

EBRD investments in the financial sector of the Serbia

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Abstract: In the world of financial investments, international financing is a key determinant and basis for a bigger and more successful development of small economies in Europe and the world at large. This is a very important role, played by the International Financial Institutions, which are mostly provided by the largest financial investments without the progress of small and backward economies, but potentially prosperous would not be possible. Consequently, we'll try to make this statement in further research in order to look at all the directions of EBRD's financial investments in the financial sector of the Republic of Serbia, and so we make a small review of this sector of the Republic of Serbia.

Keywords: international financing, research, financial sector of the Republic of Serbia

1 Introduction

1.1 Introductory considerations

The European Bank for Reconstruction and Development (EBRD) was established in 1992 to encourage the transition of the countries of Central and Eastern Europe towards a market economy. It should contribute to economic progress and renew its activities by encouraging private and entrepreneurial initiatives. The Bank assists recipient countries by implementing privatization, demonopolization and decentralization programs. Bank's assistance is realized in a number of ways, and in particular direct investments in private or state enterprises and banks or by co-financing investments in companies. In addition, the Bank collects domestic and foreign capital and experienced management for investment in a certain, according to the Bank's assessment of competitive enterprises.

The Bank also provides technical assistance for the preparation, financing and implementation of certain investment projects or capital market development projects, or other structural or sectoral changes that require a transition to a market

economy. The members of the Bank are the European and non-European member countries of the IMF, the European Community and the European Investment Bank.

The Bank's core capital is ten thousand million ecu. In addition to these assets, the Bank performs its activities from borrowed funds, based on repayment of loans or guarantees and profit, or revenues arising from capital investment in an enterprise. With interest, the Bank charges a commission on approved loans and guarantees. The Bank performs its activities of investment and lending, etc. only in the countries of Central and Eastern Europe that are determined to move towards a market economy.

The bank is organized as a joint-stock company. The bank's shareholders are the states. The bodies are the Board of Governors, the Board of Directors and the President with one or more Vice-Presidents. Each Member State shall appoint a single governor and its deputy to the Board of Governors. The Board of Governors decides on the acceptance of new members of the Bank, the increase and reduction of authorized share capital, the suspension of membership, the conclusion of a cooperation agreement with other international organizations, the election of the Director and the President of the Bank, approves the general balance sheet and profit and loss statement, amendments to the Founding Agreement.

1.2 Methodology

In recent years, the world economic and we can probably say the most internal crisis has adversely affected the economics relations within the Republic of Serbia. The inflow of investment was insufficient, but in contrast, the EBRD continued to invest in the Republic of Serbia as well as in other countries of South-east Europe. We conclude that the size of investment at this time for us as a country is insufficient and not in the intensity that we'd like to be, but we've bear in mind the fact that the EBRD is a very important factor in the overall development of our economy and is one of the leading financial institutions that we can say and invest most in the branches of our economy, which can be seen by the number of projects. Most of all, this can be seen in the very branches of investments invested by the European Bank for Reconstruction and Development, of course, infrastructure projects, projects of the very importance not only for the citizens of Serbia and the whole region, which is more important than all the members of the European Union.

Key investments for the EBRD in the near future will be supported to the financial to the financial sector and the corporate sector and investments in sustainable energy projects. Objectives of the work: The social goal of this work is to point out the significance of investments in the financial sector through the recapitalization of banks and the co-financing of various credit lines, as well as the importance of investing funds in the real and public sectors.

The scientific goal of work is to serve the purpose of work as a basis for further research.

1.2.1 Hypothetical Framework

Hypothesis:

▪ EBRD's investments into the economic and financial sector, to contribute the improvement of the growth and development of the economy of the Republic of Serbia. Enable the financial stabilization of commercial banks, other financial institutions, financial stabilization of production and trade enterprises, better energy efficiency and improvement of the living standards of citizens.

Individual hypothesis:

- Recapitalization of banks facilitates better financial sustainability of the banks themselves, and increases the money supply within the undertaking itself.
- In the conditions of the economic crisis, recapitalization is an essential way and a model for banks to provide conditions for further growth and development of loans to the population and the economy.
- EBRD's investments in energy efficiency and infrastructure projects are great importance for the economic viability of the economy of the Republic of Serbia.
- EBRD's investments are necessary in a further measure to improve economic growth and development, however, to this extent and intensity they're not enough for unimpeded growth, but they're definitely important.

1.2.2 Methods and goals

The scientific goal of the research is the scientific description of the stimulation of the development of the investment of funds by the European Bank for Reconstruction and Development in the conditions of the global economic crisis in the economy of the Republic of Serbia. The results of the research should point to the role that the European Bank for Reconstruction and Development has in the development of the financial sector of the Republic of Serbia.

The social goal is to meet the practical needs, ie to find a place in the scientific and educational curriculum in the following period as a justified scientific research work and to use the results of the research in practice, that is, in the financial sector of the Republic of Serbia.

Theoretical methodological approach to research is dialectical. The basic methods of analytical methods, basic synthetic methods, and general scientific methods were applied. From the analytical basic methods, we applied the method of analysis, method of abstraction, method of specialization and deduction method.

The synthetic basic methods we have used in the research are: synthesis, concretization, generalization and induction. We applied the method of data collection and content analysis and factor analysis, as far as the general scientific methods are concerned. Also, the model survey so-called method of experts.

Starting from the set hypotheses and goals of the research, the corresponding structure of work also emerged.

Structure of the Labor:

1. The first part of the paper deals with Introductory Considerations and Research Methodology,
2. The second part deals with the very role of investing the European Bank in the economy of Serbia,
3. The third part of the paper refers to the types of investments in the Republic of Serbia by the EBRD. The third part has a special section deals with the notion of principled implementation of past strategy of EBRD in Serbia,
4. The fourth part refers to the EBRD's significant investments in the financial sector,
5. The fifth part is the recapitalization of the Bank with the help of the EBRD,
6. The sixth final conclusions as well as the basic literature used.

2 Investment of the European bank for reconstruction and development in the financial sector

The subject of this paper is the investment of the European Bank for reconstruction and development in the economy of the Republic of Serbia, with special emphasis on the financial sector. The European Bank for reconstruction and development (EBRD) has been present in Serbia since 2001, when the admission to membership of the then Federal Republic of Yugoslavia was granted.

Since the start of operations in 2001, the total cumulative volume of operations amounts EUR 3.503 billion, while the mobilized co-financing amounts EUR 1.5 billion. Only 5.5% of cumulative commitments are regional projects. Till today, 36.9% of cumulative business volume is in infrastructure, 29.0% in banking and financial institutions, 21.4% in industry, trade and agribusiness, and 12.7% in energy. There is currently an increase in objects, from 166 to 204 projects, which is the result of a constant relationship of investment in the growth and development of the Republic of Serbia.

In the last three years, from 2013 to 2016, the number of projects has increased by 38 projections. When we take a look at the EBRD's investments, which will be explained in more detail in the continuation of the work, we'll come to the conclusion that the total portfolio of the ERBD in Serbia is fairly consistent, so the Bank has invested EUR 2.406.000.000,00 from 2010 to date and by following branches of the economy:

1. Infrastructure EUR 853.000.000,00 which gives 35% of investment
2. Energy Efficiency EUR 390.000.000,00 giving 16% of the investment
3. Financial sector EUR 629.000.000,00 which gives 26% of the investment
4. Industry, Trade and Agriculture EUR 534.000.000,00, which gives 22% of investments

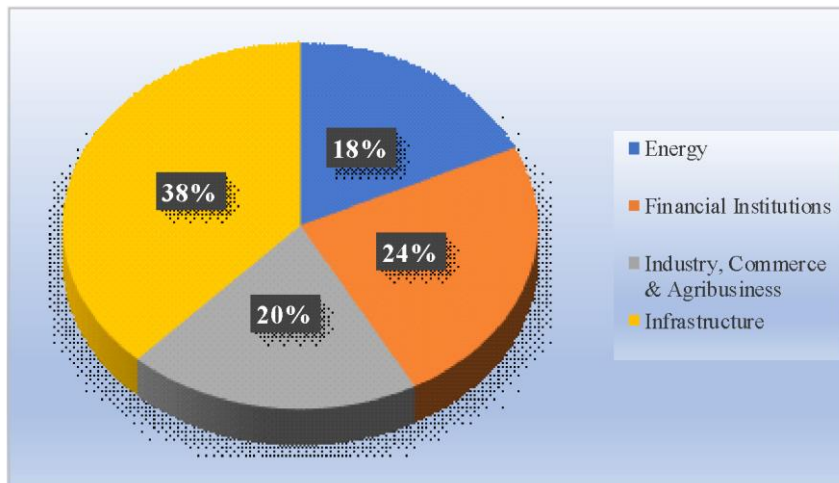


Chart number 1. Portfolio composition
source: ebrd.com

In the Operations business, the bank proceeds from the specific needs of individual countries and reached the level of transition in them. It also concentrates on infrastructure that supports the development of the private sector, such as transport, telecommunications, and energy.

The EBRD has become one of the leading entities in the privatization of the remaining state-owned banks, and in addition to this important role, it launched an action to support pension reform, strengthen institutional capacity and improve the management of private pension funds.

By the bank's first rules, capital can only be used by those countries of Central and Eastern Europe, which have begun to transition to a market economy that

develops the private environment, and the enterprise, and which have in practice accepted the principles of parliamentary multiparty democracy.

The Bank realizes its goals and tasks by granting loans, cofinancing with other financial sources, providing guarantees and technical assistance, primarily to private companies but also to state-owned enterprises that operate under competitive conditions (without subsidies) or are in the process of privatization.

We must emphasize that its scope of work is quite wide and comprehensive, the bank also has business spheres in the social protection sector, medical centers, tourism, energy, aviation, trade, transport, telecommunications, agriculture, all through credit lines, loans, and borrowings .

The Bank can invest in both privately owned and state-owned enterprises, then purchases securities issued by private and state-owned enterprises, and provides guarantees for borrowing on the domestic and foreign capital markets.

The Bank does not enter into export credit and insurance business. During the year, a maximum of 40% of the total investments or placements can be invested in the state sector. The Bank operates on sound banking principles ie under financial conditions that will provide everyone with a profit. reconstruction and development does not finance any project that does not have the support of the member state in which the capital is placed.

For procurement of goods and services, wherever possible, the Bank foresees the calling of an international bidding for suppliers from all countries. The offer should ensure full compliance in accordance with the World Trade Organization's procurement principles. It seeks to enable less developed countries that are not members of the Bank may bid for the Bank's contracts under the same conditions as the Bank Member.

It is very important that we realize that its main task is to improve the economic situation, to influence the growth of the standard of living of the citizens of the Republic of Serbia, and what must be said that it as an EU institution is our biggest partner, and it is very important for the correction of economic opportunities and living conditions of citizens.

The European Bank for Reconstruction and Development believes that sustainable development is a basic aspect of good business management, so that tea for economic growth and a healthy environment is inextricably linked. The Bank attaches special attention to encouraging energy efficiency and resource efficiency, reducing waste generation, rebuilding abandoned industrial sites, renewable resources and reusing resources, recycling and applying cleaner production in funded projects.

In order to define the final list of relevant indicators, which will be included in the budget of the assessment of the level of knowledge of the area of EBRD investment in the financial sector of Serbia, it is necessary, in the next step, to

implement the so- expert judgment. The number of experts who participated in this survey was 7. The opinion of 6 experts was adopted, because the expert under number 5 did not fully evaluate the indicators, and therefore it is not possible to process this data. It was also agreed that the weighting coefficients of the experts are equal and equal to 1. The experts were divided into a questionnaire in the form of a table, which was to be filled in according to the attached instruction from the questionnaire. An expert evaluation would involve evaluating indicators that are in a narrow list of possible relevant indicators.

It is necessary, based on the experts' opinion, to determine the indicators that have the greatest impact on the calculation of the level of knowledge of the area of EBRD's investment in the infrastructure sector of Serbia. The assigned degrees of knowledge (rankings of knowledge) are arranged in the following way:

1	2	3	4	5
no	little	medium	pretty	yes

The calculation of the "rank of knowledge" was carried out as follows. The calculation of the expert assessment for each of the risk behaviors was done as follows:

Table 1. Procedure for calculating the final evaluation of experts

Level of knowledge 1		
Ekspert 1	Ekspert 2	Ekspert n
Rating 1	Rating 2	Rating n
Overall rating		

By calculating the overall assessment (degree of knowledge) of the EBRD's investment area in the Serbian infrastructure sector, the next step is where each category of knowledge is multiplied with an appropriate level of knowledge, and the weights are observed throughout the country. Subsequently, the addition of weightings for each area was carried out, and a "ranking of knowledge" was obtained for each site observed.

$$\text{Weightings Belgrade} = A * 1 + B * 3 + V * 1 + G * 5 + \dots + NJ *$$

$$\text{"Knowledge Rank"} = \text{weightingsbeograd} + \text{weightingsnovisad} + \dots + \text{weightingssubotica}$$

After executing the weighting, data were obtained indicating which of the mentioned areas has the highest degree of recognition of the importance of investing EBRD in our country and submit a proposal for an idea solution in order to improve the understanding of the importance of cooperation with the EBRD and the proposal for future cooperation. The database was arranged for research in

Microsoft Office Excel 2013, in which tables were created and the required charts were removed.

Table number 2. Graphic presentation of the overall evaluation of investment experts in the territory of the Republic of Serbia based on the degree of knowledge and importance

Investments on the territory of the Republic of Serbia	
1. Do you know the degree of development of the financial sector in Serbia?	1
2. Do you know the role of the EBRD in the development of the financial sector in Serbia?	1
3. Do you know the EBRD's investment in the economy and infrastructure of the Republic of Serbia?	4
4. Do you know of some major investment investors (international financial institutions) in the infrastructure sector of Serbia?	4
5. Do you think that the effects of investing in Serbia's economy (especially in the infrastructure sector) are satisfying?	4
6. Do you know the amount of previous EBRD investments in the financial sector?	4

From the table number 2., it can be noticed that the following investments, according to the experts' assessment, are the most important: claims 2,3,4,5,6.

Table number 3. Value of weighted estimates of the importance of investments by research towns

	Beograd	Novi Sad	Subotica	Niš
Assertion 1	16	80	13	36
Assertion 2	16	48	14	26
Assertion 3	84	60	30	18
Assertion 4	100	19	72	115
Assertion 5	104	60	66	19
Assertion 6	108	15	80	100

From table 3 it can be seen that the claims number 2,3,4,5,6 are primary in the city of Belgrade, while in Novi Sad there are claims 1, in Subotica 6, while in Nis, 4,6. The preceding items are also shown in the next chart.

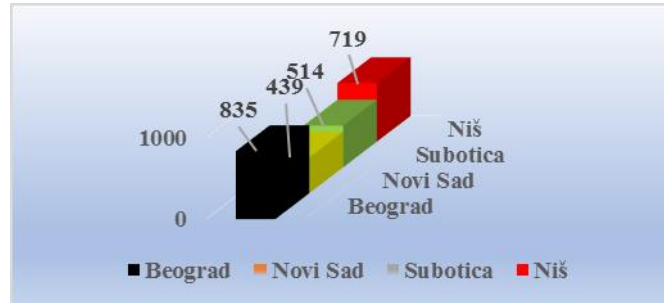


Chart number 2. Displays the distribution of the total weighted value of the valuation of the investment value by the survey cities observed for the four cities

From this chart it can be clearly seen that the city of Belgrade is with the highest degree of knowledge about the importance of investing EBRD in our country, and that it is followed by Novi Sad with a smallest number of degrees.

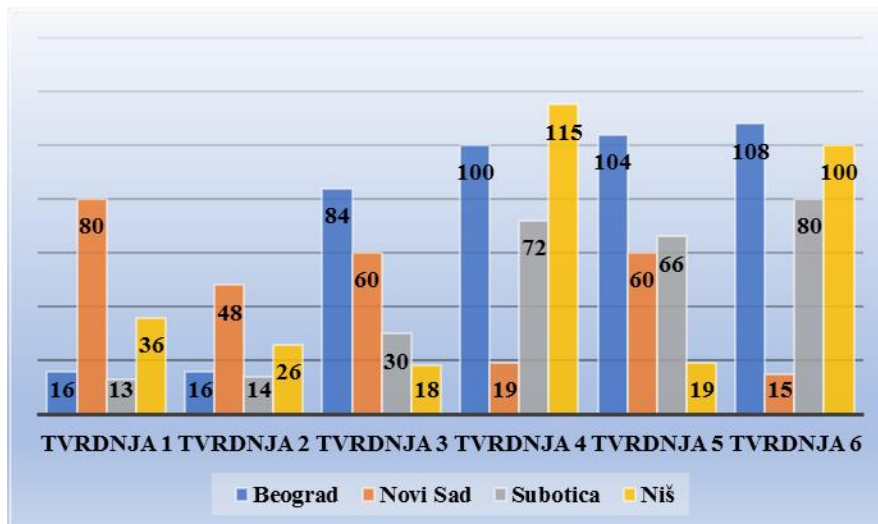


Chart number 3. It shows the distribution weighted value of the investment grade value of the research towns observed for the four cities

Each class of weight factors is assigned a color: black ($100 \geq TF$) - very high value, red ($50 \geq TF < 99$) - high value, green ($1 \geq TF < 49$) - low value. From the chart it can be noted that there are 4,6 claims that are distinguished with the highest degree of knowledge in the observed cities.

3 Investments of the European bank for reconstruction and development

As noted in the previous section, the European Bank for reconstruction and development has been present in Serbia since 2001 when the membership of the then SRJ was approved. Since the beginning of the operation of the European Bank for reconstruction and development to date, the Bank has brought to date four investment strategies. The first strategy was from 2001 to 2004. In this strategy it was primarily an emphasis on the development of the infrastructure sector since the break-up of the war in 1999, as well as projects of great public importance for improving living standards, such as:

- Project / Electric Power Industry of Serbia, signed and completed. Amount EUR 100.000.000 for the renewal of the electricity network on the whole territory of the Republic of Serbia.
- Project / Corridor 10, reconstruction of railroads, signed and completed, amount EUR 57.000.000,00.
- Project / Belgrade Municipality, proposed municipal loan in the amount of up to EUR 121 million, for improvement of city transport, water supply, wastewater treatment and services, district heating in Belgrade. It's signed but not repaid and implemented.

The goal was to finance the needs of public utility companies of the Public Utility Company, Belgrade Water Supply and Sewage, Belgrade Heating Plant, City Transportation Company, all for improving the living standards of citizens.

We must mention here that this was about starting and establishing cooperation between the Federal Republic of Yugoslavia and the EU itself. This strategy from 2001 to 2004 gave results of public importance, since then the cooperation between the Federal Republic of YU and the European Bank for reconstruction and development was started. However, due to outdated legal regulations and the complication of the complicated economic relations that existed in the economy of the Federal Republic of YU.

It's followed by a strategy from 2004 to 2007, which applied to the then State Union of Serbia and Montenegro, and had the following priorities and transitional goals within the Bank's activities:

1. The financial sector, the bank should have focused on the following areas: privatization, financial and operational restructuring of state banks
2. Cooperation with strong local or foreign banks that sought to increase market share by providing further consolidation.

3. Continuous support to commercial banks and institutions for micro-crediting and realization of the then established EU Fund and EBRD for financing small and medium sized enterprises for the countries of the Western Balkans.

Economic sector, several areas have been selected as a priority. Restructuring of companies for privatization after privatization, Capital investments into new technology, and improving the protection of life, mainly with local businesses. Agribusiness, in which Serbia has significant advantages, and many local companies with good financial results and significant market share. Investments with a foreign strategic investor who have commercial and sustainable investment plans and who have successful results for the business.

Regarding the volume of jobs, more than half of the new engaged funds were directed to the private sector, mainly through loans with a strong focus on the domestic financial sector. Investments in equity were mainly limited to the banking sector, and the most significant was the investment in the largest bank state-owned (Commercial Bank) and other investments in the financial sector. In the financial sector, the Bank provided both foreign and domestic banks with mortgage credit line loans and credit lines for small and medium enterprises.

The Bank uses a fund for the development of small and medium-sized enterprises in the countries of the Western Balkans to finance two local banks that are strongly focused on doing business in that segment. Similarly, the first credit line for the leasing sector was approved in 2006 by Raiffeisen Leasing to encourage the development of this perspective sector.

Through this credit line, the bank transferred the funds to the economy to Pro-Credit bank, and that Pro-Credit bank approves micro loans in the maximum amount of EUR 10.000,00 with the maturity period of maximum 24 months, and middle loans are approved in the amount EUR 500.000,00 with a maturity of up to 60 months.

As we've shown the existing investments, we can conclude that the European Bank for reconstruction and development has invested the most in the infrastructure sector, which is certainly one of its main goals and we can say the goals of the European Union, as it's obliged to secure and realize all conditions for achieving goals, which is certainly the modernization and improvement of infrastructure conditions and energy efficiency. In accordance with the investment in the financial sector, transport sector and agriculture are improving the living standards of citizens, and one of the goals of the European Union is to improve the living standard of all European citizens and the European bank for reconstruction and development.

3.1 Implementation of the strategy of the European bank for reconstruction and development for the Republic of Serbia 2007 - 2013

Please note that the EBRD strategy for the period 2007-2013 is extremely important in the establishment of economic relations and consolidation of the budget between certain economic entities that perform their activities in the market of the Republic of Serbia. During the period covered by the existing strategy, the bank signed 166 projects in the amount of EUR 2.58 Billion and mobilized the co-financing of EUR 908 million as of 31 December 2013. Since the start of operations in 2001, the total cumulative volume of operations amounts 3.503 Billion, and the mobilized co-financing of EUR 1.5 Million. Only 5.5% of cumulative commitments are regional projects. To date, 36.9% of the cumulative volume of operations is in infrastructure, 29.0% in banking and financial institutions, 21.4% in industry, trade and agribusiness and 12.7% in energy.

The Bank's portfolio at the end of December 2013 consists of 129 projects with a total value of EUR 2.490 Billion. The total volume of funds disbursed amounted to EUR 1.864 Billion over the period of the current strategy. As a result, the rate of undisbursed funds decreased from 48.5% at the end of 2007 to 40.8% in December 2013. However, there're significant delays in the implementation of a number of public sector projects (Serbian Railways, Roads of Serbia, Serbia Gas and Public Enterprise for Electricity Generation). The amount of bad placements increased from EUR 0.00 Million when the current strategy of 2007 was approved to EUR 41 Million at the end of December 2013.

This strategy was in many ways successful, because it gave clear guidelines and directions in the direction to go. Many financial experts in this field believe that this year there were precursors in the work of the European bank in the Republic of Serbia. Here is an overview of the bank's portfolio in Serbia at the end of December 2013. We think that the European bank for reconstructions and development made a remarkable contribution to Serbia, without its support, all aspects of business would not be improved.

Here we present an overview of the Bank's portfolio in Serbia at the end of December 2013.

Table 4: Overview of the Bank's portfolio in Serbia in December 2013

SECTOR			NET CUMULATIVE BUSINESS VOLUME		
<i>In millions of Euro</i>	<i>Number of projects</i>	<i>Total Project Costs</i>	<i>EBRD signed</i>	<i>EBRD% of total</i>	<i>Number of projects</i>
<i>Energetics</i>	9	724	445	12.7 %	9
<i>Natural Resources</i>	1	150	150	4.3 %	1
<i>Electricity and energetics</i>	8	574	295	8.4%	8
<i>Financial institutions</i>	64	1.283	1.017	29%	44
<i>Banks</i>	54	1.113	925	26.apr	36
<i>Leasing companies</i>	6	85	70	2.0%	4
<i>Non-banking financial institutions</i>	4	85	22	0.6 %	4
<i>Industry, trade, agribusiness</i>	79	1.612	748	21.4%	53
<i>Agribusiness</i>	30	835	459	13.1%	18
<i>Private equity funds</i>	16	209	42	1.2%	14
<i>Information and communication technologies</i>	7	86	47	1.3%	4
<i>Production and services</i>	15	293	135	3.8%	9
<i>Real estate and tourism</i>	11	188	66	1.9%	8
<i>Infrastructure</i>	24	3.952	1293	36.9%	23
<i>Communal infrastructure for environmental protection</i>	12	934	370	10.6%	11
<i>Transport</i>	12	3.018	923	26.3%	12
<i>In total</i>	176	7.572	3.503	100%	129

Table 4 continually

SECTOR			EXISTING PORTFOLIO			
<i>In millions of Euro</i>	<i>Number of projects</i>	<i>Total Project Costs</i>	<i>Portfolio</i>	<i>% of portfolio</i>	<i>Operational assets</i>	<i>% of assets</i>
<i>Energetics</i>	9	724	367	15%	114	8.0%
<i>Natural Resources</i>	1	150	145	6.0%	45	3.0%
<i>Electricity and energetics</i>	8	574	222	9.0%	69	5.0%
<i>Financial institutions</i>	64	1.283	642	26%	566	39%
<i>Banks</i>	54	1.113	578	23%	528	37%
<i>Leasing companies</i>	6	85	41	2.0 %	21	1.0%
<i>Non-banking financial institutions</i>	4	85	22	1.0%	16	1.0%
<i>Industry, trade, agribusiness</i>	79	1.612	433	17%	297	21.0%
<i>Agribusiness</i>	30	835	266	11%	177	13.0%
<i>Private equity funds</i>	16	209	31	1.0%	11	1.0%
<i>Information and communication technologies</i>	7	86	19	1.0%	11	1.0%
<i>Production and services</i>	15	293	71	3.0%	58	4.0%
<i>Real estate and tourism</i>	11	188	46	2,00%	31	2.0%
<i>Infrastructure</i>	24	3.952	1.048	42.0%	454	32.0%
<i>Communal infrastructure for environmental protection</i>	12	934	286	11.0%	185	13.0%
<i>Transport</i>	12	3.018	762	31.0%	269	19.0%
<i>In total</i>	176	7.572	2.490	100%	1.431	100%

We can see that the Bank's activity is extremely high, and that it can be safely stated that its business is consistent and adequate to all EU interests. The investment volume is very significant.

3.2 Realization of EBRD Investments in the Republic of Serbia

From year to year, the bank invests a lot of funds in order to stimulate timely growth in investment. It monitors the trend of investment of funds through years

of timely investment and by number of projects, where in recent years the intensity has fallen in both segments.

Table number 5: Investments over the years

Year	Value in millions of Euros
2010	533
2011	598
2012	269
2013	424
2014	453
2015	478
In total	2755

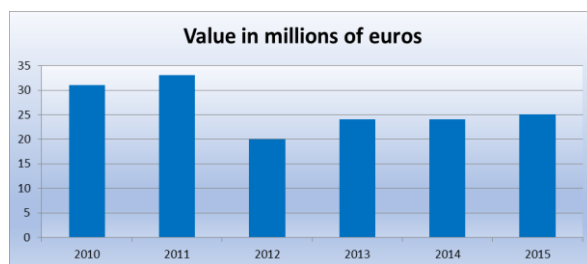


Chart number 4. Annual EBRD investments in the Republic of Serbia in million Euros.

We need to notice without explaining the graph and the table presenting the existing results that in recent years the intensity of the investment has decreased, the place to grow, we think that many factors have influenced the fact that the value of the investment is reduced, which is extremely important in order to be in the next years, they have seen the results of investing in the strategic goals of the Bank itself in the Republic of Serbia.

Table number 6.: Number of projects per year intervals

Year	Number of projects
2010	31
2011	33
2012	20
2013	24
2014	24
2015	25
In total	157

4 EBRD investments in the financial sector

As we said in the previous part, the European bank has invested a lot of funds in the financial sector. From 1 January 2010 to 31 October 2016, the European bank for reconstructions and development invested EUR 636.000.010,00. The financial sector is a very important segment and indicator of the development of the Republic of Serbia and the living standards of its citizens. The biggest transition challenge was the strengthening of the banking sector and the further development of financial mediation through the following steps:

1. Banks need long term funding and institutional support that will help them to operate on a sustainable basis.
2. Access to finance for SMEs has been significantly more difficult during the crisis. It's necessary to encourage micro lending by commercial banks and micro-credit institutions. There is no regulatory framework for microfinance.
3. The crisis has caused two major problems in the financial sector that require an urgent reaction: The growth of problem loans and the disbursement of the deposit insurance fund.
4. The largest part of banks' assets and liabilities is indexed and denominated in EUR. Previous attempts to encourage dinarization, stimulating dinar lending and dinar savings had limited results.
5. There is a need for further consolidation and privatization in the sector in which 29 banks operate, of which 5 have 50% of market share, 11 operates with losses and 6 are state-owned.
6. There is a need for development of a healthy insurance sector and more significant financing of non-banking financial institutions, primarily leasing companies and investment funds.

The bank has expressed the view that it'll support banks, financial institutions, leasing companies, in order to encourage the availability of long term financing sources, and encourage the introduction of new financial products, all through a long-term form of financing and securing products tailored to their needs in order to increase the availability of loans for micro, small and medium enterprises, and supported the development of energy efficiency, renewable energy sources and the agriculture sector.

The EBRD wants to increase its confidence in the banking sector by striving to support the deposit insurance agency that is responsible for the deposit insurance fund in order to increase the level of trust in the banking sector. That's all because of the fact that the MMF and the world Bank are working to establish a regulatory framework for the bank's resolution, including a strategy for state banks, because this is an extremely important issue. EBRD has cooperated with almost all banks in the Republic of Serbia and almost the largest banks have signed agreements and

projects to achieve cooperation and to fulfil all the important goals that it EBRD has.

We'll dial a few:

1. Adiko Bank, EBRD credit line in the amount of EUR 30.000.000,00. Higher loan intended for further financing crediting micro, small and medium sized enterprises in accordance with policy and statement on lending to MMSP in the Republic of Serbia. Signed on November 10 2016, the very beginning project must be in January 25 2017.
2. Commercial Bank, EBRD credit line in the amount of EUR 30.000.000,00. The EBRD is considering extending this loan to 3 years to promote the development of the SME sector. The loan will be used to provide short term and medium-term financing to craft and investment funds to private small and medium enterprises. It was signed on November 6 2015 and started with this line on December 25 2015.
3. Bank Intesa Belgrade, a credit line of EUR 30.000.00. This is a credit line that's intended for the borrowing of natural persons. The load was signed on October 23, and officially started with this credit line on December 9 2015.

5 Recapitalization of "Cacanska" bank

At the general meeting of shareholders of "Cacanska" bank in December 2010, a decision was made on the closing issue of shares to the European bank for reconstructions and development and the international finance corporation. This process was completed in early April 2011 by payment and subscription of shares in the central the Register of Securities, which increased the bank's portfolio by EUR 8.000.000,00.

Recapitalization is a strengthened capital base of the bank and te potential for new credit lines for small and medium enterprises has been created. The ultimate goal of recapitalization is to better prepare the Bank, its development and strengthen the market position for privatization in the future. The recapitalization of "Cacanska" bank started with the approval of the closed share issue of the shared of EBRD and IFC in December 2010, the process of which ended with the payment of funds and the subscription of shares into the central securities register. The "Cacanska" bank's capital is increased by around EUR 8 Million, issuing a new 36.4% of the shares. The EBRD has bought 12131 shares holding a stake in this bank of 19.99%.

After the recapitalization, the share of the Republic of Serbia was reduced to 28.5%. But, when a recapitalization contract was signed, the Republic of Serbia retained the right to recapitalize this banking institution in the next two years in

order to retain the ownership share of 38.8% which it had previously. In 2010, "Cacanska" bank recorded a stagnation of business by earning interest income of 1.97 dinars, an increase of 0.7% compared to the previous year, while the fee and commission income was 3.2% higher and amounted to 496.2 Million dinars.

At the end of 2010, the assets of "Cacanska" bank amounted to RSD 28.7 Billion, which is an increase of 30% from the beginning of the year. After the new issue of shares was announced, and the market capitalization of this banking institution amounts to 2.73 Billion dinars.

27th of May 2015 Halkbank became the majority owner of "Cacanska" bank, paying EUR 10.1 Million for a 76.74% stake in the share capital, and pledged to pay the amount in cash and in total when transferring ownership of shares. These funds were in proportion to the number of shares owned by the previous owners, the Republic of Serbia was EUR 3.7 Million, the European bank for reconstruction and development EUR 3.3 Million, the world financial corporation EUR 2.6 Million and the Belgrade bank in bankruptcy EUR 0.4 Million.

Here we will show how the ownership structure of the Cacak bank looked like after the Second Recapitalization.

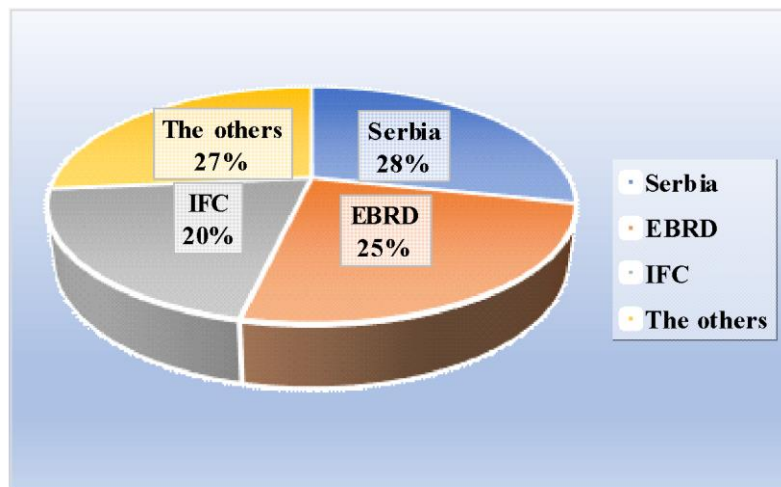


Chart number 5.: Ownership structure of Čačanska Banka after the II capital increase.

We will show the balance sheet as of 31.12.2012. And here you can see the situation that existed in the Bank's business.

Table number 7.: Balance Sheet as at 31.12.2012. (in thousands of RSD)

ASSETS	2012	2011
Cash and cash equivalents	3.005.508,00	1.643.736,00
Revocable deposits and loans	4.630.454,00	5.997.352,00
Receivables from interest, fees, sales, other receivables.	153.935,00	145.991,00
Give loans and deposits	22.593.427,00	20.195.266,00
Securities	1.156.808,00	1.176.396,00
Share (participation)	18.288,00	18.265,00
Other placements	130.765,00	120.567,00
Non-material investments	24.405,00	24.464,00
Fixed assets and investment property	814.745,00	844.852,00
Deferred tax assets	19.644,00	18.627,00
Other assets	284.028,00	205.145,00
TOTAL ASSETS	32.832.007,00	30.390.661,00
PASSIVE	2012	2011
Transaction deposits	3.594.744,00	3.153.475,00
Other deposits	13.084.632,00	11.409.936,00
Received loans	8.405.382,00	8.030.456,00
Liabilities based on interest, fees and value changes	16.301,00	20.033,00
Reservations	124.644,00	126.197,00
Liabilities for taxes	1.921,00	1.678,00
Liabilities from winnings	0	1.335,00
Other obligations	2.526.739,00	2.623.211,00
TOTAL LIABILITIES	27.754.363,00	25.366.321,00
Capital	3.048.483,00	3.048.483,00
Reserves from profit	1.660.893,00	1.538.166,00
Revaluation reserves	318.376,00	314.963,00
Gain	49.892,00	122.728,00
TOTAL CAPITAL	5.077.644,00	5.024.340,00
TOTAL LIABILITIES	32.823.007,00	30.390.661,00
OFF-BALANCE POSITION	12.756.783,00	10.912.439,00
Operations in the name and for the account of third parties	279.697,00	285.757,00
Future commitments made	5.956.110,00	6.594.369,00
Guarantees received for commitments	0	0
Derivates	1.646.400,00	0
Other off-balance sheet items	4.874.576,00	4.032.313,00

Table number 8.: Income Statement for the period 01.01.-31.12.2012 and 2011 (in thousands of RSD)

POSITION	2012	2011
REVENUES AND EXPENSES OF REGULAR BUSINESS		
Interest income	2.089.242,00	2.190.310,00
Interest expense	991.656,00	994.640,00
Profit from interest	1.097.586,00	1.195.670,00
Fee and commission income	621.566,00	541.180,00
Fee and commission expense	62.398,00	52.578,00
Profit and commission income	595.168,00	488.602,00
Net gain on the basis of selling securities at fair value through profit and loss	16.388,00	0
Net loss on the basis of the sale of securities at fair value through profit and loss	0	6.270,00
Net profit from sales of other placements	2	0
Net foreign exchange gains	0	2.334,00
Net exchange rate differences	1.251.175,00	0
Income from participation	724,00	4.593,00
Other operating income	11.572,00	4.192,00
Net expenses on the basis of indirect write-offs and placements and provisions	592.263,00	529.245,00
Wages, salaries, and other personal expenses	455.094,00	414.717,00
Depreciation costs	87.680,00	79.411,00
Operating and other operating expenses	515.775,00	525.872,00
Income from changes in the value of assets and liabilities	2.501.067,00	1.766.812,00
Expenses from the change in the value of assets and liabilities	1.277.535,00	1.776.459,00
Profit from regular business	56.985,00	130.229,00
Result of income	56.985,00	130.229,00
Income tax	8.109,00	9.762,00
Profit from deferred tax assets	1.016,00	2.261,00
PROFIT	49.892,00	122.728,00
Basic earnings per share (in dinars without money)	274	724

During the second recapitalization of the EBRD's position, it was not for them to make investments themselves, but it must be co-financed with another international financial institution, there was a need to include the IFC that was done.

Looking at the operations of Čačanska Banka in 2012, we concluded that the assets for 2012 increased in comparison to 2011, the profit was significantly

reduced in relation to 2012 compared to 2011, and we can omit derivatives for 2011 which is not the case for 2012.

Here, according to the balance sheets, it can be advectionally concluded how the situation was at that time.

27 May 2015 Halkbank became the majority owner of Čačanska banka, paying EUR 10.1 million for a 76.74% stake in the share capital, and pledged to pay the amount in cash and in total when transferring ownership of shares. These funds were in proportion to the number of shares owned by the previous owners, the Republic of Serbia 3.7 million, the European Bank for Reconstruction and Development 3.3, the World Financial Corporation 2.6 and the Belgrade Bank in bankruptcy 0.4 million euros .21 Thus, the organizational structure used to be Čačanska banka and now Halk Bank looks like this:

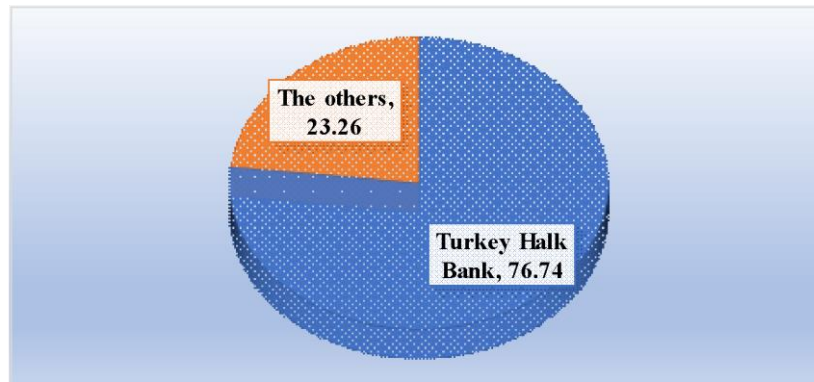


Chart number 6. Ownership structure of shares of Čačanska banka after purchase of shares package by Halk Bank on May 27, 2015.

6 Conclusion

We draw conclusions from the previous research that the Serbian financial sector, in particular its banking part, would not be able to get out of the crisis, and thus contribute to improving the conditions of business within it. Therefore, the role of the EBRD, which was here to contribute to growth and the development of the financial sector, is very important. EBRD has greatly contributed to the improvement of business and prevented all negative aspects that would lead to a complete collapse of the Serbian Financial Sector.

The EBRD's investment in the financial sector has substantially improved all domains of borrowing in the financial markets and ensured the stability of the financial markets. With the offers of credit lines that the EBRD entrusted to

domestic banks, citizenship of the Republic of Serbia has benefited from the possibility of easier access to monetary sources that it could use. EBRD is a true and powerful partner in the Financial sector, but also in all sectors of business in the Serbian economy, its capacities and power have greatly helped to preserve the stability of the Serbian economy and without it the situation would look completely different.

EBRD support at the right moment arrived to the Republic of Serbia and its financial sector and thus ensured the long-term stability of its operations. It was a crucial time interval and it is very good that banks are recapitalized.

The annual report of the European bank for reconstruction and development on the progress of reforms and economic development in 29-member states from Central Europe and Asia says that the global crisis has led to a significant reduction in support for democracy and market economy in most of the developed countries of the region. Continued to provide financial support to the Republic of Serbia in 2017 and 2018, and the funds will primarily be directed to support the development of the financial sector, the development of infrastructure, agribusiness, local self-governments and the strengthening of small and medium sized enterprises. The EBRD closely monitors the implementation of all its projects as well as the current business situation in the market, especially in the projects it finances itself, in order to meet all the standards of the business norm. In the financial institutions of investment, investments are made through equity participation, in the example we have mentioned to "Cacanska" bank and through loans serviced by banks mainly to small and medium enterprises, then to the development of agribusiness, telecommunications.

We can conclude that its presence in the Republic of Serbia is very significant and it cannot be said that its support is not comprehensive. The EBRD takes the lead role of the partner of the Republic of Serbia in the development of the financial sector and the capital market. What can definitely be noted is that cooperation with the European bank for reconstruction and development is extremely important. Without the support of the EBRD, the success in the financial sector would not be achieved.

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