt Administration, Belgrade Stock Exchange, SC		of Sebia
3.1.3. Providing comprehensive technical support program for relevant institutions with the aim of attracting good quality staff, implementing additional analytical activities, support in the preparation of relevant internal acts, etc.	Ministry of Finance	SC, Public Debt Administration, CSDCH, Tax Administration, Administration for Prevention of Money Laundering	2022	Donor funds

Promotion of opportunities to participate in the capital market and training of all potential market participants

Measure:	Body implementing the measures	Partner bodies in the implementation	Deadline for completion	Source of funding
3.2.1. Establishment of a platform for industrial dialogue in the form of an innovation center at the Ministry of Finance, in order to identify obstacles to more active participation of the economy in the capital market, with semi-annual events dedicated to individual segments of the economy	Ministry of Finance	Chamber of Commerce and Industry of Serbia	2022	Budget of the Republic of Serbia / Donor funds
3.2.2. Organization of local events aimed at promoting the capital market at least on a semmi-annual basis, as well as in the case of special market events	Ministry of Finance	Chamber of Commerce and Industry of Serbia, SC	2025	Budget of the Republic of Serbia / Donor funds
3.2.3. Organization of promotion of the domestic capital market and issuers of financial instruments, including the Republic of Serbia, in leading global financial centers and the region ("National Road Show")	Ministry of Finance	Public Debt Administration, Belgrade Stock Exchange	2025	Budget of the Republic of Serbia / Donor funds
3.2.4. Opening a dialogue with the MESTD and creating an inter-ministerial working group with the aim of creating a national strategy on financial	Ministry of Finance	MESTD, SC, CSDCH, Belgrade Stock Exchange	2025	-

education.				
3.2.5. Organization of events for high school students with the aim of improving their knowledge in the field of finance, economics and capital markets	Ministry of Finance	MESTD, SC, CSDCH, Belgrade Stock Exchange	2023	Donor funds