

3. Social development and Civil Society

3.1	Vocational Education & training	€	2 million (+/- 20%)
3.2.	Tempus III Programme	€	4 million (+/- 20%)
3.3.	Support to Civil Society/Media	€	3.5 million (+/- 20%)

Other

Technical and Administrative Assistance Fund	€	3 million (+/- 20%)
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Total (including regional funds)

€179.7 million

PROGRAMMING CONTEXT

The recently adopted CSP identified a series of problems that the FRY needs to address, such as the lack of a functioning single economic space, high budgetary deficits, institutional and political complexities inside the federation, inefficient public administration, weak judicial systems and wide spread poverty.

The CSP also pointed out other obstacles to sustainable and equitable economic development such as the need to rehabilitate existing infrastructure (in particular in the energy and transport sectors), deal with critical environmental issues and support trade and private sector development.

Finally, in order to promote a truly democratic society and provide adequate social conditions for the population further efforts need to be undertaken to reform the existing vocational training and education systems, health delivery and social welfare systems, as well as strengthen civil society and the media.

The CSP recognises that there are many sectors, which could benefit from EC assistance. But it also recognises that the EC must focus on a limited number of areas having high priority and where EC assistance can have particular impact if it is concentrated. The indicative multi-annual programmes and especially the proposed Serbia programme reflect this philosophy.

The design of the Annual Programme has taken account of lessons learned from reviewing the implementation of EC and other donor programmes in Serbia and elsewhere in the FRY. Among these lessons are:

- In order to maximise effectiveness, the competent implementing authorities must continue to target EC assistance on a restricted number of sectors - the lesson that is now incorporated in the CSP.
- Programme design and implementation must always ensure that the intended recipients of the assistance are engaged in a manner that enables them to maintain a real sense of ownership of the process.
- When proceeding with physical infrastructure rehabilitation efforts, it needs to be clear that the relevant authorities are genuinely committed to the medium and long - term measures required to ensure sustainability of the interventions.
- Close co-ordination of programmes with other donors continues to be critical if Serbia is to maximise the benefits it receives from the combined international assistance effort.

- In order for Serbia's ethnic minorities to benefit in a more meaningful manner from available EC support, it has been found necessary to include specifically tailored programme components that better enable these communities to access assistance in economic development and other areas.

Wherever appropriate, assistance to Serbia seeks complementarities with the components of the FRY Annual Programme being implemented in Kosovo and Montenegro and with programmes under the EC's Regional Strategy 2002-2006.

GENERAL ECONOMIC AND POLITICAL BACKGROUND

Socio-Economic

The new Federal and Serbian authorities moved quickly upon taking office. They focussed their efforts on three main areas: (i) stabilising the economy and launching key sector reforms; (ii) meeting the urgent needs of the most vulnerable; and (iii) re-integration within the international community.

Given the Milosovic legacy, significant progress was made on all fronts. The FRY (i) is now a member of most international/multilateral institutions; (ii) has successfully rescheduled its debt with the Paris Club (negotiations with the London Club are still on-going); and (iii) is pursuing actively closer integration with the EU. The second IMF review on the implementation of economic and structural reforms in the FRY was successfully completed on January 11, 2002. The IMF commended FRY on its impressive progress in stabilisation and reform over the past year.

The new governments are implementing comprehensive structural reforms in order to quickly introduce a market economy. For example, they have introduced significant tax reforms; a consolidated budget, a privatisation framework and an agency to manage the process; begun to restructure the banking sector (one-third of the banks have lost their licences); increased electricity, district heating and other public utility tariffs; and established a "Social Innovation Fund" to mitigate the social difficulties that lie ahead. Encouraged by the breadth of the governments' commitment, the June 2001 donor conference in Brussels resulted in pledges of assistance of some €1.5 billion.

In spite of these efforts, the macro-economic environment for growth remains fragile. Industrial output remained stagnant. Agricultural output on the other hand has rebounded from its lows in 2000 largely because of favourable weather conditions and a better supply of inputs. The Serbian budget deficit in 2001 is estimated at 1.9% of GDP, considerably lower than the initially projected deficit of 5.9%. This is mainly due to a better than expected revenue performance and lower than anticipated spending resulting from delayed foreign financing and privatisation receipts. In 2002 the deficit is expected to reach some 5.6% of GDP. Inflation should be about 40% for the year, still too high but decreasing when compared to previous periods. Foreign investors are, to a large extent, still waiting for the successful outcome of the current rescheduling exercise with the London Club. The Paris Club negotiations were very successful and resulted in a 66% debt write-off, an outcome, which will enable FRY/Serbia to regain its credit worthiness.

According to World Bank estimates, GDP per capita remains in the region of US\$800-940 (this includes internally displaced persons (IDPs) and refugees). Next years budget deficit is estimated at 2.5% of GDP (less than the anticipated 6%), much of which will likely need to be externally financed. Unemployment - official and involuntary – remains at about 30% of the labour force. Wages have increased in real terms by 5.9%. However, due to significant price increases, a good portion of family income must now be set aside for food, utilities and

other public services. Recent polls indicate that two-thirds of the Serbian population are dissatisfied with their standard of living, while only 7.7% are satisfied.

An estimated 1.3 million people (12% of the population) live in absolute poverty, defined as a monthly income of €50 or less. Inevitably the unemployed, the elderly, the disabled, and families with many children and/or single parents bear the brunt along with the refugees and IDPs. Regional differences are also important, with significantly higher poverty rates in Southern Serbia. "Coping" strategies such as subsistence farming and "informal" employment, together with remittances from the Diaspora, help to ameliorate matters for some. But many of the poorest have little access to these coping strategies. And with increasing economic liberalisation, unemployment and poverty are likely to grow for some time.

In summary, FRY/Serbia is pursuing a bold economic reform programme. Further reforms especially in the area of public administration and justice are programmed. The republican authorities have been in power for less than one year. Given the enormous weight of the past, FRY/Serbia will require continued significant support from the international community, especially in the short to medium term, if it is to succeed.

Socio-Political

The main strategic political objective is to make a clean break with the misery and corruption of the recent past and move forward with the rest of the region. Political and economic reintegration will allow FRY/Serbia to make a vital contribution to the peace, stability and economic development of the whole region.

However, serious political and economic challenges remain. As experienced in many other transition economies, entrenched interests, political infighting and an inadequate administrative capacity to implement reforms, could result in delayed and incomplete reforms. In such a situation, aspects of the policy framework would stagnate and the positive impact of assistance programmes would lessen. Economic growth would be reduced, slowing the increase in employment and creating more persistent poverty. Lower spending on social programmes would exacerbate this effect. Political instability would increase. The government is quite sensitive to this risk and hopes to be able to manage it with greater short-term help (e.g., more macro economic support) from the international donor community.

Maintaining the focus of the 18-party coalition in the Republic of Serbia will be increasingly difficult as the reforms become more painful before economic recovery is actually felt by the population. Moreover, the crisis of the government at the federal level created after Mr. Milosevic's hand-over to The Hague continues to simmer despite the formation of a "new" Federal government. Adoption of a new Federal constitution defining a difficult tripartite relationship between the Federal and two Republican states has been postponed again. Also serious political power struggles are occurring in the DOS coalition especially between the DSS (President Kostunica party) and DS (Prime Minister Djindjic's party). If a workable political compromise cannot be found between these two parties, Serbia parliamentary elections may occur in the spring of 2002. In any case, before the end of 2002 elections must be held for the office of the Serbian President. Unfortunately, such political struggles may block parliamentary decisions both at the Federal and Republican levels and block economic, judicial and social reforms. If there is no political unity, it will become increasingly difficult to pass unpopular reforms.

After ten lost years, Serbians now have high expectations of a speedy return to “normal life” and increased prosperity. A delayed or mismanaged transition could have very negative political consequences.

PAST FUNDING

Total commitments for Serbia from 1998-2001 amount to about €400 million.¹ A brief description of this assistance is given below and more details are in Attachment 1.

1998-2000 (approx. €197 million)

During this period EC funding focused on emergency assistance. Implementation of the emergency programmes are in essence completed, with some 99% of the funds contracted and 93% disbursed. They have proved to be a crucial factor in helping to stabilise an emergency situation.

2001 (approx. €194 million)

The *first tranche* (ca. €144m) of the 2001 Programme is also under rapid implementation. 92% per cent has already been contracted and 51% disbursed.

The Commission decision on the *second tranche* (ca. €50m) was taken on November 7 and the Financing Agreement was signed between the Government and the Commission on November 22, 2001. Many tenders have been launched and some funds have already been disbursed.

Annex 3 of the FRY MIP document provides a summary of EU Member States and other donor assistance to FRY, including Serbia.

ACTIVITIES – FRY/SERBIA 2002

A description follows for the activities to be assisted, preceded in each case by a background justification for the selection of the various projects within each sector. Further details (including Log Frames) of individual projects are to be found in the separate set of **Project Annex** documents.

Note: the reference numbers for the individual Project Annexes correspond to those used below.

1. GOOD GOVERNANCE AND INSTITUTION BUILDING

1.1 PUBLIC ADMINISTRATION REFORM - General

Programme: Assist the Federal and Serbian Republican Governments in reforming their public administration and strengthening their EU integration efforts.

Cost: €12 million (+/- 20%)

¹ This figure includes the Agency's running costs, but excludes humanitarian aid provided by ECHO, macro economic support, customs and regional programmes.

Background

Since the collapse of the Milosevic regime, both the Federal and Serbian governments have demonstrated their willingness to embark upon essential economic, political and social reforms in line with EC norms and standards. They also realise that they must reform the system of public administration and the judiciary in order to combat the entrenched cronyism and corruption, which could stifle the reform process and lead to social/political unrest.

The main problems of the current *public administration* system are:

(i) *A weak legal framework and institutional capacity*. The existing legal framework does not meet generally accepted public service standards of accountability, transparency and efficiency. The administration lacks proper structure, tools and procedures (e.g., an adequate appeals system). Some existing administrative laws/procedures are overly bureaucratic and hamper reforms (e.g., the general administrative and public employment laws).

(ii) *Lack of training*: No training has been provided during the last decade since the abolition in 1991 of the Institute of Public Administration (IPA), which was dedicated to the training of civil servants.

Public Finances reforms have been quite impressive according to the IMF. To further support these reform efforts, three areas need to be rapidly addressed:

(i) *Enhancement of the public finance laws and regulations*. This will include the introduction of new legislation (e.g., organic law on Budgetary procedure and Treasury, EU-based public procurement law, supreme audit court, tax administration) and amendments or improvement to existing legislation (excise tax, Introduction of VAT instead of Turnover tax etc.).

(ii) *Reorganisation of the public administration and procedures*: Among the most pressing tasks, the Ministry of Finance is now required to establish a Treasury, and implement improved budgetary, revenue and expenditure systems as well as a revised bank clearance/payment mechanism and financial control system; and help to establish a central and decentralised procurement system based on the EU model.

(iii) *Training*. It is essential that the Ministry's staff will be trained to ensure that they can utilise and apply the new regulations, policies and procedures.

EU integration is the major long-term policy objectives of the FRY and Serbian authorities. This will be a long process requiring, not only a strong political will, but also an appropriate structure to steer the process through the many hurdles (institutional and financial). In this regard, the recently formed EC/FRY Consultative Task Force identified the establishment of a European Integration Office (EIO), as a key step in the stabilisation and association process.

At present the Federal and Serbian *Statistical Offices* are not able to provide policy makers, the business community and other customers with high quality statistics comparable with other countries in Europe. These offices face the following problems: (i) poor harmonisation with European and international standards; (ii) a weak infrastructure in terms of human and technical resources; (iii) poor quality of data, which are not reliable, lack coverage and do not meet the requirements of the users; (iv) lack of confidence in statistical data; and (v) insufficient budget for statistical production.

Project activities

1.1.1 Support for Public Administration reform (approx. €1.5 m)

The EC support will be mainly in the form of assistance in drafting and promoting the necessary amendments as well as planning the implementation strategies for each law, and providing information to the wider public on the reforms. Some support will also go to strengthening the Office likely to be responsible for managing/coordinating the overall public administration reforms. Additional assistance will be needed for curricula development, training modules, teaching (training of trainers), etc., as well for equipping and refurbishing the Institute of Public Administration.

1.1.2 Assistance for further Public Finance System reforms (approx. €7 m)

Provide technical assistance and related IT equipment to help the Ministry of Finance implement its revised operational responsibilities and changed organisational structure.

Provide technical assistance to help establish and develop the operations (curricula, training modules) and provide related IT equipment for the Finance Ministry's new Internal Training Institute.

1.1.3 Assistance for the European Integration Office (approx. €1.5 m)

Provide training, IT equipment, documentation facilities and other general office support (e.g., translations) to the newly established European Integration Office.

1.1.4 Support for Statistical Infrastructure (approx. €2 m)

Provide technical assistance (including some equipment) and training to (i) set-up the production of new statistics and improve the quality of existing data; (ii) apply correctly relevant EU methodologies and standards and (iii) increase the confidence in official statistics and raise the public image of the statistical offices as part of institution building.

1.1 PUBLIC ADMINISTRATION REFORM - Health

Programme: Support the establishment of a National Blood Transfusion Service.

Cost: €5 million (+/- 20%)

Background

The health sector remains in a very difficult position. There has been little progress on fundamental reforms of the sector since the new government took power one year ago. Over the past decade, the health sector in Serbia has suffered a dramatic decline, resulting in its failure to provide an adequate level of service to the population. The chronic funding constraints of the last decade, worsened by mismanagement and corruption, have resulted in the widespread deterioration of the infrastructure, limited availability of drugs and consumables, and a general state of disrepair of vital hospital utilities (e.g. heating, kitchens, laundry).

The Serbian Blood Transfusion System

Currently, the blood transfusion services in Serbia, which are operating below the standards of neighbouring countries, let alone European standards, present a threat to the health of the entire region. Urgent work is needed to re-organize the services into one functional unit and to bring legislation and services in line with EC legislation in regards to blood and blood products.

The blood transfusion services in Serbia are not coherently organized as a national system, but rather they are divided into a large number of independent units, for a total of 53 separate organizational units.

Only the Institute for blood transfusion of Serbia in Belgrade, and the Institutes for blood transfusion of Novi Sad and Nis are autonomous in their work. All other units operate within the hospitals.

The blood transfusion services are currently unable to produce blood products, which are being imported by the Health Insurance Fund for about € 11 million per annum. These life saving but expensive products could be produced by the Institute for Blood Transfusion in Belgrade with a comparatively small investment of about €2 million.

Project Activities

1.1.5 Support the re-organization/establishment of blood services related institutions (approx. €5 m)

The proposed project will provide technical assistance, equipment and training to support activities such as: (i) implementing a new organisation of the National Blood Transfusion Service; (ii) establishing an Agency for the Regulation of Blood Transfusion in Serbia; and (iii) supplying and/or upgrading relevant equipment.

1.2 JUSTICE AND HOME AFFAIRS

Programme: Support for the Judiciary

Cost: €3 million (+/- 20%)

Background

During the past ten years, the justice system was neglected and undermined by the old regime in a deliberate attempt to compel the judiciary to issue rulings/decisions in tune with the whims of the ruling authorities. Judges were often appointed based on their loyalty to the regime. In some cases, the appointees did not even have the required education and experience as stipulated under the law.

The new democratic government acknowledges that judicial reform needs to become a key component of its reform agenda. But, despite some recent positive steps such as the new Law on Courts, real judicial reform has not started. Courts are overcrowded, poorly maintained and under-equipped. The judicial process is almost paralysed by an increasing caseload and with backlogs that can stretch up to several years. The judiciary and prosecutors are demoralised, under-paid and poorly trained.

An effective judiciary is a key factor of a successful reform programme, particularly in the fight against corruption and abuse. It is also an important pre-requisite for attracting foreign investors.

Two critical issues should be immediately addressed to begin the judicial reform process.

(i) *Improving the efficiency of the judicial process and court management systems*, following the dictum that "justice delayed is justice denied". It is imperative to streamline the administration of justice and introduce efficiency, reliability and fairness into the judicial process.

(ii) *Up-grading of court facilities, the civil and court registries, and court documentation/reference centres*: The Ministry of Justice and Local Self Government lacks many of the modern tools, which are essential for delivering judicial services effectively and efficiently.

Project Activities

1.2.1 Support for the Judiciary (approx. €3 m)

Provide technical assistance, related IT equipment to up grade the court and registry systems as well as up grade the court administration (management) systems and basic judicial facilities.

1.3 CUSTOMS AND TAXATION- Integrated Border Management -Technical Assistance

1.3.1 INTEGRATED BORDER MANAGEMENT

Programme: Improve the main border crossings with Hungary (Horgos – Phase 2) and Croatia (Batrovci and its equipment

Cost: €9.7 million (approx.) from regional funds

Background

The new FRY Federal and Republican authorities have quickly re-stabilised relationships with their neighbouring countries. Potential regional economic developments will undoubtedly lead to larger traffic flows between FRY and its neighbouring countries creating stresses along the main trading routes and key border crossing points, especially on the main European corridors. Action needs to be taken immediately to improve the most critical border-crossing facilities. The FRY authorities have identified the Horgos crossing between Serbia and Hungary and the Batrovci crossing with Croatia as their first priority.

The project will be prepared in full compliance with the requirements from several departments of the FRY Administration involved namely: Interior Ministry (for Policing and border guarding and immigration), Customs Administration (for customs financial implications), Ministry of Agriculture (for Phytosanitary and veterinarian inspection) and Ministry of Construction and Urbanisation (for physical transport facilities).

Project Activities

1.3.1.1 Improve the Horgos and the Batrovci border crossing facilities (approx. € 5 and €4 m respectively)

Funds would be provided for works, equipment and supplies to process more efficiently cars, buses and trucks at these two key border crossings.

1.3.1.2 Improve the equipment of the customs authorities (approx. €0.5 million)

These funds will be used to provide toolkits and necessary equipment for improving anti-smuggling and enforcement capacities of the Federal and Montenegrin customs authorities.

1.3.1.3 Technical studies (approx. €0.2 million)

Funds will be used to undertake the preparatory studies for the continuation of the integrated border management programme in 2003 and 2004

1.3.2 TECHNICAL ASSISTANCE

Programme: Technical Assistance in the fields of Customs and Taxation

Cost: €5 million (+/- 20%)

Implementation: Commission

Background

The development of the Customs and Taxation authorities stagnated during the Milosovic years and the institutions are now in need of a comprehensive programme modernisation to improve revenue collection and the fight against fraud and corruption as well to facilitate legitimate trade. The authorities have developed a strategic plan for strengthening and streamlining the Federal Customs Administration both in terms of administrative structures and procedures, including replacement of their existing computerised system.

An analysis of the situation has been carried out using the EU Blueprints, originally developed for the enlargement process, to identify what needs to be done to ensure a comprehensive modernisation of the institutions.

Project Activities

1.3.2. Assist the local authorities to complete a comprehensive programme of modernisation and development of the Federal Customs Administration.

The proposed project will be a continuation of the assistance programme started in 2001. It will include technical assistance and the provision of equipment and training. It will be effected by the deployment of a team of customs, taxation and information technology experts drawn largely from officials released by the customs and taxation services of the member states. The experts will assist the local authorities in their efforts to modernise and develop their services along European lines by encouraging the use of EU best practice.

This programme will also ensure a cohesive approach to the modernisation and development of the customs services currently functioning in Montenegro, under Republican responsibility, and in Kosovo under UN SCR 1244, with a view to the approximation of legislation, training, organisation, and working methods so as to facilitate the free circulation of goods and people within the federation.

2. ECONOMIC RESTRUCTURING, REGENERATION and REFORM

2.1 ENERGY

Programme: Improve the regulatory framework, increase energy efficiency, improve further the supply and reliability of power generation.

Cost: €67 million (+/- 20%)

Background

The energy sector is one of the largest sectors of Serbian economy, consisting of electric power, coal production, district heating, oil and gas imports. It accounts for more than 5% of GDP and is responsible for a significant part of the government's budget deficit, essentially resulting from The Serbian Power Utility's (EPS) losses. Despite the progress of the donor financed rehabilitation programmes, the energy sector remains in very poor condition, essentially because of the poor state of the existing assets and the inability of the sector to meet anticipated demand.

Coal fired power stations provide almost 55 % of Serbia's total generation capacity, while hydropower and gas account for 40% and 5% respectively. The system's advantages are that it depends only on a small fraction of imported fuel and has a large renewable energy element (hydro power). When it was operating successfully in the 1980s, Serbia was able to export electricity. In the past decade, particularly the last few years, the condition of the system – both the power plants and the transmission and distribution facilities - have deteriorated to such an extent, that today most of the system works at a very low efficiency rating and reliability.

EPS is thus forced to overload the system beyond its nominal capacity in increasingly unsuccessful attempts to satisfy the electricity requirements of the country. Today, the available capacity of thermal power plants in Serbia is barely 76% of installed capacity. Most of the coal-fired plants are 20 years+ old and have not been adequately maintained for the last twelve years. Hydropower plants are in a better condition, but have been unable to operate at full capacity because of recent dry weather patterns.

Moreover, over the last decade FRY experienced a significant deterioration of its energy intensity indicators (Kgoe² per US\$ of GDP). During this period, Serbian indicators deteriorated from three to four times worse than the average EU energy intensity indicator. In other words, Serbia is one of the most wasteful consumers of energy in Europe.

² Kilograms of oil equivalent

An analysis of the energy sector shows that there is a wide scope of viable energy efficiency measures with high rates of return. This large potential is also confirmed by the experience from other transition countries in Central and Eastern Europe. However, there are a number of barriers and obstacles preventing energy efficiency measures to be implemented such as low energy prices, lack of environmental concerns and institutional focus. The proposed programme will assist in removing many of these barriers.

In addition, in order to improve the overall performance of the sector, liberalise and ease entry by the private sector and provide transparency (e.g., pricing) for producers and consumers the Government of Serbia is now determined to establish a regulatory framework leading to the creation of a Serbian Energy Regulatory Authority (SERA).

The SERA, as per its mandate from the Energy and Electricity Laws, will receive wide-ranging powers (jurisdiction and legal authority) to issue authorisations, licences and concessions to all energy operators, to set tariffs, to protect consumers and prevent monopolistic or anti-competitive conduct, and to resolve disputes within the sector.

Project Activities

2.1.1 Serbian Energy Efficiency Agency (SEEA) (approx. €5 m)

In order to assist in the establishment and running of the of the SEEA for two years EC financing will be needed for advisory/consulting services (local and international), office supplies and equipment, awareness campaigns, programmes, demonstration projects, education/training, the Energy Efficiency Fund, etc.

2.1.2 Serbian Energy Regulatory Agency (SERA) (approx. €4 m)

Assistance would be provided to help in drafting related energy and electricity laws in harmony with existing EU regulations and best practice as well as in how the SERA will be organised, staffed and operate.

2.1.3 Complementary Activities for 2001 Programme (approx. €8 m)

Generation: Supply priority spare parts for thermal power stations that were identified under the 2001 programme but not contracted. These are required to enable some urgent repairs to ensure normal operation of the power plants. Undertake surveys of power plants to ascertain need for funding.

Transmission: Reinstate the works for the four lots concerning the restringing and repair of transmission lines and towers damaged during the bombing. Reinstate the works for the five lots for HV substations, some of which were bomb damaged.

Reappointment of the consulting engineers. Consulting engineers will be reappointed to provide further assistance during project implementation.

2.1.4 Overhaul of the Nikola Tesla A3 thermal power plant (approx. €50 m)

Nikola Tesla Unit A3 (305MW) was built in 1972 and last overhauled in 1992. It is currently operating at a capacity of 205 MW and is subject to numerous shutdowns for lack of proper maintenance. The unit could be put permanently out of action if remedial action is not taken soon, leading to a significant reduction in EPS's thermal generating capacity (currently 4280 MW).

2.2 TRANSPORT

Programme: Reconstruction of the Sloboda Bridge and support to IFI transport investments

Cost: €44 million (+/- 20%)

Background

There are major deficiencies as well as opportunities in Yugoslavia's transport sector. On the whole, the sector is much weaker today than it was ten years ago. Unsustainable tariff and financial policies and inadequate use of existing funds over the past decade have resulted in a significant de-capitalization of the sector. In general, the quality of infrastructure and equipment is now significantly lower than in neighbouring countries. The capability of institutions has also much weakened, as systems and procedures for planning, monitoring, and managing transport activities have been neglected or even misused. Over the past decade, institutions have had to focus on coping with emergencies leaving little room for developing and implementing long-term plans. This has produced inefficiencies and bottlenecks, which are bound to slow down economic recovery if not addressed soon. The proposed programme would help to address some of the priority investment issues, which will be faced by the IFIs and other donors before and during implementation.

The Sloboda Bridge

The Danube River is one of the major transport arteries of Central and Eastern Europe, and is included in the Transport Infrastructure Needs Assessment (TINA) network as a Pan-European Transport Corridor VII. The Danube runs through the city of Novi Sad where it was spanned by three bridges before April 1999. All three bridges were destroyed through NATO attacks in 1999. Two have been replaced/ repaired. The Sloboda Bridge, which carried the bulk of the road traffic crossing the Danube at Novi Sad, however, has not yet been repaired. As a consequence, a temporary pontoon two-lane road bridge has been erected in order to relieve some of the congestion arising from the collapse of the Sloboda Bridge. It is blocking the river traffic on the Danube and is only opened approximately once every weekend to allow waiting barges and ships to pass.

Economic impact: As the analysis shows, benefits to road users alone are not enough to justify the reconstruction of the Sloboda Bridge. Taking into account road user benefits and the saved costs of removing the existing Sloboda Bridge, the benefits are slightly higher than the costs of the project. In this case, the project has an Internal Rate of Return (IRR) of approx. 8%; low but still acceptable. However, there will be considerable additional benefits from increased river traffic (due to the removal of the pontoon bridge) and from savings of not operating the pontoon bridge. But estimating the size of these benefits is uncertain. However, adding the benefits resulting from increased river traffic and the pontoon bridge savings the IRR increases to 21%. The true IRR may well lie in the middle, a fully satisfactory 15%.

Project Activities

2.2.1 Reconstruction of the Sloboda Bridge (approx. €41 m)

The works will consist of the repair and consolidation or reconstruction of four bridge piers; the reconstruction of the two side span bridges; the repair and reconstruction of the main suspension bridge; and ancillary works.

The Danube Commission (largely with EC financing) is clearing the river of un-exploded ammunition and debris, including the damaged sections of the Sloboda Bridge. This should be completed by May 2002.

Specific project conditionality will be developed with respect to this project in line with the FRY's international obligations and other commitments regarding free navigation on the Danube.

2.2.2 Transport sector investment capacity building measures (approx. €3 m)

This project would provide funds to strengthen sector institutions, implementation arrangements (e.g., road, rail, airport sub-sectors) and overall sector reforms/strategies linked to forthcoming IFI transport infrastructure investments.

2.3 ENVIRONMENT

Programme: Assist in institutional capacity building to strengthen environmental protection.

Cost: €0.5 million (+/- 20%)

Background

Initially, Serbia treated the environmental sector as long-term priority. However, after June 2001 Government accepted to develop environmental sector priorities in the near term. Political commitment now exists and Serbia will focus on building capacities and institutions to pursue environmentally sustainable development.

Serbia is in process of preparing capacity building initiatives, implementing preventive and long-term environmental protection approaches as well as incorporating into national laws and implementing international conventions (specifically EU norms) and other standards. The main challenges for the near future include the rehabilitation of the identified environmental "hot spots", reversal of natural resources destruction, improvement of environmental information and dissemination, as well as air and water quality improvement, municipal water supply and sewerage improvement, and development of an efficient waste management strategy for industrial and municipal solid wastes and wastewater. All of the listed elements ensure environmentally sound development in industry, energy and agriculture sectors.

Key constraints to undertaking such a reform agenda have been, and still are, the lack of up-to-date environmental strategic documents, insufficient environmental information management, lack of funds and lack of external expertise, as well as low institutional capacity for implementation and enforcement of environmental principles.

Project Activities

2.3.1 Support environmental protection capacity building measures (approx. €0.5 m)

Funds would be provided to assist in drafting relevant framework laws taking into account EU regulations and helping to establish the new Ministry for Natural resources and Environment, train staff etc.

2.4 ECONOMIC DEVELOPMENT - Enterprises

Programme: Assist the restructuring of SOE (State/Socially owned enterprises) and provide credit to the SME sector.

Cost: €15 million (+/- 20%)

Background

Serbia's economy has significant potential for economic development. Currently, there is a large informal economy, private in nature, representing at least 50% of official GDP and comprising primarily productive activities. This constitutes a firm indication of the resilience and dynamism of Serbia's private entrepreneurship and of its potential for growth if provided with the appropriate incentives, policy framework and resources.

State/Socially-owned enterprises (SOEs), however, remain inefficient and had large accumulated financial losses in 2000 and 2001. The private sector, composed primarily of SMEs, performed much better. Precise measures of performance, however, are difficult to obtain due to special local accounting provisions, e.g., inflation adjustments.

Donors generally agree that assistance to meet the needs of the private SME sector should focus on the following three issues: (i) amendments to laws and regulations constraining SMEs with respect to: (a) taxation; (b) labour and social charges; (c) registration and licensing of new enterprises; and (d) regulation of enterprise collaterals (receivables, inventories, equipment); (ii) provision of credit lines at market-based rates, and technical assistance to selected banks serving the private and SME sector; and (iii) establishment of SME agencies/advisory centres at the central and regional levels.

The banking sector does not have the financial means to finance investment. The sector is largely bankrupt and the population has no trust in the system. The four largest banks are currently being liquidated. Yet demand for credit is strong and the EC is not only meeting some of this demand but is also strengthening existing "good" commercial banks to allow them to operate in a developing competitive banking market.

The new Privatisation Law became effective on July 7th, 2001. Serbia's Privatisation Agency was legally established on July 18th to execute the privatisation programme agreed upon with the World Bank. This programme has three forms of privatisation: (i) tender sale to investors; (ii) auctions; and (iii) SOE restructuring prior to possible privatisation.

The EC's proposed programme covers 12 of some 39 large SOEs, generally over-burdened with debts (both domestic and foreign) and their subsidiaries, which need financial and corporate restructuring before they are offered for privatisation. The pre-privatisation

financial restructuring will be done in close consultation with the Banking Rehabilitation Agency, which was established to restructure the ailing banking sector. The restructuring recommendations will be implemented subsequently by the Privatisation Agency with assistance of legal advisors and privatisation agents funded through the realised privatisation proceeds.

Under the EC's 2nd tranche of the 2001 Serbia programme, a first allocation of € 1 million was made to finance the pre-privatisation assessment and restructuring of three selected SOEs in the third category.

Project Activities

2.4.1 Support for the Revolving Credit Fund (RCF) and new participating banks (approx. €6 m)

The existing € 10 million RCF credit facility for SMEs will be replenished. The available funds are expected to be fully allocated by early 2002, and the two participating banks have a large number of viable credit applications from SMEs. Other eligible banks with further demand for SME credit are keen to join the scheme.

The continuation of the RCF will critically complement the €4 million allocated under the 1st tranche of the Serbia 2001 programme for technical assistance and training to SMEs through a network of at least 6 SME advisory/business centres, of which the first ones are expected to open and be operational by early spring 2002.

2.4.2 Support for the European Fund for Serbia (EFS) (approx. €5 m).

The EFS is complementary to the RCF in that it targets micro to small enterprises, where as the RCF targets small to medium size enterprises.

Through its € 5 million contribution, the EC intends to become a major actor in EFS' operations. A Financing Agreement between the Agency and KfW will be signed to this effect.

2.4.3 Support for corporate restructuring of up to 12 large SOEs (approx. €4 m).

These SOEs have large debts, losses and work force and are among the largest in Serbia. They operate in a variety of industrial sectors (metallurgy, machinery, transport equipment, electrical products, chemicals). In agreement with the Agency, the Ministry of Economy and Privatisation has selected 12 of them for priority assessment and restructuring.

2.5 ECONOMIC DEVELOPMENT - Agriculture

Programme: Equip national food safety laboratories.

Cost: €6 million (+/- 20%)

Background

The current legal framework and facilities for quality control of food and meat products are no longer in line with EU standards. Ten years of economic embargo have hampered their

modernisation. To date, Yugoslavia has no reference laboratory accredited by the European Food and Veterinary Office, which seriously affect exports opportunities.

The Yugoslav and Serbian Governments have both underlined the importance of harmonising food legislation with EU norms in order to provide safe food to the consumer and to facilitate exports. It is currently foreseen that Yugoslavia will begin the discussions on the agricultural chapter (including consumer protection) during September 2002.

2.5.1 Upgrade national laboratories for veterinary- sanitary- and phyto-sanitary inspections, both on republican and federal level (approx. €6m)

The project would provide among other services: (i) sampling equipment for the inspection services and laboratories, (ii) equipment for analysis, training programmes and (iii) create an information and communication system of laboratories and links to international networks (e.g. European Rapid Alert Centre).

3. SOCIAL DEVELOPMENT AND CIVIL SOCIETY

3.1 VOCATIONAL EDUCATION AND TRAINING

Programme: Support for the development of training programmes, and other human resource development (HRD) measures/services, for the unemployed and redundant employees

Cost: €2 million (+/- 20%)

Background

A total of around 750.000 people (i.e. 25% of the labour force) were registered unemployed in December 2000 and around 800.000 more are expected to become unemployed in the coming years due to the restructuring and privatisation process of the socially owned enterprises. On top of these figures one can add a number of refugees who do not have the right to be registered as unemployed but who still are looking for income earning activities. Despite the fact that a certain number of unemployed are involved in the grey economy and some of them will be absorbed by the developing SME sector, ensuring long-term employment in the formal sector for the unemployed and redundant workers is still a challenge for the economic development and social cohesion of the country.

The main reason for high unemployment is the downsizing of the economic activity during the last years as a result of international sanctions, war and ethnic conflicts. However, low skills are increasing substantially the risk of being unemployed. An analysis of the registered unemployment demonstrates that low-skilled, semi-skilled and unskilled workers are over-represented in the unemployed (65% of all unemployed). Also 77% of all unemployed have remained in the registers for more than 1 year and 19% for more than 8 years, which has lead to their "de-skilling". Recent active labour market measures (on SME development, placement of young people in enterprises and training courses for the unemployed) to address unemployment are of small scale and often they are not linked to the needs of the (local) economy. They are implemented by the Employment Office without the involvement of other local service providers thus increasing the burden of the staff of the local employment offices. Moreover, during the last years the staff of the local employment offices has not received training even for the undertaking of their core functions such as job

counselling, aptitude/interest assessment, job search, provision of labour market information and labour exchange and placement services.

Future strategies for addressing the problem of unemployment and future redundancies should be based on a co-ordinated action to promote both economic regeneration of economically depressed regions and the development of relevant skills for the job seekers. Experience from the European Social Fund and of OECD studies on local initiatives for employment generation demonstrate that promotion of those strategies is better achieved through action at the local/regional level and through the involvement of several actors in a partnership setting.

Project Activities

3.1.1 Support for training programmes and other measures/services for the unemployed (approx. €2m)

The project will develop and implement demand driven training programmes, and other human resource development (HRD) measures/services (in particular vocational guidance and career information and counselling) for the unemployed and redundant workers in a pilot region in Serbia (e.g., Kragujevac). This will be done within the framework of a local partnership approach, through intensive capacity building of local actors, local training and other training providers and the establishment of a regional Human Resource Development (HRD) Fund. It will also assist national actors to develop a national framework of action for enhancing the skills and employability of the unemployed and adaptability of (redundant) employees (taking on board the experience of the pilot region).

3.2 University Education

Programme: Tempus III Programme

Cost: €4 million (+/- 20%)

Implementation: European Commission, Directorate General Education and Culture

Background

The Tempus programme was adopted by the Council of Ministers of the European Union on 7 May 1990. The programme was set up in order to support the process of reform in the countries of Central and Eastern Europe in the area of higher education within the framework of the European Community Phare programme.

On 29 April 1999 a new Decision on the Tempus programme "Tempus III" was adopted by the Council covering the non-associated countries of South-East Europe and the Partner States of Eastern Europe and Central Asia. This new phase of the programme will run from 2000 to 2006.

Within the framework of the general economic reform objectives of the European Commission's programmes for support to the non-associated countries and the Partner States of Eastern Europe and Central Asia and Mongolia, 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.

The new phase of the Tempus programme seeks to contribute to:

- higher education policy and systems development;
- the reform of higher education governance, management and finance;
- the strengthening of links with the local and regional economy, as well as other stakeholders of the universities;
- curriculum development in priority areas for economic and social transition;
- the promotion of the mobility of students and staff;
- the development of administrative and institutional structures through training of staff from non-academic institutions;
- the strengthening of regional co-operation and networking between higher education institutions in South-East Europe.

A priority for higher education systems in South-East Europe is the achievement of the objectives of the so called Bologna Declaration, which was signed by 29 European governments and which aims at the establishment of a common European higher education space by 2010. Its objectives include the establishment of a common degree system in Europe (Bachelor, Master, Ph.D.), the introduction of the European Credit Transfer System (ECTS), the strengthening of a European dimension in quality assurance and the removal of obstacles for the mobility of students and staff.

Participation in the Bologna Process requires structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration (at the moment South-East European universities are mere association of faculties).

The Tempus programme will further contribute to the strengthening of regional co-operation between higher education institutions in South-East Europe. Considering the small size of higher education systems, the re-establishment of regional academic ties in a European framework appears as a pre-condition for the efficient use of scarce resources and thus for the long-term sustainability of higher education systems in South-East Europe. Regional co-operation can also contribute to mutual understanding and the overcoming of ethnic and political boundaries. Universities from Federal Republic of Yugoslavia, due to their links to various neighbouring countries, can play an important role in fostering such regional co-operation.

Project Activities

3.2.1 Support for the Tempus III Programme (approx. €4 m)

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

Joint European Projects can focus on one of the following areas:

- University Management: University Management JEPs can focus on systems and policy development, reform of university governance, administration and finance, the introduction of library and management information systems, the strengthening of quality

assurance, the introduction of international relations offices, the introduction of the European Credit Transfer System, or the establishment of knowledge and technology transfer centres.

- Curriculum Development: Curriculum Development JEP's focus on the establishment of new or the revision of existing curricula and study courses, the development and the provision of new teaching materials, the introduction of new teaching methodologies, and the retraining of academic staff.
- Institution Building: Institution Building JEPs focus on strengthening civic society and public administration reform through the development of short cycle training courses for staff from non-academic institutions such as local, regional and national authorities, social partners, professional associations, media, and non-governmental organisations.
- Multiplier Projects: they are designed to disseminate results of past Tempus projects and to link institutions working on higher education reform in similar subject areas. These projects usually include a larger number of partners from South-East Europe and the European Union.

Regional approach: All of the above project types can be implemented on a regional level, e.g. projects which include higher education institutions not only from one but from several of the eligible Tempus partner countries.

3.3 CIVIL SOCIETY/MEDIA

Programme: Support civil society, the restructuring of RTS and the establishment of a regulatory body for electronic media.

Cost: €3.5 million (+/- 20%)

Background

After the change of government in Yugoslavia in October 2000 a climate of openness and democratic freedom prevailed. Despite commitment of the new democratic government to carry out structural changes and improve economic performance, concrete results are yet to be actually felt by the population at large. In fact, citizens' discontent with their poor living standard is rapidly growing.

Since 1990 when free association and organisation of citizens were legalised in FRY the number of NGOs has increased significantly. By the end of 2000 there were 1,800 NGOs registered with the Serbian Ministry of Justice in addition to the 20,000 organisations remaining from the pre Milosovic times. The fields of their activity have expanded to include human rights, environmental protection, electoral transparency and fostering of democratic ideas and institutions throughout the country. Their activities have also changed due to the break up of the former Yugoslavia, which resulted in a massive influx of refugees, IDPs, growing poverty and unemployment and a general reduction in state-provided social services. Despite the fact that NGOs were perceived as a threat by the Milosovic government (they were often severely persecuted), the civic movement turned into a politically powerful force, which influenced the transition to democracy.

Based on field experience and the latest surveys the development of civil society is especially problematic in socially and economically deprived regions in Serbia (e. g., eastern, western Serbia and Sandjak) These are also the regions with many different minorities, such as the Bulgarians, Vlachs, Muslims, Roma etc.

Due to their under developed political culture and lack of democratic traditions most of the targeted municipalities are cradles of conservative and intolerant thinking and behaviour where NGOs are still perceived as an alien structure due to the harsh propaganda of the previous regime. As a consequence there is a high level of distrust between local administrations and citizens. The proposed programme is designed to assist in bridging this gap.

With such help civil society will gradually impose itself as a partner in channelling citizens' concerns in local administrative decision-making processes and create incentives for local administrations to become more sensitive to its community's needs. Such civil society-local administration partnerships are already well rooted in some Serbian cities (Nis, Novi Sad, Kikinda, Vrsac, Knjazevac, Pirot, Novi Sad) and have resulted in more constructive decision-making, faster and better service for the citizens. Moreover, local administrations will be better prepared for future challenges such as the about to be implemented law on local governance and fiscal decentralisation.

The media scene in Serbia is still in a transition phase. While many independent operators are still fighting for survival, the basic regulatory framework that would enable a sound development of the sector is still being discussed in the Parliament. However, new legislation should be adopted in early 2002, thus allowing for a drastic transformation of the state controlled TV into a public service broadcaster. The creation of an independent regulatory body, foreseen in the new law, will allow for an unbiased control of licensed media operators.

Project Activities

3.3.1 Strengthen NGOs (approx. €2.5 m)

NGO professionals from Western, Eastern Serbia and Sandjak will be trained on issues related to (i) NGO management, (ii) civil society development and (iii) lobbying and advocacy techniques.

Through the grant funds NGO will be able to assist in financing projects (e.g., handicap ramps, improving conditions of social welfare centres, etc) and activities aimed at addressing the needs of local population, especially vulnerable groups, and increasing citizens participation in public life. Such grants would also create incentives for the local administrations to work in partnership with their community. Co-funding from grantees (up to 20% in kind or cash) will be required.

Through workshops participants exchange information, learn more about one another's concerns and begin to define common issues, which could be tackled more efficiently by joint action. Also good practices and success stories in one community (in terms of efficient cooperation of NGOs and local administration) will be shared with participants.

3.3.2 Support reforms of Radio Serbia (RTS) and the newly established sector regulatory body (approx.€1 m)

Funds would be provided for equipment and training for RTS' successful restructuring and for the newly created regulatory body.

4. OTHER

4.1 TECHNICAL and ADMINISTRATIVE ASSISTANCE FUND

Programme: Technical and Administrative Assistance Fund for Serbia

Cost: €3 million (+/- 20%)

Summary

The objective of making available the technical and administrative assistance fund is to allow project preparation to proceed in an efficient and effective manner. It is essential that some funds be provided quickly to fund preparation and early implementation activities.

The funds authorised under this proposal will be used to provide short-term technical expertise in highly specialised/punctual aspects of project design, implementation, feasibility studies, evaluation, etc.

The following activities will be undertaken with this technical and administrative assistance fund:

- Recruitment of short-term technical assistance (local and expatriate) directly linked to further preparation of programmes and early implementation. It includes activities such as field assessments, feasibility studies, inputs to terms of reference and specifications, and tender evaluations;
- Audits, monitoring, programme/project evaluations, etc.
- Information and visibility actions related to projects.

The activities will be implemented by the Agency according to standard EC tender and contract procedures.

IMPLEMENTATION OF ANNUAL PROGRAMME

This programme will be implemented under the responsibility of the European Agency for Reconstruction (except for the €5 million Technical Assistance for Customs and Taxation and for the € 4 million Tempus III programmes), which will sign all necessary financing agreements and contracts with service providers and suppliers.

Implementation of projects will be carried out in close co-ordination and consultation with the FRY and Serbian authorities and those international agencies and donors that are active in the various fields covered by the EC programme.

In addition to the general SAp conditionality, programme/project conditionality may be imposed. This programme and project conditionality will be defined in the Financing Agreement/Memorandum to be signed with the authorities. Failure to comply with programme/project conditionality may lead to delay, suspension or cancellation of the planned or committed assistance.

TA Customs and Taxation : Due to its technical nature, the Commission will implement the programme. A team of experts managed by the Commission will be deployed to facilitate project delivery on the ground.

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.

Tempus III: The European Commission's Directorate-General for Education and Culture has the overall responsibility for the policy and management of the Tempus Programme.

Following an annual call for proposals, projects are assessed academically and technically according to general criteria and a list of national priorities established in co-operation with the partner country authorities, and taking into account the objectives of the Stabilisation and Association Process and the policy objectives of EU co-operation with the Tempus partner country.

In implementing the programme, the Commission is assisted by the Tempus Committee, set up by the Council Decision on Tempus III and consisting of representatives of the Member States.

MONITORING, EVALUATION AND AUDIT

This programme (except for the Technical Assistance for Customs and Taxation and for the Tempus III programmes for which the Commission is responsible) will be supervised and monitored by the Agency which shall:

- a) Supervise the implementation of the programme on the basis of regular reports;
- b) Carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after the completion of the programme.

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

INDICATIVE DISBURSEMENT SCHEDULE (€MILLION ACCUMULATED)

Sector	June 2002	Dec 2002	June 2003	Dec 2003	June 2004	Dec 2004	June 2005	Dec 2005
Energy		13	33	53	65	66	67	67
Transport		5	16	22	32	38	40	44
Enterprise Development	2	9	10	11	12	13	15	15
Institution Building & Governance, Justice	1	3	5	7	11	13	14	15
Public Health Administration	1	2	3	4	5	5	5	5
Agriculture	1	1	2	4	6	6	6	6
Environment			0.5	0.5	0.5	0.5	0.5	0.5
Civil Society/Media	1	1	1	2	2	3	3.5	3.5
Vocational Education & Training		0,5	0,8	1,0	1,5	2,0	2,0	2,0
Technical & Admin. Assistance Fund	0.5	1	3	3	3	3	3	3
Customs & Taxation	0,0	1,5	3	4,5	4,5	5	5	5
Integrated Border Management		3	5	6	7	8	9	9.7
TOTAL	6,5	40	82.3	118	149.5	162.5	170	175.7

Tempus	Dec 2003	Dec 2004	Dec 2005	Dec 2006
	2.7	3.4	3.8	4

Total: 175.7 + 4= €179.7 million

Attachment 1

STATUS OF COMMITMENTS AND DISBURSEMENTS AS OF 8 JANUARY 2002

year	projects	committed	contracted	contr/ comm	paid	paid/ comm
1998	Media	4,628	4,628	100%	3,443	74%
1999	Energy for Democracy	4,400	4,277	97%	4,239	96%
	Media	2,550	2,550	100%	1,220	48%
	Total 1999	6,950	6,827	98%	5,459	79%
2000	Energy for Democracy	4,400	4,280	97%	3,861	88%
	Schools for Democratic Serbia	3,800	3,783	100%	3,720	98%
	Food	26,658	26,658	100%	25,299	95%
	Health	20,000	20,000	100%	19,450	97%
	Energy	99,342	99,154	100%	97,719	98%
	Media	1,000	1,000	100%	950	95%
	Administrative and Technical Assistance	3,000	2,598	87%	2,181	73%
	Needs Assessments	2,000	1,504	75%	738	37%
	Municipal Infrastructure	25,000	24,998	100%	20,447	82%
	Total 2000	185,200	183,975	99%	174,365	94%
2001	Energy	80,400	75,768	94%	39,909	50%
	Agriculture	20,000	16,657	83%	14,948	75%
	Enterprise Development	10,000	9,672	97%	4,588	46%
	Health	26,500	24,498	92%	10,799	41%
	Policy and Legal Advice Centre	5,000	5,000	100%	1,628	33%
	Technical and Administrative Assistance	1,600	1,076	67%	655	41%
	subtotal	143,500	132,671	92%	72,527	51%
	Funds available in Nov. 2001					
	Energy	27,300	15,650	57%	11,500	42%
	Health	5,000	0	0%	0	0%
	Regional development in Presevo Valley	4,000	0	0%	0	0%
	Enterprise	6,000	0	0%	0	0%
	Media	2,000	0	0%	0	0%
	Technical and Administrative Assistance	1,000	0	0%	0	0%
	Integrated Border Management	5,000	0	0%	0	0%
	Total 2001	193,800	148,321	77%	84,027	43%
TOTAL		390,578	343,751	88%	267,294	68%