COUNCIL OF EUROPEAN BUSINESS ASSOCIATIONS AND CHAMBERS

NON-PAPER

Strategic Priorities for a Competitive and Sustainable Construction Sector in Serbia

This non-paper has been prepared by the Infrastructure and Construction Committee of the Council of European Business Associations and Chambers of Commerce in Serbia (CEBAC) to support EU alignment and sector dialogue in Serbia.

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Executive Summary

This non-paper outlines the shared priorities and reform recommendations of leading European companies operating in Serbia's infrastructure and construction sector. It is based on the findings of a targeted industry survey conducted by CEBAC in June 2025 and reflects the collective experience of companies with deep local engagement and broad sectoral presence. This includes insights from leading construction firms, engineering companies, and material suppliers.

Rather than presenting a list of sectoral concerns, this document is framed as a contribution to Serbia's reform agenda and EU alignment efforts. It identifies strategic challenges and proposes concrete measures to enhance the competitiveness, sustainability, and transparency of the construction environment, with particular attention to small and medium-sized enterprises (SMEs).

Strategic Reform Areas and Recommendations

1. Public Procurement – Defining Tender Requirements and Process

While public procurement procedures have been streamlined in Serbia in the past years, efforts are needed to ensure the unform application of the law across sectors and on all levels of contracting entities. Survey participants identified the need to improve on the proportionality of tender requirements to the size of the project, with the aim of enhancing competitiveness.

Examples which were highlighted as overly onerous in practice include:

(i) requirements for the bidder to have performed an exorbitant quantity of prior works, compared to the object of the tender (which requirement is oftentimes met by only one bidder);
(ii) the imposition of specific vendor lists,
(iii) eligibility criteria requiring that the bidder used specific equipment in previous projects, which eliminates offering of more efficient or more advanced technologies,
(iv) requirement for a workforce which far exceeds the required manpower for the tender in question;
(v) requirement that the bidder has members in its team with multiple parallel qualifications which are rare and unusual in the market,
(vi) requirement for the bidder to have in its ownership equipment which will not be used for tender purposes, etc.

As a result, technologically biased and overly specific tender requirements in practice lead to low competitiveness in public tenders.

In order to mitigate this, our key recommendations are as follows:

- **Amend procurement rules/practice and guidance** to require that eligibility and technical criteria be strictly proportionate, objectively justified, and demonstrably linked to the subject matter of the tender, with mandatory ex-ante justification and effective review of any requirements that may unduly restrict competition or innovation.
- **Capacity building and training of contracting entities**: Both at national and municipal level, there is a need to provide expert training to the personnel in charge of designing tender documents in alignment with EU regulations and EU-funded tenders, including the process for determining appropriate tendering procedures (e.g., open process or competitive dialogue) without compromising the need for a bidder's proven track record. Awareness should be raised on the importance of designing tenders in a manner that allows equal access without creating unjustified obstacles for potential bidders.
- **Prior review of the tender documentation**: Resources should also be used to ensure a prior technical and legal review of public procurement documentation, at least for projects exceeding a certain value, by a republic-level entity in order to ensure that basic principles of the Public Procurement Law are complied with and applied in a uniform manner.
- **Supporting technological neutrality**: Bidders should be encouraged to offer innovative solutions. Requirements for use of specific technology and equipment, or detailed vendor lists, should only be made in case of well-justified exceptions.
- **Qualitative Tender Evaluation:** While economic criteria remain important, more weight should be given to qualitative aspects in tender evaluation. Most Advantageous Tender (MAT) guidelines, scoring tools, and lifecycle costing models

aligned with EU practice should be developed to support consistent application of quality-based evaluation. This shift would promote higher-quality and more sustainable outcomes. Furthermore, reducing the allowable post-award contract value increase would support this goal and improve fairness. Qualitative aspects should include not only the bidder's references, but also technological innovation, environmental sustainability plans, and proposed risk management strategies.

- **Tenders under EC and IFI Rules:** Beyond tenders governed by the Serbian Public Procurement Law, EU companies operating in Serbia also participate in procurement processes conducted under European Commission rules — in particular the Practical Guide for Contracting (PRAG) — and under requirements of International Financial Institutions (IFIs) such as the European Investment Bank. These tenders typically involve prior review ("no-objection") by the EC or the relevant IFI, which generally ensures that tender requirements remain aligned with the actual project scope.

  Nevertheless, EU member companies have identified that local licensing requirements can represent a significant barrier in this context, particularly for internationally experienced firms competing on design preparation and investment works. CEBAC recommends that member companies document and share their concrete experiences with local licensing obligations and how these affect their competitiveness in EC- and IFI-financed tenders, so that this dimension can be addressed in future policy dialogue.

- **Timely Availability of Tender Information:** Advance notice of upcoming tenders is a significant concern for EU companies. Contracting authorities in Serbia typically publish a Prior Information Notice (PIN) to alert the market about forthcoming procurement opportunities. While this is a useful first step, the PIN often does not include the key technical and commercial details that companies need in order to assess their interest and prepare competitive bids. These critical parameters are only disclosed at the Contract Notice stage, at which point the window for formal submission is usually short. Given that serious tender preparation — especially for larger infrastructure projects — requires substantial lead time, EU companies are at risk of being effectively excluded from competitions where they lack sufficient preparation time. Conducting market analyses (market consultations) prior to launching tenders, and disclosing key parameters at an earlier stage, would reduce the risk that awareness of tender opportunities is limited to a small group of insiders, and would promote broader and more genuine competition.

2. Use of FIDIC Contracts

There is a prevailing reliance on the Yellow FIDIC Book in Serbian infrastructure projects which, while to an extent mandated by the legal framework, may drive up costs for European companies and/or oblige them into consortia they would not normally establish. This practice may also narrow opportunities for specialized planning firms.

Our members identify that contractors selected to work under Yellow FIDIC Contracts often face significant problems from the early phases of the project. Starting with the design process, there are multiple instances where the licensing roadmap requires numerous documents from multiple institutions, all of which must be considered in the design stage. This imposes immense liability on the sole contractor, including risks of administrative delays or inefficiencies of public entities.

In certain projects, broader application of the Red FIDIC Book — separating planning from construction — would allow planners to plan and builders to build, reflecting the strengths of European firms while improving cost efficiency and transparency.

The specific bottlenecks that EU companies encounter in the application of FIDIC Yellow Book (Design and Build) contracts in Serbia stem from several overlapping legal, institutional, and administrative challenges. First, the preliminary designs that typically form the basis for Yellow Book tenders are frequently insufficiently developed, leaving the winning contractor to resolve significant technical uncertainties during the design phase — at their own risk and cost. Second, the licensing process for obtaining necessary permits requires the contractor to obtain approvals from a large number of public bodies, each operating under different procedures and timelines, generating unpredictable delays. Third, the contractor bears full liability for any administrative inefficiencies by public entities, which is inconsistent with the FIDIC risk allocation framework. These conditions increase project costs and reduce the attractiveness of Yellow Book tenders for internationally experienced EU firms. Where the design is sufficiently mature and the scope well-defined, the Red Book approach — awarding design and construction separately — can better match the capabilities of specialized European companies and improve overall project outcomes.

- **Application of FIDIC Contracts should be assessed on a case-by-case basis**. Instead of the predetermined reliance on the Yellow FIDIC Book, tender rules should give the possibility to a chosen contractor to identify and propose the best possible technical and technological solutions, guaranteeing full compliance with the set outputs/expected project deliverables defined in the tender requirements by the employer.
- **FIDIC education should be made more available and affordable**. Education opportunities for specializing in FIDIC Contracts are rare and expensive in the Serbian market.
- **Further standardizing consortium and subcontracting agreements**, as well as introducing protection mechanisms for SMEs in such arrangements would encourage their participation in infrastructure supply chains, improving financial stability and fostering sector-wide growth.

3. Improving Licensing and Supervision

The regulatory landscape in Serbia's infrastructure and construction sectors is complex and frequently changing. Specific procedures and administrative milestones that companies must navigate often become bottlenecks to fair competition due to non-transparent processes, vague criteria, and informal practices.

Many sectoral regulations are not harmonized with one another. These issues undermine efficiency, increase costs, and distort market dynamics. Also, this often manifests in unclear timelines for permit approvals or inconsistent application of regulations across different municipalities.

The survey identified key areas where these bottlenecks arise:

- **Construction inspectors** play a vital role in reducing corruption and ensuring compliance with approved designs. Stronger enforcement, more effective oversight, and the introduction of meaningful penalties would help establish a fairer operating environment. This could involve increasing the frequency of unannounced inspections, implementing a digital tracking system for inspection outcomes, exercising sanctions such as public warnings and instructions for remediation of specific deficiencies, and publicly reporting on compliance rates.

- **Engineer Licensing:** While recognizing the existing pool of licensed engineers and the principle of reciprocity between Serbia and third countries, we recommend shifting licensing responsibility from individual engineers to legal entities. This would facilitate greater reciprocity, enhance SME participation, reduce opportunities for corruption, and help standardize licensing costs. Easing the reciprocity in recognizing engineering licenses between Serbia and the EU would streamline the process for foreign companies operating in Serbia, as they could leverage their established corporate licenses, and reduce individual incentives for informal practices.

- **Certification.** European suppliers are frequently requested to engage local certification bodies and perform further product testing in Serbia, on top of their existing EU-issued certificates. This leads to unexpected costs and delays in project development. Recognition of EU-issued certifications as sufficient should be applied in practice and encouraged as a standard across the sector.

- **Independence of Supervising Engineers:** A critical but underaddressed dimension of works supervision in Serbia is the degree of independence that supervising engineers (stručni nadzor) are able to exercise in practice. EU companies report that supervising engineers are frequently subject to informal pressure from investors and contracting authorities, which undermines their ability to enforce contract terms, reject non-compliant works, or issue impartial decisions on disputes. This lack of independence distorts the execution of works contracts and can lead to lower quality outcomes, cost overruns, and increased risk for all parties. Reforms should aim to strengthen the formal and practical independence of supervision, including by establishing clear rules on conflicts of interest, introducing accountability mechanisms for supervising engineers, and ensuring that their fees are not structured in ways that create dependence on investor approval. A more robust and independent supervision framework would bring Serbia closer to EU standards and improve the overall performance of infrastructure projects.

4. Sustainability and Innovation

To align with EU climate objectives and the Green Deal, Serbia's construction sector requires targeted support for sustainability — including improvements in energy efficiency, circular economy practices, and modernization of outdated equipment.

When comparing tender requirements for works projects in Serbia with equivalent tenders in EU member states, EU companies consistently note that Serbian tenders impose more prescriptive and technologically conservative requirements regarding methods of execution. Rather than defining the desired output and allowing contractors to propose optimal technical approaches, tender documentation in Serbia often specifies particular construction methods, equipment types, or material standards that reflect outdated practice. This not only limits innovation but also places firms that rely on more advanced or efficient technologies at a competitive disadvantage. In some cases, EU companies have indicated that this prescriptive approach has deterred them from competing altogether, as the required methods do not align with their operational model and equipment base. Serbia's alignment with EU procurement norms — including performance-based specifications and technological neutrality — would make tenders more attractive to internationally competitive firms and raise the overall quality of infrastructure delivery.

Key Recommendations:

- Promote **policies and financial incentives** that support low-emission technologies, circular construction practices, and modernization of construction machinery. This would improve productivity, enhance health and safety outcomes, and stimulate innovation in circular models, products, and services.
- Facilitate **access to funding** not only for green modernization but also for green production facilities within the construction supply chain.
- CEBAC's **Digital and ESG Committees** stand ready to assist in implementing these recommendations by offering technical solutions and strategic proposals.

5. Workforce and Skills Development

A modern and competitive construction sector must be grounded in robust health and safety frameworks — not only as a regulatory obligation but as the foundation for workforce resilience, sustainability, and public trust.

Key Recommendations:

- Promote a **zero-tolerance culture** on safety and support the adoption of international HSE (Health, Safety, and Environment) standards. Specifically, aligning with standards such as ISO 45001 (Occupational Health and Safety Management) would significantly enhance safety protocols and demonstrate commitment to best practices.
- Regulate the **minimum number of expert supervisors (*stručni nadzor*)**, per trade (construction, machinery, electrical, and others). This can be implemented by regulating the number of expert supervisors (*stručni nadzor*) based on gross surface area of residential, business, and industrial facilities, and based on the type and size of transport, peer, grid, and other larger infrastructure.
- **Recognize and reward** companies that uphold ethical practices, including through procurement scoring systems or certification schemes.
- While Serbia has a growing pool of well-trained engineers, **the real bottlenecks lie in the availability of technicians and site engineers**. Strengthening vocational education and practical training pipelines would help ensure timely project delivery, improve on-site safety, and reduce strain on inspection services.
- CEBAC's **HR Committee**, alongside international organizations such as **IOM**, is available to collaborate with Serbian institutions to establish standards that promote a fair and predictable labor market — including the inclusion of third-country nationals to help address identified labor shortages.

6. PPP Construction projects as a Sector Boost

Building on the insights within this non-paper regarding a more competitive and sustainable

construction sector, we strongly recommend a dedicated focus on enhancing and expanding the Public-Private Partnership (PPP) scheme for infrastructure projects in Serbia. Improving the predictability, transparency, and efficiency of PPP processes — from project identification and tender evaluation to contract management and dispute resolution—will be crucial.

Key Recommendations:

- This involves refining the legal and regulatory framework to ensure clear risk allocation, streamlining administrative procedures, and fostering robust collaboration between public bodies and private sector partners.
- Creation of dedicated public partner administration teams within local municipalities, with knowledge and understanding of the PPP model, would facilitate smooth communication between the private and public partner and administration of ongoing projects.
- By actively promoting well-structured and attractive PPPs, Serbia can unlock significant private investment, accelerate critical infrastructure development, and leverage private sector expertise and innovation to achieve its strategic goals more effectively.

From the perspective of EU companies, the existing legal and regulatory framework for PPP projects in Serbia presents several significant challenges. While the Law on Public-Private Partnership and Concessions establishes a formal basis for PPP structures, its application in practice has been uneven. EU companies report uncertainty regarding risk allocation between the public and private partner, insufficient standardization of PPP contract templates, and a lack of dedicated institutional capacity within contracting authorities to manage the PPP lifecycle from procurement through to contract administration. The absence of a strong central PPP unit with technical expertise and enforcement powers means that individual projects often suffer from inconsistent structuring and limited accountability. Furthermore, dispute resolution mechanisms under existing PPP arrangements are perceived as insufficiently robust and impartial, adding to the risk profile that private investors must absorb.

It is important to distinguish PPP projects from traditional public investment in infrastructure, as the two models differ fundamentally in their preparation, structuring, and risk profile. In a traditional public procurement model, the contracting authority bears the full financial burden of the project and the private party delivers a defined scope of work for a fixed or target price. In a PPP, by contrast, the private partner typically assumes responsibility not only for construction but also for long-term operation and maintenance, and recovers its investment through user charges, availability payments, or a combination of both over the contract period — which can span 20 to 30 years or more. This requires a fundamentally different approach to project preparation: bankable feasibility studies, detailed traffic or demand projections, robust financial modeling, and clear definition of the output standards the private partner must meet throughout the concession period. The contracting authority must also possess the capacity to monitor compliance over the long term. Without these elements in place, PPP projects carry disproportionate risk for private investors and are unlikely to attract competitive interest from experienced EU companies.

Conclusion

European companies are committed to being reliable partners in Serbia's sustainable and competitive development. With targeted reforms in procurement, workforce development, regulatory clarity, and sustainability, Serbia can unlock new investment opportunities, enhance project delivery, and accelerate alignment with EU expectations.

The Infrastructure and Construction Committee of CEBAC stands ready to commit to an open dialogue with all relevant stakeholders to support constructive and actionable follow-up.