



EUROPEAN COMMISSION

- EXTERNAL RELATIONS DIRECTORATE GENERAL
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-

SERBIA AND MONTENEGRO

**INCLUDING KOSOVO AS DEFINED BY THE UNITED NATIONS SECURITY
COUNCIL RESOLUTION 1244**

MULTI-ANNUAL INDICATIVE PROGRAMME

2005-2006

(ANNEX 2(a) OF THE 2002-2006 FRY COUNTRY STRATEGY PAPER)

Table of Contents

LIST OF ACRONYMS AND ABBREVIATIONS	3
I. BACKGROUND	4
II. SUMMARY OF THE MIP 2005-2006 WITH INDICATIVE BUDGETS - SERBIA AND MONTENEGRO	11
III. SERBIA AND MONTENEGRO	12
PRIORITIES AND ACTIONS	12
1. DEMOCRATIC STABILISATION	12
1.1. Return and reintegration of refugees and displaced persons and minority rights	12
1.2. Civil society and Media	15
2. GOOD GOVERNANCE AND INSTITUTION BUILDING	18
2.1 Justice and Home Affairs	18
2.1.1. Justice System Reform	18
2.1.2. Police, fight against organised crime and terrorism	21
2.1.3. Asylum and migration	23
2.2. Integrated Border Management	25
2.3. Public Administrative Reform	28
2.3.1. Public administration reform and the European integration structures	28
2.3.2. Decentralisation and local governance	32
2.3.3. Budgetary and financial management	34
2.3.4. Health administrative reform	37
2.4. Customs and Taxation	38
3. ECONOMIC DEVELOPMENT AND REFORM	41
3.1. Investment climate and Economic development	41
3.2. Trade and alignment to EU's internal market	46
3.3. Infrastructure	48
3.3.1. Transport and Telecommunications	48
3.3.2. Energy	51
3.3.3. Environment	54
4. SOCIAL DEVELOPMENT	57
4.1. Vocational education and training and employment	57
4.2. Higher Education	60
5. COMMUNITY PROGRAMMES	62
6. RUNNING COST OF THE EAR	64
7. GENERAL TECHNICAL ASSISTANCE FACILITY (GTAF)	64
8. RESERVE	64
IV. KOSOVO AS DEFINED BY THE UNITED NATIONS SECURITY COUNCIL RESOLUTION 1244 OF 10 JUNE 1999	

LIST OF ACRONYMS AND ABBREVIATIONS

BRA	Bank Rehabilitation Agency
CAFAO	Customs and Fiscal Office
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CFCU	Central Financing and Contracting Unit
CFSP	Common Foreign and Security Policy
CIDA	Canadian International Development Agency
CSP	Country Strategy Paper
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECHO	Humanitarian Aid Office
EIB	European Investment Bank
EICC	European Info Correspondence Centre
EIDHR	European Initiative for Democracy and Human Rights
EPCG	Elektroprivreda Crna Gore, Montenegrin power company
EPS	Electrical Power Company of Serbia
ESDP	European Security and Defence Policy
EU	European Union
FA	Framework Agreement
FDI	Foreign Direct Investment
FIA	Foreign Investment Agency
FIU	Finance Intelligence Unit
FYROM	Former Yugoslav Republic of Macedonia
GEF	Global Environment Facility
GTAF	General Technical Assistance Facility
IC	International Community
IDP	Internally Displaced Person
IFI	International Financial Institutions
IMF	International Monetary Fund
IOM	International Organisation for Migration
ISO	International Standard Organisation
JHA	Justice and Home Affairs
LIFE	Financial Instrument for the Environment
MIP	Multi-annual indicative programme
MS	(EU) Member States
MTEF	Medium Term Expenditure Framework
NGOs	Non-governmental organisations
OSCE	Organisation for Security and Co-operation in Europe
PAR	Public Administrative Reform
PRSP	Poverty Reduction Strategy Paper
REBIS	Regional Balkans Infrastructure Study
REReP	Regional Environmental Reconstruction Programme
RSP	Regional Strategy Paper
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SCG	Serbia and Montenegro (Srbija i Crna Gora)
SOE	Socially owned enterprises

SERBIA AND MONTENEGRO MULTI-ANNUAL INDICATIVE PROGRAMME 2005-2006

I. BACKGROUND

Preamble

The objective of the CARDS programme as defined by Council Regulation 2666/2000 is to support the participation of its beneficiary countries in the Stabilisation and Association Process (SAP).

The overall strategic programming framework of the CARDS Programme is done in the Country Strategy Paper (CSP) 2002-2006. It is complemented by a first Multi-annual Indicative Programme (MIP) 2002-2004. These documents were prepared and approved at the end of 2001.

The Commission reports annually on the Stabilisation and Association Process. The SAP Annual Reports assess the political and economic situation in the Western Balkan countries, and monitor the implementation of reforms and the development of co-operation within the region.

When assessing the necessity of a Mid-Term Review of the CARDS strategic framework, due account was taken of the SAP Annual Reports, in particular the one for 2003 and its Annex on the "Assessment of the Instruments of the Stabilisation and Association Process", which examines the political and economic situation in the region and the progress within the SAP. This document confirmed that the strategic priorities identified in the CSPs and the MIPs corresponded to critical areas of support to the region and, from an operational point of view, that CARDS still was a relatively new instrument, as implementation of the strategic orientations effectively started in 2002. The driving EU strategy for the Western Balkans, the Stabilisation and Association Process remains the same. On the basis of the above mentioned input, it was concluded that the Strategy Papers did not need modification and therefore no formal Mid-Term Review was necessary.

The type of activities and priorities stated in the Strategy Papers still were considered as the most suitable for supporting the policy strategy for Serbia and Montenegro as confirmed in regularly consultations with the authorities of Serbia and Montenegro (the Consultative Task Forces and the Enhanced Permanent Dialogue).

Update on the political, economic and social situation in Serbia and Montenegro

Since the adoption of the last MIP in 2001, the political situation has not been stable. Under the auspices of the HR/SG Javier Solana the "Belgrade Agreement" was signed between Serbia and Montenegro which lead to the restructuring of the Federal Republic of Yugoslavia into a State Union of Serbia and Montenegro. A new Constitutional Charter entered into force in February 2003. However, disagreement on the interpretation and implementation of the Constitution reflects the fact that the State Union still is fragile.

The political scene within the Republics have continued to be vibrant during this period. In Serbia, the anti-Milosevic "democratic" coalition was gradually weakened in 2001-2003. The assassination of PM Djindjic in March 2003 and the ensuing state of emergency have rendered political life more complicated. The strong showing of the

Radicals and the Socialist party in the local elections in early autumn 2004 demonstrated that forces of nationalism remains strong in the heartlands of Serbia.

Divergences are quite frequent between the moderately nationalistic Prime Minister Kostunica and the democratic and pro-European Serbian President Tadic who was elected this summer,

In Montenegro, much of the political debate has been focused on the future relationship to Serbia and the possible end to the State Union in 2006. „ Since September 2003 the opposition has engaged in a boycott of the parliament and is seeking new elections

The possibly most sensitive issue in Serbia and Montenegro's international relations is the cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY). Serbia's record in its cooperation with ICTY over the last year (after earlier progress, e.g. the transfer of Milosevic) has soured relations with the EU and needs to be improved if Serbia and Montenegro is to progress towards EU integration.

A fragile macro-economic stability has been preserved over the last years. GDP growth is now expected to rise much higher than in the last years, although the GDP is still only about half the level it was in 1990.

A record high growth in industrial and agricultural output is somewhat gloomed by relatively high inflation (approx. 10%) and a growing trade deficit. More restrictive measures to contain budgetary deficit is essential to uphold dept sustainability, on which further IFI loans are conditioned.

Although the pace of structural reforms has slowed after good early progress in 2001, some steps in the right direction have been undertaken again in Serbia, following the formation of a new government in Serbia in March 2004. In particular, a substantial legislative agenda has been submitted to the Serbian parliament since then. About 50 new laws, mainly in the economic and financial sphere, have been adopted in the past months or are in the process of being enacted, notably on bankruptcy, investment promotion, company registration, foreign trade, insurance, indirect taxation, and energy and railway.

However, much remains to be done in order to improve fundamentally the economic environment so as to allow for the creation of new jobs and to attract foreign Direct Investment.

As for unemployment, official figures stand at approximately 30% in both Republics. Although the real unemployment might be somewhat lower (seasonal and informal work) unemployment remains a major social and economic challenge for the two republics. About 11% of the population in Serbia and Montenegro lives below the national poverty lines. Like in many countries in the region, poverty touches mainly unemployed, large families of single-member household with low level of education as well as other vulnerable groups such as refugees and IDPs, minorities and the elderly.

The first MIP 2002-2004 has striven to support the progress of Serbia and Montenegro in above mentioned difficult political and socio-economic scene which, to a certain extent, has hampered the efficiency and results of the CARDS assistance to support reforms and progress in the SAP. In this situation, Serbia and Montenegro has not yet fulfilled the necessary conditions for contractual relations with EU.

The reinforcement of the Stabilisation and Association Process

The European Council at Thessaloniki in June 2003 confirmed the Stabilisation and Association Process as the policy framework of the European course of the Western Balkan countries all the way to their future accession. It reiterated the EU's determination to fully and effectively support the European perspective of the Western Balkans and endorsed the so called Thessaloniki Agenda. This Agenda has strengthened and enriched the SAP with elements from the enlargement process, so that it can better meet the new challenges, as the countries of the region move from stabilisation and reconstruction to sustainable development, association and integration into European structures.

The Thessaloniki Agenda also provided for the creation of European Partnerships for each country, which set out short and medium term priority actions to be fulfilled in order to move closer to the European Union.

Consequently, the European Partnerships also provide guidance for financial assistance, and the priorities identified therein constitute the basis for CARDS assistance programming, but, at the same time, reconfirms the validity of the priorities set out in the strategic programming framework.

The present Multi-annual Indicative Programme takes due account of the priorities set out in the European Partnership agreed through Council Decision 2004/520/EC of 14 June 2004¹.

Revitalisation of relations with the EU – the SAP and “twin track” approach

The overall delays in the implementation of Serbia and Montenegro's Constitutional Charter and in particular the lack of harmonisation of trade and related policies led to deadlock in the EU's attempts to present a feasibility study and to start negotiations on a Stabilisation and Association Agreement with the State Union. In order to avoid that the current stalemate further destabilises the country and to re-energise bilateral relations, the European Union proposed a so-called “twin-track” approach towards Serbia and Montenegro's approximation process to the EU in September 2004. This approach means dealing directly with the Republics on all policies which they conduct separately, in particular trade and customs matters, while at the same time preserving the State Union as such, as constitutionally foreseen.

Following technical talks in which this policy approach was confirmed by all political leaders of the country, the General Affairs and External Relations Council in October 2004 expressed its support for the “twin-track” approach. This enabled the Commission to re-launch an SAA Feasibility Report with a view to concluding it early next year.

The “twin track” approach has also had consequences for the programming of this MIP 2005-2006; As the European Partnership, adopted in June, was conceived before the new EU approach was adopted it does not fully reflect the “twin-track”. In the present MIP 2005-2006, the Commission has made sure that the programmes to be implemented will address the “twin-track” between State Union's and the two Republics respective competences. This is a situation which has to be reflected by certain flexibility in the implementation of the CARDS assistance under present MIP 2005-2006. . In particular, the assistance provided on Republican level should contribute to strengthen the State

¹ OJ L227/21 26.6.2004

Union of Serbia and Montenegro as a whole as well as strengthening the cooperation between the two republics.

Introduction

The present Multi-Annual Indicative Programme (MIP) sets out the priorities for Community assistance for Serbia and Montenegro in the period 2005-2006. The amount of the CARDS financial allocation for Serbia and Montenegro the period 2005-2006 is €380.5 million. The partition between sectors in the indicative budget is expressed for the two years period and in brackets as to allow for a fair amount of flexibility for the project identification and other interventions under annual Action Programmes, both in terms of definite amounts and yearly allocations to the sector concerned. The amounts per sector and the partition of the budget between the State Union and the two Republics have been fixed after thorough consultation with the European Agency of Reconstruction, EuropeAid, beneficiaries and other stakeholders.

The priorities of the MIP will form the basis for project identification and annual Action Programmes. The assistance will be delivered through a number of sectoral interventions in support of the three areas identified in Section Five of the Country Strategy Paper²:

- Democratic Stabilisation
- Good Governance and Institution Building (including public administration reform and, Justice and Home Affairs and support to customs and taxation)
- Economic and Social Development (including infrastructure and environment)

The **overall objective** of the Multi-Annual Indicative Programme is to support the participation of Serbia and Montenegro, including Kosovo as defined by the United Nations Security Council Resolution 1244, in the Stabilisation and Association Process (SAP).

The **specific objectives** of the assistance are therefore to:

- Help consolidate Serbia and Montenegro as a democratic country in which the rule of law and good governance apply thereby enabling it to participate in the SAP;
- Support the development of functioning institutions capable of acting as reliable counterparts for the international community and representing the entire country's interests effectively;
- Support economic reform and transition to a market economy, in order to facilitate sustainable economic growth, trade and employment, and to facilitate the integration of the Serbia and Montenegro economy into EU structures and those of the wider international community;
- Facilitate and encourage cooperation between Serbia and Montenegro and the other countries of the region as part of the SAP.

² Since the publication of the Country Strategy Paper for the Federal Republic of Yugoslavia C(2001) 4624 of 27 December 2001 the denomination of the State has change to Serbia and Montenegro.

As a SAP tool, the European Partnership identifies priorities for action in order to support Serbia and Montenegro's efforts to move closer to the European Union within a coherent framework. In supporting the SAP, the Multi-Annual Indicative Programme aims to focus CARDS support on helping Serbia and Montenegro take the medium-term priority actions identified in the European Partnership.

In the elaboration of this MIP, due account has been taken to the recommendations of the Evaluation of the Assistance to the Balkan Countries under the CARDS Regulation, for instance through wide consultation with the country's authorities, ensuring the ownership of this MIP. One of the main tasks for the future implementation of the MIP shall be the achievement of a higher degree of local ownership of interventions and management of funds. Furthermore, the MIP 2005-2006 seeks a greater articulation of the assistance with the policy framework under the European Partnership. In particular in the case of Serbia and Montenegro, as recommended by the CARDS evaluation, this MIP takes into account the preoccupation of Government stakeholders that CARDS is moving too quickly away from rehabilitation and reconstruction, by keeping the flexibility for physical investment (works and equipment) in support of the reform process, and by putting more emphasis on economic development to address deep socio-economic challenges in both Republics. Furthermore, in this MIP more focus is given to the preparation under the Public Administrative Reform of the authorities to improve their capacity to carry forward the European integration agenda and to become more closely associated with the preparation of the annual assistance programme.

The MIP 2005-2006 takes due account of priorities set out in the Poverty Reduction Strategy (PRS) of the State Union of Serbia and Montenegro in a complementary and mutually reinforcing way. Progress on key elements of the SAP agenda - as reflected in the European Partnership - notably public administration reform and co-ordination of economic policy - are preconditions for progress in the wider areas of economic and social development addressed by the PRSP

The fight against corruption is addressed as an underlying objective within the SAP: a central theme of the European Partnership, and thus of the present MIP which supports Serbia and Montenegro in addressing it, is helping to improve the transparency, efficiency and effectiveness with which its relevant authorities intervene in the economic and social life of the country. Such progress helps reduce both motive and opportunity for corruption. Planned interventions in the areas of public administration, customs and taxation, judicial and police reform will also be of particular importance in this regard. Furthermore, Public Administration Reform is an overarching priority in all sectors of the MIP.

The MIP sets out the areas of intervention in support of the Action Plans for the implementation from the European Partnership and thus clarifies the focus of the EU assistance to the State Union of Serbia and Montenegro. As such it is a useful instrument for the authorities in facilitating the coordination of donor activities.

The MIP for 2005-2006 indicates a number of actions to be undertaken during this period. However, exception political or administrative circumstances may not enable funding of each specific action indicated.

With Member States in Country

Meetings were held in Belgrade and Podgorica during the development of the present MIP to which all Member States were invited and at which the priorities of the present MIP were presented in order to ensure complementarity with Member States' bilateral assistance plans as well as avoid any duplication of efforts between EC and Member States assistance. Widespread agreement was achieved on the MIP priorities and allocations.

The input of the EC Delegation and the European Agency for Reconstruction into the development of the present MIP has benefited from the co-ordination, which the European Agency for Reconstruction undertakes continuously with Member States and other donors. Continued sector coordination with Member States will take place in order to ensure maximum coherence and supplementary of different Member States donors programmes in the implementation of annual action programmes in 2005 and 2006. Consultation regarding individual assistance projects will be conducted regularly. The European Commission in collaboration with the European Agency for Reconstruction will continue to take an active role in facilitating recipient owned donor coordination in relevant sectors.

With the Government

State authorities were consulted through the European Integration Offices at a number of stages during the drafting of the present document, on its priorities and scope. The authorities of the State Union of Serbia and Montenegro and its constituent Republics were consulted regularly in the framework of the dialogue in the Enhanced Permanent Dialogue meetings and formally in March 2004. In light of the new "twin-track" policy towards Serbia and Montenegro's integration process and the orientation adopted by the General Affairs Council in October 2004, in-depth consultations took place with the authorities in Belgrade and Podgorica in order to secure their agreement with the priorities and financial allocations set out in this document. This was done in parallel to the high level visit of Commissioner Patten and High Representative Solana

With Civil Society

The views of civil society actors in Serbia and Montenegro were taken into account through the EC Delegation's permanent contact with the NGOs community and through a formal consultation in October 2004.

With other stakeholders

The European Commission, in collaboration with the European Agency for Reconstruction, will on a sector level continue to closely co-ordinate its activities with other donors and IFIs to allow for complementarities, synergies and joint initiatives, also to warrant that other donor's assistance is in line with EU *acquis*. This coordination would be instrumental to, when suitable, gradually introduce sector wide assistance.

Co-ordination meetings with other stakeholders were held in Belgrade and Podgorica, attended by Office of the resident coordinator of the UN Country Team, UNDP, UNHCR, UNICEF, USAID, the Norwegian People's Aid, Open Society Foundation and OSCE.

Co-ordination with the World Bank encompassing Serbia and Montenegro's Poverty Reduction Strategies and IDA and other WB interventions among Brussels and Washington headquarters are on the ground takes place regularly and benefits from the presence of the EC/WB Joint Office in Brussels.

The priorities set out in the present MIP complement interventions planned by the World Bank and its Country Assistance Strategy 2005-2007, with for example planned EC support to World Bank-financed electricity infrastructure improvements, and mutual support to the Economic Policy Planning Unit helping Serbia and Montenegro develop its own economic policy, taking account of both the SAP and the PRSP. Furthermore, the implementation of the MIP should be closely coordinated with the UN Development Assistance Framework for Serbia and Montenegro 2005-2009.

The EIB and EBRD are very important partners with which the European Agency for Reconstruction closely cooperates / co-financing in the implementation of CARDS assistance in the country.

II. SUMMARY OF THE MIP 2005-2006 WITH INDICATIVE BUDGETS OF SERBIA AND MONTENEGRO

Priorities	Programmes	Indicative Financial allocations					
		State Union SCG		Serbia		Montenegro	
		2005-2006 Min	Max	2005-2006 Min	Max	2005-2006 Min	Max
1. Democratic Stabilisation							
1.1 Minority rights & refugee return		1.5-3		14.5-17.5		2-3	
1.2 Civil Society				5.5-6.5		1.5	
1.3 Media				3.5-4.5			
2 Good Governance & Institution Building							
2.1 Justice & Home Affairs		1.5-2.5		21-26		2.5-3.5	
2.2 Integrated Border Management				4-6		1	
2.3 Public Administrative Reform		3.5-5.5		61-75		6-7	
2.4 Customs & Taxation		0.5-1		5-5.5		2-3	
3 Economic and Social Development							
3.1 Investment Climate				20-24		4-5	
3.2 Trade		2.5-3		18-20		3-4	
3.3 Infrastructure - Energy - Transport and telecommunications				37 -45 20 -24		1.5 3.5-4.5	
3.4 Environment				19-23		3.5-4.5	
3.5 Education & Employment - Higher Education ³ - VET & Labour Market				10 13.5-16.5		1 1.5	
4. Community Programmes				8		0.5	
5. EAR running cost		0.5	0.5	12.0	12.0	1.5	1.5
6. GTAF		0.5	0.5	3.	3	0.5	0.5
7. Reserve		1	1	2.5	2.5	0.5	0.5
		2005	2006	2005	2006	2005	2006
Up to maximum TOTAL PER YEAR		8	8	166.5	161	23.5	22
TOTAL MIP 2005-2006		16		327.5		45.5	

³ through the TEMPUS Community Programme

III. SERBIA AND MONTENEGRO

PRIORITIES AND ACTIONS

1. DEMOCRATIC STABILISATION

1.1. Return and integration of refugees and displaced persons and minority rights

State Union €1.5-3M - Serbia €14.5-17.5M. - Montenegro €2-3M

Background - past and ongoing assistance

The European Partnership calls for Serbia and Montenegro to ensure, in *both Republics*, full respect of human rights, including access to health services, and easy access to personal documents; ensure right of a real choice between sustainable return and integration; facilitate integration for those who choose not to return. In relation to equality the Partnership calls for the Adoption and implementation of anti-discrimination legislation.

Furthermore, the Partnership calls *Serbia* to adopt new legislation on refugees and continue to implement the National Strategy.

The Country Strategy Paper for the Federal Republic of Yugoslavia emphasises that EC assistance programmes in this field should focus on socio-economic development of areas with high concentration of refugees and displaced persons.

Past EC assistance to refugees and IDPs (internally displaced persons) in SCG has gradually moved away from ECHO's interventions providing basic humanitarian aid (ECHO intervention ceased in December 2003) to assisting SCG to address a range of problems which refugees and IDPs face, capacity building for government institutions to address return related issues and if not possible assistance programmes to facilitate integration, , legal issues and property rights, and claims as well as providing information to the displaced and refugees on their rights.

Assistance under the MIP 2005-2006 aims to contribute to helping the Serbia and Montenegro establish the appropriate capacity to address the European Partnership priority mentioned above.

Objectives

To ensure that the relevant authorities have the capacities required to fulfil their role in the return and integration of refugees and internally displaced persons in accordance domestic legislation;

Improved access to work, education, health services, legal assistance and easy access to personal documents

To ensure that Serbia and Montenegro creates an environment conducive to socio-economic sustainability of minorities.

Expected results

The Commissariats for Refugees and IDPs as well as the Ministry for Human Rights and Minorities are capable of fulfilling their responsibilities in a manner appropriate to the domestic and international commitments of Serbia and Montenegro;

Institutional responsibility for overall competence on IDP is clarified and fully operational to facilitate effective implementation of IDPs related programmes

The contribute to the durable solution for 280,000 refugees and 180,000 IDPs, either through return, relocation or integration.

The law on Refugees in Serbia is amended in order to reflect international and European Standards pertaining to the issue (in particular, cessation clauses are included in the new legislation) as well as the 1951 Geneva Convention .

A Refugee law consistent with international and European Standards and the 1951 Geneva Convention is enacted in Montenegro and access to rights by refugees and IDPs is ensured (in particular, right to work, access to health care and easy access to personal documents)

Anti-discrimination legislation is effectively enforced.

Programmes to be implemented

1. Support to durable solutions for refugees and IDPs in collective centres in Serbia and Montenegro through fostering facilitation of return. When not possible, then, through integration and inclusion in socio-economic development programmes which also address the extremely vulnerable individuals and resident domicile populations;
2. Capacity building measures in the Commissariats for Refugees and IDPs in Serbia and Montenegro and the state level Ministry for Human Rights and Minorities; to adopt in Montenegro, amend in Serbia and implement legislation on refugees and IDPs and minorities, consistent with international and European Standards, ensuring full respect for their human rights, including access to work, education, health services, legal assistance and easy access to personal documents as well as assisting the above mentioned government ministries and departments to address the problems within the region.
3. Support to the social integration of minorities and fighting discrimination practices, in particular catering for the specific needs of the Roma population.
4. Support to the implementation of anti-discrimination and equal rights legislation in both Republics.
5. Prepare support for the returnees under re-admission agreements, with a particular focus on returnees for minority groups.

Indicators of achievement

Oversight by IC bodies (e.g. OSCE and UNHCR) confirms that the process of return of refugees and integration of refugees and internally displaced persons is being conducted a fair and legal manner;

The level of “secondary displacement” (i.e. returnees who go back to the place to which they were initially displaced) decreases

The levels of Minorities population covered by the social welfare network and public service and are increased.

Support in Minorities efforts to fully exercise their rights is operational.

The right of IDPs as citizens are ensured.

The process of eviction of IDPs from illegal settlements is pre-conditioned by the identification of an alternative solution and this principle is reflected in the legislation.

Cross-cutting issues

More effective Commissariats and government departments including the Ministry for Human Rights and Minorities to interact more effectively with other parts of public administration structure, including local administrations;

Effectively tackling the situation of refugees, IDPs and minorities promotes stability which is a precondition for economic development and long lasting peace in the region.;

A more effective Ministry for Human Rights and Minorities could ensure the necessary coordination, with other relevant authorities to provide improved protection of human rights according to international standards for the population as a whole and in particular to vulnerable groups of people and asylum seekers.

The programmes implemented will be designed in such a way as to ensure that they will equally benefit both men and women, particularly where they impact access to employment, education, health care, pensions, and other key areas of social inclusion

Link to regional strategy and other EC interventions

The activities should be designed to complement the support being provided to Croatia, fYRoM, Bosnia and Herzegovina and Kosovo as defined by United Nations Security Council Resolution 1244 as well as the CARDS regional programme, in the area of return, protection of human rights and regional institution building programme.

The assistance provided under the present MIP in this sector reinforces and extends the assistance being provided under Good Governance and Institution building, Economic and Social Development and Justice and Home Affairs.

The European Partnership’s priorities in relation to human rights protection (in particular of minority rights, included those of Roma, and the rights of the displaced persons,) will also be addressed by the European Initiative for Democracy and Human Rights programme, with which activities under the above priority will be fully co-ordinated.

These programmes will help to foster progress towards the EC/UNHCR/OSCE initiative on refugee return issues between the State Union of Serbia and Montenegro,

Bosnia and Herzegovina and Croatia.

Risks and assumptions

Continued political commitment and negotiations on facilitating the return of refugees with in the countries of origin of the refugees, in particular Croatia and Bosnia and Herzegovina, and active in dialogue with UNMIK and local authorities for the IDPs in Kosovo (as defined by United Nations Security Council Resolution 1244).

Full citizens, working and residence rights for IDPs and refugees

That appropriate financial resources are provided from the budget for the Return Fund;

An increased level of safety and security, particularly in Kosovo, but also improved conditions in Croatia and Bosnia and Herzegovina

That the republican authorities co-operate in a timely and appropriate manner with the Commissariat for Refugees and IDPs, The Coordination Centre for Kosovo and the Ministry of Human Rights and Minorities.

1.2. Civil society and Media

Serbia €8.5-10.5M – Montenegro €1M

Background - past and ongoing assistance

The European Partnership calls for Serbia and Montenegro to:

- Fully transform Radio Television Serbia and Radio Television Montenegro respectively into public service broadcasters and to support development of media in line with EU standards.
- Foster in *both Republics* professionalism of journalists and media operators.

The Country Strategy Paper for the Federal Republic of Yugoslavia emphasises the importance of media reform, and prioritises strategic support designed to bring about durable change in the media landscape. Furthermore the country strategy paper direct assistance to civil society development.

The EC has provided continuous assistance to the media, in order to develop a vibrant and democratic free press, which is the cornerstone of democratic development. During 2002, an operational audit of Radio Television Serbia (RTS) was conducted. In the 2003 the EC was further promoting independent media, especially the Media Centre and radio station B-92. In Montenegro, assistance focused on modernising public broadcasting. Three new draft media laws have been finalised.

From 2002, the EC has supported civil society by strengthening selected NGOs and other civil society organisations, in order to increase their efficiency and effectiveness. The 2003 programme for Serbia also supported the active participation of civil society in the preparation and discussion of the Government Poverty Reduction Strategy Paper (PRSP) and further strengthening of NGOs administrative capacity. A civil society programme has been launched in conjunction with local partners through five regional offices in Užice, Kuršumlja, Šabac, Pirot and Majdanpek, covering 51 municipalities in eastern

and western Serbia. In Montenegro the 2003 programme supported training of NGOs focussing on socio-economic and environmental issues.

Assistance under the MIP 2005-2006 will help Serbia and Montenegro to establish the appropriate capacity to address the European Partnership priority mentioned above. Furthermore, bearing in mind the civil society's role in the democratic stabilisation, support will also continue to strengthen civil society in Serbia and Montenegro.

Objectives

To ensure that the citizens of Serbia and Montenegro have access to independent public and private media; to improve quality of programmes and investigative reporting of national and local media in Serbia;

Increased involvement of civil society in the policy making process and enhancing the social dialogue.

Expected results

Full implementation and enforcement of media related legislation.

The reorganisation of the RTS into an operational and independent public broadcasting service.

Improved management and financial sustainability of media organisations.

Enhanced media-related professional skills and media operators.

Improved insight amongst journalists in different areas of specialisation, in particular European Integration

Increased capacity among civil society organisation and improved cooperation with public authorities in order to enhance civil society's contribute to Serbia and Montenegro's economic and social development

Programmes to be implemented

1. Assistance to facilitate the enforcement of media related legislation in line with European standards (e.g., Broadcasting Law, etc.), in particular by capacity building measures in the responsible authorities; support to the restructuring of RTS into a public broadcasting service; support activities related to the Media Fund, aiming to stimulate the development of quality programmes and investigative reporting of local media; improve sustainability and independence of the media sector; training to journalists in various areas of specialisation, in particular European integration issues
2. Support to strengthen the capacity of civil society organisations to effectively contribute to the ongoing transformation and development of the economy and democratic governance structures; support to the involvement of civil society in the implementation of the Poverty Reduction Strategy, also via supporting the Social Innovation Fund; partnership projects between local administrations, NGOs, grass roots organisations, social partners, professional organisations, universities, etc. and other parts of civil society; enhance (financial) sustainability of viable NGOs. Programme will also consider supporting NGOs dealing with cross-border and environmental issues.

Indicators of achievement

New media legislation, in line with European standards, fully implemented and enforced.

RTS functions as an independent public broadcasting service.

Number of state interference in media substantially reduced.

The number of trained journalists in media oriented matters and other areas of specialisation, in particular European integration.

Increased number of cases where the civil society are actively participating in the decision making process on both republic and local level as well as contributing to the achievement of the goals of the PRSP.

Cross-cutting issues

The programme is aimed at improving the participatory process, paying due attention to equal opportunities in the society as a whole (including minority groups and gender in social dialogue, design of policy, access to media etc). Development of a vibrant civil society and an independent and sustainable media sector is crucial for democratic progress in the country, will allow for increased transparency in policy making; and increase the awareness on EU integration issues.

Link to the regional strategy and other EC interventions

Close coordination of activities will be undertaken with regional CARDS support, in particular cross border cooperation, and with other EC interventions and other priorities under the present MIP, such as refugee return, justice and home affairs, public administration reform, environment and economic and social development.

The enhanced role of media and civil society in the democratisation process gives greater impact and coherence with other interventions foreseen in this MIP, including justice and home affairs, economic development and social development

Risks and assumptions

Enforcement of the Broadcasting Law, in particular re-election of the Broadcasting Council and launching of the tender for issuing licenses to national, regional and local electronic media; distribution of broadcasting frequencies.

Creation of the Telecommunication Agency.

Adoption of access to information Law in line with CoE standards.

Adoption of Law on freedom of association, and legislation on foreign NGOs and a more favourable tax environment.

Adopt the legislation to set-up a Human Rights Ombudsman Office.

2. GOOD GOVERNANCE AND INSTITUTION BUILDING

2.1 Justice and Home Affairs

State Union €1.5-2.5M – Serbia €21-26M – Montenegro €2.5-3.5M

2.1.1. Justice System Reform

Background - past and ongoing assistance

The European Partnership calls for Serbia and Montenegro to:

- Continue judiciary reform:
 - Ensure full legal and practical safeguards for independence and efficiency of the courts in *Serbia*, including the reform of the current system of appointment procedure; implement legislation on mandatory training and ensure budgetary sustainability of the Judicial Training Centre; create an IT network for prosecutors at all levels; ensure enforcement of court decisions. Develop the capacity to try war crimes domestically in full compliance with international obligations as to cooperation with ICTY. Set up appellate and administrative courts;
 - Ensure mandatory training of judges in *Montenegro*, through revision of the law on courts and budgetary sustainability of the Judicial Training Centre. Implement the IT strategy for the judiciary.
- Improve prison conditions:
 - In line with Council of Europe standards improve prison conditions in *Serbia*, in particular as regards vulnerable groups such as juvenile offenders; ensure further training of penitentiary staff and improvement of facilities;
 - Further training of penitentiary staff and improvement of facilities in *Montenegro*.

Priorities of the Country Strategy Paper for FR Yugoslavia establishes the support to strengthening the rule of law, adopt laws and policies in line with SAP requirements and upgrade the efficiency and reliability of the court system.

Past CARDS assistance to Serbia has been provided to improve the efficiency of the judicial process and court management, upgrading IT equipment in selected courts and support the Judicial Training Centre's work in curricula development.

In order to decrease the backlog of cases and facilitate an effective and efficient delivery of judicial services, the CARDS programme has helped the *Montenegrin* justice sector through the development of curricula and a mid term plan for the training of judges and the provision of IT equipment to the Ministry of Justice and the Judiciary. The programmes placed specific emphasis on areas such as criminal, civil and commercial law, court management and the European legal curriculum.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

To assist the authorities in Serbia and Montenegro developing and strengthening effective justice and home affairs policies and structures to guarantee a space of freedom, security and justice for all its citizens, in accordance with EU standards and best practices, as also identified in the CARDS 2003 Regional project on judiciary. Building on achievements of past assistance, the programme will aim to improve the overall efficiency and capacity of the judicial, prosecution and the modernisation and improved management of commercial courts in *Serbia*; improving prison conditions and management; ensure the effective functioning of the *State Union* Court. To foster training capacities of the judiciary in new investigation techniques in order to fight more efficiently against organised crime and terrorism.

Expected results

Strengthen the capacity of justice, including the prosecutors' offices. The EC assistance will contribute to more coherent and feasible policies on minority rights' protection and anti-corruption. It will promote policies which are in line with those of the EU and contribute to improved cooperation between Serbia and Montenegro and with neighbouring countries and regions. Judges and Prosecutors are provided with adequate initial and vocational training support by the Centres for Judicial and Prosecutorial Training.

Programmes to be implemented

- Ministerial and Judicial Capacity Building
 1. Continued capacity building assistance within the Ministries of Justice and Interior and if necessary other levels of government, in particular support to the drafting of laws and regulations in line with EU standards and best practice and their implementation; promotion of more effective inter-agency cooperation between involved justice institutions within the *Republics*, within Serbia and Montenegro and with the wider region;
 2. Strengthening of the capacity of the Judiciary, and in particular of the State Union Court, by – *inter alia* - training judges and introducing modern management procedures for staffing and organisation of the State Union Court,
 3. Support to the judiciary and prosecutor reforms in both Republics, and increase administrative and judicial capacity, also to implement the new criminal code as regards organised crime; assistance to the courts and the prosecutor's offices, including possibly re-equipment and physical rehabilitation; in Serbia, assistance to the commercial courts.
- Penitentiary
 4. Support to the reform of the penitentiary, improving legislation and institution building, including assistance to improve prison and detainees conditions and management in line with Council of Europe standards, in particular as regards vulnerable groups such as juvenile offenders and female

detainees; ensuring further training of penitentiary staff, in line with the approach under the coming CARDS regional project on penitentiary.

Indicators of achievement

Judges and prosecutors are selected, appointed, promoted according to merit; they are adequately trained and perform efficiently in a working environment free of corruption.

Reduction of the length of time before cases come to trial; number of judges and officials trained, and higher rates of execution of judgements both in civil and criminal matters; Reductions in the backlog of cases .

Prison conditions and management are in line with Council of Europe standards.

Cross-cutting issues

A more effective and independent judiciary is better able to contribute to the development of a democratic society and to the improvement of the human rights situation in the country. It is also better able to interface with other services, in particular the police services in the follow up of criminal procedures, and to play its part in customs and tax enforcement actions and back up effective property law implementation.

The support to the reform of the Judiciary should continue to help achieving a more balanced representation of women and men in the Judiciary, and improve the Judiciary capacity to provide professional service to both men and women.

Link to regional strategy and other EC interventions

The assistance will build on outputs of the related regional programmes and will co-ordinate with their activities. This includes most notably the CARDS regional projects on judiciary, policing and organised crime, and training of all actors involved, including high-level justice and police practitioners.

Risks and Assumptions

Continued support to the reform agenda in Justice and Home affairs; adoption and implementation of relevant legislation, in particular the Law on the Courts and underlying laws and procedures; ensure sufficient resource allocations to courts and prosecutor offices.

Visible and tangible cooperation by the *two Republics* in JHA matters amongst themselves and with the State Union level is a crucial element for the success of the programme. Commitment to ensuring and organising interagency and regional cooperation

Establishment of the State Union Court including agreement on the exact scope of its powers; and financial viability of the State Union Court, through regular financing in accordance with agreed principles and the preparation of a separate budget is essential prerequisite.

2.1.2. Police, fight against organised crime and terrorism

Background - past and ongoing assistance

The European Partnership notably calls for Serbia and Montenegro to:

- Continue restructuring the police in order to ensure accountability; reform police education; ensure cooperation among law enforcement agencies.
- Strengthen capacities to fight against organised crime, in particular on trafficking of human beings, drugs and economic and financial crime (including money-laundering and counterfeiting of currencies), fraud and corruption as well as improve the related national legislation; strengthen the Financial Investigation Unit.
- Start implementing the specific action oriented measures that were agreed at the JHA ministerial meeting in November 2003.
- Increase international cooperation and implement relevant international conventions on terrorism; improve cooperation and exchange of information between police and intelligence services within the State and with other States; prevent the financing and preparation of acts of terrorism.
- Strengthen capacity building at the Ministry of Interior in *Serbia* (notably the directorate for organised crime). Develop procedures and the capacity to share intelligence between agencies.
- Increase administrative and judicial capacity in *Montenegro* to implement the new criminal code as regards organised crime. Strengthen the Unit for fight against organised crime at the Ministry of Interior and ensure coordination of all the enforcement bodies.

The Country Strategy Paper for FR Yugoslavia prioritises the support to fighting organised crime and fostering cooperation on counter-terrorism

In Serbia the EU has provided assistance to improve the capacity of Organised Crime Directorate and the Serbian Criminal Police, as well as Border Police (see also Integrated Border Management), in line with EU standards and practices.

Under CARDS 2002-2004, the operational capacity of the *Montenegrin* border police was strengthened through training and IT equipment. In particular the programmes have provided anti-trafficking training and specialised border management equipment and IT equipment to enable more systematic linkages between border crossing points and the databases of the Ministry of Interior's Information Centre in Podgorica. Close coordination is ensured with similar projects in the Republic of Serbia.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro address some of the priorities in the European Partnership mentioned above.

Objectives

Building on achievements of past assistance, the programme will aim to improve the capacity for law enforcement, including the Ministry of Interior, police and other relevant bodies, in the fight against organised crime, corruption and economic crime.

Expected results

Strengthened capacities of the police services and other relevant law enforcement bodies.

A more coherent and feasible strategy on the fight against organised crime and terrorism, including improved cooperation and exchange of information among concerned services.

Improved cooperation between the two republics and with neighbouring countries and regions.

Programmes to be implemented

Building on the achievements of earlier national projects, as well as on outputs of the related regional projects (such as the project for the ‘Development of Reliable and Functioning Policing Systems and Enhancing of Combating Main Criminal Activities and Police Co-operation’), the following programmes should be implemented:

1. Support to the development of national strategies and action plans, reviewing strategies, legal and regulatory frameworks in complementarity to regional projects and strengthening administrative and operational capacities for the fight against drugs trafficking, smuggling, money laundering and corruption.
2. Support to the further development of the Financial Intelligence Units in *both Republics* which shall coordinate and analyse information from all agencies and coordinate financial investigations pertaining to organised crime and terrorist activities and money laundering in particular;
3. Support to the enforcement of penal legislation on trafficking and smuggling in human beings in conformity with the 2000 UN Palermo Convention;
4. Assist in the implementation of relevant international conventions on terrorism.
5. Support to the restructuring of the police: ensuring accountability and civilian oversight; reforming police education; ensuring co-operation among law enforcement agencies; providing specialised equipment and facilities for police forces; in particular, strengthening the unit for fight against organised crime at the Ministry of Interior.
6. Support the development and operation of police information systems in full compliance with EU standards, notably on data protection, including the necessary capacity for criminal analysis.

Indicators of achievement

National strategies, legal frameworks and organisational arrangements to co-operate in relation to matters related to organised crime is established and strengthened.

Capacities of the Directorate for Organised Crime in Serbia and the Department for Organised Crime in Montenegro is strengthened.

Improvements in law enforcement using EU standard measures of performance, e.g. number of successful cases, number of reported crimes, rate of arrests, etc.

Cross-cutting issues

In order to improve institutional capacity, the police services should become more effective in their co-operation and exchange of information in order to prevent serious crime, including organised crime and the financing and preparation of acts of terrorism.

More effective police forces would be better able to contribute to ensuring a democratic society and human rights.

The assistance to the restructuring process should help eliminate discrimination in recruitment / promotion, be it on gender or constituent-people criteria, improve the representation of women and take into consideration the specific needs of women and possible family/social constraints.

Link to regional strategy and other EC interventions

The assistance will build on outputs of the related regional programmes and will co-ordinate with their activities. This includes most notably the CARDS regional project on policing and organised crime and training of high-level justice and police practitioners. The information systems component will build on the achievements of the earlier CARDS regional project to enhance the capacities of Interpol National Central Bureaux, as well as on activities of coming regional CARDS projects to enhance the national capacities for regional and international sharing and verification of police and judicial information.

Risks and Assumptions

Continued support to the reform agenda in Justice and home affairs; adoption and implementation of relevant legislation, in particular the Law on Police and underlying laws and procedures; ensure sufficient resource allocations.

2.1.3. Asylum and migration

Background - past and ongoing assistance

As a short term priority, the European partnership calls for Serbia and Montenegro to develop a unified State Union-level approach to issues related to visa, asylum and migration in line with the Constitutional Charter, notably with the complete harmonisation of visa regimes as applied in the Republics, the adoption of the Asylum Law and the further conclusion and implementation of readmission agreements. Put in place the mechanisms, to monitor the implementation of policies in the areas of asylum,

migration and visa which are elaborated at the state union level but which are implemented at the republican level. In particular for *both Republics*, full participation in the coordination mechanisms for the adoption and implementation of the relevant State Union level policies.

The Country Strategy Paper for FR Yugoslavia priorities the support to developing a suitable asylum and migration policy.

The 2002 CARDS regional programme assists the improvement of migration, visa and asylum policies and practices in the Region.

Planned assistance under the MIP 2005-2006 aims to contribute to assist the Republics of Serbia and Montenegro to address the priorities in the European Partnership mentioned above.

Objectives

The programme will aim to contribute to the development and implementation of a proper Asylum, Visa & Migration regimes consistent with European standards.

To speed up adopting and implementing of the Asylum Law in line with the international and EU standards and practices.

To ensure co-ordination between the republics regarding the implementation of asylum and migration policies as well as the unified visa regime.

To continue concluding and implementing readmission agreements.

Expected results

An asylum and migration legislation in line with the international and EU standards is developed. A unified visa regime applied throughout the territory of Serbia and Montenegro and consistent with that of the EU is in place. Staff of relevant institutions is adequately trained. Improved co-operation and co-ordination of actions between the two Republics as well as with other countries in the region is ensured.

Programmes to be implemented

Support to the establishment and implementation of a consistent and coherent Asylum, Visa & Migration regime; focus on asylum and immigration legislation alignment with international Conventions and a visa regime consistent with EU; support regional co-operation on asylum and migration, including physical rehabilitation.

Indicators of achievement

Legislation on asylum at the State Union level and of the two Republics, visa and immigration is in force, which approximates that of the EU and Schengen in particular.

The number of third country nationals entering/exiting the SCG territory in a regulated manner. The number of asylum seekers having received protection and assistance in accordance with new legislation, including the granting of asylum.

Reception centres for asylum seekers, which approximate EU standards of reception, are established and operational in Serbia and Montenegro.

The organ in charge of the granting of asylum is clearly identified in each Republic and fair and efficient refugee status determination process is established.

Cross-cutting issues

More effective asylum and migration policy will contribute appropriate respect for human rights, minorities and gender equality, especially at the border;

Fair treatment of women from third countries should in particular be addressed in the context of the fight against human trafficking. In this context, specific legislative and administrative measures such as issuance of temporary humanitarian residence permits have been foreseen.

Link to regional strategy and other EC interventions

The assistance will be co-ordinated with regional programmes in support of Integrated Border Management, the fight against drugs, organised crime and trafficking in persons and asylum, visa and migration.

Coordination, Coherence and synergies will be assured with the AENEAS programme

Risks and Assumptions

Commitment to reform of issues related to visa, asylum and migration in line with EC Policies and best practices. Participation of all parties to the relevant working groups.

Conclusion of readmission agreements.

2.2. <i>Integrated Border Management</i>
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Serbia €4-6M – Montenegro €1M

Background - past and ongoing assistance

The European Partnership calls for Serbia and Montenegro to:

- As a follow-up to the Ohrid regional Conference on border security and management in May 2003, start implementation of the short term measures that were adopted by the Government and presented at the meeting of JHA ministers within the framework of the EU-western Balkans Forum on 28 November 2003.
- As a short term priority, to develop a State Union level approach and mechanisms and ensure consistent implementation on Republican level in line with the Memorandum of Understanding.
- As a short term priority in *Serbia*, to take further steps to implement best practices concerning border police, in line with EU Standards; proceed in coordination with the State level authorities with demilitarisation of the border control.
- As a short term priority in Montenegro, strengthen civilian control of borders (including training, equipment compatible with Schengen).
- Develop in *both Republics* the technical infrastructure and human resource capacities to implement the Integrated Border Management policy including strengthening the border police and the customs services.

- In *both Republics* improve cross-border facilitations through new border posts.

The Country Strategy Paper states that assistance will also be mobilised for the development of a comprehensive strategy in order to deal with the various problems related to border management and trade facilitation.

Serbia and Montenegro has benefited from €23 million EC assistance for Integrated Border Management since 2001. These funds have been used to upgrade infrastructure facilities and foster inter-agency cooperation at operational level (e.g. customs, border police, veterinary services), and to facilitate legitimate trade. The major border crossings along corridor X are thus being addressed (Horgos crossing with Hungary, Batrovci crossing with Croatia, and the Presevo border crossing linking Nis with Skopje and beyond to Thessaloniki)

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

Movement of people and goods at the border is facilitated, and border security ensured, in particular by supporting the development and implementation of a national Integrated Border Management (IBM) strategy in coherence with the Regional IBM Guidelines and the EC's IBM guidelines; achieving EU standards and effectiveness in operations of the border security systems integrated with national and regional police systems and facilitating the effectively controlled trade with SCG SEE neighbours and with the EU and candidate countries.

Expected results

Implementation of the integrated border management strategy for Serbia and Montenegro covering customs, JHA and other related border issues, closely coordinated with other SAP countries and EU

Increased capacity of the agencies and services involved in cross border control and facilitation activities to perform effectively and in a structured and cooperative manner, internally and at regional and international level;

Increased efficiency of border control, executed under systematic procedures and cooperation between the participants in the process, internally and regionally.

Programmes to be implemented

1. Development of technical infrastructure and human resource capacities to develop and implement the Integrated Border Management strategy and promoting inter-agency co-operation
2. Improvement of effective border crossings, including upgrading of roads and railways border posts. The focus of the 2005-2006 IBM programme will be on the borders with other CARDS countries to strengthen regional integration, as the main border crossings along the Trans-European Networks are being addressed in previous programmes.

Indicator of achievement

Increased capacity of the agencies and services involved in cross border control and facilitation activities to perform effectively and in structured and cooperative manner, internally, at regional and international level.

Increased efficiency of border control, executed under systematic procedures and cooperation between the participants in the process, internally and regionally.

Intensified regional trade and economic cooperation; increased flows of goods and people through the border crossing.

Decreased smuggling, trafficking and other cross-border crime.

Cross cutting issues

Improved border controls will not only facilitate trade and ensure revenue, but will also enable Serbia and Montenegro to meet obligations under international security and policing conventions. The programme is also closely linked to a number of other interventions under this MIP to strengthen institutional capacity building in Serbia and Montenegro.

Links to the regional and other EC instruments

Interventions under this programme will be developed taking into account the recommendations set out in the Guidelines for Integrated Border Management and other recommendations produced through the CARDS regional programme. The integrated border management strategies for Serbia and Montenegro gives coherence and greater impact to the various actions foreseen in this MIP on border management involving JHA (border control) as outlined above in this section but also to the transport (feeder roads), economic development (trade facilitation), consumer protection and customs and taxation actions. The CARDS Regional Programme will complement national border and other JHA actions by promoting regional cooperation, especially on international cooperation between national police forces, judiciary and immigration authorities to be more effective in the fight against regional and national organised crime.

It will also take into account the EC Neighbourhood programmes where appropriate, as well as with neighbouring countries' IBM programmes given the obvious regional implications (e.g. agreement on priority border crossings). This last aspect will be assured through meetings and studies financed through the CARDS regional programme. The IBM programme will also be linked with the activities of the Customs and taxation assistance.

This MIP priority is closely connected with the Economic and Social Development, Asylum and Migration, Police, Organise Crime and Terrorism and Judicial Reform interventions under the present MIP, as well as with Trade interventions especially in the areas of veterinary and phyto-sanitary control.

CARDS Customs and Taxation assistance will play a key role in supporting coordination aspects of integrated border management, as well as capacity building in customs and taxation, as part of the wider IBM aspect.

Risks and conditionality

Adoption and start of implementation of Integrated Border Management strategy in line with EU standards/best practises.

Planning and issuing of relevant permits, including building permits and resolution of land expropriation issues.

Agreement with neighbouring countries on priority border crossings.

2.3. Public Administrative Reform

State Union €3.5-5.5M – Serbia €61-75M – Montenegro €6-7M

2.3.1. Public administration reform⁴ and the European integration structures

Background - past and ongoing assistance

The European partnership calls for Serbia and Montenegro to continue public administration reform by:

- Further develop the European Integration structures, notably by strengthening the European Integration Offices, establishing smooth cooperation mechanisms as well as European Integration Units in the line of Ministries of State Union and Republican level;
- Ensuring, at *state union level*, appropriate administrative capacity to adequately perform the State Union competences and that a reform strategy for the State Union Public Administration is developed and implemented, including the necessary legislative basis;
- Adopting and implementing in *both republics* a comprehensive anti-corruption strategy, including adoption and enforcement of the available anti-corruption instruments. Ensure full compliance with the UN Convention on the fight against corruption
- Adopting civil service and public administration laws in *Serbia*; Implement civil service human resources development measures. Strengthen capacity (policy making and inter-ministerial coordination) of the public administration at government and local levels, notably by establishing a centralised payroll system. Strengthen the economic policymaking process, e. g. through continued support to strengthen the statistical services and the creation of a medium term economic planning unit;
- Implementing the law on civil service and set up the agency for human resources management in *Montenegro*; develop training and recruitment policy; strengthen policy-making process, e.g. through continued support to strengthen the statistical services and the creation of a medium term economic planning unit.

⁴ (incl .anti-corruption and statistics)

The Country Strategy Paper for FR Yugoslavia spells out that EC assistance in this sector shall primarily concentrate on supporting the adoption of laws and policies in priority SAP areas, capacity building, support for policy and public investment planning, an EU based procurement law and upgrade the statistical gathering and processing capabilities.

In both Republics, EC assistance has been provided to reform public administration. Initial support has contributed to modernising the administrative legal framework focusing on defining the scope of the civil service, drafting the civil service act and related decrees. In addition, assistance has been provided to strengthen the ministries' institutional capacity; local expertise of the institutions have been brought to a level of knowledge and skills that can now be used to sustain further reforms; a young professional programme is forming a core group of civil servants that are acting as change agents in the civil service system. Assistance has also been provided to training in macro-economic monitoring and forecast in Serbia.

Furthermore, European Integration has been supported by building up the competence and expertise of the three European Integration Offices and enhanced their co-ordination. Since 2004 support on European integration matters will also be provided to the Parliaments.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

Development of an efficient and accountable public administration in line with EU standards while reducing corruption and brain drain through establishment of systematic civil service training and recruitment; implementation of the Public Administration Reform strategies; implementation of the civil service reform (in particular with regard to the definition of the scope of civil service and its legal aspects – civil service law, organic public administration laws and related by-laws), of the civil service pay system reform and anti-corruption strategy and reinforce policy making and inter-ministerial co-ordination; sustainability of institutions responsible for public administration reform.

Rehabilitation and modernisation of the statistical system by implementing the Statistical Master Plan; Serbia and Montenegro's effective participation in the Euro stat system.

Building the capacities of the Ministries to gradually meet the requirements for the decentralised management of EU funds.

Expected results

Assistance to the PAR at is expected to contribute importantly to the functioning and the performance of the two republics in order to progress in the SAP. Both republics should have established a smooth cooperation mechanism for harmonious further integration with the EU;

An improved statistical service will impact on many areas of government and development. It will serve as a more precise "early warning" system for socio-economic problems, such as unemployment and GDP per capita levels, illiteracy. These and other data will give policy-makers the necessary information to put in place the necessary

policies and make the necessary budgetary decisions. In addition, EC assistance will ensure the country's effective participation in the Eurostat system.

Readiness of the authorities to safeguard the financial interest of the EU when managing future EU funds.

Programmes to be implemented

1. Development and implementation of a reform strategy for the Public Administration, including the necessary legislative basis; and strengthen networks, coordination, coherence and co-operation and development of capacity;
2. Strengthening the European Integration Structures, including support to the EIOs and European Integration Units in line Ministries, including enhancing public awareness.
3. Assistance to strengthen parliamentary committees dealing with key priorities under the European integration process/PRSP.
4. Improve the implementation capacity in order to maximise the benefits of the new instruments under the Thessaloniki agenda and to enhance the authorities involvement in the definition of the assistance programmes to meet the Copenhagen/Madrid criteria and to increase Ministries capacities to manage EU funds
5. Support to the statistical system; reinforcing the institutional capacities of the three Statistical Offices in *Serbia* and *Montenegro*; improve the effective co-operation between the statistical offices;
6. Support for the effective functioning of the Council of Ministers of the State Union of SCG

In Serbia

7. Assistance to support to the continuation of the implementation of civil service reform including legal aspects, civil service status, recruitment system, civil service pay system reform and reinforcement of policy making and inter-ministerial co-ordination; to the establishment of an institution specialised in civil service training.
8. Assistance to the implementation and enforcement of a comprehensive anti-corruption strategy
9. Support to the improvement of the Public Procurement Law, its implementation and operational capacities.

In Montenegro

10. Support to the Human Resource Management Agency and other public administration reform bodies, including the Government office for Economic Policy and Development.
11. Assistance to the implementation and enforcement of a comprehensive anti-corruption strategy

Indicators of achievement

Approval and implementation of public administration reform, including restructuring, training, anti-corruption and performance-related reforms.

National representativeness is adequately demonstrable at all levels of government and mobility of civil servants between these levels is statistically increased.

Consistency of drafting of regulations and administrative procedure codes at all levels of government; Consistency of recruitment, promotion and employment conditions across levels of government in the public administration.

The EIOs actively inform and coordinate ministries in relation to EU affairs and acts as an effective counterpart for Community institutions and bodies.

Increased awareness of the SAP and the EC *acquis* demonstrated in policy proposals and a high degree of compatibility between new legislation and the EC *acquis*.

Improvement in production and confidence level of statistics, as measured by assessment reports from Eurostat.

The number of reliable and internationally recognised macro-economic indicators produced for Serbia and Montenegro and used by International Financial Institutions.

Cross cutting issues

Public administration reform is a horizontal activity and thus intersects with each of the MIP focal areas related to institutional capacity building, reinforcing and extending the assistance being provided to other sectors. The PAR should also improve democracy and fairness due to a less politicised and better regulated administration and commitment to implementation. It will improve equality, human rights and easing inter-ethnic tensions due to public administration able to cater for the whole population.

Link to regional strategy and other EC interventions

Being a horizontal activity, the support to Public administration reform will have to be coordinated with each of the other MIP priority areas.

The activities are designed to complement the support under the “Institution Building Facility for the SAP” being provided to Serbia and Montenegro, Albania, Croatia, FYROM and Bosnia and Herzegovina under the CARDS Regional Institution Building Programme. This includes the SIGMA and TAIEX instruments whose activities will be closely co-ordinated with those developed at national level.

Risks and assumptions

Adoption by the Government of a Public Administration Reform Strategy and of a calendar of actions for implementation; political commitment at line ministries level to long term Public Administration Reform; sufficient Government and donor resources available to address the Pay System Reform and continue the implementation of reforms; relevant understanding of absorption capacity levels; political commitment, ownership of process as well as appropriate and sufficient resources including staffing to reinforce the Centre of Government mechanisms.

In Montenegro

Implementation of the strategy on Public Administration Reform; adoption and implementation of the legislation on civil service and the law on salaries of civil servants and public employees; political commitment, ownership of process as well as appropriate and sufficient resources including staffing.

HRM (human resource management) Agency established with appropriate staffing and budget.

Several donors are active in the field and there is a risk of overlapping *among* projects or activities. The EC, through the European Agency of Reconstruction in cooperation with the EC Delegation, should be a *driving force* in donor dialogue and coordination in the development of Annual Action Programmes and individual projects.

There is a risk that the government will have little incentives for PAR and fail in implementing all planned policies, as well as *that* the projects will *not* have enough flexibility to support the government in its strive for development

2.3.2. Decentralisation and local governance

Background - past and ongoing assistance

The European partnership calls for Serbia and Montenegro to promote local government by:

- Adopting and implementing the decentralisation reform in *Serbia* and ensure sufficient local capacities to deal with, among others, administrative and financial issues and forthcoming regional programmes;
- Implementing law on local government in *Montenegro*, notably by establishing the equalisation fund;

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

Selected municipalities, which have been engaged in revising sector policies, received from past CARDS assistance advice on restructuring municipal services, utilities and institutions. Local capacity of the selected municipalities increased and the investment component of the projects contributed significantly to improve the delivery of municipal services while at the same time assisting the municipal authorities to draft budgets, manage public finances, and creating long-term capital investment programmes.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

An efficient and coherent decentralisation process in Serbia and Montenegro in line with the laws on local self government; strengthening the institutional capacity to implement the decentralisation; stimulating regional co-operation and development and cross border co-operation; enhancing the role of civil society in local decision-making; improving access to, and the quality of, municipal services; enhancing socio-economic

coherence between local communities including the stimulation of local economic development initiatives in line with the PRSP (with specific attention for vulnerable groups, e.g. refugees, IDPs, Roma, etc.).

Expected results

An improvement in the quality of administration and service being delivered to the local community in the selected municipalities. Training of local civil servants in the running of local government as well as investments through a special fund will allow the selected municipalities to tackle serious deficiencies in their local physical and socio-economic system.

Programmes to be implemented

In Serbia

1. Assistance to improve the institutional capacity of relevant national ministries, the standing conference of towns and municipalities and selected municipalities; support for the improvement the efficiency of municipal planning, municipal management and the efficiency of service delivery at municipal level through, for instance, the preparation of strategic action plans; implementation of priority local infrastructure projects; introduction of municipal “one stop shop” centres for service delivery, citizen advisory boards and citizen assistance centres (permitting etc.); stimulation and facilitation of local development initiatives in selected municipalities and/or regions; support to enhanced regional development (including support to regional policy and institution building), also through increasing the impact of the New Neighbourhood programmes by providing complementary assistance for projects, capacity building, setting up procedures for project cycle management and involvement of stakeholders.
2. Contribution to the review and further development of the decentralisation legal framework in line with CoE recommendations including the local government finance system and the cadastre;

In Montenegro

3. Assistance to improve the institutional capacity of relevant national ministries, the Union of Municipalities and selected municipalities; special focus on the poorest municipalities in the North of Montenegro to enhance delivery of municipal services; improving the efficiency of municipal planning service delivery at municipal level through the preparation of strategic action plans; contributing to the review and further development of the decentralisation legal framework in line with CoE recommendations including the local government finance system and the cadastre; contributing to enhanced regional development, also through increasing the impact of the New Neighbourhood programmes by providing complementary assistance for projects, capacity building, setting up procedures for project cycle management and involvement of stakeholders.

Indicators of achievement

Strategic action plans prepared and municipal “one stop shop” centres for municipal planning service delivery established and functioning in a selected number of municipalities;

Selected priority local infrastructure projects and other local development initiatives successfully achieved;

The decentralisation legal framework in line with CoE recommendations.

Local authorities increase knowledge on local government contribution to EU integration process.

Cross-cutting issues:

As a vital element of Public Administrative Reform, decentralisation will allow for the modernisation of a democratic state by bringing the decision making closer to the citizens who will have more direct control over it.

The decentralisation should also contribute to the easing of inter-ethnic tension due to municipalities able to cater for the whole population.

Link to regional strategy and other EC instruments:

Interventions shall be linked to the economic development, environment and democratic stabilisation programmes under the present MIP and the cross border and institution building components of the CARDS regional programme;

Risks and assumptions

The limited oversight capacity of the central level

Continued support for the implementation of the laws on local self-government.

National representativeness is adequately demonstrable at all levels of government and mobility of civil servants between these levels is statistically increased;

Consistency of drafting of regulations and administrative procedure codes at all levels of government;

<i>2.3.3. Budgetary and financial management</i>

Background - past and ongoing assistance

The European partnership calls for Serbia and Montenegro to improve the budget process and financial management by:

- Strengthening capacity building for budget preparation and execution to enable prioritisation;
- Improve financial management at central and local government level. Adopt the Law on the Supreme Audit Institution
- Establish effective procedures for the detection, treatment and follow-up of cases of suspected fraud and other irregularities affecting national and international funds.

The Country Strategy Paper for FR Yugoslavia spells out that EC assistance in this sector shall primarily concentrate on public investment planning and budgetary transparency

Treasury, internal auditing and IT departments have, through CARDS assistance, been established or further developed within the Ministries of Finance; assistance was provided to replace the old “ZOP” payments system; and tax administration was improved.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

Improved budget preparation, formulation and management, including through the development of a medium term budget framework within, or in addition to the budget memorandum;

Implementation of the tax legal framework for increased efficiency of tax collection, a broadening the tax base and formalisation of the grey economy;

Continuation of public expenditure management reforms, particularly treasury, budget execution, public financial internal control and their related IT support. This includes the strengthening of internal and external audit and control activities, such as establishing a supreme audit institution and support for the developing of coordinated internal controls..

Expected results

A more effective, accountable and transparent public administration, enhancing efficiency of revenue collection and an improved budget preparation and execution capacity, improving the allocation of government’s resources, thus spurring economic efficiency and productivity, fostering investor confidence and sustainable economic development, eventually promoting welfare and reducing poverty.

The establishment of a Supreme Audit Institution in Serbia

Programmes to be implemented

In Serbia

1. Assistance to the Ministry of Finance and main line ministries to improve budget preparation and management; strengthening the capacity of the Ministry of Finance and other ministries in budget formulation; assistance to continue and implement the reforms of public expenditure management: treasury, financial control and implementation of related IT systems and solutions; assistance to the establishment of an economic planning unit;
2. A study on the reform of pension and social funds to reinforce financial sustainability;
3. Assistance to the establishment of a Supreme Audit Institution; assistance to the implementation and enforcement of a comprehensive anti-corruption strategy;

In Montenegro

4. Assistance to the Ministry of Finance and main line ministries to improve budget management, in particular with regard to medium term planning and inter-ministerial co-ordination; strengthening the capacity of the Ministry of Finance in budget formulation, macro-financial analysis and the budget execution area; assistance to the Treasury to complete the integrated government financial management system; support to improve public procurement and sound financial management.

Indicators of achievement

Functioning financial control systems, as measured by audits on revenue and budgeting procedure, public expenditure in beneficiary municipalities and public sector procurement processes.

The Supreme Audit Institution in Serbia established and operational

Appropriate and reliable financial reporting demonstrates correct management of public funds with budgets being used to control spending;

Ministries create and budget for multi-annual programmes with strategic cross-sectoral links which are consistent with Serbia and Montenegro's macro-economic framework;

Cross cutting issues

Efficiency in revenue collection and improved budget preparation and expenditure management, functioning financial control system and strategic economic planning are prerequisites for a success public administrative reform in Serbia and Montenegro and also, in its extension, to democratisation and social development

Link to regional strategy and other EC interventions

Particular attention should be given to the coordination with other PAR as well as the priorities under justice and home affairs. Coordination and synergies should also be sought with the institution building components of the CARDS regional and the neighbourhood programmes.

Risks and assumptions

In Serbia

Adoption by the Government of a Public Administration Reform Strategy and of a calendar of actions to take; political commitment and sufficient Government resources available to address the Pay System Reform and continue the implementation of reforms; political commitment and sufficient resources to reinforce the Centre of Government mechanisms.

Adoption by the Ministry of Finance of IT strategic orientations for all Public Finance institutions (including Ministry of Finance, Customs, Tax Administration, Public Payment Agency; formal Government commitment and adoption of the Treasury model (legal & organisation provisions and IT solution), Public Internal Financial Control bylaw and the Internal Audit bylaw and their implementation throughout ministries and public institutions.

2.3.4. Health administrative reform

Background - past and ongoing assistance

The European Partnership calls Serbia to reform the health system, in particular, the health insurance fund, with a view to ensure its financial sustainability and with a view to improve health protection and the health of the population.

Following emergency assistance in 2000 - 2001 with the provision of essential medicines and some medical equipment, the EU provided technical assistance towards the regulation and strengthening of the pharmaceutical sector. As of 2003, with the definition of the national health sector strategy, technical support is being provided to the Serbian Ministry of Health and the Institute of Public Health.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia to address the priorities in the European Partnership mentioned above.

Objectives

To continue to health sector reform: at the level of both the Ministry of Health, the health insurance fund and the main health cost centres, help building up the management capacity and support the implementation of reforms with a view of (a) facilitate the health expenditures and improve accountability and transparency in health financing (b) help improve financial sustainability of the Health Insurance Fund c) contribute to improve equity and quality in service delivery, particularly at primary care level.

Expected results

The total expenditures on health are controlled (in proportion of the GDP); the imbalances between revenue and expenditure of the Health Insurance Fund (HIF) is reduced and the accumulation of arrears is stopped; out of pocket payments – and in particular informal payments – are contained and measures are taken and implemented to improve accessibility to health care of the poor and most vulnerable groups;

Programmes to be implemented

1. To ensure the effective implementation and sustainability of the reform of the health sector, address crucial issue of health sector financing, support the reorganisation and capacity building of the health insurance fund as well as reform of primary health care.
2. Develop and implement information systems to integrate patient care, billing and monitoring functions at all level of health.
3. Establish quality assurance, licensing and accreditation institutions as well as supporting patient and consumer associations.
4. Support development of public health management standards and use of health technology.
5. Technical assistance to facilitate the implementation of programmes funded by

International Financial Institutions (IFIs)

The setting up of a sector policy dialogue involving authorities, stakeholders and other donors under close collaboration should be considered with the perspective to gradually introduce a sector wide approach.

Indicators of achievement

Number and proportion of senior staff trained in management.

Information system developed, tested and piloted in a sample of health facilities.

Computerised system for pharmaceuticals developed, tested and piloted.

Quality assurance, licensing and accreditation bodies established, staffed and functioning.

The health sector is financed in a sustainable manner allowing for affordable services to all citizens particularly at primary care level.

Cross cutting issues

In past years, inequalities in access to health care have widened and this constitutes an additional risk factor for social cohesion and democratic stabilisation. The programme should therefore have a positive impact on democratisation and social development. For the implementation of the UN Millennium development goals certain emphasis should be given to women and children in the health reform.

Link to regional strategy and other EC interventions

The assistance in the health sector provided under the present MIP reinforces and extends the support being provided to return and reintegration of refugees and IDPs and minority rights, public administrative reform and Economic Development.

Risks and assumptions

Upgrading of the legal framework related to tertiary care

Approval of the legislation relevant to patient data protection and pharmaceutical regulations

Legal introduction and application of new preventive programmes

2.4. Customs and Taxation

State Union €0.5-1M - Serbia €5-5.5M – Montenegro €2-3M

Background - past and ongoing assistance

The European Partnership calls for Serbia and Montenegro to ensure the full implementation of the customs reform plan to secure a high degree of administrative capacity, with a specific attention being put on the observance of obligations related to

the implementation of preferential trade measures (origin) as well as on the strengthening of the Joint Customs Office.

In relation to taxation the Partnership calls Serbia and Montenegro to continue review fiscal legislation and administrative procedures in order to ensure effective and non-discriminatory enforcement of the tax legislation and to continue strengthening the administrative capacity of the tax administrations.

The Country strategy paper spells out that assistance should be concentrated to modernising the services and bringing them into line with EU standards, developing enhanced cooperation for the free circulation of goods and people, improving trade facilitation and taxation compliance, widening the taxation base and combating tax evasion.

Since the end of 2001, the EU has been providing technical assistance to both Serbia and Montenegro to ensure that the customs and taxation functions are modernised and developed in a comprehensive and cohesive manner throughout its territory. Thus the programme has contributed to the fight against fraud and corruption, facilitation of legitimate trade, and to improvement of the efficiency of revenue collection. In the area of taxation, the assistance supported both republics in their efforts to develop an effective and EU-compliant VAT system. In Montenegro the VAT has been introduced in 2003. In Serbia it is planned to be introduced in 2005. Support for the Customs Administrations of both republics included assistance to the Joint Customs Office.

More than twenty customs and taxation experts from the EU Member States customs and taxation administrations were deployed in Serbia and Montenegro to provide technical assistance (including training and organisation of study visits). Funds were also earmarked to accompany the implementation of this technical assistance, providing equipment and small-scale infrastructure improvement.

Planned assistance under the MIP 2005-2006 aims to contribute to helping SCG address the priorities of the European Partnership mentioned above;

Objectives

To support the fight against fraud, smuggling and organised crime and to produce reliable data to monitor trade flows.

To modernise the customs and taxation services at Republican level so as to bring it closer to EU working practises and international standards.

To strengthen the Joint Customs Office.

To ensure the coordination of customs throughout Serbia and Montenegro, also by strengthening inter-republic and inter-agency co-operation

To rationalise revenue rising potential, including the fight against tax evasion.

To contribute to the free flow of goods in the region and with the EU

Expected results

The SCG customs reform plan is effectively implemented incl. sufficient administrative capacity in the Customs authorities

Effective tax administration, incl. VAT.

Programmes to be implemented

1. Contribute to the development of EU compatible legislation; train officers in implementing procedures; introduce modern management procedures for staffing and organisation.
2. Support the reinforcement control and management of transit, including at both border crossing points and in-land customs clearance facilities, including the introduction of systems to improve processing of trucks, spot checks, computerised exchanges of data between checkpoints and across borders, a reliable guarantee system, and the capacity to use transit data for the automated preparation of inland clearance declarations.
3. Develop a valuation control system and improve control of origin of goods, including the expansion the use of “post-release checks”, requiring the introduction of administrative capacity to follow-up on evaluations and queries, investigate specific customs’ cases, training, and co-operating with other administrations.
4. Improve intelligence and enforcement providing support in terms of training, equipment and legislative adjustments providing Customs with greater powers of investigation and prosecution
5. Strengthen the Joint Customs Office
6. Strengthening institutional and administrative capacity of the tax administration to improve tax collection.

Indicators of achievement

Substantial alignment to EU compatible customs legislation in both republics;

More effective and less time consuming border crossing points and in-land customs clearance facilities;

Improved control of origin of goods, intelligence and enforcement of Customs;

Substantially improved tax collection.

Improved uniformity of customs procedures with the EU

Cross cutting issues

Revenue collection from customs and tax is clearly linked with the efficiency and effectiveness with which it uses resources, and thus to the issues of public administration reform and institutional capacity building.

The fight against crime and corruption, especially organised crime and terrorism, cuts across policing, judicial, border management and security areas.

Link to regional strategy and other EC interventions

No other EC interventions specifically tackle customs and taxation issues but national and regional interventions under Institution building, Justice and home affairs, Integrated Border Management as well as trade and internal market related assistance under this MIP, are complementary to the assistance planned in the field of customs and taxation.

Risks and assumptions

Abolition of all import levies and additional charges that were introduced in violation of the standstill clause enshrined in the EU's autonomous trade preferences.

Abolition of the import licensing system for steel and iron products. Abolition of exports duties on ferrous and non-ferrous metals and rawhide.

3. ECONOMIC DEVELOPMENT AND REFORM

3.1. Investment climate and Economic development

Serbia €20-24M – Montenegro €4-5M

Background - past and ongoing assistance

The European Partnership calls for Serbia and Montenegro to:

- Complete the privatisation process and financial sector (bank) restructuring;
- Strengthen a business environment conducive to private sector development and employment with competitive markets, level playing fields and access to finance through financial sector development;
- Achieve a stable and functioning land/real estate market. Adopt and implement legislation on cadastre. Start land reform, restructuring and privatisation of large farms.
- In relation to SME and industry development:
 - Implement the European Charter for SMEs in *both Republics*;
 - Rationalise in *Serbia* the complex Chamber of Commerce organisation and make arrangements to facilitate micro credit facilities;
 - Proceed in *Montenegro* with the development and establishment of a national guarantee fund. Further develop dialogue between government and private sector, including through the SME Agency, by establishing a formal forum for consultation and business advocacy.

- In relation to agriculture:
 - Further build administrative capacity in *Serbia* for policy formulation and implementation. Design and start implementing a rural development policy. Continue strengthening veterinary, sanitary, phyto-sanitary and food-safety legislation and controls, including wine laboratories;
 - Improve water management and reduce agricultural pollution;
 - Adopt in *Montenegro* an overall strategy covering agriculture, rural development, and fisheries, phyto-veterinary matters. Increase capacity building of the Ministry of Agriculture. Adopt the law on phytosanitary matters.

The Country Strategy paper for FR Yugoslavia priorities support to reinforcing the relevant laws and policies, capacity building the relevant institutions, supporting integration into the international trading system, allowing internal market reforms, promoting SMEs and its finance and restructuring of key, viable social owned-enterprises (SOEs), alleviation of poverty in seriously affected areas.

Past assistance in the area of enterprise development focused on three main areas: facilitating access to credit; providing advice through regional enterprise agencies; and offering technical assistance to Privatisation Agency, and to the national SME Development Agency. Seven regional enterprise development agencies, together with 10 sub-offices and a Euro Info Correspondence Centre in Belgrade have been established and provide support to existing business and would-be entrepreneurs. In the 2003 the EC supported the development of export strategies and action plans for the Serbian Investment and Export Promotion Agency (SIEPA), and helped in the development of a cost-sharing export promotion programmes for selected enterprises. EC funded credit lines and associated technical assistance to partner banks proved to be quite successful in actually supporting SMEs, creating employment and strengthening selected commercial banks. EC funds also supported the privatisation process in undertaking the difficult task of restructuring socially owned enterprises.

In Montenegro, the CARDS programme has contributed to the preparation of privatisation and restructuring of four large state owned enterprises. 'Turnaround management' has been provided to 11 medium sized enterprises to improve their performance, and business advisory services have been being provided for 53 smaller enterprises. Information on EU related issues have been provided through the establishment of a Euro Info Correspondence Centre.

The 2001-2004 programmes have provided an important contribution to jump-starting the agricultural sector. An EC funded Policy Advisory Unit (PAU) provided technical assistance and policy advice to the Ministry of Agriculture and related institutions. A comprehensive survey of the existing food chain safety control system has been undertaken, resulting in a rationalised network of 31 national and regional food chain safety control laboratories. A subsequent analysis of existing structures confirmed that a key coordinating role would need to be played by the existing republican inspectorates to link policy, production, trade and laboratory analysis. EC funds supported the development of an animal identification scheme, and offered training and equipment for veterinary and phyto-sanitary inspections to ensure the health of livestock and protect the quality of the food chain.

Planned assistance under the MIP 2005-2006 aims to support Serbia and Montenegro's transition to a market economy and contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

Reinforcing enterprise and financial sector policies and legislation in line with the EU *acquis* and contributing to the implementation by strengthening the capacity of related institutions involved in economic development; assisting to the implementation of the European Charter for SMEs; contributing to the completion of the privatisation programme of SOEs and state-owned banks under BRA (bank rehabilitation agency) rehabilitation; promoting foreign and domestic investment.

The alignment of legislation with the EU *acquis* as well as the effective implementation of the legislation in particular of veterinary, phytosanitary and food-safety legislation.

Market oriented reform of the agricultural, food and rural sector; strengthening the administrative structures needed for the design, implementation, management, monitoring, control and evaluation of agricultural and rural development policy, including water management and pollution reduction in agricultural and agri-food enterprises achieve and stable and functioning land/real estate markets. in Serbia, also supporting the privatisation of agrokombinats and co-operatives.

Expected results

EC assistance to the sector will help the country to realise its restructuring policies on economic development and to bring its laws, policies and regulatory institutions into line with the Community *acquis* and create an environment susceptible to economic growth.

In connection to other internal market and trade related assistance, the interventions under economic development will result in an increase in the number of EC standards adopted, higher level of protection of intellectual and industrial property, greater veterinary and phyto-sanitary controls, establishment of structures to perform conformity assessment procedures and gradual implementation of a market surveillance system.

Although reforms may initially lead to higher unemployment levels, improved allocation of resources and functioning market mechanisms will allow the move towards a high and sustainable growth path. To cushion the initial impact of restructuring and transition, EC support will help the authorities implement specific mechanisms for regional poverty alleviation and refugee support. The negative impact of restructuring and privatisation on employment should be alleviated by measures to improve employment in the concerned regions.

Programmes to be implemented

1. Continued capacity building within the institutions dealing with economic, agricultural and rural development, in particular supporting the drafting of laws and regulations in line with EU standards and best practice and their implementation; supporting the development of action plans, reviewing legal and regulatory frameworks and strengthening administrative and operational arrangements; in particular support to the alignment of legislation, including veterinary, phytosanitary and food safety legislation with the EU *acquis*, as well as

the effective implementation and enforcement of the legislation, including upgrading inspection arrangements, in particular at external borders; support to the reform of the cadastre.

2. Support to the adoption and implementation of market oriented agricultural and rural policy reforms and the systems to implement them; supporting the adoption of modern agricultural production methods designed to protect the environment and maintain the countryside.
3. Continue strengthening of the veterinary and phyto-sanitary sector, including establishment and implementation of related agro-food control laboratories (e.g. wine, milk testing, agro-chemistry and seeds checking laboratories)
4. Assistance to the privatisation and restructuring of enterprises and government owned and/or controlled banks, in particular preparing restructuring / privatisation programmes for large Socially Owned Enterprises; pre- and post-privatisation Turn Around Management support to enterprises. Measures to alleviate the social and regional costs of restructuring and privatisation.
5. Assistance to SME development in line with the European Charter for SME's, developing schemes, such as national guarantee schemes, for improving access to credit, particularly for SME's, through the commercial banking systems or micro credit institutions, together with IFIs.
6. In *both republics* continue current efforts to accelerate company registration, develop one stop systems and rationalise/accelerate forms and procedures for permits and licensing.
7. In *Montenegro*, develop concrete plans for more sophisticated business support services, currently virtually absent, such as business incubators, SME clusters and business/technology parks.
8. Develop and implement legislation on cadastre; assistance to the establishment of an efficient real estate market

Indicators of achievements

Improved productivity in the selected sectors in the programme.

Establishment of a legal, regulatory and institutional framework consistent with that of the EU in the sectors targeted by the programme.

Reduction in the rate of depopulation of rural areas.

The number of farms using environmentally sustainable production is raised considerably

Number of SME start-ups and survival rates, and the number of agreements and partnership established with EU companies.

SCG accedes to WTO and no longer has disputes with neighbours on implementation of bilateral negotiations on free trade agreements.

The amount of new investment generated into SCG and exports promoted from SCG as a direct result of investment and export promotion activities.

Cross-cutting issues

The assistance provided to Economic Reform and Development reinforces and extends the support being provided to local and regional development and the integration of refugees, displaced persons and minorities, thus improving democracy, human rights and social development in the country. Economic growth and increased employment opportunities are preconditions for sustainable return and for the alleviation of poverty. In addition, these sectors of intervention are complementary to the support in Public Administration Reform and should therefore have a positive impact on institutional capacity building. Furthermore, the assistance to economic development should contribute to reduction of social tensions and better inter-ethnic relations.

Particular attention should be given to the environmental sustainability of the programme.

Links to the regional strategy and other EC interventions

Planned assistance will be effectively complemented by support under the Investment Facilitation programme and the Cross Border Cooperation in the regional MIP 2005-2006, which will promote the dissemination to potential investors of investment sector specific information on opportunities in the Western Balkan region. Lessons learned might also be drawn from the Regional CARDS 2002 programme's project on "trade quality infrastructure".

Risks and assumptions

Political commitment to market economy principles, in particular privatisation, including government financial support for redundant workers; effective implementation and completion of contractual social programs for excess labour of SOE restructuring plans financed by previous CARDS programmes.

Adoption of framework veterinary, phytosanitary and food-safety legislation aligned with the EU *acquis*.

Implementation of tariffs of the respective tariff harmonisation schedule; abolition of all import levies and additional charges that were introduced in violation of the standstill clause enshrined in the EU's autonomous trade preferences.

In Serbia

Policy analysis unit established in the Ministry of Agriculture and Water Management and Ministry of Economy.

Adoption of the Law transferring the business registers from the Commercial Courts to an independent agency.

In Montenegro

Transformation and rationalisation of the Development Fund which is the institution involved in restructuring and privatisation

Re-organisation and rationalisation of the Government Office for Economic Policy and Development, which comprises a network of government institutions, entrusted to manage economic development and reforms.

3.2. Trade and alignment to EU's internal market

State Union €2.5-3M - Serbia €18-20M – Montenegro €3-4M

Background - past and ongoing assistance

The European Partnership lists a variety of recommendations for Serbia and Montenegro to liberalise their trade and market-related policies and align them with the relevant EU acquis. Specific recommendations calls for Serbia and Montenegro to fully establish a single external trade regime under the Internal Market/Trade Action Plan by introducing common tariffs, levies and charges for all products after the end of the transition periods foreseen.

Following the reorientation of the EC approach towards Serbia and Montenegro's approximation to the EU and the introduction of a "twin track" in the Stabilisation and Association process, the relevant parts of the EC assistance has to be adapted to the "twin track" approach by supporting coherent approximation policy to the EU in terms of trade policy and the EU's Internal Market, which remains crucial for the success for the SAP, without further insistence on the full harmonisation of the republican trade policies. The gradual liberalisation of trade measures and the approximation of rules and laws to the EU internal market should, however, also contribute to a more open and harmonious internal market within the State Union, dismantling internal obstacles to the free movement of goods, services, capital and persons.

The Country Strategy Paper for FR Yugoslavia spells out that EC assistance in this sector shall primarily concentrate on supporting the adoption of laws and policies in priority SAP areas and capacity building.

Since 2001, some programmes have been addressed to build the required capacity to progress in the Stabilisation and Association Process and progress in the adoption of the EU's *acquis communautaire*. In particular, EC funding has supported a Policy and Legal Advice Centre, which provides advice to Government on WTO accession and on Stabilisation & Association process issues; Some key bodies in the field of standardisation, accreditation and metrology have been supported.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro to further approximate to EU policies and structures in the areas of trade and internal market.

Objectives

Improved functioning of public administration in Serbia and Montenegro, in particular with regard to the EU's Internal Market and the establishment of an appropriate legal

and administrative framework and capacity for fulfilling the obligations in the Stabilisation and Association Process, including future negotiations of a Stabilisation and Association Agreement and its implementation. Develop an environment conducive to facilitating trade to stimulate economic development.

Expected results

Approximation to the EC *acquis* in a number of key areas including the alignment of laws, rules and regulations and the strengthening of relevant administrative capacity. Trade policy developed which stimulates economic development.

Programmes to be implemented

Support to the establishment and strengthening of the capacity relevant institutions to adequately perform their competences, in particular assisting:

1. The bodies essential to the approximation of Serbian and Montenegrin policies in the areas of trade and EU internal market through development, implementation and enforcement of legislation in line with EU requirements in the areas of free movement of goods and services, competition (including state aid), customs, and intellectual property;
2. Assistance to the necessary institutional set-up to act as reliable trade/customs interlocutors internationally;
3. In the area of competition, contribute to the establishment and enforcement of a viable anti-trust regime, contribute to the establishment of state aids control mechanisms;
4. Contributing to the strengthening of the protection of Intellectual Property Rights by revising the Laws, harmonising penal provisions and strengthening implementation capacity in this field, notably in border services.

Indicators of achievement

EU compatible laws and regulatory frameworks drafted, passed and enforced in line with the priorities spelled out in the European Partnership

Free movement of goods, persons, services and capital are substantially improved between the two Republics, with the Region and the EU.

Cross cutting issues

The coherent and coordinated progress of Serbia and Montenegro towards key EC policies such as the internal market, competition (incl. state aid) and intellectual property rights is a prerequisite for its integration in European market structures. Particular attention should be given to the environmental sustainability of the programme, notably as regards trade and alignment in chemicals.

Link to regional strategy and other EC interventions

The programme will seek synergies with the CARDS regional programme, in particular with the interventions in the field of improvement of investment climate and the institution building component as well as with other assistance areas under the present MIP, in particular public administrative reform, customs and taxation integrated border management and economic development. . Activities developed under the CARDS regional programme are designed to strengthen the impact that actions programmed at national level produce in terms of countries' capacity to make full use of the autonomous trade preferences granted by the EC, to implement regional and/or bilateral free trade agreements and to achieve greater regional and multilateral trade liberalisation.

Risks and assumptions

Full commitment to the trade liberalisation process

Full commitment to the legal approximation and institution building process within SAP, bearing in mind the need to assure further approximation within the State Union and with the neighbours in the region.

3.3. Infrastructure

The significant investment required in physical rehabilitation of infrastructure is largely beyond the scope of EC assistance programmes and the majority of the investment needs will be satisfied by the IFIs. Therefore, assistance may be provided, in close co-ordination with the Government, to facilitate the implementation of programmes funded by International Financial Institutions (IFIs) and other donors and catalyse further investment on priority projects through the preparation of feasibility studies, technical designs and occasional co-financing, as well as the expansion of Project Implementation Units. The capacity of the Government to attract and absorb such debt liability should be addressed as components of the assistance programme within the Public Administration Reform sector.

3.3.1. Transport and Telecommunication

Serbia €20-24M – Montenegro €3.5-4.5M

Background - past and ongoing assistance

The European partnership calls for Serbia and Montenegro to:

- Continue to implement the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network;
- Adopt and implement a transport policy strategy in *Serbia* (road, rail, aviation and waterways and Strengthen capacity building, including project preparation for large investments. Earmark sufficient resources for the maintenance of transport infrastructures and institutions;

- Earmark sufficient resources for the maintenance of transport infrastructures and institutions in *Montenegro*.
- In relation to telecommunications; transpose and implement the EU framework for electronic communications

The Country Strategy paper for FR Yugoslavia focus EC support to improving the efficiency of transport, facilitating trade flows with neighbouring countries, allowing Republican and local authorities to better deal with maintenance and funding issues and to act as a catalyst for attracting IFI loans and other investments in the sector

Ongoing EC assistance contributes to capacity building in the Ministries of Transport in order to support the development and introduction of structural and legislative reform and to complement the implementation of IFI-funded programmes in road transport. In addition, key infrastructure has been rehabilitated and IFI investments catalysed. The main project concerns the reconstruction of the Sloboda Bridge across the Danube river at Novi Sad

In Montenegro, investment projects have targeted the rehabilitation of critical road infrastructure: long-term international expertise has been provided to the Montenegro Railway Company and to the line Ministry. Preliminary management restructuring advice has been provided to Airports of Montenegro (APM). Currently support is provided to the preparation of physical rehabilitation of the airport through IFI funding.

Considerable transport infrastructure investments largely funded by the IFIs are underway; many with the support of EC funded studies and experts to help manage project implementation.

Planned assistance under the MIP 2005-2006 aims to facilitate the flows of goods and people domestically, within SCG and in the wider region, and contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

Development and implementation of a transport policy strategy in Serbia (road, rail, aviation and waterways); alignment of all transport legislation with the EU acquis in all domains including inspections, safety standards, taxation and works quality control; effective implementation and enforcement of transport legislation, particularly as regards safety aspects; facilitation of private sector involvement in the provision of transport services.

Continuation of capacity building measures to the Ministry on policymaking, infrastructure planning and implementation, to accommodate effectively and efficiently anticipated IFI funding; improve maintenance systems for infrastructure.

Contributing to the implementation of infrastructure development strategies in line with REBIS (Regional Balkans Infrastructure Study).

Administrative capacity in the telecommunication sector to align legislation to the EU and to underpin investments by IFIs.

Expected results

EC assistance will contribute to strengthening the transport linkages in Serbia and Montenegro and with the region. This in itself is a significant contribution to the wider region as trade and movement of people are facilitated through better border and in-country transport infrastructure. The particular added value of EC assistance will be the institutional strengthening aspects whereby the Ministries responsible for Transport and Telecommunications and their sub-bodies will be able to improve planning, ensure EU best practice maintenance and safety standards and allow adequate financing by IFIs.

Programmes to be implemented

1. Support to the improvement of laws and regulations in line with EU standards and best practice and support their implementation. The assistance will target the line ministries in accordance with their concrete needs, including the establishment of relevant implementation structures.
2. Support to the restructuring of the two Ministries of Transport (in Serbia – Ministry for Capital Investments), as well as to the transport regulatory bodies to ensure their sound development by building institutional capacity to improve budgeting, prioritise investment needs, prepare and manage construction projects and develop asset databases; development of an efficient road maintenance system by encouraging the use of private sector contractors for road maintenance; support to key infrastructure improvement.
3. In the area of telecommunications, support the development of a legislative framework and institutional capacity in line with EU requirements as well as technical assistance to underpin IFI investments

In Serbia

4. Consolidate key infrastructure improvements and accompanying measures.
5. Assistance for the implementation of an efficient system of road user charges.
6. Facilitate the implementation of programmes funded by International Financial Institutions (IFIs). Catalyse further investment on priority projects through the preparation of feasibility studies, technical designs and occasional works co-financing, as well as the expansion of Project Implementation Units.

In Montenegro

7. Development of road and rail transport secondary legislation in line with EU standards and best practice, with particular emphasis on safety issues
8. Preparation of feasibility studies to catalyse IFI investment and continued support to Project Implementation Units and occasional works co-financing.

Indicators of achievement

Average transit times and costs for travelling within and between the Republics, and neighbouring countries is decreased.

Decreased number of accidents; either absolute or relative to traffic flows, and its health and economic consequences

More accurate budgetary planning and implementation by the relevant authorities, both on new infrastructure and maintenance.

Amount of investments performed by the IFIs on the basis of preparatory work.

Cross-cutting issues

Particular attention should be given to achieving an environmentally sound transport policy, especially taking into consideration the environmental impact of infrastructure measures.

Link to regional strategy and other EC interventions

The programme will seek synergies with the CARDS regional programme, in particular with the interventions in the field of cross border cooperation and transport and with the CARDS programmes of Montenegro, Albania and Bosnia and Herzegovina.

Risks and assumptions

Appropriate budget structure in place to ensure an equitable balance of funding between maintenance of existing transport and telecommunication infrastructure and construction of new infrastructure.

Demonstrated and tangible cooperation between Serbia and Montenegro on infrastructure investments.

Progress in the implementation of the Memorandum of Understanding on the Development of the South East Europe Core Regional Transport Network and in particular regarding measures to set up the cooperation mechanisms, inter alia, the Steering Committee and the South East Europe Transport Observatory.

The Governments allocate adequate financial and human resources for the maintenance of transport and telecommunication infrastructures and institutions.

In Serbia

Proposal to the Parliament of a draft transport and telecommunication policies which includes financial sustainability measures.

In Montenegro

Implementation of recently adopted EU-compatible primary laws for road and rail transport.

3.3.2. Energy

Serbia €37-45M – Montenegro €1.5M

Background - past and ongoing assistance

The European Partnership calls for Serbia and Montenegro to;

- With regard to the Athens process on the Regional Energy Market in South East Europe, prepare the country for the establishment in 2005 of an integrated regional energy market.
- Adopt, in *both Republics*, energy sector legislation, including long term strategy for an environmentally sustainable energy policy;
- Ensure unbundling in *Serbia* in view of restructuring and privatisation and set up the necessary institutional structures: Transmission System Operator, Market Operator, and Energy Regulatory Agency. Progress towards a regional energy market (including through feasibility studies on interconnectivity).
- Strengthen the energy regulator in *Montenegro* and complete restructuring and liberalisation of the internal energy market; privatise and/or allow development of public/private partnerships in the sector.

The Country Strategy Paper prioritises EC assistance to devising a more efficient energy consumption and exchange system, allowing the domestic generation systems to be improved and help restructure the public enterprises in this utility, ensuring proper billing and tariffication.

Significant assistance has been given to the energy sector in Serbia, with the emphasis in the 2001 and 2002 programs being principally on the reconstruction and overhaul of the physical infrastructure of the electricity generation, electricity transmission, and coal mines. Nearly 40% of the thermal power plant capacity was overhauled through EU investment, with direct and visible results: power production and reliability have strongly improved, with the number of days of blackouts decreasing from 52 days in 2000 to zero in 2003. Support for institution building has created energy efficiency Agency, and will create an energy regulatory work subject to the appointment of the Agency's Council by the Parliament.

In Montenegro, assistance was provided to develop energy reform and restructuring, and to create a project implementation unit for investment projects funded by international financing institutions. The rehabilitation of transformer stations has been supported and electricity distribution equipment has been distributed to essential sub-stations. In 2003 an Energy Efficiency Unit was established.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

The main objective is the integration of Serbia and Montenegro in the Regional Energy Market and development of an electricity market, in particular through unbundling and restructuring measures which will eventually privatise the successor electricity utilities, EPS in Serbia and EPCG in Montenegro, as well as the Pljevlja coalmine company in Montenegro. A second objective is to improve energy efficiency, specifically in Serbia through investment in district heating in Serbia.

Expected results

Substantial progress in the process and establishment of a functioning electricity market. Integration in the Regional Energy Market (REM) in line with the 2003 Memorandum of

the Athens process and the future regional Treaty establishing the Energy Community in South East Europe.

Programmes to be implemented

1. Following the adoption of the new energy law (which entered into force in April 2004), support to the privatisation process in the energy sector and the implementation of the energy legislation; supporting the development of the strategy for the unbundling of the energy utilities (and in Montenegro also the Pljevlja coalmine company) and assisting the industry and the authorities in the practical implementation of the unbundling and subsequent privatisation; strengthening capacity at the energy regulatory authority, also to develop and implement the body of secondary legislation necessary to set up an electricity market;
2. Creation of the conditions for participation in the regional energy market (including preparation for priority new investment projects) and improve energy efficiency.

In Serbia

3. Assistance to strengthen transmission capacity to allow for cross border trade in the context of the Resource efficiency management (REM).
4. Rehabilitation of selected district heating and catalyse investment from other donors.

In Montenegro

5. Assistance for unbundling, restructuring and privatisation of the electric utility company and the Pljevlja coal mine and assisting in the preparation and implementation of the (IFI) financing of new energy facilities and rehabilitation of existing thermal and hydropower electricity production facilities, strengthening of the transmission capacity to allow for cross border trade in the context of the REM, financing pre-feasibility and feasibility studies

Indicators of achievement

Number of restructured entities/companies in the energy sector.

Transmission System Operator (TSO), Market Operator (MO) and Energy Regulatory Agency (ERA) are operational.

Cost-reflective tariffs.

Significant increase in regional export and import of energy products

Substantially improved supply of electricity to consumers

Cross-cutting issues

Particular attention should be given to the environmental issues to be addressed in the framework of the Regional Electricity Market.. The assistance provided to the energy

sector will strengthen the institutional capacity, increasing co-operation within the between the Republics and in the region and will contribute to the competitiveness of SCG and in the long run have positive effect in other areas of economic development.

Link to regional strategy and other EC interventions

The programme will seek synergies with the CARDS regional programme, in particular with the interventions in the field of cross border cooperation and energy.

Risks and assumptions

Authorities adherence to and progress in meeting commitments under the 2002 and 2003 Memoranda of the Athens process on the Regional Energy Market in South East Europe and any subsequent arrangements.

In Serbia

Efficient and independent Energy Regulatory Agency and continued environmental audits on energy plants and implement environmental pollution controls where appropriate.

In Montenegro

Preparation and adoption of the energy development strategy, also covering an energy efficiency strategy and electricity sector privatisation strategy, including the Coal Mine Pljevlja.

3.3.3. Environment

Serbia €19-23M – Montenegro €3.5-4.5M

Background - past and ongoing assistance

The European Partnership calls Serbia and Montenegro to:

- Adopt and implement in *both Republics* legislation on environmental impact assessment in line with the EU *acquis*;
- Adopt and start implementing in *Serbia* a strategy on pollution of air (notably from power plants), water (waste water) and soil (solid waste); strengthen administrative capacity notably as regards planning, permitting, inspecting, monitoring, as well as project management. Develop a multi-annual plan for financing investments, based on estimations of costs and realistic sources of public and private funding;
- Develop an overall environmental strategy in *Montenegro* (waste water, solid water, air) with a view to adopt environmental protection framework legislation approximating with the EU *acquis* and set up an environment protection agency.

The Country Strategy Paper for FY Yugoslavia focus EC assistance on helping preserve natural assets and avoiding irreversible losses, protecting the population from health risks, helping with the upgrading of solid waste and waste water disposal, approximating environmental norms with those of the EU and of international environmental agreements.

Previous EC involvement in the environment sector in Serbia included capacity building measures for the Ministry, the Environmental Protection Agency and Municipalities in environmental awareness raising, strategy development and planning, legislative alignment and monitoring in preparation for the implementation of the framework Law on environmental protection. Funds have also been used for institutional and capacity building measures to equip republican and municipal authorities to respond to the challenges of new legislation, strengthening the Ministry for Science and Environmental Protection (which, following the change in Government, became the Directorate for Environmental Protection in the Ministry of Science and Environmental protection) and help to establish an Environmental Protection Agency. The 2003 CARDS programme also provided funds for the clean-up of the highly toxic Pancevo canal labelled by UNEP as a so-called environmental “hot-spot” and the 2004 programme addresses the disposal of the dredged toxic waste. It also contributes to a hazardous and medical waste treatment facility in line with the National Waste Management Plan.

A Montenegro-wide feasibility study was carried out on wastewater treatment and solid waste. The provision of waste collection equipment and the restructuring of solid waste legislation were improved, in selected municipalities the physical upgrading of wastewater systems has been addressed.

Planned assistance under the MIP 2005-2006 aims to ensure that economic development is environmentally sustainable and to protect the citizens from health risks linked to toxic pollution of air, water and soil and to contribute to helping Serbia and Montenegro address the priorities in the European Partnership mentioned above.

Objectives

The alignment of legislation with the EU *acquis* as well as the effective implementation of the legislation.

Strengthening capacity of environmental authorities, including rationalisation of the institutional coherence of the environmental authorities; integrating environmental concerns as a cross-cutting issue into the overall policy making process; and promoting civil society involvement on environmental issues by encouraging public consultation and participation; promoting close co-operation between Serbia and Montenegro, in particular with regard to cross-border and regional environmental issues and participation in international environmental networks, notably the European Environment Agency.

Rehabilitation of some of the polluted “hot spots”

Expected results

EC assistance to this sector will help to combat some of its most serious environmental problems in a practical and strategic manner and improve the capacity to further alignment to the EU environmental *acquis*. Local authorities will be properly equipped and have a sufficient knowledge base to face up to these problems.

Regulatory frameworks will be introduced, keeping industrial and other pollution policies in line with EU norms.

Coupled with limited essential investments in works and equipment (and facilitating the activities of leading IFI's), EC assistance will help waste to be managed more effectively and in a manner which is in line with EU best practices.

Programmes to be implemented

1. Assistance to improving the drafting of laws and regulations in line with EU standards and best practice, including support for their implementation.
2. Support to enhance capacity of environmental authorities, including at municipal and/or regional utility level, in organisational management, planning, permitting, inspecting, monitoring and enforcement, as well as project management; strengthen sustainable resource management; development of a multi-annual plan for financing investments, based on estimations of costs and realistic sources of public and private funding. Improve the coordination between the different bodies in Serbia and Montenegro dealing with environmental issues;
3. Assistance to rehabilitate prioritised environmental ‘hot-spots’, in particular technical assistance to prepare investments.

In Serbia

4. Assistance to the management and treatment of hazardous and medical waste.
5. Improvement of the treatment of solid waste and waste water and the supply of potable water at municipal level.
6. Assistance in the implementation of the Framework Law on Environmental Protection and continuing support for the Environmental Protection Agency.

In Montenegro

7. Preparation of feasibility studies to catalyse IFI investment and establish project implementation capacity within the Ministry of Environment
8. Support the establishment of the Environmental Protection Agency
9. Assist the implementation of the waste water and solid waste strategy.

Indicators of achievement

Legislation passed; implemented and enforced that reinforces and takes into account environmental aspects.

Number of penalties against environmentally harmful activities by companies and other measures of compliance.

Improvement of public health indexes linked to environmental pollution.

Increased monitoring and more accurate reporting on environmental emissions, including on industrial chimneys, water sources and soil samples near to industrial activity.

Amount of waste processed in municipal disposal sites and amount of revenue generated by the municipalities from this public utility.

Cross-cutting issues

The assistance provided to the environment sector will strengthen the institutional and human resource capacity, increasing co-operation within the between the Republics and in the region, and improving policy-making and the drafting of legislation, thus improving institutional capacity building.

Link to regional strategy and other EC interventions

The assistance provided under the present MIP will be co-ordinated with the Regional CARDS programme including the Environmental Reconstruction Programme (REReP), and the collaboration of the SAP countries with the European Environment Agency (Copenhagen) and the Regional Environmental Centre (Budapest). The programme should also be linked to the activities of the Community Action Programme for NGOs primarily active in the field of environmental protection.

Risks and assumptions

Implementation and enforcement of framework legislation on the system of environmental protection that is aligned with the provisions of the EU *acquis*.

In Serbia

Adequate, organisation, staffing and resources of environmental authorities (including an Environmental Protection Agency) for planning, permitting, inspecting, monitoring and enforcement, as well as project management.

In Montenegro

Adoption of a strategy on wastewater and solid waste.

4. SOCIAL DEVELOPMENT

4.1. Vocational education and training and employment

Serbia €13.5-16.5M – Montenegro €1.5M

Background - past and ongoing assistance

As a short term priority the European Partnership calls for both Republics to develop and implement a comprehensive strategy to promote employment and combat unemployment, in particular with regard to vocational training and labour market reforms, involving all relevant actors; improve public employment services and allocate sufficient staff and financial resources to the implementation.

The Country Strategy Paper for FR Yugoslavia focus EC assistance to vocational education and training linked to employment generation.

In the past the EU has supported human resource development measures for unemployed and redundant employees in selected Serbian regions and has initiated its support to a comprehensive reform of the Serbian VET system. The 2004 CARDS programme also provides assistance to the development of Serbia's employment policy.

Planned assistance under the MIP 2005-2006 aims to contribute to implement the priorities spelled out in the Country Strategy Paper.

Objectives

To further support development of a flexible VET system on the principles of life long learning and able to support the economic restructuring process and ensure social cohesion.

To support labour markets reforms and the modernisation and further development of public employment services. To support the capacity and involvement of social partners in formulation of VET and employment notably through social dialogue

To assist the development and implementation of a comprehensive strategy and specific measures to combat unemployment and support employment by increasing the employability of unemployed and redundant workers and other vulnerable groups, increasing the adaptability of employees in the enterprises and raise the level of entrepreneurship.

Expected results

Serbia and Montenegro's vocational education and adult learning policy frameworks and institutions will be more capable of meeting the changing needs of the labour market. The quality of the training provision will be enhanced thereby combating unemployment, improving competitiveness and meeting general needs of the economic development of Serbia and Montenegro.

Social Partners will have a better capacity to actively participate in the conception and development of VET reform, employment and social policies. Republican authorities will be ready to cooperate among themselves and with the social partners and local authorities in the development and implementation of comprehensive employment strategies which will support the economic restructuring process and ensure social cohesion.

The design and delivery of sound cost effective active labour market policies and measures (also including services of the Employment Service to unemployed) are of high quality.

Programmes to be implemented

1. Capacity building measures in the relevant Ministries, other institutes, in particular the Employment Service, and social partners that are involved in the VET reform and the development and implementation of labour market policies. Also investigating the possibility of closer linking unemployment and social benefit systems to the active labour market measures and VET systems.
2. Assistance to implement the VET reform, including curriculum modernisation and implementation, developing lifelong learning strategies and actions for the provision of adult education, updating of skills of teaching and other personnel and improving VET facilities.
3. Support to social partners' capacity building efforts with a view to their involvement in the development of employment and social policy and VET reform, notably through social dialogue.

4. Assistance to further policy development in the area of initial Vocational Education and Training.
5. In Serbia, assistance to the preparation of the decentralisation of implementation of Employment Policies and Active labour Market measures with the European Employment Strategy.
6. In Montenegro, strengthening the capacity of the Ministry of labour and the Employment Office for the conduct of active labour market policies.

Indicators of achievement

VET and adult learning policy frameworks include concepts of Life Long Learning and link training to economic restructuring process and labour market needs.

Structures and processes for inter-ministerial cooperation in the fields of VET and employment are in place.

Higher degree of involvement of local actors in the implementation of employment policies.

Improved participation of unemployed and redundant workers in active labour market measures.

Higher employability of young people ending VET and adults having participated in training.

The process of developing employment and social policy includes the active involvement of social partners.

Cross-cutting issues

Social development and stabilisation should be improved through a well skilled labour force. Better vocational/adult education potentially improves IDP and minority population's employability.

The adequate formulation of policy formulation will pay due account to gender, promoting inclusion and equal opportunities.

Link to regional strategy and other EC interventions

SCG benefits from the regular monitoring of vocational education and training by the European Training Foundation.

The assistance provided under the present MIP under Vocational Education and Training reinforces and extends the support being provided to return and reintegration of refugees and IDP's and minority rights, civil society and economic development.

Risks and assumptions

Allocation of sufficient staff and financial resources to the implementation of the vocational training and labour market reforms.

Association of the social partners in the development of employment and social policies

Improved public employment services.

Association of the social partners in the development of employment and social policies

In Serbia

Serbian authorities ready to initiate the decentralisation of Employment Policies and Active labour Market measures

National Council for VET, New Pedagogical Centre (with VET Centre and other professional centres, e.g. Centre for Education Quality Appraisal, and the Centre for the Professional Development of Education Employees), Republic and Regional Employment Councils becomes fully operational.

4.2. Higher Education

Serbia €9-10M – Montenegro €1M

Background - past and ongoing assistance

The Country Strategy Paper for FR Yugoslavia direct EC assistance to university education, enhancing regional co-operation

Past assistance has supported the development of higher education through the TEMPUS Community Programme. CARDS regional programme 2001 “regional University Network on Governance and Management in South East Europe was implemented by UNESCO_CEPES.

Objectives

To support Serbia and Montenegro’s efforts to achieve the objectives of the Bologna Declaration which aims at the establishment of a common European higher education space by 2010. The Declaration requires ‘inter alia’ structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration, efficient control over standards, and the set up of a system to test compatibility across faculties or universities;

To support the development of the higher education system in the country through balanced co-operation between higher education institutions in the country and those of Member States of the European Union.

Expected results

Increased synergy between higher education legislation and policy and reforms at the institutional level;

Strengthened strategic management capacities of higher education institutions;

Modernisation of management and administration of the participating higher education institutions;

Teaching and learning according to revised curricula and study courses in line with changes social and economic needs;

Improved skills of non-academic staff relevant for public administration reform and civil society development;

Increased mobility of students and academic staff;

Closer co-operation and sharing of resources and experience between higher education institutions at a regional level.

Programmes to be implemented

1. Support to promote the reform of higher education institutions in view of improving the quality of academic teaching and learning in line with changing political, social and economic needs. Increase synergies between higher education institutions at an international level.
2. Support to strengthen management and administrative capacity of higher education institutions taking part in the programme.
3. Promotion of the development of curricula which are more in tune with the current needs of employment markets at a national and international level.

These activities will be implemented through the TEMPUS programme. The support provided through Tempus may in due course be replaced support for by participation in another appropriate Community programme. Preparation for participation in Community programmes, which may include capacity building preparation for participation in programmes in the area of education, is addressed under priority 5 of the present MIP.

Indicators of achievement

Number of exchange programmes successfully implemented.

Number of applications received and increase on annual basis.

Number of new and revised university curricula successfully implemented.

Number of students having followed new curricula.

Time needed by students having followed new curricula to find employment.

Cross-cutting issues

Improvements in the area of higher education have clearly have repercussions on employment generation and therefore social development. Due account should be taken to equality between men and women and the right of minorities when selecting projects.

Link to the Regional strategy and other EU interventions

The assistance should be coordinated with the CARDS 2005-2006 Regional Programme's support to the Regional School for Higher Education for Public Administrative Reform.

Risks and assumptions

The programme is based on the assumption that Serbian and Montenegrin authorities will remain committed to addressing and solving the problem of the fragmentation of the institutional, legal and financial framework of the higher education sector.

5. COMMUNITY PROGRAMMES

Serbia €8M – Montenegro €0.5M

Background - past and ongoing assistance

The EU agreed in the Thessaloniki Agenda to open participation in Community programmes to the Western Balkan countries, following the approach used in the candidate countries. The Commission proposed concrete steps to make this possible in its Communication of 3 December 2003⁵, underlining the need for a selective and gradual approach. A framework agreement with the European Community laying down the general conditions for SCG's participation in Community programmes will be concluded and is expected to enter into force early 2005.

As Community programmes are in origin EU internal action programmes based on internal budget headings, partner countries outside the Union must pay a financial contribution ('entry ticket') to cover the expenses of participation of its nationals in such a programme. For a given programme, this entry ticket will be determined in a corresponding Memorandum of Understanding (MoU) between SCG and the Commission.

As participation in Community programmes can represent a large investment for a partner country, CARDS support may be used to co-finance entry tickets. The following principles for co-financing by CARDS were defined in the Communication:

- To encourage a gradual and selective approach to participation in Community programmes, CARDS co-financing will be limited to 3-5 new programmes per programming year;
- Co-financing of the participation in programmes of a given country will be specified in the corresponding CARDS Annual Programme and must not exceed 5% of the total annual budget. It can take the form of a financial support over up to three years;
- To encourage ownership, co-financing may not exceed 75% of the national contribution to any given programme and this proportion must be steadily reduced over a three-year programming period.

A number of Community programmes require the existence of a substantial administrative structure to allow a country's full participation. For this reason, allocations planned in the present MIP to support SCG's participation in Community programmes may be used for accompanying measures such as: building capacity to implement specific Community programmes in the medium term, communication related to Community programmes and to training for potential participants.

⁵ Communication of the Commission "Preparing for the participation of the Western Balkan countries in Community programmes and agencies" [COM (2003) 748 of 3.12.03] – accessible on the internet at: http://europa.eu.int/comm/external_relations/see/docs/com03_748_en.pdf

Should it not be possible to use allocations under this priority either to co-finance Community programme ‘entry ticket’ contributions or to build institutions in preparation for Community programme participation, support may be reallocated either to the reserve or directly to other MIP priorities for measures of a nature comparable to those addressed under Community programmes.

Objectives

Participation in Community programmes will:

Support SCG’s efforts towards European integration by facilitating transfer of know-how and good practice, particularly in those areas of the *acquis* that serve as key reference points for its reform process;

Help SCG and its citizens to familiarise themselves with the Union’s policies and working methods.

Expected Results

To initiate gradual participation of SCG in a selection of Community programmes by co-financing its financial contribution to these programmes;

To facilitate administrative preparations and raise awareness of the new opportunities among target participants of the programmes.

Programmes to be implemented

1. Co-financing over up to three consecutive years of SCG’s financial contribution to a selection of Community programmes;
2. Co-financing of accompanying measures such as administrative preparations, communication, and training of potential applicants in the preparation of proposals.

Indicators of achievement

Number of applicants to specific programmes and number of selected projects;

Set up of reliable network of officials in responsible bodies; information dissemination including reference material on Community programmes.

Cross-cutting issues

As well as targeting specific intervention areas themselves, individual Community programmes will have the potential to interact with and reinforce other aspects of SCG’s reform and development within the Stabilisation and Association Process

Link to regional strategy and other EC interventions

SCG is involved in both Community programme activities already open to third countries, and in comparable actions in other EU programmes both within CARDS (Tempus, VET) and outside CARDS (LIFE, 6th Framework Programme for Research and Development).

Risks and assumptions

Appropriate inter-ministerial coordination and sustained commitment on the SCG side will be vital in ensuring successful participation;

Capacity to mobilise the target participants of the programmes is critical.

6. RUNNING COST OF THE EAR

State Union €1M – Serbia €25M – Montenegro €4M

This item caters for the operational costs of the EAR Operational Office in Belgrade and Podgorica

7. GENERAL TECHNICAL ASSISTANCE FACILITY (GTAF)
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State Union €1M – Serbia €6M – Montenegro €1M

Background - past and ongoing assistance

A General Technical Assistance Facility (GTAF) fund will be established. The GTAF will support the preparation and early implementation of programme activities, and support the planning process for future programmes, as well as evaluation and other studies, etc.

A GTAF fund has been established under previous CARDS Annual Programmes.

Objective

The main purpose of the GTAF funds is to allow project preparation to proceed in a quick and effective manner.

8. RESERVE

State Union €2M – Serbia €5M – Montenegro €1M

The purpose of the reserve is to cover priority expenditures within the components of the Multi-annual Indicative Programme which may arise in the course of its implementation and which were unforeseeable at the time of its preparation.

**9. IV. KOSOVO AS DEFINED BY THE UNITED NATIONS SECURITY COUNCIL
RESOLUTION 1244 OF 10 JUNE 1999**

TABLE OF CONTENTS

IV. KOSOVO AS DEFINED BY THE UNITED NATIONS SECURITY COUNCIL RESOLUTION 1244 OF 10 JUNE 1999	65
LIST OF ACRONYMS AND ABBREVIATIONS	67
I. BACKGROUND	69
<i>Introduction</i>	71
<i>Consultation</i>	73
SUMMARY OF THE MIP 2005-2006 WITH INDICATIVE BUDGETS	74
PRIORITIES AND ACTIONS	75
1. DEMOCRATIC STABILISATION	75
1.1. <i>Minority rights and refugee return</i>	75
1.2 <i>Civil Society and Media</i>	77
2. GOOD GOVERNANCE AND INSTITUTION BUILDING	80
2.1 <i>Justice and Home Affairs</i>	80
2.2 <i>Integrated Border Management</i>	82
2.3 <i>Public Administration Reform</i>	85
2.4 <i>Customs and Taxation</i>	88
3. ECONOMIC AND SOCIAL DEVELOPMENT	90
3.1 <i>Investment climate</i>	90
3.2 <i>Infrastructures</i>	96
3.2.1 <i>Energy and transport</i>	97
3.2.2 <i>Environment</i>	100
3.3. <i>Higher Education</i>	102
3.3 <i>Vocational Education and Training</i>	104
4. COMMUNITY PROGRAMMES	106
5. RUNNING COST OF THE EAR	107
6. GENERAL TECHNICAL ASSISTANCE FACILITY (GTAF)	108
7. RESERVE	108

LIST OF ACRONYMS AND ABBREVIATIONS

CAFAO	Customs and Fiscal Office
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CFSP	Common Foreign and Security Policy
CSO	Civil Society Organisations
CSP	Country Strategy Paper
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECHO	Humanitarian Aid Office
EIB	European Investment Bank
EICC	European Info Correspondence Centre
EIDHR	European Initiative for Democracy and Human Rights
ESDP	European Security and Defence Policy
ESPIG	Economic Strategy and Project Identification Group
EU	European Union
FA	Framework Agreement
FDI	Foreign Direct Investment
FIU	Finance Intelligence Unit
FYROM	Former Yugoslav Republic of Macedonia
GTAF	General Technical Assistance Facility
IBM	Integrated Border Management
IC	International Community
IDP	Internally Displaced Person
IFI	International Financial Institutions
IMF	International Monetary Fund

JHA	Justice and Home Affairs
KEK	Kosovo Electric Company
MIP	Multi-annual indicative programme
MS	(EU) Member States
MTEF	Medium Term Expenditure Framework
NGOs	Non-governmental organisations
OSCE	Organisation for Security and Co-operation in Europe
PAR	Public Administrative Reform
PISG	Provisional Institutions for Self-Government
REBIS	Regional Balkans Infrastructure Study
REM	Regional Energy Market
REReP	Regional Environmental Reconstruction Programme
SAP	Stabilisation and Association Process
SRSG	Special Representative of the UN Secretary General
STM	Stabilisation and Association Process Tracking Mechanism
SOE	Socially owned enterprises
UNMIK	United Nations Mission in Kosovo
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

KOSOVO MULTI-ANNUAL INDICATIVE PROGRAMME 2005-2006

I. BACKGROUND

Preamble

The objective of the CARDS programme as defined by Council Regulation 2666/2000 is to support the participation of its beneficiary countries in the Stabilisation and Association Process (SAP).

The overall strategic programming framework of the CARDS Programme is done in the Country Strategy Paper (CSP) 2002-2006. It is complemented by a first Multi-annual Indicative Programme (MIP) 2002-2004. These documents were prepared and approved at the end of 2001.

The Commission reports annually on the Stabilisation and Association Process. The SAP Annual Reports assess the political and economic situation in the Western Balkan countries, and monitor the implementation of reforms and the development of co-operation within the region.

When assessing the necessity of a Mid-Term Review of the CARDS strategic framework, due account was taken of the SAP Annual Reports, in particular the one for 2003 and its Annex on the “Assessment of the Instruments of the Stabilisation and Association Process”, which examines the political and economic situation in the region and the progress within the SAP. This document confirmed that the strategic priorities identified in the CSPs and the MIPs corresponded to critical areas of support to the region and, from an operational point of view, that CARDS still was a relatively new instrument, as implementation of the strategic orientations effectively started in 2002. The driving EU strategy for the Western Balkans, the Stabilisation and Association Process remains the same. On the basis of the above mentioned input, it was concluded that the Strategy Papers did not need modification and therefore no formal Mid-Term Review was necessary.

The type of activities and priorities stated in the Strategy Papers still were considered as the most suitable for supporting the policy strategy for Kosovo as confirmed in regularly consultations with the authorities of Kosovo.

Mechanisms of the Stabilisation and Association process and the political context

The Commission reports annually on the Stabilisation and Association process and takes due account of the specific situation of Kosovo under UNSCR 1244. The SAP Annual Reports assess the political and economic situation in the Western Balkan countries, and monitor the implementation of reforms and the development of co-operation within the region. The 2004 SAP Annual Report was endorsed by the Council of General Affairs and External Relations.

The European Council at Thessaloniki in June 2003 confirmed the Stabilisation and Association process as the policy framework of the European course of the Western Balkan countries all the way to their future accession. It reiterated the EU's determination to fully and effectively support the European perspective of the Western Balkans and endorsed the so called Thessaloniki Agenda. This Agenda has strengthened

and enriched the SAP with elements from the enlargement process, so that it can better meet the new challenges, as the countries of the region move from stabilisation and reconstruction to sustainable development, association and integration into European structures. As explained hereunder, the Commission is ensuring that Kosovo under UNSCR 1244 fully benefits from the SAP agenda and to that effect it has established the SAP Tracking Mechanism for Kosovo (STM).

The Thessaloniki Agenda also provided for the creation of European Partnerships, which set out short and medium term priority actions to be implemented in order to move closer to the European Union.

Consequently, the European Partnerships also provide guidance for financial assistance, and the priorities identified therein constitute the basis for CARDS assistance programming, but, at the same time, reconfirms the validity of the priorities set out in the strategic programming framework.

The present Multi-annual Indicative Programme takes due account of the priorities set out in the European Partnership agreed through Council Decision 2004/520/EC of 14 June 2004.⁶

Update on the political, economic and social situation in Kosovo

Since the adoption of the CSP and the MIP 2002-2004, Kosovo has remained under international administration and the United Nation Mission of Interim Administration in Kosovo (UNMIK). On the basis of a Constitutional Framework promulgated by Special Representative of the UN Secretary General (SRSG) the in 2002, Provisional Institutions of Self-Government (PISG) have been established and a local government has been appointed following Kosovo wide elections.

With a view to prepare for the future settlement of the status of Kosovo, the UN Security Council endorsed in 2003 a set of standards to be achieved by Kosovo in areas such as functioning of democratic institutions, rule of law, sustainable returns, freedom of movement, economy, property rights. In early 2004, UNMIK and the PISG jointly devised a work plan (Kosovo Standards Implementation Plan - KSIP) which outlines the concrete actions needed to achieve individual standards. A review of the standards implementation is foreseen for mid-2005.

Against this encouraging – although fragile – background, the ethnically motivated violent incidents that occurred on 17-18 March 2004 was a serious setback to the creation of a secure, democratic and multi-ethnic Kosovo.

Despite some improvements, the economic situation remains a major cause of concern: Kosovo's economy is heavily dependent on foreign aid and remittances and is far from viable. Unemployment is high and likely to increase, thus creating fertile soil for social and political unrest. Privatisation of socially owned enterprises and restructuring of public utilities have not advanced satisfactorily. The management of public finances need to be more efficient and transparent. UNMIK and UN Headquarters need to improve their performance and the PISG need to be more constructive towards UNMIK.

Relations with the EU – the STM and the European Partnership

The EU is committed to ensure that Kosovo is not lagging behind and that it takes advantage as much as possible of the SAP. Progress has been made in making more real

⁶ OJ L227/21 26.6.2004

Kosovo's European perspective through the implementation of the SAP Tracking Mechanism (STM). The STM process also reinforces the work on the Standards for Kosovo. The European Partnership provides the necessary guidance to ensure a stable future and a secure, democratic and multi-ethnic Kosovo. The Commission has proposed a specific list of priorities and recommendations concerning Kosovo. In the short-term, the overarching recommendation is to make substantial progress in implementing the Standards for Kosovo and address the consequences and causes of the March riots.

The present MIP 2005-2006 will support faster progress against the UN Standards for Kosovo (jointly agreed by UNMIK and the Provisional Institutions of Self-Government on 10 December 2003) which will be evaluated at the mid-June 2005 Comprehensive Review. It is crucial to reinforce the EU support to the implementation of these important standards that will be the basis for opening the process of definition of the Kosovo status.

Introduction

This Multi-Annual Indicative Programme sets out the priorities for Community assistance for Kosovo as defined by the United Nations Security Council Resolution 1244 in the period 2005-2006. The amount of the CARDS financial allocation for Kosovo the period 2005-2006 is €112.5 million. The sectoral division of the indicative budget is expressed for the two years period and in brackets as to allow for a fair amount of flexibility for the project identification and other interventions under annual Action Programmes, both in terms of definite amounts and yearly allocations to the sector concerned. The amounts per sector have been fixed after thorough consultation with the European Agency of Reconstruction, EuropeAid, beneficiaries and other stakeholders.

The assistance will be delivered through a number of sectoral interventions in support of the three areas identified in Section Five of the Country Strategy Paper⁷:

- Democratic Stabilisation
- Good Governance and Institution Building (including public administration reform and, Justice and Home Affairs and support to customs and taxation)
- Economic and Social Development (including infrastructures and environment)

The **overall objective** of the Multi-Annual Indicative Programme is to support the participation of Kosovo in the Stabilisation and Association Process (SAP).

The **specific objectives** of the assistance are therefore to:

- Help consolidate Kosovo's democracy, the respect for human and minority rights, the rule of law and good governance, thereby enabling it to participate in the SAP;
- Support United Nations' mission in Kosovo and the Provisional Institutions of Self-Government (PISG) in developing of functioning institutions capable to achieve the UN standards for Kosovo;

⁷ Since the publication of the Country Strategy Paper for the Federal Republic of Yugoslavia C(2001) 4624 of 27 December 2001 the denomination of the State has changed to Serbia and Montenegro.

- Support economic reform and transition to a market economy, in order to facilitate sustainable economic growth, trade and employment, and to facilitate the integration of Kosovo's economy into EU structures and those of the wider international community;
- Facilitate and encourage cooperation between Kosovo and its neighbours in region as part of the SAP.
- As a SAP tool, the European Partnership identifies priorities for action in order to support Kosovo's efforts to move closer to the European Union within a coherent framework. In supporting the SAP, the Multi-Annual Indicative Programme aims to focus CARDS support on helping Kosovo take the medium-term priority actions identified in the European Partnership.
- In the elaboration of this MIP, due account has been taken to the recommendations of the Evaluation of the Assistance to the Balkan Countries under the CARDS Regulation, for instance through wide consultation with the authorities, ensuring the ownership of this MIP. One of the main tasks for the future implementation of the MIP shall be the achievement of a higher degree of local ownership of interventions and management of funds. Furthermore, the MIP 2005-2006 seeks a greater articulation of the assistance with the policy framework under the European Partnership. In the particular case of Kosovo, this MIP put more emphasis on assisting the local authorities to address the return of IDPs, sustainability of minorities and continues the focus on gender mainstreaming. This MIP also takes into account the preoccupation of stakeholders that CARDS is moving too quickly away from rehabilitation and reconstruction, by keeping the flexibility for physical investment (works and equipment) in support of the reform process, and by putting more emphasis on economic development to address deep socio-economic challenges in Kosovo.
- The fight against corruption is addressed as an underlying objective within the SAP: a central theme of the European Partnership, and thus of the present MIP which supports Kosovo in addressing it, is helping to improve the transparency, efficiency and effectiveness with which its relevant authorities intervene in the economic and social life of Kosovo. Such progress helps reduce both motive and opportunity for corruption. Planned interventions in the areas of public administration, customs and taxation, judicial and police reform will also be of particular importance in this regard.

The MIP for 2005-06 indicates a number of actions to be undertaken during this period. However, the availability of funds or other constraints may not enable funding of each specific action indicated.

With Member States in Country

- Meetings were held in Pristina during the development of the present MIP to which all Member States were invited and at which the priorities of the present MIP were presented in order to ensure complementarity with Member States' bilateral assistance plans as well as avoid any duplication of efforts between EC and Member States assistance. Widespread agreement was achieved on the MIP priorities and allocations.
- This MIP has benefited from the expertise of the European Agency for Reconstruction through its regular coordination with Member States and other donors. It has also profited from the input of the EC liaison office in Pristina and the Pillar IV of UNMIK.

Continued sector coordination with Member States and other donors will take place in order to ensure maximum coherence and supplementary of different Member States donors programmes in the implementation of annual action programmes in 2005 and 2006. Consultation regarding individual assistance projects will be conducted regularly. The European Commission in collaboration with the European Agency for Reconstruction will continue to take an active role in facilitating recipient owned donor coordination in relevant sectors.

With the Authorities in Kosovo

- The United Nations Mission in Kosovo (UNMIK) and the Provisional Institutions for Self Government were consulted at a number of stages during the drafting of the present document on its priorities and detailed scope in order to ensure complementarity with the Standards for Kosovo.
- Furthermore, the international and local authorities were consulted regularly in the framework of the dialogue in the SAP Tracking Mechanism meetings and formally in July, September and October 2004 and agreed with the priorities and financial allocations set out in this document.

This MIP provides the flexibility to take into account future plans of the Special Representative of the Secretary General to implement the recommendations of Ambassador Eide's report.

With other stakeholders

The European Commission, in collaboration with the European Agency for Reconstruction, will on a sector level continue to closely co-ordinate its activities with other donors and IFIs to allow for complementarities, synergies and joint initiatives, also to warrant that other donor's assistance is in line with EU *acquis*. This coordination would be instrumental to, when suitable, gradually introduce sector wide assistance.

Co-ordination meeting with IFIs and other stakeholders were held in Pristina, attended by UNDP, IMF, the World Bank, the Swiss Office and USAID.

Co-ordination with the World Bank among Brussels and Washington headquarters and on the ground takes place regularly and benefits from the presence of the EC/WB Joint Office in Brussels.

SUMMARY OF THE MIP 2005-2006 WITH INDICATIVE BUDGETS

PRIORITIES		PROGRAMMES		INDICATIVE FINANCIAL ALLOCATIONS KOSOVO (UNSCR 1244) 2005 - 2006	
				min	max
1. Democratic Stabilisation					
	1. Minority rights & Refugee return			9-11	
	2. Civil society & Media			1.5-2.5	
2. Good governance & Institution Building					
	1. Justice & Home Affairs			11.5-14.5	
	2. Integrated Border Management			2-3	
	3. Public Administration Reform			16-20	
	4. Customs and Taxation			2.5-3.5	
3. Economic and Social Development					
	1. Investment climate -Enterprise development -Rural economy			24.5-29.5	
	2. Trade*			2-3	
	3. Infratructures - Energy &Transport			7-8	
	4. Environment			5.5-6.5	
	5. Education and Employment Higher Education** VET & Labour Market			2 3.5-4.5	
4. Openings of the Community Programmes					
				0.5	
				2005	
				2006	
5. EAR Running costs				5.5	
6. GTAF				1	
7. Reserve				0.5	
				0.5	
				2005	
				2006	
Up to maximum TOTAL PER YEAR				59.5	
TOTAL MIP2005-2005				54.5	
				114	

*Trade components included under the chapter on investment climate

** through the TEMPUS Community Programme

PRIORITIES AND ACTIONS

- As a SAP tool, the European Partnership identifies priorities for action in order to support Kosovo's efforts to move closer to the European Union within a coherent framework. Furthermore, the UN Standards for Kosovo reinforces Kosovo's parallel progress towards European standards in the framework of the SAP process.
- In supporting the SAP, the Multi-Annual Indicative Programme aims to focus CARDS support on helping Kosovo take the medium-term priority actions identified in the European Partnership as well as further implementing relevant standards in the UN document on Standards for Kosovo.

1. DEMOCRATIC STABILISATION

<i>1.1. Return and integration of refugees and displaced persons and minority rights</i>

€9-11M

Background and EC assistance

The European Partnership calls for Kosovo to improve protection of minorities by ensuring the viability of minority communities and their non-discriminatory participation in Kosovo society, notably by establishing the necessary framework to ensure the equitable provision of public utilities and universal services.

The 4th standard for Kosovo focuses on the sustainable returns and the rights of communities already living in Kosovo. Members of all communities must be able to participate fully in the economic, political and social life of Kosovo, and must not face threats to their security and well-being based on their ethnicity. All refugees and displaced persons who wish to return to Kosovo must be able to do so in safety and dignity. Furthermore, the 6th standard on property rights stresses the need for preservation of Kosovo's Cultural Heritage, in particular "all communities are entitled to preserve, restore and protect sites important to their cultural, historical and religious heritage with the assistance of relevant authorities (PISG), in accordance with European standards".

Previous EC assistance has provided funding for socio-economic development and for community stabilisation in minority areas of Kosovo. These programmes have focussed on specific areas where there are significant minority communities. Programmes have provided low interest loans and vital business training in five business service centres around Kosovo as well as loans and funding for community projects such as cultural projects, street lighting, a green market, a youth centre and winery cooperatives. Assistance has also been provided for housing reconstruction or renovation and socioeconomic assistance.

Assistance under the MIP 2005-2006 aims to contribute to helping Kosovo establish the appropriate capacity to address the European Partnership priority and the UN Standard for Kosovo mentioned above.

Objectives

To achieve growth and sustainable development as well as preserve cultural heritage in disadvantaged minority areas.

To create the conditions necessary for sustainable returns to Kosovo as well as developing the institutional capacity of the PISG at central and municipal level/community leaders to contribute to stabilisation of all communities.

Expected results

The PISG is capable of fulfilling its responsibilities in a manner appropriate to the domestic and international commitments, creating the conditions necessary for returns of refugees and IDP to Kosovo and for the sustainability of all communities in Kosovo.

Programmes to be implemented

1. Provide funding for specific return projects which can assist beneficiaries through cross-boundary links in coordination with all relevant bodies and provide a range of return inputs such as housing and small scale infrastructure repair, socio-economic packages, and legal advice.
2. Focused support for social, cultural and economic development programmes for minority and vulnerable communities in disadvantaged minority areas, particularly those with potential for returns.
3. Strengthen the institutional capacity of the PISG to assist the coordination of return projects at central and municipal levels and to improve their role in coordination with key PISG Ministries both central and municipal level
4. to contribute to the sustainability and equal access to services of the minority communities in Kosovo.
5. Support for the future transfer of responsibilities in the areas of Community affairs, human rights and returns from UNMIK to successor public bodies and ministries.
6. Support to the implementation and enforcement of the anti-discrimination legislation.
7. Provide funding for the resolution of property claims with a view to facilitating durable solutions for some of the displaced population;

Indicators of achievement

An increase in sustainable returns oversight by IC bodies (e.g. UNMIK and UNHCR) confirms that the process of return of refugees and reintegration of refugees and internally displaced persons is being conducted a fair and legal manner;

Self-reliance is boosted for more beneficiaries in socio-economically disadvantaged areas especially those suffering from limited freedom of movement.

Number of actions and events to promote inter-ethnic dialogue are substantially increased

The PISG assumes a more visible role in returns and there is greater cooperation and coordination between the PISG departments, both central and municipal.

A greater number of property claims are settled.

Cultural heritage sites are effectively protected.

Cross-cutting issues

Effectively tackling the situation of refugees, IDPs and minorities and disadvantaged communities promotes stability, is a precondition for political stability, a democratic society, inter-ethnic coexistence and social development.

A more effective policy in relation to refugees and IDPs could ensure the necessary coordination for provide improved protection of human rights for the population as a whole and in particular to vulnerable groups of people.

The programmes implemented will be designed in such a way as to ensure that they will equally benefit both men and women, particularly where they impact access to employment, education, health care, pensions, and other key areas of social inclusion.

Link to regional strategy and other EC instruments

This programme should be closely linked to the CARDS regional programme and to the national programmes of neighbouring countries, contributing to the stabilisation of Kosovo and the Balkan region. It complements the programmes of the EU in Kosovo in the economic and civil society sectors.

Risks and assumptions

IDPs and refugees exercise their right to return with the assistance of the authorities.

An environment is created that will allow for IDPs to exercise their rights once they return, including the freedom of movement and access to basic services.

Security throughout Kosovo improves.

The Housing and Property Directorate (HPD) is able to fulfil its mandate.

1.2 <i>Civil Society and Media</i>
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€1.5-2.5M

Background - past and ongoing assistance

The European Partnership calls for Kosovo to further develop freedom of expression: ensure the long-term viability of the public broadcaster and its capacity to perform its role as a public service broadcaster to all communities.

Media and Civil Society constitute a vital part of the UN's first Standard for Kosovo establishing functioning Democratic Institutions. Non-governmental organisations, in particular those representing minorities, should be able to operate freely within the law and individuals are free to join them without discrimination.

The EU assistance to date was initially focused on humanitarian activities and then on the strengthening of civil society through support to NGOs, as a means to address the direct needs of vulnerable communities, including minorities, throughout Kosovo and a small component targeted towards reconciliation activities.

Assistance under the MIP 2005-2006 aims to contribute to helping Kosovo establish the appropriate capacity to address the European Partnership priorities and the UN Standards for Kosovo mentioned above.

Objectives

To strengthen the capacity of civil society organisations to effectively contribute to the ongoing transformation and development of the economy and democratic governance structures for all of Kosovo's communities.

To further develop the public broadcaster to operate as an independent, responsible and efficient service for all ethnic communities of Kosovo.

Expected results

The civil society structures and organisations in Kosovo are consolidated and capable of performing their role as a mediator between citizens and government institutions at the local and central levels and to further develop democracy, whether it is as partner in the social dialogue or the 'civil dialogue' in a wider sense.

The public service broadcaster significantly develops its capacity to deliver non-inflammatory accurate programming content and news for all of Kosovo's communities.

Programmes to be implemented

1. Support to civil society organisations (including the social partners, professional and membership associations, and community/neighbourhood based organisations) to promote linkages between all of Kosovo's communities, promote gender equality, protect the environment, support youth, combat poverty, effectively engage with government and develop linkages with EU and regional networks.
2. Support to civil society organisations and the PISG to develop improved legal and operational frameworks and strategies governing civil society organisations, and to develop and implement poverty reduction policies.
3. Promote debate and public participation to raise awareness on such issues as European and regional integration, gender, human rights, and minority issues.

4. Technical assistance to the public broadcaster and media regulatory bodies for management capacity building, the development of programmes, raising awareness of media ethics and abidance by a code of conduct including measures to avoid incitement to racial hatred in mass media, support for partnership initiatives with media organisations in the EU and the region, and raising media standards.

Indicators of achievement

Active involvement of civil society organisations in policy dialogue and development and active involvement of communities with government at all levels to improve governance.

Civil society organisations actively engaged with the PISG in reducing poverty.

Increased awareness of EU and regional integration, gender, human rights, and minority issues as well as environmental protection matters among the population.

All ethnic groups have access to high quality news and information from the public broadcaster.

Cross-cutting issues

The programme is aimed at improving the participatory process, paying due attention to equal opportunities in the society as a whole. Progress in terms of democracy will positively effect all the other priority areas and will allow for increased transparency in policy making, and will have a positive impact on civil society's involvement in good governance and fighting against corruption.

The programmes implemented will be designed in such a way as to ensure that they will equally benefit both men and women.

Link to regional strategy and other EC instruments

Close coordination of activities will be undertaken with the European Initiative for Democratisation and Human rights (EIDHR), regional CARDS support, in particular cross border cooperation, and with other EC interventions and other priorities under the present MIP, such as minority rights and refugee return, justice and home affairs, public administration reform and economic and social development.

Risk and assumptions

Government promotes enabling platforms for ongoing policy dialogue between Government and civil society.

No political interference in the editorial independence of the public broadcaster.

Respect of the rules on broadcasting time in minority languages.

2. GOOD GOVERNANCE AND INSTITUTION BUILDING

2.1 Justice and Home Affairs

€11.5-14.5M

Background - past and ongoing assistance

The European Partnership calls for Kosovo to reinforce judicial reform by:

- Strengthening the judiciary and law enforcement agencies, notably by improving infrastructure, equipment and training.
- Transform the Kosovo Judicial Institute into a viable future institution responsible for judicial training.
- Ensure the viability of a comprehensive legal aid system for Kosovo.
- Improve the penitentiary system with particular attention to management, vocational training and reintegration schemes.
- Fight against corruption: implement a comprehensive anti-corruption strategy comprising prevention measures and an effective investigation and prosecution, notably by strengthening local capacity, in line with Council of Europe standards.

Furthermore, the Standards for Kosovo (and its implementation plan for the rule of law) define the mutual commitment of PISG and UNMIK in the field of Justice and Home Affairs and the strategy to achieve these goals by the end of 2005, i.e. that there exists a sound legal framework and effective law enforcement, compliant with European standards. Police, judicial and penal systems act impartially and fully respect human rights and protection of all communities in Kosovo. There is equal access to justice and no one is above the law: there is no impunity for violators. There are strong measures in place to fight ethnically-motivated crime, as well as economic and financial crime.

Previous EC assistance in the field of justice and home affairs has supported the modernisation of courts (refurbishment of court houses and court automation by way of an automated case tracking mechanism), access to justice (establishment of a legal aid system), training of legal professions (through support to the Kosovo Judicial Institute and training for the bar exam), development of a border management policy (including the implementation thereof), as well as the refurbishment of prisons. Through the CARDS 2002 Police and CARDS 2003 Justice project, EC assistance has also provided some general guidelines on how to get closer to EU standards and best practice, in the whole region. In the past, EC assistance was provided in complement to UNDP and OSCE interventions that have contributed to reform of police administration and to training of police officers.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to meet the Standards for Kosovo and to address the priorities in the European Partnership mentioned above.

Objectives

To assist the development and strengthening of effective justice and home affairs policies and structures that guarantees a space of freedom, security and justice for all Kosovo's citizens, in accordance with EU standards and best practices.

Expected results

Kosovo adopts EU Member States' standards and best practices in the field of JHA- in line with requirements deriving from the Standards for Kosovo and the Stabilisation and Association process.

The judiciary and law enforcement agencies substantially strengthened by improving infrastructure, equipment, capacity building and training.

Improved penitentiary system with particular attention for management, vocational training and reintegration schemes.

A comprehensive anti-corruption strategy implemented, comprising prevention measures and an effective investigation and prosecution by strengthening local capacity in line with Council of Europe standards.

Programmes to be implemented

1. Fight against crime (i) anti-money laundering including support to the Financial Intelligence Centre and training of obligors as well as law enforcement and judicial personnel; (ii) anti-corruption: support for the implementation of a comprehensive anti-corruption strategy; (iii) fight against organised crime: support to assist in the development of new policies and legislation and institutional arrangements. Support in this area will be particularly targeted at introducing EU member states' best practices.
2. Strengthening the judiciary and law enforcement agencies, notably by improving infrastructure, equipment and training. Continued training of judiciary, including, barristers and administrative personnel at the courts, in such areas as the application of the new criminal, commercial and civil codes and procedures.
3. Support to penitentiary institutions to develop administration, management and supervision capacities and modernised programmes for detainees, with inclusion of vocational training activities.
4. Support for the future transfer of responsibilities in the Justice and Police sector from UNMIK to successor public bodies and ministries.

Indicators of achievement

Obligors report suspicious financial transactions to the Financial Intelligence Centre.

Prosecution of money-laundering cases introduced and gradually increasing.

Specialised Kosovan law enforcement bodies are well established and operational; charges in connection with organised crime are increasingly filed in proportion to the number of incidents.

Implementation of the foreseen new legislation with regard to reforming the training of judges and prosecutors; special training programmes are in place for penal system managers.

Judiciary effectively implementing the criminal code and criminal procedure code.

Penitentiary institutions are functioning effectively.

Cross-cutting issues

The assistance provided in the field of Justice and Home Affairs reinforces and extends the support provided in other areas and should have an overall positive effect on democratisation. Improving the judiciary and the rule of law will help create the conditions for economic growth by creating a secure physical and legal environment. Strengthening the rule of law also contributes to socio-economic stability as there is equal treatment of all under the law.

Link to regional strategy and other EC instruments

The programme will be co-ordinated with the CARDS regional programmes in the field of Justice and Home Affairs and institution building.

Risks and assumptions

Commitment to EU orientation of JHA policy making in Kosovo.

Adoption of the legal basis for the Kosovo Judicial Institute.

Provision of adequate premises and long-term financing commitment by UNMIK and the Kosovan government for the required institutions. Adequate maintenance of infrastructures and equipment ensured.

Implementation and continued political support for the timely transfer of UNMIK competencies to the benefit of a functional Kosovan law enforcement system.

2.2 Integrated Border Management

€2-3M

Background - past and ongoing assistance

The European Partnership calls for Kosovo to strengthen cooperation between border/boundaries management agencies and strengthen capacity for implementation of veterinary and sanitary and phytosanitary standards as a part of the integrated border management system.

By supporting the development of a modern Kosovo Police Service, the 2003 CARDS programme in the area of justice and home affairs was specially devised to improve border management and control systems, and establish harmonised border controls. The programme includes the development of a strategy for borders/boundaries, including the creation of appropriate institutional training programmes for the border personnel within the Kosovo Police Service and the development of technical specifications for communication, surveillance and IT systems. It is anticipated that a number of existing border crossing points will be upgraded and equipped. Kosovo is also benefiting from the ongoing CARDS regional JHA programme in particular Integrated Border Management (IBM) programmes.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to address the priorities in the European Partnership mentioned above.

Objectives

To facilitate flow of goods and people in the region while improving the level of inspection and border control, in particular by supporting the development and implementation of a Integrated Border Management (IBM) strategy in coherence with the Guidelines for Integrated Border Management in the Western Balkans; achieving EU standards and effectiveness in operations of the border management security systems integrated with national and regional police systems and facilitating the effectively controlled trade with Kosovo's SEE neighbours and with the EU and candidate countries.

Expected results

Improved integrated border/boundary management by strengthening cooperation between border/boundary management agencies and strengthening the capacity for implementation of veterinary and phyto-sanitary standards as part of the integrated border management.

Border police officers are trained up to EU standards.

KPS Border Police is equipped with modern technology at border crossing points and at the green border allowing it to operate according to EU procedures.

Programmes to be implemented

1. Development of technical infrastructure and human resource capacities in Kosovo to develop and implement the Integrated Border/Boundary Management strategy and promoting inter-agency co-operation.
2. Further support building on the results of the 2003 CARDS assistance, focussing on the provision of Technical Assistance to continued development of legislation in compliance with the EU *acquis* and standards and Member States' best practices in the area, as well as supply of specialised equipment.
3. Improvement of cross-border/boundary contacts through upgrading secondary road and railway border posts. The focus of the 2005-2006 IBM programme will

in particular be on the borders with FYROM and Albania to strengthen regional cooperation.

Indicators of achievement

Implementation of the integrated border management strategy for Kosovo covering customs, JHA and other related border issues, closely coordinated with other SAP countries and EU.

Increased capacity of services involved in border management and facilitation activities to perform effectively and in structured and cooperative manner, internally, at regional and international level.

Increased efficiency of border management, executed under systematic procedures and cooperation between the participants in the process, internally and regionally.

Rationalisation of border crossing points.

Intensified regional trade and economic cooperation; increased flows of goods and people through the border crossing.

Decreased smuggling, trafficking and other cross-border crime.

Link to regional programme and other EC interventions

The IBM programme will be co-ordinated with neighbouring countries' IBM programmes given the obvious regional implications (e.g. agreement on priority border crossings). This will be assured through meetings and studies financed through the CARDS regional IBM programme.

Additionally, the CARDS Regional Programme will complement border and other national JHA actions by promoting regional cooperation on JHA matters, especially on international cooperation between national police forces, judiciary and immigration authorities to be more effective in the fight against regional and national organised crime.

Cross cutting issues

Improved border controls will facilitate trade and ensure capacities to improve public revenue. The integrated border management strategy for Kosovo gives coherence and greater impact to the various actions related to institutional capacity building foreseen in this MIP on border management involving JHA (border control) as outlined above in this section but also to, economic development (trade facilitation), consumer protection and customs and taxation actions.

Risks and assumptions

Adoption and start of implementation of Integrated Border Management strategy in line with EU standards/best practises and respecting the State competencies.

Planning and issuing of relevant permits, including building permits.

Agreement with neighbouring countries on priority border crossings.

2.3 Public Administration Reform

€16-20M

Background - past and ongoing assistance

The European Partnership calls for Kosovo to:

- Improve EU compatibility: strengthen the capacity of all Kosovo institutions to enact and effectively enforce EU compatible policies and legislation, notably by reinforcing the structures dealing with European integration in the context of the stabilisation and association process.
- Strengthen public administration reform: implement a Public Administration reform in order to streamline public administration and build a professional and accountable civil service able to attract and retain qualified staff. Improve the capacity of local administration to provide services to their constituencies in an equitable and effective manner.
- Ensure viability of the budget cycle notably by capacity building for budget preparation and execution. Develop the capacity of the Assembly of Kosovo to effectively participate in the public finance process. Ensure smooth spending across the financial year and the 'carry-over' principle for unspent funds.

The first UN Standard for Kosovo points out that, in order to create functioning democratic institutions, the PISG should govern in an impartial, transparent and accountable manner, consistent with UNSCR 1244 and the Constitutional Framework. The interests and needs of all Kosovo communities must fully and fairly be represented in all branches and institutions of government and the laws and functions of the PISG approach European standards. Furthermore, the standard stresses that the PISG and municipalities should ensure the availability of basic public services, such as health care, utilities and education, without discrimination, to all communities in Kosovo

Previous EC assistance has contributed to the establishment of the Kosovo Institute for Public Administration, has been instrumental in furthering and bringing awareness on the importance of EU approximation by supporting the Prime Minister's Office, has contributed to the improved performance of the Assembly of Kosovo, has made substantial improvements to the public finance mechanisms and has supported the development of the municipal administrations.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to meet the Standards for Kosovo and to address the medium-term priorities in the European Partnership mentioned above.

Objectives

To promote an effective public administration with a coherent and interconnected body of law that can better meet the demands of a functioning society in a transparent and accountable manner, and is capable of fostering the participation of Kosovo in the Stabilisation and Association process (SAP).

Expected results

The mechanism for the effective verification of EU compatibility of government policies and draft laws institutionalised within the Office of the Prime Minister and strengthened EU orientated policies developed by the Kosovo Government.

The capacity of other Kosovo institutions to enact and enforce EU compatible policies and legislation substantially strengthened, notably by reinforcing the structures dealing with European integration.

The capacity of local administration to provide services to their constituencies in an equitable and effective manner substantially strengthened.

Technical support systems and procedures to ensure transparency, efficiency, and better control of public spending developed, including a modern public procurement framework

The capacity of the tax administration to increase non-customs revenue through the progressive development of a taxation system based on EU standards developed. To review the present tax legislation and elaborate and implement a realistic action plan to progressively strengthen the administrative capacity of the tax administration.

Implementing public administration reforms (in functional/horizontal areas and in targeted ministries) to streamline public administration and build a more professional and accountable civil service able to attract and retain qualified staff, including from minority communities.

Programmes to be implemented

1. Strengthening the administrative capacity and performance of structures dealing with European approximation and its implementation capacity to benefit from the instruments under the Thessaloniki agenda.
2. Technical assistance to the PISG structures dealing with the drafting and implementation of new legislation and policies in compliance with the EU *acquis* and the 'Standards of Kosovo'.
3. Assistance to improve inter-ministerial coordination and with the Assembly to enhance governmental efficiency and coherence in the drafting of primary and secondary legislation and improve linkages between the central and municipal level.
4. Assistance and organisational advice on the management of local administration and the delivery of public services. Development of PISG institutions dealing with local self-government and support to pilot projects to implement the Framework for the reform of local self-government.
5. Provision of technical assistance to strengthen the administrative capacity of the Ministry of Finance and Economy and other ministries in the area of public finance, including the implementation and enforcement of the fiscal legislative framework and improving it where necessary, the budget process and to enhance public investment programming and preparation of mid term expenditure frameworks as well as actions to enhance security of financial circuits and administrative control

6. Further assistance to the reform of the public procurement legislative and institutional framework to contribute to efficient and transparent financial management and effective budgetary spending.
7. Assistance to strengthen the capacity of the Ministry of Health to reform the public health system, including the development of cost-effective primary health care services and health information networks that inform the formulation of appropriate health care priorities.
8. Assistance will be provided to the PISG to continue the reform of the civil service to assist the Government in establishing a professional, impartial and accountable civil service which ensures a fair share of minority participation.
9. Development of sustainable training programmes for civil servants at both the central and local levels, including on the application of the EU *acquis*.
10. Support to the future transfer of responsibilities from UNMIK to successor public bodies and ministries.

Indicators of achievement

New laws adopted by the PISG and Assembly of Kosovo are compliant with the EU *acquis*.

Public management and administration advice has enough capacity to efficiently contribute to the improvement of services provided by local administrations.

Implementation of the Framework for the reform of local self-government is ongoing.

Legal framework is established that guarantees a professional multiethnic and non-politicised public administration at all levels.

Enhanced fiscal legislative framework for tax, budgeting and public investment is in place.

A modern, transparent and adequate public procurement framework is in operation

An integrated evidence based information system in the health sector informs the development of health policies.

Cross-cutting issue

The assistance on public administration reform should be designed in such a manner that it will help to promote democracy at central and local level. The support should contribute to the strengthening of the protection, non-discrimination and the promotion of equal opportunities as well as ensure minorities' representation in the policy process. It is expected that there will be an easing of ethnic tension as the municipalities should better able to cater for the whole population. A more transparent legal framework will improve governance

Link to regional strategy and other EC instruments

This assistance will be coordinated the institution building interventions under the Regional CARDS programme, in particular the regional school for public administration reform and TAIEX for assistance related to the *acquis communautaire*.

Risks and assumptions

Political commitment from the PISG and UNMIK to develop EU orientation of PISG policy making.

PISG remains committed to the decentralisation of the administration.

Public administration reform remains a priority.

Fair share of minority participation in line with Kosovo standards and applicable legislation.

<i>2.4 Customs and Taxation</i>
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€2.5-3.5M

Background - past and ongoing assistance

The European Partnership calls for Kosovo to Develop capacity of the Tax Administration in order to increase non-customs revenue (direct and indirect taxation) through the progressive development of a taxation system based on EU standards. Start reviewing the present tax legislation and elaborate and implement a realistic action plan in order to progressively strengthen the administrative capacity of the Tax Administration.

The UN standard for Kosovo on economy points out that Kosovo needs a tax regime that sustains the essential functions of government and an infrastructure that provides basic services and facilitates investment.

Since 1999 EU has assisted the Customs Service in Kosovo (UNMIK-CS to become a modern, effective and efficient Customs Service based on European standards. The assistance provided by the CAFAO programme (Customs and Fiscal Assistance Office) has recently been extended from only dealing with Customs to also include the Tax Administration in the area of VAT.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to meet the Standards for Kosovo and to address the priorities in the European Partnership mentioned above.

Objectives

To continue to develop the customs and taxation services in line with the EU legislation, working practises and international standards and to maximising revenue yield and thus reducing budget deficit. To support the fight against fraud, smuggling and organised crime and to produce reliable data to monitor trade flows.

Expected results

Increased efficiency and compliance.

Increased capability to identify and investigate cases of criminal fraud.

Increased overall revenue collection.

Programmes to be implemented

1. Support to the full implementation of the new Customs Code and the development of EU compatible implementing provisions.
2. Support the reinforcement control and management of transit, including the use of selectivity and risk assessment to more effectively process the clearance of trucks, making use of mobile patrols for spot checks, computerised data exchanges between locations, introduction of a guarantee system, and the capacity to use transit data for the automated preparation of inland clearance declarations.
3. Enhance valuation procedures and improve control of origin of goods, including the increased the use of “post-release checks” by way of audit checks; making use of increased training and administrative capacity to, investigate co-operate with other customs administrations.
4. Improve intelligence and enforcement providing support in terms of training, equipment and legislative developments enabling customs to improve investigations, leading to successful prosecution.
5. Create a comprehensive legal basis and operational basis for the administration of an EU compliant Value Added Tax in Kosovo including tax audit procedures, capable of increasing efficiency and the revenue yield and dealing with cases of criminal tax fraud.
6. Implementation of a new excise code which will significantly improve compliance and enforcement capability in excise regimes.
7. Train customs and tax officers in implementing procedures; continue to develop modern management procedures for staffing and organisation.
8. Support to capacity building for the future transfer of responsibilities in customs matters from UNMIK to successor public bodies and ministries.

Indicators of achievement

Substantial alignment to EU compatible tax and customs legislation.

More effective and less time consuming border crossing points and customs clearance facilities.

Improved control of origin of goods, intelligence and enforcement of Customs.

Substantially improved tax collection.

Cross cutting issues

Revenue collection from customs and tax is clearly intimately linked with the efficiency and effectiveness with which it uses resources, and thus to the issues of public administration reform and institutional capacity building.

The fight against crime and corruption, especially organised crime and terrorism, cuts across policing, judicial, border management and security areas;

Link to regional strategy and other EC interventions

No other EC interventions specifically tackle customs and taxation issues but national and regional interventions under Institution building, Justice and home affairs, Integrated Border Management are complementary to the assistance planned in the field of customs and taxation.

Risks and assumptions

Political will to support the fight against corruption and organised crime.

Continuing commitment to support the modernisation development process.

Availability of necessary human and logistical resources to ensure sustainability of programme reforms.

3. ECONOMIC AND SOCIAL DEVELOPMENT

3.1 Investment climate

€26.5-32.5M (including Trade related assistance €2-3M)

3.1.1 Economic Strategy and Enterprise Development

Background - past and ongoing assistance

The European Partnership calls for Kosovo to:

- Ensure viability of a borrowing and debt management capacity.
- Develop guaranteed mechanism for political risk to attract foreign investment.
- Develop the capacity of the banking sector to provide long term financing to the economy.
- Continue gradual alignment of Kosovo's legislation with all aspects of the EU's company law *acquis*.

- Ensuring the compatibility of the statistical system with EU standards.

The UN economic standard for Kosovo points out that the legal framework for a sustainable, competitive market economy should be in place and implemented. The minimum essential conditions are a legal and institutional base which act without discrimination against any individual or company; a regulatory system conducive to business that is capable of holding governmental officials and the private sector accountable. The goal is to move Kosovo towards the achievement of a functioning market economy.

Economic development in Kosovo will be fostered by (1) a competitive environment which promotes the private sector and (2) public intervention where there are market failures. For a competitive environment, it will be important to put in place a clear legal framework, to strengthen the rule of law (enforcement of commercial laws and contract is particularly critical), and to improve public services (particularly electricity). Public intervention is necessary to promote investment in infrastructure and to provide an adequate social protection for the most vulnerable. All of these key elements needed for the economic development of Kosovo are addressed in the Kosovo Standards Implementation Plan (KSIP).

In the past CARDS assistance has played a key role in enterprise development in Kosovo. Policy advice and training is provided to the Ministry of Trade and Industry to support SME development. Five Regional Enterprise Agencies have been established to deliver business advisory services and training to SMEs throughout Kosovo. EC funds have also supported the creation of the Kosovo Council for SME Development, which acts as an independent advocate for the private enterprise sector. The EU supported the helped establishment of the Euro Info Correspondence Centre (EICC) in Kosovo, which now acts as Kosovo's business link with the rest of Europe. In addition, technical assistance and credit has been extended by the Industrial Development Programme to socially-owned enterprises (SOEs) to re-start production and thus expand employment. Assistance is being provided to the Kosovo Trust Agency (KTA) to support the transformation and privatisation of SOEs. Support is also being provided to improve the access of minority areas with high levels of unemployment to enterprise development assistance through four Business Support Centres that provide a mix of training, advisory services and loans for micro-enterprises.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to meet the Standards for Kosovo, the KSIP and to address the priorities in the European Partnership mentioned above.

Objectives

To further support the transition of UN administered Kosovo to a competitive market economy and to promote sustainable economic development. By developing and implementing the necessary legal, institutional and policy in compliance with the EU acquis and the 'Standards for Kosovo'.

Expected results

The PISG institutional capacities in economic strategic planning are substantially improved. Further approximation of economic and trade policies and legislative framework to the EU. Business climate improved for the creation of new enterprises, in particular SMEs and to attract FDI. A financial sector capable of providing long-term

financing to the economic operators. A statistics system capable of providing timely and reliable statistical data.

Programmes to be implemented

1. Technical assistance will be provided to Kosovo institutions for the development and implementation of priority economic legislation in line with EU policies, including the legislative and policy framework for trade and trade-related policies and quality control certification.
2. Capacity building support will be provided to reinforce the institutional capacity of the PISG to plan and implement economic policy (for example arising from national development plans such as the one developed by the ESPIG and the PRSP), legislation and regulatory frameworks aimed at enhancing economic growth, including: to promote employment and private sector development; attract foreign investment; improve fair competition and to increase trade with the surrounding region and the EU.
3. Develop the borrowing and debt management capacity of the PISG. Assistance will also be provided to support projects and actions arising from the joint UNMIK/PISG programmes to formulate a coherent Economic strategy for Kosovo.
4. Further strengthening the capacity of the financial sector particularly in the development of sustainable financial instruments suitable for the needs of the SME sector.
5. Instigate SME support programmes consistent with the European Charter for Small Business and develop medium term SME support strategy
6. Support will be provided to further assist the privatisation process and the restructuring and incorporation of Publicly Owned Enterprises. Training and capacity building to supervisory boards.
7. Institutional support to the PISG in the transfer strategy developed by the SRSG.
8. Implement local economic development programmes focused on a limited number of geographical areas with particular socio-economic problems and/or high development potential.
9. Assistance for the development of the statistics system of Kosovo (its master plan), including preparation and organisation of a population census, to help it provide timely and reliable statistical data required for policy making, ensuring its compatibility with EU standards and the effective co-operation with statistical offices in the region

Indicators of achievement

Increase in SME start-ups and survival rates.

Increase in exports to the region and the EU.

Substantial increase in investment figures.

Increase in the number privatised Socially Owned Enterprises.

Increase in the number of Publicly Owned Enterprises which have undertaken corporate restructuring.

IFIs financing is used for priority infrastructure projects.

Cross cutting issues

Analysis of economic and social effects on men and women will be included where appropriate in the design of the programmes to be implemented and appropriate measures will be taken to ensure non-discrimination and adjustments will be made where appropriate to avoid undesired effects. Particular attention should be given to preserving a sustainable environment.

Link to regional strategy and other EC instruments

Planned assistance will be effectively complemented by support under the Investment Facilitation programme and the Cross Border Cooperation in the regional MIP 2005-2006, which will promote the dissemination to potential investors of investment sector specific information on opportunities in the Western Balkan region. Activities developed under the CARDS regional programme are designed to strengthen the impact that actions programmed at national level produce in terms of countries' capacity to make full use of the autonomous trade preferences granted by the EC, to implement regional and/or bilateral free trade agreements and to achieve greater regional and multilateral trade liberalisation.

This programme will also be co-ordinated with other EC economic programmes which will include European Charter for Small and Medium Enterprises.

Risks and assumptions

Political commitment to promoting economic reform and restructuring and to achieve the concrete steps outlined in the KSIP including the allocation of adequate human and financial resources to meet these goals.

Local institutions demonstrate active commitment to the objectives of the particular programme through project co-financing or benefit in kind measures (e.g. Provision of rent free premises).

<h3><i>3.1.2 Rural Economy</i></h3>
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Background - past and ongoing assistance

The European Partnership calls for Kosovo to:

- develop a regulatory framework and appropriate mechanisms to ensure food safety and improved phyto-sanitary controls on line with relevant EU standards, also improve Kosovo's export opportunities;
- Develop a policy and a regulatory framework to support viable land reform.

Support the protection of agricultural land against unplanned urban development.

The Standards for Kosovo does not address rural development or agricultural sector as such but stresses the importance of an effective property dispute resolution mechanism in place; that “rightful owners of residential, commercial and agricultural lands are able to take effective possession of their property....”.

EC support was initially in the form of emergency assistance, providing agricultural inputs (seeds and fertiliser) to farmers via agricultural traders. A credit scheme was launched to provide technical assistance and loans to socially-owned enterprises and private agri-businesses, while a rural micro-finance scheme was established to provide loans to farmers and small rural enterprises. Commencing in 2001 the EC financed rehabilitation of the irrigation system and now supports the institutional development of publicly owned irrigation providers and water users associations. Public veterinary services are being strengthened. Institution building assistance is being provided to the Ministry of Agriculture, Forestry and Rural Development (MAFRD) to strengthen advisory support services to farmers and agri-business enterprises, improve policy formulation at the ministry, to develop the seed sector to EU standards and to establish a food safety control system to EU norms.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to address the priorities in the European Partnership mentioned above.

Objectives

The development of the rural economy and the livelihood of its population by supporting; the improvement of planning, management and use of agricultural land, including a viable land reform; the competitiveness of the Kosovan agriculture and agro-processing sectors including food safety and veterinary health aligned to EU standards as well as enhanced administrative capacity of MAFRD and other authorities.

Expected results

Planning management and use of agricultural land improved, including state owned enterprises, through resolution of Land ownership, institutional strengthening and development of medium term leases, viable land reform and consolidation of agricultural land; the protection of agricultural land against unplanned urban development is assured.

Enhanced capacity in the Ministry of Agriculture, Forestry and Rural Development to improve policy-making and ensure implementation of laws and regulations; the Food Agency up and running and existing food safety institutions strengthened; Food safety and veterinary health standards substantially aligned with EU standards.

Competitiveness of the agriculture and agro-processing sectors increased.

Programmes to be implemented

1. Institutional strengthening and training of both public and private organisations will be a key element of the medium term rural development programme. Strengthening of skills among staff in the public administration both at the central and government level in policy-making, service delivery and establishing and implementing the legal and regulatory framework is a priority. The programme

should also support the emergence and development of a properly functioning private market to provide support services to farmers.

2. Technical assistance to focus on improvements in food safety to work towards compliance with EU standards by providing support to the establishment of a food agency. Once the food safety system is established, consideration will be given to Twinning projects as a way of transferring know-how. Complementary assistance will be provided to the improvement of animal health.
3. Environmental actions in addressing polluted agricultural land and water quality for agriculture should be carried out in parallel to these activities.
4. Support will be provided to improve the use, productivity and management of agricultural land.
5. Specific attention will be given to: supporting improvements in the production, marketing and trade of agricultural produce; supporting the expansion of a competitive agro-processing sector; improving livestock breeding and management sector; and, where feasible, providing assistance to non-farm rural business activities.

Indicators of achievement

Increase in agricultural production, including agricultural exports.

Increase in income in rural areas.

Decrease in the number of bankruptcies in agro-processing sector.

Number of environmental actions addressing polluted agricultural land and water quality increased.

Cross-cutting issues

Rural economic development and resolution of land property issues are key to creating the conditions for sustainable return of refugees and IDPs and improving living standards of all communities in rural areas.

The development of the agriculture sector and the food processing industry raises tax revenue potential helping fund public administration.

Programmes to be implemented with due attention to their impact on both men and women.

Particular attention should be paid to the environmental impact of the programme, in addition to the specific actions on polluted agricultural land and water quality which may be implemented.

Link to regional strategy and other EC instruments

Planned assistance will be complemented the institution building, investment facilitation and cross border cooperation programmes of the CARDS Regional MIP 2005-2006.

Planned intervention in this sector is complementary to the support of Public Administrative Reform in that they will strengthen the institutional and human resource capacity in the relevant areas and improve policy-making and the drafting of legislation. Planned assistance also reinforces and extends the support being provided for Refugee Return and Vocational Education and Training.

Risk and assumptions

Political commitment to ensure proper management of SOE agricultural land.

Progress in the privatisation or development of medium – long term leasing of agro-enterprises in the SOE sector.

Adoption of primary and secondary legislation.

Inter-ministerial cooperation and adoption of the strategy for establishing the Food Agency.

3.2 Infrastructures

The significant investment required in physical rehabilitation of infrastructure is largely beyond the scope of EC assistance programmes and the majority of the investment needs should be satisfied by the IFIs. To that effect it is desirable that the European Investment Bank should be soon operating in Kosovo and that the EBRD would enhance its presence.

Therefore, assistance may be provided to catalyse further investment on priority projects through the preparation of feasibility studies, technical designs and occasional co-financing in close co-ordination with the Government funds from the Kosovo budget, International Financial Institutions (IFIs) and other donors.

The capacity of the Government to attract and absorb such debt liability should be addressed as components of the assistance programme within the Public Administration Reform and Economic development sectors.

€7-8M

Background - past and ongoing assistance

The European Partnership calls for Kosovo to:

- As a short-term priority, Kosovo should make progress in meeting commitments under the 2003 Memorandum of the Athens process on the Regional Energy Market in South East Europe.
- Develop policy framework for public-private partnerships a mixed investments in the energy sector.
- Implement a transport policy framework on transport including the gradual development of a multi modal transport strategy.

The Standards of Kosovo document stresses the availability of basic public services, including utilities, without discrimination, to all communities in Kosovo and points out the need to increase billing up to 100% of KEK (the electricity company) customers and for collections to approach at least the levels of neighbours.

In order to live up to the Kyoto protocol, strategies for reducing the effluent of greenhouse gases are needed in both the energy and transport sectors.

Past EC assistance has been provided to repairs of 380 km of main roads in Kosovo - including the rehabilitation of six major road axes and four bridges. This work has significantly upgraded important components of the transport infrastructure across Kosovo, thus facilitating the movement of goods and people. Institutional support is being provided to the Directorate of Roads within the Ministry of Transport and Communications. A number of bridges on the Pristina-Skopje road are being strengthened (with co-funding from UNMIK and KFOR), and the remaining 12km section of this road before the FYR Macedonia border is being resurfaced. The main border crossing between Kosovo and FYR Macedonia has also been upgraded. Access roads to minority enclaves have also been repaired. In addition, support has been given to the railway system in Kosovo.

The EC has provided substantial assistance to the energy sector in Kosovo. Starting in 1999 EC intervention initially responded to the urgent humanitarian needs, with funding for imports of electricity, emergency repairs and spare parts, and paying salaries in order to keep the system operating. In parallel, plans were made for the phased rehabilitation to bring the system into a more productive state. Substantial funding was made available over the period 2000 – 2003 for the physical rehabilitation of the most viable power plant (Kosovo B) and the lignite mines that supply the power plants. Improvements were also made to power transmission, power distribution, and district heating. Smaller sums have been made available under the 2003 and 2004 programmes for technical assistance (training and capacity building), together with the improvement of the environmental situation in the coalmines. Support has been given under the 2004 programme to assist with the implementation of the strategy defined by the Turn Around Management of KEK and approved by the KTA for the improvement of the revenue collection and the reduction of non-technical losses (as required by the Regional Energy Market (REM) Memoranda of the Athens process).

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to meet the Standards for Kosovo and to address the priorities in the European Partnership mentioned above.

Objectives

To create a viable, economically self-sustaining energy sector that is a functioning participant in the regional energy market by: establishing effective and functioning governance structures in the energy sector; developing strategies for reducing the greenhouse gases, a policy framework for public-private partnerships and mixed investments in the energy sector; and making progress in meeting commitments under the 2003 Memoranda of the Athens process on the Regional Energy Market (REM) and the future regional Treaty establishing the Energy Community in South East Europe .

The transport policy framework on transport is established and implemented, including the gradual development of a multi modal transport strategy.

Expected results

Functioning institutions necessary for observance of international agreements, participation in the REM able to perform the functions required under the Athens MoU, including energy regulation, restructuring and unbundling in the energy sector and the development necessary investment projects in both rehabilitation and new capacity in mining and in power generation.

The sustainability of KEK should be ensured by substantially increasing revenues.

Institutional capacity substantially strengthened at the Directorate of Roads capable of establish, implement and enforce a new transport policy, regulatory instruments and rules and regulations of the South East Europe Core Regional Transport Network.

Programmes to be implemented

1. *Energy Strategy*: Continued support to build the capacity of the competent energy authority to develop energy policies and strategies, to help the authorities to perform energy planning (generation, transmission, distribution, and district heating) and energy demand forecasting; to gather energy statistics and data collection and analysis; and in the legal skills needed to draft the substantial body of legislation required for the reform of the energy sector.
- 2.
3. *Energy sector restructuring and regulation*: technical assistance to develop the detailed planning for the unbundling, including dividing the assets and liabilities of KEK, including assistance both to the Energy Office (or successor competent body) and to KEK in training, and assistance in the operation of the restructured energy sector and the national and regional energy markets.
4. *Improving the financial viability of the energy sector*: additional support will be given to improve revenue collection in both electricity and in the district heating

with the development and implementation of action plans in addition to other measures specifically aimed at increasing revenues.

5. Support to capacity building for the future transfer of responsibilities in the energy sector from UNMIK to successor public bodies and ministries.
6. *Transport*: Continued Technical assistance to strengthen the institutional capacity of the Ministry of Transport and Communications, including the development of transport strategies, regulatory instruments and the enforcement of transport legislation and for the implementation of the MOU on the Development of the South East Europe Core Regional Transport Network.

Indicators of achievement

KEK becomes financially viable as a result of increasing revenue collections.

Constant energy supply is assured.

Investments are increased in the energy sector.

The Transport Master Plan is adopted, the Ministry of Transport and Communications is equipped with the capacity to cope with its responsibilities, the Regional Authority for Public Transport has been created and is functioning and the law on transport of freights and dangerous goods is fully implemented.

IFI funding of energy and transport projects is assured.

Cross-cutting issues

Lack of a steady source of energy and poor transport networks are serious obstacles to investment and economic growth in investment. Improving the supply of electricity and improving the energy and transport strategies will thus not only help to boost economic development in Kosovo but will also improve Kosovo's capacities to establish environmental sustainable energy and transport sectors, observing the demands of the "Kyoto protocol". Particular attention should be given to the environmental issues to be addressed in the framework of the Regional Electricity Market. Developments in the transport sector need to take into account their environmental impact.. Effective participation the REM and the Regional Transport Network will also foster regional stability as the markets in the region become more interdependent.

Link to regional strategy and other EC instruments

Planned assistance will be complement the institution building, investment facilitation, cross border cooperation and infrastructure development programmes of the CARDS Regional MIP 2005-2006. The development of the REM requires close coordination with the regional programme and with other donors.

Risks and assumptions

Political commitment to implement the actions necessary for participation in the REM, including the commitment from the PISG and UNMIK/ KTA are required to proceed with the unbundling and restructuring of the sector.

Visible and tangible cooperation is required between the PISG and the energy industry and their counterparts in neighbouring power systems, to take the technical steps necessary for the REM to be established.

Effective judicial and enforcement procedures are established to enforce payment discipline (for electricity and district heating) and to reduce illegal connections to the power grid.

An appropriate division of responsibilities is agreed between KEK and UNMIK and the PISG. KEK no longer be required to carry the financial burden for social cases, and budget institutions.

Implementation of the Kosovan Energy Strategy document.

Political commitment to the preparing, adopting and implementing a transport policy framework including the gradual development of a multi-modal transport strategy.

9.2.	3.2.2	<i>Environment</i>
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€5.5-6.5M

Background - past and ongoing assistance

The European Partnership calls for Kosovo to adopt and implement the environmental action plan with a view to approximation with the EU *acquis*.

The Standards of Kosovo document stresses the availability of basic public services, including health care and utilities, without discrimination, to all communities in Kosovo and states that Kosovo-wide billings approach 100% of the services provided by the water sector utilities and collections approach at least the levels of neighbours.

Previous EC assistance has supported the development of the water and waste utilities, through the provision of equipment (trucks, uniforms, spare parts etc) and the rehabilitation of infrastructure. This has included construction of new sanitary landfills; refurbishment of pipe networks, pumping stations etc. Since 2001 programmes to develop the institutional capacity of waste utilities, water utilities and most recently the Ministry of Environment and Spatial Planning have been implemented.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to meet the Standards for Kosovo, to address the priorities in the European Partnership mentioned above and to support the transfer of any additional competencies related to the environmental sector from UNMIK to the PISG.

Objectives

The continued and sustainable improvement of environmental conditions, to eventually meet EU standards, particularly in relation to public health and economic development of Kosovo by; strengthening the administrative capacity of environmental regulators; adopting and implementing of a comprehensive Environmental Action Plan and legislation on environmental impact assessment in line with the EU *acquis*; supporting competent and sustainable environmental management, sustainable management of water, wastewater services and solid waste services, including hazardous waste management

Expected results

A comprehensive Environmental Action Plan is established and a programme of implementation is started which addresses key issues, particularly relating to public health, with a view to approximating the EU *acquis*. Legislation on environmental impact assessment in line with the EU *acquis*. Administrative capacity of environmental regulators substantially enhanced, ensuring adequate local staff and develop their professional skills and technical equipment to discharge their functions. Competent and sustainable environmental management, water and wastewater services, solid waste services, including hazardous waste management

Programmes to be implemented

1. Support to both the new Regional Water companies and Regional Solid Water companies to improve management capacity, technical financing and operational skills, including revenue collection. This programme would also support the legal process required to constitute the new Regional companies. Where appropriate infrastructure projects would be developed to act as catalysts for further development, and which would attract IFI funding.
2. Continuing support to the Ministry of Environment and Spatial Planning, particularly in, coordination with other donors, the continuing development and implementation of the Environmental Action Plan, drafting necessary subsidiary laws, management of environmental hot-spots, technical and operation skills and management capacity of the Ministry, and where appropriate support to necessary infrastructure initiatives.
3. Support to the Water and Waste Regulatory Office to develop and implement realistic operating targets and economic regulations for the relevant utilities.
4. Institutional support to the PISG the Kosovo Trust Agency and Central Regulatory Units in the transfer of competences to the PISG, in line with any agreed transfer strategy developed by the SRSG.
5. Support to civil society awareness raising on environmental issues.

Indicators of achievement

Improved revenue collection of utility companies.

IFI funding of environmental projects is secured

Utility companies are capable of providing basic services to the public.

An effective sector regulator is established capable of implementing an environmental policy and implementing environmental legislation

Cross-cutting issues

There will be fewer health problems caused by pollution, which will also have a positive socio-economic impact.. Civil society will be more conscious of all the problems affecting society including awareness of environmental issues.

Link to regional strategy and other EC instruments

Planned assistance will complement the institution building, investment facilitation, cross border cooperation and infrastructure development programmes of the CARDS Regional MIP 2005-2006.

Risks and assumptions

Stakeholders provide adequate staffing to carry out the functions and agree to ensure that the utilities follow priorities to be set out by these programmes.

The PISG ensures that key legislation is enacted.

Provisions are in place for payment of utility bills for social cases.

The legal system supports the principle of the user paying for the service provided.

3.3. Higher Education

€2M

Background - past and ongoing assistance

The Country Strategy Paper for FR Yugoslavia, including Kosovo, direct EC assistance to university education, enhancing regional co-operation

Past assistance has supported the development of higher education through the TEMPUS Community Programme.

Objectives

To support Kosovo's efforts to achieve the objectives of the Bologna Declaration which aims establish a common European higher education space by 2010. The Declaration requires inter alia structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration, efficient control over standards, and the set up of a system to test compatibility across faculties or universities;

To support the development of the higher education system in Kosovo through balanced co-operation between higher education institutions in Kosovo and those of Member States of the European Union.

Expected results

Increased synergy between higher education legislation and policy and reforms at the institutional level.

Strengthened strategic management capacities of higher education institutions.

Modernisation of management and administration of the participating higher education institutions.

Teaching and learning according to revised curricula and study courses in line with changes social and economic needs.

Improved skills of non-academic staff relevant for public administration reform and civil society development.

Increased mobility of students and academic staff.

Closer co-operation and sharing of resources and experience between higher education institutions at a regional level.

9.2.1. Programmes to be implemented

4. Support to promote the reform of higher education institutions in view of improving the quality of academic teaching and learning in line with changing political, social and economic needs. Increase synergies between higher education institutions at an international level.
5. Support to strengthen management and administrative capacity of higher education institutions taking part in the programme.
6. Promotion of the development of curricula which are more in tune with the current needs of employment markets at a national and international level.

These activities will be implemented through the TEMPUS programme. The support provided through TEMPUS may in due course be replaced support for by participation in another appropriate Community programme. Preparation for participation in Community programmes, which may include capacity building preparation for participation in programmes in the area of education, is addressed under priority 4 of the present MIP.

Indicators of achievement

Number of exchange programmes successfully implemented.

Number of applications received annually.

Number of new and revised university curricula successfully implemented.

Number of students having followed new curricula.

Time needed by students having followed new curricula to find employment.

Cross-cutting issues

Improvements in the area of higher education have clearly have repercussions on employment generation.

Risks and assumptions

The programme is based on the assumption that the Kosovo's authorities will remain committed to addressing and solving the problem of the fragmentation of the institutional, legal and financial framework of the higher education sector.

3.3 Vocational Education and Training

€3.5-4.5M

Background - past and ongoing assistance

The Country Strategy Paper for FR Yugoslavia, including Kosovo, focus EC assistance to vocational education and training linked to employment generation.

Previous assistance of the EU has contributed to the gradually introduced principles and practice of the EU employment strategy⁸ with the objective of promoting fullest possible employment, quality jobs and skilled manpower as a precondition for economic and social cohesion. EU support has contributed to develop VET law to provide coherent overall institutional and financing framework for supporting the longer-term development of the VET system, including social partner involvement and to provide a legal framework for VET reform. Furthermore, through the Employment Regeneration programme the EU has supported the capacity building of the Ministry of Labour and Social Welfare to provide effective employment support services including the network of regional employment offices.

Planned assistance under the MIP 2005-2006 aims to contribute to helping Kosovo to meet the priorities of the Country Strategy Paper.

Objectives

Continuing the reform and modernisation of the vocational education and training system in Kosovo for both youth and adults, in line with the needs of the labour market.

Strengthening the PISG capacity to develop employment policies and active labour market measures.

⁸ *employability, adaptability, entrepreneurship and equal opportunities*

Expected results

Enhancing the employment prospects for the unemployed and those entering the job market.

Programmes to be implemented

1. To assist the PISG, and other relevant stakeholders – including the social partners, in the further development and implementation of coherent and coordinated institutional structures, policy, legislation and regulations in the areas of vocational education and training,
2. To assist the PISG to develop services for the unemployed, and employment promotion measures.
3. Strengthening the professional capacity of the VET adult training centres and schools, including in such areas as: curriculum development methodology; occupational classification system; labour market assessment; and the upgrading of physical infrastructure.

Indicators of achievement.

New curricula developed and implemented in at least 50 % of all VET schools and in 8 adult training centres.

Qualification system developed and accreditation and certification systems in place for students and teachers.

Developed information system on training and employment opportunities.

Increased level of employment or reemployment opportunities.

Developed occupational system compatible to regional and EU systems.

Cross-cutting issues

Better vocational/adult education potentially improves IDP and minority population's employability.

The adequate formulation of policy formulation will pay due account to gender, promoting the inclusion and equal opportunities.

Link to regional strategy and other EC assistance

Kosovo benefits from the regular monitoring of vocational education and training by the European Training Foundation.

In terms of teacher training as far as possible synergy will be developed with the TEMPUS programme.

Risk and assumptions

Inter-ministerial cooperation in policy development and implementation.

‘Vocational Education and Training law’ adopted and implemented.

4. COMMUNITY PROGRAMMES

€0.5M

Background - past and ongoing assistance

The EU agreed in the Thessaloniki Agenda to open participation in Community programmes to the Western Balkan countries, following the approach used in the candidate countries. The Commission proposed concrete steps to make this possible in its Communication of 3 December 2003⁹, underlining the need for a selective and gradual approach. A framework agreement with the European Community laying down the general conditions for Kosovo’s participation in Community programmes will be concluded and is expected to enter into force early 2005.

As Community programmes are in origin EU internal action programmes based on internal budget headings, partner countries outside the Union must pay a financial contribution (‘entry ticket’) to cover the expenses of participation of its nationals in such a programme. For a given programme, this entry ticket will be determined in a corresponding MoU between Kosovo under UNSCR1244 and the Commission.

As participation in Community programmes can represent a large investment for a partner beneficiary, CARDS support may be used to co-finance entry tickets. The following principles for co-financing by CARDS were defined in the Communication:

- To encourage a gradual and selective approach to participation in Community programmes, CARDS co-financing will be limited to 3-5 new programmes per programming year.
- Co-financing of the participation in programmes of Kosovo will be specified in the corresponding CARDS Annual Programme and must not exceed 5% of the total annual budget. It can take the form of a financial support over up to three years.
- To encourage ownership, co-financing may not exceed 75% of the national contribution to any given programme and this proportion must be steadily reduced over a three-year programming period.

A number of Community programmes require the existence of a substantial administrative structure to allow a country’s full participation. For this reason, allocations planned in the present MIP to support Kosovo’s participation in Community programmes may be used for accompanying measures such as: building capacity to implement specific Community programmes in the medium term, communication related to Community programmes and to training for potential participants.

Should it not be possible to use allocations under this priority either to co-finance Community programme ‘entry ticket’ contributions or to build institutions in preparation for Community programme participation, support may be reallocated either to the reserve or directly to other MIP priorities for measures of a nature comparable to those addressed under Community programmes.

⁹ Communication of the Commission “Preparing for the participation of the Western Balkan countries in Community programmes and agencies” [COM (2003) 748 of 3.12.03] – accessible on the internet at: http://europa.eu.int/comm/external_relations/see/docs/com03_748_en.pdf

Objectives

Participation in Community programmes will:

Support Kosovo's efforts towards European approximation by facilitating transfer of know-how and good practice, particularly in those areas of the *acquis* that serve as key reference points for its reform process;

Help Kosovo and its citizens to familiarise themselves with the Union's policies and working methods.

Expected Results

To initiate gradual participation of Kosovo in a selection of Community programmes by co-financing its financial contribution to these programmes;

To facilitate administrative preparations and raise awareness of the new opportunities among target participants of the programmes.

Programmes to be implemented

- 1 Co-financing over up to three consecutive years of Kosovo Consolidated Budget financial contribution to a selection of Community programmes.
- 2 Co-financing of accompanying measures such as administrative preparations, communication, and training of potential applicants in the preparation of proposals.

Indicators of achievement

Number of applicants to specific programmes and number of selected projects;

Set up of reliable network of officials in responsible bodies; information dissemination including reference material on Community programmes.

Cross-cutting issues

As well as targeting specific intervention areas themselves, individual Community programmes will have the potential to interact with and reinforce other aspects of Kosovo's reform and development within the Stabilisation and Association Tracking Mechanism, including equal rights and environment.

Link to regional strategy and other EC interventions

Kosovo is already involved in Community programme activities in other EU programmes within CARDS (Tempus, VET).

Risks and assumptions

Appropriate inter-ministerial coordination and sustained commitment on the UNMIK and Kosovo government side will be vital in ensuring successful participation.

Capacity to mobilise the target participants of the programmes is critical.

5. RUNNING COST OF THE EAR

€12M

This item caters for the operational costs of the EAR Operational Office in Pristina.

6. GENERAL TECHNICAL ASSISTANCE FACILITY (GTAF)

€1M

Background - past and ongoing assistance

A General Technical Assistance Facility (GTAF) fund will be established. The GTAF will support the preparation and early implementation of programme activities, and support the planning process for future programmes, as well as evaluation and other studies, etc.

A GTAF fund has been established under previous CARDS Annual Programmes.

Objective

The main purpose of the GTAF funds is to allow project preparation to proceed in a quick and effective manner.

7. RESERVE

€1M

The purpose of the reserve is to cover priority expenditures within the components of the Multi-annual Indicative Programme which may arise in the course of its implementation and which were unforeseeable at the time of its preparation.