

## COMMISSION DECISION

C(2007)2497 of 18/06/2007

### on a Multi-annual Indicative Planning Document (MIPD) 2007-2009 for Serbia

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1085/2006 of 17 July 2006 establishing an Instrument for Pre-Accession Assistance (IPA)<sup>1</sup>, and in particular Article 14 (2) (a) thereof,

Whereas:

- (1) Regulation (EC) No 1085/2006 creates a coherent framework for Community assistance for candidate countries and potential candidate countries. Article 6 (1) of that Regulation requires that the assistance shall be provided on the basis of multi-annual indicative planning documents established by country in close consultation with the national authorities.
- (2) In accordance with Article 6 (3) of Regulation (EC) No 1085/2006 assistance for countries listed in Annex II to that Regulation shall be based on the European Partnerships and cover the priorities and overall strategy resulting from a regular analysis of the situation in the country and on which preparation for further integration into the European Union must concentrate.
- (3) Serbia is listed in Annex II to Regulation (EC) No 1085/2006.
- (4) The Council adopted on 30 January 2006 the European Partnership with Serbia<sup>2</sup>.
- (5) This Decision is in accordance with the opinion of the IPA Committee set up under Article 14 of Regulation (EC) No 1085/2006,

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<sup>1</sup> OJ L 210, 31.7.2006, p.82

<sup>2</sup> Council Decision 2006/56/EC of 30 January 2006 on the principles, priorities and conditions contained in the European Partnership with Serbia and Montenegro including Kosovo as defined by the United Nations Security Council Resolution 1244 of 10 June 1999 (OJ L35, 7.2.2006, p.32)

HAS DECIDED AS FOLLOWS:

*Sole article*

The Multi-annual Indicative Planning Document (MIPD) for the years 2007-2009 for Serbia attached to the present Decision is hereby adopted.

Done at Brussels, [...]

*For the Commission*

[...]

*Member of the Commission*

## **ANNEX**

### **Instrument for Pre-accession Assistance (IPA)**

# **MULTI-ANNUAL INDICATIVE PLANNING DOCUMENT FOR THE REPUBLIC OF SERBIA<sup>1</sup> 2007 - 2009**

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<sup>1</sup> The Multiannual Indicative Planning Document 2007-2009 for Kosovo as defined by the UN Security Council Regulation 1244 is presented in a separate document.

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## Preface

The main objective of the Instrument for Pre-Accession Assistance (IPA)<sup>2</sup> is to help Serbia face the challenges of European integration, to implement the reforms needed to fulfil EU requirements, progress in the Stabilisation and Association Process and to lay the foundations for fulfilling the Copenhagen criteria for EU membership.

The IPA instrument consists of five components; (IPA-I) the Transition Assistance and Institution Building component ; (IPA-II) the Cross-Border Cooperation component which applies to border regions between candidate/potential candidate countries and between them and the Member States; (IPA III, IV and V) the Regional, Human Resources and Rural Development components which are planned for candidate countries.

Potential candidate countries will receive assistance through components I and II of IPA. Potential candidate countries (and also candidate countries that have not been accredited to manage funds in a decentralised manner (DIS)) should however be eligible, under component I, for measures and actions of a similar nature to those which will be available under components III, IV and V.

The basic policy documents for setting down the priorities for programming of assistance under IPA are the European Partnership, the Strategy Paper, which presents the Commission's overall enlargement policy for the candidate and potential candidate countries, as well as the annual report on progress made on the road towards the EU, including implementation and enforcement of EU standards.

IPA will allow flexibility in order to respond to possible new priorities identified in the Commission's annual progress reports.

This Multi-annual Indicative Planning Document (MIPD) is the strategic document for IPA. It is established for a three year rolling period, with annual reviews. It follows the Multi Annual Indicative Financial Framework (MIFF) which indicatively allocates funds per beneficiary and per component. It draws on the pre-established IPA components.

The priorities set out in the MIPD will serve as a basis for the annual programming of EU funds in 2007, 2008, and 2009.

## Executive Summary

IPA will support to Serbia to:

- Fulfil the political requirements of the SAP. This sub-component focuses on the fulfilment of the Copenhagen political criteria and deals with the following sectors: democratic institutions, public administration reform, decentralisation and local government, budget and fiscal management, rule of law, reform of the judiciary, fight against corruption, reform of the police, human rights and protection of minorities, anti-discrimination, civil society, media.
- Improve the socio-economic situation of the country and its population dealing with issues and sectors related to employment generation, education, social inclusion, health, business environment, SMEs, restructuring and competitiveness, fiscal and macro-economic matters, inland waterway transport and flood prevention, as well as infrastructure and rural development. Some activities which will prepare the country for future structural funds may be funded under this component.

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<sup>2</sup> Council Regulation (EC) No 1085/2006 of 17 July 2006, Official Journal L210

- Approximate to European Standards in sectors related to the introduction and implementation of the EU 'Acquis' in all areas, including the overall coordination of the European integration process. It will continue to strength Serbian administrative capacity to implement the SAA properly, to develop local ownership of the Pre-Accession Instrument (IPA) and to prepare for the introduction of the Decentralised Implementation System (DIS) and management of EU funds. Participation to Community Programmes is also covered under this section.
- Support of cross-border co-operation with adjacent candidate and potential candidate countries and EU member states.

The indicative allocations to Serbia under the **Multi-annual Indicative Financial Framework** (MIFF) 2007-2009 amount to €572.4 million, as specified below in Table 1\*.

**Table 1: Serbia: Multi-Annual Indicative Financial Framework in million € (current prices)**

\* These figures are indicative and subject to modification

Component	2007	2008	2009	2007-2009
<i>I. Transition assistance and Institution Building</i>	178.5	179.4	182.6	<b>540.5</b>
<i>II. Cross-Border Cooperation</i>	8.2	11.5	12.2	<b>31.9</b>
<b>Total</b>	<b>186.7</b>	<b>190.9</b>	<b>194.8</b>	<b>572.4</b>

Although components I and II have a separate allocations in the MIFF, complementarity and synergy between actions programmed under the two components shall be ensured.

## 1. Assessment of Strategic Priorities and Objectives

### 1.1 Introduction

This MIPD follows the recommendations of the **European Partnership**<sup>3</sup>, the **Serbia's Action Plan**<sup>4</sup> for the Implementation of Priorities of European Partnership, as well as the other relevant strategic documents of the Serbian government, and it translates the needs and challenges that Serbia faces in the Stabilisation and Association process (SAp), as assessed in the Progress Report, into strategic priorities and objectives. The Multi-annual Indicative Planning Document sets out the areas of intervention and how the priorities of the assistance to Republic of Serbia are translated into specific actions within the relevant IPA components.

The SAA negotiations with Serbia and Montenegro were officially opened on 10 October 2005. Substantial progress was made in the negotiations with Serbia and Montenegro. With two official rounds and two technical ones, provisional agreement was reached on several of the titles in the body of the agreement. Progress was also made as regards the annexes on tariff concessions. Since Serbia and Montenegro did not meet its commitments on co-operation with the ICTY, the Commission decided on 3 May 2006 to call off the SAA negotiations. The Commission stressed its readiness to resume negotiations as soon as full cooperation with the ICTY is achieved. The Council supported the Commission's decision.

<sup>3</sup> Council Decision of 30 January 2006 on the principles, priorities and conditions contained in the European Partnership with Serbia and Montenegro (*Official Journal of the European Union*, L 35 of 7.2.2006). All references to the European Partnership in the MIPD refer to this document to the extent it applies to Serbia.

<sup>4</sup> Action Plan for the Implementation of Priorities of European Partnership - Adopted by the Serbian Government on 7 April 2006

As Serbia has become the successor state of the State Union of Serbia and Montenegro<sup>5</sup>, the Council has adopted an amended negotiating mandate for Serbia.

Meanwhile, the Commission has continued to monitor closely the progress made by Serbia and Montenegro, notably in the context of the Enhanced Permanent Dialogue (EPD). Several sectoral groups have been set up to deepen technical discussions. After the end of the State Union, the EPD has continued separately with both Serbia and Montenegro.

The Serbian authorities have provided a contribution to the establishment of the present document, in particular through the Ministry of International Economic Relations (MIER) but also through the Serbian European Integration Office (SEIO) and the Office of the Deputy Prime Minister. The Serbian contribution has been delivered during two preparatory planning missions on May and in August, and in writing. The basic strategic document on the Serbian side in this respect is the Action Plan for the implementation of the European Partnership adopted in April 2006. A number of Sectoral strategic documents exist as well.

The MIER organised the internal discussion on the MIPD between the line ministries and agencies of Serbia. A workshop was also organised by MIER to facilitate the discussion on the MIPD between the European Commission and the line ministries and agencies of Serbia. The workshop was very much appreciated by the participants and was considered as a useful tool to ensure that the expectations of the Serbia authorities are duly considered during the preparation of the planning document.

The views of civil society actors in Serbia were taken into account through consultation on the priorities and detailed scope of the present MIPD. The Commission met with representatives of the different Civil Society networks in Serbia and received positive feedback on the draft planning document, especially on the intention to establish a permanent dialogue between authorities and the civil society.

The Commission met in Belgrade with representatives of the European Member States, United Nations Development Programme (UNDP), United Nations High Commissioner for Refugees (UNCHR), Council of Europe (CoE), Organisation for Security and Cooperation in Europe (OSCE), the World Bank (WB), the UK Department for International Development (DFID) and the United States Agency for International Development (USAID) to discuss the strategic orientation of the planning document and to get feedback on their assistance programmes in Serbia. The Commission also organised a consultation of the MIPDs with EIB and International Financial Institutions in Brussels on 9 and 10 November 2006. During the consultation process the EC received suggestions and proposals to improve the draft document which have been duly considered and accepted where appropriate. Co-ordination of assistance to Serbia is continuous between the European Commission and the World Bank through the joint EC/WB office in Brussels.

Donor coordination is of key importance in order to avoid any overlap between projects financed by different donors. Serbia's National IPA coordinator (NIPAC) will be responsible for the coherence and complementarity of IPA assistance internally and with other donors. SIDA/DFID Joint Programme for Support to MIER for improvement of coordination, planning, programming and implementation of development assistance will increase the effectiveness of foreign aid in facilitating the achievement of Government policy objectives as set out in Serbian strategic documents.

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<sup>5</sup> In its conclusions of 12 June 2006, the Council took note that Serbia was the continuing state of the State Union of Serbia and Montenegro in accordance with the Constitutional Charter.

## 1.2 Objectives of pre-accession assistance

The objectives of EU assistance to Serbia are driven from the needs assessment described in general in this section and in detail in further sections. They are in line with Serbia's own strategies as much as it is possible at current moment<sup>6</sup>. The main strategic objective of the pre-accession assistance to Serbia is to support the country in the transition from the status of a potential candidate to a candidate country and through to membership of the European Union. IPA will support Serbia to meet the Accession Criteria by fulfilling the political, economic and acquis-related criteria for membership.

At the same time IPA will support Serbia's efforts in the implementation of the Serbian national strategy for EU accession and other relevant horizontal, multi-sectorial strategies, such as the National Strategy for Economic Development, the Development Needs Assessment, the Poverty Reduction Strategy, to the extent that these correspond to the EU integration process.

The assessment of Serbia's progress in the implementation of the Stabilisation and Association process has led to a number of priorities, which need to be addressed in this MIPD. These priorities have been outlined in three key areas, **Political Requirements**, **Socio-Economic Requirements** and **European Standards** as well as in the requirement of Serbia's participation in **Cross-Border Cooperation**.

IPA funding resources will be weighted over the programming period 2007-2009 to reflect short, medium and long term funding priorities to meet the accession criteria. This tailoring and timing of IPA support over the period is based on an assessment of the fast-changing environment of the political and economic situation of Serbia.

This assessment is fortified with the incorporation of lessons learned from the CARDS experience to date, as well evaluations of Phare programmes.

### Political Requirements

The recent pre-accession experience underlines the fact that EU support for policy change is only effective when there is a strong government commitment and a critical level of resources absorb institutional building support. This has also been the experience of public administration reform under the CARDS programme in Serbia. Under the CARDS programme, substantial progress has been made in building institutional capacity in such ministries as agriculture, health and the environment. Progress has been slower in other line ministries due to limited capacity and resources.

Further work remains in supporting a coordinated approach to government policy implementation and the successful use of EU co-funding. This is particularly the case with the implementation of key development strategies that have received CARDS support, such as the national employment strategy, SME strategy, and innovation strategy and education reform. One of the important success stories of CARDS sector support has been in building local government strategic capacity. More work is required in further developing the crucial vertical relationship between central government and local government, to help deliver national and EU policy actions.

While Serbia has a strong track record in the production of legislation, a key policy lessons from the CARDS period is that the necessary implementation 'follow through' to realize

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<sup>6</sup> Serbian Needs Assessment Document intends to provide a coherent systematized framework of different strategies produced (European Integration Strategy, PRSP and 30 sector strategies) and provide clear national priorities for the international assistance. The Document will present: the overall priorities of Serbian Government for 3 years period; sector priorities for funding by international donors and macro financial assessment of investment needed for further reform implementation. The Needs Assessment Document will be approved by the Government.

the benefits, in terms of transforming the country's regulatory environment, has not always been adequate. This issue of capacity and the readiness of administrations to meet the challenge of institutional change has also been well identified in Phare programme evaluations. The absence of direct connections to the financing of accession within the PHARE programme to the national budget in a multi-year perspective with specification of co-financing agreements proved a major weakness. Furthermore PHARE had a limited impact in terms of improving co-ordination between institutions or levels of administration. Targeted institutions had to be strengthened first before they could engage in building inter-institutional capacity.

The public administration reform challenge for the IPA programming period is to build on opportunities where administrative capability and awareness exists or, in effect, where demand can be created. This was highlighted in the European Agency for Reconstruction (EAR) evaluation which understood the changing focus of the CARDS programme towards institution building and capacity development issues which calls for a more intense involvement of EAR programme and task managers in activities related to change management. Linking public and political reform to key policy challenges such as employment generation can be used as a means to support such change.

### Socio-Economic Requirements

Economic forecasts for the programming period predict sustained growth of over 5% GDP largely driven by domestic consumption and the completion of the privatisation process. As with 2006 employment generation estimates remain weak. Some forecasts predict that the unemployment rate, at 20% in 2006, could increase to over 30% in the programming period largely due to privatisation. The issue of long-term unemployment (16.5%; women 17.4%) requires particular attention.

To expand employment, economic growth has to move away from domestic demand and be more externally driven (export oriented). Serbia's negative trade deficit at almost €5 Billion or approximately 25% of GDP is a major impediment to employment generation. The fundamental challenge is that Serbia is not competitive due to insufficient industrial restructuring, low labour productivity and low levels of entrepreneurship. In 2006 Serbia was ranked 87 in the Global Competitive Index.

Serbia's 2006 National Employment Action Plan envisaged the creation of some 150,000 jobs over the next two years and calls for more investment and continued support from the EU. Experience in the EU and recent accession countries suggest that investment in education and human capital has significant positive returns in terms of raising productivity and increasing employment generation. Active labour market support measures, corporate restructuring support and vocational education reform has achieved considerable outputs under the CARDS programme.

Such direct employment actions should be strengthened and expanded in the early IPA period. Economic restructuring and employment promotion measures need to be well positioned with continued public administration reform and targeted infrastructure provision during the IPA programming period.

### European Standards

The Serbian administration, particularly the European integration office, has been very pro-active in preparing for the challenge of meeting acquis standards and to strengthen its administrative capacity to implement the SAA in the future. The National Strategy of Serbia for Accession to the EU outlines the steps that Serbia is willing to take concerning the harmonisation of its legislation with the Acquis. In 2005 the government adopted the

third annual Action Plan for harmonisation of Serbian legislation with the European Union law. This Action Plan envisages the harmonisation of 44 laws, either by adoption of new laws or amendment of the existing ones.

CARDS programme support has been successful in supporting approximation in food safety, energy, environment, enterprise, transport, public health and statistics. Other key acquis sectors that will be supported under the CARDS 2006 programme include competition, and financial control.

As with public administration reform, the key lesson from CARDS is to ensure relevant institutions have the capacity to meet the demands of the EU, including implementation and enforcement. Policy recommendations from the Evaluation of the Assistance to Balkan Countries under CARDS Regulation 2666/2000 report identified the need to increase beneficiary ownership and support recipient institutions in Serbia to find their own way to fill the gaps towards European approximation and integration, with the aim of building a learning process in the recipient institutions and not just providing advice and guidelines on the acquis.

In this context, IPA resources should be carefully targeted towards institutions that have the necessary resources to absorb support. The success of acquis approximation in the agriculture and rural development and environment sectors under CARDS is due to the commitment of the relevant ministries. Lessons from the Phare experience suggest that the success of introducing acquis standards is dependent on 'buy-in' by the relevant institutions and linkages with national strategies.

This contextual understanding of the policy environment in Serbia provides the backdrop for the priorities and strategic choices of the MIPD. The major policy challenge, in terms of the accession criteria is to translate the on-going economic restructuring process into greater employment generation opportunities. This translates into directing increased IPA resources, in the early programming period, to both direct and indirect actions, that will tackle the sources of unemployment. Priorities under political reform should be directed to institutional building where a capacity for change exists preferably in building good governance to accommodate a more vigorous approach to addressing economic reform and employment generation. Support to European approximation should be well tied in during the programming period with the employment oriented economic support and building government support to facilitate socio-economic change. Key acquis sectors such as competition policy, enterprise and industrial policy, social policy and employment, financial management, product standards are prioritised.

There are **cross cutting issues** which shall be reflected as horizontal objectives in all activities programmed under IPA.

*Civil society* plays a major role in transition societies. Ensuring those groups' concerns are taken into account in the European development agenda and enhancing their policy dialogue with the administration and Serbia's institutions will be aspects mainstreamed within the assistance programmes. The justified balance will be kept between Western Balkans' regional activities for civil society and specific activities in Serbia along the IPA programmes.

**Environmental considerations** will be duly reflected in all IPA financed activities in addition to specific actions dedicated to environment, in particular as concerns environmental impact assessments. This is particularly relevant where there is a potentially high environmental impact, such as co financing of investments, new legislation, etc.

***Equal opportunities and non-discrimination*** will be respected as regarding gender as well as minorities and disadvantaged people, at the programming and implementation stage, particularly in relation to socio-economic support programmes.

Furthermore **minority and vulnerable groups' concerns** (including the rights of the child<sup>7</sup>, disabled persons and elderly people) **and social inclusion** will be reflected when relevant in the activities programmed under IPA, in particular when it concerns public services, legislative matters and socio-economic development, and also to foster social tolerance and conditions to reconciliation.

**Good governance** will be fostered through introduction of monitoring, evaluation and control mechanisms, and through awareness campaigns involving wider public as a way to contribute to the **fight against corruption** and to enhance civic responsibility.

### **1.3 Overview of past and on-going EC assistance**

The EC has been providing significant support to Serbia under a variety of instruments, including CARDS assistance, macro-financial support and humanitarian aid. In recent years, the emphasis has shifted away from reconstruction and is now more concentrated on institution-building, economic development and reform in line with the European Partnership recommendations.

In 2000 substantial assistance was given for electricity imports, to the municipal heating systems, medicines were locally bought and distributed and subsidised vegetable oil and sugar were provided to consumers. In 2001 the EU assistance was more concentrated on medium and long-term investment in key sectors like energy, health, agriculture and rural development, and enterprise development.

CARDS National Programmes, in line with the Multi Indicative Programme for 2002-2004, have supported the progress of Serbia in the area of economic development, promoting good governance and the strengthening of rule of law. In that period the EU supported rehabilitation of infrastructure; the small and medium-sized enterprise sector; encouraged an independent media and civil society; supported return and reintegration, as well as durable solutions for refugees and for internally displaced people; supported the reform of public finance, justice, local government, health, environmental protection and home affairs.

CARDS National Programmes, in line with the Multi Indicative Programme for 2005-2006, have been focused on key challenges such as developing long-term solutions to help the most vulnerable groups, creating a competitive economy that will attract domestic and foreign investors and establishing competition and consumer protection bodies. There was a continued focus on Public Administration Reform - from the judiciary and the media to local government and the health system - all in an effort to improve capacities of national authorities and to assist the country's integration into the EU.

Serbia also benefits from the regional CARDS programmes that support actions of common interest for the Western Balkan region. During the 2002-2004 period, Serbia was actively involved in regional actions such as the promotion of integrated border management; modern customs and taxation procedures, democratic stabilisation; building the capacities of state institutions; asylum, migration and visa with a project that resulted in recommendations on building up strategies and administrative capacity at national levels,

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<sup>7</sup> Communication from the Commission: Towards an EU Strategy on the Rights of the Child [COM(2006)367 of 4.7.2006] and Serbian National Plan of Action for Children.

reinforcing regional infrastructure and environmental protection . In the period 2005-2006 the EU has supported regional priorities in areas of institution building, justice and home affairs, cross border cooperation, private sector development and infrastructure development.

Under CARDS cross border support activities, Serbia developed strong institutional capacities via participation in these programs, contributing to the recovery of border regions, regional reconciliation and stability.

In addition to CARDS assistance, Serbia is also a priority country for the European Initiative for Democracy and Human Rights and benefits from the LIFE<sup>8</sup> environmental programme, as well as from the 6<sup>th</sup> Framework Programme for Research and Development<sup>9</sup>.

The EU agreed at the 2003 Thessaloniki summit to open participation in Community programmes to the Western Balkan countries, following the model of previous enlargements. Therefore, a Framework Agreement between the Community and Serbia and Montenegro on participation in Community Programmes was signed in November 2004. The Community ratified the Agreement in May 2005, and Serbia in July 2005. Implementation of the programmes were delayed due to the lack of institutions and capacities

The main EC financial instrument in Serbia the CARDS programme is managed by the European Agency for Reconstruction (with the exception of Tempus programme and Customs and Taxation projects managed directly by the Commission).

**Table 2: EC Assistance to Serbia (1998-2006)\***

Reconstruction and development assistance (CARDS/OBNOVA)	€1389 million
Macro financial assistance	€ 450 million
Humanitarian assistance (ECHO)	€ 210 million
Danube Clearance	€ 22 million
EC food security programme	€ 10 million
EIDHR	€ 9 million
<b>Total</b>	<b>€ 2090 million</b>

*\*[It does not include participation in regional CARDS]*

**Table 3: CARDS Funding Allocations: Key Sectors 2000 – 2005 (€Million)**

Public administration Reform	€138 million
Environment	€ 34 million
Energy	€395 million
Agriculture	€ 44 million
Local Government and Regional Development	€110 million
Justice and Home Affairs	€ 41 million
Education	€ 18.5 million
Enterprise and Privatisation Support	€ 34 million

Experience with previous CARDS assistance has shown that the future assistance under IPA needs to consider the following **lessons learned**:

<sup>8</sup> Formally Serbia was beneficiary of LIFE programme, but agreement on participation was signed when the last call for projects proposals already was open.

<sup>9</sup> On the competitive basis as a 3<sup>rd</sup> and as a Western Balkan Country

The beneficiary must have increased **ownership of the EU programming process**. This translates into a greater involvement by the Ministry of International and Economic Relations - MIER (the National Aid coordinator) and the Serbian European Integration Office (SEIO) in the programming process. Preparation for the Decentralised Implementation System (DIS) should begin as soon as possible.

Serbia has a good administrative capacity in a number of areas. This capacity needs to be further developed throughout the administration. The administration should not underestimate the **resource commitment required in terms of people and finance to meet the challenge of EU integration**. Further means should be identified to address the continued weak inter ministerial relations, coordination and communication which undermines implementation of both government and EU policy. Serbia has made further progress in setting the legal framework for the civil service Serbia needs to ensure the **effective implementation of the civil service reform**, notably as regards salary/career reform, retention policy, and public administration accountability.

The Programming of IPA must be sensitive to the **Government's limitations to carry out long term strategic planning**. There is a need to **consolidate the overall strategy for Serbia's development** to ensure clearer and stronger links between policy, long term strategic planning and resource allocation and establish mechanisms for the verification of EU compatibility of Government policies and draft laws.

There is a widening gap between national funding and EU funding to promote national development with the subsequent **loss of valuable synergies**. Limited **national funding** is being made available to implement important national strategies which were developed through CARDS funding. The **full support of the Ministry of Finance to MIER and the SEIO** in meeting the challenge of managing EU co-funding is an absolute necessity. MIER working closely with the Ministry of Finance should stress the importance of **ministries committing necessary budget resources to better exploit EU co-funding support**. Planning and programming capacities of line ministries must be substantially improved and prepared for use of other IPA components.

EC assistance must not only reflect European Partnership priorities but also be **interlocked with Serbia's institutions development and action plans** e.g. the Serbia Public Administration Reform Action Plan, Action Plan for strengthening institutional capacities in the EU integration process etc. The aim is to design assistance that complements Serbia's strategic plans and to design strategic plans in relation to assistance and EU approximation needs.

Support for legislation must be accompanied with a regulatory impact analysis as well as an **implementation and financing strategy**.

There is a need to reinforce **central and local government linkages** to better exploit EU co-funding and help address territorial inequalities. Introduction of statistical nomenclature of territories (NUTS classification) should contribute to better identification and policy targeting of economic problems at local and district levels.

The **administration's absorption capacity** must be taken into account when designing technical assistance programmes in order to allow maximum benefit of the assistance provided. In this context, targeted support for the improvement of human resources management and development in the Serbia's administration should be considered. It is important to develop internal evaluation mechanisms for institutional capacity assessment in the Serbian administration.

## **1.4 Relevant IFI, multilateral and bilateral assistance**

The Government of Serbia is involved in the process of donor coordination by preparing a donor harmonisation framework. Government objective is to improve consultation process with donor community and harmonise donor working procedures, promote national priorities and to align international assistance with national priorities.

EU funding support, as well as other donor activities, is closely coordinated through the Development Aid Coordination Unit (DACU) of the Ministry of International and Economic Relations of the Republic of Serbia (MIER) which was set up by the government as a focal point to increase strategic planning capacities and to improve donor coordination.

The European Agency for Reconstruction (EAR), which currently implements EC assistance in Serbia, holds monthly meetings with EU Member States representatives with the active participation of DACU. There are frequent coordination meetings with all major multilateral and bilateral donors in Serbia, i.e. USAID, World Bank, EBRD, OSCE, CoE, UNDP, UNHCR, UNICEF, DFID, SIDA, Germany (GTZ, KfW), Norway, the Swiss SDC and others. The sectors include, public administration reform, support to local self government, EU integration, agriculture and rural development, environment, support to SME development and privatisation, civil society, support to refugees and IDPs, etc.

Close working relations are maintained with the IFIs (EIB, EBRD, World Bank, KfW). The EAR has over time supported the IFI investments in Serbia by financing preparatory work before actual investments and funding Project Implementation Units. The majority of activities carried out with IFIs are in the following sectors: transport, energy, health, education, SME credit lines, and municipal investments.

Bilateral donors, such as Sweden, UK, Norway, Germany and the Netherlands are very active in donor co-ordination and pre-accession support. It is important to continue working closely with these actors under IPA particularly with regard to their institution building plans. In addition it will be necessary to examine the strategic relationships with IFIs in terms of the EU's traditional role of facilitating debt based capital investment.

## **2. Pre-accession Assistance Strategy for the Period 2007-2009**

### **2.1 Strategic Choices**

In order to respond to the identified needs in 2006, the MIPD 2007-2009 addresses in its component I -Transition Assistance and Institution Building- its support to Serbia for coping with the political requirements of the Stabilisation and Association Process, for further developing Serbia's socio-economic environment, and finally for complying with European Standards. Support will also be provided to put in place a Decentralised Implementation System to manage EC funds in the future.

There has been progress in consolidating the stability of Serbian institutions. Serbia is to be commended for the responsible way it has handled the dissolution of the State Union further to Montenegro's independence. The adoption of a new Constitution is a welcome development. Civil service legislation has been brought up to European level. The strategies on judicial reform and fight against corruption have been adopted. Overall, the situation of human rights and of minorities has improved further.

However, continued efforts remain necessary. There is still a need to strengthen the democratic institutions, the separation of power (judiciary, executive, legislative) and the media. The rule of law, human rights and respect for and protection of minorities and

vulnerable groups also have to be strengthened. Moreover, progress in key reform areas such as local self-government and the judiciary, fight against corruption and organised crime has to be stepped up.

Other issues have also to be considered such as high unemployment and low purchasing power, the weak institutional capacity in key policy areas as well as the poor state of local infrastructure. The education system does not adequately serve the competitive needs of the Serbian economy. A major weakness facing Serbia is that government has not yet been able to create a policy environment or policy delivery capacity to fully exploit national and EU co-funding.

After the call off of SAA talks due to the lack of cooperation with ICTY, Serbia has prepared an Action Plan with a view to achieving full co-operation. The SAA negotiations will be resumed as soon as full cooperation with ICTY is achieved.

As stated in the contextual analysis of section 2.1, the production of legislation is not a major problem in Serbia but the follow through in terms of implementation is resource intensive. This resource reality determines the strategic choices as well as timing of institutional building interventions. Such interventions will focus where there is administrative capacity and where a track record has been created under the CARDS programme e.g. employment support, regional development, urban development, agriculture and rural development, strategic infrastructure provision and education. Greater institutional building efforts to address weaknesses will be delivered in later periods of the programming period when there is evidence of greater resource commitment and absorption capacity.

The relationship between employment and competitiveness has been highlighted as a major government policy concern. Serbia should better exploit opportunities stemming from the European accession perspective, the development of trade links through the establishment of a regional FTA, prospective membership in the WTO and the future introduction of the diagonal cumulation of origin. IPA will target new strategic areas which demonstrate employment generation potential such as tourism and agricultural sector, economic links with the knowledge based and information technology society, targeting of strategic investment based on Serbia competitive advantages, as well as regional and cross border cooperation. The IPA interventions will be guided by national strategic documents such as the Tourism development strategy, Danube Socio-Economic Strategy, rural development plan and Innovation strategy.

IPA assistance will help to create the conditions for Serbia to meet these challenges and make more sustained progress on its European integration path, and to catch up on missed opportunities. At the same time Serbia should take a stronger lead and greater responsibility in its own reform process. Greater linkages between the National Investment Programming (which utilises excess funds from the privatisation process) and the IPA programming process should be created by government.

The lessons learnt from the CARDS experience to date coupled with the outcomes of Phare evaluations indicate that embarking on extensive institution building and public administration reform may not realise the desired results. This is, in the main due to capacity limitations.

This is a policy obstacle that has no short-term solution. Under these circumstances for the early IPA period (2007-8) there should focus on sectors where there is absorption capacity to meet identified priorities. When more capacity is created then greater resources should be directed to wider public administration and acquis approximation actions.

This translates into directing more resources particularly in 2007 to socio-economic reform and economic related infrastructure provision bearing in mind that increasing competitiveness and subsequently employment generation is the main policy challenge facing Serbia at this junction of its integration into the European economy.

Success areas under CARDS such as education provision (labour productivity), business related infrastructure provision, local development partnerships, SME support, employment promotion should attract more IPA support. Public administration reform support for 2007/8 should tackle key areas particularly national financial planning, inter-ministerial policy coordination and central/local government relations.

Support should also be directed to building project pipelines for IPA funding in 2008 and 2009 but well linked with plans for future national investment programmes and IFI priorities. Acquis support actions should complement the policy priority to address the sources of unemployment and improve good governance in areas such as public procurement, judicial reform, competition, trade and metrology

The above-mentioned strategic choices are fully in line and cover the objectives of the European Partnership to Serbia relevant to financial assistance programmes.

Strategic choices have been also based on lessons learnt, namely considering absorption capacity of the administration, including project management capacity and project readiness. The coherence of choices with the action plan to European Partnership is checked, including legislation in place and availability of co-financing for investments. All these aspects will be carefully assessed throughout the development of annual assistance programmes.

All IPA activities programmed for Serbia are closely coordinated with other EC sponsored cooperation activities and multi-beneficiary programmes. The continued aim is to further support Serbia in its reforms and implement regional strategies (e.g. in areas infrastructure, justice and home affairs, public administration reform, strengthening civil society, education, youth and research, and market economy) at local level. Serbia MIPD will finance the following activities programmed under the Multi-Beneficiary MIPD 2007-2009: Nuclear Safety and Tempus and Erasmus Mundus. Assistance is foreseen for the support to Customs and Taxation administration, supplementing existing programmes in the area or allowing them to continue or ensuring follow-up to present actions.

Consistency and complementarity will also be sought with other EU initiatives and instruments, including the EIDHR, the Stability Instrument and Micro Financial Assistance.

Through its Component II, IPA will support **Cross Border Cooperation** by proposing joint programmes at the borders with Hungary, Romania, Bulgaria, Croatia, FYROM, Montenegro, Bosnia and Herzegovina and participation in joint programmes under ERDF (European Regional Development Fund) transnational/interregional programmes wherever relevant. Serbia has already participated actively in EC-financed cross border cooperation with positive results.

Cross border co-operation is crucially important for stability, cooperation and economic development in Serbia's border regions. The aim of EC assistance will be to develop local capacity in relation to cross border co-operation in all of Serbia's border regions while also targeting specific local development projects. Development of cross-border cooperation is dependent on general capacity building activities of the authorities responsible for regional policy. Therefore, institution building activities under IPA components I and II have as an objective to generate additionality, complementarity, and catalytic effect between components, and to ensure that the successful cross-border skills base that has been built up at the national level is further developed.

IPA is addressing the regional cooperation requirement under a different MIPD.

## 2.2 Component I – Transition Assistance and Institution Building

For 2007-2009, the main areas of intervention for Component I are broadly grouped under the following sub-components:

- **Political Requirements**
- **Socio-economic Requirements**
- **European Standards**

### 2.2.1. Political Requirements

#### 2.2.1.1 Main priorities and objectives

Respect of Human rights is a precondition for creating a state based on the rule of law, an independent and effective judiciary and a law enforcement sector.

- **Support the strengthening of the democratic institutions and the separation of powers** between Parliament, Judiciary and Government.
- **Improving the performance of Serbia's public administration** at all levels (governmental, parliamentary, paragonovernmental and regulatory bodies/structures) to foster democratic governance and public service to all people in Serbia. Making further sustained efforts to implement the **reform of the public administration**, including the civil service pay system, to ensure transparent recruitment, professionalism and accountability specially of the senior civil service; in particular strengthen the European integration structures (including line ministries and the parliaments), and improve cooperation among them. Assist Serbia's efforts to combat corruption and to depoliticise its public administration. Improved central training structures for the civil service. To continue strengthening the Serbian statistical system in general and the Serbian Statistical Institute in particular to enable the production of official statistic of good quality.
- **Advancing on the reform of local self-government** as part of the decentralisation process. Support regional development policy and balanced territorial development by strengthening fiscal decentralisation, development planning and implementation capacities at central, regional and local level, more efficient spatial, cadastral, municipal planning, improving service delivery and introduction of statistical nomenclature of territory. Support municipal, inter-municipal and cross-border municipal projects and implementation of the Poverty Reduction Strategy at the local level
- **Developing and implementing a government policy relating to** the introduction of the concepts of Public Internal Financial Control (including **managerial accountability and independent internal audit**) as well as the drafting and adoption of relevant legislation to ensure transparency, efficiency, economy and effectiveness of public finances, including development of a modern public procurement framework and related legislation and institutions; further enhancing External audit through support to the Supreme Audit Institution.
- **Improving budget and fiscal management**, enhancing control and collection capacity of the tax and customs administration, contribute to consolidating revenue collection

for Serbia's consolidated budget, make tax policy coherent at central and local levels and improve the management of expenditures.

- **Consolidating the rule of law** by strengthening the wider judicial system through Standardized System for Education and Training, supporting the new Juvenile Justice Law, independence of the judiciary, effective case management and improvement of case proceedings, development of legal aid system to citizens. Coordinating cooperation with the newly established Strategy Implementation Commission regarding judiciary reforms. Support professional police service with improved internal control and greater standards of accountability. Supporting the penitentiary reform and improvement of prisoners' conditions. Supporting the fight against organised crime, counterfeiting and piracy, fight against drugs, human trafficking money laundering and terrorism, including strengthening channels of mutual legal assistance between judiciaries in neighbouring states, the development of an effective system of witness protection, a zero tolerance policy against corruption and towards ethnically motivated acts against minorities and develop capacities for confiscation of illegally acquired property. Strengthen administrative capacity of Ombudsman's Office and implement relevant legislation. Support the law enforcement agencies reform in line with international standards taking into account security policy aspects.
- **Fighting discrimination and promoting human and minority rights, including Roma. Supporting IDP return and for refugees return and reintegration** through cross boundary/border initiatives, durable solutions (housing schemes, employment) legal assistance and income support with strong inter-ministerial support and **facilitating integration and full participation** in political, civil, economic, cultural and social life. To create conditions for inter-ethnic tolerance, growth and sustainable development of all communities. Support transitional justice actions, i.e. regarding domestic war crimes trials, reparations, restitution, etc. Supporting Commissariat for Refugees, Minority National Councils, Agency for Human and Minority Rights and NGO in order to support vulnerable groups' rights. Promoting participation of minorities in the institutions of society in particular in the judiciary and law enforcement bodies. Efforts should be devoted to increasing general, society-wide culture of tolerance towards national minorities as a basis for coherent and meaningful inclusion policies.
- Further support to the **Civil Society** in order to promote the creation of a genuine dialogue and partnership between the Serbian authorities and the Civil Society in the democratic stabilisation and the economic and social development of the country. Contributing to the consolidation of civil society through mainstreaming civil society issues in all programmes and supported also by other components of EC assistance. Promoting Civil Society in monitoring the effectiveness of government policies and programmes.
- **Supporting the Media** to develop a real independent, high quality public broadcasting service and a regulatory environment in line with European standards. Enhancement of respect for the right of freedom of expression.

#### **2.2.1.2 Expected results and time frame**

The following results are expected to be achieved until the end of the first IPA programming period (2012).

- A reinforced capacity for general government coordination, planning mechanisms, formulation and implementation of policy at all levels;
- A general civil service reform strategy and more transparent procedures on recruitment, transfer, appraisal, promotion, conduct and dismissal of civil servants; improved quality

and availability of basic public services to all communities; the further development of legal education and training.

- Establishment of functioning regional development policy and introduction of NUTS classification.
- It is expected to improve independence, transparency, accountability, and efficiency of judiciary; establish administrative capacities to combat human trafficking, drug trafficking, smuggling and money laundering, as well as to combat organized crime, corruption and confiscation of illegally acquired property.
- The capabilities of the law enforcement agencies in the fight against money laundering, drugs, organised crime, terrorism and corruption will be enforced as well as improvement of internal control of the Serbian Police forces.
- The Unit for fight against terrorism has been strengthened, including improved cooperation and exchange of information among relevant services.
- Prison conditions in line with Council of Europe standards, with improved overall management, administrative structure and working practices
- Human and minority rights are promoted and a climate of inter-ethnic tolerance has been developed.
- It is expected to improve implementation of policies against social exclusion of vulnerable groups, improve relations between Serbian authorities and civil society actors and promote role of the media in the development of Serbian society.
- A permanent dialogue between authorities and the civil society is developed. Civil Society Organisations (CSOs) and their partners improve their internal communication and improve their capacity to both to scrutinise and build viable partnerships with the Serbian authorities both on central and local level.
- To have an improved application of the framework for the regulation of media and the progressive alignment with the Television without Frontiers Directive and other EU instruments in the field of media

### **2.2.1.3 Programmes to be implemented in pursuit of these objectives**

- Support to strengthen the Republic of Serbia Parliament's architecture, management and operations.
- Support to Civil Service Reform, particularly in the areas of salary, recruitment, retention and career development. Support the establishment of long-term training system for civil servants.
- Civil service training in economic planning, budgeting, financial control, monitoring and evaluation of reforms implementation, debt management and EU co-funding. Implementation of measures for co-financing projects financed through EU funds.
- Capacity building and training to manage foreign exchange and foreign trade operations
- Support regional development policy and balanced territorial development by introduction of NUTS classification, strengthening development planning and implementation capacities at central and regional level, more efficient spatial, cadastral and municipal planning and management. Support municipal, inter-municipal and cross-border municipal projects.
- Targeted support to the human resource development in the judicial sector and institutional building for criminal assets confiscation. Support new Juvenile Justice Law. Development of a legal aid system to citizens.
- Improve police training; strengthen the internal control of police.

- Support penitentiary reform by institution building, improving legislation and standards in prisons, particularly for special status prisoners.
- Further support to the official anti-trafficking structures, especially the Agency for Coordination of the Assistance to the Victims of Trafficking.
- Focus on strengthening the channels of mutual legal assistance between judiciaries in neighbouring states
- Support refugee return/integration through cross boundary/border initiatives, durable solutions (housing schemes, employment etc.) legal assistance and income support with strong inter-ministerial support.
- Support for setting up effective transitional justice programmes.
- Support to decrease vulnerability of minorities, in special of Roma. Support to develop comprehensive Framework for preventing and combating discrimination.
- Build capacities of civil society institutions and partnerships with government to promote human rights, European standards and values and the engagement of civil society actors into policy design, implementation and monitoring and evaluation of governmental programs.
- Support Public Broadcasting Service, further improvement and implementation of media regulatory framework and role of media in Serbian society

## 2.2.2 Socio-economic Requirements

### 2.2.2.1 Main priorities and objectives

- **Enhance access to employment and participation in the formal labour market** by developing and managing Active Labour Market Policies (ALMPs), as well as efficient labour market institutions, notably employment services, in order to identify labour market changes, new labour and skills needs, fight unemployment. Particular attention should be given to young people, women, elderly people, vulnerable groups (such as long term unemployed, redundant workers, persons with special needs, Roma, refugees and IDPs, etc.) and to areas most heavily affected by economic and social restructuring (i.e. by industrial and army restructuring). Introduce success factors of social partnership dialogue and improve functioning of central and local labour market institutions to meet employer demands. Assistance might also support the implementation of the 2005 – 2010 National Employment Strategy, as well as 2006 – 2008 National Employment Action Plan.
- **Promoting and implementing the Reform of the Education System** to support the development of economy and to meet the demands of the Lisbon agenda. Fostering a better match between education and labour market needs (school to work and university to work principle<sup>10</sup>) by adapting education and training systems to new competencies' requirement and by enhancing the involvement of relevant stakeholders. Improving the quality of the education (including civic education and history teaching) and training systems in line with European standards and Serbia's social, economic and population needs, including mobility. Provide soft and hard support for education, higher education, and vocational education and training. Including marginalized groups (predominantly Roma) and children/ people with special needs into the regular education system. Support to pre-school and basic education, with a special focus on

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<sup>10</sup>Too many students leave high school without the occupational and academic skills to succeed in the workplace or in postsecondary education. School-to-work transition initiatives should offer a promising approach to this issue and require major school restructuring.

poor and excluded children, should be specifically addressed by the Government as a pre-condition of other expected results such as employment, social inclusion and poverty reduction. Developing adult education and a lifelong learning strategy. Promote effective partnership among major actors-including business, social partners and education institutions at all levels.

- **Fostering social inclusion** with the advancement of **social welfare system** reform through implementation of the Social Welfare Development Strategy<sup>11</sup> with view to reorganisation, decentralisation and rationalisation of social welfare services and enhancement of its ability to support social inclusion of all, especially disadvantaged groups and creation of the conditions for growth and sustainable development of all individuals, groups and communities.
- **Improve regulatory and management capabilities of health** financing institutions and health care authorities, institutions and programmes; increase access and inclusion of vulnerable groups into health care system; support inter-ministerial fight against drug abuse, and HIV/AIDS. Improve preventive health services with an emphasis on screenings; adapt the curriculum of the Schools of Medicine to promote mutual recognition of health professional qualifications. Take into account the existing legislation for further revision (i.e. laws on health protection, health insurance and various chambers).
- **Enhancing the investment climate and support to small and medium sized enterprises** through a favourable legislative and policy framework, economic environment, access to services, capital and know-how, and support to competitiveness, including investment and import/export promotion. Support to job-creation potential in specific branches and activities related to tourism. Develop national institutional capacities for the implementation of anti-trust policy, a competitive Serbian business environment and industry capable of sustaining the competitive pressure of the European market. Develop Serbia's capacity to benefit from the knowledge based society. Further develop local/regional **business support structures** (clusters, incubators, business/technology parks, etc.) in order to promote business, research and innovation related activities and public services. Development and implementation of Serbia's industrial, innovation and FDI strategies and action plans. Promotion of FDI and export-oriented companies. Assist SME and Regional Economic Development Support institutions.
- Develop the full potential and the competitiveness of **Serbia's inland waterway** transport sector for socio-economic development, in particular in the Danube basin. In addition, special attention will be paid to **floods prevention and natural and human actions induced catastrophes**.
- Assistance to privatisation of **socially and state owned enterprises**, in particular preparing restructuring / privatisation programmes.
- Development of Serbia's capacity to manage its **macro-economic and strategic national economic planning and forecasting**.
- **Improving infrastructures** in order to promote business related activities and public services and to facilitate economic and cultural links within Europe. The areas of energy, transport, tourism, environment, health, information and communication technology, education, etc. have to be developed as cornerstones of future economic

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<sup>11</sup> Strategy paper adopted by the Government in December 2005.

growth. Specific action instruments for flood prevention and management will be incorporated notably with regard to the regional dimension of the problem. Promoting economically, socially and environmentally **sustainable rural development** through assistance to strengthen the preparation, implementation and monitoring of strategies and programmes for agriculture and rural development. Strengthening the organisation and ability of civil society partners to engage in the process of agricultural and rural development. Support the development of an extension system for the generation and transfer of knowledge to farmers and the rural population.

### **2.2.2.2 Expected results and time frame**

The following results are expected to be achieved until the end of the first IPA programming period (2012).

- Labour markets reforms and the modernisation and further development of public employment services supported. Social partnership dialogue for employment improved.
- European Social Fund type actions on employment and economic development (e. g. grant schemes for fighting youth unemployment and unemployment of disadvantaged groups) have been designed and prepared for piloting.
- Reform of education system to support the development of economy and society. Setting education policy and initiating some of the accompanying measures should be achieved, including curriculum development. Cooperation between educational institutions and the local community, especially business improved. Improved access to pre-school and basic education.
- A policy against the social exclusion of returnees, minorities and handicapped persons will be adopted and there will be visible progress on its implementation.
- Conditions for growth and sustainable development of all communities will be improved.
- Enhanced investments in environmental infrastructures.
- Administrative and operational capacities improved and improved quality and efficiency services which are providing in health care system, especially in conditions of limited resources. Preventive health services improved. Curriculum of the Schools of Medicine to promote mutual recognition of health professional qualifications adopted. existing legislation (i.e. laws on health protection, health insurance and various chambers) revised.
- Investment climate and the business environment in general will be improved through the support to SME and regional economic development. Improved investment climate in respect to continuous increase direct investments and SME development.
- Persons engaged in the tourism, agricultural, food and forestry sectors and rural enterprises shall have been assisted to improve: the competitiveness of the tourism, agricultural and forestry sectors; the environment and the countryside; the quality of life in rural areas including encouraging the diversification of the rural economy; and building local capacity for employment and diversification.

### **2.2.2.3 Programmes to be implemented in pursuit of these objectives**

In the annual programmes 2007-2009 assistance may be provided in the areas listed below. It will be the responsibility of the beneficiary to establish its exact scope during the elaboration of the project proposals for the annual programme.

- Support to social partnership institutions in the implementation of the Poverty Reduction Strategy and socio-economic development.
- Support ESF-type actions to strengthening economic and social cohesion by improving employment and job opportunities, taking into account private investor needs.
- Tailored employment support measures for the territories in severe industrial decline and vulnerable groups including those laid off from public sector enterprises due to restructuring and privatisation.
- Managerial and graduate conversion courses, internships/placements in EU companies and institutions.
- Support implementation of the National tourism strategy; improve tourist sites including access and hospitality training.
- School to Work and University to Work measures including conversion courses, internships and placements with EU companies and institutions.
- Support to VET and development of the Functional education for adults and life-long learning concept.
- Actions on employment, economic development and social inclusion with particular focus on the unemployed and disadvantaged groups. Support to create an environment conducive for better pre-school and basic education and better access for all children.
- Actions on employment, economic development and social inclusion with particular focus on the unemployed and disadvantaged groups.
- Implementation of Health Management and Financing Improvement Programme in close partnership with the Ministry of Finance.
- Support implementation of continuous quality improvement of health institutions and health education reform.
- Health care out-reach programmes for vulnerable groups and design of drug abuse counter measures through close inter-ministerial coordination.
- Support the statistical office and other responsible institutions to improve socio-economic data processing and monitoring including implementing a new agricultural census and improving the national accounts..
- Support implementation of Serbia's innovation, SME, FDI, inland waterway strategies and Flood prevention action plans.
- Assist SME and Regional Economic Development Support institutions. Support implementation of the European Charter for Small Enterprise.
- Promote exploitation of inland waterways as socio-economic development comparative advantage.
- Support implementation of corporate restructuring, turn-around management and business advisory actions.
- Support the partnership based preparation and implementation of rural development actions: to promote economically, socially and environmentally sustainable rural development including agricultural diversification, new product development and non-farm activities; and to prepare for the implementation of the *acquis communautaire* concerning the Common Agricultural Policy and related policies. Assistance for the establishment of an extension system for the generation and transfer of knowledge to farmers and the rural population.

## 2.2.3 European Standards

### 2.2.3.1 Main priorities and objectives

- **Developing Serbia's capacity** to benefit from the SAA, the regional FTA once concluded, and its future WTO membership and ensure its EU market access.
- **Strengthening the European integration structures** (including line ministries and the parliaments), as well as corresponding structures/mechanisms for the verification of the compatibility of government policies and draft legislation with EU acquis and standards), especially institutions dealing with **Decentralized Implementation System** and improve cooperation among them.
- **Supporting the development and implementation of sectoral strategies and policies compatible with EC internal market legislation and best practices** in areas such as standardisation, accreditation, metrology and conformity assessment; veterinary, phytosanitary and sanitary standards; consumer protection; financial services; public procurement; protection of intellectual property rights; data protection, market regulation, etc.
- **Supporting State Aid and the Competition Protection authorities** to meet EU anti-trust and state-aid standards
- It is necessary to support the **development and implementation of strategies and policies** in order to establish sectoral policies and a regulatory framework compatible with European standards as follows:
  - **Agriculture and Rural Development:** Support in development of capacities to implement Agricultural and Rural Development policies to EU standards and to complete the transition to a market economy. Increase the sector's ability to meet external competition, and adopt the *acquis communautaire*; to align agricultural and rural payments to farmers with EU legislation and practice; develop capacities to implement EU veterinary, phytosanitary, food safety and quality standards, and to lead the development of the agri-food industry through vertical and horizontal linking of primary production (farmers), processing industry and market organizations. Expand capabilities of the Food Chain Laboratories, including the up-grading of wine laboratories.
  - **Environment:** Support to the approximation and implementation of Environmental legislation and related strategies; support to environmental authorities at all levels in terms of project preparation, management, planning, permitting, inspecting, and monitoring; support to local infrastructure investments including environmental information systems, solid waste, regional land fields, water and sewage. Support for participating in Environmental networks including the European Environmental Agency.
  - **Transport:** Support Transport Authorities to meet demands of EU legislation; Implement the Memorandum of Understanding on the Core Regional Transport Network and support regional infrastructure investments (SEETO Multi-annual Plan 2006-2010), multi-modal transport network and transshipment facilities; facilitation of IFI investment through project preparation/implementation in Euro-Corridors. Support Serbia to fully **implement the European Common Aviation Area Agreement** and to actively participate in the SEE-FABA (South Eastern Europe Functional Airspace Blocks Approach) initiative with a view to adopt and implement the relevant single European sky acquis.

- **Energy:** Compliance support to meet the needs of the Regional Energy Treaty, relevant Community Directives and regional market obligations; compliance of legislation with the *acquis*.
- Supporting the **development and implementation of other strategies and policies** in order to establish sectoral policies and a regulatory framework compatible with European standards e.g. statistics, information society, electronic communications, customs and taxation, social policy, nuclear safety, research, public internal control and external audit, environment, transport.
- Enabling Serbia to participate in **Community programmes**, including support to establish and/or enhance the necessary structures and financing of Serbia's participation in Community programmes.
- Supporting further alignment with European standards in the area of **justice, freedom and security**, in particular visa, border management, asylum and migration mechanisms, data protection, regional cooperation in the field of law enforcement and fight against organised crime and terrorism..

### 2.2.3.2 Expected results and time frame

The following results are expected to be achieved until the end of the first IPA programming period (2012).

- SAA implemented.
- It is expected that the Serbian European Integration Office will maintain the lead government institution that will coordinate the European agenda within Serbia's institutions.
- Establishment of administrative structures necessary to effectively manage DIS and co-financing.
- The European integration office and line ministries will develop their capacities to screen legislation and policies on EU compatibility.
- Capacities to align agricultural and rural payments to farmers with EU legislations and practice developed. Capacity to carry out rural census, farm register, land cadastre and price statistics strengthened. Capacities of the veterinary and phytosanitary administrations to efficiently and effectively protect, animal, plant and human health and animal welfare strengthened in line with international standards and requirements. Programme for upgrading food processing establishments to meet EU requirements and establishment of a food safety control body prepared. Implementation of international and EU marketing standards initiated.
- Environmental laws and by-laws approximated to EU legislation and implemented. Strategies, plans and programmes to ensure implementation of legislation, adopted and implemented. Databases on specific environmental sectors set up. Reinforced administrative capacity of authorities at central, regional and local level in charge of management, implementation and enforcement of environmental legislation and standards.
- The National Transport Strategy (road, rail, aviation and waterways) prepared and implemented; effective implementation and enforcement of transport legislation, particularly as regards safety aspects; intermodal transport improved; implementation of programmes funded by International Financial Institutions supported; the European Common Aviation Area Agreement fully implemented and adoption and implementation of the relevant single European sky *acquis* in the framework of the SEE-FABA initiative.

- The National Action Plan on implementation of the Energy Community Treaty prepared; the Treaty provisions effectively implemented, ensuring compliance with the relevant EU Directives and requirements. The measures for mitigating the social implications of the appropriate Treaty prepared and implemented.
- The information society will be further developed, liberalisation of the telecom sector and the restructuring of the state owned telecom enterprises will be advanced. The capacity of the responsible telecommunication institutions to fulfil its mandate as an independent regulatory body developed.
- Eventually Serbia will participate in selected Community programmes and benefit from being exposed to Community initiatives. In the first place, assistance will focus on enhancing the structures necessary for efficient participation, including the signature of the relevant memoranda of understanding for the Community programmes in question.
- Serbia's visa list will be further aligned with EU lists and efficient procedures for the issue of visa will be in place.
- Serbia's asylum and migration policies will be in line with the EU acquis.
- The capabilities of the law enforcement agencies in the fight against money laundering, drugs organised crime, terrorism and corruption will be enforced.
- A complete legal and institutional framework for the protection of personal data in line with European standards will be in place.
- The Integrated Border Management (IBM) strategy and its action plan will be implemented.

The interventions supported in the area of education and training will be implemented in close coordination with the Tempus programme, which will be part of the Multi-Beneficiary MIPD 2007-2009. The dissemination and exchange of best practice in the targeted areas will be further enhanced.

### **2.2.3.3 Programmes to be implemented in pursuit of these objectives**

In the annual programmes 2007-2009 assistance may be provided in the areas listed below. It will be the responsibility of the beneficiary to establish its exact scope during the elaboration of the project proposals for the annual programme.

- Support the alignment of Serbian legislation and institutions in key SAA sectors.
- Supporting preparations for the establishment of agencies and institutions required for the implementation and enforcement of the SAA.
- Technical assistance and capacity building activities to successfully implement Decentralised Implementation System.
- Support regulatory and institutional framework for standardisation, accreditation, metrology and conformity assessment; veterinary, phytosanitary, food safety, border controls, sanitary standards, consumer protection, financial services public procurement, protection of intellectual property rights.
- Capacity building for State Aid and the Competition authorities to meet anti-trust and state-aid standards
- Promote the development of the knowledge based and information society in Serbia

- Support the Ministry of Agriculture in introducing a rural payments institutional framework and assist in reforming of the Directorate for Commodity Reserves. Facilitate the privatisation of state owned land. Develop the capacity to carry out rural census, establish farm register and collection of price statistics. Assist the institutional capacity building and equipping of veterinary, phytosanitary, sanitary and quality administrations. Development of a programme for the upgrading of food processing establishments. Support to increase bio safety in the region through implementation of appropriate security measures in prevention and combat of Avian Influenza.
- Support the approximation and implementation of Environmental legislation and related strategies. Assist environmental authorities at all levels in project preparation, management, planning, permitting, inspecting, and monitoring.
- Support local infrastructure investments to meet EU standards including environmental information systems, solid waste, water and sewage.
- Support and provide with technical assistance to the Transport Authorities for the transposition of the acquis, including the field of air transport, to the active participation of Serbia in regional initiatives such as SEE-FABA and facilitation of IFI funding to realise key projects.
- Support energy sector restructuring, investment planning, and operation of mandatory institutions to meet the Regional Community Energy treaty and relevant Community legislation, including those concerning the improvements in energy efficiency, energy savings and the use of renewable energy sources.
- Development and implementation of state policy for information society, nuclear safety and integrated research. Assistance to liberalise the telecom sector, to restructure state owned telecom enterprises and to the strengthening of the communications Regulatory Agency.
- Support proper implementation of adopted strategies and enforcement of approved policies through the assistance to various republican and local inspectorates (e.g. Market Inspection, Veterinary Inspection, Labour Inspection, etc.)
- Institution building and technical assistance to support the implementation of strategies for the fight against drugs, human trafficking, smuggling, money laundering, combat organized crime, corruption and confiscation of criminally acquired assets, including access to information.
- Support anti-terrorism institutions and promote cooperation between law enforcement agencies.
- Further support to the implementation of Serbia's IBM Strategy and Action Plan and implement asylum visa and immigration legislation in line with international conventions and visa regimes.
- Support for the protection of personal data in line with European standards.

#### **2.2.4 Type of assistance to be provided**

The assistance under Component I, Transition Assistance and Institution Building, may be provided in the form of twinning/twinning light support, technical assistance, project preparation facility, procurement of equipment, works, investments and grant schemes. Under certain conditions assistance in form of budgetary support could be provided. A

financial contribution will be provided for the participation in the Community programmes<sup>12</sup>.

## 2.2.5 Financial indications

The following table gives an overview of the overall indicative weighting that should be given to the different sectors outlined above.

### *Percentage by sector*

<b>Intervention area</b>	<b>Percentage range</b>
Political Requirements	20–35
Socio-economic Requirements	45–60
European Approximation of Sectoral Policies	20–30

## 2.3 Component II – Cross Border Co-operation

### 2.3.1 Current situation and past/ongoing EU assistance

Since 2003, cross-border cooperation activities involving all Western Balkan countries have been supported through the CARDS Regional Action Programmes.

The "Technical Assistance for the implementation of the Inter-regional Co-operation Support Programme" is designed by EAR, and funded by the CARDS national programmes for Serbia, to support the MIER with the establishment of a Programme Co-ordination and Management Unit (PCMU), and to ensure that the Neighbourhood Programmes of Serbia are transformed into successful projects. TA is focused on five key areas (plus project management): Establishing the PCMU, training PCMU staff, establishing a pool of local experts, ensuring sufficient eligible projects of adequate quality are identified and implemented, and preparing programme evaluations. The TA team consists of three foreign experts and one local assistant. Taking into consideration that there is a need for continuing TA support under this programme, this TA programme will be extended for another two years

The CARDS 2003 Regional Action Programme included a Technical Assistance project Cross Border Institution Building (CBIB), €2 million.

The CARDS 2004 Regional Action Programme provided funds (€15 million) for the participation of Western Balkan countries in cross-border and transnational co-operation programmes with neighbouring Member States and prospective Member States (Romania and Bulgaria).

In co-operation with the European Agency for Reconstruction (EAR), MIER/DACU has started to co-ordinate and manages EU Neighbourhood Programmes (NP) in the Republic of Serbia. At this moment there are five active programmes being implemented:

1. Hungary-Romania, Hungary-Serbia and Montenegro Cross-Border Co-operation Programme
2. NP Romania-Serbia
3. NP Bulgaria-Serbia
4. NP Italy/Adriatic (involving all the Western Balkans countries except FYROM)
5. NP CADSES (transnational)

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<sup>12</sup> Communication of the Commission "Preparing for the participation of Western Balkan countries in Community programmes and agencies" [COM (2003) 748 of 3.12.03]

The CARDS 2005 Regional Action Programme continued the support for participation in Neighbourhood Programmes and provided additional funds to initiate cross-border programmes at the borders between Western Balkan countries themselves (total € 17,2 million).

Other CBC Programmes are in the preparation phase including for example Serbia-Croatia. The CARDS 2006 Regional Action Programme, currently under preparation, should continue providing support for participation in Neighbourhood Programmes and for initiating cross-border activities at the Western Balkans' internal borders.

### 2.3.2 Programmes under the IPA Cross-border Co-operation Component

At border with the EU, IPA CBC will operate on both sides of the border on the basis of *one* set of rules, thus providing the opportunity for fully equal and balanced programming and decision-making structures between Member States and Candidate and potential Candidate Countries. Since measures financed under IPA CBC need to benefit both parties, joint programmes, joint management and joint financing of projects will be required. Thus IPA CBC is meant to promote enhanced cooperation and progressive economic integration and coherence between the European Union and the Candidate and potential Candidate countries.

IPA Component II will support cross-border programmes between Serbia and the adjacent Member State (Hungary/Bulgaria, Romania), candidate (Croatia, FYROM) and potential candidate countries. According to the IPA eligibility rules (NUTS level III regions or equivalent areas), the eligible areas for CBC programmes with adjacent Member States (Hungary/Romania, Bulgaria) are as follows:

#### IPA CBC Hungary–Serbia

<b>Hungary</b>	<b>Serbia</b>
Bács-Kiskun	Zapadno-backi (West Backa)
Csongrád	Severno-backi (North Backa)
	Severno-banatski (North Banat)
	Juzno-Backi (South Backa)
	Srednje-banatski (Central Banat)

#### IPA CBC Romania–Serbia

<b>Romania</b>	<b>Serbia</b>
Mehedinti	Severno-banatski (North Banat)
Caras-Severin	Srednje-banatski (Central Banat)
Timis	Juzno-banatski (South Banat)
	Branicevski
	Borski

#### IPA CBC Bulgaria–Serbia

<b>Bulgaria</b>	<b>Serbia</b>
Vidin	Borski
Montana	Zajecarski
Sofia	Pirotski
Pernik	Jablanicki
Kyustendil	Pcinjski Nisavaski

The territorial coverage on the Serbian side may be reviewed once Serbia adopts the NUTS classification. The eligible areas for CBC programmes with neighbouring Candidate/potential Candidate countries will be determined along the same lines, in compliance with the IPA rules on eligibility.

The IPA programmes with Hungary, Bulgaria and Romania will build on the 2004–06 programmes. Regarding the negotiations held and the situation on the ground, programmes with Croatia and Bosnia Herzegovina will be the first new programmes with neighbouring candidates/potential candidates to start under IPA. Other programs, namely programs with Montenegro and FYROM could start at the later stage.

In addition, building on the experience gained in the context of the CADSES programme, IPA Component II funds are available, as appropriate, to support the participation of Serbia in the relevant transnational programmes under the Structural Funds where Serbia is eligible (e.g. the "South –East European Space" programme, the successor of CADSES).

Since the independence of Montenegro, Serbia is not anymore geographically eligible to the successor of the 2004–06 Italy–Adriatic Neighbourhood Programme. However, building on the previous experience of the successful participation of Serbia and Montenegro in the Italy–Adriatic Neighbourhood Programme, a phasing–out participation of Serbia in the future IPA Adriatic CBC programme is foreseen, which will be limited to joint projects in the field of institutional cooperation (between universities, research centres, etc.).

### **2.3.3 Major areas of intervention**

#### IPA CBC programme with Hungary, Bulgaria, Romania

The main areas of intervention for on-going programmes give already the first indication for the areas of intervention during 2007-2009. These include promoting sustainable economic development, people to people actions and socio-economic cohesion between Serbia and **Bulgaria**. In the Neighbourhood programme with **Romania** key support measures include Business and Agricultural Support Cooperation, Cooperation between local public services, and tourism development. With **Hungary**, the priorities are to strengthen spatial, physical infrastructure for cross-border co-operation and to build greater market integration. The **Hungary Romania and Hungary-Serbia** programme targets common challenges in the field of environmental protection and flood prevention and the improvement of cross-border infrastructure.

In general the focus will be on small-scale cross-border infrastructure, economic cooperation and environment, tourism, agriculture, education, R&D, employment, institutional co-operation and people to people actions.

#### IPA CBC programme with Croatia and BiH

After first analysis carried out in the field, main priorities profiled are: CB infrastructure, economic cooperation and environment, tourism and agriculture, education, R&D and employment, institutional cooperation, people to people actions.

#### Structural Funds transnational programme South-East European Space

A discussion between countries on the content of the programme is still ongoing. The basic framework will cover innovation, accessibility, urban development and the environment.

#### IPA Adriatic CBC programme

The phasing out participation of Serbia in the programme should mainly concern universities, research institutes, hospitals, some line Ministries and cultural institutions, museums, theatres, etc. to participate in projects developed under specific priorities and measures.

### 2.3.4 Main priorities and objectives

Negotiations with partners in neighbouring countries are currently on-going. Consequently, areas of co-operation and the proposed priorities are a base for further discussion. Serbian authorities have already developed the models of SWOT questionnaires. Using these questionnaires they will identify the goals, priorities, needs on the spot and do the survey to prepare the IPA-CBC programmes with Hungary, Bulgaria, Croatia and Romania.

For other borders, MIER plans to organise preparatory workshops within concerned regions, where local actors could express and discuss about relevant needs and possibilities. If possible, joint cross-border workshops should be organised with partners from neighbouring countries, as was done in the case of the existing programmes. The CBIB project will be used as a support for better and more efficient preparation of the new programmes targeting cooperation with the IPA countries.

In principle, priorities could remain similar to the currently existing ones:

- Cross-border infrastructure. Flood prevention. Caters management.
- Economic co-operation (especially, creation of strong logistical links, supply chains and clusters alongside the border) tourism, agriculture and rural development.
- Address common challenges in the field of environment, public health, prevention and fight against organised crime, etc.
- Ensure efficient and secure borders. Promote legal and administrative co-operation.
- Promote local “people to people” type actions, more emphasis should be put on stronger co-operation between public entities, NGOs in the fields such as education and cultural co-operation, development of democracy and tolerance, conflict prevention etc.
- Cooperation among cultural institutions including Museums, Theatres, etc.
- Develop the reference framework for CBC activities and developing planning documents;
- Fostering reciprocal trust at local level;
- Supporting initiatives in the area of education, research and employment generation.
- Support activities for the return of refugees to their country of origin, their reintegration and facilitation of the access to their rights.
- Support efforts to control small arms and light weapons.<sup>13</sup>

### 2.3.5 Expected results and time-frame

Through the increased focus on cross border cooperation, the border population should be sensitised to the economic, social and stabilising benefits that cross border co-operation activities can bring. This will be mainly achieved through highly visible and necessary cross border infrastructure projects and EC sponsored cross border co-operation activities between organisations from both sides of the border.

- High visibility projects with a strong impact on the local population
- Small scale cross border infrastructure projects
- Technical assistance for CBC agencies
- Grant schemes

It is expected that after the first year of the programming cycle, the partner countries will have established the relevant joint multi-annual CBC programmes and priorities, will have set up joint management structures and agreed on joint implementation procedures

### 2.3.6 Type of assistance to be provided

CBC programmes:

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<sup>13</sup> The largest donor to the South Eastern Europe Clearinghouse for the Control of Small Arms and Light Weapons (SEESAC) is the European Commission.

The identification of suitable joint projects to be financed should primarily take place through competitive joint call for proposals agreed between participating countries. Pre-identification of projects with a genuine cross-border value by the CBC Joint Monitoring Committee is also possible.

Participation in ERDF transnational programmes:

The participation of Serbia will follow the implementing rules of those programmes.

**2.3.7 Financial indications**

The following indicative amounts of IPA funds are earmarked for CBC with MSs:

<i>CBC programmes</i>	<i>IPA funds 2007</i>	<i>IPA funds 2008</i>	<i>IPA funds 2009</i>
Serbia – Hungary	1.334	2.279	2.486
Serbia – Romania	1.580	2.698	2.943
Serbia – Bulgaria	1.265	2.160	2.356
Adriatic	0.319	0.546	0.595

(million € current prices)

For the CBC programmes between border regions of Serbia and neighbouring Candidate/potential Candidate countries and for the possible participation of Serbia in the relevant ERDF transnational/interregional programmes, the following indicative amount of funds have been earmarked (million € current prices):

2007: €3.714  
 2008: €3.789  
 2009: €3.864

## List of abbreviations

CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CBC	Cross-border cooperation
CEFTA	Central European Free Trade Agreement
DFID	UK Department for International Development
DIS	Decentralised Implementation System
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
ESDP	European Security and Defence Policy
EU	European Union
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für technische Zusammenarbeit
HRD	Human Resources Development
IBM	Integrated Border Management
ICTY	International Criminal Tribunal for the former Yugoslavia
IDP	Internally Displaced Persons
IFI	International Financial Institutions
IMF	International Monetary Fund
IOM	International Organisation of Migration
IPA	Instrument of Pre-accession Assistance
IPR	Intellectual Property Rights
KfW	Kreditanstalt für Wiederaufbau
MFA	Macro-financial Assistance
MIFF	Multi-annual Indicative Financial Framework
MIPD	Multi-annual Indicative Planning Document
NGO	Non-Government Organisation
NIPAC	National IPA Coordinator
OSCE	Organisation for Security and Cooperation in Europe
PAR	Public Administration Reform
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SIDA	Swedish International Development Agency
SME	Small and Medium-sized Enterprises
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
VET	Vocational Education and Training
USAID	United States Agency for International Development
WB	World Bank
WTO	World Trade Organisation