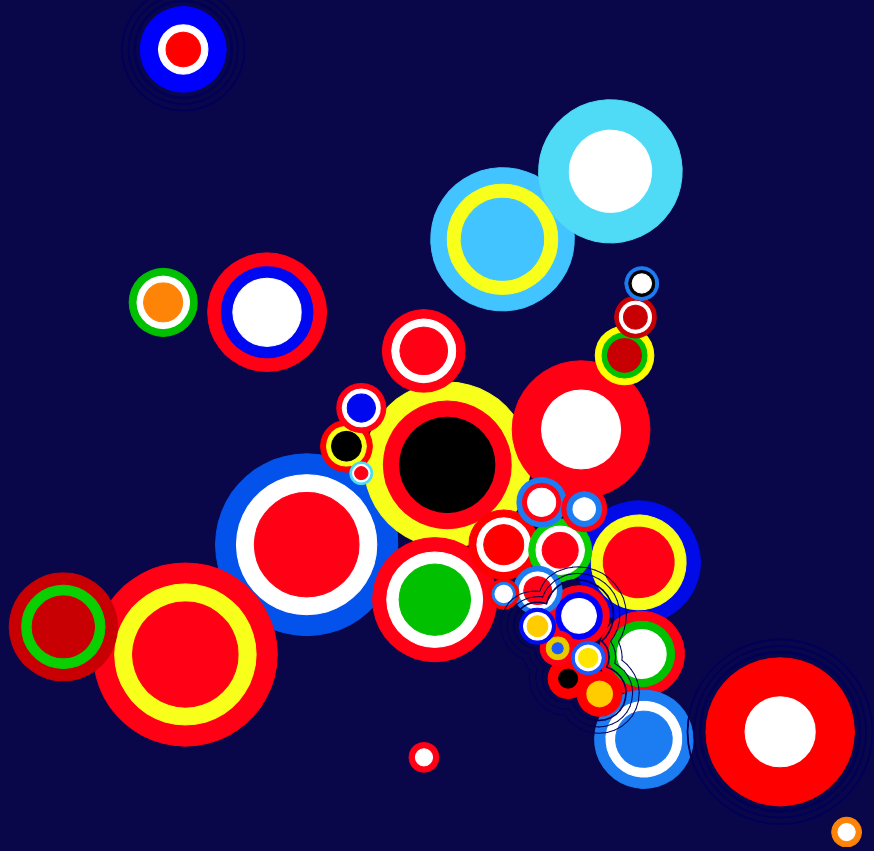




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



INDICATIVE STRATEGY PAPER FOR **SERBIA** (2014-2020)

ADOPTED ON 19/08/2014

TABLE OF CONTENTS

PART I: INTRODUCTION	3
1 Purpose	3
2 Consultation on this Strategy Paper	4
PART II: ANALYSIS OF NEEDS AND CAPACITIES	4
1 Political and economic context	4
2 Context for the planning of assistance	6
PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY	10
PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020	12
1 Democracy and governance	12
2 Rule of law and fundamental rights	17
3 Environment and climate action	22
4 Transport.....	26
5 Energy.....	28
6 Competitiveness and innovation	30
7 Education, employment and social policies	33
8 Agriculture and rural development	36
9 Territorial and regional cooperation	38
ANNEX 1: INDICATIVE ALLOCATIONS.....	40
ANNEX 2: PERFORMANCE INDICATORS	40

PART I: INTRODUCTION

1. Purpose

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Serbia on its path to EU accession. It translates the political priorities, set out in the enlargement policy framework, into key areas where financial assistance is most useful to meet the accession criteria.

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries in implementing reforms with a view to EU membership. Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for EU membership and related institution-and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed to meet accession criteria and tailored to take into account the capacities of the country to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meeting the four specific objectives and address, as appropriate, the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account needs to be taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for Serbia for the coming seven years, this Strategy Paper sets meaningful and realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds in 2014 to 2020. The indicative financial allocations allow for an appropriate amount of assistance to remain available as a 'reward' on the basis of an assessment of performance and progress over a period of several years but not later than in 2017 and 2020 respectively, as defined in the IPA II Regulation.

¹ OJ L 77, 15.03.2014, p. 11.

This Strategy Paper shall be reviewed at mid-term and revised as appropriate. It may also be revised at any time upon the initiative of the European Commission.

2. Consultation on this Strategy Paper

This Country Strategy Paper has been prepared in close partnership with Serbia. Several rounds of consultations were held with the Serbian European Integration Office (SEIO). Specific consultations were organised with the sector working groups composed of representatives of line ministries and other national stakeholders, a number of civil society organisations, EU Member States, other donors and international organisations in Belgrade in July 2013 and November 2013. International Financial Institutions (IFIs) and international organisations have also been consulted and a strategic dialogue with the European parliament has been conducted.

The civil society organisations (CSO) have been consulted more widely via SEIO, having in mind SEIO's national leadership in programming of IPA funds. SEIO has organised consultations with CSOs in cooperation with the Office for Cooperation with Civil Society, which is in charge of coordinating the processes with the wide range of CSOs, irrespective of their size, sector or area of work or geographic location.

All the consulted stakeholders provided valuable input in their respective fields of expertise. Their comments have been reflected to the extent possible. They will be further taken into account during programming of IPA assistance. The consultation process was also instrumental in terms of achieving better coordination of strategic priorities and complementarity of assistance among donors.

PART II: ANALYSIS OF NEEDS AND CAPACITIES

1. Political and economic context

Serbia is a parliamentary democracy with a population of nearly 7.2 million. Over half of the population lives in rural areas. Serbia is organised into a central, provincial and local (self) governments. Serbia's constitutional and legislative framework is largely in line with European principles and standards. The public administration is generally well developed at a central government level. The local self-government level, which holds delegated competences in areas such as local infrastructure, building permits, utilities, education, culture, social and child welfare, protection of the environment and agricultural land, has very weak capacities. Capacity for parliamentary oversight and governmental policy planning, coordination and implementation need strengthening. Serbia is committed to its objective of EU membership and has since 2008 focused its efforts on the EU-related reform agenda.

Serbia's economy, which is composed of services (71% of GDP), industry (19% of GDP) and agriculture (10% of GDP), has gone through two recessions since the start of the global economic crisis in 2008. In 2012, the economy shrunk by 1.7%, mainly due to weak domestic demand. It recovered in 2013 and grew by 2.5%, but this recovery remains fragile and mainly based on exports. Serbia's GDP per capita in purchasing power standards stood at 35% of the EU average. The budget deficit was 6.5% of GDP in 2012 and 5.0% in 2013. Government

debt expanded above 60% of GDP in 2013 and is expected to approach 70% of GDP in 2014. The inflation rate was 7.8% in 2012² and fell to 2.2% at the end of 2013.

According to the latest Global Competitiveness Report, Serbia ranks 101 out of 144 countries. State presence in the economy is significant. State aid represented 2.6 % of GDP in 2012. State-controlled, monopolistic structures are present in a number of sectors such as energy, transport, infrastructure, postal services, telecommunications, broadcasting, agriculture and the environment. The small and medium-sized enterprises account for nearly 60% of employment in business economy and around 50% of GDP. Agricultural production plays a key role in the economy with 10% of GDP in comparison to less than 3% in the EU. The agriculture sector employs one fifth of the active workforce. The informal economy remains strong and is a major hindrance to fair competition and business development.

The Serbian economy has been subject to external imbalances. In 2012, the current account deficit was 10.5% of GDP, but was reduced to around 5% in 2013 due to faster growth in exports than in imports. The EU is Serbia's main trading partner, accounting for 62.8% of Serbian exports and 61.8% of imports to Serbia in 2013. The further biggest trading partners are the members of the Central European Free Trade Agreement (CEFTA) with 28% of Serbia's exports and 8% of imports as well as Russia with over 7% of Serbia's exports and nearly 11% of imports.

The labour market and the social situation are challenging. The unemployment rate was at record high of 24% in 2012³ and it was around 20% at the end of 2013. The long-term unemployment rates as well as unemployment rates of women and youth have been persistently high, youth unemployment reaching 50% at the end of 2013. The overall education system is unresponsive to labour market needs, resulting into structural problems including a mismatch of supply and demand. Serbia ranks only 43rd out of 65 countries participating in the Programme for International Student Assessment (PISA) from the Organisation for Economic Cooperation and Development (OECD). In terms of gender equality, equal participation of women and men at all levels of society remains a key challenge. Existing gender stereotypes and discrimination help to preserve a structural gender gap in economic, political and social areas and gender-based violence remain an issue of concern. Support for shelters for victims of domestic violence remains insufficient.

Nearly 10% of Serbian people are estimated living in absolute poverty and nearly one quarter of population is estimated of being at the risk of poverty. Roma people are among the poorest and most disadvantaged groups in Serbia, with nearly 30% of them estimated living in absolute poverty.

Government's overall investment in physical infrastructure increased to 3.7 % of GDP in 2012 but declined by about a third in 2013. International Financial Institutions (IFI) have provided loans for major infrastructure projects mainly in transport, environment, energy and competitiveness (small and medium-sized enterprises) sectors, of which EIB loans are worth EUR 2.3 billion since 2009 and EBRD loans worth over EUR 3 billion since 2011. Despite these commitments there are substantial amounts of still undisbursed funds. Serbia will need further considerable investment in physical infrastructure in environment, transport and energy sectors, first and foremost for the direct benefit of its citizens, but also in view of the accession to the EU.

² Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_ecprice&lang=en

³ Source: Eurostat, http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=cpc_siemp&lang=en

Serbia's economy is highly energy-intensive and carbon-intensive due to its heavy reliance on fossil fuels. In 2011 Serbia consumed and emitted 2.7 times more energy and CO₂, respectively, per unit of output than the Organisation for Economic Co-operation and Development (OECD) average, according to the International Energy Agency. Also, Serbia is located in areas highly vulnerable to climate change impacts.

Corruption is perceived to be widespread in Serbia, impacting also economic development. According to the 2013 *Business, corruption and crime in Serbia* report by the United Nations Office on Drugs and Crime, more than half of business representatives participating in the survey considered corruption a major obstacle to doing business. The fear of having to pay bribes to obtain requisite services or permits led over 9% of business leaders not to make a major investment in the 12 months prior to the survey. Beside corruption, Serbia faces further substantial challenges in the rule of law sector regarding judicial independence and efficiency. Decisive action and effective results to tackle all these issues will be crucial for Serbia's EU accession perspective.

2. Context for the planning of assistance

2.1. EU Enlargement Strategy

Serbia – along with five other Western Balkans countries – was identified as a potential candidate for EU membership during the Thessaloniki European Council in 2003. In 2008, a European partnership for Serbia was adopted, setting out priorities for the country's membership application, and in 2009 Serbia formally applied. The European Council granted Serbia candidate country status in March 2012. In June 2013 the European Council decided on opening accession negotiations. The Commission was also asked to carry out an analytical examination of the EU *acquis* with Serbia, which started in September 2013. Also in September 2013, the Stabilisation and Association Agreement, signed in 2008 between the EU and Serbia, entered into force. The Council adopted the framework for negotiations with Serbia in December 2013, and the first intergovernmental conference with Serbia took place in January 2014, signalling the formal start of the accession negotiations.

The new EU enlargement strategy acknowledges that the accession process today is more rigorous and comprehensive than in the past, not only due to the evolution of EU policies but also due to lessons learned from the previous enlargements. A key lesson from the past is the importance of addressing the fundamentals first.

The rule of law will remain at the heart of the enlargement process. The new approach, endorsed by the Council in December 2011, means that countries need to tackle issues such as judicial reform and the fight against organised crime and corruption early in the accession negotiations. Serbia will have to sustain the momentum of reforms over time in the key areas of the rule of law, particularly judicial reform and anti-corruption policy, independence of key institutions, freedom of expression, anti-discrimination policy, the protection of minorities, and develop a solid track record of reform implementation, thereby ensuring that reforms are deeply rooted and irreversible. The full and timely implementation of the relevant strategies and the action plans in the area of rule of law and fundamental rights will be essential in this regard.

The global economic crisis has underlined the need for all countries to strengthen their economic governance, improve competitiveness, and create a more stable and transparent business environment to attract investments and stimulate growth. The enlargement strategy sets out proposals to support this aim, including enhancement of economic policy and its governance through the introduction of annual National Economic Reform Programmes, and

biennial Competitiveness and Growth Programmes as well as action plans for public financial management.

There is also a need to more intensively strengthen democratic institutions and make democratic processes more inclusive. Further progress with public administration reform and a stronger role for civil society are key in this respect, as are cross-party platforms for EU integration.

Finally, good neighbourly relations and regional cooperation are essential elements of the Stabilisation and Association process. Serbia needs to maintain its commitment to regional cooperation and reconciliation. Following the landmark agreement signed with Kosovo* on 19 April 2013, continued visible and sustainable progress in the normalisation of relations with Kosovo including the implementation of agreements reached so far, will remain essential. Progress in this respect will be monitored in the framework of accession negotiations.

2.2. Relevant national/regional strategies

The strategic programming document *National Priorities for International Assistance in the Republic of Serbia 2014-17 with projections until 2020 (NAD)*, prepared by SEIO in cooperation with the relevant national authorities following a wide consultation process with development partners and civil society, was adopted in November 2013. NAD aims to help donors align international financial assistance with national sector priorities, eliminate duplication and rationalise donor activities. The priorities identified in the NAD focus on systematic reforms needed to meet the accession criteria and to create a more attractive economic environment which will act as a driver for economic and social development. NAD defines nine sectors as the basis for sector approach and contains indicators, a set of verifiable, annual and mid-term, targets which can be used for assessing the progress of reforms. This Strategy Paper therefore closely mirrors NAD regarding the priorities for EU assistance in the next seven years.

Serbia adopted its second *Pre-accession Economic Programme (PEP)* in December 2013. The PEP provides the overall economic policy framework and objectives for the period 2014-16. The programme aims to reduce budget deficits, limit the increase of government debt and accelerate growth and structural reforms. To that effect, the adoption of all necessary system-related laws should be accelerated, and the implementation of the enacted laws and regulations ensured, geared to establishing a market economy, macroeconomic stability and the rule of law as well as curbing corruption and organised crime. The PEPs will be replaced by the National Economic Reform Programmes, which are based on the new enlargement strategy. They will have an increased focus on assessing external sustainability and structural obstacles to growth. Serbia is preparing its first Employment and Social Reform Programme (ESPRP) including inclusive growth issues and complementing other aspects of economic governance. This set up will be complemented by adoption of a Competitiveness and Growth Programme in 2016.

In February 2013, Serbia adopted a *National Plan for the Adoption of the Acquis (NPAA) 2013-16*, which is subject to annual revision. The NPAA establishes a plan for harmonisation with EU legislation and defines human resources required for implementation. It needs to be further complemented by identification of financial resources per measure.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

In December 2013, Serbia finalised a new national Strategy for Agriculture and Rural Development for the period 2014-2024. The Strategy, although still to be adopted, has been largely consulted with rural stakeholders, provides an overview on development of the agriculture sector, including policy, legal and institutional reforms.

During 2014 Serbia is expected to adopt a single investment project pipeline, which should include the most strategic priority investment projects in the environment, transport, energy and competitiveness sectors for the coming years. The Serbian authorities have adopted in November 2013 the related methodology, which defines both eligibility and selection criteria for investment projects. The eligibility criteria assess consistency of the proposed projects with the national strategy framework and sector strategies as well as relevance in terms of Serbia's EU accession agenda. The selection criteria further take into account aspects such as the state of technical preparations and financial sustainability. The new methodology should be applied by all beneficiary institutions, resulting into a single project pipeline with most strategic, technically feasible and financially viable projects to be finally adopted by the government. A National Investment Committee is in the process of being established to monitor its implementation. IPA II funding should concentrate only on those priority investment projects included in the pipeline.

Serbia is a signatory of many treaties with a regional aspect and participates in a number of regional initiatives. The *Central European Free Trade Agreement (CEFTA)* aims to expand trade in goods and services, foster investment, eliminate barriers to trade, provide protection of intellectual property rights in accordance with international standards and harmonise provisions in areas such as competition rules and state aid between non-EU countries in Southeast Europe. The *Energy Community Treaty* provides for the creation of an integrated energy market in electricity and gas between the EU and the contracting parties and includes a social memorandum. The *South East Europe Transport Observatory (SEETO)* promotes cooperation on the development of the main and ancillary infrastructure on the multimodal SEE Comprehensive Transport Network covering road, rail, air and waterborne transport. Serbia also participates in the *EU strategy for the Danube region* and the *EU Strategy for the Adriatic and Ionian Region (EUSAIR)*, which are macro-regional strategies to enhance cooperation, socioeconomic development and territorial cohesion among the Member States and non-EU countries in the respective regions. These strategies offer solutions to common challenges in the concerned macro-regions. They are focusing on improved connectivity of transport networks, better environmental protection, sustainable tourism actions, and socio-economic development measures in the geographically specific context. Macro-regional strategies foster cooperation with neighbouring countries and facilitate the preparation of candidates and potential candidate countries for EU integration. Serbia participates actively in the *Regional Cooperation Council (RCC)* and has committed to the South East Europe (SEE) 2020 strategy and its growth targets agreed in a ministerial conference in November 2013. Serbia is also part of the *Migration, Asylum, Refugees Regional Initiative (MARRI)*, which deals with the issues of migration management in the Western Balkans by promoting closer regional cooperation and a comprehensive, integrated, and coherent approach to the issues of migration, asylum, border management, visa policies and consular cooperation, refugee return and settlement in order to meet international and European standards.

2.3. Conditions for managing pre-accession assistance

There is an important shift between the past EU assistance and the assistance to be provided to Serbia over the period 2014-20. Serbia has gradually moved to sector approach since 2011. Serbia has also started recently to move towards a multi-annual perspective in planning of EU assistance. The minimum conditions are therefore now in place so that assistance can be addressed through sector approach and with a multi-annual planning perspective in all the

sectors. Sector working groups are functioning, donor coordination mechanisms under the leadership of the SEIO have been set up and institutional setting with lead institutions for each sector has been identified with sufficient capacity for implementation.

The current weaknesses that hinder the move to fully-fledged sector approach concern the lack of well-defined national sector strategies (due to too many overlapping strategies in each sector) and the lack of clear link between national strategies and the national budgetary process. In 2013, the General Secretariat of the Government and the SEIO initiated a process aiming to improve the strategy framework in each sector.

IPA funds in Serbia will be managed mainly through indirect management. Serbia has made the necessary preparations for indirect management of EU assistance in line with the requirements of the IPA Regulation 1085/2006, which defines that the Commission can confer management powers to the national authorities provided that the necessary structures, authorities and control requirements are in place. The IPA 2013 national programme for Serbia (Component I) and IPA 2012-13 Cross-border programmes with Bosnia and Herzegovina, and Montenegro (Component II) are the first programmes for which the Commission has conferred management powers to Serbia in 2014.

Serbia will be eligible for sector budget support, provided that the following four pre-conditions are met: a stable macro-economic framework; a credible programme and relevant to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies consistent with the EU accession strategy. Once these conditions are in place, sector budget support can be provided in those sectors where there is a good strategic basis for implementation of reforms.

2.4. Donor coordination and complementarity with other EU assistance

The main donors in Serbia are the EU, USAID, Germany, Sweden, Switzerland and Norway. Many of the EU Member States also provide targeted assistance in specific sectors. The IFIs – EBRD, EIB, KfW, World Bank - provide loans for development of the Serbian economy.

Donor coordination is ensured by the National IPA Coordinator (NIPAC). The previous informal and mostly donor-led coordination groups have been rearranged following the NIPAC's increased leadership for programming of assistance. The NIPAC's Technical Secretariat, SEIO, guides the work of nine sector working groups for programming and monitoring of external assistance, comprising of representatives of relevant national institutions responsible for policy making, implementation and monitoring in their respective sectors. They are responsible for sector and donor coordination, co-financing, analysis of project implementation and monitoring of implementation. The sector working groups are a forum for consultation with the civil society and development partners, and they also serve as IPA sector monitoring sub-committees. A lead donor has been agreed and associated to each sector working group.

This reform on donor coordination is progressing well but is not yet fully effective in all the sectors. Once completed, this reform will be a major step towards better coordination and ownership. In addition, the EU holds regular consultations with the EIB, EBRD and the World Bank in order to explore synergies for cooperation, including blending of EU grants with loans.

2.5. Consistency with EU policies

Financial assistance in the priority areas identified in this CSP will be granted in line with and in support of the enlargement strategy for Serbia. It will be shaped to be consistent with EU policies in the same area, in particular with the Europe 2020 strategy and applicable macro-

regional strategies, the flagship initiatives of the EU to boost growth and jobs, as well as the climate policy objectives of the EU. The objectives set until 2020 reflect the level of economic development and the stage in the accession process of Serbia.

The objectives agreed under the SEE 2020 Strategy are important benchmarks for the reform efforts of Serbia and financial assistance under IPA II will be used by Serbia to support meeting these benchmarks.

Climate action also represents a cross-sectorial element that applies to most sectors, notably transport, energy and agriculture and rural development.

PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY

The EU assistance to Serbia for the period 2014-20 is designed to support Serbia in its specific path to the EU, in line with the enlargement strategy, which highlights the importance of addressing the fundamentals first in the accession process. The EU financial assistance will complement the national sector reform efforts and assistance by other donors and IFIs on two main pillars: Democracy and Rule of Law, and Competitiveness and Growth. Under those pillars and within each sector, the EU assistance will be focused, on a yearly basis, on a limited number of priority areas, which have the most impact on Serbia's path towards EU accession.

The start of the EU accession negotiations has an impact on EU assistance to Serbia. Based on the specific needs arising from the screening process and further during the accession negotiations, sector based support will be essentially based on strategies and action plans or specific actions required in the framework of the EU accession negotiations. In addition, IPA support may be mobilised in response to unforeseen priority needs relevant to the accession negotiations, but which do not fall under the identified priority areas. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance provided under the TAIEX instrument and through twinning. IPA will also continue to co-finance Serbia's contribution for its participation in the EU programmes, subject to the national prioritisation process among the different programmes.

For the period 2014-2020 pre-accession assistance will fall under the following two pillars:

Democracy and Rule of Law

This first pillar will cover two key sectors: Democracy and governance; and, Rule of law and fundamental rights.

In the **Democracy and governance sector** assistance will be focused on supporting the public administration reform, in order to establish a more professional, depoliticised, accountable and fiscally responsible public administration, which provides services to citizens and businesses both at central and local level. In line with the enlargement strategy, economic policy and its governance will be enhanced through support of the National Economic Reform Programme, which will lead to country-specific policy guidance on reforms needed for achieving further progress in gradually meeting the economic accession criteria. In this context, specific measures to improve legal predictability and enforcement of laws and court decisions will be also supported. Also, in line with the enlargement strategy specific focus

will be put on supporting the reform of the public financial management system, which is both an integral part of the public administration reform efforts and the basis for economic governance and sustainable socio-economic reforms. Serbia's political and administrative reforms related to the EU integration process will be supported, including to the extent needed normalisation of relations between Serbia and Kosovo. Specific needs arising in the course of the accession process such as in the areas of statistics will be also supported. Capacity of Serbian authorities will also be enhanced for EU funds management and investment project preparation both at central and local government level. Finally, civil society organisations will be supported through the Civil Society Facility.

The reforms in the **Rule of law and fundamental rights sector** are a key priority for Serbia, in line with the accession negotiation framework, which incorporates the new approach to the accession negotiations and puts the Rule of Law chapters at the heart of the enlargement process. The action plans to be devised under Chapters 23 and 24 will therefore become the core of EU assistance in this sector. In the **judiciary and fundamental rights sub-sector** assistance will focus on supporting the creation of an accountable, independent and efficient judicial system, the prevention and fight against corruption, as well as protection of minorities, including Roma, as well as other groups that are vulnerable to discrimination, in particular on grounds of sexual orientation, i.e. the lesbian, gay, bisexual, transgender and intersex (LGBTI) persons. Also, **freedom of expression** (media freedom and pluralism) will be a focus of assistance. In the **Home Affairs sub-sector** support will focus on the creation of an effective and efficient law enforcement system in the fight against organised crime, border management, migration and asylum.

Competitiveness and Growth

In light of the current economic challenges, Serbia needs to undergo substantial structural reforms. To support Serbia to achieve sustainable and inclusive growth in line with the Europe 2020 priorities, EU assistance will focus on supporting the key reform measures identified in the biennial Competitiveness and Growth programme as part of the economic governance dialogue.

Support will be provided for key infrastructure investments in the **transport, environment and climate action, and energy sectors** as well as for *acquis* alignment and institution building in these sectors. The transport sector has a strong potential to contribute to competitiveness and trade, as Serbia is located at the crossroads of Pan-European Corridor VII (the Danube river), which connects the North Sea to the Black Sea, and Corridor X (road and rail) between Austria and Greece. Substantial investments in the environment sector – especially in waste management, water management and municipal wastewater treatment – are also needed for Serbia to meet the requirements of the EU environmental policies. Climate action sector is important for accelerating economic growth and building resilience to climate change and its impact. In the energy sector the focus of EU assistance will be on improving competitiveness of the energy market, energy efficiency and security of supply (also in the regional context) as well as on developing renewable energy sources. Only strategic, as well as technically and financially viable investment projects, which are part of a single national investment pipeline, will be eligible for EU funding. This also applies to the funding through the Western Balkans Investment Framework (WBIF), which provides a unique facility for blending loans and grants, to further address Serbia's investment needs in these sectors.

In the **competitiveness and innovation sector** EU assistance will focus on improvements of the business environment, on structural reforms to reduce the state presence in the economy, on development of research and innovation capacity and on improving the business sector, especially small and medium-sized enterprises. As high level of unemployment, especially

among youth, continues to be a persistent challenge in Serbia, the focus of assistance in the **education, employment and social policies sector** will be on implementing the new education strategy and supporting the reform to improve the quality and relevance of the educational policy and to match it better with the Serbian labour market needs. Among the key priorities in this sector is also social inclusion of the most vulnerable groups, especially Roma. The **agriculture and rural development sector** plays a key role in the Serbian economy, as it employs over 20% of the active work force. The assistance will therefore focus on improving competitiveness as well as on gradual alignment of the Serbian agricultural policy with requirements of the EU's Common Agricultural Policy.

Furthermore, **regional and territorial cooperation** has shown positive effects on neighbourly relations and the lives of people in the border regions. It is therefore foreseen to continue bilateral cross-border programmes between Serbia and its neighbouring EU Member States (Hungary, Romania, Bulgaria and Croatia) and with the IPA countries (Montenegro and Bosnia and Herzegovina). IPA assistance is also foreseen for two new territorial cooperation programmes with the Former Yugoslav Republic of Macedonia and Kosovo. Financial assistance will be provided through the IPA multi-country IPA programmes.

Finally, while programming IPA II assistance, specific attention will be paid to a number of cross-cutting issues that impact more than one sector and therefore require action in many of them parallel. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, anti-discrimination, strengthening of democracy, human rights and civil society participation, as well as protection of cultural heritage as appropriate. Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

The indicative financial allocations per policy area and sector, resulting from the priorities defined in this strategy paper are set out in Annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and governance

1.1. Needs and capacities in the sector

Serbia adopted in January 2014 a new **public administration reform** (PAR) strategy covering all key horizontal aspects. Preparations of the related action plan are ongoing under the leadership of the Ministry of State Administration and Local Government and in cooperation with all key stakeholders. PAR has suffered from weak political coordination for a number of years, and efforts have started to better supervise and coordinate PAR with the foreseen establishment of monitoring working group, including the Ministry of Finance, and the forthcoming appointment of a State Secretary. However, the reform of public administration still lacks a strategic vision and the overall institutional and administrative capacity for policy planning, monitoring and coordination needs to be enhanced. Better links are also needed between the strategic and budgetary planning cycle. The public administration framework remains fragmented. A sound and comprehensive reform, underpinned by proper analysis and performance management tools, is needed.

Recruitment, both for middle management positions and at local level, continues to be an issue of serious concern, as a substantial proportion has been conducted through non-transparent procedures. The current legal framework and its uneven application leave room for undue influence in the recruitment process. The legislative framework is not yet complete, especially regarding general administrative procedures and salaries of civil servants. Administrative capacities especially at local level are weak and there are significant disparities between municipalities. A revision of the legal framework for civil service in all aspects both at central and local level as well as substantial changes in recruitment practices are needed to establish a merit based professional public administration. E-government initiatives (e.g. electronic tax declarations) are being developed to provide services for citizens and businesses, but they need to be fully integrated into the overall PAR framework.

Serbia faces macroeconomic and fiscal policy challenges, which demand that the **economic policy and its governance** be further enhanced. Reforms will be designed on the basis of the annual National Economic Reform Programme, which will increasingly deal with external sustainability and structural obstacles to growth. The programme will lead to country-specific policy guidance on reforms needed for achieving further progress in gradually meeting the economic accession criteria.

There is no comprehensive and sequenced **public financial management** reform strategy and an action plan (a public financial management reform programme) in place, which would cover all the public finance sub-systems, including revenue administration and collection, budget preparation, budget execution with cash management, debt management, public procurement, accounting and reporting, public internal financial control, and external audit. As concerns revenue administration and collection, the operational and administrative capacity of the Customs and Tax Administrations need to be further improved. A medium-term expenditure framework based on well-founded assumptions and targets needs to be developed. Performance indicators are not widely used. Move to policy-based (programme) budgeting is ongoing, but substantial efforts are needed for implementation over the coming years. With regard to accounting and reporting, there is room for improving the presentation of the information and by incorporating certain indirect budget users. The public procurement system has improved following the adoption of the 2012 Public Procurement Law, but is not yet fully aligned with the *acquis*. The perception of irregularities, fraud and corruption in public procurement is high. Structures for public internal financial control (PIFC) have been largely put in place, but practical implementation, especially of the concept of managerial accountability, is still weak. Centralised budget inspection in line with PIFC remains to be established. Anti-fraud coordination structures are in the process of being established. External audit capacity of the State Audit Institution to implement both financial and performance audits needs to be further strengthened. In addition, since some of the public financial management sub-systems are covered under specific accession negotiation chapters (economic and monetary policy, public procurement, public internal financial control, external audit, customs and taxation), there is a need to also address these accession specific aspects. This concerns particularly IT interconnectivity and interoperability of customs and tax administration systems with the EU systems.

Serbia and Kosovo have constructively participated in the EU-facilitated dialogue, which after the Serbian elections in 2012 was upgraded to a high level political process with the facilitation of the High Representative. The discussions resulted in the "First agreement of principles governing the normalisation of relations" in April 2013. Implementation of all agreements reached so far is ongoing and is supported with EU assistance. Implementation of all current and future agreements is crucial for Serbia in the EU integration process, to reach

the ultimate goal of comprehensive normalisation of relations between Serbia and Kosovo. They will be monitored in the framework of the Chapter 35 negotiations.

Statistics is a key cross-cutting area in the EU accession process. The legal framework is broadly aligned with the international standards. The Serbian Statistical Office needs to further build its administrative capacity to adopt more modern methodologies and adequate mechanisms in order to comply with the European Statistical System.

The central and local administration lacks capacities for strategic design, planning, permitting, inspection, enforcement, monitoring, and project management of large investment projects. This has in the past resulted in delays with procurement and implementation of EU-funded investment projects. There is therefore a need to allocate substantial assistance for project preparation facilities in the first years of IPA II, to support the central and local government to prepare investment projects especially in environment, transport and energy sectors. Enhanced capacity is especially important in view of preparation for future implementation of the Structural Funds.

Serbia faces a range of challenges, especially regarding the rule of law, corruption, organised crime, the economic situation and social cohesion. Civil society organisations can make a substantial contribution to addressing many of these challenges through their lobbying, advocacy and oversight activities at national, regional and local level. They can create demand for enhanced transparency, accountability and effectiveness from public institutions and facilitate a greater focus on the needs of citizens in policy-making. The involvement of civil society in the pre-accession process can contribute to deepening citizens' understanding of the reforms a country needs to complete in order to qualify for EU membership. This can help ensure EU accession is not just a government exercise and stimulate a balanced public debate, which is crucial to achieving a well-informed decision on EU membership at the end of the accession process.

Democracy and governance sector was among the largest recipients of international donor assistance with over EUR 1 billion, including an estimated over EUR 200 million of IPA assistance over the period 2007-13.

1.2. Objectives, results, actions and indicators

EU assistance aims to support Serbia's ongoing public administration reform efforts in order to establish a more professional, depoliticised, accountable and fiscally responsible administration, which provides services to citizens and businesses. It also aims to support Serbia becoming a gradually functioning market economy by enhancing Serbia's economic policy and its governance. A further objective is to support Serbia with a comprehensive public financial management reform, in order to have a sound basis for socio-economic and structural reforms, and additionally to support Serbia meeting the EU requirements on taxation and customs (Chapters 16 and 29), budgetary frameworks (Chapter 17), public procurement (Chapter 5) and internal control and external audit (Chapter 32).

As concerns the political and administrative reforms related to EU integration, the objective is to support both normalisation of the relations with Kosovo and legislative alignment and institution-building in those areas, which are necessary for Serbia's EU accession but are not covered in the other sectors such as the negotiation chapter on statistics. A further objective is to enhance administrative capacity for the EU funds management and investment project preparation both at the central and local level. With regard to civil society the objective is both to promote an environment that is conducive to civil society activities and to build the capacity of civil society organisations to be effective and accountable independent actors.

The expected **results** are the following:

- Capacities of democratic institutions, especially the parliament, are improved for efficient oversight;
- PAR coordination is enhanced and a policy co-ordination, planning and development system is established with medium-term planning documents and consolidated sector strategies, supporting the objectives of the Government and enabling prioritisation and budgetary planning and monitoring;
- A civil service system based on merit is in place, including integrity systems, with regularly trained civil servants both at central and local government level, capable of applying sound administrative procedures in line with EU principles and therefore offering legal certainty to citizens and businesses;
- Public Administration governance and service delivery to citizens and businesses is improved, including upgraded e-Government services;
- Macroeconomic stability is enhanced through multilateral surveillance and implementation of the National Economic Reform Programme;
- Public financial management is reformed in line with a public financial management reform programme, which covers in a sequenced manner the key reform needs in the relevant sub-systems over a number of years, including revenue administration and collection, budget preparation, budget execution with cash management, debt management, public procurement, accounting and reporting, public internal financial control, and external audit, and will support Serbia meeting the EU accession requirements under the relevant negotiation Chapters;
- Customs and Tax Administration are supported to meet the *acquis* requirements, including IT interconnectivity and interoperability with the EU systems. Serbia becomes a full member of the Common Transit Convention;
- Agreements between Serbia and Kosovo, which are supported through EU assistance, are implemented according to an agreed timetable;
- Statistical methods applied by the Serbian Statistical Office are in line with the requirements of the European Statistical System;
- Serbia's EU accession process is supported with harmonisation of the *acquis* and general institution and capacity-building in other areas that fall outside the specific sectors;
- Capacity for EU funds management is enhanced, as evidenced by timely procurement and contracting;
- Investment project preparation is substantially improved both at the central and local government level, resulting in mature investment projects;
- Enhanced cooperation of civil society organisations with public institutions; and
- Capacities of civil society organisations are strengthened to increase their autonomy, representativeness and accountability, as well as their membership base, fundraising and effectiveness.

Assistance will be provided for implementation of the new PAR strategy, which covers strategic planning, policy development and coordination; civil service management both at central and local government level; public financial management; and e-Government, as well as for future updates of the strategy.

Assistance will be provided for implementation of the country-specific recommendations which will be developed on the basis of the annual National Economic Reform Programme. In this context, specific measures to improve legal predictability and enforcement of laws and court decisions in the interest of businesses and citizens will be also supported.

Assistance will be also provided for preparation/implementation of a public financial management reform programme, which should cover all the relevant sub-systems in a comprehensive manner. In addition, support will be provided to both Customs and Tax Administrations to bring the legal framework fully in line with the *acquis* and to improve operational capacity, including development of the Customs Declaration Processing System, the customs laboratory, appropriate control mechanisms for individual tax authorities and IT interconnectivity and interoperability.

According to needs, assistance will be also provided for implementation of the agreements between Serbia and Kosovo in the process of normalisation of their relations. This will also support Serbia's accession process and negotiations on Chapter 35. Support will be also provided in specific areas that fall outside the different sectors but are nevertheless important for Serbia's accession to the EU. Specifically, the capacity of the Serbian Statistical Office will be further enhanced to adopt methodologies in line with European standards and adequate mechanisms, following best practices of the European Statistical System. Furthermore, assistance will be focused on further capacity building of national authorities responsible for the EU funds management as well as on supporting the central and local government level to prepare investment projects, also in view of preparations for the management of the future Structural Funds.

As concerns civil society, the EU will offer a combination of political and financial support to meet these objectives, employing a more strategic, effective and results-focused approach to deliver maximum impact. The approach, including indicators and baselines and targets, will be specified in the Guidelines for EU support to civil society in enlargement countries in the period 2014-2020. Monitoring of results and indicators will be realised on annual basis.

In its political contacts the EU will encourage enlargement countries to make legislation more conducive for civil society. It will also promote the involvement of civil society in the pre-accession process, including in the formulation, implementation and monitoring of sector strategies for EU financial assistance. The financial support under the civil society facility will be provided both from the national and multi-country programmes. An appropriate mix of funding instruments will be used to respond to different types of needs and country contexts in a flexible, transparent, cost-effective and results focused manner across the sectors. This will include: aiming for longer term contracts, recognising that capacity building and advocacy work requires time and resources; moving away from project based support to a more flexible approach that fosters partnership and coalition building; and doing more to reach out to grass-root organisations, in particular through re-granting and flexible support mechanisms to respond to their immediate needs. Civil society will also be supported under different sectors through measures enhancing its role and capacities to participate actively in formulation and implementation of sector strategies for EU financial assistance.

The following indicators will be used to measure progress:

- Progress made towards meeting accession criteria (EC);
- Composite indicator Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Statistical compliance (Eurostat).

1.3. Types of financing

Assistance will be provided primarily through twinning, technical assistance, supplies of equipment and possibly also through calls for proposals and direct grants to relevant national authorities. Sector budget support can be considered from 2015 onwards especially to support the PAR and/or public financial management reform, provided that Serbia meets the four pre-conditions for sector budget support. Complementary support to the PAR reform area is provided from the IPA II multi-country programme through cooperation with SIGMA (OECD) and the Regional School of Public Administration. Economic governance will also be supported under the multi-country programme through cooperation with IMF. In the area of statistics, Eurostat will also continue to provide support to the National Statistical Offices under the IPA II multi-country programme. IPA II may co-finance Serbia's contribution for its participation in the following EU programmes: Hercule III (promoting activities against fraud, corruption and any other illegal activities affecting the financial interests of the Union), Pericles 2020 (protection of the euro against counterfeiting), Fiscalis 2020 (contributing to the fight against tax fraud and revenue collection) and Customs 2020.

1.4. Risks

There have been weaknesses in the past regarding continuous political leadership and commitment for the PAR reform. There may also be delays with implementation of the new PAR strategy and its action plan as well as with preparation of the public financial management strategy and its action plan (a public financial management reform programme). Weak administrative capacity for coordination of the PAR reform and weak capacities at local government level to implement reforms represent an additional risk. To mitigate these risks, the Commission will closely monitor progress made with the PAR and public financial management reforms in its political dialogue with the Serbian authorities. Furthermore, capacity-building activities are foreseen at local government level to support implementation of horizontal reforms. As concerns civil society, there is a risk that weak financial and administrative capacities of civil society organisations may affect their capacities to engage in an effective dialogue with the government. Risks will be minimised through activities implemented under the civil society facility, the civil society task force, the working group including the European Commission, and by technical assistance at national and regional level.

2. Rule of law and fundamental rights

2.1. Needs and capacities in the sector

Serbia faces a number of challenges in the **judiciary and fundamental rights sub-sector**, which is at the heart of Serbia's accession process to the EU and is covered under the negotiation Chapter 23 (Judiciary and Fundamental rights). There are weaknesses regarding independence and efficiency of judiciary (judicial network, electronic case management, capacities of the key stakeholders, procedural laws, prosecutorial investigation, availability of legislation and case-law). The number of backlog cases has been increasing and processing time for proceedings still remains long. Capacity of the Judicial Academy also needs strengthening. The new judicial reform strategy and its action plan (2013-2018) widely address the identified weaknesses but will need to be enhanced to match requirements of the opening benchmark for Chapter 23.

Corruption is prevalent in many areas of public and economic life and continues to be a serious cause of concern. Corruption is perceived to be high in Serbia. The 2012 survey by the Anti-Corruption Agency indicated that 18 % of Serbia's population had participated in

corruption by giving a bribe in the previous year. Corruption acts as a facilitator for organised crime and affects economic development and welfare. The legal and institutional framework for the prevention and fight against corruption is largely in place, but implementation is lagging behind. The administrative capacity of relevant authorities and especially inter-institutional cooperation and coordination among relevant authorities such as judiciary, prosecution, police, customs and tax authorities remains insufficient for proper joint investigations. The institutional set-up should be substantially strengthened, both in terms of staff and in terms of respecting the full independence of law enforcement and judicial bodies dealing with investigations especially into high level corruption. Whistleblowing still needs to be legally protected. Monitoring of individual cases is problematic due to lack of common electronic databases and efficient procedures for exchanging information. Track record of investigations, prosecutions and final convictions in corruption cases needs to be developed. The new strategy for the prevention and fight against corruption for the period 2013-2018 and its action plan have both a structural approach covering issues such as good governance, independent institutions, internal control and external audit, and protection of whistleblowers, and a sector approach addressing corruption in most sensitive sectors such as public procurement, spatial planning, judiciary, police, education and health. To decisively impact on the level of corruption, strong political support will be needed for implementation of the strategy. A more detailed action plan needs to be elaborated in the framework of the negotiations for Chapter 23.

As concerns fundamental rights, a comprehensive anti-discrimination strategy covering the period 2013-18 was adopted in June 2013. An action plan for its implementation is in the process of being finalised. Serbia has ratified all the main international human rights instruments. The legislative and institutional framework is largely in place. However, consistent implementation throughout Serbia needs to be fully ensured, notably in the areas of education, use of language, and access to the media and religious services in minority languages. Further alignment will need to be achieved in areas such as access to justice, equal treatment and accommodation of people with disabilities. Homophobia, discrimination and hate crimes on the basis of sexual orientation and gender identity are still present. A pride parade was held in 2010 but provoked violent incidents and was banned for the three following years on security grounds. Poor living conditions and ill-treatment of prisoners has been reported in the mental health institutions, prisons, social care centres and police stations.

In September 2013, there were still around 57 000 refugees and 209 000 internally displaced persons in Serbia. Their situation remains to be improved, notably through funding of sustainable housing solutions. The number of collective centres has been further reduced from 24 to 18 and housing has been provided for over 2400 displaced persons. Roma are very often the victims of racism, discrimination and social exclusion and live in deep poverty, lacking sufficient access to healthcare, education and training, housing and employment. Serbia implements the 2012–2014 action plan linked to the national strategy to improve the status of the Roma and actively follows up on the recommendations of the June 2011 EU-Serbia seminar on inclusion of Roma, including a new set of operational conclusions jointly agreed in September 2013.

As concerns freedom of expression, Serbia has a media strategy and an action plan for the period 2012-16 in place, but there has been very little progress with implementation over the last two years. There is lack of transparency in media ownership. Financing of the media sector from the state budget needs to be brought into line with the EU *acquis* on state aid.

The **Home Affairs sub-sector** covers the areas of the negotiation Chapter 24 (Justice, freedom and security), including fight against organised crime, migration, asylum, visa policy,

external borders and Schengen. Fight against organised crime is one of the major challenges faced by Serbia. Criminal groups originating from Serbia or having links to Serbia operate within and beyond the borders of the country. The legal and institutional framework to fight *organised crime* is generally in place. However, there is no overarching strategy covering all types of crime (including crime prevention), but rather a number of specific strategies. The national strategy for fighting organised crime dates from 2009. A new anti-trafficking strategy and a new strategy for the narcotics crime still remain to be adopted. A detailed action plan will need to be devised in view of opening negotiations for Chapter 24. Regional and international cooperation has led to a number of high profile investigations into organised crime groups. However, capacity for intelligence-led policing, particularly intelligence analysis, and inter-agency cooperation needs to be enhanced, especially in order to improve information flow and exchanges between law enforcement agencies, and to ensure prosecution. Capacity to run complex financial investigations in parallel with criminal investigations needs to be enhanced. There is a need for a centralised criminal intelligence system together with harmonised statistical data. Serbia is on the main Balkans drug trafficking routes, which requires sustained efforts by the customs administration to detect and seize narcotics at the borders. Capacities to properly store and destruct drugs need to be improved. Cooperation between law enforcement bodies needs to be improved. As concerns trafficking in human beings, Serbia remains a country of origin, transit and destination. The procedures for the identification and handling of identified victims remain weak and the protection of victims needs to be improved. In the field of cybercrime, there is a need for further resources, specialist tools and capacity-building for authorities to manage the increasing volume and complexity of the task. As concerns money laundering, there is lack of analytical capacities to systematically identify suspicious cases, and a need for an effective system for monitoring and analysing cash transactions.

Serbia faces substantial challenges during the accession process on migration, asylum, visa policy, external borders and Schengen. Even though Serbia has the 2012 Integrated Border Management (IBM) strategy in place, inter-agency cooperation and coordination between the border police, customs and phytosanitary services will need to be further strengthened. Cooperation with neighbouring countries needs to be improved to counter cross-border crimes. There is a need to have better connectivity of databases and improvement of physical infrastructure of specific border crossing points. The legal framework for legal and irregular migration is not fully in line with the *acquis*. In order to counter more effectively irregular migration, analytical and technical capabilities, communication and working procedures have to be further improved. A unified system for data and information collection on migratory movements needs to be implemented. Improved coordination among administrative bodies is needed as well. Serbia also needs to prepare a comprehensive Schengen Action Plan, covering visa policy and Schengen *acquis* alignment.

Serbia has faced a substantial increase of asylum applications since the past couple of years, rising from 271 applications in 2010 to 2768 applications in 2012 and over 5000 in 2013 according to UNHCR. The legal framework on asylum is not in line with the *acquis*, and the institutional framework still needs to be brought in line with the legislation. The asylum processing needs to be substantially improved. There is a need for a national database for checking personal data of asylum seekers. There is also a need for additional reception facilities with adequate conditions for asylum seekers, especially because the access to asylum procedure is dependent on recognised accommodation. Most asylum seekers do not intend to stay in Serbia but wish to further move on to the EU. According to FRONTEX the registered asylum cases present only about 30% of the overall migration to the EU. The

number of detected irregular migrants passing through Serbia and whose final destination is the EU has decreased from 13900 in 2012 to 8500 in 2013.

Rule of law and fundamental rights sector received around EUR 180 million of international donor assistance, including EUR 130 million of IPA assistance, over the period 2007-13.

2.2. Objectives, results, actions and indicators

The overall objective in this sector is to support Serbia's accession to the EU in line with the Negotiations Framework for Serbia, covering both Chapters 23 and 24. In the judiciary and fundamental rights sub-sector the objective is to harmonise Serbia's legislation with the *acquis* and EU standards on Chapter 23 and build capacity for implementation and enforcement, especially by supporting implementation of the action plan to be devised under Chapter 23 as well as to improve democratisation of media and freedom of expression. In the Home affairs sub-sector the objective is to harmonise Serbia's legislation with the *acquis* on Chapter 24 and build capacity for implementation and enforcement, especially by supporting implementation of the action plan to be devised under Chapter 24.

The expected **results** are the following:

- Judicial independence, impartiality and efficiency is improved, including improved constitutional and legal framework, technical and administrative capacities of the judicial network and substantial reduction of backlog of cases;
- Professionalism is strengthened through merit-based and transparent criteria for appointments of judges, prosecutors and court administrators as well as through evaluations of performance, merit based promotions and court inspections;
- The duration of proceedings is substantially reduced;
- The consistency of jurisprudence improved and timely and correct enforcement of judicial rulings is ensured;
- An integrated approach to the prevention and fight against corruption is implemented, including an effective system for protection of whistle-blowers, strengthening capacities and efficiency of the relevant bodies, in particular the Anti-Corruption Agency;
- There is an improved track record of inter-agency cooperation, investigation, processing, prosecution and final convictions in corruption cases;
- Legal framework enabling efficient fight against corruption is strengthened;
- Fundamental rights, including the protection of minorities in particular Roma, LGBTI persons and freedom of expression, are efficiently ensured, especially through improved access to justice, consistent implementation of anti-discrimination policies and measures, improved transparency of media sector financing in line with EU standards, and improved monitoring of the European media standards (media freedom and pluralism);
- An integrated approach to organised crime is implemented, including risk assessment, crime mapping, improved capacities of the police for investigations, including financial investigations, implementation of a centralised criminal intelligence system, improved inter-agency cooperation, solid track record of investigations, prosecutions and final convictions in organised crime cases developed, strengthened control system for public procurement, and enhanced protection of witnesses in organised crime cases and victims of human trafficking;

- Integrated Border Management (IBM) approach is implemented with improved facilities and strengthened cross-border and inter-agency coordination between border police, customs and phytosanitary services and improved risk assessment, data collection and databases systems;
- A comprehensive Schengen Action plan is developed and implementation is on track;
- Migration, especially irregular migration, is efficiently managed, while regular migrants are integrated into the society, in line with EU requirements; and,
- Asylum processing and asylum management is improved in line with EU requirements, including adequate asylum reception facilities.

Support will be provided for implementation of the current judiciary reform strategy and eventually the future action plans to be devised under Chapters 23 and 24. This will include among others strengthening of judiciary reliability, efficiency and independence through training and capacity building, especially through the Judicial Academy; institutional capacity-building, including for the High Judicial Council and State Prosecutorial Council; and training and capacity-building of judges and prosecutors. Enforcement mechanisms to reduce court backlog and decreasing the length of judicial proceedings also will receive assistance. Technical capacities will be enhanced through investments in the most strategically important judicial infrastructure.

Implementation of the Government's anti-corruption strategy and eventually the future action plan to be devised under Chapter 23 will receive IPA II assistance. A specific focus will be on a cross-sectorial approach, the principle of participation, knowledge transfer and "zero tolerance" to corruption. Protection of whistle-blowers will be supported as well.

Support will be provided for training, monitoring and evaluation systems for fundamental rights; improved and consistent implementation of related policies throughout the entire territory; national and/or community-based mechanisms to prevent and eliminate torture, ill treatment, hate speech, gender and all other types of violence and pain-infliction in prisons; improving legal aid, access to justice and anti-discrimination measures for national minorities, including Roma and other vulnerable groups such as LGBTI; supporting incorporation of non-discrimination, gender equality, diversity, non-violent communication into education curricula, employment environments, health centres/institutions etc.; and supporting the implementation of the Serbian anti-discrimination strategy and Roma action plans and eventually the future action plan to be devised under Chapter 23. Implementation of the media strategy and its action plan for the period 2012-16 will also receive assistance as well as strengthening the freedom and professionalisation of media, investigative journalism and quality of journalism. Relevant regulatory bodies will be supported as well. The role of civil society organisations will be enhanced in monitoring of media freedom and respect for fundamental rights.

In the area of organised crime, support will be provided for strengthening strategic framework, inter-agency cooperation and capacities to implement an integrated approach. Specific support will be provided for the police to carry out complex investigations and improve their analytical capacities. Support also will be provided for addressing human trafficking and for ensuring effective compensation and social inclusion of victims, as well as combating cyber-crime. As concerns IBM, support will be provided for integration of all border services (border police, customs, phytosanitary and veterinary inspections) into one intelligence-gathering and implementation system. Furthermore, the most strategically relevant facilities at border crossings will be upgraded and support will be provided for joint risk assessment, and improving overall management and organisation of borders, specifically

to fight irregular migration. In the area of asylum, support will be provided for improving efficiency of procedures and for improving accommodation of asylum seekers.

The following **indicators** will be used to measure progress:

- Progress made towards meeting accession criteria (EC);
- Composite indicator Access to Justice (WJP) and Judicial independence (WEF);
- Composite indicator Global Corruption (TI) and Control of Corruption (WB);
- Composite indicator Freedom of Press (RH) and Press Freedom (RWB).

In addition, the most relevant indicators that will be included in the Action Plans for Chapters 23 and 24 will be also used to measure progress.

2.3. Types of financing

Assistance will be provided through twinning, technical assistance, supplies of equipment, calls for proposals and investments (especially in the areas of IBM and asylum). Subject to Serbia meeting the budget support pre-conditions, sector budget support can be considered especially for supporting the implementation of the Chapter 23 and 24 related action plans from 2015 onwards. Under the IPA II multi-country programme, the key priority is to continue to support the Regional Housing Programme (RHP), which aims at providing sustainable housing solutions, including for some 45000 refugees in need in Serbia, as part of the Sarajevo process. Also, further support will be provided for witness protection, border surveillance and migration management. IPA II may co-finance Serbia's contribution for its participation in the following EU programmes: Europe for Citizens, the Justice programme (judicial cooperation in civil and criminal matters), the Rights and Citizenship (promoting fundamental rights and non-discrimination), and Union Civil Protection Financial Mechanism as well as Strand III (Media) of the Creative Europe programme.

2.4. Risks

The main risk for EU assistance lies in the potential delays in implementation of the key strategies on judicial reform, anti-corruption, anti-discrimination, fight against organised crime and media and elaboration of the relevant action plans to meet opening benchmarks for accession negotiations on Chapters 23 and 24. The reforms in the above mentioned areas require also sufficient political will of the political class and of the administration in order to achieve the desired results. The organisational and administrative capacities may affect especially inter-institutional coordination and cooperation in this area. There is also a risk that the number of irregular migrants and asylum seekers will further increase, and the foreseen measures will not be sufficient. To mitigate these risks, specific capacity-building measures will be targeted to inter-agency cooperation to improve coordination and information sharing.

3. Environment and climate action

3.1. Needs and capacities in the sector

Serbia has advanced with harmonising its legal framework with the environment *acquis* in recent years, but further substantial efforts are needed, especially in the areas of waste management, water management and wastewater treatment, nature protection, industrial pollution control and risk management, and air quality. Moreover, Serbia needs to further align with climate legislation.

The institutional and administrative capacity to implement, enforce and comply with the EU environmental and climate action legislation is very weak, especially at the local government level. Investments in environmental infrastructure and environmental protection are very low, representing only an estimated 0.3% of GNP. The capacity to develop sustainable investment projects in environment and climate sector is also low.

Waste management remains a major challenge. Serbia lacks infrastructure for treatment, disposal and storage of hazardous waste. Only six landfills from around 3500 waste dumpsites comply with the EU requirements. Over 140 landfills and dumpsites have been estimated posing high risks to the environment. The level of recycling or re-use of waste is very low with only about 4%. Serbia will need to increasingly focus on other forms of waste management, following the waste hierarchy, and using landfilling as a last resort.

The lack of a national water protection strategy hampers strategic investment planning in the water sector. Completion of the surface and groundwater monitoring network is pending. Water pollution is another major problem, mainly due to outdated technology, lack of pollution abatement installations, inadequate storage and disposal of by-products, untreated industrial and municipal waste water, drainage water from agriculture, leachate from landfills, and pollution related to river navigation. Serbia will need to comply with the Water Framework, Urban Waste Water, Drinking Water, Groundwater, Water Quality Standards directives requiring Serbia to invest in the relevant water management and wastewater treatment facilities in the coming years. Currently, they exist in 21 municipalities out of over 200 registered agglomerations. Only 5% of industrial wastewater undergoes the full three stages of wastewater treatment.

As regards biodiversity's protection, the institutional framework Natura 2000 network is not yet completed. There is a need to collect and process sound scientific data for designation of future Natura 2000 sites and build capacity for their management.

Air quality is generally poor, mainly due to outdated technology, lack of pollution abatement installations, low energy efficiency in existing industry and energy facilities, as well as poor quality of heating fuel used for households. Serbia will need to consolidate integration and geographical coverage of its ambient air quality monitoring systems and adopt and implement cleaner air plans in its agglomerations.

A national strategy for combating climate change needs to be developed and implemented in line with the expected EU 2030 climate and energy framework. Furthermore, integration of climate change relevant issues into the national development strategies is also needed. In the area of mitigation of climate change, there is a need to strengthen the institutional capacity to design, implement and monitor mitigation policies and measures, with particular attention to Greenhouse Gas (GHG) emission reduction activities. More particularly, a system for economy-wide and systemic data collection on greenhouse gas emissions needs to be developed and implemented to comply with the EU requirements on monitoring, reporting and verification.

The Serbian environment and climate sector received around EUR 275 million of international donor assistance, including around EUR 200 million from IPA national programmes over the period 2007-13. IPA support included investment projects especially in waste water treatment, municipal and hazardous waste management, reduction of emissions from the thermal plants, legal alignment and capacity building, including support to the Serbian Environmental Protection Agency, Natura 2000, chemicals management, environmental inspection. From the EU Member States especially Germany, Sweden, the Netherlands and Spain have provided support in this area. Soft loans have been provided by EBRD, KfW and the World Bank.

3.2. Objectives, results, actions and indicators

The objective of EU assistance is to align Serbian legislation with the EU environmental and climate change *acquis* and to strengthen institutional capacities for implementation and enforcement. A further objective is to develop and improve environmental infrastructure, especially in the areas of waste management, water management and urban wastewater treatment. The expected **results** are the following:

- Serbian legislation harmonised with the environment and climate *acquis* and strengthened institutional framework and administrative capacity for implementation both at the central and local government level;
- Waste management improved in line with the EU requirements, including improved physical infrastructure and increased recycling rates at the largest waste collection areas;
- Water management and municipal wastewater collection (sewage) and wastewater treatment, including physical infrastructure, in the strategically most important agglomerations improved in line with the EU Directives;
- Natura 2000 network sites selected on the basis of sound scientific data, and implementation started accordingly;
- Air quality improved in line with the Industrial Emissions Directive and through adoption and implementation of cleaner air plans for all agglomerations;
- Capacity improved for climate change action;
- Enhanced resilience to climate change impacts and improved capacity for disaster risk reduction; and,
- Reduced greenhouse gas emissions by 2020.

Support will be provided to further harmonisation, implementation and enforcement, in particular concerning the Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) Directives, and inclusive, effective and transparent public participation, as well as other relevant legislation. Development of integrated monitoring and information systems on environmental quality will be supported to improve reporting and to strengthen enforcement. The institutional set-up and procedures to carry out environmental assessments will be supported as well.

In order to improve waste management in the country, IPA assistance will concentrate on the establishment of collecting and recycling facilities for different waste categories and facilities for the treatment of hazardous waste. Landfill should only be used as a last resort. Any requests to upgrade existing landfills should be considered on a case-by-case basis. Non-compliant landfills should be closed.

IPA II assistance will also focus on improvement of quality of the surface and groundwater and quality of drinking water according to the relevant directives as well as for preparation and implementation of river basin management plans. Investment projects implementing the Drinking Water and Urban Waste Water Directives will be supported, concentrating on the largest and strategically most important agglomerations (densely populated and industrialised territories) and environmentally sensitive areas, where both national and local authorities demonstrate clear ownership and commitment for timely design and implementation as well as eventual maintenance of investments.

The process of designation of Natura 2000 sites, including capacity building for data collection, monitoring, and enforcement as well as reporting will be supported. Support will also be provided for completing and implementing cleaner air plans in the key agglomerations as well as for implementation of obligations stemming from the Industrial Emissions Directive. This will include support for the creation of an effective permitting system and improving capacities of installations. Specific attention will be paid to improving internal and external emergency plans of Seveso installations in light of their contribution to overall air pollution. Support will be also provided to capacity building and priority investment projects.

IPA II assistance will focus on implementation of a national cross-sectorial climate change strategy and an action plan and together with *acquis* alignment especially concerning monitoring, reporting and verification legislation. In the field of climate change mitigation, support will focus on strengthening the institutional capacity to design, implement and monitor mitigation policies and measures, and on improving capacity for transition to low carbon economy in line with Europe 2020 strategy and the EU 2030 Energy and Climate Framework. Measures should also aim to support Serbia's foreseen greenhouse gas emission reduction target. In the field of adaptation to climate change, support will focus on increasing administrative capacity at all levels to ensure appropriate assessment of vulnerability, and implementation of the necessary measures to enhance climate and disaster resilience of economic sectors and infrastructures.

As regards risks management, support will be granted for Serbia to implement the EU legislation on civil protection and to bring the country closer to the Union Civil Protection Mechanism.

Finally, in order to increase general environmental and climate change awareness and to improve civil responsibility in these areas, support may be provided for awareness-raising activities and other measures with relevant stakeholders such as schools, business communities, agriculture and other interest organisations, municipalities and civil society organisations.

The following **indicators** will be used to measure progress:

- Progress made towards meeting accession criteria (EC);
- Population connected to waste water collection systems (national statistics).

3.3. Types of financing

Assistance will be provided through twinning, technical assistance, calls for proposals, supplies of equipment and investments. Since the investment needs of the Serbian environment and climate sector substantially exceed the available national and IPA II funds, further funding, including blending of IFI loans and grants, is foreseen through WBIF, which receives EU funding from the multi-country programme. IPA II may also co-finance Serbia's contribution for its participation in the following EU programmes: LIFE programme with its two sub-programmes on environment and on climate action, and the Copernicus programme (providing continuous, independent and reliable access to earth observation information relevant to policy-makers).

3.4. Risks

Weak project identification, problems with land expropriation, delays by national and local authorities to issue building permits, disputes over land ownership, and delays with preparation of technical documentation for investment projects have caused considerable delays for implementation of investment projects until now, sometimes even putting the IPA II and IFI funded projects at risk. To counter these risks, IPA II support will be provided only

to investments, which are part of the nationally adopted investment project pipeline and which are sufficiently advanced in terms of technical preparation. In the first years of IPA II assistance, technical assistance will also be provided to help national authorities prepare a viable project pipeline. Another risk relates to the fact that responsibility for policy making is divided among several Serbian institutions. This has made policy coordination and legislation implementation difficult in this sector, even though institutional cooperation and coordination is essential. In order to mitigate this risk, a lot of emphasis will be placed on inter-institutional capacity-building.

4. Transport

4.1. Needs and capacities in the sector

The transport sector encompasses rail, road, inland waterways, civil aviation and intermodal transport modes. The Serbian transport legislation is partially aligned with the *acquis*, but further legal alignment is needed especially on road transport, accident investigation procedures, rail transport, support to the European Common Aviation Area (ECAA) and Implementation of the Common European Sky in South East Europe (ISIS). Assistance is also needed for supporting administrative capacity for implementation and enforcement of new legislation in all modes of transport, especially due to establishment of a number of new regulatory bodies.

The General Master Plan for Transport 2009-27 provides an overall picture of the transport infrastructure needs in Serbia. The total costs of public investment required have been calculated as over 22 billion EUR for investments and maintenance. Significant amounts of national, donor and IFI funding have already been committed in transport infrastructure, particularly in Corridor X (road and rail). Construction of Corridor X has not however progressed as planned due to ineffective investments planning, slow preparation of technical documentation and unresolved land property issues. Further substantial investment needs exist also as regards the construction of Route 4 from Belgrade to the Montenegrin border (Bar). As concerns Corridor VII (inland waterway), navigation conditions on the Serbian part of the Danube river are characterised by a number of critical bottlenecks. On the stretch of around 180 km, there are 24 bottlenecks hindering the safe navigation of standard convoys, most notably the Apatin bottleneck at the border with Croatia. Further considerable investments are needed to remove them.

Competitive and environmentally friendly transport solutions will require efficiently combining transport modes by road, rail and inland waterways. There is therefore a particular need for greater multi-modality. The existing tariff policy and legal framework do not however stimulate the use of intermodal transport. There are currently only three partly developed intermodal terminals in Serbia. A further priority is the preparation for implementation of the EU Railway packages, especially the forthcoming fourth railway package. So far, the third EU railway package is valid and the fourth one will have to be implemented in the coming years. Several reforms have to be implemented in this respect in Serbia, including gradual opening of the rail market, separation of infrastructure manager from rail transport operators and improvement of rail safety.

Over the period 2007-13 nearly EUR 150 million of IPA funds were committed for the transport sector, mainly for harmonisation of legislation with the *acquis*, implementation of the ECAA agreement, construction and supervisory works (in connection to IFI loans) on Corridor X and on development of river information services and river training and dredging on Corridor VII. Serbia also benefited from WBIF funding and IFI loans from EIB (around

EUR 905 million), EBRD (around EUR 430 million) and the World Bank (around EUR 388 million). From bilateral donors especially the Hellenic Plan, the Czech Republic and China have provided support in this sector.

4.2. Objectives, results, actions and indicators

The objective of EU assistance is to further align the Serbian transport legislation with the *acquis* and to improve implementation and enforcement capacity, to enhance regional cooperation and transport infrastructure planning in line with the South East Europe Transport Observatory (SEETO) network development plan and to promote sustainable and low-carbon transport as well as to contribute to the rail reform process. The expected **results** are the following:

- Harmonisation of Serbian transport legislation with the *acquis* and strengthened institutional framework and administrative capacity for implementation;
- Rail and road transport infrastructures on the SEETO comprehensive network improved, especially Corridor X and Corridor XI;
- Navigation conditions on Corridor VII improved in line with the Danube Commission standards;
- Intermodal transport and connectivity of transport modes is improved;
- Greenhouse gas emission reduction in transport sector; and,
- Rail reform process implemented in line with the EU Railway packages.

Support will be provided for alignment of the Serbian transport legislation with the *acquis* and strengthening administrative capacity. As concerns infrastructure, investments should be done on the SEETO comprehensive network, especially on Corridor X with a focus on the southern part of rail connection Nis- Border with the Former Yugoslav Republic of Macedonia and north of Belgrade towards junction with Corridor Xb; as well as on Corridor Xb on the rail connection Belgrade– Hungarian Border. Furthermore, investments on Route 4 (Corridor XI) between Belgrade – Montenegrin border (Bar) both on motorway and rail will be supported. Support on Corridor VII will be provided for implementation of the hydro-technical works and dredging of the river beds to eliminate critical sectors of the fairway, as well as other bottlenecks which endanger safe navigation. The support will build on results achieved under IPA I project working on 6 out of 24 critical sections of Danube river. Support for multi-modality includes both investment support for specific projects, especially in the first instance Belgrade intermodal terminal, as well as capacity-building measures for responsible institutions and operators. Capacity-building and technical assistance support will be provided to the railway sector to enhance the rail reform process in line with the requirements of the EU railway legislation.

The following **indicators** will be used to measure progress:

- Progress made towards meeting accession criteria (EC);
- Logistics performance indicator - score (WB).

4.3. Types of financing

Assistance will be provided through twinning, technical assistance, calls for proposals, supplies of equipment and investments. Further funding, including blending of IFI loans and IPA II grants, is foreseen through WBIF, which receive IPA II funding from the IPA II multi-country programme. Under the Connecting Europe Facility (CEF) actions in the neighbouring non-EU countries may be supported if they are necessary for the implementation of a project

of common interest on the TEN-T core network. The priorities of CEF in the transport area – improving cross-border connections, ensuring sustainable and efficient railway network, and optimising integration and interconnection of transport modes and enhancing interoperability of transport services – are in line with the assistance priorities for Serbia.

4.4. Risks

Similar risks as have been highlighted in the environment sector apply for the development of an investment project pipeline. These risks are mitigated providing substantial technical assistance under the Democracy and governance sector for project preparation through the Project Preparation Facility especially during the first years of IPA II assistance. The limited fiscal space and budgetary constraints in the country could constitute a risk for infrastructure investments and maintenance.

5. Energy

5.1. Needs and capacities in the sector

Serbia has made some progress in recent years with harmonisation of the national energy legislation with the *acquis*, but further efforts are required to move Serbia's energy policy towards the direction of the Europe 2020 climate targets and EU 2030 climate and energy framework. Also, investments in line with the EU standards will have to be increased.

Poor energy efficiency and high carbon intensity due to heavy reliance on fossil fuels are few of the main challenges in this sector. This means that Serbia's economy would become more vulnerable to fuel price shocks, thus undermining Serbia's prospects for growth and prosperity. Serbia's economy is highly energy-intensive. Serbia consumes 2.7 times more energy per unit of output than an average OECD country. Some progress has been made following Serbia's commitments under the Energy Community Treaty to implement the Directive on energy end-use efficiency and energy services. Serbia has adopted the new Law on Efficient Use of Energy in 2013 and preparation of implementing legislation is under way, with full implementation expected from 2015 onwards. The Second National Energy Efficiency Plan to comply with Energy Community Treaty obligations was adopted in October 2013. It sets out the target of a 9% reduction of the final domestic energy consumption by 2018 compared with a 2008 baseline.

As concerns market liberalisation, the 2011 Energy Law has been harmonised with the second and partially with the third internal market package for electricity and gas. The law prescribes deadlines, including 1 January 2015 for full market opening.

The energy sector in Serbia is dependent on fossil fuel. According to the International Energy Agency, Serbia is annually emitting about 60 million tons of CO₂. In 2011, the share of renewable sources of energy in the final energy consumption was 17.8%. Serbia has practically no new, renewable sources of energy, apart from the large hydro power plants, which produce around 7% of electricity. The use of renewable energy must be increased in order for Serbia to meet the Energy Community Treaty target of 27% of final energy consumption by 2020. Progress in this area has been made with the adoption of the national renewable energy action plan in June 2013. Further progress is needed in order to establish an attractive investment climate for renewable energy sources. Particular attention needs to be paid to the promotion of renewable energy in transport, heating and cooling systems.

With regard to security of supply, while Serbia's electricity system is relatively well connected with its neighbouring countries, better integration is still needed in order to facilitate the smooth functioning of a regional and pan-European electricity market. In the gas

sector improved interconnections are necessary to meet the objective of increased security of supply. Currently, Serbia's dependence on natural gas imported from Russia through Ukraine and Hungary exceeds 80%. High energy dependence renders Serbia's economy more vulnerable to fuel price shocks, thus affecting the country's prospects for socioeconomic growth. Infrastructure development will benefit the entire region (gas to power initiative). In the gas sector, improved interconnections which contribute to the diversification of routes and supplies are necessary to meet the objective of increased security of supply. Other strategic investments into development of gas sector in Serbia are the construction of underground gas storage, the connection to other gas pipeline systems in the region and the further development of gas distribution networks. Furthermore, in accordance with Energy Community Treaty requirements Serbia has obligations to harmonise existing and new plants with Emission limit values according to Large Combustion Plant Directive part of Industrial Emissions directive in the area of environmental protection in the energy sector. Finally, Serbia also needs to comply with the Directive on oil emergency stocks by 2023.

The energy sector received around EUR 655 million of international donor assistance, including over EUR 50 million of IPA assistance over the period 2007-13. IPA supported a number of activities, including implementation of obligations arising from the Energy Community Treaty, law enforcement in the field of industrial pollution control, energy efficiency measures and security of supply in South Serbia. A number of EU Member States and other bilateral donors have provided capacity-building support, and EBRD, KfW and the World Bank have further provided loans.

5.2. Objectives, results, actions and indicators

The objective of EU assistance is to increase energy efficiency and competitiveness of the Serbian energy market, to improve security of supply (also in the regional context), and develop renewable energy sources. The expected **results** are the following:

- Second national energy efficiency action plan full implemented;
- Energy market fully liberalised;
- Increased use of renewable energy to 27% by 2020 in line with the Energy Community Treaty obligations;
- Reduced Greenhouse gas emission intensity of energy sector;
- Improved security of supply in electricity generation, transmission and gas transport enabling regional market integration, including compliance with the Oil stocks Directive; and,
- Decreased pollution from the energy sector impacting air, water and soil quality.

Support will be provided for further harmonisation of the Serbian energy legislation to meet the Energy Community Treaty and the *acquis* obligations. Focus will be on strengthening institutional capacities for effective implementation, on strengthening monitoring and reporting mechanisms as well as on improving strategic planning. To improve household energy efficiency, support is foreseen for analysis of available heat production alternatives and operationalisation of selected options. Priority investments from the national single project pipeline will be supported, especially in areas such as gas transport and electricity interconnection, renewable energies (with a focus on biomass) and energy efficient technologies. Furthermore, support to environmental measures in energy sector to prevent adverse effects impacting air, water and soil quality will be supported. Finally, in order to increase the competitiveness of Serbian energy market and to integrate it into European energy markets, support will be provided to unbundling of public entities in the energy sector,

procedural reforms and improvement of business environment (see also competitiveness sector).

The following **indicators** will be used to measure progress:

- Progress made towards meeting accession criteria (EC);
- Quality of electricity supply (WEF).

5.3. Types of financing

Assistance will be provided mainly through twinning, technical assistance, supplies of equipment and investments. Since the investment needs of the Serbian energy sector substantially exceed the available national and IPA II funds, further funding, including blending of IFI loans and IPA II grants is foreseen through WBIF (supported by multi-country assistance). Sector budget support can be considered from 2016 onwards for this sector, subject to Serbia meeting the pre-conditions for budget support.

5.4. Risks

Serbia is a land-locked country with limited options for oil and gas supply and yet it is very reliant on this supply. Capacities for policy implementation and monitoring are limited, putting targets for this sector at risk. To reduce the risk, support will be provided to capacity building and improvement of monitoring and evaluation systems. Furthermore, similar risks as have been highlighted in the environment and transport sectors apply for the development of a nationally adopted investment project pipeline. These risks are mitigated by substantial technical assistance under the Democracy and governance sector for project preparation through the Project Preparation Facility especially during the first years of IPA II assistance.

6. Competitiveness and innovation

6.1. Needs and capacities in the sector

Serbia's internal market remains too weak to fuel economic growth and convergence with the EU. The overall business environment in Serbia is characterised by significant state presence in the economy, high level of state aid, weak private sector, and structural distortions to competition and legal uncertainty, which substantially increase the cost of doing business. Many state-owned companies need to be restructured or privatised. The informal economy remains strong and represents a major hindrance to fair competition and business growth.

The introduction of the 'one-stop shop' business registration system in 2009 has improved the efficiency and speed of the registration procedure to some extent. More than 100 administrative fees have been abolished. Property rights have been improved as well. Substantial further efforts are still needed, notably to simplify the administrative and regulatory framework which is hampering both market entry and exit and dispute settlements. Furthermore, the Serbian legal framework in this area needs to be brought in line with the *acquis*. Also administrative and technical capacity need to be improved, especially concerning free movement of goods (technical harmonisation, standardisation and metrology and market surveillance), competition policy, intellectual property rights, consumer and health protection, company law and enterprise and industrial policy.

Serbia also needs to improve the business environment by promoting information society via availability of broadband, fixed and mobile/wireless, particularly in the regions, to reduce both the digital divide within the country and the digital gap with the EU. Serbia also needs to improve competition within the electronic communications and ICT sectors as well as support

the ability of traditional industries to compete and innovate through ICT improvements, training and digital skills development.

Serbia has very limited capacities with regard to innovation and technology transfer, even though these areas could be important drivers for economic growth. Investment in Research and Development (R&D) has remained marginal, and is also influenced by the lack of modernisation of the education system and lack of available support to stimulate innovation at business level. This in turn has resulted in a low level of development in domestic technologies and innovative product and services.

The SME sector has low productivity. Enhancing productivity and competitiveness in this area will be crucial since this sector highly influences the performance of the Serbian economy. The majority of SMEs lack market intelligence and access to information. They have inadequate technology and limited access to affordable finance. Only around 26% of SMEs use external sources of funding. Improved access to external funding and diversification of financing sources need to be improved. Finally, in order to reduce regional disparities, support to investment in business infrastructure has to be targeted according to the selected priority projects.

This sector was among the largest recipients of international donor assistance with nearly EUR 1 billion over the period 2007-13. Around EUR 105 million were provided from the national IPA programmes, including both capacity-building and investment support to conformity assessment, consumer protection, intellectual property rights as well as support to research and development, SMEs and business infrastructure. Serbia also benefited from support under the IPA multi-beneficiary programme, including support from WBIF and the Western Balkan Enterprise Development and Innovation Facility (EDIF). Other main donors have included Germany, Austria, Denmark, Italy, Slovakia, Switzerland, the US and the World Bank.

6.2. Objectives, results, actions and indicators

The objective of EU assistance is to support competitiveness as an engine for economic growth. Innovation, increasing the level of competition, stimulating high investment, and improving productivity and consumer protection will be crucial in order to advance economic development and improve living standards. EU assistance will aim to improve the overall business environment, support the ongoing structural reform process, develop research and innovation capacity, and support SMEs. The expected **results** are the following:

- Overall environment for doing business improved through simplification of the regulatory framework and through harmonisation of legislation with the *acquis*;
- Economic environment enhanced through implementation of the structural reform programmes, in particular restructuring of public enterprises;
- Digital divide in Serbia and the digital gap with the EU are reduced in line with the new Serbian broadband access development strategy;
- Quality and quantity of both public and private research and innovation increased to enable it to better contribute to economic development;
- Functioning of the business sector, especially SMEs, improved, including by provision of better access to finance; and,
- Continuation of the implementation of the Small Business Act ensured.

Support will be provided for harmonisation of legislation and implementation of policies in line with the EU *acquis*, particularly in the areas of competition and state aid control,

consumer protection, company law and free movement of goods, capital and services. Support will be provided for further development of a strong quality infrastructure, especially as concerns metrology, standardisation, accreditation, conformity assessment and market surveillance of products as well as for strengthening the protection of intellectual property rights (IPR) and administrative capacity in this area. Support will also be provided for reducing regulatory barriers for businesses. Support is also foreseen for the implementation of the new Serbian broadband access development strategy, especially in terms of investments in broadband connectivity.

In order to support Serbia's structural reform process, assistance will be provided for preparation and implementation of restructuring, bankruptcy or liquidation plans for loss-making state owned and socially owned enterprises and improving competitiveness of public utilities companies.

In the area of research and development, support will be provided for development of new technologies, research training and education, improved access to research infrastructure, better use of loans and grant programs and for fostering of international collaborations and networking with other research institutes, and better transfer of technology to the commercial sector.

In order to enable companies to better comply with the new and more demanding operating environment and legislation, the business sector, especially SMEs and start-ups, will receive support through training and advisory programmes in particular in the areas of competition, consumer protection and patent law. Specific measures will be also implemented to support and promote entrepreneurship, in particular among women and young people. Access to financing will be supported as well as investment in modern business infrastructure.

The following **indicators** will be used to measure progress:

- Progress made towards meeting accession criteria (EC);
- Doing Business – Distance to frontier, score (WB).

6.3. Types of financing

Assistance will be provided through twinning, technical assistance, supplies of equipment and investments, including through financial instruments, possibly also through calls for proposals and direct grants to relevant national authorities. Sector budget support can be considered, especially to support the ongoing structural reform process, provided that Serbia meets the relevant pre-conditions for sector budget support. Specific infrastructure projects in this sector may be also funded through WBIF and EDIF. IPA II may also co-finance Serbia's contribution for its participation in the following EU programmes: Horizon 2020 (research and innovation), COSME (competitiveness of enterprises and SMEs) and the Consumer programme. Under the Connecting Europe Facility (CEF), which is not open for Serbia as such, actions in the non-EU countries may be supported if they are necessary for the implementation of a project of EU common interest. The priorities of CEF with regard to telecommunications networks focus on deployment of fast and ultrafast broadband networks and their uptake, including by SMEs, and are therefore in line with the IPA II priorities for Serbia in this sector.

6.4. Risks

There is a risk that implementation of macro-economic and fiscal measures, as well as enterprise restructuring and improvements in business environment measures are delayed. There is also a risk that relevant authorities needing mostly investments will not have capacities to develop technically viable strategic projects. In order for the investments also to

contribute to reduction of regional disparities, capacity building for local authorities as well as project preparation support will be provided.

7. Education, employment and social policies

7.1. Needs and capacities in the sector

Serbia needs to develop the quality of its education system to support economic growth through human capital development. Even though higher education in Serbia is being aligned to the Bologna process, many reforms are still to be fully or properly implemented. The national recommendations in the area of curricula modernisation, human resource management, link with business, strengthening research and the role of higher education in society should be implemented, in accordance with the commitment under the Western Balkans Platform on Education and Training. The participation rate in tertiary education is below EU standards and the quality assurance system needs to be strengthened and include external evaluators.

The school drop-out rate of around 30% needs to be reduced and access to education for everyone, including vulnerable groups to be secured. The quality of education needs to be improved at all levels. Another major issue is the relevance of the educational offer. In general, the system does not prepare students well enough for work, it is unresponsive to the needs of the economy and not enough training programmes are in place providing workers with the opportunity to upgrade their skills. Further efforts are therefore needed to match education with labour market needs.

The quality of educational provision is to a large extent directly dependent on teacher and their performance. The way in which teachers are prepared for their profession is therefore of utmost importance. A student centred approach and curricula based on learning outcomes need to be further developed.

Serbia's labour market faces structural problems including low labour market participation, especially for women, a mismatch of supply and demand and a large informal economy. Furthermore the global financial crisis, slow growth and slow recovery have also negatively affected the labour market. The unemployment rate was above 20 % at the end of 2013, with three quarters of the unemployed being long-term unemployed. Women, youth, Roma people, low-skilled individuals, people with disabilities remain the most disadvantaged on the labour market. Active labour market policies have not received substantial funding and they have not sufficiently addressed youth and long-term unemployment. Further progress must be made in the redesigning of active labour market policies. Moreover, the coverage of these policies needs to be both broadened and better targeted to the needs of the unemployed and the most vulnerable groups.

Social inclusion and access to social welfare services is a further challenge. The social welfare system needs to be reformed to be more supportive of labour market participation and of active inclusion. The most vulnerable groups still have very limited access to community-based social services. This needs to be improved along with the availability and mainstreaming of services such as home-care and day-care for children with disabilities. The process of de-institutionalisation needs also to be further supported through the development of local community based services. Inclusion policies have to be strengthened and better targeted to relevant vulnerable groups notably to the Roma population which is among the most vulnerable and disadvantaged in Serbia. It continues to be exposed to multiple forms of

exclusion, while the range of social services and initiatives to promote their inclusion such as ensuring access to social and health care centres remains to be improved. Further efforts are needed to find durable solutions to the informal settlements across the country and compliance with international standards on forced evictions and relocations still needs to be systematically ensured. Also, living conditions of Roma need to be substantially improved, including through support for sustainable housing solutions.

The Employment and Social Reform Programme (ESRP) under preparation will present policy reforms and measures covering labour market, employment policies, human capital, social protection and inclusion.

The education, employment and social policies sector received around EUR 425 million of international donor assistance, including nearly EUR 180 million of IPA assistance, over the period 2007-13. IPA supported various activities, including Vocational Education and Training policy reform and development of the national qualifications framework, support to active labour market policies through the National Employment Service, integration of internally displaced persons, provision of community based social services, social inclusion of vulnerable groups, including housing solutions for Roma. Other donors, especially the World Bank, EIB, UN organisations, Austria, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, the UK and Norway have supported reforms in this sector.

7.2. Objectives, results, actions and indicators

The objective of EU assistance is to support the ongoing education and training reforms in order to improve the quality of educational provisions (at all levels) and its relevance to the labour market, to support the reforms of employment and social protection policies and to improve social inclusion of the most vulnerable groups. Support will also be provided for consumer and health protection in line with the EU *acquis* requirements.

The expected **results** are the following:

- Harmonisation of legislation with the *acquis* implemented and institutional framework and administrative capacity for implementation strengthened;
- Inclusive growth is enhanced through implementation of the employment and social reform programmes (ESRP);
- Social dialogue is strengthened;
- The education and training system is reformed to better match the needs of the Serbian labour market;
- Active labour market policies better targeted and implemented;
- Social protection supporting labour market participation and employment is enhanced; and,
- Increased social inclusion of the most vulnerable groups, especially people with disabilities, women, children and Roma, following implementation of community-based solutions in education, health, housing and job creation, and improved child-care provision.

Support will be provided for harmonisation and implementation of legislation in line with the EU *acquis*, especially concerning labour market policy, work conditions, social dialogue/social partners, health and safety at work and consumer and health protection. Another important area is to build capacity for inter-institutional cooperation so that more

integrated policies, including employment and social reform programmes, can be developed and implemented in this area.

Improvement of the overall quality of education will be supported as well as implementation of the vocational education and training sector reforms increasing the relevance of education provision to better reflect labour market needs, capacity-building of local governments, social, health and education institutions in order to increase access to education. Prevention of early school drop-outs will be addressed for implementation of corrective mechanisms, development of early warning system and innovative approaches such as remedial teaching, pedagogical assistance, teaching and learning styles, assistive technologies. An important focus area is also the concept of life-long learning and development of the National Qualifications Framework (NQF) system. Increased participation of children in pre-school education will be targeted as key action for sustainable and long term social inclusion.

As concerns active labour market policies, support will be provided for implementation of the national employment strategy 2011-20, which aims to increase the impact of labour market and employment policies by increasing out-reach, by introducing and designing programmes better tailored and targeted to the needs of specific groups, by enhancing decentralisation of employment policies, by strengthening job counselling system, by improving data analysis, and by collection and policy monitoring.

To enhance social inclusion, IPA II will support for making social welfare more supportive to active inclusion and for further development of community-based solutions in education, health, housing and job creation for integration of the most vulnerable groups. The focus will be on strengthening the implementation of existing community based solutions and promoting implementation of new and innovative and integrated solutions in other communities. Support will also be dedicated to the implementation of the strategy and action plan for the social inclusion of Roma in Serbia as well as to the implementation of the June 2013 "Roma social inclusion" seminar's conclusions. Specific actions include investments needed to find sustainable solutions to the informal settlements and providing permanent housing solutions for the most vulnerable people in need as well as to supporting measures on social and health care issues such as developing the network of health mediators and pedagogical assistants and ensuring better access to social protection. IPA II support will also aim at better inclusion of pupils from vulnerable groups, amongst which many are Roma, in the education system and improvement of their respective academic achievements.

The following **indicators** will be used to measure progress:

- Progress made towards meeting accession criteria (EC)
- Employment rate 15 to 64 years, total % (Eurostat)

7.3. Types of financing

Assistance will be provided through twinning, technical assistance, supplies of equipment and minor investments, possibly also through calls for proposals and direct grants to relevant national authorities. Sector budget support can be considered from 2015 onwards, especially for implementation of the Roma strategy, subject to Serbia meeting the pre-conditions for budget support. IPA II may also co-finance Serbia's contribution for its participation in the following EU programmes: Erasmus+, the Employment and Social Innovation (EaSI) and the Health programmes.

7.4. Risks

Regional disparities are increasing and Serbia faces unfavourable demographic trends with low birth rate, ageing population, outward migration (brain drain), depopulation of rural areas

and inflow of population to major towns. There is therefore a risk that the funding available to this sector through IPA II and other donor contributions will not be sufficient to cover all the needs. The areas covered in this sector are closely inter-linked and cannot be developed or implemented in isolation. Effective cooperation and coordination among involved ministries and agencies, including ministry responsible for the agricultural sector is crucial, also, because socio-economic development of rural areas is foreseen under the future IPARD programme. Furthermore, there is a need for strong political will to effectively address integration of Roma population and other vulnerable groups into society.

8. Agriculture and rural development

8.1. Needs and capacities in the sector

Even though the agriculture sector is important to Serbia's economy, contributing 10% of GDP, it is characterised by uncompetitive agricultural production. Farms are highly fragmented and there are big regional disparities. While in the northern part of Serbia there are some large, well-equipped holdings, the southeast is dominated by small farms. Farms above 20 ha represent only 2% of all agricultural holdings according to the 2012 agricultural census. The agriculture sector suffers from a lack of investments, dependence on weather conditions and uncertain land market. Food quality, food safety and hygiene standards will have to be further improved for all Serbian products to get increased access to the EU market.

Regional disparities are high due to geographical conditions (mountainous, hilly, plain agricultural land), demographic trends, economic structures, environmental conditions, transport accessibility and employment and income possibilities. Services in rural areas are generally in decline and many areas lack access to basic services due to lack of investments in construction or reconstruction of local roads, waste management, and sewage systems. Climate change poses additional risks to agricultural production, supply of water and other natural resources. Depopulation, internal migration and lack of access to job possibilities in rural areas remain critical issues and not so far efficiently addressed. Creation of new employment possibilities through diversification of on/off farm economic activities is needed. Overall there is a need to improve socio-economic living conditions of rural population, including development of rural infrastructure.

In the agriculture and rural development area, the alignment of legislation and the establishment of the necessary administrative and control structures required by the *acquis* are the main challenges. This will, in particular, require Serbia to develop the structures and systems necessary to apply EU rules on direct support schemes and to ensure the implementation of the common market organisation for various agricultural products. Coordination between the various governmental bodies and other key players in the agriculture sector, including civil society, needs to be enhanced. Advisory services will need to be strengthened and incorporate advice on modern technologies and implementation of agriculture policy.

While some progress has been made on harmonisation of legislation with the *acquis*, effective implementation is only at an early stage in most areas. Improved implementation and further alignment of legislation and control standards is required in the areas of food safety, veterinary and phytosanitary policy and animal health. The Ministry of Agriculture has finalised a new national agriculture strategy for agriculture and rural development for the period 2014-2024, covering policy, legal and institutional reforms, but the strategy is still to be adopted by the Government.

The agriculture sector received around EUR 90 million of international donor assistance, including EUR 60 million of IPA assistance, over the period 2007-13. IPA supported a whole range of activities, including food safety, animal welfare, preparation for the establishment of the Farm Accountancy Data Network, the National Reference Laboratory System. Support was also provided for preparatory work for the IPARD programme. A number of bilateral donors and international organisations also provided support in this sector.

8.2. Objectives, results, actions and indicators

The objective of EU assistance is to support gradual alignment of the Serbian agricultural policy with the Common Agricultural Policy (CAP), to contribute to a competitive, sustainable and efficient agriculture sector while maintaining vibrant rural communities, and to improve food safety, resilience to climate change impacts, and implementation of EU compliant veterinary and phytosanitary standards. The expected **results** are the following:

- Serbian agriculture policy is aligned with the EU *acquis*, including the establishment of the structures and systems necessary for implementation of the CAP;
- Competitiveness of the Serbian agricultural sector is improved through modernisation of agri-food establishments to meet the EU environmental, food safety and other relevant standards;
- Balanced territorial development in rural areas, including diversification of economic activities and investments in rural infrastructure;
- Involvement of rural civil society in private-public partnerships and in preparation and implementation of local strategies through the Leader method;
- Food safety is improved in line with the EU standards;
- Resilience of agriculture activities to climate change impacts is improved;
- Veterinary and phytosanitary services and controls are implemented in line with the EU requirements; and,
- Animal health is improved through eradication of diseases and/or better control of brucellosis, bovine leucosis and tuberculosis, rabies and classical swine fever.

To achieve these results, IPA II assistance will be provided under two strands: 1) institution and capacity building and 2) the rural development programme.

As regards capacity building, support will address legislative reforms and structural adjustments necessary for Serbia to assume the obligations of EU membership. Further support will be dedicated for establishment of the structures and systems necessary for the implementation of the CAP.

Further legal harmonisation and capacity building will be supported in the areas of agriculture and rural development policy, food safety, veterinary and phytosanitary services and controls as well as plant and animal health. In the area of food safety in particular, assistance will focus on the creation of an improved system of official food and feed control and labelling; by improving the system of the collection and processing of animal by-products; by risk assessments; by increasing training of farmers, by developing nation-wide awareness campaigns and by general capacity-building measures as well as support to the national reference laboratory system. Support will be provided for further animal health control measures for brucellosis, bovine leucosis and tuberculosis as well as for eradication of further diseases, including contingency plans for diseases other than rabies and classical swine fever.

Rural development will be supported via a 7-year rural development programme (IPARD). IPA II will provide primarily investment support to boost the competitiveness of agri-food sector and it will assist with its gradual adjustment to EU hygiene, food safety, veterinary and environmental standards, and to diversify rural economy. Moreover, establishment of producer groups, rural infrastructure, training actions, including advisory services, agri-environmental measures, forestry, and Leader local initiatives may be supported through the IPARD programme. The IPARD programme will also reinforce capacities of relevant EU funds management structures for them to be able to efficiently manage and implement the programme in line with the EU requirements. Institutional capacities of the agrarian agency and supporting organisations such as extension and advisory services will be strengthened in order to prepare for access to EU support through direct implementation of projects.

The following **indicators** will be used to measure progress:

- Progress made towards meeting accession criteria (EC);
- Total investment generated via IPA in agri-food sector and rural development (DG AGRI).

8.3. Types of financing

The reform and administrative capacity building process will be supported through services, works, supplies, and twinning. Grant contracts can be used to support other services.

IPA II multi-annual support in the area of rural development shall be provided through measures financed under the Rural Development Programme (IPARD).

8.4. Risks

The lack of strong co-ordination at national level and the unavailability of favourable credit terms to the agricultural sector may risk the development of this sector. It is therefore necessary to ensure at the outset appropriate coordination between national sources of funding, IPARD and international donors. Furthermore, there have been considerable delays with setting up the management and control structures for implementation of the IPARD programme, therefore risking delays with start of implementation.

9. Territorial and regional cooperation

IPA assistance will continue to support Serbia's already established cross-border cooperation with Member States (Hungary, Romania, Bulgaria and Croatia) and with IPA countries (Montenegro and Bosnia and Herzegovina). A programme with the Former Republic of Macedonia should also be developed in the short-term. In line with the objective of reconciliation and normalisation of relations with Kosovo, IPA assistance will also be provided for development of territorial cooperation with Kosovo in the medium term at the latest. Development of this cooperation will be agreed and prepared jointly, in line with the on-going dialogue between Belgrade and Pristina facilitated by the EU.

The bilateral cooperation programmes between IPA beneficiaries (IPA-IPA) to be developed for the period 2014-2020 shall focus on the socio-economic development of the border areas. Specific objectives, results and indicators per thematic priority shall be established in each programme. Continuation of people to people actions, human resource development and information sharing has to remain as an essential part of individual programmes.

Each programme will have a set of maximum four specific priority axes that can be chosen from the following thematic priorities, as listed in Annex III to the IPA II Regulation: (1)

Promoting employment, labour mobility and social and cultural inclusion; (2) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; (3) promoting sustainable transport and improving public infrastructures; (4) encouraging tourism and cultural and natural heritage; (5) investing in youth, education and skills; (6) promoting local and regional governance, planning and administrative capacity building; (7) enhancing competitiveness, business and SME development, trade and investment; (8) strengthening research, technological development, innovation and ICT.

The scope, objectives and thematic priorities of each CBC/territorial cooperation programme are laid down in a dedicated 7-year programming document, which will be drafted on the basis of extensive consultation of local stakeholders. The multi-annual programming document will foresee indicative annual budget allocations; define a set of indicators to measure the impact of the programme and identify the specific areas, which will be eligible for funding.

Assistance will be provided primarily through grant contracts. Investments may also be financed depending of the objectives of each programme. Technical assistance will be provided to improve the capacity of the institutions involved in the implementation of the programmes.

Further details on territorial and regional cooperation are provided in the multi-country strategy paper.

The following **indicator** will be used to measure progress:

- Number of involved municipalities (MIS)

ANNEX 1: INDICATIVE ALLOCATIONS (million EUR)⁴ - per policy areas and sectors

Serbia	2014	2015	2016	2017	2018-2020	Total 2014-2020	Of which climate change relevant (%) (**)
a. Reforms in preparation for Union membership	95.1	61.4	77.9	78.4	230.2	543.0	
Democracy and governance	177.8				100.2	278.0	
Rule of law and fundamental rights	135.0				130.0	265.0	
b. Socio-economic and Regional development	85.0⁵	75.0	85.0	80.0	240.0	565.0	
Environment and climate change	85.0				75.0	160.0	80%
Transport	90.0				85.0	175.0	
Energy	80.0				45.0	125	40%
Competitiveness and innovation	70.0				35.0	105.0	
c. Employment, social policies, education, promotion of gender equality, and human resources development	15.0	40.0	20.0	27.0	88.0	190.0	
Education, employment and social policies	102.0				88.0	190.0	
d. Agriculture and rural development	0	25.0	25.0	30.0	130.0	210.0	40%
Agriculture and rural development	80.0				130.0	210.0	
TOTAL	195.1	201.4	207.9	215.4	688.2	1508.0	

⁴ Any possible differences in figures displayed in policy areas and sectors compared to the annual totals are the effect of rounding to one decimal.

⁵ For 2014, subject to needs assessments, indicatively EUR 50 million will be dedicated to floods recovery and reconstruction.

ANNEX 2: PERFORMANCE INDICATORS

Table 1a: Context indicators

Indicator	Source	Baseline	Last value	
		2010	year	value
Public debt (% of GDP)	Eurostat:	43,47		
Real GDP growth rate (average last three years - %)	Eurostat:	1		
Unemployment Rate (%)	Eurostat:	19,18		
GDP per capita at current prices (EUR)	Eurostat:	3841		
FDI per capita €	Eurostat:	137,3		

Table 1 b: Outcome and impact indicators *

Sector	Indicator	Baseline	Last value		Milestone	Target
		2010	year	value	2017	2020
Composite indicator (average ranking provided by eight external sources)	Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability	54,5				
Progress made in reaching the political criteria provided	DG ELARG – Progress Report					
Progress made on implementation of acquis	DG ELARG – Progress Report					
Progress made in meeting economic criteria	DG ELARG – Progress Report					

* Targets will be provided at a later stage

Table 2: Sector Indicators *

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Governance and Democracy	Governance and PAR	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Government Effectiveness, Burden of Government Regulation and Regulatory Quality) - 1 (Worst) - 100 (Best)	World Bank, World Economic Forum	46,03				
	Public Financial Management	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
	Statistics	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Statistical compliance - % 0 (Worst) - 100 (Best)	Eurostat:	19%-25% (2013)				
Rule of law and fundamental rights	Judicial reform	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Access to Justice and Judicial independence)	World Justice Project, World Economic Forum	42,07				
	Fight against corruption and organised crime	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Global Corruption and Control of Corruption) 1 (Worst) - 100 (Best)	Transparency International, World Bank	41,02				
	Fundamental Rights	Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Composite indicator (average of Freedom of Press and Press Freedom) 1 (Best) - 100 (Worst)	Freedom of Press, Press Freedom	28,00				
	Refugees and Border management	Progress made towards meeting accession criteria	DG ELARG – Progress Report					

Sector	Sub sector	Indicator	Source	Baseline	Last value		Milestone	Target
				2010	year	value	2017	2020
Environment		Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Population connected to waste water collection systems	National statistics					
Transport		Progress made towards meeting accession criteria	DG ELARG – Progress Report					
		Logistics performance indicator (score) 1 (Worst) - 5 (Best)	World Bank:	2080 (2012)				
Energy		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Quality of energy supply 1 (Worst) - 7 (Best)	World Economic Forum http://www.weforum.org/issues/competitiveness-0/gci2012-data-platform/	4.5 (2013)				
Competitiveness and Innovation		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Doing Business - Distance to frontier (score) 1 (Best) - 100 (Worst)	World Bank - Doing Business:	59,07				
Education, employment and social policies		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Employment rate (15-64 years), total - %	Eurostat:	47,18				
Agriculture		Progress made towards meeting accession criteria	DG ELARG – Progress report					
		Total investment generated via IPA in agri-food sector and rural development (EUR)	DG AGRI					
Territorial Cooperation and Regional Cooperation		Number of involved municipalities	European Commission Management Information System					

* Targets will be provided at a later stage.