Needs of the Republic of Serbia for International Assistance 2011-2013
Government of the Republic of Serbia

Needs of the Republic of Serbia for International Assistance
In the Period 2011-2013

February 2011
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<tr>
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<th>Full Form</th>
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<tbody>
<tr>
<td>AA</td>
<td>Audit Authority</td>
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<tr>
<td>ALMP</td>
<td>Active Labour Market Programmes</td>
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<td>AML</td>
<td>Anti-money laundering</td>
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<td>AVMS</td>
<td>Audiovisual Media Services</td>
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<td>BMI</td>
<td>Business Monitor International</td>
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<td>CAO</td>
<td>Competent Accrediting Officer</td>
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<td>CARDS</td>
<td>Community Assistance for Reconstruction, Development and Stabilisation</td>
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<td>CDM</td>
<td>Clean Development Mechanism</td>
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<tr>
<td>CEB</td>
<td>Council of Europe Development Bank</td>
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<td>CEFTA</td>
<td>Central European Free Trade Agreement</td>
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<td>CEHAP</td>
<td>Children’s Environment and Health Action Plan</td>
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<td>CFT</td>
<td>Combating the financing of terrorism</td>
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<td>CFCU</td>
<td>Central Finance and Contract Unit</td>
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<td>CSO</td>
<td>Civil society organisations</td>
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<td>Centres for Social Work</td>
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<td>DFID</td>
<td>UK Department for International Development</td>
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<tr>
<td>DG REGIO</td>
<td>Directorate-General for Regional Policy</td>
</tr>
<tr>
<td>DIS</td>
<td>Decentralised Implementation System</td>
</tr>
<tr>
<td>DOTS</td>
<td>Directly Observed Treatment Short course</td>
</tr>
<tr>
<td>EA</td>
<td>European co-operation for Accreditation</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>EC</td>
<td>European Commission</td>
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<td>ECAA</td>
<td>European Common Aviation Area</td>
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<td>ECTS</td>
<td>European Credit Transfer System</td>
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<td>EFTA</td>
<td>European Free Trade Association</td>
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<td>EHEA</td>
<td>European Higher Education Area</td>
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<td>European Investment Bank</td>
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<td>EIP</td>
<td>Entrepreneurship and Innovation Programme</td>
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<td>EMAS</td>
<td>EU Eco-Management and Audit Scheme</td>
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<td>EPS</td>
<td>Electric Power Industry of Serbia</td>
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<td>EU</td>
<td>European Union</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>EUR</td>
<td>Euro</td>
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<td>Eurostat</td>
<td>European Statistical Office</td>
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<tr>
<td>FADN</td>
<td>Farm Accountancy Data Network</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation of the United Nations</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FP7</td>
<td>Seventh Framework Programme for research and technological development</td>
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<tr>
<td>FREN</td>
<td>Foundation for the Advancement of Economics</td>
</tr>
<tr>
<td>FYROM</td>
<td>Former Yugoslav Republic of Macedonia</td>
</tr>
<tr>
<td>GCI</td>
<td>Global Competitiveness Index</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GHG</td>
<td>Greenhouse gas</td>
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<tr>
<td>GRECO</td>
<td>Council of Europe’s Group of States against Corruption</td>
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<tr>
<td>GTAF</td>
<td>General Technical Assistance Facility</td>
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<tr>
<td>GIZ</td>
<td>Deutsche Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)</td>
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<tr>
<td>HACCP</td>
<td>Hazard Analysis Critical Control Point</td>
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<tr>
<td>HIV</td>
<td>Human immunodeficiency virus</td>
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<tr>
<td>HOS</td>
<td>Head of Operating Structure</td>
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<tr>
<td>HRD</td>
<td>Human Resources Development</td>
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<tr>
<td>HS DTD</td>
<td>Hydro-system Danube-Tisa-Danube</td>
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<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development, member of the World Bank Group</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technologies</td>
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<tr>
<td>IDP</td>
<td>Internally Displaced Person(s)</td>
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<tr>
<td>IFI</td>
<td>International Financial Institution</td>
</tr>
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<td>IFC</td>
<td>International Finance Corporation, member of the World Bank Group</td>
</tr>
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<td>ILO</td>
<td>International Labour Office</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOM</td>
<td>International Organisation for Migration</td>
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<td>IPA</td>
<td>Instrument for Pre-accession Assistance</td>
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<td>IPARD</td>
<td>IPA component V (Rural Development)</td>
</tr>
<tr>
<td>IPPPC</td>
<td>Integrated Pollution Prevention and Control</td>
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<tr>
<td>ISDACON</td>
<td>Inter Sectoral Development and Aid Coordination Network</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>IWT</td>
<td>Inland Waterway Transport</td>
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<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>JAP</td>
<td>Joint Assessment of the Employment Policy Priorities</td>
</tr>
<tr>
<td>JIM</td>
<td>Joint Memorandum on Social Inclusion</td>
</tr>
<tr>
<td>KfW</td>
<td>Kreditanstalt für Wiederaufbau (German Reconstruction Credit Institute)</td>
</tr>
<tr>
<td>LAP</td>
<td>Local Action Plan</td>
</tr>
<tr>
<td>LEADER</td>
<td>Liaison Entre Actions de Développement de l'Économie Rurale (meaning links between the rural economy and development actions) – an EU programme (“LEADER +”)</td>
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<tr>
<td>LFS</td>
<td>Labour Force Survey</td>
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<tr>
<td>LSG</td>
<td>Local self-government</td>
</tr>
<tr>
<td>MAFWM</td>
<td>Ministry of Agriculture, Forestry and Water Management</td>
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<td>MIFF</td>
<td>Multi-Annual Indicative Financial Framework</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency, member of the World Bank Group</td>
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<td>MIPD</td>
<td>Multi-annual Indicative Planning Document</td>
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<td>MoERD</td>
<td>Ministry of Economy and Regional Development</td>
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<td>Ministry of Finance</td>
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<td>MW</td>
<td>Megawatt</td>
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<td>NAD</td>
<td>Needs Assessment Document</td>
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<td>NAO</td>
<td>National Authorising Officer</td>
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<td>NES</td>
<td>National Employment Service</td>
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<td>NF</td>
<td>National Fund</td>
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<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>NIP</td>
<td>National Investment Plan</td>
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<td>NIPAC</td>
<td>National IPA Coordinator</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>NPEP</td>
<td>National Programme for Environmental Protection</td>
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<td>NPI</td>
<td>National Plan for Integration with the European Union</td>
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<td>NQF</td>
<td>National Qualifications Framework</td>
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<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
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<tr>
<td>OKOSP</td>
<td>Municipal Coordination Committee for Social Policy</td>
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<tr>
<td>OP</td>
<td>Operational Programme</td>
</tr>
<tr>
<td>OS</td>
<td>Operating Structure</td>
</tr>
<tr>
<td>OSCE</td>
<td>Organisation for Security and Co-operation in Europe</td>
</tr>
<tr>
<td>PAO</td>
<td>Programme Authorising Officer</td>
</tr>
<tr>
<td>PAR</td>
<td>Public administration reform</td>
</tr>
<tr>
<td>PBA</td>
<td>Programme-based approach</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>PCMU</td>
<td>Project Coordination and Management Unit</td>
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<td>PDO</td>
<td>Protected Designation of Origin</td>
</tr>
<tr>
<td>PE</td>
<td>Public Enterprise</td>
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<tr>
<td>PGD</td>
<td>Protected Geographical Designation</td>
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<td>PEP</td>
<td>Pre-accession Economic Programme</td>
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<td>PIFC</td>
<td>Public Internal Financial Control</td>
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<td>PISA</td>
<td>Programme for International Student Assessment</td>
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<td>PPF</td>
<td>Project Preparation Facility</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>RATEL</td>
<td>Agency for Electronic Communications of the Republic of Serbia</td>
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<tr>
<td>RCA</td>
<td>Revealed Comparative Advantage</td>
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<tr>
<td>REBIS</td>
<td>Regional Balkans Infrastructure Study</td>
</tr>
<tr>
<td>RES</td>
<td>Renewable energy sources</td>
</tr>
<tr>
<td>RIS</td>
<td>River Information Services</td>
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<td>RS</td>
<td>Republic of Serbia</td>
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<tr>
<td>RSD</td>
<td>Serbian Dinar</td>
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<td>RSO</td>
<td>Republican Statistical Office</td>
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<tr>
<td>RTC</td>
<td>Regional Training Centre</td>
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<tr>
<td>SAA</td>
<td>Stabilisation and Association Agreement</td>
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<tr>
<td>SCADA</td>
<td>Supervisory control and data acquisition (standard)</td>
</tr>
<tr>
<td>SCF</td>
<td>Strategic Coherence Framework</td>
</tr>
<tr>
<td>SCO</td>
<td>Strategic Coordinator</td>
</tr>
<tr>
<td>SEETO</td>
<td>South East Europe Transport Observatory</td>
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<td>SEIO</td>
<td>Serbian European Integration Office</td>
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<tr>
<td>SEPA</td>
<td>Serbian Environmental Protection Agency</td>
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<td>SIDA</td>
<td>Swedish International Development Cooperation Agency</td>
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<tr>
<td>SIEPA</td>
<td>Serbia Investment and Export Promotion Agency</td>
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<tr>
<td>SME</td>
<td>Small and Medium-sized Enterprise</td>
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<tr>
<td>STR</td>
<td>Suspicious transaction reporting</td>
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<td>SWAp</td>
<td>Sector-wide approach</td>
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<tr>
<td>SWG</td>
<td>Sectorial Working Group</td>
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<tr>
<td>SWOT</td>
<td>Strengths, Weaknesses, Opportunities and Threats</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>TEN-T</td>
<td>Trans-European Transport network</td>
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<td>Abbreviation</td>
<td>Description</td>
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<tr>
<td>tkm</td>
<td>Tonne-kilometre</td>
</tr>
<tr>
<td>TPP</td>
<td>Thermal Power Plant</td>
</tr>
<tr>
<td>UIC</td>
<td>International Union of Railways</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNESCO</td>
<td>United Nations Educational, Scientific and Cultural Organisation</td>
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<tr>
<td>UNHCR</td>
<td>United Nations High Commissioner for Refugees</td>
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<tr>
<td>UNICEF</td>
<td>United Nations Children’s Fund</td>
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<tr>
<td>USA</td>
<td>United States of America (also US)</td>
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<td>USAID</td>
<td>United Stated Agency for International Development</td>
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<tr>
<td>UXO</td>
<td>Unexploded Ordinance</td>
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<td>VET</td>
<td>Vocational education and training</td>
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<td>WB</td>
<td>World Bank</td>
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<td>World Bank Institute</td>
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<td>World Trade Organisation</td>
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<td>WWTP</td>
<td>Wastewater Treatment Plant</td>
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<td>ZIT</td>
<td>Železnički Integralni Transport (Railway Integral Transport)</td>
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Introduction

Policy context

The Republic of Serbia submitted its request for EU membership in December 2009. With this act, Serbia has demonstrated its clear and firm orientation towards becoming an EU Member State. European integration as a basic strategic-political orientation and as a strategic framework for overall democratic and economic development of the country, implies continuing the European integration process and fulfilling numerous, complex and interrelated demands. To achieve this goal, it is necessary to develop stable institutions guaranteeing democracy, the rule of law, and respect and protection of human and minority rights, develop a market economy which can face the pressure of competition within the European Union, improve education at all levels, adjust social inclusion policies to the European social model, increase employment opportunities and harmonise national legislation with the acquis followed by substantial infrastructure investment.

The Republic of Serbia is currently facing a great challenge. The effects of the global economic crisis are very noticeable, primarily through the increase of prices, increase in the Euro exchange rate, loss of jobs, reduction in planned investment and the difficulties of returning to the rapid growth which the country had in the last five years, at development rates of up to six to eight percent of GDP. On the other hand, Serbia is on the path of European integration and it is expected to respond to all related demands.

Under the influence of the crisis, the internal conditions related to reform processes and socio-economic development became more demanding and complicated. Therefore, the adoption of laws and strengthening the institutions which are necessary for the success of reforms and approaching membership of the European Union, assume the allocation of sufficient funds, which became more difficult due to the crises, while there are more problems and challenges to the political stability required for reforms. Instead, the crisis has affected every European Union member state and other Serbian international partners individually. The time and means that these countries devote to solving their internal economic problems implies a possible direct negative impact on the availability of funds that will be allocated for development projects to support the Western Balkan countries.

Serbia must endure these challenges, implement defined measures for eliminating the consequences of the economic crisis and ensure the accord of all the stakeholders which influence the economic environment, starting from the Government, executive and legislative authorities, to employers, scientific and educational institutions, unions and NGOs. Such a consensus and the implementation of priorities and measures identified in the National Programme for Integration of Republic of Serbia into the European Union (NPI) are necessary for the adoption of European standards and faster integration into the European family. Furthermore, strengthening partnerships with countries in the region will continue to be regarded as one of the important priorities.

During the course of this process, particular attention should be directed to meeting the socio-economic needs and interests of citizens. All efforts should be concentrated on creating new jobs and reducing the rate of unemployment, investment in the education of citizens, as people are the power and the future, the improvement of transport infrastructure, the safeguarding and promotion of environmental protection and rational use of natural resources and energy, the development of agriculture and rural areas, scientific and technological development, the reduction of gender and social inequalities of marginalised groups, and the encouragement of the employment of young people and persons with disabilities and other groups at risk. In the past 10 years, the international community has provided support to the reform processes in Serbia through grants and...
soft loans. The graph below shows the trend in annual estimated disbursement of international development assistance to Serbia. Although there are indications that bilateral aid will decrease in the following years, the need to maintain a relatively stable level of donor support in the coming years is demonstrated in the following chapter, which describes priorities and reforms that remain to be undertaken in the period 2011-2013.

**Estimated disbursement of international development assistance to Serbia**

(Millions of EUR)

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimated Disbursement</th>
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<td>1998</td>
<td>170.62</td>
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<tr>
<td>2000</td>
<td>877.62</td>
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<tr>
<td>2002</td>
<td>735.78</td>
</tr>
<tr>
<td>2004</td>
<td>694.58</td>
</tr>
<tr>
<td>2006</td>
<td>652.32</td>
</tr>
<tr>
<td>2008</td>
<td>494.51</td>
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<tr>
<td>2010</td>
<td>663.88</td>
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</table>

**Purpose and objectives of the document**

The inter-sectoral programming document “Needs of the Republic of Serbia for International Assistance 2011-2013” defines the approach of the Government to multi-annual programming of international development assistance, donor coordination and cooperation mechanisms, as well as prioritised measures within the relevant sector. The overall objective of this Needs Assessment Document (hereinafter: NAD) is to support the sustainable socio-economic development and European integration of the Republic of Serbia through planning, programming and the improvement of effectiveness of development assistance, in line with national strategic framework and priorities. The document is based on the existing national strategic framework and defined mid-term objectives and sets out the framework for developing projects which are ideally suited for financing by the donor community. The purpose of the document is to contribute to the implementation of the reforms and strategic objectives of the Government, by introducing a three-year programming framework and providing the necessary level and structure of international assistance.

In that context, the document shall be used as the main instrument for alignment of donors’ assistance with national priorities, in accordance with the Paris Declaration, adopted at the Forum on Aid Effectiveness in Paris in March 2005 by the donors and recipient countries. An overview of total expected donor commitments in the period covered by the NAD is given in Annex IV.

The NAD has four specific objectives:

1. To improve the planning process in line ministries and overall cross-sectoral planning and prioritisation concerning foreign development assistance;
2. To maximise the impact (effectiveness) and value (efficiency) of funds used through the development of a policy framework for development of project proposals;
3. To improve harmonisation of projects and programmes financed by the international community with national priorities;
4. To support the sustainable socio-economic development and European integration of the Republic of Serbia through planning, programming and the improvement of effectiveness of development assistance, in line with national strategic framework and priorities.
integration of the Republic of Serbia through planning, programming and the improvement of effectiveness of development assistance, in line with national strategic framework and priorities. The document is based on the existing national strategic framework and defined mid-term objectives and sets out the framework for developing projects which are ideally suited for financing by the donor community. The purpose of the document is to contribute to the implementation of the reforms and strategic objectives of the Government, by introducing a three-year programming framework and providing the necessary level and structure of international assistance.

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1. To improve the planning process in line ministries and overall cross-sectoral planning and prioritisation concerning foreign development assistance;
2. To maximise the impact (effectiveness) and value (efficiency) of funds used through the development of a policy framework for development of project proposals;
3. To improve harmonisation of projects and programmes financed by the international community with national priorities;
4. To improve the predictability of external financing with the aim of providing support to line ministries for annual budget planning and relevant activities.

The leading role in the coordination and harmonisation of donor activities, with a particular focus on country ownership over coordinating aid-funded activities, will be ensured under the leadership of the Serbian European Integration Office–Sector for Planning, Programming, Monitoring and Reporting on EU funds and Development Assistance.

The criteria used in the identification of priorities for international assistance in the period 2011-2013 included: their level of importance according to the existing strategic documents of the Government; the achieved level of reforms to date and their contribution to the realisation of strategic and reform objectives; consultations with key partners, including the donor community, civil society organisations and local self-government; the coincidence with the strategies, priorities and eligible actions of the European Union, and other multilateral and bilateral donors; the possibility of securing financial funds from other sources (the national budget of the implementing institutions, borrowing in the capital market, private investments); and the capacity of the sectors to absorb funds.

Preparation process and scope of the document

The preparation of this document⁴ reflects the determination of the SEIO to build partnerships with relevant stakeholders (central and local institutions, aid recipient institutions, development partners, civil society) to plan and programme international development assistance more effectively alongside domestic resources. Thus, external support is expected to contribute to the implementation of national strategies and policies, including achieving the EU accession agenda more effectively.

⁴ See Annex I for description of the methodology and timescale for preparing the NAD
The NAD was prepared in close cooperation with all relevant national authorities. The work was organised through eight sectoral working groups\(^2\). For each identified sector, the document outlines the priorities for foreign aid in the period 2011-2013, as well as a set of measures through which the respective priority is planned to be achieved. The measures are focused on the improvement of the regulatory framework, socio-economic development and the implementation of sectoral strategies, institution-building activities, as well as the implementation of investment plans. Defined measures are envisaged to serve as the basis for identification of development projects to be supported by foreign aid. It is important to mention that the implementation of projects will go beyond the lifetime of the NAD, having in mind that most of the projects are implemented on a multi-annual basis. For the purpose of the NAD, priorities and measures defined within each of the eight sectors refer to the sector policy objectives and ways of achieving them, while regional and local development, EU integration process and gender equality are viewed as horizontal issues and have been taken into consideration within each of the sectors. Apart from sectoral development priorities, the document also includes urgent priorities in recovering from the earthquake that hit the town of Kraljevo in November 2010, which require donor support. The Extract from the Action Plan for Recovery from the Earthquake is attached as Annex V.

The document is to be revised annually on a one-year rolling basis, in order to reflect the achieved progress and results, the funds provided for financing priority projects and new priority projects/programmes.

Apart from the consultations with relevant national institutions (held within the abovementioned eight sector working groups), the process of drafting the sector chapters of the NAD included consultations with representatives of civil society organisations, the donor community and local self-government. The consultation process was based on a number of sector-specific meetings, in order to present draft documents and discuss recommendations and input provided by CSOs and donor community representatives. Recommendations provided were taken into consideration and are reflected in the final text of the document.

A consultative process between the Government and local authorities, in cooperation with the Standing Conference of Towns and municipalities (SCTM), has ensured that the priorities of municipalities have been taken into consideration in the NAD, ensuring coherence and complementarity with the strategic priorities for IPA and other development assistance defined at the national level. The Sector for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance has been organising, in cooperation with the SCTM, consultations with local self-government related to programming of international development assistance in the area of local development for the past three years. During the two-day workshop that was organized in November 2010, representatives of local and central authorities have consulted to identify the needs of local self-government for international assistance in further implementation of reforms in the period 2011-2013, to be integrated in the NAD. Local development objectives and measures in the following areas\(^3\): i) public administration reform, ii) public finance, iii) competitiveness, iv) rural development and v) environment protection, have been incorporated in the sector priorities and measures defined in NAD and represent an integral part of the Government of Serbia platform for programming of development assistance in the following years. Participants at the workshop included 75 representatives of local self-government, representatives of the Ministry of Environment and Spatial Planning, the Ministry for National Investment Plan, the Ministry of Agriculture, Forestry and Water Management, the Ministry of Economy and Regional Development, the National Council for Decentralisation, the Serbian EU Integration Office and the SCTM. Based on the analysis of the current situation prepared by the key line ministries and SCTM sector committees, participants have identified objectives of local

\(^2\) Definition and scope of sectors is given under the heading "Description of SWAp in Serbia"

\(^3\) Since the Social Inclusion and Poverty Reduction Unit within the Office of the Deputy Prime-Minister for EU Integration and SCTM have organised a workshop in November 2010 on the topic "Needs of local self-governments for international assistance in the area of social inclusion", this area was not included in the abovementioned workshop.
development in the five abovementioned areas, defined measures for their achievement and examined the assumptions and pre-conditions for their successful implementation within the set timeframe.

The process of programming external assistance, including IPA, based on the priorities defined in the NAD, are clearly defined in the annual Action Plan for programming and reporting on international assistance, which also sets out the responsibilities of all relevant institutions in this process.

**Description of the Sector-Wide Approach (SWAp) in Serbia**

Programme-based approaches (PBAs) have been defined as a way of engaging in development co-operation, based on the principle of coordinated support for a national programme of development. They demonstrate features of:

- leadership by the host country;
- a single comprehensive programme and budget framework;
- a formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; and
- efforts to increase the use of national systems for programme design and implementation, financial management, monitoring and evaluation.

A sector-wide approach (SWAp) is a programme-based approach operating at the level of an entire sector. Bearing in mind the national planning and budgeting systems in Serbia, the introduction of SWAp in Serbia will be a gradual process, based on the reform of the national planning system led by the general secretariat of the Government, while the programming of external assistance will be, to the greatest extent possible, based on the PBA. This implies using the Mid-Term Plans developed by all institutions (budget beneficiaries) as the basic document for programme and project identification for external aid. Having in mind that these Mid-Term Plans represent the basis for financial planning of the national budget, this will be a mechanism to ensure the coherence and complementarity of external aid and national funding.

**Table 1: Implementation of SWAp/ PBA principles in aid planning and programming**

<table>
<thead>
<tr>
<th>Elements of PBAs</th>
<th>Serbian framework/Comment</th>
<th>Constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership by the host country</td>
<td>Leadership is embodied in the NAD itself, which sets out the priorities of the Republic of Serbia and the proposed process, and will be ensured through the involvement of the key central institutions of the Serbian Government: the General Secretariat (overall policy planning), the Ministry of Finance (planning of the national budget) and the SEIO (planning of EU funds and international assistance), as well as the involvement of line ministries and other relevant authorities at the sector level.</td>
<td>There is room for improving the coordination between the General Secretariat, the Ministry of Finance and the SEIO.</td>
</tr>
<tr>
<td><strong>Single comprehensive programme and budget framework</strong></td>
<td>This framework is based on the existing sector strategies of the Government of Serbia (app.74 strategies). Programming of the national budget and international assistance on the same strategic platform and mid-term plans of public institutions, in order to ensure that planning is comprehensive and coherent. Donors should indicate expected allocations of funds to the sectors that they are supporting in advance.</td>
<td>In some cases, sector strategies are not aligned with each other and there is lack of a single overarching national development strategy. The planning of international assistance is not synchronised with the calendar for national budget planning. In some cases, the ownership of relevant ministries is weak, due to lack of capacity. There is also a general lack of experience in monitoring and evaluation.</td>
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<tr>
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<tr>
<td><strong>Formalised process for donor coordination</strong></td>
<td>The basis for this process is the Paris Declaration on Aid Effectiveness, adopted in 2005. In practical terms, coordination will be ensured through regular meetings with donors and the establishment of 8 national sectoral working groups that involve the donor community as well. In the next period, this process should be further enhanced through the involvement of the SEIO and line ministries in the activities of informal donor working groups, the identification of a lead donor per sector and improved linkage and coordination of a number of different donor coordination groups with the 8 sectoral working groups.</td>
<td>Many donors are in the phasing-out phase and may not see an interest in supporting such an approach.</td>
</tr>
<tr>
<td><strong>Harmonisation of donor procedures for reporting, budgeting, financial management and procurement</strong></td>
<td>The basis for this process is the Paris Declaration on Aid Effectiveness adopted in 2005. In practical terms, there is no consensus on implementing this element of the definition. However, in order to ensure the implementation of this requirement, Serbia proposes two approaches to donors: • <strong>explicit agreement on roles and responsibilities in the implementation of single projects (parallel model of the implementation of project activities within one programme/project);</strong> and • <strong>delegated cooperation (when one donor (a “lead” donor) acts with authority on behalf of one or more other donors (the “delegating” donors or “silent partners”)).</strong> The visibility of individual donors has to be ensured in both approaches.</td>
<td>The willingness of donors to apply the proposed model.</td>
</tr>
</tbody>
</table>
**Efforts to increase the use of national systems for programme design and implementation, financial management, monitoring and evaluation**

This element will be implemented by supporting the implementation of the Mid-Term Plans and NAD measures and by supporting the Mid-Term Plan preparation process (e.g. each lead donor should provide support in “its sector”). Where lacking, national capacities for financial management and public procurement should be strengthened with donor support, and their wider use for implementation of donor funded activities should be promoted. When it comes to management of pre-accession assistance and eventually Structural Funds, Serbia is developing its own structures for the management of EU funds through the Decentralised Implementation System (DIS).

**Partnership principle**

Consultations with CSO and social partners have been organised regularly depending on the needs. In the coming months, the SEIO will establish a consultation mechanism with civil society organisations to allow their participation in decisions on programming of EU and other development assistance. This mechanism will subsequently be used and managed by the Government Office for Cooperation with Civil Society, once it is operational.

The willingness of donors to support the development of Mid-Term Plans; the capacities of national institutions. The establishment of the DIS, and its accreditation by the relevant authorities, both Serbian and the European Commission, is a time-consuming exercise.

**Democracy, Good Governance and Rule of Law**

Modern society is based on common values and transparency of decision-making, access to good administration that contributes to citizens’ participation in democratic life, an independent and efficient judiciary, as well as on basic principles, such as respect of fundamental rights, a safe environment where differences are respected, and the most vulnerable protected and integrated into society.

In addition, it is widely recognised that good governance and the rule of law are essential to sustainable socio-economic cohesion. Well-functioning legal institutions and governments bound by the rule of law are, in turn, vital to good governance. Weak legal and judicial systems, where laws are not enforced and non-compliance and corruption prevail, undermine respect for the rule of law, engender economic degradation, and undermine progress towards a cohesive and prosperous society. The efficiency and effectiveness of public administrations at the national and local level are critical factors and the main drivers of structural change at all levels and have a large impact on economic development and job creation.
Promoting the development of rule of law, democratic principles and better governance are at the core of the reform process in Serbia. The reform process has been governed by the principles of an independent, transparent, accountable and efficient judicial and legal system, with a government that applies fair and equitable laws equally, consistently, coherently, and prospectively to all of its citizens. Likewise, the comprehensive approach to public administration reform at all Government levels has to be guided by the principles of decentralisation, de-politicisation, professionalisation, rationalisation and modernisation, with the overarching objective of offering high quality services to citizens and the private sector, at reasonable costs. These principles have been set up in all relevant strategic documents and legislation.

The declaration of the European Council in Copenhagen in June 1993 laid down the basic conditions for membership in the EU. By the time they join, new members must have:

- stable institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union; and
- the ability to take on the obligations of membership, including support for the aims of the Union.

They must have a public administration capable of applying and managing EU laws in practice.

The introduction of good governance and the rule of law, however, cannot be done overnight. The process is often a gradual one, involving changes to long-standing practices, entrenched interests, cultural habits, and social and even religious norms.

Despite all efforts and the growing number of laws and regulations, judiciary backlogs, corruption and organised crime, individual violations of human rights and inefficient public administration continue to hamper reforms, mainly due to lack of implementation of, enforcement of, and compliance with existing laws. A strengthened focus on compliance and enforcement efforts could overcome these problems and would be a critical investment for ensuring the sustainability of the reform process. Therefore, the improvements of both legislative and institutional frameworks have to go in parallel and in an uninterrupted manner, addressing also the issues of civil service pay system, transparent recruitment and promotion, as well as professionalism and accountability, strengthening the European integration structures, and improving coordination throughout the public administration (including parliamentary, regulatory and independent bodies), as well as policy coordination.

Further efforts, including use of financial instruments, are needed to combat organised crime and corruption, to guarantee fundamental rights and to build capacities in public administration, coordinated regulatory and institutional reforms, law enforcement and the judiciary, in order to make the European standards for our citizens a reality.

According to the NAD, it is expected that international financial assistance under the theme of democracy, good governance and the rule of law will be focused on measures within the following three sectors:

- **Rule of law** - including justice, security, defence, crime prevention and detection, the fight against corruption and money laundering, border management, and protection of fundamental rights;
- **Public administration reform** (PAR) - including institution-building and acquis harmonisation, central and local self-government and public utility companies and the full array of Public Administration Reform topics including procurement, public finance management, control and audit, decentralisation of powers, and e-government;
- **Civil society, media and culture** – including freedom of expression and the enforcement of cultural rights.
Economic and social cohesion

The most important way of achieving and securing an adequate standard of living for the population in the long term is by maximising the country’s productivity and the competitiveness of its enterprises in the international sphere, through innovation and knowledge, while at the same time assuming responsibility for social inclusion to ensure that all citizens share in the benefits of growth.

The Government’s vision for Serbia is one which aims to sustain and develop a dynamic, high value added economy based on competence, skill and excellence - one which is capable of sustaining a high standard of living for all citizens. Within this context, the main policy objectives of the Government of Serbia remain the achievement of sustainable economic growth and a high and stable level of employment, the reduction of regional disparities by increasing productivity, exports and sustaining the development of a knowledge-based economy.

A sustainable fiscal stability remains a priority for ensuring a stable macroeconomic framework, capable of fostering economic growth, generating employment opportunities and sustaining social responsibilities.

The global financial and economic turbulence of today causes the unpredictability of the future world economy. The economic situation in the EU Member States and other key economies clearly shows that there are no exceptions.

The global financial crisis started to affect the Serbian economy in the fourth quarter of 2008, with a 2.9% contraction in GDP, due to a decrease in domestic and international demand, and reduced inflows of foreign capital. Employment levels fell by around 180 000 in 2009 (on average) or 7.3%. Approximately 6.9% of the general population lived in absolute poverty in 2009 (8022 RSD4 per person per month), which was an increase compared to 2008 (6.1%), but the expectation of the Ministry of Finance is that GDP will exhibit a modest increase of 1.5% in 2010, before achieving a stable and progressive growth in 2011 and reaching previous levels by 2012. In line with its real GDP forecasts trends, the Ministry of Finance predicts an expansion of job opportunities in 2011 and 2012. Employment levels will remain below the pre-crisis levels of 2008, however, when the number of formal jobs stood at 1 999 000.

In order to emerge stronger after the crisis, and looking ahead to the challenges of the next decade, the EU’s Council of Ministers have agreed ‘Europe 2020’, which sets out a vision of Europe’s social market economy for the 21st century and puts forward three mutually reinforcing priorities:

- “Smart” growth: developing an economy based on knowledge and innovation;  
- Sustainable growth: promoting a more resource efficient, “greener” and more competitive economy;  
- “Inclusive” growth: fostering a high-employment economy, ensuring social and territorial cohesion.

To demonstrate that these priorities have been satisfied, the EC proposes the following EU headline targets to be achieved by 20205:

- 75% of the population aged 20-64 should be employed;  
- 3% of the EU’s GDP should be invested in R&D;

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4 Approximately €88 in 2008
5 Europe 2020 target relevant for 3rd priority area is: The “20/20/20” climate/energy targets should be met (including an increase to 30% of emissions reduction if the conditions are right)
• The share of early school leavers should be under 10% and at least 40% of the younger generation should have a tertiary degree;
• 20 million less people should be at risk of poverty.

The financial crisis has further enforced the need for a new approach to economic development in Serbia. A strategic document has been launched - "Serbia 2020" – which defines the framework for the Republic's socio-economic development over the next decade. This document mirrors the structure of the Europe 2020, which itself is intended as the basis for national planning and target-setting within EU Member States, and takes into consideration the specificities of Serbia. Serbia needs to pursue a knowledge-based, innovation-driven economy, in order to enhance and maintain competitiveness in the future. This implies a greater focus on raising the quality of human capital, SMEs, exporting, development of local potential and economic infrastructure, productivity gains, increasing innovative potential, and investing in the skills levels and adaptability of the workforce, and at the same time resolving significant regional disparities. At the same time, active inclusion policies should help mobilise the untapped potential of those currently excluded from society, providing them with social assistance whenever needed, facilitating their access to training, work experience and health services and contributing to greater social cohesion.

The international assistance that will be provided to Serbia in the next period should strengthen Serbia’s economic potential and thereby improve the material living conditions of the population. Furthermore, it should be channelled towards the support to Serbian public administration for the fulfilment of the obligations arising from Serbia’s upcoming candidate country and prospective EU member country status. These obligations comprise the preparation for the participation in the EU Open Method of Coordination in the fields of social inclusion and social protection, as well as in the field of employment. The main EU tool aimed at achieving the aforementioned is the adoption and implementation of two strategic documents by the candidate country: the Joint Memorandum on Social Inclusion (JIM) and Joint Assessment of the Employment Policy Priorities (JAP). Significant EU and international assistance to Serbian institutions is needed for the preparation of the two documents, as well as for the consecutive process of their implementation upon adoption.

According to the NAD, it is expected that international financial assistance under the theme of economic and social cohesion will be focused on measures within the following three sectors:

- **Competitiveness** – including competition policy, company law, consumer protection and safe products, stability of market supply, science and research, intellectual property rights, ICT, SME development, exporting, foreign direct investment, clusters, and reducing regional disparities in performance;
- **Human resources development** (HRD) – including employment, education, social inclusion and health, and the impact on young people;
- **Agriculture and rural development** – including agricultural production, forestry, fisheries, food safety, animal welfare, and sustainable rural development

### Sustainable development of transport, environment and energy

Basic infrastructure is one of the preconditions for economic growth and one of the key foundations of competitiveness and development. Inefficient infrastructure services discourage or impede investment, and consequently decrease the rate of economic growth, ultimately resulting in an increase in unemployment. By contrast, planning and development, combined with the principles of environmental protection, are an integral part of the overall development strategies.
The Republic of Serbia, with its natural and geographical position at the intersection of transport corridors VII and X, is the shortest and most efficient transit link between Central and Western European countries, on the one hand, with Southern European countries and countries of Near and Far East, on the other.

The Government plans to continue the construction and modernisation of the road and railway infrastructure, especially with the financial support of the IFIs, and to create the necessary conditions for normal inland waterway navigation, especially on the Danube and Sava Rivers. The restructuring of the overall transport services into a modern, safe and functional system represents one of the most important preconditions for boosting regional development and using the comparative advantages of local communities through links between tourism and agriculture areas with large business centres.

Adequate transport infrastructure is an important factor in the efficiency of the overall transport system, but also a key precondition for achieving the sustainable economic and social development of Serbia.

The development of the EU Danube Strategy represents an opportunity for Serbia to be closely involved with its EU partners and its neighbours in defining the main pillars, the types of actions envisaged, the identification of flagship projects and coordinating the existing initiatives that will meet ecological, transport and socio-economic needs of the Danube.

The investments made so far in transport cover only a small portion of the real needs. The total cost of public investments required for the development of transport infrastructure in 2010-2027 is estimated at up to €15 billion, of which the modernisation of Corridors X and VII to European standards will require around €4 billion.

The priority of the Government is to establish the regulatory and economic mechanisms for the realisation of sustainable economic development, which will be focused on the preservation and improvement of the environment, reducing pollution and pressures on the environment, providing uninterrupted water supply and using natural resources so they will continue to be available for future generations. More rational use of energy and energy carriers, increase in energy efficiency in production, transmission, distribution and consumption with the greater use of energy efficient and environment-friendly technologies and renewable energy sources, the establishment of good quality new operation conditions and the development of energy production systems and the energy consumption sector will have a stimulating effect on economic development, environmental protection, social stability and integration of the local energy sector into the regional and European energy markets.

The liberalisation of the energy market and the possibility to attract investments are necessary and key factors for stimulating the speed of economic development, and also one of the most important tasks which is imposed to the energy sector and the state in the process of harmonising legislation and association with the European Union.

Activities aimed at developing a sustainable economic development concept are linked to compliance of national legislation with EU environmental norms (acquis communautaire) with a defined timetable for their implementation, as well as investments that follow these norms.

In this context, it is necessary to ensure considerable financial resources for the required investments, both in the improvement of existing capacities and compliance with environment and energy protection regulations. It is estimated that, for Serbia, the total cost of compliance will be €9.6 billion.

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6 General Master Plan for Transport in Serbia (2009). This includes new construction, rehabilitation, upgrading and maintenance of the main corridors, regional and local roads and railways, inland waterways, airports, and intermodal terminals.

7 This figure comprises €2.8 billion for water supply (source: "Study - Instruments for Water Sector Development"), €4.8 billion for wastewater treatment (source: EC Twinning Project "Capacity Building in Directorate for Water"), €1 billion for air quality improvement by reduction of emissions from major plants within PU EPS (according to the EPS "Green Book", 2009), and €0.96 billion for waste management (source: National Waste Management Strategy, 2010-2019)
At the same time, Serbian budget funds alone cannot cover the required investments in the field of energy and environment. Hence, it is necessary to involve all available mechanisms and possibilities for the realisation of future projects. It is also clear that international financial assistance can cover a limited scope of activities when it comes to financing of infrastructure.

Activities will focus mainly on infrastructure, both at national and local level, the development of project documentation or supervision of works and institutional building projects in order to comply with the *acquis*. With regards to capital investment, the best case scenario will be combining national, IPA and/or IFIs’ funding.

According to the NAD, it is expected that international financial assistance under the theme of economic and social cohesion will be focused on measures within the following two sectors:

- **Transport** – including road, railways, air and inland waterways modes and intermodal transport;
- **Environment and Energy** - including natural resources and mining, heating, electricity, gas, oil, energy efficiency, renewable energy, climate change, the natural habitat, waste and chemicals management, water supply and wastewater treatment, air quality and noise

### Sectors, Priorities and Measures

#### Rule of law

**Description of the sector and recent developments**

The Rule of Law sector encompasses justice, security, crime prevention, defence system reform and protection of fundamental rights. It covers policies related to judiciary reform, home affairs issues, including border management and control, as well as anti-corruption policy and protection of human and minority rights from political and civil, economical and social to cultural rights and protection of minorities.

Systemic reforms were undertaken in this sector in the previous period.

Changes in the structure and organisation of the Serbian **judiciary** are paving the way to provide better access to justice and efficiency to the citizens of Serbia, as well as the opportunity to tackle some burning issues related to judicial efficiency. Judicial independence and the rule of law are the priorities which need to be achieved on the way to the EU membership. The EU’s Copenhagen Criteria require that prospective members have institutions guaranteeing the rule of law, on paper and in practice. A functioning legal system and efficient law enforcement is necessary for business enterprises to operate free from corruption, for human rights to flourish and for Serbia to deal with economic and social transition.

After the adoption of a new set of judicial laws, the introduction of broad reform of the judiciary and establishment of new bodies – the High Judicial Council and the State Prosecutorial Council in 2008 and 2009, the process of general election of
judges and prosecutors has been initiated. By the end of 2009, the High Judicial Council adopted a Decision on the Election of Judges to Permanent Judicial Function in courts of general and special jurisdictions, while the National Assembly, based on a High Judicial Council’s proposal, adopted a Decision on the election of judges to a three-year term of office in courts of general and special jurisdictions. The State Prosecutorial Council issued a Decision on electing public prosecutors and their deputies, while the National Assembly, based on a proposal of the State Prosecutorial Council, elected new deputy public prosecutors to initial three-year terms of office. Parallel to this process, a new courts network has been established, effective from January 1, 2010. As a result of these crucial changes, Serbia’s courts system is based on 34 basic courts, 26 higher courts and four courts of appeal with general jurisdiction, misdemeanour courts, specialised commercial courts, an administrative court and the Supreme Court of Cassation with 2,433 judges. The process of general election of judges has been questioned by the representatives of Judges Association and has been subjected to additional consultations between European Commission and the High Judicial Council, the State Prosecutorial Council, the Constitutional Court and Serbian Ministry of Justice.

The EC Progress Report for 2010 identifies the large backlog of pending cases as a matter of concern, especially in the context of the time and resources needed for the new courts’ network to become fully operational and efficient, and emphasises the need to establish uniform system for organising the work of the court seats and the new court units. In order to reduce the backlog in civil, criminal and commercial matters, the Ministry of Justice finalised the draft laws on Civil Procedure, Enforcement and Security and Criminal Procedure Code in 2010.

Since 2003, the number of persons deprived of liberty has significantly increased. The number of inmates in Serbian prisons increased by almost 80% and accommodation capacities were modestly improved. In order to reduce overcrowding of prisons, a system of alternative sanctions and suspended sentences with protective supervision is being introduced in the field of enforcement of criminal sanctions. A Trustee Service has been set up within the Directorate for Enforcing Criminal Sanctions and co-operation with several municipalities regarding enforcement of work in the public interest has been established. The reconstruction of some penitentiary institutions is in progress to help improve accommodation conditions and reduce overcrowding. The Ministry of Justice is negotiating several loans for the construction of new prisons.

Further steps are being taken to modernise police work and improve internal coordination, as well as international and regional cooperation. Additional efforts toward coordination within police structures and with other ministries has contributed to the adoption of several key strategies and laws and the establishment of specialised inter-ministerial structures, such as the Commission for Inter-ministerial Coordination in the field of Justice and Home Affairs.

The fight against organised crime has been intensified, resulting in several major operations in suppressing international drug smuggling channels and regional criminal networks, with the intensive cooperation of prosecution and police structures with counterparts in neighbouring countries, USA and Latin America. The number of complaints submitted to the Prosecutors Office for organised crime and the number of case proceedings has increased in the past two years with a growing trend of use of mechanisms of international legal cooperation for the initiation of criminal proceedings. In September 2010, the Ministries of Interior, Justice and Finance established an inter-ministerial body for improvement of international co-operation in crime prevention. The EC Progress Report for 2010 recognised that Serbia has made some progress in the area of police reform with regard to capacity of specialised services of the criminal police and improvement of the methodology and standards of police work, but it identifies the need for improvements in human resources management, prioritising and budgeting as well as transparency. Intelligence-led policing and the criminal intelligence system are also seen as areas for future improvement.
Crucial progress has been made in the area of **visa policy** and visa liberalisation by fulfilling all obligations of the Visa Liberalisation Road Map with the EU. As of 1 January 2010, Serbia entered the Schengen White List regime.

In the area of **border management**, the new Law on State Border Protection is being implemented and a cooperation agreement between the ministries involved in border management was signed in February 2009. Still, there are significant differences between the 82 border crossing points in the sense of technical and infrastructure capacities.

There have been numerous illegal border crossings and illegal women and children migrants. The number of under-age victims continued to rise, which is a matter of concern. From October 2009 to August 2010, charges were filed against around 3400 foreign citizens (the majority coming from Afghanistan and the Middle East) for illegally entering Serbia. Within the framework of implementation of the Migration Management Strategy, focal points were appointed in all relevant ministries and a project group has been formed for the purpose of drafting a legal framework for the collection of statistics and analysis of migration trends, as well as fostering better coordination in the field of migration.

On a strategic level, the Ministry of Interior is still missing an overall reform strategy; steps are being taken in preparing such a strategy with the assistance of a SIDA-funded project. This strategy should focus on the area of police reform, capacity-building and further specialisation within the police force, modernisation of police work and improvement of international and regional cooperation.

With regards to the **fight against corruption**, according to Transparency International’s Corruption Perception Index for 2010, Serbia remains a state with significant problems with corruption, with an index of 3,5 out of 10 (0 being “highly corrupt” and 10 being “very clean”). On the institutional level, in April 2009 the National Assembly elected the executive board of the Anti-Corruption Agency and the Law on the Agency came into force on 1 January 2010, since when the Agency has become fully operational. The implementation of the Council of Europe’s Group of States against Corruption (GRECO) recommendations and international conventions continues after passing the first, second and third rounds of evaluation. The Judicial Academy initiated several levels of specialised anti-corruption training (basic, general and specialised levels) for judicial officials and judicial administrative staff. The EC Progress Report for 2010 recognises the progress made in the fight against corruption with regards to implementation of the outstanding GRECO recommendations and improvement of the legal framework, but it also emphasises the need to improve the capacities of the Anti-Corruption Agency and efficiency in investigation, prosecution and adjudication of corruption cases.

The Law on Seizure and Confiscation of the Proceeds from Crime envisages the establishment of the Directorate for Management of Seized and Confiscated Assets within the Ministry of Justice. After appointing the Director of the Directorate and adoption of the Act on Organisational Structure of Directorate by the Government in February 2009, the Directorate became operational as of 1 March 2009. The total value of property seized and confiscated in only 1,5 years of functioning of the Directorate is approximately €200 million. Major challenges to rooting out systemic corruption are still present. The most vulnerable fields are public procurement, privatisation and other large budgetary expenditures, as well as taxation, customs and licensing.

With respect to the fight against **money laundering** and terrorism financing, amendments to 2009 Law for the Prevention of Money Laundering and Terrorism Financing (AML/CFT Law) were initiated by the Government in November 2010, taking into account the recommendations of the Council of Europe’s Money Val\(^6\) in its 2009 report. These amendments were adopted in

\(^6\) Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism
December 2011. Guidelines to help obligors in suspicious transaction reporting were passed in October 2010 and additional suspicious transaction reporting (STR) indicators have been developed. Since the criminalisation of money laundering, there have been 13 convictions against 15 persons, out of which there have been six final convictions against seven persons, and 19 prosecutions against 132 persons with the tendency of increase in the number of proceedings and convictions in the last couple of years. The EC Progress Report for 2010 notes that practical results in the fight against money laundering have to be improved and that the Administration for Prevention of Money Laundering lacks capacity to systematically identify suspicious cases.

In the field of **defence and security**, the Strategy of National Security of the Republic of Serbia, the Strategy of Defence of the Republic of Serbia, the Law on Amendments to the Law on Defence, the Law on Amendments to the Law on the Armed Forces of Serbia, the Law on Use of the Armed Forces of Serbia and Other Defence Forces in Multinational Operations out of the Republic of Serbia’s Borders, the Law on Military, Service and Material Duty, the Law on Amendments to the Law on Military, Service and Material Duty, the Law on Civil Service, the Law on Military Intelligence Agency and Military Security Agency and the Doctrine of the Armed Forces of Serbia were adopted on the proposal of the Ministry of Defence in 2009 and 2010. By adopting these strategies, laws and numerous bylaws the legal framework of the Serbian defence reform was shaped, also enabling its further progress. Organisational-mobilising changes were introduced in order to harmonise the organisation of the Ministry of Defence with the standards and solutions applied in other European countries, and present structure will continue to improve. As one of the most important reform steps a full professionalization of the Armed Forces of the Republic of Serbia has been introduced in the aim of creating modern, professional and efficient army, properly organised and equipped, inter-operational, economically sustainable and trained to implement defence tasks against external armed threats, participate in building and keeping piece in the region and in the world and support civil authorities in fighting back security threats. The modernisation of the existing and provision of modern tools is planned, while priorities are provision of the tools for units which will take part in the multinational operations and support to the civil authorities in fighting back security threats. In parallel to the total professionalization of the armed forces and significant changes in the training system, there’s a need for new training programmes and knowledge exchange platforms. An important step in further implementation of reforms in the field of defence represents the establishment of the University of Defence in 2010, which consolidates the Military Academy and the Military-Medical Academy. The Programme of Human Resources Management was designed in order to define long-term development directions in the human resources field and determine the frameworks of “foreseeable career” in the function of quality human resources leadership. Further institutional capacity improvement is planned in the field of plans and programmes reform, teaching structure and methods, and improvement of infrastructure and equipment. The Ministry of Defence since 2008 applies the system of planning, programming, budgeting and reporting in defence resources management and building skills, while the implementation of this system in the forthcoming period should enable more effective and efficient functioning of the defence system as well as its further development. The EC Progress Report for Serbia in 2010 recognised these positive steps in the defence system reform.

In the field of **protection and rescue in irregular circumstances**, the Law on Irregular Circumstances was enacted in December 2009. Instead of the previous, heterogeneous system which was represented in more ministries (the Ministry of Internal Affairs, the Ministry of Defence, the Ministry of Environment and spatial planning, this law established a unique, legally, normatively and organisationally arranged system of protection and rescue and management of irregular circumstances. With regards to this, the Department for irregular situations was established, organisationally falling under the Ministry of Interior as the responsible public administration body for programme policy development in this field. In accordance with this law, the Department coordinates activities of all public administration bodies involved in the system of protection and rescue in irregular situations.
The Republic of Serbia is a state party to seven fundamental international treaties in the area of protection of human rights and has ratified 33 conventions of the Council of Europe and, as a potential candidate for EU membership, is working intensively on the further harmonisation of legislation with the acquis. The EC Progress Report for 2010 recognised that the legal framework for protection of human rights is in place, but pointed out the need for further efforts in education on international human rights standards and their implementation.

The key role in the national mechanism for prevention of torture was assigned to the Ombudsperson (Protector of Citizens) of the Republic of Serbia. Serbia has a three-layered system of Ombudsman institutions for the state, the provincial and the local level (which has 14 ombudsmen). The EC Progress Report for 2010 stated that, although the constitutional framework providing for respect for civil and political rights is largely in place, full implementation and enforcement remains to be ensured, relevant legislation is to be brought more closely into line with European standards and further action by the authorities in combating violence of all types is needed. In 2009, the Protector of Citizens had received 2,003 complaints: for 70 complaints, administrative authorities eliminated irregularities either after or even before the Protector of Citizens passed his initial document; for 15 complaints, the Protector of Citizens determined that irregularities existed in the work of the administrative authority and he delivered recommendations; 1176 complaints are still pending in various stages of the proceedings (proceedings initiated, amendment to complaint or further information requested, and administrative authorities are expected to provide reply or other).

In May 2010, the National Assembly adopted amendments to the Law on Free Access to Information of Public Importance strengthening the enforcement of the Commissioner’s for Information of Public Importance and Personal Data Protection decisions. In May 2010, the Commissioner established the Register of Data Controllers. According to the Law, every data controller should submit records on databases to the Commissioner. With regard to whistleblowers, the appropriate protection of whistleblowers is lacking. The number of cases namely the number of appeals against access to information denials is constantly increasing. The Law on Personal Data Protection is being implemented as of January 2009. In August 2010, the Strategy for Personal Data Protection was adopted.

Following the adoption of the Law on the Prohibition of Discrimination (2009), the National Assembly elected the Commissioner for Equality in May 2010. This institution is responsible for assistance to the victims of discrimination by reviewing complaints pertaining to violations of the Law, providing opinions and recommendations in specific cases, filing charges on behalf of the person discriminated against, submitting misdemeanour notices on account of discrimination, and warning the public of the most frequent, typical and severe cases of discrimination. However, the EC Progress Report for 2010 stressed that protection of women and children against all forms of violence need to be ensured and further measures fighting all kinds of discrimination have to be introduced.

In 2009, the Council for National Minorities of the Government of the Republic of Serbia intensified its activities in order to preserve, promote and protect national, ethnic, religious, linguistic and cultural identity of the national minorities in the Republic of Serbia. In June 2010, elections for 19 National Councils of National Minorities were held by the Ministry for Human and Minority Rights. In addition, the Ministry has prepared a three-year programme for the implementation of the Roma Advancement Strategy in the Republic of Serbia, with objectives to secure pro-active involvement of the Roma population and support the local self-government units in their coordinated implementation of plans for advancement of Roma. The EC Progress Report for 2010 emphasises that the majority of the Roma population lives in extreme poverty and continues to face discrimination in particular as regards access to education, social protection, health care, employment and adequate housing.
In the previous period, the Ministry of Religious Affairs has made an effort to find adequate solutions to resolve the issue of registration procedures for religious groups, which has eventually resulted in the entry of five more religious communities in the Registry of Churches and Religious Communities. However, the EC Progress Report for 2010 notes that an insufficient level of transparency and consistency in the registration process is the main obstacle to some smaller religious groups exercising their rights.

The process of resolving the issue of IDPs and refugees is still ongoing. There are approximately 86,000 refugees and 210,000 internally displaced persons still residing in the Republic of Serbia. In May 2010, the Parliament adopted the Law on Amendments to the Law on Refugees setting the legal framework for the integration of refugees from the former republics of the Socialist Federal Republic of Yugoslavia and establishes the criteria for the termination of refugee statuses in accordance with the United Nations High Commissioner for Refugees (UNHCR) Regional Benchmark. The main problems faced by refugees and internally displaced persons are those of unresolved housing issues and a high level of unemployment and as pointed out in the EC Progress Report for 2010, the number of IDPs remains high and their situation critical.

In order to fully implement the Law on Asylum, regulations are underway to define the responsibilities in the integration process of persons granted protection and measures are being taken to facilitate for the opening of an additional asylum centre. Regarding the readmission, the Commissariat for Refugees is currently gathering the necessary data to ensure an efficient allocation of resources needed for the reintegration of returnees under the Readmission Agreement. Between January and August 2010, there have been 667 recorded cases of returnees through Belgrade Airport. Within the framework of implementation of the Migration Management Strategy in all the involved ministries, focal points were appointed with the task of following consistency of the activities of the ministries concerned with the goals set by this strategy and monitoring the overall implementation of the strategy. The EC Progress Report for 2010 underlined the need to improve reintegration of returnees.

Strategic framework and sector priorities

The overall strategic framework is reflected in the amended National Programme for Integration of the Republic of Serbia into the EU, from December 2009, which underlines the need for further development of the institutions involved in the various sub-sectors relating to the rule of law.

Independence, transparency, accountability and efficiency of judicial system have been set as priorities by the National Judicial Reform Strategy, adopted in 2006. Through these four goals, the quality of judiciary as well as quality of justice delivered should be improved. Implementation mechanisms of specific measures and activities are envisaged in its action plan with projections until 2011.

The Strategy of the Reform of Penitentiary System in Serbia, adopted in 2005 defines modern instruments and working methods to build the capacity of prison staff and to contribute to the development of a safe, secure and transparent environment for persons detained in prison.

In October 2010, a Legal Aid Strategy was adopted by the Government, thus setting a strategic framework for the redesign and establishment of an effective Legal Aid mechanism which will provide equal access to justice, with the aim to establish rule of law and legal equality of all citizens.
To enhance the efficient prevention and fight against organised crime, Serbia has adopted the *National Strategy for the Fight against Organised Crime* in 2009. The Strategy, foresees the long-term trends and directions of functioning of the organised crime structures, as well as the capacities of the Republic of Serbia for prevention and its reduction to the lowest possible rate.

The *Integrated Border Management Strategy*, which was adopted in 2006, is a document by which the Republic of Serbia determines the policy regarding establishing a system of integrated border management, sets a framework for the elaboration of harmonised and synchronised sector strategies and for implementation plans, defines roles and responsibilities of the state authorities and relevant border services, identifies strategic goals, and decides on basic directions for actions during the process of establishing and implementation the long-term sustainability and stability of the established system of integrated boarder management.

In addition, Serbia adopted the *Strategy for Fight against Trafficking in Human Beings*, the *Strategy for Illegal Migrations Suppression*, the *Strategy for Fight against Drugs* and the *Small Arms and Light Weapons Control Strategy*.

The *National Strategy against Money Laundering and Terrorism Financing*, which includes steps for improvement in this field at legislative, institutional, and operational level, was adopted in September 2008. The Action Plan for the implementation of the Strategy was adopted in 2010.

In order to reduce corruption and achieve an anti-corruption culture in line with EU standards, the Government of Serbia adopted the *National Anti-Corruption Strategy* in 2005. In 2006, the Government has adopted the Action Plan for Implementation of the Strategy.

In 2009 and 2010, in the field of *security and defence*, the following documents were passed: the National Security Strategy of the Republic of Serbia, Defence Strategy of the Republic of Serbia, Serbian Armed Forces' Doctrine, and Mid-Term Defence System Development Plan and Programme.

Although there is no integrated comprehensive national strategy for human and minority rights, numerous national strategies are tackling this cross cutting issue.

In the *Poverty Reduction Strategy*, third strategic direction, fight against poverty and the improvement of the social protection system for the most vulnerable groups directly correspond to the human rights and protection of minorities. Poverty has multi-dimensional effects on the ability to exercise human rights; negative impact in one area of human rights can have a domino effect on all other human rights. The main goal of the new social policy as stated in the *Social Welfare Development Strategy* (2005) is an efficient system of social transfers and fulfilment of basic citizens’ needs (therefore social rights and the right to social welfare), which serves the purpose of protecting human rights.

The *National Strategy for Resolving the Problems of Refugees and Internally Displaced Persons* (2002) is a framework for generating initiatives and implementing activities with the goal of resolving refugee and IDP issues, while the main priority of the *Strategy on the Reintegration of Returnees Based on the Readmission Agreements* (2009) is sustainable integration of returnees into the community, respecting social and cultural diversity.

In order to ensure that all persons with disabilities can exercise their right to adequate education and equal opportunities for learning and development in the local community for all children, youth and adults with disabilities the Government of
Serbia adopted the *Strategy for Improving the Position of Persons with Disabilities in the Republic of Serbia* in 2007. The overall objective of the *Strategy for the Improvement of the Status of Roma in the Republic of Serbia* (2009) is to improve the status of the Roma minority and reduce existing discrepancies in the position of the Roma population compared to the rest of population in Serbia.

In August 2010, the *Strategy for Personal Data Protection* was adopted with the goal to harmonise legal framework with EU standards, support the functioning of an independent body responsible for data protection, professional advancement of public officials in this sector and strengthening of public awareness in this field.

In July 2009, the Republic of Serbia adopted the *Migration Management Strategy*, addressing all aspects of migration, with the aim to monitor and manage migration in line with European standards and regulation in this area.


Based on the overall strategic framework and the current situation in the sector, the following **mid-term priorities** have been identified:

- **Improve overall security and efficiency in fighting crime, corruption and terrorism**

  This priority focuses on the institutional, legislative and operational preconditions for protection of a safe, secure and democratic society. This priority deals with the issues of efficiency in investigating, prosecuting and adjudicating of criminal cases, as well as improvement of coordination in security and safety protection on a national, regional and international level.

- **Enhance legal certainty and efficiency of the judicial system**

  This priority focuses on further steps in judicial reform process, as well as reform of the penitentiary system. It tackles the issues of judicial independence, efficiency and accountability through improvement of the strategic and legislative framework, as well as timely delivery of justice and the efficient enforcement of court decisions.

- **Improve status of human and minority rights in the Republic of Serbia**

  This priority focuses on the strategic and legal framework for protection of human and minority rights, as well as promoting culture of tolerance and the respect of human and minority rights in society. Also, it concentrates on effective and efficient combat against all forms of human and minority rights violations.
Measures for implementing sector priorities

During 2011 – 2013, the sector's priorities will be achieved through the implementation of projects under the following measures:

**Priority 1  Improve overall security and efficiency in fighting crime, corruption and terrorism**

**Measure 1.1  Improving and implementing the strategic and normative framework for crime and corruption prevention**

_Aim:_ The measure will improve efficiency in crime prevention through establishment of the strategic and legislative preconditions necessary for implementation of specific actions.

_Description:_ This measure will focus on further development and implementation of existing strategies and the legal framework in the field of crime, corruption and terrorism prevention, as well as development and implementation of new strategic and normative documents and their approximation with EU standards. Effective implementation of new and existing legislative framework will remain essential for efficient crime prevention and anti-corruption steps, just as it has been highlighted in the EC Progress Report for 2010. This measure will support key institutions, such as the Ministry of Interior, specialised departments of the Republic Public Prosecutor, custom authorities and other agencies, in strategic planning and monitoring the impact of the strategic and legal framework in this field. In addition, the measure will support MoI in the implementation of the Small Arms and Light Weapons Control Strategy.

**Measure 1.2  Strengthening the capacities of state authorities for processing cases of organised crime, war crimes, corruption, money laundering and other criminal acts**

_Aim:_ This measure will improve efficiency in investigating, prosecuting and adjudicating cases of organised crime, corruption, money laundering and other criminal acts, by strengthening the human and technical capacities of relevant institutions.

_Description:_ The measure will support law enforcement agencies in establishing a high quality of operative work in the disclosure and adjudication of criminal acts, as the shortcomings in this respect have also been noticed in the EC Progress Report for 2010. This will include improvement of the knowledge and means for collection of evidence, efficient investigation and adjudication, as well as effective coordination, exchange and synchronisation of information and data amongst state agencies. This measure should support enhancement of capacities for seizure and confiscation of proceeds from crime. It will also reflect the growing need for close cooperation on a regional and international level at all stages of operative work, as well as effective protection of victims and witnesses of criminal acts. In addition, this measure will support enhancement of capacities of independent bodies in monitoring and processing of cases of corruption, money laundering, etc.

**Measure 1.3  Building capacities of state authorities for the implementation of actions for the protection of safety and security of citizens**

_Aim:_ This measure will contribute to the overall national security and safety of citizens and their property, through further implementation of reforms in the defence sector and efficient response in emergency situations.

_Description:_ The measure includes strengthening of human capacities of the Serbian military forces in the introduction of a fully professional service and its contribution to peace-keeping efforts. It will also support further strengthening of capacities and coordination of emergency services in cases of natural disasters and other wide-ranging emergencies.
Measure 1.4  Enhancing border management and migrations management mechanisms
Aim: The measure will contribute to further alignment with EU standards of integrated border management and management of migrations flows.
Description: This measure will build upon achieved progress in establishing high standards and capacities for control of state border on all border crossings in Serbia and provide for final unification of human and technical capacities at all crossing points. As stated in the EC Progress Report for 2010, further efforts are needed in order to eliminate the disparities between individual border crossing points. This measure will also support efforts in fulfilling all standards of a visa-free regime with EU, including mechanisms for prevention of illegal migrations from and to Serbia. The measure will support the enhancement and implementation of asylum policy and the status of refugees and IDPs.

Priority 2  Enhance legal certainty and efficiency of judicial system

Measure 2.1  Advancing the strategic and legislative framework for justice sector reform, including the penitentiary system
Aim: The measure will provide enhancement of overall strategic approach and legislative framework for implementation of reform initiatives in the justice and penitentiary system
Description: The measure will support creation and implementation of a new judicial reform strategy for the period 2012 – 2015, as well as legal approximation with EU standards. It will also support the creation and implementation of reform policies in specific fields, such as the juvenile justice system and penitentiary system. Furthermore, it will provide for the establishment of effective mechanisms of monitoring and evaluation of reform effects.

Measure 2.2  Building the capacities of newly established judicial bodies and institutions for new competences
Aim: This measure will enhance the independence and efficiency of judicial system by preparing the judicial branch to assume self-regulation and management competences
Description: The measure will contribute to further implementation of reform steps related to transfer of competences for administration, performance and quality assurance as well as financing of judicial institutions. It will support the High Judicial Council and State Prosecutorial Council in establishing efficient mechanism for promotion and evaluation of judges and prosecutors and enable the Judicial Academy to assure high levels of knowledge and expertise of judiciary. It will also focus on operational and administrative capacitating of misdemeanour courts as an integral part of judicial network as well as Supreme Court of Cassation, Constitutional Court and Administrative court.

Measure 2.3  Improving the efficiency of court proceedings and reducing the backlog of cases
Aim: This measure should support the establishment of preconditions for the effective and efficient delivery of justice and contribute towards the increase of public trust in the judiciary.
Description: The backlog of pending cases remains an open issue, in particular as the recent reforms impacted on the overall efficiency of the judicial system, which has been also recognised in the EC Progress Report for 2010. The measure will support further strengthening of the new courts network in Serbia by increasing their efficiency in processing and administering cases. It will focus on further development of the judicial ICT system, reduction of inflow of cases and simplification of administrative procedures, through enabling support to the introduction of new judicial professions (notaries, mediators, etc.) and improvements in functioning of the existing ones (lawyers, bailiffs, etc). This measure will focus on developing a systemic solution for resolving
the backlog within the new courts network. It will also build upon increases in the efficiency of the commercial courts achieved so far, and support them in providing more legal certainty for entrepreneurs.

**Measure 2.4  Enhancing efficiency in enforcing court decisions**

**Aim:** This measure will provide for better respect of the rights of all sides in civil and criminal disputes within the national and international legal systems.

**Description:** It will support the efforts to increase the efficiency of enforcement of court decisions in civil matters and the establishment of the new professional bailiffs system. The measure will focus on enforcement of criminal sanctions, with regard to the reduction of overcrowding in prisons, alternative sanctions and protection of guaranteed rights and health of sensitive categories, such as minors, women and persons with special needs, which has been also identified as an area for improvement in the EC Progress Report for 2010. This measure will also support effective execution of the European Court of Human Right judgements in Serbia and cooperation, of all relevant national institutions in that respect.

**Measure 2.5  Providing conditions for better access to justice for all citizens**

**Aim:** The measure will increase openness of justice system for all social categories and its accountability to all citizens.

**Description:** It will assist the Serbian justice system in establishing a new system of free legal aid and creation of new mechanisms for its delivery and financing. It will also contribute towards the enhancement of the operational capacities of Serbian authorities in the field of mutual legal assistance. Efficiency in cross-border coordination in this respect has been highlighted in the EC Progress Report for 2010. This measure will specially focus on improvement and implementation of communication channels between general public and judiciary, through availability of sources of legal information easily accessible to all.

**Priority 3  Improve overall status of human and minority rights in Serbia**

**Measure 3.1  Strengthening the strategic and legal framework for protection of human and minority rights**

**Aim:** The measure will improve the status of human and minority rights in Serbia through further development of the legal framework and strengthening institutional capacities for its protection.

**Description:** The measure will build on previous achievements and support further improvement of legal provisions in the area of human and minority rights, as well as harmonising national legislation with the European standards, as remarked on by the EC Progress Report for 2010. Also, it will support the institutional environment, both on the national and local levels, by strengthening communication and cooperation between all relevant partners in the area of human and minority rights. At the same time, it will enable efficient and effective monitoring of the overall status of human and minority rights in Serbia, as well as implementation of the new laws and human and minority policy planned to be based on National Action Plan of Human Rights, which will be prepared and drafted in cooperation with NGOs, defenders of human rights and other experts.

**Measure 3.2  Promoting tolerance, diversity, equality and respect of human and minority rights**

**Aim:** The measure will improve nationwide a culture of tolerance and create conditions for inter-ethnic tolerance, multicultural and multi-confessional diversity.

**Description:** The measure will promote tolerance towards different ethnic and minority groups, especially vulnerable and marginalised persons, and raise public awareness about human and minority rights. The measure will
particularly target the media and support improvement of media coverage and reporting on human and minority rights on the national, regional and local level. It will improve understanding and relevance of human and minority rights, especially among young people. Also, the measure will support all actions aimed towards prevention of discrimination and inclusion of vulnerable groups (e.g. Roma, IDPs, refugees) into society. As highlighted in the EC Progress Report for 2010, discrimination against the Roma population is the area of concern which will be dealt with and, in that respect, Roma access to personal documents will be addressed.

**Measure 3.3  Supporting actions to fight all forms of human and minority rights violations**

**Aim:** The measure will contribute towards Serbia’s efficient and effective combat against all forms of human and minority rights violations.

**Description:** The measure will strengthen capacities of Serbia’s institutions to effectively fight all forms of violation of human and minority rights (discrimination, torture, ill-treatment, etc) and related impunity, which is in line with the overall observation of human and minority rights, stated in the EC Progress Report for 2010. Furthermore, it will increase capacities of state institutions to provide protection and assistance to the victims, in particular women and children, and fight all forms of violence in society. Also, the measure will support cooperation of all relevant stakeholders (e.g. National Councils of National Minorities, civil society organisation) in monitoring the implementation of National Action Plan of Human Rights and other relevant strategies, as well as in the prevention of human rights violations. The measure will also support strengthening of regional cooperation regarding migration. In addition, support under this measure will focus on improving implementation of anti-discrimination policy, especially the capacity to investigate, prosecute and adjudicate all cases of discrimination.

**Programming of international assistance**

The measures proposed for funding under this NAD have been selected to complement national and international interventions to strengthen the rule of law in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.

**Ongoing activities**

According to the ISDACON database, in the period between 2007 and 2009, it is estimated that a total amount of €71,05 million was actually disbursed in assistance from the international donor community to the rule of law sector in Serbia (see following diagram).
In four annual IPA 2007 – 2010 programmes, IPA component is financing projects in the rule of law sector worth around €81 million (including social and economic rights within the political criteria of MIPD). The projects financed through IPA funds were oriented towards improvement of efficiency and transparency of the judicial system, the introduction of case management system in the courts and prosecution, criminal asset confiscation, reform of the penitentiary system and strengthening of alternative sanctions, the fight against corruption, the establishment of the Judicial Academy, prevention and suppression of illegal migrations, improving border control standards, development of the information system for border crossing control, and strengthening of MoI's internal control. Due to the broad range of human and minority rights, the projects through IPA in this field can be divided into two groups. The first group of projects supported development of the policy framework for protection of human and minority rights, as well as strengthening institutional capacities to implement, monitor and report on its implementation. The second group of projects focused on economic or social rights of individual targeted groups: resolving the problem of refugees and IDPs by finding durable solution to address their situation, enhance their livelihood and ensuring full access to their rights, assuring availability and quality of education for children from marginalised groups, social inclusion and poverty reduction among the most vulnerable groups in the society, and improvement of the quality of life and access to rights of the Roma, Ashkalj and Egyptian communities.

Other donors, such as SIDA, UNDP, UNICEF, Italy and Norway, have supported improving Roma access to social services at a local level, implementation of anti-discrimination legislation as well as combating sexual and gender-based violence, policy development and legislative reforms to ensure fulfilment and respect of the rights of the children without parental care or with special needs, and settlement and integration of refugees. The Norwegian Government is also supporting improvement of the delivery of justice and juvenile justice system, as well as institutionalisation of victim witness support service network. In the area of judiciary reform, a World Bank managed, Multi-Donor Trust Fund for Justice Sector Support has been established as a mechanism for coordinated allocation of foreign assistance. The OSCE Mission in Serbia, with the support of the Government of Finland, is assisting the Ministry of Interior in enhancing core capacities for strategic planning and management.


**Funding forecast**

The rule of law sector will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected for implementation requires continuous financing.

According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (August 2010), the following funds are planned to be allocated from the state budget in the next three years:

*Table 2 - Total state budget expenditure limits for 2011-2013 (in EUR*)*

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constitutional Court</td>
<td>1,175,567</td>
<td>1,265,476</td>
<td>1,364,841</td>
</tr>
<tr>
<td>High Judicial Council</td>
<td>1,220,092</td>
<td>1,300,567</td>
<td>1,389,704</td>
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<tr>
<td>State Prosecutors' Council</td>
<td>458,870</td>
<td>488,678</td>
<td>521,583</td>
</tr>
<tr>
<td>Judicial Bodies</td>
<td>118,779,665</td>
<td>127,215,866</td>
<td>136,567,271</td>
</tr>
<tr>
<td>Ombudsman</td>
<td>1,111,367</td>
<td>1,190,653</td>
<td>1,278,220</td>
</tr>
<tr>
<td>Ministry of Foreign Affairs</td>
<td>47,545,601</td>
<td>49,690,838</td>
<td>53,204,769</td>
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<tr>
<td>Ministry of Defence</td>
<td>645,537,190</td>
<td>655,928,185</td>
<td>699,941,602</td>
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<td>Ministry of Internal Affairs</td>
<td>393,293,923</td>
<td>417,799,947</td>
<td>449,007,860</td>
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<tr>
<td>Ministry of Justice</td>
<td>56,049,845</td>
<td>59,646,509</td>
<td>63,622,795</td>
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<tr>
<td>Ministry of the Diaspora</td>
<td>2,091,054</td>
<td>2,217,139</td>
<td>2,354,792</td>
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<tr>
<td>Ministry for Kosovo and Metohija</td>
<td>36,863,083</td>
<td>39,106,509</td>
<td>42,347,957</td>
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<td>Ministry of Human And Minority Rights</td>
<td>3,684,125</td>
<td>3,905,142</td>
<td>4,146,298</td>
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<tr>
<td>Committee for Examining Responsibility for Human Rights' Violation</td>
<td>424</td>
<td>448</td>
<td>474</td>
</tr>
<tr>
<td>Commissariat for Refugees</td>
<td>11,315,232</td>
<td>11,883,390</td>
<td>12,521,270</td>
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<td>Anti-Corruption Agency</td>
<td>1,436,824</td>
<td>1,507,405</td>
<td>1,586,188</td>
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<td>Commissioner for Information Of Public Importance and Personal Data Protection</td>
<td>1,055,710</td>
<td>1,129,152</td>
<td>1,210,232</td>
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<td>Equal Rights' Protection Commissioner</td>
<td>352,685</td>
<td>372,081</td>
<td>393,514</td>
</tr>
<tr>
<td>Directorate of Restitution</td>
<td>563,518</td>
<td>602,463</td>
<td>645,416</td>
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<tr>
<td>Ministry of Religion</td>
<td>5,346,100</td>
<td>5,653,123</td>
<td>5,987,202</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The budgetary projections for the next three years are formulated upon the Government’s main policy objectives in the rule of law sector, as defined in the Budget Memorandum, which centre on the reform of the judicial system, and police reform, in order to ensure a high level of personal safety and safety of property, including combating organised crime, building of strengthening capacities for crime investigation, modernisation of ICT equipment and development of police education.

According to information from the donor community (see Annex IV), new grant commitments in the rule of law sector are expected to be at least €70,2 million for 2011-2013.
Forecast and future challenges

As the Judiciary Reform Strategy is phasing out in 2011, a new strategic framework will be needed for the period after 2011. Based on provisions of this strategy and specific laws, newly-established institutions – the High Judicial Council and the State Prosecutorial Council - should in the near future take on a considerable amount of competences important for the efficient functioning of an independent judiciary. These institutions will be responsible for the election of judges and prosecutors, performance evaluation, preparation, negotiation and expenditure of budgetary funds necessary for the work of the judiciary institutions, etc. The newly-established administrative offices of these institutions will face significant challenges in assuming such a wide scope of responsibilities. After deep changes of the key legislative framework in the area of the judiciary, effective monitoring of its implementation and impact, as well as monitoring of judicial efficiency and access to justice, will be crucial for the evaluation of reform efforts. Capacities for gathering and analysing these data are very modest at present.

The reduction of the backlog of cases remains an open issue which will have to be resolved through efficient enforcement of court decisions, effective case management and improvement of case proceedings in civil, criminal, commercial and administrative cases. Introduction of the new judicial professions, such as notaries, will be one of the changes envisaged by the National Judicial Reform Strategy, which will support a reduction of the administrative workload in the courts. Based on the adopted strategy, the introduction of the Free Legal Aid system will be initiated in the next period, bringing along challenges in the coordination of aid providers and efficient allocation of sufficient budgetary funds. These problems are in a direct relation with the verdicts of the European Court of Human Rights which in the greatest number of verdicts brought against Serbia found the violation of Article 6, paragraph 1 of the European Convention for the Protection of Human Rights and Fundamental Freedoms. Number of cases in which this violation occurred due to inefficient implementation of court decisions is significant, and has been recognized as a problem of general character by the Committee of Ministers of the Council of Europe in the process of monitoring the implementation of verdicts of the European Court of Human Rights. Overcrowding in Serbian prisons and introduction of alternative sanctions also remain challenging issues in the forthcoming period.

The efficiency, technical resources and mutual coordination of law enforcement authorities for investigation, prosecution, and enforcement of judgements, in cases of organised crime, corruption, money laundering, drugs smuggling etc, still pose a challenge for reaching better levels of efficiency in the fight against these criminal acts. If it is taken into consideration that almost 70-80% of criminal cases initiated by the prosecution for organised crime in 2009 started due to cooperation with prosecutors and police from other countries, it is obvious that effective regional cooperation will remain a key to successful disruption of organised crime channels.

By adopting the Development Strategy of the Ministry of Interior 2011-2016 in the end of January 2011, the Ministry of Interior completed its efforts toward establishment of an overall reform framework. Strategic planning and human resource management, including internal control, should be subsequently tackled in line with the strategic framework.

With regards to the approximation with European standards in the field of Rule of Law, integrated border management, migration management, as well as small arms and light weapons control, will remain on the list of priority areas of intervention. The increase in asylum seekers in EU countries originating from Serbia, after granting of visa-free regime, will require additional measures of MoI and MoFA in the prevention of abuse of the Schengen White List regime by migrants to and from Serbia. The main challenges in the field of forced migration in next period are the closure of the refuge issue in the region and continuation of activities for improvement of the living conditions of IDPs.
As of 2011, the Ministry of Defence intends to increase its contribution to the UN-led multinational operations and to commence its participation in the EU-led multinational operations.

Capacities of the existing institutional framework have to be strengthened, in order to enable efficient implementation of human and minority rights, as well as the prevention of, and fight against, all forms of violation, and promotion of tolerance. On the international level, the main challenge will be to reduce the number of judgements passed against the Republic of Serbia by the European Court of Human Rights. Up to now, 3800 petitions against the Republic of Serbia have been filed at the European Court of Human Rights, but the majority (95%) of them have been dismissed. By the end of January 2011, a total of 51 judgements had been passed, of which violation of Convention’s provisions were established in 48 cases. Regarding readmission, it is expected that the trend of approximately 1,000 returnees per year will continue in the next period. Integration of returnees will present a challenge. Those returnees which are based on readmission agreements and which come through Belgrade Airport are recorded and processed, but recent cases of readmission through other border crossings make identification of returnees more difficult.

### Public Administration Reform

**Description of the sector and trends**

The Public Administration Reform Sector, within the scope of this document, covers a wide scope of public sector institutions, including executive power at the central level (24 ministries, public agencies and special organisations), local self-government institutions (23 towns and 150 municipalities) and public utility companies. The sector comprises the current process of public administration reform in the Republic of Serbia, i.e. the whole range of areas which provide efficient management and efficient state functioning at all management levels, as well as financial management and control and other areas enabling undisturbed functioning of the executive power, such as public procurement, information provision, human resources management, e-governement etc. Public Administration Reform also encompasses areas which do not fall under the jurisdiction of public administration institutions, such as state audit, citizens’ rights protection, availability of information of public importance, as well as the issues related to employment legal status of civil servants working with the legislative and judiciary authorities. In certain aspects, like e-governement, use of ICT or introducing complex control mechanisms, this programme sector encompasses institutions which do not fall under Government structures, such as National Assembly, State Audit Institution and Ombudsman’s Office which report to the National Assembly, etc. In addition, public administration reform also refers to the process of EU association and accession and programming and management of EU funds and development assistance coordination.

The Republic of Serbia has made significant steps in the EU association process in the previous period. After the decision of the EU Council of Ministers from July 2010 to unbloc the process of ratification of the Stabilisation and Association Agreement, the following milestone in this process was the decision from 25 October 2010 when the Council decided to implement the procedure laid down in Article 49 of the Treaty on the European Union (that any European State which respects the values referred to in Article 2 of the Treaty and is committed to promoting them may apply to become a member of the Union) and ask for European Commission’s opinion (avis) on EU membership candidacy, which was submitted by the Republic of Serbia on 22 December 2009. In November 2010, state administration of the Republic of Serbia received 2,483 questions...
(the Questionnaire) prepared by the European Commission for assessing Serbia’s readiness for the commencement of EU membership negotiations.

The State administration of the Republic of Serbia is facing the challenge of complex preparation of responses to the questionnaire, as well as comprehensive preparation for the coming phases of the association process, the mobilisation of professionals, business and civil society for the phase of EU membership negotiation process. In this process, one of the important aspects is to improve the process of harmonizing national legislation and preparation of national versions of the acquis of the European Union. National Programme for Integration of Serbia into the EU is 74 percent fulfilled in total, taking into account the legislation scheduled for adoption in the period from July 2008 to December 2010 years, as 549 regulations out of 742 planned were adopted. 191 laws were planned for adoption and 155 or 81 percent were actually adopted. Of the planned 551 bylaws, 394 or 72 percent were adopted.

The most recent developments of legislative framework related to local self-government (LSG) units refer to the adoption of the Law on Communal Police and Law on Regional development, including relevant by-laws for the implementation of these legal acts. The Draft Law on Election of Representatives and the Draft Law on Referendum and Civil Initiative are also finished, while drafting of the Law on Labour Relations in Local Self-Government is ongoing. The Law on Transfer of Property to Municipalities is in the pipeline and soon to be adopted. Drafting of development strategies and the transformation of Public Utility Companies is also on-going. Improvement of work organisation, planning processes, the improvement of skills and capabilities of employees in administrative bodies at the local level and more extensive involvement of citizens in local development initiatives remain priorities, which is also recognised in the EC Progress Report for 2010, which recommends the significant involvement of local authorities in decision-making regarding the development of new laws or amendments to existing laws which have an impact on the local level.

The draft Strategy of Decentralisation of Serbia is under preparation. The **decentralisation** strategy should represent a clear intention of the state authorities to lead the process of decentralisation on the basis of strategic planning and coordination, in order to increase efficiency and quality in the provision of public services to citizens. The deadline for the preparation of the Strategy of Decentralisation is June 2011.

In the area of **professionalisation** of public administration in the Republic of Serbia, the Law on Amending the Law on Civil Servants was prepared and adopted in the previous period, including by-laws for its implementation. Strategic documents in the area of professional development of civil servants are under preparation and expecting adoption in the first quarter 2011, including strategic documents in the area of professional development of the employees in local self-government units, which will be prepared during 2011. These documents will establish general guidelines and institutional framework for planning and implementation of professional development of civil servants and employees in local self-government units. One of the principles respected in the concept of professional development of civil servants is the principle of ensuring equal opportunities for both women and men. This principle/policy is clearly stated in the National Strategy for Improving the Position of Women and Advancing Gender Equality. Also, the Law on Ratification of the Agreement Establishing the Regional School of Public Administration has been adopted.

In accordance with the principle of **de-politicisation**, legal framework is under preparation and also are being amended (Law on Political Parties, new Election Law and the new electoral framework in line with EU standards). The Rulebook of the National Assembly, introduced recently, institutes public hearings, with the aim of acquiring relevant information and expert opinions on the pieces of legislation undergoing parliamentary procedure, as well the improvement of monitoring of the im-
plementation/enforcement of adopted legislation and carrying out the control function of the National Assembly. However, it still seems that more public consultation concerning the impact of new legislation in practice should be done, which is one of the recommendations of the EC Progress Report for 2010. Improvement of the control of financing of political parties remains priority for the coming period.

The rationalisation of the public administration emerged as a major theme in the period of economic crisis, when the inadequacy of the size and structure of Serbia’s public spending became particularly evident, and as part of the measures agreed with the International Monetary Fund as conditions of the Stand-By Arrangement. A major undertaking in this regard is the initiation of legislative adjustments supposed to oblige policy-makers to lead a responsible, long-term sustainable fiscal policy by respecting fiscal rules. Furthermore, adjustments of the Budget System Law aim at preparation of the final budgetary statement in accordance with international accounting standards, as well as at improving of the overall system of Public Internal Financial Control. Starting from 2011, new amendments are also foreseen to revise the concept of the Budget Memorandum, which will be replaced with a Report and Fiscal Strategy and corresponding Report on achieved progress.

The Law on Determining the Maximum Number of Employees in the Republican Administration, and the Law on Determining the Maximum Number of Employees in Local Administrations, were both adopted in the second half of 2009, as an integral part of the process of rationalisation of employees at the national and local levels. This legislative undertaking was strongly influenced by the requirements referring to expenditure cuts in the circumstances of economic crisis and was the starting point in fulfilling the obligations of Serbia as the potential borrower according to the SBA with the IMF. The Law on Administrative Procedure and the Decree on Electronic Document Management in Public Authorities’ State Government have also been adopted, while the drafting of the Law on Administrative Disputes is in progress. Also, a proposed standardised methodology for conducting functional reviews in the state institutions was prepared and tested in two pilot ministries.

A series of activities started in the area of coordination of public policies, related to the development of strategic planning in the public administration, as well as setting standards regarding the structure of strategic documents. In addition, the Budget System Law foresees that budget beneficiaries can prepare the special part of the annual budget in accordance with programmatic classification, and define programmes and activities which contribute to the achievement of strategic objectives in line with the economic policy of the country. Implementation of the programmatic budget will be phased-in gradually by 2015, by which time it is expected to cover all budget beneficiaries.

In the area of control mechanisms, activities related to improvement of their capacities are ongoing, particularly those of the Public Procurement Directorate and the Office of the Ombudsman. Rules of Procedure for issuing certificates for the officers of the Public Procurement Directorate have been prepared and adopted, and the process of organising training of officers has started. A handbook was issued in September 2010 to support implementation of the Law on Free Access to Public Information, which should provide a practical tool for government agencies to improve law enforcement, but also to facilitate the rights of citizens to free access of information. In 2010, the State Audit Institution expanded the scope of the audits of budget beneficiaries for the 2009 fiscal year, covering seven ministries: Finance, Education, Labour and Social Affairs, Agriculture, Infrastructure, Science and Youth and Sports. According to initial assessments of the State Audit Institution, this year’s audit covered more than 70% of expenditure from the state budget. Audits were also conducted in three public companies. The overall conclusion of the EC Progress Report for 2010 is that stronger commitment is needed for the respect of the mandate of independent regulatory bodies and provision of adequate resources for their functioning.

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9 Law on Amendments and Changes to the Budget System Law has been adopted by the Government on 17th September 2010 and adopted by National Assembly on 12th October 2010.
The modernisation of the public administration is being addressed partly through preparation of a general legal framework (laws and by-laws) allowing the introduction and putting into operation of e-government procedures. Progress was also achieved in improvement of existing and introduction of new registers (taxpayers registry, unified address code, etc.). The new Law on State Registry Books foresees the establishment of a unique information system and currently this system is under development, including the information system for the single electoral roll for the whole territory of Serbia. Work on establishing interoperability standards and testing was conducted in the exchange of data between several of the state administration institutions. Main innovations concerned the introduction of general standardised operations for payments of services; mechanisms and instruments to facilitate business start-ups, registration and management; upgrading of the public procurement portal, contributing to an overall improvement of the public procurement system; facilitation of tax administration and collection; IT development within Commission for Protection of Competition, as well as relevant ICT progresses in the statistics. For the sake of higher efficiency of the public payment system, the system for the application and use of payment cards has been introduced in the branches and outlets of the Treasury Administration. Furthermore, the electronic payment system has been developed and implemented in the scope of the e-management portal, in order to make it possible for legal entities and individuals to pay via the Internet for the services provided by the Government. Thanks to achievements in this area, and particularly to the adoption of the Decree on E-Office-Business, the Government has seen the instigation of electronic sessions and the launch of the e-government portal, as well as the launch of the software application for medium-term planning and submission of the contributions for the annual Work Plan of the Government and corresponding Reports.

Serbia is striding towards a better programming and management of EU funds and, more specifically, the preparation and implementation of a decentralised implementation system, in accordance with the Strategy for Introduction of DIS in Serbia. The annual allocation for IPA component I in 2011 has been programmed and submitted to the European Commission. In relation to IPA components I and II, Serbia is in the process of DIS gap plugging, having completed the gap assessment phase (which evaluates the readiness of the operating structures), while the compliance assessment phase is foreseen for July 2011.

As for IPA components III and IV, the Strategic Coherence Framework (SCF), as the overarching reference document for programming both components, and the two Operational Programmes (OPs), have been prepared in draft form and submitted to the Commission for informal comments, with the SCF now at second draft stage. The operating structures in each case have been defined within the OPs. The DIS gap assessment has been completed and the DIS gap plugging process has been initiated. In relation to IPA component V, the Paying Agency (as the future Agency for implementation of IPA Component V) and Management Authority have been established. Throughout this process, the structure of the Ministry of Finance has been modified with the establishment of National Fund and the Central Financing and Contracting Unit. Furthermore, the scope of work of internal control units has been defined and the process of their establishment in relevant line Ministries is ongoing.

**Strategic framework and sector priorities**

As far as the reform of public administration is concerned, the National Programme for Integration of Serbia into the EU envisages an array of achievements, such as the harmonisation of legislation related to the foreign currency reserves with European legislation, the further modernisation of the Tax Administration, the full simplification and rationalisation of the procedure for exercising the rights and obligations of taxpayers, integral risk management in the functions of control and collection of payments, improvement of budget management and fiscal consolidation resulting in a lower fiscal deficit, the

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10 Please see Annex II for a description of the individuals and institutions responsible for management of IPA funds under decentralised management
control of budget expenditure further improved, to reduce the share of current expenditure and increase the share of capital expenditure. The main results to be achieved in the mid-term are the restructuring of public companies for the purpose of improving their management, efficiency and financial stability and the institutional strengthening and harmonisation of state aid schemes and other individual state aid with EU legislation.

The main Government document which defines challenges and objectives of the public administration reform is the **Public Administration Reform Strategy in the Republic of Serbia with the Action Plan for Serbian Public Administration Reform Implementation, 2009-2012**. The main objectives of public administration reform are to create a democratic state based on the rule of law, accountability, transparency, effectiveness and efficiency and to create a public administration directed towards the citizens, capable of offering high quality services to the citizens and private sector, against payment of reasonable costs. The achievement of these objectives will be based on the principles of decentralisation, de-politicisation, professionalisation, rationalisation and modernisation. The Action Plan details the areas of public administration reform: a) decentralisation; b) professionalisation and de-politicisation; c) rationalisation; d) coordination of public policies; e) control mechanisms; f) e-Government – modernisation of public administration; and g) implementation of the Action Plan and promotion of PAR.

The national strategic document which defines the objectives and guidelines of the Government’s economic and fiscal policy for the mid-term is the **Memorandum on Budget and Economic and Fiscal Policy for 2011-2013**. On economic policy, this sets down macroeconomic stability, sustainable economic growth and the development of a competitive economy, increased employment and standards of living, and balanced regional development as strategic objectives for this period. Implementation of fiscal policy will be directed towards achievement of a strengthened legal framework and implementation of fiscal responsibility and discipline on all levels. This document is complemented by several strategies already adopted or in the pipeline for particular aspects of public finance, providing more in-depth orientation for programmatic interventions in the short- and medium-term periods. Among these are: the **Strategy of Internal Financial Control in the Public Sector**, and the **Public Debt Management Strategy** which streamlines both fiscal and monetary policies.

Moreover, in order to face the challenges of modernisation and institutional strengthening, both the Tax and Custom Administrations have adopted their related strategic documents, namely: the **Tax Administration Development Strategy for 2010-2014** and the **Customs Administration Business Strategy for the period 2011-2015**.

The **Strategy for e-Government Development** with the Action Plan for the Strategy implementation in period of 2009 to 2013 sets out the objectives of the introduction of e-government which should allow more efficient and effective operation of administrative bodies and public authorities in the provision of public services to citizens, companies and other organisations. Other strategic documents defining priorities in the field of e-government are **Strategy for Development of Information Society in Republic of Serbia to 2020** and the **Strategy of Scientific and Technological Development of Serbia 2010-2015**.

Improvement and modernisation of the system of statistics in Serbia are defined in the **Development Strategy of the Official Statistics in the Republic of Serbia 2009-2012**.

Based on the overall strategic framework and the current situation in the sector, the following **mid-term priorities** have been identified:

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12 The Tax Administration Business Strategy has been redefined and made more operational in line with the consultations with the IMF, so as to allow for the clear overview of priorities for international assistance. The Strategy was adopted on 1 June 2010.
• **Enhance professional development and institutional capacity of civil service at all levels**

The continual professional development for civil servants and for staff in the LSG units is seen in the light of a major professionalisation of the public administration, therefore it should be aimed at the overall improvement of administrative capacities, particularly in the context of coordination of the process of association and accession to European Union. Professional development of civil servants refers to their professional and career advancement, realised through the establishment of full professional system, strengthening human resources management function and continuous training. Moreover, professional development is not only to be addressed to the public administration and staff in the LSG units; further restructuring and improvement of management in public utility companies should also be intensified in the coming period.

• **Improve development and implementation of efficient public policies**

All improvements have to go alongside the efficient development/formulation of public policies (and of course, the implementation of these policies in accordance with the Government’s strategic priorities) in a way which ensures the conditions are in place for the improvement of both strategic and operational planning processes. For instance, synchronisation of budget planning with policy creation and coordination needs to be improved: further efforts should be continued in the field of budget planning and management, in order to consolidate finances on both central and local levels, with the aim of reducing the fiscal deficit and changing the structure of spending, by decreasing current budget spending and increasing capital investments.

• **Ensure the transparent and accountable functioning of public administration**

A functional system for operational planning within public administration bodies (which needs to encompass a performance measurement system applied uniformly among all public administration bodies) cannot overlook the improvement of all control mechanisms and the further strengthening of all bodies responsible to apply such controls. There are still considerable grounds for supporting the development of inspection supervision (as well as other forms of operations’ supervision) and the development of control systems for the public sector, to ensure suitable conditions for increased efficiency of the public administration bodies. This can be specifically directed to strengthening capacities of relevant public administration bodies, as well as to the development of external control of their operations.

• **Reengineer administrative processes through introduction of new IT solutions**

The reform of the Serbian Public Administration should be further modernised through a more rational deployment of resources and networking of the public administration institutions, improvement of the communication infrastructure of PA bodies, as well as through the modernisation of services based on electronic documents. Providing services to citizens, economy and other clients requires for the establishment of the interoperability standards regarding data exchange and ICT solutions, aligned with the high level security standards in e-government.
Measures for implementing sector priorities

**Priority 1**  
Enhance professional development of employees and institutional capacity of the civil service at all levels

**Measure 1.1** Improving and implementing strategic documents, legislation and public policies regulating the professionalisation of the civil service.

*Aim:* To create conditions for continuing professional development of employees in administrative bodies (ministries, special organisations, government offices, agencies, other institutions and bodies in PA, as well as independent state bodies, Parliament, National Bank of Serbia etc) at all levels (national, provincial, local).

*Description:* This measure refers to professional development of civil servants through establishment of regulated system of training of civil servants and strengthening the institutional framework, principles and guidelines related to professional development of employees at state bodies at all levels who have the status of civil servants (hence the employees within the legislative and judicial bodies) in accordance with the Law on Civil Servants. It is necessary to improve the existing legal framework and to prepare the basic procedures and standards related to the process of professional development: rules and procedures related to the identification of needs, preparation, approval and evaluation of general and specific professional development programmes, and establishing standards in terms of the content of professional training. These needs are particularly stressed out at the local self-government level since systematic (strategic, normative and institutional) solutions for continuing education of LSG servants does not exist for the time being. All through the regulation of the area of LSG employees professional development, gained experiences and resources of all subjects, which were previously engaged in this area, will be used. In this regard, special task and insight in the LSG needs has the national association of local self governments, hence future solutions should formulate by using acquired experiences and resources of this institution.

Also, this measure applies to the improvement of the legal and strategic framework to regulate other aspects of a professional administration: employment in the state administration (hiring new employees), improvement of the payroll system, career development and promotion within the service, termination of employment, etc. This measure should be implemented through the provision of technical support, both for the individual administrative bodies and horizontally, with the inclusion of more than one administrative authority. The EC Progress Report for 2010 extensively deals with the professionalisation of civil servants and notes that the legal framework in this specific regard is still incomplete. The capacity of the public administration in certain sectors is still reported as being weak, as well as existing coordination mechanisms. Moreover, the EC Progress Report for 2010 exhorts the introduction of a merit-based career system and advocate for effective human resources management.

**Measure 1.2** Further improving administrative and management processes in LSGs and public utility companies (PUCs)

*Aim:* To provide suitable guidance and support in improving the services to the citizens and economy provided by municipalities and public utility companies, including the guidance and support in facing the challenges of decentralisation.

*Description:* This measure refers to improvement of the organisational and financial capacities of municipal administrations and public utility companies and should include, among other things: development of existing, and
introduction of new citizens service centres in local administration bodies; elaboration of mechanisms for efficient citizens’ participation in management of public affairs; improvement of organisation and functioning of LSG, through application of adequate instruments and application of best practices in terms of organisational set-up and management of LSG models; standardisation of work processes within LSG with development and application of mutual comparison mechanisms, etc. An important focus of the measure is setting up the institutional framework for the implementation of the Strategy for restructuring PUCs. The further assessment of the legal status of PUCs, privatisation of PUCs, their restructuring in terms of organisational and management procedures, etc., are foreseen as an important aspect of the improvement of the quality of services provided to the citizens. Furthermore, this measure should back up efforts to balance territorial development, notably in the aspects of power devolution in the context of decentralisation, as well as of local property and fiscal decentralisation, strengthening the autonomy of local authorities and rationalising fiscal relations from both revenue and expenditure side between the central and local levels of power, etc. With regard to the support to LSG, the EC Progress Report for 2010 specifically notes the need to ensure sufficient capacities and resources at the local level. When coming to their management capacities, the Progress Report indicates that there is also a lack of legislative framework, (for example it is quoted that the Law on Public Property at Municipal Level is not being adopted yet).

**Measure 1.3 Improving the functioning of public administration bodies and strengthening their capacities**

**Aim:** To achieve greater efficiency and effectiveness of public administration bodies.

**Description:** The measure is related to the further development of mechanisms and tools for improving organisational structure and the efficiency and effectiveness of government authorities through changes and amendments of existing, development of new legislation, strategic and other documents, as well as through their implementation. The main direction of development is the creation of an integrated system of planning, organising and monitoring of the public authority bodies. At the local self government level improvement of administrative functioning particularly includes aspects of responsibility, efficiency and transparency enhancement, hence opening of the local government towards citizens and other relevant subjects through development of local community participatory management and improvement of communication functions. Strengthening overall administrative capacities is a cross-cutting message to the Republic of Serbia deriving from the EC Progress Report for 2010, which in many sections suggests improvement of capacities, both for a better alignment with EU standards and to meet the political criteria required by the *acquis*.

**Measure 1.4 Improving the EU integration process, coordination of the EU accession negotiations and management of EU funds**

**Aim:** To increase the capacity of the Government of Serbia to assume the obligations of membership in the European Union

**Description:** The measure relates to further support for the coordination of the EU integration process, through capacity-building of public authorities to implement the National Programme for Integration, harmonisation of national legislation with the EU and further strengthening the process of harmonisation of legislation by amending the relevant bylaws governing this area, associated procedures, role of individual institutions, consultations with professional authorities and the professional development of employees involved in the process of European integration, not only in the units responsible for these tasks. This measure includes the continuation of the process, already initiated, of preparing a national version of the *acquis*, particularly through the improvement of translation and editing (in Government bodies and external institutions). One of the major challenges of this measure is embedding the decentralised implementation system (DIS) within the administration, which
should continue through the continuous training of employees, both those who are currently in the system and those who will be involved in DIS after the analysis of workload in the relevant state authorities. Reference period of the document “The Needs of the Republic of Serbia for international assistance” actually represents crucial period for the establishment of the DIS, because it foresees the following activities: conformity assessment, preparing a package for accreditation, national accreditation and compliance audits.

The positive opinion of the European Commission on the Republic of Serbia’s candidacy for membership in the European Union and defining the date of commencement of negotiations will lead Serbia into a new phase of accession preparations, which will require radical changes to the previous coordination mechanism. Therefore, it is necessary to provide support through this measure for establishing the structure for the negotiation process, establishment of the negotiations groups, preparing responses to the criteria for opening negotiations of certain chapters (after conducting screening) and the preparation of negotiating positions. Support to these processes must be characterised by a high degree of flexibility and adaptability to a dynamic process of coordination of negotiations. With regard to EU integration, the EC Progress Report for 2010 indicates that although the number of civil servants has been reduced by 10%, the staffing involved in the field of EU integration has been maintained. Nevertheless, capacities on EU integration need to be further strengthened, in particular the central coordination between the General Secretariat, the Serbian EU Integration Office and the Ministry of Finance.

**Priority 2 Improve development and implementation of efficient public policies**

**Measure 2.1 Ensuring conditions for the improvement of the strategic and operational planning process**

**Aim:**

To invest in the strengthening (or building) of the institutional framework necessary for the suitable coordination and effectiveness of public policies.

**Description:**

A large number of strategic documents adopted in various areas of PA are not mutually harmonised, resulting primarily from the lack of standards for development of strategic documents, and inadequate coordination between the public administration bodies in the process of planning and development of these documents. As a part of the to this point planning system reform, a common methodology was developed for targeted planning, as well as monitoring and reporting, based on actual outputs: what is still lacking and is a subject of proposed measure, is the institutionalisation of such a methodology through implementation of relevant changes in the institutional framework. Likewise, in ensuring the effectiveness of various policies, measured against broadest public interests and democratisation, as well as against interests of improving free flow of goods, services and capital, the proposed measure should further sustain efforts in conducting regulatory reform (including de-regulation, where necessary). To this extent, the measure is seen as supporting, throughout the Serbian public administration, embedding the exercises of cost-benefit analyses, regulatory impact assessment before and after their enforcement, analyses of the effects of legislation upon the process of future accession of the Republic of Serbia to the EU, etc. Measure implementation foresees technical assistance or equipment supply intended for establishment of conditions for enhanced coordination and policy planning. The examples of possible initiatives within this measure are: the establishment of a functional system for operational planning, coordination mechanisms among policy-making institutions, development and adoption of the pre-accession economic programme (PEP) or other planning and projection models. In particular, at the local self-government level, improvement of strategic and operational planning (as well as implementation of adopted public policies and provision of clear guidelines for introduction of programming budget) could be achieved through standardisation of local processes, rules and procedures; analyses of
effects of introduction of multi level administration system; introduction of the system for comparative evaluation of capacities (benchmarking of LSG); creation of new organisational units if necessary and introduction of system for evaluation of adopted regulation implementation effects.

**Measure 2.2**  
**Improving public policy development and implementation in accordance with strategic priorities**

**Aim:**
To provide direct assistance in the development and implementation of integrated and well coordinated public policies.

**Description:**
Existing regulations do not specify the procedures for proposing public policies by public administration bodies. Employees of the public administration bodies do not have sufficient experience in policy assessments and evidence-based public policy proposals. Adopted policies incorporated into strategic documents do not specify parameters for prioritisation, monitoring and evaluation of the identified measures. Therefore this measure will encompass all initiatives aimed at improvement of the policy proposals quality, such as synchronisation of policy development with budget planning process. Particular challenge in this manner is establishment of efficient mechanisms for institutional dialogue between different power levels (formalisation of consultative mechanism), which should at the end secure active participation of local self-government in policy development, adoption of laws, other regulations, strategic and other documents relevant for local self government. Main instruments for measure implementation are first of all institutional twinning or institutional transfer of best practice and experience (complemented by equipment supply if possible). As all parties interested in the formulation of public policies should be involved, the measure should facilitate the creation of mechanisms that will beside state institution, shall include also private sector and CSOs. The EC Progress Report for 2010 notes that effective implementation and monitoring of the adopted legislation still needs improvement.

**Priority 3**  
**Transparent and accountable functioning of public administration**

**Measure 3.1**  
**Ensuring conditions for increased efficiency of the public administration through support to the development and improvement of control mechanisms**

**Aim:**
To set up all necessary conditions for efficient external controls and inspection supervision.

**Description:**
The issue of the transparency and accountability of the PA bodies’ operations is one of the priorities recognised in several strategic documents. In that respect, in the future period special attention needs to be given to the issue of capacity-strengthening in those institutions in charge of external controls and monitoring. The measure will encompass direct assistance and equipment supply to those institutions performing external controls and monitoring, including the Public Procurement Office, the Ombudsman, the Anti-Corruption Agency, the Commission for the Protection of Competition, the Commissioner for Information of Public Importance and Personal Data Protection, the Commission for Protection of Bidders Rights, Commissioner for Gender Equality, etc. In regard to local self government, relevant is strengthening of LSG monitoring functions towards other bodies and institutions responsible for public affairs delegated by the LSG (public companies, public utilities, etc), as well as introduction of new and strengthening of existing internal mechanisms and bodies for monitoring and LSG performance control. Administrative strengthening of institutions responsible for control functions (i.e. the Anti-Corruption Agency, the Commission for the Protection of Competition, the Public Procurement Office, etc) is particularly highlighted in the EC Progress Report for 2010, which is insisting on the overall strengthening of administration.
Measure 3.2  Strengthening financial management and control as well as capacities for internal and external audit

Aim: To set up all necessary conditions for the efficient internal and external controls of public finance.

Description: Public Internal Financial Control (PIFC) has been developed, in order to strengthen managerial accountability and safeguarding of public funds in public administration. It is necessary that the system of internal financial control is established and becomes operational in a number of public authorities, in accordance with applicable regulations, and this measure should support initiatives aimed at strengthening financial management and control. It is necessary to improve by-laws for implementation of internal financial control at all levels of users of public funds, which should precisely define the roles and responsibilities of internal financial management and control subjects, and also to contribute to raising awareness about the concept of PIFC. At the same time, the measure will focus on additional training, organised by the Central Harmonisation Unit, for managers responsible for financial management and control, mid-level managers, employees in financial and accounting departments, and other employees. Another emphasis of this measure is on the strengthening of decentralised and functional internal audit with the beneficiaries of public funds, this being aligned with the internationally recognised standards and best EU practices.

With regards to external financial control, this measure includes enhancing capacities of the State Audit Institution to broaden its scope of functioning for auditing financial statements of territorial autonomies and local self-government, organisations of mandatory social insurance and public enterprises and other legal entities established by direct or indirect budget beneficiaries in line with internationally accepted standards and EU best practice. In this regard, EC Progress Report for 2010 specifically mentions the State Audit Institution, as well as the Central Harmonisation Unit, and notes that although there has been progress in the area of public finance control, Serbia is still at an early stage in the implementation of PIFC and external audit.

Financial management at the local self government level, represents particular challenge which shall be address through this measure. Beside the essential need to improve and institutionalise cooperation between the LSG and central Government related to legal framework which regulates the LSG responsibilities, specific needs of the LSG exist in the area of tax system improvement in terms of LSG authentic and renounce revenues and strengthening of local tax administration offices performance. It is necessary to continue organisation of additional and new sources of funding LSG through public-private partnerships, assets management, issuing of municipal bonds, etc.

Priority 4  Reengineer administrative processes through introduction of new IT solutions

Measure 4.1  Improving the efficiency of public administration through the application of new IT solutions

Aim: To pave the way for a national e-government interoperability framework and for improved efficiency of the processes and improvement of quality of services for citizens and economic subjects through the application of new IT solutions.

Description: This measure should support the implementation of the Law on Electronic Documents, through elimination of legal obstacles for the implementation of electronic documents in public service and transition from paper to electronic records of the Government and other state bodies. Moreover, measure shall comprise support to development of new registers and evidences, electronic services quality improvement, exchange of data between central and local government, application of standards for data formats, standard protocols of electronic communication, functional characteristics of the system and accessibility standards. In parallel to
these activities it is necessary to expand the scope of electronic public services and promote the use of these services to citizens and businesses. This measure envisages assistance and equipment supply to ensure the capacities of the public administration bodies (including those at the local level) for the maintenance of data in the electronic format and for the establishment of suitable e-government interoperability. The EC Progress Report for 2010 states in this regard that preparation in the fields of information society related services are moderately advanced.

**Measure 4.2 Establishing high quality ICT infrastructures**

**Aim:** To establish high quality ICT infrastructures for reliable and safe access to information and the efficient exchange of information.

**Description:** This measure should focus on establishment of the connections between computer networks of public authorities of all levels (republican, provincial, cities and municipalities) into the State Communication Network, which should lead to the rationalisation of ICT resources. Support under this measure will also focus on upgrading and expansion of computer centres of the state authorities which contain servers containing databases and applications of information systems for electronic public services, in order to follow the dynamics of introduction of electronic public services.

**Programming of international assistance**

The measures proposed for funding under NAD have been selected to complement national and international interventions to support public administration reform in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.

**Ongoing activities**

According to the ISDACON database, in the period between 2007 and 2009, it is estimated that a total amount of €255,65 million was actually disbursed in assistance from the international donor community to the public administration reform sector in Serbia (see following diagram).
In the four annual programmes 2007-2010, IPA component I is financing projects in the PAR sector worth approximately €153 million\(^ {13}\), subdivided into 20 projects, consisting in the material and technical support to PAR and LSGs and seeing a wide array of beneficiary institutions. This large number of projects does not include those project preparation facilities and other forms of unspecified technical assistance (GTAF and reserves). The most substantial amount of up to €112 million of the financial assistance for the LSGs addresses the development of capital municipal infrastructure, implemented by works and services contracts. Approximately €19 million have been allocated to support reform of the public administration to EU standards\(^ {14}\), including the capacity building of the local-level administration to meet the challenges in the early phases of decentralization, reorganise and acquire modern management skills. Out of this, approximately €4.5 million is allocated for technical assistance to support the process of accreditation to DIS. Overall IPA support to public sector financial management and control amounts to approximately €6 million disbursed via direct grants, twinning projects and technical assistance, €7 million was allocated to support customs development and harmonisation, through the implementation of technical assistance, supply and twinning projects. PAR itself is supported for €6.5 million through supply and services, including provisions for e-Government.

The USA (exclusively for LSGs), Germany, Sweden and Norway can be quoted among the most relevant development partners of the other donors in terms of grants. In the last three years, the Government of Sweden has provided approximately €2 million support to the development of statistics, while the Government of Germany has allocated €1.5 million for the reform of the financial sector. The Kingdom of Norway has channelled approximately €1.7 million for the integration of Serbia public sector to the EU and €2.8 million for the factual implementation of the PAR.

\(^{13}\)These sums do not include national co-financing.

\(^{14}\)Including the European Integration Scholarship Programme and the 2007 and 2008 entry tickets for Community Programmes.
Funding forecast

Public administration reform will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected for implementation requires continuous financing.

According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (August 2010), the following funds are planned to be allocated from the state budget in the next three years:

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
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</thead>
<tbody>
<tr>
<td>National Parliament</td>
<td>15,371,832</td>
<td>16,274,137</td>
<td>17,285,735</td>
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<td>Government</td>
<td>16,093,366</td>
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<td>17,142,949</td>
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<td>State Audit Institution</td>
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<td>Ministry of Finance</td>
<td>2,699,158.601</td>
<td>3,164,208,488</td>
<td>3,285,808,673</td>
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<td>Ministry of Telecommunications and Information Society</td>
<td>15,576,176</td>
<td>8,258,046</td>
<td>2,953,387</td>
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<tr>
<td>State Legislation Secretary</td>
<td>712,231</td>
<td>766,236</td>
<td>825,890</td>
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<tr>
<td>State Development Agency</td>
<td>387,977</td>
<td>417,313</td>
<td>449,716</td>
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<td>State Statistics Agency</td>
<td>37,771,548</td>
<td>3,282,361</td>
<td>6,915,187</td>
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<tr>
<td>Directorate of State Property</td>
<td>2,532,036</td>
<td>1,708,097</td>
<td>1,827,972</td>
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<td>State Administration of informatics and internet</td>
<td>249,823</td>
<td>257,060</td>
<td>274,771</td>
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<tr>
<td>Public Procurement Administration</td>
<td>566,525</td>
<td>615,658</td>
<td>662,074</td>
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<tr>
<td>Administration for joint operations of Government bodies</td>
<td>21,893,040</td>
<td>21,256,819</td>
<td>18,808,963</td>
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<td>Administrative Districts</td>
<td>3,396,578</td>
<td>3,663,804</td>
<td>3,912,546</td>
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<tr>
<td>Ministry of Public Administration and Local Self Government</td>
<td>4,546,589</td>
<td>4,190,332</td>
<td>3,829,650</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The above figures are aggregated and include many allocations not specifically related to the implementation of the PAR.

The budgetary projections for the next three years are formulated upon the Government's main policy objectives for public administration reform, as defined in the Budget Memorandum. These include: development of a democratic state based on the rule of law, responsibility, transparency, cost-effectiveness and efficiency. Another objective is to develop a public administration focused on the citizens, capable of providing high-quality services to the citizens and the private sector at reasonable costs, as well as combating corruption in the public sector.

Nevertheless, the Government’s aim in pursuing the reform of public administration remains strictly in line with the principles laid down in the PAR strategy, such as decentralisation (there will be intensive training of employees in the local self-government units); de-politisisation; professionalisation (systematic programmes of general professional education will be implemented, also in the field of European integration); rationalisation (after the severe cuts made to personnel redundancies, an optimally organised Government administration will have to be reached in terms of both efficiency and effectiveness); and modernisation, which will enable introduction of electronic business and electronic signature in the work of public institutions, as well as development of e-government.

According to information from the donor community (see Annex IV), new grant commitments in the PAR sector are expected to be at least €135 million for 2011-2013.
Forecasts and future challenges

The next phases of EU integration will affect significantly the public administration, thus the Government needs more actively to anticipate and adapt its role in a changing society which will require profound reforms at all levels of public administration. One of the greatest challenges will be the higher level of flexibility and responsiveness of the levels of government to rapid changes imposed by EU integration. This process will require adoption of new processes in the delivery of public services and reengineering of the existing processes with the aim of increasing the efficiency and effectiveness of public service provision. In order to achieve these results, it will be necessary to introduce changes to the system of public administration, which will allow prompt reactions and better planning. One of the prerequisites is reducing bureaucracy and cutting red tape for the benefit of citizens and businesses.

Investment will be needed in the professional development of the civil servants who will carry forward this process. Given the framework of strict public spending, it will be necessary to continuously measure and assess the quality of delivered services and seek cost-effective solutions (i.e. introduction of ICT as the tool for improvement). The preparation of the strategic document defining the professional development of civil servants on LSG level is foreseen for the year 2011 and will determine general guidelines and the institutional framework for planning and implementing professional development for civil servants.

The next phase of the accession process, after Serbia is awarded candidate country status will place extra demands on the public administration. The screening and negotiation of acquis chapters, currently 35 in total, will draw in staff from right across the civil service, along with external experts, and will represent an additional workload on top of day-to-day implementation of Government business.

Similarly, the attainment of DIS for managing IPA (including extended DIS for IPA component V) is not a one-off event in each component, but rather an enduring obligation, which must be maintained as long as Serbia is a candidate country and provide the platform for the management and control system for Structural Funds after accession. Hence, the public administration will need to invest time and resources in ensuring the sustainability of DIS, including ongoing staff recruitment (where there is turnover) and training, and systems review, assurance and development.

A further commitment in the view of further alignment with EU acquis is the preparation of the Pre-accession Economic Programme (PEP)\textsuperscript{15}. The introduction of the PEP will require Serbia to outline its medium-term sector policy framework, including public finance objectives and structural reform priorities needed for EU accession, and strengthen institutional and analytical capacity necessary to participate in the European Economic and Monetary Union. Comprehensiveness and complexity of this document will require strong coordination between budget planning (including mid-term planning), the EU accession process, and the creation and implementation of sector policies. To a great extent, this has been already anticipated through the amendments of the Budget System Law. Namely, it is now evident that it is necessary for successful implementation of the Budget System Law to improve capacities to better perform analysis of the fiscal implications of economic policies and structural reforms, to carry out assessments and quantifications of fiscal risks and potential obligations, and to implement advanced planning and forecasting models, etc. Although capacity building for implementation of fiscal decentralisation is ongoing in limited number of local level financial administrators throughout Serbia, a broader, more coherent, planned and systematised approach in the next period is indispensable, particularly in ensuring good coordination among the institutions at central and local levels.

\textsuperscript{15}EU has established in 2001 the Pre-Accession Fiscal Surveillance Procedure with aims at preparing candidate countries for the participation in the multilateral surveillance and economic policy coordination procedures currently in place in the EU as part of the Economic and Monetary Union. The PEPs that candidate countries submit annually are part of this procedure.
Civil society, media and culture

Description of the sector and recent developments

The civil society, media and culture sector covers a wide number of issues, such as: institutional strengthening, the establishment of a suitable legal framework and the presence of conditions enabling development of civil society; the functioning of those instruments aimed at ensuring freedom of expression, first of all related to media; and the enforcement of cultural rights in terms of accessibility, integration, dialogue, respect and tolerance.

Civil society has been developing during the 1990s under the very difficult political and economic circumstances. Throughout the decade, they operated in an unfavourable environment. In 1990, about 19,000 different non-profit organisations were registered. After adoption of the Law on Citizen’s Associations in the same year, the first independent CSOs emerged. After the political changes in October 2000, civil society sector in Serbia has been continually strengthening.

The exact number of CSOs operating in Serbia is not known, and though it is thought that there may be as many as 25,000 registered CSOs in Serbia, a reasonable estimation is between 2,000 and 5,000.

In 2009, the Ministry of Finance conducted a survey of a representative sample of CSOs as a first step in establishing a permanent dialogue with the civil society sector in IPA programming. A total of 64 CSOs from 25 towns participated in the survey. The results show that, although the majority of CSOs are located in big cities, CSOs are actually working all over Serbia. Regarding human capacities, approximately 50% of CSOs can be classified as medium-sized and were created between 2000 and 2005. According to the survey, priority fields of action and area of interest for the CSO are: fighting discrimination/promotion of human rights, reform of public administration and local self-government, social inclusion and advancement of social welfare reforms, rule of law, education system reforms, and strengthening democratic institutions.

Also, during this period the Government approach towards CSO has progressively changed. The Law on Associations was adopted in July 2009, regulating the legal status of CSOs. This new Law allows the right of informal or non-registered organisations to operate, and reduced the number of members necessary to establish an association from ten to three. Although not clearly, the Law also includes provision for funding possibilities from the national budget and allows organisations to generate income, which is in the function of fulfilling their goals, as defined by their statutes. The process of CSOs re-registering in line with the new Law is currently underway and will provide data for mapping the CSOs in Serbia in the first half of 2011. The institution in charge of registration is the Serbian Business Register Agency. The EC Progress Report for 2010 notes that the by-laws to implement the law on citizen’s associations, to prevent possible abuses regarding financing from the state budget, have not yet been adopted.

In Serbia, there is still no systematic or institutional framework for cooperation with CSOs. Relations and cooperation between CSO and national institutions exists at a national level mostly in the form of Government strategies or bilateral agreements for cooperation. To date, line ministries have established good cooperation with CSOs and have included them in the policy-making process. The recent examples of good practice are: the development of the National Youth Strategy and development process of the Youth Law, which has been carried out by the Ministry of Youth and Sports in partnership with CSO; in the same way, the drafting of the development strategy of the Ministry of the Interior was based on the findings and opinions of relevant CSOs; the Ministry of Environment and Spatial Planning has signed a memorandum of cooperation with
120 CSOs; in the field of HIV prevention and reproductive health, the Ministry of Health is implementing activities in close cooperation with CSOs; the Ministry of Justice has included representatives of CSOs in the working group established for drafting the Law on Financing of Political Parties; the Ministry of Social Policy and Labour consulted a considerable number of CSOs in drafting the Law on the Professional Rehabilitation and Employment of Persons with Disabilities; the Ministry of Human and Minority Rights involved CSOs in the process of drafting the interim report on implementation of international agreements in the area of human rights and implementation of the Roma advancement strategy.

Also, Social Inclusion and Poverty Reduction Unit within the Deputy Prime Minister’s Office initiated a programme entitled NGO Focal Points for the Poverty Reduction Strategy Implementation, as a means of contributing to the development of communication and cooperation mechanisms between the Government and non-government sectors, facilitating the definition of recommendations and opinions of a wider civil society forum, and contributing to CSOs’ participation in all related key processes.

Based on the initiative of the Civil Society Focal Points Network (more than 600 NGOs), the Government adopted a Decision to establish the Civil Society Cooperation Office in April 2010, showing commitment to improve level of involvement of CSOs in policy and decision making processes and to maintain a permanent dialogue with them. The Office will be directly responsible to the Prime Minister and will work on developing the National Strategy for CSO Development. Other competencies of the Office are to encouraging dialogue and cooperation between public administration and CSOs, both on the national and local levels, to participate in development and monitoring of implementation of strategic documents, preparation of the report on budgetary spending allocated for the CSOs, etc. The EC Progress Report for 2010 pointed out that, although the Civil Society Cooperation Office was established, it is still not operational and cooperation between state authorities and civil society is still uneven.

The Law on Volunteers was adopted and the Government adopted the draft Law on Legacies and Foundations. At the local level, both the mechanisms for cooperation with CSOs and practice are still poor. Still, in some municipalities there are units or responsible persons for cooperation with CSOs. For example, the Municipal Coordination Committee for Social Policy (OKOSP), Council for Issues Related to Persons with Disabilities in the City of Kragujevac, Youth Councils and 115 Youth Offices, which were set up in municipalities in Serbia, with the support of the Ministry of Youth and Sports.

In terms of providing an adequate normative and institutional framework for the media in Serbia\(^\text{16}\), it is necessary to conduct reforms aimed at protecting and promoting freedom of expression and information, based on a consensus of all relevant media stakeholders (government, business, civil society) and on the definition of clear strategic short-term and long-term goals. Hence, all other relevant legislative works currently in progress are going to be finalised within the guidelines of the Media Strategy currently under development.

The new Law on Electronic Communications, within the competency of the Ministry of Telecommunications and Information Society, went through an extensive round of consultations and was adopted by the Parliament on 29 June 2010. It is harmonised with the EU regulatory framework 2002 and 2009 and introduces a general authorisation regime as one of the main indicators of the liberalised market. The Law regulates the status of the independent national regulatory authority, the Republic Agency for Electronic Communications (RATEL), by ensuring and strengthening its independence to enforce its competences and perform its tasks. Moreover the new Law on Electronic Communications regulates data protection and data retention, fully harmonising provisions with the relevant EC Directives concerning the processing of personal data and the protection of privacy in the electronic communications.

\(^{16}\) Such as a transparent, operative legal and economic framework that underpins democratic freedoms, fosters media development, promotes media environment, strengthens freedom of expression, pluralism and diversity.
The Parliament adopted the amendments to the Law on Free Access to Information of Public Importance, which transferred the competence from the Ministry of Culture to the Ministry of Public Administration and Local Self-Government, for more effective implementation. In accordance with these changes in competences the Ministry of Culture supported media capacity in the area of EU integration, with the aim of improving professional media standards and to contribute to informing Serbian citizens better about EU integration. Based on the amendments to the Public Information Law, the Ministry of Culture adopted the rulebook on the registry of media outlets; the registry was introduced with the aim to finally provide transparency of media ownership and is conducted by the Business Registers Agency.

The developments that Serbia has achieved in the field of media are considered quite positively by the EC Progress Report for 2010, which states that the general constitutional and legal framework for the protection of freedom of expression is in place and generally respected, and that it allows media to operate freely.

Overall, preparations in the area of information society and media have continued, yet implementation remains slow, and inadequate market and regulatory developments in the electronic communications sector are of particular concern. In the audiovisual area, media legislation needs to be aligned with the acquis, and a number of provisions of the Law on Public Information continue to raise concerns.

In more specific terms, the EC Progress Report for 2010 highlights that the implementation of the Law on Public Information and its amendments has continued, producing some positive effects, preparations for a comprehensive media strategy are ongoing, while the media legislation remains to be aligned with the Audiovisual Media Services Directive.

At the moment, in relation to cultural rights, there is a wide array of laws that are in the various stages of preparation or public debate17.

The policies of the Ministry of Culture focused on programmes that should contribute to systemic changes in the cultural field. A very important strategic step forward was made when the Law on Culture was adopted by the Serbian Parliament (2009). One of the most important novelties of new law is the foundation of the National Council for Culture, which has the role of providing permanent support from experts in preserving, developing and expanding culture.

The EC Progress Report for 2010 remarks on the good progress that Serbia has made in the field of culture. Serbia’s participation in the EU’s Culture Programme has been increasing steadily. The UNESCO Convention for the Safeguarding of the Intangible Cultural Heritage and the Council of Europe Framework Convention on the Value of Cultural Heritage for Society have been ratified.

**Strategic framework and sector priorities**

The strategic framework for civil society, media and culture in Serbia is currently under development. These main fields will soon be streamlined by three main strategic documents, still to be finalised.

17 Such as: Law on Archive Documentation and Archive Sector; Law on Foundations and Endowments; Law on Old and Rare Library Materials; Law on Legal Deposit; Law on Immovable Cultural Heritage; Law on Museum Heritage. Moreover, the Ministry of Culture has been active in the process of drafting new acts and measures, such as the Decree on Special Awards for Artistic Excellence and the Law on Copyrights.
In general terms, although there is no sector strategy for civil society, numerous national sector strategies, such as the Poverty Reduction Strategy, the Strategy for Development of Vocational Education, the National Employment Strategy, the National Youth Strategy etc., recognise the importance of civil society and its active role in achieving set objectives. As per the overall framework related to CSOs, the amended National Programme for Integration of the Republic of Serbia into the EU, December 2009, underlines the further promotion of development of CSOs. The Stabilisation and Association Agreement in its preamble also considers the commitment to contribute by all means to the political, economic and institutional stabilisation through the development of civil society and democratisation’.

The Office for Cooperation with CSO will work on developing the National Strategy for the Creation of the Enabling Environment for the Development of CSOs, which will eventually mainstream the process of registration and formal acknowledgment of CSOs.

The strategic framework related to free flow of information and freedom of expression is broadly encompassed within the National Media Strategy, expected to be adopted by mid 2011 by the Ministry of Culture, based on the consultative process with the Ministry of Telecommunication and Information Society and all relevant stakeholders. The Ministry of Culture’s addressed the EU Delegation to fund the production of media study, with the aim of creating a fully transparent and operational legal and economic framework, in order to tackle perceived problems on the Serbian media scene and to harmonise media legislation with the acquis and the relevant Council of Europe standards. The media study serves as the basis for development of the media strategy. The Ministry of Culture, together with the EU Delegation, OSCE and the British Embassy, organised numerous round-tables and workshops all over the country, to launch wide-ranging public debate and engagement of all relevant stakeholders and democratic civil society (representatives of government institutions, independent regulatory agencies, media professionals, media industry, civil society and academia). The Ministry’s goal is to develop a strategy that will redefine the legal framework in a way to create new opportunities for improvement and diversity of the media environment which will further strengthen protection of human rights and democratic values.

The Strategy of Development of Electronic Communications (2010-2014) indicates that the development of electronic communications in the Republic of Serbia should provide open broadband access available to everyone, effectively removing barriers to new standards, products, types of services and conditions of service delivery in the field of electronic communications, as well as the transition from analogue to digital broadcasting of television programmes. The Strategy stresses the importance of comprehensive progress in the field of electronic communication, indicates the obstacles to the development of electronic communications and thereby defines directions for overcoming these obstacles.

In line with the Action Plan of the Telecommunications Strategy, the Ministry of Telecommunications and Information Society has adopted the Strategy for Switchover from Analogue to Digital Broadcasting of Radio and Television Programmes. The rules on switchover from analogue to digital broadcasting of television programmes and multiplex access in digital terrestrial broadcasting have been finalised and adopted. The Strategy’s media plan will arrange the most suitable way of informing citizens, broadcasters, equipment manufacturers and other interested parties about the digitalisation process in the Republic of Serbia, as well as to prepare an estimated budget, including potential costs for the implementation of the media campaign.

The National Broadband Strategy and its Action Plan was adopted by the Government in 2009. It aims to promote competition between all communications networks, to improve service and content provision in networks, to increase broadband
demand, and to continue and improve the special measures in fields with no adequate demand for commercial broadband supply. One of the goals of the National Broadband Strategy is to increase the number of the broadband subscribers, lowering prices and improving the regional availability of broadband services. According to the Strategy, introducing special measures for fostering the development of the broadband infrastructure (access network) in the underdeveloped regions of the country will lead to a decrease of the digital divide in the Country.

The strategic framework related to cultural rights is currently being finalised and encompasses the National Strategy of Development of Culture that lays out, in concrete terms, the provisions made by the current Law on Culture. The Strategy should be approved by the Serbian Parliament, and developed for a period of 10 years. Important change comes also from the definition of subjects in the field of culture - cultural institutions, cultural associations, artists, collaborators / cultural experts and other subjects in culture. Of course, the law already regulates the main principles of functioning of all these subjects. In specific relation to cultural rights, the strategy will cover inter alia: the respect for the right to culture; equality of all cultures on the territory of Serbia; the sustainability of cultural identities and cultural differences; the responsibility of the public service for the development of culture and the arts; the support for the development of artistic quality and innovations in culture; the harmonisation of the cultural and media system with the standards of the EU and the Council of Europe; the development of the modern, efficient, rational and creative system of management in culture; and the public action in culture and respect for authors’ rights.

Based on the overall strategic framework and the current situation in the sector, the following mid-term priorities have been identified:

• Establish permanent dialogue and partnership between the Government and civil society

This priority focuses on the institutionalisation of the permanent dialogue and creation of an enabling environment for the development of civil society. It also concentrates on strengthening CSOs' capacities for regional and international cooperation and to play an active role in developing democratic society in Serbia.

• Create new opportunities for improvement and diversity of media environment that will further strengthen protection of human rights and democratic values

This priority touches directly the conditions and the modalities to ensure, strengthen and foster freedom of expression, especially in relation to the media environment. This means in detail, to ensure the regulatory framework and legal conditions for the media to freely and responsibly operate, the accessibility to media in terms of diversification and contents, and the development of a digital environment which suitably supports freedom of expression.

• Develop a system which respects the right to culture, equality of all cultures on the territory of Serbia and the sustainability of cultural identities and cultural differences

The priority deals with the cultural rights in terms of offer (system), protection and accessibility. The starting point is to develop a more inclusive society through the systematisation, promotion and preservation of cultural heritage and arts. In this respect, the interventions on cultural rights are intended as being vehicles for favouring both civil participation and freedom of expression.
Measures for implementing sector priorities

During 2011 – 2013, the sector’s priorities will be achieved through the implementation of projects under the following measures:

**Priority 1  Establish a permanent dialogue and partnership between the Government and civil society**

**Measure 1.1  Creating an enabling environment for the sustainable development of civil society and partnership with the Government**

**Aim:** To enhance permanent dialogue between the Government and civil society by creating conditions for its development and strengthening the capacities of public administration, both at the national and local levels, to cooperate with civil society.

**Description:** This measure will support improvement of legal, strategic, financial and institutional framework for the development of civil society in Serbia. It will contribute to the enhancement and institutionalisation of the permanent dialogue, partnership and cooperation between the Government and civil society, based on transparent and structured communication and regular exchange of experiences, information and opinions, both on national and local levels, as well as acknowledgement of good practice and results achieved by CSOs. It will also strengthen capacities of the public administration to create standards and the procedures for cooperation with the CSOs, and define mechanism for CSOs’ active participation in implementation and monitoring of national policies, in line with the observation stated in the EC Progress Report for 2010. Furthermore, it will enable the development of instruments to secure the financial sustainability of the civil society sector, through transparent and effective state budget support, fostering of corporate social responsibility, philanthropy and efficient mechanism for participation of citizens and CSOs in the process of drafting laws and other public policy instruments.

**Measure 1.2  Further strengthening CSOs’ capacities to participate in decision-making processes, to monitor and evaluate the implementation of policies, strategies and laws.**

**Aim:** To enhance the capacities of civil society to play an active role in the development of Serbia’s society, not only in the policy-making realm but in all of its aspects.

**Description:** The measure will strengthen the capacities of civil society organisation to actively participate in the decision-making process by developing CSOs’ professionalism, improving cooperation and coordination and exchange of knowledge on the national and local levels. It will also focus on increasing the ability of the CSOs to advocate and lobby for creating an enabling environment for the development of civil society and especially to initiate advocacy in policy and decision-making processes. Furthermore, this measure will strengthen cross-sector cooperation and tripartite partnership between public, civil and business/private sector, by regulating public-private partnership among other actions.

**Measure 1.3  Strengthening civil society regional and international cooperation and coordination based on national and EU priorities.**

**Aim:** To improve civil society capacities to implement and monitor different EU policies and standards.

**Description:** This measure will strengthen exchange of good practices and information flow between CSOs in pre-accession countries, as well as with EU Member States, by improving cooperation with counterparts and networks of civil society organisations at the regional and European levels. It will support development of CSOs’ capacity and preparedness to respond to the administrative requirements when applying for and implementing the EU projects.
**Priority 2**

Create new opportunities for improvement and diversity of media environment that will further strengthen protection of human rights and democratic values

**Measure 2.1**

Empowering all relevant institutions, regulatory bodies and self-regulation within the media industry

**Aim:**
To strengthen the media regulatory framework and the functions of related responsible bodies.

**Description:**
The measure represents a set of initiatives aimed at building and further strengthening capacities and capabilities of all relevant institutions. Together with the advice on regulations and legal frameworks, such support can also be provided via direct assistance as well as equipment supply. In the same way, the measure will also encompass actions to empower, acknowledge and raise awareness on the role of these bodies (for example, enhancing the role of Public Service Broadcasting). In this regard, the EC Progress Report for 2010 states that regulatory developments in the electronic communications sector are of particular concern and the Regulatory Agency needs to be strengthened in its administration capacity.

**Measure 2.2**

Contributing to a more inclusive society through media pluralism and diversity

**Aim:**
To create new opportunities for improvement and diversity of media environment.

**Description:**
To further strengthen protection of human rights and democratic values, it is necessary to promote pluralism and accessibility to a diversified range of media. The measure will either support initiatives aimed at ensuring a greater accessibility to the media and will stress the quality of media contents, via the provision of direct technical assistance and transfer of best practices. For example, this measure will encompass initiatives aimed at raising awareness and literacy in the context of new media, enlarging the consultation process towards a wider range of potential stakeholders, increasing visibility of CSOs, their work and achievements, and promoting quality in broadcasts by supporting the production of non-profit media content, analytical journalism, media professionalism, etc. In relation to media, the EC Progress Report for 2010 indicates the positive effects of Ministerial policy among media and their increased accountability in the field of social protection and safeguard of rights. However, alignment of media legislation with the relevant Directive still needs to be achieved.

**Measure 2.3**

Developing the digital environment

**Aim:**
To create a digital environment structured to support human rights, empower minorities, and ensure social inclusion of vulnerable groups through easy, high speed access to digital content of high quality

**Description:**
This measure aims to provide easy access to all information platforms, in order to ensure the rights of citizens to information and to enable all citizens to actively participate in all social processes, empowering minorities and vulnerable groups. The implementation of this measure will strengthen the basis of Serbian digital society, to support the implementation of the National Broadband Strategy, as well as assist in the finalisation of the digital switchover. Activities may range from the provision of direct technical assistance, to the supply of suitable equipment and infrastructure in relation to best practices adopted by EU Member States. The measure can support, for example all actions aimed at investing, upgrading and researching in ICT services, and improving media related skills and practices, as well as to foster information society through an increased familiarity, accessibility and diffusion of suitable instruments among relevant targets. The EC Progress Report for 2010 notes that implementing rules ensuring the completion of digital switchover strategy still remain to be adopted.

**Priority 3**

Develop a system which respects the right to culture, equality of all cultures on the territory of Serbia and the sustainability of cultural identities and cultural differences
Measure 3.1  Establishing new standards in cultural policy and in the development of the cultural system
Aim: To support the development and modernisation of cultural institutions.
Description: With the objective of giving a broader access to culture in all Serbia, the initiatives supported by the measure will focus on contributing to systemic changes in the cultural field and the renewal of the cultural system. This will include the preparation of new regulations, the provision of support to professional education, protection of authors’ rights (intellectual property), especially aimed at facilitating participation of Serbia in European and international competitions and programmes. Besides pure institutional or capacity building and further strengthening at the regulatory level, the measure can also encompass initiatives such as, for example, the harmonising of practices, the upgrading of equipment, updating of archives, training, networking, etc.

Measure 3.2  Preserving the cultural heritage and cultural diversity and developing creativity in all arts
Aim: To capitalise on, and exploit, cultural potential as a vehicle for social inclusion, integration and preserve the material and non-material cultural heritage of Serbia for future generations.
Description: Given the cultural diversity of Serbia as a potential for cultural development, it is necessary to give a major value to the cultural heritage all over the country. The measure will support assistance, supply and refurbishment or re-qualification interventions in all areas where cultural heritage is seen as a vehicle for a major social inclusion, either in traditional or innovative arts, as well as to provide the basis for creation of a digital archive of the cultural heritage of Serbia. Also it will support development creative industry and independent cultural production. For example, the measure will support actions ranging from the inclusion in contemporary cultural circles, the promotion of international exchanges, the transfer of know-how, interventions aimed at preservation of heritage sites, in line with the Ljubljana Process as well as all actions aimed at investing, upgrading and researching in ICT services related to digitalisation (archiving) of cultural heritage, including technical assistance and supply of suitable equipment.

Measure 3.3  Enabling equal cultural development in the whole territory of the Republic
Aim: To ensure physical accessibility to cultural heritage and events at a harmonised standard throughout the whole Serbia.
Description: The measure will encompass activities which will facilitate accessibility to culture, with the intention of decentralising culture towards the remotest areas of the country and raising the level of participation of citizens. Furthermore, it will strengthen capacities to develop and implement cultural policies at the local level. The measure will include initiatives conceived at or for the local level and that will have a multiplication potential or an added value in terms of socio-economic development. Also, the exploitation of natural resources (natural parks, the Danube, mountains, etc.) as well as specific features characterising a given location will provide the platform for streamlining and integrate cultural initiatives, such as the creation of cultural area trademarks, the organisation of festivals, etc. The measure may be implemented through supply, works and other kind of assistance such as know-how transfer and exchange of best practices.

Programming of international assistance

The measures proposed for funding under this NAD have been selected to complement national and international interventions to support civil society, media and culture in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.
Ongoing activities

According to the ISDACON database, in the period between 2007 and 2009, it is estimated that a total amount of €43.2 million\(^{18}\) was actually disbursed in assistance from the international donor community to the civil society, media and culture sector in Serbia (see following diagram).

![Estimated Total Disbursement of International Assistance per Sector](image)

In the four annual programmes 2007 – 2010, IPA component I is financing projects in the civil society, media and culture sector worth around €21.4 million. The projects supported civil society in establishing partnership and networking with European and regional counterparts, promoted policy dialogue with Serbian authorities, improved CSOs’ capacities to formulate public policy, policy analyses and advocacy, as well as developing, implementing and monitoring policies and actions that harmonise with EU standards at the local level. Also, under multi-beneficiary IPA, the civil society facility project (€13.8 million) has provided technical assistance to CSOs and supported ‘People 2 People’ activities and partnership actions. IPA support to the development of freedom of expression, in terms of media and cultural rights, has been directed mostly to the Ministry of Culture. Through IPA 2008 allocation, the Ministry has been the major recipient of a €3 million project supporting media capacities in the area of EU integration. Such assistance was also related to a major initiative supported by IPA co-financing in terms of digital broadcasting switchover\(^{19}\). Access to culture and protection of cultural heritage has been financed by non IPA EU Funds in line with the Ljubljana Process via the implementation of the €1.5 million Cultural Heritage Facility in Senjski Rudnik.

Other donors have supported strengthening of the role of civil society in shaping poverty-related policies and practice through provision of community-based social services, public-civil society partnership, gender mainstreaming in sector policies, and promoting civil society advocacy to improve legal and regulatory framework, such as USAID’s $27.5 million programme Civil Society Advocacy Initiative, and by the means of UN Agencies (such as UNDP). Alongside IPA, support to media development is currently being provided by USAID through the $8 million Serbia Media Assistance Programme. Support

\(^{18}\)A large amount of funds are not registered in ISDACON since donors directly cooperate with CSO.

\(^{19}\)The Project “Assistance to digital broadcasting switchover” is being implemented by the Ministry of Telecommunication and Information Society and has an overall budget of €13.75 million, of which €10.5 million came from IPA 2009.
provided by other donors has consisted in minor financial assistance to cultural development in various forms, for example, a pilot project to develop networking among the fortresses along the Danube and a facility for management in culture are among the projects implemented via UNESCO.

**Funding forecast**

The civil society, media and culture sector will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected for implementation requires continuous financing.

According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (August 2010), the following funds are planned to be allocated from the **state budget** in the next three years:

Table 4 - Total state budget expenditure limits for 2011-2013 (in EUR*)

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government<strong>20</strong></td>
<td>16,093,365</td>
<td>16,353,152</td>
<td>17,142,948</td>
</tr>
<tr>
<td>Ministry of Culture</td>
<td>45,995,117</td>
<td>44,600,812</td>
<td>46,367,114</td>
</tr>
<tr>
<td>Ministry of Youth and Sports</td>
<td>36,475,893</td>
<td>38,697,465</td>
<td>41,143,170</td>
</tr>
<tr>
<td>Ministry of Telecommunication and Information Society</td>
<td>15,576,175</td>
<td>8,258,099</td>
<td>2,953,387</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The budgetary projections for the next three years are formulated upon the **Government’s main policy objectives**, as defined in the Budget Memorandum. In the next period, the Government will continue to support the process of civil society organisations development through the activities of the Civil Society Cooperation Office, which will: establish a permanent dialogue between the state, associations and other civil society organizations regarding the issues of general and common interest; strengthen inter-sector cooperation, especially in the area of human rights, establishing the rule of law, social protection, reducing poverty, sustainable development, education, etc. To protect the social interests of its citizens, Serbia will be allocating grants to non-governmental organisation as budget permits.

The Government of Serbia allocates provisions to establish modern relations in the area of culture and media, and to pursue the necessary equilibrium for developing artistic creation and protection of cultural heritage. This will be achieved in particular by the joint efforts of public, private and non-governmental sector. As for cultural investments, these will be made on the basis of the priorities in terms of preservation of cultural heritage and development of individual areas of culture, as laid down in the current legal framework.

In the area of media, harmonisation with the EU standards will be performed in line with the guidelines defined in the media strategy, to guarantee the freedom of thought and expression. Government provisions will be addressed for the transformation of public media companies, and for harmonising media regulations with the obligations arising from the Stabilisation and Association Agreement and the standards of EU and Council of Europe.

According to information from the **donor community** (see Annex IV), new grant commitments in the civil society, media and culture sector are expected to be at least €48,1 million for 2011-2013.

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20 The financing of the Civil Society Cooperation Office will go through this budget line.
Forecast and challenges for next period

It is expected that the civil society, media and culture sector will face numerous key challenges in the forthcoming period. Serbia has developed a legal framework stipulating the freedom of association, but is still lacking one systematic civil dialogue framework. The view of the civil sector and the recognition of the importance of the expertise of civil society as a relevant partner, service provider, representative group of citizens etc. has to be better understood and accepted, and civil dialogue should be understood as a horizontal policy measure directly related to public administration reform, anti-corruption measures and rule of law, that is, all key EU acquis areas. In the forthcoming period, the Government of Serbia will work on creating an enabling environment, through strategic, institutional, legal and financial frameworks for sustainable development of civil society.

The Media Strategy will set the grounds for efficient solutions and further progress in line with the best European practices and standards. It will also give clear guidelines for alignment with Audio Visual Media Services (AVMS) Directive. The Media Strategy will be complementary to the National Strategy for Digital Switchover, drafted jointly by the Ministry of Telecommunications and Information Society, Ministry of Culture, Republic Agency for Electronic Communications, Republic Broadcasting Agency. One of the core priorities in this respect is the digital switchover and sets the switch-off date for Serbia as 4 April 2012.

A dedicated working group for monitoring of the process of digitalisation of television broadcasting has been formed and includes representatives of the Ministry of Telecommunications and Information Society, Ministry of Culture, independent regulatory agencies, media professionals, and media industry. It deals with all aspects of the digital switchover process such as, for example, the awareness-raising campaign for digitalisation (creating internet portal, brochures and other materials/workshops, launching media campaign through public service broadcasters etc.) targeting media professionals, media industry and general public. Hence, to further help capacity building of media and media professionals, as well as the creation and production of innovative, high quality content, the EU Delegation and the Ministry of Culture are conducting project ‘Support for Media Capacity Building in the Area of EU Integration/Serbia Integration’. The project also targets citizens’ needs to be informed about European values, topics and all other aspects that are relevant to everyday life.

Overall, the main expectations in the short and medium terms are to enhance independence, high quality of public broadcasting service, including digitalisation and evolved regulatory environment. At this specific regard, media privatisation is one of the first issues to be tackled.

Cultural policy is now based on the keywords - transformation, rationalisation, concentration and innovation. The current plan is to assess the state of all cultural institutions, to create the potential for an entrepreneurial approach in culture, to continue with the ongoing projects of the previous Government and to focus on participation in international events. In this perspective, the Ministry of Culture expects to increase inter-ministerial activities (such as culture/science, culture/tourism, culture/education, culture/economy etc.) to achieve an improved preservation of culture heritage, especially in terms of accessibility and promotion of cultural dialogue. The mainstream of operations aimed at ensuring cultural rights, primarily through promoting cultural heritage will be aligned to the Ljubljana Process. Concretely, this will be specifically focused on increasing cultural capital through preservation, promotion and presentation of Serbian cultural heritage and to create and promote the concept of cultural diversity.
**Competitiveness**

**Description of the sector and recent developments**

Competitiveness can be defined as the capacity of the economy to make the most of its assets, bringing value added to its own resources, in order to achieve higher levels of productivity, raise living standards and expand employment opportunities. A competitive economy produces goods and services which meet the test of international markets, while at the same time maintaining high and sustainable levels of income.

The European Commission\(^{21}\) identifies many factors which determine productivity performance, including: the regulation of competition and consumer protection, to ensure that competitive pressure operates fully on enterprises and maintains incentives for higher productivity; an integrated market for goods and services (as provided by access to the Single European Market) that ensures that all potential gains are realised; the stimulation of investment, including investment in research and development (R&D) and the ability to innovate, transforming new technologies into goods and services; and the reorganisation of working practices through the adoption of information and communication technologies (ICT). The level of competition and competitiveness, in practice, is revealed through opportunities to create innovative products with added value in comparison with other products on the market, which influences the start-up and growth of small and medium-sized enterprises (SMEs), and is highly dependent on the institutional set-up and cooperation of the public and private sectors. Therefore, the Serbian Government has stepped up its efforts in bringing together all stakeholders embedded in the competitiveness of Serbia through creation of National Council for Competitiveness, National Council for SMEs, National Council for Regional Development and National Council for Science.

According to the most recent Global Competitiveness Report (2010-2011)\(^{22}\), Serbia currently ranks 96 out of 139 nations and is placed among the lower ranked countries displaying a performance that needs significant improvements and structural changes. Serbia ranks below 100\(^{th}\) on the quality and efficiency of its institutional environment, its macroeconomic stability, product and labour market efficiency and business sophistication, which together undermine efforts to achieve higher levels of productivity. Serbia's underperformance in all aspects of growth and its acute regional disparities represent the major problem areas in Serbia's competitiveness.

The SMEs in Serbia\(^{23}\) account for 99.8% of the total number of enterprises and serve as a valuable employment generator. Serbia’s SME business base is relatively similar in structure to the EU-27, but skewed towards the smallest firms - 96.1% are micro enterprises (compared with an average of 92% in the EU-27), 3.1% are small enterprises (7% in the EU-27), while only 0.8% are medium-sized enterprises (1% in the EU-27). The SMEs have a large influence on the performance of the Serbian economy, accounting for more than 66.7% of all employees, 67.8% of its turnover and 57.4% of gross value added. It is estimated that, in 2009, the SME sector accounted for 33% of national GDP, 42.3% of total employment, 49.2% of exports and 58.0% of imports. Overall, the Serbian SME sector is vibrant and dynamic, but its contribution to the economy is still insuf-

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\(^{22}\) The Global Competitiveness Index (GCI) offers comparative analysis of 12 major features of a competitive economy: infrastructure, macro-economic stability, health, primary and higher education institutions, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication, and innovation

sufficient when compared to its share of the total number of companies. The EC Progress Report for 2010 notes that excessive red tape and complex legislation remain in place and continue to hamper the business environment. According to the World Bank’s Doing Business Report 2010, the majority of aspects of business regulation and its enforcement are rated very low in Serbia against global standards, and the administrative burden still poses a challenge for SMEs’ greater contribution to economic performance. In addition, SMEs are faced with an inadequate access to favourable financial resources and lack of financial instruments (all aspects of financial market sophistication, such as equity financing, guarantee schemes, venture capital funds and business angels are undeveloped), late payments and inadequate cooperation with research and development institutions, resulting in low investment in innovative activities.

Overall, the level of Serbian exports covers just 52.8% of imports by value, while in the SME sector, exports cover 43.4% of imports. High-tech products show the fastest growth24, however, the Serbian economy still depends for exports on mostly primary and labour- and natural resource-intensive products, a situation equally reflected in the SME sector. Export turnover is heavily dependent on global market and commodity prices, rather than competing on the basis of product quality and meeting customers’ design, delivery and after-care needs, which is an inadequate basis for sustainable growth in the long run25. Furthermore, companies themselves are ill-prepared to compete in export markets due to a lack of market intelligence, outdated equipment/technology, and insufficient access to affordable finance which represents an obstacle for their further and rapid growth26.

A number of Serbian products with potential for export score low on quality and conformity with international standards, which limits their chances for entering new markets. According to the Government institution’s databases, over 60% of approved applications for grants to exporters were for certification, standardisation and introduction of quality systems (others being for marketing, packaging etc), especially in sectors where the Republic of Serbia has a comparative advantage - automotive manufacturing, wood processing and in particular, food and beverage production - which are achieving higher export revenues and the right potential for becoming fast-growing and high quality, competitive export industries. However, efforts also have to be directed towards further transposition of EU technical regulations and strengthening capacities for their enforcement, as stated in the EC Progress Report for 2010.

The total inflow of net foreign direct investment (FDI) in Serbia in the period 2001 to 2009 was around €12 billion, with the dominant part coming through privatisation. FDI during the 2000s was mostly directed into the financial, transport, storage, communication and manufacturing27. In the period from 2007 to 2010, the share of manufacturing investment in total investment doubled, as investors generally moved away from services into production28. The investment climate has benefited from the European Union’s autonomous trade measures since 2000 and the Interim Trade Agreement, as well as free trade agreements with the Russian Federation, Belarus and Turkey, EFTA and CEFTA. According to the Country Risk Classifications of the Participants to the Arrangement on Officially Supported Export Credits of the OECD, Serbia entered in the group of countries with a rating 6 in the category (0-7, with 7 being the worst). Furthermore, the Dun & Bradstreet has raised its

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24 According to the Report on SMEs and Entrepreneurship 2009 published by the Ministry for Economy and Regional Development (2010) there was a positive revealed comparative advantage (RCA) index in the sub-sector ‘other machinery and equipment manufacturing’, which belongs to the group of high technology industries for the first time.
25 “Basic metals led the expansion, with 97.4% year-on-year growth, benefiting from soaring output of iron and steel in the US Steel Smederevo plant. Chemicals and chemical products also posted fast growth (of 52.2% year on year), as did petroleum products (up by 34%)”: The Economist Intelligence Unit, Country Report Serbia 2010
26 EC Progress Report for 2010 states “Serbia has made little progress in developing and implementing a modern industrial policy. The industrial strategy remains to be adopted.”
27 SIEPA, 2010
28 The Economist Intelligence Unit, Country Report Serbia 2010
rating of the Republic of Serbia, placing the level of risk in investing in the country at a moderate DB4d, and no longer in the “high risk” DB5a category. However, potential investors are still faced with insufficient information and intelligence about the investment and business climate in the Republic of Serbia, as well as specific opportunities within a highly competitive global environment for foreign direct investment. There is a need to enhance capacities to detect suitable investors and target them with competitive promotional package, as well as to build capacities within the country, in order to achieve a better business environment both for domestic companies and prospective investors.

While under-employed assets in under-developed regions and localities can attract inward investment, the location of FDI in Serbia to date shows the magnetic effect of ‘clustering’, which can lead investors to seek out opportunities close to existing enterprises in their sector, and sources of specialist labour, know-how and innovation. Clusters are geographic concentrations of interconnected companies, specialised suppliers, service providers, and associated institutions in a particular field. They enable creation and refinement of new ideas in networks of cooperating companies and institutions. There were 28 clusters in Serbia supported by the Government in 2009, at different stages of development, with automotive, IT, production of agriculture machinery and flower production being the most developed. However, Serbian clusters are still unable to fulfil their role as a source of dynamic development, without further enhancement of the structure and services they currently offer to their members.

An effective intellectual and industrial property rights system should result in greater access to foreign investment, and increased tax and excise profits, as well as the development of industries where intellectual property rights play a key role (such as IT, biotechnology and pharmaceuticals). As specified in the EC Progress Report for 2010, Serbia has set up specialised units (high-tech crime prosecutor, police cyber unit, specialised customs unit, tax unit and tax police), aimed at enforcing the legislation in this area. The length of investigations has been shortened and the frequency of checks by tax inspectors has risen, whereas the number of cases brought for prosecution has dropped, pointing to better compliance overall with the law. Seizures by market inspectors have further improved and the customs administration has continued to make progress in enforcing intellectual property rights. There is still work to be done to harmonise relevant Serbian legislation, but major efforts have to be directed into its enforcement.

Competition policy includes rules and procedures to fight anti-competitive behaviour by companies to scrutinise mergers between undertakings, and to prevent governments from granting state aid which distorts competition in the internal market. Serbia has adopted the Competition Law in 2009 and the Law on State Aid Control. However, the enforcement of these two laws is still to be demonstrated, as observed in the EC Progress Report for 2010.

The acquis regarding company law includes harmonised rules in the field of company law, including financial reporting requirements, intended to facilitate the exercise of the right of establishment. As stated in the EC Progress Report for 2010, the e-Registration system has yet to become fully operational and the legal acts need to be amended. At the same time, the strategy and action plan on upgrading corporate financial reporting remain to be fully aligned with the acquis.

The framework for ensuring the safety of products placed on the Serbian market has been established, yet around 50% of all EN standards still need to be transposed. In order to contribute to the improvement of competitiveness of Serbian

29 Clusters in Serbia are registered according to the Law on Associations and Law on Business Entities and can be registered as a business entity, association or fund. The criteria for Government support include having at least 12 active members, out of which, there must be 9 business entities and 3 support institutions (at least 1 of which must be a research-development institution)
30 Draft Law on Optical Discs is to be adopted by end 2010
31 Since October 2010, Serbia has been a member of the European Patent Organisation
economy and facilitate placement of products and services on the market, application for the EA/MLA\(^{32}\) has been submitted. Implementation of a new system for placing products on Serbian market, harmonized with EU, has started.

Implementation of a new system, harmonized with the EU, has started. However, further efforts are required for full implementation of the abovementioned framework, as well as for transposition and implementation of the product-specific *acquis* in Serbia, which was also noted in the EC Progress Report for 2010.

A Draft Law on Commodity Reserves has been prepared, which will regulate obligatory reserves of oil and petroleum products to ensure **stability of market supply**, in line with EU directives, and envisages establishment of a new organisational unit that would be in charge of all activities related to these obligatory reserves.

**Consumer policy** is designed to ensure that the market is open, fair and transparent, allowing consumers to exercise real choice of price, quality, standards and delivery, excluding rogue traders, helping consumers and businesses in taking full advantage of the market potential. According to an opinion poll, 40\% of Serbian citizens\(^{33}\) believe that consumer protection belongs to the most important areas of European integration\(^{34}\). Serbia introduced the **Law on Consumer Protection** incorporating 15 key EU directives. The Serbian Government has created a system devoted to: helping consumers to achieve their legal rights in an efficient manner and in reasonable time; influencing the abolition of faulty practices by traders; monitoring the status of the area in order to facilitate necessary legal and institutional changes; and serving as a database of consumer problems. Serbia has been working on building the capacities of relevant stakeholders, including both the public administration and consumer protection organisations, to ensure the sustainable development of their capacity to deal with complex issues of consumer protection in the future, and more than 60 registered consumer organisations, to enable them to inform and advise consumers. However, there is still the need for further capacity building within the system, as stated in the EC Progress Report for 2010.

Serbia’s investment in **ICT**, organisational innovation and digital skills has been insufficient so far to enjoy the full benefits of information and communication technologies. The level of online sophistication of 20 e-Government services was scored 43 out of 100\(^{35}\), whilst it was noted that no service is able to have a complete online transaction. The most sophisticated services were considered to be customs declaration, job search and public libraries. Recent efforts regarding the development of e-government services are focused on legal and institutional capacity-building, including the e-business services provided by the government to enterprises. As pointed out in the EC Progress Report for 2010, Serbia still needs to work on the implementation and enforcement of the regulation in the area, as well as to promote the wider use of the systems. Even though over 90\% of businesses are connected to the Internet, e-commerce (buying and selling on the Internet) is still not in widespread use, which negatively impacts on the ability of enterprises’ to seize business opportunities. Just 23\% of enterprises with Internet connections order products / services online, and only 20\% receive orders via the Internet\(^{36}\).

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\(^{32}\) The MLA is an agreement signed between the EA accreditation body members to recognise the equivalence, reliability and therefore acceptance of accredited certifications, inspections, calibration certificates and test reports across Europe.

\(^{33}\) EU funded project Public Administration Reform / European Integration / Consumer Protection, Final Report 2010

\(^{34}\) According to the Contact Centre for Consumer Protection, 34\% of calls to the Centre is related to lack of understanding of the rights the consumers have from the guarantee, 11\% of complaints were from the domain of Inspectorate.

\(^{35}\) 2007 research on “Inclusive e-Government Conducted by the Belgrade Open School and its Centre for Research of Information Technologies and funded by the Institute for Open Society, as part of the regional project “Inclusive e-Government Network in Western Balkans”

Concerning **science and research**, Serbia is well below the EU-27 average\(^{37}\) with 0.37% of GDP invested in R&D in 2008\(^{38}\). As pointed out in the latest EC Progress Report for 2010, Serbia generally needs to reinforce its national research capacity and further efforts are needed to facilitate Serbia’s integration into the European Research Area. Of the 0.37%, Government expenditure on R&D contributed the largest share, with 0.21% of GDP; higher education R&D contributed 0.11% of GDP, while the business sector R&D contributed just 0.05% of GDP. Public sector R&D investment consists largely of basic research for teaching purposes which makes up 50% of all research work, while commercialised research provides a little less than 32%\(^{39}\), the lack of applied researchers training Serbia’s ability to gain economic profit from its higher education base. Serbia has been active in implementing research projects under the Seventh EC Research Framework Programme (FP7). However, research cooperation under FP7, and in particular the involvement of SMEs and the mobility of scientist, is still a major challenge. Nevertheless, Serbia is participating in the Entrepreneurship and Innovation Programme (EIP) and is an active member of the Enterprise Europe Network.

One of the major challenges that Serbia is facing is huge **regional disparities** that exist throughout the country. According to estimations by the Statistical Office of the Republic of Serbia, two regions are above the average of national GDP- Belgrade Region and Vojvodina Region in the north - while Šumadija and West Serbia Region, East and South Serbia Region, and Kosovo and Metohija Region are below average. The main indicator (ERO) for measuring the level of economic development of the local self-government unit (EDLSU) is the sum of the incomes and pensions in the LSG unit and its budgetary incomes upon the exemption of the resources received from other levels of government for the purposes of mitigating the consequences of emergency situations, expressed per capita\(^{40}\). The indicator is corrected with factors such as demographic decrease or increase, unemployment rate, education level and the compensation for the city. According to the EDLSU, the most developed LSG unit is Belgrade with a level of development which is 86.3% above the national average (ERO 186,3), and the least developed one is Merošina, at 81,2% below the national average (ERO 18,8). The ratio of development between the two is rather disturbing, namely 1:10. The largest number of underdeveloped and devastated LSG units are situated in the East and South Serbia Region (out of the 46 particularly under-developed LSG units in 2010, 28 belong to this region), while the most developed ones are in the Belgrade Region and Vojvodina Region (out of the 40 LSG units having above average development level, 22 are in the Vojvodina Region).

**Strategic framework and sector priorities**

Policy directions for the competitiveness sector have been determined by the following Government strategies:

*The National Programme for Integration with the European Union (NPI)* defines Serbia’s obligations concerning the incorporation of the *acquis* into the domestic legal system and the tasks which must be conducted in order to fulfil political and economic criteria for accession. Mid-term priorities are defined for every aspect of competitiveness and are focused on further implementation of obligations arising from the EU association process, including legislation harmonisation and capacity building to meet future requirements.

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\(^{37}\) In 2008, the EU-27 average was 1.9% of GDP invested in R&D (Eurostat 2009)

\(^{38}\) The EU's Europe 2020 strategy has set the target of devoting 3% of GDP to research and development activities by 2020.


\(^{40}\) The level of development in Serbia is defined by the "Methodology for calculating level of development of regions and local self government units (LSU)\(^{4}\)", adopted by the Government in 2010, according to the main economic indicator and corrective factors (social indicators) of the economic development of the LSU.
The National Strategy for Economic Development (2006-2012) defines six key economic goals for Serbia namely: creating an attractive business environment as a basic condition for increasing the overall competitiveness of the Serbian economy; knowledge-based development; development of efficient economic infrastructure; balanced developmental and social role of the state; more balanced regional development; and sustainable development.

The National Strategy of Regional Development (2007-2012) defines the goals of regional development as sustainable development, enhancing regional competitiveness, alleviation of regional disparities and poverty, curbing negative population trends and continuation of the decentralisation process.

The Strategy for the Promotion and Development of Foreign Investment proposes a wide range of legislative reform, institutional development and other actions to increase competitiveness, including, accelerating the liberalisation of key sectors, and maximising the industrial development role of key research and scientific institutions, clusters, public-private partnerships, concessions and trade agreements, and eliminating barriers to export development.

The National Export Promotion Strategy (2008-2011) focuses on increasing the volume, quality and diversity of export products, as well as on providing institutional support to Serbian exporters in placing their products, identifying pertinent markets and sustaining their presence in them.

The Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises (2008-2013) is built on five pillars covering: promotion & support for entrepreneurship and establishment of new enterprises; human resources for a competitive SME sector; financing SMEs and taxation of SMEs; competitive advantage for SME on export markets; and the legal, institutional and business environment for SMEs.

The Strategy of Scientific and Technological Development of the Republic of Serbia (2010-2015) envisages goals of reorganising and capacity-building of existing R&D institutes, and ensuring application of knowledge-based innovations into production that will enhance Serbian knowledge based on economy and its competitiveness.

The National Strategy for Tourism Development until 2015 prioritises key areas to stimulate economic growth, employment and quality of life, including development of a positive international image of the country, ensuring the long term protection of natural and cultural resources, and achieving international quality standards.

The Strategy for the Development of Information Society until 2020 identifies priorities in six key areas: electronic communications; ICT in education, science and culture; e-commerce; business ICT sector; and information security.

The Trade Development Strategy of the Republic of Serbia until 2012 identifies support to creation of modern trade institutions through technological, urban and regional development of trade, adequate protection of consumers and development of e-commerce.

The Strategy of Market Surveillance (2010-2014) considers all important elements on which efficient surveillance is based. Projected development directions imply that the following will be ensured in the period of the implementation of the Strategy: legislation in compliance with EU law; efficiency of bodies in charge of market surveillance; adequate infrastructure for conformity assessment based on accreditation; appropriate role of economic entities aware of their responsibility; and consumers informed about their rights.
The National Consumer Protection Programme for the period 2007-2012 has the objectives of inaugurating and recognising consumer protection and interests, setting up new institutions and the introduction of partnership cooperation between the stakeholders in implementing, protecting and promoting consumer rights and interests. This will indirectly promote the economic system of the Republic of Serbia and enhance the appeal of its economy for foreign investment and other forms of international economic cooperation.

In the medium term, Serbia expects to improve its economic performance, GDP growth and employment levels and regain the pace of development before the global economic crisis.

Based on the overall strategic framework and the current situation in the sector, the following mid-term priorities have been identified:

- **Increase competitiveness and exports of enterprises**

  Serbian SMEs should be supported to strengthen their ability to compete in domestic and international markets, and have a more significant impact on the economy, particularly in generating the export revenues which can finance the Republic of Serbia’s consumption and growth. By expanding their product ranges and quality, they have better chance to increase turnover, internationalise their products and create more jobs. The ease with which they are able to do business will ensure they can compete effectively and become efficient and productive. More emphasis should be put on improving the business environment in which SMEs function, and implement support mechanisms that would improve the situation of SMEs throughout their life cycle and help them to access new markets. Furthermore, the focus should be placed on strengthening the preconditions for greater number of innovative products, by increasing investment in research and development and bringing together the academic community and the business sector to be able to cooperate and increase the competitiveness of the Serbian economy.

- **Ensure effective competitiveness and market operations**

  A functioning market requires a strong legal framework and developed regulatory mechanisms, in order to ensure the integrity of the competitive process is safeguarded for both businesses, including new market entrants, and consumers. This demands an institutional framework which not only develops and adopts laws and regulations which meet EU and other international obligations, but is also able to effectively implement and enforce this legal base, including protection of intellectual property, removal of restrictive practices and control of state aid. It also means providing businesses with access to the mechanisms to achieve technical standards which customers have the right to expect, in both domestic and export markets, to inform users of these rights and opportunities, and to ensure that the interests of the consumer remain paramount, particularly in the areas of safety and quality, and are fully protected.

- **Reduce disparities and promote balanced development**

  The gap between Serbia’s most and least developed regions is among the largest in Europe, and must be reduced to enable the full participation of all citizens in Serbia’s economy and ensure social cohesion. Serbia’s main agents at the regional level – accredited regional development agencies, cities, towns and municipalities and other stakeholders – should be assisted in unlocking the potential of their local economies, by supporting entrepreneurship, business growth and investment. The low availability and low quality of business-related infrastructure in Serbia in the last two decades has lessened the opportunity to attract more FDI in the areas where they are most needed and
needs to be addressed. The regeneration of former industrial areas and the encouragement of tourism and other local facilities can result in enterprise development and significantly improve the survival and growth prospects of new start-ups and speed the growth of established enterprises.

**Measures for implementing sector priorities**

During 2011-2013, the sector's priorities will be achieved through the implementation of projects under the following measures:

**Priority 1: Increase competitiveness and export of enterprises**

**Measure 1.1: Strengthening the development of small and medium-sized enterprises (SMEs)**

**Aim:** To enhance the competitiveness of Serbian enterprises, by focusing on the SME sector (less than 250 employees) and its performance, through improved quality of support available to SMEs and creation of a favourable environment, including business regulation for the establishment and growth of enterprises.

**Description:** This measure will enable Serbian SMEs and cluster members to gain specific advice on developing and improving management skills, business planning, restructuring, improving products, reducing operating costs, improving capacities for innovation and cooperation, and developing local and export markets. Support under this measure will also focus on improving the marketing intelligence of businesses, in order to help them to place their products and services in selected international markets, and tailor production and the design and delivery of services to the actual needs of the market, and promote introduction of technical standards among SMEs. The measure will facilitate better access to credit for SMEs with good business plans, but with insufficient level of collateral to back-up their credit application and to facilitate better access to equity based finance for SMEs with outstanding business ideas, with strong potential for rapid growth. Furthermore, measure will focus on development of entrepreneurial culture, especially by supporting entrepreneurial education, boosting female and youth entrepreneurship establishment and improvement of one-stop-shops, basic information support and consultancy centres in the locations where SMEs are relatively concentrated, and assists the SMEs to introduce energy-saving technologies and renewable energy sources. At the same time, the measure will focus on Serbian institutions providing support services to SMEs, and strengthen their capacities to improve export performance of SMEs and to identify which economic sectors offer the best prospects for linking foreign investors to Serbia's SME sub-contractor base. The measure will also support the creation of a new and effective system for the monitoring and evaluation of policy implementation and new policy actions, to accelerate efforts on upgrading SME policy in line with Small Business Act and the current situation in the SME sector in Serbia.

**Measure 1.2: Improving enterprise competitiveness through innovation & technology transfer**

**Aim:** To improve the competitiveness of enterprises through the development of key elements of the national technology transfer infrastructure and actions to encourage effective cooperation between research institutions and the SME sector.

**Description:** The measure will build on the results of the cooperation between research institutions and enterprises under the national public calls in the period 2007-2009 and the deployment of the EIB loan for R&D infrastructure. It will enable the Serbian R&D and academic community, interested in cooperation with private sector, to strengthen their capacities to apply their research in enterprises and offer required services to SMEs. It will seek to improve public sector understanding of the needs of the business sector for new technological solu-
tions, as well as to create opportunities to increase the level of applied research within public R&D institutions. The measure will further promote development of innovation infrastructure, as well as diversification and upgrade of the services provided through the existing ones. Implementation of those solutions and use of the facilities will enable SMEs in the sector to develop competitive products and cut their production costs.

**Measure 1.3  Developing e-business and strengthening the utilisation of e-commerce**

**Aim:** To improve the conditions for doing business through assessing the existing legislative situation with respect to G2B and e-commerce services and the existing provision of those services, to promote the increase in accessibility of public e-services for enterprises, as well as to boost the use of e-business within business sector.

**Description:** The measure will enhance the environment for e-Business, especially G2B services and e-commerce, and encourage greater and more effective use of ICT and e-business by Serbian enterprises as drivers for increasing their competitiveness. In addition, this measure will set standards for using e-Invoicing and e-Ordering in order to enable enterprises, regardless of their geographic location, to conduct business electronically, not only with other companies but also with public administration and financial institutions.

**Priority 2:  Ensure effective competitiveness and market operations**

**Measure 2.1  Providing preconditions for improved quality infrastructure and market surveillance**

**Aim:** To strengthen effective market operations through the introduction of full approximation of Serbian legislation with the EU technical regulations and improved capabilities of quality infrastructure bodies (public and private institutions in the area of metrology, standardisation, accreditation, testing, inspection, quality management, and certification), as well as market surveillance and consumer protection institutions, enabling them to offer better services to economic operators, and facilitate their trade in the internal as well as EU markets.

**Description:** This measure will enable further transposition of EU technical regulation into the Serbian legal system and strengthen its implementation, providing the necessary and harmonised framework for quality infrastructure. The measure will focus on the further improvement of accreditation to comply with the European and international requirements, as well as with recent Serbian laws which identify accreditation for proof of competence of conformity assessment bodies. It will enable the development of Serbia’s legal framework and capacities for metrology and strengthen the capacity of the market surveillance system in Serbia, related to its task to guarantee the safety and compliance of technical products in accordance with EU standards, as well as to secure protection of consumers' rights. The measure will additionally emphasise the need for strong institutional and legal capacities, as well as enforcement of the laws dealing with safety of products and consumer protection.

**Measure 2.2  Improving institutional capacities for enforcement of a functional market**

**Aim:** To ensure the introduction of free and unimpeded competition in the Serbian market, through enforcement of competition policy and strengthening the implementation of intellectual property rights legislation.

**Description:** The measure will focus on strengthening institutional capacities for more efficient enforcement of competition policy, with expected economic benefits for market participants. Furthermore, the measure will seek to enable adoption and enforcement of EU regulation in competition, to be able to enhance protection of competition and control of state aid, thus boosting the development of SMEs and contributing to increases in
employment and growth in the market economy. The measure will further enable increased efficiency of all administrative structures to secure implementation of intellectual property legislation, by focusing on upgrading their technical capacities, institutional structures and coordination mechanisms.

**Priority 3: Reduce disparities and promote balanced development**

**Measure 3.1 Supporting local economic development and enhancing business infrastructure**

*Aim:* To support local economic development, strengthen economic activity and promote building business-related infrastructure, linked to business services, to increase investment and the number of enterprises and accelerate their growth.

*Description:* The measure will build on the results of the National Investment Plan programmes supporting enhancement of perspective business-related infrastructure throughout Serbia, and various EU and donor regional development projects. It will include industrial zones, industrial parks, business incubators, common infrastructure for cluster development, other business support infrastructure and public tourism infrastructure (tourism information centres, cycle paths). Support under this measure will focus on the establishment of new business-related infrastructure, and improvement of the efficiency (capacity, quality and attractiveness) of existing infrastructure, where the lack of such infrastructure is an impediment to enterprise development. All investments in physical infrastructure should be combined with investments in accompanying services, to maximise the benefit of the infrastructure to fostering enterprise growth and job creation. Particular attention will be paid to the projects which involve regeneration of brown field locations, in order to ensure sustainable growth. Preference will be given to the projects located or having impact on underdeveloped areas of the country. The measure will support the renewal of business activities in the context of balanced regional development, including revitalisation of former industrial sites. This involves the support to investments in a more efficient use of buildings and locations with infrastructure already built or partially built, which is necessary for the establishment of new business operations. In addition, the measure will focus on building the capacity of the main actors involved in regional development policy, such as accredited regional development agencies and local-self government units, strengthening inter-municipal cooperation to promote local economic development, removing administrative barriers for local economic development, preparation of project pipelines for economic infrastructure projects, and promotion of the investment attractiveness of the regions.

**Programming of international assistance**

The measures proposed for funding under this NAD have been selected to complement national and international interventions to improve competitiveness in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.

**Ongoing activities**

According to the ISDACON database, in the period between 2007 and 2009, it is estimated that a total amount of €188,73 million was actually disbursed in assistance from the international donor community to the competitiveness sector in Serbia (see following diagram).
Of the total estimated disbursement, the highest level was recorded in industry including SMEs (41.1%), followed by banking and financial services (23.2%), privatisation, business and other services (19.2%), construction (9.2%), communication (2.8%), urban development and management (2.3%), science and research (1.3%), and trade (0.9%).

In the four annual programmes 2007-2010, IPA component I is financing projects in the competitiveness sector worth around €19.8 million, focused on the effective operation of markets: strengthening the market surveillance system for non-food and food products, through transposing EU directives, establishing an appropriate management system, harmonising guidelines for inspectors and delivering training, and raising public awareness; enhancing consumer protection in Serbia, with help in drafting enforcement legislation, facilitating institutional cooperation, developing information systems for policy makers, and implementing an information campaign on consumer rights; and supporting the enforcement of intellectual property rights. IPA assistance is also improving the quality, range and availability of business support services, supporting cluster development, supply chain development, export promotion and innovation within SMEs and technology transfer through an enhanced institutional framework, improvement in the business support infrastructure, strengthening conformity assessment structure and development of instruments for financing SMEs innovations well as supporting activities linking tourism potential to economic development, identifying the attractiveness of tourism products and positioning the Republic of Serbia within the global tourism market.

In relation to other donors, promotion of national growth by increasing the competitiveness of Serbian SMEs, supporting firms to attain international standards and certification, supporting sales and marketing (trade shows and market research), creating industry groups and associations, stimulating business clusters, establishing cooperative network of public and private actors, and encouraging e-government through website standardisation have been supported by donors, such as Germany, Austria, Denmark, Italy, Slovakia, Switzerland, United States, and the World Bank.
Funding forecast

The competitiveness sector will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected for implementation requires continuous financing.

According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (August 2010), the following funds are planned to be allocated from the state budget in the next three years:

Table 5 - Total state budget expenditure limits for 2011-2013 (in EUR*)

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Economy and Regional Development</td>
<td>364,739,071</td>
<td>317,715,276</td>
<td>236,741,221</td>
</tr>
<tr>
<td>Ministry of Telecommunications and Information Society</td>
<td>15,576,176</td>
<td>8,258,100</td>
<td>2,953,387</td>
</tr>
<tr>
<td>Ministry of Science and Technological Development</td>
<td>79,180,415</td>
<td>83,678,072</td>
<td>88,567,958</td>
</tr>
<tr>
<td>Ministry of Trade and Services</td>
<td>19,160,437</td>
<td>19,700,257</td>
<td>20,596,371</td>
</tr>
<tr>
<td>Ministry for the National Investment Plan</td>
<td>76,697,114</td>
<td>95,401,031</td>
<td>97,057,693</td>
</tr>
<tr>
<td>Intellectual Property Administration</td>
<td>932,430</td>
<td>1,004,519</td>
<td>1,084,250</td>
</tr>
<tr>
<td>Republican Development Bureau</td>
<td>387,977</td>
<td>417,313</td>
<td>449,716</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The budgetary projections for the next three years are formulated upon the Government’s main policy objectives in the competitiveness sector, as defined in the Budget Memorandum. Government spending on competitiveness over the next three years will be focused on improving the business environment and increasing the role of the private sector in the economy which will be ensured by finishing privatisation of the remaining companies with social capital. Special attention will be paid to promotion and support of entrepreneurship and the establishment of new small and medium-sized enterprises through green field investments and appropriate financial and tax incentives, as well as strengthening competitive advantages of SMEs in export markets, by increasing the level of knowledge, technological innovation, development of clusters, networking with large enterprises, introduction of European standards and qualities in business.

One of the main goals in the next mid-term period is an accelerated development of communication and information infrastructure, with emphasis on the investments in broadband Internet. The Serbian Government will focus on increased investment in R&D, with emphasis on defining a legal framework for co-financing the technological development programme between the state and the private sector, as well as bilateral and multilateral programmes that include the countries of South-East Europe. In the area of trade and services, the focus will be creation of a developed internal goods and services market that is characterized by modern trade and safe products of European quality throughout the entire territory of Serbia, protection of competition and consumer protection in accordance with the EU standards as well as market stability.

Active regional policy entails infrastructure development measures, incentives (business environment – industrial zones and business incubators, favourable loans) and training human resources for the implementation of development projects. Privatisation of state-owned tourism companies, renovation of tourism facilities, improvement of tourism management and marketing and enhancement of tourism offers will continue.
According to information from the donor community (see Annex IV), new grant commitments in the competitiveness sector are expected to be at least €75.9 million for 2011-2013.

Forecasts and future challenges

The context for meeting the needs of the sector is an economic environment which is expected to return to growth in 2010, after the global economic and financial crisis, and return to trend rates in 2012.

The Serbian Government is committed to improving business environment that should result in establishment of 8,000 to 10,000 new SMEs per year and increased number of employees in the SME sector by 20,000 to 25,000 per year. The Government will tackle the lack of access to finance by focusing its funds on helping SMEs to develop and promote their international activities and facilitating their access to international markets, support to growth oriented companies (gazelles), supporting cluster development with significant concentration in regions or in knowledge-based or technologically-advanced sectors and supporting SMEs’ investment in innovative activities, as well as raising capacities of public and private sector business service providers to support SMEs. In this regard, the Strategy for the Development of Business-related Infrastructure will be adopted.

The Government is also committed to further develop an entrepreneurship, starting from school education and encouraging women and young people to take up the option of entrepreneurship, supporting public-private consultation in order to include SMEs in the decision-making process, facilitating SME participation in public procurement, supporting SMEs to meet EU technical regulations, and promoting efficient representation of SMEs.

The Government continues to underline that the attraction of FDI is one of the priority measures for development in Serbia. So far, the inflow from investments has been mainly directed at the service sector, especially trade and banking, while the volume of investments in the processing industry has been smaller. It is expected that foreign investors will be interested in the coming period in the privatisation of hotels, dependent enterprises from metal industry, the fields of telecommunications, energy and construction, as well as transport potential. Serbia is in process of finalising its Strategy of Industrial Policy.

The Government is committed to science and innovation through the investment of €800 million in R&D infrastructure in the next five years and bringing the annual spending in R&D to 1% of GDP, up from its current 0.37%. By spending more on science, Serbia will be able to expand its R&D base and open the door for applying different scientific solutions in industry which will contribute to the modernisation and diversification of Serbia’s industrial base.

The Government is creating regional development policy in Serbia together with other relevant institutions. Currently, the final by-laws resulting from the Law on Regional Development are being prepared and adopted. So far, most of the institutional framework has been established, and the intention for the following year is the adoption of development planning documents, namely the National Plan of Regional Development (which is to substitute the current Strategy of Regional Development of Serbia 2007-2012), five regional development strategies and five plans for financing the regions. The Serbian Government will also continue supporting underdeveloped areas of the country, to provide them with necessary preconditions for economic development and an opportunity to catch up with the rest of the country.

Broadband is widely recognised as an important enabler of economic activity and development, as well as a source in heightening SME competitiveness and fostering internationalisation. Its expansion is a crucial next step in bringing the Government
closer to citizens and companies and better communication with academia. The Serbian Government, with the adoption of the Digital Agenda for Serbia has identified broadband internet and expansion of the broadband network as the priority to enable high quality Internet with speeds of at least 100Mbps.

In anticipation of achieving candidate country status, Serbia has started to prepare for access to IPA component III in 2012-2013, by drafting the relevant programming documents (Strategic Coherence Framework and Operational Programme) and by preparing the proposed operating structure for decentralised management of the OP (see Annex II). Programming for IPA component III is in line with the priorities and needs presented in this document.

**Human Resources Development**

**Description of the sector and current state**

The sector of Human Resources Development (HRD) comprises policies which are concerned with the development of human potential through education and training, better working and living conditions of the citizens and a fairer access to quality services, in the perspective of achieving a more equitable, cohesive and healthy society while responding to the challenges of a globalised and knowledge-based economy. The HRD sector encompasses employment, labour, education, social inclusion, health and youth policies.

The labour market situation in Serbia has remained worrying for the past 10 years. Employment (37.7%) and activity rates (46.7%) of the working age population are well below EU-27 rates (64.4% and 71% respectively); 19.2% of the active population were unemployed in October 2010. There is a continuous mismatch between demand and supply of labour force, as well as insufficient job creation. The overall education level of Serbian population is low, with a high percentage of illiterate and low qualified adults and does not match the needs of the economy. Secondary education represents the highest educational attainment for almost half of the labour force aged above 15. Only 14% of the population aged 15 and above has completed higher education.

Although reform has started, the education system as a whole still does not prepare students well for the world of work and is too often based on outdated curricula and obsolete teaching methods and environments, with little stress on the acquisition of transversal key competences. The average performance of students aged 15 in mathematical, scientific and reading literacy is scored about 60 points lower than the OECD average. Although the number of functionally literate students has increased by 19%, compared with the PISA results for 2006, still 33% of Serbian pupils can be considered functionally illiterate. Serbia spent less than 3.3% of its GDP on public education in 2009, which is lower than the OECD recommended target of 6%.

Despite ongoing reforms, the VET sector is not responsive enough to market needs and often impervious to demographic and pedagogical changes. Only 18% students of VET schools are included in newly reformed profiles. As pointed out in

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41 Survey on Labour Force, October 2010, Republican Statistical Bureau of the Republic of Serbia
42 EUROSTAT
44 PISA survey 2009, OECD.
45 Ministry of Education data, September 2010
the EC Progress Report for 2010, further efforts are needed in the field of vocational education and training, while an overall strategy involving all levels of education, including lifelong learning, remains to be developed.

In the absence of a National Qualifications Framework and without a quality assurance system, there is little incentive for the development of education and training offers outside the mainstream education system. As a result, there are very few opportunities for unemployed to upgrade their skills and improve their employment prospect (only around 50 programmes of vocational training for adults provide recognised certificates)\(^45\). However, a new Law on the Foundations of the Education System, adopted in 2009, paves the way for further reforms in the education system.

**Higher Education** is being reformed in line with the Bologna process. A framework for higher education qualifications has been adopted and a new Higher Education Law was adopted in 2005 and revised in 2010. Accreditation and external evaluation of universities have also started. However, the participation in higher education remains weak. Tertiary education graduates accounted for around 17%\(^41\) of people aged 25-34 in Serbia, compared to around 30% in the EU-27. The link between higher education and the economy is still weak.

Progress has been made in creating the regulatory framework on **occupational safety and health** with the adoption of legislation to comply with EU directives. Enforcement of health and safety rules by companies is, however, far from satisfactory, despite more efficient inspection controls combining checks on labour law and occupational and health safety and the introduction of rulebooks on risk assessment. This is supported by the EC Progress Report for 2010, which states that, in spite of improvements, the number of accidents at work remains high.

Employment in the **informal economy**, which stood at 17.2% in April 2010, continues to undermine the efficiency of labour market and to negatively affect health and prospects of “workers”: The capacity of labour inspectorates to enforce legislation against informal employment is weak. There is still no joint action planning or coordination of the different measures from the relevant state bodies in Serbia. Little has been done to encourage both workers and companies to become more flexible and adaptable, in particular through the organisation of work and the use of training. Further reforms in labour policy in Serbia will require stronger social dialogue. As stated in the EC Progress Report for 2010, social dialogue needs to be strengthened and consultation of social partners should be more consistent.

A large proportion of people from socio-economically disadvantaged backgrounds is excluded from the labour market and survives thanks to the informal economy. Unless Serbia helps these categories of population join the labour market, it will be very difficult to revert the falling employment rate and reduce the share of the informal economy. Until now **active labour market programmes** (ALMPs) implemented by the National Employment Service (NES) have had limited impact due mostly to budgetary constraints. The ALMP budget amounted to only 0.1% of GDP in 2009\(^46\). Although efforts have started to focus assistance on the categories of population that are most in need, in particular young people and people with disabilities, much remains to be done to tailor ALMP to the needs of disadvantaged groups particularly multiple disadvantaged ones. Concerning gender equality, the EC Progress Report for 2010 states that women, and in particular disabled women, Roma women, single mothers, older women and those living in rural areas, still continue to face discrimination in the labour market.

The efficiency of employment policy also suffers from a low involvement of local institutions in developing tailor-made solutions to address local employment needs.

\(^{46}\) NES
Particularly worrying is the situation of young people in the labour market. The unemployment rate of people aged 15-24 in Serbia was 46.1% in October 2010, compared to 20.3% in the EU-27, and 11.2% of young people are neither in education nor working. These figures highlight the problems faced by young people in making a smooth and quick transition from education to work. They also point to inadequate qualifications among young people and the failure of the education system to equip young people with the skills and knowledge required by the labour market. The highest proportion of inactive people is also found among the younger tranche of the population, 23.7% of inactive people being younger than 35 years. In order to remedy this situation, a Youth Employment Fund was established in 2009 in the National Employment Service with the support of the Joint Programme Support to National Efforts for the Promotion of Youth Employment and Management of Migration. This is noted in the EC Progress Report for 2010 which confirms that declining employment rates and increasing unemployment are a source of concern, in particular with regard to young people and the most vulnerable groups.

Although it is still below 2007 and 2006 levels, the absolute poverty rate increased to 6.9% in 2009 as a consequence of the economic crisis. The government established the team for social inclusion in 2009 and the working group on social inclusion in early 2010. A number of disadvantaged groups are particularly at risk of exclusion and poverty: people without education and among them, most particularly, young people, populations of rural areas, inactive people, members of large families and their children, refugees and IDPs, and Roma people. Relying often on social benefits to ensure their subsistence, they run the risk of remaining trapped in poverty in the absence of additional support to help them integrate into society. Access to education has started to improve, but still more has to be done. Access to adequate health care also remains a problem for many people in these marginalised populations. The EC Progress Report for 2010 states that the majority of the Roma population lives in extreme poverty and illegal settlements and continues to face discrimination, in particular regarding access to education, social protection, health care, employment and adequate housing.

The total budget for social welfare in 2009 accounted for 3.4% of GDP. The ratio between social services and social cash benefits is 30:70. More than 90% of social welfare expenditures originate from the central level. The coverage of the main poverty-targeted benefit, the cash social assistance is uneven, not well focused on the poorest and not connected to other forms of assistance, in particular to active inclusion measures.

Despite real progress made in the last decade to decentralise social welfare, including a large-scale reform of Centres for Social Work, the development of a regulatory framework and the transformation of residential institutions, the range of community-based services is still insufficiently developed to respond adequately to the wide variety of needs of disadvantaged groups. In accordance with the EC Progress Report for 2010, efforts towards de-institutionalisation and community-based institutions need to continue. At present, 21.2% of all local self-governments (LSGs) do not have home care service and only 38.8% have day care centres for children with disabilities. This situation helps explain the continuing prevalence of residential care as the main form of social service, especially for children and people with disabilities. Draft Law on Social Welfare to be adopted in 2011 will enable further reforms of the social welfare system. Draft Law on Social Protection which will be adopted during 2011 will enable further reforms of the social protection system.

Health care provision in Serbia is organised into primary, secondary and tertiary levels. Combined with the private health care facilities, the health care system ensures coverage of 525 beds per 100,000 citizens, which is slightly less than the EU average of 570 per 100,000, but notably less than the World Health Organisation (WHO) average for Europe, which accounts

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47 Funded by the Spanish MDG Fund and implemented with the support of 4 UN agencies (ILO, IOM, UNDP, UNICEF)
48 Household Budget Survey, Republic Statistical Office, 2009
49 Ministry of Labour and Social Policy, May 2010
for 668 beds per 100,000 citizens. The doctor-patient ratio in Serbia presently stands at 281 medical doctors per 100,000 citizens, while in the EU there is an average of 321 medical doctors per 100,000 citizens. The 2008 National Health Account indicated that the total expenditure on health protection in the Republic of Serbia was 10% of total GDP. The share of public expenditure on health protection was 6.2% of the GDP, so public health care expenditure amounted to 62.5%, while private expenditure accounted for 37.5%, of total health care expenditure. Total per capita expenditure on health care showed a stable increase from 2003-2008, and in 2008 reached €457 ($668). Comparing the 2008 per capita GDP expenditure on health care, the Republic of Serbia was above the EU average of 9%. However, relative to its low GDP, Serbia overall allocates a relatively small sum to health care protection in comparison to other EU countries.

In view of the fact that chronic, non-communicable diseases are responsible for the largest proportion of morbidity and mortality of the total population in Serbia, reducing risk factors is, and will continue to be, of key importance to improving the general health status of the population. Ischemic heart disease and cardiovascular diseases regularly account for more than half of the deaths in Serbia annually, while nearly one in five people in Serbia dies of malignant tumours.

Most of the environmental health laboratories in Serbia were developed during the past decades within the Public Health Institutes (one national and 23 regional public health institutes). Stronger capacity among these laboratories is a prerequisite for the full implementation of EU environmental acquis requirements.

The Directorate for Biomedicine has been established and includes organisational units for organ transplantation, blood transfusion and transplantation of tissues and cells for insemination purposes. The strategic framework for safe blood and blood products supply was adopted in 2009.

The Ministry of Health has prepared the strategic document ‘Health Care Development Plan’ for 2010-2015, which has recently been adopted by the Parliament. However, as stated in the EC Progress Report for 2010, the administrative capacity of the Ministry of Health and of the Institute for Public Health of Serbia needs to be strengthened.

Although local planning has improved in recent years in particular through the creation of multi-sectoral bodies (Councils for Sustainable Development, Social Policy Councils and Employment Councils), the cooperation at local level between existing services in health, education, employment and social protection remains insufficient, with adverse consequences for service beneficiaries. The capacities of LSGs are still weak in designing and coordinating the implementation of local social policies for their poorest citizens. This is particularly true in underdeveloped municipalities. An example of positive coordination at the local level can, however, be found among the recently established Local Youth Offices and Councils. There are now 115 Local and 7 Regional Youth Offices supporting the implementation of the National Youth Strategy at the local level, including the drafting of local youth action plans. Youth Offices are also encouraging the development of partnerships and collaborative actions between local governments.

One of the key challenges facing the education system is its poor performance towards children and young people from vulnerable and disadvantaged groups, as evidenced by their lower participation rates in education, higher drop-out rates and lower educational achievements at all education levels compared to the general school population. The EC Progress Report for 2010 recognises that some progress has been made with regard to inclusion of Roma into the education system, but mentions that the rate of school attendance, particularly by Roma girls, is still of concern. In addition, inter-sectoral committees have been established to provide assistance to children/students based on a prior assessment of needs. Being youth organisations, these committees need further support.

51 Before the Ministry of Youth and Sport was formed, there were only five Youth Offices in Serbia.
Strategic framework and sector priorities

The strategic framework for national human resources development policy is well developed.

Cross-government policy has been guided by the Poverty Reduction Strategy since 2002. The main objective of the strategy to reduce poverty by half by the end of the decade was already achieved in 2007\(^{52}\). The Government is preparing the First National Report on Social Inclusion and Poverty Reduction in the Republic of Serbia 2008-2010, to be adopted in 2011, in view of harmonising the social inclusion processes in Serbia with the EU. Looking ahead, Serbia is committed to producing a Joint Assessment Paper on Employment (JAP), and the Joint Inclusion Memorandum (JIM), as part of preparations for EU integration. The sector will also be subject of an Operational Programme for Human Resources Development for 2012-2013.

The National Employment Strategy 2005-2010 was fully in line with the objectives of the EU Employment Strategy to promote full employment, improve quality and productivity of labour and strengthen social cohesion and labour market inclusion; the preparations for the National Employment Strategy 2011-2020 are underway. Other relevant policy documents include the annual National Employment Action Plans and the Youth Employment Policy and Action Plan (2009-2011).

The Strategy on Occupational Safety and Health sets, as objectives, the establishment of legal and regulatory system for occupational safety and health, to enable an overall reduction of occupational accidents and illnesses (healthy employees at safe and productive workplaces) and awareness-raising towards development of a sound work culture. Furthermore, the Strategy on Development and Promotion of the Corporate Social Responsibility in Serbia promotes the corporate social responsibility concept and its contribution to social cohesion and sustainable development and growth, in line with EU standards and practice.

The main objective of the Strategy for the Development of Vocational Education and Training is to provide youth and adults with the opportunities to gain knowledge, skills and competencies needed for work and employment, and to ensure the conditions for further education and learning in the perspective of the society’s sustainable development. In this context, the Strategy advocates the development of social partnership, the creation of a National Qualifications Framework and a quality assurance system, the development of career guidance and counselling, and the promotion of entrepreneurship in vocational education.

The Strategy for the Development of Adult Education promotes adult education in the context of lifelong learning, through the establishment of partnership mechanisms with social partners, the development of quality adult education programmes in primary and vocational schools, and the reinforcement of training providers.

The objective of the cross-sectoral Strategy and Action Plan for Careers Guidance and Counselling is to better use human resources through links between the worlds of work and education.

Social policy has been guided by the Social Welfare Development Strategy, which advocates better social welfare for the poorest citizens through more efficient financial support and the development of a network of integrated community-based services and quality assurance.

\(^{52}\)The implementation of the Strategy was finalised in 2009, when the Government committed to mainstreaming the social inclusion concept within a wider process of EU integration
Specific strategies and action plans are dedicated to improving positions of vulnerable and disadvantaged groups including children, women, people with disabilities, elderly citizens, Roma, returnees and migrants. With regard to women specifically, the National Strategy for Improving the Position of Women and Promoting Gender Equality and its Action Plan identifies further support that is needed in this area.

The National Youth Strategy sets up the main principles and strategic objectives of youth policy in the Republic of Serbia, with the aim of improving the position of young people in society and the quality of their lives. The Action Plan for its implementation defines concrete activities, expected results, indicators, time-frames, jurisdiction and financial means. The Strategy for Sport Development in the Republic of Serbia 2009-2013 with its Action Plan has also been adopted.

The strategic framework for improving the state of health and well-being of the population in Serbia includes numerous strategies. Particularly significant among them are the National Public Health Strategy, the National Mental Health Strategy, the Strategy for Development and Health of Youth, the Strategy for Continuous Improvement of the Quality of Health Care and Patients’ Safety, the Strategy for Prevention and Control of Non-communicable Diseases, the Strategy for Palliative Care, the Strategy for the Fight against Drugs, and the Strategy for the Fight against HIV/AIDS.

Based on the overall strategic framework and the current situation in the sector, the following mid-term priorities have been identified:

- **Raise employment in the formal economy by more flexible and inclusive labour markets through improvement of employment, labour policies and social dialogue in line with EU standards**

  The employability and adaptability of the labour force should be enhanced by more efficient employment policies. On the one hand, it is necessary to expand the range of existing active labour market programmes and target better the needs of unemployed, putting more emphasis on the populations at risk of labour market exclusion, in particular young people, long-term unemployed and people with disabilities. On the other hand, local stakeholders in employment policies should take a more active part in devising solutions tailored to local needs. There is a need for more frequent and more genuine social dialogue at central and local levels to improve the governance of economic and social policies and facilitate the implementation of reforms. This is also true for fighting effectively the informal economy whose growth needs be checked by more flexible forms of work, more coordinated policy responses and a better enforcement of legislation towards the flexicurity concept. Finally, Serbia needs to align further its labour and employment legislation with the EU acquis.

- **Improve the quality of and access to the education system to enable the full and equal participation of every citizen in the economic, political and social life in the context of a knowledge-based society**

  The education system needs to prepare children better for their professional lives and provide more opportunities to adults who wish to upgrade their qualifications. In this context, more emphasis should be put on competence-based and outcome-oriented teaching, and curricula, particularly in the VET sector, need to reflect better the requirements of the labour market and to build the qualities of human capital by strengthening the “knowledge triangle” of education – research – innovation, which is pivotal to the harmonisation of domestic policies with those of the EU. Serbia should develop its educational research capacity, so that improvements in education policy will be based upon evidence which is generated from concrete research results. The education system as a whole should be made more transparent to facilitate mobility and the acquisition of skills and competencies at any age required for the modern
labour market. Learning acquired outside the mainstream education system should be more widely recognised and encouraged. Special attention should be paid to children and young people from disadvantaged groups, who should be given the means to access and succeed in their education.

- **Reduce poverty and social exclusion in Serbia by addressing the needs of disadvantaged groups in a multidimensional way based on a stronger coordination of existing policies and services and the development of community-based solutions**

The social welfare system should target better the poorest citizens and this assistance should be accompanied by measures of active inclusion to facilitate transition from welfare to work and social participation for all. Cross-sectoral cooperation between employment, social, education, housing and health services is necessary to respond better and more efficiently to the needs of disadvantaged groups, and to encourage the development of integrated services in the long run. Community-based services should be developed as an alternative towards gradual substitution of residential care. Local stakeholders need to learn how to cooperate in identifying needs and planning territorially and functionally accessible services. Children and young people from disadvantaged groups should be given a better access to education and support should be available for children at risk of dropping out. A more efficient social welfare system requires also the development of regulatory mechanisms and the introduction of quality assurance system including national minimum standards, clear control and inspection mechanisms and licensing procedures for social service providers. Community-based services/solutions should also benefit from cooperation with the Local Youth Offices, which will encourage young people to participate in relevant community service interventions as a means of becoming active citizens within their local communities.

- **Improve the quality and accessibility of health care to promote the health and well-being of all citizens, emphasising preventive care while strengthening the operational capacity of the health care system in line with EU standards**

The health care system needs to provide quality, affordable, efficient services that are equally accessible to all citizens. Building upon the reforms that have been achieved to date, quality assurance mechanisms should be incorporated into the system to continually assess patient satisfaction and to pave the way for necessary improvements. Standards for good clinical practice are needed and professional development for staff at various levels of health care delivery is warranted. Prevention should be emphasised and health care consumers should be encouraged to adopt healthier lifestyles as a means of improving the general well-being of the population. Early diagnosis and better control of chronic, non-communicable diseases will also help to enhance the well-being of a significant portion of the population. Special programmes should be developed to provide appropriate health care tailored to the specific needs of particular, vulnerable groups of people. Further efforts are needed to control and work towards eliminating communicable diseases, while research and cross-sectoral strategic planning is necessary to ensure that Serbia will be prepared to provide a rapid response to any unforeseen public health threats. Reforms in health care financing will require continued development and assessment, so as to assure that resources are being used as effectively as possible to deliver quality health care to all citizens.
Measures for implementing sector priorities

Priority 1:  *Raise employment in the formal economy by more flexible and inclusive labour markets through improvement of employment, labour policies and social dialogue in line with EU standards*

Measure 1.1:  *Supporting the development of regional and local employment policies*

**Aim:** To improve the effectiveness of local employment policies and build the capacity of local stakeholders for implementing employment policies tailored to the needs of target groups.

**Description:** In line with the new Law on Employment and Unemployment Insurance, the measure will encourage further decentralisation of employment policies and services delivery. The measure will promote social dialogue by strengthening the capacity of local stakeholders in particular Local Employment Councils\(^53\) to steer and monitor the implementation of employment policies. The measure will support local employment promotion projects, in line with local action plans approved by LSGs and based on a partnership among LSGs, NES branch offices and training providers, private employment agencies and other local employment service providers. It will enable municipalities to develop career guidance and counselling centres in cooperation with local youth offices, and to establish self-service systems for job search. It will also support local service providers in preparing and implementing projects corresponding to the objective of local employment action plans, and encourage private employment agencies to implement ALMPs targeting the most disadvantaged groups through the establishment and operation of job clubs. The measure will also provide assistance and capacity building to the Employment Sector of the Ministry of Economy and Regional Development (MoERD) and the National Employment Service (NES) with the preparation and management of projects under this measure.

Measure 1.2:  *Increasing the effectiveness of employment policies towards disadvantaged groups*

**Aim:** To increase the coverage and relevance of ALMPs to the needs of disadvantaged groups through better targeted employment policies and services.

**Description:** The measure will help NES and MoERD expand the range of ALMPs and better cover the needs of disadvantaged groups, taking into account the lessons from previous policies and future labour market trends. ALMPs will be implemented in line with the annual National Employment Action Plans and will be directed to unemployed youth with low/no qualifications, long-term unemployed (including redundant workers), people with disabilities and other vulnerable groups. The measure will also help NES expand effective services like self-service systems, centres for career guidance and counselling and job clubs. Another important focus of the measure will be on the implementation of the new Law on Vocational Rehabilitation and Employment of People with Disabilities. The capacity of key institutions\(^54\) will be strengthened to deliver measures promoting the inclusion of people with disabilities in the open labour market. Enterprises for vocational rehabilitation and employment of people with disabilities will receive support in providing effective vocational rehabilitation. The measure will look at supporting the development of a model for social entrepreneurship/economy as a tool for a more inclusive labour market, by encouraging employment of disadvantaged groups and greater social cohesion as well as strengthening the legal framework for this.

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\(^53\) Local Employment Councils are tripartite local bodies consisting of representatives of LSGs, employers and trade unions, and NES

\(^54\) NES Centre for Vocational Rehabilitation and Employment of People with Disabilities, employment counsellors in NES branch offices dealing with people with disabilities, and enterprises for vocational rehabilitation and employment of people with disabilities.
Measure 1.3: Bringing the informal economy into the mainstream
Aim: To support the transition from informal to formal employment through the development and implementation of a comprehensive action plan against the informal economy.
Description: The measure will support the development and implementation of the national action plan against the informal economy through consultation of social partners which will define coordinated actions of fiscal, economic and social nature to be implemented by different state institutions and labour institutions. In order to do so, it will be necessary to strengthen institutional mechanisms at both central and local levels, to enable more efficient and effective social dialogue on those issues. By creating a more favourable environment for formal employment, the implementation of the action plan will increase job opportunities within the formal sector. The measure will strengthen the IT capacity of the Labour Inspectorate and create functional linkages among state bodies dealing with informal economy (tax revenues, pension fund, health insurance and other state inspections) leading to fast access to accurate and updated data and more efficient labour inspection. The measure will also support the development of new flexible forms of work in line with EU standards and towards the adoption of the concept of flexicurity. It will encourage the use of flexible work contracts, through capacity-building activities and cooperation with social partners. A national campaign will be supported to address the low public awareness among the employees, employers, trade unions, and the general public on the issue of informal employment. The measure will also support the creation of a national observatory on the social situation, with the aim of tracking and reporting on changes in different aspects of the social dimension.

Measure 1.4: Strengthening occupational safety and health in line with EU standards
Aim: To help reduce occupational accidents and illnesses through further alignment of the legal and institutional framework with EU regulations and the full implementation of occupational safety and health measures in Serbian enterprises
Description: The measure will help Serbian enterprises to fully implement occupational safety and health measures aiming at preventing occupational accidents and illness. The measure will support the further development of a legal framework in line with EU regulations, including procedures and enforcement mechanisms. It will help design, introduce and implement the compulsory occupational accident insurance. The system will be further enhanced by developing a computerised central registry of occupational accidents and illnesses. The activities under this measure will also support the establishment of reference laboratories to assess the performance of licensed legal entities for health and safety policies, and ensure that standardised methodologies are applied when assessing and testing work equipment and work environment. The measure will also support the establishment of Education Centres for occupational safety and health, which will provide training and education seminars to employees, employers, health and safety officers, labour inspectors and run raise awareness activities for the wider public in Serbia. The focus of the interventions under this measure will be SMEs, high-risk sectors (wood processing industry, agriculture, chemical industry, transport and construction), vulnerable groups (pregnant women, young, elderly workers, persons with disabilities). The measure will also pay specific attention to the prevention of discrimination and labour abuse and to the promotion of gender equality.
**Priority 2:**  Improve the quality of and access to the education system to enable the full and equal participation of every citizen in the economic, political and social life in the context of a knowledge-based society.

**Measure 2.1:** Improving the quality and relevance of VET and adult education within the National Qualifications Framework of Serbia

*Aim:* To improve the quality, coverage and relevance of VET and adult education, by developing further the National Qualifications Framework of Serbia, strengthening the capacity of VET schools and adult training providers and ensuring better governance of the sector.

*Description:* The measure supports recommendations made in the EC Progress Report for 2010, which underline the need to further align the education system to labour market demands, to advance the system of vocational education, and to strengthen and reform adult education. The measure will continue the development of the National Qualifications Framework of Serbia aimed at facilitating access to, and mobility and progression within the education and training systems. Sector-based partnerships of stakeholders in defining and regularly updating standards of knowledge, skills and competences for all occupations in demand on the labour market will be institutionalised. The measure will also help develop a transparent credit transfer system through the recognition of prior learning (both non-formal and informal). Comparability and compatibility with the European Qualifications Framework will also be promoted throughout the process. The capacity of the key national institutions for NQF management will be strengthened, namely the Council for Vocational Training and Adult Education to steer and oversee the NQF process, the VET and Adult Education Centre to organise the NQF process and manage the work of sectoral committees and the National Education Council. The measure will help setting up an accreditation and licensing system. VET schools will be modernised, in particular, by developing outcomes-oriented and competence-based curricula in line with NQF requirements and preparing for licensing and accreditation. The measure will also support the development of the adult education system. The Regional Training Centres (RTC) will receive support to diversify their offer of training courses and strengthen their role as local reference and focal points for the promotion of adult and lifelong learning. Training providers of adult education will be encouraged to develop courses meeting NQF requirements and minimum quality standards, in order to obtain licensing and accreditation. The measure is directed to students and adults with no qualification and those seeking new/additional qualifications.

**Measure 2.2:** Ensuring access and reaching higher levels of education for children at risk

*Aim:* To create better conditions for the early inclusion of disadvantaged groups into the education system and promote higher educational attainment among children at risk by supporting inclusive education and dropout prevention initiatives in local communities.

*Description:* The implementation of the measure will target children from poor and low educated families or from rural regions, Roma families and children with disabilities. Teaching programmes are not tailored to the specific needs of these children leading to poor educational achievements, therefore the measure will support LSGs and local pre-schools to improve the quality and encourage greater participation of disadvantaged children in pre-school education. The measure will support the development of teaching programmes and auxiliary services addressing the specific needs of children and their families. Teachers in pre-school education will be trained on how to work with children from vulnerable groups, and support will be provided for the adaptation of teaching materials and upgrading of equipment. Furthermore, the measure will promote the develop-

55 Organisational unit within the Institute for the Improvement of Education
ment of inclusive education in primary and secondary schools, by implementing the best initiatives of school
development plans to increase access and prevent drop-outs among children from vulnerable groups. The
capacity of schools will be strengthened to encourage active engagement of students in learning, increase
the attractiveness of the teaching process, adjust teaching to the needs of children at risk of drop-out and
regularly monitor their progress. The measure will help establish a mentorship system and introduce extra-
curricular activities to better integrate students into the school community. The measure will support initia-
tives developed in partnership with LSGs, civil society organisations and other relevant local stakeholders.

Measure 2.3: Applying competence-based and outcome-oriented teaching and learning
Aim: To enhance key competences of teachers across the education system in Serbia and improve competences
and skills of children and youth in the perspective of a knowledge-based society.
Description: The measure will help improve the system for professional teachers’ development. It will focus on developing
multidisciplinary competences of teachers, teacher competences to realise curricula based on learning outcomes, standards and achievement of students. It will build the monitoring and evaluation system of professional training of teachers in everyday teaching practice. The measure will improve the legal framework for professional development of teachers and link it to licensing and accreditation systems. The capacity of key stakeholders will be enhanced (Regional Teacher Training Centres across Serbia in implementing the professional development of teachers and of the Institute for Improvement of Education and its Centre for Professional Development of Teachers), so as to address regional disparities of professional development programmes available to teachers in poor, rural areas as opposed to those in urban settings. The measure will support the development of a framework for national curriculum in primary and secondary education based on standards and focused on building key competences of young people necessary for life in knowledge-based society. Emphasis will be put on building entrepreneurship, developing the sense of initiative, learning how to learn and acquiring digital competences. The measure will promote the use of educational research results for developing policy and practice at the national level in order to improve the quality and governance of the education system.

Measure 2.4: Supporting the modernisation of the higher education system in Serbia
Aim: To enhance the quality and relevance of higher education and increase the participation in higher education.
The measure will support the reform and modernisation of higher education in Serbia, taking into account
equal and transparent access to higher education. Further improvement of the quality assurance system, in line with quality references and with the European Higher Education Area (EHEA), will be supported. The capacity, management and governance of higher education institutions and of their related organisations will be strengthened, as well as capacity-building in the public administration for designing and piloting reforms, policies and legislation in higher education based on evidences. The measure will build the capacities of higher education institutions in curricular reform, focusing on content, structure, teaching methods and the use of new teaching materials according to the three-cycle system, the European Credit Transfer System (ECTS) and recognition mechanisms of degrees. It will support the improvement of the education teaching infrastructure accessible to all students, and equipment for the delivery of practical work to improve knowledge and applied skills of students during their education. The measure will support the development of links between higher education institutions and business and industry, with a view to promoting the development of technologies and innovations. The networking of the education institutions and research institutions will be promoted, as well as lifelong learning in the society at large.
**Priority 3:** Reduce poverty and social exclusion in Serbia by addressing the needs of disadvantaged groups in a multidimensional way based on a stronger coordination of existing policies and services and the development of community-based solutions.

**Measure 3.1:** Supporting social inclusion through more diversified community-based social services

Aim: To strengthen the capacity of LSGs in leading partnership-based social inclusion policies and improve the range and quality of community-based services providing cross-sectoral solutions to vulnerable and disadvantaged groups.

Description: In line with the finding of the EC Progress Report for 2010 that fighting poverty and social exclusion remains a key challenge, particularly as concerns the most vulnerable categories of the population, the measure will support specific efforts to address these issues at the local level, taking into account the wide regional disparities. The measure will strengthen the capacity of LSGs to implement more effective social inclusion policies and develop community-based social services to address the specific needs of the local vulnerable population. The management capacity of LSGs staff will be enhanced (local needs assessment, planning and prioritising, budgeting, selection and contracting of service providers and monitoring and evaluation of service delivery). The network of existing community-based social services will be supported, but the measure will also encourage the development of new services by promoting a cross-sectoral (holistic) approach in service delivery and inter-municipal cooperation towards economies of scale and budget efficiency. Furthermore, the process of development of the community-based social services will promote the concepts of active ageing, social innovation, social experimentation, volunteerism and accessibility. The focus of the interventions under this measure will be the most vulnerable groups, particularly those experiencing multiple forms of vulnerability, needing strong social support to re-integrate them into society.

**Measure 3.2:** Supporting the transition from welfare to work through active inclusion

Aim: To increase the coverage of financial assistance (income support) among socially excluded groups, and promote the transition from welfare to work through active inclusion and better integrated social and employment services.

Description: The measure will help target better cash social assistance on the poorest people and link cash social assistance schemes to active inclusion measures. The application process for cash social assistance will be reviewed and simplified and awareness of the poorest population about their entitlements will be raised. The measure will target the beneficiaries of cash social assistance who are unemployed and able-bodied. The measure will help CSWs and NES build a single entry system, giving beneficiaries of income support access to all active inclusion measures, including social inclusion services and active labour market measures. The measure will provide technical assistance to build the capacity of CSW and NES branch offices in this context.

**Measure 3.3:** Developing social welfare regulatory mechanisms to enable further efficient decentralisation of social services provision

Aim: To support further decentralisation of quality social services through the implementation of a regulatory and quality assurance system.

Description: The measure will enhance the quality of social services delivered to beneficiaries by state and non-state actors (civil society organisations and private providers), by further developing national standards. The implementation of the transformation plans of residential institutions will be supported, in order to improve the quality of services and enable progressive deinstitutionalisation of its residents. It will involve upgrading the
competences for health and social care staff and improving the physical capacities of residential institutions, including procurement of modern equipment. The measure will also help design a licensing system of social professionals and social service providers. The institutional and regulatory framework will be set up in line with the new Law on Social Welfare and EU best practices. The measure will strengthen the capacity of social welfare inspection to inspect state and non-state service providers and to check the compliance of service providers with legal requirements and national minimum standards. In this context, the measure will help develop a system of deconcentrated inspection with accompanying inspection tools, mechanisms and detailed administrative procedures and process, which will be piloted and implemented.

**Measure 3.4:** Improving the position of young people in society and promote their role as active citizens

**Aim:**
To contribute to building active citizenship among young people by supporting the mechanisms that will enable their participation in important decision-making processes that impact upon their quality of life.

**Description:**
The measure will build upon initiatives that have been started to date through the implementation of the National Youth Strategy and Action Plan. At the central level, the measure will support the establishment of a National Agency for Community Programmes which will enable the institutions and, accordingly, the young people in Serbia to participate actively in the Community Programmes of the EU, particularly Lifelong Learning Programme and Youth in Action\(^\text{56}\), thereby promoting young people’s active citizenship and encouraging social cohesion, by helping to foster mutual understanding among youth in Serbia and their peers from other countries. At the local level, the measure will strengthen the institutional framework by directing further support to the development of the Local Youth Offices and Youth Councils. The measure endorses the right to equal opportunities for all young people in society, particularly those who live in difficult conditions and belong to vulnerable social groups, while extraordinary achievements will also be recognised through the continuation of the Fund for Young Talents. In line with the recently adopted Law on Volunteerism, the measure will endeavour to enhance the availability of opportunities for volunteering directed at young people. Through volunteerism at the local community level and in cooperation with the Local Youth Offices, young people should be provided with the opportunity to participate in relevant community service interventions, thereby also enabling them to gain important professional skills which are an asset to first-time job seekers and encouraging youth entrepreneurship. By participating in the design and implementation of such interventions, these actions will help to promote young people’s role as active citizens in their local communities. These actions will thus help to address concerns expressed in the EC Progress Report for 2010, regarding the difficult situation facing young jobseekers. The measure also will back the establishment of an enabling environment for the implementation of further actions, by supporting the completion and implementation of the Law on Youth.

**Priority 4:** Improve the quality and accessibility of health care to promote the health and well-being of all citizens, emphasising preventive care while strengthening the operational capacity of the health care system in line with EU standards.

**Measure 4.1:** Decreasing the rate of chronic non-communicable, preventable diseases and improving the control of these conditions by encouraging timely screenings and promoting healthy lifestyles

**Aim:**
To reduce morbidity and premature mortality deriving from some of the most prevalent non-communicable diseases, such as heart and blood vessel diseases, malignant diseases and diabetes, through timely diagnosis, preventive measures and improved follow up care.

\(^{56}\) The decision is still pending on whether this is to be a joint office, or if a National Agency for Youth will be established separately
**Description:** In line with the strategic framework for the identification, prevention and control of non-communicable diseases, the measure will support programmes that promote healthy changes in lifestyle, to reduce the prevalence of these and other health conditions. Through further development of human resources capacities at the primary care level in particular, the measure will encourage the design and implementation of educational and preventative programmes which will aim to encourage citizens to live healthier, more productive lives. Public health promotion should particularly target high-risk populations, such as young people and persons with a family history or other predisposition to certain chronic diseases. The measure will facilitate public campaigns to encourage the adoption of healthy lifestyle changes (exercise, tobacco control, healthier food consumption, etc.) tailored to reduce the onset of chronic and other non-communicable diseases. Based upon the screenings that have been conducted already, the measure will support the organisation of future screenings to enable early detection of diseases such as cancer and diabetes, as well as training programmes for health care providers who will conduct the screenings and those who will be responsible for necessary follow up care. Timely identification of cardiovascular disease should be improved by incorporating into practice screenings for multiple risk factors which will enable the most effective therapies and interventions to be developed and implemented to help reduce the rate morbidity and mortality associated with heart and blood vessel diseases. The measure also encompasses the promotion and advancement of mental health services. This will include further development of the outpatient therapies available for treating mental disorders, as well as continued efforts to develop community-based services which will enable the deinstitutionalisation of persons residing in mental health facilities, whenever possible. Overall research and human resources capacities will also need to be strengthened in the arena of mental health care.

**Measure 4.2:** Promoting greater patient safety and improving the quality of health care delivery by building the human resources capacity of service providers at various levels

**Aim:** To improve health care quality and the consistency of its delivery by instituting quality assurance mechanisms to monitor and address patient satisfaction.

**Description:** The measure will facilitate the completion of the analyses that are necessary to assess the priority areas where service delivery should be improved, and to accordingly support the professional development of relevant health care providers and health care institution staff. Mechanisms for regular monitoring of health care delivery should be strengthened, and systematic methods for addressing these monitoring outputs should be developed and implemented. The measure will continue to improve the institutional capacity of the Agency for accreditation of health care institutions, as an important tool for advancing the system of continuous quality improvement. The measure will enforce the development of standards and guidelines for good clinical practice. Further development of health care management will also be supported.

**Measure 4.3:** Modifying health care financing in order to ensure the long-term sustainability of the health care system and to enable continuous access to needed health care services for all citizens

**Aim:** To improve the overall efficiency and cost effectiveness of health care delivery, building upon the reforms that have been achieved to date.

**Description:** The measure will seek to promote the delivery of affordable health care by supporting the implementation of more transparent and efficient methods of financing at each level of the health care system. This is in line with the EC Progress Report for 2010 statement that public finance sustainability in the medium term needs to be strengthened by reforms in the health care system and in public administration. State insurance coverage will be maintained as the basic package of health care entitlements, while further support will be needed to broaden the scope and coverage of new health care financing mechanisms. Following on from
the pilots that have been undertaken to date, new health care financing mechanisms such as capitation formulas for primary health care and diagnostic related groups (DRGs) for secondary and tertiary care will need to be developed further and incorporated into the overall system of financing. Regular research on the implementation of these new financing mechanisms will need to be undertaken and monitoring systems will be devised, so that adjustments can be made as necessary over time. The measure will also support training programmes for relevant health care staff.

**Measure 4.4: Improving access to quality health care for vulnerable and disadvantaged population groups**

**Aim:**

To ensure equal access to quality health care for all citizens, particularly those with specific health care needs, the measure will aim to develop and implement programmes that are designed to address these needs and improve the health status of the most vulnerable categories of the population.

**Description:**

The measure will facilitate the implementation of programmes to promote the health of specific categories of the population. Vulnerable population groups can broadly be defined as comprising persons who, due to a specific difference compared to the majority population, need additional support in order to be able to participate in community life on an equal basis and in a way that is appropriate to their capabilities and developmental potentials. There is no universal or final list of vulnerable social groups, but official population groups today may include, while not being limited to, children and youth, women (particularly in reproductive years), elderly over the age of 65, the disabled, the Roma and other minority populations with cultural and linguistic differences, persons with mental disability or mental illness, substance addicts, victims of violence, the unemployed, persons excluded due to social or health reasons, refugees and internally displaced persons, convicts and ex-offenders, victims of human trafficking, people living with AIDS, people in remote rural areas, single-parent families, large families and homeless people. In line with the relevant health care strategies and the overarching Strategy for Public Health, the programmes will aim to provide for health care interventions designed expressly to help improve the health care status of the targeted group. Preventive measures should be emphasised as part of the advice and support that will be provided through these programmes. It will be of key importance to stress patient-oriented approaches and the measure will support the development of training programmes for this purpose. In accordance with the EC Progress Report for 2010 which stresses that a majority of the Roma population faces discrimination in particular as regards access to health care, among other basic rights, the measure will support specific efforts to reach this and other socially excluded groups that may not be regular users of existing health care services.

**Measure 4.5: Reducing morbidity and mortality from communicable diseases by enhancing prevention and control of existing and impending communicable diseases**

**Aim:**

To control the spread of existing communicable diseases by improving immunisation, public awareness and prevention, and will develop systematic approaches to ensuring a rapid response to any potential new public health threats.

**Description:**

In accordance with EU public health standards, this measure will aim to improve the immunisation and control of a spectrum of communicable diseases, while also facilitating better national preparedness to address any potential health threats that may arise. Immunisation of newborns against diseases such as polio, diphtheria and measles will need to be enhanced, particularly among children from vulnerable populations that have not been adequately covered to date. To ensure that the most vulnerable groups are reached,
patronage services should be strengthened so that they can conduct regular outreach to rural/remote areas and provide essential and timely services. The measure will also build public health capacity to stop the spread of tuberculosis by ensuring that Serbia can effectively implement “DOTS”, the internationally recommended approach to tuberculosis control. In accordance with the National Strategy for the Fight against HIV/AIDS, identification and prevention of the continued spread of this infectious disease should be further developed by raising public awareness among specific target groups and by ensuring that education about prevention is delivered as broadly as possible. To ensure the safety of its population, the health care system in Serbia will need to advance its ability to respond efficiently to the possible spread of new communicable diseases which may be identified in Serbia without warning. The measure will aim to develop a system of rapid response by improving public health research capacities in the area of epidemiology, strengthening collaboration with relevant international monitoring bodies and building the response capacity of staff in key epidemiological and clinical institutions in Serbia. It will also be necessary to improve environmental health research capacity by strengthening the network of environmental health laboratories included within the jurisdiction of the Institute for Public Health, so that strategies can be planned and implemented to ameliorate any potential public health threats deriving from environmental factors such as contaminated water and poor air quality.

Programming of international assistance

The measures proposed for funding under this NAD have been selected to complement national and international interventions to enhance human resources development in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.

Ongoing activities

According to the ISDACON database, in the period between 2007 and 2009, it is estimated that a total amount of €148,45 million was actually disbursed in assistance from the international donor community to the HRD sector in Serbia (see following diagram). Out of the total disbursement of international assistance within the HRD sector, the highest level was recorded in health (35.7%), followed by education (27.4%), social welfare (25.2%), labour and employment (9.2%), and recreation and sport (2.5%).
In the four annual programmes 2007-2010, IPA component I is financing projects in the HRD sector worth over €125 million. In the area of education, the assistance under IPA I has been focused on strengthening institutional capacities and support to VET reforms and development of the National Qualifications Framework, design and implementation of quality assurance systems in primary and secondary education (and VET), support to early inclusion of vulnerable children in the education system, establishment of a system of ‘second chance’ – functional elementary education for adults, and improvement of the quality of higher education teaching and infrastructure. In the area of social inclusion, assistance under IPA I has been directed to support the integration of refugees, internally displaced persons (IDPs) and returnees through housing and income generation support and legal aid. The assistance has been also targeted on the social inclusion of vulnerable groups by strengthening national and local institutions that oversee and provide community-based social services for different target groups (including children and persons with mental illness and mental disability). IPA I assistance has provided support to health care reforms in Serbia through support to the development of quality standards for health care, improvement of Emergency Medical Service, support to the implementation of the hospital information system, design of the treatment of infectious waste in the primary health care (public and private sector), implementation of organised screening programmes for breast cancer, cervical cancer and colorectal cancer, development of palliative care and improvement of the system for prevention of drug abuse in line with EU standards. For employment and labour market policy, assistance under IPA I has supported the National Employment Service (NES) to upgrade analysis and forecasting of labour market trends and monitoring and evaluation of active labour market programmes.

The reforms in the HRD area have been supported by other donors, namely the World Bank, EIB, UN organisations (UNDP, ILO, UNICEF, IOM, etc) and bilateral aid from Austria, Canada, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom. Synergies among donors are apparent in the design and coordination of assistance. VET reform is com-

\[58\] Including national co-financing
plemented by bilateral support from the German government and Austrian government, while the establishment of the teacher training system is supported by the Swiss government. IPA assistance will include preparation of tender and contract documentation and monitoring of an EIB loan worth €100 million for the modernisation of Serbian schools and professional development of teachers. Next to IPA, the Norwegian government supports the improvement of regulatory mechanisms in social welfare.

Several projects are implemented with the ILO, UNDP and the support of the Spanish and Italian governments, which will build the capacity of labour market institutions in designing, monitoring, implementing and evaluating active policies on youth employment and to establish a Youth Employment Fund. The World Bank’s Delivery of Improved Local Services programme, worth $46.4 million, will increase the capacity of institutional actors and beneficiaries to improve access to health, education and social protection services in a decentralising environment, while improving the efficiency, equity and quality of local delivery.

**Funding forecasts**

The HRD sector will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected for implementation requires continuous financing.

According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (August 2010), the following funds are planned to be allocated from the state budget in the next three years:

**Table 6 -Total state budget expenditure limits for 2011-2013 (in EUR*)**

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Economy and Regional Development</td>
<td>364,739,071</td>
<td>317,715,276</td>
<td>236,741,221</td>
</tr>
<tr>
<td>Ministry of Labour and Social Policy</td>
<td>890,241,335</td>
<td>938,506,927</td>
<td>992,738,194</td>
</tr>
<tr>
<td>Ministry of Youth and Sports</td>
<td>36,475,893</td>
<td>38,697,465</td>
<td>41,143,170</td>
</tr>
<tr>
<td>Commissariat for Refugees</td>
<td>11,315,232</td>
<td>11,883,390</td>
<td>12,521,270</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>33,957,980</td>
<td>35,657,616</td>
<td>37,404,776</td>
</tr>
<tr>
<td>Ministry of Education</td>
<td>998,755,368</td>
<td>1,065,896,510</td>
<td>1,147,984,065</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The budgetary projections for the next three years are formulated upon the **Government’s main policy objectives** in the HRD sector as defined in the Budget Memorandum. These are: active employment policy measures, focused on increasing and improving employment; harmonisation of national labour legislation with that of the EU, including occupational safety and health and modernisation of the enforcement mechanisms towards reform of labour inspection; implementation of the education system reforms at all levels based on principles of life-long learning, improving quality and equal access to education; strengthening of systematic solutions to improve the position of youth in various areas of life; and implementation of health care system reforms to ensure efficient management of health institutions at all levels, better quality assurance of health care services and better planning of health resources. Social welfare reform will be focused on improving the quality of life of the most vulnerable groups of citizens through strengthening quality assurance and regulatory systems, based on the principles of enabling the dignity and the best interest of user, ensuring accessibility and provision of the least restrictive environment.

According to information from the **donor community** (see Annex IV), new grant commitments in the HRD sector are expected to be at least €110,3 million for 2011-2013.
Forecasts and future challenges

According to demographic forecasts, the population of Serbia will continue to decline and the aging process will continue in the years to come. The population growth rate in the next ten years is expected to be negative (-0.5%). The number of persons above the age of 65 will increase over the period 2010–2020 by 13% and their share in the total population will rise from 17% in 2010 to 20% in 2020. The number of young people aged 15-24 over the same period will decrease by around 17%

According to the study “Evidence-Based Policy Making Initiative in Employment”, employment and unemployment will not go back to their pre-crisis levels before 2013. A rise in employment can be expected in the next decade as the competition for jobs becomes less fierce among a reduced working-age population. However, people with a low level of education will still be at risk of labour market exclusion, while the share of inactive is likely to grow as the population as a whole ages.

In this context, Serbia will need to create new jobs, raise the qualification level of the labour force and support inclusion of the vulnerable groups into labour market, in order to combat unemployment and inactivity and generate sufficient GDP growth and Government revenue through taxation, to ensure the sustainability of its public services and social welfare.

As one of the pressing challenges facing young people in Serbia, high unemployment among youth must be addressed. Active labour market programmes and innovative opportunities for building entrepreneurship among young people in Serbia will require further support. Actions that promote the growing participation of young people in decision-making and opportunities that enable their mobility should be supported as well.

Informal employment is likely to remain widespread and could even increase as a result of the current economic crisis, with negative consequences for the economy and the society as a whole. In this context, it will be crucial for Serbia to encourage work in the formal economy and to take vigorous action against the growth of the informal economy.

Occupational safety and health will remain a high priority as Serbia prepares for EU membership. It will require major efforts both from administration to align legislation with the acquis in this field and perform controls and enforcement in order to create safe and healthy working conditions, and for individual businesses to comply with stricter standards and rules.

Labour relations will also continue to feature high on Serbia’s reform agenda. As the country moves closer to EU membership, Serbia needs to bring its labour legislation in line with the EU acquis. This will require a reinforcement of social dialogue and a higher intensity of consultations between social partners.

In this context, equity, quality and efficiency must be in focus and continuous improvements in the performance of the education system at all levels will be required, including the establishment of better links to the world of work, further promote lifelong learning policies and for higher education, a stronger emphasis on innovation, technology transfer and cooperation with the business sector. Further reforms of the VET and adult education systems are necessary, to facilitate the transition to an innovative and competitive economy with a dynamic service sector. In order to achieve this, capacity-building of teacher

60 Data of U.S. Census Bureau, International Data Base
61 A draft study, prepared by FREN Institute, provides an analysis of the current labour market situation and results achieved with the current strategy. The results of the analysis will feed into the new Strategy from 2011 until 2020 are underway.
62 The working age population in Serbia will drop by more than 210,000 by 2020 according to the Labour Market Assessment, September 2006, World Bank
educators and reform of initial teacher education will be required. Serbia will continue to reform its welfare system to adapt to new economic circumstances and face new needs, such as those induced by demographic trends (ageing). In order to improve the provision of social welfare and achieve further decentralisation of service delivery, it will be necessary to develop and implement regulatory and quality assurance systems, including national minimum standards, licensing procedures for social service providers and inspection mechanisms. Another important challenge for social welfare will be to put greater focus on those most in need and to promote active inclusion to facilitate transition from welfare to work. This will require a higher degree of cooperation between various services currently operating separately (social, health, education, employment and housing) with the long-term goal of integrating the assistance and support available to disadvantaged groups into a single set of services, closely knit by common objectives, procedures and standards.

The Republic of Serbia faces numerous challenges in the area of health care reform, starting from a rationalisation of the network of health care facilities and a basic decentralisation of the system, to the financing of quality public health protection and the development of an integrated system of health care. Priority areas that will need to be addressed in relation to the organisation and functioning of the health care system should stress the delivery of affordable, quality health care and patient safety. This will call for continuous advances in legislation, professional development, improvement of health care management, administrative structures and procedures at different levels, as well as the further development of standards and guidelines for good clinical practice. Healthy lifestyles will need to be emphasised through prevention programmes, aimed at educating and stimulating a greater awareness of the importance of good health practices. Promotion of mental health will also call for particular attention.

Serbia will also need to promote efforts to monitor and address environmental impacts on health, in accordance with actions that have been defined in the Environmental Health Performance Review for the Republic of Serbia, published by the WHO in 2010, as well as on the Children’s Environment and Health Action Plan (CEHAP) adopted by the Serbian Government in 2009.

In anticipation of achieving candidate country status, Serbia has started to prepare for access to IPA component IV in 2012-2013, by drafting the relevant programming documents (Strategic Coherence Framework and Operational Programme) and by preparing the proposed operating structure for decentralised management of the OP (see Annex II). Programming for IPA component IV is in line with the priorities and needs presented in this document.

### Agriculture and Rural Development

#### Description of the sector and recent developments

The agricultural and rural development sector encompasses agricultural production, forestry, fisheries, food safety, animal welfare, and sustainable rural development.

The agricultural sector is economically significant, agriculture, food and beverages together accounting for 18% of exports in 2013. The Ministry of Agriculture, Forestry and Water Management (MAFWM) is the key government body developing and implementing legislation for the sector. Although MAFWM has responsibilities for water it is important to note that water management is not included within the sector. Under the sector-wide approach water is considered to be part of the Environment sector.
2009\textsuperscript{64}, but struggling to adapt to new conditions created by external forces (e.g. new markets, trade rules, EU regulations). \textbf{Agricultural production} takes place in a spatially dominant rural environment that covers 85\% of the territory of Serbia and encompasses 55\% of the population. Despite the importance of agriculture in the Serbian economy, agricultural production in many areas is weak and uncompetitive; a result of historically low levels of investment, large numbers of very small farms, and an uncertain land market. It is characterized by low-input/low-yield production methods, and only 20\% of farmers produce for the market\textsuperscript{65}.

In 2003, the World Bank\textsuperscript{66} considered that the agricultural sector had considerable potential in Serbia and could become an engine for \textbf{economic growth}. At the end of the 20th century, the sector accounted for 21\% GDP (rising to 25\% if the food and beverage processing is included - greater than manufacturing’s contribution in 1999).

Agricultural land accounts for nearly 58\% of Serbia’s land area (5,093,000 ha in 2008), more than three-quarters of which is arable (4,223,000 ha in 2008); the remainder being permanent grassland in predominantly highland areas, and orchards. The main agricultural products are wheat, maize, sugar beet, sunflower, raspberries, beef, pork and milk, although the Serbian Statistical yearbook also includes tobacco, plums, grapes and apples as significant areas of production. A key characteristic of Serbian agriculture is the variability between different production sectors, some of which are more competitive than others. The \textbf{fruit and vegetable} sector is a good example with a wide variety of produce. The fruit sector is characterised by low yields, but overall production has increased for many species (for example, apples, pears, quince, plum, peaches, walnuts). Small scale production, old and low yielding varieties, and limited marketing characterise the sector. A wide range of vegetables is grown, many of which reveal slight declines in production over the 2004-08 period (potatoes, beans, onions, cabbage, tomatoes), as a result either of reductions in yields, or the area under production, or both. The \textbf{cereals} sector also suffers from reductions in total production over the period for all the major cereals including wheat, rye, barley, oats, and maize, with yield per hectare for maize also showing a decline, and yields for other cereals stable. Other major crops include sugar beet, which also shows a decline in production, while sunflowers, rape and soya reveal increases in tonnage produced. Rape, for example, has increased in production from 4,500 tonnes in 2004 to over 51,000 tonnes in 2008\textsuperscript{67}. There are also some areas of improvement, pepper production, for example, has increased through both higher yields and a larger area under production.

The \textbf{livestock} sector is significant and both live animals and meat products are significant exports for Serbia. Numbers of cattle, poultry and pigs have decreased slightly, however, over the period 2001-08\textsuperscript{63}, while sheep and goats show a slight increase. Numbers of livestock slaughtered have also decreased, although the data can be contradictory as some statistics suggest that meat production appears to have increased for all major forms of livestock over the same period (5 - 10\%), due to both increased numbers and an increase in meat production per livestock unit. In contrast the dairy sector suffers from poor quality and low yields. Although milk yield per animal has increased slightly over the period 2004-08, overall production has declined by 45 million litres\textsuperscript{63}. The sector is characterised by small herds, low inputs and low yields, with significant concerns over quality, poor sanitary conditions, and food safety.

Low performance in many fields can be accounted for by a range of factors, including inadequate levels of investment and low inputs (exacerbated by difficulties of obtaining credit), poor seed quality, low yielding varieties, declining number of agricultural holdings, and increased imports from outside Serbia. Overall, the level of utilised land has remained approximately

\textsuperscript{64} Statistical Office Communication no.286, 2010
\textsuperscript{65} N. Bogdanov, (2007) Small Rural Households in Serbia and the Rural Non-Farm Economy. UNDP
\textsuperscript{66} The World Bank Agriculture Sector Review, 2003.
the same over the last 5 years\textsuperscript{63}, although land in Cereals and vegetables reveals a slight decline, while land in industrial crops (e.g. oilseeds) shows a slight increase, perhaps accounting for some of the changes in crop production noted above. Some of the agricultural developments are undoubtedly due to \textbf{structural changes in farming}, but it is difficult to obtain a clear picture of the underlying causes of recent changes. Business enterprises and cooperatives have decreased from 1,011 to 812 in the period 2004-08, although the data suggest the largest reduction has been in the number of cooperatives without land. There have been smaller reductions in the number of enterprises with land (up to 5,000 ha per enterprise). The reduction might be indicative of a consolidation in farm organisational structure, but this is not clear, while the overall number of family holdings (based on 2002 census data) is 778,891 with no recent evidence to indicate current trends.

A major land use is \textbf{forestry}, significant for timber production, biodiversity, and for rural development. The total forest area of Serbia in 2008 was 2.7 million ha, or 30.7\% of the total land area (an increase of just under 3\% since 2000)\textsuperscript{68}; just over half (53\%) in state ownership and the rest privately owned. The vast majority (90\%) of Serbian forests are broadleaved species with most felled timber arising from state owned forests (75\%), while approximately 40\% of state forests are under some form of nature designation. Primary processing of timber from state-owned forests reveals a slight increase (6\%) over the period 2004-08, but no data is available on processing of wood from the private sector. The data do not reveal the current Condition of Serbia’s forests, which are stated to be “unsatisfactory”, and characterised by insufficient production volume, unfavourable age structure, unsatisfactory density of stocking and forest cover percentage, unfavourable stand condition, and unsatisfactory health condition\textsuperscript{69}.

There is also significant pressure on private forests as a result of difficult economic conditions and higher demands for forest products and services. Unregulated cutting takes place on small woodlots, as forested land is often utilised as a form of capital, to be drawn on when required by the owner and his family. Privately owned forest is characterised by small plots (average size 0.3ha) with an unknown number of owners (estimated at 500,000 to 800,000 owners). Constraints on development in the sector arise from lack of investment in technological development, institutional weakness, lack of training and a long period of isolation from the international community. Development of national capacity in education, science and research, technology, economy and social aspects of forests and forest management is regarded as essential for future sustainable forest management. Forestry has a role to play in terms of both rural development, providing alternative Sources of income for rural households (fuel, timber, game), in terms of environmental protection flood control, carbon sequestration), and supporting biodiversity (wildlife and plant habitat). Forestry thus forms an integral element for achieving sector aims and objectives.

The \textbf{rural area} of Serbia is expensive; the 2002 census identified around 3,900 settlements as total rural, with 33\% of those in employment working in the primary sector. Other sources\textsuperscript{70} suggest up to 75-80\% of the active working population in rural areas are involved in farming, but with over 600,000 farms having less than 5ha land much of this activity is for household consumption, rather than production for markets. Agricultural activity is significant, however, with 68\% of small rural households identifying agriculture as a source of income. Rural areas in Serbia are diverse: demographically, economically, geographically and socially; and many rural areas have suffered from intensive migrations and low levels of economic diversification. There is also high unemployment and a lack of job opportunities, which is undermined by weak and undeveloped infrastructure. These factors combine to give rise to low GDP per capital in comparison with urban areas. A recent OECD report recorded that poverty in rural areas of Serbia is twice that of urban areas. This was confirmed by the 2007 Serbian Life standard survey, which reported that 61\% of the impoverished live in rural areas and poverty is twice the level in rural than in urban areas (9.8\% to 4.3\%), and the difference between the poverty levels in rural and urban areas

\textsuperscript{69} Forestry Development Strategy of the Republic of Serbia, MAFWM, 2006.
\textsuperscript{70} N. Bogdanov, (2007) Small Rural Households in Serbia and the Rural Non-Farm Economy. UNDP.
has increased from 1.6% to 2.3%. Rural areas lag behind urban areas in terms of service delivery and household incomes. Rural businesses and particularly farmers lack access to cheap credit for investment, and support services to improve both agricultural business development and diversification into other economic activities. Nevertheless, rural areas in Serbia have significant human resources, and economic activities, and an important cultural heritage that provides a foundation for rural development.

Significant activities have taken place over the past decade to deal with some of the identified problems in the agricultural sector. New strategies and national programmes have been developed for agriculture, forestry, rural development and organic production, but the agricultural strategy, the national programme for agriculture, and the national programme for rural development all need to be adopted. The EC Progress Report for 2010 identified the need for improved implementation and enforcement, especially in the area of food safety.

In addition, 30 new primary laws have been adopted in the past two years in order to harmonise with the acquis communautaire, and 94 regulations were passed in 2010 alone, addressing implementation requirements for agriculture, food safety and phyto-sanitary issues, water, forestry and rural development sectors. The EC Progress Report for 2010 highlights the weakness of administrative capacity in the sector, the need for more highly trained personnel, more efficient allocation of resources, and strengthening of the inspection services.

The Veterinary Directorate of MABWM is actively involved in efforts to control the transmission of disease (Classical Swine Fever, Rabies), and to raise the quality of livestock and meat products through improvements to food processing facilities. Application of risk analysis, Hazard Analysis and Critical Control Points Systems (hereinafter: HACCP) implementation by operator and official controls need to be improved, while inspections and official controls at the external border need further upgrading, according to the EC Progress Report for 2010.

The focus within the sector is on food production and food safety, which are closely connected to rural development and quality of the environment. It is important to consider the sector in a holistic fashion in order to ensure that rural development, ecological protection, and agricultural activities are integrated to maximise benefits to society.

Serbian agriculture and rural development are operating in a context of adapting to the acquis communautaire with demanding new requirements throughout the food chain and to enhance rural development. For example, MAFWM has established the Rural Development Support Network of 16 regional and 140 local offices to prepare local communities for LEADER-type programmes and provide improved communications with local level stakeholders. With the establishment of the Directorate for Agrarian Payments, which is a forerunner of a Payment Agency, Serbia has put in place administrative structures for future implementation of IPARD (IPA component V) measures. The EC Progress Report for 2010 outlines the importance of appointing the managing authority, and staffing of the Agrarian Payments Directorate, while building inter-ministerial mechanisms for coordinating rural development policies.

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Strategic framework and sector priorities

A clear policy direction for agriculture is provided in the Agricultural Strategy for Serbia (2005)(74) (re-iterated in the National Agricultural Programme of the Republic of Serbia 2010-2013 (2010)(75)), which has three overarching aims of restructuring (of producers, ownership and institutions), development of market and market mechanisms, and improving rural development and environmental protection. Particular production units also have specific objectives in relation to agricultural produce. There is a focus on improving quality of production, through schemes such as Protected Designation of Origin (PDO), and Protected Geographical Designation (PGD) for agricultural products and food(67). In addition the National Action Plan for the Development of Organic Farming (2010)(76) has the overall aim of increasing the amount of land in certified organic production, or in conversion to 50,000 ha by 2014 (from a base level of 596 ha in 2009). Other key areas of activity include plant health, seed and plant materials, plant protection products, and veterinary policy, which are only partially harmonised with EU legislation and need further laws and by-laws to be adopted(67).

The Serbian Draft National Rural Development Programme for 2011-13(77) identifies three strategic objectives relating to improvement of the agricultural and food sector: encouraging the improvement in food safety, veterinary and phyto-sanitary activities, bringing into line with standards required by the EU acquis communautaire; and, encouraging sustainable development of the rural economy and rural areas by encouraging diversification. The Forestry Development Strategy of the Republic of Serbia (2006)(78) has an overall strategic aim of preservation and expansion of forests linked to development of forestry as an economic activity. Key aims include supporting the economic and social functions of forests, while preserving the ecological features, institutional building and support for management that will enable sustainable exploitation of forest resources.

Other key national strategies affecting the sector include: Energy Development Strategy of the Republic of Serbia; the Biomass Action Plan for the Republic of Serbia 2010-2012; the National Sustainable Development Strategy (2008) with a focus on sustainable development (including preservation and improvement) in the areas of water, land(soil) and forests; the Strategy for Regional Development (2007-2012), which addresses the specific problems of rural areas and obstacles to their development; the National Employment Strategy 2005-2010, which aims to support entrepreneurship and establishment of new SMEs through innovation in the agricultural sector and food production; the Strategy for the Development of Tourism of Serbia (2005 – 2010), with one objective being promotion and development of rural tourism; and the Poverty Reduction Strategy of the Government of the Republic of Serbia (2003), which incorporates separate goals and strategic objectives aimed at the reduction of rural poverty. The National Programme for Environmental Protection (2010) defines priorities related to protection of nature, biodiversity and forests, fishery as well as agriculture, forestry and hunting for the period of 2010-2014.

The key strategy documents in this sector have similar goals in terms of balancing the three overarching aspects of the sector: modernisation of agriculture, the economic and social development of rural areas, and agri-environmental and biodiversity protection. The broad priorities for the sector are clear and widely shared.

Based on the overall strategic framework and the current situation in the sector, the following mid-term priorities have been identified:

73 Currently the draft Strategy for Agriculture and Rural Development (2010-2020) is in the pipeline
74 Agricultural Strategy for Serbia, 2005
77 Draft Serbian National Rural Development Programme for 2011-13
78 Forestry Development Strategy of the Republic of Serbia, MAFWM 2006
• **Increase competitiveness of agriculture, forestry and fisheries, through managing the quantity and quality of Serbian agricultural production resources**

Serbian agriculture has the potential to be a key economic driver, but in almost all sectors of activity, all elements in the supply chain from initial production through to processing and marketing require improvements to make them competitive with similar products from other EU countries, and to enhance the potential for developing products for export. This must start with improved provision of advice and expertise to raise awareness of expectations and how to deliver improvements in agricultural production.

• **Improve food safety, animal health, animal welfare and plant health to harmonise with the EU integrated approach to food safety**

Implementation of food safety, animal welfare, and other legislation to comply with the *acquis communautaire* is currently weak and requires a sustained programme of capacity building. This must improve both the inspection services and the information systems upon which they rely.

• **Support sustainable rural development that encourages diversification of the rural economy, and improves the quality of life in rural areas**

A large proportion of the Serbian population live and work in rural areas, which suffer in many areas from an aging population, poor quality services and outmigration. In order to build a viable and competitive agricultural sector, there must be a focus on diversifying the rural economy to provide a wider range of jobs, and to improving the quality of life in rural areas to maintain viable populations in small towns and villages, that can provide the skilled labour force for modernised agriculture. The priority requires institutional changes to enable the implementation of more effective initiatives, and to ensure more effective inter-ministerial policy and programme coordination.

• **Protect and enhance agri-environmental quality and biodiversity as a contribution to environmental and ecosystem protection**

EU agricultural policy is dedicated to conserving and enhancing the quality of the environment. Economic efficiencies arising from modernisation and improved competitiveness must take place in a culture of ecological concern. Capacity-building to create a modern agricultural system must include attention to the potential for ecosystem impacts, and develop knowledge and skills to maximise positive benefits and minimise the negative aspects.

**Measures for implementing sector priorities**

During 2011 – 2013, the sector’s priorities will be achieved through the implementation of the following measures:

**Priority 1:** Increase competitiveness of agriculture, forestry and fisheries, through managing the quantity and quality of Serbian agricultural production resources

**Measure 1.1:** Modernising information support systems for policy development, monitoring and evaluation

**Aim:** To improve the collection, storage, management, analysis and interpretation of information for effective support in the implementation of new regulations.
Description: Modernisation of information support systems is required across the sector, in terms of underpinning improvements in the agricultural sector, strengthening implementation of legislation and, improving border controls. At the same time, there is a need to modernise extension and advisory support for product marketing, for example, through training and awareness raising, and creation of producer and processor information systems underpinned by higher quality information on land management (e.g. land use and soil quality maps, land parcel identification system, forest quality and production information). Support will focus on modernising the infrastructure to enable capture, management and communication of information across the sector using standardised approaches and procedures, and in capacity-building of relevant staff (e.g. analytical and data management skills), which will address the administrative capacity weakness identified in the EC Progress Report for 2010. The Report also notes that in the Veterinary, the IT infrastructure needs to be upgraded, the Veterinary Directorate’s capacities for database management need to be strengthened, and veterinary inspectors need training on the new principles introduced by legislation.

Measure 1.2: Developing the provision of information to improve the production, processing, and marketing of agricultural products throughout the product supply chain.

Aim: To support the development and promotion of quality products that attain EU standards.

Description: Producers and processors require improvements in the sources and quality of information available, to enable them to make sound investment decisions that will make them more competitive in the wider EU market. The measure will focus on capacity-building among farmers, producers and processors, to help them identify products and take advantage of registration systems that add value to products, enhance production, processing and marketing, and provide improved information and dissemination systems at national and local levels. Investment will focus on upgrading the quality of support and advice to producers and processors in the four recommended sectors: grain and industrial crops; milk and dairy products; meat and meat products; fruit, grapes and vegetables.

Measure 1.3: Strengthening product and plant protection systems

Aim: Effective product protection systems will assist in modernisation and enhance the competitiveness of Serbian agriculture, and will provide support in particular for plant protection through enabling Serbia to create reference collections, access new, high yielding plant varieties, as well as identify and protect local varieties and products with unique local characteristics.

Description: This measure will focus on building capacity of farmers, producers and processors to identify products and use the registration systems for Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI) products; and establish and maintain reference collections in order to provide baseline information for plant variety testing and registration purposes. The measure will also create controls on movement of plant materials, establish processes and methods for the registration and protection of plant species and varieties, create reference collections for testing and registration of new varieties (especially in fruit production), and to ensure old and local varieties are not lost. The measure will also contribute to harmonisation with EU standards on plant protection products through improvements to the registration system, and introduction of the plant passport system. This measure addresses a range of issues highlighted in the EC Progress Report for 2010, such as the adoption of a strategy and action plan for the introduction of a plant passport scheme, and upgrading of controls at external borders.
**Priority 2:**  Improve food safety, animal health, animal welfare and plant health to harmonise with the EU integrated approach to food safety

**Measure 2.1:** Strengthening the inspection and control services and certification systems.

**Aim:** To improve the level of coordination among inspection systems (both internal and border), upgrading national reference laboratories, and ensuring that controls on food and feed safety comply with national legislation, EU standards, and international best practices.

**Description:** Support under this measure will focus on developing more efficient and standardised inspection procedures, capacity building including possible re-structuring of the inspectorate services, and training activities (with particular attention to risk analysis, hazard analysis, and administration of critical control point plans), provision of necessary tools and equipment required (e.g. IT and communications systems, including the necessary software and hardware for risk analysis, upgrading of national reference laboratories where needed), creation of secure networks, and establishment of monitoring and evaluation systems in order to enhance the credibility of inspections across the sector. Development of cradle-to-grave controls over the food chain are also required to reduce negative impacts of agriculture on ecosystem services (for example, arising from application of plant nutrition products, plant protection products, and from feed production through to food processing wastes) and to encourage good agricultural and environmental practices (such as integrated pest management). This measure takes into consideration the EC Progress Report for 2010, recommending that implementation and enforcement of legislation needs to be upgraded, especially in the food safety area. The Progress Report identifies a range of related issues that should be addressed in the programming period, including: weak administrative capacity, more efficient allocation of resources, further training in the inspection services, and recruitment of qualified staff in the newly established bodies. In particular, the Report indicates the need for upgrades to inspections and controls at external borders. In the veterinary area, the Report notes that amendments to the import licensing system are necessary as the current system is not compatible with the acquis; legislation on border controls is not enforced and veterinary inspections and controls at external borders have not been upgraded. In addition, there is a need for improved enforcement of legislation in relation to registration and control of all cattle markets, and raised awareness of the legal framework for animal identification and registration. The measure also contributes to implementing the recommendation in the EC Progress Report for 2010, which notes that, in the phyto-sanitary area, further implementing legislation needs to be adopted, especially for the Law on Plant Protection Products and that the procedure for registration of new plant protection products is not harmonised with the EU acquis. In addition, there is a need for a pesticide residues monitoring programme to meet EU requirements.

**Measure 2.2:** Developing capacity in the agri-business sector to meet improvements in food safety and animal welfare standards.

**Aim:** To raise awareness and capacity among producers, processors and other operators throughout the food supply system to understand and adapt to higher EU food safety standards, and provision of support to identify operational improvements.

**Description:** Support under this measure will concentrate on building capacity in the extension and advisory services, competent authorities, food associations and consumer groups, to enable improved understanding of hygiene and food safety requirements, and delivery of training to relevant persons operating within the agri-business sector and food supply chains. The measure will include training and support for the implementation of Hazard Analysis and Critical Control Points Plans, compliance with EU food safety standards, and
preparation of a wide range of materials such as guides to good hygiene practices, that will target various fields of the food supply chain, particularly in areas where products have been identified for development for export. This measure addresses weaknesses identified in the EC Progress Report for 2010, which indicates that little progress has taken place in the area of food safety and substantial implementing legislation needs to be enacted and enforced. It points out that the principle of risk analysis is not yet applied and an adequate database system needs to be set up for this purpose, along with improved implementation of Hazard Analysis and Critical Control Points Plans. This measure will enhance capacity of those affected by higher standards to comply with new laws and regulations.

**Priority 3:** Support sustainable rural development that encourages diversification of the rural economy and improves the quality of life in rural areas

**Measure 3.1:** Develop capacity for delivery of rural development programmes

**Aim:** Enhance capabilities throughout the sector in preparation for, and implementation of measures contained in the National Programme for Rural Development.

**Description:** Implementing the EU Rural Development Regulation will be an enormous task, and one for which preparation should start as soon as possible, especially as access to IPA Component V funding (which depends on achieving EU candidate country status) is expected by the end of 2011 or early 2012. Achieving harmonisation with the EU Rural Development Regulation will require capacity building both within and outside of government bodies to deliver the aims of rural development in improving competitiveness of agriculture and diversify the rural economy. Areas that need to be developed include: government systems within MAFWM (e.g. effective rural payments agency and managing authority); communications and dissemination of information regarding integrated rural development; improved agricultural production techniques; new approaches to processing and marketing raw materials (including wood products, wood biomass, food, and industrial crops). Support in this area would be expected to include skills training, awareness raising (regarding improvements in agricultural practices and service provision to improve quality of life in rural areas), and in creation of producer and processor organisations. At the local level it is necessary to improve the process of establishment and implementation of rural development plans, based on integrated territorial approach.

Support in this area will also focus on improvements in provision of specialist advice in order to maximise local and national economic benefits where Serbia has a comparative advantage (e.g. improvements in dairy and meat production need to address a wide range of issues including grazing management, milk quality, carcass quality, and new product design and marketing). Decentralisation of decision making and implementation through creation of new structures that provide for improved communications, and enhanced local input to decision making is of importance.

The effectiveness of the proposed rural development measures will be enhanced through new and improved institutional structures, for example, communication links both within MAFWM, and between MAFWM and other ministries that have responsibilities impacting on rural development and agricultural production. This also suggests an increased need for high-level strategic decision making that considers the relationship between rural development and agricultural production (including forestry) to ensure complementarity between policies affecting rural development. Rural development will require support in the form of improved accounting and transparency of activities, which can be achieved through careful monitoring and evaluation systems.
to ensure that activities compliment rather than conflict with each other. Support will also be required for development of pilot institutions at the local level (e.g. auction marts and new forms of product marketing, building up the new rural development centres, local action groups, partnerships, producer groups) with capacity for making decisions and managing funds, plan and develop agro business and strengthening of local-regional-national links to ensure rural development measures are effectively implemented.

**Priority 4:** Protect and enhance agri-environmental quality and biodiversity as a contribution to environmental and ecosystem protection

**Measure 4.1:** Strengthening the knowledge transfer capacities of extension and advisory services

**Aim:**
To enhance the capacity of extension and advisory services within Serbia to provide up-to-date and relevant information regarding sustainable agriculture and forestry practices, to targeted audiences in agriculture, forestry and rural development, which will have an impact on competitiveness, food safety, rural development, agri-environment and biodiversity awareness.

**Description:**
The extension and advisory services need to develop new approaches to delivery of services in order to increase the number of farmers and land-owners that can benefit. In particular, advisory service agents need enhanced understanding of requirements for animal health and welfare, certification (under organic schemes and forest stewardship schemes), risk management, good understanding of funding opportunities, and raised awareness of good agricultural and forestry practices. A programme of capacity-building is required that provides for improvements in skills, training, understanding, communications, and dissemination of information in the correct format, to targeted audiences. This measure should be applicable to a wide range of advisory services in the public and not-for-profit sectors, to enable organisations such as producer associations to benefit from improvements in capacity. The EC Progress Report for 2010 notes that, in the phyto-sanitary area, further implementing legislation needs to be adopted, especially for the Law on Plant Protection Products and that the procedure for registration of new plant protection products is not harmonised with the EU acquis. In addition, there is a need for a pesticide residues monitoring programme to meet EU requirements.

**Programming of international assistance**

The measures proposed for funding under this NAD have been selected to complement national and international interventions to support agriculture and rural development in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.

**Ongoing activities**

According to the ISDACON database, in the period between 2007-2009, it is estimated that a total amount of €33,44 million was actually disbursed in assistance from the international donor community to the Agriculture and Rural Development sector in Serbia (see following diagram).
In the four annual programmes 2007-2010, IPA Component I is financing projects in the agriculture and rural development sector worth a total of around €20 million. This support has been focused on the following specific activities: harmonisation with EU legislation, implementation of new legal provisions and controls on plant protection products and support for marketing; support for the control and eradication of classical swine fever in Serbia; capacity-building and technical support for the renewal of viticulture zoning and control of the production of wine with designation of origin; establishment of the Serbian Farm Accountancy Data Network (FADN); and the supply of equipment and a courier service and capacity-building for the Serbian National Reference Laboratories Directorate in the food chain. Technical assistance has also been provided for institutional capacity-building and support to agriculture and rural development in Serbia, and in anticipation of IPA Component V, a twinning project funded through IPA 2007 will assist in developing capacity in the Paying Agency and establishment of Management Authority, as well as putting in place the LEADER approach for rural development. Although considerable interest has been shown in twinning projects, this requires a high level of organisation on the part of beneficiaries. A key issue has been inability of the beneficiary country to absorb all the funds from previous years’ projects (for example, spending on laboratories equipment), due to inadequate preparation of facilities. In addition institutional and legal issues (e.g. long licensing and permitting procedures) have slowed down project implementation.

Other donors are also contributing to the adoption of agri-environment and agri-business schemes, and rural development, with support from Japan, Netherlands, Norway, Romania, Spain, Sweden, United Nations and United States. This includes: support to the Ministry of Agriculture, Forestry and Water Management (MAFWM) to develop its economic research capacity (US) and phyto-sanitary, veterinary, veterinary inspection and milk testing capacities (Netherlands); targeted assistance on plant genetic resources (Sweden), domestic fertilizer (Japan) and biodiversity, and the development of a National Agri-Environment Programme (Netherlands); increasing the competitiveness of agri-businesses (United States) and helping farmer cooperatives (Norway); supporting partnerships to revitalise rural areas based on the LEADER approach (UNDP and Romania); and finally, facilitating the development of sustainable rural tourism (UN and Spain).

Funding forecast

The agricultural and rural development will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected for implementation requires continuous financing. According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (December 2010), the following funds are planned to be allocated from the state budget in the next three years:

Table 7 - Total state budget expenditure limits for 2011-2013 (in EUR*)

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry for Agriculture, Forestry and Water Management*80</td>
<td>194,839,112</td>
<td>205,559,413</td>
<td>217,250,885</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The Budget Memorandum introduces the main Government’s main strategic objectives in the area of agriculture and rural development in the next period:

- increase the competitiveness and efficiency of the agricultural sector;
- provision of quality and safe food for domestic market and export;
- support sustainable rural development;
- preservation of the environment from harmful effects of agricultural technological processes;
- preparations for WTO and EU accession;
- reform of the cooperative sector.80

According to information from the donor community (see Annex IV), new grant commitments in the agriculture and rural development sector are expected to be at least €43,4 million for 2011-2013.

Forecasts and future challenges

The new draft agricultural and rural development strategy81 for the period 2010-2020 indicates a continuation of current policy direction to modernise agriculture, improve food safety and undertake rural development. It also indicates the desires for the Republic of Serbia to join the WTO, which would mean a potential reduction of protection for agriculture, for example through elimination of export subsidies and changes in the structure of internal support to domestic agricultural production. In addition, it is expected that, in the next period, import protection for products originating from EU countries will be terminated. The Republic of Serbia should also achieve candidate status for EU membership, so increased levels of support from all EU IPA components might occur after 2014, including IPA component V. These processes will create pressure on the domestic market, in particular small family farms, and additional forms of support may be necessary to ensure small farms, and the rural economy, prosper.

In terms of agricultural production, it is expected that small farms will continue to decline, due to the age structure of the farming population, out-migration from rural areas and lack of new entrants to farming (urban opportunities and more certain income streams attract young people), and difficulties of meeting new food safety and animal welfare standards. Development

80 Including budget for Water Directorate (year 2011 - 2,098.545 EUR; year 2012 - 2,058.719 EUR; year 2013 - 2,059.791 EUR)
of larger holdings will be constrained by cadastre, registration and ownership problems, which create uncertainty in the land market and difficulties in amalgamating land to create larger and more efficient holdings. Overall, agricultural activity might decline, but it is likely to be among the smaller farms that do not produce for the market, or that have difficulty in attaining higher standards due to the need for investment. Livestock and meat production are likely to increase once improved food safety standards are in place, while production in the dairy sector is likely to decline due to increased competition from other EU member states and the level of investment required to improve Serbian production. Oilseed production is likely to increase as a result of increased demand for high quality animal feed and bio-fuels, and the area under viticulture is likely to grow, although more slowly, restricted by difficulties of small, dispersed land parcels. The area of land under organic production is likely to increase, but this is dependent on consumer demand translating into premium prices for organic produce. Food security will become more important and may lead to increased demand for localised production with shorter supply chains.

Land taken out of production is likely to lead in the long-term to an increase in unmanaged woodland. Small-scale woodland will be uneconomic in terms of timber production, but may provide environmental benefits in terms of increased biodiversity and carbon sequestration. Poor quality woodland may also benefit rural areas in economic terms through providing wood fuel, and potentially increasing demand for renewable resources and biomass. Where small-scale biomass can be utilised, a range of alternative production uses for land can be envisaged.

The EU’s Common Agricultural Policy is due to be reformed by 2013, and the process of debate has started with the ‘Europe 2020 Vision’, which stresses the importance of integrating the Common Agriculture Policy with rural development. The ‘two-pillar’ system is likely to remain and there may be increased funding diverted to bottom-up ‘LEADER’ type rural development activities. At the “Agriculture and Fisheries” Council Meeting in March 2010 it was stated that agriculture could play a key role in ensuring smart, sustainable and inclusive growth. The increasing emphasis within the EU Common Agricultural Policy for supporting more holistic rural development is likely to see higher levels of funding diverted into Pillar 2 support mechanisms. This will create pressure to manage rural areas in a more integrated manner to provide alternative sources of income through diversification (using forest, water and land resources in more innovative and multi-functional ways), improve the quality of life in rural areas, and engage in environmental protection. EU agricultural policy is likely to continue to focus on high standards, environmental protection, and production of quality produce as a means to remain competitive in the world market for food. Serbia will need to manage agricultural production to improve quality and support diversification, without destroying the unique character of local products, or destroying small-scale operations, which supports rural employment and the rural economy.

Energy issues will also come to the fore, in particular the potential for energy generation from agricultural (bio-fuels, waste-to-energy) and forestry products (e.g. wood processing and forest residues plus fuel wood). The latest studies from the FAO/TCP/YUG/3201 project shows that Serbia has 1.2 million m$^3$ of residues from forests and wood industries, and that, with other sources of woody biomass, this provides an energy potential with present consumption of 1.2 million tonnes, which is almost 14% of all final energy consumption in Serbia. Biomass energy offers scope for local economic development, as well as opportunities for the development of new products, an area of activity that is likely to increase in importance in the near future.

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Transport

Description of the sector and recent developments

Transport should establish conditions for the free movement of people and goods within Serbia, as well as internationally. The sector makes a valuable contribution in terms of activity and GDP growth, and is considered one of the major contributors to the economy's development, employment and future increase in competitiveness. Current statistics show that the transport sector, together with storage and communications, is contributing 7.5% of GDP and 8.3% of total employment. Transport performance and effectiveness depends strictly on the capacity and quality of infrastructure, and the quality of transport services, including the interoperability of different modes, networks and systems. The transport sector in Serbia includes road, rail, inland waterways and air modes, and intermodal transportation.

The basic transport infrastructure is relatively well established and can be considered a good basis for further development. It consists of 43,838 km of roads, 3,809 km of railways, 1,680 km of inland waterways, two international airports, five secondary and 16 tertiary airports, and three partly-developed intermodal terminals. Though transport network is at the level of medium-developed European countries, its capacity and quality is reduced due to insufficient investment and inadequate maintenance in the past. This has resulted in outdated technology, infrastructure quality below EU standards, and transport network bottlenecks/limitations (speed limits, single rail lines, non-electrified rail lines, gauge UIC-C standard, critical sections and UXOs in the Danube and the Sava River, poor infrastructure of ports, insufficient transport capacities of Djerdap locks, etc.).

In 2008, the gross investment and maintenance spending reached €710 million in case of roads, total of €51 million in inland waterways and only €23 million in railways. This indicates that the Government has strongly prioritised construction and reconstruction of road infrastructure. Transport sector is faced with a lack of continuous financing and insufficient capacity for infrastructure project documentation development.

The motorway density of 4.8 km/1000 km² is much lower than in Austria (19.9 km/1000km²) or the UK (14.85 km/1000km²), and is comparable with countries like Bulgaria (3 km/1000km²) or the Czech Republic, Slovakia or Hungary with around 7 km/1000 km². The density of the rest of roads of 500.8 km/1000km² can be compared with Macedonia or Montenegro, and is about a half of the density of this category road in Austria or the United Kingdom. The EU-27 average is 1,214.9 km/1000km².

The statistics for roads development, except motorways, for years 2000-2008 indicate the EU-27 and all the candidate and potential candidate countries, except Serbia, showed a growth in road lengths. For the EU-27, growth averaged around 0.7% per year, while in Croatia and Turkey (2004 to 2008) there was very little change (0.3% and 0.2% respectively). Road lengths in Albania (2003 to 2008) grew by more than 7% per year.

The technical condition of roads is not satisfactory; more than half of local roads are not appropriate for needs of modern traffic, 32% of the main and regional roads are over 20 years old, and only 14% were constructed less than 10 years ago.

The railways density of the Republic of Serbia of 49.2 km/1000km² is comparable with the EU-27 average (50.1 km/1000km²), and with France and Romania that have a density of 46 km/1000km². Up to 46.4% (1,768 km) of railways are the main lines.

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84 Eurostat Pocketbook on candidate and potential candidate countries, 2010 edition
85 SEETO – Five Year Multi Annual Plan 2010 to 2014 and the General Master Plan for Transport in Serbia
of which 1,254 km (32.7%) are electrified. Only 7% of the lines (272 km) are double-tracked. About 45% of the railway lines have allowed axle load of 22.5t, while 30% is less than 16.86.

In Corridor X, which ought to be the best maintained part of the network, the difference between design and actual speed varies between 15% and 40%. The speed of trains exceeds 100 km/h on only 3.2% of the lines, and about 50% of rail network allows maximum speed of up to 60 km/h. Except the lines Belgrade - Šid and Velika Plana - Niš, which are double-track, electrified and in some parts with a greater speeds, all other lines have obsolete technical and technological parameters. However, the situation of speed restrictions has not worsened dramatically during the last 10 years.

Serbia has favourable economic and geographic features for cargo inland waterways transport (IWT). The total length of Serbian inland waterways, at the average water level, is about 1,680 km. The Danube River flowing through Serbia allows central Europe’s connection to the Black Sea and through Danube-Rhine-Main canal, the North Sea. The Tisa River offers a connection with Eastern Europe, while the Sava River connects Serbia to western former Yugoslav Republics near the Adriatic Sea. The network of navigable canals within the Hydro-system Danube-Tisa-Danube (HS DTD) is about 600 km.

Average operating speed on the Danube is given as 8 to 14 km/h upstream and 15 to 20km/h downstream. The maximum draft of the vessels plying the Danube is between 2.5 and 4.5 m, this requires a minimum water depth in the range of 3.2 to 6 meter. The Danube Commission requires a minimum water depth of 2.5m82.

The most important ports on the Danube River are: Belgrade, Pančevo, Smederevo and Prahovo; Belgrade and Pančevo ports have container terminals.

Four airports (Belgrade, Niš, Vršac and Bor) are used for commercial purposes. Belgrade Airport “Nikola Tesla” and Niš Airport “Konstantin Veliki”, being a part of the Core Regional Transport Network, are used for international flights. In addition, based on the official airport register published by Civil Aviation Directorate of Serbia, there are 22 more certified airports. Several military airports operated by the Serbian Armed Forces have good potential for further network development as civil or combination civil-military category airports.

There are only three partly functional intermodal terminals in Serbia: the ZIT (Railway Integral Transport) nearby the central railway station in Belgrade, in the port of Belgrade, and in the port of Pančevo. These employ mostly multifunctional equipment and universal devices which enable trans-shipment of containers and some huge-pack transport units. The project for selection of specific place for a new intermodal railway terminal establishment is currently also in its implementation phase and will be financed through IPA 2008 funds.

Serbia is an integral part of the European transport network and through the Pan-European Transport Corridors (Corridor X and Corridor VII) links with the EU Trans-European Transport Network (TEN-T). While Corridor X includes the road and railway transport modes, as well as intermodal transportation, the Corridor VII represents the Danube River. In addition Serbia has the inland waterway network.

Transport development depends on the economic development of the country and the surrounding region. Recent transport trends in Serbia are similar to all Western Balkans countries. After a period of expansion since 2000, the growth in inland freight and passenger traffic halted in 2008, due to the global financial crisis which resulted in economic recession and falling domestic and international demand.

86 General Master Plan for Transport in Serbia
Road transport was the only mode demonstrating stable performance for freight traffic during the recent recession. Rail freight traffic in 2007-2009 dropped by 31%, inland waterways transport decreased in 2006-2009 by 47% (2006-2009), while air transport performance dropped from 7.5 million tkm in 2004 to 2.7 million tkm in 2009, which represents a 64% reduction. Though the roads represent a dynamic and dominant transport mode, road freight performance in 2009 expressed in tkm represents just a 23.6% share, while railways reaches 59.0%. This indicates an ideal division between transport modes, whereby transportation of bulk and raw materials is undertaken mainly by rail and inland waterways modes, which are considered more environment friendly and cost efficient.87

Passenger transport in Serbia is provided mainly by road and urban transport modes. While, like freight, the growth in passenger transport operations also halted in 2008, with a reduction of 10% in operations in 2009, it is striking that passenger rail transport has been in almost continuous decline from 2004 (annually between 5-15%) and lost about 37% of operations. By comparison, the road, urban and air transport data show a largely stable performance over the period. Data from 2009 demonstrate the largest share in passenger transport being held by urban transport with 44.8% and road transport mode with 40.1% of total usage expressed in pkm.83

“Nikola Tesla” Airport in Belgrade is the biggest airport in the Republic of Serbia, where 95% of passenger and 95% of freight transport is performed. The capacity of the airport is above 5.6 million of passengers a year, and at the moment more than 50% of the capacity is being used.

The core traffic flows of the railway, road and inland waterways transports are recorded within the main European corridors crossing the country (the Pan-European Transport Corridors X and VII and Route 4 of the Core Regional Transport Network); these are considered the backbone of the Serbian transport network. In case of railway traffic, over 50% of transport operations are realised on Corridor X that shares 25% of the network.

At present, the Republic of Serbia is intensively working on completing, upgrading and modernising the main transport infrastructure and harmonising its transport legislation with the EU.

The PE Serbian Railways, competent for railway development, as well as the PE Roads of Serbia and the Corridor 10 company responsible for management of state roads including management of investment in roads, are assisted in management of investment projects by IPA; this specific assistance is also provided by IFIs.

Regarding the legal framework, the Law on the Safety of Navigation and Ports on Inland Waterways, the Law on Civil Aviation, as well as the Law on Traffic Safety on Roads have recently been adopted and the regulatory bodies have been established within the state administration for railway, air transport, and road safety issues.

The EC Progress Report for 2010 has confirmed that Serbia has continued to comply with the obligations of the Interim Agreement and SAA; the market access provisions of the ECAA are being applied, the framework legislation has been adopted for inland waterways and air transport. However, the framework legislation remains to be adopted for railways, as well as the implementation legislation relevant to individual transport modes. The EC Progress Report for 2010 also calls for the need for further development of infrastructure, the establishment of conditions for gradual market opening and continuation in adoption and implementation of further legislation, as well as for improvement of the efficiency and the management capacity of transport institutions. The Action Plan for implementation of the 2010 EC Progress Report’s recommendations is in the process of approval by the Government.

Strategic framework and sector priorities

Policy directions for the transport sector have been determined by the following Government strategies:

The National Programme for Integration with the European Union (NPI) specifies obligations concerning the incorporation of acquis communautaire into the domestic legal system and tasks to fulfil criteria for accession. Mid-term priorities are defined for the areas of transport policy and transport networks, legal and institutional frameworks, and include adoption and implementation of legislation and capacity-building to meet future requirements.

The Strategy of the Railways, Road, Inland Waterways, Air and Intermodal Transport Development in the Republic of Serbia (2008-2015), including the Action Plan, incorporates principles of EU Transport Policy, the requirements of the SAA, the Community Strategy Guidelines on Cohesion, the NPI and the MIPD and introduces the principal goal of reaching the necessary capacity, compatibility and interoperability of Serbian transport with the neighbouring and the EU’s transport systems, while ensuring as low as possible adverse environmental impacts of transport development.

The National Plan of the Republic of Serbia for Road and Railways Infrastructure Development, which was adopted in 2008, lays out key projects/sections for railway and road corridors for the period 2008-2012, including consideration of infrastructure development financing; the total cost has been calculated as €2.9 billion.

The General Master Plan for Transport in Serbia and the Master Plan and Feasibility Study: Inland Waterways Transport for Serbia provide overall picture of transport infrastructure in Serbia and rolling out infrastructure projects necessary for implementation in the period 2009-2027, including costs calculation and rating of individual projects within specific transport modes. The total costs of public investment required for transport infrastructure development have been calculated as €15 billion.

In the medium term, Serbia expects to satisfy demand for a fast and quality transportation with a decreased impact on the environment.

Based on the overall strategic framework and the current situation in the sector, the following mid-term priorities have been identified:

- *Increase the effectiveness of all transport modes and the transport system as a whole*

  Transport competitiveness is deeply connected with the effectiveness of the whole system and with the efficiency of services provided. Serbian transport, represented by all transport modes, including intermodal transport, needs to establish common goals, based on the analysis of the effectiveness and efficiency of individual modes and considering their advantages to the competitiveness of transport, to provide the choice and offer of optimised transport options to users. This means implementing a purposeful planning and results-approached management, transport flows management, transport network development, increase in safety and efficiency, fair determination of prices, environmental protection, social responsibility, and strengthening of the internal market and the market external dimension (transit and export of transport services).
**Improve the capacity and quality of transport infrastructure and services within the Pan-European Transport Corridors and the South East Europe Core Regional Transport Network**

The quality, effectiveness and efficiency of transport services depend on the capacity and quality of transport infrastructure. A developed transport network together with the management of traffic flows are the basic conditions for providing a fast, safe and efficient transport service. The demand for transport services within the country, as well as for transit, is growing. Serbia needs to complete and further develop its transport infrastructure of national, pan-European and regional importance, and to increase the capacity and quality of the main road, railway and inland waterways routes, to avoid the current and expected future bottlenecks and limitations.

**Strengthen and gradually liberalise transport market**

The process of integration of Serbia with the European Union brings very specific requirements for the gradual liberalisation of the transport market. There has been done some progress in the previous period in the adoption of the *acquis communautaire*, and the process of harmonisation of the national legislation with the *acquis* continues, but in general, Serbia complies very slowly with the obligations arising in this area. The lack of administrative capacity and of necessary skills in implementation of legislation into daily practice is often the reason for this situation. Administrative capacity needs to be strengthened for the implementation of adopted legislation.

**Measures for implementing sector priorities**

During 2011-2013, the sector’s priorities will be achieved through the implementation of projects under the following measures:

**Priority 1  Increase the effectiveness of all transport modes and the transport system as a whole**

**Measure 1.1 Institutional strengthening and building the capacity of the state administration and institutions engaged in transport management**

**Aim:** To contribute to effective and sustainable development of the transport sector by better organisation of transport operations, based on economical, safe and environment protecting aspects and by application of goal-oriented planning and managing of transport and transport organisations as well.

**Description:** This measure will enable the state administration and transport institutions to benefit from specific assistance on developing and improving the knowledge and skills in strategic management and planning, internal organisation and infrastructure investment management, project documentation development, procurement and project implementation management. The creation and maintenance of long-lasting partnerships with the EU counterparts can be also expected. The measure will contribute to the implementation of the recommendations of the EC Progress Report for 2010 related to improvement and reinforcement of the administrative capacity, and the Government approach to the restructuring of transport enterprises, increasing the scope and quality of services, rationalisation of the network, increasing the share of intermodal transportation and the efficiency of the whole transport system.
**Priority 2**  
*Improve the capacity and quality of transport infrastructure and services within the Pan-European Transport Corridors and the South East Europe Core Regional Transport Network*

**Measure 2.1 Modernising railway infrastructure**

* Aim: To contribute to increasing the capacity and improving the quality of Serbian railway network of core importance, to satisfy growing demand for a fast and quality railway transport relevant to the European standards.

* Description: The measure will focus on further development of railway infrastructure which will be reached by reconstruction, upgrading and modernisation of specific sections of existing railway lines, mainly within the pan-European Transport Corridor X (the Northern part of the Railway Corridor X (Xb), Stara Pazova - Novi Sad – Subotica - Hungarian border as well as the Southern part of the Railway corridor X (Xc and Xd) Niš- Dimitrovgrad - Bulgarian border; Niš - Preševo - Macedonian border; Resnik - Klenje - Mali Pozeravac - Velika Plana and further along Corridor X towards Niš) and the Route 4 of the South East Europe Core Regional Transport Network (Romanian border - Vrsac - Belgrade - Montenegrin border). In addition to investment projects with already developed and approved project documentation and their supervision, specific effort will be given to development of documentation for the future projects required for modernisation the network. European standards for TEN-T are considered for implementation, to reach the required quality of services.

**Measure 2.2 Completing the road network**

* Aim: To contribute to improving the capacity and quality of services provided for road transport by completing the road network, to satisfy growing demand for a fast and safe road transport within the country, as well as international transit.

* Description: The measure will support continuation of the construction of missing sections of the motorway network of national and international importance, and will be focused mainly on the planned motorways within the pan-European Transport Corridor X (Belgrade - Novi Sad - Hungarian border; Belgrade - Niš - Macedonian border; Niš - Dimitrovgrad - Bulgarian border) and the Route 4 of the South East Core Regional Transport Network (Belgrade - Čačak - Montenegrin border). In addition to investment projects with already developed and approved project documentation and their supervision, specific effort will be given to development of documentation for the future projects required for completion the network. The European standards for TEN-T are considered for implementation to reach required quality of services.

**Measure 2.3 Capacity strengthening for efficient intermodal transport**

* Aim: To contribute to increasing the capacity for intermodal transport in Serbia and providing the infrastructure necessary for accelerating the development of intermodal transportation.

* Description: The measure will support facilitation of intermodal transport in Serbia by establishing an intermodal terminal, based on results of two specific projects implemented with support from the Netherlands Government (2009) and IPA 2008. The investment project, including supervision, and assistance to the terminal operator in management of the terminal are consider for implementation.

**Measure 2.4 Improving navigation conditions within inland waterways**

* Aim: To contribute to improving the safety of navigation within Serbian inland waterways.

* Description: The measure will be delivered through investment projects, building on the results of already implemented or running IPA projects; specifically, the measure will support implementation of hydro technical works and dredging of the river bed to eliminate critical sections of the fairway, as well as other bottlenecks dangerous
for navigation (e.g. UXOs removal, Djerdap locks renewal), and the establishment of the River Information Services (RIS), all in accordance with documentation developed. Project documentation development for further navigation improvements is also under consideration for implementation. Specific attention and the main priority will be given to the Danube, the Sava and the Tisa rivers.

**Priority 3  Strengthen and gradually liberalise transport market**

**Measure 3.1  Strengthening institutions in implementing the Single Market regulations**

**Aim:** To contribute to implementing the *acquis communautaire* and integrating Serbia with European Union.

**Description:** The measure delivery will be supplementing the implementation of the *acquis communautaire*, specifically focused on implementation by the state administration, transport institutions and transport enterprises of the newly adopted national legislation relevant to transport into a real life, for example, the Law on the Safety of Navigation and Ports on Inland Waterways, the Law on Civil Aviation, the Law on Traffic Safety on Roads and others, including by-laws. The measure will contribute to the implementation of the recommendations of the EC Progress Report for 2010 for strengthening the administration’s capacity in the implementation of adopted legislation and establishment of conditions for a gradual market opening. It is in one hand with the Government approach in liberalisation of infrastructure activities where competition can be introduced. The measure will be delivered through providing a methodology, assisting in good practice adoption, organising and delivery of training, study visits, on the job training, twinning, etc. The creation and maintenance of a long-lasting partnership with the EU counterparts can be also expected.

**Programming of international assistance**

The measures proposed for funding under this NAD have been selected to complement national and international interventions to develop transportation in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.

**Ongoing activities**

According to the ISDACON database, in the period 2007-2009, it is estimated that a total amount of €385,38 million was actually disbursed in assistance from the international donor community to the transport sector in Serbia (see following diagram).
In the four annual programmes 2007-2010, IPA component I is financing projects in the transport sector worth around €73 million. The EU has increased support for capacity-building activities including the harmonisation process through projects, such as the implementation of the European Common Aviation Area Agreement in air transport and twinning with regard to the *acquis communautaire*. Substantial funds were allocated to improvement of the navigation conditions on the Danube, to the railway track condition analysis, the development of technical documentation for intermodal terminal establishment, the railway line modernisation, as well as support to project management and supervision of construction works on the road corridors, including the construction of Žeželj bridge on the Danube River in Novi Sad, co-financed by IFIs.

Significant investment and construction works are currently going to completion of roads within Corridor X, the road sections Belgrade - Novi Sad - Horgos - Hungarian border and Niš - Dimitrovgrad, the bypass in Belgrade and the Žeželj bridge in Novi Sad, as well as the railway line reconstruction and modernisation works for completion of the Corridor X, specifically in the sections between (Belgrade) –Batajnica - Golubinci, and Niš - Dimitrovgrad - Bulgarian border. Studies and projects documentation are in development for railway sections Niš - Presevo - Macedonia, Novi Sad - Subotica - Hungarian Border and the Route 4 section Belgrade - Vrbnica - Bar in Montenegro. The establishment of River Information Services (RIS) on the Serbian part of the Danube River, as well as documentation development for the hydro technical works in order to regulate the water course and removal of UXOs from the Danube are ongoing and will be completed in 2012; the RIS for the Sava River is also under consideration. The renewal of the Djeđap locks on the Danube is also required to ensure a safe navigation; this is under the competency of the Ministry of Mining and Energy.

**Other donors** supporting the transport sector include Norway, the Netherlands, Switzerland, the Czech Republic and Canada. Financial construction for investment in road infrastructure will be completed with support from EIB, EBRD and the World Bank, through a series of loan packages worth a total of €1.6 billion. Substantial support has been ensured for rehabilitation of railway lines (€60 million loan from EBRD, a World Bank loan worth €80 million and ‘Loan for the Railway Reconstruction’ of €80 million from EIB). Multilateral assistance is represented by the Western Balkans Investment Framework, providing support for studies relevant to reconstruction of the railway line Niš - Presevo - FYROM and for the PE Serbian Railways.
Funding forecast

Transport sector will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected for implementation requires continuous financing.

According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (August 2010), the following funds are planned to be allocated from the state budget in the next three years:

Table 8 - Total state budget expenditure limits for 2011-2013 (in EUR*)

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Infrastructure</td>
<td>178,978,962</td>
<td>184,458,455</td>
<td>184,615,319</td>
</tr>
<tr>
<td>Directorate for Inland Waterways Plovput</td>
<td>1,573,245</td>
<td>1,684,841</td>
<td>1,808,090</td>
</tr>
<tr>
<td>Directorate for Railway Transport</td>
<td>421,721</td>
<td>454,456</td>
<td>490,654</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The Budget Memorandum introduces the main Government's main policy objectives, focused on increasing of the scope and quality of transport services and efficiency of the transport as a whole, including the rationalisation of existing railway network; the improvement of cooperation within the region; infrastructure development; the increase of inter-modality in transportation of goods by more intensive use of the river and railways transportation; and the intensification of constructing the Corridor X and restructuring of public enterprises.

According to information from the donor community (see Annex IV), new grant commitments in the transport sector are expected to be at least €88,3 million for 2011-2013. The implementation of large investment projects is not possible without financial support provided from IFIs. The soft loans for transport infrastructure development in Serbia are provided by the WB, EIB and EBRD, for the benefit of the PE Roads of Serbia and the PE Serbian Railways, which are competent for development of these transport modes. All loans are conditional on approval by the Government and the Parliament.

Forecasts and future challenges

Projections of future transport demand are based on data provided for GDP forecasts. The expectations relevant to reaching the goals and priorities for transport in the NAD have to take account of the economic environment, which is strongly influenced by the global economic crises and slow growth, starting from 2010. Unfortunately, there is no specific transport forecast available for consideration of future development of Serbian transport, which takes into consideration the recent global financial and economic crisis. Nevertheless, in general, a growth in demand is expected for transportation inside the country, as well as of transit via Serbia, which will require increasing of transport network capacity and improvement of the quality of the service. The recent forecast provided by the Business Monitor International (BMI)\(^8\) states that the state of the economy will lead to greater demand for freight across road haulage, rail, and river transport modes, and transport will achieve average annual growth of 4.0% in 2010-2014, versus 3.6% for overall GDP. The Regional Balkans Infrastructure

\(^8\) BMI: Serbia Freight Transport Report 2010 (December 2009)
Study - Transport (REBIS)\textsuperscript{89} for the period 2001-2025 estimates that road traffic will increase by between 200-300\% by the end of this period, and vehicle ownership will reach Western European levels of 500-600 vehicles per 1,000 head of population. Rail traffic is estimated to grow at a slower pace, 60-140\%. Inland waterway transport growth is estimated to increase by between 160\% and 215\%, and air traffic is forecasted to grow by between 315\% - 830\%.

Serbian transport is yet not ready to satisfy existing and forecast growing demand for transport services, and hence, transport development is considered important and supported by the Government. The capacity of transport infrastructure and quality of transport services are still unsatisfactory and far below EU standards. This is mainly because of a deficit of continuing financing, lack of interoperability and coordination between transport modes and also due to the lack of capacity and managerial skills within transport institutions. The General Master Plan for Transport in Serbia, adopted by the National Council for Infrastructure in June 2010, estimates the total \textbf{cost of public investment} required for transport infrastructure development in 2010-2027 at €15 billion. This presents not only a huge challenge for financing, but also for preparing civil engineering projects with all the requisite designs, feasibility studies, cost-benefit analysis, environmental impact assessments, land requirements, permits and other documentation. A maintenance backlog of the inland waterways and related infrastructure started in 1990. In the next 10 years, about €290 million is required for rehabilitation and maintenance of the system. An additional €220 million is required for intermodal transport development to improve inland waterways transportation competitiveness.

The needs and challenges facing Serbia in strengthening and improving its competitiveness, together with the adoption and implementation of legislation required for integration with the European Union, will strongly influence further development of the transport sector. In the coming mid-term period, Serbia needs to complete its \textbf{transport networks} to the forecast capacity and quality and reach European standards in transport services. This vision requires not only investment in infrastructure completion and its further development, but also improvements in transport \textit{acquis} adoption, strategic and operational planning, effective management, absorption capacity and efficient use of financial resources, and in \textit{acquis} implementation.

In anticipation of achieving candidate country status, Serbia has started to prepare for access to \textbf{IPA component III} in 2012-2013, by drafting the relevant programming documents (Strategic Coherence Framework and Operational Programme) and by preparing the proposed operating structure for decentralised management of the OP (see Annex II). Programming for IPA component III is in line with the priorities and needs presented in this document.

\section*{Environment and energy}

\subsection*{Description of the sector and recent developments}

The environment and energy\textsuperscript{90} sector is important for the economic development of the Republic of Serbia, in terms of covering growing energy and mineral resources demand and contribution to the country’s development through the creation of employment and introduction of new technologies. This sector has a direct impact on the quality of life of every resident, through the essential provision of power and heating, through the benefits of protecting the natural habitat and resources, land, forests, rivers and Serbia’s biodiversity, and by minimising the damaging effects on ground, soil, water, air and pub-

\textsuperscript{89} Cowi (2003), REBIS - Transport
\textsuperscript{90} For the purpose of this document, the term energy includes mining too.
lic health from economic development and everyday life. The careful management of scarce environmental and energy resources are vital to underpin the economy’s future growth and competitiveness. Concerning energy geopolitics, Serbia plays an important role as a potential regional energy hub, as well as access to gas from Russia and Caucus for Serbia’s and the EU’s energy security.

The exploitation of Serbia’s natural resources centres on the coal sector, with extraction and processing performed from opencast pits in three mining regions (Kolubara, Kostolac and Kosovo-Metohija basins) and eight underground mines, from which hard coal, brown coal and lignite are excavated. Otherwise, the most significant resources are metals, such as copper, lead and zinc, and non-metallic minerals. While mining makes a vital contribution to the economy, as a primary industry like agriculture, its negative impact on the environment is mainly seen through soil degradation and water contamination. According to the Energy Balance, Serbia is dependent on imports for 77% of its crude oil (plan for 2010), which is predominantly transported through the trunk oil pipeline from Omišalj in Croatia to refineries in Pančevo and Novi Sad. Natural gas is also largely imported (86%) through a trunk gas pipeline, extending 400km from the Hungarian border to Niš, and is distributed through large distribution networks.

Heating is sourced from natural gas (45% in 2010), liquid fuels (36%) and solid fuels (19%), with industry accounting for 41% of consumption, and households and other sectors for 59%. District heating exists in 55 cities, consisting of decentralised heat sources with an installed power of about 6,600 MW, and appropriate distribution networks, for heating supply to the residential, public and commercial sector. However, district heating remains below optimum efficiency due to lack of sensitive measurement and controls of heat delivered to end-users, with consequent environmental effects. The industrial energy system includes heating generation, with about 6,300 MW installed in several hundred industrial companies of Serbia. In about 30 industrial companies, there are power plants which enable combined heat and power production (with a capacity of about 250 MW), the largest number of which have not been operational for a long time.

Electricity generation in Serbia91 consists of installed power of 7,124 MW. The state-owned enterprise, Electric Power Industry of Serbia (EPS) generates most of its energy from lignite-powered thermal power plants (TPPs) at Obrenovac and Kostolac, which together constitute installed power of 3,936 MW, but has a detrimental effect on air, water and soil from low quality lignite, while a further 353 MW is available from crude oil and natural gas operated TPPs. The EC Progress Report for 2010 in Serbia finds that there has been little progress in security of supply, with no development regarding oil stocks, while natural gas interconnections between Serbia and other countries in the region remain limited, and the financing for the Niš - Dimitrovgrad gas interconnector has yet to be secured.

The EC Progress Report for 2010 also finds little progress in energy efficiency and renewable energy; the main elements of the acquis on renewable energy have not yet been transposed and the law on rational use of energy remains to be adopted. Renewable energy sources (RES) are unevenly and insufficiently exploited in Serbia, almost one-third of power generation comes from hydro power; the total generation capacity of 12 hydro power plants with 50 hydro units is 2,835 MW91. The overall biomass energy potential in the Republic of Serbia92 is estimated at 2.7 million toe93. It is composed of wood waste and forestry remains (around one million toe), and remains in cattle farming, fruit farming, vineyard remains and primary fruit processing (around 1.7 million toe). The biomass energy potential in cattle farming, which is suitable for biogas production, is estimated at 42.000 toe. Other potential exists in solar energy (0.6 Mtoe), wind power (0.2 Mtoe), geothermal sources (0.2

91 EPS Annual Report 2009 without data for Kosovo and Metohija
93 Tonne of oil equivalent
Mtoe) and further use of hydro power (0.6 Mtoe)\textsuperscript{94}. Renewable energy is recognised as an environmentally-friendly source of energy. The increased use of renewable energy resources in Serbia would contribute to increased reliability of energy supply, help the establishment of sustainable energy development, reduce dependency on energy import, contribute to job creation, rural development and reduce emissions of greenhouse gases. In 2009, the Government of Serbia adopted secondary legislation – price support scheme (feed-in tariff system) for electricity production from renewables, with the aim of promoting investments in renewable energy projects in Serbia.

However, mining and energy generation remain among the biggest polluters, and as such, environmental and energy management are intrinsically linked. In the field of \textbf{climate change}, the energy sector is the main source of greenhouse gas emissions in Serbia, and hence the most significant mitigation measures encompass actions that will increase energy efficiency and use of renewable energy sources.

The biological diversity of Serbia is extremely high and significant\textsuperscript{95}, but not widely recognised, as a source of agricultural and medical development, while Serbia’s \textbf{natural habitat} is a revenue source for tourism, hunting and fishing. The total area of protected areas is 5.86\% of the total land area in Serbia. There are 464 protected natural resources (5 national parks, 14 nature parks, 17 landscape protected areas, 73 nature reserves, 312 nature monuments and 43 protected areas of cultural-historic values), as well as 215 protected plants and 429 animal species as natural rarities\textsuperscript{96}. Pressure on bio- and geo-diversity is most strongly reflected in the uncontrolled overexploitation of natural resources which are of limited capacity. Particularly strong negative impacts are those originating from human activities related to forest ecosystems and other vulnerable habitats (wetlands, steppe and forest-steppe, sand areas, continental salty areas, highland habitats etc.).

Serbia’s population of around 7.3 million inhabitants generates 2.4 million tonnes of \textbf{municipal waste} per year\textsuperscript{97}. Approximately 60\% of the municipal waste in Serbia is collected in an organised manner and disposed at 164 officially registered municipal landfills, without pre-treatment before disposal. Most municipal waste landfills operate without valid permits, whereas even the legal landfills are not equipped with leachate collection system, bottom lining and landfill gas collection systems. Much of the municipal waste goes to nearly 4,481 unofficial dumpsites. There is no organised separate collection, sorting and recycling of waste in place. The existing level of recycling or re-use of waste is insufficient. The EC Progress Report for 2010 found that procedures for setting product charges, as well as criteria and procedures for the Environmental Fund to finance waste recovery and recycling activities need to be further established, while waste management plans at regional and local levels have to be adopted.

At the moment, there is no comprehensive database of the \textbf{chemicals} on the market in Serbia, but an integrated chemicals registry has been established. The first phase would be to create a comprehensive database of chemicals present on the Serbian market and to begin with the inscription of chemicals placed on the Serbian market during 2009. A special inspection methodology will be developed during 2011, as well as guidelines for inspection in different areas, for both environmental and trade inspections, but it is still necessary to establish monitoring over the trade and use of particularly dangerous chemicals at this moment, which would minimise the possibility that such chemicals become available to the general population\textsuperscript{98}.

Both surface water and groundwater are used for the municipal \textbf{water} supply\textsuperscript{99}; almost 700 million cubic metres of water is abstracted each year, of which almost 465 million reached the public, industry and other users in 2009, the remaining 33%
lost in water treatment and network leakage. In 2008, 78% of households were connected to the public water supply, while only 36% of households in Central Serbia and 23% in Vojvodina were connected to the public sewage network (2009), meaning that generated waste water goes into septic tanks or directly into groundwater\textsuperscript{100}. Industries within urban areas generally use the municipal waste water systems to discharge their wastewater; outside urban areas, waste water is released into the nearest water course. Furthermore, just 15% of waste water gets treated, including only 5% of industrial waste water\textsuperscript{100}. Only 21 municipalities have wastewater treatment plants (WWTPs)\textsuperscript{101}; even the largest cities in Serbia (Belgrade, Niš and Novi Sad) release their waste water untreated into the passing rivers. Furthermore, some of the existing WWTPs are abandoned, and many are not continually operated, due to poor maintenance and lack of financial resources. Only 3% of wastewater is put through all recognised stages of treatment (physical, biological and chemical), to remove chemicals, heavy metals, bacteria and viruses before being discharged to the receiving environment\textsuperscript{100}. As a consequence, land is contaminated and untreated waste water pollutes drinking water reservoirs, causing adverse effects both for the environment and public health. About one third of drinking water samples do not meet either microbiological or physical-chemical quality standards\textsuperscript{102}. The EC Progress Report for 2010 finds that there is no system to monitor nitrate concentrations in, and contamination of, groundwater.

Strategic noise maps are stipulated by EU regulations, as the basis for the development of action plans for noise. Monitoring of noise is performed at major crossways in larger cities, since, in most of the cases, noise originates from traffic. Vibrations have not yet been regulated and there are no regulations adopted within environmental protection areas to achieve this. Adverse effects include endangerment of human health, especially children’s health, deterioration in quality of life and reduction of property value in residential zones affected by noise and vibrations\textsuperscript{98}. The EC Progress Report for 2010 notes that there has been no progress in implementing the legislation on noise.

Air quality is deteriorating, especially during adverse weather conditions and in the heating season. According to the data from Serbian Environment Protection Agency’s (hereinafter SEPA) Annual Report 2009, air quality measured by levels of SO\textsubscript{2} is excellent or good in 95% and over the limit in 0.7% of cases; air quality measured by levels of NO\textsubscript{2} is excellent or good in 90% of cases and over the limit in 1.1% of cases; air quality measured by levels of soot is excellent or good in 70% of cases and over the limit in 10.3% of cases. Consequently, air quality is determined by quantity of soot. Many problematic air pollutants exceed EU ambient air quality standards considerably. There is no estimate of the health impact due to particulate matter in urban industrial areas, because of fragmented and inconsistent monitoring systems. The main causes of mobile air pollution include out-of-date vehicles and generally poor technical standards of the vehicle fleet. The principal cause of air pollution from point sources in Serbia is outdated technology and lack of pollution abatement installations, low energy efficiency of existing out-of-date facilities in the energy and industry sector, as well as poor quality heating fuel in household installations. The main sources of air pollution are: thermal power plants, oil refineries, chemical facilities, metal and mineral industries, transportation, individual boiler and furnaces, inadequate storage and disposal of by-products, such as ash from power plants and tailings from the open cast coal mines. According to the EC Progress Report for 2010, progress can be reported in the area of air quality, but implementing legislation on emission limit values and emission measurements at large point sources remains to be adopted.

Overall, the EC Progress Report for 2010 concludes that Serbia is moderately advanced in the area of environmental protection towards fulfilling European standards and the implementation of the SAA and European standards in energy. However, the capacity to implement and enforce environmental legislation remains to be strengthened, while in energy, further efforts are needed to achieve unbundling and real market opening, together with a pricing policy offering a sustainable tariff which reflect costs. The Energy Law needs to be amended and the role and independence of the Energy Agency strengthened.

\textsuperscript{100} Statistical Office of the Republic of Serbia, Communication Number 132, “Environmental Statistics, Wastewater discharged” (14 May 2010)

\textsuperscript{101} Ministry of Agriculture, Forestry and Water Management

\textsuperscript{102} Serbian Health Statistics Yearbook (2008)
Strategic framework and sector priorities

The national framework for policy on environment and energy consists of the following main strategy documents:

The **National Programme for Integration with the European Union** (NPI) from 2009 foresees accelerating harmonisation of laws and standards with the EU *acquis*; implementation of the adopted laws, in particular in the area of chemical management, waste management, air quality, protection against noise; commencement with the Kyoto Protocol implementation; strengthening administrative capacities of bodies in charge of planning, licensing, controlling, monitoring and project management; strengthening local level capacities and ensure operational coordination between local and central levels.

The objective of the **National Sustainable Development Strategy of the Republic of Serbia** is to establish a balance between the three key factors of sustainable development - sustainable economic growth, economic and technological progress; sustainable social development, based on social balance; environmental protection accompanied with reasonable use of natural resources - embracing them in one whole supported by an adequate institutional framework and covering both the short-term (2009-2011) and longer term (2009-2017).

The **National Programme for Environmental Protection (2010-2019)** lays down a set of objectives for Government policy over 2010-2019 at three levels: short-term (2010-2014); continuous (over the whole period of the National Programme); and medium-term (applying to the 2015-2019 period only). The NPEP covers all aspects of environmental policy and planning, financing and economic instruments, institutional capacity-building, education, legislation, monitoring and enforcement, and policy in the areas of water quality, waste management, chemicals and risk management, air quality & climate change, protection of nature, biodiversity and forests, fisheries, soil protection, noise, radiation, industry, energy, agriculture, forestry and hunting.

The **Waste Management Strategy (2010-2019)** is the basic document that provides conditions for rational and sustainable waste management at the level of the Republic of Serbia, and establishes fundamental principles. The Strategy proposes to establish 12 regional waste management centres in Serbia by the end of 2013, and defines 26 waste management regions. Strategy also proposes to refurbish existing unsanitary landfills, which represent the greatest risk to the environment and environmental “hot spots” of historical hazardous waste pollution and to establish a hazardous waste management system.


Action Plan for National Sustainable Development Strategy; the National Cleaner Production Strategy; Energy Community Treaty.

Based on the overall strategic framework and the current situation in the sector, the following **mid-term priorities** have been identified:

- **Create and strengthen policy, regulatory, financing and monitoring mechanisms for ensuring sustainable development.**

  Serbia must fulfil its international duties regarding environment and energy (international conventions, Energy Treaty, Kyoto Protocol etc) and complete the approximation of the legal base with the EU *acquis* and other obligations, including secondary legislation. Within this framework, the multi-faceted and often inter-woven nature of environmental and energy management present a particular challenge. At the same time, coordination must take account of the many public bodies responsible for policy-making and implementation at the national, provincial and local levels. To meet the goal of sustainable development, Serbia needs to ensure strong and capable institutions at all levels – national, provincial and local - when planning resource use, developing strategies and action plans, adopting legislation, financing investments and designing charging systems, and in particular monitoring performance on environmental and energy policy and ensuring effective inspection and the enforcement of laws and regulations.

- **Ensure security, reliability and quality of energy supply and/(with) effective environmental protection**

  The first obligation of energy policy is to deliver an uninterrupted supply of energy to meet the growing needs of its citizens and businesses, and to minimise the risk of systemic shocks and loss of supply through the reconstruction, revitalisation and construction of facilities for generation, storage, transmission which should be based on lowest cost, meaning maximum efficiency and conservation, while minimising the impact on the environment. The deployment of cogeneration plants (district heating) raises energy efficiency substantially, but must also be carefully managed to diagnose and optimise consumption.

- **Enable sound management of natural resources and reduction of pollution.**

  All natural resources are ‘scarce’ by definition in economic terms, and at the same time, highly valued both for their economic impact and benefits to society. There are finite supplies of minerals, and even renewable sources need to be managed effectively. Serbia’s natural habitat, bio- and geo-diversity must be conserved, while its land, water and air must be protected from the detrimental effects of day-to-day living, while ensuring that people receive clean water to drink, industry can access water supplies for production, the disposal of all waste is efficient, sustainable, and in the case of hazardous waste, safe. Huge investments are needed to upgrade Serbia’s seriously outdated energy and environmental infrastructure - especially where systems are incomplete, treatment plants are malfunctioning, or end-of-pipe solutions to remove harmful emissions are currently lacking – which will also ensure Serbia meets the standards of EU *acquis* and other international obligations, as well as the needs and expectations of its citizens.
Measures for implementing sector priorities

**Priority 1**  Create and strengthen policy, regulatory, financing and monitoring mechanisms for ensuring sustainable development

**Measure 1.1**  Strengthening strategic planning and implementation through legal reforms and institution-building in the environment and energy sectors

**Aim:** To contribute to the preparation of Serbian institutions at all levels and public enterprises in meeting the EU and other requirements emerging from international treaties related to the environment and energy sectors, including further progress towards regional energy cooperation.

**Description:** The measure will enable further transposition of EU legislation into the Serbian legal system in the field of waste management, air quality, nature protection, integrated water management, climate change, protection against noise, prevention and control of industrial pollution and energy market (particularly regarding to EU climate and energy package and Energy Community Treaty). Furthermore, the measure will support alignment and implementation of national legislation in the fields of energy efficiency, renewable energy, electricity, oil, gas and mining, and focus on strengthening capacities of: existing and newly established institutions (i.e. Energy Efficiency Fund, Agency for Mining, Institution for Strategic Planning in Energy Sector), public enterprises and other state and local institutions in the environment and energy sectors, to amplify their abilities for strategic planning and implementation. The measure will additionally assist Serbian institutions and public enterprises in meeting administrative provisions arising from the ratification of the Framework UN Convention on Climate Change and Kyoto Protocol. The measure also supports activities that raise awareness of general population related to environment protection importance.

**Measure 1.2**  Developing integrated monitoring and information systems

**Aim:** To strengthen capacity and enforcement in the field of environmental protection, water management, energy and mining by developing advanced information (including monitoring and safety management) and measurement systems.

**Description:** The measure will contribute to upgrading of data collection and reporting on greenhouse gases, in line with the Directive on Emission Trading. Furthermore, it will focus on building capacities to implement the Integrated Environmental Monitoring Strategy, and to enforce the legislation (including strengthening of environmental inspection at local level), particularly in the areas of industrial pollution control, risk prevention, EMAS, noise and waste management. In order to follow the First Action Plan for Energy of Efficiency, delivered to the Energy Community, this measure will enable development and enhancement of database in the field of energy consumption sector. The measure will also seek to raise the capacities of the inspectorate by designing a database of pressure equipment and will contribute to the development of database/cadastre of mining waste. In order to establish and strengthen the energy market and improvement of safety management in the area of supply security, the measure will support development of measurement systems, remote control and management (SCADA, SAP, Market Management System, and Document Management System).
Priority 2: Ensure security, reliability and quality of energy supply and (with) effective environmental protection

**Measure 2.1 Improving the security and efficiency of energy production, supply and use through new and upgraded energy facilities**

*Aim:* To provide reliable, secure and cost-effective energy supply to end users.

*Description:* This measure will focus on continued reconstruction, revitalisation and construction of new facilities in energy system. In the electricity sub-sector, the measure will encompass improving interconnectivity of the transmission and distribution systems (through building new capacities, reconstruction of existing and construction of new interconnecting lines with adjacent systems), and enhancement of the electricity production systems. In the gas and oil sub-sectors, the improvement of security of supply will be achieved by the diversification of the direction of the gas and oil supplies with building new interconnection which include and product line. Activities in this sub-sector will encompass preparation of technical documentation and construction of natural gas and oil storage, gas and oil pipelines and reconstruction of existing facilities. This measure will also realise improvements in the management of heating plants (new boilers, heating systems and equipment for heating substations), implement the hydraulic network measurement (with the supply of appropriate software) and transition to a new charge/tariff system according to delivered heat, as well as introducing devices for measuring delivered heat to end users.

**Measure 2.2 Increasing the use of renewable energy sources**

*Aim:* To reduce dependence on fossil fuels, contribute to the limitation of CO$_2$ emissions and diversifying sources of energy production.

*Description:* The measure will support the implementation of the EU Directive on Renewable Energy through the removal of obstacles for increasing using renewable sources, assessment of renewable energy sources potential, defining methodology for collecting statistical data and introduction of technical standards which can be used for energy production. This measure should also support constructions of renewable energy facilities/plants, such as pilot/demonstration biomass facilities for production of electric energy and heating energy, hydropower plants etc.

Priority 3: Enable sound management of natural resources and reduction of pollution

**Measure 3.1 Ensuring conservation, sustainable use, improvement of management of natural resources**

*Aim:* To secure sustainable use of natural resources and development of protected natural areas network.

*Description:* The measure focuses on implementation of the Strategy for Sustainable Use of Natural Resources and Goods, biodiversity and geodiversity and landscape diversity forestry fisheries, sustainable use of soil, water and mineral resources. Activities under this measure would also lead to the establishment of a network of protected natural areas as the basis for the NATURA 2000 network, improved management and monitoring system of protected areas, natural resources and habitats, thus preventing their uncontrolled exploitation. Moreover, this measure will increase control of exploitation of natural resources and prevent illegal exploitation by implementing administrative, technical and financial instruments.

**Measure 3.2 Developing and improving waste management systems**

*Aim:* To reduce waste and improve waste management systems through cleaning up of contaminated sites, re-cultivation of ash landfills and mining areas, reducing harmful effects of the mining industry on the environment and constructing waste management facilities.
**Description:** This measure focuses on the establishment of national capacity for treatment of hazardous waste, preparation of technical documentation and construction of regional waste management centres, sanitation of dumpsites, establishment of the system for collection and treatment of special waste streams, increased rate of reusing and recycling waste, technical documentation preparation and remediation of contaminated sites in industrial areas, locations polluted due to the chemical accidents and re-cultivation of mining areas. The measure will also deal with strengthening of capacity for waste management in the field of exploitation of minerals, with the aim of preventing and reducing harmful effects on the environment by preparing procedures for managing mining waste.

**Measure 3.3 Enhancing water management**

**Aim:** To ensure sound management of water and reduction of water pollution.

**Description:** The measure will increase the efficiency of Serbian water management system by optimising and extending the public water supply networks and upgrading and constructing public wastewater collection/treatment systems, as well as industrial wastewater treatment facilities. The measure will focus on preparation of technical documentation and construction of facilities for water supply and waste water treatment to create preconditions for moving towards fulfilling the key requirements of the EU directives. The measure will also address the issue of water use in agricultural production, water protection and flood protection. Under this measure, the issue of the need to upgrade wastewater treatment infrastructure throughout the country raised in EC Progress Report for 2010 will be addressed.

**Measure 3.4 Improving air quality through reduction of harmful emissions**

**Aim:** To support the application of technologies in the industry and energy sector for the reduction of air pollution.

**Description:** The measure will support reduction of dust emissions and implementation of the key requirements of the EU Large Combustion Plants Directive and EU IPPC Directive through activities such as reconstruction of electrostatic precipitators, introduction of measures for NOx and SO2 reduction, replacing fly ash and slag disposal technology, upgrading oil refineries, chemical facilities, metal and mineral industries, transportation, individual boiler and furnaces, storage and disposal of by-products, such as ash from power plants and tailings from the open cast coal mines.

**Programming of international assistance**

The measures proposed for funding under this NAD have been selected to complement national and international financial support to the environment and energy in Serbia, from the State Budget to the other EU programmes, and bilateral and multilateral assistance.

**Ongoing activities**

According to the ISDACON database, in the period 2007-2009, it is estimated that a total amount of €390,65 million was actually disbursed in assistance from the international donor community to the environment and energy sector in Serbia (see following diagram).
In the four annual programmes 2007-2010, IPA component I is financing projects in the environment and energy sector worth around €100 million, mainly focused on energy and air quality, and preparations for hazardous waste management, which together account for almost 80% of funding.

IPA is helping approximate Serbian legislation with the EU environmental acquis, and increasing the capacity of the Serbian Environmental Protection Agency (SEPA) as a national focal point for cooperation with European Environment Agency in the realisation of Serbia’s international environmental protection obligations. On capacity-building, IPA assistance is strengthening the institutional framework for environmental inspection at national, provincial and local levels to enforce regulations, including administrative capacities related to protected areas, according to Natura 2000, and chemicals management, preparation and implementation of regulations in the field of control and prevention of industrial pollution, EMAS and management of chemical accidents risks. In addition, IPA has financed a study of flood prone areas to aid policy development, and the production of a sewerage and wastewater master plan for the West Morava river basin.

In the field of energy and air quality, IPA is helping Public Utilities „Elektromreza Srbije” and „Srbijagas” and The Energy Agency of the Republic of Serbia to implement the requirements of the Energy Community Treaty and the energy component of the National Strategy for Sustainable Development, strengthening administrative capacities to upgrade the air quality management system in line with EU standards. In turn, IPA supported projects aimed at reducing emissions from thermal power plants in Serbia in line with EU directives, by decontaminating facilities and replacing equipment. It is also contributing to energy security in South Serbia by building a new electricity substation at Vranje and extending the capability of the electricity substation at Leskovac, and strengthening the capacity of Srbijagas and the gas transmission system operator. In the area of hazardous waste, IPA has contributed to the harmonisation of EU legislation and institutional strengthening, and provided technical assistance to introduce a hazardous waste treatment facility, which has also been supported by the Norwegian Government.

The bilateral donor community has been prominent in resourcing projects in this sector, including Austria, Czech Republic, Germany, Italy, Japan, Netherlands, Spain, Sweden, Switzerland, Norway, United Kingdom and United States. These donors have
be especially active in the energy sub-sector, complementing IPA assistance, including: help with strategic planning (Norway); the foundations of a new law on rational use of energy and improving municipal planning in energy efficiency (Germany); a $49 million loan from the World Bank, accompanied by $6 million from Serbia for energy efficiency in heat production and public buildings, introduction of a new energy efficiency policy and establishment of energy planning on a local level (Norway); study of energy management (Japan); capacity-building for monitoring and evaluation of energy efficiency policy (Germany); modernisation of the monitoring and control system in a thermal power plant (Switzerland); giving guidance on the implementation of EU renewable energy directives focused on biomass and biofuels (Netherlands); developing CDM pilot projects (Norway). The US has also funded feasibility studies for district heating plants in Belgrade and Niš and a new biomass combined heat and power plant, while Germany has supported the rehabilitation and modernisation of the district heating system for Niš, Kragujevac, Kraljevo, Sombor, Zrenjanin and Pirot. Sweden has aided chemicals risk management, implementation of the National Sustainable Development Strategy, and environmental infrastructure support, while Spain funded preparation of the feasibility study for the construction of the Kolubara District Regional Landfill and feasibility study for GHG emission reduction. The UNDP has been active in strategies and studies for biodiversity, strengthening capacities of protected areas managers and promoting renewable energy and sustainable transport, and helped with the remediation and strengthening of capacities in Bor and helped with recovery of Grand Bačka Channel project, by finalising communal and industrial wastewater collection for the municipalities of Vrbas and Kula.

Soft loans have been provided by EBRD, KfW and the World Bank. EBRD (€24.3 million loan) and the World Bank ($6.6 million loan) have supported regional development in Bor district, including environmental clean-up. The German Government has been most active in the water sector, with €92 million of subsidised loan and grant finance (actual and committed) for water supply projects in 17 municipalities to date.

Coordination across institutions in charge of environment, energy, health, agriculture, forestry, water management and regional development with local level is a crucial factor in better identification and targeting of environmental problems, in order to maximise the impact and synergies of assistance. Serbia also participates in cross-border cooperation, where environmental problems are one of the top priorities.

**Funding forecast**

The environment and energy sector will require additional support both from national budgetary resources and international funding. The wide spectrum of activities expected requires continuous financing.

According to the Memorandum on the Budget and Economic and Fiscal Policy for 2011 with Projections for 2012 and 2013 (December 2010), the following funds are planned to be allocated from the state budget in the next three years:

**Table 9 - Total budget expenditure limits for 2011-2013 (in EUR*)**

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Agriculture, Forestry and Water Management</td>
<td>194,839,112</td>
<td>205,559,413</td>
<td>217,250,885</td>
</tr>
<tr>
<td>Ministry of Environment and Spatial Planning</td>
<td>43,790,696</td>
<td>46,616,891</td>
<td>49,758,506</td>
</tr>
<tr>
<td>Ministry of Mining and Energy</td>
<td>22,979,019</td>
<td>24,239,664</td>
<td>25,613,813</td>
</tr>
<tr>
<td>State Administration for Hydrometeorology</td>
<td>11,036,121</td>
<td>11,667,334</td>
<td>12,389,795</td>
</tr>
<tr>
<td>Energy Efficiency Agency</td>
<td>141,143</td>
<td>146,904</td>
<td>153,488</td>
</tr>
<tr>
<td>Mining Agency</td>
<td>5,907</td>
<td>6,164</td>
<td>6,475</td>
</tr>
<tr>
<td>Energy Efficiency Fund</td>
<td></td>
<td></td>
<td>89,588</td>
</tr>
<tr>
<td>Institution for Strategic Planning in Energy Sector</td>
<td></td>
<td></td>
<td>89,588</td>
</tr>
</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013
The budgetary projections for the next three years are formulated upon the government's main policy objectives in the environment and energy sector, as defined in the Budget Memorandum.

The main priorities of the energy development will be in accordance with the Energy Development Strategy until 2015, while, by the end of 2011 be: priority of technological modernization of existing energy objects/system/sources continuity; priority of rational use of quality energy fuels and increase of energy efficiency in production, distribution and use of energy at end users of energy services; priority of use new renewable energy source; priority of investments in new electro energy sources, with new gas technology and priority of construction new energy infrastructure objects and electro energy and heating sources. In order to ensure energy supply certainty these priorities will be revised in line with Energy Strategy which shall be adopted by the end of 2011 and will cover the period until 2025 with projections until 2030. A national gasification programme will be passed that will include a preparation of interconnection with the neighbouring countries with a view to providing continuous supply of gas to all countries in the region. In the following mid-term period, the mining sub-sector will be focused on establishing competitiveness and finalisation of the transition. The objective is to improve competitiveness of this sector, increase security and safety of people and provide conditions for higher inflow of foreign capital into the existing and the new capacities, opening new mines and development of the existing ones, while applying knowledge, world standards and modern technologies, and survival of those areas where mining is the core economic activity.

The objectives of the policy in the field of forestry are ensuring the economic, environmental and social functions of forests, increasing the contribution of forestry to the overall economic development, adequate protection and forest maintenance, improving their condition, raising new forests and developing forestry as a branch of the economy. Water management development will be supported by applying the “beneficiary pays” and “polluter pays” principles, stable financing and maintenance of facilities and systems. Along with this, public water management companies have to be restructured. Funds will be provided for investments into the public utility infrastructure for water supply, including regional systems as well, revitalisation of the existing and construction of new facilities and water supply and water protection systems, as well as construction, reconstruction and refurbishment of hydro-improvement facilities. Special attention shall be paid to the construction of flood-prevention facilities to improve the protection of cities and towns located along large water courses.

As far as other reforms related to the environment are concerned, based on the Law on Environmental Protection and Strategy for Sustainable Development of Serbia, the following strategies will be adopted: national Strategy of Sustainable Usage of Natural Goods and Resources and National Strategy of Biological Diversity of the State. The Government will also review the scope of environmental pollution fees and natural resource usage fees, as well as waste disposal fees which could be extended. Another priority will be to provide incentives to companies that introduce or are working under the efficient resource usage regimes, stimulating industrial sectors to apply good practice in environmental protection and the cleaner production principles.

According to information from the donor community (see Annex IV), new grant commitments in the environment and energy sector are expected to be at least €135.8 million for 2011-2013.

**Forecasts and future challenges**

Preliminary estimates of the costs of environmental damage in Serbia show that the annual impact on the domestic economy ranges from 4.4% (conservative scenario) to 13.1% (maximum scenario) of GDP, (with reference to 2005)\(^9\). It is estimated that the greatest burden is caused by air pollution (53% of total costs), water pollution (22%) and management of waste (11%).
Safe, good quality and secure supply of energy and natural resources to consumers, as one of the most significant issue in
the forthcoming period, will be achieved through the continuous technological modernisation of the existing facilities/systems/
sources, as well as increased use of renewable energy sources and rational use of natural resources. The key factor for the
development of these sectors is investment in the construction of new energy and mining facilities. It is generally estimated,
that €9 billion in the energy sector and €2 billion in mining are necessary investments in the next 5-7 years period accord-
ing to mid-term projections. The creation of a competitive business environment will enhance private sector participation in
energy and mining investments. It is estimated approximately €1.25 billion is needed just for investments in electricity produc-
tion facilities and mining facilities, so they can operate in line with existing EU environmental legislation. It is expected that
the import of energy sources will grow in the future, and will be accelerated if serious state measures are not implemented in
order to stimulate increased energy efficiency and use of remaining domestic resources and renewable sources of energy.
The assessment of the total estimated cost of implementing the National Programme for Environmental Protection shows the
largest investments are needed in the energy sector (29%), followed by the waste management sector (24%) and the water
sector (21%), and finally, costs in the transportation sector, directly related to improvement of the environment (12.5%). The
proposed investment to improve air quality is low, because it is largely covered already by the mining and energy sector,
transport and industry. Adding the investment which will benefit air quality in these sectors would increase national expendi-
ture to more than 40% of the total. Investments related to climate change (mainly extension of district heating) are considered
as indirect investment, but will also produce some benefits for the environment.

Although population trends have been negative through the 2000s, which would be expected to reduce household waste,
lower consumption of drinking water, produce less wastewater for disposal and treatment, and decrease energy consumption
and air pollution – and these trends are forecast to continue from 2010 – the return of GDP to trend growth rates suggests
increased output from business and industry, absorbing natural resources, such as water, and placing additional demands
on the environment, especially in terms of pollution and waste, including hazardous waste.

At the same time, Serbia has to adopt the EU environmental acquis. Recent changes in the development of the environmen-
tal legislation have created the necessary legislative basis for forthcoming improvements. Together with updated secondary
environmental legislation, substantially strengthened enforcement and increased financial opportunities, this will lead into
the implementation of the new environmental standards in real life. A major renewal of the environmental infrastructure is
foreseen in Serbia during the next 10 years. Nevertheless, a rough estimation of the costs of compliance with the envi-
ronmental acquis presents a total cost to Serbia of €9.6 billion103.

In anticipation of achieving candidate country status, Serbia has started to prepare for access to IPA component III in 2012-
2013, by drafting the relevant programming documents (Strategic Coherence Framework and Operational Programme) and
by preparing the proposed operating structure for decentralised management of the OP (see Annex II). Programming for IPA
component III is in line with the priorities and needs presented in this document.

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103 Based on €2.8 billion for water supply ("Study – Instruments for Water Sector Development"), €4.8 billion for wastewater treatment ("EC twinning
project – Capacity-Building in Directorate for Water"), €1 billion for air quality improvement by reduction of emissions from major power plants (EPS
"Green Book" 2009) and €0.96 billion for waste management (Waste Management Strategy, 2010-2019)
Conclusions

In a changing world, Serbia has to continue the reform of its economic and political system, develop a smart, sustainable and inclusive economy, and continue with its series of reforms - socio-economic, political and institutional. In this context, Serbia has prepared and adopted a set of strategies, which are described in the preceding eight sector chapters of the NAD. Serbia’s ambitious objectives coincide with those of the EU in the areas of employment, innovation, education, social inclusion, energy and climate change. In the medium and long run, EU integration is seen as the precondition for implementation of a successful economic policy.

The priorities and measures developed for each sector in the NAD have been carefully analysed and individually designed. However, given the scope and complexity of the overall reform and EU integration process, these priorities and measures must also be considered collectively. Indeed, in the course of drafting the NAD, attention was given to a systemic approach, which should also be followed in the course of the implementation of national reforms. The eight sectors described in this document are clearly inter-related, one sector impacting on another, which is reflected in themes which appear in more than one sector. For example:

- Respect for the rule of law, an effective public administration, the quality of transport, environment and energy infrastructure and Serbia’s cultural assets, and an educated labour force with high participation rates across society provide the foundation for Serbia’s competitiveness;

- Environmental actions to reduce pollution and contamination have a direct correlation with public health, while the agriculture sector is a source of renewable energy, through biomass, to reduce the detrimental effects of energy generation;

- Rural development is integral to national competitiveness and tackling regional disparities, including in human resources development;

- Poverty reduction through social inclusion and integration are firmly allied to respect for human rights, tackling discrimination, promoting greater tolerance and freedom of expression;

- Good governance means a strong and efficient public administration, but also an active civil society and media to hold decision-makers to account.

Results-based management of available funds

The management of available national, IFI and donor funds, each with a different set of rules and timescales, is a demanding and complex process which requires skilful administration and time. The introduction of results-based management in the use of available funds would improve the coordination of policy design and implementation. The development of a results-based management approach, along with the improvement of policy consistency, could be reached through:

- Introduction of a Sector-Wide Approach (SWAp);
- Better prioritisation and creation of the pipeline of mature projects;
- Blending of available resources;
- Improvement of coordination mechanisms;
- Improvement of institutional capacity.

**a) Sector-Wide Approach (SWAp)**

One way to better use available resources (national budget, pre-accession assistance, loans and donations) is through the use of a Sector-Wide Approach (SWAp). The SWAp is being introduced in Serbia, for the first time across the full range of sectors covered by international assistance, through the preparation of this NAD for 2011-2013.

One of the lessons learned during the preparation of this document is that the initial steps of the SWAp methodology – identifying coherent sectors, bringing together responsible Ministries, analysing needs and priorities, consulting with donors and civil society organisations – are simply the start of a long-term process. In order to apply SWAp fully, all the relevant elements articulated in the NAD Introduction should be in place:

- leadership by the host country;
- single comprehensive programme and budget framework;
- a formalised process for donor coordination;
- harmonisation of donor procedures for reporting, budgeting, financial management and procurement;
- national ownership of programme design and implementation, financial management, monitoring and evaluation;
- partnership principle between relevant stakeholders.

Having in mind the importance of SWAp, but at the same time its complexity, it is important to explore its operationalisation and modalities for gradual implementation.

**b) Better prioritisation and ensuring a pipeline of mature projects**

In preparation of the NAD, Operational Programmes, IFIs funding, national budget or project preparation, it should be borne in mind that there are on average, around 1.5 to 2.5 years’ delay for the implementation of infrastructure projects and around 0.5 to 1.5 years’ delay for institutional building projects.

Project conception, design, appraisal and selection are the normal steps taken to identify which project is to be funded. The individual project is the unit by which the impact of pre-accession and development assistance delivery is normally delivered. Therefore, the identification of projects should follow the developed intervention logic of moving from general, to strategic to specific planning levels. However, since project readiness is a key issue in ensuring proper absorption capacity during the implementation phase, national authorities should ensure building up a prioritised and available project pipeline.

The main source of a better prioritisation of projects, and ensuring their maturity is the process of analysing the needs of each sector and relating them to Government strategies, Ministerial priorities and donor preferences. Adopting a sector-wide approach improves the prioritisation process also by the virtue of it being a consultative process, by which key information and analysis is gathered from all the main stakeholders, across all sectors, at the national level. This process ensures that all reform opportunities are inventoried and adequately discussed. This also provides a precious insight into the capacities, as well as degree of readiness, of the different beneficiaries, donors and other stakeholders, such as civil society organisations. As the SWAp evolves into a long-term process, it should enhance the maturity of projects by guaranteeing that those projects which best fit with the selected measures are prepared early in the programming cycle and in full alignment with the needs of
key stakeholders. This synergy of interests generates complementarities not only at the level of the State public authorities, but more broadly with international donors (bilateral and multilateral), as well as with the civil society at large (CSO).

One of the mechanisms that would improve prioritisation, as well as identification and selection of projects, is monitoring and evaluation. This process can help ensure that the goals and objectives of a programme or project are achieved and expenditure justified. Therefore, a monitoring and evaluation system should be integrated into the project cycle of Governmental institutions.

Evaluation of the use of funds should consider the impact rather than simply the amount spent. In this sense, the NAD 2011-2013 is the first step in this direction, in that it attempts to prioritise real needs.

In many respects international development assistance should be treated no differently to public expenditure in that: a) Government and donors should always seek the best value for money; and, b) there is never enough international development assistance funding to meet all requirements. In order to help limit the fragmentation of funding sources, it is necessary to improve the prioritisation process within Governmental institutions and Government as a whole.

**c) Blending of available resources**

As a country in transition, Serbia relies heavily on external loans to finance its reform and maintain economic stability. However, with the increased pace of borrowing, Serbia is treading in dangerous waters and has limited resources to invest in poverty reduction, employment, R&D and infrastructure. At the same time, this is a reason why the authorities should pay closer attention not only to the level of debt, but also to the purpose of borrowing and ability to repay. Therefore, closer attention should be paid to both the amounts and purpose of future loans.

In the first phases of introducing SWAp, resources will be deployed in parallel (expenditure, management, procedures), according to the different donor rules. In fact, resources will also be streamlined by sector. One of the basic principles, especially related to pre-accession assistance, is that of co-financing. Co-financing is planned during the programming process, so that funds from domestic sources are clearly identified in the respective programming documents and in national / local budgets (i.e. at least two years before their actual disbursement). Considering the fact that programming of pre-accession assistance is a multi-annual process, it is advisable to start planning co-financing allocations sufficiently early and to develop systematic and practical solutions for co-financing (and pre-financing where required). In regard to projects financed by IPA the required amounts of national co-financing are: minimum 10% for institutional strengthening and 15% for infrastructure.

Throughout the preparation of the NAD, each of the line ministries demonstrated its degree of readiness and its degree of ownership over measures, which will be confirmed by the co-financing commitments.

Therefore, better planning of the use of funds (budget, pre-accession assistance and loans), including preparation of project documentation and enhancement of monitoring and evaluation systems, should be put in place. In addition, ISDACON should become an efficient instrument in programming and monitoring. It should reflect an improved coherence of public development aid programming and implementation in Serbia and, moreover, should actively contribute to a better coordination of all stakeholders. In the 2011-2013 period, the NAD will be still a work-in-progress and will be enriched by the addition of indicators in future Needs Assessment Documents, which will allow the monitoring of the sectors.

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104 See also Annex III, which examines more fully the role of loans in EU-funded projects

105 In some cases, e.g. Cross Border Cooperation Programmes, it is necessary to ensure pre-financing as well.
Improvement of the fund management system, in tandem with a consolidated budget approach, will help ensure adequate integration of all sources of funding to the process of reform. It can be concluded that it is necessary to:

- Effectively utilise donor-supported project preparation facilities to develop economy-boosting mature investment projects;
- Mobilise domestic resources (from the state budget) to a greater extent for the preparation of mature projects;
- Ensure that loans, which will continue to play an important role in Serbia’s economic growth, are invested in areas that satisfy project management and economic criteria;
- Base investment policy on a higher share of grants and concessional loans;
- Improve planning, management and monitoring of the agreement, disbursement and use of loan finance, including improving communication between creditors and government institutions / borrowers.

d) Coordination mechanisms

The Paris Declaration on Aid Effectiveness (2005) places great emphasis on country-level coordination and the harmonisation of donor activities, with a particular focus on national ownership, and the degree to which partner Governments take the lead in coordinating aid-funded activities.

The formality of existing donor coordination working groups comes from donor initiatives to better coordinate their own activities and their formality varies considerably, ranging from ad hoc groups that operate as offshoots of much broader sectors and involve beneficiary institutions, to those that operate with the limited involvement of beneficiary institutions.

SEIO, in cooperation with line ministries, should strengthen its proactive approach to improve aid effectiveness in Serbia and management of external assistance. This includes the establishment of a new aid coordination architecture, taking into consideration existing donor working groups, relying on eight sectoral working groups and applying the SWAp approach, as well as improvement of the public expenditure planning process, effective programming and management of external funds in line with Serbia development priorities.

In the coming period, it is important to develop a practical, formalised and rule-based mechanism of donor coordination.

e) Improvement of institutional capacities

The introduction of SWAp and enhanced management of development assistance is a truly massive administrative capacity-building task. Therefore, technical assistance and training is of utmost importance, with the overall objective of enhancing and reinforcing Serbian capacities in the context of the EU accession process and the management of IPA, IFIs and donations.

Competent Serbian institutions need to function effectively to ensure that all available funds are absorbed effectively, thus ensuring smooth accession to the EU. Apart from the establishment and functioning of suitable structures, the success of IPA will be determined by the skills and expertise available to these structures to use the funds appropriately.

In addition, staff turnover rates in the Serbian administration are high, and this also applies to those involved in the management and use of donor funds. The turnover rates are expected to be even higher, due to private sector opportunities for staff with specific knowledge. Therefore, it is essential to develop a retention policy for key staff.
During introduction of the Decentralised Implementation System (DIS), the Serbian IPA management system will be progressively developed and staffed. This evolution of the staffing will be enhanced with appropriate training.

f) Decentralised implementation system (DIS)

The challenges of EU funds management, both in the pre-accession and post-accession phase, can be described through three objectives:

- Maximise utilisation of funds, to comply with the set timetable for their spending (the so-called N+2 and N+3 rule) thus preventing the return of funds to the donor. This goal could be briefly presented as a message to the competent authorities: “use funds on time”;
- Minimise refunds through timely use of support and a dramatic reduction in the number of irregularities. This goal could be briefly presented as a message to the competent authorities: “use funds properly”;
- Maximise the impact (effectiveness) of funds used. The message in this case: “use funds effectively”\(^\text{106}\).

An appropriate management structure will develop the capacity to use Structural Funds (learning by doing) and enable stronger procedures to ensure compliant use of funds on the highest priority projects.

Development of sustainable DIS structures and procedures requires an appropriate staff body in line with the expected workload, retention policy and training (e.g. public financial management, procurement etc.). The Government of Serbia should continue implementation of DIS roadmaps in order to ensure timely conferral of management powers and preparation for Structural and Cohesion Funds.

g) New EU financial perspective beyond 2013

The decision to undertake a full and wide-ranging review of EU spending and resources was agreed in 2006. The economic climate has radically changed in the meantime and the global economic crisis in 2009 put public spending at the heart of the political debate in European countries.

Putting new programmes in place takes time, particularly when they are based on a partnership approach. The time available between agreement on the legal texts and the start of a financing period needs to be carefully monitored. It is expected that the European Commission will present its proposals for the next multiannual financial framework before 1 July 2011. Therefore, the needs and priorities of the Western Balkans countries should be reflected in this framework.

In order to be well prepared, and to ensure proper programming and avoid mistakes from the past (e.g. approval of MIPD 2007-2009 was delayed for one year and programming process of IPA I 2007 and partially IPA I 2008 did not have a proper EU strategic framework) a new strategic and institutional framework from 2014 onwards should be in place by 2012.

Experiences from previous rounds of EU enlargement have shown that established structures for management of the Structural and Cohesion Funds were not fully prepared for absorption of funds five to ten times greater than those of the pre-accession phase. For absorption of post-accession funds, which are measured in billions of Euros, it is very important to establish the right legal and institutional framework, train staff, ensure timely planning of all available resources, and prepare

\(^{106}\) Ognjen Miric, “The Regional Policy of the European Union as the Engine of Economic Development” (2009)
high quality, well-designed and targeted projects. In addition, Serbia has identified a need for a linear increase in the flow of IPA funding due to the fact that bilateral donors are gradually winding down their activities in the Western Balkans (e.g. DFID closed its office in December 2010).

In parallel with the development of a framework for management of EU funds, we believe that a linear increase of EU funds would help stimulate of sustainable socio-economic development of candidate and potential candidate countries and accelerate their readiness to join the European Union. It would also help avoid difficulties that may come about with a “great leap forward” from pre-accession levels of funding to post-accession support.

The following diagram illustrates what linearisation might look like in practice. The scenario with gradual increase of funds shows a smoothing of resources over the 2014-2020 financial perspective within an unchanged total spending envelope for Serbia.

Linearisation of pre-accession assistance funding could be achieved through:

- Increasing national allocations;
- Increasing funds for Cross Border Cooperation Programmes;
- Increasing funding and improved functioning of existing investment frameworks e.g. the Western Balkan Investment Framework;
- Establishment of new investment facilities, such as the Danube Investment Framework;
- More flexible funding (e.g. in the case of natural disasters, such as flooding);
- Introduction of a number of conditionalities, linked to the reforms process.
ANNEX I

PREPARATION OF THE NAD: TIMESCALE AND METHODOLOGY

Introduction

The NAD for 2011-2013 was prepared between August and December 2010, under the leadership of SEIO’s Sector for Planning, Programming, Monitoring and Reporting on EU funds and Development Assistance (known as ‘DACU’). The NAD preparation is based on the principles of the Sector-Wide Approach (SWAp), which is being promoted by the European Commission for the programming of IPA, and introduced in Serbia for programming of all international development assistance.

The production of the NAD take into consideration following:

- **EU funds**: The NAD would represent national document which corresponds to the European Commission’s Multi-annual Programming Document (MIPD) for, which sets out the EU’s priorities for IPA. For the first time, this MIPD was to be based on an explicitly sector-based approach. By the end of 2011, the assumption is that Serbia will become a full candidate country for EU membership and gain access to all IPA components for the first time.

- **Other donors**: The NAD would also serve as a prospectus of Serbia’s needs for international development assistance, to attract and focus grants and soft loans from bilateral and multilateral donors, based on donor coordination as one of the main principles of SWAp.

In developing the methodology for putting SWAp into practice on such an ambitious scale, it was important to recognise the constraints in which the NAD was being developed:

- **Funding**: IPA was expected to be capped at around €200 million a year for 2011-2013, while total donor assistance is limited and fragmented (some donors have very small allocations, in EUR 10s or 100s of thousands), and future loans from IFIs will be subject to the limits on public debt in the Budget System Law;

- **Eligible actions**: Each IPA component has its own eligibility rules. When Serbia gets candidate country status, all infrastructure support will take place under IPA component III, and the bulk of spending on transport, environment, competitiveness, employment, education, social inclusion, agriculture and rural development will happen under IPA components III-V. This will also mean a reallocation of funds. It is anticipated that, for 2012-2013, IPA components III and IV would receive up to 41% and 11% respectively of the IPA component I allocation, while IPA component V would gain around 20%, leaving around 28% of funds for IPA component I on a reduced scope.

- **Donor priorities and preferences**: SEIO-DACU met informally with the major donors (see step 2 in methodology below) and they signed up fully to the new SWAp approach to NAD preparation; the largest donors had previously expressed an interest in SWAp for prioritising and allocating resources already. However, each donor must still operate within own procedures and have its own funding objectives. Hence, the NAD would set out Serbia’s expectations and the challenge would be to find the ‘best fit’ with the donors’ funding priorities.

- **Pre-determined plans**: Given the timing of MIPD preparations and activities already underway, Serbia was already well advanced with identification of priority projects for IPA component I in 2011, and developing draft operational
programmes for IPA components III-V for 2012-2013, in anticipation of CC status. The NAD had to take account of this reality also.

Hence, in preparing the NAD, SEIO-DACU (with the support of PPFs) and the SWGs must take account of the following factors:

- As a minimum, the NAD must summarise what was already being planned for IPA I (2011) and IPA III-V (2012-2013). This was an advantage as material had already been prepared which could be taken as input for some of the NAD, including sector descriptions, strategies, priorities and measures are prepared (subject to negotiations with Brussels, and partner consultation / ex ante evaluation for IPA components III-IV).
- The NAD would provide a platform for attracting non-EU donor assistance (bilateral and IFI), but within rules and procedures of the donor community (total grant aid for Serbia of around €200m a year) and borrowing possibilities.

The rest of this annex explains the methodology that was followed to prepare the NAD, and the timing of each step. It then presents the outline template which was employed to structure the sector chapters, and then uses extracts from supporting guidance, which explained further how to interpret the more complex elements of the template.

The template, guidance and other regular briefings and papers were drafted in cooperation by the two EU-funded technical assistance projects107, known as ‘Project Preparation Facilities’ (PPFs), and reviewed and agreed with SEIO-DACU. As well as the management of PPF2 and PPF3, individual experts were assigned from the two PPFs, as appropriate, to each of the eight sectors, to work alongside the responsible individuals from SEIO-DACU, who lead on each sector or sub-sector. The coordination between SEIO-DACU and the two PPFs has been an important element of the process, and has included a series of planning meetings between SEIO-DACU and the two PPFs throughout the period.

**Methodology and timetable for NAD preparation**

The main forums for review, discussion and verification of the sector chapters are the eight Sector Working Groups (SWGs), each of which had four main roles:

- To ensure understanding of the new SWAp approach to the NAD, based on the methodology and timescales that go with it;
- To briefly review the text relevant to specific sector descriptions, to identify any gaps, clarifications, or additional information required;
- To identify, discuss and agree priorities for the sector which emerged from the analysis of the sector and the strategic framework, and which would guide the choice of measures;
- To identify, discuss and agree measures, which followed from these priorities and which would be used after the Government’s approval of the NAD to identify and select specific projects for funding by IPA or donors.

In total, the SWGs have involved representatives of 23 Line Ministries (LMs), alongside SEIO-DACU staff, consultants from PPF2 and PPF3. In addition to scheduled SWG meetings, to coincide with key milestones in the drafting process, some extra ‘ad hoc’ meetings were organised when particular issues needed to be clarified among members.

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107 Financed by IPA component I under the 2007 annual programme (‘PPF2’) and 2008 annual programme (‘PPF3’)
The full process of NAD preparation in 2010, from initiation by SEIO to Government approval, has involved 17 steps, which are set out in the table below. As can be seen, in addition to the major role of the SWGs, the process featured a series of consultations with donors, civil society organisations (CSOs) and local self-government (LSG), before the drafting of the NAD was completed.

<table>
<thead>
<tr>
<th>Step</th>
<th>Time period</th>
<th>Commentary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Preparing the drafting of NAD chapters, and identifying and describing sectors and inter-sector groupings</td>
<td>August</td>
<td>Chapters were drafted by SEIO Deputy Director, and sectors identified as the platform for a sector-wide approach to preparing the NAD for 2011-2013</td>
</tr>
<tr>
<td>2. Drafting of NAD chapters and circulated to all LMs</td>
<td>6 September</td>
<td>The draft NAD was sent to LMs as the background for organising individual meetings and future SWGs.</td>
</tr>
<tr>
<td>3. Drafting sector chapters (sections 1, 2 and 5)</td>
<td>28 September - 19 October</td>
<td>For each sector, this involved preparing a description of the sector and recent developments (section 1), strategic framework (section 2) and forecasts and future challenges (section 5), known as ‘Document A’, for tabling at the first round of SWG meetings. The preparation was based on review relevant background documents, including studies, national strategies and plans, EU strategies, and programming documents of bilateral donors and IFIs.</td>
</tr>
<tr>
<td>4. Individual meetings with LMs</td>
<td>29 September - 15 October</td>
<td>These meetings were led by SEIO-DACU staff, supported by designated PPF experts, in order to discuss the new sector-wide approach to preparing the NAD and progress to date, the criteria used for identifying priorities, and proposals for priorities, based on existing strategies and needs.</td>
</tr>
<tr>
<td>5. Informative meeting with donors</td>
<td>30 September</td>
<td>Informal meeting of major donors to Serbia was hosted by SEIO-DACU, in order to introduce the new structure and remit of SEIO and to present outline plans for the NAD.</td>
</tr>
<tr>
<td>6. First round of SWG meetings</td>
<td>21 and 27 October</td>
<td>The four SWGs for Competitiveness, Civil Society, Media and Culture, Environment &amp; Energy and Transport met on 21 October, and the four SWGs for Rule of Law, Public Administration Reform, HRD and Agriculture &amp; Rural Development met on 27 October. The goal of the meeting was to agree on priorities for the sector, as the basis for preparing measures.</td>
</tr>
<tr>
<td>7. Drafting sector chapters (sections 3 and 4)</td>
<td>22 October - 5 November</td>
<td>For each sector, this involved preparing measures for implementing sector priorities (section 3) and programming of international assistance (section 4), known as ‘Document B’, for tabling at the second round of SWG meetings.</td>
</tr>
<tr>
<td>8. Second round of SWG meetings</td>
<td>15 and 17 November</td>
<td>The four SWGs for Transport, Rule of Law, Environment &amp; Energy, and Agriculture &amp; Rural Development met on 15 November, and the four SWGs for Competitiveness, Civil Society, Media and Culture, HRD and Public Administration Reform met on 17 November. The goal of the meetings was to agree the package of measures, for consultation with CSOs and donors.</td>
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<tr>
<td>9. Revision of sector chapters</td>
<td>16 – 23 November</td>
<td>Sector chapters were adapted to the decisions of the SWGs, and also to start to integrate the findings of the European Commission’s annual Progress Report (published on 9 November), and were sent to CSOs and donors in advance of their consultation meetings.</td>
</tr>
<tr>
<td>10. Consultations with CSOs</td>
<td>26 November</td>
<td>A half-day meeting was held with 67 representatives of 53 civil society organisations at Hotel M in Belgrade.</td>
</tr>
<tr>
<td>11. Consultations with donor community</td>
<td>29 and 30 November</td>
<td>Two full-day meetings were held at the Klub Poslanika in Belgrade.</td>
</tr>
<tr>
<td>12. Consultations with LSG</td>
<td>29 and 30 November</td>
<td>Two full-day meetings were held with 75 representatives of LSG in Serbia, plus LMs, hosted by the Standing Conference for Towns and Municipalities.</td>
</tr>
<tr>
<td>13. Deadline for written comments from donor community</td>
<td>10 December</td>
<td>Following the consultation meetings, donors were given until the end of the following week to submit written comments to SEIO-DACU.</td>
</tr>
<tr>
<td>14. Finalisation of sector chapters</td>
<td>6-17 December</td>
<td>Comments from donors and CSOs were integrated into the sector chapters, along with more details from the EC Progress Report, including any new or revised measures which are suggested by the findings. The NAD conclusions and annexes were also finalised. The full NAD was sent to LMs during December.</td>
</tr>
<tr>
<td>15. Consultations with line ministries, where required</td>
<td>20-21 December</td>
<td>Meetings with specific line ministries were organized were there were outstanding issues for discussion, as an opportunity to review the sector chapters in light of changes arising CSO and donor meetings, and make any final changes before the NAD moves to the inter-ministerial procedure for approval.</td>
</tr>
<tr>
<td>16. Formatting and translation of NAD into Serbian</td>
<td>End December - January 2011</td>
<td>All chapters were edited and quality controlled into a common style and format, and translated into Serbian as the basis for a Government decision.</td>
</tr>
<tr>
<td>17. Inter-ministerial procedure to approve the full NAD</td>
<td>February 2011</td>
<td>The final draft NAD was distributed to all Ministries for approval and Governmental adoption, so it can be used as the basis for programming EU and donor assistance in 2011.</td>
</tr>
</tbody>
</table>
Template for preparing sector chapters

The following template was prepared and circulated in September, before step 5 in the methodology, for the benefit of SEIO-DACU staff and PPF experts, and subsequently updated in line with a revision in the number of sections (reduced from six to five, with the merger of ‘forecasts’ and ‘future challenges’ into one section) and real-time development of the thinking and methodology.

The total length of each sector description should ideally be no more than 10 pages.

The programme period for the NAD is 2011-2013, to be consistent with the MIFF and MIPD. In reality, IPA 2011 is programmed and awaiting the Commission’s approval, and hence the NAD will need to reflect the existing plans in the descriptions and measures. In relation to 2012-2013, preparations for IPA components III-V are well advanced, based on the assumption that Serbia will attain candidate country status by the end of 2011, and that DIS accreditation for components III, IV and V (with ex post controls for IPA V), and hence conferral of powers for EU funds management will be secured in time to implement IPA III-V.

Therefore, in addition to summarizing existing information, the following should be taken into consideration: i) programming IPA I for 2012-2013 by sector; and ii) identifying the need for donor assistance over the same period (subject to any loan or grant commitments already made, which should also be set out here).

1. Description of the sector and recent developments

Up to 3 pages

This should start with a definition of the scope of the sector (what it covers, and (if useful) what it does not).

It should then outline recent developments in the sector. Given the scope of each sector and the page limit, this should be a concise description, and should focus on the headlines and highlights. The aim should be to paint a short, but clear and comprehensive, picture of the state-of-play in the sector at the start of the programme period (during 2010, or whichever timing corresponds to the most recent statistics and facts), to enable the reader to understand why specific priorities and measures are being put forward under the NAD. This should use a mix of recent and current performance data, and information on relevant institutional and/or legal developments, depending on what is most appropriate for the sector. The sources of any facts and figures which are quoted should be referenced as a footnote. Furthermore, the findings of the EC Progress Report for 2010, when published, should be integrated into the text, particularly where it offers particular insights or reinforces the descriptive text by directing the NAD towards specific actions, and thereby influences the choice of measures.
2. **Strategic framework and sector priorities**

*Up to 2 pages*

This should list, and if relevant and space allows, describe very briefly (in one or two sentences) the measures / strategies / plans which are specific to the sector from the Serbian side.

It should then describe the overall priorities facing the sector, drawn from the above mentioned documents. These priorities should, in turn, relate to the measures described in section 3.

3. **Measures for implementing sector priorities**

*Up to 3 pages*

Measures are the mechanism for delivering the priorities facing the sector. Each measure is defined by clarity of purpose and a clear objective, so that the projects can identified and selected for implementation to achieve a common goal. In this way, measures are part of a management system for EU and donor resources which follows a hierarchy of objectives and outcomes, from priority aims to measure to project. The principle behind identifying measures should be that the common effect of all the measures together should achieve the sectors’ priorities (section 2), each measure building upon the baseline position (section 1) and taking account of the expected context (section 3).

In the case of all sectors, a process of considering needs for international development assistance had already commenced in 2009, and involved considerable Ministerial involvement and workshops during 2010, in preparation for the 2011 annual programme for IPA component I. The outcomes of this process should be incorporated into the consideration of measures for 2011-2013.

In the case of Transport, Environment & Energy, Competitiveness and HRD, some measures have already been identified for 2012-2013 during the preparations for IPA components III and IV, subject to negotiation with the European Commission and partner consultation. Hence, for those sectors, preparation of this section can start with summarizing those measure descriptions, and then ‘new’ measures may be added for ‘additional’ themes under IPA I and donor aid (for example, roads under Transport; *acquis* under Environment and Energy; competition and consumers under Competitiveness; health and youth under HRD).

4. **Programming of international assistance**

*Maximum 1.5 pages*

This should include the context of recent donor activity (since 2007), plans for the 2011-2013 period, and the synchronisation of donor funding with the national budget.

This section is prepared as a brief overview based on donor’s information on existing activities and planned new resources.
5. Forecasts and future challenges

Up to 1 page

This should summarise the expectations facing the sector in the short term, covering the programming period (2011-2013) and programmes and projects implementation period (up to 2016, under the different N+ rules). This part should deploy the relevant information on expected performance (trends and forecasts), and proposed institutional and/or legal developments expected over the period, to set the scene for measure implementation.

This section also concerns the wider challenges and constraints facing the sector, either during the next period or on an ongoing basis. It depends entirely on the sector, so might include, for example, the contrast between the investment needs of the sector and the available resources in the short-medium term, the length of time to prepare projects and documentation, the need for coordination with responsible bodies, the challenge of achieving Europe 2020 or other targets for the sector, etc.

Formulating priorities and measures and the relationship to projects

Given the potential for different styles and approaches across the eight sectors, the following guidance was prepared jointly by the two PPFs to guide SEIO-DACU staff, sector experts and the LMs in formulating priorities and drafting measures to a standardised format. In order to avoid any confusion, the guidance defined what is meant by ‘priority’ and ‘measure’ (building on the template for sector chapters), the relationship between the two, and how they relate also to the identification of projects, as the next stage after the NAD is agreed. The intention is a clear cascade, from the strategic to the operational – from priority to measure to project.

Priorities

The identification of priorities for the sector is not bound by the timescale of the NAD; priorities are longer-term and more ambitious, and may be achieved over several programming cycles. Each priority should be set out in the form of an objective: what does the Government want to achieve in the sector, with support from international assistance. This puts the emphasis on identifying outcomes (results), rather than inputs (actions). It should not refer to the means of its implementation (eg institution-building, legal approximation, infrastructure development or project preparation), but only the effect of such interventions. The priorities should be clear and concise (not too complicated or multi-faceted), realistic and specific enough that they could be measured, although it is not planned to have indicators in this first sector-based NAD. They should be ‘priorities’ in the sense of focusing on the key needs facing the sector, as justified by the analysis in section 1 (recent developments), alongside the Government’s strategies in section 2 (strategic framework).

The link between the sector description (section 1), the priority (section 2) and its accompanying measures (section 3) should be clear from the short paragraph which introduces each priority in section 2. In this sense, the priority is the bridge between analysis and action.

Measures

A measure is the group of activities by which a priority is implemented over the timescale of the NAD (the 2011-2013 programming period, plus time for implementation), and provides the framework for inviting, identifying and selecting concrete projects. Each priority (objective) will be delivered through one or more measures. Hence, every measure can be linked to one priority and only one. (Typically) where there is more than one measure, it focuses on a particular aspect or theme of the
priority; in combination, the measures should ‘add up’ to the achievement of the priority itself. Hence, each measure should be coherent and ‘standalone’, while complementing other measures under the priority. The measures should be consistent in their scope and complexity; it should be avoided that one is so broad that it tries to cover every dimension of the priority, or equally that individual measures are so narrow that they are effectively a specification for one project.

For example, the priority of improving the productivity levels and hence the competitiveness of Serbia’s enterprises (within domestic and international markets) has two dimensions, each of which forms the basis for a measure (and both of which are justified by sector analysis and existing strategies):

- Targeting support to SMEs
- Improving innovation and commercialisation of new products and processes, through the interaction of R&D institutions and the private sector.

Every measure should be identified (and set out) under a specific priority – this is the same linear, vertical approach to formulating priorities and measures which is the standard for IPA and Structural Funds programmes.

The proposed structure is first to ‘name’ the measure, with a short title which captures its essence, and then to set out, in one sentence, the aim of the measure, to demonstrate consistency with the objective of the corresponding priority. In other words, the aim should convey how the measure will deliver the priority or one significant aspect of it; in combination, the measures under each priority should clearly ‘add up’ to the achievement of the priority itself. There should then be a one paragraph description, which explains the type of activities which are anticipated under the measure, assuming it is supported by IPA or donor funding. This should not be a list of projects, but rather a framework for inviting or identifying project later, after the measure is agreed. The length and detail of the description depends on what is most suitable - some measure descriptions may be short, others much longer. It is also important to be conscious of the timescale when preparing measures. For a measure which clearly anticipates capital investment, for example, it is realistic either to prepare project documentation or to use existing documentation to execute investments, but not to prepare and implement investments within the period.

In identifying and selecting measures for inclusion, each proposed measure should be considered against the following criteria:

A. How important is the measure in the context of existing national strategies?
B. How important is the measure in the context of the MIPD and bilateral assistance programmes/strategies?
C. What has been achieved already to prepare the measure? Will the conditions for measure implementation exist in the period of the NAD?
D. Why does the measure need foreign assistance to be implemented? Why can’t it be financed (fully) from national sources (republican or municipal budget)?
E. How does the measure fit with national financing? What is the complementarity between national funds, on the one side, and international, IPA, soft loans and bilateral, on the other?
F. What type of assistance is needed to implement this measure (e.g. TA, grants, works and/or supplies)?

Criterion E is aimed at ensuring that there is co-financing available from national sources where needed. Criterion F begins the discussion about ways how a measure might be implemented once approved. The proposed measure should be considered against all criteria, to ensure the most appropriate choices in the context of strategic fit (national and donor community) and deliverability.
Projects

From the measure description, it should be possible for ministries to formulate projects later, which can then be put forward for funding under IPA (components I, III, IV or V, depending on eligibility rules and budgets) and/or donor assistance. These projects may be delivered through one or more contracts, depending on the funding source (e.g., services, twinning, supplies and works).

Describing the programming of international assistance

Section 4 of each sector chapter should provide a description of donor activities, which are currently ongoing and will extend into 2011-2013, including all IPA programmes (as IPA 2007 is still running), as well as bilateral and multilateral assistance. It should then place this international assistance into context, by setting out the own resources for the sector growth, based on the Budget Memorandum. The whole section should be maximum one and a half pages. This should be in two parts, titled: ‘ongoing activities’ and ‘forecast funding’.

Ongoing activities

The donor activities should be described in a narrative form (not bullet points), to the explained structure.

First, there should be a chart, accompanied by one sentence or short paragraph on recent trends in international assistance committed to the sector growth, based on aggregate disbursement data for the sector on total, actual disbursements by EU and bilaterals (which SEIO-DACU will provide). This should set out the donor’s response to the former defined priorities in 2007-2009, as an overview and starting point for the rest of the section.

Second, there should be one or two paragraphs on IPA funds (2007-2010). In order to keep the section to a manageable length, it should focus on only the most relevant projects for the sector over the last four programme years of IPA component I, using information about the IPA financed projects and ISDACON, where helpful.

Third, the section should list the bilateral donors which have been active in supporting the sector in recent years, and then present the actual disbursements to the sector, according to donor, in a diagram which again DACU will provide. The names can be drawn from the diagram.

Finally, for those sectors (only) which have benefited from multilateral assistance and IFIs (including soft loans), again a paragraph should be prepared noting each provider and their assistance.

Funding forecast

This sub-section requires an opening statement, which then leads into a table showing national funding for the sector, as follows:
**Total state budget expenditure limits for 2011-2013 (in EUR*)**

<table>
<thead>
<tr>
<th>Institution</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
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<td></td>
<td></td>
<td></td>
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</tbody>
</table>

* Converted at the rates used in the preparation of the Memorandum on Budget and Economic and Monetary Policy for 2011, with the projections for 2012 and 2013

The table numbers should be taken from Table 18 in the Budget Memorandum: [http://www.mfin.gov.rs/UserFiles/File/dokumenti/Memorandum%20on%20the%20Budget%20and%20Economic%20and%20Fiscal%20Policy%20for%202011,%20with%20Projections%20for%202012%20and%202013_.pdf](http://www.mfin.gov.rs/UserFiles/File/dokumenti/Memorandum%20on%20the%20Budget%20and%20Economic%20and%20Fiscal%20Policy%20for%202011,%20with%20Projections%20for%202012%20and%202013_.pdf)

As noted in the ‘footnote’ to the table, please convert RSD into EUR.

Please then provide a short summary of the scope of national spending plans over the next 3 years (main policy objectives), taken from the relevant parts of Section IV of the Budget Memorandum.

There should then be one paragraph describing the extent of donors’ interest in funding the sector over 2011-2013. This can only be completed after information is received by SEIO-DACU from donors, after the donor consultation meetings (29 and 30 November).
ANNEX II

Institutions and Individuals Responsible for the Instrument for Pre-Accession Assistance (IPA) in Serbia

Introduction

This annex describes the various bodies which, according to the EU’s regulations, must be appointed in order for Serbia to benefit from IPA under centralised management (whereby the programmes are managed directly by the Commission, through the EU Delegation), namely the National IPA Coordinator and the Operating Structures for IPA Component II (when it involves other IPA beneficiary countries). It also sets out the additional bodies which are required under decentralised management, which requires Serbia to achieve accreditation under the Decentralised Implementation System (DIS) in each case for the IPA component and programmes to be managed. Transfer of rights for EU funds management becomes mandatory condition for IPA funds spending after the EU confers Candidate Country status.

These bodies are:

- National IPA Coordinator;
- Strategic Coordinator for the regional development and the human resources development component;
- Competent Accreditting Officer;
- National Authorising Officer;
- National Fund;
- Operating Structures; and
- Audit Authority.

National IPA Coordinator (NIPAC)

The NIPAC is responsible for the overall coordination and monitoring of EU assistance under all IPA Components, as well as for the the programming of IPA Component I. He is supported by a secretariat. His/her duties are outlined in Articles 22 (for decentralised management) and 32 (for centralised management) of the IPA Implementing Regulation. Article 22 of the Implementing Regulation for decentralised management refers to NIPAC’s role in ensuring partnership between the Commission and Serbia, and a close link between the general accession process and the use of assistance under the IPA Regulation. It sets out NIPAC’s responsibility for:

- the coherence and co-ordination of the programmes provided under IPA Implementing regulation;
- the annual programming for IPA Component I at national level;
- the co-ordination of the participation of Serbia in the relevant cross-border programmes (IPA Component II), both with Member States and with other beneficiary countries, as well as in the transnational, interregional or sea basins programmes under other Community instruments – although the NIPAC may delegate the tasks relating to this co-ordination to a cross-border co-operation co-ordinator;
- drawing up and, after examination by the IPA monitoring committee, submitting the IPA annual and final reports on implementation to the Commission with a copy to the National Authorising Officer.
The role of the National IPA Coordinator in Serbia is performed by Mr. Božidar Đelić, Deputy Prime Minister for European Integration by the Decision of the Government No: 119-3192/2008, from 21st August 2008.

The operational support in the fulfilment of the NIPAC role is provided by the NIPAC Technical Secretariat - the Sector for Planning, Programming, Monitoring and Reporting on EU funds and Development Assistance in SEIO according to the Decision of the Government No: 119-6857/2010 from 30th September 2010.

**Strategic Coordinator (SCO)**

The SCO is responsible for the coordination of IPA Components III and IV, and in particular for drafting the Strategic Coherence Framework (SCF), a reference document for the programming of IPA Components III and IV. He is subordinate to the NIPAC and duties are outlined in Article 23 of the IPA Implementing Regulation including to ensure coordination between sectoral strategies and programmes. The role of the Strategic Coordinator for IPA Components III & IV is assumed by Mr. Ognjen Mirić, Deputy Director of the European Integration Office, according to the Serbian Government’s Decision 119-214/009-5 of 13th February 2009.

**Competent Accrediting Officer (CAO)**

One of the institutions required by the IPA Implementing Regulation under decentralised management, the CAO is responsible for issuing, monitoring and suspending or withdrawing the accreditation of all management and control systems implementing IPA Components or IPA financed programmes, specifically the accreditation of the National Authorising Officer and the National Fund as stipulated in the Article 24 of the IPA Implementing Regulation. Given these tasks, the position of CAO sits outside and is completely independent of the management and control systems of the IPA programmes management. The role of Competent Accrediting Officer (CAO) will be performed by Ms. Diana Dragutinović, Minister of Finance according to the Serbian Government’s Decision 119-3192/2008 of 21st August 2008.

**National Authorising Officer (NAO)**

The NAO bears overall responsibility for the financial management of EU funds under all IPA Components (except Component II with Member States) in Serbia, and will be responsible for the legality and regularity of the underlying transactions. His duties are outlined in Article 25 of the IPA Implementing Regulation and include:

- ensuring the existence and effective functioning of systems for the management and implementation of IPA financed programmes, and reporting on them;
- drawing up and submitting certified statements of expenditure and payment applications to the Commission;
- requesting IPA funds from the EC and passing them on to the relevant Contracting Authorities;
- ensuring the delivery of national co-financing (verifying their existence and correctness);
- ensuring that irregularities are identified, reported and followed up, including making any required financial adjustments;
- addressing weaknesses identified in Audit Authority audit reports;
- issuing, monitoring, and suspending or withdrawing the accreditation of the Operating Structures;
- ensure that a proper reporting and information system is functioning;
- drawing up an annual statement of assurance each year, with the copy forwarded to the CAO;
- immediately notifying the Commission, with a copy of the notification to the CAO, of any significant change concerning the management and control systems.

Implementing Agreements are concluded between the NAO and each Head of Operating Structure. He is an integral part of the management and control systems of the IPA programmes and agreements management. The NAO heads and is supported by the National Fund.

The role of the National Authorising Officer (NAO) under decentralised management will be performed by Mr. Vuk Đoković, State Secretary of the Ministry of Finance according to the Serbian Government’s Decision 119-416/2009 of 29th January 2009.

**National Fund (NF)**

One of the institutions required by the IPA Implementing Regulation for the administration of IPA under decentralised management, the NF supports the NAO in the performance of his duties. As outlined in Article 26 of the IPA Implementing Regulation, the National Fund acts as as a central treasury and is in charge of tasks of financial management of assistance under the IPA Regulation, under the responsibility of the NAO. It is in particular in charge of organising the bank accounts, requesting funds from the Commission, authorising the transfer of funds received from the Commission to the Operating Structures or to the final beneficiaries, and the financial reporting to the Commission. The NF will operate in the Ministry of Finance, according to the Serbian Government’s Decision 110-1740/2008-2 of 5th February 2009, and is an integral part of the management and control systems of the IPA programmes management.

**Operating Structures (OSs)**

OSs have to be established for each IPA financed programme implemented under decentralised management system (except those under IPA Component II with Member States) and are the primary institutions responsible for their management and implementation. They comprise “a body or a collection of bodies within the administration of the beneficiary country”, in accordance with Article 28 of the IPA Implementing Regulation, and are an integral part of the management and control systems of the IPA programmes management. The duties of the OS include:

- drafting the annual or multi-annual programmes;
- programme monitoring and guiding the work of the sectoral monitoring committee, notably by providing the documents necessary for monitoring the quality of implementation of the programmes;
- drawing up sectoral annual and final implementation reports and, after their examination by the sectoral monitoring committee, submitting them to the Commission, to the national IPA co-ordinator and to the national authorising officer;
- ensuring that operations are selected for funding and approved in accordance with the criteria and mechanisms applicable to the programmes, and that they comply with the relevant Community and national rules;
- setting up procedures to ensure the retention of all documents required to ensure an adequate audit trail;
- arranging for tendering procedures, grant award procedures, the ensuing contracting, and making payments to,
recovery from, the final beneficiary;

- ensuring that all bodies involved in the implementation of operations maintain a separate accounting system or a separate accounting codification;
- ensuring that the NF and the NAO receive all necessary information on the procedures and verifications carried out in relation to expenditure;
- setting up, maintaining and updating the reporting and information system;
- carrying out verifications to ensure that the expenditure declared has actually been incurred in accordance with applicable rules, the products or services have been delivered in accordance with the approval decision, and the payment requests by the final beneficiary are correct; these verifications shall cover administrative, financial, technical and physical aspects of operations, as appropriate;
- ensuring internal audit of its different constituting bodies;
- ensuring irregularity reporting; and
- ensuring compliance with the information and publicity requirements.

OSs usually comprise a minimum of two bodies, one taking charge of programming, monitoring and evaluation, the other being responsible for procurement, grant award, payment and verification of expenditure (i.e. the Contracting Authority). Overall responsibility for a programme is assumed by one of the bodies in the Operating Structure and the head of this body is designated the Head of the Operating Structure (HOS).

- **Component I (transition assistance and institution building):** The OS comprises an Implementing Agency, which is the Department for Contracting and Financing of EU Funded Projects (known as “CFCU”), headed by the Programme Authorising Officer (PAO); units in beneficiary line ministries, known as Project Implementation Units, headed by Senior Programme Officers; and the Department for Planning, Programming, Monitoring and Reporting on EU funds and Development Assistance in the Serbian European Integration Office (known as “SEIO-DACU”) for programme and monitoring and evaluation at programme level. The Contracting Authority is the CFCU and the HOS is the head of the same (i.e. the PAO).

- **Component II (cross-border cooperation) programmes with Member States:** Formally, OSs do not need to be established by CCs or potential CCs for Cross-Border Cooperation programmes under shared management with Member States). However, some kind of structure is needed for the duties that have to be performed at national level, in particular for programming, monitoring and First Level Control. In Serbia, according to the Decision of the Government No: 337-8105/2010 the first two duties are performed by the Department for Cross-Border and Trans-National Cooperation Programmes in the Serbian European Integration Office (known as “SEIO-PCMU”); First Level Control is ensured by the CFCU within the Ministry of Finance.

- **Component II (cross-border cooperation) programmes with IPA beneficiary countries and transnational programmes:** The OSs for programmes under these parts of Components II, which, exceptionally, can be established even in the case of centralised management, comprise an Implementing Agency (the CFCU), headed by the Programme Authorising Officer (PAO), and SEIO-PCMU. According to the Decision of the Government No: 337-8105/2010 the Contracting Authority is the CFCU. Head of Operating Structure is Serbian European Integration Office and responsible person Mr. Ognjen Miric, Deputy Director and Coordinator for EU funds.

- **Component III (regional development):** The OS is made up of the Body Responsible for the Operational Programme (the CFCU), the Bodies Responsible for Priority Axes (CFCU and departments in the Ministry of Infrastructure, the Ministry of Environment and Spatial Planning, and the Ministry of Economy and Regional Development),
the Bodies Responsible for Measures (CFCU and departments in the Ministry of Infrastructure, the Ministry of Environment and Spatial Planning, the Ministry of Agriculture, Forestry and Water Management, the Ministry of Mining and Energy, the Ministry of Economy and Regional Development, and the Ministry of Science and Technological Development) and the Body Responsible for Contracting and Implementation (the CFCU). The Contracting Authority is the CFCU and the HOS is the head of the same.

- **Component IV (human resources development)**: The OS comprises the Body Responsible for the Operational Programme (a department in the Ministry of Economy and Regional Development), the Bodies Responsible for Priority Axes (departments in the Ministry of Economy and Regional Development, the Ministry of Education, and the Ministry of Labour and Social Policy), the Bodies Responsible for Measures (departments in the Ministry of Economy and Regional Development, the Ministry of Education, and the Ministry of Labour and Social Policy), and the Body Responsible for Contracting and Implementation (the CFCU). The Contracting Authority is the CFCU and the HOS is the Head of the Body Responsible for the Operational Programme in the Ministry of Economy and Regional Development.

- **Component V (rural development)**: The OS is made up of the Management Authority (the Rural Development Department in the Ministry of Agriculture, Forestry and Water Management) and the Payment Agency (the Directorate of Agrarian Payments in the same Ministry). The Contracting Authority is the latter and the HOS is the head of the former.

Operational Agreements are concluded between each HOS and the other bodies in the relevant OS to set up the basis for the tasks and responsibilities in the programming and implementation.

**Audit Authority (AA)**

One of the institutions required by the IPA Implementing Regulation for the administration of IPA under decentralised management, the AA is responsible for verifying the sound and effective functioning of the management and controls systems implementing IPA Components or IPA financed programmes. Its duties are outlined in Article 29 of the IPA Implementing Regulation and encompass:

- the development of annual audit plans and their implementation, including an examination of the management and control systems in place and audits of sample operations and transactions (e.g. payments);
- issuing annual audit activity reports, and an annual audit opinion as to whether the management and control systems function effectively and conforms to the requirements of the IPA Implementing Regulation and/or any other agreements between the Commission and the Serbia;
- identifying any weaknesses uncovered during the execution of the annual audit plans;
- issuing an audit opinion on the NAO’s final statements of expenditure under IPA financed programmes, supported by a final audit activity report, if deemed necessary.

Given its tasks, the AA sits outside, and is completely independent of, the management and control systems administering IPA programmes. Although the body appointed to fulfill the functions of the AA could theoretically differ from Component to Component, in practice its duties will be performed by a single institution for the whole of IPA. According to the Decision of the Government No: 110-6580/2010 from 25th September 2010, AA has been established within the Ministry of Finance.
ANNEX III

EXAMINING THE ROLE OF LOANS IN CO-FINANCING OF EU-FUNDED PROJECTS IN THE REPUBLIC OF SERBIA

In 2008, the Council of the European Union initiated the introduction of new mechanisms for improving the coordination and management of EU development assistance. The aim of this initiative was to ensure pooling of resources and complementary use of grants and loans, ensuring a high leverage effect on limited European ‘grant’ resources and contributing to strengthening the impact of EU external assistance. For these purposes, the Western Balkans Investment Framework (WBIF) was established.

Responding to this new EU approach of blending loans and grants and introducing a more sectoral approach towards programming, planning and implementing of EU funds in Serbia, the Needs Assessment Document (NAD) has been revised to meet these new demands. In order to come up the technical solutions for implementing this new methodology of comprehensively integrating grants and loans, this annex will lay out the existing Serbian legal and institutional framework responsible for the management of public debt and EU funds. First, however, as loans play a major role in Serbian economic development, it is necessary to examine Serbia’s current indebtedness as a starting point for planning of future investment activities.

Overview of indebtedness of Serbia: Loans as part of Serbia’s increasing debt

As a country in transition, Serbia relies heavily on external loans to finance its reform and maintain economic stability. With Serbia still below the upper limit of the category of less indebted countries, defined by the IMF and World Bank (Serbia’s public debt to GDP ratio is 48%\(^{108}\), with 132% public debt-to-exports ratio), recent analysis by the National Bank of Serbia states that, “Serbia’s stock of public debt is not yet alarming as to represent a macroeconomic predicament”\(^{109}\).

However, due to the global economic crisis, like some of the other countries in the region (most notably Hungary and Romania), Serbia has been forced to retreat under the IMF “financial umbrella”. According to the Fourth Review Under the Stand-By Arrangement with the International Monetary Fund, Serbian external debt (both private and public) is intended to decrease by 2015, while public debt should maintain growth in 2010 and 2011 (3.5%, 2.0%) and decrease in the period 2012-2015 (-0.5%, -1.4%, -2.0%, -1.0%). Although the ceilings for external debt are not related to loans from the IMF, EBRD, EIB, EU, IBRD, KfW, CEB, Eurofima, IFC, and bilateral government creditors\(^{110}\), the challenges of the EU integration process require accession countries to maintain prudent fiscal and monetary policy and continue financial sector surveillance.

However, with the increased pace of borrowing, seen from the two graphs below, Serbian authorities should pay closer attention not only to the level of debt, but also to the purpose of borrowing and to Serbia’s ability to service its liabilities in a timely manner.

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\(^{108}\) The Budget System Law prescribes a 45% cap on public debt to GDP ratio with a view to achieving fiscal responsibility.

\(^{109}\) Analysis of the Republic of Serbia’s Debt - June 20, National Bank of Serbia, Belgrade (August 2010)

External debt of the Republic of Serbia

Public debt of the Republic of Serbia
An additional constraint to debt sustainability, according to the data from the Memorandum on the Budget and Economic Fiscal Policy for 2011 with projections for 2012 and 2013, is the current share of public debt denominated in the foreign currency (87.3%, Q1 2010). The stock of Serbia’s external debt rose €550 million in Q2 2010, reaching €23.8 billion, most of this increase (over €450 million) is attributed to exchange rate differentials stemming from depreciation of the euro against other currencies within the structure of external debt\(^{109}\).

**Need for an improved loan-management mechanism**

Taking into consideration the abovementioned trends, arising from the growing indebtedness of Serbia, closer attention should be paid to both the amounts and purpose of future loans.

What is more, the perilous practice of approving loans without having prepared projects should be abolished and a new procedure for approving loans that meet the **maturity and return on investment criteria** has to be established. Loans are often approved before concrete projects are prepared - only once the loan is approved do the beneficiaries start preparing the necessary project documentation, encountering even more difficulties as they have to find additional funding for preparation of project documentation. Approving such “premature loans” not only postpones returns on the investments, it raises the question of whether the investments (loans) will make any returns at all.

Entering into such credit arrangements seriously hampers the chances of other prepared and profitable investments, taking up annual limits defined by economic policy makers and preventing other economy-boosting, mature investments. One of the first priorities of the government should be to identify and unplug “bottleneck loans” that are waiting for prepared projects. This can be done through mobilising domestic resources (from the state budget) to a greater extent, as well as by utilising grant project preparation facilities.

In addition, in order to prevent such “bottleneck loans”, a **better coordination mechanism, along with a loan monitoring/tracking system**, should be put in place. At the moment, there is no public/transparent source that contains information on all the active loans of the Republic of Serbia in different sectors. Lack of such a system prevents other government institutions dealing with donor assistance (including EU accession funds) from adequately integrating various sources of funding for achieving reform objectives more effectively.

**Project documentation**

When planning for blending of loans and grants, it is necessary to take into account that different financiers, donors, international financial institution, as well as national institutions, require different project documentation and procurement rules that need to be harmonised. The Paris Declaration on Aid Effectiveness has been important, among other things, for:

- Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner countries’ priorities, systems and procedures.
- Increasing alignment of aid with partner countries’ priorities, systems and procedures and helping to strengthen their capacities.

Pursuing objectives of the Paris Declaration, Serbia has initiated major reform processes towards achieving full ownership over management of external assistance. The most important process in that respect is the establishment of Decentralised Implementation System (DIS) of EU funds. Taking into consideration that EU is the single largest donor in Serbia and its
increasing role in the forthcoming period, it is important to provide an overview of the European Union requirements for investment projects.

The IPA Implementing Regulation, and the Manual for IPA component III published by DG REGIO outline the minimum information which needs to be provided when making an application for a major project funded from IPA component III (an infrastructure project with a value exceeding €10 million). This includes:

- information on the body responsible for implementation;
- information on the nature of the investment and a description of its financial volume and location;
- results of feasibility studies;
- an implementation timetable for the project;
- an assessment of the overall socio-economic impact of the project, based on a cost benefit analysis and including a risk assessment, and an assessment of the impact on the sector concerned, on the socio-economic situation of the beneficiary country
- an environmental impact assessment, carried out in accordance with Directive 85/337/EEC, including the results of a full public consultation procedure.
- a financing plan, showing the total financial contributions expected and the planned IPA contribution, as well as other Community and other external financing. The financing plan shall substantiate the required IPA grant contribution through a financial viability analysis.

Other financiers also have their specific requirements regarding the project documentation which in most cases corresponds to a set of documents required to finance projects under IPA. Given the fact that the European Commission provides most detailed and precise instructions concerning the project documentation requirements these should become a baseline in the process of blending loans and grants.

Managing varying co-financing rates

An additional important aspect in the process of blending loans and grants is the co-financing rate, since different sources of funding have diverse rules and limits for investment financing:

- The aid intensity and rate of EU contribution to eligible expenditure is set at a maximum of 85% under the IPA Implementing Regulation and is determined at the level of the priority axis.
- The European Investment Bank policy for individual loans (where the total investment cost exceeds €25 million) is to finance a maximum of 50% of the total cost of any project.
- The EBRD provides loans for larger projects (€5 million – €250 million) at 100% of project costs.
- The general rule of the Council of Europe Development Bank is that project financing may not exceed 50%, except in special cases defined by the CEB policy.
- The World Bank provides support through the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the World Bank Institute (WBI).
- The terms of KfW “financial cooperation” is determined on the basis of the UN classification of the development status of the country. Investment conditions are determined by the type of the investment project.

Management of the co-financing rates of investment projects should be based on cooperation and coordination of international and relevant national institutions, where the rate itself is determined on a case-by-case basis, taking into consideration the specifics of individual projects.
Before suggesting new and improved mechanisms for donor coordination, which are likely to require changes of certain administrative procedures in the Serbian legal framework concerning loan and donor funding management, this annex will first analyse the existing legal and institutional framework for borrowing.

Overview of the legal and institutional framework for public borrowing

The Law on Public Debt regulates conditions and procedures for borrowing of Serbian authorities, public institutions and other legal entities. It also includes the procedures for issuing guarantees and for managing and monitoring Serbia’s public debt.

Based on the Ministry of Finance’s (MoF) proposal, the Government defines the plan for borrowing negotiations, including setting up of the commission for negotiation. The representative of the MoF reports to the Government on the results of the negotiations.

The Law on Public Debt places the Public Debt Administration in charge of all tasks related to Government borrowing. The Public Debt Administration prepares the Public Debt Management Strategy on an annual basis which is a part of the Budget Memorandum. The goal of the Public Debt Management Strategy is to set out key guidelines and priorities of the long-term policy of debt management. With regard to public debt, the Administration also: participates in borrowing negotiations; issues bonds; manages risk; monitors local government borrowing, as well as borrowing of other legal entities seeking guarantees; records and manages accounting related to public debt and financial reporting (including managing of financial information system).

According to the Law on Public Debt, borrowing for investment projects is recognised as one of the instruments of external financing. The invest projects are defined as those contributing to improvement of efficiency and effectiveness of economic development of Serbia, presuming that project duration exceeds one year.

However, limits for borrowing are further defined in the Budget System Law, which defines fiscal rules for the period of 2011-2015, with a 45% cap on the public debt-to-GDP ratio.

It is also important to mention that the Parliament confirms by law borrowing of long-term loans, investment projects financing as well as guarantees for sovereign loans, including loans for local self-governance.

Recommendations for a loan management strategy related to IPA co-financed projects

The Serbian institutions responsible for planning of blending loans and grants should use already existing structures, primarily the Western Balkans Investment Framework (WBIF), as the platform for strengthening coordination mechanisms on the national level.

In order to streamline programming of the WBIF, Manual for Planning and Programming of the WBIF (hereinafter, the Manual) has already been drafted. Programming of WBIF includes the process of identification of priority programmes and projects to be financed from IPA funds or other sources. In that sense, the Manual places strong emphasis on cooperation of the relevant state authorities with European Union institutions, international financial institutions (IFIs) and bilateral donors. The main objectives of the Manual are:

111 Excluding restitution
- Strengthening beneficiary ownership over the WBIF process;
- Effective use of grant assistance for project preparation in order to prepare mature investment projects that contribute to economic development;
- Compliance with the national process of IPA programming; and
- Encouraging blending of funding from grants and loans.

The Manual lays out:

- Uniformed procedures for planning and programming support within the WBIF, defining responsibilities of all relevant stakeholders;
- Calendar of activities for programming of investments through the WBIF (in accordance with the WBIF Terms of Reference); and
- Clear criteria for the prioritisation of projects for funding under WBIF by the National IPA Coordinator (NIPAC)\textsuperscript{112} and line ministries.

Based on the guidelines set it, the Manual and the abovementioned responsibilities and structures defined by the Serbian legal/administrative framework, the following diagram presents a technical solution/mechanism for strengthening coordination for the joint planning of loans and grants.\textsuperscript{113}

\textsuperscript{112} In this sense, NIPAC also includes the NIPAC Technical Secretariat (TS), now the Department for Planning Programming, Monitoring and Reporting on EU Funds and Development Assistance, within the Serbian EU Integration Office (SEIO)

\textsuperscript{113} It is important to note that the following structure may require additional changes of the administrative procedures in the Serbian legal framework regulating loan/EU funds management.
Integrated Mechanism for blending loans and grants from IPA funding (in line with WBIF Manual)

Unlocking of existing loans

1. NIPACTS (SEIO)
   - Start
   - Identify discussion with MFN

2. MFN PDA
   - Identification of bottleneck projects financed through loans
   - Identification of sources for external funding for unlocking
   - List of projects requiring project documentation

3. Line Ministries
   - Assessments of bottleneck projects
   - Identification of priority areas

4. EC and Bilateral donors
   - Decision on financing
   - Identification of priority areas

5. IFI (incl. WBIF)
   - Identification of priority areas
   - Decision on financing

6. Ministry for NIP
   - Identification of priority areas

7. National Council for Infrastructure
   - Decision on priorities

Blending for new investments: Identification of priorities

1. Matching TA with loans
2. Assessment of proposed priorities (MFN & SEIO)

Project selection

1. Assessment based on defined criteria
2. Project proposals
Unlocking of existing loans

- NIPAC initiates discussions with the Ministry of Finance and line ministries to identify bottleneck projects which need financing in terms of strengthening implementing capacities, development of project documentation, etc.
- NIPAC assesses these projects against available funding for development of project documentation and checks whether these projects can be financed from external funding.
- NIPAC submits projects to EC and donors for financing (either through new project or through existing TA projects).

Blending for new investments

Identification of priorities

- Based on the proposals of the line ministries, NIPAC together with MFIN identifies potential priority areas for investments.
- NIPAC consults EC, bilateral donors and IFIs on priorities proposed by line ministries
- NIPAC aligns proposed priorities with national programmes (National Council for Infrastructure and Ministry of NIP)

Project selection

- Line ministries propose projects in line with identified priorities.
- NIPAC conducts assessment of proposed projects based on technical (maturity and adequate implementation capacity) and strategic criteria.
- NIPAC submits selected project proposals to EC, bilateral donors and IFIs.

The work of such a structure can only be optimised if new information system/database for loans and grants is put in place, improving channels of communication between creditors and government institutions/borrowers and other donors of development assistance.

Conclusions

There needs to be a strong institutional and political will in order for there to be an effective mechanism for planning the blending of loans and grants. As loans will continue to play an important role in financing of Serbia’s economic growth, they should be invested in areas that satisfy maturity and returns on investments criteria. Additionally, through re-directing other forms of assistance, existing “bottleneck loans” should be identified and “unplugged”. By pooling different sources of funding, the impact of each donor will be magnified, helping achieve each donor’s/investor’s objectives/policies, ultimately contributing to Serbia’s socio-economic development.
**ANNEX IV**

**Total Expected New Grant Commitments for the Period 2011-2013**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Total 2011-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. <strong>Rule of law</strong> (including justice and home affairs, protection of human and minority rights etc.)</td>
<td>70,205,600</td>
</tr>
<tr>
<td>2. <strong>Public administration reform</strong> (including institution building and acquis, public finance management, decentralisation of powers, statistics, e-government)</td>
<td>134,966,326</td>
</tr>
<tr>
<td>3. <strong>Civil society, (media) and cultural rights</strong></td>
<td>48,078,434</td>
</tr>
<tr>
<td>4. <strong>Competitiveness</strong> (SMEs, R&amp;D, ICT, tourism, business infrastructure, industry and trade)</td>
<td>75,872,140</td>
</tr>
<tr>
<td>5. <strong>Human Resource Development</strong> (employment, education, social inclusion and health, including youth)</td>
<td>110,288,220</td>
</tr>
<tr>
<td>6. <strong>Agriculture and rural development</strong></td>
<td>43,453,216</td>
</tr>
<tr>
<td>7. <strong>Transport</strong></td>
<td>88,313,400</td>
</tr>
<tr>
<td>8. <strong>Environment and energy</strong> (including waste, waste water, water supplies, mining etc)</td>
<td>135,774,200</td>
</tr>
</tbody>
</table>

**TOTAL Expected New Grant Commitments 2011-2013** 706,951,536

**NOTE:** The total expected new commitments in the period 2011-2013 will be significantly higher than the displayed amount, taking into account that some development partners were not able to provide information on the expected volume of assistance to Serbia, but only the priority sectors. In the following tables, sectors marked with X are the sectors that will be supported by donors, but the exact amount of funds needs to be determined.
## Total Expected New Grant Commitments in the Sector

<table>
<thead>
<tr>
<th>Development partner</th>
<th>Year</th>
<th>Home Affairs</th>
<th>Legal and Judicial Development</th>
<th>Conflict Prevention and Resolution, Security System</th>
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</thead>
<tbody>
<tr>
<td><strong>EU</strong></td>
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<td>2011</td>
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<td>2011</td>
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<td><strong>USA</strong></td>
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<td>2011</td>
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<td>2012</td>
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<td>2011</td>
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<td><strong>300,000</strong></td>
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<td><strong>Total</strong></td>
<td></td>
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<td><strong>210,000</strong></td>
<td><strong>1,430,000</strong></td>
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<td><strong>50,000</strong></td>
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<td><strong>150,000</strong></td>
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<td><strong>Total 2011-2013 by Subsector (EUR)</strong></td>
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<td><strong>11,165,600</strong></td>
<td><strong>210,000</strong></td>
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## Total Expected New Grant Commitments in the Sector

### 2. Public administration reform (including institution building and acquis, public finance management, decentralisation of powers, statistics, e-government)

<table>
<thead>
<tr>
<th>Development partner</th>
<th>Year</th>
<th>Public administration</th>
<th>Parliament</th>
<th>Local Self Government</th>
<th>Public Sector Financial Management</th>
<th>Economic and Development Policy/Planning</th>
<th>General Budget Support</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total (EUR)</th>
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<td>37,980,000</td>
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<td><strong>117,360,000</strong></td>
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### Total Expected New Grant Commitments in the Sector

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## Total Expected New Grant Commitments in the Sector

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**Total 2011-2013 by Subsector (EUR)**

| Total 2011-2013 by Subsector (EUR) | 5,610,000 | 10,261,140 | X | 72,000 | X | 399,000 | X | 400,000 | 450,000 |
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## Total Expected New Grant Commitments in the Sector

### 6. Agriculture and rural development

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| Italy               | 2011 |                                   |                   |
|                     | 2012 |                                   |                   |
|                     | 2013 |                                   |                   |
| Total               |      | 10,213,216                         | 10,213,216        |

| USA                 | 2011 | 4,293,216                          |                   |
|                     | 2012 | 2,960,000                          |                   |
|                     | 2013 | 2,960,000                          |                   |
| Total               |      | 10,213,216                         | 10,213,216        |

| Netherlands         | 2011 | 200,000                            |                   |
|                     | 2012 | 200,000                            |                   |
|                     | 2013 | 200,000                            |                   |
| Total               |      | 600,000                            | 600,000           |

| Japan               | 2011 | 3,000,000                          |                   |
|                     | 2012 |                                  |                   |
|                     | 2013 |                                  |                   |
| Total               |      | 3,000,000                          | 3,000,000         |

| Austria             | 2011 |                                  |                   |
|                     | 2012 | 100,000                            |                   |
|                     | 2013 | 200,000                            |                   |
| Total               |      | 300,000                            | 300,000           |

**Total 2011-2013 by Subsector (EUR)**

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### 7. Transport

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| Italy               | 2011 |                      |
|                     | 2012 |                      |
|                     | 2013 |                      |
| Total               |      | X                     |

| Czech Republic      | 2011 | 283,400               |
|                     | 2012 | 283,400               |
|                     | 2013 | 283,400               |
| Total               |      | 283,400               | 283,400           |

**Total 2011-2013 by Subsector (EUR)**

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**Total 2011-2013 by Subsector (EUR)**

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**Total 2011-2013**

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City of Kraljevo

ACTION PLAN FOR URGENT RECOVERY
FROM THE EARTHQUAKE IN KRALJEVO IN 2010

2010 - 2012

- EXTRACT -

Kraljevo, 2010
Content

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Chapter 1: General Information on the City

1.1 Introduction

The City of Kraljevo is located 180 km south of Belgrade and by territory is the largest local self-government unit in Serbia, having an area of 1,530 km² and a diameter of over 120 km. The City of Kraljevo occupies 39.01% of the area of the Raška district and 1.70% of the territory of Serbia. Of the overall territory of 1,530 km², the urban zone occupies the area of 812.43 km² (53.1%), while the rural zone occupies 717.57 km² (46.9%). Kraljevo belongs to the Raška administrative district together with the municipalities of Vrnjačka Banja, Raška, Novi Pazar and Tutin. By its position Kraljevo is objectively a significant crossroads, as well as the trade and administrative centre of the Raška region.

There are 92 settlements in the territory of the city of Kraljevo. The average size of a settlement is 16.6 km².

The city of Kraljevo has a total of 84 cadastral municipalities. Some of these cadastral municipalities cover two or more settlements.
For the purpose of more efficient performing of certain tasks within the competence of the local self-government, the territory of the city of Kraljevo is divided into 68 community centres (8 urban and 60 suburban and rural community centres) with 28 community offices.

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<td>Area</td>
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<td>92</td>
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<td>Average size of settlement</td>
<td>16.6km²</td>
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<tr>
<td>Number of cadastral municipalities</td>
<td>84</td>
</tr>
<tr>
<td>Number of community centres</td>
<td>68</td>
</tr>
<tr>
<td>Number of community offices</td>
<td>28</td>
</tr>
</tbody>
</table>

The territory of the city of Kraljevo covers the area of 1530 km², and includes 92 settlements with, according to the 2002 census, a total population of 121,707.

1.2 Population

According to the data of the Serbian Statistical Office from 2002, at that time Kraljevo had a population of 121,707 or 41.79% of the population of the Raška district and 1.63% of the population of Serbia, with population density of 79 persons per km². Of the total population, 62,922 inhabitants or 51.7% live in the urban zone, and 58,785 or 48.3% in the rural zone.

The negative natural population growth or sub-replacement fertility is causing a depopulation problem, one of the logical consequences of which is the aging of the nation (40.5 years – average age in Kraljevo).

Table 1: Population of the City of Kraljevo

<table>
<thead>
<tr>
<th>Total</th>
<th>Men</th>
<th>Women</th>
<th>Average age</th>
<th>Urban zone</th>
<th>Rural zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>121,707</td>
<td>59,670</td>
<td>62,037</td>
<td>40.5</td>
<td>62,922</td>
<td>58,785</td>
</tr>
</tbody>
</table>

The most significant source of population growth in the City is mechanical population growth caused by the influx of refugees and displaced persons into the City between 1991- 2000, while the natural population growth is still showing a negative trend.

Of the total population, 117,793 (96.78%) are Serbs, 1,020 Montenegrins, 876 Roma, 251 Macedonians, 209 Croats, while the numbers for other minorities are insignificant.

It is hard to precisely determine the number of refugees and displaced persons, but based on the assessment of the Office of the Commissioner for Refugees, there are around 25,000 refugees and internally displaced persons in the territory of the city, including “former” refugees.
1.3 Economic Situation in the City of Kraljevo

The economic movements in the Serbian economy reflect strongly on the development trends of the local economy. The economic movements in Kraljevo show all the characteristics of the Serbian economy.

The city of Kraljevo takes part in the economy of the Raška district with 74% of the value of the property and 72% of the value of the capital and gains around 61% of the income and 51% of the profit. The entire economic sector of Kraljevo, according to data from 2007, consists of 1,102 companies and 3,258 proprietorships. Economic activity is conducted in 11 sectors, but companies in the trade and processing industries have the largest influence on the economic movements.

According to the situation as at August 23rd 2006, 30 companies have been privatised or are in the process of privatisation, 17 of which were sold by auction, and two large companies by tender (“Magnohrom” Kraljevo and “Fabrika Vagona” Kraljevo) which resulted in the onset of redundancy in the privatised companies.

The economic crisis from the beginning of the nineties had the logical consequence of continued increase of unemployment (from 8,229 in 1990 to 15,048 in 2006).

Table 2: Unemployment figures

<table>
<thead>
<tr>
<th>Year</th>
<th>Men</th>
<th>Women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>5,937</td>
<td>8,860</td>
<td>14,797</td>
</tr>
<tr>
<td>2003</td>
<td>7,714</td>
<td>9,934</td>
<td>17,648</td>
</tr>
<tr>
<td>2004</td>
<td>8,397</td>
<td>9,114</td>
<td>17,511</td>
</tr>
<tr>
<td>2005</td>
<td>6,839</td>
<td>9,336</td>
<td>16,175</td>
</tr>
<tr>
<td>2006</td>
<td>6,228</td>
<td>8,820</td>
<td>15,048</td>
</tr>
</tbody>
</table>

The data of the Serbian Statistical Office clearly shows that, of the total unemployment rate, unemployment is greater among women than among men.

According to the latest data – Report of the National Employment Office, branch office Kraljevo, as at 31.08.2010, the total number of unemployed persons was 14,365, 7,655 of which were women, and 6,710 men.

The average net salary in Kraljevo in September 2010 was 283.40€, which is 39.60€ less than the average in the Republic of Serbia.

1.4 Social Situation of the Population

The social structure of the City is greatly influenced by the overall economic situation, and by the unemployment rate among the work-capable population, which was increased by the influx of a large number of refugees and displaced persons, many of which cannot be permanently employed.

The poverty rate in Kraljevo is 10.8% on the level of the Republic of Serbia.

Based on the data from the Report on the Operation of the Kraljevo Social Services Centre for 2007, the number of beneficiaries of social and family and legal protection is 6,156, or 5.05% of the total population of the City, and the number of beneficiaries of free meals in the public kitchens is 637.

The greatest poverty rate in the territory of the City is among the numerous endangered and socially exclusive groups, which include some of the refugees and internally displaced persons housed in collective centres with very poor living conditions.

Given that a large number of the socially endangered refugees and displaced persons are not, for formal reasons, entitled to social protection, and the cited data of the Social Services Centre includes only beneficiaries of social protection on record, rather than all categories of socially endangered population, the current social structure of the City is actually far more complicated.
Chapter 2: Reports of the Committee for Assessment of Damage caused by the Earthquake of 03.11.2010

In the night between November 2nd and November 3rd 2010, the city of Kraljevo was struck by a heavy earthquake with magnitude of 5.4 on the Richter scale, which took two lives and caused great material damage and damage to buildings and structures.

*The Building Safety Operational Team* examined a total of 10,196 buildings, 1,434 of which are no longer usable, while 8,762 are in need of urgent rehabilitation.

*The Second-Degree Committee* (formed on November 12th 2010) examined 125 buildings by November 14th 2010 and found that 28 of the buildings need to be torn down, while 97 buildings are in need of rehabilitation.

*The Operational Team for Citizen Care* placed 303 persons in collective housing shelters by November 11th 2010, 41 of whom are sick persons placed in healthcare facilities.

By November 14th more than 100,000,000.00 RSD was paid into the designated account opened by the city of Kraljevo for collecting aid for recovery from the earthquake. Apart from such financial aid, large quantities of construction material were also received, as follows:

- **Roofing tiles** - around 1,200,000 pcs;
- **Cement** – around 200 tons,
- **Block bricks** – 90,000 pcs,
- **Bricks** – 60,000 pcs,
- **Reinforcement iron (grid)** – 20 tons,
- **Building material** – 150 m³,
- **Foil** – 12 tons (80.000 m³),
- **Chimney pipes, windows, insulation material,**
- **Furniture** and other material and technical equipment.

Large quantities of food were also received (flour, tinned food, pasta), as well as *bottled drinking water.*
Chapter 3: Urgent Measures Undertaken in the First 10 Days Following the Earthquake

The City of Kraljevo immediately undertook the following urgent measures:

- Rendering a Decision on Declaring a State of Emergency;
- Forming a crisis headquarters;
- Rendering an operational plan for care for the most endangered persons;
- Ensuring continuous operation of all public and utilities companies and institutions;
- Forming operational teams of the city emergency headquarters, with clearly defined tasks relating to recovery from the earthquake (Building Safety Assessment Team, Damaged Building Removal Team, Team for Care for Endangered Persons, Team for Receiving and Distributing Building Material, Team for Receiving and Distributing Food, Water and Hygienic and Sanitary Material, Alternative Water Supply Team (by cisterns), Volunteer Organisation and Engagement in Rehabilitation Assistance Team, Local Self-Government Functioning Team).
- Forming teams of civil engineers, consisting of 25 to 38 every day, for visiting residential buildings and assessing the situation and the safety of the visited buildings,
- Engaging expert teams from the CIP Institute and the from Belgrade and Nis Faculties of Civil Engineering,
- Engaging a large number of workers – volunteers (around 200-250 per day) in the rehabilitation of the city: from Uzice, Vrnjacka Banja, Raska and other towns, as well as workers from the Ibar mines, volunteers, students from the faculties in Belgrade and Novi Sad,
- Engaging a large number of members of the Serbian Armed Forces, Police, Gendarmerie, members of the Special Task Forces of the Sector for Emergency Management, with technical equipment and numerous motor vehicles and platforms for work at greater heights,
- Engaging other companies from the territory of the city, as well as the necessary machinery (cranes for removing chimneys, demolishing critical parts of buildings etc.),
- Engaging the Red Cross and the Social Services Centre to help with temporary housing, procurement and distribution of foodstuffs for the socially endangered population,
- Providing cisterns for supplying the citizens with drinking water while the water from the city network was of poor bacteriological and chemical quality and unfit to drink,
- Providing and distributing building material for the repair of damaged roofs and chimneys of residential and public buildings,
- Undertaking special measures in the form of activities on the rehabilitation of buildings of public importance – Healthcare Centre “Studenica”, kindergartens, schools, university building,
- Preparing the methodology for the further rehabilitation of public buildings.

The Government of the Republic of Serbia provided the city of Kraljevo with a great deal of assistance for the purpose of recovery from the earthquake. Apart from a visit from the President of the Republic, the Prime Minister and a large number of Ministers, the city was provided with first aid in the form of tangible assets, as well as aid in building and other material from commodity reserves. A coordinator was appointed – the Minister for Public Administration and Local Self-Government, the engagement of whom should ensure both quality and continuity of recovery and revitalisation of the city, all for the purpose of bringing the rehabilitation to a close and steering the city out of the crisis, increasing the employment rate, engaging the city executive bodies, and raising the standard in the city. The fact that the population of Kraljevo will bear the largest burden in the recovery necessitates that the Government employ its mechanisms to motivate and direct investors towards the region of Kraljevo, so that employment could create the necessary conditions for revitalisation and general recovery.
The Government has rendered a number of concrete decisions and conclusions which contribute to the more efficient rehabilitation, and has defined the specific tasks of competent ministries.

Apart from the Government of the Republic of Serbia, ministries, institutions, cities, municipalities, international organisations, commercial companies, public figures, individuals and others have contributed or donated significant funds.
Chapter 4: Analysis of the Situation

Issues:

**Large number of damaged public buildings:**

*Primary and secondary schools:*
- 10 secondary schools have been damaged,
- Of the total number of examined schools, 17 primary schools in the territory of the city of Kraljevo have been damaged and are unfit for use,

*Preschool facilities:*
- One kindergarten has suffered great damage and is not operational, 2 kindergartens suffered minor damages, and a number of primary school facilities housing preschool groups has been damaged,

*Healthcare facilities:*
- Healthcare Centre “Studenica” suffered great damage,
- The internal medicine hospital has been evacuated as it is no longer fit for use,
- Healthcare day clinics have been damaged,
- The Public Health Institute has been evacuated and is no longer fit for use,

*Residential buildings:*
A large number of residential buildings has been damaged (of the total number of 10,196 examined buildings, 1,434 are no longer fit for use, while 8,762 buildings need rehabilitation. The second-degree committee (formed on November 12th 2010) examined 125 buildings by November 14th 2010 and found that 28 of the buildings need to be torn down, while 97 buildings are in need of rehabilitation.

*Commercial buildings:*
The general state of the economy, which was already at a very poor level, has been worsened, since a large number of commercial buildings has been damaged, which directly endangers part of the city’s population, due to inability to recover from damages for lack of any income.

*Consequences of earthquake*
Analysis of the Situation

*Analysis of the situation* in the local community regarding recovery from the earthquake of 03.11.2010 was conducted through reviewing the strengths and weaknesses of the local community, as well as the opportunities and threats with which it is faced in its work surroundings.

**SWOT ANALYSIS**

<table>
<thead>
<tr>
<th><strong>INTERNAL</strong></th>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Executive bodies of the city are fully operational and prepared to undertake activities relating to renewal of the city; - Well organised work of the local self-government and all competent authorities and institutions; - Budget directed towards development of the infrastructure.</td>
<td>- Insufficient funds in the budget for financing the projects; - Large number of public buildings is not operational; - Large number – 1400 residential buildings are unsafe for living; - Large number of residential buildings are damaged – 13000; - Economy of the city is poorly developed - High unemployment rate.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>EXTERNAL</strong></th>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>- Support from the Serbian Government and competent ministries; - EU funds available; - Development Fund of the Republic of Serbia; - Business sector and cooperation with this sector.</td>
<td>- Insufficient / slow inflow of funding from available sources.</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 5: General and Specific Goals

General goal: Urgent recovery from the natural disaster – earthquake in the city of Kraljevo.

Based on this general goal, specific goals were defined that specify tasks for the period 2010 – 2012.

Specific goals:

**Specific goal 1:** Urgent rehabilitation of public buildings in the city of Kraljevo:

- Rehabilitation of the music and art school in Kraljevo;
- Rehabilitation of the internal medicine hospital of Healthcare Centre “Studenica”;
- Rehabilitation of the Public Health Institute in Kraljevo,
- Rehabilitation of primary and secondary school buildings in Kraljevo (Primary School “Dimitrije Tucovic”, Electrical-Traffic-Technical School “Nikola Tesla”, School of Forestry and other less severely damaged primary and secondary schools),
- Rehabilitation of the City Administration building of the city of Kraljevo,
- Providing the necessary conditions for operation of the public kitchen and temporary housing for the most endangered persons in the "Kablar" building in Kraljevo.

**Specific goal 2:** Urgent resolving of housing issues caused by demolition of buildings as a consequence of the earthquake:

- Procurement of 50 temporary container homes;
- Rehabilitation and reconstruction of collective housing buildings and individual housing buildings,
- Construction of 600 prefabricated buildings,
- Procurement and distribution of building material.

**Specific goal 3:** Renewal and strengthening of the industrial potentials of the city of Kraljevo:

- Renewal of the industrial buildings damaged by the earthquake,
- Support to potential investors for the purpose of strengthening the economy and opening new job positions,
- Implementing a self-employment and rural development support program.