



EUROPEAN  
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**COMMISSION DECISION**

**of 6.4.2005**

**establishing the Annual Action Programme for 2005 for Community Assistance to  
Serbia**

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**THE COMMISSION OF THE EUROPEAN COMMUNITIES,**

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 2666/2000 of 5 December 2000 on assistance for Albania, Bosnia and Herzegovina, Croatia, the Federal Republic of Yugoslavia and the former Yugoslav Republic of Macedonia, repealing Regulation (EC) No 1628/96 and amending Regulations (EEC) No 3906/89 and (EEC) No 1360/9090 and Decisions 97/256/EC and 1999/311/EC<sup>1</sup>, and in particular Article 4(1)(a) and (2) thereof,

Whereas:

- (1) According to Article 3 (1)(c) of Regulation (EC) No. 2666/2000, Community assistance shall be provided through annual action programmes for each country receiving Community assistance. These annual programmes should be based on a multiannual indicative programme, drawn up on the basis of a strategic framework for the recipient country concerned.
- (2) The Commission adopted on 27 December 2001 (C (2001) 4624) the Country Strategy Paper for the Federal Republic of Yugoslavia 2002-2006 (C (2001) 4624), as last amended by Commission Decision C (2004) 1061 of 30 March 2004. The Commission adopted on 15 December 2004 the CARDS Regional Multi-annual Indicative Programme 2005-2006 (C (2004) 4834) and on 18 January 2005 the Multi-annual Indicative Programme 2005-2006 for Serbia and Montenegro (C (2005) 56).
- (3) On this basis, an Annual Action Programme for 2005 has been drawn up for Community assistance to Serbia, containing projects which have been identified as suitable for financing in accordance with the objectives provided for in Article 2 of Regulation (EC) No 2666/2000.
- (4) Those projects should be financed from budget heading 22 05 02 (Assistance to Serbia and Montenegro) according to their nature and the relevant budgetary commentaries.
- (5) In accordance with Article 1 of Council Regulation (EC) No 2667/2000 of 5 December 2000 on the European Agency for Reconstruction<sup>2</sup>, the Commission is authorised to delegate the implementation of measures financed under an annual action programme to the European Agency for Reconstruction.

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<sup>1</sup> OJ L306, 7.12.2000, p. 1. Regulation as amended by Regulation (EC) No 2415/2001 (OJ L 327, 12.12.2001, p.3),

<sup>2</sup> OJ L 306 , 7.12.2000, p.7. Regulation as last amended by Regulation (EC) No 2068/2004 (OJ L 358, 3.12.2004, p.2).

- (6) A Constitutional Charter was adopted in the Federal Republic of Yugoslavia on 4 February 2003, renaming the country 'Serbia and Montenegro'. This change of name should be taken into account.
- (7) The CARDS Committee set up by Article 10 of Regulation (EC) No 2666/2000 has given a favourable opinion,

HAS DECIDED AS FOLLOWS:

*Article 1*

The Annual Action Programme for 2005 for Community Assistance to Serbia, provided for in the Annex to this Decision, is approved for a maximum amount of EUR 154.5 million to be charged to the budget heading 22 05 02 of the 2005 General Budget of the European Communities (Assistance to Serbia and Montenegro).

*Article 2*

The implementation of this programme, except sections 3.2.4 (Customs and taxation) and 3.3.5-part A (Education and Employment - Tempus), is delegated to the European Agency for Reconstruction.

Done at Brussels, 6.4.2005

*For the Commission*  
*Benita FERRERO-WALDNER*

*Member of the Commission*

## **Annex**

### **Annual Action Programme for 2005 for Community Assistance to Serbia**



## 1. Identification

<b>Budget heading:</b>	22 05 02 (Assistance to Serbia and Montenegro)
<b>Total cost:</b>	EU contribution : €154.5 million
<b>Legal basis:</b>	Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001 (CARDS)
<b>Annual programming/ implementation:</b>	European Agency for Reconstruction € 147.0 million; Commission headquarters (Tempus and Customs) € 7.5 million

## 2. Republic (country and regional) update

The process of political and socio-economic transformation continued in 2004. In a difficult political environment, maintaining macro-economic stability has been the main challenge facing the Government. The restrictive budgetary practices implemented by the Government mean that limited new resources were committed to the public sector. Under these circumstances, the Government remains highly dependent on the donor community to drive the reform process.

The combined pressures of high unemployment (14%), an ever expanding trade deficit and inflation returning to double digits has made the introduction of new reform initiatives problematic. Despite this difficult policy environment a series of laws including legislation on Value Added Tax, Energy, Bankruptcy, Business Registration and Gambling were introduced in 2004. The implementation of the new bankruptcy and energy legislation can make an important contribution to restructuring the private sector. In addition a new Privatisation Agency director was appointed to re-start the privatisation process. GDP growth for 2004 is estimated to be approximately 6% but such growth levels have to be translated into employment generating opportunities and increased revenues to the public coffers.

The government is well aware that the ongoing restructuring of the private sector and the business enabling environment forms the optimum long-term solution to Serbia's socio-economic challenges. To capitalise on this support the government has increased donor coordination under the direction of the Minister of Economy. The Serbian government is keen to exploit the new policy environment afforded by the introduction of the 'Twin Track Approach' with Montenegro. In October 2004 the Public Administration Reform Council adopted a Public Administration Strategy that outlined a strategy of public administration reform to meet the principles of European good governance.

The Serbian local elections held in September saw the opposition parties, Democratic Party (DS) and Serbian Radical Party (SRS), win the largest number of votes. This success at local level may put increased pressure on the governing coalition. Difficult political decisions remain to be made concerning cooperation with the Hague Tribunal (which is having a direct impact on economic development, particularly FDI levels) and implementation of new VAT legislation. What would be very much welcomed is strategic policy thinking by the Government linking EU and other donor support to address the fundamental questions of national competitiveness and economic growth.

## 3. Summary of the Action Programme

A description of proposed project actions within each programme component is given in the following sections. Background material is also provided for each sector so as to highlight the justification for the projects subsequently proposed. Further details on individual projects are available in a separate set of Project Annexes. Operational duration, as indicated in the project fiche, may be extended up to the maximum duration allowed by this programme.

- **Democratic Stabilisation (approx. €17.0 million)**

The 2005 programme builds upon actions and measures developed in earlier programming periods to enhance civic participation in the political/economic process, build an inclusive society (PRSP) and reinforce democratic stabilisation. A pressing concern continues to be the

situation of refugees, IDPs and the Roma community. As such the 2005 programme looks to supporting just and durable solutions in terms of the right to return and building the capacity of Government to meet the special needs of these groups. With EU assistance NGOs are playing a more pro-active role in civil society. This support continues in 2005 including assistance to the Parliamentary Committee for Poverty Alleviation and the Civil Service Advisory Committee. In the Media sector, the EU will support, among other things, the implementation of media legislation to build the regulatory environment for media.

- **Good Governance and Institution Building (approx. €50.5 million)**

The role of the EU in Serbia is changing from supporting the reconstruction process to building the necessary institutional machinery and strategic awareness required to meet the EU accession process. To that end the 2005 programme supports the new institutional arrangements afforded by the Twin-Track approach by identifying where State and Republic can best meet mutual objectives to prepare for EU membership. Support will be directed to improve Serbia's capabilities in Public Administration (civil service reform), Public Finance, European Integration, Economic Management, Justice, Integrated Border Management and Customs and Taxation. A major obstacle continues to be the weak absorption capacity of the Serbian administration to engage successfully with institutional building support. In 2005 the EU's support to municipal government will continue with new investments to target municipalities. For the Health Sector Reform in 2005 the focus will be on improving management and equity in terms of service delivery.

- **Economic and Social Development (approx. €82.0 million)**

The weak performance of the Serbian economy, high unemployment and the widening trade deficit makes institutional economic reform more pressing. For 2005 the emphasis continues to focus support on the SME sector which will form the backbone of the future Serbian economy, the privatisation process, land ownership and trade (specifically in the agriculture sector). Education assistance will continue to support capacity building in the Ministries of Education and Labour and Employment, curricula development and funding vocational education pilot schemes. The Serbian administration has to begin making the strategic connections between the privatisation process, economic reform, education, export support and FDI to coherently address economic challenges and how best to exploit EU funds. Support to the transport sector will be directed to facilitating trade by enhancing inter-modal transit opportunities, attracting IFI finance and aligning transport legislation to EU standards. EU support under 2005 to the Environment will primarily concentrate on water/ wastewater management while the Energy sector will benefit from continued restructuring and district heating investment.

- **Other, (GTAF, Programme Reserve...) (approx. €5.0 million)**

The General Technical Assistance Facility (GTAF) is a valuable resource to prepare for future programmes, feasibility studies, evaluations, monitoring etc. The Programme Reserve component may be used to provide additional funds for priority projects included in this action programme, to cover unforeseeable priorities, and for other programme related expenditures.

### **3.1 Democratic Stabilisation (approx. €17.0 million)**

The components outlined below deal with proposed programmes/projects in the following sectors: Minority Rights and Refugee Return, Civil Society and Media.

#### **3.1.1 Minority Rights and Refugee Return (approx. €12.5 million)**

Note: for activities related to the State Union please refer to the State Union Action Programme for 2005.

#### ***Background and cooperation related policy of the beneficiary country and Republic***

During the last decade of the previous century Serbia and Montenegro became the country with the greatest refugee and IDP problem in Europe since the Second World War. Most of the

refugees are Serbian or belong to minority groups (Roma). Their arrival to Serbia caused a considerable blow to the already overstrained social welfare system and significantly added to unemployment and poverty. Furthermore, the weakness of the economy has further reduced the options for refugees and IDPs.

According to the results of the most recent census in 2002, 227,500 (60%) of the 377,000 registered refugees have opted for local integration. The main strategic orientation of Serbia in respect of the 230,000 IDPs from Kosovo is the provision of assistance and necessary guarantees for return and a safe life. Out of the total number of refugees and IDPs, more than 16,000 reside in the remaining collective centres in Serbia. A number of these people need support.

The Government has adopted a Poverty Reduction Strategy Paper and a National Strategy for Refugees and IDPs, which will complement the EU programmes in this sector. The Government's proposed strategy to close collective centres implies a greater urgency to resolve the problems of refugees and IDPs particularly with regard to housing and income generation. The Commissariat for Refugees and IDPs is the main government body dealing with the issues of refugees and IDPs in Serbia. Regarding the State Union bodies, the Ministry for Human Rights and Minorities and the Coordination Centre for Kosovo are the two principal authorities in this sector. The Coordination Centre for Kosovo has been actively engaged in the past but its mandate under the present Government arrangements remains unclear.

Much of the international assistance targeting the most vulnerable population in Serbia and Montenegro such as the humanitarian assistance programme provided by ECHO has already been or is being phased out. Following that tendency and the fact that the Government intends to close down the collective centres in the coming two years, the CARDS 2004 programme has taken into account the need to move from providing humanitarian assistance to finding durable solutions for refugees and IDPs.

The 2004 programme has focused on the implementation of a programme for the closure of collective centres, in line with the National Strategy. The programme also supports return and re-integration to Croatia, BiH and Kosovo, institutional building support to the Government of Serbia, support to the Ministry for Human Rights and Minorities on establishing a re-admission centre for Roma forcibly returned, Roma placements in municipalities and assistance to Roma NGOs and a project implementation unit for the newly established Housing Fund for Serbia.

The 2005 programme will assist in developing durable solutions for refugees and returnees and support government, at State Union and Serbian Republic level, thorough institutional building to better address the challenges facing these groups.

### ***Coherence with EC cooperation policy and the MIP***

According to the MIP 2005-06, EU support should focus on supporting durable solutions for refugees and IDPs in collective centres in Serbia. This translates into policy actions such as integration and facilitation of return, social reintegration of minorities and fighting discrimination practices, implementation of anti-discrimination and equal rights legislation, support to returnees under re-admission agreements and capacity building of relevant actors in the sector, both at the State Union and the Republican level.

As a short-term priority, the EC Partnership calls for adequate co-operation between the State Union and Republics regarding the legislative basis and practical protection of the rights of refugees, displaced persons and minorities. Medium-term priorities underline the need to ensure full respect of human rights of refugees, IDPs and minorities, including access to health services and easy access to personal documents; right of a real choice between sustainable return and integration; facilitation of integration for those who choose not to return and adoption of new legislation on refugees. Finally, Serbia must continue to implement the National strategy for Refugees and IDPs.

## **Identified projects**

### **3.1.1.1 Support to Refugees and IDPs**

EU funds will provide: (i) further institutional support to the Government of Serbia (Commissariat for Refugees and IDPs and the Coordination Centre for Kosovo) for policy development, better operational management and staff training; (ii) further assistance in implementing the programme for closure of the collective centres (support to the integration of refugees and IDPs from collective centres); (iii) support for the return and reintegration of refugees and IDPs to Croatia, BiH and Kosovo including support for pre-return dialogue and possible 'go and see', 'come and inform' visits as well as assistance relating to property, land repossession, tenancy rights, etc. for refugees from Croatia and IDPs from Kosovo; (iv) targeted assistance to IDPs with a specific focus on Roma IDPs.

### **3.1.2 Civil Society (approx. €2.0 million)**

#### ***Background and cooperation related policy of the beneficiary Republic***

A large number of non-governmental organizations and other civil groups were set up during the 1990s. As an important tool for fostering democratic values, the newly emerging third sector created the foundations for social change and played a direct political role in assisting the transition to democracy. NGOs are now seen as important partners in reinforcing civic participation in different reform processes.

In the past couple of years the Government and civil society organisations improved their relations, but policy dialogue was very limited. The former Ministry of Social Affairs encouraged the participation of civil society organisations in drafting the Poverty Reduction Strategy Paper (PRSP). A special advisory team called Civil Society Advisory Committee (CSAC) was established, bringing together a number of prominent NGOs. CSAC actively participated in a long consultative process to help develop the PRSP. Through CSAC, the contribution of civil society organisations was taken into account in the final PRSP document. There was special emphasis on issues related to the challenge of corruption, the role of judiciary, a human rights perspective to poverty reduction and gender equality. The CSAC is an important partner in PRSP implementation and now civil society organizations can play a key role in advocating prompt implementation of the Strategy as well as monitoring and evaluation.

Another body encouraging civil society participation in policy making is the Parliamentary Committee for Poverty Alleviation. It is a new channel for public debate and participation of civil society in the policy process. The 2005 CARDS programme will support the Parliamentary Committee for Poverty Alleviation and Civil Society Advisory Committee thus contributing to the programme's overall objective which is to support policy dialogue between the Government and the civil society.

The 2003 CARDS Programme for Serbia supported active participation of civil society in the preparation and discussion of the PRSP by setting up the Civil Society Advisory Committee and further strengthening of NGOs administrative capacity. EU funds were used to support the establishment of a Management Unit for the Social Innovation Fund (SIF) with the Ministry of Social Affairs. The Fund's aim is to foster relations between the Government and non-government sector by supporting joint projects. The 2004 programme increased its target civil society groups and helped develop partnerships between local governments, businesses and non-profit sectors with the aim of local empowerment and social inclusion and increasing democratic accountability. Building on the 2004 assistance programme, further support is provided to support the Management Unit of the SIF and Monitoring Units in the field to evaluate the impact of the SIF projects implemented throughout Serbia. In 2005 EU funds will continue to support the Social Innovation Fund.

After the change of Government in March 2004 the former Ministry of Social Affairs merged with the Ministry of Labour becoming the Ministry for Labour, Employment and Social Affairs. The new Ministry continued support to the Social Innovation Fund (SIF). The SIF will continue to include civil society organisations and private sector in the social services provision. This will continue to build cooperation between the Government and the civil society in the social welfare sector.

### ***Coherence with EC cooperation policy and the MIP***

The new MIP for 2005-06 defines the following priorities for the civil society sector: support to strengthening the capacity of civil society organisations to effectively contribute to the ongoing transformation and development of the economy and democratic governance structures; support to the involvement of civil society in the implementation of the Poverty Reduction Strategy, also via supporting the SIF; support to partnership projects between local administrations, NGOs, grass roots organisations, social partners, professional organisations, universities and other parts of civil society and enhancement of (financial) sustainability of viable NGOs. Furthermore, the EU should assist the parliamentary committees dealing with key priorities under the EU integration process and the PRSP.

The activities proposed for 2005 underscore the short-term priority of the EC Partnership to support the enabling environment (including financial aspects) conducive for the development of NGO and civil society organisations notably by adopting the Law on Associations and the Law on the Legal Status of Foreign NGOs.

### ***Identified projects***

#### **3.1.2.1 Support to Civil Society**

EU funds in 2005 will be used to support: (i) Civil Society Advisory Committee and relevant civil society organisations to engage in decentralisation agenda, monitor progress in PRSP implementation and progress towards EU integration; (ii) Parliamentary Committee for Poverty Alleviation (supporting parliamentarians in their activities related to enabling legal framework for civil society action and social inclusion, poverty alleviation and promotion of European social cohesion agenda); (iii) capacity building of NGOs managing the Monitoring and Management Units of the Social Innovation Fund to monitor impact of SIF funded projects and capacity building for local-level monitoring of provision of social services; (iv) programme and management for the Management Unit of the Social Innovation Fund (SIF).

#### **3.1.3 Media (approx. €2.5 million)**

### ***Background and cooperation related policy of the beneficiary Republic***

The Serbian media succeeded in overcoming the legacy of the Milošević years, but the current legal environment limits possibilities to consolidate, transform and develop the sector in a sustainable manner. The Broadcasting Act, adopted in July 2002, was to help remedy this situation, but its implementation is still pending. EU assistance to the Broadcasting Agency has been cancelled due to irregularities in the appointment of three members of the Broadcasting Council (an independent body responsible for issuing of licenses and monitoring of the media).

The new Government promised to resolve problems related to the proper functioning of the Broadcasting Council. In August 2004 the Serbian Parliament passed the Law on Amendments and Supplements to the Broadcasting Law. It still remains to be seen if these changes will bring about the election of new members of the Council and if the Council format will guarantee full independence of this regulatory body.

The Law on Access to Information was adopted in the first week of November 2004. It will hold politicians and State representatives responsible for the objective and timely dissemination of information to citizens. The absence of this Law provoked a number of problems and

misunderstandings between the media and the Serbian government. This law guarantees full independence of this regulatory body and requires election of new council members.

The Law on Access to Information was adopted in November 2004. It will hold politicians and State representatives responsible for the objective and timely dissemination of information to citizens.

The independent media are facing serious challenges as well. Apart from problems related to the regulation of their legal status there are difficulties with further development and consolidation of their professional capacities. To adapt to new market conditions there is a need to improve the professional qualifications of media personnel as well the business performance of most media outlets.

In an unstable political situation and weak regulatory environment, the media in Serbia remain vulnerable and subject to political influence. It is important to continue encouraging implementation of media related laws and secure provision of accurate information through the support of quality programming and investigative reporting.

For many years, the EU has played an important role in Serbia by actively supporting the country's independent media. Since 2001 it has been supporting the establishment of the new legal framework in the media sector, participated in the restructuring of the state-run media and helped the independent media to continue their professional work in the transition period. In the framework of 2003/2004 Media Programme, the EU has further supported independent media to become self-sustainable businesses, especially the Media Centre and TV station B-92. A new Media Fund was established within the Media Centre aiming to stimulate the development of quality programmes and investigative reporting of local media. The 2005 programme will contribute significantly to development of the media sector in line with the best European practices.

### ***Coherence with EC cooperation policy and the MIP***

As short-term priorities, the EC Partnership notes the importance of enforcing media legislation in particular the Broadcasting Law, adopting the Law on free access to information and de-penalising slander. Medium-term priorities include development of media in line with European standards and fostering professionalism of journalists and media operators. The MIP 2005-06 reflects these objectives as well.

### ***Identified projects***

#### **3.1.3.1 Support to Media Sector**

EU funds will provide: (i) support to the implementation of media related laws – joint initiative with the Council of Europe is to be focused on support to implementation of already adopted Laws and bringing legislation in line with the European standards; (ii) further support for the Media Fund in order to improve the content of the media by providing support to high-quality production.

#### **3.2 Good Governance and Institution Building (approx. €50.5 million)**

This priority sector includes programmes on general public administration reforms for: (A) public finance management, (B) European integration and related State Union bodies, (C) health sector reform and (D) local/municipal government and regional economic development. Programmes in the areas of justice and home affairs, integrated border management, customs and taxation are also included. Support to the Statistical Offices at the Republican level will be covered through the State Union allocation (please refer to the State Union Action Programme for 2005).

#### **3.2.1 Justice and Home Affairs (approx. €13.8 million)**

Note: for activities related to the State Union please refer to the State Union Action Programme for 2005.

## ***Background and cooperation related policy of the beneficiary country and Republic***

The immediate reform efforts within the Justice and Home Affairs (JHA) sector in the post Milošević era were sporadic. Promises committing Serbia to the “highest European rule of law and human rights standards” remain largely unfulfilled. Some reforms have been initiated. These efforts were aimed at improving the performance, professionalism and accountability of the Courts and the Police. Yet, progress has been incremental and slow. The judiciary remains overburdened with huge caseloads, court proceedings are slow and ineffective and many courts are still without modern IT equipment.

The Ministry of Justice (MOJ) is more actively seeking to address several of these key issues including legal reforms to enhance the efficiency of the judicial system (e.g. the procedural codes) as well as modernisation of court and case management systems including their computerisation. It has also drafted a reform strategy, which will bring Serbia closer to European standards and best practices. Although much remains to be done these are significant steps in the right direction, which will require continued EU support.

Key challenges for the MOJ are to finalise and implement a comprehensive, and consensus oriented short to mid-term judicial reform programme aiming to modernise Serbia’s judicial system. This should also strengthen its capacity for drafting new legislation and in particular for managing the upcoming EU law approximation efforts.

The Ministry of Interior (MOI) has also been slow in implementing required reforms. The Law on the Police has still not been submitted to Parliament. The Ministry did, however, develop and publish a “Vision Document” (in July 2003), which broadly outlines a reform strategy. Still, much remains to be done. There have been recent encouraging signs of a genuine will to overcome legislative, political and bureaucratic obstacles including in the areas of border policing and the fight against organised crime. The Border Police require substantial investments to up-grade their organisation, training and facilities. An Integrated Border Management Strategy compliant with EU requirements and standards is also missing. EU assistance which had been requested to address this issue was declined by the Ministry of Interior in 2004. Such a strategy would play an important role in addressing illegal trafficking in drugs to western and northern European countries.

Two main challenges remain for the MOI: (i) to transform the police force into a credible and accountable institution serving the Serbian citizen, (which includes passing the Law on the Police in line with European standards) and (ii) how to modernise the police forces enabling them to perform their duties in a manner reflecting best European practices. The latter poses a particular challenge in the area of organised crime and border policing where improvements – or lack of it – can significantly impact Serbia’s EU integration bid. While the above-mentioned “Vision Document” provides good general guidance, specific strategies still need to be developed and effectively implemented for the various police functions.

Closely connected to the above mentioned JHA sector reforms and leading to further EU support are: (i) the passing of an Asylum law by the State Union regulating visa, migration and asylum policies along the lines of European best practices; (ii) support to the republican Commission mandated to examine the necessary inter-ministerial coordination mechanisms and policies related to Integrated Border Management and (iii) further physical and operational rehabilitation of essential rail and secondary road border crossings.

## ***Coherence with EC cooperation policy and the MIP***

The Copenhagen criteria, Thessaloniki Agenda and MIP highlight the importance of judicial reform, effective and transparent rule of law as well as the need for a modern policing force. The proposed JHA projects will assist the authorities in Serbia to develop and strengthen effective Justice and Home Affairs policies including development of effective asylum, visa and migration regimes as well as strengthening integrated border management measures in accordance with EU standards. Coordination, coherence and synergies will be assured with the AENEAS programme.



## **Identified projects**

### **3.2.1.1 Justice and Home Affairs**

For the Ministry of Justice, EU funds will: (i) assist in drafting and revision of legislation, by-laws and regulations in the area of economic and/or organised crime as well as training respective staff including those in the Serbian Financial Intelligence Unit in close cooperation with the Judicial Training Centre; (ii) provide continued support (supplies, TA and training) to the ongoing court modernisation/IT support program, with a particular focus on court registries; (iii) provide support in developing and implementing strategies for MOJ's judicial reform strategy.

For the Ministry of Interior, EU funds will: (i) strengthen the Organised Crime Directorate and procure special operational tools needed for investigations (e.g. surveillance equipment); (ii) continue to support the Border Police to enhance their intelligence gathering and communication abilities; (iii) strengthen the National Crime Intelligence System.

EU funds will also provide support in the area of Visa, Asylum and Migration to the State Union of Serbia and Montenegro to facilitate the implementation of the long awaited asylum legislation. (For details please refer to the State Union Action Programme for 2005)

### **3.2.2 Integrated Border Management**

EU support for the Integrated Border Management programme will fund feasibility studies and assist in preparatory actions for the proposed rehabilitation of the Dimitrovgrad railway station (Serbia-Bulgaria) and a number of secondary border crossings (Serbia-Bosnia and Herzegovina). Further details have been included in the Transport sector fiche (no. 3.3.3.2) as no expenditures for IBM are foreseen in this Programme.

### **3.2.3 Public Administration Reform – parts A to D**

#### **Part A: Public Administration Reform: Financial Management and General Administrative Reforms (approx. €4.0 million)**

#### ***Background and cooperation related policy of the beneficiary Republic***

While the Serbian Government is committed to public administration reform the policy-making system remains highly fragmented and weak. The administration is marked by low inter-ministerial co-ordination and a Secretariat General of the Government insufficiently equipped to drive the reform process. Few national resources have been committed to the civil service. The lack of incentives to attract or retain educated and skilled people impedes the performance of Public Administration.

Since 2002 some key challenges facing the reform of Public Finance have been addressed. The Ministry of Finance has managed to improve the transparency of the budget process and improved controls on public expenditure. These results were achieved mainly through the adoption of the Budget System Law, the establishment of a treasury function, the adoption of a new Public Procurement Law, the establishment of a public procurement office and the decision to set up an internal audit. On the revenue side, the Law on Tax Procedure and Tax Administration was adopted and the Tax Administration organisation was improved notably through the development of a large taxpayer unit. These reforms however need additional support.

EU programmes from 2003 and 2004 provided complementary assistance to the implementation of financial control measures and a Treasury integrated management system. Follow-up support will be allocated to the budget process (still undeveloped in the line ministries) and Supreme Audit Institution (still not established) through the 2005 programme. Other priorities such as public procurement will be addressed by other donors or in future programmes, again if the necessary conditions are met.



Serbian administration has repeatedly stressed the need to restore stability and the rule of law, support the transition towards a market economy and move towards EU integration. The Government has set Public Administration Reform as a priority, particularly in terms of 'depoliticising, professionalising and rationalising' government. In October 2004, the Public Administration Reform Council adopted the Serbian Public Administration Reform strategy drafted by the Ministry of Public Administration and Local Self-Government. The Strategy will ensure that the principles of European good governance will be respected. With the necessary commitment and ownership by the Government international assistance can significantly support national efforts and the state reform could be seen as a driving force of Serbia's socio-economic recovery.

### ***Coherence with EC cooperation policy and the MIP***

The three components of the 2005 programme (administrative legislation, budget process and Supreme Audit) are in line with the fourth Copenhagen criterion requiring 'honest, efficient and well functioning civil services' and they contribute to the achievement of the Thessaloniki Summit agenda. They are also consistent with SAP and MIP objectives to 'develop an efficient and accountable public administration in line with EU standards' and to 'improve budget preparation, formulation and management'. Continuing the assistance to the budget process and the adoption of administrative legislation are fundamental priorities of Public Administration and are crosscutting issues to other sectors. Establishing the Supreme Audit Institution is essential for sound financial management, accountability and transparency.

### ***Identified projects***

#### **3.2.3 (Part A) Public Administration Reform / Public Finance**

The programme will support: (i) drafting and implementation of administrative legislation and related secondary legislation (necessary for the functioning of a professional civil service (focusing on Civil Service Law and salary reform) will be provided by producing drafts of organic administration legislation as well as training and dissemination support for adopted legislation); (ii) the Government budget preparation process (joint donor support with the US Treasury and DFID with the objective of completing secondary legislation related to the budget system to improve transparency, forecasting and accountability); (iii) training of civil servants in the Ministry of Finance and line ministries to operate the new budget strategies/systems; (iv) development of the capacities of the Supreme Audit Institution by creating a strong legal framework to ensure transparency and accountability in public sector financial management, promote greater awareness in the Government, Parliament and other state bodies of the key role of supreme audit in public finance and train a cadre of supreme audit staff to undertake audits in line with the EU and international audit standards.

#### **Part B: Public Administration Reform: European Integration (approx. €2.0 million)**

Note: for activities related to the State Union please refer to the State Union Action Programme for 2005.

### ***Background and cooperation related policy of the beneficiary country and Republics***

One of the main objectives of the State Union of Serbia and Montenegro is EU Accession. The first step in this direction will be the completion of the Feasibility Study, which has been on hold until recently due to absence of cooperation between Serbia and Montenegro concerning the harmonisation of their economic systems. This situation should improve as under the new 'Twin Track' approach the EU will no longer insist on harmonisation of trade and related policies between the two Republics. The ongoing feasibility study will determine progress towards SAA. A single Stabilisation and Association Agreement (SAA) with two separate "Republican" protocols is envisaged.

EU assistance to EU Integration began in 2001 and continues to strengthen a number of key actors such as the State Union European Integration Office (State EIO) and its Republican counterparts. Other EU actions support the State Union Intellectual Property Institute through training and equipment, the State Union and the two Republican Parliaments with the provision of training to staff and MPs concerning organisational issues and EU Integration issues. Quality management standards are also strengthened with technical assistance and equipment provided to the State Union bodies dealing with standardisation, accreditation and metrology. Activities raising awareness concerning EU integration issues within Serbia and Montenegro are also supported through a call for proposals open to NGOs and governmental organisations. Training of staff dealing with EU Integration issues in line ministries is one of the components of an upcoming 2004 project.

The overall process of legislative harmonisation with the *acquis* should also be accompanied by their progressive translation into the Serbian language. The State Union European Integration Office coordinates the whole process. Apart from highly specialised tasks such as the translation of the *acquis*, it is of vital importance that the knowledge concerning European Integration matters (legal, economic, political, cultural, etc.) is shared with the population in order to facilitate a better understanding of the EU and to broaden the scope of public participation, debate and support to the process of EU integration and regional cooperation. Thus these two components – support to the State EIO Translation Unit and awareness raising on EU matters through the European Integration Fund will be the focus of the 2005 programme. (Support to the Translation Unit will be provided through the State Union programme).

### ***Coherence with EC cooperation policy and the MIP***

One of the main priorities in the Public Administration Reform area, outlined in the MIP 2005-06, is to strengthen the European Integration Structures, European Integration Offices and European Integration Units in line Ministries and enhance public awareness on EU related matters.

The EC Partnership notes, as its short-term priority, that: “it is of utmost importance to strengthen and maintain administrative capacity of the institutions dealing with EU integration at the state and republican level (in terms of staff, training and equipment) and improve cooperation among them”.

As for medium-term priorities, it is necessary to further develop EU Integration structures, notably by strengthening the European Integration Offices, establishing smooth cooperation mechanisms as well as European Integration Units in the line ministries at state and republican levels. At the State Union level, appropriate administrative capacity must be developed in order to adequately perform the state competences and develop and implement a reform strategy for the State Public Administration, including the necessary legislative basis. A reform strategy for the Parliament must be developed, to bring its working standards and resources to a level at which it can act as an effective institution.

EC Partnership also mentions support to other State Union bodies such as the Joint Customs Office (covered through the Customs and Taxation programme), Federal Statistical Office (covered in 2005 through the sectoral programme), Joint Competition Commission, etc.

The MIP 2005-06 also foresees support to strengthening the EU Integration Structures, including support to the EIOs and European Integration Units in line ministries and enhancing public awareness.

### ***Identified projects***

#### **3.2.3 (Part B) Support to European Integration Process**

The EU will continue to support the European Integration Fund. The project will essentially assist in raising awareness of EU integration issues in civil society. The 2005 programme will also consider supporting the implementation of competition and consumer protection legislation (funds will be

mobilised from the programme reserve, subject to a series of conditionalities). These include the existence of the necessary regulatory and enabling environment as well as commitment of adequate resources by the beneficiaries.

### **Part C: Public Administration Reform: Health (approx. €8.5 million)**

#### ***Background and cooperation related policy of the beneficiary Republic***

Reform of the health sector is a national priority and the Serbian Government is committed to pursue this priority within the wider context of EU integration and public administration reform. A working version of the Strategy and Action Plan for the Health Care Reform was prepared by the Ministry of Health (MoH) in early 2003 following the earlier adoption of the Health Policy of Serbia and the development of the Serbian Health Vision. This Strategy is also based on the UN Millennium Development Goals, the WHO strategy Health for All in 21st century and EU directives in the field of health.

Implementation of the sector strategy has been slow and inconsistent and core problems such as the relations between the key institutions (Ministry of Health, Health Insurance Fund, and Institutes of Public Health) have not been tackled.

The problem is particularly serious with regard to the Health Insurance Fund (HIF), which has taken upon itself to take the initiative on a number of health policy issues (e.g., hospital operations, prescriptions), entirely out of their mandate and without having the necessary technical competence. This reflects the weakness of the Ministry of Health and the political strength of the HIF (it currently manages funds amounting to about €1 billion). Furthermore, financial performance of the HIF over the past years has been poor and reaching fiscal sustainability in the HIF is a crucial target.

Sustainability will require that the gap between the HIF revenues and its expenditures be bridged, which calls for either an increase in revenue or a reduction in expenditure or, preferably, a combination of the two. It is essential to provide support to reform a system that was designed to provide universal coverage, but where now the link between contributions and entitlements has grown increasingly weak. Achieving fiscal sustainability in the HIF is a crucial target not only for the well-being of the health sector *per se* but also for the general economic well-being of the country.

In July 2004 the Serbian Parliament adopted the on Law on Medicinal Products and Medical Devices. The law is harmonised with the rules governing similar products in the EU and with other international standards. The new law prescribes the establishment of a competent administrative authority, the National Medical Products Agency. The medicines available in Serbia are mainly locally produced, most of them not according to international standards. Scientific assessments of safety and efficacy are not performed according to modern standards. On the other hand, a number of unregulated products are available in the market. There is an immediate need for an update of the registration criteria and procedures for approvals of new medicines according to recognised international standards. It is essential for the future development of the pharmaceutical industry in the country to have licences and certificates from the national Agency. Good quality medicines with proper licences are the basis for adequate therapy in hospitals as well as in primary health care.

Serbia has one national (Republic IPH "Batut") and 22 regional Institutes of Public Health (IPH), all of which have laboratory facilities. These IPH laboratories are responsible for drinking water and food safety, environmental testing and clinical microbiology at PHC level, as well as, to a certain extent, at hospital level. The laboratories perform a large span of different tests, roughly estimated at 100 different tests on 10-5 sample types (e.g. sputum, wastewater, food, air), which results in about 500 different procedures. This requires considerable know-how, a large laboratory set-up and many types of equipment and accessories, reagents and consumables. The work of the IPH laboratories accounts for 40-60 % of the IPH institute activities. The laboratories are practically the only ones in Serbia that do these tests and are therefore crucial to public health in the country.

The structure of the laboratories should be changed and responsibilities shifted to a different level.

The 2005 programme will continue with the reform process started in the previous years, providing further support to the Serbian pharmaceutical sector, public health care system and building the capacity of the Health Insurance Fund to enable it to function as an effective commissioner of health and health care services, using limited resources for maximum benefit of the insured population.

### ***Coherence with EC cooperation policy and the MIP***

The need to reform the health system in Serbia, in particular the Health Insurance Fund is stated as a medium-term priority in the EC Partnership. In addition, the programme is in line with the following MIP 2005-06 recommendations: continue the health sector reform at the level of both the Ministry of Health, the Health Insurance Fund and the main health cost centres, help building up the management capacity and support the implementation of reforms with a view of (a) facilitating the health expenditures and improving accountability and transparency in health financing (b) helping to improve financial sustainability of the Health Insurance Fund (c) contributing to improve equity and quality in service delivery, particularly at primary care level.

### ***Identified projects***

#### **3.2.3 (Part C) Support to the Health Sector Reform**

EU funds will support: (i) reorganisation and capacity building of the Health Insurance Fund; (ii) the Medical Products Agency; (iii) rationalisation of the operations of the Public Health laboratory network, which will be complementary to and following a World Bank study. The activity will focus on the development of health technology, quality assurance and health management standards and systems.

#### **Part D: Public Administration Reform: Local/Municipal Government and Regional Economic Development (approx. €19.7 million)**

### ***Background and cooperation related policy of the beneficiary Republic***

The Republic of Serbia (excluding Kosovo and the City of Belgrade) is divided into 24 districts (okrug) which function as de-concentrated extensions of central government. Each district is constituted of several municipalities (opština). In total there are 163 municipalities in the republic of Serbia (excluding Kosovo). Municipalities generally incorporate towns, villages and rural areas. The municipal government is normally situated in the largest town and is responsible for the entire municipality.

The Government of Serbia launched an administrative reform programme, which includes both the decentralisation of responsibilities and financial resources to the municipal level and the development of a regional policy. The Parliament adopted a new Law on Local Self Government in February 2002, and a new Ministry of Public Administration and Local Self-Government (MPALSG) was established in June 2002.

Implementation of the Law is hampered by a generally weak public administration. The definition of executive functions at different levels from the State Union to the municipal levels and the allocation of these functions to ministries and agencies in an efficient and productive manner remain incomplete. Until there is a clear distribution of functions and authority it will be difficult to ensure the required accountability and transparency of administrative structures. The results of field analyses confirm that municipal administrations are poorly organised with inadequate human resources, inadequate equipment and outdated working methods. This general lack of capacities has resulted in a situation that there are only a few local development initiatives under implementation. Especially in the smaller municipalities projects under implementation are limited to donor funded initiatives. Despite a favourable legislative framework there is still a limited

involvement of the civil society in local decision-making. Most municipalities have not yet developed capacity for participatory planning and implementation of public services. Within the framework of donor supported activities various municipalities have actively cooperated with non-governmental organisations during the implementation of development projects targeting vulnerable groups.

The overall objective of the local government and regional development programme is to contribute to an efficient and coherent decentralisation process in line with the Law on Local Self Government. It includes institutional capacity building of relevant actors at national and local level, improvement of the delivery of municipal services and strengthening of the municipalities' ability to design and implement local development initiatives in close cooperation with civil society organisations. Stimulation of the local economy and combating poverty is a major challenge for local authorities. Municipalities are expected to play a key role in the implementation of Serbia's Poverty Reduction Strategy by delivering critical services to the poor and improving the local investment climate.

### ***Coherence with EC cooperation policy and the MIP***

As outlined in the EC Partnership and the MIP 2005-06, support to decentralisation and local governance is important to meet the objectives of the Stabilisation and Association Process (SAP). The MIP also elaborates on the importance of regional cooperation and has a specific objective to facilitate and stimulate cooperation between Serbia and Montenegro and other countries in the region in close coordination with the EU's Regional Socio Economic Development Programme. The proposed programme will complement EU funded support to the New Neighbourhood Initiative, enterprise development and vocational education and training programmes.

### ***Identified projects***

#### **3.2.3 (Part D) Local and Regional Development Programme 2005**

The main programme strategy initiates a practical "learning by doing" process together with the beneficiary institutions. It focuses on: (i) human resource development and institutional capacity building; (ii) municipal service delivery and municipal infrastructure and (iii) local economic development initiatives. This will result in tailor made training activities and the implementation of selected priority infrastructure and local economic development projects.

The 2005 programme will support four related projects, three of them being a continuation and consolidation of already ongoing projects whereas one new municipal support project will be developed along the border with Romania to complement the planned neighbourhood programme in that area.

The first project is based in North East Serbia where EU funds will support a Project Implementation Unit, steering committee and inter-ministerial working groups for the project established. Municipal diagnostics, resulting action plans and a pipeline of priority projects will be prepared in each of the participating municipalities (27 in all based on reviews of municipal budgets and financial management practices, municipal institutional capacities and human resources development strategies, municipal planning, municipal infrastructure development and local economic development).

Secondly, in Eastern Serbia, EU funds will support the second phase of the Municipal Support Programme initiated under the 2003 programme to consolidate the ongoing capacity building process and to contribute to the implementation of selected priority projects as outlined in the strategic municipal action plans developed during the first phase. 15 municipalities will be covered by this programme.

For project number three, EU funds will support the second phase of the **Municipal Improvement and Revival Programme (MIR)** initiated under the 2003 programme. (11 municipalities)

Finally the fourth project will direct EU funds to the second phase of the Regional Social and Economic Development Programme (RSEDP), which will finance local economic development initiatives to be identified through a call for proposals. The RSEDP programme covers a total of 43 municipalities.

### **3.2.4 Customs and Taxation (Commission managed) (approx. €2.5 million)**

#### ***Background and cooperation related policy of the beneficiary country and Republics***

The development of the Customs and Tax Administrations stagnated during the Milošević years and from being the leading services in the region they found themselves to be lagging behind and in need of significant modernisation and development. They had also become increasingly corrupt.

#### ***Customs***

The Customs Service clearly had too many Stations and Districts and was suffering from the problems associated with being not only overstaffed but also by officers who had been selected using non-transparent recruitment policies. There was also a need to consider that the Customs Service had been a national service with most of the business and business services being managed from Belgrade. Thus a number of reviews and studies were essential (including organisation and structure, pay and grading, equipment and infrastructure, law and procedures and trade facilitation) to provide a basis for a comprehensive programme of modernisation and development. The Service is now in the process of implementing the findings of these reviews with the support of technical assistance from the CAFAO programme.

The increasing separation of the Customs into two republican Services placed an increasing importance on operation of the Joint Customs Office and efforts have also been made to extend their slightly reluctant cooperation into the Enforcement area so as to have a more cohesive approach in the fight against organised crime including illicit trafficking. The equipping by the United Kingdom, on a bilateral basis, of an operational communication and coordination centre in each Republic is facilitating their efforts in this area. The CAFAO programme Enforcement project which is providing identical programmes in both Republics is encouraging and supporting closer working between the two operational centres.

#### ***Taxation***

Taxation has always been managed at the Republican level and in Serbia has the GTZ as major donor while in Montenegro the major donor is USAID. Montenegro took a very early decision to replace the existing Sales Tax with a 6<sup>th</sup> Directive compliant VAT. Serbia is now in the process of implementing VAT and the CAFAO programme is providing support to ensure that the planning is feasible as well as ensuring a clear linkage between the two Services as well as promoting close working between the Customs and Tax Services.

#### ***Coherence with EC cooperation policy and the MIP***

The EC Partnership calls for Serbia and Montenegro to ensure the full implementation of the customs reform plan to secure a high degree of administrative capacity, including a specific focus on the observance of the obligations which arise from the granting of preferential trade measures (origin), notably the strengthening of the Joint Customs Office.

In relation to taxation the EC Partnership calls for Serbia and Montenegro to review both fiscal legislation and administrative procedures with a view to ensuring the effective and non-discriminatory enforcement of tax legislation as well as continuing to strengthen the administrative capacity of the tax administrations.

The project directly addresses Section 2.4 of the MIP 2005-06.

The Country Strategy Paper requires that assistance should be provided with a view to the modernisation and development of the customs and Tax Services in line with EU standards.

### **Identified projects**

#### **3.2.4.1 Support to the Customs and Taxation Administrations**

The programme will provide support in the following areas:

##### **Customs**

Further approximation of legislation and procedures with the EU acquis (including their effective implementation), administrative capacity, control procedures (including origin), cooperation with business and with other agencies, management of human resources (including training).

##### **Taxation**

The project will provide support in the following specific areas relating to Value Added Tax and Excise duties: approximation of legislation with the EU acquis, policy development, audit procedures, enforcement, internal audit and management of human resources (including staff development and training)."

Additionally the existing CAFAO project to support the Joint Customs Office will be strengthened with a view to ensuring that Serbia and Montenegro can meet their joint obligations in the Customs field, notably related to the management of preferential trade measures. This support will be coordinated by one to ensure a fully consistent implementation in both Republics.

#### **3.3 Economic and Social Development (approx. €82 million)**

This section provides the outline of projects to be done in the areas of Investment Climate and Trade.

##### **3.3.1 Investment Climate (part A and part B)**

This section of the Action Programme consists of two components: Enterprise and Financial Sector Support programme and support to the Cadastre. The summary of proposed activities is outlined below.

##### **Part A: Enterprise and Financial Sector Support Programme (approx. €11.5 million)**

###### ***Background and cooperation related policy of the beneficiary Republic***

Serbia's enterprise sector comprises of a mix of large State/Socially-Owned Enterprises (SOEs) and an active private sector of some 60,000 SMEs. The SOEs have continued to make losses and generate a substantial quasi-fiscal deficit. This burdens the economy and the financial sector. Their disposal, primarily through privatisation, is a keystone of the Government's programme of structural adjustment and economic reform and a prime determinant of their success. At the same time, Government policy is to continue to support the development of a business enabling environment to support the creation and expansion of start-up companies and SMEs.

Serbia's privatisation programme has been successful despite a recent slow down in the Privatisation Agency's (PA) activities resulting from management changes made after the March 2004 change in Government. Fortunately, these changes have now been reversed. To date, the PA has sold 40 large enterprises through international tender and more than 1000 through public auctions. Privatisation proceeds yielded more than €900 million in revenues in 2003 and investors committed another €800 million for improvements. Corporate restructuring, however, was much slower (only five out of 67 enterprises were successfully restructured and subsequently privatised); essentially because of the lack of cooperation of state creditors to renegotiate company debt, lack of a relevant framework for bankruptcy proceedings and land title issues. Government and the

Privatisation Agency are now committed to resolving these issues and are about to submit amendments to Parliament to strengthen the Privatisation law including related implementation measures for the recently passed Bankruptcy law (e.g., operationalising the Corporate Restructuring Centre in the PA, which will follow the process from initial assessment (diagnostic) to asset sale through public tender/auction and/or liquidation/ bankruptcy). Much work remains to be done including the major challenges of utility privatisation (e.g. telecommunications)

To support the SME sector the Government adopted a national SME strategy in 2003 to encourage the formation of new enterprises and new employment by domestic entrepreneurs. The scale of the tasks involved, in terms of the introduction of modern technology, overcoming the lack of modern management experience and access to modern markets, also highlights the acknowledged need for FDI and export performance as vital components in achieving sustainable development. Government also introduced a programme of legislative and administrative reforms aimed at improving the investment climate, including a Foreign Investment Law and a Decree under which the Serbian Investment and Export Promotion Agency (SIEPA) was established. However, these policy measures are being implemented slowly. To further support the investment climate in Serbia it is of vital importance to provide increased opportunities for investment and entrepreneurs. Serbia has a series of key national assets and the Danube is of major regional importance with the potential to provide sustainable economic development projects. To realise this potential a Project Preparation Facility will be funded under the 2005 programme. This Facility is designed to develop bankable projects that will attract investment and generate sustainable employment opportunities over the long-term.

Much work is still required to complete the privatisation process and address the policy and support gaps for SME development. The EU works closely with other donors including EBRD, World Bank and USAID to ensure a healthy balance between support for the ongoing privatisation programmes and support to new private enterprises (essentially SMEs).

In addition, sweeping reforms have been implemented to strengthen the financial sector, in order to try to restore confidence and to establish the basis for growth. Less than half of the 82 banks in Serbia have survived and some of the largest are now being privatised. The "Law on Banks and Other Financial Organisations" adopted in May 2002, brings the Serbian legal and regulatory banking environment closer to EU standards. Many of the existing banks however still need to upgrade their credit management and other related banking skills (e., g., asset management). To assist the sector in developing these skills the EU will fund a feasibility study, which will define the parameters for a banking training institute.

### ***Coherence with EC cooperation policy and the MIP***

The EC Partnership highlights the need to: (i) speed up the privatisation process, especially the restructuring and/or liquidation of large SOEs, (ii) accelerate the restructuring of large publicly-owned utilities, (iii) prepare for privatisation of the majority of the state-owned banks and (iv) ensure allocation of sufficient budgetary resources for redundancy and restructuring costs. The medium-term priority is for the privatisation process and financial (bank) restructuring to be completed.

The MIP 2005-06 notes the following objective as the most important one for the sector: to reinforce enterprise, financial sector policies and legislation in line with the EU *acquis* and contribute to the implementation by strengthening the capacity of related institutions involved in economic development; assisting the implementation of the European Charter for SMEs; contributing to the completion of the privatisation programme of SOEs and state-owned banks under BRA (Bank Rehabilitation Agency); promoting foreign and domestic investment. Furthermore, the MIP encourages the continuation of cooperation with the IFIs in this sector.

The Country Strategy Paper highlights river transport as a highly economical and environmentally friendly mode of transport in Serbia. Furthermore the European Partnership encourages project preparation for large investments.



## **Identified projects**

### **3.3.1 (Part A) Support to Pre- and Post-Privatisation, Enterprise Restructuring and Development**

EU funds will provide further support to: (i) the ongoing EBRD enterprise Turn Around Management (TAM) programme focusing on SMEs; (ii) ongoing privatisation programme focusing on the privatisation and/or restructuring (liquidation/bankruptcy) of SOEs, which have diagnostic reports as well as to assist in preparing new restructuring programmes for other SOEs and their subsequent privatisation; (iii) the Privatisation Agency and the Serbian authorities with tendering and bankruptcy proceedings; (iv) a Project Preparation Facility developing bankable projects that exploit the competitive advantages of the Danube river basin.

### **Part B: Cadastre (approx. €5.0 million)**

#### ***Background and cooperation related policy of the beneficiary Republic***

Accurate and up-to-date records of the ownership of land and buildings are vital components of a successful market economy. Information about the ownership of land and buildings in Serbia is held in the Cadastre and Land Registry.

The Republic Geodetic Authority (RGZ), the organisation responsible for the cadastre and real property registers, needs to undergo major change to acquire the necessary information for creation of the Real Estate Cadastre (REC) and to manage it in a manner consistent with EU standards and the needs of a modern market based economy. However, the organisation lacks both the technical and management skills needed to provide its products and services. At present there is especially a lack of up-to-date, digital, large-scale, cadastral and topographic mapping in Serbia. Such mapping forms an essential foundation for land registration (cadastral mapping) and a wide range of other public sector activities (cadastral and topographic mapping), such as physical planning, agricultural planning, environmental protection, mine clearance and infrastructure development. It is estimated that 40-50% of public sector information in advanced economies contains geographically related data. The lack of such mapping constrains the development and economic growth of the country.

Serbia has recognised that an effective national property rights cadastre and registration system is a pre-requisite for economic growth and broadening economic prosperity. Attention to property rights and secure tenure are of fundamental importance to create confidence for investors – both foreign and domestic. As a consequence, Government's strategy also includes priority support for the formation of a "real estate cadastre" nationwide and efforts to address illegal construction.

The EU's intervention will complement a much larger World Bank Real Estate Cadastre Project of about US\$39.6 million to be financed with an IDA credit of about US\$30.0 million. Detailed cost tables are available which include investment costs and the quantities of technical assistance, civil works, goods and services to be financed over the six year period of the proposed project. The project is designed to compliment interventions made by the World Bank and other bilateral donors.

#### ***Coherence with EC cooperation policy and the MIP***

The EC Partnership for Serbia and Montenegro notes that a short-term priority for action in order to support Serbia's efforts to move closer to the EU and strengthen the market economy and structural reforms is the development of a stable and functioning land/real estate market through the preparation of legislation on the cadastre. In the medium-term the priority is the adoption and implementation of the legislation on cadastre. The current MIP reflects this recommendation.

## **Identified projects**

### **3.3.1 (Part B) Capacity Building for the Implementation of the Cadastre**

EU support will be directed to: (i) support for change management and RGZ development into a self-funding non-profit cadastre and registration service; (ii) support for establishing a digital mapping and information department that is fully functional; (iii) provision of digital ortho-photo mapping.

### **3.3.2 Trade: Rural Economy/Agriculture (approx. €8.0 million)**

This section of the Action Programme addresses Trade, Rural Economy and Agriculture Sector Support. The summary of proposed activities is outlined below.

Note: for activities related to the State Union please refer to the State Union Action Programme for 2005.

#### ***Background and cooperation related policy of the beneficiary country and Republics***

Agriculture remains the dominant sector in the Serbian economy accounting for almost 25% of GDP. The sector should be playing a much stronger role in export trade but is failing to do so due to institutional and technical barriers, low productivity and a limited product portfolio. The long-term development of the rural economy in Serbia is dependent on accessing export markets.

The EU is very active in promoting trade in Serbia. Trade support actions include: support to the design of an integrated border management strategy, promoting product standardisation/quality, supporting the Serbian Export Promotion Agency (SIEPA), investing in transport and physical border crossings to reduce delays, restructuring State Owned Enterprises, implementing an SME strategy and improving customs and taxation (through CAFAO). Yet Serbia continues to have the weakest export record in the region. Increasing agricultural exports by reducing the barriers to trade can make an important contribution to addressing Serbia's weak economic performance in the short-term.

The European Union has been and remains the main donor in the field of plant and animal health and food safety. Support provided through the 2001 Annual Programme assisted in the preparation of a strategic plan for the rationalisation and upgrading of the network of food laboratories, drafting legislation (including draft of the Veterinary law, Plant Health law and the law to establish the Food-Chain laboratories Agency) as well as the preparation of veterinary contingency plans (e.g. for Foot and Mouth Disease).

The 2002 Annual Programme supports the re-equipping of food-chain laboratories, the strengthening of technical and managerial capacity therein and the renovation and refurbishment of the laboratories. The 2003 Annual Programme is supporting the implementation of a bovine animal identification and registration system which is fully compatible with the relevant *acquis communautaire* as well as assisting with the reform of the veterinary, phytosanitary and sanitary inspectorates including upgrading veterinary and phytosanitary border inspection points. Preparation of the drafts of key legislation has been undertaken by the Ministry of Agriculture, Forestry and Water Management, supported by EU funded projects, in full coordination with US funded support for Serbia and Montenegro's accession to the World Trade Organisation (WTO).

In addition, on the basis of the support provided through these assistance programmes, the Government reformed the structure of the veterinary and phytosanitary services. The 2005 Annual Programme will support these services.

In line with the Poverty Reduction Strategy Paper (PRSP), the Ministry of Agriculture, Forestry and Water Management's cooperation policy is based upon: improving export performance; sustainable development of the private agricultural sector (including elimination of obstacles for business and improving competitiveness); pursuit of WTO membership and preparations for implementation of a

Stabilisation and Association Agreement (SAA) and development and implementation of an integrated rural development strategy through a partnership based approach.

### ***Coherence with EC cooperation policy and the MIP***

The EC Partnership notes that the short-term priority actions are: adoption of food safety legislation and strengthening of food-safety laboratories; adoption of legislation on veterinary matters and strengthening of controls; establishment of the Food-Chain Laboratories Agency. Medium-term priorities include: further building administrative capacity for policy formulation and implementation and continuing to strengthen veterinary, sanitary; phytosanitary and food safety legislation and controls (including wine laboratories). The Partnership also highlights the medium-term priority of strengthening the business environment conducive to private sector development and employment with competitive markets and level playing fields.

### ***Identified projects***

#### **3.3.2.1 Strengthening Food Safety and Quality**

EU support will be directed to: (i) training and support to the Ministry of Agriculture, Forestry and Water Management (and especially its Veterinary and Phytosanitary Directorates and operational departments dealing with the regulation of the wine sector) and the Food-Chain Laboratories Agency; (ii) essential supplies for the veterinary and/or phytosanitary directorates as necessary to attain the desired results.

#### **3.3.3 Infrastructure (part A and part B)**

Proposed activities for the Energy and Transport sectors that fall under the Infrastructure heading are outlined below.

#### **Part A: Energy (approx. €25.5 million)**

##### ***Background and cooperation related policy of the beneficiary Republic***

Energy is one of the largest sectors of the Serbian economy, accounting for 10% of GDP, and comprising the electric power sector and associated coal mining; oil and gas; district heating; and imports and exports of energy products.

The energy system, and in particular the electricity system, suffered from a decade of under-investment and was operated with the priority on short term output at any cost, including at the cost of long term damage to plant and equipment and damage to the environment. With significant EU assistance, substantial progress has been made in the rehabilitation and overhaul of the electricity generation plant, electricity transmission network and coal mines. The programme moved forward to support the major overhaul of power stations and is supporting the institutional reform needed for the operation of a modern market-based energy sector.

Progress in the reform of the energy sector has been delayed by the initial focus on the reconstruction of the physical infrastructure as the key priority and also by the limited capacity of the Ministry of Mines and Energy to set energy strategy and enforce the reform of the sector.

Some actions by the Government have nevertheless been encouraging. Serbia signed the "Memorandum of Understanding on the Regional Electricity Market in South East Europe and its Integration into the European Union Internal Electricity Market" in November 2002 and its revisions in December 2003. The main purpose of the MoU was the necessity "to establish compatible national electricity market models", in line with the revised EU Electricity Directive in force (2003/54/EC). This revised Directive calls for separation of the network business (electricity transmission and system operation) from the potentially competitive activities of production, distribution and supply.

Another decisive step towards the reform of the sector was the passage of the new Energy Law in August 2004. The Law will harmonise the sector with EU Directives and bring about the transition to a market-based energy system participating in the ECSEE (Energy Community in South East Europe). It calls for the restructuring of Serbia's electricity sector, the establishment of an independent energy regulator and unbundling of the electricity utility EPS with the establishment of independent power transmission, system and market operation functions and companies comprising generation, distribution and trading.

The passage of the Energy Law has set the broad direction of energy policy in Serbia, which will be elaborated further through the preparation of a detailed energy strategy that is planned to be issued and submitted to the Parliament for approval shortly. The draft policy places a high emphasis on the further development of district heating both as a policy to reduce the peak demand for electricity and to reduce environmental pollution by improving the energy efficiency of district heating supply and use.

Experience in the EU Member States has shown that district heating is both cost effective in urban areas and environmentally beneficial. Increasing the share of district heating will have the effect of reducing the peak demand for electricity, since the peak demand is driven by the use of electricity for space heating in housing. Studies financed by KfW of the existing district heating systems in Serbia demonstrate that the systems require substantial modernisation and improvement of energy efficiency. The past work done by KfW in modernisation and capacity building has enabled district heating companies in the larger cities (such as Belgrade or Novi Sad) to access IFI loans for modernisation investments. In the smaller cities (those planned to be supported through this project) district heating companies are still in a very weak financial situation and have serious difficulties in qualifying for IFI loans.

Another requirement of the Energy Law is the restructuring of Serbia's electricity sector. The Energy Regulatory Agency has been established and preliminary work has been done for establishing Independent Transmission, System and Market Operator. This will require substantial further work to develop the strategy for the unbundling, divide the assets and liabilities of the sector, define the interfaces between generation, transmission and distribution and assist the Ministry of Mines and Energy to direct and implement the unbundling. It has also been recognised that the management of the electricity industry require considerable assistance and training in order to prepare for the changes necessary for the unbundling of the power sector and the introduction and operation of both a national and a regional market.

Apart from modernisation of district heating and restructuring of the energy sector, in 2005 EU will continue to support the follow up to the Least Cost Investment Plan (LCIP) with feasibility studies for priority investment projects. The Ministry of Mines and Energy and Serbian electricity utility (EPS) are being supported through CARDS under the 2004 programme through the development of a Least Cost Investment Plan. The Plan will indicate which investments for the new electricity generation, related transmission linkages and district heating are economically justified. The objective of the individual feasibility studies is to develop these projects to assist potential investors and project financiers.

### ***Coherence with EC cooperation policy and the MIP***

The proposed programme is fully in line with the short-term priorities from the EC Partnership which note the need to speed up the restructuring process of large publicly-owned utilities, adjust energy prices towards cost recovery levels, make progress in meeting commitments under the 2003 Athens Memorandum of Understanding on the Regional Energy Market in South East Europe, establish the independent Energy Regulatory Agency and continue environmental audits on energy plants and address worst polluters.

Medium-term priorities include: preparing Serbia and Montenegro for the establishment in 2005 of an integrated regional energy market, unbundling in view of restructuring and privatisation, setting up of the necessary institutional structures:

Transmission System Operator, Market Operator and Energy Regulatory Agency, progress towards a regional energy market (including through feasibility studies on interconnectivity) and continued progress towards meeting EU environmental standards.

The MIP 2005-06 identifies the need to support the privatisation process in the energy sector and the implementation of the energy legislation; support to development of the strategy for the unbundling of the energy utilities and assisting the industry and the authorities in the practical implementation of the unbundling and subsequent privatisation; strengthening capacity at the energy regulatory authority, also to develop and implement the body of secondary legislation necessary to set up an electricity market; creation of the conditions for participation in the regional energy market (including preparation for priority new investment projects) and improving energy efficiency; assistance to strengthen transmission capacity to allow for cross border trade in the context of the Resource efficiency management (REM); rehabilitation of selected district heating and catalysing investment from other donors.

### **Identified projects**

#### **3.3.3 (Part A) Support to the Energy Sector Reform**

EU funds will be used to assist in: (i) unbundling of the Electricity Utility of Serbia (EPS) and further management development and training of EPS staff; (ii) district heating modernisation; (iii) follow up to the Least Cost Investment Plan – feasibility studies for investment projects.

#### **Part B: Transport (approx. €14.0 million)**

### **Background and cooperation related policy of the beneficiary Republic**

Institutional capacity, including systems for planning, monitoring and managing transport activities, remain weak. Little long term transport sector planning has occurred. In July 2003 the Serbian Government adopted an Action Plan for legal harmonisation with EU. This comprises the introduction of the guiding principles of the EC's Directive on Transport and aligning its domestic legislation accordingly. An inventory of the existing legislation and sub-legal acts should be compiled and compared with the *acquis communautaire* to finalise a Plan of Harmonisation. It is important to remove inconsistencies that exist in Serbian legislation and to ensure appropriate delineation of responsibilities between the institutions involved.

An efficient and integrated transport network is important for Serbia's economic development due to its geographical location and associated competitive advantages. The infrastructure suffered from lack of investment and maintenance as well as war damage. In line with REBIS interventions, this sector has to address the important two Pan-European Corridors (X and VII). The Ministry of Capital Investments should improve its strategic awareness in order to prioritise transport investments to meet REBIS objectives.

To date the donor community has invested almost €500 million in areas such as priority road rehabilitation and railway track upgrading. As an export oriented country Serbia has to address speed of transit by improving border operations within the framework of an EU compliant Integrated Border Strategy. Serbia also needs to identify inter-modal synergies to increase the efficiency of the overall transport system. When made navigable, the Danube and Sava waterways offer valuable logistical opportunities. However, the high cost of infrastructure investment requires that packages of combined national and IFI funding have to be identified and developed. In this respect, the numerous feasibility studies and Project Implementation Units funded under past EU programmes play an important facilitating role in preparing and implementing investments.

In the area of Integrated Border Management (IBM), the focus is on facilitating traffic at the borders while improving efficiency in curbing illegal activities. In this context, restructuring and upgrading the border crossings is essential. The Government intends to complete a joint border crossing for freight at the Dimitrovgrad railway station, together with the Government of Bulgaria. This

investment is in line with the general EU regional strategy of international administrative cooperation at the borders.

### ***Coherence with EC cooperation policy and the MIP***

The planned interventions are in line with the Thessaloniki Agenda which recommends infrastructure investment by the EU in partnership with IFIs. Any major investments should take due regard of the Regional Balkans Infrastructure Study (REBIS) and be consistent with Trans-European Networks and Corridors. The EC Partnership underscores the importance of adopting a national transport strategy and strengthening the institutional capacity by the administration to attract investment (e.g. project pipelines). Finally the MIP underlines the need for actions that will facilitate planning and financing of key elements of the transport network, particularly river transport, to promote trade and encourage IFI investment.

### ***Identified projects***

#### **3.3.3 (Part B) Support to the Transport Sector Reform**

EU funds will: (i) support approximation with EU legislation in this sector; (ii) prepare the design and other project documentation for setting up a functional railway border crossing for freight at Dimitrovgrad, between Serbia and Bulgaria plus a number of secondary road border crossings between Serbia and Bosnia and Herzegovina in order to reduce transit time and improve performance of customs/border police. The upgraded border stations at the selected secondary border crossings will have increased capacity and better facilities for police check and customs inspections for passenger cars, buses and trucks.); (iii) help to establish, equip and train staff in Roads Research Laboratory (within the Roads Directorate) to monitor the levels of use, conditions, and standards of performance/cost effectiveness in order to prioritise road and bridge investments; (iv) improve the conditions for navigation on Danube and Sava Rivers by removing unexploded ordnances (UXO), which will eliminate the risk of damage to port infrastructure, vessels, cargo, persons and the environment; (v) facilitate the implementation of priority railway projects to be financed by IFIs by providing expert services for contract management to the railway Project Implementation Unit.

#### **3.3.4 Environment (approx. €9.5 million)**

### ***Background and cooperation related policy of the beneficiary Republic***

Current EU assistance supports capacity building measures for the Directorate for Environmental protection of the Ministry for Science and Environmental Protection and the Environmental Protection Agency. This current assistance includes support for the preparation of a national environmental strategy and National/Local Environmental Action Plans in order to eventually fulfil the provisions of *acquis communautaire* and other international agreements. However, at this stage, the Directorate has limited absorptive capacity. Coordination with bilateral (mainly Member State) donors has resulted in all the major activities of the Directorate receiving support. Progress in tackling institutional fragmentation in the environmental sector and the "operationalisation" of the Environmental Protection Agency has been slower than desired.

In contrast, recently completed targeted EU assistance for the preparation of a global wastewater strategy shows both the scope of the problems to be tackled in the water sector in Serbia and the capacity of the Directorate for Water of the Ministry of Agriculture, Forestry and Water Management to absorb additional support in this area. Therefore the focus of support in 2005 will be the water sub-sector which is under the authority of the Ministry of Agriculture and Water Management. The Water Directorate prepared a draft new Water Law, which largely reflects the guiding principles of the EC's Water Framework Directive. The first draft of the law has been sent to relevant stakeholders (including the international community) for comment and recommendations.

Serbia is classified as a water-poor country of Europe due to low per capita water flow and domestically generated water resources. These limited water resources are subject to severe pollution from industry, run-off from agriculture and inadequate wastewater treatment. A UN ECE Environmental Performance Review indicated that 50% of drinking water samples fail to meet the required standards.

The Serbian authorities, in particular the Directorate for Water of the Ministry of Agriculture, Forestry and Water Management require specific EU assistance in order to begin implementation of the water pollution reduction and the waste water strategies in conjunction with a large World Bank IDA credit and a grant from the Global Environment Fund [GEF]. The overall programme would focus on (i) reducing pollution in the Danube River; (ii) water resource management and (iii) municipal water and sanitation.

As a member of the International Convention on the Protection of the Danube River (ICPDR) and the Sava Commission, Serbia is committed to introducing the guiding principles of the EC's Water Framework Directive and aligning its domestic legislation therewith as a matter of urgency. Key priorities are to remove the inconsistency that exists between the provisions of existing Serbian legislation and to ensure an appropriate delineation of responsibilities between the large number of bodies involved in the water sector. In addition, Serbia intends to introduce measures to decrease water consumption, increase water conservation, increase protection from water (e.g. the effects of flooding) and improve water quality. In line with the principles of the Water Framework Directive, Serbia also intends to increase public participation in water planning and decision-making as well as to strengthen controls at all stages of water related operations and development.

#### ***Coherence with EC cooperation policy and the MIP***

The EC Partnership notes as short-term priorities the adoption of Law on Environmental Protection and "operationalising" the Environmental Protection Agency. Medium-term priorities include: the adoption and start-up of implementation of a strategy on pollution of air (notably from power plants), water (wastewater) and soil (solid waste); strengthening administrative capacity as regard planning, permitting, inspecting, monitoring as well as project management and the development of a multi-annual plan for financing investments based upon estimations of costs and realistic sources of public and private financing. The proposed and ongoing programmes support these recommendations.

A CARDS 2003 regional project will support the preparation of a pilot river basin plan for the Sava river basin in accordance with the guiding principles of the EC Water Framework Directive. That project will increase and harmonise cooperation and the exchange of information between Slovenia, Bosnia and Herzegovina, Croatia and Serbia and Montenegro.

Under the Danube-Black Sea (DABLAS) initiative and the CARDS funded Priority Environmental Investment Programme, Serbia has identified priority investment projects in the water sector. The Danube Investment Support Facility financed under the CARDS regional programme is available for the development of these projects.

#### ***Identified projects***

##### **3.3.4.1 Capacity Building in the Water Sector**

EU funds will be used to: (i) provide advice, training and support to strengthen the capacity of the Directorate for Water of the Ministry of Agriculture, Forestry and Water Management; (ii) assist in the preparation of a Water Resource Information Management System, a Wastewater and Sewerage Master plan for Serbia (including preparation of specific investment projects for wastewater management and treatment) and an action plan for the remediation of hot spots threatening major pollution of water resources; (iii) supply of equipment for water quality monitoring/testing; (iv) support complementary activities of ongoing programmes

### **3.3.5 Education and Employment (part A and part B)**

This section of the Action Programme is comprised of Tempus and support to Vocational Education and Training and Labour Market Development measures.

#### **Part A: Tempus (Commission managed) (approx. €5.0 million)**

##### ***Background and cooperation related policy of the beneficiary Republic***

Tempus is a highly visible programme that has successfully supported the efforts of the partner countries to modernise higher education institutions and systems. It has contributed to reinforcing academic exchanges between the EU and partner countries since 1990. In 1999 the Tempus programme was extended to the non-associated countries of south-east Europe and the Partner States of Eastern Europe and Central Asia. Within the framework of the general economic reform objectives of the European Commission's programmes for support to these countries. Tempus III aims to support the modernisation of higher education both with a bottom up and a top down approach in the partner countries through balanced co-operation between higher education institutions in the partner countries and EU Member States. Tempus is also becoming a unique tool to disseminate the Bologna process.

After a prolonged period of isolation, Serbia is currently undergoing a process of institutional and economic reform, which necessarily has to be accompanied by a reform of higher education. This reform may play a significant role in enhancing the country's social cohesion and understanding of democracy and in promoting the economic recovery and transition to the market economy.

##### ***Coherence with EC cooperation policy and the MIP***

A priority for higher education systems in all South East Europe is the achievement of the objectives of the Bologna Declaration, which was recently signed by Serbia and which aims at the establishment of a common European higher education space by 2010. The Tempus programme will further contribute to the strengthening of regional co-operation between higher education institutions in south-east Europe.

##### ***Identified projects***

### **3.3.5 (Part A) Tempus**

The programme aims at funding Joint European Projects (JEP) and Structural and Complementary Measures and Individual Mobility Grants. Joint European Projects can focus on one of the following areas: (i) University management; (ii) curriculum development; (iii) institution building.

**Tendering and Contracting:** Following an annual call for proposals, projects are selected after academic and technical assessment according to general criteria and a list of priorities established in co-operation with the partner country authorities.

**Cross-cutting Development Issues:** The Tempus programme contributes to the sustainable development of Serbia and Montenegro by supporting to reform the universities, promoting the establishment of curricula in relevant areas, but also in contributing to the development of necessary local expertise. Furthermore the programme is a means to overcome ten years of isolation of the Serbian universities from international cooperation.



***Background and cooperation related policy of the beneficiary Republic***

Prior to the Milošević period adult/continuing training (both pre-service and in-service) was well developed. A network of so-called Workers' Universities and Peoples' Universities existed in a number of towns and in almost every enterprise there was an educational centre or craft workshop. The Milošević years saw most of these universities and centres collapse and adult/continuing vocational education and training were largely neglected. Some effort has been made by the Ministry of Education (supported by CARDS 2002 and 2003 VET programmes) to formulate policies in the area of adult learning (these are expected to act as a catalyst) and to set up regional training centres in order to modernise and promote delivery of training to adults.

Experience from EU Member States and other transition countries shows that improvements in training system alone will not suffice. These actions need to be complemented by comprehensive employment policies with a wide range of active labour market measures and quality employment services, a task, which is also being assisted with EU and other donor funds. VET reform policy concepts for both secondary and continuing VET have been adopted by the Serbian Government but have yet to be nationally agreed. The VET legislative and institutional frameworks have changed with the introduction of a new Law on Education in May 2004.

Achievements to date include: (i) development of basic legal frameworks (but little implementation); (ii) establishment of new (professional) institutions including initial steps in curriculum modernisation and (iii) awareness raising and capacity building in setting up a responsive VET system based on the principles of Lifelong Learning. Implementation capacities remain a major challenge that has to be addressed. Although the Ministry of Education and Sport has expressed its willingness for cooperation with the second strategic partner for VET, i.e. the Ministry of Labour, Employment and Social Affairs, as well as social partners, there is not yet a mechanism for this co-operation.

Serbia has sophisticated reform concepts but limited resources. At this stage the country cannot afford complex diversified institutions to manage the full complexity of a mature VET system. In the new 2004 legislation, four major issues stand out where specific VET provision is missing: (i) the labour market context of VET; (ii) the role and place of technical support institutions for VET; (iii) certification and qualification structures; (iv) financial mechanisms. VET is defined only from an education system logic and specialised institutions have been closed down. At the same time, progression routes after secondary education are not solved. Serbia wants a modernised and sustainable VET system with strong schools offering relevant programmes. The difficulty is moving from concept to strategy, in particular to implementation. There is an apparent reluctance among key actors in moving towards operational issues due to continuing political uncertainty and lack of resources. School curricula, equipment and teaching methods have to be modernised. A curriculum philosophy and method have been proposed and accepted but no approach to qualification and certification has yet been agreed. Appropriate methods for involving employers in VET still need to be developed. Secondary VET education enrolls 75% of the young population, but no progression routes into non-university higher education exist.

The proposed project will assist the Ministry of Education and Sport and Ministry of Labour, Employment and Social Affairs to address the following specific problems: (i) to take forward a coherent reform of VET to train for qualifications relevant to the emerging needs of the economy; (ii) to build institutional capacity to manage issues of assessment, certification and qualification; (iii) to bridge the gap between secondary VET and higher education in Serbia; (iv) to stimulate school-based competence development and (v) modernise curricula in key sectors for economic development.

## **Coherence with EC cooperation policy and the MIP**

As a short-term priority, the EC Partnership notes the need to develop and implement a comprehensive strategy to promote employment and combat unemployment, in particular with regard to vocational training and labour market reforms, involving all relevant actors as well as to improve public employment services and allocate sufficient staff and financial resources to the implementation.

The MIP 2005-06 underlines the following priorities: capacity building of relevant actors involved in the VET reform and the development and implementation of labour market policies, investigating the possibility of closer linking unemployment and social benefit systems to the active labour market measures and VET system, implementing the VET reform including curriculum modernisation and implementation, developing regional training capacities for adults, enhancing the teacher training system and improved operational facilities, support to capacity building of social partners with a view to their involvement in the development of employment and social policy and VET reform, notably through social dialogue, assisting the preparation of the decentralisation of implementation of Employment Policies and Active Labour Market measures.

### **Identified projects**

#### **3.3.5 (Part B) Reform of VET System in Serbia, Phase II**

EU funds will support: (i) institutional strengthening and capacity building of Ministry of Education and Sport and Ministry of Labour and Employment (VET reform, curricula development and implementation, piloting higher VET education as an attractive offer for 4-year students graduating from the VET schools, developing a model for a post-secondary VET system, identifying and developing five pilot courses, in close cooperation with the social partners with high labour market relevance, etc.); (ii) rehabilitation of school buildings (assisting the Ministry of Education and Sport with tendering and contracting, and monitoring of implementation of all EIB education sector loan related activities).

#### **3.4 Opening of the EC Community Programmes**

The Thessaloniki Agenda determined the start of opening of the Community Programmes to the Western Balkans countries. That decision was reinforced at the meeting held in Brussels in June 2004.

Since this instrument is quite new to Serbia the decision was taken, together with the Serbian authorities, to postpone the actual participation of the Republic in the Programmes until 2006. Before Serbia starts to take part in the Community Programmes it is necessary to build capacity and train participants in applying for the Programmes, negotiating with the relevant DGs and subsequently implementing the chosen Programmes. 2005 will therefore be a year for preparatory work. Approximately €500,000 will be allocated out of the General Technical Assistance Facility to fund these preparatory activities. Exploratory discussions on this matter have already been held with the Ministry of International Economic Relations.

#### **3.5 EAR Running Costs**

Estimated 2005 Action Programme administrative costs are approximately €12.0 million for the Republic of Serbia's programme.

#### **3.6 GTAF (General Technical Assistance Facility) and Programme Reserve**

The main purpose of the General Technical Assistance Facility (GTAF) is to support the preparation and early implementation of activities under the Action Programme and support the planning process for future Programmes. The Programme Reserve may be used to cover unforeseeable programme and other priority expenditures.

#### 4. Past EC assistance and lessons learnt

From 1998 to 2004, the EU committed over €1.5 billion to Serbia and the State Union. The funds were used for emergency and humanitarian relief, reconstruction and development activities and balance of payments support. Furthermore, the EU assistance has gradually shifted to more development type of activities, especially with regards to institution building and sectoral capacity building measures linked to EU integration.

Reconstruction and development assistance (CARDS/OBNOVA)	€ 979.7 million
Humanitarian assistance (ECHO)	€ 218.5 million
Macro financial assistance	€ 490.5 million <sup>(1)</sup>

As of 22 December 2004, the Agency's global rate of contracting for combined 1998-2004 EC funds was 82% funds contracted and 63% disbursed. Although 2004 funds only became available in August, the Agency percentages for the 2004 programme funds are: 40% funds contracted and 4% disbursed. The table below summarises progress on the implementation of previous Action Programmes:

	Funds Committed (EAR managed) M€	Contracted by 13 December	Paid by 13 December
Action Programme 2001	193,8	100%	99%
Action Programme 2002	171,6	93%	78%
Action Programme 2003	220,0	82%	40%
Action Programme 2004	202,0	40%	4%

#### Lessons Learnt

Some of the most valuable lessons learnt during the preparation of the 2005 Action Programme may be summarised as follows: (i) when drafting the programme for next year with the beneficiaries, accept only proposals and projects that are mature and can be implemented in a reasonable time frame and with tangible results; (ii) ensure institutional absorption capacity, institutional memory of past EU assistance, sufficient counterparts and budget allocations before actual implementation and funding begin; (iii) when doing physical rehabilitation, make sure that all permits (i.e. land rights and building permits) and detailed designs are in place and received on time; (iv) ensure that, before engaging in major rehabilitation work or equipment supply, there is an EU compliant strategy of the sector or at least a strong commitment from the beneficiary to undertake drafting of such a strategy as soon as possible; (v) ensure proper coordination and cooperation from other donors when trying to deliver an important message to the Government; (vi) continue to push for adoption of laws vital for smooth implementation of projects, enlist the help of all parties concerned – line ministries, other donors, etc.; (vii) communicate all problems and unresolved issues to the Ministry for International and Economic Relations (MIER) as soon as they arise so as to avoid unnecessary delays in project implementation; (viii) sign a Memorandum of Understanding whenever competencies and responsibilities between stakeholders are not clear; (ix) continue with the capacity building of Serbian administration in order to help them prepare for eventual management of EU funded projects.

#### 5. Complementary actions<sup>(2)</sup>

The main objectives of EU-funded programmes managed by the Agency are: (i) to support good governance, institution building and the rule of law; (ii) to continue supporting the development of a market economy while investing further in vital physical infrastructure and environmental actions and (iii) to support democratic stabilisation, social development and strengthening of civil society. These objectives contribute to the all-encompassing goal of this Action Programme which is to help

<sup>1</sup> Another €45.0 million to be allocated to Serbia and Montenegro (incl. Kosovo) in 2004 + EIDHR €0.45 million

<sup>2</sup> Detailed information on complementary activities, activities of other donors and the Government can be found in the individual project annexes

the Serbian, Montenegrin and the State Union administrations prepare for the subsequent EU accession.

All ongoing and future projects implemented by the Agency reflect the objectives outlined above. The present Action Programme relies on lessons learnt and experience from the previous CARDS national programmes and the regional CARDS programme. CARDS regional and national programmes complement each other in the areas of institution building, justice and home affairs, environment, integrated border management, transport, civil society, etc. Preparation of the 2005 programme was also closely coordinated with the EC Delegation in Serbia and Montenegro. The Delegation was included in the programming meetings the Agency held with the Serbian authorities. Finally, activities of other donors have also been taken into account during the preparation of this programme. During the design of projects it is of the utmost importance to make sure that no overlaps with activities of other donors occur. Donor coordination process is described in the section below (section 6. of the Action Programme).

The Government's role in the implementation of EU programmes should be related, but not limited to, backing the legal and policy reform within a given sector and facilitating investments by providing adequate and competent staff necessary for the implementation of projects. The EU encourages the Government to work on and subsequently produce sector strategies. A strategy puts the EU assistance in a certain context and provides both the Agency and the beneficiaries with a likely focus for future funding.

## **6. Donor coordination**

The Agency's Operational Centre in Belgrade hosts regular coordination meetings with EU Member States' representatives. Depending on the topic of the meeting, the Agency sometimes invites other multilateral and bilateral donors active in a particular sector. This gives both the Member States and donors an opportunity to learn more about each other's programmes and to improve coordination. Furthermore, the Agency staff is involved in frequent coordination meetings with all major multilateral and bilateral donors in Serbia, i.e. USAID, World Bank, EBRD, OSCE, UNDP, UNHCR, CoE, CIDA, Norway, the Swiss SDC and others. Such communications are more frequent and efficient in those areas corresponding to EU programmes. These areas include: public administration reform, support to local self government, EU integration, agriculture, environment, support to SME development and privatisation, civil society, support to refugees and IDPs, etc.

The closest relationship is maintained with the IFIs (EIB, EBRD, World Bank, KfW) and some selected Member States. The Agency has over time supported the IFI investments in Serbia by financing preparatory work before actual investments and by helping to fund Project Implementation Units. The best cooperation with the IFIs so far has been accomplished in the following sectors: transport, energy, health, education, SME credit lines and municipal investments. This trend is set to continue in 2005 with further work in energy, health, support to SMEs, transport and cadastre.

The Government of Serbia has become more actively involved in the process of donor coordination by preparing a donor harmonisation framework paper which will eventually result in a donor harmonisation strategy, to be presented and adopted by the Government. Government's interest is to increase its ownership of the donor coordination process and to try to harmonise donors' working procedures is an encouraging step towards the common goal which is to have a well functioning focal point to minimise overlaps and improve communication between donors.

**7. Cost and financing**

Priority Sectors (titles as per draft MIP 2005-06)	EUR million (+/- 20%)
1. Democratic Stabilisation	
1.1 Minority Rights and Refugee Return	12.5
1.2 Civil Society	2.0
1.3 Media	2.5
2. Good Governance and Institution Building	
2.1 Justice and Home Affairs	13.8
2.2 Integrated Border Management	0.0
2.3 Public Administration Reform	34.2
2.4 Customs and Taxation	2.5
3. Economic and Social Development	
3.1 Investment Climate	16.5
3.2 Trade	8.0
3.3 Infrastructure	
Energy	25.5
Transport	14.0
3.4 Environment	9.5
3.5 Education and Employment	
Tempus	5.0
VET & Labour Market	3.5
4. Opening of the EC Community Programmes	0.0
5. GTAF	2.0
6. Reserve	3.0
<b>Total</b>	<b>154.5</b>

Note: Excludes EAR running costs estimated at €12.0 million.



## PROJECT FICHE

Title	<b>Support to Refugees and IDPs</b>		
Total cost	approx. € 12.5 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	72030	Sector	<b>Democratic Stabilisation Minority Rights and Refugee Return</b>

## 1. RATIONALE

**1.1. Strategic framework**

Specific MIP objectives related to refugees and IDPs recognises that the problem of the displaced must be addressed if the broader development programmes aimed at stability and growth are to be effective. The MIP states that, 'support for economic development must also recognise the need to address the needs of the significant refugee population'.

The European Partnership calls for adequate co-operation between the State Union and Republics as regards the legislative basis and practical protection of the rights of refugees, displaced persons and minorities. It also has as a priority to ensure full respect for human rights, including access to health services, easy access to personal documents; ensure right of a real choice between sustainable return and integration and to facilitate integration for those who choose not to return.

In line with MIP/SAP objectives the programme will contribute to achieving SAP recommendations, by ensuring the rights of refugees and IDPs to return to their place of origin, to create sustainable conditions for return; assist in integration and promote regional cooperation.

**1.2. Lessons learnt**

The 2005 programme builds upon the 2004 programme and working with the Commissariat for Refugees, the Coordination Centre for Kosovo, the Ministry for Human Rights and Minorities and NGOs. The key policy lessons include the need to move away from short-term solutions to identifying and building long term strategic solutions at the regional and national level, to link refugee support to real economic opportunities and to better address sensitive issues such as property ownership.

**1.3. Complementary actions**

Up until the end of 2003 ECHO provided humanitarian assistance operations funded by the EU throughout Serbia. The CARDS 2004 programme has taken into account the need to move from providing humanitarian assistance to finding durable solutions for refugees/IDPs. With this in mind the 2004 programme has focused on the implementation of a programme for the closure of collective in line with the National Strategy, support for the Return and re-integration to Croatia, BiH and Kosovo, institutional building support to the Government of Serbia, support to the Ministry for Human Rights and Minorities on establishing a Re-Admission centre for Roma forcibly returned, Roma Placements in Municipalities, and assistance to Roma NGOs as well as a project implementation unit for the newly established Housing Fund for Serbia. The on-going local/municipal development programme also focuses on vulnerable populations, which includes refugees and IDPs.

**1.4. Donor coordination**

A number of donors have been actively involved in various forms of assistance in dealing with the issues related to refugees and IDPs. ECHO and UNHCR have been at the forefront and have provided crucial humanitarian assistance over the past 10 years. NGOs such as SDC and DRC have been working on providing more durable solutions while USAID/BPRM have been working on IDP related issues to Kosovo. In the second half of 2004 UN-HABITAT launched a major new housing and social integration programme for tens of thousands of war refugees and other vulnerable people in Serbia with financial support from the Italian Government. All actions related to refugees and IDPs in collective centres are coordinated by the Commissariat for Refugees and IDPs.

<b>DRC-Danish Refugee Council</b>	Programme to address the housing needs of the most vulnerable in Collective Centres in Serbia; support to Commissariat
<b>OSCE</b>	Support to the return process (in cooperation with OSCE Bosnia and Herzegovina)





<b>Danish Foreign Ministry</b>	Programme dealing with obstacles re accession to Europe including refugees and IDP issues
<b>SDC</b>	Housing programmes and self-reliance projects for refugees (finishing end 2004)
<b>UNHCR</b>	Housing solutions for refugees; Assistance with repatriation to Croatia and information on Kosovo ; Micro-credit programmes (handed over to the local NGOs Microfins and MDF).
<b>USAID -BPRM</b>	Supporting NGOs in Serbia/Montenegro related to IDP return to Kosovo. (Final year of programme) USAID economic development programme including refugees and IDPs as a vulnerable group

## 2. COUNTRY CONTEXT

Both Serbia and Montenegro (SCG) are currently undergoing a phase of transition, affecting all sectors of government following the political events of the last decade. Both parts of the State Union are rebuilding the economy and vital infrastructure. The economic restructuring has inevitably led to large-scale redundancies which have added to the general background of reduced living standards and increased poverty. Legislation is being adapted to meet new national priorities, including harmonisation with EU norms and standards. The break up of the former Yugoslavia and armed conflict in Croatia, Bosnia and Herzegovina (BiH) and Kosovo, have led to the displacement of huge numbers of people. The arrival of the refugees/IDPs in Serbia and Montenegro has put an increased burden on the already overstrained state-provided social welfare system and significantly added to unemployment and poverty.

### 2.1. Cooperation related policy of beneficiary country

The main policy framework is the National Strategy for Solving the Problems of Refugees and IDPs. The Commissariat for Refugees and IDPs is the main government body dealing with the issues of refugees and IDPs. The Coordination for Kosovo has also been actively engaged in the past but its mandate at this stage is not clear.

### 2.2. Sector context

Following the results of the most recent census in 2002, 227,500 (60%) of the 377,000 registered refugees have opted for local integration. The main strategic orientation of Serbia in respect of the 230,000 IDPs from Kosovo is the provision of assistance and necessary guarantees for return and life in safety. A number of these people need support. Thus there are two parallel directions of implementation of the National Strategy, giving the possibility to refugees and IDPs to choose the most favourable durable solution. The first group of activities is aimed at ensuring conditions for repatriation of refugees and IDPs to the places of their habitual residence in Kosovo, Croatia and Bosnia. The second direction relates to the provision of conditions for local integration, aimed at assisting refugees to achieve self sufficiency and a financially and socially equal position to that of the other citizens of the country.

## 3. DESCRIPTION

### 3.1. Objectives

The objective is to support the return and reintegration process of refugees and IDPs in Serbia.

The specific objectives are to support:

- (i) Local integration – through the development of projects directed at alternative housing schemes, employment and income generation;
- (ii) Return/re-integration through developing cross boundary/border initiatives.
- (iii) Government of Serbia to meet stated priorities with regard to IDPs and Refugees
- (iv) To contribute to self-reliance of specifically targeted refugees/IDPs through sustained socio-economic packages and legal assistance; provide greater access to education and information for IDPs

### 3.2. Expected results and main activities

- Accurate information flow between donors, governments and implementing agencies at all levels;
- Management support units in place within the Commissariats to assist with coordination and information transfer;
- Solutions for temporary/permanent housing for refugees and IDPs established specifically for those in collective centres;
- Measurable economic activities are in place to promote self reliance for refugees and IDPs;

- The establishment of a cross border/boundary framework of support, which meets the demand for returns and concomitantly the desire to integrate in the place of residence.

### Main Activities

**State Union** – for details please refer to the State Union Project Fiche

### Serbia

- **Further institutional support to the Government of Serbia as well as the Commissariat for the Displaced in Montenegro**

Further support to the Commissariat for Refugees/IDPs and the Coordination Centre for Kosovo for policy development, better operational management and staff training in respective local and central government units dealing with refugees/IDPs. This 2005 programme will build on the support established in the 2004 programme.

- **Further assistance in implementing the programme for closure of Collective Centres with a focus on providing durable solutions for refugees and IDPs leaving the Centres**

The project will support the integration of refugees and IDPs from collective centres and will be coordinated with, and be complementary to other donors' programmes including socio-economic inputs to facilitate self-reliance and housing assistance, temporary or permanent. Projects in support of durable solutions for extremely vulnerable individuals and domicile poor population will also be undertaken.

- **Further support for the Return and Reintegration of Refugees and IDPs to Croatia, BiH and Kosovo**

This project will provide continued support, in cooperation with UNHCR and ORC/UNMIK and the Government of Serbia, for the return and reintegration of Refugees and IDPs to Croatia, BiH and Kosovo including support for pre-return dialogue and 'go and see/inform visits' as well as assistance relating to property, land repossession, tenancy rights etc. for refugees from Croatia/BiH and IDPs from Kosovo.

- **Targeted assistance to IDPs in Serbia**

Projects (in process of definition) will target the specific needs of IDPs in general in Serbia.

- **Targeted assistance to Roma in Serbia**

Projects (e.g., education/health and income generation) will target the specific needs of Roma in Serbia.

### 3.3. Stakeholders

The main stakeholders of the programme are numerous: the Government of Serbia and its institutions dealing with refugees and IDPs, The Commissariat for Refugees and IDPs, the Coordination Centre for Kosovo, the Ministry for Human Rights and Minorities, and the NGOs working on implementation. The Agency also works in close cooperation with UNHCR, ORC/UNMIK, other UN agencies and international NGOs.

The main beneficiaries of the programme will be the refugees and IDPs and local civil society partners working on implementation. The Government of Serbia and its institutions working on refugees and IDPs will benefit from improved institutional capacity in dealing with these issues.

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Commitment of the Commissariat and Coordination Centre may reduce due to political considerations	Medium	High	Continued dialogue
Poor absorption capacity	High	High	Appropriate technical assistance and training
Authorities on the receiving end will not facilitate the returns process	High	High	Encouragement from the donor community to resolve the issue

### 3.5. Conditionalities

Responsible government institutions and stakeholders need to cooperate (particularly the Commissariat for Refugees and the Coordination Centre for Kosovo) to resolve the refugee and IDP issue in the region and in neighbouring countries. This cooperation will be defined under an agreed Memorandum of Understanding.

### 3.6. Crosscutting issues

The proposed programme aims at improving the lives of those marginalised and at assisting them to integrate into society:

- Assistance to refugees/IDPs: information about and enforcement of human rights so they become a reality and are implemented across all sectors; increasing the ability of refugees/IDPs/Roma to exercise their rights (access to personal documents, access to basic financial transfers, etc.);
- The overall social status (employment, education, health, living standards) which places Roma on the lowest level of the social scale will be addressed by this programme;
- Gender equality will also be addressed, in particular the needs of female headed households as beneficiaries (given that poverty among women is very much related to their family and marital status and is more severe when they are single parents). Specific social needs of women (Roma women, women refugees, women in rural areas) shall also be addressed.

#### 4. IMPLEMENTATION ISSUES

##### 4.1. Implementation method

Indirect centralised management.

##### 4.2. Budget and calendar

The total budget for the 2005 Programme is €12.5 million.

**State Union Level** – for details please refer to the State Union Project Fiche

##### Serbia

- Institutional support to the Government of Serbia €1.5 million (This will be an extension of the 2004 programme)
- Further assistance in implementing the programme for closure of Collective Centres is €7 million (this will be a grant through an international Call for Proposals, implemented by NGOs)
- Further support for the Return and Reintegration of Refugees and IDPs to Croatia, BiH and Kosovo is €1.5 million (implementation will be either through a call for proposals or a direct grant with UNHCR)
- Targeted assistance to IDPs in Serbia €1.5 million (this will be a grant through an Call for Proposals, implemented by NGOs)
- Targeted assistance to Roma in Serbia €1 million (this will be a direct grant with OSCE)

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	12.5
<i>Budget by project components:</i>	
• Institutional support to the Government of Serbia	1.5
• Implementation of the programme for closure of Collective Centres	7.0
• Further support for the Return and Reintegration of Refugees and IDPs to Croatia, BiH and Kosovo	1.5
• Targeted assistance to IDPs	1.5
• Targeted assistance to Roma	1.0

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants/Call for Proposals (Yes)	Not possible to specify
Supplies (Yes)	Financing Agreements	
Works	Twinning	
Operational duration of project in months as from signature of Financing Agreement:		18-36

##### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

#### **4.5 Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

## PROJECT FICHE

Title	<b>Support to Civil Society</b>		
Total cost	Approx. € 2.0 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	150	Sector	<b>Democratic Stabilisation Civil Society</b>

## 1. RATIONALE

**1.1. Strategic framework**

The European Partnership calls for Serbia and Montenegro to create an environment (including financial aspects), conducive for the development of NGO and civil society organisations, including social partners, notably by adopting the draft Law on Associations and on the Legal Status of Foreign NGOs, pending for about two years.

Specific MIP objectives related to the civil society are focusing on capacity building of civil society organisations and improved cooperation with public authorities in order to enhance civil society's contribution to Serbia's economic and social development.

Assistance under the MIP 2005-06 aims to help Serbia and Montenegro establish the appropriate capacity to address the European Partnership priority mentioned above. Furthermore, bearing in mind the civil society's role in the democratic stabilisation, support will also continue to strengthen civil society in Serbia.

In line with the above the proposed, the 2005 programme intends to increase involvement of civil society in the policy making process and enhance the partnership between local governments, business and non-profit sectors at the local level with the aim of contributing to local community empowerment and social inclusion, economic development and increasing democratic control and accountability. This should be done in the context of the PRSP process, which is the closest to a national development strategy that the Government has.

**1.2. Lessons learnt**

Civil society can play an important role in the policy making process in Serbia. This is a key lesson from the preparation of the national poverty reduction strategy (PRSP), the only national strategic social and economic development document that has been prepared according to IFI (World Bank, IMF) and EU standard social dialogue. Civil society should be further empowered to take a greater role in PRSP implementation. Building on these lessons new partnership opportunities with the Government should be identified to allow a greater policy making impact by the Civil Society.

**1.3. Complementary actions**

The 2003 CARDS Programme for Serbia focused on the participation of civil society organisations in the consultative and preparatory process of PRSP through setting up of Civil Society Advisory Committee, bringing together a number of prominent NGOs. Furthermore, EU funds were used to support the establishment of a Management Unit for the Social Innovation Fund (SIF) with the Ministry of Social Affairs (now the Ministry of Labour, Employment and Social Affairs). The Fund is aiming at fostering relations between Government and non-government sectors by supporting joint projects. Building on the 2004 assistance programme, further support is provided to support the Management Unit of the SIF and Monitoring Units in the field to evaluate the impact of the SIF projects implemented throughout Serbia. In addition, EU contributed to the Social Innovation Fund for projects dealing with poverty alleviation through social and economic development activities.

**1.4. Donor coordination**

A significant number of donors have been actively involved in various forms of assistance in Serbia, providing crucial financial support to both Government and non-government sectors in Serbia.

<b>CIDA</b>	Involved in PRSP process
<b>DFID</b>	Assistance to the Ministry of Social Affairs with the PRSP
<b>Norwegian Peoples Aid</b>	Involved in PRSP process
<b>OSCE</b>	Elections facilitation and election observers

<b>USAID</b>	<ul style="list-style-type: none"> <li>- Grants to address civil society issues (e.g., advocacy around parliamentary practice); to provide input in draft legislation and advocate for its passage; improve the awareness on war crimes, and increase the NGO sector's sustainability;</li> <li>- Support to creation of legal and fiscal framework for NGOs</li> </ul>
<b>World Bank</b>	<ul style="list-style-type: none"> <li>- Involved in PRSP process</li> <li>- Social Sector Adjustment Credit – SOSAC deals with policy reform in social sectors (Health, Social Protection, Pensions and Education)</li> </ul>

Negotiations with the new Ministry of Labour, Employment and Social Affairs (MoLESA) on continuing World Bank support are ongoing, with preliminary agreement to allocate WB funds amounting 10 million USD for SIF projects in 2005/2006. At the same time the World Bank is interested in continuing support to the PRSP process and currently the dialogue between the WB and the Serbian Government is taking place on the subject of the PRSP implementation. The Government of the Netherlands and Norway have demonstrated interest to support the PRSP Coordination Unit to be placed within the Deputy Prime Minister's Office.

## 2. COUNTRY CONTEXT

### 2.1. Cooperation related policy of beneficiary country

Although the Serbian Government recognizes the PRSP as a strategic opportunity to address pressing issues of social and economic development, there is still to be seen to what extent the present Government will demonstrate its commitment to implement PRSP.

The Ministry of Social Affairs has merged with the Ministry of Labour, implying that further restructuring in the new Ministry needs to take place. This change will inevitably slow down the continuation of social policy reforms and, within this framework, the implementation of the PRSP agenda. Nevertheless, some important changes in the social sector have taken place, expanding the space for CSO engagement in service provision but also allowing for their participation in policy debate.

The Ministry has a Department for International Relations, EU Integrations and Projects in charge of coordinating international cooperation and project implementation. In addition, Inter-sectoral Social Policy Committee was established for a coordination required to take forward the social policy reform agenda to the "top level" (ministers and deputy ministers) and to a more operational level of "professional" staff.

The Ministry supports the Social Innovation Fund (SIF), which was created as a fast-track reform mechanism. Through the 2004 budget, the Parliament approved new tranche of funds to be disbursed through SIF, amounting to approximately € 700,000. The SIF will continue to include CSOs and private sector in the social services provision in this way, institutionalizing further cooperation between the Government and civil society in the social welfare sector.

### 2.2. Sector context

Although the status of the third sector improved after political change in 2000, cooperation between the Government and non-governmental organizations has been limited.

The Ministry of Social Affairs encouraged the participation of civil society organisations in drafting the Poverty Reduction Strategy Paper (PRSP). A special advisory team was established, Civil Society Advisory Committee (CSAC), which actively participated in the long consultative process of development of national strategy for alleviating poverty. Through the CSAC the contribution of civil society organisations was taken into account in the final PRSP document, with the special emphasis on the issues related to corruption, role of judiciary, human rights perspective to poverty, gender equality. The cooperation between CSAC and the Ministry continued after the finalisation of the strategy. The CSAC is seen as an important partner in PRSP implementation, as civil society organizations could play a key role in advocating for prompt implementation of the strategy, participating in PRSP implementation, as well as in monitoring and evaluation.

In addition, Parliamentary Committee for Poverty Alleviation was formed. It is a new channel for public debate and participation of civil society in policy process.

### 3. DESCRIPTION

#### 3.1. Objectives

To support the social and economic development policy dialogue between the Government and civil society in Serbia

The Specific objectives are to:

- Facilitate inclusion of civil society and cooperation of public and non-government sector in the implementation and monitoring of the Poverty Reduction Strategy
- Encourage partnerships between local government and civil society through the SIF

#### 3.2. Expected results and main activities

##### Expected results

- Civil society representatives/ Civil Society Advisory Committee members supported to monitor the implementation of the PRSP
- Channels for participation of civil society in policy process opened through CSO parliamentary hearings
- Capacity of six NGOs for monitoring and evaluation of the SIF implementation strengthened, serving for local level monitoring
- SIF Management Unit additionally supported to manage effectively enlarged SIF project portfolio
- Social Innovation Fund supports civil society organisations projects aimed at reducing poverty on the local level

##### Main activities

##### • Support to Civil Society Advisory Committee

Support for CSAC members and relevant civil society organisations to engage in the decentralisation agenda; continuation of capacity building of CSAC to monitor progress in PRSP implementation, as well as progress towards European integration.

##### • Support to the Parliamentary Committee for Poverty Alleviation

Experts will provide capacity building programme which will focus on national level budgeting process of PRSP, support parliamentarians in their activities related to enabling legal framework for civil society action and social inclusion, poverty alleviation and promotion of European social cohesion agenda.

##### • Support to SIF monitoring units

Continued support to monitoring units managed by 6 NGOs, focused on building capacity of NGOs to monitor the impact of SIF funded projects. In addition, capacity building related to local-level monitoring of provision of social services in a wider sense (education, health, social protection, employment, local budget monitoring).

##### • Support to Social Innovation Fund (SIF)

Support will continue at two levels:

- i) programme support (funding for innovative joint projects of NGOs and Government in social and economic areas);
- ii) management support for SIF Management Unit - through year 2006 preparations for phasing out the Management Unit, in 2007 incorporation of SIF in the Ministry of Labour, Employment and Social Affairs structure

#### 3.3. Stakeholders

The ultimate beneficiaries of the project will be the more vulnerable and marginalized people in Serbia. They are expected to benefit from parliamentary and civil society involvement in PRSP implementation, since both parliamentarians and CSOs should gain the increased capacity to cooperate and act as advocates of the poor. Monitoring activity, initially focused on the projects addressing poverty funded by the SIF, is aimed at improving impact and quality of projects, but also at informing poverty policy debate through direct input from the field.

Main beneficiaries of the project are:

- Members of the Civil Society Advisory Committee as primary beneficiaries, other civil society organizations as direct or indirect beneficiaries
- SIF Management Unit

- Six NGOs performing the SIF monitoring function
- Members of the parliamentary Committee for Poverty Alleviation as primary beneficiaries, other parliamentary committees (such as the Committees for Gender Equality, Education etc.) and other members of the Parliament as indirect beneficiaries.

Stakeholders in this project are numerous: the Government of Serbia and relevant ministries (MoF, MoLESA), main umbrella NGOs and national NGO networks (CRNPS, CI, FENS, Serbia without Poverty, including women NGOs and fora) civil society organisations, youth organisations, international financial institutions (IFIs), EU/ EAR, UNDP/ other UN agencies, international NGOs (Oxfam UK, CRS), Government aid agencies (CIDA, SIDA, DFID, etc.).

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Government may not continue the PRSP implementation	Low	High	Engagement of donor community in reviewing corrective measures/remedial actions
Lack of appropriate Government legal and financial support to the SIF	Medium	High	Joint donor pressure
Lack of NGO's willingness to cooperate/create partnerships with the Government at local and national levels	Medium/Low	High	Intensive capacity building aimed at professionalisation of NGOs (both at policy and practice levels) and understanding of public-third sector partnerships in a free market economy

### 3.5. Conditionalities

Government needs to adopt the law on free associations and the law on legal status of foreign NGOs as well as the provision of tax incentives for NGO donations

### 3.6. Crosscutting issues

The programme is specifically designed to reach out and provide opportunities for vulnerable sections of society to have an empowered role in the development of Serbian society including women, Roma, IDPs and refugees. The main priorities in this respect include:

- Gender: increasing public awareness and knowledge of the importance of women's rights and women's participation in society;
- Improving inter-groups relations: targeting local populations in view of stimulating solidarity and discouraging discrimination towards refugees/IDPs/Roma in order to encourage efficient integration. Civil society organisations can play a major role in creating an atmosphere of acceptance and support for the vulnerable groups;
- All groups suffer from out-of-date and lack of knowledge about the law. Increasing all minorities and vulnerable groups' awareness and knowledge of their political, economic and social rights is necessary so that they seek enforcement of these rights. Public awareness is also a prerequisite for holding government agencies accountable.

This should support increased democratisation and transparency of policy making in Serbia.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect Centralised Management. Support to Civil Society Advisory Committee and Parliamentary Committee, Monitoring and Management Unit of the SIF will be implemented through a direct grant agreement with UNDP in line with financial and administrative framework agreement signed between UNDP and the EU. The Social Innovation Fund will be implemented by EAR through a Call for Proposals.

### 4.2. Budget and calendar

Indicative budget breakdown	€ million
Total budget	2.0
<i>Budget by project components:</i>	
• Support to Civil Society Advisory Committee and Parliamentary Committee, Monitoring and Man. Unit of the SIF	1.0
• Support to the Social Innovation Fund	1.0



<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (No)	Grants/Call for Proposals (Yes)	Not possible to quantify
Supplies (Yes)	Financing Agreements (No)	
Works (No)	Twinning (No)	
Operational duration of project in months as from signature of Financing Agreement:		18-36

#### **4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

#### **4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

**PROJECT FICHE**

Title	<b>Support to Media Sector</b>		
Total cost	Approx. € 2.5 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	22010	Sector	<b>Democratic Stabilisation Media</b>

**1. RATIONALE****1.1. Strategic framework**

The Country Strategy Paper and European Partnership emphasises the importance of media reform in Serbia and prioritises strategic support designed to bring about durable change in the sector.

Assistance under the MIP 2005-6 is aimed at assisting Serbia to establish the appropriate capacity to address the European Partnership priority mentioned above. The objective is to ensure that the citizens of Serbia have access to independent public and private media and to improve quality of programmes and investigative reporting of national and local media in Serbia.

In line with the MIP objectives, the 2005 Media programme will focus on a development of the media sector in line with European standards, i.e. full freedom of expression, better provision of accurate information by the public broadcast services and independent media and full implementation of the media related legislation.

**1.2. Lessons learnt**

The project will build on lessons learnt from previous projects undertaken in the media sector, in particular the 2003/2004 assistance programme to the Media Fund of Media Centre. The main lesson to build upon is the need for a proper media regulatory environment which requires the enforcement of existing media legislation and the adoption of pending legislation.

**1.3. Complementary actions**

For many years, the EU has played an important role in Serbia by actively supporting the country's independent media. Since 2001 the EU has been supporting establishment of the new legal framework in the media sector, participated in the restructuring of the state-run media and helped the independent media to continue their professional work in the transition period. In the framework of 2003/2004 Media Programme, EU has further supported independent media to become self-sustainable businesses, especially the Media Centre and TV station B-92. A new Media Fund was established within the Media Centre aiming to stimulate development of quality programmes and investigative reporting of local media.

**Other Donors Assistance**

<b>IREX</b>	- Support to independent media (B-92, among others) - Training of media professionals
<b>Norwegian Peoples Aid</b>	Support to independent media
<b>OSCE</b>	- Support to RTS - Drafting media legislation - Training for media professionals, promoting, inter alia, co-operation and confidence between different ethnic communities
<b>OSI</b>	Support to independent media
<b>Swedish Helsinki Committee</b>	Support to independent media
<b>UNESCO</b>	Support to independent media

**1.4. Donor coordination**

A number of donors are actively involved in providing assistance to the media sector. Besides the regular bilateral meetings with the Member States, regular meetings with other donors are hosted by the OSCE.

## 2. COUNTRY CONTEXT

### 2.1. Cooperation related policy of beneficiary country

Serbia postponed the adoption of media regulation and when some of it was applied, as in the case of the Broadcasting Act, the Serbian Parliament itself immediately breached it. The Broadcasting Act was adopted in July 2002, but its implementation is still pending. The EU assistance to the Broadcasting Agency has been suspended due to the irregularities in the appointment of three members of the Broadcasting Council.

The new Government promised to resolve problems related to the proper functioning of the Broadcasting Council. In August 2004 the Serbian Parliament passed the Law on Amendments and Supplements to the Broadcasting Law. The Association of Independent Electronic Media (ANEM), the Independent Journalist' Association of Serbia (NUNS) and the Media Center have criticised the amendments to the Law on Broadcasting describing them as a cosmetic change, as the authorities remain to dominate the appointment of the Council members. The provision that stipulates that Broadcasting Council's members can not be reelected and that the Broadcasting Council's members will be elected by a simple parliamentary majority vote, instead of a qualified majority foreseen by the Law on Broadcasting was also amended.

### 2.2. Sector context

The main problem of the media today is not so much the freedom of expression itself, but rather the question on how this freedom should be properly used. After years of repression of the independent media and total control by the Milošević regime of the state media, much work remains to be done to help the media to operate effectively, economically and to meet the needs and expectations of a modern democratic society. Unfortunately the legal environment remains insufficient (laws are not enforced) and thus the media in Serbia remain vulnerable to political pressure. In a number of cases, media and journalists are also faced with harassment by law enforcement authorities for reasons not explicitly linked to their professional activities, but which in practice attempt to hamper their ability to exercise these freely.

The main challenge in the following period will be to secure provision of accurate information to the public. The enforcement of the media legislation and the adoption of pending media related laws remains the most important step toward full reform of the media sector in line with European standards.

## 3. DESCRIPTION

### 3.1. Objectives

The overall objective is to contribute to the sustainable development of media sector in line with the best European practices.

More specifically:

- Improve the accuracy and quality (e.g., EU integration issues) of information provided by the media;
- Support best practice and European standards in public broadcasting services Facilitate the enforcement of the media legislation.

### 3.2. Expected results and main activities

#### Expected results

- Improved quality and accuracy of information provided to the general public;
- Improved journalistic skills of media staff, and therefore improve programming e.g., more educational, greater accuracy;
- Media legislation is implemented in line with EU standards.

#### Main activities

##### Media Fund

Given the lack of capacity of the media to prepare products of highest professional quality - that is the capacity of the broadcasters to produce feature programmes and the difficulties for newspapers and wire services to devote resources to investigative, analytical and other reporting - the program is aimed at improving the content of the print, broadcast, wire and other media by providing support to high-quality production. Further activities related to the Media Fund will be implemented through the provision of grants on the basis of a call for proposals. This programme intends to stimulate a more professional approach towards the reforms issues in society and European integration issues.

### Enforcement of the Media Legislation- EU/CoE Joint Initiative

Building on previous joint EU/CoE assistance to Serbia in establishment of the media legislation (Broadcasting Law and Public Information Law), a new project will focus on the implementation of the following media laws:

- Broadcasting Law/ Broadcasting regulatory body - expert assistance for its effective functioning
- Access to Information – expertise aimed at awareness-raising and training for its implementation
- Concentration of media ownership – expertise aimed at bringing legislation and its implementation in line with the European standards
- Defamation and freedom of expression – awareness-raising and expert assistance aimed at bringing legislation in line with the European standards and its subsequent implementation

### 3.3. Stakeholders

The ultimate beneficiaries of the project are the citizens of Serbia who would obtain objective information, unbiased media contents and programs satisfying high professional standards. More immediate beneficiary is the media sector as a whole that would benefit from the regulation of the broadcasting sector and development of programme standards in Serbia. In particular, independent media outlets would benefit from the regulation of their legal status in order to achieve sustainability in the future.

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/ M/ L	Counter Measures
Lack of quality applications for Media Fund	Medium	High	Media Center to actively promote Fund activities to potential grantees
The legal framework in the media sector is not completed	High	High	Pressures of EC, EAR, CoE and OSCE to the Government of Serbia

### 3.5. Conditionalities

Government has to implement and enforce media legislation in line with EU standards, e.g. the Broadcasting Law, in particular re-election of the Broadcasting Council and launching of the tender for issuing licenses to national, regional and local electronic media; distribution of broadcasting frequencies and the establishment of the Telecommunication Agency necessary for issuing of licences.

### 3.6. Crosscutting issues

The proposed programme will address environmental concerns, minorities' inclusion and gender equality, in particular through the Media Fund for investigative reporting. Key orientations include:

- Gender: integrating gender awareness in all types and aspects of media training;
- Minorities/Refugees/IDPs: reinforcing the role of media in monitoring the implementation and state's accountability for implementing laws (e.g. European *acquis* and/or ratification of international conventions) dealing with the problems of marginalised groups and victims of human rights violations;
- Environment: raising awareness on environmental issues and building environment components on the intersection with other issues.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management. The Media Fund will be implemented through a call for proposals. For the media legislation project a direct grant agreement will be signed with the Council of Europe.

### 4.2. Budget and calendar

Indicative budget breakdown	€ million
Total budget	2.50
<i>Budget by project components:</i>	
• Media Fund	2.35
• Enforcement of the Media Legislation	0.15

Types of Contracts ('Yes')	Grants	Number of grants
Services (No)	Grants/Call for Proposals (Yes)	Not possible to quantify
Supplies (No)	Financing Agreements (No)	
Works (No)	Twinning (No)	
Operational duration of project in months as from signature of Financing Agreement:		18-36

#### **4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle; identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

#### **4.5 Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

## PROJECT FICHE

Title	<b>Justice and Home Affairs</b>		
Total cost	Approx. € 13.8 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	15030	Sector	<b>Good Governance and Institution Building Justice and Home Affairs</b>

## 1. RATIONALE

**1.1. Strategic framework**

Successful reforms in the area of justice and home affairs provide the basis for democratic government, good governance and the protection of human rights which are priorities outlined in the Copenhagen Criteria. The European Partnership encourages reform in the judiciary, the fight against corruption/organised crime and the enforcement of law.

**1.2. Lessons learnt**

The 2005 programme has benefited from monitoring of ongoing programmes in the sector. This has highlighted the limited capacity of the Ministry of Justice to absorb donor support. Therefore it is necessary to ensure that the beneficiary is committed to the specific support programme. This demands the need for early operational needs assessments and clear agreement on the specific details of programme implementation, through a Memoranda of Understanding. Such agreements should outline the required resources from the beneficiary plus managerial responsibilities to ensure outputs are realised.

**1.3. Complementary actions**

The proposed programme is fully in line with the regional CARDS programme in the areas of justice and home affairs (development of independent, reliable and functioning judicial systems and enhancing judicial cooperation) and integrated border management (harmonisation of integrated border management strategies across the region).

Below is a table which shows ongoing programmes in the JHA sector. The 2002 EU programme implemented by the Agency has been completed. The 2003 programme will be completed by March 2004 and while some 2004 activities are already up and running others are expected to be contracted before years end.

In €million	2002	2003	2004	Total
Modernisation of Belgrade courts, including IT assistance	3.0			3.0
Support to the Law Enforcement project (equipment and training for the Border Police, support to Organised Crime Directorate and Criminal Police)		12.0		12.0
Refurbishment of Court Room 1, Palace of Justice, Belgrade		0.9		0.9
Supply of equipment to the Forensic Unit within the Serbian Criminal Police / support to action-oriented measures in the field of organized crime			1.0	1.0
Improving court administration in selected District and Municipal Courts in Serbia			6.0	6.0
Capacity building of the Ministry of Justice - Twinning			1.5	1.5
Support to Judicial Training Centre			3.0	3.0
Legal database for judicial bodies and subjects			1.0	1.0
Introduction of Alternative Dispute Resolution			0.5	0.5
<b>Total</b>	<b>3.0</b>	<b>12.9</b>	<b>13.0</b>	<b>28.9</b>

The project reflects activities at the regional level. The CARDS Regional Strategy for 2002-2006 gives a special priority to integrated border management. Serbia committed itself during the OHRID conference to address border security and management.

#### 1.4. Donor coordination

As the biggest donor in the JHA sector, the EU tends to cover large scale programmes while other donors seek to direct their assistance to complimentary activities. Both the Ministry of Justice and the Ministry of Interior are actively involved in setting strategic priorities for donors.

EAR strives towards a high level of coordination with other agencies and organisations, whether bilateral assistance is provided through Embassies or an implementation partner or through international organisations like the Council of Europe and the OSCE. Especially with regard to the Border Police and the Organised Crime Directorate (OCD) EAR coordinates its activities closely with other donors.

Below is a description of some activities undertaken by other donors.

<b>CIDA (Canada)</b>	- Prison service reform - Alternative Dispute Resolution
<b>Council of Europe</b>	- Support to Legal Reform including draft Law on Police - Support to reform of the Criminal Procedure code
<b>GTZ (Germany)</b>	- Support to drafting various legislation, mainly pertaining to economic issues
<b>OSCE</b>	- Monitoring war crime trials in Serbia; - Working on the establishment of an Ombudsman institution - Anti-corruption initiatives; - Prison reform and prison staff training
<b>USAID</b>	- Support to commercial courts - Assistance to the Ministry of Justice, especially the establishment of the Special Court for Organized Crime and War Crimes

## 2. COUNTRY CONTEXT

### 2.1. Cooperation related policy of beneficiary country

The Government increasingly demonstrates readiness for the introduction of serious reforms in the JHA sector. However, reforms within the judicial sector have been slow, lacking clear objectives with weak overall coordination. The judiciary remains overburdened with huge caseloads. Court proceedings are often slow and ineffective. Efficient court management is in short supply and most courts are still without modern IT equipment. A number of judges appointed during the Milošević era remain in office; some of whom are suspected of having being appointed due to political affiliations rather than merit.

The MOJ is actively seeking to address several of these key issues, including legal reforms, procedural codes included, and computerisation. The MOJ is actively involved in donor coordination and has most recently – through the Commission for Judicial Reform – drafted a reform strategy. Although much remains to be done these are significant steps in the right direction.

Within the Ministry of Interior, reform efforts have been slow but also in this sector there are encouraging signs of a genuine will to overcome legislative and political obstacles, including in the areas of border policing and the fight against organised crime. Specifically, on October 15 2004, the Government established a Commission mandated to examine the important issue of Integrated Border Management.

### 2.2. Sector context

The 2005 programme proposal is based on discussions with the MOJ and the MOI, with regard to their most urgent needs within their reform strategy. In addition, the programme proposal is based on EAR's observations and experiences with project implementation until now. This includes sector assessments as well as internal evaluations. The 2005 programme reflects the fact that the JHA is still in need of serious reforms. Furthermore it reflects the fact that there is a great need for upgrading the JHA authorities' operational tools enabling the sector to carry out its work in accordance with prevailing standards in modern democratic countries of efficiency and transparency. The 2005 programme focuses on legislative reform, implementation of same, including training and completion of the court modernisation programs.

In the Home Affairs sector the 2005 programme focuses on continued assistance to the Organised Crime Directorate and the Border Police. Both organisations are in need of continued support, both in terms of equipment and training, in order to make a successful transition to effective and well managed law enforcement agencies. With regard to the Border Police this will require huge structural changes and also substantial efforts and investments in reorganisation, training and upgrading of equipment and facilities. The 2005 programme aims to assist the Government in taking positive steps in this direction

but assistance needs will exist also beyond 2005. The asylum, visa and migration programme component is closely related to passing Asylum law at the State Union level but is also logically tied in with the Border Police training and reforms.

### 3. DESCRIPTION

#### 3.1. Objectives

The overall objective of the EU support is to support and facilitate the Government's reform efforts in the JHA area.

The specific objective of EU support is to ensure legislation and communication in the area of economic/organised crime and training of judicial/police/border police personnel meet the required European standards in line with the *acquis*.

#### 3.2. Expected results and main activities

For the Ministry of Justice, the support will comprise of advise, drafting and revision of legislation, by-laws and regulations in the area of economic and/or organised crime. A training element will also be included. It will be implemented in close cooperation with the Judicial Training Centre (JTC) support programme. This programme will potentially also cover operational support and training to the Serbian Financial Intelligence Unit as well as the Finance Police. It is envisaged that this programme will be implemented through a grant agreement with the Council of Europe.

The remaining funds allocated for the MOJ are earmarked for the continuation of court modernisation/IT support programme, with a particular focus on court registries. The objective is to enable the MOJ to communicate with all courts of general jurisdiction.

Two feasibility studies are also planned. The first to assess the overall IT strategy and a second to assess, support and advise on implementation of the MOJ's judicial reform strategy.

As for the Ministry of Interior, the main objective remains strengthening the capacity and capabilities of the law enforcement agencies, especially the Border Police and the Organised Crime Directorate. Specifically, the 2005 programme foresees the following programme components:

- a) Assistance to the Organised Crime Directorate;
- b) Procurement of operational tools, including procurement of special investigative measures tools and Technical Assistance, as required and associated preparation of technical specifications/tender documents;
- c) Continued support to the Border Police, including procurement of IT network solutions enabling real time, on-line communication between border crossings and the MOI and/or with other border crossing stations. This programme component will require technical assistance, including preparation of technical specifications/tender documentation. The supply of management equipment, curriculum development and training for new border guards is also planned;
- d) Technical assistance to the National Crime Intelligence System.

Finally, support to the prison system is required, e.g. high security facilities. Feasibility studies (funded from the programme reserve) will be carried out to prepare for future potential investments in this area.

#### 3.3. Stakeholders

The primary stakeholders are the Serbian Ministry of Justice and the Serbian Ministry of Interior and ultimately the Serbian State and its citizens.

#### 3.4. Risks and assumptions

The 2005 programmes in the JHA sector are designed under the assumption that the Government remains committed to making progress on meeting EU judicial and police standards.

Risks include political obstructions and/or new elections which potentially could delay reform efforts. Failure by beneficiaries to commit sufficient resources, including staff and time, for training efforts to upgrade their capabilities and take ownership of programme outputs is a high risk. This is why it is important to ensure that MOJ and MOI are firmly committed to the programme as highlighted in the lessons learnt section.



### 3.5. Conditionality

The following conditions will be addressed through a Memorandum of Understanding.

The beneficiaries must agree to commit the necessary resources to realise project objectives prior to launch of activities.

The MOI must develop an Integrated Border Management Strategy consistent with EU guidelines.

The OCD must have legally based checks and balances, with regard to special investigative measures, that allow a proper balance between the police/OCD's need to investigate organised crime activities and simultaneously protect the privacy of citizens not under justified investigation.

### 3.6. Crosscutting issues

Programmes are designed to be consistent with human rights and JHA standards applied in democratic countries. Reform in the JHA will enhance the legal process, democracy and good governance, providing greater opportunities for social inclusion, women's rights and civil rights grievances to be addressed. Curricula and training for new border guards shall be gender-sensitive and inform on issues of clandestine female emigration and the trafficking of females for the sex industry. Serbia has demonstrated its commitment to further improve human rights by signing and ratifying a number of international conventions in this area (also foreseen in European laws and standards). To ensure implementation, information must be provided to law enforcement agencies with particular focus on issues of discrimination, equality and rights in respect of the vulnerable categories of people (Roma, refugees, IDPs, women, children, persons with disabilities, and the elderly).

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management. Supply of equipment and operational tools to the MOJ and the MOI will be provided through supply tenders while technical assistance will be provided through service tenders. The legal assistance programme to the MOJ will be provided through a direct grant agreement with Council of Europe. Assistance to the Organised Crime Directorate will be provided through twinning or alternatively with experts procured through a service contract.

### 4.2. Budget and calendar

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	13.8
<i>Budget by project components:</i>	
• TA in the area of economic and/or organised crime (grant agreement with the Council of Europe)	1.5
• Supplies and TA for the Judicial Reform Strategy	2.5
• Assistance to the Organised Crime Directorate	2.0
• Operational tools and equipment for the Organised Crime Directorate	4.5
• Operational tools and equipment, including TA to the Border Police	3.0
• National Crime Intelligence Centre	0.3

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants (Yes)	1
Supplies (Yes)	Financing Agreements (No)	
Works	Twinning (Yes)	1
Operational duration of project in months as from signature of Financing Agreement:		18-36

### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle; identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

As per the Twinning Manual, Twinning Projects will be the subject of quarterly monitoring on the basis of reports submitted by the Twinning Project Leaders as well the results of Steering Committee Meetings. Following receipt of the 2nd Quarterly Progress Report a systematic review of the Twinning will be undertaken by the European Agency for Reconstruction in consultation with the Twinning Partners. The review may lead to reorientation of the Twinning Project or, in extreme cases, withdrawal of financing (i.e. termination of the project).

#### **4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme. Evaluation of Twinning Projects will be based upon progress in achieving the benchmarks and mandatory results laid out in the Work plans for the Twinning Projects.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors and beneficiaries of Twinning Grant Contracts will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities' and the Twinning Manual.

## PROJECT FICHE

Title	<b>Public Administration Reform / Public Finance</b>		
Total cost	Approx. € 4.0 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	15020: € 2 million 15030: € 2 million	Sector	<b>Good Governance and Institution Building Public Administration Reform/ PAR General and Public Finance</b>

### 1. RATIONALE

#### 1.1. Strategic framework

The Thessaloniki Agenda, which urges countries in the region to promote the principles of transparency, accountability and sound public sector management, provides the overall strategic direction for the proposed programme in the area of general public administration reform and reform of the public finance. This is consistent with the demands of the Copenhagen Criteria, which highlights the need for an efficient and well functioning civil service and the MIP objective of developing an accountable public administration in line with EU standards. The SAP underlines the need to address civil service pay system reforms and related human resource development measures while the Country Strategy Paper calls for creation of an independent and efficient civil service.

#### 1.2. Lessons learnt

Lessons to date underline the reality that the public administration in Serbia is slow to reform. This situation is further exacerbated by a limited absorption capacity for technical assistance. This policy environment is due to political instability (limited government time-spans), poor central government policy making capabilities, weak civil service status/low salaries and weak commitment of resources to the EU integration process.

This situation is reflected in a Sigma evaluation carried out in May 2004 which states that: "... the central policy capacity (in terms of professional support to the Government as a collegiate decision-making body, and to the Prime Minister for policy development, coordination and evaluation) is very weak...the policy and strategic capacity in the line Ministries is even weaker and...often provided by local consultants paid by donors, and therefore is not sustainable." (Balkans Public Administrative Reform Assessment Serbia and Montenegro (Sigma/European Union) May 2004).

Moreover, a recent Agency evaluation report of the EU's tax administration programme pointed out that future programming should focus more on key institutional reforms rather than on provision of equipment. The report also recommended that the Agency makes greater use of institutional assessments and implementation blueprints to minimize start implementation delays. It also recommended more coherence and coordination between EC and Member States assistance programmes.

These lessons stress the need to focus support towards fundamental areas of public administration reform including civil service, human resource development (training, career development), policy making/inter-ministerial and donor coordination, budget process/budget implementation and public financial control. Programme assistance has to be tailored to the beneficiary's absorption capacity.

Based on these lessons, policy support actions through the 2005 programme will be limited to three strategic priorities, namely: administrative legislation, the budget process and the supreme audit. Donor coordination has already been strengthened (see section 1.3 and 1.4).

#### 1.3. Complementary actions

Since 2002, the EU and other donors have provided substantial support to Public Administration and Public Finance reforms. The main areas covered include administrative law, human resource development, pay system reform, central government reform, budget/treasury reforms, internal financial control and modernisation of the tax system.

The planned projects in this fiche are particularly complementary to:

- Ongoing UK DFID project supporting the budget process. The DFID project focuses on macro-fiscal analysis and multi-annual budgeting; EU project has a stronger inter-ministerial and budget preparation dimension. The preparation of the two projects has been coordinated by the two Agencies;
- The preparation of the legal process and the selection of the model for the Supreme Audit Institution are supported by OSCE and CIDA (Canada) SIGMA is also planning to play a legal advice role.
- The EU projects supporting budget execution and treasury reforms (2002 and 2004 Annual Programmes);
- The joint EU-WB-DFID project (2004 Annual Programme) on the pay system reform of the public sector, which requires adoption and implementation of the civil service law and other administrative legislation.

**EU and other donors main projects supporting Public Administration and Public Finance reform in the Republic of Serbia**

<b>Public Administration Reform</b>	
<b>EU 2002</b>	Assistance to the preparation of organic administrative laws and Public Administration Reform Strategy – Phase 1
<b>EU 2003</b>	Assistance to the reinforcement of the capacities of the Ministry of State Administration and Local Self Government
<b>EU 2004</b>	Reinforcement of inter-ministerial co-ordination and policy making-monitoring at centre of Government level (Secretariat General of Government)
<b>EU 2004</b>	Preparation of the strategy of pay system reform in co-operation with World Bank and DFID
<b>DFID</b>	Technical assistance in organisation, human resources and change management – Pay System Reform Study
<b>France</b>	Technical assistance in organisation and training of senior civil servants
<b>SIDA</b>	- Design and implementation of a human resources database for the Serbian Public Administration - Capacity building support to the Republican Employment Services, the Government Geodetic Authority and the Ministry of Labour
<b>World Bank</b>	Advice associated to the Structural Adjustment Credit 2 for Serbia – Pay System Reform Study. Conditionality associated to the Credit include: - Adoption of a National Strategy for Public Administration Reform - Adoption of a Pay System Reform Strategy - A sustainable public body is responsible for the implementation of Public Administration Reform
<b>UNDP</b>	- Capacity Building Fund (transfer of experts knowledge to public servants and reorganisation of public institutions) - Assistance to prepare the Public Administration Reform Strategy in co-operation with EAR and World Bank

<b>Public Finance Reform</b>	
<b>EU 2002 &amp; 2004</b>	Establishment of a modern Treasury
<b>EU 2002 &amp; 2003</b>	Support to the development of Public Internal Financial Control and Internal Audit
<b>EU 2002 &amp; 2003</b>	Assistance to the modernisation of the Tax Administration (Training and IT equipment)
<b>EU 2003 &amp; 2004</b>	IT Strategy and modernisation of the Ministry of Finance
<b>DFID</b>	Assistance to macro fiscal analysis and multi-annual budgeting
<b>France</b>	Human resources and training assistance for the Tax Administration in co-operation with EAR
<b>GTZ</b>	Implementation of the VAT
<b>US Treasury/US AID</b>	- Assistance to budget preparation and consolidation at ministry of finance - Establishment of an interim treasury system - Modernisation and re-organisation of the Tax Administration
<b>UNDP</b>	Human resources and organisation assistance

#### **1.4. Donor coordination**

In the area of public administration reform donor cooperation is particularly efficient going well beyond regular consultations and exchange of information. Projects, such as the reform of the public service pay system, are jointly designed and monitored. The main actors in the sector are EU, the World Bank, France, Norway, Sweden, UK and UNDP. For Public Finance, donor coordination is essentially limited to EU and the involved Member States (France, Germany and UK).

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

On coming to office this year the Government made Public Administration Reform a priority. The reform agenda was to focus on 'depoliticising, professionalising and rationalising' administrative structures and the civil service. With the necessary Government commitment and ownership of the reform process, EU and other donor assistance can play an important role in supporting the Government to achieve its aims.

There has been progress in the second half of 2004. In October, the Government's Public Administration Reform Council adopted the proposal of the Serbian Public Administration Reform strategy drafted by the Ministry of Public Administration and Local Self-Government. The Government also adopted a joint statement signed by the Minister of Public Administration and Local Self-Government and the Minister of Finance that underlines the necessity of de-politisation of the public administration, pay system reform and desired pace of public administration reform.

### **2.2. Sector context**

In the area of Public Finance, since 2002, the Ministry of Finance has managed to improve the transparency of the budget process, control more tightly public expenditures and reduce the budget deficit. These results were achieved mainly through the adoption of the Budget System Law, the establishment of a Treasury function, the adoption of a new Public Procurement Law, the establishment of a public procurement office and the decision to set up an internal audit.

On the revenue side, the Law on Tax Procedure and Tax Administration was adopted and the Tax Administration organisation was improved notably through the development of a large taxpayer unit. These reforms however need additional assistance to be completed. The programme from 2003 and 2004 provided complementary assistance for financial control and a Treasury financial management system. The budget process (still undeveloped in line ministries) will be addressed through the 2005 programme and so will the Supreme Audit Institution (if conditionalities are fulfilled). Other priorities such as public procurement will be addressed by other donors or in future EU programmes based on the outputs of the 2005 programme.

Despite the availability of significant donor funding, progress in public administration restructuring and civil service reform remains slow. This is because of a challenging policy environment which exhibits the following features:

- The civil service is still highly politicised, without a reformed status of civil servants
- The lack of incentives to attract or retain educated and skilled people impediments the performance of Public Administration: in particular the core wages are low and salary differentials between highly skilled and unskilled labour are small and do not provide incentives to retain staff with much needed skills.
- The policy-making system remains highly fragmented, with low inter-ministerial coordination capacity and a Secretariat General of Government which is mainly an administrative body, insufficiently equipped to drive the reform process
- National resources for the implementation of Public Administration Reform are limited

## **3. DESCRIPTION**

### **3.1. Objectives**

The objective is to contribute to the efficiency and transparency of the public sector in Serbia. The specific objectives are to contribute to the drafting and implementation of administrative legislation/ related secondary legislation, improvement of the budget preparation process and the establishment of a Supreme Audit Institution.

### 3.2. Expected results and main activities

#### Administrative Legislation

This technical assistance project (training, technical assistance, dissemination) is the continuation of the 2002 project dedicated to Administrative Legislation. Expected results include: available drafts for Administrative Laws and related secondary legislation; adopted laws which are implemented through relevant training and dissemination of information. The project will focus on the civil service law (status of civil servants) and legislation related to civil service salaries.

#### Budget preparation process

This technical assistance project (training, technical assistance, dissemination) will continue and extend the support from the US Treasury and complement the DFID assistance to the budget process. Expected results include: completion of relevant secondary legislation related to budget system law; improved, more transparent and accountable forecasting and budget process compliant with the legislation; a trained cadre of civil servants in Ministry of Finance and line ministries with the necessary knowledge and skills to operate the new budget process; budget users who appreciate budget strategic approach and Government priorities that are reflected in the budget.

#### Supreme Audit Institution

This technical assistance project (training, technical assistance, dissemination) is to develop the capacities of the planned Supreme Audit Institution provided the necessary legal and institutional context is in place (see section on conditionalities). Expected results would then include: strong legal framework providing for an independent and effective supreme audit institution; improved transparency and accountability in public sector financial management; greater awareness of the Government, the Parliament and other state bodies of the key role of supreme audit in public finance accountability and transparency; a trained cadre of supreme audit staff to undertake audits in line with the EU and international audit standards. Activities include training and technical advice.

### 3.3. Stakeholders

The beneficiaries are the Ministry of State Administration and Local Self Government for the administration legislation component, the Ministry of Finance for budget preparation and the Serbian Parliament for the Supreme Audit. However the project components, particularly budget process, have a strong horizontal and inter-ministerial dimension. The Ministries of Finance and of State Administration have weak institutional capacities and inter-ministerial coordination is limited in the Government.

### 3.4. Risks and assumptions

Administrative legislation and budget process focus essentially on training and dissemination of concepts and information and are therefore flexible enough to adjust to the beneficiaries' capacities. Supreme audit component is less mature and the Parliament ownership and capacities to implement it are questionable. Implementation will consequently not start before the conditions are fulfilled (see 3.5).

Risk	Likelihood High/Med/Low	Impact H/ M/ L	Counter Measures
No political commitment to maintain the reform process	Low	High	EC Political messages Reallocation of resources
Sustainability/Availability/ Commitment of direct counterparts	Medium	Medium	EC Political messages Reallocation of resources
Specific project risks (see 3.5)	Low	High	Enforcement of conditionality EC Political messages Reallocation of resources

### 3.5. Conditionalities

The success of the project largely depends on the beneficiaries' commitment i.e. by timely provision of specialist staff, adequate office space and ensuring inter-ministerial cooperation during its implementation. These conditions will be detailed in specific Memoranda of Understanding prior to project launch.

Support to the Supreme Audit is conditional to a Supreme Audit model and Law being adopted. Adequate provisions have to be made available to the Audit Institution in order for it to operate effectively.

### 3.6. Crosscutting issues

Public Administration Reform as a horizontal activity (civil service status, legal drafting, administrative procedures, public finance and information technology) intersects with each of the MIP focal areas and therefore has a wide impact on supporting the good governance agenda in Serbia. The continued reform and modernisation of the civil service to EU standards will provide greater long term opportunities for

female civil servants in terms of increased salaries, job security and social benefits. Equal treatment and opportunities for women should be realised through provisions that take into account female working capacities and family obligations. In particular, curricula and delivery mechanism (place and time schedule) of training programmes for civil servants will be designed to favour female participation.

#### 4. IMPLEMENTATION ISSUES

##### 4.1. Implementation method

Indirect centralised management. Technical Assistance for Administrative Legislation and for Budget Preparation Process will be procured through service tenders. Technical Assistance for the establishment of a Supreme Audit Institution, only if the conditionalities identified above are met, will be provided through twinning.

##### 4.2. Budget and calendar

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	4.0
<i>Budget by project components:</i>	
• Administrative Legislation	2.0
• Budget Preparation Process	2.0
• Supreme Audit Institution	*

\* The *indicative* budget for the Supreme Audit Institution is € 2.0 million. Subject to the beneficiary meeting the identified conditionalities these funds may be mobilised from the Programme Reserve.

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants (No)	
Supplies (Yes)	Financing Agreements (No)	
Works (No)	Twinning (Yes)	
Operational duration of project in months as from signature of Financing Agreement:		18-36

##### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

##### 4.4. Performance monitoring

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention, and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

##### 4.5 Evaluation and audit

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

## PROJECT FICHE

Title	<b>Support to European Integration Process</b>		
Total cost	Approx. € 2.0 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	15050	Sector	<b>Good Governance and Institution Building Public Administration Reform/ EU Integration</b>

### 1. RATIONALE

#### 1.1. Strategic framework

Key priorities of Public Administration Reform, as outlined in the MIP 2005-06, are to strengthen the European Integration Structures, European Integration Offices, European Integration Units in line Ministries and enhance public awareness on EU related matters.

The EC Partnership notes the following short-term priorities: to fully respect the Constitutional Charter and ensure the effective functioning of the state, fulfil all outstanding commitments laid down in the Constitutional Charter, notably the establishment of the State Court, revise the republican Constitutions in line with the Constitutional Charter, adopt the State Parliament's Rules of Procedures and establish its committees, ensure the financial viability of the state institutions. Furthermore, it is of utmost importance to strengthen and maintain administrative capacity of the institutions dealing with European integration at the state and republican level (in terms of staff, training and equipment) and improve co-operation among them.

As for medium-term priorities, it is necessary to further develop the European Integration structures, notably by strengthening the European Integration Offices, establishing smooth cooperation mechanisms as well as European Integration Units in the line Ministries at State and Republican levels. At the State level, an appropriate administrative capacity must be developed in order to adequately perform the State competences and develop and implement a reform strategy for the State Public Administration, including the necessary legislative basis. A reform strategy for the Parliament must be developed, to bring its working standards and resources to a level at which it can act as an effective institution.

EC Partnership also mentions support to other State Union bodies such as the Joint Customs Office, Federal Statistical Office (covered in 2005 through the sectoral programme), Joint Competition Commission, etc.

It must also be noted that a number of the above priorities have already started to be addressed under CARDS Programme 2004, with projects that will continue to be implemented well into 2005.

#### 1.2. Lessons learnt

Lessons from past activities confirm that the Serbian population, as in many neighboring countries, has a limited knowledge of EU issues. Moreover the Government is beginning to appreciate the scale of commitment required to place Serbia on the accession process and thus needs assistance in facilitating a better understanding and debate about the European Integration process. The first call for proposals under the European Integration fund identified a strong demand for information on EU matters. This demand should be addressed by repeat calls for proposals and more dynamic communication strategies.

#### 1.3. Complementary actions

EU support includes provision of technical assistance to State Union and Republican administrations. The technical assistance is covering harmonisation with the *acquis*; trade, including WTO and the transition to a market economy; general and specialised training on EU Integration issues. Other EU actions support the State Union Intellectual Property Institute through training and equipment; the State Union and the two Republican Parliaments with training for the staff and MPs concerning organisational issues and EU Integration issues. Quality management and infrastructures are also strengthened with technical assistance and equipment is provided to the State Union bodies dealing with standardisation, accreditation and metrology. Activities raising awareness concerning EU integration issues within Serbia and Montenegro are also supported through a call for proposals open to NGOs and governmental organisations.



Under the CARDS Regional Programme 2003, the European Patent Office is carrying out a project aimed at strengthening the protection of IP in the 5 CARDS countries.

The Customs and Fiscal Assistance Office (CAFAO), a European Commission-funded programme, is providing training and equipment to the Joint Customs Office.

#### **1.4. Donor coordination**

Regular meetings are held by the Agency with Member States and other donors involved in issues related to the EU integration process. Other donors are more involved in supporting the EU integration process at the State Union level. (See section 6. of the State Union Action Programme for 2005).

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

One of the main objectives of the State Union of Serbia and Montenegro is EU Accession. The first step in this direction will be the completion of the Feasibility Study (FS), which has now been re-launched resulting from the EU proposal for a "double track" tracking mechanisms relating to economic *acquis* criteria. If the FS is positive, the study would lead to the opening of negotiations and in time to the conclusion of one Stabilisation and Association Agreement (SAA), with separate "Republican" protocols.

### **2.2. Sector context**

The previous absence of consensus between Serbia and Montenegro prevented further progress towards EU Integration in key sectors of the Internal Market. Now, the flexibility offered by the double-track approach should accelerate the process of adoption and implementation of EU harmonised legislations at Republican level in key sectors such as competition including State aid, intellectual property including penal provision and trade.

The overall process of harmonisation of legislation with the *acquis* should also be accompanied by its progressive translation into Serbian language. This process was only started on a very limited scale by the State Union European Integration Office within the framework of the current assistance to the three European Integration Offices. The State Union Office will continue to coordinate the whole translation process, as there is no need to duplicate these activities at the Republican level.

It is also important that the knowledge concerning European Integration matters (legal, economic, political, cultural, etc.) is shared with larger portions of the population in order to facilitate better understanding of their meaning and to broaden the scope of public participation, debate and support to the process of EU integration and regional cooperation.

## **3. DESCRIPTION**

### **3.1. Objectives**

#### *Overall objectives*

- To facilitate better understanding, debate and support of European Integration process

#### *Purpose*

- Encourage increased public knowledge concerning EU Integration

### **3.2. Expected results and main activities**

#### *Expected results*

- Sufficient eligible projects of adequate technical quality are received and selected
- Accurate information concerning EU integration issues is disseminated to the public and active participation of the latter in related debates is increased

#### *Main activities*

#### **European Integration Fund**

- Develop selection criteria for the Fund (draft guidelines for applicants)
- Prepare and publish a Call for Proposals
- Evaluate the proposals (check administrative compliance and eligibility, the technical and financial quality of the proposals)
- Prepare evaluation grids for all the proposals and the evaluation report
- Prepare contracts and make payments to selected organisations

### 3.3. Stakeholders

The main stakeholders concerning awareness raising activities will be NGOs (including women NGOs/Fora/Networks, Roma/refugees/IDPs representative networks, environment protection groups), Media, Universities, Trade Union, Professional Associations, Public Administration bodies, etc. presenting proposals further to the call and implementing their projects if selected. The beneficiaries will include the larger audiences targeted by the proposals.

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Lack of applications to the Fund or poor quality of these applications	Medium	High	Agency to promote Fund activities to potential grantees. Recruit TA (local assessors) to assist in preparing applications

The success of the Fund depends on external working environment, shaped by political circumstances of the overall project. The project should be fully feasible in relatively normal and stable working environment.

Another important assumption is that the Fund will generate and stimulate the public debate concerning EU integration and regional cooperation and that factual accurate information about these topics will be disseminated to the public.

### 3.5. Conditionalities

None

### 3.6. Crosscutting issues

The Fund is aimed at raising awareness and encouraging public debate on a wide range of EU-related topics. Specific measures to favour a significant level of participation by some vulnerable groups are foreseen in the programme's implementation so as to ensure that these groups are closely involved. Their participation will be facilitated and their specific needs and interests taken into consideration. This reflects the fundamental EU funding principles based upon protection of human rights, gender equality and environment and highlights the inclusive nature of the European integration process.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management

### 4.2. Budget and calendar

Indicative budget breakdown	€ million
Total budget	2.0

Types of Contracts ('Yes')	Grants	Number of grants
Services (No)	Grants/Call for Proposals (Yes)	Not possible to quantify
Supplies (Yes)	Financing Agreements (No)	
Works (No)	Twinning (No)	
Operational duration of project in months as from signature of Financing Agreement:		18-36

### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

### 4.4. Performance monitoring

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR

Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention, and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

**4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

## PROJECT FICHE

Title	<b>Support to the Health sector reform</b>		
Total cost	Approx. € 8.5 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	12110	Sector	<b>Good Governance and Institution Building Public Administration Reform/Health</b>

### 1. RATIONALE

#### 1.1. Strategic framework

The main SAP objective for health to date is the implementation of an effective reform of the health sector. Other objectives include the strengthening of public health and preventive programmes, improvement of medicine management and operationalising the National Medical Products Agency – NMPA - that regulates medicines as well as medical devices. Although the concept of the reform has been accepted and preliminary steps taken, much still needs to be done in practical terms, starting with the definition and adoption of the necessary legal framework. The strengthening of preventive services project started in 2004. The SAP report of July 2003 introduced new recommendations for the development of a health information system (HIS) to improve the management of the health system and health resources and the development of the capacities and functions of the Health Insurance Fund (HIF). The HIS project is supported through the 2004 funding. Assistance to the HIF is proposed for 2005.

#### 1.2. Lessons learnt

EAR has a strong track record of supporting health reform in Serbia. Policy lessons to date underline the need to develop long-term strategic reform in the health sector particularly with regard to sustainable funding. As such reform and improved management of the Health Insurance Fund is crucial. In addition for a modern health sector, standardisation is required in terms of the enabling legal framework, medical products/production and laboratory testing.

#### 1.3. Complementary actions

Emergency assistance was provided through EU funding in 2000 and 2001 with the provision of essential medicines and some medical equipment. In 2001, technical assistance to support the regulation and strengthening of the pharmaceutical sector started, providing support for the development of a new Law on Medicinal Products, preparing detailed plans for the NMPA and supporting the training of pharmacists in the field of regulatory practice and pharmacy practice.

This assistance was complemented in 2002 with the support to the reorganisation of blood transfusion services. In 2003 technical support was provided to Ministry of Health (MoH) and Institutes of Public Health (IPH) in the definition of the public health strategy. A 2003 EU-funded project is currently supporting medicine management, including the rational use of medicines and the development of a full set of regulations for the implementation of the new Medical Products Law. Activities such as regulation of blood and blood products as well as medical devices and development of a reimbursement scheme for medicines are also funded through the Agency projects.

A number of important assessments and studies have been carried out through EC funding in recent years (an assessment of all health services, equipment and facilities, the National Burden of Disease Study, an assessment of preventive services, an assessment of the MoH capacity, etc). The assessment of the HIF started in August, 2004, the outcome of which will be used to set the specific agenda for this proposed 2005 HIF assistance project.

An emergency assistance loan was recently granted to Serbia by the European Investment Bank (EIB) to refurbish and modernise 21 health institutions in both infrastructure and technology. The EAR has ensured the technical preparation of the loan and is assisting in its implementation. A second EIB loan is currently envisaged to modernize the clinical centres in Serbia, which will need similar assistance from the EAR.

#### 1.4. Donor coordination

Apart from limited assistance by bilateral donors (mainly Japan and China with the supply of medical equipment), the World Bank is the other key donor supporting health reform. It has now completed the

preparation of its 2003-2007 investment strategy, which is well coordinated with EU funded programmes. The strategy covers areas such as HR, institutional mandate review, public health financing and hospital restructuring. The investment programme includes the refurbishment and restructuring of four regional hospitals, to complement the first EIB investment. As for regulation of medicines and medical devices, no other donor has so far supported it.

## 2. COUNTRY CONTEXT

### 2.1. Cooperation related policy of beneficiary country

The Government has identified reform of the health sector as a national priority. The reform process is positioned within the wider context of European integration and public administration reform. A working version of the Strategy and Action Plan for the Health Care Reform was prepared by the MoH in early 2003 following the earlier adoption of the Health Policy of Serbia and the development of the Serbian Health Vision. This Strategy is also based on the UN Millennium Development Goals, the WHO strategy Health for All in 21st century and EU directives in the field of health. It covers topics such as health financing, public health development, health care system delivery, human resources development, health information system and health management, as well as the new role of the MoH.

Historically, the former Yugoslavia health care system was unique among the countries of Central and Eastern Europe as it was financed through a compulsory social insurance model. The cornerstone of the public financing system was and still is the Republican Health Insurance Fund (HIF). Whilst HI system has many potential advantages, it is currently facing many operational and governance problems such as; fragmented performance management roles, separate contribution laws and revenue collection responsibilities. The financial performance of the HI system in recent years has been poor. It is essential to provide support for the reform of the HI system that remains legally bound to provide universal coverage but where the link between contributions and entitlement to services

Public spending on health in Serbia was estimated in 2001 at 7% of GDP. Total expenditure including private and out of pocket contributions was estimated at around 10%. In real terms, however, because of the low level of GDP, actual health expenditure per capita per year is at the low end of international comparisons, estimated between \$67 and \$107. Most recurrent public health expenditure is collected from citizens in the form of health insurance contributions and channelled to providers through the HIF of Serbia. The MoH remains responsible for capital expenditure and some recurrent expenditure related to public health programmes.

On July 30, 2004 the Serbian Parliament has adopted the Law on Medicinal Products and Medical Devices that is harmonised with the rules governing similar products in the EU and with other international standards. The new Law prescribes the establishment of a competent administrative authority, the National Medical Products Agency. The NMPA is expected to start functioning by the end of the year. Its future premises have been set up and equipped through EU funding.

The pharmaceutical industry in Serbia plays a significant economic role in the country. It is essential for the future development of this industry to have licences and certificates from the national Agency. For that purpose the Agency must be adequately staffed, work according to international standards and on the basis of good quality administrative decisions, and therefore officially recognised as a partner in the international regulatory system. Regulation of medicinal products is vital for the supply of safe and effective medicines to the patients and the health care services. The technical and scientific requirements for new medicines are now harmonised on an international basis. All EU Member States as well as several of the countries in the region have adopted a modern legal framework and established Medicines or Medical Products Agencies.

### 2.2. Sector context

Achieving fiscal sustainability in the HIF is a crucial target not only for the well-being of the health sector *per se* but also for the general economic well-being of the Republic. Sustainability will require that the gap between the recurrent HIF revenues and expenditures be bridged through increased revenues, increased provider efficiency, limitation of benefits or a combination of measures. In addition to recurrent expenditure imbalance, the level of long term chronic indebtedness of the public health financing system currently stands at €135 million and continues to increase annually.

The medicines available in Serbia are mainly locally produced, most of them not according to international standards (Good Manufacturing Practice - GMP). Scientific assessments of safety and efficacy are not performed according to modern standards. On the other hand, a number of unregulated products are available on the market. There is an immediate need for the update of the registration

criteria and procedures for approvals of new medicines according to recognised international standards. Good quality medicines are an absolute basis for adequate therapy in hospitals as well as in primary health care. The Law and the NMPA are fundamental for the survival and development of the pharmaceutical industry in the country. The EAR project intends to support the development of the Agency and to provide assistance so that it may function according to EU and international standards.

Serbia has at present one national (Republic IPH "Batut") and 22 regional Institutes of Public Health (IPH), all of which have laboratory facilities. These IPH laboratories are responsible for drinking water and food safety, environmental testing and clinical microbiology at PHC level, as well as, to a certain extent, at hospital level. They are practically the only laboratories in Serbia that do these tests and are therefore crucial to public health in the country. But these institutes need to change their structure, shift responsibilities and strengthen the laboratories at different level of responsibility and whenever possible cooperate with similar responsibilities related to the food safety chain as exercised by the Ministry of Agriculture.

The IPH laboratories are currently suffering from many shortcomings, such as: lack of modern know-how, poor facilities and equipment and poor safety conditions, and a legal framework not well-aligned with related EU legislation.

### 3. DESCRIPTION

#### 3.1. Objectives

The overall objective is to support reform of the Serbian public health sector. The specific objectives/purposes are to improve the Health Insurance Fund, the Medical Products Agency, and the services of the public health laboratories.

##### **Support to the Health Insurance Fund**

Build the capacity of the Health Insurance Fund to enable it to function as an effective commissioner of health and health care services, using limited scarce resources for the maximum benefit (access, equity, effectiveness, health gain and quality) of the insured population.

##### **Twinning for the Medical Products Agency**

Support the health care system in Serbia and the health reform process by supplying safe and effective medicines through the NMPA, so that it may provide quality services to health professionals, patients, pharmacists, wholesalers and the pharmaceutical industry.

##### **Strengthening the Services of the Public Health Laboratories**

Achieve cost-effective laboratory services of known and reliable quality within adequate delivery times in the Serbian public health system through a functional Central Reference Laboratory (CRL).

#### 3.2. Expected results and main activities

##### **Support to the Health Insurance Fund**

EU funds will support:

- Changed HI legislative framework, consistent with the health reform strategy, including changes to existing laws and by-laws, accepted by the Government/Parliament of Serbia;
- Extensive capacity building and training of HIF and key provider staff completed in key areas e.g. health needs assessment, service planning/budgeting, prioritisation, financial control, innovation in health care strategic commissioning, quality management, business planning and management, health service management, EBM, HTA;
- New organisational development strategy designed and agreed for HIF and implementation commenced;
- A new more transparent HIF governance structure

##### **Twinning for the Medical Products Agency**

EU funds will provide administrative, technical and policy support to achieve:

- A well organized Agency functioning according to international standards and that has obtained the necessary international recognition;
- An Agency able to harmonise its regulatory decisions within the international arena and able to provide quality services to the local pharmaceutical industry;

EU funds will assist in:

- Training of NMPA staff on selected topics, such as the EU rules and legal issues, assessment of quality/safety/efficacy, Good Regulatory Practice, Good Manufacturing Practice standards, etc.
- Licensing of medicines, surveillance of products on the market, licensing and inspection of manufacturers, importers, distributors and pharmacies, laboratory quality control, information on medicines, monitoring of adverse reactions to medicines and the rational use of medicines, inspection of manufacturers according to international standards, laboratory quality control, etc.
- International recognition and networking with the European Pharmacopoeia, CADREAC, Balkan Council on Medicines, International Conference on Drug Regulation (ICDRA), EU Coordination of Medicines Control Laboratories

### Strengthening the Services of the Public Health Laboratories

EU funds will:

- Assist the MoH and the Republican IPH (RIPH) in the implementation of the organisational and legal changes necessary for the establishment of a Reference Laboratory Centre (RLC) to carry out the reform of the public health laboratories;
- Assist RIPH to upgrade and implement Laboratory Quality System in accordance with international standards for Laboratory Quality Management (e.g. ISO 17025) and implement new internal management procedures for the management and routine work of RLC with special focus on proficiency testing;
- Train staff in the new quality and management systems as well as assist in procuring equipment necessary for upgrading the laboratories.

### 3.3. Stakeholders

The main stakeholders are the Government, especially MoH, MoF, Ministry of Agriculture, HIF, the Institute of Public Health network, the Medical Products Agency, trade unions and e.g. associations of employers as representatives of contribution payers, health care providers, NGOs, communities, citizens and patients. Other interested parties are major donors and contributors to health system reform programme in Serbia, including World Bank, ICRC and other bilateral donors.

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Government unwilling to make necessary changes in the legislation and reforms	Low/Medium	High	Increased support to MoH. Involve PM office if necessary
HIF management unwilling to integrate new planning and management approaches and implement the new health information system (funded through a separate EAR project)	Low	Medium	Consultations with MoH, World Bank, training and support. Apply conditionality on other projects.
Starting budget insufficient	Medium	High	Revise work and staff plans
Incompetent staff in key positions	Medium	Medium	Intensive training
No political willingness to change the legal framework for the establishment of the RLC	Low	High	Continuous cooperation with the MoH
RIPH not willing to set up adequate organisational structure	Medium	High	Training and TA

### 3.5. Conditionalities

The Ministry of Health and its Institutes of Public Health need to ensure coordination with the Ministry of Agriculture to avoid duplication of food chain safety laboratory inspections.

### 3.6. Crosscutting issues

Health reform is a horizontal activity inclusive of the vulnerable sections of society including women in terms of the provision of a modern health care system. The project actions will serve to make quality health care provision sustainable, build confidence in medical standards and the supply of medicines. Positive measures will be foreseen in order to ensure equal access to health services by vulnerable groups. The specific medical and social needs of women (Roma women, women refugees, women in rural areas) will also be addressed. The project on strengthening the services of the Public Health Laboratories will take into account environmental risks arising from handling of medical waste.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management.

Support to the Health Insurance Fund has a technical assistance component while the Support to Public Health Laboratories includes both technical assistance and supplies. The Medical Products Agency project is envisaged as a twinning.

#### 4.2. Budget and calendar

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	8.5
<i>Budget by project components:</i>	
• Support to the Health Insurance Fund	2.0
• Twinning for the Medical Products Agency	1.5
• Strengthening the Services of the Public Health Laboratories - TA	2.0
• Supply of equipment necessary for upgrading the laboratories	3.0

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants (No)	
Supplies (Yes)	Financing Agreements (No)	
Works (No)	Twinning (Yes)	1
Operational duration of project in months as from signature of Financing Agreement:		18-36

#### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### 4.4. Performance monitoring

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention, and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

As per the Twinning Manual, Twinning Projects will be the subject of quarterly monitoring on the basis of reports submitted by the Twinning Project Leaders as well the results of Steering Committee Meetings. Following receipt of the 2nd Quarterly Progress Report a systematic review of the Twinning will be undertaken by the European Agency for Reconstruction in consultation with the Twinning Partners. The review may lead to reorientation of the Twinning Project or, in extreme cases, withdrawal of financing (i.e. termination of the project).

#### 4.5. Evaluation and audit

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme. Evaluation of Twinning Projects will be based upon progress in achieving the benchmarks and mandatory results laid out in the work plans for the Twinning Projects.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors and beneficiaries of Twinning Grant Contracts will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities' and the Twinning Manual.



## PROJECT FICHE

Title	<b>Local and Regional Development Programme 2005</b>		
Total cost	Total costs: € 23.8 million EU contribution: € 19.7 million Programme beneficiaries contribution: € 2.6 million		
Aid Method	Indirect centralised management		
DAC-code	15040	Sector	<b>Good Governance and Institution Building Public Administration Reform/ Local Govt. and Regional Development</b>

## 1. RATIONALE

**1.1. Strategic framework**

As outlined in the MIP 2005-2006 support to decentralisation and local governance is crucial for the realisation of the objectives of the Stabilisation and Association Process (SAP). The MIP also elaborates on the importance of regional cooperation and has a specific objective to facilitate and stimulate cooperation between Serbia and Montenegro and other countries in the Region.

The European partnership calls for Serbia and Montenegro to promote local government by adopting and implementing the decentralisation reform in Serbia and ensure sufficient local capacities to deal with, among others, administrative and financial issues and forthcoming regional programmes.

The Country Strategy Paper for FR Yugoslavia spells out that EC assistance in this sector also shall support the decentralisation of authority to municipalities

Sustainable economic development is a key element of all measures supported through the Sap. It aims to facilitate economic growth and increase employment without jeopardizing the quality of life of future generations. To achieve this, the SAP, among other measures, promotes effective decentralisation and participation of civil society in decision making. Preparation of local government for undertaking greater responsibility, improvement in municipal management and the promotion of civil society participation in local development initiatives are seen as critical steps in this context.

**1.2. Lessons learnt**

A key lesson learnt in this sector is that legislation must be accompanied with an implementation and financing strategy. The passing of the Law on Local Self-Government is only the first step in the decentralisation process in Serbia. A well planned and sequenced implementation strategy is required as is a fiscal decentralisation strategy to make the process work.

To that end the review of the Law on Local Self-Government scheduled for 2005 will inform the drafting of a fiscal decentralisation policy. Such a fiscal strategy should ensure that municipalities have sufficient resources to meet existing as well new responsibilities under the Law on Local Self-Government. EAR will support this fiscal strategy through the capacity building support envisaged under the MSP programmes at national level and within the framework of public administrative reform. On-going support from EAR for public finance reform, in particular improving the national budgeting process will also support this process

Lessons from the Municipal Support Programme highlight the continued need to up-grade the provision of local public services by strengthening local strategic planning and implementation capacities. To ensure local strategic planning facilitates social partner dialogue, municipal staff must be instructed in participatory planning techniques. The incorporation of the social partners is not only important for successfully implementing local strategies but also national strategies, such as the PRSP, at the ground level.

**1.3. Complementary actions**

The EU has contributed to the recovery of the municipalities in Serbia through Schools for Democratic Serbia, Towns and Schools for Democracy and the Rapid Employment Programme (REP), all forerunners of the Municipal Support Programme and the Municipal Improvement and Revival Programme (MIER), currently under implementation. The proposed 2005 programme will build on lessons learnt and further enlarge the scope of the Socio-Economic Development Initiatives supported through the Regional Socio Economic Development Programme, initiated under the 2003 programme.

Moreover, the programme will complement the EU funded support to the new neighbourhood initiative, enterprise development and vocational education and training.

#### 1.4. Donor coordination

Besides the regular general member states meetings there are regular meetings with the actors listed in the table above. Specific project level cooperation, including co-financing, has been established with GTZ, UNDP, SIDA and EBRD. In addition a special task force to coordinate donor supported efforts in south Serbia is meeting regularly and has led to joint action on an operational level as well as the establishment of an information and documentation centre for development activities in South Serbia.

UNDP implements, apart from the EC funded Municipal Improvement and Revival Programme, the Southern Serbia Municipal Improvement and Recovery Programme (SSMIRP). Other projects are underway or planned by other donors such as the World Bank, EBRD, EIB, GTZ, UNDP, KfW, SDC, SECO, USAID and World Bank. These programmes usually combine capacity building initiatives with small grants for infrastructure projects but do not address problems in relation to the municipal credit market.

The table below gives an overview of the main donor activities in the sector.

<b>GTZ</b>	Modernisation of municipal services
<b>EBRD</b>	<ul style="list-style-type: none"> <li>- Reconstruction of Serbian municipalities – continuation of previous work in improving municipal infrastructure facilities (such as water and sanitation, district heating and urban transport);</li> <li>- Subotica municipal infrastructure reconstruction programme;</li> <li>- Belgrade municipal infrastructure reconstruction programme – improvement of urban transport, water supply, waste water treatment and efficiency and quality of district heating services</li> <li>- Kragujevac, Niš and Novi Sad municipal infrastructure programmes</li> </ul>
<b>EIB</b>	Belgrade urban renewal project (investing in public transport system in order to reduce congestion and pollution, improve the traffic control system and reconstruction of tramlines and a new trolley bus depot)
<b>KfW</b>	Rehabilitation of water supply and waste water treatment in Belgrade, Niš and Novi Sad
<b>SDC</b>	Municipal Support Programme in Čačak, Kraljevo, Kuršumljija, Niš, Novi Pazar, Požega and Užice.
<b>SECO</b>	Donation of trams to the City of Belgrade and improving the Belgrade transportation system
<b>SIDA</b>	<ul style="list-style-type: none"> <li>- Rural development programme in the Municipality of Topola;</li> <li>- Southern Serbia Municipal Improvement and Recovery Program (SSMIRP) phase II</li> <li>- Capacity building of the Standing Conference of Towns and Municipalities</li> </ul>
<b>UNDP</b>	Implements Municipal Improvement and Revival Programme (EU funded) and the Southern Serbia Municipal Improvement and Recovery Programme (SSMIRP)
<b>USAID</b>	<ul style="list-style-type: none"> <li>- Citizen assistance center in the Municipality of Niš</li> <li>- Improving water supply, waste management and infrastructure in selected municipalities</li> <li>- CRDA (community based development programme)</li> <li>- SLGRP, Serbia Local Government Reform Programme.</li> </ul>
<b>World Bank</b>	<ul style="list-style-type: none"> <li>- Post Conflict Grant - Southern Serbia Municipal Improvement and Recovery Program (SSMIRP) – consolidating peace, preventing conflict and increasing livelihoods in multi-ethnic and minority regions in municipalities of Preševo, Bujanovac, Vranje, Medveđa, Lebane and Leskovac</li> <li>- Water and Sanitation projects in selected municipalities</li> </ul>

## 2. COUNTRY CONTEXT

### 2.1. Cooperation related policy of beneficiary country

After decades of inefficient economic management and severe political crisis, regional conflict and international isolation during the 1990's, Serbia began the transition to democracy and a market led economy early 2001. Government presented a medium-term economic recovery and transition strategy to a Donor Conference in June 2001. This reform agenda was based on four main pillars: 1. Restoring macroeconomic stability and external balance; 2. Stimulating near-term growth and creating the basis for a sustainable supply response; 3. Improving the social well-being of the most vulnerable and building human capacity and 4. Improving governance and building effective institutions.

Subsequently in a reform progress report "Serbia on the Move" in November 2003, Government elaborated that the main strategic framework of the reforms consists of the European Integration

Agenda, the Poverty Reduction Strategy, the budgeting process and the Reform Agenda of Serbia II. A World Bank review from November 2003 concluded that substantial progress has been made in all areas during the first one and a half year after the introduction of the reform strategy, but that since the reform has slowed down. To re-accelerate structural reform there is an urgent need to agree on a new constitutional framework.

## **2.2. Sector context**

The republic of Serbia (excluding Kosovo and the City of Belgrade) is divided into 24 districts (Okrug) which function as de-concentrated extensions of central government. While major changes have recently taken place at state union, republican and municipal levels, no significant changes occurred at district level.

Each district is constituted of several municipalities (Opština). In total there are 163 municipalities in the republic of Serbia (excluding Kosovo). Municipalities generally incorporate towns, villages and rural areas. The municipal government is normally situated in the largest town and is responsible for the entire municipality.

Serbia's first Law on Local Self-Government dates back to 1836, providing a framework for some level of decentralisation. However, despite this tradition strong centralistic tendencies were introduced during the 1990's under the Milosovic regime, with central government assuming an ever increasing role in local communal affairs.

During 2001 the new Government of Serbia has launched an administrative reform programme, including both the decentralisation of responsibilities and financial resources to the municipal level and the development of a regional policy. Parliament adopted a new Law on Local Government in February 2002, and a new Ministry of Public Administration and Local Self-Government (MPALSG) was established in June 2002.

Implementation of the law is hampered by a generally weak public administration. The definition of executive functions at different levels from the State Union to the municipal levels, and the allocation of these functions to ministries and agencies in an efficient and productive manner remain incomplete. Until there is a clear distribution of functions and authority it will be difficult to ensure the required accountability and transparency of Serbia's administrative structures. As such Public Administrative Reform (PAR) is a major priority for many donors. It is important to ensure that the Serbian administration, via the Ministry of International and Economic Relations, coordinates aid effectively. EAR recognising the importance of local development within the context of PAR organises monthly meetings with member states to coordinate PAR activities. EAR also works closely with the Standing Conference of Towns and Municipalities to coordinate EU support actions at the local level.

In addition many analyses confirm that municipal administrations are poorly organized with inadequate human resources, poor equipment and outdated working methods. This general lack of capacities has resulted in a situation that there are only a few local development initiatives under implementation. Especially in the smaller municipalities projects under implementation are limited to donor funded initiatives.

Despite a favourable legislative framework there is still a limited involvement of the civil society in local decision-making. Most municipalities have not yet developed the capacity for participatory planning and implementation of public services. Within the framework of donor supported activities, various municipalities have actively cooperated with non-governmental organisations, during the implementation of development projects targeting vulnerable groups.

This is why donor coordination is very important in this sector and the close working relationship with UNDP assists in participatory planning. The MSP and MIR programmes are designed to expand participatory planning. In addition the RSEDP programme is developing stakeholder partnership structures for the preparation of local development plans. This reflects on-going support by EAR to enhance the partnership between local governments, business and non-profit sectors at the local level to support socio-economic development.

### 3. DESCRIPTION

#### 3.1. Objectives

##### Wider objective

The overall objective of the local government and regional development programme is to contribute to an efficient and coherent decentralisation process in line with the Law on Local Self-Government. This includes Institutional Capacity building at national and local level in accordance with SAP, the improvement of the delivery of municipal services and the strengthening of municipality's ability to design and implement local development initiatives in close co-operation with civil society organisations.

##### Specific objective(s)

To strengthen the capacity of relevant national ministries, the standing conference of towns and municipalities and selected municipalities to enable these institutions to fulfil their roles and responsibilities in supporting desired local and regional development initiatives.

To strengthen the spatial and physical integrity of selected areas or regions by improving the efficiency of service delivery at municipal level through the preparation of strategic action plans and implementation of priority infrastructure projects.

To facilitate the integration of regional markets and enhance socio-economic coherence between local communities through the stimulation and facilitation of local development initiatives in selected municipalities, districts and/or regions. The socio-economic development component of the programme will enhance social cohesion and integration of border municipalities, contributing to further stability in the region.

To achieve these objectives the 2005 Local Government and Regional Development programme will build on the 2003 and 2004 programme by enlarging the scope of activities initiated under the these programmes as well as finance one new project.

#### 3.2. Expected results and main activities

The main programme strategy to remedy identified problems and achieve the stated objectives is to initiate a practical "learning by doing" process together with the beneficiary institutions. It implies that the programme will provide technical assistance to beneficiary institutions to initiate participatory strategic planning exercises in the three main areas addressed by the programme (i.e. 1.human resource development and institutional capacity building, 2. municipal service delivery and municipal infrastructure and 3. local economic development initiatives). This in turn will result in tailor made training activities and the implementation of selected priority infrastructure and LED projects.

The 2005 programme will support four related projects, three of them are a continuation and consolidation of already ongoing projects whereas one new municipal support project will be developed along the border with Romania to complement the planned neighbourhood programme in that area.

**Project No.1:** A Municipal Support Programme (MSP-NE) for North East Serbia funded with approx. €6.7 million from the 2005 EU budget. (The total estimated project value will likely amount to €45 million over a 4 year period - 2005 to 2009 with further EU contributions in future years in order to achieve the desired objectives).

Expected results from the 2005 contribution:

- A Project Implementation Unit, Steering committee and Inter-Ministerial working groups for the project established.
- 26 municipal diagnostics completed (including reviews of municipal budgets and financial management practices, municipal institutional capacities and human resources development strategies, municipal planning, municipal infrastructure development and local economic development.
- 26 Municipal Action plans completed
- A pipeline of priority project prepared in each of the participating municipalities.

**Project No. 2:** A second MSP for Eastern Serbia for approx. €6.5-7 million.

This is a second phase of the Municipal Support Programme initiated under the 2003 programme to consolidate the ongoing capacity building process and to contribute to the implementation of selected priority projects as outlined in the strategic municipal actions plans developed during the first phase.

**Expected results:**

- Functioning of the PMU, Steering committee and Inter-Ministries working group of the (MSP-ES)-ES established under phase 1 of programme consolidated;
- Support to the Ministry (MPALSG) and to the Standing Conference of Towns and Municipalities (SCTMY) consolidated;
- A limited number of priority projects as identified in the 15 Municipal Action plans developed under phase 1 of the programme implemented.

**Project No.3:** A second Municipal Improvement and Revival Programme (MIR) for approx. €6.5 million.

**Expected results:**

- Functioning of the PMU, Regional steering committee and inter-municipal working group of the MIR programme established under phase 1 of programme consolidated;
- Functioning of the Programme Implementation Units (PIU) in each of the participating municipalities consolidated;
- 11 local municipal development plans reviewed and where applicable revised.
- A series of priority projects identified in the municipal action plans implemented.

**Project No. 4:** A second Regional Social and Economic Development Programme (RSEDP) for approx. €1 million.

This is an additional contribution to the ongoing programme initiated under the 2003 programme for the financing of local economic development initiatives to be identified through a call for proposals.

- Partnership structures developed in the phase 1 programme regions consolidated;
- Technical assistance for the formulation of area based development plans, the consolidation of partnership structures and funding for selected local economic development initiatives provided;
- Call for proposals to identify local economic development initiatives in the three project regions prepared and implemented;
- A series of local economic development projects implemented.

**3.3. Stakeholders**

The main programme partners are the Ministry of Public Administration and Local Self-Government, the Ministry of Economy, the Standing Conference of Towns and Municipalities, the Ministry of Finance, the municipalities participating in the programme, as well as civil society organisations. In addition, the Ministry of International Economic Relations is expected to participate in most of the project steering committees. UNDP will be the main implementing partner for the Municipal Improvement and Revival programme in South Serbia.

**3.4. Risks and assumptions**

<b>Risk</b>	<b>Likelihood High/Med/Low</b>	<b>Impact H/ M/ L</b>	<b>Counter Measures</b>
MPALSG, SCTM and the Ministry of Economy do not implement required institutional arrangements	Low	High	High level intervention with MPALSG, SCTM or the Ministry of Economy. Project agreements will be signed with all project partners
Insufficient response of staff from beneficiary institutions to the proposed training activities	Medium	High	Participatory development of training activities. Development of subprojects for investments directly related to training activities
Lack of professional skills and experience of some municipal staff may hinder project preparation and implementation	Medium	High	Programme is specifically designed to address capacity building issues at municipal level

**3.5. Conditionalities**

Funding of the second phase of MSP-ES as well as the MIR programme is conditional upon signing of a project grant agreement with the main project partners clearly outlining the role and responsibilities of the project partners. Each of the project partners will be required to implement the necessary institutional arrangements ensuring a smooth implementation of the proposed projects.

Adequately staff a programme coordination and implementation unit in the Ministry of Public Administration and Local Self-Government.

Sign a memorandum of understanding for the implementation of the regional socio-economic development programme with the Ministry of Economy.

### 3.6. Crosscutting issues

The genuine bottom-up decision-making process that will be used by the Programme will strengthen the role of communities, enabling them to organize collective action. Specific efforts will be made in all projects to achieve a gender balance in decision making structures. An important element of the process will be the financial and/or in-kind contributions made by municipalities. The programme will have positive impacts on environment as some of the selected municipal projects will deal with water supply, wastewater and solid waste. The socio-economic development component of the programme will enhance social cohesion and integration of border municipalities, contributing to further stability in the region.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management. The implementation of the programme will be done through service contracts, works contracts and grant schemes managed by the Agency.

The second phase of MSP-ES will be implemented through a call for proposals and a limited number of works contracts. These activities will complement the Neighbourhood programme between Bulgaria and Serbia and Montenegro.

The implementation of the Municipal Improvement and Revival Programme in South Serbia will be done through a grant agreement with UNDP in line with the financial and administrative framework agreement signed between UNDP and the EU.

The Technical Assistance contract for MSP-NE and the call for proposals for RSEDP will be directly managed by the Agency. A working partnership will be developed with the Council of Europe within the framework of the programme.

### 4.2. Budget and calendar

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	19.7-21.2
<i>Budget by project components:</i>	
• MSP North East Serbia	6.7
• M S P-Eastern Serbia phase 2	6.5-7.0
• Municipal Improvement and Revival Programme phase 2	6.5
• Regional Socio Economic Development Programme phase 2	1.0

<i>Types of Contracts (Yes)</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants/Call for Proposals (Yes)	1/2
Supplies	Financing Agreements	
Works (Yes)	Twinning	
Operational duration of project in months as from signature of Financing Agreement:		18-36

### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

**4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention, and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

**4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

## PROJECT FICHE

Title	<b>Support to the Customs and Taxation Administrations</b>		
Total cost	Approx. 3.0 million (including 0.5 million specifically to support the actions relating to the Joint Customs Office; the remaining 2.5 million is for Serbia)		
Aid Method	Centralised management		
DAC-code	15020	Sector	<b>Good Governance and Institution Building Customs and Taxation</b>

## 1. RATIONALE

**1.1. Strategic framework**

The European Partnership calls for Serbia and Montenegro to ensure the full implementation of the customs reform plan to secure a high degree of administrative capacity, including a specific focus on the observance of the obligations which arise from the granting of preferential trade measures (origin), notably the strengthening of the Joint Customs Office.

In relation to taxation the Partnership calls for Serbia and Montenegro to review both fiscal legislation and administrative procedures with a view to ensuring the effective and non-discriminatory enforcement of tax legislation as well as continuing to strengthen the administrative capacity of the tax administrations.

The project directly addresses Section 2.4 of the MIP 2005-2006.

The Country Strategy Paper requires that assistance should be provided with a view to the modernisation and development of the services in line with EU standards.

**1.2. Lessons learnt**

The Customs and Fiscal Assistance Office (CAFAO) programmes in Serbia and Montenegro have been the subject of regular monitoring and evaluation by both the Commission Services and the Belgrade based Programme Coordinator.

They have also benefited from the lessons learnt in other parts of the region where the CAFAO programmes are more advanced. The opportunity has been taken to deliver various project elements using the same procedural approach and implementation tools with a view to ensuring a consistent and cohesive approach across the region.

A major lesson learnt is the necessity to support, as a priority, improvement in the area of human resource management policy and procedures.

**1.3. Complementary actions**

The project will be fully coordinated with the CAFAO programmes in both Serbia and Kosovo and will encourage a cohesive and consistent approach to the management of both customs and taxation throughout the territory. It will also complement EC initiatives in the JHA field within Serbia and Montenegro (including Kosovo) as well as forging firm links with CAFAO programmes throughout the region. This activity will encompass the areas of Integrated Border Management notably with a view to enhancing the fight against organised crime, including trafficking and tax fraud, and corruption.

**1.4. Donor coordination**

The Head of CAFAO programme in Serbia has the responsibility for ensuring that the three programmes (CAFAO Serbia, Montenegro and Kosovo) are fully coordinated. This is achieved by a programme of visits to each location when activities are reviewed. The Coordinator and Head of the CAFAO programme in Montenegro are in close contact with the EAR and other donors e.g. USAID, GTZ, World Bank, British Embassy to ensure a coordinated and prioritised approach to modernisation and development. Major project elements are delivered in identical format, wherever possible using the same experts, in all three locations. For example implementation of the Enforcement project element in both Serbia and Montenegro is managed by an expert based in Podgorica.

The importance of the Joint Customs Office is consistently highlighted and supported by a single expert with specific responsibility for encouraging closer working between the two Customs Services.



## 2. COUNTRY (OR REGIONAL) CONTEXT

### 2.1. Cooperation related policy of beneficiary country

The Customs and Tax Administrations have readily accepted the recommendations for change made by the CAFAO programme as well as the Technical Assistance offered to support the implementation of change. In the Customs area, for example, there has been improvement in the area of law, organisation and structure including the creation of an enforcement section, significant improvements in human resource management including embracing performance management based on personal appraisal, risk based selective controls have been implemented which balance the needs for control and trade facilitation, and a start made on internal audit. In the area of Taxation, where the GTZ is the major donor, support has been accepted for a feasibility study to assist with the planning for the replacement of Sales Tax with a 6<sup>th</sup> Directive compliant VAT. The Customs and Tax Services have also fully embraced the need for closer cooperation and information exchange, notably in the area of VAT and Excise Control.

### 2.2. Sector context

Criminal activities, including trafficking in persons, drugs, munitions and contraband, are acknowledged as being widespread in the region. Serbia has to contend with the problems presented by its geographical location which make it part of the so-called Balkan Route. This is perhaps the most famous smuggling route in the region which, although its use was disrupted during the conflict, remains a major route for traffickers notably in Turkish refined heroin. The illicit goods smuggled on this route are largely in transit and normally targeted at the illicit markets in the EU. Corruption has long been identified as a serious widespread problem in Serbia a phenomena which worsened, particularly in the Customs Services, during the Milosevic years. Although some efforts have been made to address corruption, with action having been taken against some officials, much still needs to be done to raise the level of integrity and reputation of the local services. The economic circumstances of the country are such that the salaries of local officials are very low which aggravates this particular problem.

## 3. DESCRIPTION

### 3.1. Objectives

The objective of the project is to assist the Directors General of the Customs and Taxation in their efforts to progressively align the legislation on the EU acquis as well as modernise and develop their services in line with the EU Customs and Taxation Blueprints which were originally issued to support States in the enlargement process. The implementation of these Blueprint standards would ensure the development of modern customs and taxation services capable of exercising their functions in accordance with the law to protect society from trafficking, to ensure the collection of the revenue while at the same time facilitating the legitimate trade including the movement of persons.

### Expected results and main activities

#### Customs

The project will provide support in the following specific areas: further approximation of legislation and procedures with the EU acquis (including their effective implementation), administrative capacity, control procedures (including origin), cooperation with business and with other agencies, management of human resources (including training).

#### Taxation

The project will provide support in the following specific areas relating to Value Added Tax and Excise duties, approximation of legislation with the EU acquis, policy development, audit procedures, enforcement, internal audit and management of human resources (including staff development and training)."

Additionally the existing project to support the Joint Customs Office is to be strengthened to ensure that Serbia and Montenegro can be supported in their efforts to meet their joint obligations in the Customs field, notably related to the management of preferential trade measures. The support for the Joint Customs Office, and activities relating to it in both Republics, including if necessary the supply of equipment, will be financed from this specific allocation of 0.5 meuro.

The expected result of this project is to see improvements in the effectiveness of both services which will be achieved by modernising the services along European lines and to European standards. In the case of the Joint Office the expected result is the improvement in the management of preferential origin so that economic opportunities can be maximised and the fraudulent misuse of the preference regime is prevented.

**3.3. Stakeholders**

The prime beneficiaries will be the Serbian Ministry of Finance and the Directorate General of Customs and the Department of Public Revenue. However in relation to the Joint Customs Office the direct beneficiary is the State Union and thus the Republics of both Serbia and Montenegro.

The ultimate beneficiary of the assistance will be the population of Serbia and Montenegro who will benefit from a more effective customs and taxation service which will not only be effective in the fight against illicit activity but also secure the revenue needed to support economic and social development while ensuring the facilitation of legitimate trade and the free movement of legitimate travellers.

**3.4. Risks and assumptions**

The political will of the Government to support the programmes of modernisation and development of the Customs and Taxation Service will be maintained.

The Customs and Taxation services will be properly resourced, in terms of personnel, premises and equipment.

There will be the full support of the Governments, including the provision of suitably qualified staff, to ensure the operation of the Joint Customs Office.

The continued availability of a sufficient number of high calibre experts from Member States Customs and Taxation Services to provide the technical assistance.

**3.5. Conditionalities**

Project Partners commitment to ensuring the implementation of the programmes of modernisation and development

Budget allocations sufficient to ensure that the beneficiary services can participate fully in the programmes.

Project Partners commitment to ensuring the embedding, and thus the operational sustainability, of the implemented changes.

**3.6. Crosscutting issues**

The project will strengthen the government's overall capacity to fight against illicit trafficking, fraud, corruption and organised crime. Training provided to the Customs services will be gender-sensitive and shall include issues of clandestine female migration as well as on the trafficking of women and girls, which pervade the whole Eastern European region.

The project will also support economic growth through the facilitation of legitimate trade through more effective customs and tax business management.

**4. IMPLEMENTATION ISSUES****4.1. Implementation method**

Centralised management

**4.2. Budget and calendar**

<i>Indicative budget</i>	<i>€ million</i>
Serbian Customs and Tax Services	2.5
State Union Joint Customs Office	0.5
Total budget	3.0

<i>Types of Contracts (Yes)</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants	1
Supplies (Yes)		
Operational duration of project in months as from signature of Contract		12-36

**4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

**4.4. Performance monitoring**

The Beneficiary of the EC grant shall regularly inform, the European Commission through monthly reports of political, economic or institutional developments of relevance to the project, as well as details of programme implementation actions taken during the month sufficient to enable them to monitor the substance and the quality of the technical assistance and project progress.

**4.5. Evaluation and audit**

Evaluations will be based upon progress in the achievement of benchmarks and target dates as laid down in the detailed annexes to the Call for Proposals.

The Beneficiary of the EC grant must keep accurate and regular records and dedicated, transparent accounts of the implementation of the action (Article 16.1 of the General Conditions). It must keep these records available for audit for seven years after payment of the balance of the grant.

## PROJECT FICHE

Title	<b>Support to Pre- and Post-Privatisation, Enterprise Restructuring and Development</b>		
Total cost	approx. € 11.5 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	15030: € 0.8 million 25010: € 2.5 million 25020: € 8.2 million	Sector	<b>Economic and Social Development Investment Climate/Enterprises and Privatisation</b>

## 1. RATIONALE

**1.1. Strategic framework**

Serbia's enterprise sector comprises a significant number of large Socially-Owned Enterprises (SOEs) and an active private sector of some 60,000 SMEs. The SOEs have continued to make losses and generate a substantial quasi-fiscal deficit, which burdens the economy and the financial sector. Their disposal, primarily through *privatisation*, is a cornerstone of the Government's programme of structural adjustment and economic reform, and a prime determinant of success. Complementing the pre-privatisation programme is the *Turn Around Management (TAM) Programme*, which has focused on post privatisation assistance to SMEs.

Both proposed programmes are fully in line with the EC Partnership and MIP objectives for privatisation and economic development. The EC Partnership Agreement recommends to speed up the restructuring, privatisation and/or liquidation of large SOEs including the public utilities and banks. The Agreement also states that Serbia should implement the European charter for SMEs as well as to strengthen the business environment so that it is more conducive for private sector development. The MIP also reflects these priorities and on-going EU funded programmes are supporting these initiatives.

To further promote the investment climate in Serbia it is important to exploit national competitive advantages. The Country Strategy Paper highlights river transport as a highly economical and environmentally friendly mode of transport in Serbia. The availability of a functioning transport infrastructure, in all its forms, is key to sustainable economic growth in South Eastern Europe plus linkages to the European Union. Consequently, one of the priorities for the 2005 programme will be to encourage and prepare for investments in the area of the Danube river basin so as to alleviate the effects of past conflicts on navigation and to boost economic development in the country/region. A Danube Project Preparation Facility will be funded designed to identify and develop bankable projects (PPF).

**1.2. Lessons learnt**

In terms of the *privatisation* process, the general lesson learned relates to the dichotomy between the ambitions of the responsible institutions and their capacity to adequately staff and manage a very complicated process in a changing political environment. More specifically, the Privatisation Agency needs to ensure that the privatisation process (from enterprise identification to actual sale or liquidation/bankruptcy) and the responsibilities of the related institutions (e.g., for bankruptcy, debt restructuring, etc.) are clearly defined.

The on-going *TAM approach* is proving to be highly valued by company managers in Serbia, and most particularly by those with the highest management potential. It is also clear that, besides improvements in management knowledge and skills, enterprises require strong support for building their international trading links, which in turn require that enterprises meet manufacturing and product quality standards of the EU. The *privatisation* and *TAM* proposed programmes incorporate these lessons.

**1.3. Complementary actions**

The proposed programmes will eventually lead to more sustainable economic development, trade and free up human and financial resources for more productive activities. In the short term, however it will lead to higher unemployment, mitigated by other donor and EU programmes dealing with, trade (investment and export promotion, standards institutes), SME support (financial and non financial), Vocational Education/Training, municipal and rural economic development programmes as well as

through social components of restructuring plans. This promotes the need for a Project Preparation Facility (PPF) designed to provide new employment generation opportunities.

#### **1.4. Donor coordination**

Other donor and IFI projects complementary to the proposed activity include: privatisation-institutional development and enterprise sale related (World Bank, USAID, GTZ, UNDP), support to national competitiveness through cluster development (USAID), business advisory services (GTZ, Swiss Development Corporation, SEED); the EIB Global Loan Facility; and EBRD and Italian Government funded credit lines.

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of Serbia**

As part of the economic restructuring process, the Government of Serbia has embarked upon a privatisation programme of state or socially owned enterprises (SOEs), via tender, restructuring and/or auctions. Government's pre and post privatisation programmes and related policy measures will make companies attractive to investors, improve the economy's overall competitiveness and provide more sustainable employment opportunities for the labour force. The Ministry of Economy has also adopted a national strategy for SME development for 2003-2008. The main priority of this strategy is to strengthen the private sector and make it internationally competitive through the development of management, introduction of quality systems into business operations, and fostering the development of innovation and up-to-date technology. The strategy recognises the importance of transferring new skills and knowledge into the SME sector with the major objective of the rapid growth of a sustained, internationally competitive, export-oriented SME sector in Serbia. Both the privatisation and the TAM programmes assist in meeting these key objectives. The Project Preparation Facility recognises the need to create new opportunities for Serbian business to exploit.

### **2.2. Sector context**

Privatisation (including SOE restructuring) is an essential prerequisite for introducing a functioning market economy. Enterprise privatisation and/or liquidation/bankruptcy will result in higher economic efficiency and a more stable economic environment despite the short-term negative economic impact (e.g., higher unemployment). Serbia's privatisation programme has been successful despite a recent slow down in the Privatisation Agency's (PA) activities resulting from management changes made after the March 2004 change in Government. Fortunately, these changes have now been reversed. To date, the PA has sold 40 large enterprises through international tender and more than 1000 through public auctions. Privatisation proceeds yielded more than €900 million in revenues in 2003 and the investors committed another €800 million for improvements. Unfortunately, corporate restructuring was much slower (only five out of 67 enterprises were successfully restructured and subsequently privatised); essentially because of the lack of cooperation of state creditors to renegotiate company debt and land title issues. Government and the Privatisation Agency are now committed to resolving these issues and are about to submit amendments to the current Privatisation Law to parliament to overcome the non-cooperation of the state creditors, and to incorporate the substance of existing tender and restructuring decrees in the Privatization Law, as well as to create the legal framework for a Bankruptcy Unit within the PA. These actions will help build the regulatory apparatus to speed up the privatisation process and to effectively tackle major privatisation challenges such as in the telecommunications sector.

Rebuilding the entrepreneurial culture, developing competitive products and services, and creating markets both local and international are essential goals if economic transition and social stability are to be achieved. Specifically for the TAM programme, the transition from state or social ownership is difficult enough, but the development of management capacity and export related (or import substitution) products and services requires an appreciation of commercial culture. The introduction of experienced and 'industry specific' advisors who can demonstrate real and practical knowledge of the industries and their problems, is an effective way of building the confidence and competence of the Serbian enterprise managers so that they can survive and compete in the market economy. This process may go before or after the privatisation process, but such improvement is consistent with the Government policy of creating viable privately owned enterprises that offer more secure job opportunities, as well as wealth creation. The Danube Project Preparation Facility will contribute to providing new economic opportunities for investors and entrepreneurs.

### 3. DESCRIPTION

#### 3.1. Objectives

To support Serbia's pre and post privatisation programmes and create new economic opportunities which will subsequently provide the basis for a viable competitive enterprise sector and thus contribute to the required economic and social transition.

#### Specific Objectives

##### *TAM programme*

- Support economic transition, market reform and increased employment by helping selected potentially viable enterprises to deal with market forces by transferring relevant commercial and technical know-how from Western European senior managers.
- Improve the competitiveness of enterprises with a special focus on export oriented companies in order to counter the rising Serbia trade deficit.
- Build on the national competitive advantages of the Danube basin by designing bankable projects that will provide economic and employment generation opportunities.

##### *Privatisation programme*

Provide further support to SOE restructuring in order to generate greater economic efficiency, increase FDI and reduce the "quasi fiscal deficits" resulting from directly and indirectly funding the losses of these enterprises.

- Further strengthen institutional capacity and operational processes through ensuring that all relevant privatisation operational processes and responsible institutions are well staffed and defined (e.g., debt resolution, land titles, bankruptcy)

#### 3.2. Expected results and main activities

##### Expected results

##### *Privatisation programme*

Complete privatisation or liquidation of about four enterprises for which diagnostic and restructuring reports are available focussing especially on those enterprises with previous EU programmes;

Complete privatisation, liquidation or initiate bankruptcy proceedings for another four SOEs;

- Make operational the PA's bankruptcy unit and launch about four bankruptcy cases;

##### *TAM programme*

Improved commercial activity of a minimum of 40 selected enterprises (e.g., realistic business plans, improved competitive position, adaptation of processes to EU or international standards, sound environmental practices and expanded networks of contacts.

- Improved competitive position of enterprises measured by increase in turnover, market share, reduction in operating and production costs, etc.
- Adoption and implementation of the restructuring programme agreed to with the enterprise.

##### *Danube Project Preparation Facility (PPF)*

Develop new economic and employment generation opportunities by preparing bankable projects based on exploiting the competitive advantages offered to Serbia through the Danube River.

Expected Results / Benchmarks	Timeframe
<b><i>Restructuring and Privatization programme</i></b>	
Complete privatisation through restructuring (through tenders, auctions or bankruptcy) of four (4) enterprises currently in the restructuring process for which diagnostic/restructuring phase has been conducted.	May 2006
Contract consulting firms for four (4) additional SOEs for privatization through restructuring.	December 2005
Prepare restructuring programmes and / or launch privatization for four (4) of the new restructuring candidates and contract consulting firms for additional four (4) enterprises for restructuring	May 2006
Complete privatisation through restructuring (through tenders, auctions or bankruptcy) of two (2) out of the four (4) additional SOEs selected for restructuring	May 2007

Contract consulting firms for twelve (12) enterprises eligible for privatization through public tenders	December 2005
Complete tender privatisation for four (4) out of the twelve (12) enterprises selected for tender privatization.	December 2006
Complete privatization for additional two (2) enterprises selected for tender privatization.	May 2007
Twelve (12) bankruptcy cases in process	December 2006
<b>TAM programme</b>	
Steering Group established (TAM programme)	May/June 2005
First presentation 40 eligible enterprises resulting from screening process	July 2005
Viability analyses of each company, beginning of restructuring process, development of appropriate efficiency measures, market and sales potentials.	September 2005 and ongoing
Evaluation reports of the outcomes of each project in Final Enterprise Reports (FER).	Continuous, but FER will be circa autumn 2006
Collate and disseminate the final enterprise impact results, success stories, lessons learned to the Steering Committee, and via news items, seminars, and etc. plus on the TMG/EU Website that will be operational at that time.	From autumn 2006

### Main activities

For each selected enterprise and depending upon its needs, tasks to be undertaken will include some or all of the following:

#### *Privatisation programme*

- Engage consulting firms for the preparation of the restructuring programmes, evaluations, creditors meetings and documents required for the privatisation for those enterprises, which have diagnostic/restructuring reports and conduct the privatisation through a restructuring procedure through competitive tenders, auctions and/or bankruptcy procedures.
- Engage consulting firms to conduct a diagnostic and due diligence, prepare restructuring programmes, evaluations; prepare the creditors meeting and the related documents for privatisation and conduct privatisation procedure for the newly identified SOEs through competitive tenders, auctions, and/or bankruptcy procedures.
- Engage consulting firms to conduct the preparation phase (due diligence, valuation, tender documentation) and conduct the tender privatisation procedures for about 12 SOEs;
- Establish the PA Bankruptcy Unit as a bankruptcy administrator for SOEs, and build the capacity to carry out all legal obligations as administrator for SOEs.
- Initiate and conduct bankruptcy procedures in accordance with the new bankruptcy legislation for about 12 SOEs;
- Ensure close coordination of the above restructuring activities with the Bank Rehabilitation Agency and the about to be established Bankruptcy Supervisory Agency and the PA's Bankruptcy Unit.

#### *TAM programme*

- Prepare a detailed viability diagnosis of each company, identifying its strengths and weaknesses, analysing its operational capacity, product or service range, and potential customer base.
- Assist management to prepare and implement an enterprise restructuring plan aimed at establishing an effective commercial operation.
- Preparation and support in the initial implementation of a viable 3-year Business Plan, including the review of present and proposed product or service ranges, the local and national market opportunities for the enterprise, the current management, staffing and production arrangements, and considerations relating to energy and materials usage and efficiency, environmental and employee safety constraints and any other issues of relevance in the EU accession context.
- Develop marketing strategies for the specific products or services and for local and international markets as result from the review, and implement the market driven sales activities which follow.
- Undertake media coverage that is beneficial to the success of the project, including, but not limited to, official press releases, technical articles, public interviews, TV or radio features.

#### *Danube Project Preparation Facility (PPF)*

- Identify and develop project development opportunities based on existing EU/other Danubian support/promotion activities
- Ensure that project preparation actions produce bankable projects that are sustainable in the long term, attract investment and contribute to creating employment generation opportunities

- Undertake promotion activities that contribute to highlighting the economic benefits of the Danube in Serbia

### 3.3. Stakeholders

- Main beneficiaries are enterprises, and their employees, private or participating in the Serbian privatisation initiative.
- Project partners are the Ministry of Economy, the Privatisation Agency, the Bank Rehabilitation Agency, the World Bank, European Investment Bank, the Ministry of Finance, Ministry of Transport, the Republic Agency for SME Development, the Chambers of Commerce, relevant other EC projects and other Donors.

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Willingness of Ministry of Economy, Privatisation Agency other relevant Government Ministries, and other stakeholders (e.g., state creditors) to co-operate closely in the delivery of objectives	Low	High	Political and donor pressure on Govt. to resolve.
A large enough selection of potentially viable enterprises not available and unwilling to take part in the programmes	Low	High	Wider dissemination to add to already existing pipeline
Enterprises not willing to accept advice and make necessary changes at management or staff level	Medium	High	Initial screening includes 'judgement' of management and staff attitude to change. Continuous monitoring of each project. Close cooperation with SOEs
Enabling environment not conducive to transition	Low/Medium	High	Political and donor pressure on Government to resolve

### 3.5. Conditionalities

A high degree of conditionality is put on enterprise response utilising the *TAM programme*. Support for any non-responsive enterprise will be terminated and funds re-allocated to the funding reserve, available for other enterprises, as will any other unspent funds at the end of each completed project. Potentially viable enterprises selected from the (pre-) privatisation process and endorsed as project candidates imply a risk that contingent financial liabilities are an insuperable impediment to commercial viability. Such enterprises will be screened, but it is assumed that the Ministry of Economy and the Privatisation Agency shall agree to provide support including but not limited to write-offs or restructuring of debts owed to taxation authorities, public entities and utilities, employee severance payments and other measures of support for redundant workers. The write-off of legitimate commercial liabilities will not be proposed.

- For the proposed *privatisation and SOE restructuring* support programme, the EU will require a Memorandum of Understanding (MOU) satisfactory to the EC and the World Bank signed by the Privatisation Agency (PA), the Ministry of Economy, World Bank and the EAR, etc, which will specify the new PA organization, full restructuring/privatization procedures and responsibilities, a staffing plan and finally defining the procedural relationships and responsibilities with related privatization institutions such as the Bank Rehabilitation Agency, Ministry of Finance (especially regarding debt restructuring procedures and measures such as debt write-offs), etc. This MOU, the submission of the amendments to the privatisation law to parliament as well as the fulfilment of the IMF conditionalities referring to Privatization and Bankruptcy by May 2005 will be required before the EC/WB funds will be released, i. e, before the respective service contracts are signed.
- For the PPF the Serbian administration must make a full commitment at inter-ministerial levels to promote the Danube as an important national competitive asset and a rich source of socio-economic benefits.

### 3.6. Crosscutting issues

All programmes will focus on environmentally sound investments and on restructuring plans following best EU practices. The privatisation/restructuring due diligence process will require in most cases environmental impact assessments. Similar assessments may also be required by the turn around management programme. In addition, efforts will also be made to identify and support female entrepreneurs and or management staff during the transformation process as well as creating opportunities for women to succeed in business.



#### 4. IMPLEMENTATION ISSUES

##### 4.1. Implementation method

Indirect centralised management. Direct grant agreements will be signed with the European Bank for Reconstruction and Development (EBRD) for the TAM programme (€ 2.5 million) and with the World Bank for the proposed privatisation and enterprise restructuring programme (€ 6.5 million). PPF support will be provided by service contracts.

##### 4.2. Budget and calendar

The proposed TAM budget is about € 2.5 million (for a minimum of 40 selected projects, and for seminars, workshops and training programmes). Where appropriate, it is assumed that the Ministry of Economy and the Privatisation Agency shall agree to provide support including but not limited to write-offs or restructuring of debts owed to taxation authorities, public entities and utilities, employee severance payments and other measures of support for redundant workers for viable enterprises selected from the (pre-) privatisation process.

The proposed privatisation and SOE restructuring programme budget is for approx. € 6.5 million, which will fund international and local experts to assist in enterprise privatisation, SOE restructuring and/or liquidation/bankruptcy.

The proposed Danube PPF is € 2.5 million that will fund service contracts based on existing EU and/or other donor support actions.

Programme Component	Envisaged Start	Envisaged End
Privatization through Restructuring	May 2005	May 2007
Privatization through Tenders	May 2005	May 2007
Start up of PA Bankruptcy Unit and procedures for SOEs	May 2005	December 2006
TAM	May 2005	May 2007
PPF	May 2005	December 2006

Indicative budget breakdown	€ million
Total budget	11.5
<i>Budget by project components:</i>	
• TAM Programme	2.5
• Privatisation and SOE restructuring programme	5.7
• Start up of bankruptcy proceedings and unit	0.8
• Danube Project Preparation Facility	2.5

Types of Contracts ('Yes')	Grants	Number of grants
Services (Yes)	Grants (Yes)	2
Supplies (No)	Financing Agreements (No)	
Works (No)	Twinning (No)	
Operational duration of project in months as from signature of Financing Agreement:		18-36

##### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement will be awarded and implemented in accordance with the procedures and standard documents lay down and published by the Commission for the implementation of external operations (including co-financing framework agreements with the World Bank and EBRD), in force at the time of the launch of the procedure in question.

All programme estimates will respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention, and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

The World Bank will provide regular supervision reports, which measure progress based on agreed to benchmarks and highlight problems needing resolution. Additionally, the TMG will ensure the production and follow-up of all enterprise visit reports and undertake ex-post independent evaluation. Key indicators for measuring progress: survival of enterprises operating in the market economy; changes in turnover and profitability, secure employment opportunity, market share, productivity, exports, attracted external investment if relevant; improvement in management practices and the procurement of raw materials, manufacturing efficiency, optimal use of energy and improved quality control; reduction in operating and production costs; successful implementation of the restructuring programme; and completed privatisation transactions and acquisitions of core investors, where relevant.

#### **4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

The internal independent EBRD evaluation unit linked to TMG will undertake ex-post evaluation. World Bank executed projects are audited by independent auditors and EAR will be provided with such reports.

**PROJECT FICHE**

Title	<b>Capacity Building for the Implementation of the Cadastre</b>		
Total cost	EU contribution: € 5.00 million World Bank (IDA) Contribution: US\$ 30.00 million Beneficiary Contribution: US\$ 9.51 million		
Aid Method	Indirect centralised management		
DAC-code	16320	Sector	<b>Economic and Social Development Investment Climate/Cadastre</b>

**1. RATIONALE****1.1. Strategic framework**

The European Partnership with Serbia and Montenegro including Kosovo (Council Decision 2004/520/EC) notes that a short-term priority for action in order to support Serbia's efforts to move closer to the European Union and strengthen the market economy is the development of a stable and functioning land/real estate market through the preparation of legislation on the cadastre. In the medium-term the priority is the adoption and implementation of the legislation on cadastre.

**1.2. Lessons learnt**

The project design draws upon EU and World Bank experiences from other transition countries which demonstrate that greater security in property rights enables people to sell or lease immovable property and to obtain credit for investment. This has been particularly beneficial in other transition countries for providing small credit for farmers that otherwise have little access to funds for inputs, preparation of fields and harvesting. In these countries the real estate market in urban areas has also grown rapidly and generated investment, employment and overall economic growth. Similar policies for the rural and urban sectors are applicable in Serbia and similar implementation arrangements are being made.

The Government of Serbia and the EU have not been involved in similar projects prior to this project. Lessons learnt from other projects, however, show the importance of capacity building at an early stage in order to ensure that legislation developed can be implemented and this has been taken as a focus for this project. It has also been evident in other projects that technology should not be procured before software and data are ready for use and for this reason the procurement of the hardware and basic software licenses for a national roll-out of the system will be deferred until a future programming period (expected to be 2006).

**1.3. Complementary actions**

The creation of a cadastre and provision of secure property rights registration is recognised by many donors as essential.

- The Swedish Government is funding a one year training program at a cost of €700,000 to help Republic Geodetic Authority (RGZ) management understand international standards and practice and to provide training courses for key Real Estate Cadastre (REC) office staff. This intervention will be completed early in 2005.
- Germany is providing €1 million of Technical Assistance over a two year period to support policy and legislative changes for registration and land management, which is working primarily through municipalities.
- The Norwegian Government have allocated €950,000 to provide a facility to scan and digitise existing cadastre maps.

The Government of the Republic of Serbia together with the World Bank have prepared a project for the survey work and legal analysis required to establish a full record of property rights to be funded with a US\$30 million International Development Association (IDA) loan. The six year project, which should become effective in November 2004, includes components to inform the public and professional community about the work of RGZ and the REC, the security it provides and the access to credit that it enables. Legal services will be provided to give advice to the poorer members of the community to ensure they fully understand the issues and make maximum use of their assets. The project will fund the development of application software and communications networks to help the REC function quickly and efficiently and will also provide equipment and software licenses to offices in the urban sector. Special emphasis will be placed on completing the REC in Belgrade as it is the most economically active part of the country and a rapid return on investment is expected in Belgrade. Full training and research programmes are included and assistance will be given for institutional development as needed.

#### **1.4. Donor coordination**

A donor conference for land administration was convened by the Government in 2002 to begin to address how donors could support this sector, which resulted in the on-going support that Serbia is receiving and the soon to be effective project to be funded by the World Bank.

The EU funded intervention is intricately linked to the World Bank funded project and will comprise two parts: (1) Institutional Strengthening; and (2) orthophotomapping. The project will provide institutional support (which is expected to be through twinning with a similar government institution in an EC Member state) in order to help RGZ through the process of changing its emphasis from surveying for property control purposes to an organisation that facilitates the real estate market. The orthophotomapping is required as basic data to enable the survey work under the World Bank project to be completed more quickly and at greatly reduced overall cost, also enabling the rural sector to be covered. (Only the urban sector is currently being completed using World Bank funds). The advisory (expected Twinning) assistance will help RGZ to establish a capacity to manage digital maps, especially cadastre maps required for property boundary information and for land use and tax purposes, and ensure they are always maintained available for all users. Once the central capacity is established assistance will be provided to rural offices so that they can support the land market in rural areas.

The 2005 programme of assistance for the development of the cadastre in Serbia has, thus, been prepared following intensive dialogue with representatives of RGZ and the World Bank in charge of the preparation of the project to be funded by the World Bank so as to provide the support that Serbia requires for it to be realised and effective. RGZ has started and will continue to hold regular donor coordination throughout the implementation of the World Bank funded project.

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

The Government of Serbia's Economic Recovery and Transition Program addresses the following themes: restoring macroeconomic stability; stimulating near-term growth; improving social well-being; and improving governance. The Poverty Reduction Strategy Paper (PRSP) for the Republic of Serbia (November 2003) outlines the Government's plan for poverty reduction by giving high priority to restructuring of the economy and job creation, and creating new employment and income opportunities.

The Republic of Serbia has recognised that an effective national property rights cadastre and registration system is a pre-requisite for economic growth and broadening economic prosperity. Attention to property rights and secure tenure are of fundamental importance to create confidence for investors – both foreign and domestic. The policy is also aimed at eventual EU accession and WTO membership. In consequence, the Government strategy also includes priority support for the formation of a "real estate cadastre" nationwide and efforts to address illegal construction.

A high level government committee was established, headed by the Prime Minister in 2002 and focused on land registration, real property markets, privatisation, and property rights. In 2002 the major law on State Land Survey, Cadastre and Registration of Real Estate Rights (SSCR Law) was amended to include most of the functions necessary for the introduction of secure cadastre and real property registration systems, and the GOS confirmed the single agency model adopted in 1992.

### **2.2. Sector context**

Security of tenure and a functioning immovable property market is a fundamental requirement for economic development. Information about the land and real property, its use and owners and all the legal rights associated with the property must be provided in a secure and reliable registration and cadastre system. The information is also needed by municipal authorities as they cater to the social needs of the residents and plan future development. The municipalities also need the information to assess and collect revenue through property taxes. The information is required by the Ministries responsible for agriculture, forestry, livestock management, and environmental and water management for multiple purposes.

The project will provide a sustainable structure to cater for all these requirements. The completion of the exercise would however require additional EC support for the national roll-out of the system and for the completion of the required digital orthophotomapping.

### 3. DESCRIPTION

#### 3.1. Objectives

The project is designed to compliment interventions made by the World Bank and other bilateral donors. RGZ is the organisation responsible for the cadastre and real property registers and they are having to undergo major change to acquire the necessary information for creation of the Real Estate Cadastre (REC) and to manage it in a manner consistent with EU standards and the needs of a modern market based economy. The specific objectives of this project are to: assist with change management through institutional development; provide the basic spatial data that are required by all users to fulfil the wider national objective; and supply the resources needed for these objectives.

#### 3.2. Expected results and main activities

The expected results are:

- A restructured and reformed capacity within RGZ to manage land and real property information according to internationally acceptable standards.
- A digital mapping and information management unit within RGZ headquarters capable of providing the spatial and other information required by users for development and investment.
- Digital maps that will be used as a basis for creation of a full cadastre under the World Bank funded project and as a basis for the registration of property rights, planning and management of land use, livestock monitoring, water and environmental degradation monitoring, municipal development, etc.

The activities involved include:

- Support for change management and RGZ development into a self-funding non-profit cadastre and registration service.
- Support to establish a digital mapping and information department that is fully functional.
- Provision of digital Orthophotomapping.

#### 3.3. Stakeholders

The project will directly support a program of activity already agreed between RGZ and the Government in the mid-term plan for 2004 to 2008. This plan supports overall Government policy for real property information provision and real property markets. The Government has also responded to demand through passing the Law on State Survey, Cadastre and Registration of property Rights in 1992, amended in 2002, but has not had the funds to complete the plans without the World Bank and EU funded interventions. The sustainability of the programme is catered for within the overall policy as it is planned to ensure that RGZ is fully self-supporting financially by the end of the World Bank funded project. The advisory assistance (expected to be through Twinning) under the EC intervention is key to help RGZ achieve this. Copies of digital orthophoto maps will be provided to other Ministries and/or other public sector stakeholders of the Republic of Serbia that require them.

#### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Resistance to change in methodology from the more 'technically' minded in RGZ	Medium	High	Twinning will provide good examples of best practice from people officials can relate to. (Same type of agency in other country.)
Resistance to reform from some members of the legal community	Medium	Medium	Good public awareness through the World Bank funded project and agreed conditions in the World Bank loan agreement
The IT system being developed by the World Bank funded project and other work funded by the World Bank funded project does not perform according to schedule	Medium	Medium	The project is designed to be 'modular' in that delays in the World Bank funded project will not cause delays in the EC intervention. There may be delay in utilising the basic information provided under the EC intervention by the other project but this will not cause problems
That additional support is not forthcoming under the CARDS 2006 Annual Programme for the completion of the orthophotomapping	Low	Medium	Dependant upon project progress, it is expected that the required additional support would be forthcoming

#### 3.5. Conditionalities

World Bank funded project becomes effective.

RGZ provide premises and attach the unit responsible for digital mapping with the Cadastre Information Sector to the full time 'twinning' team.

RGZ will assist contractors to obtain the necessary flying permission and approvals with civil aviation authorities.

### 3.6. Crosscutting issues

Cadastre has widespread horizontal implications that impact upon public sector reform, private sector development, environment, social inclusion and poverty reduction. Addressing issues of property and land ownership is fundamental to rural economic development, allowing long term strategic planning, providing collateral for credit and supporting rural households. Addressing property ownership provides greater security with regard to inheritance rights (widows). Cadastre serves as a basis for analysing demographic trends or social issues such as population displacement, vulnerable communities and gender disparities. Environmental protection actions can be better carried out when ownership of property and associated responsibilities are legally clarified. This is particularly important in applying the 'polluter pays principle' and tracking environmental degradation.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management.

### 4.2. Budget and calendar

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	5.0
<i>Budget by project components:</i>	
• Capacity building for RGZ	2.0
• Supply of Equipment and software for the establishment of a digital mapping unit	0.5
• Provision of orthophotomapping	2.5

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants (No)	
Supplies (Yes)	Financing Agreements (No)	
Works (No)	Twinning (Yes)	1
Operational duration of project in months as from signature of Financing Agreement:		12-36

### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

### 4.4. Performance monitoring

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

As per the Twinning Manual, Twinning Projects will be the subject of quarterly monitoring on the basis of reports submitted by the Twinning Project Leaders as well the results of Steering Committee Meetings. Following receipt of the 2nd Quarterly Progress Report a systematic review of the Twinning will be undertaken by the European Agency for Reconstruction in consultation with the Twinning Partners. The review may lead to reorientation of the Twinning Project or, in extreme cases, withdrawal of financing (i.e. termination of the project).

#### **4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme. Evaluation of Twinning Projects will be based upon progress in achieving the benchmarks and mandatory results laid out in the Workplans for the Twinning Projects.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors and beneficiaries' of Twinning Grant Contracts will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities' and the Twinning Manual.

## PROJECT FICHE

Title	<b>Strengthening Food Safety and Quality</b>		
Total cost	Approx. € 8.0 million EC contribution		
Aid Method	Indirect centralised management		
DAC-code	15030: € 1.5 million 31110: € 6.5 million	Sector	<b>Economic and Social Development Trade/Agriculture</b>

## 1. RATIONALE

## 1.1. Strategic framework

The European Partnership with Serbia and Montenegro including Kosovo (Council Decision 2004/520/EC) notes that the short-term priority for action in order to support Serbia's efforts to move closer to the European Union in the Agricultural sector are: adoption of food safety legislation and strengthening of food-safety laboratories; adoption of legislation on veterinary matters and strengthening of controls; as well as the establishment of the Food-Chain Laboratories Agency. Medium-term priorities include: further building administrative capacity for policy formulation and implementation and continuing to strengthen veterinary, sanitary; phytosanitary and food safety legislation and controls (including wine laboratories).

The Country Strategy Paper (CSP) states that the ultimate objective of EU political and economic relations with the (Union) is *to ensure that the latter makes the full transition to an open market economy and a democratic civil society through bringing its policies and legislation closer to those of the European Union, with integration and EU membership as the ultimate goal.* In relation to economic development the CSP includes priorities for reinforcing the relevant laws and policies, capacity building the relevant institutions, supporting integration into the international trading system allowing internal market reforms and alleviation of poverty in seriously affected areas.

## 1.2. Lessons learnt

The shift from emergency alleviation in the agriculture sector to capacity building for EU approximation is a major challenge for Serbia. Key lessons from the past underline the need for continuity in support and the preparation of strategic action plans for the upgrading of administrative capacity. These take into account the need for legislative alignment, the capacity to implement and enforce legislation as well as timely investment in required facilities and equipment.

The deficiencies of facilities and equipment are the most visible, investment in their upgrading only yields the desired returns when the legislative base for their use is clear and the institutional framework has been adjusted in line with the requirements for good governance and the operation of a transparent market economy.

Support for the implementation of systems should not be provided until responsibilities within the Government have been clearly defined and institutional fragmentation, overlaps and/or gaps been resolved. Due to the potential for delays in the required administrative and legislative procedures, monitoring results have also led to the recommendation that investment support should be programmed on the basis of adopted decisions and/or legislation, rather than in anticipation thereof – especially where inter-ministerial co-operation is required to agree a division of responsibilities and alignment of legislation with the *acquis communautaire*.

## 1.3. Complementary actions

The European Union has been and remains the main donor in the field of plant and animal health and food safety. Support provided through the 2001 Annual programme assisted in the preparation of a strategic plan for the rationalisation and upgrading of the network of food laboratories, drafting legislation (including draft of the Veterinary law, Plant Health Law and the law to establish the Food-Chain laboratories Agency) as well the preparation of veterinary contingency plans (e.g. for Foot and Mouth Disease). The 2002 Annual programme is supporting the re-equipping of the food-chain laboratories, the strengthening of technical and managerial capacity therein and the renovation and refurbishment of the laboratories. The 2003 Annual Programme is supporting the implementation of a bovine animal identification and registration system which is fully compatible with the relevant *acquis communautaire* as well as assisting with the reform of the veterinary, phytosanitary and sanitary inspectorates including upgrading veterinary and phytosanitary border inspection points. Preparation of the drafts of key



legislation has been undertaken by the Ministry of Agriculture, Forestry and Water Management, supported by EU funded projects, in full coordination with US funded support for Serbia and Montenegro's accession to the World Trade Organisation (WTO).

In addition, on the basis of the support provided through these assistance programmes, the incoming Government reformed the structure of the veterinary and phytosanitary services the strengthening of which the 2005 Annual Programme would support.

#### **1.4. Donor coordination**

Donor support to the agriculture sector has been focused upon the transformation of the rural sector. World Bank dialogue has been focused upon key policy areas including agrocombinat privatisation, rural finance, land consolidation, farm restructuring, trade policy and reform of the Directorate for Commodity Reserves. A key World Bank recommendation that the Ministry of Agriculture, Forestry and Water Management prepare and adopt an agricultural and rural development strategy that takes into account WTO and EU accession objectives will be supported through the 2004 Annual Programme. EU assistance for the programming of Rural Development support will also take into account the experience of the Netherlands' support for agricultural and rural development, which is implemented through the United Nations' Food and Agriculture Organisation (FAO).

In the food safety field donor co-ordination is maintained with the United States Department for Agriculture (USDA) which is providing limited training opportunities including fellowships.

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

In line with the Poverty Reduction Strategy Paper (PRSP) for Serbia and donor recommendations, an important component of the Ministry of Agriculture, Forestry and Water Management's co-operation policy is based upon: improving export performance; sustainable development of the private agricultural sector (including elimination of obstacles for business and improving competitiveness); pursuit of membership of the WTO and preparations for implementation of a Stabilisation and Association Agreement (SAA); and the development and implementation of an integrated rural development strategy through a partnership based approach.

The Ministry of Agriculture, Forestry and Water Management's priority for the improvement of the exportability of agricultural and food products as well as preparations for WTO membership and a future SAA are to upgrade veterinary, phytosanitary and food safety controls in line with the provisions and procedures laid down in the *acquis communautaire* so as to be able to provide credible guarantees to trading partners. As progress is made towards the achievement of this goal increased emphasis is to be put on implementing quality and marketing standards in line with those of the EU so as to facilitate trade, investment and private sector development.

### **2.2. Sector context**

In the context of strengthening the protection of plant, animal and consumer health and product quality, the strategy of the Ministry of Agriculture, Forestry and Water management is the alignment of legislation with the principles of the *acquis communautaire*, and the requisite adjustment of implementation and enforcement systems. The prerequisites for this are seen as: the establishment of an operationally independent network of laboratories, supported by the required national reference laboratories, which is operated through a contractor-client relationship to remove the scope for administrative interference and so that the laboratories can be operated and funded according to results achieved; adequately organised, trained and resourced inspectorates; administrative systems that can allow the identity of products to be proved; and a policy capacity that is able to plan the strategic orientation of the required regulatory measures as well as monitoring and evaluating progress towards set objectives.

The network of laboratories is in an advanced state of upgrading. A total of 31 veterinary, phytosanitary and food-safety laboratories have received new equipment and building works for their physical renovation have been started or are due to be tendered (with funding from the Counterpart Funds established with the proceeds of donations of food and farm inputs under the 2002 and 2001 programmes). Staff of the laboratories have also received priority technical and managerial training. The Ministry of Agriculture, Forestry and Water Management has prepared a draft law to establish the Food-Chain Laboratories Agency to provide the required contractor/client interface and oversee their operation. The 2005 project will assist the Ministry of Agriculture, Forestry and Water Management to prepare the systems for the operation of the Food-Chain Laboratories Agency and plan the next stage of upgrading the laboratory system.

Support to the veterinary, phytosanitary and sanitary inspectorates is on-going. Following the creation of the veterinary and phytosanitary directorates within the Ministry of Agriculture, Forestry and Water Management, the 2005 project will support the priority of upgrading their strategic planning capacity to guide and monitor the process of legislative alignment and the implementation of the regulatory and enforcement systems.

The implementation of bovine animal identification and registration is progressing well and currently is expected to be complete at the end of 2005, following which, but not before, the identification of other species (sheep, goats, pigs, and, in due course, horses) should be tackled. Due to the importance of the wine sector in the negotiation of free trade agreements and for the protection of domestic consumers, the Ministry of Agriculture, Forestry and Water Management's next priority is to establish the required systems to ensure that the authenticity of wine and its origin can be established in accordance with approved oenological practices and control procedures. The 2005 project will assist in the attainment of this goal.

### 3. DESCRIPTION

#### 3.1. Objectives

The overall objective of EC support is to support the development of the market economy in the agricultural and food sectors of Serbia and the ability of these sectors to participate in international trade.

The specific objectives of the projects to support the attainment of the overall objective are:

- To strengthen the protection of plant, animal and public health.
- To strengthen the capacity of the Ministry of Agriculture, Forestry and Water Management to align the regulation of the wine sector in accordance with the provisions of the *acquis communautaire*.

#### 3.2. Expected results and main activities

The expected results of the interventions are:

- Food-Chain Laboratories Agency established and operational.
- Alignment of veterinary and phytosanitary legislation with the provisions of the *acquis communautaire* and institutional capacity for its enforcement.
- Alignment of legislation on the control of wine production with the provisions of the *acquis communautaire* and institutional capacity for its enforcement.

These results will be achieved through the provision of advice, training and support through technical assistance and or Twinning to the Ministry of Agriculture, Forestry and Water Management (and especially its Veterinary and Phytosanitary Directorates and operational departments dealing with the regulation of the wine sector) and the Food-Chain Laboratories Agency. Essential priority supplies for the veterinary and/or phytosanitary directorates and other inspectorates of the Ministry of Agriculture may also be included where necessary to attain the desired results.

#### 3.3. Stakeholders

The Ministry of Agriculture, Forestry and Water Management will be the main stakeholder for the intervention with the farming population and ultimately consumers as the intended beneficiaries. Through creation of specific directorates, the Ministry has already undertaken the minimum required reorganisation of the veterinary and phytosanitary services to absorb the proposed capacity building. The draft of the law to establish the Food-Chain Laboratories Agency has been prepared and while its approval by parliament would be beneficial prior to the start-up of the project this is not a pre-requisite as progress can be made in preparing the systems and procedures to be implemented by the Agency prior to the passage of the legislation.

Considerable further institutional capacity is required in the Ministry of Agriculture, Forestry and Water Management to appropriately regulate, control and monitor the wine sector and a key role of support will be to assist the Ministry to plan and prepare for this increase in institutional capacity.

The ultimate beneficiaries of the assistance will be the general population who will benefit from increased security of food safety and product quality as well as the farming population and those involved in agri-food processing who will benefit from improved trade opportunities.

#### 3.4. Risks and assumptions

The main assumption upon which the project interventions are based (Specific Objectives to Overall Objectives) is that the farming population and those engaged in the agri-food processing sector will respond to strengthened veterinary, phytosanitary and food safety and quality regulatory systems by

improving production techniques and applying due diligence in respect of food safety and quality so as to enhance their competitive position on export and domestic markets.

The assumptions upon which the project activities will lead to the specific objectives are:

- That the Government and the Ministry of Agriculture, Forestry and Water Management allocate sufficient staff and operational budget to the Veterinary Directorate, the Phytosanitary Directorate and the Food-Chain Laboratories Agency to be able to implement the systems and procedures developed with project support.
- That the legislation drafted with project support is adopted by parliament, the Government or the Minister of Agriculture Forestry and Water Management (depending upon the nature of the legislation and the relevant competencies).
- That the administrative systems and procedures developed with project support are put into practice by the Ministry of Agriculture, Forestry and Water Management.

The main risks are therefore:

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Failure to provide adequate operating budget for the veterinary and phytosanitary Directorates and the Food-Chain Laboratories Agency	Medium	High	Cost-consciousness to be taken into account when preparing all recommendations
Lack of political support for the alignment of veterinary and phytosanitary legislation with the provisions of the <i>acquis communautaire</i>	Low	High	Pressure within SAP context; future assistance conditional

### 3.5. Conditionality

Government needs to align veterinary and phytosanitary legislation with the *acquis* and then to adopt and enforce these laws. Moreover coordination and harmonisation on implementation measures are required between the Ministries of Health and Agriculture.

### 3.6. Crosscutting issues

Implementation of the programme will address and support the development of good governance within the agricultural, veterinary and phytosanitary sectors. Rule of law will be improved through the provision of greater clarity in legislation. In the medium-term the programme will also support the protection of the environment through providing the conditions for strengthened enforcement of legislation on animal waste and pesticides (this type of environmental/health risk a particular problem with the Roma community who scavenge municipal waste which often contains hazardous medical/industrial waste).

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management.

### 4.2. Budget and calendar

Indicative budget breakdown	€ million
Total budget	8.0
<i>Budget by project components:</i>	
• Capacity building for the Veterinary Directorate	2.0
• Capacity building for the Phytosanitary Directorate	1.5
• Capacity building for the Food-Chain Laboratories Agency	1.5
• Capacity building for the regulation of the wine sector	1.5
• Supply Of Essential Equipment for the Veterinary And/Or Phytosanitary Directorates And/Or Other Inspectorates Of The Ministry Of Agriculture, Forestry And Water Management	1.5

Types of Contracts (Yes)	Grants	Number of grants
Services (Yes)	Grants (No)	
Supplies (Yes)	Financing Agreements (No)	
Works (No)	Twinning (Yes)	3-4
Operational duration of project in months as from signature of Financing Agreement:		18-36

The Ministry of Agriculture, Forestry and Water Management will contribute in-kind to the realisation of the projects. Where used, the Twinning Grant Agreements will detail the beneficiaries' commitments of resources.

#### **4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

As per the Twinning Manual, Twinning Projects will be the subject of quarterly monitoring on the basis of reports submitted by the Twinning Project Leaders as well the results of Steering Committee Meetings. Following receipt of the 2nd Quarterly Progress Report a systematic review of the Twinning will be undertaken by the European Agency for Reconstruction in consultation with the Twinning Partners. The review may lead to reorientation of the Twinning Project or, in extreme cases, withdrawal of financing (i.e. termination of the project).

#### **4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme. Evaluation of Twinning Projects will be based upon progress in achieving the benchmarks and mandatory results laid out in the Work plans for the Twinning Projects.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors and beneficiaries of Twinning Grant Contracts will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities' and the Twinning Manual.

## PROJECT FICHE

Title	<b>Support to the Energy Sector Reform</b>		
Total cost	Approx. € 25.5 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	23020	Sector	<b>Economic and Social Development Infrastructure/Energy</b>

### 1. RATIONALE

#### 1.1. Strategic framework

The "Memorandum of Understanding on the Regional Electricity Market in South East Europe and its Integration into the European Union Internal Electricity Market" (MoU) was signed in Athens in November 2002 and its revision in December 2003 (attached in full as Annex 1) by all the Balkan countries including the Federal Republic of Yugoslavia (as was). The main purpose of the MoU was the necessity "to establish compatible national electricity market models, in line with the revised EU Electricity Directive in force (2003/54/EC) and with relevant EU environmental directives. This revised Electricity Directive calls for separation of the network business (electricity transmission and system operation) from the potentially competitive activities of production, distribution and supply.

Building on the Athens Process and MoU and also the endorsement of the European Council (EC) in Thessalonica in June 2003 of "The Thessalonica Agenda for the Western Balkans: moving towards European Integration", the Commission is negotiating a legally binding treaty that would create an Energy Community in South East Europe (ECSEE).

The Serbian parliament has adopted an Energy Law in August 2004 with the main objectives of achieving the unbundling of the present vertically integrated monopoly in the power sector, and the establishment of market-based energy systems.

The MIP 2005-06 priorities for the sector are support to the privatisation process, implementation of the energy legislation; development and implementation of the strategy for the unbundling of the energy utilities and rehabilitation of selected district heating and catalysing investment from other donors.

The Country Strategy Paper prioritises EU assistance to the energy sector in the areas of efficient energy consumption and exchange system, allowing improvement of domestic generation systems, restructuring of public utility enterprises, ensuring proper billing and cost reflective tariffs.

#### 1.2. Lessons learnt

Lessons learned include the need for proper project feasibility analysis, the use of experienced technical support to design technical documents/implementation procedures, strong project management capabilities. Furthermore as the investment needs of energy sector are capital intensive it is necessary to prioritise projects, ensuring that investments have the maximum impact while continuing to drive forward reform of the sector.

Experience of energy sector reform in Serbia has shown the need for improved financial accountability, and training of staff to meet the demands of a new regulatory environment.

#### 1.3. Complementary actions

The creation of an energy regulatory authority is already being supported by CARDS funding under the 2002 and 2004 programmes. The creation of an Independent Transmission System Operator and Market Operator has been supported under 2004 programme. These projects will provide the necessary institutional development and assistance to the development of the Regional Energy Market and hence assist in achieving Serbian compliance with the requirements of the ECSEE.

The CARDS funded project for management development and training in the electricity industry (funded under the 2003 programme) has started to prepare management for the changes necessary for the unbundling of the power sector. Project prioritisation for future investment needs of the sector is being made through the EU funded (2003 programme) development of a Least Cost Investment Plan.

Important preparatory work was undertaken by consultants funded by CIDA for the design of the regional energy market and unbundling of the Transmission, System and Market Operator and by USAID for the detailed design of the power market in Serbia. The World Bank has supported and funded the development of an energy strategy. These preparatory projects will be concluded by the end of 2004. In addition ongoing assistance is being provided by CIDA for the introduction of the regional energy market.

The sub-project in district heating modernisation builds upon projects funded by KfW to rehabilitate the district heating networks in the cities of Belgrade, Niš and Novi Sad. These reforms addressed the urgent repairs and rehabilitation needs of the district heating systems in these cities, and then supported the district heating companies to become technically and economically viable. Potential investment in the sector could also be made through EIB loans.

#### **1.4. Donor coordination**

This project builds upon important preparatory work undertaken by consultants funded by CIDA, USAID and World Bank. The present close coordination with other donors will be maintained in order to facilitate further steps in unbundling and training. Donor coordination is assisted by the regular donor coordination meetings (chaired by the Commission) held within the context of the preparation for the ECSEE.

This project is also complementary to past and on-going assistance provided through KfW to rehabilitate the district heating sector in Serbia. The extension of this modernisation effort to other smaller cities in Serbia through this project will catalyse additional loan funds from KfW to extend the scope of the modernisation effort. This will also assist in commercialising these companies so that they can gain access to loan funds for investments.

It is expected that KfW in parallel will provide approximately € 20.0 million for investment in the district heating sector as well as approximately € 2.0 million for management assistance of the District Heating companies.

This programme will be undertaken in close cooperation with other donor(s) in order to maximise the synergy between the EU funding and other funding for the target beneficiaries.

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

Serbia signed the "Memorandum of Understanding on the Regional Electricity Market in South East Europe and its Integration into the European Union Internal Electricity Market" in November 2002 (plus 2003 revisions). Thereby accepting the policy of regional energy market integration, harmonisation with the relevant electricity/gas single market Directives while respecting relevant EU directives concerning environmental protection.

### **2.2. Sector context**

At present, the Serbian electricity utility EPS is a vertically integrated monopoly that carries out the activities of power generation, transmission and distribution, together with coal mining. The new Energy Law, enacted in August 2004, requires the restructuring of Serbia's electricity sector. This includes the establishment of an independent energy regulator and EPS's corporate unbundling with the establishment of independent power transmission, system and market operation functions as well as companies comprising generation, distribution and trading.

The Energy Regulatory Agency has been established and preliminary work has been done for establishing Independent Transmission, System and Market Operator. This will require substantial further work to develop the strategy for the unbundling of generation and distribution and assist the industry to implement the unbundling.

It has also been recognised that the management of the electricity industry requires both considerable assistance and training in order to prepare them for the changes necessary for the reform of the sector and the creation of the regional market. The industry also has major investment needs for new generating capacity and ongoing modernisation of transmission and distribution networks.

The draft Serbian energy policy emphasises the importance of maintaining and increasing the share of final energy demand provided by district heating, particularly in the household and institutional buildings (schools, hospitals) sector where experience in the EU Member States has shown that this form of heating is both cost effective in urban areas, and can be environmentally beneficial. Increasing the share

of district heating will have the effect of reducing the peak demand for electricity, since the peak demand for electricity in Serbia is driven by the use of electricity for space heating in housing.

Studies (financed by KfW) of the existing district heating systems in Serbia have shown that they require substantial modernisation and improvement of energy efficiency.

Firstly, due to lack of investment and lack of maintenance in the last 10 years and also due to the age of the heating systems (with some of the pipes, sub-stations and controls being at or near the end of their design lifetimes) the district heating systems are suffering from very high heat and water losses and frequent breakdowns.

Secondly, inefficiency and higher costs are caused by the design of the district heating systems in Serbia, with little or no metering information from consumers and no technical means to control the supply of heat, which is typically either excessive (controlled by opening windows) or inadequate (in which case consumers use additional electric heaters).

The past work done by KfW in modernisation and capacity building has led to district heating companies in the larger cities (such as Belgrade or Novi Sad) that are now able to access IFI loans for modernisation investments. However in the smaller cities (those planned to be supported through this project) district heating companies are still in a very weak financial situation and have serious difficulties in qualifying for IFI loans, with question marks concerning their collection rates, financial health, and value of their loan guarantees.

### **3. DESCRIPTION**

#### **3.1. Objectives**

The overall objectives of the programme are to assist in restructuring of the Serbian power industry, assist in preparing the necessary investment in new capacity and modernisation, and to improve district heating services in selected Serbian cities.

The specific objectives/purposes are to introduce market forces, to maintain system reliability, improve management, build specialist skills, and attract private capital for the modernisation/expansion of the sector and meet the requirements of both the ECSEE and the relevant EU Directives (most notably the EU Internal Electricity Market Directive). The project should also improve energy efficiency, reduce heating costs and reduce emissions to the environment through modernisation of district heating systems in selected cities in Serbia.

#### **3.2. Expected results and main activities**

The programme comprises three sub-projects. In the first sub-project technical assistance will be provided for the process of unbundling of the generation and distribution related functions from EPS. The main activities of the project include financial and accounting tasks, organisational development assistance, legal assistance and assistance in planning and development. The sub-project will also result in staff trained to manage in a competitive regional market. In addition, funding could be used to assist the Ministry of Mining and Energy in the preparation for participation in the EC's "Intelligent Energy Programme".

The second sub-project will provide feasibility studies for proposed investment projects in electricity generation, transmission system and district heating that will examine technical, economic and financial issues. The results of the feasibility studies will provide the necessary information for potential funding by investors. The second sub-project will provide feasibility studies for proposed investment projects in electricity generation, transmission system and district heating that will examine technical, economic and financial issues. The results of the feasibility studies will provide the necessary information for potential funding by investors. Target funds can include the 1 Billion US\$ power sector credit facility that is being established for the South East Europe Energy market.

In the district heating modernisation sub-project investment will be made in measures that will improve energy efficiency and reduce losses. These will include metering (and so allow consumption based billing), heating controls for consumers, replacement of pipes and the modernisation of heating substations.

The expected results of this project improved efficiency, financial sustainability and reduced emissions to the environment.

In parallel to the investment in modernisation, institution building support will be given to strengthen the management capacity of the district heating companies and hence to support their transition to commercially viable entities. This will involve providing support for the development of business planning, revenue collections, tariff setting and maintenance planning. This sub-project will be closely linked to the UNDP poverty reduction strategy.

The district heating companies have the technical capacity (engineering capacity) to implement these investment projects, but lack capacity in project management (which require external supervising engineers to assist) and management capacity in business planning and operation. This institutional capacity will be strengthened through the support of external consultants.

### 3.3. Stakeholders

#### (a) Sub-project: Energy Sector restructuring

The direct beneficiary is the Serbian electricity utility EPS (and successor companies that are created through the unbundling process) and indirectly the Ministry of Mines and Energy as the responsible line ministry.

#### (b) Sub-project Feasibility Studies

The direct beneficiaries are the Ministry of Mining and Energy, EPS, potential project investors and IFIs.

#### (c) Sub-project District Heating Modernisation

The principal stakeholders are the municipalities and district heating companies and the energy users concerned in the cities selected.

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/ M/ L	Counter Measures
Lack of commitment of Government and EPS to follow through on planned reforms	Medium	High/ Medium	Signature of Athens MoU and translation of Athens MoU into legally binding ECSEE treaty will provide momentum/ pressure to continue to implement reforms
Limited human resources for the implementation of reforms	Medium	Medium	Management training and development being undertaken under the 2003 programme together with capacity building support for the Ministry of Mines and Energy (2004 programme)
Acceptance of the broad conclusions of the LCIP in terms of the ranking of investment priorities	Low	High/ Medium	Constant dialogue with beneficiaries/Serbian power sector in the development of the LCIP to ensure 'buy-in' of the results
Cost overruns for sub-projects	Low	Low	Detailed feasibility study will prepare technical specifications; supervising engineers will assist with project monitoring
DH companies do not provide sufficient staff, resources, information to allow effective sub-project implementation	Low	Medium	Detailed and early discussion with cities/ district on needs. EAR supervising engineer to maintain relationships
Technical risk of installed measures/ equipment	Low	High	Technologies are well proven and mature. Design and technical specification will not allow unproven technologies

### 3.5. Conditionalities

The project is conditional on the planned reforms being implemented in line with the requirements and the timetable set out in the Energy Law. In particular the independent energy regulator must become operational.

In order to ensure the ongoing operation and maintenance of the investments made in the district heating companies and to ensure that the necessary management strengthening takes place to ensure that the companies are fully commercialised, a conditionality of the project will be the signature of a Memorandum of Understanding with each city (endorsed by the City Council) setting out their clear obligations.

### 3.6. Crosscutting issues

New investments will reduce pollution through the application of new, more environmentally friendly power generating technologies including energy efficiency measures in cities thus improving the quality of life for many residents. Also more effective environmental policies and strategies will eventually bring Serbia in line with the EU environmental *acquis*. The proposed ECSEE Treaty includes a requirement that all new investments (most notably in power generation) should comply with relevant environmental EU directives, and further requires a phasing in of compliance with these environmental directives for



existing plant. The inclusion of these principles in the draft ECSEE Treaty will have the effect of reducing pollution associated with energy production in Serbia.

#### 4. IMPLEMENTATION ISSUES

##### 4.1. Implementation method

Indirect centralised management.

Technical assistance and supervising engineer assistance will be provided through service tenders - if appropriate via restricted tender procedures.

The investment projects in the district heating systems will be contracted through international open supply tenders or works' tenders as appropriate.

##### 4.2. Budget and calendar

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	25.5
Budget by project component	
Assistance in unbundling and further human resource development	3.5
Feasibility studies for investment projects	1.5
District heating modernisation	20.5

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants (No)	
Supplies (Yes)	Financing Agreements (No)	
Works (Yes)	Twinning (No)	
Operational duration of project in months as from signature of Financing Agreement:		18-36

##### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

##### 4.4. Performance monitoring

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention, and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

##### 4.5. Evaluation and audit

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

## PROJECT FICHE

Title	<b>Support to the Transport Sector Reform</b>		
Total cost	Approx. € 14.0 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	21010: € 2.5 million 21030: € 5.5 million 21040: € 6.0 million	Sector	<b>Economic and Social Development Infrastructure/Transport</b>

### 1. RATIONALE

#### 1.1. Strategic framework

The Regional Balkans Infrastructure Study (REBIS) provides the overall strategic framework for the design of this fiche. REBIS positions the Serbian transport system within an integrated regional transport strategy, consistent with Trans-European Networks and Pan-European Corridors (corridors V, VII, VIII and X/VI).

Reflecting the strategic priorities of REBIS, the Thessaloniki Agenda encourages the European Commission to liaise with the EIB and IFIs to finance priority networks connecting the Western Balkans to the EU. Such combined action is also identified in the Copenhagen Treaty and the Country Strategy Paper which promotes the strong catalytic role of EU assistance to leverage IFI loans in Serbia by preparing feasibility studies and associated technical designs.

The project fiche also incorporates the strategic direction provided by the European Partnership to adopt transport legislation and begin the development of a national transport strategy in Serbia. Equally the Country Strategy Paper stresses the need for transport legislation and regulations to be adopted and brought into line with the EC.

The Country Strategy Paper highlights river transport as a highly economical and environmentally friendly mode of transport. The availability of a functioning transport infrastructure, in all its forms, is key to sustainable economic growth in South Eastern Europe and linkages to the European Union.

The MIP considers river transport a highly economical and environmentally friendly transport mode which should be better exploited in Serbia and encourages exploitation of the strategic benefits offered by Serbia's river resources to facilitate trade.

#### 1.2. Lessons learnt

The difficulties associated with transport planning and project implementation due to the limited capacities of the Serbian administration, a weak transport regulatory environment and poor central policy making are the main lessons from EU support actions to date. The sector requires a greater resource commitment by the Serbian administration to develop a proper national transport strategy and a facilitating regulatory environment that encourages both public and private sector investment. As the transport sector is capital intensive quicker progress on bringing transport legislation in line with EU standards is crucial to attract new funding sources.

#### 1.3. Complementary actions

The on-going road transport programme supports the development of transit routes across Serbia to improve connections and facilitate trade with Serbia's neighbouring countries. All of the transit routes and cross border programmes of the EU, in this region, can be considered complementary to the objectives of this Action Programme. On-going technical assistance managed by the EU focuses on the capacity building of the Directorates within the Transport Sector. The Transport sector is managed by the Ministry of Capital Investments through Directorates that deal with relevant sub-sectors (air, road, railways, including intermodal and inland waterway transport).

This programme includes, assistance to the PIUs in the Road and Rail sectors, the development of an Inland Waterways Master Plan, and institutional Building of the Ministry of Transport. These capacity building actions are designed to facilitate current and future IFI investments in the sector.

Other related on-going projects include the rehabilitation of the border crossing points at Horgoš, Batrovci and Preševo, which improve Serbian road connectivity to Corridor X/VI.. The railway border crossing at Dimitrovgrad railway station represents a continuation of the intervention along Corridor X/VI. Similarly, secondary road border crossings represent the continuation of the road network connections across the borders.

#### **1.4. Donor coordination**

The 2005 programme was prepared following dialogue with representatives of the IFIs, particularly the EBRD, which prepares projects addressing legislation and institutional building. The PIU Railways project for 2005 is a good example of donor coordination as there is synergy between this project and the implementation of the new EIB and EBRD loans. The aim is to promote regular and project specific dialogue between the beneficiary and the donors in the sector, through workshops, seminars and working groups.

The Roads Directorate and the Swedish National Road Administration (SNRA) have signed an agreement under which the Swedish International Development Cooperation Agency (SIDA) will provide €1.5 million in assistance for twinning arrangements aimed at improving Serbia's road maintenance and safety. EAR proposes to assist with the procurement of necessary equipment, the aims of the partnership with the SNRA are to improve road maintenance management, procurement, supervision of road works, as well as computerised road/bridge databases.

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

In July 2003 the Serbian Government adopted an Action Plan for the harmonisation of Serbia's legislation with EU regulations. This committed Serbia to introducing the guiding principles of the EC's Directive on Transport and aligning its domestic legislation accordingly. An inventory of the existing legislation and sub-legal acts should be compiled and compared with the *acquis communautaire* to finalise a Plan of Harmonisation. Key priorities are to remove inconsistencies that exist between the provisions of existing Serbian legislation, to ensure appropriate delineation of responsibilities between the institutions involved and to improve the overall quality of the transport sector. In the area of Integrated Border Management (IBM), the focus is on facilitating traffic at the borders while improving efficiency in curbing illegal activities.

### **2.2. Sector context**

Due to its geographical location an integrated transport network is important for Serbia's economic development. The transport infrastructure network partially suffered from war damage, but essentially due to a lack of investment and maintenance. Institutional capacity remains weak as systems and procedures for planning, monitoring and managing transport activities were neglected. Little long term transport sector planning occurred and investment measures were only implemented on a short-term basis. In line with REBIS interventions in the transport sector have to address the importance of the two Pan-European Corridors (Corridor X/VI and Corridor VII). By the end of 2004, the donor community has invested almost €500 million in road rehabilitation, safety measures and railway track upgrading.

Serbia also needs to identify inter-modal synergies to increase the efficiency of the overall transport system. When navigable, the Danube and Sava waterways offer valuable logistical and economic potential through reduced transport costs. Clearly, the high cost of infrastructure investment means that packages of combined national and IFI support has to be identified and developed. In this respect, the on-going EU transport sector programmes (e.g., numerous feasibility studies) play an important facilitating role in preparing projects and providing Project Implementation Units. The Ministry of Capital Investments has to improve its strategic awareness in order to prioritise transport investments to meet REBIS objectives.

In the context of IBM, restructuring and upgrading of the border crossings represents a major component in the effort to facilitate international traffic, while exerting tighter and more efficient control on border crossing activities with the view of curbing illegal activities. The Government's intention is to complete a joint border crossing for freight at the Dimitrovgrad railway station, together with the Government of Bulgaria. This action would be in line with the general EU regional strategy of international administrative cooperation at the borders.

### 3. DESCRIPTION

#### 3.1. Objectives

The overall objective of the project fiche is to support the sector to meet the REBIS objectives, improve conditions and operations and bring transport legislation in line with EU standards.

The specific objectives are:

- Align current legislation with the Transport *acquis* in order to prepare Serbia for European integration
- Restore navigation of the Inland Waterway sub sector by providing safe conditions for navigation on the Danube and Sava Rivers.
- Continue to improve the operations of the railway sub sector including border crossing facilities along the corridor X,
- Enable the Roads Directorate to establish, build up and maintain a database on the conditions of the highway network pavements and associated highway bridge structures.

#### 3.2. Expected results and main activities

- Alignment with the Transport *acquis*
  - implementation of Transport sector guiding principles in Serbia
  - increased efficiencies, reliability and cost effectiveness of transport sector
  - Improved conditions for capital investment (public and private) in road, rail, and inland waterways, inter modal and air sectors
- TA to the Railways PIU includes Feasibility Studies for Railways
  - design of railway construction and rehabilitation contracts to EU standards;
  - procurement procedures produced consistent with the requirements and rules of the EU and the IFIs;
  - controls exercised through FIDIC contracts to assure performance, quality and safety of works;
  - financial and progress control monitored;
  - training is provided, by direct involvement of the counterpart staff in the procedures (in-service training), to develop the operational and management capacity of the PIU and also through appropriate specific actions (workshops, seminars, etc.), to provide proper capacity building to ŽTP staff.
- Restoring navigation in the Inland Waterway sector
  - the UXO removal eliminates the risks of damage caused by unintended explosions to vessels, cargo and persons navigating the waterways and to port infrastructure, utilities. Related infrastructure works, general population and environment will also be protected.
- Supply of Highways and Bridge inspection equipment
  - establish and maintain a database on the condition of highway network pavements and associated highway bridge structures
- Design review, supervision of works and construction of selected Border Crossings
  - Production of all tender documentation for subsequent execution of the works necessary to set up a functional railway border crossing for freight at the railway station of Dimitrovgrad, between Serbia and Bulgaria and a number of secondary road border crossings between Serbia and Bosnia and Herzegovina.

#### 3.3. Stakeholders

The Ministry of Capital Investments, related transport Directorates and other authorised bodies will be the main stakeholders. Other stakeholders include: Vode Vojvodine, SrbijaVode, PLOVPUT, Djerdap, ports located along the IWT network, Yugoslav Shipping Bureau, freight forwarders (private companies), insurance companies, industries that depend on the IWT transport system, Railway Company ŽTP, Building Directorate of Serbia (BDS), Border Police and the Customs Administration. The ultimate beneficiaries of the assistance will be the general population who will benefit from a better, reliable, faster and environmentally friendly transport system.

### 3.4. Risks and assumptions

Risk	Likelihood High/Med/Low	Impact H/ M/ L	Counter Measures
Failure to provide adequate operating budget and staff for the Directorates and Railways	Low	High	Be aware of costs when preparing all recommendations
Lack of political support for the alignment of the transport legislation with the provisions of the <i>acquis communautaire</i> as well as a project related implementation arrangements	Low	High	Pressure within the SAP context; future assistance conditional
Lack of coordination between the Ministry, the transport Directorates and the Rail authority	Medium	High	Pressure within the SAP context; future assistance conditional

### 3.5. Conditionalities

Based on lessons learnt from previous programmes clear agreement needs to be reached concerning the roles and responsibilities of the Ministry, Directorates and related actors (e.g. those responsible for design, land acquisition, utilities connections) involved in different areas of the transport sector. This agreement should be formalised through a Memorandum of Understanding with an attached time table showing the critical path for works.

### 3.6. Crosscutting issues

- The project will aim at better integration of EU environment standards through environment impact assessment of construction work, the infrastructure itself as well as of traffic. The clearing of UXOs in the waterway system will improve the environmental conditions and navigation in the water and surrounding areas.
- Improved management of border operations will generate economic benefits in terms of increased trade and employment generation opportunities;
- Investments financed under this project will be in line with the EU environmental *acquis*

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management.

### 4.2. Budget and calendar

Indicative budget breakdown	€ million
Total budget	14.0
<i>Budget by project components:</i>	
• Alignment with the Transport <i>acquis</i>	1.5
• PIU Railways	1.5
• Restoring Navigation in the Inland Waterway Transport	6.0
• Feasibility Studies for Railways	4.0
• Highway and Bridge Inspection Equipment	1.0

Types of Contracts ('Yes')	Grants	Number of grants
Services (Yes)	Grants (No)	
Supplies (Yes)	Financing Agreements (No)	
Works (Yes)	Twining (Yes)	1
Operational duration of project in months as from signature of Financing Agreement:		18-36

### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

#### **4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

As per the Twinning Manual, Twinning Projects will be the subject of quarterly monitoring on the basis of reports submitted by the Twinning Project Leaders as well the results of Steering Committee Meetings. Following receipt of the 2nd Quarterly Progress Report a systematic review of the Twinning will be undertaken by the European Agency for Reconstruction in consultation with the Twinning Partners. The review may lead to reorientation of the Twinning Project or, in extreme cases, withdrawal of financing (i.e. termination of the project).

#### **4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme. Evaluation of Twinning Projects will be based upon progress in achieving the benchmarks and mandatory results laid out in the Work plans for the Twinning Projects.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors and beneficiaries of Twinning Grant Contracts will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities' and the Twinning Manual.

## PROJECT FICHE

Title	<b>Capacity Building in the Water Sector</b>		
Total cost	Approx. € 9.5 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	41010	Sector	<b>Economic and Social Development Environment</b>

## 1. RATIONALE

**1.1. Strategic framework**

The European Partnership with Serbia and Montenegro notes that the short-term priorities for action in order to support Serbia's efforts to move closer to the European Union in the environmental sector are: the adoption of a law on environmental protection and to operationalise the Environmental Protection Agency. Medium-term priorities include: the adoption and start-up of implementation of a strategy on pollution of air (notably from power plants), water (wastewater) and soil (solid waste); strengthening administrative capacity as regard planning, permitting, inspecting, monitoring as well as project management; and the development of a multi-annual plan for financing investments based upon estimations of costs and realistic sources of public and private financing.

In relation to the environment, the Country Strategy Paper (CSP) includes priorities for helping preserve natural assets and avoiding irreversible losses, protecting the population from health risks, helping to upgrade solid waste and wastewater disposal, approximating environmental norms with those of the EU and of international agreements. The CSP also notes the need for institutional strengthening and capacity building across all sectors to ensure sustainability and avoid aid dependency.

Please note that the proposed programme will deal with environmental issues of the water sub-sector, under the responsibility of the Ministry of Agriculture and Water Management and not under the Directorate for Environmental Protection of the Ministry of Science and Environmental Protection.

**1.2. Lessons learnt**

Monitoring of on-going European Union funded capacity building support to the Directorate for Environmental Protection of the Ministry of Science and Environmental Protection highlights the restricted capacities of the Directorate to absorb additional support at the current time. Coordination with bilateral (mainly Member State) donors has resulted in all major activities of the Directorate receiving support.

Progress has been slow in tackling institutional fragmentation in the environmental sector, and supporting the operation of the Environmental Protection Agency. Agreement on a strategy for institutional development in the environment is urgently required if additional support (both advisory support and assistance with investment in the infrastructure for environmental protection) is to be effective.

The monitoring of recently completed targeted assistance for the preparation of a global wastewater strategy shows both the scope of the problems to be tackled in the water sector in Serbia and the capacity to absorb additional support in this area. This is an area where environmental funds can readily address well identified problems.

**1.3. Complementary actions**

Under the CARDS 2003 programme the EU is supporting capacity building of the Directorate for Environmental protection of the Ministry for Science and Environmental Protection and the Environmental Protection Agency. This programme includes support to prepare a national environmental strategy and a National Environmental Action Plan (NEAP) in line with the *acquis*.

Due to sector challenges facing Serbia, water and wastewater figure highly in environmental planning preparation. Assistance under the programme has been provided for the Directorate for Water's preparation of a draft of a new water law which is intended to take into account the guiding principles of the EC's Water Framework Directive. The preparation of a global wastewater study was also supported through the 2003 Annual Programme which contains recommendations for further action, including the preparation of a wastewater and sewerage 'masterplan' for Serbia.

Under the regional component of the CARDS 2003 a project is to support the preparation of a pilot river basin plan for the Sava river basin in accordance with the guiding principles of the Water Framework

Directive. That project will increase and harmonise co-operation and exchange of information between Slovenia, Bosnia Herzegovina, Croatia and Serbia and Montenegro.

#### **1.4. Donor coordination**

The 2005 programme of assistance for the environmental sector has been prepared following intensive dialogue with representatives of the World Bank in charge of the preparation of the three listed projects listed below so as to provide the support that Serbia requires for them to be realised. The programme has also been prepared following co-ordination conducted during the preparation of the 2003 CARDS regional project for the preparation of a pilot river basin plan for the Sava river basin.

The Government of the Republic of Serbia together with the World Bank is preparing three initiatives within the water sector of Serbia.

- The Serbia Danube River Enterprise Pollution Reduction Project (which would comprise a US\$ 6 million Global Environment Fund [GEF] Grant) is intended to increase prevalence of environmentally friendly practices among eligible enterprises and thereby reduce nutrient pollution of the Danube River. The project is also intended to support implementation of the guiding principles of the EC Water framework Directive in Serbia.
- The Water Resource Management Project (which would comprise a US\$30 million International Development Association [IDA] loan and a US\$5 million borrower contribution) is intended to (a) to reduce the risk of damage to land, crops, property and infrastructure from flooding; (b) to increase agricultural productivity through support to high priority rehabilitation of drainage and irrigation infrastructure; and (c) to improve water resources management and strengthen the associated water resource management institutions and policies.
- The Municipal Water and Sanitation Project (which would comprise a US\$20 Million International Development Association [IDA] loan, a US\$20 Million International Bank for Reconstruction and Development [IBRD] loan and a borrower contribution) is intended to improve safety and reliability of the water supply and sanitation services in selected towns and rural areas.

The Directorate for Water of the Ministry of Agriculture, Forestry and Water Management requires specific EU assistance to successfully prepare, negotiate and implement all three of these projects, which would result in major environmental and public health improvements in Serbia. In addition the EIB and EBRD are using the CARDS financed Danube Investment Support Facility to prepare a number of identified priority investment projects to attract IFI financing.

A number of bilateral donors are providing specific assistance to the upgrading of the water sector in Serbia: Greece is supporting the strengthening of a dam; Germany is supporting the rehabilitation of water supplies and wastewater treatment; the Czech Republic is supporting technical assistance for the improvement of water resources in Valjevo and a risk assessment of the danger of oil intrusion to the River Ibar; Norway is supporting the protection of water quality in the Grand Canal at Vrbas.

The EIB and EBRD are using the CARDS financed Danube Investment Support Facility to progress a number of identified priority investment projects to the point where they can attract financing by these IFIs.

Serbia and Montenegro participates in the DANUBE Regional Global Environmental Facilities project on Nutrient reduction which is also supporting the implementation of the Water Framework Directive.

## **2. COUNTRY CONTEXT**

### **2.1. Cooperation related policy of beneficiary country**

As a member of the International Convention on the Protection of the Danube River (ICPDR) and the Sava Commission, Serbia is committed to introducing the guiding principles of the EC's Water Framework Directive and aligning its domestic legislation therewith as a matter of urgency. Key priorities are to remove the inconsistency that exists between the provisions of existing Serbian legislation and to ensure an appropriate delineation of responsibilities between the large number of bodies involved in the water sector. In addition, Serbia intends to introduce measures to decrease the consumption of water and increasing water conservation, increase protection from water (e.g. the effects of flooding) and to improve the protection of water quality. In line with the principles of the Water Framework Directive Serbia intends to increase public participation in water planning and decision-making as well as to strengthen controls at all stages of water related operations and development.



Serbia is working with the ICPDR and the Sava Commission in the attainment of these goals and, due to the importance of the sector, has requested considerable donor support from the World Bank and the EU to assist it in its endeavours.

## 2.2. Sector context

The territory of Serbia is composed of five sub-river basins of the Danube River basin: the Sava; the Morava; the Tisa; Banat-Eastern Serbia; and the Pannonian Central Danube. Each of these sub-river basins crosses international boundaries (although the Morava sub-river basin only has a limited area within Bulgaria). As such the role of regional co-operation within the management of the water sector in Serbia is especially high.

Serbia is classified as a water-poor country due to low per capita water flow and domestically generated water resources. These limited water resources are subject to severe pollution from industry, run-off from agriculture and inadequate wastewater treatment. A UN ECE Environmental Performance Review indicated that 50% of drinking water samples fail to meet the required standards.

At an estimated 170 litres per capita per day, water consumption in Serbia is higher than in other European countries (e.g. 125 litres per capita per day in Germany) and at an estimated 250 litres per capita per day is especially high in Belgrade. In large part this is due to low water and sewage charges. In addition, losses are also estimated to be around 30% nationally and one third of municipalities report losses of between 30% and 50%.

Specific data on wastewater generation is unavailable, but the high levels of water consumption inevitably lead to higher levels of wastewater. The Global Wastewater Study prepared for Serbia indicates that only around half of the Serbian population is connected to a sewage system and, at around 10%, connection rates in rural areas are particularly low and there is almost a complete lack of information on the condition of these sewerage systems.

Only 19 municipalities have wastewater treatment plants (14 with biological treatment and 5 with only mechanical treatment) so that only around 15% of the population are connected to wastewater treatment facilities. Around three-quarters of municipalities report the need for new wastewater treatment plants. Pollution of surface waters by municipal wastewater is compounded by discharges directly into waterways, often with limited or no treatment, of an estimated 730 million cubic meters of wastewater annually from large-scale industrial and mining facilities located outwith urban developments.

Introduction of the river basin approach to water resource management as provided for in the Water Framework Directive should strengthen regional co-operation.

The programme is intended to assist the Directorate for Water of the Ministry of Agriculture, Forestry and Water Management to address these issues.

## 3. DESCRIPTION

### 3.1. Objectives

The overall objective of EU support is to strengthen the protection of the water resources and quality and of public health.

The specific objectives of the projects to support the attainment of the overall objective are:

- Implementation of the guiding principles of the Water Framework Directive throughout Serbia.
- Increased availability of reliable water quality monitoring results.
- Provision of conditions for increased investment in wastewater treatment and sewerage, and protection of watercourses.

### 3.2. Expected results and main activities

The expected results of the interventions are:

- Alignment of Water sector legislation with the provisions of the *acquis communautaire* and institutional capacity for its enforcement.
- Wastewater and sewerage masterplan prepared and technical specifications for selected wastewater / sewerage projects
- Operation and conduct of water monitoring improved.
- Action plan for the remediation of 'hotspots' resulting in significant pollution to ground or surface water prepared.
- Linkages with work undertaken by the ICPDR on implementing the WFD.

These results will be achieved through:

- The provision of advice, training and support to the Directorate for Water of the Ministry of Agriculture, Forestry and Water Management.
- Development of a Water Resource Information Management System.
- Technical Assistance for the preparation of a Wastewater and Sewerage Masterplan for parts of Serbia (including preparation of specific investment projects for wastewater management and treatment).
- Supply of equipment for water quality monitoring/testing.
- Preparation of an action plan for the remediation of 'hotspots' resulting in significant pollution to ground or surface water.
- The 2005 programme may possibly include support to complementary activities of ongoing programmes.

The action plans for the remediation of 'hotspots' should draw upon the identification work carried out over recent years namely the Regional Environmental Reconstruction Programme's Priority Environmental Investment Project financed under CARDS that identified a number of hot-spots and the work following the 1999 UNEP Post-conflict Assessment.

The expected results should be fed into the work undertaken under the ICPDR on implementing the Water Framework Directive. This would ensure that the results are carried forward within this framework.

### 3.3. Stakeholders

The Ministry of Agriculture, Forestry and Water Management's Directorate for Water will be the main stakeholder for the intervention. Other stakeholders involved in the water sector, include the Ministry of Health, the Directorate for Environmental Protection, the municipalities (approx.30), respective industries and civil society organisations.

The ultimate beneficiaries of the assistance will be the general population who will benefit from increased protection of water resources and public health standards.

### 3.4. Risks and assumptions

The main assumptions upon which the project interventions are based (Specific Objectives to Overall Objectives) are that the improved legislation will be enforced (and hence that polluters are required to pay actual or potential treatment costs) and that there is increased investment in wastewater treatment, sewerage and the protection of ground and surface water.

The assumptions upon which the project activities will lead to the specific objectives are:

- That the Government and the Ministry of Agriculture, Forestry and Water Management allocate sufficient staff and operational budget to the Directorate for Water and other relevant bodies to be able to implement the systems and procedures developed with project support.
- That the legislation drafted with project support is adopted by parliament, the Government or the Minister of Agriculture Forestry and Water Management (depending upon the nature of the legislation and the relevant competencies).
- That the administrative systems and procedures developed with project support are put into practice by the Directorate for Water.

The main risks are therefore:

Risk	Likelihood High/Med/Low	Impact H/M/L	Counter Measures
Failure to provide adequate operating budget for the Directorate for Water	Low	High	Cost-consciousness to be taken into account when preparing all recommendations
Lack of political support for the alignment of water sector legislation with the provisions of the <i>acquis communautaire</i>	Low	High	Pressure within SAP context; future assistance conditional

### 3.5. Conditionalities

Prior to implementation of specific projects an MOU should be signed with the Agency showing clear agreement on the roles and responsibilities of the Water Directorate and other organisations involved in water quality monitoring / testing.

### 3.6. Crosscutting issues

This project will support the protection of the environment in line with EU standards and contribute towards the attainment of the environmental Millennium Goal. Implementation of the programme will also aim at supporting good governance in the sector.

## 4. IMPLEMENTATION ISSUES

### 4.1. Implementation method

Indirect centralised management.

### 4.2. Budget and calendar

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	9.5
<i>Budget by project components:</i>	
• Capacity building for the Directorate of Waters	2.2
• Development of a Water Resource Information Management System for the Water Directorate as well as preparation of a Wastewater and Sewerage 'Masterplan' and an action plan for the remediation of 'hotspots'	5.7
• Supply of equipment for water monitoring/ testing	1.6

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants (No)	
Supplies (Yes)	Financing Agreements (No)	
Works (No)	Twinning (Yes)	1
Operational duration of project in months as from signature of Financing Agreement:		18-36

The Ministry of Agriculture, Forestry and Water Management will contribute in-kind to the realisation of the projects. Where used, the Twinning Grant Agreements will detail the beneficiaries' commitments of resources.

### 4.3. Procurement and award of grants procedures

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

### 4.4. Performance monitoring

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

As per the Twinning Manual, Twinning Projects will be the subject of quarterly monitoring on the basis of reports submitted by the Twinning Project Leaders as well the results of Steering Committee Meetings. Following receipt of the 2nd Quarterly Progress Report a systematic review of the Twinning will be undertaken by the European Agency for Reconstruction in consultation with the Twinning Partners. The review may lead to reorientation of the Twinning Project or, in extreme cases, withdrawal of financing (i.e. termination of the project).

### 4.5. Evaluation and audit

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing

Board, and Annual Evaluation Programme. Evaluation of Twinning Projects will be based upon progress in achieving the benchmarks and mandatory results laid out in the Work plans for the Twinning Projects.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors and beneficiaries of Twinning Grant Contracts will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities' and the Twinning Manual.

## PROJECT FICHE

Title	<b>Tempus - Multilateral co-operation for the development and restructuring of higher education</b>		
Total cost	Approx. € 5.0 million EU contribution		
Aid Method	Centralised management		
DAC-code	11420	Sector	<b>Economic and Social Development Education and Employment/Tempus</b>

### 1. RATIONALE

#### 1.1. Strategic framework

The Tempus programme was adopted by the Council of Ministers of the European Union on 7 May 1990. On 29 April 1999 a new Decision of the Tempus programme "Tempus III" was adopted by the Council covering the non-associated countries of South-East Europe and the Partner Countries of Eastern Europe and Central Asia. This Decision was later amended by the Council Regulation of 5 December 2000. This new phase of the programme will run from 2000 to 2006.

In Serbia and Montenegro Tempus is financed under the EU CARDS Programme that is designed to support the participation of its beneficiary countries in the Stabilisation and Association Process (SAP). The Thessaloniki Agenda of 2003 reconfirmed the SAP and also provided for the creation of European Partnerships for each country. These partnerships provide guidance through priorities set out therein.

In this context the Commission agrees priorities for tempus activities as well with the partner countries.

#### 1.2. Lessons learnt

Past assistance has supported the development of higher education through the TEMPUS community programme. Partner countries are being increasingly intensive involved into the determination of priorities.

#### 1.3. Complementary actions

#### 1.4. Donor coordination

No systematic donor coordination is undertaken by DG EAC. Donor coordination is assured through the involvement of DG RELEX in the priority determination process with the Partner Countries.

### 2. COUNTRY (OR REGIONAL) CONTEXT

#### 2.1. Cooperation related policy of beneficiary country

The Country Strategy Paper for Serbia and Montenegro directs EC assistance to university education, enhancing regional co-operation.

#### 2.2. Sector context

The programme specifically addresses the recommendations of the European partnership to facilitate access to education, promote higher education for minorities and ensure that higher Education in Serbia and Montenegro respects European standards as defined in the Bologna Declaration (*Further promote the principle of non discrimination and equal representation*).

### 3. DESCRIPTION

#### 3.1. Objectives

To support Serbia and Montenegro's efforts to achieve the objectives of the Bologna Declaration which aims at the establishment of a common European higher education space by 2010. The Declaration requires *inter alia* structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration, efficient control over standards, and the set up of a system to test compatibility across faculties or universities;

To support the development of the higher education system in the country through balanced co-operation between higher education institutions in the country and those of Member States of the European Union.

### **3.2. Expected results and main activities**

The three instruments of the programme, Joint European Projects, Structural and Complementary Measures as well as Individual Mobility Grants will result in:

Increased synergy between higher education legislation and policy and reforms at the institutional level; Strengthened strategic management capacities of higher education institutions; Modernisation of management and administration of the participating higher education institutions; Teaching and learning according to revised curricula and study courses in line with changes social and economic needs; Improved skills of non-academic staff relevant for public administration reform and civil society development; Increased mobility of students and academic staff; Closer co-operation and sharing of resources and experience between higher education institutions at a regional level.

### **3.3. Stakeholders**

The main stakeholders are higher education institutions and related personnel as well as students in Serbia and Montenegro, the Partner Countries and in the Member States; political and administrative structures and staff in higher education.

### **3.4. Risks and assumptions**

The programme is based on the assumption that the Serbian and Montenegrin authorities will remain committed to addressing and solving the problem of the fragmentation of the institutional, legal and financial framework of the higher education sector.

### **3.5. Conditionalities**

None

### **3.6. Crosscutting issues**

Improvements in the area of higher education have obvious repercussions on employment generation. Due account should be taken to equality between men and women and the right of minorities when selecting projects.

## **4. IMPLEMENTATION ISSUES**

### **4.1. Implementation method**

Centralised management

### **4.2. Budget and calendar**

Indicative figure 2005: € 5.000.000,-

### **4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

**4.4. Performance monitoring**

Performance is monitored jointly with the European Training Foundation which provides technical assistance for Tempus.

Progress is being measured taking into account the following indicators:

Number of projects and mobility of individuals realised; number of applications received and increase on annual basis; number of new and revised university curricula successfully implemented; number of students having followed new curricula; time needed by students having followed new curricula to find employment.

**4.5. Evaluation and audit**

*Evaluations (mid-term, final, ex post) and audit arrangements*

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## PROJECT FICHE

Title	<b>Reform of VET System in Serbia, Phase II</b>		
Total cost	Approx. €3.5 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	11330	Sector	<b>Economic and Social Development Education and Employment/VET</b>

### 1. RATIONALE

#### 1.1. Strategic framework

The CSP 2002-2006 for Serbia and Montenegro specifies vocational education and training (VET) as one of the priority areas for EU intervention. Specific reference is also made to the development of strategic plans for upgrading the sector overall as well as VET modernisation for economic sectors relevant to recovery and growth. Additionally, the European Partnership for Serbia and Montenegro refers to the need for the development and implementation of comprehensive strategies for vocational education and training as a short term priority for the country.

#### 1.2. Lessons learnt

The recently completed CARDS 2002 programme "Pilot training/re-training for unemployed and redundant workers" and the ongoing CARD S2003 "VET Reform programme—capacity building and implementation" have demonstrated clear potential for change in Serbia at VET provider level. The responsiveness of VET schools, teachers and school principals has been extremely high. These interventions have also demonstrated the need for further capacity building in the fields of VET policy development and implementation and clarification of the VET institutional setting. In particular issues of stakeholder co-operation requires further attention. Although the Ministry of Education and Sports (MoES) and the Ministry of Labour, Employment and Social Affairs (MoLESA) as well as social partners have expressed their willingness for co-operation in the field of VET, a meeting of minds between all of the stakeholders "remains a work in process".

#### 1.3. Complementary actions

The proposed programme follows specifically from an ongoing CARDS 2003 in VET reform. The proposed activity is also consistent with and complementary to other ongoing related EC funded support, including, (i) a recently completed pilot (re-)training programme for unemployed and redundant workers in the Sumadija district in central Serbia, (ii) non-financial support to SMEs including provision of advice, information and training for would-be entrepreneurs and existing business through regional enterprise support centres, (iii) support to employment through development of national employment action plans, active labour market measures, and restructuring of the national employment service, (iv) regional socio-economic development initiatives in pilot areas in north-eastern, central and south Serbia, and (v) municipal support programmes implemented in eastern and southern Serbia. Other donor activities include the World Bank grant on education decentralisation (decentralisation, education management information system, assessment and evaluation, and school development projects), a GTZ funded VET project (curriculum modernisation in commercial VET school programmes and support to the VET Centre), a British Council quality project, a Canadian Government funded educator development programme, and UNDP is providing assistance for financial planning and control, a School Facilities and Infrastructure unit and a Media unit within the MoES.

#### 1.4. Donor coordination

Agency/Donor discussion demonstrated little risk of overlapping activities. However, closer links will have to be established through the implementation of the project in order to ensure synergies where appropriate. Many donor-funded education projects have run into problems with MoSE due to rather frequent ministerial personnel and policy changes. Systemic change will need clear policy commitment and the MoES needs more time to formulate own education policies. Nevertheless a need exists for more donor co-operation to be undertaken by the MoES.

### 2. COUNTRY CONTEXT

#### 2.1. Cooperation related policy of Beneficiary country

VET reform policy concepts for both secondary and continuing VET have been adopted by Government but have yet to be nationally agreed by all of the key stakeholders. The VET legislative and institutional frameworks have changed with the introduction of a new law on education in May 2004. Strategic implementation (priorities/timescale/cost) remains key and is not in place. Although the MoES has



expressed its willingness for co-operation with the second strategic partner for VET, i.e. the MoLESA, as well as social partners, there is not yet a “meeting of the minds” for this co-operation.

## 2.2. Sector context

Serbia has sophisticated reform concepts but limited resources. At this stage the country cannot afford complex diversified institutions to manage the full complexity of a mature VET system. Assisted organic growth, experimental or definitive, can develop towards the institutional ‘homes’ and structures ultimately necessary over a period of time. In the new 2004 education Law, four major issues stand out where specific VET provisions are missing: (i) the labour market context of VET; (ii) the role and place of technical support institutions for VET; (iii) certification and qualification structures; (iv) financial mechanisms. VET is defined only from an education system logic and specialised institutions have been closed down. At the same time, progression routes after secondary education are not solved. Serbia wants a modernised and sustainable VET system with strong schools offering relevant programmes. The difficulty is moving from concept to strategy, in particular to implementation. There is an apparent reluctance among key actors in moving towards operational issues due to continuing political uncertainty and lack of resources. School curricula, equipment and teaching methods have to be modernised. A curriculum philosophy and method have been proposed and accepted but no approach to qualification and certification has yet been agreed. Appropriate methods for involving employers in VET still need to be developed. Secondary VET education enrolls 75% of a youth cohort, but no progression routes into non-university higher education exist. Many of these issues (e.g., strategy/policy formulation) are being dealt with under on-going EU funded assistance programmes, but progress remains slow especially due to shifting ministerial personnel and resulting policy changes.

The proposed project complements previous VET programmes and will assist the MoES and MoLE to address the following specific problems: (i) to take forward a coherent reform of VET to train for qualifications relevant to the emerging needs of the economy; (ii) to build institutional capacity to manage issues of assessment, certification and qualification; (iii) to bridge the gap between secondary VET and higher education in Serbia; (iv) to stimulate school-based competence development; and (v) modernise curricula in key sectors for economic development.

## 3. DESCRIPTION

### 3.1. Objectives

The overall objective of the project is to assist the Government to develop a coherent vocational education policy/strategy designed to support social and economic development by meeting labour market and student needs.

#### Specific objectives/purposes

Specific objectives are to assist the MoES and MoLESA to cooperate more closely in formulation of national VET policies and implementation strategies along the lines of international best practice by, (i) strengthening institutional capacity to manage VET, (ii) designing and implementing modernised VET programmes, (iii) piloting a higher (post-secondary) VET system, and (iv) stimulating school development through a targeted national programme.

### 3.2. Expected results and main activities

#### Expected results

- Improved design, implementation and monitoring of VET policies based on a national qualification framework.
- Improved progression routes with clear labour market perspective for students graduating from four year VET programmes.
- Improved effectiveness of VET provision through updated programmes (curricula, teacher trained, specification of equipment needs) in 3 sectors corresponding to emerging economic development and employment needs.
- Enhanced cooperation between the MoES and MoLESA in the design and implementation of HRD policies.

#### Activities

##### Institutional strengthening and capacity building

- Capacity building of national actors to develop and set up a coherent national qualification framework to enable assessment, accreditation and certification.

- Capacity building in MoES and MoLE to cooperate for the development and implementation of a VET reform monitoring function through systematic 'accompanying research' on reform elements.
- Continuous public awareness raising and dissemination of VET reform to all stakeholders.

#### **Curricula development and implementation**

- Selection of three occupational sectors/clusters which are considered important for the economic development of the country and with good employment prospects.
- Development of new occupational and educational standards, curricula and requirements for certification and qualification for the whole cluster.
- Curriculum need-based technical (vocational) and didactical training of pilot school teachers (trainers) delivered through partnership agreements with EU VET schools (teacher colleague training and supervision).
- Specification of curriculum-driven equipment needs (and other rehabilitation work) for the three chosen clusters in pilot schools.

#### **Piloting higher VET education as an attractive offer for 4-year students graduating from the VET schools**

- Develop a model for a post-secondary VET system to bridge the gap between secondary and higher education due to the lack of the post-secondary level 4 in the education system; emerging jobs can probably best be covered by new, advanced VET programmes,
- Identify and develop five pilot courses in close co-operation with the social partners with high labour market relevance.

#### **Rehabilitation of school buildings**

- TA expertise will continue assist the MoES with tendering and contracting, and monitoring of implementation of all EIB education sector loan related activities.

### **3.3. Stakeholders**

Ultimate beneficiaries of the project are students and teachers in VET, employers who need to recruit well skilled people and the Serbian economy as a whole. The immediate beneficiaries will be the MoES and MoLESA, the Pedagogical Centre, the pilot VET schools and the social partners (e.g., women NGOs/networks) who will increase their policy and operation capacities. The lead project partner will be the MoES. Ownership is anchored in the MoES and MoLESA who are already working through their own initiatives and through the CARDS 2003 VET Reform programme on VET-related topics. Technical assistance support is considered necessary in order to enhance the internal capacity of the Ministries and will provide the know-how for the development of tools to be used by the different activities of the project, while actual implementation will be national and local actors.

### **3.4. Risks and assumptions**

<b>Risk</b>	<b>Likelihood High/Med/Low</b>	<b>Impact H/ M/ L</b>	<b>Counter Measures</b>
Project participation overstretches capacity of staff of the MoES and other main project partners	Medium	High	MoES to ensure appropriate counterparts assigned to the programme. TA monitors and reports on preventive measures
MoES is not willing to co-operate with other stakeholders in the definition and implementation of a policy framework and in the development of new curricula and training programmes for adults	Low	High	Intensive capacity building to MoES, MoLESA and other stakeholders on the need for co-operation in the area of VET
Lack of national (co-) funding for the delivery of activities	Medium	High	MoES to ensure the appropriate funds/high level leadership intervention
Insufficient capacity of VET schools to deliver new curricula	Medium	Medium	Higher investment in the capacity of local service providers
Donor overlapping	Possible	Medium	MoES to ensure donor co-ordination of activities

### **3.5. Conditionalities**

A Memorandum of Understanding (MOU) will be signed before project implementation with the Ministry of Education and Sports, the Pedagogical Institute (incorporating the professional VET institutions) and the Ministry of Labour, Employment and Social Affairs, which would clearly indicate the roles, responsibilities and obligations of each partner, e.g., (i) that the MoES ensures effective management of the programme at national and local level, taking into account mobilisation of staff from the MoES, Pedagogical Centre, VET schools and other institutions; (ii) that the MoES ensures co-financing for VET reform driven activities in the Ministry, Pedagogical Centre, and schools and (ii) that the MoES to ensure donor co-ordination.

**3.6. Crosscutting issues**

Provision of new skills responding to the requirements of a changing economy will achieve increased employability of young people (especially women) and reduce unemployment. The project provides for further strengthening of all relevant national actors including the social partners, and the development of VET policies and measures that enhances the adaptability and employability of male and female labour force, minorities and other vulnerable groups. The project will impact the capacity of national and local actors to develop and implement responses to demands for change including the need to provide equal opportunities.

**4. Implementation issues****4.1. Implementation method**

Indirect centralised management.

**4.2. Budget and calendar**

<i>Indicative budget breakdown</i>	<i>€ million</i>
Total budget	3.5
<i>Budget by project components:</i>	
• Technical assistance	3.3
• School partnership activities	0.2

<i>Types of Contracts ('Yes')</i>	<i>Grants</i>	<i>Number of grants</i>
Services (Yes)	Grants/Call for Proposals (Yes)	Not possible to quantify
Supplies (No)	Financing Agreements (No)	
Works (No)	Twining (Yes)	
Operational duration of project in months as from signature of Financing Agreement:		18-36

**4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

**4.4. Performance monitoring**

The EAR Programme Managers responsible for this programme are the first level of regular monitoring and quality control, with inputs and support from the Head of Operations and Head of Centre. The EAR Monitoring Team – in line with bi-annual monitoring plans for the operational centre - will submit monitoring reports over the programme's life cycle, identifying issues requiring management attention and assessing efficiency as well as progress towards the achievement of the programme's outputs, objectives and expected impact.

For service contracts, consultants/experts are required to produce reports at inception, interim and final phases, in order to show progress against the targets identified in the relevant terms of reference.

**4.5 Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's Evaluation Guidelines, as approved by the EAR Governing Board, and Annual Evaluation Programme.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the 'Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities'.

## PROJECT FICHE

Title	<b>General Technical Assistance Facility and Programme Reserve</b>		
Total costs	Approx. € 5.0 million EU contribution		
Aid Method	Indirect centralised management		
DAC-code	99810	Sector	Other

**1. RATIONALE****1.1. Strategic framework**

*Information given under other project fiches applies.*

**1.2. Lessons learnt**

*Information given under other project fiches applies.*

**1.3. Complementary actions**

*Information given under other project fiches applies.*

**1.4. Donor coordination**

*Information given under other project fiches applies.*

**2. COUNTRY (OR REGIONAL) CONTEXT (AS FAR AS NOT YET ADDRESSED IN INTRODUCTORY PART)****2.1. Cooperation related policy of beneficiary country**

*Information given under other project fiches applies.*

**2.2. Sector context**

*Information given under other project fiches applies.*

**3. DESCRIPTION****3.1. Objectives**

The main purpose of the General Technical Assistance Facility (GTAF) is to allow project preparation to proceed in a quick and effective manner. The GTAF will support the preparation and early implementation of activities under the Annual Programme, and support the planning process for future Programmes.

**3.2. Expected results and main activities**

Actions to be supported are likely to include: (i) recruitment of short-term technical assistance (local and international) for activities typically including feasibility studies, inputs to terms of reference and specifications, and tender evaluations; (ii) audits, monitoring, thematic / programme / project evaluations; and (iii) project preparatory and start-up actions.

The Serbia AP 2005 Programme Reserve will be used to cover additional programme related priorities and expenditures that are currently unforeseeable.

**3.3. Stakeholders**

*Information given under other project fiches applies.*

**3.4. Risks and assumptions**

*Information given under other project fiches applies.*

**3.5. Conditionalities**

*None*

**3.6. Crosscutting issues**

*Information given under other project fiches applies.*

**4. IMPLEMENTATION ISSUES****4.1. Implementation method**

Indirect centralised management

**4.2. Budget and calendar**

<b>Indicative budget breakdown</b>	<b>€ million</b>	<b>Estimated duration (months)</b>
Total budget	<b>5.0</b>	
Budget by project components:		
• General Technical Assistance Facility (GTAF)	<b>2.5</b>	<b>36</b>
• Reserve	<b>2.5</b>	<b>36</b>

**4.3. Procurement and award of grants procedures**

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

**4.4. Performance monitoring**

n/a

**4.5. Evaluation and audit**

The programme may be evaluated at the interim, final or ex-post stages under the supervision of EAR Evaluation Unit - in line with the Agency's *Evaluation Guidelines*, as approved by the EAR Governing Board, and *Annual Evaluation Programme*.

The programmes may be audited by Court of Auditors - in line with the standard European Commission procedures. All service contractors will be required to submit audit certificates with their requests for final payment in accordance with the requirements of the '*Practical Guide to contract procedures for external assistance financed from the general budget of the European Communities*'.

**List of Project Annexes  
Action Programme 2005 for the Republic of Serbia**

Priority Sectors Project Titles	€ million (+/- 20%) <sup>1</sup>
<b>3.1. DEMOCRATIC STABILISATION</b>	
<b>3.1.1 Minority Rights and Refugee Return</b>	
3.1.1.1 Support to Refugees and IDPs	12.5
<b>3.1.2 Civil Society</b>	
3.1.2.1 Support to Civil Society	2.0
<b>3.1.3 Media</b>	
3.1.3.1 Support to Media Sector	2.5
<b>3.2. GOOD GOVERNANCE AND INSTITUTION BUILDING</b>	
<b>3.2.1 Justice and Home Affairs</b>	
3.2.1.1 Justice and Home Affairs	13.8
<b>3.2.2 IBM</b>	
No expenditures are foreseen in the 2005 Programme	
<b>3.2.3 Public Administration Reform</b>	
3.2.3.1 Public Administration Reform / Public Finance	4.0
3.2.3.2 Support to European Integration Process	2.0
3.2.3.3 Support to the Health Sector Reform	8.5
3.2.3.4 Local and Regional Development Programme 2005	19.7
<b>3.2.4. Customs and Taxation</b>	
3.2.4.1 Support to the Customs and Taxation Administrations	2.5
<b>3.3 ECONOMIC AND SOCIAL DEVELOPMENT</b>	
<b>3.3.1 Investment Climate</b>	
3.3.1.1 Support to Pre- and Post-Privatisation, Enterprise Restructuring and Development	11.5
3.3.1.2 Capacity Building for the Implementation of the Cadastre	5.0
<b>3.3.2 Trade</b>	
3.3.2.1 Strengthening Food Safety and Quality	8.0
<b>3.3.3 Infrastructure</b>	
3.3.3.1 Support to the Energy Sector Reform	25.5
3.3.3.2 Support to the Transport Sector Reform	14.0
<b>3.3.4 Environment</b>	
3.3.4.1 Capacity Building in the Water Sector	9.5
<b>3.3.5 Education and Employment</b>	
3.3.5.1 Tempus	5.0
3.3.5.2 Reform of VET System in Serbia, Phase II	3.5
<b>4 OTHER</b>	
4.1.1 General Technical Assistance Facility (GTAF) and Programme Reserve	5.0
<b>TOTAL<sup>2</sup></b>	<b>154.5</b>

<sup>1</sup> Individual financial allocations are subject to fluctuations of up to ± 20% over the programme's lifetime.

<sup>2</sup> EAR running costs not included