

Standard Summary Project Fiche – IPA centralised programmes

Project Number 13: Support Socio Economic Development in the Danube Region

BASIC INFORMATION

- 1.1 CRIS Number:** 2011/022-585
- 1.2 Title:** Support Socio Economic Development of the Danube Serbia Region
- 1.3 ELARG Statistical code:** 03.19 European standards. Social policy and employment.
- 1.4 Location:** Republic of Serbia

Implementing Arrangements

- 1.5 Contracting Authority:** EU Delegation to Serbia
- 1.6 Implementing Agency:**

Austrian Development Cooperation (Austria), and Portuguese Institute for Aid and Development (Portugal).

The partnership between Austria and Portugal for the implementation of the Project “Support to the Socio-Economic Development of the Danube Serbia Region” through Indirect Centralised Management will be carried out by the Austrian Development Agency (ADA), who will act as the Delegate body and by the Portuguese Institute for Development (IPAD) which will be the implementing partner.

The Project will be implemented through one contract through indirect centralized management.

1.7 Beneficiary (including details of project manager)

- Ministry / office: Deputy Prime Minister for European Integration’s office
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Steering Committee: The project will be managed by a representative of the Deputy Prime Minister for European Integration who will chair the Steering Committee meetings. The steering committee will consist of representatives of all major stakeholders. Government's working group for preparation of the Danube Strategy will be used as a Steering Committee of this project.

Other national institutions relevant to project implementation are: Ministry of Agriculture, Forestry and Water Management; Ministry of Environment and Spatial Planning; Ministry of Economy and Regional Development; Ministry of Infrastructure; Ministry of Finance; Ministry for National Investment Plan and the Standing Conference of Towns and Municipalities. These institutions will directly participate in further preparation of the project and in the work of the Steering Committee.

Financing

- | | |
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| 1.8 Overall cost (VAT excluded): | EUR 18.8 million |
| 1.9 EU contribution: | EUR 18.5 million |
| 1.10 Final date for contracting: | 2 years after the signature of the Financing Agreement (FA) |
| 1.11 Final date for execution of contracts: | 4 years after signature of FA |
| 1.12 Final date for disbursements: | 5 years after signature of the FA |

2 OVERALL OBJECTIVE AND PROJECT PURPOSE

2.1 Overall Objective

The overall objective is to establish and develop the municipal business infrastructure and thus enable Serbia's Danube river bank municipalities to increase the competitiveness of the region, create new employment opportunities and raise the attractiveness of the Danube Serbia Region to foreign and local private sector investors.

2.2 Project purpose

The purpose of the project is to tackle common problems and drawbacks, which hinder the socio-economic advancement, and thus enable Serbia's Danube river bank municipalities to increase competitiveness of the region, new employment opportunities and raise the attractiveness of the Danube Serbia Region to foreign and local private sector investors through the establishment and development of basic municipal environmental and business infrastructure.

2.3 Link with AP/NPAA / EP/ SAA

EP (European Partnership)

In the European Partnership under Democracy and the Rule of Law (Page L227/28), medium-term priorities are listed as: *“Promote Local Government - adopt and implement decentralisation reform and ensure sufficient local capacities...”*.

Under Sector Policies, Environment: *“Adopt and start implementing a policy on the pollution of air....., water (waste water) and soil (solid waste), strengthen administrative capacity notably as regards planning, permitting, inspecting, monitoring as well as project management...”*

SAA (Stabilisation and Association Agreement)

The project will also support the following medium-term priorities of the SAA:

Political criteria: *“Continue full implementation of civil service and public administration laws, implement measures to develop human resources in the civil service, strengthen the policy-making and coordination capacity of the public administration at government and local levels, establish a centralized payroll system, implement the constitutional provisions relating to decentralization and ensure the resources for local governments.”*

Economic criteria: *“Improve the business environment to increase Greenfield foreign direct investment.”*

The **EC Progress Report 2010** emphasizes regional cooperation and good neighbourly relations as an essential part of Serbia's process of moving towards the European Union. The Serbian government has declared regional cooperation as one of its priorities. Hence, Serbia has been actively participating in the preparations for the forthcoming Danube Strategy. The **EC Enlargement Strategy 2010** also highlights that "the inclusion and active participation of the Western Balkan countries sharing the Danube basin with their EU neighbours is essential for the success of the Danube strategy. The strategy is an opportunity for mutually beneficial investments in the transport, energy and environment sectors and for socio-economic development. "

NPI (National programme for integration with the European Union), (2009) highlights the importance of strengthening capacity on the local level in preparation and implementation of infrastructure projects and better coordination between local and central level, together with more investment in infrastructure and development projects in order to promote balanced regional development.

In the section 1.1.4. Public administration, one of the medium-term priorities, related to improvement of capacities of administrations at the local level, is stated in this way: *“Activities in implementation of bigger number of programmes and projects for support to local authorities will continue, regarding training of staff in local administrations, in order to reinforce their capacities in policy making, project and programme preparation and implementation. These projects are mainly funded by foreign donations.”*

Also, in a number of sector policies such as transport policy, energy sector, social policy and employment, industrial policy, environment and others, the importance of investment in the future in infrastructure projects in line with sector strategies and priorities is stressed.

2.4 Link with the 2011-2013 MIPD for Serbia

The MIPD for the period 2011-2013 underlines the link between the EU strategy for the Danube River and financial assistance to be provided to Serbia for the socio-economic development of the Danube region. Two MIPD sectors are mainly concerned: (1) Transport and its objective to improve the conditions for navigation on the Danube and (2) Private Sector Development and its objective to facilitate socio-economic development and inter-municipal cooperation in the hinterland of the Danube, and raise its visibility as an area of growth.

2.5 Link with National Development Plan (where applicable)

Not applicable.

2.6 Link with national / sectoral plans

The Project is developed to link with the following key strategies and action plans:

Strategy for socio-economic development of the Danube (Danube Serbia), defines that the Danube Serbia Region has no identity of its own in economic policy terms. The inland waterway system, while important, is not, the main driver of economic development in the region, growth will only be maximized by pro-actively developing policies and institutions at the national level that support, encourage and promote investment and job creation and Serbia is currently ill prepared to cope with the impact that the completion of the privatization process will have on growth, job creation and public expenditure.

In seeking to maximize growth, the analysis concluded that the following sectors have particular potential and in consequence the argument can be made that public funds should be directed to facilitating growth in these sectors by removing the barriers to their increased productivity: food processing industry, tourism, construction sector, energy production, services, other industry, transport and innovative sectors.

According to the **Strategy for Development of Tourism in Serbia** for the period 2006-2015, the main goal is to provide conditions for creation of quality tourist product/-s. The objectives of the Tourism Strategy are the following: a) Serbia must stimulate, thanks to tourism, especially foreign tourism, economic growth, employment and quality of life of the population; b) Through tourism, Serbia must ensure development of positive international image of the country; c) By means of tourism, and in the best interest of the development of tourism, Serbia must ensure long term protection of natural and cultural resources; d) Serbia must achieve international quality standards, and first and foremost protection of tourist consumers, in accordance with the present European practices.

Strategy of Public Administration Reform in the Republic of Serbia, Ministry of Public Administration and Local Self-Government, Belgrade 2004, stresses the importance of the decentralisation process and highlights basic principles for its implementation. The fundamental objective of the reform is to provide a high quality of services to citizens through decentralisation of the state administration. The Strategy also underlines the need for securing adequate mechanisms, by which local government representatives can develop long term capacities in direct cooperation with the government and corresponding bodies of the central administration, or through the national association of cities and municipalities.

Strategy of Regional Development of Serbia for the period 2007-2012 (adopted by the Government in January 2007) highlights the importance of stimulating the development of economic infrastructure: *“Infrastructure is one of the most important factors for maintaining*

sustainable economic and social development of the Republic of Serbia, and represents a key driver for regional development and utilization of comparative advantages of local areas”. (Sections 2.12 and 2.4).

National Strategy of Sustainable development was adopted by the Government in 2008. The fourth key priority of this Strategy is development of infrastructure and harmonized regional development, improvement of attractiveness of the country and ensuring a corresponding quality and level of services. The fifth key priority is protection and improvement of the environment and rational use of natural resources.

The project is also linked to a number of other sectoral strategies and plans (see Annex IV).

3 DESCRIPTION OF PROJECT

3.1 Background and justification agree with the comment

The Danube flows 588 km through Serbia, and is suitable for transport throughout its course from kilometre 1,433 at Bezdan to kilometre 845 at Prahovo. The Danube River Basin in Serbia country includes 390 protected areas of special national and international importance. Some of the most beautiful towns of the Old Continent were built on the banks of the Danube, and many ports, dams and bridges have been built in the area, as well as several national parks and a range of resting places. There are also commercial and infrastructure facilities which have, unfortunately, seriously endangered the bio-system of the river. In addition, the Danube itself and its close surroundings present a location with a number of vital commercial and other facilities of special public interest. There are several archaeological sites on the river banks: Neolithic ones - Starcevo, Vinca, Lepenski vir; the Roman road in Djerdap and many Roman strongholds; Medieval fortresses – Bac, Petrovaradin, Beograd, Smederevo, Ram, Golubac and Fethul-Islam near Kladovo, numerous churches and monasteries of both Orthodox and Catholic provenience, as well as rich industrial heritage and still living diverse immaterial-ethnological legacy..

The Danube Serbia Region forms the economic heartland not only of Serbia but of South East Europe.

Traversed by Corridor X, Europe’s north-south motorway and Corridor VII, the Danube which links the geographical centre of the EU with the Black Sea, the Region occupies a pivotal location in transport terms. The region includes Serbia’s two largest cities – Belgrade and Novi Sad – and generates up to 80% of the country’s prosperity. In economic planning terms, Danube Serbia Region is a location well placed for higher levels of prosperity and wealth generation.

Interest in the Danube River has been increasing in recent years, as it represents one of the most important European development potentials, forming a starting point for many ideas and projects on European integration. The Danube is the central European river traffic artery forming pan-European Corridor 7, set to become increasingly important in the medium and long term. The Danube basin is one of Europe’s most important ecosystems, and requires urgent, internationally harmonized conservation and protection measures.

On 8 December 2009, the European Commission adopted a *Strategy for the Danube Region*. The principle of development of the *Strategy* involves the definition of cooperation pillars, which should be elaborated in detail and transformed into specific tasks (priorities) through an Action Plan, on the basis of which specific projects would be defined.

In accordance with EU practice, Member States are primarily required to be active and effective in areas close to them, either by geographical or other characteristics. Given its central position on the river, Serbia should therefore strive to be a leader in Danube development and protection.

Serbia's active participation will provide a contribution to economic development, integration of sector policies of the Republic of Serbia into EU development plans, and improved bilateral and multilateral cooperation between the Republic of Serbia and all other countries of the Danube river basin. Through its participation in the development process and subsequent implementation of the Strategy, the Republic of Serbia confirms a strategic commitment to its effective future membership of the European Union.

On 24 September 2009, the Government of the Republic of Serbia made a decision to establish a Working Group for cooperation with the EU in the Danube Region, which included ten ministries, Government of Autonomous Province of Vojvodina and the Office for European Integration. Mandate of the working group is to cooperate with the European Commission on developing and implementing EU Strategy for the Danube Region. The Working Group holds meetings as necessary, but at least one in three months. Also, WG has a role of „focal point“ for communication with EC and its DGs in charge for the Strategy. According to the Serbian platform for development of the Danube Strategy, Government's working group has identified 5 specific objectives as contribution for preparation and implementation of the Danube Strategy:

- Establishment of a safe transport system and affirmation of the rule of law principles along the entire Danube watercourse;
- Development of the transport and energy systems, and information and communication technology (ICT) along the entire Danube River;
- Environmental protection and sustainable use of natural resources along the entire Danube River Basin;
- Economic development and strengthening of regional cooperation and partnership in the Danube Region;
- Creating a knowledge-based economy through cooperation in the Danube region and the active role of science in achieving the objectives of the Strategy.

In brief the strengths of the Danube Serbia Region can be summarised as follows:

- Location: Urban density combined with geographical connectivity - International transport links via Corridors VII (the Danube) and X (route E75)
- Substantial industrial base
- Evolving Services Sector
- Development potential in the following sectors
 - Tourism
 - Energy production
 - Services
 - Transport

- A complex of educational institutions (e.g. Novi Sad and Belgrade Universities).

The challenge facing the Serbian authorities is how to build on these strengths in order to maximize the growth of the economy and employment generation. Specific weaknesses are forming barriers to this economic growth particularly for the sectors with the most growth potential. These weaknesses include the following:

- Weak strategic understanding and policy focus to facilitate higher growth in the regional competitive sectors;
- Poor strategic integration and quality of transport network;
- Lack of investment in IWT system (port infrastructure, multi modal systems, logistics, etc.);
- Pollution of the inland waterway system;
- Annual risk of flooding and consequent damage to agriculture and industry in certain areas;
- Failure to identify new productive investments to replace industrial and employment losses post- privatisation;
- Lack of good quality business and environmental infrastructure;
- Poor facilitating business environment particularly for foreign investors;
- Weak strategic linkages between industry and education (specifically in key economic sectors);
- Mismatch between available skills and potential demand from industry;
- Low labour productivity and thus uncompetitive labour costs;
- Absence of an integrated institutional and policy framework at the national level necessary to promote and actively support the development of the productive sector and new employment generation.

This project will aim at targeting some weaknesses that Danube Serbia Region has. Improvement of business and management practices will be targeted in the most important potentials of the Danube Serbia Region such as tourism and environmental protection (the project will have more focus on these two priorities based on the. Most industries that have survived restructuring are in mature and competitive sectors of light industry: food processing, metal works, breweries, textile, boat building, plastics, packaging and construction materials. The function of tourism for foreign tourists within the regional economy is largely determined by historical-cultural features—around 83% of total, although there is, of course, also “conference” tourism. Domestic tourists are mainly drawn by natural-geographical features (spas and mountain resorts) with 65% of total nights stayed. The main tourist destinations within the target area include the cities of Belgrade and Novi Sad. Basic elements such as accommodation, support services etc. are still absent or do not meet (international) standards. Relatively few entrepreneurs and investors in the target area have so far seen this as an opportunity, also because market demand for many facilities must be proven first. First part of this project will consist in technical assistance and grant scheme to

support such activities. In addition, this project is characterized with geographical concentration as well, by focusing on "the Danube Districts" as follows: Zapadno backi, Juzno backi, Sremski, Macvanski, grad Beograd (with limited participation), Srednje banatski, Juzno banatski, Podunavski, Branicevski, Zajecarski and Borski.

The second part of this project is targeting infrastructure development. It has long been clear that Serbia's infrastructure is in poor condition, and urgently requires improving. As Serbia strives to approach EU membership, the task becomes ever more pressing: bad or lacking infrastructure hinders economic competitiveness and thus risks being a blockage to Serbia in overcoming the trade deficit that constitutes its worst macroeconomic imbalance; Serbian industry must become sufficiently competitive to survive in the single market, and improved infrastructure is one of the keys; Serbian environmental protection is well below EU standards and will take many years to change.

According to data from System of Long-listed Advanced Infrastructure Projects (SLAP) and overview of EU funded projects (MISP and MSP NE), the following list of projects related to the Danube Serbia Region has been identified:

- Regional Water Supply Scheme, South West Backa Region (EUR 50 million investment, feasibility study prepared);
- Waste Water Treatment, Sabac (EUR 16.2 million investment, feasibility study prepared);
- Marina on the Danube, Bela Crkva (EUR 5.6 million investment, feasibility study prepared);
- Bicycle Path and Marina upgrade, Golubac (EUR 2 million investment, feasibility study prepared);
- Regional Solid Waste Management, Sremska Mitrovica-Sabac (EUR 4,5 million, contract ongoing);
- Regional Landfill, Pancevo-Opovo (EUR 4.5 million investment, feasibility study prepared);
- Regional Landfill, Pozarevac-Smederevo-Kovin (EUR 15.6 million investment, feasibility study prepared);
- Regional Landfill, Vrsac-Bela crkva-Alibunar-Plandiste (EUR 10.5 million investment, feasibility study prepared);
- Water supply system Veliko Gradiste (EUR 4 million investment, feasibility study foreseen to be ready by 2nd quarter of 2011);
- Reconstruction of Golubac Fortrest, Golubac (EUR 6.6 million, feasibility study foreseen to be ready by 2nd quarter of 2011).

According to existing data, potential project related to the Danube Serbia Region amount to more than 120 million euro. Ongoing IPA 2008 and future IPA 2010 MISP projects financially cannot cover all these needs. After consultations with relevant stakeholders and having in mind ongoing MISP programme and IPA 2010 MISP it has been decided that projects Reconstruction of Golubac Fortress and Water supply system Veliko Gradiste will be supported by the current IPA projects.

The Serbian economy requires substantial continuous FDI to achieve minimum growth targets that have been set in recent years, but FDI inflows are considerably lower than the country's potential. There are several reasons for this, but two major ones are the condition of infrastructure in general, and the perceived risk of investment. In improving infrastructure there is an opportunity not only to lay a better physical and human resource basis for investment, but also to enhance transparency and good practice in funds management, enhancing the security of the investment environment.

However, given the usual ratio of project development costs, as well as their maturity for financing, it is obvious that project development should be accelerated, so that appropriate mature projects are securely available whenever financing institutions have funds available for a given profile of project.

The presence of on going MISP projects does not imply overlapping, since the problem to be solved is so large. Rather, it leads to a reinforcement of efforts at a critical stage, and a flexible programme that learns and adjusts. For each project, the tried and tested parts are retained, and adjustments made according to experience so far. Waiting for one two- to three-year project to end before beginning the next would leave gaps, too long a project cycle to allow proper adjustment at this crucial time, and too weak an overall effort to be sure of avoiding a serious future lack of absorption capacity (for details please see section lessons learned).

This project under IPA 2011 is intended to continue the trend, focusing on increasing pipeline of future individual projects and ensuring that project quality meets EU standards. In its investment component this project will implement the most urgent projects relevant for economic development of the Danube Serbia Region.

It is important to mention that the Danube Serbia Region is covered by 3 CBC programmes. Coordination with CBC calls will be ensured by ensuring focus of this project solely on inter-municipal cooperation of municipalities in the Serbian territory. All potential CBC projects should be subject of the CBC calls. To accelerate development of existing initiatives such as SLAP condition for all projects that will be prepared under this programme is their prior registration in the SLAP information system.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable) – the section is overall too general and should be revised to concentrate on concrete facts and information; also to focus on sustainability of the project not on its effects

Project Impact:

The focus of this project and its accompanying actions is the achievement of a framework, which will ensure the establishment of a dynamic and sustained economic development process in the Danube Serbia Region.

It is expected that this project will enhance major greenfield investments in manufacturing. This project will support the requirements of SME investors including these applying to larger investors, but also SMEs have greater requirements for support by way of business planning advice and training, financing and, in particular, ready access to loan financing and access to collective marketing structures.

The impact of grant scheme will be improved municipal services in line with the strategic goals of the MIPD, SAA and government strategies, plus another demonstration of good

investment practice and adherence to EU standards that will further enhance investor confidence.

The two components will together address the development of the enabling environment for the Danube Serbia Region, establish the means for linking infrastructure and business development and build the capacity of local organizations and companies to provide a modern service.

The urban regeneration of old towns will revive depressed areas and enrich the local identity of the municipalities. Restored and improved economic infrastructure (such as tourist amenities) will increase economic potentials of surrounding municipalities, promote cross-border cooperation and enhance the provision of related services.

Cross-border impact

While this project does not target specific cross-border activities, which are left to parallel CBC programmes, developing this region within Serbia will enhance its position in the wider European Danube context, improving the environment for CBC projects. Restored and improved economic infrastructure (such as tourist amenities) will increase economic potentials that can have a spill-over effect throughout the wider region.

Catalytic Effects

The main outcomes of the infrastructure investments in the selected municipalities will be improved environmental and socio-economic development. Capital investment will use modern technology providing a demonstration effect.

The projects in the municipalities will provide the vehicle for promoting institutional and management reforms at the local level and give local managers experience in EU standards and procurement practices.

New and improved economic infrastructure will enable the creation of new jobs, promoting sustainable regional economic development.

Sustainability

This project will boost social-economic and institutional development, and will increase the absorption capacity of local institutions for EU funds in preparation for eventual membership. Implementation of projects by using national resources as well will demonstrate commitment of municipalities to maintain products of this project. In addition this project will laying the ground for future initiatives and projects in the area of local infrastructure development, providing a basis for IPA programming processes in the coming years, in accordance with both national and EC strategic priorities through identification and preparation of future projects. Finally, using SLAP will ensure sustainability of this project.

3.3 Results and measurable indicators

Result 1.

Enhanced generation of new employment opportunities in local municipalities by improvement of agriculture production, environment and tourism management along the Danube river and developing new practices and capacities in relation to environment, tourism and potentially SMEs development.

Indicators:

Enhanced development of new business products in the Danube Serbia Region

Number of organised trainings and visits

Number of PPP initiatives

Result 2.

Improved visibility of the Danube Serbia Region Indicators:

Communication strategy/ action plan prepared and implemented

Image building strategies developed and implemented

Prepared at least 5 types of brochures/ different promotion tools / materials prepared

Result 3.

Grant scheme for inter-municipal projects that will develop socio-economic potentials in local municipalities in the Danube Serbia Region established and implemented.

Indicators:

grant application package prepared, with priority areas identified;

Number of organised trainings and information seminars

Number of trainees (Municipalities, NGOs, RDAs, CSOs,etc)

Launched 1 call for proposals;

10-30 projects under Cfp selected and implemented.

Result 4.

Ensured provision of support to respective municipalities and other relevant stakeholders in the identification, screening and preparation of project documentation and tendering documentation related to projects in the area of competitiveness (tourism, business infrastructure and R&D etc.) and environment.

Indicators:

Identified at least 5 projects that can be submitted to other initiatives;

Prepared project documentation for at least 3 projects that will be implemented in the next years.

Implementation of selected infrastructure projects

Monitoring and supervision of selected infrastructure projects

Implementation of selected infrastructure projects supervised

Result 5

5.1 Constructed new water supply system "Gradistansko ostrvo"

5.2 Revitalized the Golubac city through building transportation infrastructure, water supply and sewerage installations, electricity and telecommunications infrastructure

5.3 Renovated Golubac fortress and arranged suburb to receive tourists.

Indicators:

Veliko Gradiste:

Increased the capacity of Q=90 l/s of water supply in the municipality of Veliko Gradiste

Increased number of people / households that are connected to water supply in the municipality of Veliko Gradiste

Golubac:

Built Capital "Iron Gate bus" in length 699.95 m, 3 uncategorized times and built a tunnel length of 146.74 m

Built 760m of the primary water supply network

Built 300 meters of primary sewage

Built power station 10 / 0,4 kV

Landscape 840 m network cables

Removed path through the fortress and adapted tunnel

Built a stage, auditorium and trails

Visitors centre built

3.4 Activities

Activities in relation to the result 1

1.1 Preparation of the analysis of development needs of referenced area and recommend measures for improvement of environment and tourism management practices

1.2 According to the latest consultations with the Serbian Government the focus of this project would not be agriculture but more environment and tourism, based on the Danube Strategy document.

1.3 Provide assistance to the municipalities in preparing and implementing SME measures that contribute to local economic development (e.g. support the establishment of the Local Economic Service Centers within municipalities in order to improve the quality of business support services in selected municipalities etc.)

1.4 Preparation and delivery of different assistance packages consisting of wide ranging training, advice, exchange visits, business to business meetings, forums, international conferences, etc in order to support networking, marketing, elaboration of good practice

examples etc. related to, environmental protection, and tourism for employees of municipalities, RDAs, professional associations, CSO etc.

Promotion and development of public private partnership initiatives and public-private dialogue at the local level

Activities in relation to the result 2

2.1 Hold a broad stakeholder workshops and conferences in order to initiate cooperation, networking and experience exchange on Danube Region potentials involving Serbian parties (ministries, municipalities, Autonomous Province of Vojvodina, SKGO, civil society organisations and the private sector), as well as representatives of regions and national bodies in neighbouring countries

2.2 Support promotion of Danube potentials such as, tourism opportunities, investment opportunities, nature protected areas and national parks, etc. Identify specific local products) and support its promotion in the function of tourism development and region branding.

2.3 Support participation of selected national and local authorities in investment promotion, different tourism, environment and participation in Danube related EC initiatives.

2.4 Prepare a strong, professional communication strategy on the Danube Serbia Region that can underpin all components by explaining to all stakeholders what the project means to them, and how it is linked with the EU accession process.

2.5 Preparation of promotional material (e.g. brochures, web presentations etc.) related to the Danube Serbia Region potentials

Activities in relation to the result 3

3.1 Development of a grant scheme to enable socio-economic development of the Danube Serbia Region mainly through value chains, supply chains and clusters, training and employment

3.2 Hold information seminars for interested parties

3.3 Support preparation of grant application and launching procedure for implementation of grant scheme

3.4 Implementation of grant scheme through one call for proposals (smaller portion of the grant scheme can be supply of equipment or light works; Minimal value of project will be 100.000 euro, while maximal value will be 300.000 euro; Applicants are obliged to co-finance their project with minimum 10% of the project value).

3.5 Holding project preparation practical workshops in order to support potential applicants in drafting grant applications

3.6 Evaluation of received grant applications

3.7 Implementation of selected projects

3.9 Deliver training in grant management to local municipalities and other relevant local/regional stakeholders

3.10 Monitor progress of project implementation

In implementation of this grant scheme focus will be on inter-municipal cooperation of Serbian municipalities (on this way coordination with CBC calls will be ensured). Leading institutions for grant applications will be municipalities, RDAs or other relevant public authorities. Would funds become available during the implementation of IPA 2011, this grant scheme can be increased above EUR million.

Activities in relation to the result 4

4.1 Production of early cost estimates and technical design issues, identify recurrent financing requirements for future Danube related projects

4.2 Preparation of selected projects' documentation including EU feasibility studies, cost-benefit analysis and funding gap calculations, environmental impact assessments, and other documentation (design, tender documentation etc.). Selected project must be recorded in the SLAP information system.

4.3 Support identification of inter-municipal and regional projects that can fit to other national and international initiatives, such as the NIP or CBC etc.

Activities in relation to the result 5

Water supply system "Gradistansko ostrvo"

5.1.1 Designing and equipping of the wells with electrical and hydro mechanical equipment

5.1.2 Construction and equipping of pumping station "Ostrvo", filters, the discharge pipe to pass under the lake and water tower "Beli bagrem"

Building transportation infrastructure, water supply and sewerage installations, electricity and telecommunications infrastructure in Golubac

5.2.1 Construction of bypass around the fortress Golubac city and construction of the tunnel

5.2.2 Construction of the facility with water pumping stations and equipment

5.2.3 Reconstruction of the voltage 10 kV transmission lines and replacement of worn-out wooden poles

5.2.4 Construction of telecommunications installations

Golubac fortress renovation

5.3.1 Reconstruction of the ramparts, walls, towers 1-9 and palaces

Works supervision

5.4.1 Supervision of the works projects carried out in accordance with appropriate procedures.

5.4.2 Preparation of appropriate reports

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| Project will be implemented through one contract through indirect centralised management. |
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3.5 Conditionality and sequencing:

The Result 3 will start with implementation after clear definition of what the priority areas of the grant scheme would be.

The whole project will start after the EU Danube Strategy is approved.

Implementation of the grant scheme is conditional upon establishment of a transparent selection procedure for municipal projects to be prepared under this grant scheme. Implementation of these projects will be subject to their compliance with the Danube initiative. No need for signing of MoU

The implementing partner should ensure that, where appropriate, project design is carried out in consultation with the full range of stakeholders and not just the official beneficiary institution. Project's Description of the action prepared under the project should also include activities and structures which ensure inter-ministerial collaboration and commitment during implementation.

Grant scheme cannot be implemented without the full commitment of local authorities to ensure that necessary legal, institutional and especially co-financing pre-requisites are in place. Only mature projects and prepared in accordance with EU regulations will be eligible to receive funding for infrastructure investments. The leading applicants (municipalities, RDAs, NGOs and other CSOs eligible for this grant scheme shall provide min10% cofinancing) The procedures for the grant scheme will be done in accordance to the Practical guide)

Works contract cannot be implemented if project is not registered in SLAP data base and all potential legal issues are not resolved. The investment projects are conditioned to the outcome and recommendations of the respective Feasibility studies.

Identified risks for project implementation are:

- Lack of inter-municipal co-operation among involved parties;
- Potential lack of mature infrastructural projects for sustainable development of the Danube Serbia Region;
- Desire of any influential body to avoid transparency;
- Changes in political and/or economic situation of Serbia that negatively affect project implementation;
- Delays to the start and/or finish of construction work by due to unfavourable climatic or other conditions.

3.6 Linked activities

This project should be seen as a part of ongoing series of municipal development projects providing continuity in reform of the sector. It is also linked to other EU-funded projects that have a similar long-term, cyclic nature.

Links with CARDS and IPA programmes

This project represents a logical continuation to similar previous, current and planned EU initiatives: Municipal Infrastructure Agency Support Programme - MIASP (2003-2007), Municipal Infrastructure Support Programme - MISP CARDS 2006 (2008-2010), CARDS MSP NE Serbia is improving management capacity and good governance in 30 municipalities in North-East Serbia, CARDS also funded MIR I and II, an area-based project aimed at 13

municipalities of South Serbia, the EU and the Swiss government are also funding a programme of Municipal development in South West Serbia (PRO2) aimed at economic and regional development of 8 municipalities by providing extensive TA and limited grant support for infrastructure projects. This project is especially connected with MISP IPA 2008 (putative period of implementation: 2010 - 2012) and MISP IPA 2010 (FA to be signed).

MISP IPA 2008 will continue from the CARDS MISP with the same components. This project is worth EUR 55.4 million, out of which 45.4 is IPA funding. The second component deals with municipal infrastructure programming and project preparation. Feasibility studies and tender documentations will be prepared and through the third component a number of infrastructure projects will be implemented. Projects prepared through MISP IPA 2008 can be potential candidates for financing and implementation by MISP 2010, as well as IPA 2011 Support socio economic development of the Danube Serbia Region.

MISP IPA 2010, with total budget of EUR 41.1 million, out of which 31.1 IPA funded, has two components. Component 1 should accelerate building of the project pipeline to EU standards and to further the capacity-building of municipalities. The purpose is to support municipalities and RDAs to plan and prepare mature infrastructure projects to EC standards with full feasibility studies, cost-benefit analyses and environmental assessments, for inclusion in the SLAP information system project pipeline database. Depending on the timing of implementation, the project will also reinforce national coordination mechanisms and assure management of the SLAP information system as a tool for transparency, efficiency and effective donor coordination.

Component 2 should support implementation of selected infrastructure projects. The purpose is to implement local infrastructure projects selected from the SLAP project pipeline database at the appropriate time. These may be municipal and/or inter-municipal infrastructure projects from all sectors (environmental, economic and social infrastructure) focused on achieving standards that will be necessary for smooth membership of the EU and its single market.

Municipal Support Programme IPA 2007 (EUR 21 million) is part of long-standing technical assistance and grant support effort for municipal development in Serbia. It therefore incorporates the lessons and experience of previous EU-funded programmes, builds on earlier achievements, and focuses on delivery and impact. Programme aims to contribute to improved governance and economic development in Serbia, through support to a broad range of aspects of the decentralization of responsibilities and competences from central to local level". Under this programme a grant scheme under EXCHANGE III will be implemented (total budget 10 million euro) focusing on wider scope of capacity building activities in local-self government units starting from strategic planning and improving financial management. **MSP NE Serbia**, CARDS (EUR 21.2 million) supported local and regional development in Banat and Branicevo-Podunavlje municipalities since 2007. In particular project supports (i) development of local sustainable strategies, (ii) public finance management, (iii) infrastructure development and (iv) establishment of Regional Development Agency Branicevo-Podunavlje. Over EUR 13 million was allocated for infrastructure project preparation and implementation in various areas- industrial zones, technological parks, environment and tourist infrastructure. The Danube Serbia Region project should build on the results of this programme and support further development and implementation of the existing project pipeline.

RSEDP 2, IPA 2007 (EUR 20 million), aims at strengthening capacities in Serbia for design and implementation of a policy for balanced territorial socio-economic development aligned with EU accession requirements. This programme in parallel provides support to central institution in developing and implementing national regional policy and technical assistance to regional level – RDAs and local communities for preparing regional plans and projects.

Grant scheme of this programme (EUR 9 million) supports regional projects that directly impact on job creation and business development. Lessons learned of this programme are to be taken into consideration when designating a new grant scheme for Danube project.

PPF IPA 2007 (EUR 6 million) is a two years project supporting the Strategic Coordinator and Operating Structures in preparation of the Strategic Coherence Framework and two Operational Programmes. In addition, this project is focusing on development of project documentation for selected major projects, as well as training, including a training of the trainers (ToT) programme, for civil servants working in respective line ministries. It is important to mention that through support of this project Serbian administration has finished the DIS Stage 0 for IPA components III and IV. All relevant authorities have been appointed and draft Implementing and Operational Agreements prepared. Implementation of this project has started in March 2009 and will last for two years. The OPs will however focus on a small number of major and non-major infrastructural projects in area of transport, environment and regional competitiveness. In addition, implementation of projects defined under OPs can not start before DIS accreditation.

PPF IPA 2008 (EUR 5 million) has started in February 2010 and will last for two years. This project has two components. Through first component a pipeline of major high quality and financially viable major (above EUR10 million) and non-major projects (below EUR 10 million) for financing by EU through IPA components III and IV, national and/or IFI/other funding is developed with full tendering documentation. During the Inception phase the need for preparation of project documentation has been defined in the area of railways. Second component should support development of project fiches for IPA component I, in line with the IPA template, to be ready for implementation under Annual IPA programmes 2011/12/13 with full project documentation for tendering.

For **PPF IPA 2010** (EUR 5 million) the Financing Agreement is about to be signed. Through this project beneficiary institutions should develop a pipeline of high quality and financially viable projects for financing preferably by IPA, but possibly by IFIs and/or other donors developed and ready for implementation (e.g. Feasibility study, cost-benefit analysis, Environmental Impact assessment, DG REGIO Application forms for IPA III, etc). In addition, it is expected to prepare tendering and technical documents required to ensure the implementation of projects are timely and properly prepared in full compliance with the PRAG or FIDIC (for tendering documents) and any other applicable instructions / requirements of the EC.

Cross Border cooperation programmes (CBC) between EU Member States and other neighbouring countries have been in existence for along period of time during which excellent results have been achieved both in reduction of regional differences between peripheral regions of neighbouring countries and the increase of quality of life in those areas. In particular the programme helped local communities (local-self government units, public institutions, non-governmental institutions in Serbia) to acquire necessary skills and knowledge in managing EU projects and building capacities required for EU integration process.

The Multi-beneficiary IPA recently established an Infrastructure Project Facility instrument (**IPF**) for preparing infrastructure projects in the Western Balkans. Through this fund, the Republic of Serbia has already received resources for financing infrastructure projects in energy, environmental protection and transport. Serbia is eligible to use the EU grant co-financing mechanism for supporting implementation of IFI infrastructure investments of municipalities financed through loans under IPF. Under the IPF Municipal Widow, additional EU grants are provided for co-financing projects that are implemented by IFIs in the area of

municipal infrastructure. In this respect cooperation is ensured with KfW/CoE and NIP in supporting the project *Improvement of Water Supply and Sewerage Systems in Medium-sized towns in Serbia* (EUR 4 million grant). Also cooperation is extended to an EIB Urban Renewal project implemented with the City of Belgrade to improve transport infrastructure. The condition for further financing of the infrastructure projects is to be listed in the SLAP information system. IPF has been replaced with the Western Balkan Initiative Framework (WBIF). Like the IPF, the WBIF aims at streamlining existing facilities and pooling resources from the Commission, the partner IFIs, the Member States and other donors, so as to enhance support to the Western Balkans Beneficiaries.

Links to other programmes

KfW is presently financing water supply & sewerage improvement through the Ministry of NIP for 8 medium-sized municipalities. The programme will make immediate rehabilitation works and will construct new works/extensions and major rehabilitation works. These will include technical and financial management assistance. It is soon to be followed by a similar project for a further 6 towns. KfW now has another, more general programme to support municipalities to develop projects for funding through their commercial bank credit lines. However, municipalities, especially the most needy, will struggle to provide projects of sufficient quality to access such funds.

GTZ's Project "Modernisation of Municipal Services" has been providing support in the form of both TA and limited financing of needs of small and medium municipalities (up to 40,000 inhabitants) in Serbia for municipal infrastructure development.

GTZ – KWD "Municipal Economic Development in Danube Region -10 municipalities in Eastern Serbia receive technical assistance of 4 million euro in the period 2010-2012. Vision of the project is to contribute to overcoming social, regional and economic imbalances in area. Main topics of action are defined as follows: tourism development, rural development, competitiveness promotion and capacity building at national, regional and local level.

The **USAID**-funded Serbian Local Government Reform Programme 2001-2006 supported 70 municipalities to improve municipal management and capacity in the following areas: Citizen Participation, Information Technology, Financial Management, Communal Enterprise Management and Public Procurement. It also worked at the national level to support the institutional development of the Standing Conference of Towns and Municipalities and to support policy reform, specifically in the area of government decentralization.

IFIs: The European Investment Bank, the European Bank for reconstruction and Development and the World Bank are the largest potential lending institutions for the financing of large municipal infrastructure projects. However, they can only conduct such investment activities if municipalities have viable, mature projects developed to acceptable standards, which is not presently the case.

Environmental Protection Fund (ECO fund): since being established in 2005, the fund had financed projects such as regional landfills, closure and remediation of existing waste dumps, and technical documentation for these projects. The Fund allocated EUR 9.5 million in 2006, and EUR 11.5 million in 2007. The ECO Fund has signed an MoU with SCTM on using the SLAP for selecting and financing projects for implementation. Currently, however, there appears to be a prospect of a lack of projects of appropriate size for ECOfund in the SLAP.

National Investment Plan (NIP) supports development of infrastructure in Serbia (roads: 62.52%, communal infrastructure 17.90%; economic infrastructure 11.10%; energy

infrastructure 5, 38%; environmental infrastructure 3.11%). Due to financial and economic constraints, NIP budget was significantly reduced affecting mainly local infrastructural projects.

Serbian Fund for Development promotes economic development, balanced regional development, competitiveness of Serbian economy, development of services, employment, and capital market development.

ICPDR the International Commission for the Protection of the Danube River (ICPDR) is a transnational body, which has been established to implement the **Danube River Protection Convention**. The tools used to manage environmental issues in the Danube basin, such as

- the **Accident Emergency Warning System**,
- the **Trans-National Monitoring Network** for water quality, and
- the information system for the Danube (Danubis).

The goals of the ICPDR

- Safeguarding the Danube's Water resources for future generation
- Naturally balanced waters free from excess nutrients
- No more risk from toxic chemicals
- Healthy and sustainable river systems
- Damage-free floods

DABLAS Task force was set up in November 2001 with the aim to provide a platform for co-operation for the protection of water and water-related ecosystems in the Danube and Black Sea Region. This was in response to an EC Communication adopted in 2001, which highlighted priority actions required to improve the environmental situation in the region. The DABLAS Task Force comprises a number of representatives from the countries in the region, the International Commission for the Protection of the River Danube (ICPDR), the Black Sea Commission, International Financing Institutions (IFIs), the EC, interested EU Member States, other bilateral donors and other regional/ international organisations with relevant functions. The European Commission DG Environment holds the Secretariat of the Task Force. The main function of the process is to encourage a more strategic focus to the use of available financing, and to ensure co-ordinated action between all financial instruments operating in the region. The DABLAS Task Force seeks to bring cohesion to the process of financing of technical assistance and investments, by:

- identifying priority objectives common to the region as a whole,
- encouraging a more strategic focus to the use of available financing, and
- ensuring co-ordinated action between all financial instruments operating in the region

The DABLAS Task Force's mandate stipulates that it will support its main objective through:

- Supporting the effective implementation of the Memorandum of Understanding on Common Strategic Goals between the International Commission for Protection of the Danube River (ICPDR) and the Black Sea Commission, building on the work undertaken by the ICPDR and the Black Sea Commission;
- Development of a series of concrete activities including a pipeline of prioritised projects for the rehabilitation of the waters of the region;
- Development of concrete approaches for financing of priority projects;
- Providing suggestions to the ICPDR and Black Sea Commission concerning further strategic priorities;
- Monitoring the implementation of the priority projects, short listed by the Task Force

3.7 Lessons learned

Today, some six years later after launching MISP type of activities the pipeline of developing and mature projects is improving, but not fast enough. Expanding the project pipeline is even more of a priority looking at future financial perspectives available through EU funds and other assistance..

The 'MISP programme' began in 2003 with the Municipal Infrastructure Agency Support Programme. It continued through the CARDS 2006 Municipal Infrastructure Support Programme (MISP) and the IPA 2008 and 2010 MISP which is due to follow on from this. The programme as a whole has four goals: a) to assist in developing infrastructure policy and coordination mechanisms; b) to develop the project pipeline and its management mechanisms; c) to develop municipal capacity to prepare projects; d) to carry out the highest priority projects.

The repetitive, programmatic nature of the MISP series provides some distinct advantages. With each MISP project, the programme is adjusted to the rapidly changing circumstances, making use of lessons being learned by the previous ones. The first project in the series showed few concrete results but initiated a valuable process. The second is providing more results and has created the increasingly successful 'SLAP' information system, and the third, MISP 2008, is designed to consolidate the achievements.

It was clear from the analysis at municipal level that there is a severe lack of resources for the rehabilitation of basic infrastructure and the provision of new infrastructure needed to support environment and business development. In the beginning of 2010, we find the following situation:

- The project pipeline (the quality and number of projects in preparation) is increasing, but not rapidly, and with insufficient achievement of the standards expected for EU public or private investments. There is also a tendency towards very large projects, with the crucial medium-size under-represented. MISP 2008 and 2010 will improve the situation related to project documentation and maturity of projects. But the need for these kind initiatives, especially in the Danube Serbia Region should be addressed further.
- Municipal capacity is being addressed, and slowly advanced. MISP 2008 is set to focus on capacity building as the means to boost the pipeline, while complementary projects of differing focus also address municipal capacity.
- The SLAP shows that there will be priority projects ready for execution when MISPs 2008 and 2010 come to implementation. In addition, these two programmes have project development component which will increase the number of mature projects and fit to the Danube Serbia Region initiative.

Under CARDS projects, a project pipeline named SLAP (System of Long-listed Advanced Infrastructure Projects) information system has been developed, serving for identification, assessment and selection of projects. SLAP information system is municipal-driven instrument meaning that municipalities are responsible for entering their projects in accordance with the required format. Projects can then be rated based on established criteria. The SLAP information system is hosted by the SCTM but it is widely used by national stakeholders such as Environmental Fund (ECOfund), and bilateral donors and IFIs. SLAP information system is rapidly becoming the dominant tool for coordination of local infrastructural projects, as it gives a clear picture of the stage of preparation and

implementation of each project. It serves as a resource coordination instrument for preparation or implementation of projects by the various stakeholders, enabling the combination of grants, loans, government resources etc.. Any donor or other financier can use it to select the projects that perform best based on the criteria of their choice.

According to the present SLAP data, there are a great number of local infrastructure projects that need additional financial support to bring them to maturity. IPA 2008 MISP will contribute to this with a Technical Assistance component of 10 million Euros, while implementing projects for a value of some 45 million Euro. At the same time IPA 2010 MISP will contribute with a TA of 6 million and 21 million in the form of works. It is foreseen that this will expand the number of projects in the pipeline and their stage of maturity, gradually providing a more predictable project funding environment. Therefore, IPA 2011 the Danube Serbia Region would fit in this pipeline.

Experiences have shown that, inter-ministerial and inter-municipal cooperation is even more important to the development of environmental, economic and social infrastructure services. Economies of scale are especially relevant to smaller municipalities that lack the human capacities to prepare projects for financing. More inter-municipal projects would benefit not only the bigger municipalities who would manage them, but also the smaller ones who would be their beneficiaries. Therefore, the Danube Serbia will concentrate on preparation and implementation of inter-municipal projects.

A recent analysis of projects coming into SLAP information system revealed poor preparation in terms of environmental pre-requisites (environmental assessments, permit requirements, etc.). This may be due to poor coordination at a local level with the relevant authorities, but shows the need for more efforts on this aspect of pipeline development and for greater environmental awareness among officials and the general public.

With preparations being started for IPA component 3, major projects (limit-10 million EUR) are coming more into focus. But concentrating on them will leave most of the 167 municipalities without support in the essential small- to medium-sized projects. Both are sorely needed but each requires its own approach in Technical Assistance. Therefore, facilities such as the PPF are concentrated on the major projects, leaving to other similar initiatives (like the Danube Serbia) to deal with the medium-sized ones.

Co-financing municipal infrastructure is another key issue. While there is a huge need for investment in municipal infrastructure, financial resources are limited. Prudent selection of the projects and identifying the best financing mechanisms has often proved to be one of the main conditions of success.

4 INDICATIVE BUDGET (AMOUNTS IN M€)

| Danube | | | SOURCES OF FUNDING | | | | | | | | | |
|--|--------|---------|---------------------------|---------------------|------------|---------------------------------|-----------|-----------------|--------------------------|--------------|----------------------|-------|
| | | | TOTAL EXP.RE | IPA EU CONTRIBUTION | | NATIONAL CONTRIBUTION | | | | | PRIVATE CONTRIBUTION | |
| ACTIVITIES | IB (1) | INV (1) | EUR (a) = (b) + (c) + (d) | EUR (b) | % (2) | Total EUR (c) = (x) + (y) + (z) | % (2) | Central EUR (x) | Regional / Local EUR (y) | IFIs EUR (z) | EUR (d) | % (2) |
| Activity 1 | | | | | | | | | | | | |
| contract 1.1 (indirect centralized management) | X | X | 18.8 | 18.5 | 98% | 0.3 | 2% | | 0.3 | | | - |
| TOTAL IB | | | 7.8 | 7.5 | | | | | | | | |
| TOTAL INV | | | 11 | 11 | | | | | | | | |
| TOTAL PROJECT | | | 18.8 | 18.5 | 98% | 0.3 | 2% | | 0.3 | | | |

Amounts net of VAT

- (1) In the Activity row use "X" to identify whether IB or INV
- (2) Expressed in % of sum of each line of the **Total** Expenditure (column (a))

5 INDICATIVE IMPLEMENTATION SCHEDULE

| Contracts | Start of Tendering | Signature of contract | Project Completion |
|------------------|---------------------------|------------------------------|---------------------------|
| Contract # 1 | T + 1Q | T + 4Q | T + 16Q |

6 CROSS CUTTING ISSUES

6.1 Equal Opportunity

The Project will support the inclusion of women, minorities and vulnerable groups especially through its first component. These groups' concerns and social inclusion will be reflected when relevant in the activities programmed under the project, in particular when it concerns employment of project staff, as well as during project implementation where activities could be focused on this target group. The design of all training programmes for municipal staff will reinforce these issues.

This project has been prepared in close cooperation with CSO and local self governments. Therefore, implementation of this project should ensure that the interests of citizen groups are actively considered with respect to the European development agenda. In addition, it is envisaged that the Standing Conference of Towns and Municipalities will be a member of the Steering Committee which will ensure citizen participation in implementation of the project.

6.2 Environment

Regarding environmental infrastructure, both project documentation and works will be designed to EU standards. Specific attention will be given to environmental sustainability, in particular concerning environmental impact assessments during project preparation and implementation.

Furthermore the project will promote the awareness and the understanding of the environmental issues throughout the overall implementation; at the same time addressing environmental issues to higher instances on the level of the Government of the Republic of Serbia.

It is expected that implementation of this project will considerably improve environment state of play in the Danube Serbia Region.

6.3 Minorities

An assessment of challenges facing vulnerable groups will be undertaken. Project Danube Serbia will be implemented mainly in AP Vojvodina which is characterized by many minority groups. Through the general improvement targeted the socio-economic environment in the Danube Serbia Region, at the same time project will be especially beneficial for such groups.

ANNEX I: LOGICAL FRAMEWORK MATRIX

| | | | |
|---|---|---|--|
| ANNEX I: Logical framework matrix in standard format | | Programme name and number | |
| PROJECT: SUPPORT SOCIO ECONOMIC DEVELOPMENT OF THE DANUBE SERBIA REGION | | Contracting period expires 2 years after the signature of the Financing Agreement | Disbursement period: expires 5 years after the signature of the Financing Agreement |
| | | Total budget: EUR 18.8 million | IPA budget: EUR 18.5 million |
| Overall objective | Objectively verifiable indicators | Sources of Verification | |
| The overall objective is to advance the comprehensive and sustainable socio-economic development opportunities for the Danube Serbia Region and indeed for Serbia as a whole by maximising investments of the private sector, developing accompanying job creation potentials and increasing the attractiveness of the Danube Serbia Region to foreign investors through infrastructure development | Establishment of up to 3 new business investments with a combined direct employment generation capacity and increased number of visitors in the Danube Serbia Region | Annual reports of the Government of Serbia | |
| Project purpose | Objectively verifiable indicators | Sources of Verification | Assumptions |
| The purpose of the project is to tackle common problems and drawbacks which hinder the socio-economic advancement and thus enable Serbia's Danube river bank municipalities to increase competitiveness of the region, new employment opportunities and raise the attractiveness of the Danube Serbia Region to foreign and local private sector investors through the establishment and development of basic municipal environmental and | Increased employment opportunities through delivery of wide ranging assistance encompassing training, advice, exchange visits, elaboration of good practice examples to at least 20 Danube municipalities. Improved state of environment and enhanced tourism products by upgrading of infrastructure in at least 3 municipality | Annual reports of the Government's Danube working group Annual project reports | Awareness and/or understanding of the importance of the Danube Serbia Region as a potential for economic growth and employment Private investors are ready to direct their investments in the Danube Serbia |

| | | | |
|--|---|---|--|
| business infrastructure. | locations | | Region |
| Results | Objectively verifiable indicators | Sources of Verification | Assumptions |
| 1. Enhanced generation of new employment opportunities in local municipalities by improvement of agriculture production, environment and tourism management along the Danube river and developing new practices and capacities in relation to, environment, tourism and SMEs development | Enhanced development of new business products in the Danube Serbia Region Number of organised trainings and visits tourism sector; Number of PPP initiatives | Annual reports of the Government's Danube working group Annual and final project reports Annual reports of the Government of Serbia | Strong strategic direction and quality of submitted project applications by municipalities and RDAs New institutional set up due to the regular elections in 2012 (or earlier) supports project implementation. |
| 2. Improved visibility of the Danube Serbia Region in order to activate the Danube potentials in accordance with the global trends | Organised at least 1 broad stakeholder workshops/conferences; Ensured participation of Serbian stakeholders at least 2 international fairs; Prepared at least 5 types of brochures. | | Efficient coordination with other national projects related to the Danube (e.g. dredging) |
| 3. Established and implemented a grant scheme for inter-municipal projects that will develop socio-economic potentials in local municipalities in the Danube Serbia Region | Prepared grant application; Number of organised training and information seminars. Launched 1 calls for proposals; Implemented 3 to 30 projects financed by the grant scheme. | | The Government of Serbia support development of the Danube Serbia Region using national funds as well |
| 4. Ensured provision of support to respective municipalities and other relevant stakeholders in the identification, screening and preparation of project documentation and tendering | Identified up to 5 projects that can be submitted to other initiatives; Prepared project documentation for up to 3 | | |

| Results | Objectively verifiable indicators | Sources of Verification | Assumptions |
|---|---|--------------------------|--------------------|
| documentation related to the Danube potentials in the area of competitiveness (tourism, business infrastructure and R&D etc.) and environment | <p>projects that will be implemented in the period after 2014.</p> <p>Two selected infrastructure projects supervised and completed</p> | | |
| 5.1 Constructed new water supply system "Gradistansko ostrvo" | <p><u>Veliko Gradiste</u>: Increased the capacity of Q=90 l/s of water supply in the municipality of Veliko Gradiste</p> <p>Increased number of people / households that are connected to water supply in the municipality of Veliko Gradiste</p> | | |
| 5.2 Revitalized the Golubac city through building transportation infrastructure, water supply and sewerage installations, electricity and telecommunications infrastructure | <p><u>Golubac</u>: Built Capital "Iron Gate bus" in length 699.95 m, 3 uncategorized times and built a tunnel length of 146.74 m</p> <p>Built 760m of the primary water supply network</p> <p>Built 300 meters of primary sewage</p> <p>Built power station 10 / 0,4 kV</p> <p>Landscape 840 m network cables</p> | | |
| 5.3 Renovated Golubac fortress and arranged suburb to receive tourists. | <p>Visitors center built</p> <p>Removed path through the fortress and adapted tunnel</p> <p>Built a stage, auditorium and trails</p> | | |
| Activities | | Means & Costs | Assumptions |

| Activities | Means & Costs | Assumptions |
|--|---|---|
| <p>Activities in relation to the result 1</p> <p>1.1 Preparation of the analysis of development needs of referenced area and recommend measures for improvement of, environment and tourism management practices and business planning</p> <p>1.2 Preparation of training need assessment for municipalities and other local stakeholders in the environmental protection and tourism sectors in order to ensure that they develop the necessary practice, capacity and capability</p> <p>1.3 Provide assistance to the municipalities in preparing and implementing SME measures that contribute to local economic development (e.g. support the establishment of the Local Economic Service Centers within municipalities in order to improve the quality of business support services in selected municipalities etc.)</p> <p>1.4 Delivery of wide ranging assistance encompassing training, advice, exchange visits, international conferences, to support networking, marketing, elaboration of good practice examples etc. related to, environmental protection, tourism and SME's development for employees of municipalities, RDAs, professional associations, CSO etc.</p> <p>1.5 Support promotion and development of public private partnership initiatives and public-private dialoged at the local level</p> | <p>One contract - Indirect centralized management</p> | <p>Willingness of local stakeholders to adopt professional skills and necessary knowledge</p> <p>The national co-funding is made available to draw down IPA funding and implement projects prepared under this action.</p> <p>Municipalities are in position to deliver necessary permits, formal legal permission and rights of ownership on time.</p> <p>Ensured coordination in terms of timing between different grant calls (e.g. CBC)</p> |
| <p>Activities in relation to the result 2</p> <p>2.1 Hold a broad stakeholder workshops and conferences in order to initiate cooperation, networking and experience exchange on Danube Region potentials involving Serbian parties (ministries, municipalities, Autonomous Province of Vojvodina, SKGO, civil society organisations and the private sector), as well as representatives of regions and national bodies in neighbouring countries (e.g. public private partnership, food-processing etc).</p> <p>2.2 Support promotion of Danube potentials such as, tourism opportunities, investment opportunities, nature protected areas and national parks, etc. Identify specific local products) and support its promotion in the function of tourism development and region branding.</p> <p>2.3 Support participation of selected national and local authorities in investment promotion, different tourism, environment and agriculture international fairs, participation in Danube related EC initiatives.</p> | | |

| Activities | Means & Costs | Assumptions |
|--|---------------|-------------|
| <p>2.4 Prepare a strong, professional communication strategy on the Danube Serbia Region that can underpin all components by explaining to all stakeholders what the project means to them, and how it is linked with the EU accession process.</p> <p>2.5 Preparation of promotional material (e.g. brochures, web presentations etc.) related to the Danube Serbia Region potentials</p> | | |
| <p>Activities in relation to the result 3</p> <p>3.1 Development of a grant scheme to enable socio-economic development of the Danube Serbia Region mainly through value chains, supply chains and clusters, training and employment</p> <p>3.2 Hold information seminars for interested parties</p> <p>3.3 Support preparation of grant application and launching procedure for implementation of grant scheme</p> <p>3.4 Implementation of grant scheme through one call for proposals (smaller portion of the grant scheme can be supply of equipment or light works; Minimal value of project will be 100.000 euro, while maximal value will be 300.000 euro; Applicants are obliged to co-finance their project with minimum 10% of the project value).</p> <p>3.5 Holding project preparation practical workshops in order to support potential applicants in drafting grant applications</p> <p>3.6 Evaluation of received grant applications</p> <p>3.7 Implementation of selected projects</p> <p>3.9 Deliver training in grant management to local municipalities and other relevant local/regional stakeholders</p> <p>3.10 Monitor progress of project implementation</p> | | |
| <p>Activities in relation to the result 4</p> <p>4.1 Production of early cost estimates and technical design issues, identify recurrent financing requirements for future Danube related projects</p> <p>4.2 Preparation of selected projects' documentation including EU feasibility studies, cost-benefit</p> | | |

| Activities | Means & Costs | Assumptions |
|---|---------------|-------------|
| <p>analysis and funding gap calculations, environmental impact assessments, and other documentation (design, tender documentation etc.). Selected project must be recorder in the SLAP information system.</p> <p>4.3 Support identification of inter-municipal and regional projects that can fit to other national and international initiatives, such as the NIP or CBC etc.</p> <p>4.4 Preparation of implementation of grants under result 3</p> | | |
| <p>Activities in relation to the result 5</p> <p>5.1.1 Designing and equipping of the wells with electrical and hydro mechanical equipment</p> <p>5.1.2 Construction and equipping of pumping station "Ostrvo", filters, the discharge pipe to pass under the lake and water tower "Beli bagrem"</p> <p>5.2.1 Construction of bypass around the fortress Golubac city and construction of the tunnel</p> <p>5.2.2 Construction of the facility with water pumping stations and equipment</p> <p>5.2.3 Reconstruction of the voltage 10 kV transmission lines and replacement of worn-out wooden poles</p> <p>5.2.4 Construction of telecommunications installations</p> <p>5.3.1 Reconstruction of the ramparts, walls, towers 1-9 and palaces</p> <p>5.4.1 Supervision of the works projects carried out in accordance with appropriate (PRAG or FIDIC)</p> <p>5.4.2 Preparation of appropriate reports</p> | | |
| <p>Preconditions:</p> | | |

ANNEX II: AMOUNTS (IN M€) CONTRACTED AND DISBURSED BY QUARTER FOR THE PROJECT (IPA contribution only)

| Contracted | Q1 | Q2 | Q3 | Q4 | Q5 | Q6 | Q7 | Q8 | Q9 | Q10 | Q11 | Q12 | Q13 | Q14 | Q15 | Q16 | Total |
|-------------------|-----------|-----------|-----------|-------------|-----------|-------------|-----------|-------------|-----------|--------------|------------|--------------|------------|--------------|------------|-------------|--------------|
| Contract 1 | | | | 18.5 | | | | | | | | | | | | | 18.5 |
| Cumulated | | | | 18.5 | | | | | | | | | | | | | 18.5 |
| Disbursed | Q1 | Q2 | Q3 | Q4 | Q5 | Q6 | Q7 | Q8 | Q9 | Q10 | Q11 | Q12 | Q13 | Q14 | Q15 | Q16 | Total |
| Contract 1 | | | | 3.7 | | 2.59 | | 2.59 | | 2.59 | | 2.59 | | 2.59 | | 1.85 | 18.5 |
| Cumulated | | | | 3.7 | | 6.29 | | 8.88 | | 11.47 | | 14.06 | | 16.65 | | 18.5 | 18.5 |

ANNEX III: INSTITUTIONAL FRAMEWORK – LEGAL RESPONSIBILITIES AND STATUTES

The Coordination Group for development of the Danube Strategy has been established in 2009 consists of the Ministry of Public Administration and Local self Government, Ministry of Agriculture, Forestry and Water Management, Ministry of Environment and Spatial Planning, Ministry of Economy and Regional Development, Ministry of Infrastructure, Ministry of Finance, Ministry for National Investment Plan, Standing Conference of Towns and Municipalities etc. The Coordination Group for the support to development of Local Infrastructure (CG LI) established in June 2007 consists of the same institutions. All these ministries and SCTM took part in preparing this project fiche. This project will continue to play the role of a Secretariat of the Danube Coordination Group.

The Ministry of Public Administration and Local Self-Government (MPALSG) performs public administration tasks related to the system of local government and territorial autonomy, election of local government bodies, territorial organization of the Republic of Serbia and work relations in local government units and Autonomous Provinces. The Ministry of Public Administration and Local Self-Government has the overall responsibility of initiating laws concerning local government.

The changes in the functioning of LSG were influenced by the Strategy for Public Administration Reform adopted by the Government in November 2004. The Strategy set out 5 key principles that should underlie the reform: decentralization, de-politicization, professionalization, rationalization and modernization.

In accordance with the main principle of decentralization, at the end of 2007 four laws were adopted. The Law on Local Self-Government, the Law on Local Elections, the Law on the Capital City and the Law on Territorial Organization of the Republic of Serbia.

Several other Ministries are responsible for regulations and policy development in infrastructure, such as the legal aspects of construction, environmental issues, quality standards and other standards.

The Ministry of Agriculture, Forestry and Water Management is responsible for the water sector as a whole. The Directorate for Water acts as the ministry's representative. The Directorate for Water under the Ministry of Agriculture and Water Management has overall responsibility for water management issues at the national level.

The MinERD has the responsibility for implementing activities necessary for the effective coordination, administration and management of integrated regional development and the support of economic infrastructure.

One of the most important stakeholders is the Standing Conference of Towns and Municipalities (SCTM), which is the national association of local authorities in Serbia. The SCTM was founded in 1953, following the traditions of international associations of local authorities throughout the world. The SCTM is an organisation dedicated to the promotion and development of local government, representing their interests and assisting co-operation among local authorities.

Municipalities are responsible for a wide range of infrastructure services including water, wastewater, district heating, solid waste, and public transport among others. Funds for these

derive from local revenues and transfers from central government. The law provides for cooperation with other local government units in fields of mutual interest. One of the key goals of the Republic of Serbia is the creation of strong, influential and independent local governments with adequate communal services and a citizen-oriented approach. This objective can be achieved only if strong investment into municipal infrastructure is made. This includes all sectors for municipal development such as the environmental sector (e.g. water supplies, wastewater, solid waste, district heating etc), economic infrastructure (e.g. tourist attractions and other tourist infrastructure, urban renewal, brownfield regeneration, industrial parks, business service centres etc); and social infrastructure (e.g. sheltered housing and/or disabled access, education etc.). Municipalities must expand their role in planning, designing and financing their infrastructure requirements in order to attract private investment and create new employment opportunities. Municipal officials must acquire such expertise for their region to become attractive to international and national private investors.

The Law on Environmental Protection adopted in 2004 has given new responsibilities to local governments in the field of environment. Municipalities are responsible for managing the funds from implementation of the “polluter pays principle” and for adoption and implementation of LEAPs, local and regional waste management strategies and infrastructure project management.

On the local level in the last few years, many municipalities have prepared and adopted their **Local Strategic Plans** and some even **Capital Investment Plans**. This on-the-ground driven strategic planning of needs and available resources has resulted in clear concepts of what the community sees as priorities in the area of municipal infrastructure.

ANNEX IV: REFERENCE TO LAWS, REGULATIONS AND STRATEGIC DOCUMENTS:

Summary of relevant laws & regulations:

- The Constitution of the Republic of Serbia, 2006
- The Law on Public Administration, 2005
- The Law on Civil Servants. 2006
- The Law on Public Revenues and Public Expenditures.
- The Budgetary System Law.
- The Law on Budget of the Republic of Serbia for 2005.
- The Law on securities` market and other financial instruments.
- The Law on Tax Procedure and Tax Administration.
- The Law on Regional Development, 2009
- The Law on Communal Activities (Official Gazette 16/97, 42/98).
- The Law on Public Companies and Performance of Activities of General Interest.
- The Law on Commercial Corporations (with respect to earlier Law on Enterprises).
- The Law on Water.
- The Law on Waste Management (Official Gazette 36/09).

- The Law on Environmental Protection (Official Gazette 135/04, 36/09).
- The Law on Nature Protection (“Official Gazette of RS” no.36/09)
- The Law on Protection and Sustainable Use of Fish Fund (“Official Gazette of RS” no.36/09)

- The Law on Assets in the Ownership of the Republic of Serbia.
- The Law on Privatization.
- The Law on Concessions.
- The Law on Planning and Construction.
- The Law on Foreign Investments.

- The Law on Financing of the Local Self-Government, 2006
- The Law on Local Self-Government, 2007,
- The Law on Territorial Organisation, 2007
- The Law on Local Elections, 2007
- The Law on Capital City, 2007
- The Law on Public Companies and performing of activities of Common Interest (unofficial translation)
- The Law on changes and Amendments on the Law of Ministries, Art 7 extension art 28a with MIA, Belgrade 2003
- The Law on Free Zones, 2006
- The Law on Strategic Environmental Impact Assessment on environment (Official Gazette 135/04, 36/09)
- The Law on Environmental Impact Assessment (Official Gazette 135/04, 36/09)
- The Energy Law, Official Gazette RS No 44/2004
- The Law on IPPC, (Official Gazette 135/04)The Law on Environmental Fund (Official Gazette 72/09)
- The Law on Air Protection (“Official Gazette of RS” no.36/09)
- The Law on Packaging and Packaging Waste (, Official Gazette of RS“ no.36/09)

- The Law on Chemicals (“Official Gazette of RS” no.36/09)
- The Law on Biocidal Products („ Official Gazette of RS“ no.36/09)

In addition to the strategic documents mentioned in section 2 above, we can name the following.

Strategy of Public Administration Reform in the Republic of Serbia, Ministry of Public Administration and Local Self-Government, Belgrade 2004, stresses the importance of the decentralisation process and basic principles for its implementation. The fundamental objective of the reform is to provide a high quality of services for citizens through de-concentration of the state administration, delegation of power from the central toward lower levels and decentralisation. The Strategy also underlines the need for securing adequate mechanisms by which local government representatives will be in position to coordinate and develop long term capacities in direct cooperation with the Government and corresponding bodies of the central administration, or through the national association of cities and municipalities. The purpose of the public administration reform process in the Republic of Serbia is to transform the whole system of administration (central administration and local self-government) in order to harmonize it with overall reform policy.

Strategy of Regional Development of Serbia for the period 2007-2012 (adopted by the Government of Republic of Serbia in January 2007). The Strategy highlights the importance of stimulating the development of economic infrastructure: “Infrastructure is one of the most important factors for maintaining sustainable economic and social development of the Republic of Serbia, and represents a key driver for regional development and utilization of comparative advantages of local areas”. (Sections 2.12 and 2.4).

National Strategy of Sustainable development was adopted by the government in 2008. The 4th key priority of the Strategy is the development of infrastructure and harmonized regional development, improvement of the attractiveness of the country and ensuring a corresponding quality and level of services. The 5th key priority is protection and improvement of the environment and the rational use of natural resources.

National Strategy for Tourism (May 31, 2006) by Ministry of Trade, Tourism and Services – tourism now falls under the jurisdiction of the Ministry of Economy and Regional Development.

National Economic Development Strategy of the Republic of Serbia 2006-2012 (2006) by the Ministry of Economy – now the Ministry of Economy and Regional Development.

Development Strategy of railway, roadway, airway and inter modal transport in RS 2008-2015. (2008) by the Ministry of infrastructure.

The Strategic Plan of the Standing Conference of Towns and Municipalities 2005 – 2008 adopted at the 36th General Assembly on December 3, 2007 for the period 2008-2010, this establishes SCTM as the association of local authorities which recognizes its role and objectives and supports its membership in standards of good governance at the local level. It proclaims that the main task of the SCTM is to strengthen local government and to represent, protect and support its members and their interests at the national and international level. It also states that the most important priority at the national level is the process of decentralization and democratization and that on the international scene SCTM should

become a well-known and recognized association representing all Serbian towns and municipalities. According to the Strategic plan, the four priority areas are:

- Representing (advocating for) the interests of local governments in creating an environment which enables consistent decentralization (participation and influence in all phases of the enactment of legislation, regulations and national strategies relevant for the local authorities)
- Developing a sustainable system of support to capacity building of members
- Encouraging and supporting exchange, communication and cooperation among SCTM members at the inter-municipal, national and international level
- Capacity Building of the SCTM itself.

Strategy for Development and Encouraging Foreign Investments

Local Development Plans adopted by Local Governments /Municipalities across Serbia

National Employment Strategy 2005-2010

PRSP Strategy and Implementation Reports

National Programme for Environmental Protection 2010-2019 (2010)

The National Waste Management Strategy 2010-2019 (adopted in April 2010)**National Investment Plan** (2006) Government Programme for Promotion of Balanced Regional Development for 2010

Study “Local Credit Market for Municipal Infrastructure” by Royal Haskoning for EAR funded project Municipal Infrastructure Agency Support Programme (August 23, 2007)

The European Charter on Local Self-Government of European Council.

Governmental Memorandum to the Budget Law 2006 dated December 10th, 2005

Report Logo East Twinning Framework Serbia, Improvement of the internal management of local governments in Serbia 2006 – 2007.

Regional waste management Plan, SCTM Regional Plan tool 11

Establishment of Waste Transfer stations, SCTM Green Paper Tool 10.

Water Resources Development Master Plan, Information from Ministry, Directorate of Water, Serbia 2001.

Program of construction, rehabilitation and maintenance of water management facilities in 2006 -Ministry of Agriculture, Forestry and Water-Directorate for Water

Sector Review paper on the Water Supply and Waste Water sector, Royal Haskoning - May 2006

Global Serbian Wastewater Study, EAR – 2005

EBRD Initial and Final Report Serbia and Montenegro: Institutional Support for the Water Utilities in Kragujevac, Nis and Novi Sad, Belgrade- May 2005 and May 2006.

Tariff concept for Nis and Novi Sad by Dr. Fromme International Consulting 2002

Study on the Improvement of Commercial Performance of Public Municipal Enterprises for Water Supply and Sewerage as well as District Heating in Novi Sad, Niš and Belgrade by Stone & Webster Consultants – December 2001.

Aide Memoire 0406 Final (World bank water sector)

Energy Sector Development Strategy of the Republic of Serbia by 2015, Ministry of Mining and Energy, Belgrade, May 2005.

GTZ brochure on PPP project in field of solid waste management with Trojon & Fischer EKO, 2006.

ANNEX V: DETAILS PER EU-FUNDED CONTRACT (*) WHERE APPLICABLE:

Contracting arrangements: All activities within the scope of the Results- 1, 2 and will be implemented through a single service contract. Activity 3 will be implemented through a grant scheme organised around one call for proposals with 10% of co-financing. Activity 5 will be implemented through one two works contracts.

TA for Contract 1 will consist of a long term service contract covering project activities under Results 1, 2 and 4.

It is expected that the Contractor will:

- Improvement of management practices and business planning
- Complete feasibility and pre-feasibility studies for works contracts for future projects;
- Support preparation and implementation of grant scheme;
- Carrying out surveys and other research – including market analysis;
- Provide mentoring, informal and formal training to respective local administration, line ministry staff and other relevant agencies in project implementation;
- Development of organizational standards of performance etc.

It is expected that the Contractor and its key expert(s) have knowledge and experience in management similar projects.

Grant scheme will be organised through one call for proposals and it is included in activity 3. Smaller portion of the grant scheme can be infrastructure and supplies – e.g. to support management of tourism infrastructure; Minimal value of project will be 100.000 euro, while maximal value will be 300.000 euro; Applicants are obliged to co-finance their project with minimum 10% of the project value.

The Consultant is obliged support potential applicants in drafting grant applications by appropriate training and visibility campaigns. In implementation of this grant scheme focus will be on inter-municipal cooperation of Serbian municipalities (on this way coordination with CBC calls will be ensured). Leading institutions for grant applications will be municipalities, RDAs, or any other public body.

Implementation of infrastructure projects will be done through two works contracts and one supervision service contract which are elaborated in activity under Result 5.