

ACTION PROGRAMME 2004 FOR SERBIA

1. IDENTIFICATION	
<i>Form of programme</i>	CARDS Action Programme 2004
<i>Beneficiary</i>	State Union of Serbia and Montenegro (SCG) / Republic of Serbia
<i>Budget year</i>	2004
<i>Budget Lines</i>	19 07 02 (CARDS National budget line: €208 million) 19 07 01 (Cards regional budget line: €4 million for IBM...)
<i>Financial allocation</i>	€ 212 million
<i>Legal basis</i>	Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001 (CARDS)
<i>Contracting</i>	All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.
<i>Implementation</i>	The implementation of projects under this proposal must be concluded by 31.12.2009 . Therefore, all technical activities provided for under this programme and all contracts must end by 31.12. 2009 .
<i>Annual programming/ Implementing bodies</i>	European Agency for Reconstruction €202 million Commission/AIDCO headquarters (Tempus and Customs projects) €10.0 million
<i>Related CSP & MIP</i>	Country Strategy Paper for Federal Republic of Yugoslavia¹ (2002-6) and the associated three-year (2002-4) Multi-annual Indicative Programme (MIP)
<i>Remarks</i>	No administrative expenditure will be financed under this programme

2. SUMMARY OF THE PROGRAMME

The 2004 Action Programme for SCG/Republic of Serbia, along with the parallel Action Programme for SCG/Republic of Montenegro, provide assistance for key aspects of the country's economic and social reform agenda - as presented at the recent donors' conference (18 November 2003) in Brussels. This programme focuses especially on the push by the State Union (SCG²) and the Republic of Serbia towards European integration and on the desire of SCG to sign a Stabilisation and Association Agreement. In particular, this Action Programme reflects wider EC policy objectives as mirrored in the Stabilisation and Association process (SAP), the Country Strategy Paper (CSP) and the three-year (2002-4) Multi-annual Indicative (MIP) programme (as referenced in section 1 above). Within this policy framework, increased emphasis and resources have been placed on "Good Governance and Institution Building", guided by the *Acquis Communautaire*, as well as on economic development to overcome poverty and growth related issues linked to the PRSP³ process.

The overall EC programme will be implemented in close coordination with programmes of other multilateral and bilateral donors, particularly with those of the EU Member States, and in complementarity with the CARDS Regional programme and other EC assistance programmes in

¹ While the name of the State was changed in February 2003, the term FRY is maintained in references to earlier official documents.

² SCG: Abbreviation for the new State Union of Serbia and Montenegro (Srbija i Crna Gora)

³ PRSP: Poverty Reduction Strategy Paper

Serbia and Montenegro. Taking the priority sectors of the MIP as headings, the 2004 Action Programme may be summarised as follows:

Good Governance and Institution Building (approx. €64 million)

Key programme objectives are to assist the State Union of SCG and the Republic of Serbia in developing an efficient and effective administration system in line with EU policies, directives, standards and best practices. Priority interventions focus on strengthening the Government's ability to monitor, coordinate and implement administrative reforms, improve financial management, enhance the rule of law, support Integrated Border Management, fight corruption and crime, and further improve health management, a key social and poverty-related sector.

Economic Reconstruction, Regeneration and Reform (approx. €121.5 million)

Following the medium term Economic Recovery and Transition Programme presented by the European Commission and World Bank in 2001, substantial progress was made in economic reconstruction and related sector reforms, e.g. in energy, social (pensions) and enterprise development (banking and privatisation). However, many years of economic mismanagement cannot be reversed in three years despite Government achievements. Much more needs to be done. The proposed economic development programmes reflect this need and continue to assist in creating an economic environment conducive to investment, entrepreneurship and growth and to strengthening the country's productive sectors (energy, transport, environment, rural development, enterprise/financial and municipal/regional development). Moreover, the EC also recognises that the problems of the refugee/IDP populations must be addressed if broader development programmes aimed at stability and growth are to be achieved. A specific programme is now proposed to deal with this problem in a regional context.

Social Development and Civil Society (approx. €21 million)

Successful good governance and economic reform policies need to be accompanied by a strong civil society, media, and education and employment systems. The proposed 2004 programme interventions will further strengthen civil society, media, the university education system (through Tempus) and social cohesion with further labour market reforms focussing on unemployment measures.

Other (GTAF and Programme Reserve) (approx. €5.5 million)

The General Technical Assistance Facility (GTAF) will be largely used to help prepare 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 currently unforeseeable priorities, and for other programme related expenditures.

3. POLITICAL AND ECONOMIC UPDATE

Political

In February 2003, the Federal Republic of Yugoslavia was constitutionally restructured and renamed into Serbia and Montenegro by the new Constitutional Charter.

The Constitutional Charter foresees the transfer of a large number of competences from the state to the republican level, while at the same time laying down key competences for the state-level so as to ensure a functioning state viable in international relations (underpinned by an Action Plan on the Internal Market and Trade). These changes place a very specific burden on the administrations at all levels and domestic resources are insufficient to meet all these challenges. In addition, the international community continues to emphasise Serbia and Montenegro's international obligations to improve its cooperation with the Hague Tribunal.

The single most important event of 2003 was the tragic assassination of the Serbian Prime Minister Zoran Djindjic in March 2003. A state of emergency was declared which led to partial results in the fight against organised crime and political extremism.

While the Serbian institutions remained relatively stable in the wake of this event, the reform process has subsequently stalled due to increasing party-political infighting both within the ruling coalition DOS and with the opposition. This reform stalemate throughout the better part of 2003 meant that important laws (new Police Laws, a variety of economic acts such as the VAT Law, a new Energy Law, Broadcasting Law etc.) could not be adopted or fully implemented. Internal disagreement within the DOS coalition became untenable, forcing the Government to call new parliamentary elections which were held on 28 December 2003. While the democratic and reform minded parties combined won the largest share of votes, the strongest single party was the Serbian Radical Party (ca. 27% - 82 out of 250 seats in the Parliament), officially still headed by ICTY indictee Seselj. Coalition talks are ongoing at the time of writing.

On the positive side, economic stability has been preserved. There was some progress on the European agenda and the Stabilisation and Association Process (SAP). To speed up the reform process and to further deepen EU reform advice, an Enhanced Permanent Dialogue was launched in July 2003 to build on the work of the previous Consultative Task Force meetings.

Recent economic trends in Serbia

Overall in 2003, reforms have somewhat slowed down resulting from the aforementioned political issues in Serbia.

As a consequence, the overall investment climate declined. Important laws (some 60 and more) have been held up in the Serbian Parliament, in particular the Energy law which would pave the way for overall energy sector reform. On the other hand, legislation on secured lending including the Leasing law and the Secured Transaction law was promulgated and banking legislation reform is in progress. Privatisation in Serbia continued at a fast pace in 2003. The number of privatisations in the first 9 months of 2003 totalled about 600, generating privatisation proceeds of €731 million (as well as investment commitments of €250 million). A few large-scale privatisation deals in the tobacco, steel and cement industries were completed successfully. A continuous rise of unemployment (+ 16% year-to-year by mid 2003), led to an official unemployment rate of 31%. Based on actual labour market surveys, unofficial employment in the grey economy lowers the unemployment rate to about 14%.

Tight monetary policies continued to actively support macroeconomic stabilisation. Inflation declined further to 9.8% by September 2003, compared to 15% in 2002. With ample foreign exchange reserves (now \$ 3.6 billion), the National Bank of Serbia (NBS) easily managed a controlled minor slide of the dinar's exchange rate (some 10% over the past 12 months) aimed at restoring Serbia's competitiveness. Fiscal policy also contributed to stabilisation, with the total public sector deficit expected to reach 4.1% of GDP in the course of 2003.

Though GDP has continued to rise moderately (about 3% projected for 2003), its growth resulted largely from increases in trade and services while the productive sectors continued to experience negative growth. Agricultural output (major crops such as maize, wheat, sugar beet) has substantially decreased due to a severe drought. Industrial output remains stagnant overall. However, in September 2003 industrial output showed signs of life for the first time and grew quite unexpectedly by 10%.

Serbia's exports continued to grow notably in the metal and mechanical industries (by 23% over the first 8 months of 2003 compared to the same period in 2002). However, the traditional low cost export-oriented industries (textiles/clothing, leather) continued to decline. A significant increase in imports (+32% compared to last year) resulted in a trade deficit of some \$ 3 billion between January and August 2003, 35% more than the trade deficit in the same period of 2002.

4. Past EC Assistance and Lessons Learnt

Past EC Assistance:

Between 1998-2003, the EU committed over € 1,4 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 harmonisation.

- Reconstruction and development assistance (CARDS / Obnova) € 778.2 million
- Humanitarian assistance (ECHO) € 218.5 million
- Macro financial assistance € 475.0 million⁴

As of 16 December 2003, the Agency's global rate of contracting for combined 1998-2002 EC funds was 97.8% funds contracted and 90.4% disbursed. Although 2003 funds only became available in July, the Agency percentages for the 2003 programme funds are: 66% funds contracted and 8% disbursed. The table below summarises progress on the implementation of previous Action Programmes:

	Funds Committed (EAR managed) M€	Contracted (%)	Paid (%)
• Action Programme 2001	193,8	100%	94%
• Action Programme 2002	170,7	90%	59%
• Action Programme 2003	220,0	66%	8%

Lessons Learnt

To date the most *important generic lessons learned* - which have been largely incorporated in the preparation of this programme - may be summarised as follows: (i) ensure the importance of developing institutional capacities for the management of EU affairs (advice should be produced by mixed teams of local and EU experts in close co-operation with the "client" ministry); (ii) ensure that beneficiaries are more actively involved in project formulation/design and implementation process, which clearly results in greater ownership; (iii) ensure institutional absorptive capacity, sufficient counterparts and budget allocations before actual implementation funding begins; (iv) project contract specifications need to better reflect risk management measures; (v) introduce and ensure full understanding by project partners of implications of project related conditionality such as staff, operating budgets, office space, etc; (v) donor coordination is a continuous process and needs to be handled by the technical ministry; and (vi) prepare a "Memorandum of Understanding" for selected EC funded programmes detailing partners/beneficiaries obligations during implementation.

⁴ The EC has in 2001 and 2002 committed € 475m of macro financial assistance to the State of Serbia and Montenegro. The authorities have decided to a 90%-10% split between the Republics, implying € 427.5m for Serbia. In November 2003, the Council of the EU has adopted an additional € 70 m for Serbia and Montenegro, of which the internal distribution between the Republics will be decided by the authorities.

5. PROGRAMME COMPONENTS

A description of proposed project actions within each programme component is provided 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 (including log frames) on individual projects are available in a separate set of Project Annexes, which have a “working document” status.

5.1 GOOD GOVERNANCE AND INSTITUTION BUILDING

This priority sector includes programmes on general public administration reforms for (A) public finance management, (B) European integration and State Union bodies and (C) health sector reform. Programmes in the areas of justice and home affairs, integrated border management, customs and taxation are also included.

PUBLIC ADMINISTRATION REFORM (approx € 39 million) – Parts A, B and C

5.1.1 – Part A: Public Administration Reform : financial management and general administrative reforms

Background

The need to improve the efficiency and the transparency of the public administration/good governance sector is increasingly becoming a priority for the Republic of Serbia. Public institutions are in a very poor state due to massive outflow of educated and skilled people, politicisation and centralization of authority over the last decade, frequent changes in regulations and institutions through non-transparent processes, little strategic planning and misuse of state institutions for political purposes.

Public administration, financial management reforms and dealing with related governance issues were one of the stated goals of the Serbian government ever since it came to power. Despite positive achievements (adoption of Law on the Budget System (LBS), Law on Procurement, transformation of the Central Payment Agency for Payment and Settlement (ZOP), modernisation of the tax administration), the scope of the reform efforts so far has been below expectations. In particular, the lack of progress in public administration restructuring and civil service reform is a cause of serious concern. Policy-making system remains highly fragmented, with lower inter-ministerial coordination capacity and a largely administrative Government secretariat. There is also a critical lack of capacity in the middle and lower ranks of the administration. In addition, the active reforms launched with the support of international assistance (implementation of a treasury system, the modernisation of the Ministry of Finance & Economy (MIF), initial anti-corruption initiatives) need to be continued, in particular in strengthening the Ministry’s capacity to deal with macro-economic planning and assessments.

Earlier EC supported *financial management* programmes (2002/2003) focused largely on improving Ministry of Finance systems (e.g., introduction of a modern treasury system, establishing the Public Revenue Agency, which replaced the old “ZOP” payment system, and developing internal/external audits and improvements in tax administration).

Initial EC support for more *general public administrative* reforms has contributed to modernising the administrative legal framework focusing on defining the scope of the civil service, drafting the civil

service act and related decrees. CARDS 2003 assistance aims to strengthen the new ministry's institutional capacity in exercising its new role and functions.

However, the transition is far from complete and greater government commitment and effort need to be made to support this reform process in a sustainable and well-coordinated manner.

Note on Statistics: The on-going technical assistance contracts for the State Union and the Republic of Serbia were cancelled at the request of the Commission. Remaining funds from the 2002 and 2003 programmes will be used in 2004 to restart the support programme in close coordination with Montenegro and with the help of EUROSTAT and Member State statistical offices/agencies.

Coherence with Wider EC Policy/SAP and the MIP

As defined in the relevant EC policy documents, the on-going and proposed activities follow stated objectives and/or recommendations, e.g., (i) ensure a more efficient and effective administrative system at republican levels operating more closely to EU best practices; (ii) achieve a sustainable fiscal position; and (iii) strengthen the administrative capacity and efficiency to coordinate and implement the reform process.

Identified Projects

5.1.1.1 Further strengthening of overall administrative and financial management reforms

This project has two complementary components:

So as to further assist in and improve the Government's efforts in *public administration* reforms, EC funds will: (i) provide policy/strategic and organisational advice to the centre of government to better prioritise, coordinate and sequence administrative reforms (project partners will be the Prime Minister's services, in particular the General Secretariat of Government); (ii) assist in defining, developing and preparing strategy and relevant feasibility studies for the reform of public pay systems (project partners will include the Ministry of Finance, the Ministry of Public Administration and Local Self Government and possibly centre of government services).

To further assist in enhancing *financial management and control*, EC funds will be used to help: (i) complement the establishment of a treasury system including a central payroll database through procurement and installation of systems, training of Finance Ministry staff and complementary technical assistance; (ii) further modernise the Finance Ministry through procurement of systems and IT equipment and training of related Ministry staff; (iii) contribute to the establishment of a European Integration Unit in the Ministry of Finance; (iv) assess further macro-economic planning support in coordination with other donors (e.g., DFID); and (v) fund a feasibility study and an implementation strategy for an anti corruption unit in the Ministry of Finance. Please note that inter-ministerial efforts are planned between the justice, interior and finance ministries to combat crime and corruption.

Tendering and Contracting: This programme will likely include service and related supply contracts, as well as possible grant agreements with possible *twinning arrangements for the Centre of Government project and the European Integration Unit*.

Cross-cutting Development Issues

The proposed programme will improve the financial management and control (payroll) as well as institutional capacities and sustainability of the public sector. A stronger inter-ministerial co-ordination and policy planning capacities at Centre of Government will improve planning and implementation of reforms, in particular those aimed at supporting the EU integration process.

5.1.2 – Part B: Public Administration Reform : European Integration, new State Union institutions

Background

One of the top priorities of the Government of the State Union of Serbia and Montenegro in the coming years is admission to the European Union. Significant steps have been made in trying to fulfil the objective of harmonisation with EU standards and norms. In August 2003 the State Union government adopted the “*Action plan for harmonisation of the economic systems of the State Union of Serbia and Montenegro for the purpose of preventing and removing obstructions to free movement of people, goods, services and capital*”. The Republic of Serbia then adopted the “*Action Plan for the Harmonisation of the Legislation of the Republic of Serbia with the Acquis*”. In September 2003, the European Commission launched the SAP Feasibility Study, completion of which is foreseen for spring 2004. Depending on the outcome of this study, it could lead to the opening of negotiation for Stabilisation and Association Agreement (SAA).

Furthermore, the State demonstrated its resolve by constituting the State Union Council for European Integration comprised of the highest state officials, in addition to already existing European Integration Offices at the state union and Republic levels. Coordination of the process of EU integration must be handled by one body for the entire State Union. The State Union European Integration Office (State EIO) should play that role, in close coordination with the two republic level EIOs. In this context, EC sectoral programme funds will also support European Integration Offices/Policy units in the sectoral ministries.

Future negotiations on a SAA and its smooth implementation require the creation of a functioning single market between Serbia and Montenegro. This will be accomplished by strengthening existing key institutions and adoption of laws and policies compatible with the EU Acquis. In addition, as parliaments play a central role in the milestone legal changes implied by SAP, their administrative capacity needs to be strengthened, both on the state union and the republic levels.

The 2003 EC Annual Programme supported the project “Strengthening Quality Management, Capabilities and Infrastructures in Serbia and Montenegro”. It will assist the country in applying the acquis in the area of free movements of goods, while previous programmes supported policy advice institutions and the initial State EIO. The 2004 programme will contribute to strengthening of coordination between the three different EI offices, supporting the Parliaments and training future political and opinion leaders in EU related policies and standards.

Coherence with Wider EC Policy/SAP and the MIP

Proposed activities are in line with the MIP where it is stipulated that EU norms must be introduced in the system of Serbia and Montenegro and that flexible technical assistance, training and supporting equipment will be provided to the state European Integration Office and Policy and Legal Advisory Unit.

Identified Projects

5.1.2.1 Support to State Union institutions and European Integration

The proposed project has a number of components, which are closely linked and are complementary:

- To further assist *coordination between the State and Republican EIOs*: EC funds will be used to: (i) provide technical assistance to the three EIOs so as to ensure coordination of their activities and proper information sharing; (ii) train the staff in EU integration and sectoral policies. (Pending further examination, assistance may be provided through *twinning* arrangements.)
- To further assist *State Union institutions*: EC funds will be used to provide: (i) studies on organisational review; (ii) training for staff; translation related to the *acquis* (iii) equipment; and (iv) physical rehabilitation/renovation of office space for existing and/or emerging State Union institutions.
- In its efforts to *support the Parliaments*: EC funds will be provided to train the administration staff and MPs of the State Union and the Republican Parliaments in matters such as general organisation of a parliament, EU integration and access to and understanding of the EU *Acquis*. Improvement of facilities may be considered for assistance.
- To further assist *increased awareness of European Integration processes* and European best practices, EC funds will be used to support the ongoing establishment of a school to train new political leaders in government, business and civil society.
- EC funds will also continue to *support the SCEPP (Policy and Legal Advice Centre)* by providing technical assistance – experts specialised in EU integration and WTO policy and legal issues.

Tendering and Contracting: The project components will likely include small works, service and related supply contracts, as well as grant agreements with possible *twinning arrangements and or calls for proposals from multilateral (e.g. Council of Europe, CoE) or Member States' public bodies*. For support to Parliaments, assistance may be provided through a grant agreement with the CoE.

Cross-cutting Development Issues

The programme will contribute to the strengthening of the rule of law, transparency and democracy in the State Union of Serbia and Montenegro and to its integration towards the EU and the world economy.

5.1.3 – Part C: Public Administration Reform : Health
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Background

With the general crisis that burdened Serbia in the last decade, the health sector suffered under chronic funding constraints, which resulted in under-funded prevention programmes, decrepit buildings and outdated equipment and irregular and insufficient supply of basic pharmaceuticals and materials.

The Government of Serbia has identified and is committed to reforms in the health sector as a top priority as part of its overall public administration reforms and European integration efforts. In 2003 it adopted the “*Strategy and Action Plan for Health Care Reform by 2015*”. This document outlines guidelines for health sector reforms and demonstrates the willingness of the Government to confront problematic issues that the health sector in Serbia faces at the moment. It focuses on the restructuring and rehabilitation of the system and on ensuring its operational and financial sustainability.

Aware of the need for restoring the viability of the health sector, the EC has so far supported successfully the following key areas of the health system: renewal of the pharmaceutical sector, improvements in health service delivery and health systems management. The 2004 programme will again largely address the above mentioned issues and continue to support systematic sector reforms

through (i) development of health information system for basic health and pharmaceutical services; (ii) raising awareness of importance of preventive health care and improving delivery of preventive health care services; and (iii) rationalising (“right-sizing”) of tertiary care institutions.

Coherence with Wider EC Policy/SAP and the MIP

The proposed programme is in coherence with the following EC policies: (i) improving accountability and transparency in health financing; (ii) introduction of Health Information Systems; (iii) increasing and improving the effectiveness of preventive programmes; and (iv) reforming the health sector and strengthening public health.

Identified Projects

5.1.3.1 Development of Health Information System for basic health and pharmaceutical services

In order to help *develop a reliable health information system*, EC funds will be used to: (i) define and agree on a minimum health data set for integration in the new Health Information System; (ii) equip health institutions in selected regions with IT components necessary to implement the new system of record keeping; (iii) train staff; (iv) establish national and regional clearing-houses where all data will be stored; and (v) equip and connect to the network relevant health institutions which will enable them to have access to information gathered by the clearing-houses and (vi) ensure control on main health expenditure; and (vii) upgrade relevant legislation to ensure data protection and security.

Tendering and Contracting: This programme will likely include service and related supply contracts.

5.1.3.2 Improving the effectiveness of preventive health care

In its efforts to try and reduce the mortality rate in Serbia, EC funds will be used to *support delivery of preventive health care services* by: (i) assisting in planning and organising public awareness campaigns, to raise awareness amongst the public on the most common causes of death in Serbia; (ii) assisting in implementation of standard protocols for early detection of the most fatal diseases; (iii) training health staff in the use and maintenance of diagnostic equipment; (iv) establishing centres for preventive care health services and mobile diagnostic units in rural and difficult to reach areas to conduct screening services; and (v) assisting the School of Public Health to develop and implement health promotion and disease prevention training programmes.

Tendering and Contracting: This project will likely include service and related supply contracts.

5.1.3.3 Improving the effectiveness of the tertiary health care system

EC funds will also support the Ministry of Health in *rationalising tertiary health care institutions* by providing expert services to: (i) set up a new organisational structure of the tertiary care system; (ii) train the staff in policy and planning of tertiary care services, organisational restructuring, financing, contracting, procurement, etc; and (iii) supervise implementation of a proposed EIB loan for the rehabilitation of the four main clinical centres in Serbia.

Tendering and Contracting: This programme will likely include service and related supply contracts, which will be tendered and contracted in accordance with EC rules.

Cross-cutting Development Issues

Timely detection of diseases and their appropriate management will reduce the direct social and economic impact of illnesses, thus helping to reduce poverty. Changes in lifestyle brought about by well-conceived and developed health promotion activities will improve the quality of life of the population, reduce the risk of illnesses and decrease health expenditures.

JUSTICE AND HOME AFFAIRS – Parts A and B (approx €19 million in total - including approx €6 million for Integrated Border Management, IBM, €4 million of which is from CARDS regional funds)

5.1.4 – Part A: Justice and Home Affairs (actions excluding IBM)

Background

The Ministry of Justice: Three years have passed since the overthrow of the Milosevic regime. Reforms within the judicial sector have been very slow, uncoordinated and without clear mid- to long-term objectives. The judiciary remains overburdened with huge backlogs. Court proceedings are slow and ineffective due to old procedural laws with emphasis on formalities. There is also a lack of effective court administration and case management including shortage of modern IT equipment. Finally, many judges were appointed during the Milosevic era essentially because of their political affiliations rather than on the basis of their professional/legal capabilities.

The Ministry of Justice (MOJ) is actively seeking to improve the overall situation and deal with the most urgent administrative problems. As usual, financial and human resources are limited. Existing know-how and experience within the Ministry with regard to, for example, EU approximation legislation, war crimes and organized crime is quite weak. Meanwhile, work in the Judicial Reform Council – which was established by the government in 2001 and was expected to be the driving force in the judicial reform process – has essentially come to a stand still due to disagreements in 2001 regarding objectives and priorities for a comprehensive reform agenda.

The 2004 EC programme supports reforms in the fundamental structures and operations of the Judiciary through improving case management and court efficiency in a number of important courts throughout Serbia. It will better enable the courts to tackle the immense backlog that currently exists through modernization of court administration and case management. Other donors, in particular the CoE are addressing fundamental legislative issues (e.g., criminal and civil procedure codes and the law on execution). CIDA is also proposing major assistance programme in close coordination with the EC. The 2004 programme builds on the experiences from the “IT support to the Judiciary 2002” programme, which has shown good results, mainly due to close cooperation between the MOJ and the contractor in the preparatory phase.

Also, training programmes will be prepared and implemented to strengthen the capabilities and capacity of the Ministry and the Serbian Judiciary in line with future challenges (EU approximation, legislative reform, organised crime, war crimes etc.)

The Ministry of Interior: With the 2003 programme, approximately 90 % of the funding for the Justice and Home Affairs programme was allocated towards assisting departments within the Ministry of Interior, including the border police and the organized crime directorate. Implementation of this 18-month programme has started in October 2003 and is already approaching the Ministry’s absorptive capacity limits. These EC and related donor programmes will strengthen border management and anti-organised crime bodies as part of a combined approach to combating organised and cross-border criminality as well as strengthening local capabilities of law enforcement bodies generally in line with Member States’ recommendations.

Nevertheless, some additional funds will be allocated to the Ministry of Interior in 2004 to improve the forensic capacity of the Criminal Police of Serbia.

Coherence with Wider EC Policy/SAP and the MIP

The proposed programme is in line with the following EC policy/SAP and MIP objectives: (i) strengthen the rule of law and ensure its proper enforcement with particular attention to human rights; (ii) improve the overall efficiency of the judicial system with specific effort on the rationalisation of court systems; (iii) support the adoption of EU Member States' standards and best practices in the field of JHA - in line with SAP requirements; (iv) strengthen the capacity to efficiently and effectively deal with policing and the fight against organised crime, including money laundering; and (v) foster regional cooperation and co-ordination of programmes.

Identified Projects

5.1.4.1 Support to the Ministry of Justice and the Ministry of Interior

For the *Justice Ministry*, EC funded assistance will: (i) assess the current status with regard to IT hardware/ software in selected courts, identify needs and associated equipment/works and software, including the new appeal and administrative courts, prepare tenders, procure equipment, train users, and install hardware and software; (ii) assess training needs and programmes for selected target groups, including the human resource department, the court monitoring unit, budget and finance unit and assistance in drafting new (EU compatible) legislation; (iii) support the Judicial Training Centre (JTC) in curriculum development and training of four target groups (judges, prosecutors, attorneys and court administration staff), and assisting it in developing a law library and a data base; and (iv) help introduce Alternative Dispute Resolution mechanisms, which aim to resolve small value cases – both old and new.

For the *Ministry of Interior*, EC funds will support, among other activities, the procurement (and related training) of forensic equipment for the Criminal Police of Serbia.

Tendering and Contracting: This project will likely include twinning arrangements, service and related supply contracts.

Cross-cutting Development Issues

The Justice programme will enhance the respect for the rule of law, strengthen democratic and human rights principles, enhance citizen's access to justice and their perception of transparency and fairness, including gender equality.

5.1.5 – Part B: Integrated Border Management (approx. €6 million for Integrated Border Management actions, including €4 million from CARDS regional funds allocated to IBM)

Background

The emergence of five new states from the break-up of the former Yugoslavia has created over 5,000 kilometres of new international borders in the region. Physical facilities at the recognised border crossing points (BCPs) were introduced rapidly and, due to inadequate available financial resources, border control agencies for security, health, customs, etc., are obliged to operate with poor infrastructure and equipment. The result is inefficient security, health and customs inspections with a consequential reduction in effective control.

EC funds have and will continue to assist in improving the most critical border-crossing facilities along the major trading and transport roads (e.g., the on-going Horgos crossing between Serbia and Hungary, the Batrovci crossing with Croatia and with the 2004 programme the Presevo border crossing linking Serbia with FYR Macedonia and Greece).

Future EC assistance will need to continue to assist in developing a national integrated border management strategy well coordinated with the CARDS Regional programme. Implementation will need to be linked to existing and new EU policies (e.g. the New Neighbourhood programmes),

standards and best practices to ensure sustainability and coherence of a truly integrated border management system.

Under the 2004 programme, strategic support will be provided to the functioning of the Border Crossings' Committee (a cross departmental and cross Ministerial coordination body established within the Serbian Ministry of Interior with the aim to coordinate Integrated Border Management issues). The Committee is responsible for coordinating all related ministerial IBM activities (e.g., for policing, border controls and immigration, for fighting crime, for customs and tax implications, for phytosanitary and veterinarian inspections, for infrastructure rehabilitation, for disease control, etc.)

Coherence with Wider EC Policy/SAP and the MIP

The proposed border crossing project is in full compliance with stated SAP objectives, e.g., facilitate trade flows to and regional integration with neighbouring countries through improved border crossings. Furthermore, the programme is in line with the MIP objectives of fostering greater coherence of customs operations and enhanced all-round co-operation so as to: (i) ensure the free circulation of goods and people within the territory and facilitate trade flows with the neighbouring regions and foster inter-regional cooperation; (ii) modernise the customs and taxation services at Federal and Republic levels so as to bring them close to EU working practices and international standards; and (iii) foster greater coherence of customs operations and enhanced all-round co-operation so as to ensure the free circulation of goods and people within the territory.

Identified Projects

5.1.5.1 Capacity building of the Border Crossings Committee and rehabilitation of border crossings

EU funds will be used to: (i) provide expertise to develop appropriate strategies, coordination mechanisms and procedures for the Border Crossings Committee within the Interior Ministry; (ii) help to complete some works and services at the *Horgos border crossing*; and (iii) rehabilitate (works and services) at the *Presevo border crossing* linking Nis with Skopje and beyond to Thessalonica. In this context it should be noted that the FYR Macedonia side of the border is also under rehabilitation with World Bank financing.

Tendering and Contracting: This project will likely include works, service and supply/equipment contracts for border rehabilitation activities and a grant agreement with possible *twinning arrangements and/or calls for proposals from multilateral or Member States public bodies* for support activities to the Border Crossings Committee.

Cross-cutting Development Issues

Restructuring and rehabilitation of the border crossings and related capacity building will support increasing trade, regional integration and harmonisation of national and regional transport strategies linked to eventual integration of SCG into the EU.

5.1.6 CUSTOMS AND TAXATION (approx € 6 million - Commission managed)

Background

Before the break-up of former Yugoslavia, customs administration was a state based service with all major operational and policy areas managed centrally. After a decade long technological and financial gap caused by conflicts in the region and international economic isolation, the customs administration needs comprehensive modernisation and development.

The Serbian Government recognizes this need and has adopted in July 2003 a new Customs Law, fully in line with the EU standards. The Belgrade Agreement foresees, among other things, harmonisation

of Serbian and Montenegrin markets. Important steps have been made in that direction. The Serbian Customs Administration (SCA) has undertaken a strategic analysis of its needs, based on the EU Customs Blueprint standards, in order to identify a set of priorities that need to be accomplished. Also, the Government of Serbia and Montenegro established a Joint Office to manage national level customs issues (e.g. autonomous trade regimes).

Unlike customs administration, taxation has always been managed at the Republican level and the basic organisation and management structure was already in place in both Serbia and Montenegro. Apart from necessary assistance for modernisation of its taxation standards and procedures, the Serbian Government will need help to introduce a fully compliant EU VAT system, within deadlines that might prove to be difficult to meet. It is essential that there is a consistent and united approach in the region since both Montenegro and Kosovo, with US assistance, have already taken this important step (Montenegro introduced its own Customs law and VAT system in April 2003).

EC assistance in 2004 will focus on supporting managers of the customs and taxation services in the implementation of a long-term modernisation and development strategy. It aims to achieve a cohesive management of the customs and taxation functions, with a view to promoting the concept of a single economic area within the State Union, in accordance with the EU single market provision.

Coherence with Wider EC Policy/SAP and the MIP

The proposed programme is in line with the following MIP objectives which state that the EU assistance is to: (i) modernise the customs and taxation services at the State Union and Republican levels so as to bring it close to EU working practises and international standards; (ii) foster greater coherence of customs operations and enhanced all-round co-operation so as to ensure the free circulation of goods and people within the territory; (iii) improve trade facilitation and taxation compliance; (iv) ensure the service has maximum revenue raising potential and is able to quickly implement tax reform policies; (v) widen the taxation base and fight against tax evasion; and (vi) ensure that reliable data on statistics and risk analysis-related information is collected to monitor trade flows and fight against fraud.

Identified Projects

5.1.6.1 Support to the customs and taxation administrations

The *customs* section of the project aims to provide further support to the managers of the Serbian Customs Administration in their efforts to develop an efficient and effective customs administration based on the EU Customs Blueprints. The next phase of the project, which will build on the achievements of the Serbian Customs Administration to date, will focus in the following areas: (i) legislation; (ii) organisation and management; (iii) strategic, management and operational planning; (iv) Human Resource development; (v) border and inland control - Integrated Border Management; (vi) investigation and enforcement; (vii) revenue accounting and procedures; (viii) excise.

The project will also provide equipment and small-scale infrastructure improvements where these are necessary to ensure the effective delivery of the technical assistance.

Furthermore, the project will continue to maintain a strong focus on assisting the Customs Administrations of the Republics of Serbia and Montenegro to develop the operational scope and effectiveness of the Joint Office formed by the two services to manage national level customs matters, in particular to facilitate the fight against corruption and fraud.

The main providers of technical assistance in the area of *taxation* are Germany (GTZ) and the US Treasury and the activity in the section of the project will continue to provide complementary support. It will focus on supporting the introduction of an EU compliant VAT notably to ensure a firm an effective link with the Serbian Customs Administration so that VAT is collected efficiently at importation.

Tendering and Contracting: Due to its technical nature, the Commission will implement the programme. Implementation will be by physical and non-physical means, through a combination of technical assistance, training and the provision of equipment.

The implementation of the programme may require supply and service contracts. Award of contracts will be carried out in accordance with the provisions of Regulation (EC) 2666/2000. Participation in invitations to tender and contracts shall be open on equal terms to all natural and legal persons from Member States, States which are recipients under this Regulation and candidate countries for accession to the European Union.

Cross-cutting Development Issues

Activities proposed under this programme will provide an opportunity for the customs and taxation administrations to modernise their approach and to become strong and service oriented organisations based on EU concepts. Furthermore, improvement in the efficiency and effectiveness of the customs and tax administrations will encourage strengthening of the single market and development of trade and revenue for the government.

5.2 ECONOMIC RECONSTRUCTION, REGENERATION AND REFORM

The components outlined below deal with proposed programmes/projects in the following sectors: energy, transport, and environment, as well as rural economy/agriculture, privatisation and enterprise development, local/ municipal development and returns/reintegration of refugees and IDPs.

5.2.1 ENERGY (approx. € 40 million)

Background

The broad objectives of Serbian energy policy are set out in the draft Energy Law, which was approved by the Government in July 2003, but is still pending Parliamentary approval. The principal objectives of the policy are to: (a) undertake the transition to a market based energy system (with significant implications for the restructuring of the electricity sector); and (b) join the proposed South Eastern Europe 'Regional Energy Market, REM' (for electricity and for gas) in compliance with the 'Athens Memorandum', which has been signed by SCG ensuring compliance with the EC electricity and gas Single Market Directives. Another key objective of the Government's energy policy is to improve energy efficiency and to reduce the severe pollution resulting from the lignite-fired power plants.

At present the electricity utility of Serbia, EPS, is a vertically integrated public utility. This state owned monopoly utility carries out the activities of power generation, transmission and distribution, together with coal mining. As a signatory to the Regional Market Memoranda 2002 and 2003 signed in Athens, Serbia must proceed with the unbundling and institutional changes necessary for the creation of an electricity market. The creation of an energy regulatory authority is already being supported by EC funding (under the 2002 programme) but the creation of a Transmission System Operator and Market Operator are still required, both for compliance with the Athens MoU and for a functioning power market in Serbia. A complementary programme is in process in Montenegro.

Following a decade of under investment in power plant upgrades and maintenance, many power plants are unable to meet current Serbian environmental legal requirements. Moreover, these legal requirements will become more stringent in the next few years as the Republic of Serbia begins to harmonise its regulations with those of the EU within the Stabilisation & Association Process (SAP) and seeks to improve compliance with regulations in force. Air pollution, poor water quality and waste problems are highlighted and, in particular, their threat to local public health. It is widely accepted that the lignite-fired power plants operated by EPS contribute to environmental and public health problems currently experienced within Serbia.

Coherence with Wider EC Policy/SAP and the MIP

The wider EC policy and the MIP recognise that, in addition to the needed rehabilitation investments, institutional capacity, policy making and regulatory aspects of the sector need to be addressed as a matter of priority. Moreover, the Athens Memorandum for the creation of the SEE Regional Energy Market foresees the need to create national energy regulatory structures in order to develop and enforce the framework of secondary legislation necessary for the establishment and operation of both the national and the regional energy markets.

Identified Projects

5.2.1.1 Capacity building of the Ministry of Mines and Energy

For *capacity building* activities, EC funds will: (i) provide support to the Ministry of Mines and Energy for improving the internal organisation of the Ministry, and providing advice to the Minister and Ministry officials on policy and EU integration issues and options (e.g., better financial controls) relating to the reform of the energy sector; (ii) provide finance for small studies to support the Ministry of Mines and Energy in the reform of the energy sector; (iii) further support the consolidation of the Energy Regulatory Agency; and (iv) allow further support to on-going energy projects including energy efficiency measures as well as the wider use of renewable energy sources.

Tendering and Contracting: This programme will likely include twinning arrangements, service and supply contracts.

5.2.1.2 Assisting in establishing the electricity market

For the establishment of *the electricity market*, EC funds will: (i) provide assistance in the establishment, development and training of the independent transmission systems and market operators compatible with regional market design; and (ii) procure and help to install/train on related system operations software.

Tendering and Contracting: This project will likely include service and supply/equipment contracts.

5.2.1.3 Reducing pollution of coal fired power plants

For the *emission control reduction* measures, EC support will likely fund some of the following sub-projects: revised hydraulic ash transport schemes with reduced water ash ratio; ash disposal site; dust blow mitigation measures; electrostatic precipitator improvements; oily water treatment facilities and improved combustion arrangements.

A feasibility study is currently underway for emission monitoring and control and groundwater pollution reduction for coal fired power plants. This study will identify the specific projects to be funded, based on selection criteria which will take account of the cost, the environmental benefits from the project, the scheduling criteria (when and for how long the power plant needs to be shut down for the works to take place) and the operation and maintenance needs of the investment. The projects to be funded should assist Serbia in aligning with the EU acquis. The project will also need to eventually take into account the EBRD Carbon Fund, Kyoto implementation mechanisms, UNECE Transition Programme etc, leading potentially to eventual alternative fuel sources for power generation.

Tendering and Contracting: This project will likely include works, service and supply contracts.

Cross-cutting Development Issues

The programme addresses the following cross cutting issues: (i) environmental - in reducing significantly pollution from lignite fired power plans; (ii) institutional - in strengthening the sector entity (EPS), preparing it for restructuring and to operate in a regulated regional energy market; and (iii) social – in mitigating the health hazards related to severe pollution.

5.2.2 TRANSPORT (approx. €16 million)

Background

The new State Union (SCG) and Republic authorities have quickly re-stabilised relationships with the international community and their neighbouring countries. Expected regional economic developments will undoubtedly lead to an ever larger flow of goods and people between SCG and its neighbouring countries creating stresses along the main trading routes and key border crossing points, especially on the main European corridors, e.g. corridor X.

Overall sector objectives are to: (i) facilitate trade and European integration through the rehabilitation of the transport sector, especially with the main Trans European Networks (TEN) corridors which link SCG/Serbia and the other western Balkan countries with the EU and beyond; and (ii) ensure that sector policies and regulations are developed in harmony with EU legislation, standards and norms.

Serbia's extensive transport infrastructure network has suffered from lack of maintenance over the past decade, as well as from extensive war damage affecting road, rail and water transport systems. Institutional capacity is weak as systems and procedures for planning, monitoring, and managing transport activities were neglected. Institutions were coping with emergencies, leaving little room for developing and implementing long-term plans and even less for focusing on harmonising transport policies, laws and regulations with those of the EU.

The Ministry of Transport and Telecommunications (MOTT) of the Republic of Serbia is responsible for developing and implementing transport policy and the legal framework in the transport sector. EC/Agency staff has now engaged the Ministry, and especially its recently founded Road Directorate, in reviewing current sector policies, laws and regulations and developed an action programme for EC funding in 2004.

Considerable transport infrastructure investments (largely funded by the IFIs - about €440 million) are now either underway or about to begin, many with the support of EC funded studies and experts to help manage project implementation. Essentially, much of these investments focus on priority road re-surfacing, safety measures and railway track upgrading.

Coherence with Wider EC Policy/SAP and the MIP

The on-going and proposed transport programmes are in full compliance with stated MIP priorities, as well as with the REBIS programme objectives e.g. ensure adequate EU policy and legal framework harmonisation, strengthen transport authorities capacities and facilitate IFI lending.

Identified Projects

5.2.2.1 Capacity building of the Ministry of Transport and Telecommunications (MOTT) and related institutions

In terms of *sector capacity building* measures, EC funds will support: (i) the development of the Ministry of Transport and Telecommunications (MOTT) and related institutions (e.g., the Road Directorate and the Serbian Railway Company) to set transport policies and strategies in line with EU legislation and directives; (ii) train staff; and (iii) assist in the development of sector information systems and measures, which need to be undertaken to stimulate private investments and initiatives (public/private partnerships).

Tendering and Contracting: This project will likely include service and related supply contracts.

5.2.2.2 and 5.2.2.3 Support for the Serbian Road Directorate and fund a feasibility study for the Loznica-Novı Sad road

In terms of *further IFI support* measures, EC funds will: (i) continue to support the PIU of the Ministry's Road Directorate managing the EIB/EBRD projects, including overall project implementation management, e.g. support through review of final designs, assistance in the tendering process, management and monitoring of civil works supervision, preparation of progress reports, etc; and (ii) fund a feasibility study of the Loznica – Novi Sad road connecting Sarajevo via Loznica with the Corridor X in Serbia and western Europe.

Tendering and Contracting: This project will likely include service and related supply contracts.

5.2.2.4 Rehabilitation of a priority interchange on the Belgrade to Montenegro road and 5.2.2.5 rehabilitation of the Sloboda Bridge access tunnel

In terms of *further rehabilitation of the Serbian road network and linkages with the Sloboda Bridge*, EC funds will: (i) assist in rehabilitation of a priority interchange (at Mali Pozarevac) linking the Belgrade – Nis motorway with a new dual carriageway to Cacak, depending on the outcome of a feasibility study (currently under preparation) and availability of IFI funding; and (ii) rehabilitate the access tunnels to the Sloboda Bridge (currently under reconstruction with EC funds).

Tendering and Contracting: These projects will likely include works, service and supply contracts.

Cross-cutting Development Issues

Restructuring and rehabilitation of the transport sector will increase trade, regional integration and harmonise national and regional transport strategies linked to Serbia's aim of eventual integration with the EU. Sector related institutions will be strengthened leading to sustainable sectoral policies and financing. A well functioning transport network results in overall economic growth leading to increased employment and poverty reduction.

5.2.3 ENVIRONMENT (approx €14 million)

Background

Before its period of decline, the FRY (now SCG) was quite progressive and environmentally aware. Unfortunately, subsequent wars, economic isolation and economic mismanagement brought about general environmental degradation. Use of poor quality fuels, harmful emissions from power plants and heavy metal industry resulted in high levels of urban air pollution. Poorly managed municipal and industrial waste sites caused serious damage to water areas. The recent conflicts further aggravated an already fragile environmental situation.

The Ministry for the Protection of Natural Resources and Environment is aware of urgency with which mounting environmental issues must be addressed. One of the priorities of its National Waste Management Strategy is the need to establish a hazardous waste treatment facility in Serbia. EC funds supported the preparation of a feasibility study for Hazardous Waste including Medical Waste management. The 2004 programme will also include capacity building for the Ministry for Protection of Natural Resources and Environment to strengthen the ability of the Ministry to implement the National Hazardous Waste management Plan as well as to prepare, tender, and monitor the execution of large investment projects in environmental infrastructure.

In 2003 the EC had foreseen to fund the initially selected Pancevo canal clean-up option, prepared by the UNEP Balkans Task Force. Pancevo and its highly toxic canal have been labelled by UNEP as a so-called environmental "hotspot", i.e. a critical priority clean-up location containing highly toxic wastes.

The resulting contamination of the town itself and the Pancevo canal, a discharge canal leading industrial effluents to the Danube, represents a serious threat to human health and to the eco-system of the Danube and the entire region. However, the Pancevo municipality authorities requested that an additional option for the comprehensive treatment of the dredged waste be considered. The UNEP Balkans Task Force is now in process of finalising the general design. Depending upon the final clean up treatment option to be implemented, the dredged waste may be handled at the waste treatment facility to be funded in 2004.

Previous EC involvement (2002, 2003) in the sector included supporting implementation of the forthcoming framework Law on environmental protection. Funds have also been used for institutional and capacity building measures to equip republican and municipal authorities to respond to the challenges of the new law, assist in establishing the new Ministry for the Protection of Natural Resources and the Environment and help to establish an Environmental Protection Agency. The 2003 CARDS programme also provided funds for the clean-up of the highly toxic Pancevo canal labelled by UNEP as a so-called environmental “hot-spot” and the 2004 programme will seek (with the help of other interested donors, e.g., Sida) to find a solution to the disposal of the dredged toxic waste.

This 2004 EC programme seeks to consolidate and complement the institutional support provided under the 2002 and 2003 programmes and to ensure that environmental legislation and enforcement measures follow EU norms and standards. Operational links will be established with the EC’s Joint Research Centre and have already been established with the European Environmental Agency in Copenhagen. These will be further strengthened in 2005.

Coherence with Wider EC Policy/SAP and the MIP

The proposed activities are in line with the following objectives of CSP/MIP: ensuring the preservation of natural assets and avoiding irreversible losses; helping improve the well-being of the population and protecting it from health risks linked to toxic pollution of air, water and soil; and helping plan for a systematic and efficient manner of treating solid waste and waste water so as to allow Serbia to bring its environmental standards closer to those of the EU.

Identified Projects

5.2.3.1 Support the treatment of hazardous waste

Based on a feasibility study, EC funds will be used for supporting the *hazardous and medical waste treatment facility* through: (i) design and construction of a physical–chemical treatment facility; (ii) design and construction of a class 1 landfill; (iii) design and construction of a hazardous waste storage station; and (iv) further capacity building for the Ministry for Protection of Natural Resources and the Environment, the Environmental Protection Agency in the planning management and monitoring of large scale environmental infrastructure development projects and implementation of the National Hazardous Waste Management Plan.

Based on the *Pancevo Canal* feasibility study, EC funds will also be used together with those of other engaged donors (e.g. Sida) to fund a definitive solution resulting in the treatment/disposal of the toxic waste dredged from the canal.

Tendering and Contracting: This project will likely include works, service and supply/equipment contracts.

Cross-cutting Development Issues

The implementation of the project will represent an important social and economic stabilisation factor in terms of new job opportunities, though mainly temporary, as well as in sustaining current employment levels in that it will allow the factories in the area to operate in acceptable environmental conditions.

ECONOMIC DEVELOPMENT (approx €51.5 million) – Parts A, B, C and D

Four economic development programme components are outlined below. These four parts are: (A) rural economy / agriculture; (B) enterprise development; (C) local / municipal and regional economic development; and (D) returns/reintegration of refugees and IDPs.

5.2.4 – Part A: Economic Development : Rural Economy / Agriculture

Background

Serbia is in the process of adapting and revising its agricultural, food and rural development policies. The original priority was updating the food safety policy and related enforcement systems to protect public health and to facilitate Serbian producers' re-entry to international agri-food markets. Serbia's *Poverty Reduction Strategy Paper (PRSP)* indicates that increasing emphasis will now be placed on improving the competitive position of the Serbian agricultural and food sectors as well as strengthening and diversifying the rural economy. Such adaptation of domestic policy is necessary in order to assist Serbia's integration into the multilateral trading system and its future application for WTO membership. Government willingness to reform the sector is evident in its preparation of legislation for the "Rural Development Agency", which foresees the creation of a "Rural Development Fund".

The 2001 EC programme provided an important contribution for jump-starting this economically important sector. An EC funded Policy Advisory Unit (PAU) provided technical assistance and policy advice to the Ministry of Agriculture and related institutions (e.g. Health Ministry). During 2002, the Agency undertook a comprehensive survey of the existing food chain safety control system, resulting in a rationalised network of 31 national and regional food chain safety control laboratories. The EC then funded state-of-the-art equipment to the selected laboratories and provided relevant technical assistance. A subsequent analysis of existing structures confirmed that a key coordinating role would need to be played by the existing republican inspectorates to link policy, production, trade and laboratory analysis. The 2003 programme provides for support to capacity building measures for the veterinary, sanitary and phytosanitary republican inspectorates as well as the introduction of an animal identification system.

One of the main outputs of the above mentioned Policy Advisory Unit was a Master plan for development of the Serbian agricultural sector. It strongly recommended that much more capacity building measures are needed for the Ministry, in particular in policy analysis, EU harmonisation requirements and more market orientated rural economic development initiatives. The 2004 programme will support this recommendation by strengthening the capacity of the Ministry to deal with more strategic policy and EU integration issues.

Coherence with wider EC Policy/SAP and the MIP

The proposed programme is in line with wider EC policy and the MIP where it is noted that the EU assistance must invest, advise and provide legislative and technical support to key areas of economic transition to a free market economy. Furthermore, the programme is complementary to the MIP objective of supporting economic development while diminishing social consequences of economic transformation.

Identified Projects

5.2.4.1 Capacity building of the Ministry of Agriculture and Water Management and support to rural economic development

In the Rural Economy and Agriculture programme EC funds will be used for *capacity building of the Ministry of Agriculture and Water Management* through (i) supporting its restructuring, development

and management; (ii) upgrading its analysis and strategic planning capacity; (iii) supporting the establishment of a rural policy programming capacity within the Ministry; (iv) supporting the establishment of a Rural Development Agency and subsequently a Rural Development Fund; and (v) implementing rural development programmes in south-eastern Serbia.

Tendering and Contracting: This project will likely include, service and related supply contracts, as well as grant agreements *for the proposed Ministry support, with possible twinning arrangements.*

Cross-cutting Development Issues

The project will foster economic development in rural areas, reduce unemployment and help reduce poverty.

5.2.5 – Part B: Economic Development : Enterprise and Financial Sector Support Programme

Background

The Government of Serbia adopted and ratified in January 2003 “A Strategy for the Development of Small and Medium-sized Enterprises and Entrepreneurship in the Republic of Serbia from 2003-2008”. With this strategy, the Government’s two priority targets for development of the SME sector to 2008 are defined as: a significant increase in the total number of SMEs (private entrepreneurs and limited companies) and the creation of over one million net new jobs. The Ministry of Economy and Privatisation (MoEP) recognises the need for development of the SME institutional framework, and generally for a conducive business environment (along the lines of the *European Charter for Small Businesses*. The Government of Serbia signed the Charter at the Thessalonica summit in June 2003).

Government policy also aims to improve the investment climate by encouraging foreign direct investment (FDI) and developing institutional and support frameworks for FDI support programmes managed by an effective national authority, the Serbian Investment and Export Promotion Agency (SIEPA). With these measures Serbia hopes to significantly increase the flow of FDI.

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. Of the 82 banks in Serbia in early 2001, only 48 now survive. A new “Law on Banks and Other Financial Organisations” adopted in May 2002, brings the Serbian legal and regulatory banking environment closer to EU standards. On the issue of enterprise access to finance there is still the need to meet demand for financing sound project proposals and to upgrade the credit management skills and knowledge of the underdeveloped financial sector staff.

EC funded programmes from 2001 to 2003 have assisted in achieving many of the above objectives. The adoption of a national SME development strategy with EC support in January 2003 points the way forward in a number of areas identified above and commits the Government to undertake further reforms. EC assistance to the Republic SME Development Agency, the establishment and operation of seven regional enterprise development centres (and 10-subcentres) and a Euro Info Correspondence Centre (EICC) in Belgrade provides valuable support to would-be entrepreneurs and existing business. All EC funded credit lines (Revolving Credit Fund, European Fund for Serbia), now practically disbursed, and associated technical assistance to partner banks proved to be quite successful in actually supporting SMEs, creating employment, strengthening selected commercial banks. Moreover the EC funded related credit activities have served as a catalyst for the EIB Global Loan Facility to provide significant additional credit lines for SMEs. The 2003 programmes on export development; turnaround management in SMEs, and regional economic development will further enhance private sector development in the country. The linkages with the EC funded vocational education, training and labour market reforms should also be emphasised in that the existing 2002 and 2003 programmes contribute appreciably to private sector development objectives.

Finally, EC funds were also used to support the privatisation process in undertaking the difficult task of restructuring socially owned enterprises. The privatisation sub-sector, however, does not require any funding in 2004 given ongoing programmes and absorptive capacity constraints

The main aim for the 2004 EC programme is to consolidate and expand existing successful programmes (SME policy and strategy; SME support structures and schemes including business advisory services; support to the Serbian Investment and Export Promotion Agency; and further institutional strengthening to the banking sector).

Coherence with Wider EC Policy/SAP and the MIP

The proposed project is fully in line with the CSP/MIP/SAP objectives related to economic stabilisation, introduction of a market economy, including institution building, trade facilitation, improving the investment climate, supporting job preservation and reducing poverty, one of the two critical objectives set in the CSP.

Identified Projects

5.2.5.1 Further support for the enterprise (SME) programme

For the proposed *enterprise (SME) programme*, EC funds will support: (i) further capacity building of the Ministry of Economy and Privatisation and the National Agency for SME Development related to the implementation of the current SME strategy and the European Charter for Small Businesses; (ii) cost-sharing assistance for the existing network of regional SME development centres and the EICC (and sub-centres) to ensure continuity; and (iii) support to technology development and innovation (TDI), which will include among other measures policy and strategy development with the Ministry of Science, Technology and Development (MoSTD), and development of product development and productivity improvement initiatives.

Tendering and Contracting: Generally institutional strengthening and capacity building measures will likely be tendered and contracted under restricted tenders, while grant agreements will likely be signed with suitable public bodies for support schemes to ensure effective institution building measures.

5.2.5.2 Further support to SME credit facilities

For the proposed *financial sector programme*, EC institution building funds will support: (i) the management of the EBRD's SME Credit/Leasing Facility (€50 million) for Serbia and Montenegro by providing technical assistance to participating commercial banks for credit line management; and (ii) the implementation of the EIB Global Loan facility for Serbia and Montenegro (an additional €40 million to the existing €20 million) by providing technical assistance to the National Bank of Serbia (NBS) and participating commercial banks for credit line management.

Tendering and Contracting: Generally institutional strengthening and capacity building measures will likely be tendered and contracted under restricted service tenders.

5.2.5.3 Capacity building of the Serbian Export and Investment Promotion Agency and enterprise development

For the *investment promotion programme*, EC funds will: (i) facilitate further capacity building of SIEPA staff and realign SIEPA's current investment promotion strategy (e.g., best practices related to investment promotion and investor tracking techniques linked to development and management of regional development, industrial property development and supplier development programmes); (ii) implement an investment promotion programme (to counteract the negative perception held by potential investors); and (iii) implement product development schemes such as an initial industrial and technology park, a regional accreditation scheme with the relevant training to ensure that SIEPA

local/regional partners can fully anticipate and respond to the needs of the foreign investor and a supplier development programme for Serbian SMEs. MIGA, the Multilateral Investment Guarantee Agency of the World Bank Group, will likely participate in implementing the proposed programme.

Tendering and Contracting: Institutional strengthening and capacity building measures will likely be tendered and contracted under restricted tenders, with the exception of MIGA, while grant agreements will likely be signed with suitable public bodies for support schemes to ensure effective institution building measures.

Cross-cutting Development Issues

Economic impact: As this sector specifically aims at improving the economy of Serbia, a positive overall economic impact can be expected. *Social impact:* Provision of enterprise support measures and new/updated skills responding to the requirements of a changing economy will result in increased employment. *Institutional impact:* The project will assist in developing a set of policies and measures that enhance SME start-ups and expansion. Also, it will have a long-term impact on the knowledge and capacity of national and local actors to develop and implement national and regional enterprise policy and strategy so ensuring that that this economic development is based on solid foundations. *Gender main-streaming:* Women entrepreneurs will continue to benefit from business advisory services. *Environmental impact:* Environmental sustainability will be a pre-condition for investment.

5.2.6 – Part C: Economic Development : Local / Municipal Government and Regional Economic Development

Background

The past decade of political and economic isolation has brought most local authorities in Serbia into an extremely difficult situation. Mismanagement under the centralised decision making system, international economic sanctions and conflicts have resulted in high levels of unemployment, large numbers of refugees and IDPs and a considerable decline in the provision of local services.

Aware of the need for urgent reform, the Government of Serbia has launched an administrative reform programme, including both the decentralisation of responsibilities and financial resources to the municipal level and development of a regional policy within Serbia. The Serbian Parliament adopted a new Law on Local Government in February 2002 and in June 2002 a new Ministry of State Administration and Local Self-Government (MSA/LSG) was established. EC programmes supported the drafting of the new Law, capacity building measures for the new Ministry and a new capacity building programme for selected municipalities. The municipalities will need continuous assistance to absorb and manage their responsibilities. Further EC support for capacity building as well as “learning by doing” activities will be necessary in 2004 and likely for the coming years. The 2004 EC programme aims to improve delivery of municipal services and strengthen the capacity of municipalities to design and implement projects.

Another important challenge facing SCG/Serbia municipalities in the coming years will be regional cooperation with neighbouring countries. This programme will explore and utilize links between EC supported municipal development programmes and related “Euro-region” development processes so as to develop programmes to stimulate participation of SCG/Serbia in cross border regional development activities. Such form of cooperation will help SCG/Serbia become an active participant both in the region and eventually in the EU.

In this 2004 EC programme, two activities initiated under the 2003 programme will be continued, namely the second installments to the Municipal Infrastructure Agency and to the socio-economic development fund.

Coherence with Wider EC Policy/SAP and the MIP

The proposed activities are in line with wider EC policy and the MIP where it is stated that the EU assistance to municipal development has to aim to improve the quality of administration and delivery of services to the local community in the chosen municipalities. Training of local civil servants in the running of local governments as well as investments through a special fund will allow chosen municipalities to confront major weaknesses in their local physical and socio-economic system.

Identified Projects

5.2.6.1 Further support to municipalities and regional cooperation

The project described below has a number of complementary components:

- Regarding *technical assistance to main municipal-related actors*, EC funds will be used to establish Project Management Units in the Ministry of International Economic Relations, Standing Conference of Towns and Municipalities and the City of Belgrade. The assistance will focus on: (i) systems development; (ii) project cycle management and (iii) capacity building/training of the staff.
- In the field of *regional cooperation among municipalities* EC funds will be used to assist: (i) a support project for the regional cooperation which will enable SCG/Serbia to participate in Interreg III programmes (i.e. the “New Neighbourhood” programmes : Hungary-SCG/Serbia-Romania and Italy/Adriatic); and (ii) a project to stimulate cross border cooperation between SCG/Serbia, Croatia and Bosnia & Herzegovina which will support socio-economic development initiatives in Serbian municipalities along the borders with Croatia and Bosnia & Herzegovina.
- Finally, EC funds will finance *technical assistance* to the City of Belgrade’s Programme Management Unit for Municipal Infrastructure Investments. The experts will support the City of Belgrade in implementing necessary institutional reforms for preparation and implementation of major capital investment projects financed by the IFIs.

Tendering and Contracting: This project will likely include service and supply/equipment contracts. Grant agreements may also be used.

Cross-cutting Development Issues

This programme will strengthen the role of communities, enabling them to organize collective action. Furthermore it 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 (minorities) as well as foster regional cooperation (integration of cross border municipalities), contributing to conflict resolution and increased stability in the region.

5.2.7 – Part D: Economic Development : Returns / Reintegration of Refugees and IDPs

Background

Conflicts that have raged for more than a decade in the region have left behind a great number of refugees and internally displaced persons (IDPs). In its effort to finally come to terms with the needs and problems of refugees and IDPs, the Serbian Government adopted in May 2002 its National Strategy for Resolving the Problems of Refugees, Expellees and Displaced Persons. By adopting this strategy, the Government demonstrated its resolve to find concrete solutions for refugees and IDPs through national institutions and with the support of the international community. The EC will support the efforts of the Government of the Republic of Serbia to alleviate problems of refugees and IDPs through two actions to be implemented in parallel – by ensuring better conditions for repatriation of

refugees and IDPs to the places of their habitual residence and by helping local integration of those who wish to remain.

The last census in Serbia in 2001 indicated that 60% of 377,000 registered refugees had opted for local integration. What the census did not show are the poor living and social conditions that most refugees in Serbia still have to endure. Those who wish to stay have to contend with inappropriate accommodation, no suitable business opportunities while those who decide to return face unresolved property issues and generally poor economic and social conditions, often in a hostile environment. The situation of IDPs is equally difficult given that large-scale return to Kosovo in the short term remains problematic. This implies that local integration may be a preferred option, however there are difficulties with this. With the full legal status of IDPs still not resolved, difficulties remain, those who wish to return often cannot do so freely and safely and local integration only remains an option for those IDPs who manage to access and sell their properties. The result is that many live in collective centres and poor quality rented accommodation. The situation is exacerbated for both refugees and IDPs, with Government policy being to close all collective centres by the end of 2004.

In its planned assistance, the EC aims to support government in addressing the problems faced by the range of refugee/IDP groups in Serbia. This is expected to include: support to the Commissariat for Refugees and IDPs and the Coordination Centre for Kosovo (established to assist IDPs in their present locations and ultimately to facilitate their return to Kosovo); improving regional coordination and cooperation in addressing legal issues and property rights; improving institutional capacity for dealing with refugee problems at the central and local government levels; developing a reliable and accurate database of refugees and IDPs in the country; finding adequate solutions to housing issues; providing specific support for the needs of the Roma IDP population. Operational links will also be established with the State Union Ministry for Minorities and Human Rights.

CARDS support is of even more vital importance when one bears in mind the phasing out of the assistance of ECHO, the EC Humanitarian Aid Office, at the end of 2003.

Coherence with Wider EC Policy/SAP and the MIP

The proposed programme is in line with the current MIP where it is noted that, those who wish to stay in the country must be helped by getting more favourable prospects for the future. Also, the MIP states that support for economic development must address the needs of the significant number of refugees in the country. In view of ECHO's phasing out, this Agency managed project will make a significant contribution to wider EC policy on Linking Relief, Rehabilitation and Development (LRRD). The EC intervention will complement the poverty reduction policies of the Serbian government.

Identified Projects

5.2.7.1 Support the integration and /or returns of refugees / IDPs

This project has two complementary components, which are:

a) In terms of *capacity building measures*, EC funds will be used to support the Commissariat for Refugees and IDPs and the role of Serbia's Coordination Centre for Kosovo in establishing a programmatic approach to address the problems of refugees and IDPs, typically through: (i) development of a central information system and database; (ii) staff training; and (iii) support for the coordination of activities at local, national and regional levels, etc.

b) In terms of *support to refugees and IDPs*, EC funds will be used to finance project actions, which will: (i) support integration of refugees/IDPs from the collective centres; (ii) support durable solutions for extremely vulnerable individuals and resident domicile populations; (iii) support pre-return dialogue, go-and-see visits to point of origin, and inter-ethnic dialogue; (iv) provide legal aid for

registration, property and documentation issues; (v) support management of a “fund” financed by/through other donors/organisations (e.g. UN Habitat, Italy, and Council of Europe), which will provide specific credit lines for refugees and IDPs to meet their housing needs; and (vi) finance improved facilities, training and life skills development, in particular catering to the specific needs of the Roma IDPs. In this context, it should be noted that linkages can be encouraged between support to IDPs and refugees wanting to return and other related support programmes of the EC and other donors, including in Kosovo and countries (Croatia, BiH) neighbouring SCG.

Tendering and Contracting: This project will likely include service and related supply contracts, which will be tendered and contracted in accordance with EC rules as well as grant agreements, e.g. for the management of the housing fund.

Cross-cutting Development Issues:

The proposed project will by its very nature address important cross-cutting development issues including social inclusion, conflict resolution and gender main-streaming, in particular related to addressing the needs of female headed households as beneficiaries.

5.3 SOCIAL DEVELOPMENT AND CIVIL SOCIETY

For this priority sector, there are projects for Vocational Education and Training (VET), University education (Commission managed Tempus programme), civil society and media.

University Education, Vocational Education and Training (VET) and Human Resources Development (approx €14 million – including approx €4 million for Commission managed Tempus programme) – Parts A and B (below)

5.3.1 – Part A: Vocational Education and Training and Human Resources Development (approx €10m)

Background

Given the limited scope for productivity gains, the privatisation programme, the rigidities in the labour market and the lack of foreign investment, it seems unlikely that a further fall in the employment rate can be avoided over the next few years. This is in line with experiences of other transition countries. At the same time, changes in the structure of employment reflect the movement towards a modern market economy but the process will be a long one. While there is a net deficiency of jobs, there are job opportunities albeit not on the scale associated with modern market economies. The new framework of labour market regulation should produce a more dynamic labour market in which people change jobs more often. In parallel, as the restructuring process bites more deeply there will be greater competition for available jobs even as more new jobs are created.

The Government of Serbia has been active in economic restructuring, an important component of which is the reform of the labour market. The new law on “Employment and Insurance in the case of Unemployment” was adopted by the Ministry of Labour and Employment (MoLE) in July 2003. The MoLE is trying to modernise the institutional structure for the development and delivery of employment policy through: (i) the modernisation of its own structure and the establishment of a new sector on Employment; (ii) the redefinition of the function of the Labour Market Bureau and its transformation into a modern Republic Employment Service (RES); (iii) the setting up of private employment services; and (iv) the setting up of Employment Councils at the Republic, provincial and local levels. Within this institutional structure the MoLE keeps the ultimate responsibility for policy

making while the Employment Services in particular the RES will be the key delivery instrument of the policies.

However, up to now the MoLE has not developed a coherent policy or strategy to support employment and combat unemployment. On the other hand, the Ministry has identified on a yearly basis priority target groups, which benefit from active labour market measures implemented by the Labour Market Bureau (LMB). Such active labour market measures include job broking, apprenticeships, training programmes, subsidised employment schemes and entrepreneurship programmes, as well as vocational guidance.

Given the situation in the economy and labour market, the challenges that need to be addressed are the following: (i) creating an effective supply side of the labour market, (ii) addressing the causes of long term unemployment; (iii) creating an effective Employment Service, (iv) addressing the implications of the Act on Employment and Insurance in Case of Unemployment on the work of the Employment Service; and (v) design and implementation of effective active labour market programmes.

The European Training Foundation has had significant involvement with the Agency in the design of the project below, which also reflects sectoral management and absorptive capacity constraints.

Coherence with Wider EC Policy/SAP and the MIP

The proposed project is fully in line with the CSP/MIP objectives of poverty reduction, job preservation and generation at the local and national levels and enhancing capacity building of relevant bodies in employment and job creation measures and provision of education and VET suitable to the needs of the labour market.

Identified Projects

5.3.1.1 Support to the Ministry of Labour and Employment

The proposed project will assist the MoLE and RES to fulfil their objectives and responsibilities stipulated in the new Law. The support will be focused on (i) institution building of the Ministry, the Republican Employment Service (RES) and the Republic Employment Council (REC) and regional employment councils to develop national employment policy and strategy, an activation strategy and active labour market measures; and of the RES to develop a change management strategy and business plan, and (ii) establishment and implementation of an active labour market measures' fund in selected areas to address the needs of the unemployed.

This 2004 EC programme will build on the activities funded under the 2002 and 2003 programmes and will further contribute to social cohesion in Serbia through support for increasing the effectiveness of government labour market policies and instruments aiming at activating and enhancing the employability of the (young and long-term) unemployed and redundant.

Tendering and Contracting: This project will likely include service and related supply contracts.

Cross-cutting Development Issues

An economic impact from the project will likely result from the introduction of new labour market measures, which will eventually reduce unemployment. The project's institutional impact will result in national and local actors being able to develop and implement national employment strategies and active labour market measures.

5.3.2 – Part B: University Education : Tempus (approx €4m - Commission managed)

Background

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 promote the development of the higher education systems in the partner countries through balanced co-operation between higher education institutions in the partner countries and the Member States of the European Union.

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 the transition to the market economy.

Coherence with Wider EC Policy/SAP 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. The Tempus activities contribute to the main CARDS priorities, in particular public administration reform, rule of law, economic reform, environment, water and waste management.

Identified projects

5.3.2.1 Fund joint European projects

The programme aims at funding Joint European Projects (JEP) and Individual Mobility Grants and Structural and Complementary Measures.

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.

5.3.3 SUPPORT TO CIVIL SOCIETY (INCLUDING MEDIA) (approx €7 million) - Parts A and B

5.3.3 – Part A: Civil Society

Background

Events of the past decade have diminished the quality and impact of social services. Consequently, the Ministry of Social Affairs for the Republic of Serbia has engaged in reform of the social welfare system. The ultimate goal of the reform is to reduce vulnerability and ensure basic social stability and opportunities for all people in Serbia through the creation of a sustainable social welfare system. In its efforts to reform the social system, the Ministry of Social Affairs introduced the instrument called the Social Innovation Fund (SIF). Its aim is to place local level action at the centre of the social system reform process and include new actors such as the private profit and non-profit sectors in social service provision.

On the local level, the role of NGOs in mobilising social action is crucial, as their projects may provide direct services for vulnerable groups and individuals as well as advocating and promoting participation of beneficiaries, which may result in projects promoting social cohesion. This way local level needs and experiences become the basis for legal and policy reforms. However, the current legal environment obstructs the activities of national NGOs by imposing high taxation regime and barriers to fundraising. The programme will seek to improve the legal and financial environment under which the NGOs in Serbia operate and to strengthen their professional competences in planning and implementing community development programmes.

From 2002, the EC has supported civil society (*the third sector*) by strengthening selected NGOs and other civil society organisations, in order to increase their efficiency and effectiveness. The 2003 programme for Serbia also supported the active participation of civil society in the preparation and discussion of the Government Poverty Reduction Strategy Paper (PRSP) and further strengthening of NGOs administrative capacity.

The 2004 programme intends to broaden its target civil society groups and help develop partnerships between local governments, businesses and non-profit sectors. Links will be established between private, civil and public sectors at the local level with the aim of local empowerment and social inclusion, economic development and increasing democratic control and accountability. As part of the 2004 programme, special emphasis will be placed on support to NGO actions related to the protection of the environment.

Coherence with Wider EC Policy/SAP and the MIP

In line with the MIP, the project will link the private, civil and public sectors at the local level and will foster local community empowerment, social inclusion, economic development and increasing democratic control and accountability.

Identified Projects

5.3.3.1 Support further measures to assist Civil Society and the Social Innovation Fund

In its *support to the Civil Society sector* EC funds will be used for: (i) development of the legal and financial framework for the Civil Society sector by preparing comparative studies on legal and fiscal environment for NGOs and improving cooperation and exchange between NGOs; (ii) promoting the role of civil society in environmental protection by supporting NGO activities related to environmental protection; (iii) capacity building of NGOs and public institutions in local partnership projects; and (iv) supporting the Social Innovation Fund of the Ministry of Social Affairs for the NGO projects which are dealing with poverty alleviation.

Tendering and Contracting: This project will likely include service and related supply contracts. EAR will likely launch a Call for Proposals to support projects focusing on development of the legal and financial framework, promoting of environmental protection and capacity building of local partnership projects.

Cross-cutting Development Issues

During project implementation, effective participation of men in the provision of social services will be encouraged, as women traditionally cover this sector. Furthermore, the proposed programme will support NGO activities related to raising environmental awareness and protection measures.

5.3.3 – Part B: Media

Background

During the last three years, the media sector faced serious setbacks especially in the field of media regulations. The Broadcasting Act, passed in 2002, is still far from being implemented. One of the most important innovations the Law introduced was the Broadcasting (Council) Agency, which was supposed to be an independent authority that would introduce a regulatory regime in the field of broadcasting. The Government defied its purpose by breaching the regulations set for election of members of the Agency's Council. Another important law – Access to Information Act is pending adoption (since early 2003) by the Parliament.

In such an uncertain legal environment, media in Serbia remain vulnerable to political and financial influence. The main challenge in near future will be to secure a free independent media able to deliver precise and accurate information.

Reform of the media sector is a crucial element of the Stabilisation and Association process. EC assistance for 2004 will build on previous activities and focus especially on successful transformation of the state television into an efficient and reliable public broadcasting service in line with the European standards.

Coherence with Wider EC Policy/SAP and the MIP

All proposed activities are in line with the SAP and MIP where it is stated that assistance to the media should focus on structural reforms, support the transformation of the state-run into public service broadcasters and promote private sector involvement in the independent media. According to the MIP, EC assistance should also address training and management issues, which are proposed for this year.

Identified Projects

5.3.4.1 Further support for the state broadcaster, independent media and media education

This project has a number of complementary components. These are:

In its support to *transformation of the state-run media*, EC funds will be used to develop the technical capacity of the state TV – RTS by: (i) improving the technical base and functionality of the RTS web page; (ii) modernising the RTS Archive; and (iii) developing a system of management support for the preparation of broadcast activities.

As part of its *improving media education* EC funds will support joint post-graduate specialised media studies at the Faculty of Political Science and Faculty of (Performing) Drama Arts at the University of Belgrade.

In its *support to the independent media*, EC funds will further activities related to the Media Fund of the Media Centre. The Fund provides grants to local media to stimulate quality programmes, regional programmes and investigative reporting.

Tendering and Contracting: This project will likely include service and related supply contracts. For the Media Fund, the Agency will likely launch a Call for Proposals through the Media Centre to support quality programmes and investigative reporting.

Cross-cutting Development Issues

The proposed programme will address cross-cutting development issues such as environmental concerns, social inclusion and gender main-streaming will in particular be targeted through the Media Fund for investigative reporting.

5.4 OTHER

5.4.1 General Technical Assistance Facility and Programme Reserve (approx. €5.5 million)

Background

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 Action Programme, and support the planning process for future Programmes. 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, tender evaluations; (ii) audits, monitoring, thematic / programme/project evaluations; and (iii) project preparatory and start-up actions.

The Programme Reserve component may be used to cover unforeseeable programme and other priority expenditures.

6. COMPLEMENTARY EC ASSISTANCE OUTSIDE THIS ACTION PROGRAMME

After the recent phasing out of ECHO assistance, the main remaining complementary EC programmes are the CARDS Regional Action Programmes. Preparation of the 2003 CARDS Regional programme was closely coordinated with the SCG authorities, the EC Delegation to SCG and the Agency through a Commission programming mission in the spring of 2003. The CARDS National and Regional Action Programmes largely support and complement each other, for example in the area of Institution Building with support for trade facilities, social institutions co-operation, cross border co-operation, regional police and judicial co-operation. Similar co-operation activities are foreseen for civil society, media, European integration, and regional infrastructure and environment.

7. CO-ORDINATION WITH OTHER DONORS

The Agency's Operational Centre in Belgrade hosts regular co-ordination meetings with EU Member States (MS) representatives based in the city. Such meetings continue to provide useful opportunities for coordination of actions in a range of sectors. In addition, other more specific sector-related co-ordination activities take place at the Belgrade Operational Centre. It is not possible to provide in this document a detailed analysis or assessment as to how well the Agency coordinates its programme with each individual member state. We can, however, state that coordination does take place most effectively at the working level. The Agency relationship is of course more intense with those member states with assistance programmes in sectors such as energy, water supply waste water, environment, SME support, etc. and/or with member states who have active but smaller programmes in sectors where the EC/Agency is also active (e.g., public administration, health, European Integration, agriculture, civil society, media, refugees/IDPs, etc.).

The Agency also has coordination meetings with other donors, such as the International Financial Institutions, the UN family (especially with UNDP), OSCE, CoE, SIGMA/OECD and other major bilateral donors, e.g., USAID, Switzerland, Canada, Norway. A very close and fruitful relationship has developed with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The Agency has played a supportive and often catalytic role (e.g., for energy, health, education, SME lines of credit) in helping these institutions to prepare and/or manage the implementation of their investments (e.g., for transport, water supply and other municipal investments). Also, the Agency coordinates with UNDP on activities relating to public administration reform, local and municipal development and with the World Bank in the health, labour markets and cadastre sectors.

8. PROGRAMME IMPLEMENTATION

8.1 Time-limit for signing the financing agreement

The financing agreement must be concluded at the latest by 31 December of the year following that in which the corresponding global financial commitment was adopted. Failing this, the funds assigned to it will be cancelled.

8.2 Performance period

- (a) The implementation period of the financing agreement starts with the entry into force of the financing agreement and ends 31.12.2011.
- (b) This performance period falls into two separate phases:
 - (i) Operational implementation of the main activities. This phase starts with the entry into force of the financing agreement and ends 31.12.2009.
 - (ii) A closure phase during which the final audits and evaluation are carried out along with technical and financial closure of the contracts implementing the financing agreement. This phase starts with the end of the operational implementation phase and closes at the end of the performance period.
- (c) Expenditure arising from the main activities is not eligible for Community financing unless it is incurred during the operational implementation phase. Expenditure arising from final audits and evaluation and from closure activities is eligible until the end of the closure phase.
- (d) Any remaining balance of the Community contribution will be cancelled automatically six months after the end of the performance period.

8.3 Procedures for the award of contracts and of granting of subsidies

All contracts implementing the financing agreement must be awarded using the standard Commission procedures and documents for implementing external operations in force at the time the procedure is initiated.

8.4 Contracts implementing the agreement

- (a)* The contracts which implement the financing agreement have to be signed by the two parties within three years of the Commission's adoption of the financial commitment. This deadline may not be extended. At that date any non-contracted funds will be cancelled.
- (b) Any contract that has not given rise to any payment within three years of its signing will be terminated automatically and the funds cancelled.

- (c) All projects should be implemented in line with EU competition (including State aid) principles.

* Point 8.4(a) does not apply to audit and evaluation contracts, which may be signed later.

8.5 Monitoring, evaluations and audits

Appropriate planning and regular monitoring will take place throughout implementation, with regular reporting. Evaluations of programme components will also be planned and undertaken. The Agency has an Evaluation team, which ensures that the lessons learned are integrated into future programmes/projects. For 2004 the Agency proposes to undertake about five thematic and/or cross centre evaluations (institutional capacity building, support to municipalities, JHA, etc.) as well as about four Centre sector/programme specific evaluations (e.g., for Serbia an evaluation of the Public Finance, Health and Media programmes).

The accounts and operations of various programme components may be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Anti-Fraud Office (OLAF) and the European Union's Court of Auditors.

9. COST AND FINANCING

The 2004 Action Programme will be financed through a Community grant of **€212 million**, allocated as follows among the different actions:

Priority Sectors (titles as per MIP)	EUR million (+/- 20%) ⁵
1. Good Governance and Institution Building	
1.1 Public Administration Reform	39.0
1.2 Justice and Home Affairs (<i>including €6 million for Integrated Border Management, €4 million of which is from CARDS regional funds for IBM</i>)	19.0
1.3 Customs and Taxation (<i>Commission managed</i>)	6.0
2. Economic Reconstruction, Regeneration and Reform	
2.1 Energy	40.0
2.2 Transport	16.0
2.3 Environment	14.0
2.4 Economic Development	51.5
3. Social Development and Civil Society	
3.1 University Education, Vocational Education and Training (VET) and Human Resources Development (<i>includes €4m for Commission managed Tempus programme</i>)	14.0
3.2 Support to Civil Society (incl media)	7.0
5. Others	
5.1 General Technical Assistance Facility (GTAF) & Programme Reserve	5.5
TOTAL	212 million⁶

⁵ Individual financial allocations are subject to fluctuations of up to $\pm 20\%$ over the lifetime of the Action Programme.

⁶ Excludes the Agency's 2004 administrative appropriations for managing the cumulative portfolio of EC assistance; these Agency appropriations are the subject of a separate 2004 Financing Proposal on Administrative Expenditure.

10. GOVERNMENT COMMITMENT AND CONDITIONALITIES

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as the obligations of *the State Union of Serbia and Montenegro and the Republic of Serbia* as set out in the Stabilisation and Association Process.

Programme and/or project related Memoranda of Understanding will be signed between selected implementing partners and the Agency defining respective responsibilities and obligations.

Further conditionalities may be included in SAP related documentation.