



**GOVERNMENT OF THE
REPUBLIC OF SERBIA**

**NEEDS OF THE REPUBLIC OF SERBIA
FOR INTERNATIONAL ASSISTANCE
IN THE PERIOD 2007– 2009**

Belgrade, January 2007

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INTRODUCTION

Context

Upon the political changes which occurred in October 2000 and at the beginning of economic reforms and transition to a market economy, the Government has faced numerous challenges, from establishing macroeconomic stability and fiscal discipline, regulating foreign and internal debt, high unemployment, weak economic activity, bad state of the infrastructure, social problems and arrears in payments of welfare benefits and pensions, to political issues, such as redefining Serbian-Montenegrin relations, the issue of Kosovo and Metohija, cooperation with the International War Crimes Tribunal in the Hague. Apart from urgent interventions (rehabilitation of the power generation and transmission systems and import of electricity, settling the arrears in pension and welfare benefits, ensuring sufficient supply of drugs and medical equipment, etc.), the launching of reforms also meant the intensive work on legal and institutional system changes, as well as the establishment of mechanisms to implement those laws. This was the beginning of foreign trade, price and internal market liberalisation, reforms in the fields of the pension system, social welfare system, banking sector, public finances, health system, as well as the beginning of the public administration reforms and decentralisation; reforms in the fields of agriculture, energy and education, development of private sector, etc. In parallel, the process of re-entering into membership of international organisations, integration in regional and international institutions and initiatives, accession to the World Trade Organisation was ongoing, and as main Government's political priority the process of EU integrations was assumed.

In that context, the Republic of Serbia needed comprehensive international financial assistance. Since 2001 it played an important role in addressing urgent issues and, as well, in supporting reforms, rehabilitation of infrastructure and promoting European integrations. In the view of importance of efficient coordination and to be able to monitor the overall international assistance extended to the Republic of Serbia, the Ministry of International Economic Relations established Sector for Donations and Development Assistance, in charge of the coordination, monitoring and harmonisation of donations.

The significance of international assistance is clearly reflected in the fact that from late 2000 to 2005, out of the total of 5,502.59 million euros of assistance announced to the Republic of Serbia, 3,528.47 million euros was disbursed in the same period. The nature of international assistance changed over the years; in late 2000 and in 2001 it was mainly humanitarian and urgent assistance. In later years the share of development assistance and soft loans increased whereas the share of grants tended to drop as compared to soft loans.

In order to promote the efficiency and effectiveness of international assistance extended to the Republic of Serbia; Ministry of International Economic Relations initiated the preparation of strategic intersectoral documents which were presented to the international community at donors' conferences for the FRY/ Serbia and Montenegro. In June 2001, the document "Reform Agenda of the Republic of Serbia - Needs for International Financial Support from 2001 - 2003" was presented at the Donors' Conference for the FRY in Brussels. In this document the main reform goals and objectives of the Republic of Serbia were defined and, needs for international assistance by sector were estimated. In Brussels, in November 2003, at the Donors' Coordination Meeting for Serbia and Montenegro the document "Serbia on the Move - Three Years Later", was presented to the donor community. The document gave a comprehensive overview of the reforms and activities implemented in the previous period and the reform objectives and implementing plans for the following three years with the estimated one-off reform costs. The document defined five key areas of priority for the Republic of Serbia in order to ensure additional international support. The areas were civil society, media and democratisation; reforms of the public administration and local self-government; European integrations; rule of law and removal of the obstacles to the development of enterprises and entrepreneurship. In the period between donors' conferences, these documents served as guidelines for directing new donations and planning funds. As the document "Serbia on the Move - Three Years Later" covered the period between 2003 and 2005 and bearing in mind the distinguished reform results achieved in various fields as well as the new strategic framework established in the meantime, there is a need to draw up a new intersectoral document, and review the results achieved so far and to define the needs for international support in the next period under the current strategic commitments and financial projections.

Objectives and the purpose of the Document

The Ministry of International Economic Relations initiated drafting of the intersectoral programmatic document entitled “Needs of the Republic of Serbia for International Assistance in the Period 2007 - 2009” defining priority programme activities within sectors and intersectoral priorities for international assistance. The purpose of this document is to serve as a platform for programming international assistance in order to make it more effective. The document is based on the existing strategic framework and defined medium-term objectives. Its goal is to enable establishment of an operational programme of priority activities and projects and its implementation in the future. The purpose of the document is to support implementation of the Government’s reforms and strategic objectives within the three- year framework and secure satisfactory level and structure of international assistance. The document will be presented to the donor community. The Government will estimate the level of grants needed on the annual basis to fill financial gaps in the implementation of its priority reform policies and programmes and to present the donors national development priorities which will be in its focus in the following years.

The document should:

- define priority objectives and plans/programmes for implementing these objectives by sectors,
- identify intersectoral priorities for international support in the next three year period,
- offer a financial assessment of the international assistance at the annual level, bearing in mind macroeconomic projections for a three year period.

For that purpose, the document will serve as an instrument for donor harmonisation within the Paris Declaration adopted by donors and the aid recipient countries at the Paris Forum on Aid Effectiveness, held in March 2005. The programmes defined by this document will be a basis for programming international assistance in 2007.

Summary of the Document

The Document is based on the existing strategic framework:

- Serbia's National Strategy for Serbia and Montenegro's Accession to the European Union,
- the Poverty Reduction Strategy,
- Sectoral strategies,
- European Partnership Priorities,
- Budget Memorandum and Economic and Fiscal Policy for 2006, with projections for 2007 and 2008, as well as the Budget Memorandum and Economic and Fiscal Policy for 2007, with projections for 2008 and 2009.

As an intersectoral programmatic framework, the Document offers an overview of the present situation, medium-term objectives and priority action programmes for their realisation in the period between 2007 and 2009, by sector. The action programmes are incorporated within the strategic framework aimed at defining the priorities which will ensure the most effective allocation of financial resources and other forms of assistance. Furthermore, the tables of priority reform and investment projects, by sector, contain all priorities regardless of the sources of financing (specifying whether domestic or foreign funds have already been allocated for the programmes/projects). They constitute a single programmatic platform aimed at providing the donors with an insight into the activities planned by the Government and enabling both donors and the Government to coordinate the allocation of domestic and external financing resources. Priority programmes/projects identification results from medium-term objectives within sectors, defined in the above mentioned strategic documents. Therefore, starting from the medium-term priority objectives defined in the Governmental strategic documents, a single priority list will be drawn up within each sector, as well as programmes/projects for their implementation. The line ministries participating in the preparation of the Annual Operational Action Plans (GOPs), as pilot ministries within the Joint Project "Towards the More Effective Implementation of Reforms"¹, used the 2007-2009 Annual Operational Plans as a basis for drawing up their input to this Document.

¹ The Joint Project "Towards the More Effective Implementation of Reforms", financed by the Norwegian Government, was initiated by the Ministry of International Economic Relations, the Ministry of Finance, the Ministry of Public Administration and Local Self-Government and the European Integration Office, in order to improve planning, budgeting, monitoring and reporting in the relevant ministries. One of the basic goals of the Joint Project was to improve the capacity of the line ministries for planning, through

The second chapter of the Document defines intersectoral priorities for international assistance. The purpose of this chapter is to identify key areas, from the national point of view, in which, international assistance is required in the following period. The content of this chapter would serve to the international partners as reliable resource in drawing up their strategic documents, identification of the objectives and priorities of their actions and sound approximation of the level of their assistance to be extended to the Republic of Serbia. The document identifies five priority areas and some basic directions of development and priority measures/objectives in those areas in the period 2007 - 2009. The criteria for identifying priority/key areas for international assistance between 2007 and 2009 were the level of priority and significance under the Government's strategic documents, the achieved level of reforms and the assessment of implementation of the strategic reform objectives, the importance of ensuring international technical assistance and expertise for carrying out the activities planned in the relevant area and the possibility to secure financial assistance from other resources (the republican budget, own budgets of the relevant institutions, borrowing from the IFIs, private investments).

On the basis of macroeconomic projections, the needed level of international financial support at the annual level was estimated for the period 2007 -2009 in the form of concession loans and grants required for implementing the projected growth rates of the GDP.

The work on the document was entrusted to the Economics Institute. All relevant line ministries and the competent Government institutions participated in this process and contributed to the joint work and results (the European Integration Office, the Poverty Reduction Strategy Implementing Team). Intersectoral priorities for international assistance (analysed in detail in the second chapter), were considered and approved by the Government's Commission for Humanitarian and Development Assistance Coordination.

It is envisaged that the Document should be revised annually² so as to include one additional year, also including the achieved reform results, the resources committed for priority projects financing, as well as new priority projects/programmes.

developing comprehensive and realistic annual action plans and their linking with the preparation of the budget and programming and using international assistance

² The EU regulation introducing a new EU financial instrument – IPA – Instrument of Preaccession Assistance) explicitly states that the beneficiaries of this assistance are expected to introduce annual supplements for three year indicative development plans (the roll-on principle).

**1. SITUATION AND EXPECTED
REFORMS IN THE PERIOD
2007 -2009**

1.1. The achieved level of reforms

Macroeconomic stabilisation, beginning of market oriented reforms and the European integration process in Serbia between 2000 and 2006, were carried out in the politically unstable environment, particularly reflected in the change of status of the State – i.e. redefining relations between Serbia and Montenegro, establishing the State Union of Serbia and Montenegro, adopting the Constitutional Charter in February 2003, the referendum on the Republic of Montenegro's independence in May 2006, as well as the extraordinary session of the Serbian Parliament in June 2006 at which it was noted that Serbia was the sole successor of the State Union of Serbia and Montenegro, its international legitimacy and international treaties. In November 2006 the National Parliament proclaimed the Constitution of the Republic of Serbia and adopted the Constitutional Law for implementing the Constitution.

Macroeconomic trends in the period between 2001 and 2005³. The period between 2001 and 2006 is characterised by intensive reforms, the establishment of macroeconomic stability and sustainable and stable economic development, the restructuring of the big public utilities, the privatisation of enterprises and the beginning of the EU integration process (entailing numerous legal adjustments in all economic and social areas). The main economic policy goals were maintaining macroeconomic stability, while at the same time ensuring high economic growth rates. Economic activity after 2000 was supported by the positive effects of economic transition and reforms of the tax system, labour market and social sector; furthermore, prices and foreign trade were deregulated and liberalised to a large extent, while relations with international financial institutions were normalized. Significant progress was made in implementing structural reforms, particularly in the privatisation of enterprises and the consolidation and privatisation of the banking sector. 350 laws were adopted, establishing the strong legal ground for structural reforms implementation.

In the period between 2001 and 2005 a high real growth of the GDP was achieved at the rate of 5.6% per year. In 2004 the highest GDP growth rate of 9.3% was achieved, based on industrial growth, agricultural production growth and the significant growth of the service sector, in particular of the PTT and telecommunications, as well as of retail sales. In 2005 a considerable GDP growth of 6.8% was achieved, which was above the economic growth projected for 2005

³ Source: The 2007 Memorandum on the Budget and Fiscal and Economic Policy, with projections for 2008 and 2009.

(5.1%). In 2005 it was the service sector that contributed most to the economic growth. In the last two years a high GDP growth rate of 8.0% was achieved. A cumulative real GDP growth of 31.3% between 2000 and 2005 was an important result of economic policy, achieved in the circumstances of transition and unfavourable trends in the world economy and trade. In this period GDP per capita increased over three times – from around 1,000 US\$ in 2000 to 3,526 US\$ in 2005.

The considerable growth of economic activity and exports was accompanied by double-digit inflation. In the period between 2001 and 2005 progress was made in reducing inflation which had increased enormously in the previous decade and in 2001. Inflation was reduced from 91.8% in 2001 to 19.5% in 2002, 11.7% in 2003, 10.1% in 2004 and 16.5% in 2005 (the annual average). This is a significant result in view of the fact that it was achieved under the conditions of crude oil price growth and price disparity corrections. The stability of the general price level was based on foreign exchange stability and the continued growth of foreign exchange reserves of the National Bank of Serbia (which increased from 0.5 billion US\$ in late 2000 to 5.8 billion US\$ in late 2005), as well as a strict monetary, fiscal and wage policy in the public sector.

Another field in which progress was made was the standard of living. There was a considerable real rise of the average net salary from 102 Euro in 2001 (152 Euro in 2002, 176 Euro in 2003, 193 Euro in 2004) to 210 Euro in 2005, as well as a rise of the average pension from 69 Euro in 2001 (108 Euro in 2002, 120 Euro in 2003, 127 Euro in 2004) to 138 Euro in 2005. Overall employment was reduced in 2002 and 2003 as a result of privatisation and restructuring of enterprises, while in 2004 and 2005 there was a slight increase of employment by 0.5% and 0.9% respectively, particularly in SME sector. A high deficit in the current account of the balance of payments in the past five years mainly has been the result of negative trade balance, caused by faster growth of import than export of commodities, which led to a high foreign trade deficit. Expressed in euros, this deficit increased in 2002 by 31% (in 2003 by 10.8%, in 2004 by 39.7%) while in 2005 it was reduced by 25%. Profit from services greatly affected the current account trends; expressed in euros, it rose in 2002 by 6.6% (in 2003 it was at the level of the previous year and in 2004 it increased by 34.9%), while in 2005 the trade deficit dropped due to imports increase and exports decrease.

The low birth rate and ageing of the population, a trend which had prevailed for many years, continued in the period between 2001 and 2005. Employment fluctuated, with a considerable increase of unemployment. The average net salary rose beyond the

real GDP growth and labour productivity, especially in the first three years of transition. The table below shows selected indicators of demographic and social trends:

Table 1: Population, employment, salary and productivity indicators

	2001	2002	2003	2004	2005
Population in 000	7,534	7,500	7,481	7,463	7,450
Population growth rate in %	-0.26	-0.40	-0.25	-0.24	-0.17
Working population in 000	5,072	5,045	5,024	5,008	5,002
Number of the employed in 000	2,102	2,067	2,040	2,051	2,069
Employment growth rate in %	0.2	-1.7	-1.3	0.5	0.9
Number of the employed in the public sector in 000*	395,2	405,4	406,9	416,0	422,0
Employment growth rate in the public sector in %	4.0	2.6	0.4	2.2	1.4
Unemployment rate (ILO) in %	12.2	13.3	14.6	18.5	20.8
Real growth rate of average net salary in %	16.5	29.9	13.6	10.1	6.4
Labour productivity growth rate in the economy in %	4.9	6.3	3.8	8.8	5.6

In the period between 2001 and 2005 the Republic of Serbia reformed public finances, which, in conjunction with the overall macroeconomic policy, ensured the stability and viability of the system; as a result, the deficit was eliminated and replaced by a surplus in 2004 and 2005.

The reforms strengthened the role of public finances in achieving some basic objectives – macroeconomic stability and sustainable economic growth, and rendered the fiscal system transparent, simple and harmonised with international standards.

The most significant novelty was the adoption of the Law on the Budget System, which, as a system law, regulates public finances in the Republic, as well as the budget system and public finances management. The adoption of this law introduced a modern concept, based on international experiences, in all segments of public finances and the public sector as a whole. This is the first fundamental act introducing changes at all levels of the government (the republican budget and local government budgets, including the organisations of mandatory social insurance).

The budget system was organised on a new foundation and regulated in a new manner, especially in the field of public finances management. The changes introduced were uniform planning, preparation, adoption and implementation of the republican budget and the budgets of territorial autonomies and local self-government, as well as planning in the organisations of mandatory social insurance. In this sense, it is of particular importance that new institutions were set up, notably the Treasury Directorate of the Republic, as well as the treasuries of lower levels of

government, serving as a pillar in public finances management. After being implemented for three years, the Law on Budget was amended in 2005 in order to improve the whole fiscal system/administration. Under the amendments, the former Public Payment Agency was attached to the Treasury Directorate. A new budget classification was adopted and the chart of accounts for public revenue payments reviewed.

The tax system also underwent reforms. The most significant reform in this area was the adoption and successful implementation of the Law on the Value Added Tax. Furthermore, the Parliament passed the Law on Public Procurement, the Law on Public Debt and the Law on Tax Procedure and Tax Administration. Reporting to the Serbian Parliament, as well as public information concerning public revenue and expenditure, was improved by submitting the republican budget annual balance for 2002, 2003 and 2004 and by monthly publishing information on public revenue and expenditure at all levels of government. Public revenue and public expenditure were reviewed by adopting a Law on the State Auditing Institution. Thus, an institutional framework for modern and efficient public finances in Serbia was established, which resulted, in conjunction with other measures, in a surplus at the end of the period.

Structural reforms. Considerable progress was achieved in implementing structural reforms, particularly in the area of privatisation of enterprises and consolidation and privatisation of the banking sector. Between 2002 and 2005, 1,844 enterprises were privatised, with the privatisation proceeds of 1.8 billion Euros. As for the banking sector, the number of banks was reduced from 86 in 2001 to 40 banks in late 2005, the ownership structure of the banks was changed, trust in the banking system promoted and new foreign exchange savings increased from 329.8 million Euro in late 2001 to 2,238.7 million Euro in late 2005. Four majority state-owned banks were privatised yielding the privatisation proceeds of 562.2 million Euro. There was a significant increase of foreign direct investment (FDI) inflow- the net FDI rose from 165 million US\$ in 2001 to 475 million US\$ in 2002, 1.36 billion US\$ in 2003, 966 million US\$ in 2004 and 1.48 billion US\$ in 2005. There was progress in domestic and foreign trade liberalisation. Furthermore, positive results were registered in the reforms of the labour market and social sector. In 2000 Serbia's foreign debt was estimated at 169% of the GDP; in 2005 Serbia's foreign debt was significantly reduced to 58.97% of GDP (source: the NBS).

However, there are numerous challenges yet to be faced in order to implement transition and reforms, ensure economic development, improve the economy's competitiveness, reduce high unemployment, the balance of payments deficit and

poverty, and to increase the overall standard of living. In the years to come, activities aimed at EU accession will be especially focused on - harmonising regulations with the European Union regulations, implementing European partnership priorities and building and strengthening the institutions.

The assessment of transition results. All these characteristics (both positive and negative) are largely the result of the achieved level of transition and reforms. By means of transitional indicators, the European Bank for Reconstruction and Development (EBRD) summed up the progress made by 27 transitional countries in structural and institutional reforms. Nine transitional indicators include four key market economy elements: enterprises, the market and trade, financial institutions and the infrastructure. Each indicator is measured according to the standards of developed market economies and represents a synthesised assessment of the progress achieved in a particular field. Transitional countries made big headway in structural and institutional reforms throughout the past year, but with different levels of success. The table below shows transitional indicators for Serbia, the countries of the region and for selected transitional economies.

Table 2 – Transitional indicators in selected transitional economies

Country	Privatis. of big enterprises	Privatis. of small enterprises	Restructur. of enterprises	Liberalis. Of prices	Foreign trade system	Competit. policy	Reform of the banking system	Securities and financial markets	Infrastruct.	Average value of transitional indicator
Serbia ⁴	3-	3+	2+	4	4-	1	3-	2	2	2.63
Transitional economies of South-East Europe										
B-H	3-	3	2	4	4-	1	3-	2-	2+	2.56
Albania	3	4	2	4+	4+	2	3-	2-	2	2.9
Macedonia	3+	4	2+	4	4+	2	3-	2	2	2.95
Croatia	3+	4+	3	4	4+	2+	4	3-	3	3.43
Bulgaria	4	4-	3-	4+	4+	3-	4-	2+	3	3.41
Romania	4-	4-	2+	4+	4+	2+	3	2	3+	3.21
Advanced transitional economies										
Hungary	4	4+	4-	4+	4+	3	4	4	4-	3.92
The Check Republic	4	4+	3+	4+	4+	3	4	4-	3+	3.8
Poland	3+	4+	4-	4+	4+	3	4-	4-	3+	3.73

Note: Transitional indicators range from 1 to 4+. Indicator 1 means that there are no changes in relation to the socialist system, while indicator 4+ denotes the performance similar to that in developed countries. Source: EBRD, "Transition report 2005"

An analysis of individual EBRD indicators in 2005 shows that Serbia and Montenegro was assessed with **the highest indicator** (4) for price liberalisation, (4-) for foreign trade regime (trade liberalisation and the foreign exchange system) and (3+) for the privatisation of small-size enterprises, where the transitional process progressed

⁴ In the original table there was Serbia and Montenegro instead of Serbia; however, all conclusions mentioned for Serbia and Montenegro are fully valid for the Republic of Serbia.

most. As compared to the previous period, **progress** was made in the privatisation of big enterprises (3-), restructuring of the banking sector, building of a securities market (3-) and restructuring of enterprises (2+). **Modest results** (indicator 2) were achieved in the field of financial markets and infrastructure reforms. **The greatest lagging behind** or no progress was registered in the field of anti-monopoly policy, assessed with the lowest indicator (1). It can be therefore concluded that the priority fields in which reforms must be intensified in the next period are as follows: privatisation and restructuring of big enterprises, competitiveness policy, reforms of the banking system, reforms of the financial market and the infrastructure. These fields will be analysed in more detail in the next chapter.

Although Serbia achieved the greatest progress and was proclaimed the reform leader in 2005, Serbia and Montenegro must do a lot in order to catch up with the more successful countries of the region. The comparison of the average annual transitional index between transitional economies, showing that 21 countries were more advanced than Serbia in 2005, is the best testimony to that.

1.2. The implementation of international assistance to the Republic of Serbia between 2000 and 2005

The overall realised international assistance extended to the Republic of Serbia between 2000 and 2005 amounts to some 3.5 billion Euro. In the wake of the democratic changes which took place in 2000, international assistance was focused on rapid solving of urgent problems, humanitarian and social issues, achieving macroeconomic stabilisation, rehabilitation and reconstruction infrastructure systems, as well as for launching the process of reforms and European integrations. This is precisely the reason why the level of international assistance was the highest in the first two years of transition; in that period the trends that could be noticed were – the reduction of humanitarian assistance as compared to development assistance, reduction of grants as compared to concession loans and changes in sector distribution of approved assistance.

Table 3: An overview of disbursement of international assistance per year in million of Euro

2000	2001	2002	2003	2004	2005
166.88	836.57	776.53	645.07	427.97	652.29

Source: The 2005 Report on International Assistance to the Republic of Serbia, the Ministry of International Economic Relations, 2006.

In the last five years, international assistance was largely implemented through different forms of international technical assistance and investments in all economic and social sectors. In the period between 2000 and 2005, the sectors that received the largest share of assistance were: the budget – financing of one-off reform costs in all sectors (19.1%), energy (17.1%) and transport (15.4%). Apart from that, considerable assistance was aimed at developing the private sector, local self-government, the health sector, while in the period up to 2003, significant international assistance was allocated to the social sector.

International assistance extended to the Republic of Serbia has been primarily used for covering one-off reform costs that are extremely high (reforms of the pension system, health sector, labour legislation, the fiscal sector, etc.), as well as for establishing new institutions of a modern market economy. It is assessed that further development of democracy and fight against corruption and organised crime can be intensified only under stable economic conditions; this is why considerable and continued donor support is absolutely necessary by the year of 2010, irrespective to the level of GDP growth.

1.3. Main development objectives and priorities

The following documents constitute a *strategic framework for defining Serbia's development goals*: the National EU Accession Strategy, the National Strategy for Serbia's Economic Development, the Poverty Reduction Strategy, the Strategy of Serbia's Sustainable Development, the Strategy for Foreign Investment Encouragement and Development and, finally, a number of sectoral development strategies (export promotion, employment, development of science and technology, development of education, agriculture, energy, environmental protection, etc.).

Strategic commitment of the Republic of Serbia is the EU accession and it has wide political and social support. The path to the European Union is seen as a path towards a more modern society of stable democracy and prosperous economy. The EU political and economic requirements are seen as a development incentive rather than conditionality.

The European Union expects the Republic of Serbia to meet all conditions contained in the EU association and accession policy, which is an elaborated version of the Copenhagen criteria applicable to the countries of Eastern and Central Europe. In

that view, the Republic of Serbia should seek to achieve the rule of law, a stable democratic order, high standards of human and minority rights protection, as well as to establish a market economy, legislation aligned with the EU and an efficient public administration.

In the view of above, in the next period the Government will remain focused on ensuring rapid harmonisation of system laws with the EU *acquis communautaire* (so far, only 1/3 of all laws have been fully harmonised with EU standards), on strengthening institutions, the rule of law and efficient operation of public administration. The Government will intensify legal, institutional and structural reforms aimed at modernising economic legislation, establishing market institutions compatible with the standards of developed market economies and achieving administrative reforms to render an efficient public administration and judiciary. This will create a stable macroeconomic environment supported by a stable institutional framework.

The National EU Accession Strategy was adopted in order to prepare Serbia for EU membership by 2012, or, in other words, to meet EU accession requirements, under the criteria established by the Stabilisation and Association Process (SAP) and the Copenhagen criteria. Serbia has so far created a basis for accelerating EU accession process through various activities. It started negotiations for the stabilisation and association process⁵ in order to prepare itself for fulfilling high European standards concerning the functioning of the market economy and the rule of law, as well as concerning democratisation and human rights- the key requirements for a full-fledged EU membership.

The Poverty Reduction Strategy promotes development oriented towards poverty reduction through ensuring dynamic economic growth, higher employment and salaries, preventing new poverty in the process of privatisation and economy restructuring and promoting the social security network for the most vulnerable social groups. The poverty reduction strategy is aimed at prompting economic growth and employment as the key prerequisites for settling fundamental poverty problems through faster employment, more efficient social protection, better access to health, education and housing.

The National Strategy of Serbia's Economic Development defines the basic objectives and directions of development on the path to a modern society, developed economy and a better quality of life of all citizens. At the same time, it is a path

⁵ The negotiations came to a standstill since Serbia had not fully cooperated with the International War Crimes Tribunal in the Hague.

towards EU association and accession, in which Serbia will activate all of its human resources, material, natural and geo-strategic potentials, accelerate reforms and affirm a new role of the state. Furthermore, Serbia must develop under the principles of sustainable development, i.e. development harmonised and compatible with the environmental, social and other policies of EU.

Serbia's main development objective is the greater *well-being of its population and a dynamic economic growth*, as a basic material prerequisite for improving the standard of living and reducing unemployment and poverty at a faster pace. An efficient market economy is aimed at improving the well-being of all citizens and is possible only under conditions of fully democratised society supported by strong state and social institutions and the rule of law.

The essence of Serbia's economic development lies in *promoting the overall competitive capacity of its economy*. This requires the resolute implementation of all transitional and reform processes, activating development potentials of the country – its human, material and natural resources – in order to make Serbia a fertile ground for a faster development of the domestic private sector and a greater inflow of foreign capital. The basic task of the state is, therefore, to create a sound market environment (which means fully developing the market economy and system prerequisites for its unhindered functioning) and to manage the fundamental GDP aggregates – investment and consumption – in order to maintain internal and external macroeconomic balance (the stability of prices and the balance of payments). Only in these conditions Serbia can achieve the needed high average annual GDP growth rates in the years to come. The key factors for achieving such growth rates are *a significant increase of exports and its restructuring and a rise of foreign direct investment*.

An exports revenue rise is the chief condition for servicing foreign debt and ensuring the means for equipment and technology financing, which is, at the same time, the condition for economic development in the following years. Attracting foreign direct investment is one of the main prerequisites for modernising equipment and production. Apart from capital, these investments bring modern technologies and management to the country, ensure exports markets and activate the processes promoting business operations of domestic enterprises. Attracting more FDI requires an open economy and a sound market environment favourable for foreign investment and domestic savings and for creating a critical mass of SME which will take over workers from insolvent enterprises.

A high quality institutional environment is one of the inevitable preconditions for a competitive economy and its sustainable development. A more efficient government relies on the following principles: abiding by international conventions, openness, transparency, responsibility, effectiveness and efficiency, ethics and confidence. The main objective is to establish the responsibility of all institutions, in all fields, as well as good regulations, which primarily depends on the judiciary and the modernisation of administration as an important factor in promoting competitiveness.

For developing a market economy and democracy it is essential to ensure *the efficient functioning of the judiciary and public administration*. This is why the Government adopted a *Strategy of Public Administration Reforms in the Republic of Serbia* in November 2004, in order to develop a democratic state based on the rule of law, responsibility, public quality, cost-effectiveness and efficiency, and to establish a public administration which would be at the service of citizens, capable of offering the citizens and the private sector a high quality service at reasonable costs. The Strategy is based on decentralisation, political neutrality, professionalism, rationalisation and modernisation. Furthermore, at the proposal of the European Integration Office and the Ministry of Public Administration and Local Self-Government, in mid 2006 the Government adopted an Action Plan for Strengthening Institutional Capacity for Assuming Commitments in the European Integration Process. The Action Plan offers an overview of commitments related to European integrations and supports the coordinated and planned strengthening of public administration capacities to assume the commitments stemming from the EU accession process. The document relies on the adopted Strategy of Public Administration Reforms in the Republic of Serbia and the National Strategy for EU Accession, precisely determines the priorities defined in the above mentioned and all other relevant documents and establishes institutional measures for their implementation.

One of the highest priorities in the democratisation of society is the *security policy reform*, which has to be in accordance with internal democratic political changes and transitional processes, changes in the international environment, reduced threats to national security and different nature of those threats. This brings us to a particularly important segment of democracy and the rule of law – *army reforms*. These reforms must be implemented in the context of Euro-Atlantic integrations.

As for the political participation and representation of citizens, it is necessary to intensify electoral legislation reforms in order to render domestic electoral system

compatible with international standards and to ensure that these laws are implemented consistently, without ambiguities and drawbacks.

One of the greatest problems faced by almost all countries, particularly those in transition, is certainly *corruption*⁶. Although some progress has been made in this area, there is still much to be done to pass all necessary legislation and to ensure the consistent and efficient implementation of adopted laws. Apart from these short-term priorities, it is necessary to prepare medium-term priorities in this area, and to fully harmonise domestic law with the UN Convention against Corruption and the relevant conventions of the Council of Europe.

All the mentioned objectives of Serbia's social development are aimed at meeting EU requirements in the EU accession process, which means establishing stable institutions guaranteeing democracy, the rule of law and the observance and protection of human and minority rights.

The 2007 Memorandum on the Budget and Economic and Fiscal Policy, with projections for 2008 and 2009, defines the following main objectives and priorities of the 2007-2009 economic policy:

- creating conditions for maintaining medium-term macroeconomic stability, with the stable national currency (dinar) and capped inflation;
- ensuring the accelerated implementation of economic and social reforms, ending privatisation and restructuring of the economy;
- ensuring a high economic growth based on increasing domestic savings and investment, foreign direct investment and exports, simultaneously reducing the deficit of current foreign transactions;
- Increasing employment and promoting the standard of living.

Measures envisaged in order to implement these objectives are a strict monetary and fiscal policy, tight wage policy in the public sector, speeding up privatisation and restructuring social and public enterprises, completing system laws and their harmonising with EU legislation, accelerating institutional reforms, including the reforms of public administration, the judiciary, police and local self-government. There are also numerous measures envisaged in all fields of economic and sectoral policies.

⁶ Intersectoral consultations include the Government's Action Plan on the Fight against Corruption.

1.4. Growth projection and the needs for international assistance

Basic macroeconomic indicators are integrated in the structural model; under this model, through setting the value of the targeted variable (as an exogenous variable) we derive the values of endogenous variables which are economic policy indicators. There are targeted and derived variables which may alter their character or role, but the values of some targeted variables were set based on the analysis of successful transitional experiences.

The main indicators integrated hereby are as follows:

- prices;
- exchange rate and inter- currency relations;
- gross domestic product (GDP), calculated on the production side (as an aggregate of gross value added and taxes reduced by subsidies);
- aggregates of GDP use; overall domestic demand, final domestic demand, consumption (personal and collective), investment (overall and fixed), net exports (trade and service balance);
- deflators of GDP and aggregates of use;
- current balance of payments transactions and elements of their structure: exports and imports of goods and services, with the de-aggregation into goods and services and their balances; factor transfers (interest rates); current transfers;
- capital transactions balance and its basic structure;
- foreign exchange reserves change as an element of the balance of payments;
- stock of foreign exchange reserves and debt;
- investment balance (in the sense of the source of savings from which they are financed), etc.

Target variables are as follows:

Investment: The optimal investment level could not be established proceeding from the classical production function, because the functionality and market value of the inherited fixed assets cannot be determined. In this context, the experience of successful transitional countries was taken into account (Estonia, Poland, the Czech Republic, Hungary and Slovenia, which increased the share of investment in GDP to 25-30%⁷). Estimates of the overall investment also include the resources planned under the National Investment Plan. The final objective is for fixed investments to reach the level of 23% of GDP by 2009 (i.e. 26.5% of GDP for overall investment). This requires an average fixed investment growth rate of 15.7% in the observed period).

Exports of goods and services: In 2005 the share of exports of goods and services in GDP amounted to 25.4%. *The targeted share* of exports in GDP in the last observed year (2009) is 32% and is gradually rising.

Imports of goods and services are a direct function of two target variables – exports and a deficit of goods and services. Between 2007 and 2009 imports should rise at the annual rate of 15.3% on average.

Net exports (balance of goods and services): The trade balance deficit is the chief generator of the deficit of the current balance of payments transactions in the Republic of Serbia (20.4% in 2005). *The objective is to successively reduce the share of goods and services deficit in GDP to 18% in 2009.*

Public (collective consumption): Under this projection, the *targeted share of public (collective) consumption* should be reduced from 20.8% in 2005 to 14.4% of GDP in 2009.

Inflation should drop from estimated 8% in 2006 to 5% in 2009.

Collective consumption, which includes current operational expenses of public services (education, health, culture, the army, public administration), must be reduced from 20.8% of GDP in 2005 to 18.9% of GDP in 2009.⁸

Big system and structural changes are a precondition for implementing the projections. In other words, the precondition is to implement the measures defined by

⁷ Unlike these countries, the countries in which this share was under 20% tended to undergo the second transitional recession. The share of 18-20% is typical of developed countries.

⁸ *Working assumptions* are: Inflation (increase of retail prices as compared to the end of the previous year): according to the Republican Statistics Office, 17.7% in 2005, 8% in 2006, 8% in 2007, 7% in 2008, 5% in 2009. Dollar exchange rate in dinars (end of the year): 67.4% in 2005; 66.5% in 2006; 68% in 2007; 73.3% in 2008, 76.1% in 2009. Real GDP growth: 4.8% in 2005; 6.2% in 2006; 6.63% between 2006 and 2009.

the National Economic Development Strategy 2006-2012. The key prerequisites (risks) for implementing the projections are as follows:

- High annual inflow of foreign direct investment; for this to happen, a favourable business environment must be created for foreign investors, which means, among other things, an overall risk reduction.
- Very ambitious exports growth rates, as envisaged; they have to be higher than imports growth rates. It is quite clear that the realisation of this objective means structural changes and increased competitiveness of the economy.
- A change in the GDP structure, as necessary, meaning an increase of investment, including the development use of both privatisation proceeds and the resources under the National Investment Plan, at the expense of consumption.

Nominal GDP values were derived from the 2004 values (the Republican Statistics Office), through GDP real growth and deflators (derived from domestic prices and foreign trade deflators), weighted by net exports (through Euro exchange rate). Special domestic demand deflators were taken into account and within them investment and consumption deflators (the personal consumption deflator is an average growth of retail prices).

Table 4: GDP projections and components

	2005	2006	2007	2008	2009
GDP in millions of current US\$	25972	32221	35898	38914	42527
Real GDP growth	4.8	6.2	5.9	6.9	7.1
GDP, current prices, in billions of dinars	1,750.0	2,142.0	2,477.4	2,854.2	3,237.2
Domestic demand	2,106.8	2,577.6	2,948.1	3,382.3	3,820.0
Consumption	1,607.6	1,947.1	2,247.6	2,535.3	2,814.0
Household consumption	1,242.4	1,499.9	1,757.5	1,982.0	2,199.4
State sector consumption	365.2	447.2	490.1	553.3	614.6
Investment	393.7	482.0	582.2	713.6	857.9
Gross fixed investment	302.0	392.0	495.5	613.7	744.6
Stock change	91.7	90.0	86.7	99.9	113.3
Net exports of goods and services	-356.8	-435.6	-470.7	-528.0	-582.7
Net exports, share in GDP	-20.4	-20.4	-19.0	-18.5	-18.0
Consumption, share	91.9	90.9	90.7	88.8	86.9
Consumption, real growth	2.1	6.8	6.6	4.6	4.8
Personal consumption, share	71.0	70.0	70.9	69.4	67.9
Public consumption, share in GDP	20.6	20.2	19.8	19.4	19.0
Domestic demand, real growth	0.5	8.2	5.8	6.3	6.6
Domestic final demand, real growth	2.2	8.3	8.5	6.4	6.7
Investment, share in GDP	22.5	22.5	23.5	25.0	26.5
Share of fixed investment	17.3	18.3	20.0	21.5	23.0

Investment, real growth rate	-14.7	9.3	12.5	13.5	13.5
Fixed investment growth rate	2.4	15.8	17.7	14.7	14.6
Overall GDP balance	-5295	-6552	-6821	-7199	-7655
US\$/Dinar exchange rate	67.4	66.5	69.0	73.3	76.1

Table 5: Some elements of the balance of payments projection

	2007	2008	2009
Exports of goods and services	10335	12501	15245
Growth rate of exports of goods and services	1.24	1.21	1.22
Imports of goods and services	17155	19700	22899
Growth rate of imports of goods and services	1.15	1.15	1.16
Balance of goods and services	-6821	-7199	-7655
Balance of interest rates	-510	-987	-1015
Net current transfers	3549	4231	4460
Current account balance	-3309	-3542	-3832
Long-term commercial loans- inflow	3202	2302	2413
Consession loans – inflow	300	200	200
Long-term loans – payment	1990	2302	2824
Short-term lines – net	250	250	250
Direct investment- net	2435	2432	2817
Foreign exchange reserves – changes	1248	0	-699

Table 6: Macroeconomic balances – Savings and investment balance

	2005	2006	2007	2008	2009
1. GDP (billions of dinars), current prices	1750.0	2142.0	2477.4	2854.2	3237.2
2. GDP (millions of US\$), current rate	25972	32221	35898	38914	42527
3. Inflation (RPI) – end of period	17.7	8.0	8.0	7.0	5.0
4. GDP (growth rates)	4.76	6.2	5.88	6.87	7.09
Share in GDP					
5. Gross domestic savings (7-6)	2.1	2.2	4.5	6.5	8.5
6. Net factor receipts and transfers from abroad	11.8	9.0	9.8	9.4	9.0
7. Gross national savings	13.9	11.1	14.3	15.9	17.5
8. Gross domestic investment	22.5	22.5	23.5	25.0	26.5
9. Foreign savings, without donations (8-7)	8.6	11.4	9.2	9.1	9.0
10. Foreign savings, including donations	9.8	12.2	10.5	10.2	9.9
11. Donations (10-9)	1.2	0.8	1.3	1.1	0.9

Macroeconomic projections showed that Serbia has a chance to achieve relatively high growth rates (6.63% on average) in the observed period, thus catching up with the advanced transitional economies which are now members of the European Union. Achieving this goal will not be easy at the least; it will require considerable effort and sacrifice. That means that it will be necessary to reach extremely high export growth rates of over 20%. At the same time, it will be important to slow down import growth and to achieve an average import growth rate of 15.3% in the observed period.

The most critical factor will be investment, which should reach the level of 26.5% of GDP in the observed period. The average annual investment growth rate in the observed period should amount to 13.2%. This figure will be impossible to reach from domestic sources; in order to do that foreign savings (loans and grants) of 10.2% of GDP on average will be needed (row 10, table 3).

The following are needed donations: 1.3% of GDP in 2007, 1.1% of GDP in 2008 and 0.9% of GDP in 2009, or, calculated in absolute amounts, the overall needed donations amount to 1276 million US\$ (466 million US\$ in 2007, 428 million US\$ in 2008 and 382 million US\$ in 2009). The model showed that in the following three year period the estimated realisation of long-term loans amounts to 8.6 billion US\$, with the share of concession loans of around 700 million US\$. This means that the required international assistance to the Republic of Serbia in the next three year period is estimated at 1.98 billion US\$ (700 million US\$ of concession loans and 1.28 billion US\$ in donations). The table below shows the structure of the needed international assistance disbursement by years.

Table 7: Structure of needed international assistance by years – disbursement

	(in millions of US\$)			
	2007	2008	2009	2007-2009
Grants	466	428	382	1,276
Concessional loans	300	200	200	700
Total	766	628	582	1 976

Table 8: Difference between estimated needed grant disbursement and estimated disbursement of grants approved by 2006

	(in millions of US\$)			
	2007	2008	2009	2007-2009
Estimated needed grant disbursement	466	428	382	1.276
Estimated disbursement of grants approved by 2006	390	279	204	873
Difference	76	149	178	403

The table above shows an overview of the annual amounts of disbursement of international assistance to be achieved in order to reach the projected GDP and investment growth, as well as the estimated/expected realisation of resources approved/agreed by 2006. The difference between these two categories is the required disbursement for which international financing sources have not been

identified and which should be covered from new allocation of multilateral and bilateral donors in the observed period.

However, Serbia's needs for international assistance cannot be limited to the observed amount because there are needs for investment in specific fields which the macroeconomic model *per se* cannot quantify, i.e. which do not affect GDP growth. An entire range of variables, e.g. investment in environmental protection and similar, have a long-term positive effect on GDP growth, but these positive effects cannot be manifested in the short-term but in the long-term, which is why their time horizon is beyond the projection showed in this model. At this point it is important to point out certain specificities of international assistance to Serbia to be extended in the following years: as the transitional changes of legislation have largely been realised, it is necessary to strengthen the capacity of the state structure in order to implement the new legislation; the adoption of the new Constitution created conditions for further decentralisation (specific regulations thereon have already been adopted), which means that local capacities must be strengthened, while the new Constitution imposes further harmonisation of regulations with the new constitutional arrangements; it is essential to implement activities aimed at promoting the quality of life and alignment with EU standards, particularly in environmental protection (the activities are not quantified by this model).

2. INTERSECTORAL PRIORITIES FOR INTERNATIONAL ASSISTANCE

2.1. Employment Generation– Economic Development and Education in the function of Increasing Employment

In 1990's the Republic of Serbia completely collapsed, both economically and socially, and the development of its economy came to a standstill. GDP dramatically dropped by some 50%, while wages, pensions and other benefits fell enormously as a consequence of an authoritarian policy, international isolation and severe sanctions, the disintegration of the former SFRY's market, wars in the neighbourhood and the shelling of Serbia in 1999. The economy was in a very poor state, enterprises did not have sufficient resources even for maintaining their capacities and there were no new investments. Due to international isolation, Serbian enterprises lost their export markets, which they could not win back even when the sanctions were lifted since they were not competitive as compared to enterprises from other transitional countries. This resulted in a big rise of unemployed in the overall population. The situation further deteriorated with the arrival of nearly 700,000 refugees and internally displaced persons from B-H, Croatia and the Autonomous Province of Kosovo and Metohija, which accounts for almost 10% of Serbia's population.

After democratic changes in Serbia in October 2000 citizens faced the long hidden truth on the gravest economic and social crisis in recent history. Under such extremely unfavourable conditions, the democratic government had to launch intensive legal, economic, financial and social reforms, with a clear intent to compensate for the years-long lagging behind in implementing transitional processes and establishing a market-oriented economy and a democratic political system. Many of these processes, above all the restructuring of economy, shutting down of companies with great and irrecoverable losses, adjusting to tough conditions of international competition, are quite complex, opening new social problems and generating new poverty forms and new regions of poverty, since they inevitably lead to unemployment.

At this point, unemployment is one of the greatest Serbia's economic and social problems. The overall number of persons seeking employment in 2005 was 991,807, while, according to the Labour Poll⁹, the unemployment rate was 20.8% or 21.8% (persons of working age – from 15 to 64 years of age). This situation is a direct result

⁹ There are two unemployment rates based on different sources – the internationally comparable Labour Poll of the Republican Statistics Office and the records of the National Employment Service. Bearing in mind the fact that the figures from the Labour Poll are internationally comparable, it was this source that was used for the purposes of this text.

of the fall of production in 1990's and of the use of the labour market for solving social problems by employing more workers than was really needed. Moreover, restructuring and privatisation have led to even higher unemployment within a short time period. At the same time, there is a need to improve economic efficiency and transform Serbia's economy into a competitive, market-oriented and knowledge-based economy.

The problem of unemployment worsened in the transition period, as shown in Table 8. The indicator showing that Serbia's unemployment rate has been incessantly rising since 2001 is particularly unfavourable. The unemployment rate is relatively high when compared to the EU member countries (with the average unemployment rate of 8.7%) and with some neighbouring countries, like Croatia and Bulgaria (with the average unemployment rate of 13.8% and 9.9% respectively). In addition, during economic restructuring, "hidden" unemployment has come to the surface, while ownership transformation has led to faster dismissal of labour. Serbia has not fully completed the process of privatisation or restructuring of the selected enterprises. The completion of this process imposes an extremely difficult additional task upon the state – in other words, in order to fully eliminate social ownership, enterprises which are not privatised will end up as state property and the state will have to make a tough choice – to close down unprofitable enterprises and sell their assets (whose value cannot be significant), thus additionally increasing unemployment. Although Serbia has high economic growth rates, they are still insufficient to solve unemployment problems faster and more successfully. **It is for these reasons that further growth of unemployment and high poverty rates are expected in the following period, which will be particularly pronounced in some regions.** According to the World Bank studies for 2005, at this moment 800,000 people or 10.5% of the population in Serbia live beyond the poverty line. These indicators could become even worse, in view of the fact that a large part of Serbia's economy has not been privatised yet; there are 5,000 different enterprises employing 630,000 workers to be privatised in the future. This means that a new big challenge for Serbia will be to prevent new poverty arising from the economy's restructuring. With the existing institutions and economic structure, it will be difficult to endure the strong social pressure of new unemployment. Moreover, in the years to come, the overall reduction of unemployment will largely depend on a considerable increase of investment in the private sector, for the new employment rate to be higher than the dismissal rate resulting from restructuring.

Table 8: Unemployment rate between 2000 and 2005

	2000	2001	2002	2003	2004	2005
Unemployment rate according to the National Employment Service (%)	25.6	26.8	29.0	31.7	31.7	26.8
Unemployment rate according to the Labour Poll (%)	12.1	12.2	13.3	14.6	18.5	21.8

The unemployment rate calculated according to the figures of the National Employment Service (26.8%) is significantly higher than the figures from the Labour Poll (21.8%). This can be explained by different definitions of employment and unemployment, as well as by the fact that the records of the National Employment Service also include the persons who are not actively seeking employment and who get registered only to have access to other social benefits. On the other hand, the figures from the Labour Poll¹⁰ include in the category of the employed the persons working in the informal sector¹¹.

Not only is the number of the unemployed in Serbia high, but it is their structure that is very unfavourable as well, being characterised by the following:

- a high share of long-term unemployment of around 79% in the overall unemployment; there is a danger for these persons to become inactive in seeking employment, thus being an additional burden for social funds. Moreover, long-term unemployment leads to obsolete knowledge and skills. Due to long-term unemployment and the bad system of life-long education, some 30% of qualified labour is not competent enough to do their jobs, particularly in the case of those who have a little or no work experience at all;
- a high share of young people in the category of the unemployed; the unemployment rate for young people (15-24 years of age) amounted to

¹⁰ It is considered that the National Employment Service's figures overestimate real unemployment since the persons working in the informal sector, in other words persons who are not unemployed, are strongly motivated to register with the National Employment Service- to exercise the right to health security, various social benefits, etc. On the other hand, the figures from the Labour Poll underestimate unemployment since even those who work only an hour a week are considered employed. It would be probably correct to consider these two unemployment rates as the upper and the lower limit of real unemployment in Serbia.

¹¹ The division into the formal and informal sector is used in this document under the National Employment Strategy.

47.7% in 2005, which is even three times higher than the average unemployment of this age group in the EU (around 18.5%). This potentially means their leaving the country and going abroad, particularly in the case of young people with university degrees;

- a relatively high share of unqualified people in the overall unemployment; persons with secondary education, who account for some two-thirds of the overall number of the unemployed (66%), have the biggest share in the overall unemployment in Serbia. In addition, persons with elementary education account for 19.4% of the overall unemployment;
- a relatively high share of unemployed women; women account for some 55% of the overall unemployment- in other words, female unemployment rate is 27.4% as compared to the male employment rate of 17.6%. Furthermore, persons belonging to this category have low wages due to lower qualifications and short years of service.

Under the Poverty Reduction Strategy, the most vulnerable population categories are refugees and internally displaced persons (some 500,000 people), the Roma (around 108,000 people) and the handicapped (around 350,000 people). These three vulnerable categories include nearly one million people and their common characteristic is wide unemployment and insufficient educational level. Until October 2000 these population categories had not been given adequate attention, partly due to material problems, but partly as a result of negligence; in other words, their human rights were neglected and as a result their problems have multiplied in time. Therefore, the third objective of the Poverty Reduction Strategy is the efficient implementation of the existing and the definition of new programmes, measures and activities to enable equal access to employment, education, health and utility services for these categories of people.

Weak job opportunities and a general economic and social decline resulted in great migrations of the youth to other countries in 1990's, but also after the year of 2000. At this point, there is a huge "demographic hole" in Serbia in the population between 25 and 35 years of age, which is the most vital part of the population, since many young people of that age left the country to live abroad. A particular problem in all that is the migration of high quality people – around 20% of the best students leave Serbia in the course of their education or afterwards; some of them leave the country after elementary school, but most of them do it after secondary, post-secondary or university education. A very small part of them ever return to Serbia.

The share of the self-employed in the overall employment is very low – about 5%, which is considerably lower than that in advanced transitional countries (over 10%) or in developed countries (OECD- around 15%). The reason for this is a relatively low level of development of small-size and medium-size enterprises and a high level of “grey” employment in them. Apart from that, there is a very low share of flexible employment forms (e.g. part-time employment, temporary employment)- 1% in the overall employment, although they could be an important employment channel for women and the youth, the categories which suffer the adverse effects of unemployment more than any other category of the population. Finally, it should be said that the employment rate of people between 30 and 49 years of age is some 75%, which means that in Serbia every fourth inhabitant of the most productive age is unemployed.

Due to meagre possibilities to find employment in the formal sector, a large number of people have found jobs in the informal sector in order to earn their living. Estimates on the share of grey economy in GDP differ a great deal, ranging from 25% to 45%. Some of the people employed in the informal sector are faced with uncertainty, absence of pension and health security, while the state is deprived of a considerable portion of tax revenues.

The main problems and, at the same time, challenges in the labour market should be seen from two aspects. Firstly, the insufficient inflow of foreign direct investment affects the number of new jobs, leading to weaker labour demand as compared to labour supply. Secondly, there is structural incompatibility in the labour market and the educational system is not harmonised with economic needs.

Furthermore, in addition to high unemployment, some of the key characteristics of Serbia’s labour market are high hidden unemployment, a low share of employment in the private sector and a very low mobility of labour.

Since 2001 many jobs have been abolished in the enterprises undergoing privatisation and having surplus labour. Apart from that, many employed people are only formally employed as they work in the enterprises which still exist only owing to the slow process of restructuring and the state budget subsidies. There are around 100 such enterprises (including dependent ones), with over 120,000 workers. Most of them are so-called “big systems” that are essential for the towns or entire regions in which they are located. Only 15 such enterprises have been restructured or sold so far (including dependent enterprises in the “system”). At the same time, the new private sector, which could absorb surplus labour, has not been strengthened. The slow development of new companies is due to an investment climate which is still not

favourable enough – i.e. due to slow transition, regulatory and economic-political weaknesses, as well as big outstanding political issues, such as state borders, cooperation with the Hague Tribunal, etc. In view of that, it could be concluded that employment will significantly drop in the next period – when restructuring intensifies and enterprises start dismissing surplus labour more radically.

Formal education does not enable people to acquire necessary skills in order to be immediately included in the work process as the newly employed. This means that, on the one hand, huge budget resources are spent, while on the other, companies invest time and money in training programmes, additional training and in including the newly employed in the work process, which makes labour either less competitive or more expensive due to required additional qualifications. A situation like this also leads to a supply and demand imbalance in the labour market. The reason for this primarily lies in insufficient coordination between the educational system and the labour market needs, particularly in the case of secondary vocational education. There is also a problem of obsolete skills after years-long unemployment. It is necessary to alter and define educational profiles to make them compatible with changed economic needs and to enable the acquisition of practical skills. Unless this is done, persons that complete formal education¹² might find it impossible to get a job because they lack necessary knowledge and skills. In the process of educational reforms all social partners must act jointly and with responsibility: educational institutions, the state, employers, employers' associations, the non-governmental sector and other stakeholders. An efficient system of education and life-long learning could contribute most to this goal. In the widest sense, traditional boundaries between academic knowledge and professional-technical skills, formal and informal education, vocational training, etc, should be eliminated.

Furthermore, a low and inadequate level of education has been identified as one of the main reasons for poverty in the Republic of Serbia. Therefore, there are two essential things to be done: to increase employment opportunities by improving the educational level of the population and to promote the efficiency of the educational system by adjusting it to the labour market needs.

Consequently, the economy will be more competitive, which will create new jobs and promote the standard of living. The chief factors of competitiveness in the global economic development are knowledge and its implementation, which, again, ensures innovative products, processes and services. In addition to the reforms of education

¹² Informal education (state and private) includes training, seminars and courses.

and the employment policy, one must not forget the need for continued support to projects linking the economy and the development sector and promoting research in this connection, strengthening the infrastructure to make this link possible (business incubators¹³, technological parks, technical relay centres), or the need for incentives aimed at improving the innovative basis in the corporate sector itself. Under a recent study, resources allocated for research and development in enterprises amount to 0.13% of the turnover and are mostly used for purchasing new equipment and organising training on its application. The development of new products, processes and services is negligible. It is necessary to encourage projects which will support enterprises in technology transfer, in developing new products, processes, services, organisational methods and structures, as well as instruments for horizontal and vertical linking of enterprises aimed at strengthening their capacities to increase innovativeness and productivity (clusters).

In the previous period, the Government adopted a series of measures and activities aimed at promoting employment. The most important strategic document addressing this problem is the National Employment Strategy- 2005-2010. On the basis of this Strategy, a National Employment Action Plan (NEAP) for the period between 2006 and 2008 was adopted to establish operational measures for implementing the National Employment Strategy. Under the NEAP, the Government plans to realise the following already initiated measures by the end of 2006:

- activities related to the “Job Club” and job seeking programmes for almost 76,000 persons,
- programmes of further education and training for 12,800 unemployed persons,
- subsidies for 6,100 volunteers who wish to employ trainees,
- training organised by the Labour Market for over 6,000 unemployed persons,
- employment and entrepreneurship development programmes for 8,000 persons,
- entrepreneurship training course for almost 1,500 unemployed persons,
- self-employment and subsidy-supported programmes for over 4,000 persons,
- regional programmes for 2,500 unemployed persons,

¹³ A form of support for small-size and medium-size enterprises, which means professional and financial assistance in setting up and developing such enterprises up to the point when they become ready to participate in the market independently

- subsidies for employing 200 handicapped persons, and
- public works for 3,000 unemployed persons¹⁴.

With organising basic functional adult education and co-financing the employment of graduates, the overall number of unemployed persons that could be offered to participate in activation programmes will rise to 100,000. In 2006 the Government allocated 1.3 billion dinars for the labour market active policy measures. Resources earmarked for active employment measures in Serbia account for 0.07% of GDP, which is ten times lower as compared to developed countries; it is, therefore, necessary to increase the share of international assistance to be able to efficiently implement these measures. Direct employment growth measures will be related to tax relieves for employers, more favourable financing of small-size and medium-size enterprises and entrepreneurship, tax reduction based on social insurance expenses paid by the employer. In 2005, the National Parliament adopted a new Labour Law which retained the flexibility of the former law while introducing certain benefits for the employed, such as larger severance pay for dismissed workers, more complicated dismissal and payroll accounts procedures. In the next period, new provisions regulating different forms of labour should be incorporated in the Labour Law – part-time jobs, employment for a specified time period, temporary jobs, working for several employers, etc.), which would have a positive effect on employment growth.

Apart from that, a Strategy of Changing the National Employment Service (NES) for the period between 2005 and 2008 was adopted. Under this document, there are three vital objectives to be implemented by 2010: to develop a client-oriented service, to decentralise the NES, to develop the monitoring and evaluation of the measures and activities aimed at higher employment, to promote an adequate labour market information system. The Poverty Reduction Strategy defines national priorities – among other things, faster employment and better access to education as instruments in reducing poverty. The Development Strategy for Small-Size and Medium-Size Enterprises envisages an increase in the number of these enterprises from around 270,000 (2003) to 400,000 by late 2008.

The unemployment problem can be settled only through creating new jobs, adjusting labour supply to modern production requirements and through improving the quality of work. Increasing foreign direct investment will have a particularly strong effect on the growth of employment. As of October 2000 to date, the overall value of foreign

¹⁴ Source: www.espsrbia.org

direct investment has exceeded 7.6 billion US\$, with the largest inflow (some 50% of the overall inflow) in 2006. Due to the promoted investment climate, a larger inflow of greenfield investment, which is the main factor in generating new employment, is to be expected in the years to come. In order to attract the investment of the diaspora, the Ministry for Diaspora was set up, among other reasons, to motivate our fellow countrymen living and working abroad to invest money in projects in the Republic of Serbia. The future establishment of a free trade zone in South-East Europe may also affect the employment growth, as it will prompt trade and investment. A large number of people will have to be trained to work in a new privatised economy, holding posts in a changed production and service sector. Larger resources should be allocated for the training and education of under-qualified labour and for the additional qualification of employees of small-size enterprises, since they do not have enough resources to do that on their own. Significant economic and social interventions will be needed, particularly in the regions with an outdated economic structure and markets with no perspective. Considerable financial resources are a necessary but not sufficient precondition.

This is why a sufficiently high GDP growth rate will have to be achieved in the years to come, to enable bigger labour supply. **It is important to stress that in order to solve the unemployment problem, there has to be coordination of educational, social, tax, cooperative, regional and other policies.**

Priority objectives in this field in the medium-term are as follows:

- strengthening active employment measures;
- strengthening labour market institutions; in coordinated efforts of all stakeholders, the employment service should be reformed to ensure a better quality service to unemployed persons and employers;
- reducing and preventing long-term unemployment;
- reducing the share of the youth in the overall unemployment;
- increasing the employment of vulnerable groups and ethnic minorities (the handicapped, the Roma, refugees and displaced persons) through special programmes intended for these groups;
- promoting different forms of labour (part-time jobs, employment for a specified time period, temporary jobs, working for several employers, etc.) in the overall employment;

- overcoming lack of coordination between education and the labour market needs;
- promoting the quality of education;
- motivating the youth for professional development and additional education and harmonising local degrees and qualifications with international standards, as well as diversifying institutional forms and models and programmes and methods of work;
- reforming the curricula in order to accommodate functional, computer and technological literacy requirements;
- including vulnerable groups and persons with special needs in the educational system;
- developing an educational system based on the philosophy of life-long education.

In order to realise the above objectives, strong international support is needed.

In this context, priority measures/activities through which these objectives should be realised in the medium-term were defined.

Table 9: Priority measures/activities aimed at implementing medium-term objectives in promoting employment and reducing the unemployment rate

Objectives	Measures/activities
<i>Implementing active employment measures and encouraging the development of the private sector</i>	<ul style="list-style-type: none"> - reducing surplus labour through severance pay, training and self-employment; - strengthening local-regional structures for the development of small-size and medium-size enterprises and entrepreneurship; - developing industrial parks; - setting-up and supporting business incubators; - elaborating, adopting and implementing the national economic development strategy; - ensuring loans for the development of economy (micro-credits, loans directed through the Development Fund), and especially establishing a <i>start-up</i> credit fund; - attracting foreign investment (establishing a fund for encouraging foreign investment, removing obstacles to foreign investment); - incentives for increasing competitiveness, productivity and export performance of enterprises;

	<ul style="list-style-type: none"> - employment within public works; - transforming passive measures into active ones (the voucher system, etc.);
<i>Strengthening labour market institutions</i>	<ul style="list-style-type: none"> - implementing the Strategy of Changing the NES for 2006-2008); - developing an employment information system; - developing professional guidance and counselling centres for unemployed persons; - establishing and strengthening local employment councils; - establishing a single records system in the field of labour and employment;
<i>Reduction and prevention of long-term unemployment</i>	<ul style="list-style-type: none"> - subsidies for employing specific categories of unemployed persons amounting to the value of contributions for mandatory social insurance paid by the employer; - strengthening cooperation between the NES and employers in order to establish the number and structure of vacancies and to include long-term unemployed persons in active employment seeking programmes.
<i>Increasing the share of the youth in overall employment</i>	<ul style="list-style-type: none"> - implementing the Youth Employment Action Plan between 2007 and 2009
<i>Increasing employment of vulnerable groups</i>	<ul style="list-style-type: none"> - implementing the National Employment Action Plan for 2006-2008, with a special emphasis on risk categories (women, older than 45/50, the handicapped, refugees, displaced persons and minorities); - increasing capacities of enterprises for training and employing handicapped persons in the labour market.
<i>Encouraging <u>various</u> labour forms</i>	<ul style="list-style-type: none"> - establishment and operation of organisations (agencies) for temporary employment
<i>Reforming secondary and post-secondary education in order to overcome lack of coordination between education and labour market needs</i>	<ul style="list-style-type: none"> - rationalisation and regionalisation of secondary vocational schools network; - defining a system through which new profiles will be introduced; - defining the system of practical work in secondary vocational schools.
<i>Reforming higher (university) education and implementing the Bologna Declaration</i>	<ul style="list-style-type: none"> - establishing a National Agency for European Educational Programmes; - implementing specific programmes of the Agency; - developing and promoting cooperation with international educational institutions.
<i>Improving the quality of education</i>	<ul style="list-style-type: none"> - reforming and rationalising the curricula; - establishing quality standards in research and teaching; - technical modernisation of the educational infrastructure.
<i>Developing an educational system based on the concept of life-long education and improving the adult educational system</i>	<ul style="list-style-type: none"> - stimulating employers to invest resources in promoting the skills of their employees; - developing re-qualification, re-education and training programmes, particularly for surplus labour within the restructuring

	process.
<i>Including vulnerable groups or ethnic minorities and persons with special needs in the educational system</i>	<ul style="list-style-type: none"> - implementing projects and programmes aimed at supporting the Roma integration in the local community; - implementing specific seminars and training for teachers to instruct them how to work with children with special needs; - elaborating strategic documents, laws and by-laws under international standards.
<i>Stable functioning of the educational system</i>	<ul style="list-style-type: none"> - establishing and implementing a new model of financing of educational institutions; - developing an autonomous private sector in education.

In order to implement the mentioned measures/activities, it is necessary to ensure cooperation and coordinated work of the Ministry of Economy, the Ministry of Labour, Employment and Social Policy, the Ministry of Finance, the Ministry of Education and Sports, the National Employment Service and of other relevant institutions at the central and local level. At this moment, Serbia has limited resources in its budget for implementing the above activities, so that international financial assistance will be of vital importance in this sense.

2.2. Building and strengthening institutional capacities

Over the past five years of the implementation of social and economic reforms in the Republic of Serbia, the insufficient capacity of the *public administration* appeared as a bottleneck in this process, for it was not strong enough to meet the growing demands in the field of economic and social reforms and was more of an obstacle than an incentive to faster economic and social development and the EU accession process. The most usually stated *reasons for inefficiency* and bureaucratic obstacles were the following: inadequate legal structure, the absence of regulatory bodies, a poorly educated, underpaid and unmotivated public administration, the lack of communication and dialogue between the authorities and a private sector in the making. A strong and efficient public administration is also needed in order to provide the necessary legal framework and ensure the implementation of key development goals, namely, democratisation of society, development of civil society and non-governmental sector and respect for human and minority rights. The reform of public administration in other countries in transition also lasted longest, but the Republic of Serbia, being the last to embark on this process, must make it an imperative to implement changes rapidly.

Building and strengthening institutional capacities is a prerequisite for the Republic of Serbia to achieve the majority of its strategic goals that can be summarised in the overall economic development, establishment of the rule of law and the increase of social wellbeing in the forthcoming period, as well as successful implementation of the European integration process. For that purpose, at the proposal of the European Integration Office and the Ministry for Public Administration and Local Self-Government, the Government adopted in mid 2006 an Action Plan for the strengthening of institutional capacities in order to enable them to assume their commitments in the European integration process. The aim of the Action Plan is to offer a comprehensive overview of all priorities and to support a coordinated and planned strengthening of public administration capacities for assuming the commitments stemming from the EU accession process. This document is building on an already adopted Public Administration Reform Strategy in the Republic of Serbia and the Serbian National Strategy for the Accession to the EU and its aim is to concretise priorities defined in this and other relevant documents and in establishing institutional measures for their implementation. The document takes as a point of departure the existing legal and institutional framework and the reform measures already taken. For that purpose, the key laws and by-laws concerning the public administration system adopted by the end of 2005 are listed, the most important of which are: The Law on Government, The Law on Public Administration, The Law on Civil Servants, the Law on Public Agencies, the Law on the Protector of Citizens, the Law on the Prevention of the Conflict of Interests in Discharging Public Offices, The Law on Free Access to Information of Public Importance and other, followed by a number of by-laws for the purpose of their concretisation and implementation. All these laws along with some other have provided for the establishment of an adequate legal framework that enables the pursuit of aims of building up a professional, depoliticised and decentralised public administration. *The Public Administration Reform Council* supervises the reform of public administration. It is chaired by the Prime Minister and its members are: Vice Prime Minister, Minister for Public Administration and Local Self Government, Minister of Finance, Minister of Justice, Minister of the Interior and the Director of the Republic Secretariat for Legislation. At the operational level, the management of the public administration reform is entrusted with the Ministry of Public Administration and Local Self Government.

With regard to future activities to be carried out in connection with strengthening institutional capacities, the most important ones will be those concerning the

completion of legislative reform, further reform of public administration as well as strengthening institutional capacities across all ministries, directorates and specialised organisations forming the system of public administration.

Legislative reform primarily implies harmonisation of domestic regulations with the EU legislation. It is, therefore, necessary to adopt a series of reform-oriented laws in all fields. In February 2005 the Government adopted its third Action Plan for the harmonisation of the Republic of Serbia's regulations with those of the European Union. The Action Plan envisaged harmonisation of 41 laws either by adopting new ones or by amending the already existing ones. However, this process is rather slow. Out of the envisaged 41 laws to be harmonised according to the 2005 Action Plan, the Government adopted 14 and the Parliament 10 by the end of 2005. In addition to a slow progress in law adoption, it should be pointed out that the harmonisation process does not end with the adoption of new laws that are formally or normatively sufficiently harmonised with the EU regulations, but it is also necessary to provide conditions and institutional capacities for their implementation or enforcement through the judicial or administrative bodies. In order to speed up the harmonisation process, it is necessary to continue the already initiated systematic translation of *acquis communautaire*, improve harmonisation mechanisms (i.e., introduce other mechanisms in addition to the Statement on Approximation) and ensure a continuous support to the law implementation (namely, by strengthening certain institutions, providing training courses for the employees etc.) The Action Plan for Harmonisation with the EU Legislation for 2006 was adopted on 29 March 2006 and it contains a table of 43 laws whose adoption is recommended by the European Partnership, as well as the laws contained in the 2005 Action Plan that had not been enacted and those that, according to the opinion of line ministries, constitute a priority for current year in the process of harmonisation with the EU legislation. The Plan contains an explanation of the necessity to draft new laws, determines the ministries responsible for their drafting, sets an approximate deadline for the Government to adopt these draft laws and states the names of persons directly responsible for drafting the text of each particular law.

The upgrading of the public administration system in the Republic of Serbia is carried out in keeping with the adopted laws and by-laws and the Public Administration Reform Strategy for the Republic of Serbia. *The Law on Public Administration* ensures the implementation of all key principles contained in the Public Administration Reform Strategy of the Republic of Serbia while *the Law on Civil Servants* regulates the status of civil servants and defines specific duties, rights and

responsibilities and principles for the beginning and termination of employment. The Law on Civil Servants has provided for the establishment of a *High Civil Service Council* as a body that should determine the knowledge and skills required for the work in public administration, as well as the manner of their verification, and should define a code of conduct for civil servants. A Decree on the establishment of a *Human Resources Office* assigned with the management of human resources and the development of civil service system as a whole has been adopted. *The Public Administration Reform Strategy in the Republic of Serbia*, as adopted by the Government in November 2004, aims at ensuring high quality of services rendered to the citizens and the establishment of a civil service that will significantly facilitate the exercise of rights of the citizens and the discharge of their obligations provided by law and at the same time will contribute to the development of economic potentials of the Republic of Serbia. *The Action Plan for the implementation of public administration reform* is a part of the Public Administration Reform Strategy of the Republic of Serbia. Implementation of the Action Plan, sets out concrete plans and deadlines for the implementation of the public administration reform between 2004 and 2008, and creation of a new legal framework is of the particular importance. *The Public Administration Reform* has to be in line with the general principles of the European administrative framework, i.e.: rationalisation, modernisation, decentralisation, accountability and expertise. Under the auspices of the Ministry for Public Administration and Local Self Government and with donors' financial support, several reform-oriented projects were implemented in the previous period. They were primarily directed towards strengthening technical capacities and human resources of the Ministry and of several municipalities. Basic and advanced training of employees were deemed priorities in the first phase of public administration reform. In order to ensure the continuous implementation of reforms, mechanisms for permanent and perpetual training of civil servants must be put in place. The most cost effective way of achieving that goal would be to establish a single *training centre* that will provide the highest quality of education. For the purpose of building up a modern, efficient and cost-effective civil service a *pay system reform* is underway. Its aim is to establish a fiscally sustainable pay system which is awarding employees in accordance to the scope, complexity, responsibility and contribution to the overall efficiency and performance of all government bodies. *Rationalisation* implies an optimal organisation of public administration that provides satisfactory quality of services with the minimal number of service providers and reduction of the overall costs of labour. Legal framework will be continually upgraded to create new institutional framework of providing public services, such as regulatory bodies and

public agencies which will assume implementing tasks of the public administration. These tasks will be gradually and orderly transferred to them. *The principle of modernisation* refers to technical-technological modernisation of work of public administration bodies using state-of-the-art information and communication technologies. For that purpose, single database will be created and used. A single communication system will be established between public administration bodies across the country. E-business and e-signature will become operative. Investing in modernisation requires substantial financial resources, but, it at large contributes to the reduction in the labour costs. Introduction of information technologies in the work of public administration at central and local levels will be carried out through the establishment of a common information system as defined in the draft *National Strategy for the Development of Information Society*. Administrative *decentralisation* will develop gradually, in line with the basic principles and models set in Public Administration Reform Strategy and transfer of fiscal revenues in line with the existing and future legal framework regulating this subject. Fiscal decentralisation means that local authorities should pursue the policy of public expenditure and public revenue that best suits citizens' needs, while at the same time assuming responsibility for the quality of services and optimal costs. Fiscal decentralisation will be based on clear definition of duties and responsibilities between different levels of government, transparent and stable distribution of fiscal funds, autonomy of the local government at the revenue and expenditure side and the establishment of relevant institutions that are administratively and technically equipped for efficient execution of tasks and responsibilities. Delegation of the tasks and fiscal decentralisation require sufficient human and financial resources to enable the local self government to be independent in taking over new competences.

For the purpose of further improvement of administrative procedure of the public administration bodies and the control of legality and regularity of their work, in 2006 the Ministry of Public Administration and Local Self Government will finish drafting of the new Law on General Administrative Procedure which, among other things, also contains provisions on the control of work of public administration and a Draft Law on Administrative Proceedings providing for the judicial control of the work of public administration. A specific aspect of external control of the work of public administration will also be provided by the Law on the Protector of Citizens. This will ensure that the complete *control mechanism of public administration* is put in place.

The greatest problem in the forthcoming period will be the implementation of already enacted regulations and strategies and even the change of the (general) education.

For the purpose of *implementation* it will be necessary to expedite *specific forms of trainings*, intensify *inter-ministerial coordination and that between different levels of government*, improve *the work of inspections* and ensure *political will* for the implementation.

Within the reform of public administration, special attention should be paid to the development of *local government institutions*. For that purpose it is necessary to strengthen the capacities of local self government units in charge of strategic and operational planning, implementation of decentralised competences, management of funds etc. Given that joining the EU is one of the strategic goals of the Republic of Serbia, building and strengthening capacities of all institutions directly involved in this process is one of the priorities. It is of particular importance to set up and strengthen European integration units across all institutions, keeping in mind their importance for efficient use of the EU pre-accession funds. If necessary, the new independent bodies/agencies will be established to enable proper implementation, monitoring and reporting on the use of the EU assistance.

European Partnership clearly underlines that the success of the EU accession process fully depends on the reform of public administration. This document, therefore, identifies public administration reform as one of six key short-term priorities. Mid-term priorities defined in this document concerning public administration sector are the following: strengthening the European integration units across ministries, full implementation of the Law on Public Administration and the Law on Civil Servants, strengthening human resources capacities within public administration, the establishment of a centralised payroll processing system as well as the adoption and implementation of reforms aimed at decentralisation in order to strengthen local government capacities.

Poverty Reduction Strategy recommends establishment of a transparent legal and institutional framework suitable for economic development. This framework implies institutional capacity building to promote and ensure competitiveness, removal of administrative barriers to the development of private sector at the Republic and local level as well as greater participation of local self government bodies in the creation of environment favourable for local/regional economic growth, paying due attention to competitive advantages and social and regional limitations and challenges. This concept includes continuous cooperation between local authorities in developing strategic frameworks (socio-economic plans/local poverty reduction strategies/local sustainable development strategies etc.) and support to the structures for the increase of employment rate and a balanced socio-economic growth.

By summarizing the above mentioned problems and the actions to be taken in that regard, the following would be the goals in the field of building and strengthening institutions and their capacities:

- Continuation of the process of the *harmonisation of legislation* – namely, to proceed with all activities already initiated, to improve harmonisation mechanisms and to draft a National Plan for the adoption of the *acquis communautaire* which would set deadlines for the harmonisation of all remaining processes and sectors;
- *public administration reform*, by implementing laws and by-laws and all strategic documents adopted in the previous period;
- *strengthening institutional capacities* across all ministries, directorates and specialised organisations that are part of the public administration as well as across local self government bodies and judicial institutions.

In implementing priorities of building and strengthening institutional capacities, the international support will be of particular importance. It is expected to be provided in the form of grants, while the modalities for extending the support may be in the form of technical assistance, “twinning” projects, study tours, workshops, seminars etc. In keeping with the stated priority sectors, programmes and measures have been identified, as is shown in the following table¹⁵

Table 10. Priority measures/activities necessary for the implementation of mid-term goals in the field of building and strengthening institutional capacities

Goals	Programmes(measures/activities)
<i>Legislative reform</i>	<ul style="list-style-type: none"> - completion of a number of reform laws and the harmonisation of legislation with the EU regulations and with the new Constitution of the Republic of Serbia; - drafting of a National Plan for adoption of the <i>acquis communautaire</i>; - strengthening capacities for the regulatory impact assessment
<i>Public administration strengthening</i>	<ul style="list-style-type: none"> - support programmes for the implementation of laws and strategy documents (strengthening institutions, training courses, seminars); - support to the implementation of the Public Administration Reform Strategy in the Republic of Serbia; - improvement of the organisational efficiency of the work of public administration and further implementation of information technologies (and, for that purpose, support to the implementation of the development of the Information Society strategy); - measures for strengthening human resources capacities in public administration (strengthening Human Resources Office and the High

¹⁵ Priorities in the field of institutional strengthening within individual sectors are listed in Part 3 of this document, within an overview of priority programmes of activities by sectors while this chapter is treating only general (horizontal) goals/measures whose implementation concerns several departments/institutions as well as the building and strengthening of independent government institutions.

	<p>Civil Service Council);</p> <ul style="list-style-type: none"> - building and strengthening the European integration units across all institutions, strengthening capacities of the EU Integration Office and the establishment of institutional and human capacities for the management of EU funds; - endorsing European standards for regional politics for the purpose of using structural EU funds (including the introduction of the NUTS territorial classification) - strengthening institutions for fight against corruption, prevention of money laundering; fight against organised crime; - improvement of the statistics system of the Republic of Serbia; - upgrading the institutions for the protection of intellectual property and increasing the level and quality of protection; - higher quality of services rendered by the public administration and improvement of their work control mechanisms (administrative inspection, inspection in the field of agriculture, trade, tourism, environmental protection, border inspection services etc.); - support to strengthening the Ombudsman institution; - improvement of the quality infrastructure (completion of legal and institutional reforms concerning standardisation, accreditation and certification systems for products and services); - support to the work of the Council and the Commission for the protection of competition; - establishment of a state audit institution; - strengthening technical and human resources capacities within institutions for the purpose of implementing the Integrated Border Management Strategy;
<p><i>Institutional strengthening at the local level</i></p>	<ul style="list-style-type: none"> - strengthening local self-government units for the management of resources from European funds; - improvement of organisational efficiency of local self-government and its technical capacities; - taking measures for the purpose of strengthening human resources of local self-government, in particular, for the introduction of the function of planning; - better quality of services and the improvement of work control mechanism; - creating conditions for efficient decentralisation (sufficient human and financial resources for the assumption of new competences).
<p><i>Institutional strengthening in the field of judiciary</i></p>	<ul style="list-style-type: none"> - support to the Judicial Reform Strategy; - support to independent judiciary (support to the work of the High Council of Judiciary) - support to the strengthening of transparency of judicial system (greater participation of public); - more efficient case management (introduction of new systems of organisation, modernization of certain systems and sub-systems, support to the Centre for Mediation) - standardisation of the training system and advanced professional training (establishment of a national judicial training institute, strengthening relations with the Schools of Law); - modernisation of equipment of judicial and penal systems;

2.3. Building, reconstructing and modernising the infrastructure

In the sense of the identified inter-sectoral priority for international assistance (including concession loans) – the building, rehabilitation, reconstruction and modernisation of the infrastructure encompasses the development of the local infrastructure as well as the transport and energy infrastructure of importance for regional and international connectivity. The development of the infrastructure represents an important factor and the impulse for general economic development. Offering quality and competitive services in terms of price can represent the generator of the significant growth of the GDP by those sectors, with additional effects on general economic growth and social development. This chapter is primarily focused on the present situation and priorities in the field of the physical infrastructure, while the institutional and legislative reforms and priorities are analysed within the framework of the third chapter – sector analysis and section 2.2. Institution and Capacity Building, while the priority projects in the fields of environmental protection in the sector of transport and energy are considered in the sections 3.6., 3.11. and 3.13.

Transport. The restructuring of the entire transport sector into a modern, safe and functional system represents one of the most important pre-conditions for balanced regional development and economic growth thorough utilization of the comparative advantages of certain areas in the sectors of tourism and agricultural. An adequate transport infrastructure is a significant factor in the efficiency of the entire transport system, but also the crucial pre-condition for achieving sustainable economic and social development of the Republic of Serbia.

The Republic of Serbia, with its natural-geographical position at the intersection of the transport corridors VII and X, offers the shortest and most rational transit connections between the countries of Central and Western Europe and the Far and Middle East. The adopted final report of the High Level Group¹⁶, established under the auspices of the European Commission, identifies five main multi-modal axes as the extension of the trans-European transport network (TEH-T) towards neighbouring countries and regions. The framework of the South-Eastern multi-modal axes incorporates the project proposals on Corridor X (road and railway), Corridor VII and

¹⁶ Report from the High Level Group chaired by Loyola de Palacio, *Networks for peace and development – Extension of the major trans-European transport axes to the neighbouring countries and regions*, November 2005

the multi-modal platform of the Belgrade metropolitan area. Also, on the bases of the REBIS Study (*Regional Balkans Infrastructure Study – 2003*), the Western Balkan countries signed the Memorandum on Understanding on the Development of the Main Regional Transport Network of South-Eastern Europe in Luxembourg on the 11th of June 2004. The main goal of this MoU is development of infrastructure and improving regional policy coordination in the field of transport through close cooperation of Western Balkan countries. The MoU envisages close cooperation of WB countries in harmonisation of procedures and technical standards and regulatory and administrative provisions which refer to transport in accordance with European Union standards and directives. To facilitate the implementation of the Memorandum on Understanding, the Transport Observatory for South-Eastern Europe (SEETO) with permanent secretariat in Belgrade was established. In April 2006, the first multiannual Development Plan of the Main Regional Transport Network of South-Eastern Europe was adopted which estimates the long-term investment needs for Western Balkan countries for the period 2006 – 2010.

The overall transport infrastructure in the Republic of Serbia is unsatisfactory. Main reasons are minimal investment in new objects and poor maintenance during the 1990's as well as the destructions on main routes during NATO shelling in 1999. The railway infrastructure is in particularly bad condition. It lags behind the standards of European countries regarding the electrification of the network, the length of the double truck railroads, maximal allowed speed etc. and thus requires huge modernisation¹⁷. In addition, the rolling stock is obsolete, insufficient in number and has a high level of immobility. In the sector of river traffic, the inadequate maintenance of the internal navigable routes during the 1990's exerted a crucial influence on the difficulties in the development of this kind of transport. In the sector of road transport, the biggest problems refer to poor maintenance and the need for the reconstruction of the existing and the building of the new road infrastructure and the low level of traffic safety on the road network. The development of multi-modal transport in the Republic of Serbia is at the very beginning, considering that there is not a single fully developed inter-modal transport terminal, and operating with containers is carried out only on the ŽIT Beograd terminal (the daughter company of Public Company Železnice Srbije) and in Belgrade's Port.

¹⁷ Only 32.7% of the network was electrified and as a consequence of the bad technical condition of the track a speed limit of 20-40 Km/h was introduced on 162 kilometres of the railway, which is more than 4% of its total length.

Starting from the European transport policy for 2010¹⁸, the Government is planning, with financial assistance from the EU, to continue the building of the road and railway infrastructure throughout the Republic of Serbia, as well as to establish the necessary conditions for uninterrupted navigation through the internal navigation routes, particularly on the Danube and Sava. In relation to the above mentioned, several studies, projects and tender documentation necessary for rehabilitation and upgrading of the transport network in the Republic of Serbia will be developed, such as clearing and eliminating the bottlenecks on the pan-European Corridor VII as the most important navigation route, the reconstruction and increase of the capacity of the railway Corridor X and the increase of the capacity of the road Corridor X.

The network of internal navigation routes in the Republic of Serbia represents one of the country's biggest socio-economic potentials, which have not been adequately used so far. The revival of the river transport stimulates the strengthening of cooperation in other economic branches (trade, tourism, environmental protection, etc.) and represents the key element of the socio-economic development not only of the Republic of Serbia but of all South-Eastern Europe countries. Connecting the Sava river with the Danube main navigation route and through it with the network of European navigation routes and the establishment of uninterrupted and safe navigation on those rivers, would establish better conditions for future regional cooperation and greater economic development. The establishment of a modern river information service would intensify the exchange of geographical data and establish closer cooperation among countries in managing the Danube navigable route.

The construction of the Belgrade – Southern Adriatic motorway and the reconstruction of the Belgrade – Bar railway are projects of exceptional regional importance. Through the reorganisation of the railway transport on the basis of the new Railway Law, the infrastructure would remain under state ownership, while the organisation and management of the transport would be liberalized and open for competition. For the route Pancevo – Timisoara a feasibility study is planned to consider development of a highway.

The strategy for the development of transport in the Republic of Serbia should be based on the concept of sustainable development (in regard to ecology, technology, financing and operability) and a multi-modal approach, which means the integrated planning of the development of the transport system and more efficient use of the advantages of each transport mode. In the forthcoming period the Government is

¹⁸ White Paper - "European transport policy for 2010 : **time to decide**" (COM 370/2001)

planning to intensify the restructuring process of the public companies JAT Airways, Aerodrom Beograd (Belgrade Airport), PTT Srbija (Serbian Post and Telecommunications), Železnice Srbije (the Serbian Railway Company) in which the pre-privatization phase has already been completed. Taking into consideration the high social and other expenses involved in the restructuring, international assistance will have a significant effect in this segment.

In addition to the large investments in building the transport infrastructure, it will also be necessary significantly to improve the management of transport on the existing network through introduction and development of Intelligent Transportation Systems (ITS). The introduction and implementation of information-communication technology in the transport sector would contribute to higher efficiency, the reduction of environmental pollution and the increase of the transport safety.

Energy. The National Parliament has adopted the Energy Law and the Strategy for the Development of Energy in Serbia until 2015. The Energy Law created the institutional framework for the energy sector and established two agencies as independent bodies in the energy sector: the Energy Agency (the regulatory body in charge of the improvement and direction of the development of the electricity market, monitoring the implementation of regulations and rules for the operation of energy systems, etc.) and the Energy Efficiency Agency (carries out expert jobs on the improvement of the conditions and measures for the rational use and saving of energy and power resources, as well as the increase of the efficiency of the use of energy in all the sectors of consumption). The Energy Agency will create the regulatory framework for the functioning of the energy systems, adopt tariff systems for regulated share of the energy market which will include calculation of the service price based on the justified costs of entities operating in the sector of energy, regulate natural monopolies-pricing and operations, ensure the transparent and non-discriminatory approach of the third party to the system, etc. As regards the restructuring of public companies, the most significant activity in the restructuring of the public company Elektroprivreda Srbije (JP EPS) is the Government's decision to establish two legally independent energy subjects, which commenced work on the 1st of July 2005: the public company Elektromreža Srbije (JP EMS), whose responsibilities are energy activities in the transmission of electricity and the management of the transmission system (the transmission system and market operator) and the public company Elektroprivreda Srbije (JP EPS) whose responsibilities are production and distribution of electricity, the management of the distribution system and electricity trade.

In the process of stabilisation and accession to the EU, the Government carries out the intensified regulatory, organisational and technical preparations for joining the regional and European energy networks. The Republic of Serbia is the signatory of the Treaty establishing the Energy Community in South-Eastern Europe, and its aim is establishment of the regional electricity and gas market and implementation of this Treaty demands close cooperation of a large number of institutions, particularly in the sector of energy, environmental protection, trade and market development, as well as significant activities and resources in order to fulfil the undertaken obligations. This is the first formal agreement which the Republic of Serbia has signed on a multilateral international-legally binding basis, with the European Union and other countries and territories in the region (Albania, Bulgaria, Croatia, Macedonia, Bosnia and Herzegovina, Rumania, Montenegro and the United Nations temporary mission in Kosovo and Metohija pursuant to the UN Security Council Resolution 1224). The Treaty came into effect on the 1st of July 2006, having been ratified by the European Union and six contractual parties. The National Parliament adopted the Law on the Ratification of the Treaty on the Establishment of the Energy Association on the 14th of July.

The establishment of the integrated regional electricity and gas market, predicted by this contract, is based on the following aims: the creation of a stable regulatory and market framework capable of attracting investments into the gas network, capacities for the electricity production and a transmission and distribution network, so that all signatory countries have access to a stable and constant supply of energy, which is of essential importance for economic development and social stability, the improvement of ecological situation regarding electricity and gas, energy efficiency and the promotion of the use of renewable energy sources. The Treaty predicts the implementation of the *acquis communautaire* in the fields of energy, environmental protection, renewable energy sources and competition with defined deadlines for their implementation. In connection with that, it is needed to provide significant financial resources for the required investments in the improvement of the existing capacities and the adaptation of regulations in the field of environmental protection, as well as in the improvement and building of new interconnecting capacities, which are the most important pre-condition for the establishment of an integrated energy market.

Activities on the development of the regulatory and market framework for attracting investments to the energy sector, with the special goal of stimulating the use of renewable energy sources and respecting European ecological regulations, are dealt

in the third chapter – the Mining and Energy Sector. Here we particularly point out the priority infrastructure projects for the forthcoming period, which are of regional/international significance:

- The construction of the pan-European oil-pipeline and the pipeline system for the transportation of oil derivatives
- The construction of the high- pressure gas pipeline in different directions
- The development of the electricity transmission system – the construction, extension or reconstruction of power stations, as well as the construction of new long distance power lines.

The National Action Plan for the Gasification of the Republic of Serbia has been adopted. The plan provides basic technical and economic data regarding the planned development of the gas system in the Republic of Serbia, as well as the plan of activities on adopting regulations in the field of gas. This document gives an estimation of the investment needs for the transport and distribution network according to municipality.

In addition to the revitalisation and modernisation of the existing transmission capacities, the development of the power transmission system must follow the growing need for electricity in the Republic of Serbia. For the period 2002 – 2015, the expected annual growth rate for the total consumption of electricity is around 1.8% and of the peak capacity 1%, even though the latest data exceeds those estimations. This estimation is conditioned on the economic growth in the Republic of Serbia and is established on the basis of the expected relatively stable annual growth in industry of around 5% and in the services sector of 6.5%, while because of the improvements to the tariff system and the correction of prices in the field of energy, as well as rationalisation because of the implementation of energy efficiency measures, a drop in the consumption in households is expected, with a return to the current level at the end of the considered period.

Analysis points out the evident inadequacy of the available production capacities to cover the consumption of electricity in the Republic of Serbia, thus the absence of the construction of the new production capacities would condition the import of electricity and with that the development of the transmission system in the direction of the best possible connections with the countries from the region. The synchronised work with UCTE (the Union for the Coordination of the Transmission of Electricity) provides undeniable benefits connected with the increase of possibilities for the exchange of electricity and lower risk regarding the procurement of electricity needed to cover part

of the shortages. The improvement of interconnections with neighbouring systems operators represents the pre-condition for the establishment, development and participation in the Regional Electricity Market of South-Eastern Europe which is established by the Treaty establishing the Energy Community, as well as in the pan-European electricity market. The central position of the power system of the Republic of Serbia in the region allows certain benefits to be drawn from the increased transit through the power system of the Republic of Serbia which, however, also creates new obligations. In addition, there is the permanent interest for some regional functions to be located in Belgrade (the function of the coordinator for the security of the inter-connective power system as well as certain accounting and regulatory functions on the regional market). Participation in the regional market conditions that the transmission system operator is organised as a company in accordance with European directives, guidelines and regulations, which was done in 2005. in accordance with the Energy Law.

That also means the introduction and preparation of all functions of the technical system for controlling the power system and objects. So far the functions of SCADA/AGS¹⁹ have been realised. Within the domain of dispatch²⁰ control it is necessary to complete the development of the control functions in real time (SCADA, AGS, the evaluator of the condition of the economic dispatch control, systems analyses) and to connect them in a unique consistent entirety, i.e. realise the control system with complete functionality, including the completion of the preparation of all systems of electricity objects for entering the TCS (technical control system). Apart from that it is also needed to integrate the developed functions of long and short term planning into a unified system. By connecting planning-analytical functions with functions of management in real time, it is needed to create a single and consistent dispatch control system, since that is prescribed by the organisation of the market depending on the time horizon for carrying out the energy transactions.

The telecommunications system is one of the most attractive fields for joint investments since most of the required infrastructure already exists. The construction of a modern telecommunication system facilitates not only the meeting of technical requirements, but also the provision of services to other beneficiaries and along with that the realisation of additional income. Within the domain of telecommunications, the main directions of development are the establishment of the telecommunications transmission network, the telephone network and the network of mobile radio

¹⁹ SCADA/AGC- Supervisory Control and Data Acquisition/ Automated Generation Control

²⁰ Automated control of the power system

connections, whereby the basis of the telecommunications system, the telecommunications transmission network, is realised through the optical transmission system and partially through directed radio-relaying connections.

The analysis of the development of the power transmission network was carried out in accordance with certain demands which refer to the increase of consumption in the power system of the Republic of Serbia, as well as with the conditions for the connection and the expected transit on the regional energy market. It was also taken into consideration that the region, in general, is likely to reduce production capabilities in the forthcoming years (closing down the old blocks in Kozloduj hydro power station in Bulgaria and unprofitable power stations in Romania, with the uncertain construction of new capacities). New capacities are expected in the Autonomous Province of Kosovo and Metohija, but their exploitation is still connected with a very high political risk (all completed analyses show that the power transmission system of the Republic of Serbia does not have adequate capacities for the evacuation of the expected 2100MW from the new power station from the area of the Autonomous Province of Kosovo and Metohija and the necessary expansion of transmission capacities can be determined only by a detailed study of the integration of these new power stations). In accordance with this, it is estimated that the deficit of electricity in the region is covered mostly by production from the Ukraine.

According to the Programme for implementing the Strategy for the Development of the Energy Sector, for transmission, the greatest part of investments in the next 10 years will be dedicated to the reconstruction of the existing objects, increasing the existing objects' voltage levels and building new capacities including new inter-connections, but significant investments will also be made in the IT sector and others:

Table 11. Investment and development plan by sectors and priorities (2005 – 2015)²¹

Summary table: Investment and development plan for the power transmission system (in € millions)					
Capital investment field:	Priority 0	Priority I	Priority I/II	Priority II	Priority
I. Transmission system	197,00	8,43	82,60	67,77	355,70
II. IT and Telecommunications	11,32	25,57	0,00	0,00	36,89
III. Other	11,04	0,00	0,00	0,00	11,04
Total	219,36	33,91	82,60	67,77	403,64

²¹ 0-II presents the priority marks for investments

Municipal and local infrastructure. Economic decline, starting from the 1990's, has also reflected the situation in the municipal and local infrastructure sector. Insufficient investment in the development of new, and the maintenance of existing objects and systems has resulted in numerous objects losing their projected performances, therefore the quality of the services they are supposed to provide has decreased. The economic-financial analysis of this sector emphasises three problems in particular:

- the tariff problem, i.e. the problem of the pricing of municipal services because households are still subsidised;
- the ownership structure, and particularly the organisation of the municipal systems is exceptionally economically irrational – there are a large number of small municipal companies which are unable to operate in an efficient way, which in turn results in very poor quality of services;
- the financial position of the municipal systems is very unsatisfactory– a large number operate at a loss, and investment capacity is minimal.

Ensuring that the public municipal companies are market oriented, independent and efficient is of crucial importance for the improvement of the municipal and local infrastructure, as well as the provision of quality services.

In the forthcoming period it is necessary to carry out activities to establish legal and institutional framework needed for the implementation of reforms in the water sector and the start of the investment cycle. Government's priority task is adoption of the Law on Waters and the related by-laws which has to secure its enforcement. This law is harmonised with European directives and establishes regulatory framework for public /private partnerships and introduction of economic criteria for management.

There are a total of 55 public municipal companies in the Republic of Serbia whose basic activity is the production and transmission of heat energy. The total installed heating energy in boiler units is 6600 MW, which makes heating plants a significant segment in the country's energy system. The age of the equipment tells us the most about the current state of this system: the average age of the boilers is 28 years, the transmission system 20.6 years and the substations 20.5 years. The revitalisation of the district heating system is essential due to its age. Implementation of modern solutions will provide reliable work and positive effects from the standpoints of energy savings and on the ecological side too. The preconditions for that are quality and well developed projects and the change of the tariff policy (introduction of measurement) in order to attract investors and to create the conditions for favourable borrowing.

Generally observed, the reforms within the domain of the development of the infrastructure in the Republic of Serbia are still in the early phase, considering that the main laws have been adopted, the process of liberalisation started, but the positive effects and the full effects of new regulations are still to be expected. The regulatory bodies still do not have the institutional capacity which would enable the implementation of reforms and regulations in these sector towards utilization the positive effects of liberalisation to supply and quality of services. The strong regulatory function in those sectors should lead to: the reform of the tariff policy aiming at inclusion of all costs and external effects, better commercial effects, strengthening competition and privatisation as well as further legal changes.

In accordance with this the following priority programmes in the field of the development of the infrastructure have been identified, in which the future support of the international community is of great importance:

Table 11. Priority measures/activities for the realisation of the mid-term goals in the sector of infrastructure development

Goals	Programs (measures/activities)
<i>The modernisation of the transport infrastructure</i>	<ul style="list-style-type: none"> • the completion of the ring road and Belgrade by pass; • the reconstruction and completion of the road and railway transport infrastructure on Corridor X with the accompanying branches; • the construction of the Belgrade-Southern Adriatic motorway; • the hydro-technical works necessary to improve navigation safety on the Danube (Corridor VII) and development of the river information services; • the construction and development of the network of modern inter-modal terminals; • the compilation of strategic studies and the development of ITS (Intelligent Transporting Systems).
<i>The construction and modernisation of the energy infrastructure</i>	<ul style="list-style-type: none"> • the construction of the pipeline transportation of petrol derivatives; • the construction of the pan-European oil pipeline; • the construction of the high pressure gas pipeline in different directions; • the improvement of the electricity transmission system – the construction, extension or reconstruction of power stations, as well as the construction of new long-distance power lines; • the modernisation of the technical control system for the electricity system and objects, and a control system for

	transactions on the electricity market
<i>The construction and development of the local infrastructure</i>	<ul style="list-style-type: none"> • the construction and development of objects in the aim of improving the water supply; • the realisation of the Strategy for Energy Development in the part which refers to the district heating system (city heating plants) with the introduction of the payment system according to consumption; • the modernisation and construction of local and regional roads; • the protection of the source zones in the water supply system; • the construction of systems for sewage treatment; • the gasification of cities and municipalities; • the establishment and construction of regional waste areas; the construction and reconstruction of the public lighting objects; maintaining the city sanitation department; the construction and reconstruction of other public objects of interest to the local (self)government units.

Taking into consideration the importance of the local infrastructure for economic development and improvements to the standard of living, and the local administrations' limited possibilities for financing the local municipal companies, the continuation of the assistance from the international community in financing those projects is of exceptional importance. At the same time, for bigger investment projects in the fields of transport and energy, which are important for integration into regional and international systems, the financing/co-financing from international financial institution loans is also expected.

2.4. Environmental protection

The significant degradation of the environment occurred in the Republic of Serbia during the 1990's. During this period, the absence of new investments and minimal investment in the sectors of water supply and the treatment of wastewater and solid waste lead to the significant degeneration of the infrastructure and deterioration of the provision of basic services as well as the environment and water quality in general. In addition, excessive industrial pollution appeared in a large number of identified pollution black spots, with the combined synergetic effect of pollution of domestic and imported origin, which represents a serious risk to the health of citizens as well as the surrounding ecosystems of those regions and the trans-border effects of the transport of polluted materials. In the Republic of Serbia the most endangered black spots are the cities of Bor, Kragujevac, Pančevo, Novi Sad and Šabac. The most toxic substances which appear in the aforementioned cities are dichloride, mercury and other heavy metals, piralen oils, refinery waste and phenols. Emissions of those pollutants often exceed the permitted limits according to both national and European Union standards. The situation is additional aggravated by the pollution caused by the NATO shelling in 1999. Analysis shows that the economic value of the degradation of the environment in the Republic of Serbia amounts to between 4.7% and 14% of the GDP (in other countries this value varies between 4% and 8% of the GDP).

The biggest problems in environmental protection in the Republic of Serbia are caused by air pollution, water pollution and the loss of water resources, land pollution and the inappropriate management of waste.

Air pollution in the Republic of Serbia is caused by emissions of waste gasses which originate from the thermo-energy objects (the use of poor quality lignite and bad dust elimination) and industrial plants. Steam power plants which use lignite create over 5.5 million tones of flying ash per year, which is not deposited in an adequate way (covers an area of around 1,800 hectares) which causes uncontrolled secondary emissions (wind erosions). A particular problem is that the ash waste areas are often based near the rivers. In those zones so-called "air pollution black spots" have been identified such as the Kolubara –Obrenovac corridor²², which has an above average frequency of respiratory diseases and the content of CO₂ in the air exceeds the national and particularly European standards for air quality. The steam power plants

²² 300 Kg of sulphuric acid falls on each hectare within a 100 Km radius around TE Nikola Tesla per year. That is fifteen times more than the permitted limit which is considered as the level above which any further acidation leads to the total devastation of the environment with catastrophic consequences.

have power units of over 300 MW and the emission of NO_x far exceeds the maximum level of emissions permitted in European legislation. The steam power plants are a significant pollutant of surface and underground waters and of land, but also of the water which is used for cooling purposes. The quality of air is especially aggravated during the no wind weather conditions and the heating season in city agglomerations (city boiler rooms which failed to carry out fuel substitution), particularly because of the use of poor quality fuels. Air pollution from sulphur and lead is particularly problematic because of the poor quality of fuel (petrol with supplemented lead and high-sulphur diesel). During the previous period the Law on Air Pollution was completed, and the Treaty on Establishment of the South-Eastern Europe Energy Community was signed, which prescribes the implementation of European Union regulations in the field of environmental protection from pollution caused by the energy sector. Those obligations are defined by Annex II of the Treaty on Establishment of the South-Eastern Europe Energy Community, and particularly refer to the implementation of EU directives on big furnaces and the reduction of sulphur in fuels which are used for steam power plants.

However, there is still no national registry of the emission of greenhouse gasses, the register of substances which cause damage to the ozone layer or measures for reducing the emission of gasses into the air. The current legal regulative for emissions and imissions has not been harmonised with EU regulations, and poor monitoring does not allow formation of a realistic picture of the level of air pollution in the Republic of Serbia.

Drinking water, in the Republic of Serbia is generally of unsatisfactory quality. The main problems are the old distribution network operating at a considerable loss and the lavish consumption of water. The biggest cities in the country do not have systems for filtering the communal wastewater, and almost 90% of industrial wastewater is discharged without prior treatment. Inaccessibility to the clean water supply and proper sewerage system induce health problems for a part of the population. This especially applies to population who lives in the slums, often close to the badly maintained solid waste disposals. The most endangered groups of population are internally displaced persons, and refugees Romas. Significant water pollution occurs in the mining basins because of the erosion of mining waste. On several occasions the significant pollution of ground and underground waters occurred because of the breaking of flotation dams and it resulted in over 100 millions of tones of flotation waste dispersed in the rivers. In addition, the pollution of the localities of the Novi Sad refineries caused by the NATO bombing represents a

high risk for the water supply of the City of Novi Sad because of the vicinity of the water intake. In the previous period the Law on Financing Water Management was compiled and the Law on Waters is in preparation. It is necessary to incorporate into the legislation, adopt and implement the standards from the EU Framework Directive on Waters. It should be mentioned that at this moment in Serbia, as regards water, there is a dual legal regulative:

1. The Law on Waters with outdated solutions and
2. The EU Framework Directive on Waters (as the legislation enforced through the Ratified Convention on the Sustainable Use and Protection of the Waters of the River Danube as well as within the framework of the Sava Commission).

This duality causes considerable problems and decelerates the process of harmonisation with the EU in this field. It should also be mentioned that in 2002 the Government adopted the Water Management Master Plan which is, in terms of its solutions, superseded both conceptually and methodologically in many areas, therefore apart from the harmonisation of the legislation it is also needed to initiate the revision of this document.

Urgent intervention is also needed in the domain of the reduction of pollution from agriculture, from both big farming and processing capacities. Small farms cumulatively produce significant pollution from manure and ebb tides water, as well as in plant production because of the regularly inadequate and irrational use of chemical substances for protection and fertilisation.

The land in the Republic of Serbia is seriously polluted by the uncontrolled and inadequate implementation of artificial fertilisers and pesticides, as well as because of the poor quality of water used for irrigation. The bad management of waste and chemicals causes serious and long term land pollution. In addition, the problems of land pollution and eutrofication in the Republic of Serbia, are mostly connected with the uncontrolled release of untreated waste waters from cattle farms. Public awareness about the good practices and environmentally friendly management of big cattle farms practically do not exist. Attempts to present good agriculture practices are being carried out through the World Bank and UNDP projects regarding the reduction of the pollution in the Danube riparian area.

In the Republic of Serbia around 60-70% of municipal waste is collected. The locations of waste disposals do not satisfy sanitary and safety conditions. There is no reliable information regarding the amount of dangerous industrial waste, and it is

estimated that 460,000 tones of dangerous industrial and medical waste is produced in the Republic of Serbia per year. Furthermore, there are no capacities for the treatment and disposal of hazardous waste and hazardous waste is temporarily stored in inappropriate storage rooms. Some of them are several decades old. Around 6 million tones of flying ash from steam power plants are dumped in inappropriate locations every year. In addition, the level of industrial waste is disproportionately high per unit of product, raw materials are irrationally used and energy efficiency is low. In the previous period the Law on Waste was completed and the Law on Packaging and Packaging Waste is under preparation. The National Strategy for Waste Management, adopted in 2003, is being implemented with a certain dynamic.

In spite of efforts made since the beginning of the reforms, a large number of the laws from the field of the environment have still not been harmonised with EU Directives. The new legislative framework for environmental protection was formulated in 2004 by the adoption of the Law on Environmental Protection (which predicts the adoption of the Strategy of the Sustainable Use of Natural Resources and Goods, whose drafting is under way, as well as the National Programme for Environmental Protection), the Law on the Strategic Impact Assessment on the Environment, the Law on the Impact Assessment on the Environment, and the Law on the Integrated Prevention and Control of Pollution. The Government has also adopted the draft of the National Programme for Environmental Protection for the period 2006 – 2014 following which detailed action plans will be compiled. The rapid adoption of laws from this field also continued in 2005 with compiling a large number of bills from this field. The Government's strategic goal is inclusion in the international community's activities and processes for resolving current and preventing possible problems in environmental protection. In accordance with that, 64 international contracts in the area of environmental protection have been ratified to date (the ratifications were taken over as the Successor State's obligations) and the ratification of other international agreements is still underway.

On 12th March 2001 the Republic of Serbia (Serbia and Montenegro) ratified the UN Frame Convention on Climate Change, one of the most important international agreements in the field of the environment, in the status of non-Annex 1 state. By achieving this status and the soon to be expected ratification of the Kyoto Protocol (the Law on Ratification is in the Parliamentary procedure), the Republic of Serbia will be in a position to use one of the flexible mechanisms which results from this Protocol, the so-called Clean Mechanism Development – CDM (while it remains in

this status). That means that the Republic of Serbia will be in a position to use international financing mechanisms to introduce cleaner technologies into steam power stations, to improve energy efficiency, to stimulate the use of renewable energy resources and co generative installations, to change fuels, to contribute to solving the municipal waste problem, to plant new forests and others without using the domestic, limited financial resources. In that aim the Republic of Serbia will in the forthcoming period introduce activities for the development of national institutions which are essential for the implementation of the CDM project (the establishment of DNA²³, etc.) and compile the strategy for the use of CDM. The compiling of this strategy (especially the part which refers to energy) is the precondition for the realisation of the CDM project.

In spite of the aforementioned activities in the previous period, there are still systematic deficiencies in the domain of environmental protection such as: the poor integration of environmental protection policy with other policies, insufficient institutional capacities, the inefficient system of financing environmental protection and the lack of economic incentives for conscious conduct in the field of environmental protection.

Taking into consideration the fact that energy production is the biggest pollutant, and that sustainable energy development is one of the most important aspects of sustainable development as a whole, the Ministry of Mining and Energy, within the framework of the process of the establishment of the regional energy market in South-Eastern Europe and its integration into the EU energy market, has initiated the Convention on the Sustainable Energy Development of the SEE Region, for whose implementation the donator community's significant assistance is essential. In addition, the issue of the increase of energy efficiency and the wider use of renewable energy sources, as very important aspects of sustainable development, will also consider significant activities in those fields with additional requests for assistance from the international community.

In the process of harmonisation and the approach of the Republic of Serbia to the EU, 30% of all activities refer to activities from the field of environmental protection as the EU's third priority.

It is necessary to emphasise that the successful achievement of reforms in the energy sector is crucial for the success of reforms in the field of environmental protection in the whole country. The sources predicted for the successful

²³ Designated National Authority

achievement of the goals of the full implementation of EU standards in the field of environmental protection in public company Elektroprivreda Srbije thermo sector alone amount to EUR 1.2 billion, which is around 28% of the total resources predicted for the implementation of the National Programme for Environmental Protection.

In accordance with the most important measures for the promotion of the development and preservation of the environment, the Government's priority is the establishment of regulatory economic mechanisms for the realisation of the concept of sustainable economic development. This should indirectly follow the national priorities in environmental protection policy, in accordance with the goals and instruments from the National Programme for Environmental Protection. The Period 2007-2009 should encompass practical, financially acceptable reforms which can be implemented immediately. That primarily refers to the regulatory reforms, whose aim is harmonisation with EU *acquis* for the environment. The goals of these measures are focused on the improvement of the legal framework, the development of sector strategies, investment plans and the improvement of the monitoring system, together with the increase of public awareness. Institutional competences should be clearly defined in the new legislation in order to resolve the existing overlapping and inconsistencies. The key institutional priorities are the strengthening of the capacities of the Ministry of Science and Environmental Protection, the Agency for Environmental Protection and the Fund for Environmental Protection as well as strengthening the Ministry of Agriculture, Forestry and Water Management (as the biggest and direct holder of responsibility for the use of land, water and forest resources of the Republic of Serbia) and other competent institutions.

In addition to the aforementioned regulatory reforms, it is necessary to work on the reduction of the pollution of land, surface and underground waters and air from the sectors of energy production, industry and transport. In accordance with this, the resources and investments should be directed towards the endangered locations and priority fields, such as the air pollution from big industrial complexes and steam power plants, the treatment of wastewater from big industries, the filtering of municipal waste water in big cities etc. In the privatisation process of companies it is needed to develop mechanisms for resolving the inherited pollution, i.e. damage made to the environment. The solutions must be based on the principle "the polluter pays". It is also needed to stimulate competition and the inclusion of the private sector in the fields of the provision of services, especially in the waste and water management sectors.

In the aim of overcoming the aforementioned weaknesses in the system of environmental protection, the following priorities should be realised in the forthcoming period:

- The expansion and strengthening of institutional capacities in the field of the environment, including the integration of the policy of environmental protection into other policies and the harmonisation of national regulations from the field of environmental protection with EU legislation by 2009 (around 27,000 pages of legislative text);
- The development of an efficient system for financing environmental protection and economic incentives for economically conscious conduct, as well as the introduction of special programmes of an agro-environment type into the support system which the Ministry of Agriculture, Forestry and Water Management provides to agriculture and farming;
- The improvement of the environmental monitoring system;
- The promotion of the sustainable use of natural resources, the rational use of energy (firstly through the increase of energy efficiency) and raw materials and the stimulation of the recycling of waste and the use of renewable energy resources;
- The reduction of air pollution from the sectors of energy production, industry, and transport caused by emissions (CO, CO₂, NO_x, particles, specific pollutant materials and other GHG gases);
- The reduction of the pollution of land, surface and underground waters with dangerous materials and waste.

It is estimated that the total investment in environmental protection in the National Programme for Environmental Protection has increased from the initial figure of EUR 44 million per year to EUR 718 million in 2015 (Table 12).

Table 12 Total annual investments for the implementation of the Programme (including indirect expenses) by sub-sectors from 2006 until 2015 (in EUR million)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Waste	10	36	52	70	138	128	133	139	144	150	1000
Energy	4	2	54	47	51	141	192	243	227	244	1204
Mining	2	0.3	10	12	2						26
Industry	0.3	18	30	20	15	18	21	25	28	31	205
Chemicals	0.5	4	6	6	8	5	5	5	5	5	50
Transport	0.1	1	15	12	12	68	79	94	107	127	515
Agriculture	1	12	14	15	15	11	12	13	15	16	123
Land	0.1	2	2	2	2	3	3	3	3	3	24
Air	0.4	5	7	3	3						19
Water	25	40	50	60	80	108	115	121	127	134	860
Nature	2	2	3	1	4	3	3	3	4	4	29
Noise	0.3	0.5	1.0	0.9	0.9	1	2	3	4	5	19
Radiation	0.4	1	1	1	3	18	18	18	1	1	61
Total	44	125	234	249	343	506	583	667	665	718	4134

Source: the National Programme for the Environmental Protection of the Republic of Serbia

In the period 2007– 2009 the increase in investments is gradual, and the reason for that is the orientation towards the development of an effective legal and financial system as well as the system for monitoring and reporting on the system of environmental protection where activities are not capital-intensive. The estimation is that the sector of energy and mining (26%), water (15%) and transport – expenses directly connected with the improvement of the environment (9%) will share the greatest part of the total costs for the National Programme for Environmental Protection (NPEP). The predicted resources represent only the minimal resources necessary for the priority reduction of the pollution of air and water from the energy sector, while the total investments for bringing the energy sector to the level in accordance with BATs, the improvement of energy efficiency, the use of renewable energy sources, etc. demand much larger funds. The transport costs which are indirectly connected with the environmental protection system (ring roads, the improvement of public transport, etc.) account for 22% of the total costs of the NPEP. It is estimated that the main investment works in the sector of waste management will be the construction of the sanitary waste areas (an average of EUR 14.5 million annually). For the improvement of the current waste areas, according to estimations, more than EUR 2 million is needed per year, and for managing medical waste more than EUR 1 million per year. The experiences of new EU state members from central Europe show that their expenses in the field of the environment were around 1.5%-

2.5% of the GDP in the period before accession to the EU. Bearing that in mind, it is expected that the participation of expenses for the environment in the Republic of Serbia's GDP, considering the average rate of economic growth, will reach the level of 1.4% of the GDP in the mid-term period. On the other hand, analysis shows that the economic value of the degradation of the environment in the Republic of Serbia amounts to between 4.7% and 14% of the GDP. The conclusion which must be drawn is that the Republic of Serbia faces a big gap between the level of the degradation of the environment and the possibility of financing the system of environmental protection, monitored in the short and mid-term.

The Government is aware that the maintainability of the environment plays an important role in achieving the development goals and provides the funds from the budget for resolving those environmental issues which are of the greatest priority. At the same time, the budget resources are not sufficient to finance all the activities and investment projects in the field of the environment which need to be realized in the forthcoming years. Therefore, international assistance is of crucial importance, including loans under the most favourable conditions, directed towards the key segments of environmental protection. In accordance with that the following priority measures and activities have been identified in which international assistance could contribute to the achievement of the aforementioned goals in the domain of environmental protection.

Table 13 Priority measures/activities for the realisation of the mid-term goals in the field of environmental protection

Goals	Programs (measures/activities)
<i>Strengthening institutional capacities in the field of environmental protection</i>	<ul style="list-style-type: none"> • the compilation and adoption of action plans for the realisation of the National Programme for Environmental Protection (2006 – 2014), • the integration of policies and regulations on environmental protection into other sector policies and laws in accordance with EU <i>acquis</i> • the establishment and strengthening of the capacities of the units for planning and managing projects in the field of the environment, • strengthening the administrative capacities for the implementation of regulations on the estimation of influences on the environment, • strengthening the administrative capacities in the field of industrial pollution, • strengthening the capacities of the Environmental Protection Agency and the Environmental Protection Fund
<i>Development of an efficient system for financing environmental protection</i>	<ul style="list-style-type: none"> • development of an efficient system for financing environment protection based on restricted funds and the wide implementation of economic instruments,

	<ul style="list-style-type: none"> • implementation of the Provision on Compensation for air emissions and the generation of waste, • the introduction of the agro-environment scheme into the Ministry of Agriculture, Forestry and Water Management incentive scheme.
<i>Reduction of industrial pollution</i>	<ul style="list-style-type: none"> • reduction of emissions into the air of CO₂, NO_x, VOC, PAX suspended particles and other pollutants from existing industrial installations which do not meet EU standards, • filtering of industrial wastewater through the revitalisation of existing devices and the construction of new installations for filtering wastewater from those industries which discharge hazardous substances • implementation of the integrated licence system for industrial installations in accordance with the Law on the Integrated Prevention and Control of Environmental Pollution, • remediation of contaminated land in industrial complexes, • introduction of cleaner production and the Environmental Management System in industrial installations, • increase of energy and raw material efficiency in industry and the reduction of waste.
<i>Reduction of pollution from the mining sector</i>	<ul style="list-style-type: none"> • the filtering of wastewater resulting from the exploitation process and the refining of mineral raw materials through the revitalisation of the existing filtering installations and the construction of new installations on locations where hazardous substances are discharged. • testing possibilities for the use and exploitation of mineral raw materials created by mining and processing of mineral raw materials, • the remediation and re-cultivation of areas degraded by mining, • the reduction of the risks of water pollution from mining activities, • solving the problem of the disposal of mining waste and drilling sludge from oil wells, • revision of regulations in the field of mining and geological research.
<i>Reduction of pollution from the energy sector</i>	<ul style="list-style-type: none"> • reduction of the emission of CO₂, NO_x and suspended particles from large combustion installations in accordance with EU directives on large furnaces (2001/80/EC), • reduction of the negative influence of oil refineries on the environment, • filtering of wastewater from the energy sector through the revitalisation of existing filtering capacities and the construction of new installations in the locations where hazardous substances are discharged, • reduction of the influence on the environment during the dispersal of flying ash through changes to the discharging technology, • increase of energy efficiency in the energy sector (in the sectors of energy production and energy consumption) and the reduction of the creation of waste • re-cultivation of existing ash dumps by 2011, • introduction of cleaner production and the Environmental Managing System into industrial installations,

	<ul style="list-style-type: none"> • increase of the scope of the use of renewable energy and gas sources through the implementation of EU directives and the strengthening of capacities, • connection of individual households in cities with over 20,000 inhabitants to the district heating system or the gas heating system, • increase of energy efficiency and the reduction of heat loss in heating plants and the distribution network, • exploitation of 20% of flying ash from steam power plants by 2011.
<i>Improvement of the environment in the sectors of agriculture, forestry and hunting</i>	<ul style="list-style-type: none"> • development of farmers' awareness in the field of the environment through the development and promotion of the code of good agricultural practice, • permanent improvement of legislation in the field of agriculture, forestry and rural development in the sense of adapting it to the best legislative practice in the EU, • adoption of strategic planning documents in the field of forestry and hunting, • reduction of discharging nutrients and other hazardous substances from diffusive sources and identifying sensitive areas at risk from water pollution by nitrates by 2010 in accordance with directive 91/676/EEC, • introduction of the system of controlled production and use of fertilisers and pesticides on agricultural land because of the reduced effect on the environment, • improvement of environment protection management on cattle farms and processing installations, the introduction of good agricultural practices and rational management and the use of organic waste in cattle breeding and agriculture, • development of organic agriculture, • improvement of the system of sustainable management, especially in private forests, • development of modern monitoring in forestry and hunting, • improvement of management in the fields of hunting and fishing and the reduction of their negative influence on biodiversity and protected natural areas.
<i>Reduction of pollution from the transport sector</i>	<ul style="list-style-type: none"> • gradual removal of leaded petrol by 2010, • improvement of petrol quality according to directive 2003/17/EC by 2010, • harmonisation of all vehicles produced in the Republic of Serbia and imported by 2010 with the vehicle emission limits according to directives 98/69/EC and 2001/100/EC, • improvement of the conditions and competitiveness of public transport in big cities, so as to reduce emissions from vehicles in city centres, • implementation of bio-diesel in accordance with directive 2003/30/ EC on the promotion of the use of bio fuels, • construction of ring roads in cities where traffic exerts a serious effect on the environment, • reduction of pollution from boats on navigable waters,
<i>Improvement of the quality of water and water resources</i>	<ul style="list-style-type: none"> • harmonisation of national regulations with EU legislation, • improvement of inter-institutional coordination in the field of water, • improvement of the protection of all underground water deposits, etc., • improvement of water quality in water circulation through

	<p>the reduction of the discharge of non-filtered municipal and industrial wastewater,</p> <ul style="list-style-type: none"> • innovation of standards and improved laboratories for the control of water quality, • establishment of the sustainable use of underground water deposits, • revitalisation and functionality of existing devices for the filtering of municipal wastewater, • filtering of wastewater in communities with an organised water supply and which have a significant influence on the direct recipient and on the water quality in sensitive zones, • ensuring that the quality of drinking water in municipalities meets the standards according to the directive on drinking water 98/83/EC and extending the centralised water supply system to selected village areas with unsatisfactory water quality, • rationalisation of the use of water by individual consumers; • increase of the coverage level of the public sewage systems to 65% of the population by 2015.
<i>Improvement of waste management</i>	<ul style="list-style-type: none"> • harmonisation of national regulations with the EU legislature, • development of regional plans for water management • construction of regional sanitary waste dumps, • introduction of the separate collection and treatment of hazardous substances from households and industry; • development of programmes for managing animal waste, • establishment of capacities for the treatment of hazardous waste, • construction of capacities for burning organic industrial and medical waste, • completion of the construction of the factory for the processing and safe depositing of hazardous waste, • programmes for using waste as an alternative fuel in cement factories and forges, • rehabilitation of the existing dumps which represent the greatest risks to the environment, • increase of the rates for the reuse or recycling of waste from packaging to 25% of the quantity, • intensified introduction of good agricultural practices into the management of nutritious materials on farms.
<i>Improvement of the management of chemicals and protection from accidents</i>	<ul style="list-style-type: none"> • harmonisation of national regulations in the fields of the management of chemicals and protection from accidents with EU legislation, • revision of national regulations on accidents in industry and transport, • ratification of important international conventions from this field, • development of an IT system for managing chemicals and protection from accidents, • strengthening of administrative capacities for managing chemicals, • establishment and development of system for risk management and response to chemical accidents in industry and transport.
<i>Improvement of air quality</i>	<ul style="list-style-type: none"> • harmonisation of national regulations from the field of air

<i>and climate changes</i>	<p>protection with EU legislation,</p> <ul style="list-style-type: none"> • establishment of a register for recording pollutants and the balance of emissions, • modernisation of the monitoring and laboratories network and the establishment of automatic stations for the continuous monitoring of the air quality, • development of the capacities for the implementation of the Kyoto Protocol, • compilation of a national program to deal with climate changes by 2007, • compilation of a strategy for the implementation of clean development mechanisms, • improvement of the air quality in line with standards, the reduction of emissions from the energy, transport, industry and other sectors • establishment of the automatic monitoring of significant emitters.
<i>Nature, biodiversity and forestry protection</i>	<ul style="list-style-type: none"> • harmonisation of national regulations from the fields of the protection of nature, biodiversity and forests with EU legislation and international conventions, • development of a national strategy for the sustainable use of natural resources, • development of a national strategy for the protection of biodiversity, geo-diversity and agro-diversity, • establishment of the control of biodiversity components, • prevention of the loss of biodiversity in accordance with the Kiev Declaration by 2010, • strengthening of administrative capacities in the field of the protection of nature, • introduction of effective measures for the control of the adoption of the GMO • compilation of a biodiversity inventory, keeping records of endangered ecosystems and the habitats of rare and endemic species by 2007, • increase of areas under forestation and the improvement of the structure of forests, • improvement of the system of managing protected natural resources of national and international importance.
<i>Protection of land</i>	<ul style="list-style-type: none"> • harmonisation of national regulations from the field of land protection with EU legislation, • reduction of land at risk from erosion by carrying out anti-erosive measures and introducing effective measures for the control of erosion,
<i>Protection from noise</i>	<ul style="list-style-type: none"> • harmonisation of national regulations in the field of the protection from noise with EU legislation, • establishment of zones and a system of noise control in communities with the highest noise emission, • establishment of targeted noise control at the busiest transport arteries, • reduction of noise emission in the most endangered locations.
<i>Protection from ionising and non-ionising radiation</i>	<ul style="list-style-type: none"> • harmonisation of national regulations from the field of the protection from ionising and non-ionising radiation with EU legislation,

	<ul style="list-style-type: none"> • improvement of institutional capacities for the implementation of regulations in the fields of ionising and non-ionising radiation, • development of a program for managing radio active waste, • full decontamination of land contaminated by depleted uranium, • modernisation and extension of the radioactivity monitoring system by 2012, • provision of capacities for the permanent dumping of radioactive waste.
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2.5. Rural development

The development of rural areas was made a priority field in economic and social development because almost half of the citizens (42%) of the Republic of Serbia live in those areas which encircle almost three quarters of the country (according to the OECD criteria, rural areas are those with a population density of less than 150 citizens per square kilometre).

For decades the rural areas have been in a state of economic and cultural stagnation, which drastically increases poverty levels. The poverty rate in rural areas in the Republic of Serbia is 14.2% which means that every seventh citizen is on the poverty line. The poverty level in rural areas is almost twice as big as that in cities (7.8%). The rural poverty rate is highest in South-Eastern Serbia where it amounts to 22.7%. The rural population, in comparison with the urban one, also faces a greater depth and sharpness of poverty.²⁴ The main causes of the higher poverty level in rural areas are the aging of the population and resulting decreased working capability and earnings capacity, followed by the less favourable educational structure of the citizens as well as the negative ownership structure from which the long term bad position of agricultural production and the difficulties involved in its revitalisation in a relatively short time originate.

The several decades cumulated regional economic de-balances represents an additional economic development problem. The Republic of Serbia is currently characterised by exceptionally *large regional disproportions*, with the ratio between the most and the least developed municipality standing at 1:26 in 2004, measured

²⁴ The depth (gap) of poverty shows the amount of resources (as the level of the poverty line) required for the population to rise above the determined poverty line (under ideal conditions the perfect targeting of currency transfers). The level of poverty is the index which shows to what extent certain categories of the poor fall under the poverty line.

according to the national income per capita.²⁵ This ratio is the least satisfactory in Europe, which expressively illustrates the level of backwardness and underdevelopment of a large number of regions and municipalities in the Republic of Serbia. The differences in development level among the regions have additionally increased during the period of transition, bearing in mind that since 2000 the disproportion between the regions has increased with the trend to continue. The particularly endangered regions are traditionally underdeveloped municipalities and regions, which have been marked by the collapse of the big economic systems, such as in Southern Serbia²⁶ and the Stara Raska region²⁷. In addition, a very difficult economic and social situation exists in the municipalities in Eastern Serbia, primarily in Bor and Majdanpek, which were the regional mining centres, and which today have the status of devastated areas.

In the previous period the regional development of the Republic of Serbia was based on the sector, and not integral concept, which resulted in overlapping, poor coordination and focusing only on certain segments of development, which prevented the achievement of synergy effects. The absence of the law which would regulate the issues related to the regional development of the Republic of Serbia also presents a serious obstacle. The Law from 1995 which regulated the problematic of underdeveloped areas is no longer applicable.

The undefined institutional framework lead to the insufficient connection between municipalities and districts in defining developmental initiatives, the flow of information and the harmonization of national, regional and local development goals and priorities. Insufficient and slow decentralization in the Republic of Serbia also presents an additional defect.

Such an approach to decentralization influenced regional development in the Republic of Serbia of today and resulted that *underdeveloped areas* are mostly of *agrarian – rural type* with the following dominant characteristics:

- an inadequate economic structure with the dominant participation of agriculture,

²⁵ According to the Law on the Insufficiently Developed Regions of the Republic of Serbia, 37 municipalities were defined as underdeveloped regions in the Republic of Serbia, out of which 12 municipalities are the most underdeveloped. Underdeveloped municipalities are considered to be those which development level, according to national income per capita, the employment level, circulation in retail trade per capita and the number of telephone lines per 100 citizens does not exceed 50% of the average in the Republic.

²⁶ The area of Southern Serbia consists of the municipalities of the Jablanički district (Bojnik, Vlasotince, Lebane, Leskovac, Medvedja and Crna Trava) and the Pčinjski district (Bosiljgrad, Bujanovac, Vladičin Han, Vranje, Preševo, Surdulica and Trgovište).

²⁷ The area of Stara Raška consists of the municipalities of Priboj, Prijepolje, Tutin, Cjenica, Nova Varoš and Novi Pazar.

- a shortage of qualified labour force – the majority of those areas are facing the problem of depopulation and shortages of quality human resources with the specific and qualitative knowledge,
- underdeveloped infrastructure capacities – the weak social and economic infrastructure, mostly inefficient, expensive and insufficiently equipped, represents an additional limitation to the economic growth and social development of those areas,
- poorly developed enterprise sector and
- remarkable problems in environmental protection.

In the forthcoming years in order to change this situation and to achieve more balanced regional development, the Government must implement concrete state aid programmes and systematic measures to promote and support the economic revival of the underdeveloped and devastated areas. Because of that, rural development stands out as an area with significant investment needs, i.e. the improvement of living and working conditions in villages and the promotion of rural areas as healthy and attractive areas for living. The realisation of this aim is primarily determined by:

- the prevention of the depopulation process;
- the implementation of the process of decentralisation of the state administration and particularly fiscal decentralisation;
- the economic regionalisation of areas;
- the harmonisation of economic, social and spatial dimensions of development;
- the coordinated distribution (territorial dispersion) of funds and other types of assistance in those sectors which are defined as areas with special developmental problems;
- the prevention of the emergence of new areas with big developmental problems;
- the protection of minimal functional communities in the areas in order to assist the protection of cultural heritage; and
- relative improvement of the regional position measured according to the rate of the GDP to the purchasing power of the population in comparison with the bordering regions in the neighbouring countries.

The initiatives which, in addition to agriculture, incorporate numerous other sectors will be directed towards the reduction of rural poverty. The aim is to support

employment and economic growth and the improvement of the standard of living in rural areas, particularly in the deserted, bordering and mountain areas. Special attention will be paid to the older population of farmers and other vulnerable categories of citizens.

All of the aforementioned points, need a focused action which would lead to the development of the underdeveloped areas and the increase of social prosperity, with the stress on using the comparative advantages of individual territories. Consolidated regional development is one of the priorities which will be introduced in the forthcoming period, and will include investment into both urban and rural areas of the country. In accordance with this, it is needed to implement the following activities:

- the development of the legislative and institutional framework at national, regional and local level as well as the development of the financial mechanisms for rural development;
- the acceleration of the decentralisation process;
- the acceptance of European standards for regional policy aiming at the use of EU structural funds in the future;
- the establishment of the statistic-analytical base for the assessment of regional competitiveness, as well as for monitoring and estimating the effects of regional policy in accordance with EU statistical standards (NUTS);
- the allocation of part of the donated resources for increasing the development of the capacities of poor areas through the provisions of various kinds of technical assistance and micro loans;
- the strengthening of interregional and inter-municipal cooperation, especially on activating the local development plans and the stimulation of employment;
- the construction of the municipal infrastructure and general infrastructure of importance for the development of small and medium sized enterprises;
- increase of the accessibility of citizens to educational, health and social services and cultural institutions.

Rural and regional development demands political dedication and a coordinated approach which should encompass all levels of government. In the EU countries the interest and responsibility for rural development policies extends through numerous ministries, agencies and non-governmental organisations. That is understandable because rural development is a complex socio-economic development of a special

type of region, and includes a whole series of issues such as unemployment, industry, agriculture, health care, transport, environment, social services, education, communication, finances, cultural inheritance and similar, and as such has an interdisciplinary character, and thus is the subject of the work of several ministries and other competent governmental bodies. Regional development in the Republic of Serbia should be based on the EU's best practices and represent the preparation for the future use of EU structural and regional financial resources. It is very important to strengthen the institutional capacities of ministries and other competent institutions for the future use of international aid resources, particularly EU pre-accession funds dedicated to agricultural and rural development. Great responsibility also lies with the local communities in the mobilisation of local resources and the establishment of the ambient for overcoming the underdevelopment and poverty.

For financing the projects for the improvement of rural development in the next three years and bearing in mind the value of the required investments and the limited possibilities of the aforementioned activities being carried out by local self-government through loans or financing from the municipalities' own funds or those of the Republic of Serbia, it is essential to ensure the international community's significant grant assistance to the least developed areas. In that aim the following *priority areas for international assistance* have been identified:

- improvement of economic activities and competitiveness (the development of village tourism, services, entrepreneurship, cultural manifestations etc.);
- improvement of agricultural production (the construction of irrigation and draining systems for agricultural land, organic production, agro business centres/incubators etc.);
- improvement of the standard and quality of life in rural areas (access to health and educational institutions, village waste deposits etc.).

In the previous period numerous activities have been financed from the budget resources for the development of villages, particularly for the improvement of agricultural production and investments, the village infrastructure, organic production and the promotion of villages. In the forthcoming period assistance from the international community for the Government's efforts to improve and develop rural areas is needed. It is estimated that from the total international assistance in the next three years at least 10% will have to be invested in rural development.

The following table shows the aims and programmes/measures for their achievement in the following three-year period in the field of rural development.²⁸

Table 14 Priority measures/activities for the implementation of the mid-term aims in the field of rural development

Goals	Programs (Measures/activities)
<i>Development of the legislative and institutional framework at national and local level</i>	<ul style="list-style-type: none"> • further strengthening of administrative capacities for the formulation and implementation of policy, • phase II of the development of the capacities of the Agency for Agricultural and Rural Payments, • adoption of the main principles of rural development policy, • adoption of regional and local action plans for rural development, • categorisation of less favourable areas for production in accordance with the EU model, • preparation of the Program for the Development of Ecological Agricultural Systems, particularly for marginal and protected nature areas,
<i>Acceleration of the decentralisation process</i>	<ul style="list-style-type: none"> • implementation of fiscal decentralisation with the aim of providing special tax incentives for investments in underdeveloped areas, • permitting the local self-government to own and manage the public property on its territory, • implementation of the decentralised services and providing assistance for pilot projects in this field, • development of the capacities of local self-government to take over the new authorities and responsibilities resulting from the decentralisation •
<i>Development of financial mechanisms to support rural development</i>	<ul style="list-style-type: none"> • preparation of rural development programmes for the implementation of the agrarian budget resources and donations, • allocation of a part of grants to increase development capacities of poor areas through provision of various forms of technical assistance and issuing of micro-loans through banks and non-profitable institutions. • creation of sufficient supply of short, mid and long term loans necessary to meet the demand arising from the farmers in the undeveloped areas

²⁸ The development, reconstruction and modernization of the local infrastructure as the priority aim in the field of rural development was worked out within the framework of inter-sector priority "Infrastructure development and modernization".

<p><i>Improvement of economic activities and competitiveness</i></p>	<ul style="list-style-type: none"> • extension of the network of regional agencies for the development of small and medium sized companies and enterprisers; • development of village tourism and services, • the opening of incubator centres (5) and transition centres (13), • development of programmes for stimulating female entrepreneurship • strengthening of inter-regional and inter-municipal cooperation.
<p><i>Improvement of agricultural production</i></p>	<ul style="list-style-type: none"> • assistance for the modernisation of objects and machinery on the farms, • training in the field of new agricultural techniques and skills, • assistance in the construction of new objects for food processing. • development of irrigation and draining systems on agricultural land, • assistance for young farmers to build up their farms, • development of organic production.
<p><i>Improvement of the standard and quality of living in rural areas</i></p>	<ul style="list-style-type: none"> • renovation of villages and rural objects, • efficient implementation of current and defining of new programmes, measures and activities directed at the most poor and socially vulnerable categories of the population, • projects of the modernisation and upgrading of the health care system, • development of educational, social, cultural and sports institutions and objects, • development of the programme for protection of the environment and rural areas, • construction of rural waste areas.
<p><u>Diversification of the rural economy</u>²⁹</p>	<ul style="list-style-type: none"> • working engagement of the agricultural population in non-agricultural activities, • stimulation of ecological services, • providing assistance to those areas which are not eligible for agricultural production through promotion of food quality, higher standards and animal welfare.

²⁹ In accordance with the Strategy for Agriculture in Serbia

3. OVERVIEW OF THE SITUATION BY SECTOR - SECTORAL PRIORITIES AND NEEDS IN THE PERIOD 2007 - 2009

3.1. Finances

In the period 2000.- 2005, the Ministry of Finance implemented significant reforms in fiscal and monetary system. *Monetary policy* was primarily oriented towards curbing the inflation incurred after the prices were liberalized. With the price liberalization, foreign currency exchange rate was set at market value, floating exchange rate was introduced, followed by the current transactions convertibility of the dinar, and the new Law on Foreign Exchange Operations also liberalized to some extent capital transactions. In the domain of the *fiscal system*, the budget planning and execution system was reformed, the Treasury was established at the level of the RS and local levels, tax system was reformed (it became more transparent and efficient), the public revenues collection and inspection procedure were improved, reform of pension and health insurance was initiated. Regardless of the reforms initiated, public consumption is still high, and government interventions in business and in social funds are still strong and direct. Accordingly, fiscal sustainability is still a great challenge. The Ministry of Finance has modernized the *customs operations*, by introducing electronic database which made it possible for the traders to obtain declarations in electronic format and thus reduced the time required for import and export.

Below is the list of most significant reform projects that were implemented with donors' financial support. The largest number of these projects has been oriented towards the strengthening of technical and human capacity of specific directorates and institutions within the Ministry of Finance.

Most important projects in the financial sector in the period 2001- 2005:

1. Macroeconomic reform, strengthening of the Central Bank, privatisation of banks, and supervision of banks	490,000 USD	USA	2001
2. Project of the improvement of debt management related services	1,900,000 USD	Switzerland	2001
3. Financial sector development	6,000,000 USD	World Bank	2001
4. Public Procurement Office	30,000 GBP	United Kingdom	2002
5. Micro-finance diagnostic study	19,000 GBP	United Kingdom	2002
6. Support to the Anti-Corruption Unit within the Ministry of Finance	126,000 GBP	United Kingdom	2002
7. Support to institutional building (Customs Administration) and feasibility study for border crossings	700,000 EUR	European Commission	2002
8. Tax policy reform and administrative reform	8,660,000 USD	USA	2002-2005
9. (ATTF) – training for financial sector	77,400 EUR	Luxemburg	2003

10. Management of public finances	16,000,000 EUR	European Commission (CARDS)	2003
11. Belgrade Stock Exchange – remote trading project	425,000 EUR	Luxemburg	2003
12. Z84 INFORMEST trainings for experts	59,000 EUR	Italy	2003
13. Support to the Ministry of Finance, Division of Macro-Economic and Fiscal Analyses	730,000 GBP	United Kingdom	2003
14. Support to the funds management unit within the National Bank of Serbia	250,000 EUR	Spain	2004
15. Support to customs and tax administration	6,000,000 EUR	European Commission (CARDS)	2004
16. Methodology for the valuation of City of Belgrade real estate	338,500 EUR	France	2005
17. Technical assistance to the Agency for Deposit Insurance, Rehabilitation, Bankruptcy and Liquidation of the Banks	14,105,000 SEK	Sweden	2005
18. Support to customs and tax administration	3,000,000 EUR	European Commission (CARDS)	2005
19. Reform of public finances	2,000,000 EUR	European Commission (CARDS)	2005
20. Introduction of the Republic of Serbia programmatic budget	250,000 EUR	Norway	2005
21. Financial training in the Treasury Administration and Public Revenue Administration	187,145 EUR	Norway	2005
22. Belgrade Stock Exchange – redesigning of IT system	405,000 EUR	Luxemburg	2005
23. Centralised payment system in public sector			2005
24. Training within the Treasury and Public Payments Administration	187,000 EUR	Kingdom of Norway	2005

In the next three-year period, the implementation of strict and sound economic policy and reforms which guarantee macroeconomic stability, sustainability of public finances, security of operations, strengthening of competitiveness of the economy, and support to long-term sustainable economic development will be continued. Particular emphasis will be placed on the coordination between the monetary policy, fiscal policy, and salary policy. The long-term economic development strategy of Serbia will comprise sustainable economic development, increasing competitiveness of the economy, building of knowledge based society, balanced regional development, and EU integrations.

Tax policy will, in the coming period, have as permanent task improvement, and tax burden reduction. Lowering the overall tax burden, will be aimed at the reduction of direct tax collection, but at the same time new instruments will be directed to increase indirect tax collection. As the result of these measures the tax burden of economy

should be relaxed while the taxation of consumption will increase. To this effect, it is necessary to develop a *study* on the possibilities of decreasing the tax burden on economic activities, with detailed overview of all the costs incurred by economic entities on the basis of taxes, fees, charges and other duties. In the next mid-term period, a smaller reduction of public expenditures will be achieved, compared to 2005, but the emphasis will be on changing the expenditure structure with the aim of supporting rapid development of economic activities. Radical change in the structure of public expenditures will take place in the course of the reform process, through the reduction of individual types of costs and expenditures. Public expenditure policy will be, to a great extent, supported at the time of introducing the *program concept* in the budget preparation at all levels of government and first and foremost the budget of the central government, namely the Republic. For the achievement of *fiscal sustainability* it will be useful to ensure increased domestic savings and greater inflow of FDIs, as the tools for attainment of high and sustainable growth.

Public debt policy will be, in the coming mid-term period, oriented towards further reduction of the share of public debt in GDP and ensuring the environment suitable for unhindered servicing of the country's liabilities towards domestic and foreign creditors, as well as the control of new borrowings, in accordance with the Law on Public Debt. Moreover, it is expected that negotiations with the Paris Club of creditors will be continued, as well as with the creditors with whom no debt rescheduling has been agreed. Also expected is the regulation of the status of debtors from the territory of the Autonomous Province of Kosovo and Metohija. Main function of the public debt management strategy is to change the structure of debt and to ensure regular servicing of matured liabilities, along with careful selection of the loans for which guarantees will be issued, early repayment of the most expensive loans, continuous monitoring of the fluctuations of foreign currency exchange rate and interest rates on international markets, so that exchange rate and currency risks could be contained.

Long-term increase of imports will directly affect the sustainability of foreign debt servicing. Main directions of the *state aid control policy* in the coming period will be determined in accordance with relevant EU acquis, namely the obligations indicated in the Stabilisation and Association Agreement (SAA) and timelines for their performance. In accordance with the EU criteria, the Republic of Serbia complies with the requirements for the status of "A" region (GDP is lower than 75% of the GDP at the EU level) and, based on the thus far led SAA negotiations (February 2006), the Republic of Serbia would retain this status in the period of 5 years after the coming

into force of the SAA. This is an exceptional convenience; since it implies the application of maximum allowed limits in state aid granting, primarily regional aid, in accordance with the European Commission's Regional Aid Guidelines and Multi-Sector Regional Grant Framework for Major Investment Projects. This status has significant implications in respect of free actions of the government and granting of other forms of state aid. Implementation of the state aid control policy will, as the ultimate effect, positively influence the development of economic policy, encourage foreign investments, recovery and restructuring of companies, privatisation process, SMEs development policy, protection of competition, rational management and planning of the state budget, more efficient cooperation with international organizations. The Treasury Directorate, as the administrative body within the Ministry of Finance is, by virtue of the Amending Law on the Budget System, the main implementing party for the activities of state aid registration and monitoring. In performance of these duties, the Treasury Administration will prepare annual reports on the state aid granted in the Republic of Serbia (the first of such reports, with the data for years 2003 and 2004 was adopted by the Government on the 4th of May 2006; the second report, with the data on the state aid granted in 2005, has been prepared and has been submitted for review, as laid down in the Government's Rules of Procedure). Moreover, the Treasury Administration takes an active part in the preparation of the Draft Law on State Aid Control and pertaining by-laws, upon whose adoption, for the first time in the Republic of Serbia, a system of state aid control will be put in place, in compliance with the relevant EU acquis.

The goal in the implementation of fiscal policy is to minimize any deviations from the projected policy, namely to have the *fiscal risks* reviewed and their effects prevented. To realize the projected volume of fiscal sector revenue and expenses, it is necessary to have the fiscal risks reduced to the least possible level. These risks are present both on the revenue and expenditure side, and they are conditional upon the macro-economic, political and social developments in the country and beyond. Identification of potential risks, namely monitoring of risks and analysis of fiscal fluctuations, in particular assessment of possible deviations and negative effects, are the precondition for efficient management of public expenditures, namely the overall system of public finances.

Towards the end of 2005, within the *pension system reforms*, the Law on Voluntary Pension Funds and Pension Schemes which is in full compliance with EU Directives was adopted. This Law placed the supervision over the operations of the pension fund management companies and enactment of relevant by-laws into the hands of

NBS. This segment of financial sector should contribute to the deepening of the presently shallow Serbian financial market; namely, these funds would dispose of long-term financial resources which they would be able to invest into the securities issued by good-standing companies and this could cause a greater number of companies to begin selling their shares and securities on the market and in this way provide long-term and less expensive funding for their operations. Also, the development of this sector could result in the increase of competition on the financial market.

Implementation of the *Poverty Reduction Strategy* is also subject to macro-economic stability and fiscal sustainability. Main assumptions of the Strategy, on which depends the reduction of poverty, include: maintenance of mid-term macro-economic stability as the support to sustainable economic development (of minimum 4-5% p.a.), continued fiscal reforms and ensuring the fiscal sustainability of public expenditures. Priorities in the coming period, from the PRSP perspective include: sustainable and high GDP growth, reduction of inflation, increase of exports, greater share of private investments in the GDP, encouragement of long-term retail savings by increasing the credibility of banking sector, decreasing the share of public expenditure in the GDP.

In summing up, it can be said that, in the coming mid-term period the Ministry of Finance will pursue the following goals:

- maintenance of macro-economic stability (at this moment, the NBS is switching to the target inflation concept in its monetary policy, which should contribute to the maintenance of macro-economic stability);
- strict salary policy in the public sector;
- reform of the pension system (in cooperation with the Ministry of Labour, Employment and Social Policy);
- continued legalisation of grey economy and extension of the tax base, along with the relieving of burden, by lowering the tax rates, especially payroll rates;
- improvement of the budget preparation and implementation process;
- continued adjustment of foreign-trade regime to the EU trade measures and WTO rules.

- speeding up the pace of the restructuring and privatisation process in large state-owned and socially-owned enterprises, and providing sufficient funds from the budget for increased unemployment
- completing the banking system reform
- reform of the system of administrative prices and correcting the prices of energy
- implementing land reforms, cadastre legislation
- reform of the labour market
- continuing adjustment of the foreign-trade system to the autonomous EU trade measures
- upgrading of the business environment through implementation of systemic laws
- modernization of the education system and research and innovation policy

To achieve the goals above, it will be necessary to continue technical and institutional capacity building and modernisation of specific organisational parts of the Ministry (first of all Tax Administration and Customs Administration), with the purpose of combating corruption, cross-border crime, and tax evasion. Moreover, it will be necessary to continually invest in human resources and, primarily, in the strengthening of the employee skills of analyses, planning, monitoring, and evaluation of the budget funds allocation, and to increase the educational level of accountants, financial officers, and customs operational services. The table below shows a proposal of the projects, for the following three-year period, which could be financed, primarily, through grants, but also from domestic sources, and whose completion would contribute to the fulfilment of the above requirements.

Table 15. Priority projects in financial sector, in the period 2007-2009

Project name	Institution in charge	Estimated project value (EUR)	Sources of funding		Planned time of project implementation
			Own funds	External	
1. Interconnection of the Tax Administration and Customs Administration IT system relating to international trade and relevant procedures	MFin	*	**		2007-
2. Customs Administration – Modernisation of border crossings - Equipping the border crossings	MFin	25,000,000	**		2007-2009

3. IT support to the integrated customs system of Serbia, and further development of e-customs.	MFIN	3,000,000*	**		2007
4. Coordination and interconnection of competent agencies and regulatory bodies, domestic and international, in the fight against corruption within the Customs	MFIN		**		2007-
5. Project of improving the information processing unit within the Money Laundering Prevention Administration	MFIN	200,000	**		2007-
6. Creation of systematic and reliable reporting system within the Customs Administration; Improvement of the risk analysis system	MFIN	1,000,000*	**		2007-
7. Improvement of the budget planning process	MFIN	2,000,000	**		2007
8. Procurement of equipment for the Ministry of Finance conference hall	MFIN	80,000	**		2007
9. Development of software for monitoring and supervision of foreign-currency and foreign-trade transactions	MFIN	500,000	**		2007
10. Treasury Administration – Local treasuries project – Notarial system support project – In-house S.A. certification project – Project of legal drafting and setting up the state aid control bodies – Registers of concession contracts, state aid, public enterprises – Modernisation of IT-communication network and IP telephony – Document management system – Training for direct (approx. 100) and indirect (approx. 3,500) users of budget funds with the aim of developing skills for the operation in accordance	MFIN	* 150,000 500,000 1,000,000 200,000 850,000	**		2007

with the permanent Treasury system – Project of legal drafting and setting up the state aid control bodies		- necessary feasibility study at the MF level, with mandatory participation of foreign consultants with the aim of estimation of required funds. It is necessary to involve the funds of an accessible EU program			
11. Development of the study on possibilities to reduce tax burden of the economy	MFIN	*	**		2007
12. IT support to the integrated tariff of Serbia TARIS	MFIN – Directorate for IT	*	**		
13. Procurement of computer equipment for the budget sector	MFIN –	*	**		
14. Education of employees in the Fiscal System Division	MFIN –	*	**		
15. Training, expert assistance, and software for the Division of Macro-Economic and Fiscal Analysis	MFIN – Division of Macro-Economic and Fiscal Analysis	500,000*	**		
16. Combating corruption, and strengthening the Customs Administration integration	MFIN –	*	**		
17. Implementation of the Tax Administration IT strategy: Implementation of the system for tax payer registration	MFIN-Tax Administration	400,000		400,000	2007
18. Tax accounting project	MFIN-Tax Administration	500,000		500,000	2007-

	n				
19. E-tax project	MFIN-Tax Administration	300,000		300,000	2007-
20. System of decision-making support ; Improvement of the risk analysis system (Enterprise Data Warehouse)	MFIN-Tax Administration	600,000		600,000	2007-
21. Specialist IT training	MFIN-Tax Administration	200,000		200,000	2007-
22. Call Centre project	MFIN-Tax Administration	1,200,000		1,200,000	2007-
23. Distance learning system (DLS)	MFIN-Tax Administration	250,000		250,000	2007-2009
24. Improvement of the equipment level in the Tax Administration – procurement of 1210 lab cannons for field inspectors in the Tax Administration	MFIN-Tax Administration	1.210.000		1.210.000	2007
25. Data recovery and Forensic Project	MFIN-Tax Administration	180,500		180,500	2007
26. IT interconnection of the Fiscal Police Division Project	MFIN-Tax Administration	63,500		63,500	2007
27. Technical equipment of the Tax Police Division and training of inspectors for the Law on Criminal Procedure	MFIN-Tax Administration	60,000		60,000	2007
28. Procurement of cars 150 in 2007 50 in 2008 50 in 2009	MFIN-Tax Administration	2,125,000 778800 856680		2,125,000 778800 856680	2007 2008 2009
29. Procurement of computer equipment for the Tax Administration Headquarters - 150 work stations, and 150 printers	MFIN-Tax Administration	25,000		25,000	2007

Source: Ministry of Finance

*It is necessary to estimate the value of project, and the structure of funding sources, in cooperation with the line ministry and competent institutions

** The funds will partly be provided from own funds and, at this moment, it is not possible to estimate the amount of such funds. Approx. EUR 43 million, envisaged within the NIP to be allocated for the strengthening of IT capacity of public institutions (e-Serbia), in the period until 2008. A part of these funds will be used for the implementation of some of the proposed projects.

Annex to the table:

- 1. For the priority under no. 1, it is necessary that the involved representatives of the Tax and Customs Administrations agree on the manner for interconnection and introduction of the Tax Administration in the SEW (Single Electronic Window) Project; therefore, at present it is not possible to define the need for foreign assistance.*
- 2. For the priority under no. 3, the future SEW should include, namely it should be open for inclusion of all government authorities and the representative of business community taking part in foreign trade, and the above amount, along with what was thus far invested, should cover the completion of the system, both with regard to hardware and the software.*
- 3. For the priority under no. 4, the Tax Administration participated in the tender with the Ministry for International Economic Relations in 2005 to be awarded the funds from the Government of Norway grant. The project was not accepted and the Customs Administration did not take part in the 2006 tender because it financed a larger part of its activities from other sources so that the numbers from the table were accordingly erased.*
- 4. For the priority under no. 12, the Customs Administration participated in 2006 in the tender with the Ministry for International Economic Relations to be awarded the funds from the Government of Norway grant. The project proposal was accepted under designation B and, according the coordinator for the Government of Norway grant, the funds should be disbursed by the end of first quarter 2007.*
- 5. Opinion of the Division for Macro-Economic and Fiscal Analyses is that, in the coming period, it is necessary to strengthen the capacity of this Division concerning:*
 - Setting the mid-term macro-economic fiscal goals,*
 - Projections of macro-economic and fiscal indicators, and*
 - Setting the economic policies and structural policy.*

Project under no. 15 would be composed of five components:

- a. Procurement of IT equipment and other equipment (note-books, projectors, printers, servers, etc);*
- b. Facilitation of the access to Consensus Forecasts projections (projection for the G-7 countries, the Western and Eastern Europe, Asia, exchange rates of major currencies in the world); interconnection with the Bloomberg system with the aim of using the latest data about the developments in the financial*

and commodity markets in the world, the most important economies, and data exchange with the system (forwarding the latest data about the Serbian economy to this global network), subscription to the Economist and Platts (with the purpose of monitoring the developments relating to energy prices), and procurement of expert literature;

- v. Financing of the lectures of local and foreign experts, involvement in individual analyses together with local and foreign experts;*
- g. Organisation of study trips abroad with the purpose of learning about the experience of other foreign institutions;*
- d. Development of own software solution for macro-economic and fiscal analyses, generation of a database, and procurement of other programs for the conduct of analyses.*

Cost estimate:

<i>1. Component 1</i>	<i>EUR 30,000.-</i>
<i>2. Component 2</i>	<i>EUR 100,000.-</i>
<i>3. Component 3</i>	<i>EUR 100,000.-</i>
<i>4. Component 4</i>	<i>EUR 110,000.-</i>
<i>5. Component 5</i>	<i>EUR 120,000.-</i>
<i>Other costs</i>	<i>EUR 40,000.-</i>
<i>Total</i>	<i>EUR 500,000.- (preliminary estimate)</i>

The goal of this project would be to add on the DFID project (support to the Ministry of Finance in strengthening of mid-term framework of expenditures) which is in progress, and to strengthen the capacity of the Division of Macro-Economic and Fiscal Analyses; therefore, it should be checked whether there is any possibility that DFID provides additional finances for these components so that both the DFID Project and the Division for Macro-economic and Fiscal Analyses would successfully attain their planned goals and continue their cooperation until the end of 2009.

In view of planning and implementation of the Government of the Republic of Serbia economic policy, and in particular in the context of future integration into the EU, the role of the Division for Macro-economic and Fiscal Analyses will be to prepare pre-accession economic programs and report to the EU about the most important macro-economic and fiscal developments. The donation would enable the capacity building process to be continued and, consequently, the Division would be able to effectively perform the tasks set before it.

3.2. Public administration and local self-government

Public administration constitutes the general framework for operation of regulatory, executive, and supervision state institutions. The Ministry for Public Administration and Local Self-Government works on the implementation of activities set in the Strategy for Public Administration Reform in the Republic of Serbia that was adopted in November 2004. The Strategy is based on general principles of the *European Administrative Space* and *good governance*, as well as the concept of *open government*. Strategic management of the public administration reform has been entrusted to the Council for the Public Administration Reform. The Action Plan for Implementation of the Public Administration Reform in the period 2004-2008 includes the following activities: decentralisation, generation of legal framework for development of professional public administration, creation of the environment for implementation of the new framework of public administration, human resources management, modernisation – introduction of information technologies, and development of control mechanisms. Also, in 2004 and 2005 the National Assembly adopted a set of critical laws (Law on Public Administration, Law on Civil Servants, Law on Ombudsman, Law on Prevention of the Conflict of Interest in Performance of Public Duties, Law on Accessibility of Information of Public Interest, Law on Electronic Signature, and Law on Public Agencies), and, which is of utmost importance, the National Anti Corruption Strategy was adopted. The Law on Public Administration provides for the application of all key principles of the Strategy of the Public Administration Reform in the Republic of Serbia, while the Law on Civil Servants regulated the status of public employees and defined the specific obligations, rights, and responsibilities, and the principles for establishment and termination of employment. These and other laws established the appropriate legal framework that enables building of a professional, de-politicised and decentralised public administration. The envisaged period for the fulfilment of these requirements for the attainment of modern and streamlined administration is until 2008. This coincides with the commencement of negotiations for accession of the Republic of Serbia to the European Union and is vital, considering that the situation in public administration will be an important parameter for the negotiations for accession to the European Union. The reform of public administration is a precondition for successful reforms of other segments of the society and is strongly linked to them.

With regard to the public administration and local self-government, a number of reform projects were implemented in the recent period, with donors' financial support,

oriented, primarily, to technical and human resource capacity building in the Ministry and some municipalities (Table 12a).

Most important projects in the public administration and local self-government sector in the period 2000 – 2005:

1. Assisting the Government in implementation of the program of democratic reforms	1,000,000 EUR	Norway	2001-2006
2. Development of modern human resource management in public administration	3,700,000 EUR	Sida	2002-2006
3. Strengthening of the capacity for management of the public administration reform	400,000 GBP	DfID	2002-2005
4. Support to strengthening of the Ministry for Public Administration and Local Self-Government	1,500,000 EUR	EAR	2003-2006
5. Support to administrative capacity building	609,000 EUR	French Government	2003-2006
6. Program of assistance to the municipalities of Eastern Serbia	17,000,000 EUR	EAR, own funds of local self-government authorities	2003-2006
7. Implementation of the reform of salary and grade system in the public administration in the Republic of Serbia	2,000,000 EUR	EAR	2005-2007
8. Program of assistance to municipalities, stage 1	2,000,000 EUR (4, 335, 000. 00 CHF)	SDC	2001-2004

Reform of public administration is based on the laws that were adopted: the Law on Public Administration and the Law on Civil Servants, which lay the foundations for modern public administration. The Law on Public Administration provides for the implementation of all key principles of the Strategy of the Public Administration Reform, while the Law on Civil Servants regulates the status of public employees and defines the specific obligations, rights, responsibilities, and principles for establishment and termination of employment. These Laws established a suitable legal framework which enables building of a professional and depoliticised public

administration. Depolitization will result in clear distinction between the process of political decision making and the process of their implementation. Creation of a well-trained, accountable and efficient administration will be ensured through the implementation of professionalization principles. Training and further education of employees were set as a priority at the first stage of the public administration reform, and, to ensure continuity of reforms, it is necessary to set up the mechanisms for long-lasting and continuous improvement of civil servant skills. The most cost-effective way to attain this goal is to set up a single *training centre* which will provide the top quality level of training. With the aim of building a modern, efficient and economical public administration, now in progress is the reform of the remuneration system. The goal is to establish a fiscally sustainable salary system within which performance would be awarded according to the volume and complexity of work, responsibility level and extent to which it contributes to overall efficiency and performance of all public administration authorities.

Rationalisation implies the optimally organised public administration which provides a satisfactory quality level of services with the least possible number of operators and reduction of total labour costs. One of the main activities oriented towards rationalisation is a realistic estimation of the number of operators required for each individual job, which involves functional analysis of the jobs to be done by each individual authority. It will be conducted in 2007 in all RS authorities, in cooperation with the Ministry. Clear division will be made between the competences and jobs of different public administration authorities so as to avoid overlapping and, accordingly, determine the number of operators required. The new organisation will start from the horizontal analysis of functions, structures, procedures and processes, at the level of entire country, and vertical analyses at the level of individual institutions. This process will be supported by the professionalisation and modernisation of public administration. Legal framework building will be continued and that will be the foundation for new institutional forms of performing public services, such as regulatory bodies and public agencies to which competences of the public administration authorities will be transferred, in a gradual and controlled manner.

With the aim of further improvement of the administrative procedure in public administration bodies, and supervising the lawfulness and correctness of their work, the Ministry for Public Administration and Local Self-Government will, in 2006, finish the work on the preparation of the new Law on General Administrative Procedure which, among other things, regulates the supervision over the operation of public administration, and the Law on Administrative Disputes, which will provide for judicial

review of the work of the administration. Moreover, the implementation of the Law on Ombudsman will provide a specific form of external control over the work of public administration. In this way, a complete and comprehensive *mechanism for the supervision of the work of public administration* will be in place.

Modernisation principle pertains to the technical and technological improvement of the operations of public administration authorities with application of modern IT and communication technologies. To this effect, generation and use of integrated databases will be ensured, as well as the establishment of a single system of communication between public administration authorities in the entire territory, along with the introduction of electronic business and electronic signature in the operations of the public administration authorities. Investing into the modernisation requires quite large funds; however its outcome contributes to the decrease of labour costs in public administration bodies. Introduction of information technologies into the operations of public authorities at the central and local level will be implemented through the establishment of a common information system, as defined in the draft *National Information Society Development Strategy*. The goal is to provide the public with easier access to information and enable them to perform some specific tasks, and to increase operating efficiency along with reduction of costs.

Division of authority between the central and local levels of government is one of critical requirements for general democratisation of the society. The *decentralisation* process will develop gradually, in accordance with the Strategy of the Public Administration Reform in the Republic of Serbia which defines main principles and models of the decentralisation process and fiscal decentralisation, but also in accordance with the legal framework that governs these issues. The Action Plan for the implementation of public administration reform envisages an analysis of operations of the local self-government authorities which will be continued in 2006 with the aim of having the capacity at the local level properly estimated and the strategy of their capacity building implemented. Based on the previous analysis, and in the light of the adoption of the new Constitution, the Ministry will prepare draft amendments to the existing laws pertaining to the local self-government, namely, it will draft a new set of laws pertaining to these issues. The decentralisation process will be synchronized with the process of *fiscal decentralisation* because, when transferring the authority to the local self-government it is necessary to identify the resources from which local self-government will finance the performance of tasks it is delegated. The process of fiscal decentralisation will unavoidably introduce some changes in the public revenue system, but also in the definition of measures oriented

towards the control of risks from the over-indebtedness of local self-government. The prerequisite for fiscal decentralisation is that the local level of government pursues public expenditures and public revenues policies that are best suited to the citizens' needs, while assuming the responsibility to provide best quality of services and to ensure that costs are optimal. Fiscal decentralisation will be founded on clear definition of roles and responsibilities of different levels of government in the country, transparent identification of the title over public revenues, autonomy of local government at both the revenue and expenditure side, and setting up of suitable institution which will be administratively and technically capable to efficiently perform tasks and duties. The goals of the stabilisation of economic policy and a better capacity for the administration of more complex tax forms, such as value added tax and synthetic income tax, require a certain degree of fiscal system decentralisation. To be able to efficiently control macro-economic developments in the country, the central government needs suitable instruments, including fiscal ones. If the central government excessively decentralises the tax system, it could significantly reduce its capacity to use the fiscal policy measures for attainment of macro-economic goals.

The prerequisite for both decentralisation processes is human resource and material capacity of local self-government authorities to autonomously assume performance of their new competences. Material capacity will be mostly ensured through the process of fiscal decentralisation which will be in line with the decentralisation of tasks, but also through creation of constitutional and legislative grounds for the existence of local self-government's own property. Within the human resources capacity of local self-government authorities, the Ministry will provide any assistance needed for the analysis of local government capacities and creation of plans for their building. A part of this process implies the adoption of a specific Law on the Employees in Local Self-Government Authorities.

The greatest problem in the coming period will be the implementation of the regulations and strategies which are already in force. Necessary for the *implementation* as such is to accelerate the *special forms of capacity building*, intensify the *interministerial coordination and coordination between different levels*, improve the work of *inspection bodies*, and ensure the *political will* for the implementation. In its work, public administration must respect European principles, namely: correctness and predictability (legal protection), founded on lawfulness and impartiality; openness and transparency (allowed exceptions include national security and security of personal data); efficiency (accountability in the use of public funds) and effectiveness (attainment of goals adopted in the legislation). Potential conflict

between the efficiency and rule of law on the one side, and lawfulness on the other side, must be resolved by separating the adoption and execution roles, as functions of the administration; thus, the administration adopts public policy and conducts supervision, and the execution as such is delegated to contractors.

In the paper titled *European Partnership* it is clearly underlined that the success of the EU integration process is entirely dependent on the public administration reform. Therefore, this document identifies public administration reform as one of six key short-term priorities. Mid-term priorities that are defined by this document and pertain to the public administration sector include: strengthening of the EU integration units within the ministries, full application of the Law on Public Administration and the Law on Civil Servants, implementation of measures for human resource strengthening of public administration, establishment of a centralised system for payroll processing, and adoption and implementation of reforms in view of the decentralisation so as to consolidate the capacity of local government.

It may be summed up that, in the coming mid-term period, the Ministry for Public Administration and Local Self-Government will be facing the following key challenges:

- Creation of the environment for efficient decentralisation;
- Full application of the Law on Civil Servants and the Law on Public Administration;
- Raising the level of public administration services and improving the mechanisms for control of lawfulness;
- Improvement of the public administration organisational efficiency and further application of information technologies;
- Strengthening of local self-government.

With the purpose of attaining the above goals, implementation of following project is proposed for the coming mid-term period (Table 16).

Table 16. Priority projects in the sector of public administration and local self-government in the period 2007-2009.

Project title	Institution in charge	Estimated project value (EUR)	Sources of funding sources of funding		Planned start of project implementation
			Own funds	External funding sources	
1. Support to the inclusion in the work of the Regional School for Public Administration	MPALSG	3,000,000	**		2007
2. Support to the local self-government development through strengthening of the Ministry for Public Administration and Local Self-Government	MPALSG	400,000	**		2007
3. Support to the implementation of new legal framework	MPALSG	200,000	**		2007
4. Strengthening of local self government in the Republic of Serbia	MPALSG	2,000,000	**		2007
5. Strengthening of local self-government units in view of management of EU funds	MPALSG, MIER	2,000,000	**		2007
6. Support to the establishment of the Ombudsman's Office	MPALSG	1,000,000			2007
7. Strengthening of administrative inspection	MPALSG	1,000,000	**		2007
8. Support to the Strategy of the Public Administration Reform in the Republic of Serbia (phase 2)	MPALSG	1,853,000	**		2006-2008
9. Creation of the environment for introduction of the decentralised implementation system for the EU funds	Government	6,000,000	**		2008
10. Preparation of the public administration in the Republic of Serbia for the European administrative space	SEIO, MPALSG	2,000,000	**		2008.
11. Support to rationalisation process	MPALSG	200,000	**		2007
12. Support to the implementation of the information society development	MPALSG with other competent authorities and services	*	**		2007

Source: Ministry for Public Administration and Local Self-Government

** It is necessary to estimate the value of the project and structure of the funding sources, in cooperation with the line ministry and competent institutions.*

*** Funding will be partly provided from own funds and, at this moment, the amount of these funds can not be determined.*

3.3. Economy

In the past period, the Ministry of Economy successfully performed some significant reform tasks. In the period 2002-2005, 2,214 companies were privatised, financial effect of EUR 2 billion of revenue was realised, EUR 1 billion were provided for investments, and EUR 279 million for the social program. The restructuring process has started in large socially-owned enterprises with big business and financial problems, military industry, and public enterprises of importance for the Republic.

In the period between 2001 and 2006, 74 large socially-owned enterprises were in the process of restructuring in view of privatisation, with the total number of employees of more than 155,000. The main goal of restructuring is to prepare these large systems for successful privatisation, namely for their sale to successful investors, and to preserve as many jobs as possible. In this regard, bankruptcy and liquidation are planned for their parts which do not have any economic justification. After their restructuring was completed, before June 2006, 44 companies were privatised, of which 11 as whole companies and 33 as their subsidiaries. This process gained particular speed in June 2005 after the new solutions were incorporated in the Law on Privatisation („Official Gazette of RS", Nos. 38/01, 18/03, and 45/05). Since then, 33 large business systems have been restructured and offered for sale, all in their entirety. At the same time, seven companies under the restructuring process were subjected to bankruptcy.

Preparation of state-owned companies for privatisation was also intensified in years 2004 and 2005, through their restructuring (reorganisation, financial consolidation, resolution for redundant employees), and upgrading of the legislative framework for the privatisation of this form of property. The greatest progress in the preparations for privatisation was made in the case of NIS. The Government has adopted the Strategy for Privatisation of NIS and, in accordance with the adopted Strategy, now in progress is the tender documentation preparation by the advisors.

The Government has adopted the Decree on the percentage of capital that may be privatised in the majority state-owned companies conducting the energy activity as their core activity („Official Gazette RS", No. 63/06) which provides that a percent of

capital that may be sold in such companies under privatisation may not exceed 70 % of the total capital of the company under privatisation, and that the Government determines this percentage for each individual company under privatisation.

For other large public enterprises in the Republic of Serbia (EPS, JAT, ŽTP, PTT ...), privatisation strategies have not been adopted yet. However, in the case of EPS, JAT, and ŽTP, the capital was transferred to the Republic of Serbia, as far as their non-core activities are concerned and for them the privatisation process has been initiated and is conducted by the Privatisation Agency. For the above enterprises, the process of resolving the issue of redundancies has also begun, through implementation of social programs as one of the measures taken in view of the pending privatisation.

The pace and degree of the privatisation of state-owned enterprises are not regulated by the law. Rather, they will be defined for each specific case through privatisation strategies and programs which will be verified (adopted) by their respective founders and account will be taken of the specificity of the business activity in which a respective enterprise is involved.

In 2005, out of 100 companies which need to be restructured before the commencement of the privatisation process, restructuring process was initiated for 18 companies and calls were announced for 35 companies, 13 companies were privatised after successful implementation of the restructuring process, and 34 companies are now at different stages of economic-financial consolidation.

In the period from 2001 to 2004, restructuring of the public enterprises that provide infrastructure related services (such as electricity, telecommunications and postal services, oil and gas, rail and air traffic, forests, water, and similar) developed at a lower pace. In 2005, restructuring process of the Republic public enterprises gained speed in respect of decreasing the number of employees under the severance pays provided from the budget funds, reduction of debts through write-off of government claims, and splitting up of large companies into their core and non-core activities, along with the preparation for their privatisation. Contributing to the acceleration of privatisation in 2005 were the legislative amendments through which the Privatisation Agency gained the right to autonomously terminate contracts with the buyers if the latter fail to perform their contractual obligations. A conditional write-off of government claims was introduced, which provided the possibility for government creditors to collect what is owed to them from the privatisation income and made it

impossible for the directors to prevent that their respective companies' shares are traded on the market by refusing to sign the prospectuses.

By setting up the Agency for Small and Medium Enterprise Development at the level of the Republic, in June 2001, and by expanding the network of these agencies throughout the territory of the country, by adopting the SME and Entrepreneurship Development Strategy in January 2003 and the Law on Guarantee Fund in May 2003, the legal, institutional and strategic foundations were laid for faster development of the SME and entrepreneurship sector (SMEE). Since 2001, the environment for SMEE business and development has considerably changed, at the national, regional, and local level. Legal and institutional framework for SME operation was reformed, the level of skills and knowledge for the work in SMEs was raised, institutions for their financial support were built, and statistical monitoring of SME performance was improved. Analysis of the development level of small and medium enterprises shows that this sector is the most vital and economically most efficient segment of the economy and that it is gaining importance in the implementation of structural reforms, particularly with regard to opening of new jobs and enlivening of the growth of overall economy. With the dominant share in the number of active companies (99%), this sector accounts for approx. 55% of the employees in the economy sector. SME sector has realised above-average qualitative indicators of development in 2004 and 2005, and small enterprises were most profitable.

Most projects that were implemented under the auspices of the Ministry of Economy in the past period were focused on SMEE development, raising the competitiveness level of companies, supporting the privatisation process, restructuring of socially-owned enterprises, capacity building of the institutions involved in above processes, credit support through the Development Fund, and programs for revitalisation of production in specific regions.

The most important projects in the economic sector in the period 2000-2005:

1. "Non-financial support to the SME development in Serbia" Project	3,600,000 EUR	EU	2001-2004
2. Project on distribution and use of the funds for credit support to the economy through the RS Development Fund	30,000,000 EUR annually	Budget	2002-
3. Program of distribution and use of the funds for lending for the lease-out of domestic machines and equipment	10,000,000 EUR annually	Budget	2003-

4. Program of the use of funds for promotion of regional development, namely for credit incentives for of the employment and revitalisation of production in the City of Kragujevac, municipalities of Bor and Vranje, and 13 underdeveloped municipalities	10,000,000 EUR annually	Budget	2005-2006
5. Program on distribution and use of the funds intended for micro-loans for employment program	10,000,000 EUR annually	Budget	2005-
6. Development of the National Economic Development Strategy of the RS in 2006-2012	80,000 EUR	Budget	2006
7. APEX global loan for SMEs	65,000,000 EUR	EIB	2002-
8. Pilot project on the competitiveness and economic efficiency		USAID	
9. Serbian Economic Efficiency Project	*	USAID	2003-2007
10. Promotion of the private sector and employment in the Republic of Serbia	**	GTZ	2003-2010
11. «ENTRANSE»- project of the support to the development of business incubators in the Republic of Serbia		Government of the Kingdom of Norway	
12. Support to the Privatisation Agency		EU	2003-
13. Development package-credit lines for SMEs	34,000,000 EUR	Italy	2004-
14. Pilot project for the promotion of cluster development	100,000 EUR	Budget	2005

**local partner SIEPA (Serbian Investment and Export Promotion Agency). Planned time for completion of the project – July 2003 - April 2007*

***local partner SCC (Serbian Chamber of Commerce). Planned time for completion of the project: September 2003 - December 2010*

Privatisation of the socially-owned enterprises will continue at a greater pace, with the purpose of making a more significant contribution to the development and increase of efficiency of domestic economy, increased investments into new production technologies, improvement of export results and increase of employment. To this effect, completed will be the process of auction privatisation of socially-owned companies and sales of large companies to strategic investors through tender procedure. At the same time, insolvent companies will be privatised through bankruptcy procedure and, by the completion of the privatisation of socially-owned sector, the sales of the stocks from the Share Fund of Serbia will be brought to an end and thus the privatisation will be finished of those socially-owned companies which were partially privatised. The Privatisation Agency will speed up the tender and auction privatisation, restructuring of companies, and sales of companies through bankruptcy procedure. The plan is to conclude the privatisation of socially-owned

companies before end of the first quarter of 2007, and, with regard to the state-owned and public sector, the privatisation of more than 50% of companies should be privatised before end of 2010. Also, it is necessary to continue and speed up the bankruptcy procedure in over-indebted companies so as to lower the fiscal loss, as well as to speed up the restructuring process and resolution of the issue of redundant employees. Shares from the Share Fund portfolio should be sold before end of 2008 and, pursuant to the Law on Privatisation; cumulated shares from the Privatisation Register should be transferred to the citizens who meet the relevant requirements, before end of the first quarter of 2007. The method of the public offer of shares will make possible that the companies develop with strategic investors and social program. Small shareholders will be given the opportunity to have shares in different companies, which will provide systemic protection and ensure equity and social support to the privatisation. Adoption of the Law on Acquisition and the Law on Investment Funds will create even better institutional conditions for more efficient functioning of the capital market, and for the successful sale of the shares from the Share Fund portfolio. Privatisation revenue will mostly be used for the development purposes, within the NIP. Privatisation revenue will be partly used for the capitalisation of the state pension fund which will be transformed into an institutional investor.

The greatest challenge in the coming period will be the *restructuring and privatisation of large socially-owned and public enterprises*. These enterprises made losses over many years, have accrued huge liabilities, mostly have negative capital, they are conglomerates without specialisation and with huge redundancies. They have survived the transition thanks to the soft budget restrictions, namely the government subsidies and melting of these enterprises' capital, which was the reason to have them restructured before privatisation. During the five years of transition, no firm budget restriction was established for all enterprises from the group of enterprises to undergo the restructuring process. Also omitted was the implementation of bankruptcy procedure, with the aim of settling the insolvent debtors' debts. The slowing down of the restructuring of public enterprises has had the impact of increased public consumption and unstructured and unprivatised socially-owned and state-owned companies, which are not able to export, contributed to a large foreign trade deficit. It is therefore urgent to accelerate the process of real sector restructuring, since this would have a positive effect on the economic efficiency of economy and public finances. The acceleration of the restructuring of these companies will greatly be helped by new legal solutions in the form of a write-off of

debts towards the state and shortening of the bankruptcy procedure. Restructuring of public enterprises in the Republic of Serbia will be accelerated in such a way that strategic development plans and restructuring programs will be shortly adopted for these enterprises. The Government will, upon previous agreement with the interministerial Commission for Restructuring of Public Companies, shortly adopt strategic development plans and restructuring programs for each individual public enterprise. Special focus will be placed on the privatisation of public utility companies whose founder is the local self-government. Main institutional framework for the privatisation of these companies has been defined, and the issue of free shares was separately defined. The privatisation model will not change and privatisation of these enterprises will be implemented in compliance with the main provisions of the Law on Privatisation. In view of the monopolistic character of a large part of the public services provision, privatisation of public utility companies is a complex task. Based on the Privatisation Strategy of Public Utility Enterprises, a suitable institutional environment will be created for their privatisation. At the same time with the public utility enterprises preparation for privatisation (reorganisation, spinning off of non-core activities, reduction of the number of employees), different aspects of cooperation with private sector will be developed, based on contract awarding, concession granting, and competition strengthening in this economic sector (PPP – Public Private Partnership).

The SME sector has achieved a considerable growth, as it was mentioned earlier, but it is still facing significant challenges. The SME sector is facing expensive and lengthy procedures necessary to obtain different licences and permits, barriers for start-up of business and entry into market competition, relatively high tax burden which discourage the registration and development of SMEE business, inefficient and prolonged proceedings for business disputes, unregulated conditions for the use of real estate and moveable property. Also, the flexibility and mobility of the labour market is not sufficient, conveniences for the SMEE sector on the capital market are not sufficient, the procedures for public procurement and environmental protection for SMEE are rigid, etc. SMEE sector is facing an inadequate support from educational institutions at all levels of education in respect of entrepreneurial knowledge and skills. Formal and informal education did not to any significant extent develop the offer of the entrepreneurship related educational content through the curricula, trainings and seminars, while, on the other hand, the SMEE owners and managers insufficiently use the consultancy service market. In the end of 2005, the Government adopted the *Plan for the encouragement of development of small and medium-sized*

enterprises and entrepreneurship in the period 2005 – 2007, whose implementation will facilitate this sector's access to funding sources, strengthening of links with the education and science-research system, application of information and communication technologies in business operations, etc. Implementation of the Plan will be monitored by the SMEE Council as an interministerial body of the Government. Annual action plan for promotion of the SMEE sector development will define the goals, measures, timelines for completion, and the amount of required funds for implementation of individual measures which will be operationalised in annual plans of line ministries. Specific attention will be devoted to *start-up* projects, and the unemployed will be provided the loans with favourable annual interest so that they can start their own business. Building of the institutional infrastructure in financial support will be continued through the setting up of the initial capital fund, development of the guarantee fund function, and network of local and regional credit and guarantee schemes for SMEE. Integrated information systems will be built and statistical and business information critical for the development of SMEs and market economy will be provided in them, investment risk will be lowered as well as the risk premium charged by the grantors of loans. Monitoring function of the developments in SMEE sector will be established in accordance with the EU standards (*SMEE Observatory*).

The preparation of the Operating plan for the improvement of conditions for entrepreneurship lending, increase of the competitiveness level, and improvement of the entrepreneurial infrastructure is under way. Amendments to the Company Law will be prepared so that this Law will regulate the entrepreneurs' business operations too. These activities will further speed up the development of SMEE sector. The Government will remove the barriers for opening of new small and medium-sized privately owned enterprises, and the barriers to strengthening of competition. It will also create equal conditions for all business operators. With the purpose of encouraging the SMEE development, the Council was set up as an interministerial body. It will play a significant role in implementation of the SMEE development policy. Special focus will be placed on the creation of the institutions of financial market adjusted to the need of small and medium-sized business operators. Key directions of support to the SMEE development include: improvement of the stimulating business environment for SMEE incorporation and development, raising the knowledge and skills level of the management and employees of small and medium-sized enterprises (SMEs) through the education for entrepreneurship, building of institutions for non-financial support to SMEE and development of non-financial

services, support to the financial institution for the SMEE development and equality in their access to capital market, development and implementation of innovations and modern technologies, donor and developmental assistance in the implementation of concrete programs and projects for SMEE development. For faster development of SMEE, establishment of the network of regional centres for their development throughout the Republic of Serbia and voucher system in provision of non-financial services to SMEE will be provided, along with continuous media promotion of entrepreneurship and measures of the support to strengthening of that sector, as the generator of the growth of income and employment. The goal in the sector of small and medium enterprises is to increase their number to 390,000 before end of 2008 and to employ 100,000 people within the same period.

Development of SMEE, as a pillar of sustainable economic development of the Republic of Serbia, involves rising of the *level of skills and knowledge necessary for work in the SMEE sector*. To this effect, entrepreneurship will be integrated into the system of formal education, so that the education for entrepreneurship is represented at all levels of formal education, as well as into the informal education and in the system of lifetime education and training. Specific curriculum contents in primary education will be devoted to informing the students about entrepreneurship. Within the middle-term education, in the schools streamed in this direction, the entrepreneurial knowledge and skills of importance for running a business will be passed through suitable curricula, and through outside-school teaching programs, mandatory and pilot programs which will grow into the regular programs for gaining the qualifications for particular professions and profiles for work in SMEE sector. The Republic of Serbia, through the European Agency for Reconstruction, has been since August 2003 implementing the program reforms of professional education, with the goal to, introduce a new method of school functioning, new educational profiles, and new curricula, in 2007. University education will be enhanced with regard to entrepreneurship and links will be strengthened between the university and science-research institutions and the economy, with the intention of the entrepreneurial education facilitating efficient employment and business running, technology transfer, application of innovations, and development of new products and technological processes. Development will be accelerated of the consultancy services market for SMEE requirements that was initiated in 2002 by the EU Project "Non-financial support to the development of SMEE sector in Serbia".

Financial support to the development of SMEE sector will be enhanced through government instruments, international and bilateral credit arrangements and primarily

through the development of financial markets (banks and other financial institutions, private investment funds, venture capital networks, prices of credit guarantees). Special focus will be placed on the financial support to the application of technological innovations which influence the growth of competitiveness and SMEE sector development on the basis of the introduction of new equipment, technological processes and products and modern production and quality management. To this effect, increased will be the SMEE sector capacity for the development and implementation of modern technological innovations through their linkage with the educational and research system and with competitive strategic partners and through introduction of modern information technologies and through facilitated financing of the SMEE innovative activities. Especially encouraged will be the introduction of modern information technologies and e-business in the SMEE sector. Special support will be provided to highly-innovative SMEE in fast-developing areas, such as SOFTWARE industry. At the same time with improvement of financial instruments for the support to SMEE, continuation of donor and developmental support will be ensured, as well as the efficient coordination of different donor projects, with the aim to have the SMEE sector development policy more efficiently implemented.

Also, in the *post-privatisation period* will be ensured consolidation of property and introduction of efficient ownership structure in the privatised enterprises. In the cases when the buyer of the company does not meet his contractual obligations, a temporary agent of capital will be introduced. This solution will provide for the lessening of conflicts arising after the privatisation, including the repeated privatisation process or assignment of contract. Special attention will be devoted to the accountability of the participants in the process for accuracy of the information presented in the privatisation process. The Government will provide for adoption and implementation of the law on records of former local owners and the law on restitution and indemnity of former local owners from whom the property was, without consideration, confiscated through sequestration, nationalisation, agricultural reform, and expropriation of private property of domestic natural and legal persons. Also, balance between the restitution and privatisation will be established, and indemnity of former owners will take into account realistic capacity for provision of budget funds and will not negatively affect the monetary stability and developmental prosperity of the country. In the first phase, reliable data will be provided about the volume and value of the property to be returned to former owners, as well as the efficient operation of the competent Republic agency.

The Government is continuously working on adoption and implementation of the measures for *improvement of investment climate* in the country. Some of these measures, in the ensuing period, will include:

- establishment of a special department within the municipalities, in accordance with the *One-Stop-Shop* principle which will receive the applications for building permits (and connections to utility services), collect all necessary documentation, and issue licences;
- adoption of a law on property of local self-government, which will make it possible for the municipalities to become the owners and to have disposal over the real estate in their respective territories, as well as adoption of the new law on financing of local self-government, which guarantees the fiscal decentralisation which will encourage fiscal competition among municipalities;
- completion of cadastre records in the Republic of Serbia, based on the project started in 2003 with the donors support, planned to be concluded in five years; it is also necessary to create a statistical database about the land available for construction and development of production and service business activities until November 2006;
- application of a law on arbitration, which will in a simple and comprehensive manner provide for recognition and execution of the awards made by international arbitration and which will regulate the arbitration procedure for arbitration tribunals seated in the Republic of Serbia, in the event the parties decide on application of different rules and procedures;
- adoption of a law on industrial and technological parks, in which halls with full infrastructure will be built and which will be leased out and sold to local and foreign investors;
- adoption of a law on factoring, which will define a comprehensive legal framework for internal and international accelerated collection of receivables;
- promotion of concessions as a form of cooperation between private and public sector in a wide range of areas, and setting up of a suitable body at the interministerial level, with the aim of defining the priorities, developing the activities, and planning for the entire area of concessions; since a large number of concession contracts is expected, it is necessary to establish suitable administration for concession, which will be in charge for elaboration, analysis and

studies that would serve as the expert basis for improvement and implementation of the concession related policy;

- adoption of the law on promotion of balanced regional development of the Republic of Serbia.

In the coming mid-term period, the Ministry of Economy will face the following key challenges:

- Accelerating the pace of privatisation and restructuring of existing companies and decreasing subsidies;
- Strengthening of business environment, with the aim of promoting the private sector development, increasing the competitiveness, creating equal conditions for market competition, and development of financial sector, with the aim of allowing access to funding sources.
- Establishment of suitable administrative and regulatory environment for the incorporation and functioning of new companies;
- Horizontal programs for encouragement of entrepreneurship (business incubators, industrial parks, etc);
- Increase of productivity in companies, with gaining capacity for the entry into and survival in highly competitive foreign markets;
- Development and increase of employment in the sector of small and medium-sized enterprises and entrepreneurship;
- Implementation of the Economic Development Strategy of the Republic of Serbia;
- Adoption and implementation of the Balanced Regional Development Strategy of the Republic of Serbia ;
- Strengthening of capacity in existing institutions (and development of new capacity for regional development at the national, regional, and local level, in accordance with the EU standards), as a precondition for the implementation of the Law on Promotion of Balanced Regional Development of the Republic of Serbia.

After the country status changed and competences are transferred from the former State Union, the Ministry of Economy is facing yet another key challenge– Approximation of Legislation with the EU *acquis* relating to the internal market and

free movement of goods, namely building of quality infrastructure. With the aim of implementing the defined middle-term goal, the plan is to implement the Program for Quality Enhancement (quality infrastructure) with nine projects included in Table 13b; Implementation of above program is planned from budget funds and implies establishment of legal and institutional framework for efficient performance of tasks in the area of standardisation, accreditation and metrology, as well as with regard to technical regulations and compliance assessment (preparation and adoption of technical regulations; monitoring of their implementation- supervision; authorisations and notification; keeping the register of regulations, and compliance assessment bodies).

After setting up the legal and institutional framework, full implementation of this middle-term requirement would considerably benefit from the international assistance which would be oriented towards capacity strengthening of the compliance assessment bodies and business operators in view of gaining full qualifications for the application of technical regulations in compliance with the EU acquis.

In view of the implementation of priorities, the Ministry of Economy proposes, for the coming period, the implementation of following specific programs and projects (Tables 17a and 17b). Due to the nature of the project, envisaged in this segment, in addition to donor funds and concession credits, is considerable participation of own funds (budget and NIP). In addition to these programs, it is necessary to define, in cooperation with the Ministry of Agriculture, Forestry and Water Management, the programs of land reform and restructuring and privatisation of large farm holdings.

Table 17a. Priority investment projects in the economic sector in period 2007-2009

Note: values of projects in the Table are denominated in EUR at the exchange rate of 87.5 RSD/1EUR

Project name	Institution in charge	Estimated project value (EUR)	Sources of funding		Planned commencement of project implementation
			Own funds	External sources of funding	
1. Projects on distribution and use of the funds for credit support to the economy through the Development Fund	MoE	36,572,000	36,572,000		2007
		34,286,000	34,286,000		2008
		32,000,000	32,000,000		2009

2. Program for promotion of employment through approval of loans to legal persons and entrepreneurs	MoE	22,857,000	22,857,000		2007
		22,857,000	22,857,000		2008
		22,857,000	22,857,000		2009
3. Program for the use of funds for promotion of regional development for the cities of Kragujevac, Bor, and Vranje, and 13 underdeveloped municipalities	MoE	33,000,000	22,000,000	11,000,000	2007
		39,000,000	22,000,000	17,000,000	2008
		33,000,000	22,000,000	11,000,000	2009
4. Program on distribution and use of the funds for crediting the lease-out of domestic machines and equipment (Funds envisaged from other sources are not stated, considering that they, in compliance with the Program, are not recorded in the consolidated Treasury account)	MoE	14,286,000	14,286,000		2007
		14,286,000	14,286,000		2008
		17,143,000	17,143,000		2009

5. Program for crediting of unemployed natural persons, persons declared redundant, and innovators, through approval of micro- loans for self-employment (for 2007, NIP for 2008, and 2009 from the RS budget)	MoE	7,285,000	7,285,000		2007
		7,285,000	7,285,000		2008
		7,285,000	7,285,000		2009
6. Program for determination and enhancement of the existing institutional capacity, and development of new capacity for regional development at national, regional, and local level, in accordance with the EU standards	MoE	1,428,600	714,300	714,300(IPA)	2007
		1,600,000	800,000	800,000(IPA)	2008
7. Lending program aimed at the promotion of investment and increase of employment in underdeveloped areas (for 2007, NIP, for 2008, and 2009 from the RS budget)	MoE	12,628,500	12,628,500		2007
		NIP	NIP		2008
		12,628,500	12,628,500		2009

8. Program for creation of industrial zones and parks (for 2007, NIP, for 2008 and 2009, from the Republic of Serbia budget)	MoE	39,256,000	39,256,000		2007
		NIP	NIP		
		34,286,000	34,286,000		2008
		22,857,000	22,857,000		2009
9. Micro-loans for self-employment	MoE	2,500,000	2,500,000		2006
		7,500,000	7,500,000 (NIP)		2007
<i>Start up</i> for beginners	MoE	2,000,000	2,000,000		2006
		5,000,000	7,500,000 (NIP)		2007
<i>Start-up</i> loans for beginners (initial capital fund) reform, investment loans	MoE	4,857,143	4,857,143		
		4,857,143	4,857,143		
		4,857,143	4,857,143 NIP		
Project ENTRANSE 1*	MoE	3,085,714		3,085,714	2007
Project of creation of business incubators (6 incubators)*	MoE	617,143	617,143		2007
		571,429	571,429		2008
		571,429	571,429		2009
Project of creation of business incubators (14 incubators)*	MoE	900,000	900,000		2006
		2,100,000	2,100,000 (NIP)		2007

** In 2008 and 2009, these projects will be budgeted from the DZDM funds*

** Amounts were transmitted from GOP (Annual Operational Action Plan), calculated as per the exchange rate: 1EUR=87.5 dinars*

Table 17b. Priority reform projects in the economic sector, in the period 2007-2009³⁰

Note: project values in the table are denominated in EUR, at the exchange rate of 87.5 RSD/1EUR

Project name	Institution in charge	Estimated project value (EUR)	Sources of funding		Planned commencement of project implementation
			Own funds	External sources of funding	
1. Preparation of the privatisation programs and the privatisation of remaining socially-owned companies	MoE	11,040,000	6,140,000	4,900,000	2007
2. Preparation of the program of privatisation and the privatisation of 500 companies from public (state) sector, in cooperation with other competent ministries	MoE	14,730,000	8,600,000	6,130,000	2007-2010
3. Project of preparation and implementation of restructuring programs	MoE	4,908,000	1,227,000	3,681,000	2007
4. Overview of the final list of socially-owned enterprises which are not in the privatisation process	MoE	1,473,000	1,473,000		
5. Definition of the conditions pertaining to the public sector privatisation, in the part relating to free shares for employees and percent of the sale of state-owned capital	MoE	859,000	859,000		2007

³⁰ Within the National Investment Plan, i.e. Sectoral Plan for Economy for the year 2007, the following was envisaged: investment into creation of industrial parks in 50 municipalities in the Republic of Serbia, in the total amount of EUR 46 billion; investment in the development of local utility infrastructure in about 100 municipalities in the Republic of Serbia, in the total amount of about EUR 50 million; provision of micro and start-up loans, in the amount of about EUR 17 million; investment into export promotion, in the amount of EUR 15 million; investment in promotion of FDIs, in the amount of EUR 20 million; investment into development of business incubators for entrepreneurship promotion in 14 municipalities in the Republic of Serbia, in the amount of about EUR 3 million.

6.	Definition of the strategy for the sale of state-owned capital (and the percent of state-owned capital) in public enterprises	MoE	859,000	859,000		2007
7.	Preparation of the project for the privatisation of construction and agricultural land	MoE	28,300	28,300		2007
8.	Project of the conclusion of privatisation process in companies pursuant to the laws preceding the Law on Privatisation	MoE	1,915,000	1,669,000	246,000	2007-2008
9.	Project of the distribution of shares to citizens from the Privatisation Register, free of charge	MoE	148,000	148,000		2007-2008
10.	Provision of assistance for functioning and development of the SMEE Council*	MoE	51,428 34,286 34,286	51,428 34,286 34,286		2007 2008 2009
11.	Support for functioning and development of the National SMEE Forum *	MoE	58,286 46,857 46,857		58,286 46,857 46,857	2007 2008 2009
12.	Preparation of methodology for statistical monitoring of SMEE with the aim of joining the EU SME Observatory*	MoE	102,857 102,857 102,857	102,857 102,857 102,857		2007 2008 2009
13.	Establishment of the voucher system	MoE	231,429 125,714 125,714	231,429 125,714 125,714		2007 2008 2009
14.	Completion of the network of regional SMEE agencies and centres throughout the territory of the Republic of Serbia and subsidising their sustainability	MoE	57,143 57,143 57,143	57,143 57,143 57,143		2007 2008 2009

15. Strengthening and development of the institutional capacity (managerial and administrative) of employees with the Ministry and the Republic Agency for implementation of the SMEE policy *	MoE	79,429		79,429	2007
		60,571		60,571	2008
		60,571		60,571	2009
16. Project for the implementation of the principles of the European charter for Small Enterprises*	MoE	102,857	102,857		2007
		102,857	102,857		2008
		102,857	102,857		2009
17. Promotion of the implementation of the policy for support to the SMEE development in Serbia and holding the international SMEE conference*	MoE	56,571	56,571		2007
		62,857	62,857		2008
		62,857	62,857		2009
18. Project for financing of the activities of existing agencies /centres for SMEE development as a continuous task *	MoE	285,714	285,714		2007
		285,714	285,714		2008
		342,857	342,857		2009
19. Project of the research on the situation in SMEE sector until 2010*	MoE	10,286	10,286		2007
		10,286	10,286		2008
		10,286	10,286		2009
20. Encouragement of entrepreneurs for investment in the strengthening of productivity and innovations	MoE	2,000,000			2007
		2,045,000	1,650,000	350,000*	2008
		2,545,000		1,400,000*	2009
			645,000*	1,700,000*	
21. Assistance for the internationalisation of companies	MoE	700,000			2007
		700,000	700,000		2008
		700,000		490,000*	2009
			210,000*	490,000*	
			210,000*		
22. Preparation of the methodology for statistical monitoring of the companies' export performance	MoE	100,000		100,000	2007

23. Promotion of the introduction of productivity raising techniques	MoE	500,000		500,000	2007
		500,000		500,000	2008
		500,000		500,000	2009
24. Promotion of establishing links between companies and development of clusters	MoE	650,000	150,000	500,000	2007
		900,000	630,000*	270,000*	2008
		900,000	630,000*	270,000*	2009
25. Strengthening and development of institutional capacity (managerial and administrative) of employees in the ministry, for implementation of the policy for promotion of competitiveness	MoE	75,000		75,000	2007
		50,000		50,000	2008
		50,000		50,000	2009
26. Education of the Republic Development Office relating to monitoring and forecasting	RDB	300,000		300,000	2007
27. Creation of research and development SMEE observatory	RDB, MoE, RSO RDA for SMEE	500,000		500,000	2007
28. Creation of legal and institutional framework for efficient performance of accreditation activities	MoE	488,500	488,500		2007
		514,300	514,300		2008
		457,100	457,100		2009
29. Standardisation improvement	MoE	762,700	762,700		2007
		800,000	800,000		2008
		742,900	742,900		2009
30. Metrology Improvement	MoE	33,100	33,100		2007
		34,300	34,300		2008
		36,600	36,600		2009
31. Information system for measuring devices	OMPM	43,500	43,500	See Project 46,	2007
			*		2008
			*		2009
32. Accreditation of the laboratories of the Office for Measurements and Precious Metals (OMPM)	OMPM	142,900	142,900	See Project 46,	2007
			*		2008
			*		2009

33. Pre-packaged products	OMPM	61,300	61,300 * *	See Project 46,	2007 2008 2009
34. Creation of legal and institutional framework for adoption of technical regulations in compliance with the EU and their efficient implementation	MoE	102,900 57,100 45,700	102,900 57,100 45,700	See Project 45,	2007 2008 2009
35. Technical regulations and their implementation	MoE	584,000 628,600 685,700	584,000 628,600 685,700	see Project 45,	2007 2008 2009
36. Project of support to the companies in the preparation for obtaining a CE sign (five companies)	MoE	148,600 68,600 45,700	148,600 68,600 45,700	See Project 47;	2007 2008 2009
37. Project of technical assistance for capacity building, procurement of equipment, and transfer of a member state's experience in creation of functional databases relating to technical legislation – under preparation	MoE	600,000		600,000	2008
38. Project of capacity building and equipping of metrological laboratories of the national organisation for metrology and compliance assessment bodies (CAB) – under preparation	MoE	2,500,000		2,500,000	2008
39. Project of assistance to companies in obtaining the CE sign (for 50 companies) – under preparation	MoE	3,000,000		3,000,000	2008/2009

* In 2008 and 2009 these projects will be budgeted from the DZDM funds

* Amounts were transmitted from GOP (Annual Operational Action Plan) and calculated as per the exchange rate 1EUR=RSD 87.5

3.4. Labour, employment and social policy

In the past period, the Government of Serbia has elaborated a number of strategic documents concerning the incentives for employment. The most important document is the *National Employment Strategy for the period 2005–2010*, on the basis of which the National Employment Action Plan for the period 2006–2008 was adopted. Of critical importance to establish trend of sustainable employment growth is a dynamic and sustainable economic development, based on the growth of domestic savings and investments (private and public) and considerable inflow of direct foreign investments. SME development, improvement of business and investment climate, enhancement of financial incentives and support to the self-employment programs will contribute to this. The Employment Strategy envisages increase of the employment rate of young population (15 and 24 years of age) to 20% in the period until the year 2010; increase of the share of labour force in the working population by 0.8% per a year, growth of employment at a rate of 1.5% per annum, decline of the unemployment rate by 0.5% per annum in the survey investigations, and the rate of registered unemployment by 19% per annum. It is envisaged that, through the reform and integration of labour inspection, shift of employment from informal to formal sector is ensured, which will produce decline of employment in the grey zone by approx. 2% per annum. Besides, by enhancing the flexibility of formal labour market, with faster growth of flexible forms of employment by 10% exceeding the growth of standard forms of employment, it will effectively decrease the duration of unemployment, while the accelerated reform process will provide for increase of employment in the private sector. Suitable measures will produce decrease of regional disparity of unemployment rates and women employment rate will be increased, as well as the employment and activation of vulnerable populations (the disabled, refugees, and the Roma).

The *Strategy of Changes of the National Employment Service (NES)* for the period 2005–2008 was adopted. This document envisaged the attainment, before 2010, of the three most important employment-related goals: client-orientation, NES

decentralisation and development, monitoring and evaluation of implemented measures and activities oriented towards increasing the employment.

In the domain of social welfare, the most important document is the *Strategy of the Social Welfare Development*, which goal is to develop integral social welfare with accessible, quality and versatile services, with the aim of preserving and improving the quality of life of vulnerable and marginal populations and individuals, and their training for more productive life in the community, instead of dependence on the social services. In the existing system of social welfare, there are two main programs: social assistance to poorest families and child allowance. The existing social welfare system is good and modern, and its main characteristics, such as the poverty line, supplement to the poverty line, indexation of poverty line with the costs of living, etc. should be retained. Introduction of the "minimum level of social security" in the territory of Serbia in 2004 improved the access to social welfare, led to the increase of the amount of social benefits and the number of families-beneficiaries of social benefits in the poorest municipalities. Additional funds were approved from the budget for this type of assistance through the increased amounts of transfers and greater coverage of most vulnerable categories of the population.

Within the scope of work of the Ministry for Labour, Employment and Social Policy (in cooperation with the Ministry of Finance) is the reform of state *pension insurance*, which started in 2001 when the age limit for retirement was shifted, the contribution rate was lowered, a new model for adjustment of pensions was introduced with which the growth of pensions equally follows the growth of salaries and the growth of the costs of living. Moreover, the reform was continued in March 2003 with the new Law on Pension and Disability Insurance according to which the amount of pension is determined according to the salary throughout the years of service. In this way, a more direct link was established between the contributions and the amount of pension. Also, the payment of contributions to all incomes was introduced.

Most projects implemented under the auspices of the Ministry for Labour, Employment, and Social Policy in the past period were focused on the strengthening of the Ministry's capacity and institutional building of the labour market capacity, implementation of a dozen pilot projects, and social welfare projects.

The most important projects concerning labour, employment and social policy in the period 2000-2005:

1. Improvement of the social policy in Serbia	3,500,000 GBP	DFID	2002-2005
2. Capacity Building Fund	440,840 USD	UNDP	2003-2004
3. Development of the Serbian Labour Inspectorate for the needs of the XXI century	500,000 USD	SAD	2003-2005
4. Development of integrated social welfare and improvement of professional work standards	1,749,900 EUR	Norway	2003 – 2006
5. Development of a unique war veterans' disability protection	324,000,000 RSD	Norway	2003-2006
6. Social Innovation Fund	1,425,000 EUR	Norway	2003-
7. Employment Promotion The Project is implemented in pilot municipalities: Lazarevac - pilot company: REIK KOLUBARA Pancevo - pilot company: HIP PETROHEMIJA; Kraljevo - pilot companies: MAGNOHROM, Health care centre STUDENICA Niš - pilot companies: MIN HOLDING, NITEKS	5,450,000 USD	World Bank DFID	2003-2006
8. Program of the support to refugees accommodated in social welfare institutions	65,640,000 CSD	UNHCR	2004 – 2006
9. Institutional capacity building of labour market Project is implemented in: Belgrade, Novi Sad, Sabac	900,000 EUR	Sida	2004 – 2006
10. Program of the support to employment, "A step to a job" Beneficiaries: MoLESP, NES, and three pilot municipalities: Belgrade, Bor, and Pirot	7,200,000 EUR	EAR CARDS 2004 Dutch and Austrian Governments	2004-2006
11. Beautiful Serbia	2,039,942.72 USD	UNDP, SCG, the City of Belgrade and the City of Nis	2003-2005
12. Support to the measures of human resource development	2,000,000 EUR	EU, CARDS	2002-2004
13. Interreg IIIA Svilma – Development of the Adriatic Labour Market	25,000 EUR	EU	2004-2006

However, unemployment remains one of the greatest economic and social problems in Serbia. The unemployment rate, according to the Labour Force Survey, amounted to 21.8% in 2005. Especially unfavourable is the indicator pointing to the fact that

this rate is showing a growing tendency, considering that it was 18.5% in 2004. The unemployment rate is relatively high, if compared with the EU member states (average unemployment rate is 8.7%), or with some of the neighbouring countries, such as Croatia or Bulgaria (average unemployment rates of 13.8% and 9.9% respectively). Besides the great number of unemployed persons, the structure of the unemployed in Serbia is also very unfavourable, taking into account great share of long-term unemployment (79%) and large share of young people between 15-25 years of age in the total unemployment (45%), which is three times the average unemployment of the population of this age in EU. Besides high unemployment, main characteristics of labour market in Serbia include the latent unemployment, low share of employment in private sector, and very low mobility of labour force. During the first four years of transition, this problem has further increased and in the coming period it is to be expected that the number of the unemployed will get higher, both due to the continued restructuring of state/socially-owned enterprises and the rationalisation of the number of employees in the public administration. It is estimated that, before 2009, in accordance with the regulations now in force, it will be necessary to resolve the social-economic status for about 50,000 redundant people. As far as pension system is concerned, despite significant reforms implemented in 2001 and 2003, pension system is still characterised by the unfavourable ratio of pensioners/ insured, average salary is still high if compared with average pension, and the inherited debts to pensioners are still outstanding. The contributions are not adequate for pension funding – approx. 40% of the pension fund revenue comes from the budget (annual deficit of the pension fund amounts to approx. 6% of GDP).

For the resolution of the redundancy issue in the coming period, more funds will be allocated for the active employment measures than it was the case in the preceding period. Measures of the *active employment policy* include incentives to the entrepreneurship, self-employment by starting up own businesses, subsidies for employment of specific categories of the unemployed in the amount of the contributions for mandatory social insurance paid by the employer (persons looking for a job for the first time provided they are entered in the unemployment records for minimum one year, persons waiting for a job for more than two years, persons over 50 years of age, unemployed single parents, or both parents unemployed, unemployed persons who receive unemployment benefit), further education and training, training for active search for jobs in clubs, support to business centres in self-employment, employment in public works. It is envisaged that companies, public enterprises, and institutions, take specific measures and activities that precede

termination of employment, in the sense of providing resources for investment into new jobs for dismissed employees – self-employment, increased possibilities for new employment (organisation of further education or training, use of free corporate resources– business premises, equipment, ensuring the market placement of goods or services) or overcoming the period of looking for a new job through active search for job.

Specific measures of active employment policy will be focused on new *employment of vulnerable population*, young people seeking job for the first time, redundant employees, refugees and IDPs, and members or ethnic minorities in which unemployment rates are higher, and unemployed persons with disabilities. The company for occupational rehabilitation and employment of persons with disabilities are provided by the funds from the budget of the Republic of Serbia, on a monthly basis, in the amount of up to 50% average monthly salary per an employee in the Republic of Serbia, according to the latest published data of the Republic authority in charge of statistical issues. Besides, the employer will be able to obtain the right to the subsidy of salary for the period of 12 months for the person with disability without work experience, employed with the employer under general terms of employment, in the amount of 80% of average salary in the Republic, from the RS budget. Draft Law on Occupational Rehabilitation and Employment of Disabled Persons (DP) envisages the setting up (opening) of a specific (single-purpose) account for financing of the measures for implementation of occupational rehabilitation and employment of DP; it provides for assignment of the function “DP training centres”; companies for DP occupational rehabilitation and employment complying with the legally prescribed requirements and standards for provision of the occupational rehabilitation services; also envisaged are the incentive measures for DP employment of through refunding to the employer the investment costs allocated on the creation of possibilities for DP employment, with the possibility of salary funding in the period of 12 months for DPs without work experience; also envisaged is the introduction of new procedures (forensic expertise) of assessment in the process of DP status determination for the purposes of occupational rehabilitation, employment of DPs and their career advancement– further education. The group for occupational rehabilitation and employment of persons with disability, in cooperation with the Division for the approximation of legislation to the EU acquis, international cooperation, and project management with the Ministry of Labour, Employment and Social Policy, prepared a number of initial project tasks which will provide for this category’s more balanced inclusion in employment.

Within the active employment measures, the following will be done on the labour market³¹:

- Programs of occupational education and training in the period from 2006 to 2008 will involve about 10,000 persons per annum;
- Promotion of entrepreneurship, self-employment and creation of new jobs will cover approx. 4,000 persons during a year, through the financing from budget with special focus on financing of the self-employment programs of newly-registered business activities; moreover, persons up to 30 years of age will be awarded higher amounts of subsidy;
- Public works with the aim of improving and sustaining the long-term employment of the previously unemployed persons and other persons who are deprived on the labour market, through their engagement in special project which will cover the target group of 4,000 persons in each of the coming three years; moreover, the project will be implemented at local level, which will contribute to the welfare of the community in the sense of environmental preservation and improvement and social and economic structure enhancement;
- Programs for the improvement of employment opportunities for vulnerable populations, covering approx. 3,000 individuals in the period 2006 to 2008;
- Projects of financing from the sources of foreign foundations and donations.

Measures of the active employment policy will be implemented through the organisation of the occupational orientation fairs, employment fairs for specifically targeted invitees and employers, clubs for job search, training for active job search for easier employable persons, training for active job search by the persons waiting for a job for more than three years, further education and training for the persons who did not finish primary school (specific ethnic minorities – the Roma), gaining additional qualifications, gaining different qualifications, occupational training of trainees, occupational training of volunteer interns, occupation training of volunteer interns, occupational training of the talents at the post-graduate studies, foreign language courses, basic IT training, specialist IT training, training for acquiring the proficiency for performance of tasks, setting up of virtual companies, awarding subsidies for self-employment, one-off payments for self-employment, and subsidising new jobs.

³¹ Envisaged in the latest Memorandum on Budget, Economic and Fiscal Policy

Main *directions of NES changes* concern: increase of the NES share in the labour and services market, which means the establishment of daily contacts with employers with the aim of learning about the needs for new workers and services, periodical surveys of employers with the purpose of balancing supply and demand, organisation of dialogues and workshops with a smaller number of selected employers with the aim of analysing a problem or adjusting the services to the needs of a specific group of employers, and establishment of regional and municipality network of contacts with the employers with the aim of re-employing the redundant employees. In cooperation with private agencies and social partners, NES will retain the dominant role of planning and managing the programs for which the capacity is lacking, while private agencies will appear in the role of the NES subcontractor for implementation of specific activities (training and employment of redundant employees with more than 50 years of age, persons with specific needs, etc). Cooperation will be established with social partners at local level in the institutions that provide services related to adult education. Development of the self-service system will be ensured through the internet system, development of the self-service terminals in branch offices, and development of call centres, and development of public relations. Passive measures will be separated into a special fund for unemployment and health care within the Republic Health Insurance Office will be relocated; this will lead to the decrease of the number of unemployed persons.

Of special importance is the *development of the labour market information system*, the prerequisite for which is the adoption of new Law on Records concerning Labour and Employment, which will provide for regular and continual monitoring of the situation related to these issues. In addition, it is necessary to ensure further adjustment of the information structure in the NES records system to the WAPES standards, development and implementation of ILO and EUROSTAT standards, adoption of the law on statistical surveys, innovation of national classification of professions, preparation of the national standard of qualifications in adult education, development of career guide for adults and self-assessment instruments, setting up the centre for guidance and counselling in NES, projection of labour market, preparation of competency profiles of the unemployed, and creation of the offer base per individual professions, development of the accreditation and certification system in adult education, development of the profile of employment advisor, decreasing the number of participants included in the activities of information and counselling with regard to the selection of educational profile at the level of secondary school education.

The effect of labour legislation on business operations of companies and promotion of employment in Serbia became more favourable with new legal solutions. However, there is still room for further improvement of labour legislation.

Contribution to higher employment will also be ensured by the amendments to the Labour Law which will provide for the introduction of new flexible forms of labour by the institutionalisation of the organisations (agencies) for temporary employment. Organisations (agencies) for temporary employment will be a specific type of employer which will establish employment with employees and then second them to work for other employer (user of services). These organisations (agencies) will have all the obligations towards the employees as other employers; however, the work will not be done in the organisation (agency) as such but rather with the user of services.

By creating legal grounds for functioning of these organisations (agencies), the practical needs for this aspect of engagement of employees will be met (provision of security services, child minding, hygiene, etc). Regulation of status of the organisations (agencies) for temporary employment and employee's rights will also provide for the application of the international standards determined by the ILO Convention no. 181 concerning private employment agencies and the ILO Recommendation no. 188 concerning private employment agencies, which regulate these issues.

Also, amendments to the Labour Law are necessary because the problems that arose in the implementation of this Law need to be eliminated, such as determination of the compensation of salary during absence from work, level of severance pay, right to compensation of costs for food at work and holiday bonus, salary increase on the basis of years of service, etc.

Similar measures are supported by the *Poverty Reduction Strategy Paper*. With regard to the implementation of this Strategy, the priorities in the coming period will be: creation of flexible and competitive labour market; creation of efficient programs for employment of the employees who were rendered redundant due to privatisation and restructuring of public enterprises, with the focus on active measures; creation of programs for employment of particularly affected and vulnerable populations; setting up regional and local councils (coalitions) for employment, oriented towards searching for efficacious local strategy of development and employment based on the potential and risk analysis, especially in the least developed areas; continuation of the National Employment Service reform.

In order to diminish *regional differences* in the labour market, the Strategy of Regional Development in Serbia will be adopted and the goal will be to increase competitiveness of the economy and strengthen innovative capacity in all regions, primarily those less developed. With the purpose of mitigating structural imbalance in regional labour markets, active labour market measures adjusted to the needs and specific characteristics of individual regions will be implemented. On the basis of determined risk levels, funds will be allocated for active employment programs in each individual region, strengthening of partnership between the state, local authorities, private and public sector and social partners. Also continued will be the approval of loans under favourable terms to employers intending to invest in devastated areas with the aim of increasing employment in these areas, through the Development Fund.

There are attempts to achieve less employment in illegal sector and decrease of the amount of unregistered work by intensifying the *labour inspection* activities, by increasing the number of supervisions and ensuring better technical equipment of labour inspectors, which will result in greater mobility and effectiveness of their on-site operations. It is also necessary to continue education of labour inspectors with regard to the principles of new labour inspection policy that was adopted through the ILO project: "Development of labour inspection for the XXI century". Priority goals with regard to labour inspection are to decrease the number of injuries at work, reduce or eliminate unregistered work, and to reach the European standards in the operations of labour inspection. To this effect, it is necessary to adopt the law on labour inspection and code of conduct for labour inspectors.

Concerning the *occupational health and safety*, the activities will be focused on the preparation of the law on insurance against work-related, occupational diseases, and work related diseases, with appropriate by-laws. Also to be prepared is the methodology for the examination of the conditions of working environment and review and examination of work equipment, organisation of the education of employees, employers and labour inspection, along with the organisation of injury at work data collection and analysis, occupational diseases and work related disorders, as well as the development and advancement of information-documentation activities related to safety and health of employees.

By improving the efficiency of *social welfare* mechanisms, implementing the Poverty Reduction Strategy, the Social Welfare Development Strategy, and revitalisation of economic activity, it is expected that before 2008 more funds will be allocated for social welfare which, in the long-term perspective, should decrease in respect of

GDP. It is necessary to ensure that social welfare reform develops towards the targeting of social transfers, in the sense of expanding the assistance through larger amounts of transfers and through the social welfare network which would include most vulnerable populations who at this time do not meet the social welfare, and ensuring the access to all those who meet the criteria but at this time do not obtain social protection, such as the Roma, refugees and IDPs from Kosovo. It is necessary to create links between different sectors at the central and local level (employment, education, health, social welfare) so as to ensure integrated access to social welfare with emphasis on active social policy measures. An important element of long-term strategy is the reform of social services which should adopt a trend towards deinstitutionalisation, development of alternative forms of social welfare, and inclusion of different actors in the sphere of provision of services. For such programs, pilot projects are already in place through the program of the Social Innovation Fund and the Fund for Financing of Disability Organisations. The citizens will meet their needs primarily at the local level, in the community in which they live, with the choice of services which are least restrictive for them, with the exception of those which are considered to be more cost-effectively organised at a regional level. With regard to the above, the conditions and mechanisms will be ensured for taking the responsibility by local self-government for meeting the social welfare needs of citizens. Funds for services financing will be provided from the local self government original sources, and from the Republic budget in the case of municipalities which are not able to provide the prescribed minimum of social welfare rights from their original revenue. In view of the Poverty Reduction Strategy, besides the decentralisation of the social welfare system, particularly significant are the provision of more efficient material services and better quality support services, as well as strengthening of professional capacity of those employed in social services. In order to attain better quality of life for social welfare beneficiaries, it is necessary to ensure improved offer of services, as per different types and quality in all forms of accommodations, creation of the environment necessary for meeting the beneficiaries' needs in an appropriate manner, which includes shorter sojourn of children and young people in the institutions, and training for independent life, more rational use of the funds for development of social welfare services.

Reform of the pension system should be two-fold – the first group of measures is based on the continuation of the reforms of mandatory insurance, and other – development of private pension insurance. Reform of mandatory insurance includes: consolidation of pension funds, such as improvement of information system and

reorganisation of personal records of the insured (data collection, registration of the insured, and data management); further improvement in the control over disbursement of contributions and disincentives for contribution payment evasion. It is stated in the Memorandum on Budget that legal amendments will regulate administrative and financial consolidation of the three pension funds – that of the employees, self-employed, and farmers, with the aim of reducing the deficit in pension funds (Administratively consolidated fund will commence its operations on the 1st of January 2008, and financial consolidation of funds will be concluded before beginning of 2011). Also established will be the central register of the insured and obligors of pension contributions and income tax before end of 2010, which, through reformation of the administration and upgrading of the information system, will enable more efficient control and collection of contributions as well as strengthening of the capacity through better links of the tax administration and pension funds. To ensure serious and thorough consideration of the introduction of mandatory private pension insurance (second pillar), it is necessary, in the coming period, to achieve fiscal balance and improve financial standing of the state pension system (first pillar). Namely, due to high transition costs which are created by the introduction of second pillar, and due to specific negative aspects observed in the pension systems of neighbouring countries which have included this type of insurance in their respective system, introduction of second pillar in the Serbian of pension system is not contemplated in the coming period. At the same time with the reform of the state pension system, after the introduction of voluntary pension funds (third pillar), their operations will be improved in the coming period of three years and this will significantly influence the stability of the overall pension system and its long-term sustainability. To ensure this, the citizens' awareness will be raised with regard to the goals and importance of pension reform and introduction of voluntary pension insurance, so as to provide greater social support for the reforms. Introduction of voluntary private pension funds will provide greater income in old age and, at the same time, contribute to the development of capital market.

With regard to the salary policy, maintenance of firm salary policy in public sector will be continued and their growth will be in line with productivity. Salaries in public services will be regulated by separate regulations which will establish an incentive salary system with the goal of increasing the quality of public services.

Improvement of the work efficiency of social-economic councils at all levels and establishment of different aspects of cooperation between the social partners on

resolution of the unemployment problems, improvement of living standard, and other issues of common interest.

In the summary of the above described labour, employment, and social policy related reform trends, it may be stated that, in the coming middle-term period, the line ministry will be faced with the following key challenges:

- strengthening of the active employment measures, which include encouragement of entrepreneurship, self-employment through starting own business, subsidies for employment of specific categories of the unemployed in the amount of contributions for mandatory social insurance paid by the employer, and through the increase of employment rate on the basis of faster development of small and medium enterprises;
- increase of employment of vulnerable populations, namely ethnic minorities (the disabled, the Roma, refugees and IDPs, long-term unemployed, unqualified) through implementation of specific programs intended for those populations;
- further improvement of labour relations and social dialogue;
- strengthening of labour market institutions, and development of the information system;
- strengthening of the labour inspection system, with the aim of general suppression of unregistered work, particularly in the service sector but also in the sector of social services and health care;
- improvement of the occupation safety and health system;
- reform of pension system (in cooperation with the Ministry of Finance);
- reform of the social welfare system.

With the aim of contributing to the implementation of above listed requirements, the line ministry proposes the implementation of a set of programs and projects (Table 18). These projects are focused on the improvement of the line Ministry capacity in respect of more active intersectoral and international cooperation, planning and monitoring of donations and labour and employment related projects, as well as approximation of labour, employment and social policy related regulations with the EU acquis. Also, the projects are partly focused on the continuation of the NES reform, particularly with the aim of implementing the approach that is fully oriented towards the users and include cooperation with employers, efficacious search for a

job using the unique information system, and establishment of the monitoring and evaluation system. Other projects are devoted to the reform of social welfare and reform of the pension system.

Table 18. Priority projects related to labour, employment and social policy in the period 2007-2009:

Project name	Institution in charge	Estimated project value (EUR)	Data on sources of funding		Planned commencement of project implementation
			Own funds	External sources of funding	
1. Implementation of the National Employment Action Plan 2006-2008, with special emphasis on vulnerable population (women, persons over 45/50, disabled, refugees and IDPs, minorities)	MoLESP NES	150,000,000	100,000,000	50,000,000	2007-2009
2. Project „With severance pay to a new job” with emphasis on self-employment, training and employment with other employer	MoLESP	18,800,000	10,000,000	8,800,000	2006-2009
3. Support to setting up and adaptation of local social protection services	MoLESP, Province Secretariat, Local self-government	37,265,000	Budget-NIP**	Donations	2006-2008
4. <i>Country Assistance Strategy (CAS)</i> decentralisation of services and benefits – support to pilot projects (multisectoral approach)	MoLESP, MoH, MPS and Standing Conference of Towns and Municipalities as a partner	22,000,000		World Bank	2007-2009
5. Project of the reform of pension administration system and integrated collection in Serbia	MoLESP, MFIN	21,000,000	200,000	20,800,000 World Bank	2006
6. Implementation of the Strategy for Social Welfare Development	MoLESP, Local self-government	14,600,000	1,600,000	13,000,000	2006-2009

7. Setting up and rehabilitation of the institutions for accommodation of the elderly	MoLESP, Province secretariat, Local self-government	12,600,000	Budget-NIP	Donations	2006-2008
8. Capacity building in MoLESP	MoLESP, NES	10,000,000	1,000,000	9,000,000 CARDS 2006	2006-2008
9. Action plan for employment of young people, in the period 2007-2009	MoLESP, Local self-government	10,000,000	7,000,000	3,000,000	2007-2009
10. Setting up and rehabilitation of the institutions for accommodation of children and adolescents	MoLESP, Province secretariat, Local self-government	1,326,000	Budget-NIP	Donations	2006-2008
11. Setting up and rehabilitation of the institutions for accommodation of mentally disabled persons	MoLESP, Province secretariat, Local self-government	4,923,000	Budget-NIP	Donations	2006-2008
12. Adaptation and equipment for social labour centres	MoLESP, Provincial Secretariat, Local self-government	174,000	Budget-NIP	Donations	2006-2008
13. Development of information systems (equipment and programs) for the requirements of the Ministry for Labour, Employment and Social Policy	MoLESP	2,500,000	Budget-NIP	Donations	2006-2008
14. Setting up a database about the persons with disability in the Republic of Serbia	MoLESP	2,500,000	Budget-NIP	Donations	2006 – 2008
15. Plan of investments in the Labour Inspection Division	MoLESP	2,500,000	Budget-NIP	Donations	2006-2007
16. National centres for children protection and prevention from abuse and neglect	MoLESP	800,000	Budget-NIP	Donations	2006-2009
17. „Safe house“ shelter for abused mothers with older children	MoLESP	2,000,000	Budget-NIP	Donations	2006-2007

18. Building of the information system in employment	NES	4,000,000		1,500,000 EUR – subsystems of installation and training 2,500,000 EUR Planned through the CARDS Project 2004 and 2006	2006-2008
19. Development of the strategy for increasing productivity and competitiveness of Serbian economy	MoLESP, MPRIV, MFIN	500,000	Budget	UNIDO	2006
20. Raising competitiveness of companies for occupational training and employment of persons with disability in the market of Serbia	MoLESP	2,400,000	1,000,000	700,000 Kingdom of Norway	2006-2007
21. Preparation of national action plan for the persons with disability in RS	MoLESP and local self-governments		Budget	Donations	2007-2009
22. Setting up of small home communities for mentally challenged persons	MoLESP	2,000,000		Donations	2007-2009
23. Social Innovation Fund	MoLESP, Local self-government	5,850,000	650,000	DFID, Norway	2006-2008
24. Establishment and application of the system of accreditation in programs for training of social service workers in RS	MoLESP	500,000			2006-2007
25. Expert support through education and support to regional cooperation in the field of social security	MoLESP, Local self-government	2,200,000		CARDS	2005-2007
26. Shelter for victims of people trafficking	MoLESP, Counselling centre against domestic violence	300,000	25,000 25,000 25,000	225,000 Austrian Development Agency	2007 2008 2009

27. Development and strengthening of employment agencies	MoLESP	50,000	50,000		2007-2008
28. Preparation of the strategy related to external migrations	MoLESP Ministry for diaspora, Ministry of Foreign Affairs	200,000	200,000		2009
29. Innovation of national system of classification of jobs according to the EU standards – ISCO 88	MoLESP, NES MSP	1,000,000	100,000	900,000	2008
30. Preparation of the study on results of privatisation from the perspective of future investments and creation of new jobs	MoLESP	300,000	300,000		2007
31. Development of centres for career guidance and counselling of the unemployed	MoLESP NES	1,400,000	400,000	1,000,000	2006-2008
32. Studies on regional development from the perspective of raising the employment levels	MoLESP	400,000	100,000	300,000	2006-2008
33. Setting up and strengthening of local employment councils	MoLESP, Local self-government	*		Donations	
34. National strategy against violence	MoLESP	*	Budget		2007
35. Implementation of General Protocol on protection of children from abuse and neglect	MoLESP and UNICEF	*		UNICEF	2006
36. Implementation of the Specific Protocol on protection of children from abuse and neglect in social welfare institutions	MoLESP	*		MoLESP and „Save the Children“	2006

37. Support to motherhood – effects of the implementation of the Law on Financial Support to Families with Children on population policy	MoLESP and World Bank	*		World Bank	2007
38. Implementation of the Law on Employment on Persons with Disability	MoLESP	33,730,667,00		Donations	2007
39. Strategy of the Pension System Development in Serbia	MoLESP	355,000 USD	Budget	World Bank credit /Donations	2007
40. Preparation of studies on prospects for the development of pension and disability insurance of farmers	MoLESP, MFIN, Tax Administration, Republic Fund for Pension Insurance of Farmers	80,000 EUR		Donations	2007
41. Preparation of the feasibility study for the introduction of social (national) pensions	MoLESP	80,000 EUR		Donations	2007
42. Preparation and implementation of the Strategy for reform of salaries in public services	MoLESP	*	Budget	DFID	2006-2007
42. a. Improvement of social dialogue - strengthening of the institution of settlement labour disputes, collective negotiation and social-economic councils at all levels	MoLESP		Budget		2007-2009
43. Institutionalisation of the organisations for temporary employment	MoLESP	*	Budget		2007
44. Introduction of coupon systems for meals at work	MoLESP	*	Budget		2007
45. Establishment of uniform system of records related to labour and employment	MoLESP	*	Budget		2007-2009

46. Development of human and information capacity for the introduction of the system of quotas, work permits, and certification of registration of work done by foreign citizens	MoLESP	*	Budget	2007.
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Source: Ministry of Labour, Employment and Social Policy

** It is necessary to assess the project value, as well as structure of funding sources in cooperation with the competent ministry and competent institutions*

*** For the projects envisaged to be funded from NIP it is not possible to estimate the amount of funds at this time, because sectoral plan for this sector is not in place yet.*

3.5. Agriculture, forestry and water management

Agriculture is an exceptionally important component of the overall economy of the Republic of Serbia. The share of agriculture in Serbian GDP in the period 2000-2005 ranges between 15% and 20%, but if the whole agribusiness complex of the country is taken into account, the share exceeds 40% of the total GDP. However, considering that 42% of the country's population lives in rural areas, Serbia is considered to have great potential in the agricultural sector which is not fully utilized.

The problems in agriculture primarily relate to: high tariff protection of domestic production; inadequate operation of land market; underdeveloped market for rural loans; slow privatisation with few foreign investments; unequal development of rural and urban areas; underdeveloped market infrastructure, institutions and organisations. However, with adequate agricultural policy which may influence the increase of productivity through restructuring and investment, agriculture may give a significant contribution to the country's economic development. In the following period, gross added value is expected to rise in agricultural activities, which include hunting, forestry and fisheries, considering that Serbian agriculture will be able to use the EU pre-accession assistance funds (IPA, former SAPARD - fund intended for agriculture and rural development).

In November 2004, the Government adopted the Agricultural Strategy of Serbia to be implemented in the following period until 2008/2009. The Serbian agricultural policy goals were officially adopted and new directions to follow to achieve such goals were developed. The main development directions of agricultural development are:

- Restructuring (of producers, ownership and institutions) - involves: land reform, institutions in agriculture, privatisation in agriculture and management of forest and water resources;
- Development of the market and market mechanisms - involves: the role of the Government in market economy, agricultural markets, price policy and other measures of agricultural policy for market support, land and loan market;
- Rural development and environmental protection - involves: rural development, production diversification and improvement of the living conditions of rural population.

All the activities proposed in the Strategy are fully in compliance with EU standards. The institutional framework was for the most part created in 2004 and 2005 when there were formed institutions for the implementation of the agricultural strategy: Veterinary Directorate, Plant Protection Directorate, Republic Water Directorate, Directorate of Forests, Inspection Division, Analysis and Agricultural Policy Division, Agricultural Policy Division, Legal and General Affairs Division, Rural and Agricultural Development Division.

The legal framework is still based on the pre-transition legislation. The new laws enacted were the Veterinary Law in 2005 and the Law on Agricultural Land and Law on Organic Farming and Organic Products in 2006. The Law on Agriculture, the Law on the Protection of Plant Varieties, and Law on Plant Health are in parliamentary procedure, and a large number of laws are at the drafting stage. The enacting of such laws will mean the harmonisation of the legislation and standards with the European ones, to facilitate the export of our products to the EU market. This will considerably contribute to the introduction of food safety standards, primarily HACCP, which ensure full safety of food products in all the segments of production and processing, on the “field to fork” principle.

Aiming at the reform and development of agriculture, the Ministry of Agriculture of Serbia earmarked in the agricultural budget incentive funds for farmers for the improvement of agricultural production and marketing, as well as for investments in rural infrastructure. The funds are mostly granted for the projects of building storage facilities for agricultural products and farm refurbishment, as well as for investments into construction and equipment of rural development centres. Incentive funds are in the form of grants from 30 to 60 percent of the investment value. These projects will also be funded through the National Investment Plan.

In the previous five years, international assistance to the agricultural sector was mostly technical and intended for the strengthening of institutional capacity of the sector and preparation of programs and plans of future development, while a part of international funds was invested in the reconstruction of laboratories and irrigation and drainage systems. In the following period the support should be directed towards the strengthening of funds directed towards structural reforms, capital investments and establishing standards for the production and processing of agricultural produce and foodstuffs.

Major projects in the area of agriculture, forestry and water management 2000-2005-(6):

1. Technical advisory project - <i>Policy advisory unit</i>	EAR	2001-2003
2. Reform of laboratories for food safety inspection	EAR	2002-2004
3.Registration of cattle compatible with the EU system	EAR	2003-2006
4. Support to the establishment of the agricultural market information system	USDA	2004
5. Report on Consumer goods analyse	USDA	2004
6. Institutional capacity building within MAFWM	EAR	2004-2005
7. Reform of the veterinary, phyto-sanitary and sanitary inspection	EAR	2004-2007
8, Building of institutional capacities in the Plant Protection Directorate of MAFWM	EAR	2006-2008
9. Rural development programming and payment system	EAR	2006-2008
10. Serbian transitional agricultural reform (STAR)	World Bank	
10a. Preparatory phase for STAR: In situ agro-biodiversity conservation project	GEF-PDFB	2006
10b. Preparatory phase for STAR: Rural business environment project	PHRD	2006
11. Development of forestry sector in Serbia	FAO/Finland	2005-2008
12. South East Europe Development Network on Plant Genetic Resources	Sweden	2004- 2014
13. Forestry Sector Program	Austria	January 2004-December 2004
14. Support to restructuring of JP „Srbijašume”	Norway	2004-2006
15. Danube pollution reduction	World Bank	2006-2010
16. Irrigation and drainage rehabilitation	World Bank	2006-2011
17. Institutional capacity building within the veterinary directorate of MAFWM	EAR	2006-2008

Priority activities in agriculture in the following three years will include: preparation of the national agricultural program for the period 2007 - 2010; adoption of strategic documents which will ensure the implementation of the main reform goals in agriculture, forestry, hunting and water management; establishment of databases for monitoring and reform of the subsidy system, as well as carrying out of activities aimed at integration into the EU Common Agricultural Policy (with emphasis on the development of food and animal feed safety policy to be compatible with the EU food safety system, as well as with the basic principles of WTO and relevant treaties for the purposes of protection of human, animal and plant health).

The National Agricultural Program will elaborate measures and activities for the achievement of basic reform goals in this area, as well as the purposes and use of budget funds in the period between 2007 and 2010. The first group will include market measures related to export subsidies, price support, direct payments per hectare or head of cattle, input price subsidies (part of costs to be borne by the Government) and subsidies for the storage of commodities. The second group will include all structural measures, such as support to investment, rural development, standards introduction, land improvement, environmental protection and conservation of biodiversity.

Opening of the Republic of Serbia economy towards the international market and foreign trade liberalisation will result in gradual reduction of tariff protection measures. After the expiration of the transition period, the Republic of Serbia will be able to retain a part of tariff and non-tariff protection in the trade in agricultural products with the EU. The quotas for particular products awarded to the Republic of Serbia by the EU will not be reduced.

Within the WTO accession negotiations, it is necessary to prepare the programs for the harmonisation of all regulations with the WTO rules and program of policy measures in agriculture, services, intellectual property, standardisation, technical regulations, food safety and veterinary and phytosanitary measures.

To increase competitiveness and build a sustainable and efficient agricultural sector, institutional building will continue in agriculture to facilitate the adjustment to market business and conditions that prevail in the EU, and will include the improvement of advisory services, research in agriculture and agricultural market information system

(STIPS). The new Law on Agricultural Land establishes the *Agricultural Land Directorate* whose activities will be related to the completion of the agricultural land reform and transfer of socially-owned land to state or private ownership and management of state-owned land, as well as the regulation of inspection supervision.

Through the building of the credit market a system will be established of short-term borrowing for production and sales, a system of mid-term borrowing for the procurement of fixed assets and a system of long-term borrowing for the purchase of land. In the credit market system, by the enactment of law on public warehouses, a legal and institutional basis will be created for the use of short term loans on the basis of commodity bills.

Rural development will request considerable investments in future, namely, improvement of living and working conditions in rural areas and promotion thereof as healthy and attractive living environments. Rural development programs will encourage production and marketing improvement, strengthening of rural infrastructure and diversification of rural economy, development and promotion of rural areas, protection of the environment and rural landscapes.

The Poverty Reduction Strategy Paper places emphasis on the encouragement of employment and economic growth and raising of the standard of living in rural areas through the setting up of the *Rural Development Agency* with the capacity for identification, planning, approval and implementation of rural development initiatives, as well as financial management and control.

The basic elements of the forestry policy will be based on the forestry development strategy, which is being drafted and will relate to the conservation and improvement of the state of forests, and forestry as a branch of economy. The implementation of the established policy in the area of forestry will involve institutional and legislative reform in this area, education of relevant professionals for this sector. Institutional framework building involves the passing of the new law on forests and implementation of the Forest Policy and National Forest Program, as well as adoption of new implementing legislation of importance in this area.

The water management sector, as a very important part of the economic and social system is also characterised with numerous problems, the solution for which requires large investments that cannot be provided by the government itself. Key problems in the water sector are: insufficient harmonisation between the policy of the water sector with other sectors (primarily environmental protection), regulation mechanisms incompatible with European trends and standards, inefficient water management

funding system, low price of water and services and lack of economic incentives, insufficient and inadequate monitoring of surface and ground waters and lack of control of waste waters, wasteful use of water for water supply and other needs, insufficient sewerage in settlements and lack of waste water treatment equipment, insufficient use of the existing irrigation capacities, inadequate system of protection from external and internal waters. Due to the above, the period 2007-2009 should involve the activities on the creation of the legal and institutional framework necessary for the implementation of reforms in the water sector and the beginning of the investment cycle. The priorities in water management in the following three years are water supply to rural population, completion of large water supply systems, protection of waters in existing reservoirs used for water supply, construction of waste water treatment plants by the users who discharge water into small water courses, as well as the enactment and implementation of relevant regulations.

In accordance with the above development guidelines for the sector of agriculture, mid-term priorities for the agriculture, forestry and water management are:

- additional strengthening of administrative capacity for policy development and implementation; rural development policy creation and beginning of implementation,
- continuing the strengthening of veterinary, sanitary, phytosanitary legislation and control in the area of food safety and wine inspection laboratory,
- improvement of waste management and pollution reduction in agriculture,
- strengthening the market systems for agricultural produce and foodstuffs, including quality control and hazard analysis and critical control points (HACCP),
- reducing agricultural market disruptions caused by policy changes and reforming the Commodity Reserve Directorate,
- extending the identification and registration of animals to include more species,
- strengthening the land market operation, commencement of land reform, restructuring and privatisation of large farms,
- creating conditions to meet the farmers' needs for short-, medium- and long-term borrowing,
- continuing the harmonisation of reforms with the WTO rules and obligations to speed up the WTO accession,

- creating modern and efficient institutions which develop, implement and supervise effective policies and successfully negotiate with the EU and other trade partners.
- establishing an authority to manage water resources which can be self-funded and which will meet user needs,
- modern and efficient Ministry of Agriculture, Forestry and Water Management, Republic Water Directorate implementing and overseeing efficient policy in the water sector and successfully negotiates with the EU,
- Building institutions which can implement water management policy with quality and efficiency,
- Provide the population with drinking water of controlled quality in rural and urban areas,
- Build systems for collecting, transport and treatment of waste waters in settlements, especially in endangered zones,
- Provide efficient flood defence through the rehabilitation of the existing and the construction of missing facilities for the protection from the harmful effects of water,
- Creating efficient and effective institutions for the acquisition and transfer of water management knowledge,
- Improvement of the state of resources and development of the forestry sector.

Ministry of Agriculture, Forestry and Water Management defined specific projects to be implemented in this area in the following three years (Tables 19a and 19b).

Table 19a. Priority investment projects in agriculture, forestry and water management in the period 2007- 2009

Project name	Institution in charge	Estimated project value (EUR)	Data about sources of funding		Planned time of project implementation
			Own funds	External funding sources	
1. Development of the integrated National Rural Development Program (NRDP) and implementation framework at the national, regional and local level in the Republic of Serbia	MAFWM	6,000,000			2-3 years
2. Water management information system	MAFWM	2,000,000			2 years
3. Information system for Morava catchment area	MAFWM	4,000,000			3 years
4. Mapping of blue zones, phase 1	MAFWM – Water Directorate	3,000,000			3 years
5. Funding of construction of water management facilities for water supply and collection, transport and treatment of waste waters	MAFWM – Water Directorate	20,000,000			2 – 3 years
6. Funding of construction of water management facilities for the protection from harmful effects of waters	MAFWM – Water Directorate	10,000,000			2 – 3 years
7. Building of the „Svračkovo” dam within RVS „Rzav”	MAFWM – Water Directorate	80,000,000			5 years
8. Measures of village improvement and rural development	MAFWM	30,600,000	30,600,000 (NIP)		2 years

9. Construction of water management facilities and implementation of the water protection programs and programs for the protection from harmful effects of waters	MAFWM	29,300,000	29,300,000 (NIP)		2 years
10. Forestation and construction of the centre for the production of planting material	MAFWM	2,800,000	2,800,000 (NIP)		2 years

Table 19b. Priority reform projects of MAFWM in the period 2007-2009

Project name	Institution in charge	Estimated project value (EUR)	Data about sources of funding		Planned time of project implementation
			Own funds	External funding sources	
1. Policy management through MAFWM	MAFWM	2,000,000			2-3 years
2. MAFWM capacity building for the development of trade policy for agricultural products and foodstuffs	MAFWM	2,000,000			2 years
3. Development of EU compatible system for agricultural market and farm business information	MAFWM	2,000,000			2-3 years
4. Strengthening and further development of the epidemiological supervision system and animal traceability system in the Republic of Serbia,	MAFWM	1,680,000			2-3 years
5. Capacity building of MAFWM – Directorate of Forests	MAFWM	200,000			2 years

6. Harmonisation of national legislation with EU acquis in the area of food of animal origin and implementation of new statutory provisions	MAFWM	2,000,000			2 years
7. MAFWM capacity building – land management	MAFWM	2,000,000			2 years
8. Capacity building of JVP „Srbijavode” and JVP „Vode Vojvodina” for the implementation of integrated management of water resources with the use of simulation	MAFWM	1,300,000			3 years
9. Capacity building for the staff of MAFWM – Republic Water Directorate, for certain competences	MAFWM – Water Directorate	2,000,000			2 – 3 years
10. Development of the centre for integrated catchment area water management	MAFWM – Water Directorate	5,000,000			3 years
11. Establishment of the system of rights to grow vineyard plantations and technical assistance	MAFWM	3,000,000			3 years
12. Zoning, and strengthening of the issues of control of geographical origin of wine including technical assistance	MAFWM	3,000,000			3 years

13. Technical equipment of wine laboratories for the quality control of wine and control of geographical origin	MAFWM	4,000,000			3 years
14. Technical equipment of laboratories for phytosanitary control (of seeds, planting material...)	MAFWM	4,000,000			3 years
15. Strengthening of staff capacities in the area of production, certification and control of planting material	MAFWM	3,000,000			3 years

The proposed projects are mainly directed towards the realization of two priorities: a) creation of modern and efficient institutional capacities for the development and implementation of adequate development policy, and b) human health protection from the diseases originating from food, animals, harmful pesticide effects, and veterinary medication and food additives.

To achieve other priority goals of agriculture, forestry and water management development, it is necessary to define specific projects primarily from the area of:

- rural development (development and adoption of basic principles of rural development policy, categorisation according to the EU model on *less favourable areas* for production, preparing a Program for the development of ecological agricultural systems, especially for marginal and areas of protected nature, adopt regional and local rural development action plans, preparing of rural development programs for the implementation of the Agricultural budget funds and grant/donation funds);
- development of the structure of commercial farms which will suit the needs of a modern market economy (encouraging the process of increasing the number of commercial family farms, consider all possibilities leading to the augmentation of farm holdings, support to the entrance of young and early retirement of elderly farmers, considering the Probate (Inheritance) Law, establish the Land Agency, define different measures of agricultural and social policy for commercial and non-

commercial farm holdings, complete the transition of agricultural and food-processing companies from state to private ownership);

- development of an efficient and affective land market (complete the land cadastre and facilitate agricultural land registration, establish the Agency for Agricultural and Forest Land which would be in charge of managing all agricultural and forest land owned by the state or for which ownership has not been proven, constant improvement of land quality);
- development and infrastructural projects in water supply and channelling;
- improved organisation of farmers at all levels (enactment of the Law on Agricultural Cooperatives, establishing a Cooperative Support Centre, passing a Law which will solve the issue of ownership and restructuring of cooperatives under dispute, solving the problems of ownership over cooperative property, the Chamber of Agriculture run by the users and designed to suit their needs);
- environmental protection from waste water, pesticides and veterinary medicines.

3.6. Mining and energy

The current situation in the energy sector is characterised by: non-economic price of electricity; unsatisfactory state of energy generating facilities as a consequence of insufficient investment in the previous period into overhauls and investment maintenance, as well as non-harmonised development of the energy sector, in terms of rational use of energy sources; increase of energy efficiency both in generation and distribution, as well as with end users where energy services are rendered; need for revitalisation of the existing energy facilities and investment into generation, transmission and distribution capacities; setting of the strategic and legal development framework; beginning of the process of the regional electricity and gas market creation, through the Athens Process and signing of the Treaty Establishing the Energy Community of South-East Europe; beginning of the restructuring of public enterprises; commencement of the setting up of deregulated market and market institutions, etc.

The liberalisation of electricity market in the Republic of Serbia is one of the necessary and key factors for boosting and acceleration of economic development. One of the most important tasks that power sector and the government are facing is

the process of harmonisation and association with the EU. Moreover, The Republic of Serbia, first as a signatory of the so-called Athens Memoranda of Understanding (2002 and 2003), and then the Treaty Establishing the Energy Community of South East Europe (2005), has been from the very beginning involved in the creation of the regional electricity and natural gas market at the SEE level, as well as its integration in the internal market of the European Community.

The basic goal of the energy system reform is rational use of energy sources as well as increased energy efficiency in generation, transmission, distribution and consumption of energy, setting qualitatively new operating conditions and development of generating energy sectors and energy consumption sectors which will have a stimulating effect on the economic development of the Republic of Serbia, environmental protection and integration of the domestic energy sector into the regional and European energy market.

The key document for the implementation of reforms in the energy sector is the Energy Law defining the basic goals of the energy policy which is to be implemented through the Energy Sector Development Strategy, Programs for the implementation of the Strategy and energy balance sheet. The basic development directions for the energy sector in the Republic of Serbia are:

- 1) safe, good quality and reliable supply of energy to consumers, with reduced import of energy sources,
- 2) transformation of the energy system and improvement of energy efficiency,
- 3) harmonising the energy sector development with other sectors of the economy.

The Energy Sector Development Strategy for the period until 2015, adopted by the National Assembly in May 2004, defined the priorities and measures to achieve these goals, and which include, inter alia, the implementation of the technological modernization programs for the generation systems, rational use of energy sources both in generation and consumption sectors, and investment into construction of new power plants (with energy efficient and environmentally friendly technologies as well as those using renewable sources). One of the necessary and key factors for the boosting and acceleration of economic development of the Republic of Serbia is the electricity market liberalization in the Republic of Serbia, but that is, at the same time one of the most important tasks the energy sector and the government are faced with in the process of EU harmonisation and accession.

By the enactment of the Energy Law, our energy legislation was harmonized with the EU energy legislation. The harmonization of local regulations governing legal relations in the energy sector with the EU acquis, and creation of the instruments related to the regional market, was carried out with the view to provide the necessary conditions for establishing links between the energy actors in the region, their equal treatment on the energy market, approximately the same level of protection of customers and other conditions provided for the gradual opening of the energy market. The Energy Law created the institutional framework for the energy sector and established two agencies in this area:

- **Energy Agency**, an independent regulatory body, responsible for the adoption of tariff systems for electricity and natural gas for tariff customers, as well as the tariff systems for the access to and use of the energy transmission, transport and/or distribution system and of natural gas storage facilities; developing methodology for defining the tariff elements for the calculation of the power and natural gas prices; determining the criteria and costs of the connection to the energy transmission, transportation and distribution system; issuing licenses for conducting energy activities. It is necessary to strengthen the Energy Agency function considering that the tariff system and methodology, together with the Rules on Market Operation, are the basis of the substantive reform of the energy sector, relating to network energy.

- **Energy Efficiency Agency** (performs professional activities aimed at improvement of conditions and measures for the rational use and savings of energy and energy sources, as well as increasing efficiency in all sectors of consumption).

Part of the reform of the energy sector is the restructuring of public enterprises and improvement of their efficiency. In 2003, as part of its rationalisation and restructuring activities relating to Elektroprivreda Srbije (Power Industry of Serbia), underground coal mines were separated from the company. In 2005, the Government formed two completely independent companies from the previous vertically integrated company JP EPS- Public enterprise for generation and distribution of electricity, management of the distribution system and trade in electricity (JP EPS) and Public enterprise for the transmission of electricity and management of the transmission system (Serbian transmission system and market operator, JP EMS- Elektromreža Srbije), which commenced their operations on 1 July 2005. Further activities on rationalisation and restructuring of JP EPS are envisaged for the next phase. In 2005, the Government formed three completely independent companies from the previous vertically integrated company JP NIS: Public enterprise for the pipeline transport of oil and products (JP „Transnafta”), Public enterprise for transport, storage, distribution and

trade in natural gas (JP „Srbijagas”) and joint-stock company for exploration, production, processing, distribution and marketing of oil and products and exploration and production of natural gas (NIS a.d.). Belgrade Refinery and Fabrika Maziva Krusevac, which produce lubricants, and which have already entered the privatisation process. The Privatisation Advisor for NIS a.d. has already been engaged and proposed the privatisation strategy approved by the Government on 20 July 2006.

The National Action Plan for the Gasification of the Republic of Serbia was approved, providing basic technical and economic data on the planned development of gas network in the Republic of Serbia, as well as the plan of activities on enacting gas related legislation. The oil and gas sector actively participates in the activities strengthening regional cooperation, establishing of a single market for natural gas in the South East Europe, and in particular, on the implementation of the Pan-European Oil Pipeline project .

The main goal of the mining sector is the improvement of the position of mining in the Serbian economy and attracting investments into exploration and mining. The basic prerequisite for the above was the enactment of the Amending Mining Law. The Law provides legal set up for establishment of the Mining Agency which will carry out professional activities in mining and geological exploration. With the aim of providing funding to encourage small and medium sized mining companies, the proposal for the establishment of the Mining Investment Fund is being drafted, in accordance with the Strategy of Economic Development of the Republic of Serbia until 2012. The Government began restructuring activities in large mining systems with the aim of eventually privatising them (RTB Bor, JP PEU, Trepca lead and zinc mines, Magnohrom, Zajaca, etc). Some of them are in the final phase of restructuring, and some have already been privatised. The public administration switch to information technologies required the development and improvement of GIS technology in the area of mining and geological exploration. This process began in 2001 and the compiling of all the available data for the entire sector.

Energy resources in the Republic of Serbia are relatively poor and their geographic distribution is uneven – oil, gas and good quality coal are imported, while electricity still can be produced on the basis of local resources, so the import of energy resources will have to rise further, and this growth will be much faster if serious government measure are not undertaken to encourage greater energy efficiency (inefficiency of all energy transformation is high) and the use of remaining domestic resources and renewable energy resources. In addition, with regard to environmental

protection from adverse impacts of pollution from energy facilities, the Republic of Serbia lags behind the developed countries and EU standards.

The energy sector has a significant share (17%) in the total volume of implemented international assistance in the last five years. International assistance funds were directed towards the development of the market and institutions in the energy sector, as well as the reconstruction of infrastructure of the current energy system, improvement of energy efficiency and environmental protection. As for the private sector activities, investors showed great interest in the concessions for the exploration and mining for different ores at several locations. In the following three years, other attractive prospects will be ready for concessions, in particular in the energy sector.

Major projects in energy sector between 2000 and 2005:

1. Energy Efficiency Project	World Bank
2. ECSEE Project (Republic of Serbia)	World Bank
3. EPS: energy sector loan II	EBRD
4. EPS: loan for the reconstruction of energy sector	EBRD
5. Assistance in the creation of electricity market in the Republic of Serbia	European Union
6. Detailed supervision of projects for thermal power plant emissions in the Republic of Serbia	European Union
7. Improvement of maintenance in mining and power industry	European Union
8. Legal advice for institution building with the Ministry of Mining and Energy	European Union
9. Assistance in the restructuring of the energy sector	European Union
10. Placing of consultant for institutional building with the Power Industry of Serbia (EPS)	European Union
11. Establishment and operation of Energy Agency	European Union

12. Regional encouragement of energy efficiency and renewable energy sources (Serbia, Montenegro, UNMIK)	KfW
13. Reconstruction of hydro power plant in Bajina Basta	KfW
14. Reconstruction of district heating systems in the Republic of Serbia	KfW
15. Establishment and operation of Energy Efficiency Agency	European Union
16. Assistance for energy efficiency in the Republic of Serbia (Assistance to Serbian institutions – financial aid for the operation of energy efficiency centres and network for energy efficiency in industry)	Norway
17. Feasibility study for the cogeneration (heat and electricity) plant in Belgrade	US TDA
18. Assistance in the creation of electricity and gas market in the Republic of Serbia	European Union
19. Modernisation of utility services (projects demonstrating energy efficiency, support to the Energy Efficiency Committee of the Standing Conference of Towns and Municipalities and development study for energy efficiency and other projects)	GTZ
20. Technical support for the signing and ratification of the Kyoto Protocol and interpretation of the systems for the promotion of renewable energy sources through green certificates (transferable permits)	Italy
21. Building of institutions and centre for renewable energy sources within the Energy Efficiency Agency (Assessment of wind potential as an energy source at selected locations – donation in measuring equipment, technical assistance for the collection of data, development of the study and training of local experts)	Spain
22. Promotion of investments in the projects regarding energy efficiency and renewable energy sources in the Republic of Serbia (Establishment of the DNA)	UNDP

Mid-term priorities in the energy sector in the Republic of Serbia, as defined in the European Partnership are:

- Adoption and implementation of long term strategy for environmentally sustainable energy policy, and
- Fulfilment of regional and international obligations in the energy sector aimed at establishing a competitive regional energy market.

The top priority in the following period is the implementation of the Treaty Establishing the Energy Community signed on October 25, 2005 in Athens, between the European Community on the one side, and the SEE countries, with the Republic

of Serbia among them, on the other side. The Treaty implies: creating a stable regulatory and market framework for electricity and gas, capable of attracting investment and being a prerequisite for economic and social progress; creating a single regulatory space for trade in electricity and gas; enhancing the security of supply; improving the environmental situation and fostering the use of renewable energy; developing market competition in the electricity and gas market.

The Treaty came into effect on 1 July 2006, since it was ratified by the EC and the six Contracting Parties. By the ratification of this Treaty in the National Assembly on 14 July 2006, its provisions became binding for the Republic of Serbia. The Energy Community process, established by signing the Treaty, implies the establishment of the SEE Regional Energy Market and the integration into the Internal Electricity and Gas Market of the European Community.

The Energy Community Treaty provides for:

- Implementation in our legislation of EU Directive 2003/54/EC concerning the common rules for the internal market in electricity, EU Directive 2003/55/EC concerning common rules for the internal market in natural gas, and the Regulation 1288/2003/EC on conditions for access to the network for cross-border exchanges in electricity.
- Implementation of Directive 2001/77/EC on the promotion of electricity produced from renewable energy sources in the internal electricity market and Directive 2003/30/EC on the promotion of the use of bio-fuels or other renewable fuels for transport.
- Analysis of our present legislative and institutional framework concerning competition and state aid from the energy aspect, in order to submit to the competent Ministry the initiatives for necessary adjustments for any further harmonization with the EU requirements.
- Preparation of the National Plan for the reduction of adverse social effects caused by implementation of the Treaty (the need to bring the cost of energy, particularly electricity, to the economic level, internal rationalization of public energy enterprises and improvement of their financial performance, retraining and additional training of employees, new qualifications and skills, alternative employment programs, etc).
- Implementation of EU Directive 1999/32/EC relating to a reduction in the sulphur content of certain liquid fuels and amending Directive 93/12/EEC,

- Implementation of Directive 2001/80/EC EU on the limitation of emissions of certain pollutants into the air from large combustion plants.

Moreover, the provision is made for the implementation of EU Directive 2005/89/EC concerning measures to safeguard and improve security of electricity supply, in order to ensure successful operation of the internal EU market and enable economic development, adequate level of production capacities, proper supply/consumption balance, and adequate level of interconnection between member states, which is also binding regarding the reduction of technical and non-technical electricity losses in transmission and distribution. The need for further establishment of regulatory framework for operators of transmission and distribution systems, and for the development of their respective networks calls for harmonization of laws and administrative provisions with EU Laws and Directives.

The provision is also made for the implementation of EU Directive 2004/67/EC concerning measures to safeguard security of natural gas supply and the Regulation 1775/2005 on access conditions to the natural gas transmission network.

On 12 March 2001, Serbia and Montenegro ratified the UN Framework Convention on Climate Change and attained the status of a non-Annex 1 Party. Soon-expected ratification of the Kyoto Protocol will open the door to the implementation of projects related to energy efficiency and renewable energy sources through the Clean Development Mechanism (CDM projects), but it is first necessary to prepare a strategy for the application of the Clean Development Mechanism and to set up the relevant institutions– the Designated National Authority (DNA) for the approval of CDM projects.

The mid-term priority of the energy sector is to ensure rational use of good-quality energy sources and to increase energy efficiency in production, distribution and consumption of energy on the side of end-users of energy services. In order to achieve this priority, the development of the Program for the rational use of energy and increased energy efficiency at the level of the entire energy system of the Republic of Serbia is planned. In the area of legislation, the Law on Rational Use of Energy is planned to be enacted, and the Energy Efficiency Fund is also to be established according to the Energy Sector Development Strategy until 2015.

The development of the Program for selective use of new renewable sources of energy is also planned in order to reduce consumption of fossil fuels, decrease import dependence and achieve the production of electrical and thermal energy with much lower adverse environmental impacts.

The creation of electricity market implies setting electricity prices that cover costs of production, transmission and distribution, which should enable sustainable development and attraction of investments. Realistic, economic electricity prices are a prerequisite for the attraction of investments into energy sector, and only the appropriate pricing policy may provide support to the development of energy market in the Republic of Serbia (while the policy toward the poorest consumers should be moved out from the business funds of energy entities by preparing a Social Welfare Program for vulnerable population).

Price at which energy is supplied to tariff customers and price of services provided to tariff customers will be set by energy entity in charge of supplying tariff customers according to the previously obtained opinion of the Energy Agency. The Government shall give its approval to the pricing act.

Since the increase in use of natural gas is one of the essential strategic directions for the energy sector development in the Republic of Serbia, the natural gas sector should also be provided with substantial capital investment. Diversification of supply sources and routes is the basic principle to be kept in mind in the development of this sector. The most significant capital investment in this sector is the construction of natural gas storage. Another very important investment is the construction of a southern branch of the natural gas transport system from Nis to Dimitrovgrad, in order to ensure the second supply route. Furthermore, our gas pipelines should be connected with those in Bosnia and Herzegovina, Romania and Croatia.

In the mining sector, all features of the relevant strategy are led by the basic market reforms and are adjusted to the environmental protection requirements by the reconstruction of mining sector in the Republic of Serbia and by proving the stability of mineral resources and the market supply security. It is also necessary to set a solid legal and institutional framework, starting with preparation of the National Mineral Policy. Particularly needed is the support for establishment and operation of the Mining Agency, as a separate organization for professional activities that will take part in investment promotion, preparation of the strategy for development of mineral resources of the Republic of Serbia, sustainable development, and reserve balancing for all mineral resources. It will also participate in preparation of documentation for granting concessions for exploration and mining of mineral resources and in preparation of by-laws and rules on technical norms, and other technical regulations. In order to provide funds for fostering protection and improvement of mining and geological explorations, the Mining Investment Fund will be established as a public financial fund that will particularly serve as a support to private initiative in small and

medium-sized enterprises operating in mining sector. In order to provide the relevant data related to mining and geological explorations, the activities directed towards the improvement of the information system in this segment will be continued. The operation of inspection services for this sector will be improved, particularly those related to occupational health and safety, but also those related to controlling the collection of fees for the use of mineral resources.

In the Republic of Serbia there is a total of 55 public utility enterprises with production and supply of thermal energy as their core activity. The total installed thermal power in boiler units is 6600 MW, which makes district heating plants an important segment in the energy system of the country. The data on age are the best indicator of the condition of this system: the average age of boilers is 28 years, of distribution network – 20.6 years, and of substations – 20.5 years. Due to its age, the distant heating system needs to be revitalized, but applying modern technical solutions that will ensure a reliable operation and positive effects both in terms of energy savings and the environment. The prerequisites for this are good-quality and well-elaborated projects and changes in tariff policy (introduction of measurement), thus helping to attract investors and create conditions for favourable loans.

The process of legislative, institutional and structural reforms in mining and energy sectors has been completed and is to be followed by the revitalization process, i.e. the process of making functional the implemented reforms. It is therefore necessary to direct international support to the capacity building of the Ministry of Mining and Energy and of other relevant institutions and to develop and implement reforms in this segment. This certainly indicates a clear need for experts, technical support and training.

Based on the analysis above, it is possible to conclude that the priorities for reforms in the entire mining and energy sector in medium term are:

- Modernization of the existing energy facilities in the sectors of oil, natural gas, coal and electricity, in order to create conditions for safe and reliable operation of energy systems and safe and reliable supply of energy and energy products to consumers,
- Rational use of good-quality energy sources and improvement of energy efficiency in production, transmission, distribution and consumption of energy,
- Creating conditions for wider use of renewable energy sources

- Rationalization and restructuring of public enterprises performing energy-related activities,
- Restructuring and privatization of public and socially-owned mining enterprises,
- Creating incentives for private investments into mining and development of small and medium-sized mining enterprises,
- Construction and modernization of energy infrastructure,
- Establishing national, competitive market in electricity and gas,
- Creating regional market in electricity and gas in the Southeast Europe and integration into the internal energy market of the European Community,
- Improvement of environmental protection in energy sector
- Harmonization of legislation with the EU legal system, implementation of EU Directives relevant for this area, putting in place new, modern, technical legislation, regulations and standards;
- Institutional capacity building in the Ministry, Agencies and other institutions,
- Improvement of analytical capacities.

Basic objectives of business policy of the Power Industry of Serbia (JP EPS) are: reliable supply of customers under economical and environmentally friendly conditions while reducing import of electricity; economic/financial, technical/technological, organizational and management consolidation; opening of domestic market, involvement in the regional electricity market and establishment of influential position in the region; improvement of environmental protection, and reaching the EU standards in this field.

Strategic priorities of EMS are: higher system safety, lower losses in transmission, better supply of customers (electricity quality), development of inter-connective abilities (considering the position of Serbia and the number of the surrounding power systems), mobilization of domestic economic resources as much as possible in all new projects, and improvement of environmental aspects induced by this technology.

Reform and investment projects mentioned in Tables 20a and 20b directly contribute to the implementation of the above-mentioned priority goals. To that effect, aside from provision of budget funds and own funds of public energy enterprises, in the coming period, the financial and technical support from the international community

will still be needed for the implementation of the mentioned projects, as well as the loans granted under conditions more favourable than those obtainable on the market. An important source of funds for the development of energy and mining sector in the coming period will be concessions and foreign direct investments.

The Energy Law, in accordance with the Priority Programs presented in the Energy Sector Development Strategy of the Republic of Serbia until 2015, provides for Strategy Implementation Programs (SIP) for the period 2006-2010. In power sector, the following modules are envisaged:

- Module –Hydro power plants,
- Module – Thermal power plants and thermal power/district heating plants,
- Module – Power distribution system,
- Module –Power transmission system,

In oil and gas sector, the following modules are envisaged:

- Module – Srbijagas
- Module – Transnafta
- Module – Oil industry

In coal mining:

- Module - Underground coal mining
- Module - Open pit coal mining

In general energy sector:

- Module - City district heating plants and individual boiler rooms
- Module – Industrial energy
- Module - Energy efficiency
- Module - Fund for energy efficiency and renewable energy sources
- Module - Environmental protection
- Module – Renewable energy sources

The SIP Programs are to be adjusted to the real energy demand at least every other year.

Table 20a. Priority reform projects in the mining and energy sector in the period 2007-2009

Project name	Institution in charge	Estimated project value (EUR)	Data about sources of funding		Planned start of project implementation
			Own funds	External funding sources	
1. Development of a detailed Action Plan for the implementation of the Treaty Establishing the Energy Community,	MoME	7,400,000	2,000,000	5,400,000	2007-2010
2. Capacity building of the Ministry of Mining and Energy for the implementation of the Treaty Establishing the Energy Community	MoME	200,000			2007,
3. Program of social protection of vulnerable groups that may be affected by the opening of the electricity and gas market	Ministry of Labour, Employment and Social Policy with the support of MoME	800,000			2007,
4. Project for establishment of mandatory reserves of oil and oil derivatives	MoME, MTTs, MF	500,000			2007,

5. By-laws to be adopted pursuant to the Law on Pipeline Transport of Gaseous and Liquid Hydrocarbons and Distribution of Gaseous Hydrocarbons, when enacted by the National Assembly	MoME	200,000			2007,
6. Law on Storage and Reloading of natural Gas and pertaining by -laws	MoME	100,000			2007,
7. Legal acts to regulate the area of compressed natural gas	MoME	100,000			2008,
8. Legal acts to regulate the area of liquefied natural gas	MoME	100,000			2008
9. Drafting of the Law on Rational Energy Use	MoME	50,000			2007
10. Setting up of the database of energy indicators and training of experts including energy managers	MoME	200,000			2007,

11. Setting up of the database of energy indicators and monitoring of the Strategy Implementation Program for electricity	MoME	380,000	180,000*	200,000	2007,
12. Setting up of the database of energy indicators and monitoring of the Strategy Implementation Program for oil and gas	MoME	380,000	180,000*	200,000	2007,
13. Capacity building of the Ministry for strategic planning in the field of developing indicators and energy analyses (permanent expert working group)	MoME	400,000			2007,
14. Monitoring of Strategy Implementation Program for coal mining	MoME	350,000			2007,
15. Development of the study on incentive mechanisms for the use of renewable energy sources	MoME	200,000			2006

16. Development of the CDM project strategy for energy sector related projects		150,000			2006
17. Analysis of the conditions for the functioning of mechanisms of funding "third party" energy efficiency projects on the basis of energy savings achieved by the project (conditions for the operation of ESCOs)		40,000			
18. Preparation of the review of possibilities of implementing <i>acquis communautaire</i> relating to energy efficiency in domestic legislation		50,000			2007
19. Mineral Resources Management Strategy	MoME	200,000		200,000	2006
20. Development of by-laws	MoME	600,000		600,000	2007
21. Capacity building in the Mining Department	MoME	1,000,000			2007
22. Establishment of the Mining Agency	Government, MoME	3,500,000	1,500,000	2,000,000	2007

23. PORTAL project (IT) – completion of the entire information system for mining and geology	MoME	1,500,000	500,000	1,000,000	2008
24. Project of support to the restructuring and privatisation of JP PEU (public company for underground coal exploitation)	MoME	18,000,000	Subsidies 10,000,000	8,000,000	2007
25. Projects for the closure of coal mines and alleviation of consequences	MoME, MF	50,000,000		50,000,000	2008
26. Development of the application and implementation in our legislation of the EU Directive 2005/89/EC providing for the measures of safeguarding and improving the security of electricity supply, to ensure successful operation of the internal market	MoME	300,000			2007

Table 20b. Priority investment projects in the mining and energy sector in the period 2007-2009

Project name	Institution in charge	Estimated project value (EUR)	Data about sources of funding		Planned time of project implementation
			Own funds	External funding sources	
1. Macro project of pipeline transport of oil products through Serbia – product pipeline system	MoME /JP TRANSNAFTA Pancevo	424,000,000	30%	70%	2006-2010
2. PEOP (Pan European Oil Pipeline)	MoME/JP TRANSNAFTA Pancevo	298,000,000	15%	85%	2006-2014
3. Underground gas storage Banatski Dvor	MoME / JP SRBIJAGAS Novi Sad	89,500,000	NIP 11,000,000		2007
4. High pressure gas pipelines in different directions	MoME / JP SRBIJAGAS Novi Sad	207,292,000			2007-2009
5. Plan of environmental protection measures and activities in NIS a.d. Novi Sad – Petrol – Pancevo Refinery	MoME/NIS a.d. Novi Sad	155,000,000	~23,250,00 (15%)	~131,175,000 (85%)	2007-2009
6. Plan of environmental protection measures and activities in NIS a.d. Novi Sad – Petrol – Pancevo Refinery	MoME/NIS a.d. Novi Sad	49,300,000	~7,395,000 (15%)	~41,905,000 (85%)	2007-2009
7. Replacement of insulation and windows as well as application of solar collectors for rendering	MoME	90,000,000	10,000,000 (NIP)		2007-2009

heating services to households					
8.Mining Investment Fund	MoME, MF, Development Fund	20,000,000		20,000,000	2007
9. Drainage of open pits Drmno – Kostolacki basin and Polje B – Kolubarski basin	EPS - Strategy and Investment Directorate	30,000,000		30,000,000	2008
10.Implementation of the Environmental Action Plan for the „Tamnava – Zapadno Polje“ open pit of the Kolubara mining basin	EPS - Strategy and Investment Directorate	10,000,000		10,000,000	2007.
11.Implementation of the Environmental Investment Plan upon the closing of „Klenovnik“ open pit of the Kostolac mining basin	EPS - Strategy and Investment Directorate	40,000,000		40,000,000	2008
12. Implementation of the Environmental Investment Plan upon the closing of “Cirikovac“ open pit in Kostolac	EPS - Strategy and Investment Directorate	130,000,000		130,000,000	2009.
13.Construction of the ash and slag landfill of TE (thermal power plant)	EPS - Strategy and Investment Directorate	15,000,000		15,000,000	2009

Kostolac B in the free spaces of the open "Cirikovac" open pit					
14.Revitalization of HE (hydro-power plant) Zvornik	JP EPS Strategy and Investment Directorate and PD „Drinsko Limske HE“ HE Zvornik	40,000,000			
15.Reconstruction of the ash and slag transport and disposal system TENT-A	JP EPS Strategy and Investment Directorate and PD TE „Nikola Tesla“,d.o.o.	34,600,000			2008.
16.Reconstruction of electric filters for blocks A3, A4 and A6 of TE Nikola Tesla A	JP EPS Strategy and Investment Directorate - Environmental Protection Division	18,000,000	Partly own funds	RS Environmental Fund	2007-2009
17. Addressing problems of PCB filled electric devices in JP EPS (Pyralene oil)	JP EPS Strategy and Investment Directorate - Environmental Protection Division	3,000,000		NIP in cooperation with the Ministry of Science and Environmental Protection	2007-2008
18. Flue gas desulphurisation plant in TE Kostolac B	JP EPS Strategy and Investment Directorate and PD " TE-KO Kostolac " Kostolac	85,000,000		Japanese Government and other sources 85,000,000	2007-2008
19. Flue gas desulphurisation plant in TE Nikola Tesla B	JP EPS Strategy and Investment Directorate and PD TE „Nikola Tesla“,d.o.o.	120,000,000		120,000,000	2009.

20. Hydroenergy and navigation system "Djerdap 1" – equipment replacement of the lock "	JP EPS Strategy and Investment Directorate and PD "Hidroelektrane Djerdap" D.O.O. Kladovo	15,500,000			
21. Construction of the 220/110 kW Bistrica TS with connection power lines	JP EMS	8,000,000		8,000,000	2007
22. Construction of the 400 kW power transmission line Romania - Serbia	JP EMS	12,000,000		12,000,000	2007
23. Construction of the 400/110 kW TS Vranje 4 with connection power lines	JP EMS	9,000,000		9,000,000	2008.
24. Extension of the 400/220/110 kW TS Smederevo 3	JP EMS	7,000,000		7,000,000	2008.
25. Allocation of capacities based on explicit auctions	JP EMS	400,000		400,000	2007.
26. Reconstruction of TS Beograd 1 (110/35/10 kW)	JP EMS	5,420,000		5,420,000	2009.
27. Construction of 110 kW power transmission line Kraljevo – Raska (60 km)	JP EMS	3,600,000		3,600,000	2007.
28. Replacement of	JP EMS	3,200,000		3,200,000	2008.

PTL 220 KW HE B. Basta - TS B. Basta (2x8 km)					
29.Rehabilitation of TENT B Control system	JP EPS Strategy and Investment Directorate and PD TE „Nikola Tesla“, d.o.o.	8,500,000		8,500,000	2007
30.Implementation of Energy Sector Development Strategy part relating to the existing and new heat energy sources – city heating plant and industrial utility plants		70,000,000			2007
31.Establishment of the fund for the rational use of energy – through which the POS of energy efficiency and selective use of renewable forms of energy will be implemented	MoME	100,000,000			2007
32. Realization of Strategy priorities - Priority Programs: Rational use of energy sources and increasing of energy efficiency in energy consumption		300,000,000			2007

sectors					
- Priority Programs: Selective use of renewable energy sources and new energy technologies					

** funds proposed for the 2007 Budget but not yet approved*

3.7. Trade, Tourism and Services

High growth of GDP in the Republic of Serbia over the last five years was achieved owing to the constant growth of the services sector (average annual rate of growth was 7%), primarily in trade (15%). The structure of gross added value also changed in favour of services, mostly as a result of high average growth of whole sale and retail. This trend should continue in the future, because that is the feature of countries which are at higher level of economic development. That is why the activities of the Ministry of Trade, Tourism and Services were focused on accelerating the process of accession to the EU, harmonisation of legislation with the EU legislation, building of powerful, market-oriented institutions, improving access to new markets and integration with the regional and global markets, with a view to faster developing the private sector and restructuring companies in trade and tourism.

Major projects of the Ministry of Trade, Tourism and Services in the period 2000-2005:

- | | | |
|--|---------------------|-------------------|
| 1. Project for recruitment of experts for the support to the implementation of the Law on the Protection of Competition. | CARDS | 2005 –Feb... 2006 |
| 2. Project for the recruitment of experts for the support to the implementation of the Law on Consumers Protection | CARDS | 2005 - March 2006 |
| 3. Technical support for the promotion of projects in tourism | Government of Japan | July -Dec 2005 |

The reform of the trade, tourism and services sector is based on a defined strategic and institutional framework. The strategic development framework has been determined in the following national documents: the National Strategy for the Accession of Serbia and Montenegro to the EU, the Poverty Reduction Strategy, the Communications Strategy, Trade Strategy and Policy of the Republic of Serbia and the Strategy for Tourism. The Commission for the Protection of Competition (established on 18 April 2006) and the Council for Consumers Protection of the Minister established on 18 April 2006).

Over the last few years, laws regulating this sector of the economy were enacted which helped, to a great extent, the harmonization of domestic legislation with the EU standards. During 2005 the following laws were adopted: the Law on Tourism, the Competition Protection Law, the Consumers Protection Law, the Law on Prices and the Law on Advertising. Apart from these laws, other new laws and amendments of the existing ones should be adopted in the course of 2006. Thus, the legislative framework in the field of trade and tourism should be completed with a view to harmonizing domestic regulations with the EU regulations.

Ensuring freedom of movement of goods is one of the essential elements for creating a single market, which most of the EU legislation refers to. In the first phase, it is necessary to harmonise domestic legislation with the conditions for the signing of the Stabilisation and Association Agreement. That means that domestic legislation dealing with the regulation of the market and international or external exchange must be completely adjusted to the basic principles of the freedom of movement of goods, such as the principle of non-discrimination of domestic and foreign goods on the market, harmonised customs tariff (harmonized system – tariff classification), as well as with the WTO rules in this field (for example, the Agreement on Technical Barriers to Trade, the Agreement on Sanitary and Phyto -Sanitary Measures). For that purpose, it will be necessary to pass the Law on Trade (procedure is underway), and for its efficient implementation, a number of laws within the competence of other ministries will also have to be enacted. Draft National Programme for Consumers Protection for the period 2007-2012, which the Government is to adopt, defines the strategy and policy of consumers protection. Goals and tasks, and particularly capacity strengthening of the governmental and nongovernmental sectors in the area of consumers protection have been defined.

In the field of tourism, the Law on Tourism and the Tourism Development Strategy have been adopted with an aim of reorganizing and privatizing state-owned tourist companies, promoting management and marketing in tourism, renovating tourist

facilities, specializing the tourist offer. All this will provide for greater competitiveness in the sector of tourism, higher foreign-exchange revenues from tourism and an increase in employment in the sector of tourism. For that purpose, the following laws were passed: the Law on Health Spas, the Law on Ski Resorts, as well as other regulations from this area. In the medium-term, tourist infrastructure will be improved as a result of greater capital investments by investors interested in tourism and catering. A modern data bank will be established which will enable the monitoring of various tourist components, identical to the European Satellite Bookkeeping which is important for the defining of macroeconomic frameworks.

In the field of trade and consumers protection, privatization and restructuring of the large retail and whole-sale systems will be carried out. Also, promotion of competitiveness, price and market stability and consumers protection according to the EU regulations and standards will be ensured. Special attention will be paid to the process of integration, cooperation and concentration of trade like in the EU trade. Internal trade will be reformed and promoted in line with the provisions of the Law on Trade, the Law on Prices, the Law on Advertising, the Consumers Protection Law, while on the basis of the adopted Trade Development Strategy, which defines the structure of trade and trade networks, the manner for ensuring trade capital, the trade internationalisation process, specificities of regional development of trade, ways to protect consumers, development of a modern management and marketing in trade, and promotion of electronic trade will be developed.

Promotion of internal (domestic) market and trade calls for harmonization within the area of introducing competition rules, protection of intellectual property rights, industrial and commercial property rights, implementation of the public procurement procedure, application of technical standards and regulations adjusted to those of the EU, strengthening of the quality infrastructure (standardization, metrology, accreditation), consumers protection, improvement of veterinary and phyto-sanitary control, implementation of quality control regulations, and food and chemicals safety rules.

Government's strategic orientations in the area of trade are: trade liberalization, strengthening of competition, building of new trading structures and trading networks, encouraging the process of company concentration, introducing new forms of retail trade, computerization of business processes, attracting foreign investments, completing privatization and developing e-trade.

The following goals will have to be achieved **in the area of tourism: promoting competitiveness in tourism, increasing foreign exchange revenues, growth of turnover from domestic tourism and increase in employment.**

The signing of the Stabilization and Association Agreement with the EU, expected by the end of 2006 will create legal basis for the establishing of free trade zones between the Republic of Serbia and the EU. This means that once SAA comes into force, the EU will eliminate its customs and non-customs protection of trade for agricultural and industrial products with Serbia, and Serbia will do the same in the transition period which will be agreed on at a later stage. The process of common market expansion and the strengthening of mutual economic links with the countries from the region in accordance with the free trade agreements will be continued with the view of creating free trade zones. To this end, a multilateral agreement on free trade will be concluded, tariff barriers will be lifted, trade procedures facilitated and cooperation in the domain of services will be strengthened.

Medium-term priorities in trade, tourism and services are as follows:

1. Implementation of the Stabilisation and Association Agreement in the field of competence of the Ministry of Trade, Tourism and Services (MTTS) competences by harmonizing laws and regulations with *Acquis Communautaire* (2009-2010);
2. Affirming free trade and relevant institutions and mechanisms (2007);
3. Developing internal market characterized by conditions that are equal to the conditions existing on the EU single market (2010);
4. Ensuring high level consumers protection, guaranteed quality and safety of products and services and efficient market monitoring measures (2007);
5. Adjusting the MTTS capacities- organizational and working methods with the needs for efficient functioning in the field of trade, tourism and services (2007);
6. Building of tourist and utility infrastructure in priority tourist destinations (2012);
7. Promoting and developing IT system for tourism (2010);
8. Developing a regulated legal framework and instructions for the promotion of tourism through a model of public and private partnerships at all levels (2012);
9. Establishing transparency of activities for interested parties.

For achieving the above priorities, the Ministry of Trade, Tourism and Services has proposed the implementation of the following projects (table 21):

Table 21 - Priority projects in the field of trade, tourism and services in the period 2006- 2009

Project title	Institution in charge	Estimated project value (in EURO)	Sources of funding		Planned start of project implementation
			Own funds	External sources of funding	
1. Support to the implementation of the Law on the Protection of Competition	MTTS	2,000,000		2,000,000	Last quarter 2006
2. Support to the implementation of the Consumers Protection Law	MTTS	2,000,000		2,000,000	Last quarter 2006
3. Developing the national brand of the Republic of Serbia	MTTS	600,000		300,000	Last quarter 2007
4. Promotion of inspection services in the field of trade, tourism and services	MTTS	500,000		500,000 Kingdom of Norway	Last quarter 2006
5. Promotion of intellectual property rights protection	MTTS	400,000	100,000	300,000	2007
6. Installation of tourist signalization	MTTS	300,000	150,000	150,000	2007
7. Developing integral IT system in tourism in the Republic of Serbia	MTTS	100,000		50,000	2008
8. Capacity strengthening of the congress bureau	MTTS	600,000	300,000	300,000	2007

The proposed projects in the trade sector are directed to capacity strengthening for the implementation of the laws that were harmonized with the EU standards and to improving the competitive position of the Republic of Serbia (subsequently EAR selected the Commission for the Protection of Competition to be the user of the Project for the support to the implementation of the Law on the Protection of Competition). Most of the projects in the area of tourism are also aimed at the strengthening the institutional capacities of the Serbian tourist system, which should create the grounds for future development of tourism in accordance with the said goals. They are in line with the Strategy for the development of tourism which was

adopted by the Government of the Republic of Serbia and which provides for the implementation of the following action plans: The Plan for the development of competitive tourist sector in Serbia, the Marketing plan and the Investment plan which contain guidelines for the development of Serbian tourism, as well as proposals for future investments.

Apart from the listed projects, projects that would lead to greater support of small and medium-size enterprises, an increase in direct foreign investments, completion of the privatisation process and development of electronic trade and tourism should also be proposed.

3.8. Education and Sports

In the Republic of Serbia, despite the developed network of elementary schools, there are still 233,000 completely illiterate inhabitants over the age of 10, which makes up for 3.5% of the total population. Apart from this, educational structure of the population is unfavourable and 22% of the inhabitants have only elementary education. The fact that 69% of the poor in the Republic of Serbia are people with elementary or secondary education, while only 2% of the poor are persons who have higher education shows how important education is for poverty reduction. Low level of expenditures for education (3.3% of BDP) has an adverse effect on the access to education of the poorest groups, as well as on the quality of education.

The main problems of the education system are as follows:

- “Inflexibility” of the system in providing opportunities to chose or change ones occupation while in school, which subsequently leads to the need for retraining of workers.
- Brain-drain of thousands of young persons who are leaving the country during and after secondary education adversely affects the most important sectors for development-electrical engineering, IT, technology, medicine, pharmacology;
- Drop-out before graduation– this problem is particularly present in vocational schools and universities;

- Lack of standards and systems for the protection of the quality of education, which prevents the establishment of good educational institutions, with a system of accreditation and certification;
- Inability to meet the needs of employers for workers with certain skills (analytical skills, knowledge of concepts and software tools).

Since 2001 the educational system has been modernized with an aim of making it more efficient and improving the quality of knowledge in order to ensure greater contribution of the educational system to economic development and social progress in the Republic of Serbia and bringing Serbia closer to the EU. Rationalisation and reorganization of educational institutions at all levels is underway. Also, programs of training and professional development of teachers and programmes for revising curricula are in progress. However, significant results have not been achieved neither in decentralization and democratisation of the educational system or in linking schools to the labour market, nor in improving the quality of curricula and contents of educational programmes, system of grading students, vocational and specialization studies for teachers, equipping schools and introducing new educational profiles.

In the period 2000-2005, 106 million euros of international assistance were invested in the sector of education, of which the major part was invested in the reform of the educational system and improvement of schools, as well as in the training of teachers. A programme of modernization and development of secondary vocational education in the Republic of Serbia from 2003 was supported by an EU experimental project implemented within CARDS programme in 55 vocational schools in the Republic of Serbia.

Major projects of the Ministry of Education and Sports (MES) in the period (2000-2005):

1. Development of education in the Republic of Serbia	WB	10,000,000 USD	2002 -
2. Teacher education and professional development - National centre for teacher education	SDC	60,000 EUR	2002-2003
3. Secondary education reform	CARDS	4,000,000 EUR	2003 -
4. PISA project	OECD		2003
5. Establishing the Centre for teacher education and professional development in Nis	Government of Norway	1,315,000 EYP	2004 -
6. Teacher education and professional development in the Republic of Serbia	CIDA	2,000,000 CAD	2004-2007

7. Reform of vocational education in the field of economics, law and administration	GTZ	1,300,000 EUR	2004-2006
8. Improvement of schools	EIB	25,000,000 EUR	2005 -
9. Construction and equipping of schools in the Zajecar region	Government of Norway	1,987,600 EUR	2006
10. Support to education of minorities and the Roma	OSCE	350,000 EYP	2005-
11. Towards more efficient implementation of reforms –the system of planning, budgeting and monitoring MES activities	Government of Norway	30,000 EUR	2006
12. Healthy start – healthy lifestyle – Specific sporting equipment for pre-school institutions and training of employees (1)	Government of Norway	88,000 EUR	2006-

The main goals of the educational system reform in the Republic of Serbia are as follows:

- Inclusion of vulnerable groups of population and persons with special needs in the system of education based on proposed measures of affirmative action by expert teams, and simultaneous realization of specific seminars to train teachers for work with children with special needs;
- Improving education quality through programme rationalization, establishing quality in special educational fields, primary and secondary teacher training and approving new text-books.
- Continuation of the reform of secondary vocational education including: evaluation of the pilot programme for introducing new educational profiles in vocational schools and its implementation in a large number of schools, introduction of extra-curricular programmes in high-schools and changes in the regular learning programs.
- Ensuring a system for acquiring qualifications for adults.

The priority in poverty reduction in the field of education calls for increased efficiency of the educational sector, i.e. educational reform in line with the needs of a market economy and development of the private sector and, at the same time, full inclusion of vulnerable categories of the population and ethnic minorities (rural population, the Roma, children with disabilities, refugees and internally displaced persons) in the formal system of education. This calls for the reform of the pre-school education, including programmes (with adequate human resources support) for the widest

possible inclusion of children from poor families, increasing the general level of education among the Roma, as well as improving qualifications of the unemployed.

In view of the needs of the economy the goals of the reform of the secondary, post-secondary and university education are the following:

- Streamlining education not only to improving the basic, but also applicable knowledge and linking activities with the labour market;
- Developing the readiness of young people for professional development and additional training, harmonization of the diplomas and qualifications with the international standards, and diversifying institutional models, programmes and working methods;
- Reforming curricula with an aim of achieving functional, computer and technological literacy, by stimulating creativity, critical thinking and necessary skills for each individual;
- The development of the educational system should be based on the philosophy of life-long learning. In line with such philosophy measures for encouraging employers to invest into improvement of knowledge and skills of employees will be needed in order to help them become part of the process of change and technological modernisation of the economy.

The major strategic *document* for the development of education and sports in the Republic of Serbia is the Strategy of the Ministry of Education and Sports for the period 2005-2010. In addition, the National Action Plan for Children, Poverty Reduction Strategy and Draft Policy and Strategy of vocational education in Serbia are part of the strategic development strategy. International documents streamlining the development of the system of education in the Republic of Serbia include: The European framework for enhancing vocational education and training, the Millennium development goals, the Strategic goals of education and training in the EU countries and the Bologna declaration.

The Law on the Basis of the System of Education and Training from 2003 and the Law on Higher Education, enacted in 2005, regulate the system of education in Serbia. The drafting of the following laws is underway: the Law on Pre-school Education, the Law on Fine Arts Education and Training, the Law on Text -Books and other Teaching Tools, the Law on Student Standard, while the possibility of enacting the Law on Primary Education and the Law on Secondary Education which would define the specificities in relation to the system law on education is considered.

Institutions that are in charge of implementing the reform in this sector are: the Ministry of Education and Sports, the Directorate for Sports, the Administration for the Promotion of Education and Training and the Administration for the Evaluation of Education and Training.

The reform of the system of education will be further continued with an aim of improving its quality and efficiency and access to education for all, in accordance with the principles of life-long learning and adjusting the system of education with the development principles in education in the EU. The plan is to start the school year 2006/2007 with the implementation of the nine-year program of compulsory education with preparatory pre-school program included. Similarly, greater participation of adult population in educational and learning programs and projects is expected. Developing of distance learning is also planned.

The system of higher education will be promoted with an aim to reducing the average time spent before graduation and increasing the number of graduated students in relation to the number of enrolled. Special effects of the implementation of the Law on Higher Education are expected in the school-year 2006/2007. Adjusting curricula with the principles of the Bologna Declaration, the accreditation and transformation of post-secondary schools into institutions of higher education are the goals whose implementation will contribute to better and more useful system of higher education.

In order to completely achieve the goals and tasks of the reform of the system of education, particular attention shall be paid to stable financing of educational institutions from the budget of the Republic of Serbia and local self- government budgets. In order to meet the basic conditions for educational and training activities in schools it will be necessary to continue the reconstruction, repairs and expansion of buildings, as well as equipping of classrooms, laboratories and gyms. Efforts to create a single IT network for all schools and multimedia workshops will be intensified.

The creation of an open and a flexible system of vocational education adapted to demographic, social, economic, technical and technological needs as a key precondition for the promotion of human potential and successful integration of the Republic of Serbia into the European cultural and economic space is the *major long-term goal in the area of education*. In order to achieve such a strategic goal in the field of education, it will be necessary to establish national councils for education at all levels, create a system of accreditation and certification in vocational education, develop standardization in vocational education (occupational standard, educational

standard), improve professional qualities of teachers and other employees, monitor the quality at all levels of education and promote the funding of the system of education.

In the Republic of Serbia, the Law on the Prevention of Spectators Violence and Misbehaviour at Sports Events and the Anti-doping in Sports Law regulate the **field of sports**. The European Convention on Spectators Violence and Misbehaviour at Sports Events and the Anti-doping in Sports Convention will also be applied. In line with the duties and responsibilities of the Department for sports of the Ministry of Education and Sports the priority will be given to the establishment of a new system of organizing and funding sports, as well as to promoting and speeding up international cooperation. In the process of accession to the EU a complete model of sports and its role in the society will be adjusted. In order to achieve this aim a National program for the development of sports will be adopted.

According to the above, the following **medium-term priorities and goals have been set by the Ministry of Education and Sports:**

- establishing of an efficient system of quality assurance at all levels of education and training;
- decentralized system of education and training;
- creating opportunities for young people and adults to acquire skills, knowledge and abilities required for employment, work, further education and learning;
- a new model of funding educational institutions has been established;
- promotion of capacities of the system of education and training for inclusive education of children with special needs (children with disabilities);
- inclusive education for children with special needs by the end of 2011;
- system of support to talented pupils and students;
- promotion of adult education;
- promotion of inclusion of the Roma and improved quality of education of the Roma population;
- developed capacities of the Ministry of Education and Sports and relevant institutions for an efficient implementation of the EU programmes and recommendations in the area of education and sports;

- harmonised regulations in the field of education and training with the EU standards based on priorities defined within the process of accession to the EU;
- organization of working methods and capacities of the employed in the Ministry of Education and Sports correspond to the needs of more efficient functioning of education, training and sports;
- reduction of the number of illiterate persons to by 10%;
- increase in the number of persons engaged in sports and recreational activities;
- creating conditions for the development of top-level sports and achieving results at major international competitions;
- efficient management of resources in education and sports by applying a comprehensive data bank at all levels of education and training.

The Ministry of Education and Sports has defined the priority projects that will contribute to the realization of the said goals: (Table 22a and 22b).

Table 22a. Priority programme of reform activities in education and sports in the period 2007-2009

Project name	Institution in charge	Estimated project value (in EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources of funding	
1. Establishing National Agency for European Programmes in Education and Sports	MES	26,000,000	50% *	50%	2007
2. Support to education of minorities and Roma	MES	350,000		Roma Education Fund, OSCE	2006
3. E-learning – European structure of higher education in software engineering	Faculty of Natural Sciences and Mathematics Novi Sad	500,000			2007
4. Protection of national and cultural heritage – Our school	School of Art , Kraljevo	350,000		Government of Japan	2007

5. Decentralisation of education – preparations for project implementation	MES	20.000			2006-2009
6. Key life and professional skills educational programme in primary adult education	MES	60,000			2006-2007
7. Special protocol for the protection of children from abuse and negligence	MES	12,000			2006
8. Training and professional development of primary and secondary school teachers	MES	2,000.000	NIP		2007

Table 22b Priority investments activities programme in the field of education and sports in the period 2007-2009.

Project name	Institution in charge	Estimated project value (in EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources of funding	
1. Equipping gyms in primary schools	MES	1,358,800		Government of Korea	2007
2. Healthy Start-Healthy Lifestyle – Specific sporting equipment for pre-school institutions and professional development and training of employees	Sports and Recreational Club Zemun	240,000			2007

3. The School for the Future – Evaluation and promotion of the educational process- Post-secondary School of Economics – Leskovac and provision of premises and equipment	Post-secondary school in Leskovac	4,053,271			2007
4. Construction of teachers accommodation facility – Post-secondary Business School in Blace	Post-secondary Business School – Blace	897,500		Government of Norway	2007
5. Laboratory for new technologies– Teaching equipment for Secondary Technical School – New Belgrade	Secondary Vocational Technical School – New Belgrade	169,928		Government of Norway	2007
6. Construction of a new building – Secondary Vocational Technical School – Tutin	Secondary Vocational Technical School – Tutin	1,850,000		Government of Luxembourg	2007
7. Refurbishment of the Primary school "Bratsvo" in Novi Pazar	Primary school "Bratsvo" in Novi Pazar	179,235		Government of Luxembourg	2007
8. Renovation of the school building of Primary school "Mesa Selimovic" in Novi Pazar	Primary school Novi Pazar	946,780		Government of Luxembourg	2007
9. Reconstruction of School of Ecological – Meteorological Observatory	Faculty of Physics – University of Belgrade	375,000		Government of Japan	2007
10. Reconstruction of wash- rooms in Serbian schools	MES	40,000		Swiss Government	2007

11. Equipment for the physics cabinets in primary schools – basic educational tools	MES	2,750,000		Government of Spain	2007
12. Elevator – Faculty of Geography in Belgrade – assistance to our handicapped friends	Faculty of Geography – University of Belgrade	30,000		Korean Government	2007
13. Computer equipment for schools in Serbia	MES	90,000		Korean Government	2007
14. Equipping computer classrooms and an internet-club at the Faculty of Philology in Belgrade	Faculty of Philology – University of Belgrade	30,000			2007
15. 30,000 computers for primary and secondary schools, post-secondary schools and universities in Serbia	MES	12,600,000	NIP		2007
16. Investments in Universities at other institutions (primary, secondary, student standard)	MES	14,916,000	NIP		2007
17. Procurement of desks and chairs, other equipment and music instruments	MES	17,547,648	NIP		2007
18. Construction of sports fields and gyms	MES	7,551,095	NIP		2007

19. Investments into sports facilities of national importance	Department of Sports	8,760,000	NIP		2007
20. Construction and reconstruction of big sports centres	Department of Sports	3,450,000	NIP		2007
21. Construction and reconstruction of swimming pools	Department of Sports	5,006,718	NIP		2007
22. Sports building and physical education hall	Department of Sports	11,074,389	NIP		2007
23. Other sports facilities	Department of Sports	466,777	NIP		2007
24. Procurement of sporting equipment	Department of Sports	1,084,883	NIP		2007

Once the National Agency for European Educational Programmes is founded, our system of education will be harmonized with the EU standards, and further implementation of pilot programmes in cooperation with EU will contribute to this end. The majority of remaining proposed programmes relate to investments into reconstruction and equipping of schools and other educational institutions.

3.9. Culture

In the field of culture and the media activities were focused on the establishing new relations in modern creativity. New cultural environments and programmes have been created, and a balance was established between cultural creativity (capacity) and cultural industry, private, public and nongovernmental sectors. In all areas of modern cultural creativity the best quality projects from the whole territory of the republic and of all peoples and ethnic minorities are supported, as well as

international cooperation with both the countries from the region and throughout the world.

The legislative framework from the period prior to transition has been changed and amended with the enactment of new laws: the Broadcasting Law, the Media Law, the Law on free access to information of public importance.

The medium-term strategic goals of the Ministry of Culture are focused on the promotion of program, human resources and special conditions, as well as on the normative framework for activities in the area of modern creativity, cultural industry, international relations in line with the European standards.

This particularly refers to creating of normative framework for the work of the media, creation of free media space and development of culture of freedom of information, media pluralism, the culture of tolerance and dialogue and to the protection of human and minority rights in this field.

In order to attain these goals the Ministry of Culture defined concrete activities which need to be implemented in the forthcoming period:

Normative regulation of the network of institutions for the protection of movable and real-estate cultural goods:

- Forming of a National institute for conservation and restoration;
- Forming of regional centres of the National institute for conservation and restoration;
- Forming of a regional cultural centre for Kosovo and Metohija;
- Establishing of the National council for culture and nominating members of the Council for the protection of cultural goods:
- Normative regulation of the theatre and cinema network:
- Establishing of a National centre for books and art digitalisation;
- Forming of the National Council for Culture and nominating members of the Council in charge of modern creativity;
- Acceding to international conventions, primarily to those dealing with the protection of cultural heritage and the media;
- Normative regulation of the concentration of the media and ownership transparency;

- Founding of the public company for the broadcasting of radio and television programmes and relay transmitting;
- Ensuring the development of independence and professionalism (expertise) of regulatory bodies;
- Ensuring the implementation and respect of the media legislation and achieving freedom of the media, freedom of thought and expression from the perspective of human freedoms;

The priorities in the field of culture and the media are as follows:

- Development and enactment of the lacking regulatory framework;
- Development of programs of reform of institutions and human resources base; and,
- Completion of the privatisation process of the media.

If the said goals are achieved in the medium term, the majority of reforms in culture will be implemented in line with international standards. To this end, in the following three years, the Ministry of Culture plans to implement the projects listed in Table 23 below:

Table 23. Priority projects in the field of culture in the period 2007-2009.

Project title	Institution in charge	Estimated project value (in EUR)	Sources of funding		Planned start of the implementation of the project
			Own funds	External sources of financing	
1. Refurbishment and reconstruction of the Museum of Modern Art in Belgrade	MC	6,470,000	3,683,000 (NIP)		2006 - 2008
2. Reconstruction of the existing and expansion of the National Theatre in Subotica building	MC	23,000,000	70,000 budget of R. Serbia, 70,000 budget of Vojvodina and 3,278,000 (NIP)		2007

3. Refurbishment of the Museum of Science and Technology	MC	4,700,000	4,435,000 (NIP)		2006-2008
4. The Printed Media Council (project name changed)	MC	280,000	28,000		2007
5. Launching of newspapers in Roma, Albanian and Bosnian	MC	1,740,000	520,000		2007
7. The Old mill project – Centre for education and management in the protection of cultural heritage, Sremski Karlovci	MC	3,290,000	58,000		2007
8. National Digitalisation Centre	MC	150,000*			2007
9. Acceding to international conventions (Council of Europe and UNESCO)	MC				2006
10. Forming of Centre for cultural and spiritual creativity	MC	400,000	108,000	70,000 County council Karas-Severin	2006
11. Sculpturing stone training workshop, Krusevac	MC	117,000	12,000		2006
12. Establishing workshops for the preservation old arts and crafts.	MC	117,000			2007
13. Implementation of five projects for the maintenance of environmental-ambiance setting in Velika Hoca	MC	150,000			2006
14. Founding of digital – tone studio of the Belgrade Philharmonic Orchestra	MC	650,000			2007
15. Regional creative centre Jozef, Nadj, Kanjiza		650,000	95,770 (NIP)		2004-2007

16. International ethno centre, Babka, Kovacica		500,000	3,300	93,000 EUR Slovakian Government and 220,000 EUR International Organization for Traditional Arts	2005
17. Project –eco-ethno museum, Golubnici		350,000	In 2005 paid amount 3,735,000 dinars. 333,000 (NIP)		2005-2007
18. Reconstruction and expansion of the National Museum in Belgrade		24,054,800 EUR	In 2005 amount paid 38,200,000 dinars 6,682,000 (NIP)		2006-2011
19. Reconstruction of Film-library/ archives building		5,000,000	In 2005 amount paid 27,000,000 dinars 5,185,000 (NIP)		2006
20. Construction of a warehouse for storing films in the Film library/archives in Belgrade		5,500,000	5,122,000 (NIP)		2006-2007
21. Preservation, repairs of the building of Serbian Archives		1,370,000	1,751,000 (NIP)		2006

** The project value should be assessed in cooperation with the relevant Ministry*

The majority of the listed projects concern reconstruction and construction of cultural facilities throughout Serbia. Apart from these projects, in the forthcoming period it will be very important to invest into the capacity strengthening of the competent institutions for the implementation of legislative and other regulatory reforms in the field of culture.

3.10. Health

Deterioration of health of the population in the Republic of Serbia is a consequence of a cumulative effect of the critical events in the economy, political and social impacts that the population has been exposed to during the nineties. Apart from the said negative effects the following problems also exist: aging of the population, a great number of refugees and IDPs, pollution of both living and working environment, unemployment, social poverty, and risky behaviour especially of the young. The existing system of health care, with its structural weaknesses, poor level of health education and insufficient efforts to promote health, and point out to risks existing in the living and working environments, was unable to meet the said challenges.

The system of health care in the Republic of Serbia belongs to the group of compulsory social/health insurance schemes (the Bismarck model), characterized by nearly total coverage of the population with health insurance, broad scope of rights pertaining from the health insurance and a dominantly state ownership of buildings and equipment. The management of the system is highly centralized at the republican level. The private health sector is not developed.

In spite of its significant share in the GDP, of both the state health sector (6.6%) and the total expenditures estimated at up 10% of GDP, the system is facing constant funding problems.

The Republican fund for health insurance is financing the existing structure- i.e. a well developed network of health institutions employing sufficient and well trained medical staff. However, access to health services has been limited after the introduction of financial participation of beneficiaries, particularly for the poor (mainly for elderly persons, the disabled, the Roma, refugees and internally displaced persons). This situation has threatened the basic principles of the functioning of the health care system.

The reform of the health care system was launched in 2002. Health institutions were given modern equipment and better supply of medicines and other supplies, while measures for the rationalization of consumption were introduced. Documents for the promotion of the health care system and health of the population were introduced, which have created a foundation for the implementation of the reform in this sector:

Health policy, Vision of the development of the system and Strategy of the reform of the health care system of the Republic of Serbia were introduced.

In 2004 and 2005 the reform process in the health sector was intensified. The adoption of the Law on Health Insurance and the Law on Health Care in 2005, accelerated the reform of the health care system. The reform included a need to reduce public expenditures (consumption), meaning that the rights based compulsory insurance had to adapt to the financial abilities of the society. The need to ensure and improve health care of the population will be met by introducing more rational and better organized work in this sector. Voluntary health insurance was introduced for the first time. The introduction of a changed model of financing of primary health care is underway; while the introduction of a new model of payment for doctors' services through participation has been started (the expected result is a reduction in the transfer by the Republican Health Insurance Administration by about 3 billion dinars).

The main goal of the reform of the health care system is to ensure access to the necessary services of adequate quality without financial barriers for the whole population, including socially vulnerable and other categories of population, ethnic minorities, refugees and internally displaced persons., the Roma, the poor etc. To this end, numerous national programs and strategies with action plans were adopted, as well as packages of basic health services, change in the payment to the health services providers, reduction or exemption from personal participation of insured persons belonging to vulnerable groups, and integration of private practice in the public health care system.

The share of the health sector in the implementation of international assistance was 5%.

The projects were implemented in different fields of health activities: improvement of health care, strategies in fighting different diseases, reform and reconstruction of health facilities, supply of medicines, development of IT systems and strengthening of the basic functions of the public health sector. The European Union is funding the development of the Strategy for the procurement of safe blood and blood products and the drafting of the Law on Blood Transfusion, as well as projects for the development of the Strategy for tobacco control and the Public health strategy. Also, through their projects, the World Bank and the EU are strengthening the capacities of the Ministry of Health and health institutions with an aim to acquiring knowledge and skills for introducing a new system of health care.

Major projects in health care in the period 2000-2005:

1. Procurement of basic medicines and medical equipment for state-owned pharmacies and health institutions in the Republic of Serbia	20,000,000 EUR	EU	2001
2. Support to the pharmaceutical sector in Serbia	23,700,000 EUR	EU	2001
3. Reconstruction of hospitals and equipment in hospitals and health centres	5,000,000 EUR	EU	2001
4. Support to primary health care (Homes of health – local health care centres)	5,370,000 EUR	ECHO	2001
5. Support to public health institutes	1,616,000 EUR	ECHO	2001
6. Assistance to persons with mental and physical disabilities	1,000,000 EUR	ECHO	2001
8. Reorganization of the Institute for blood transfusion	5,000,000 EUR	EU	2002
9. Upgrading of medical equipment in clinical centres in the Republic of Serbia	11,400,000 EUR	Government of Japan	2002
10. Capacity building fund	103,000 USD	UNDP	2002-2003
11. EU support to the National blood transfusion service in the Republic of Serbia		EU	2002-2005
12. Support to public health development in the Republic of Serbia		Euro Health Group	2003-2005
13. CIDA - Monitoring epidemics in the Republic of Serbia		Global Fund	2003-2006
14. Promotion of preventive health services in the Republic of Serbia		EU	2004-2006
15. Development of IT system for basic health and pharmaceutical services		EU	2004-2007
16. Tuberculosis control through the implementation of directly observed therapy and provision of services to risk groups		Global Fund	2006-2007
17. Meta-base of information, communications technologies in health		World Bank	
18. Equipment for dialysis services 3.5 million euros.		Italian Government	
19. "Mother and Child" Project	2,500,000 EUR	Italian Government	
20. Rehabilitation of emergency health services (ambulances) in Serbian cities and towns		Government of Norway	
21. Prevention of narcotics abuse program		Government of Norway	

Source: Ministry for International Economic Relations

The engagement of international partners, especially the World Bank and the EU (through the European Agency for Reconstruction) has imposed a need for formulating a clear vision of the health care system with leading development principles. The vision of the health care system is based on a number of significant premises:

- The health care system will be developed based on the existing capacities and inherited tradition;
- The solidarity principle will be most important for the adoption of decisions and the solutions, and it will have to be constantly abided at all levels of health care. The beneficiaries of the system will have to be in the centre of attention of the decision makers at the political, administrative and professional levels, and of the providers of services;
- In ensuring the best possible health care, financial limitations resulting from the economic abilities of the country should be born in mind;
- Developing a system where both the public and the private sector will take part in providing health services and which will, within realistic resources, ensure equal and just access to health services based on modern technology and scientific methods supported by effective preventive and promotional activities.

The adopted health policy defined the basic goals and directions of the development of the health system in the Republic of Serbia: preservation and promotion of the health state of the population; fair and equitable access to health care; placing the user (patient) in the centre of the system; achieving of financial and institutional sustainability of the system; improvement of efficiency and quality; defining the role of the private sector and promoting the human resources base in the health care system. The basic goal in health care is to improve the health of the population and particularly to ensure equal access to health care for all.

The priorities of the health care reform are to reduce preventable morbidity and premature mortality of the population, to adapt the rights from the health insurance with material possibilities of the society and to create a modern, sustainable, decentralized and transparent health care system.

Medium-term reform goals and priorities in the field of health care:

1. Adoption of a health care program for vulnerable categories of the population, and health care program for the treatment of diseases and disorders of social

and economic importance and conditions for the implementation of the said programs;

2. Establishing the system of licensing of health workers and accreditation of health institutions and programs, as well as the system of permanent upgrading of the work of health institutions;
3. Ensuring fair and equal access to health care for all citizens, based on a package of health services, within compulsory health insurance, defined in the Law on Health Insurance;
4. Defining new models of payment to health services providers, including the introduction of the capitation model in the primary health care, model of diagnostically similar groups in hospitals for short hospitalisation and new models of payment per service for highly sophisticated in tertiary health care;
5. Ensuring resources for a more efficient and quality work of the inspection services and capacity strengthening of the Ministry of Health.

The priority activities in health insurance and drugs from 2006 to 2010 are as follows:

- 1) Adoption of by-laws for the establishing of the system of compulsory health insurance;
- 2) Reduction of public consumption and harmonization of rights from compulsory health insurance with the financial abilities of the state;
- 3) Introduction and implementation of voluntary health insurance;
- 4) Enactment of the Decree on compulsory health insurance (time-line 2007),
- 5) Drafting of the Law on the Voluntary Insurance Funds (time-line 2011),
- 6) Drafting of the new Law on the Production and Sales of Narcotic Drugs;
- 7) Drafting of relevant regulations for the Law on Precursors;
- 8) Adoption of a relevant Strategy (second half of 2006);
- 9) Building of administrative capacities;
- 10) Signing of international agreements on health insurance;
- 11) The Ministry of Health has specified all of the above activities in the proposal of projects (Table 24 a and 24b) which should be implemented in the next three years with an aim of achieving the goals of the reform of the health care system in the Republic of Serbia.

Table 24a Program of reform activities in health care sector for the period 2007-2009

Project title	Institution in charge	Estimated project value (in EUR)	Sources of funding		Planned start of the project implementation
			Own funds	External sources of funding	
1. Elaboration and implementation of the Child and maternity health care programme	Ministry of Health (MH)	705,882	235,294		48 months
2. Early detection and treatment of disorders of the mouth and teeth for children up to 18 years of age and pregnant women	MH	35,294	35,294		12 months
3. Elaboration and implementation of preventive care programme for children with psychological and speech disorders	MH	425,176	220,000		24 months
4. Health development of young persons in the Balkans	MH	4,912,281		4,912,281	36 months
5. Quality assessment of pre-natal health care in Serbia	MH	95,000		95,000	12 months
6. Introducing one-day surgery in the treatment of gynaecological disorders	MH	200,000		200,000	12 months
7. Implementation of Artificially assisted fertilization programme	MH	352,941	352,941		12 months
8. Improvement of women health in menopause	MH	20,000		20,000	12 months
9. Prevention, early detection and treatment of osteoporosis	MH	296,470	296,470		36 months

10. Planning and implementation of provisions of the Law on health care of the Roma	MH	705, 882	705,882		12 months
11. Developing and implementation of the program of prevention, treatment and rehabilitation of diabetics	MH	2,647,058		2,647,058	12 months
12. Development of program for the prevention, treatment and rehabilitation of persons suffering from cardio-vascular disorders	MH	4,411,765		4,411,765	12 months
13. Development and implementation of program for the prevention, treatment and rehabilitation of persons suffering from chronic obstructive lung diseases	MH	3,529,412		3,529,412	12 months
14. Development and implementation of programme for prevention, treatment and rehabilitation of persons suffering from cerebral-vascular disorders	MH	4,411,765		4,411,765	12 months
15. Development of the programme for the prevention and treatment of malignant diseases (breast cancer)	MH	2,528,894	2,528,894		12 months
16. Development of programme and activity plan of health protection from malignant diseases	MH	6,443,294	6,443,294		12 months

17. Implementation of strategy for the promotion of mental health	MH	294,117	294,117		12 months
18. TBC control through a strategy of direct observed therapy	MH	1,382,500		1,382,500	36 months
19. Support to reference laboratories for respiratory diseases and entero-viral infections (influenza, poliomyelitis etc)	MH	83,529	83,529		12 months
20. Implementation of activity plan before and during influenza pandemics	MH	6,918,353	6, 918,353		12 months
21. Implementation of national programmes for the prevention of psychoactive substances abuse	MH	352,941	352, 941		12 months
22. Establishing of the Centre for substitution therapy for drug addicts in the local health centre Palilula, Belgrade	MH	200,000		200, 000	18 months
23. Elaboration of guidelines for the production and sales of narcotics and precursors.	MH	34,588	34,588		12 months
24. Founding of a national laboratory for characterization of narcotic drugs, psychotropic substances, precursors and substances not on the list of precursors	MH	197,647	197,647		12 months
25. Tobacco control strategy implementation	MH	2,647,059		2,647,059	12 months

26. Founding of national centres for organ transplantations	MH	576,760	576,760		12 months
27. Transplantation of basic haematopoiesis cells in children in the Republic of Serbia	MH	2,000,000		2,000,000	12 months
28. Supporting activities for increasing voluntary organ donations for transplantations	MH	80,941	80,941		12 months
29. Development of national registrar of voluntary bone marrow donors and monitoring of laboratory work for HLA type determination	MH	809,820	809,820		12 months
30. Testing chimerism in children after bone marrow transplantations using methods of molecular genetics	MH	11,764	11,764		12 months
31. Encouraging and supporting increase of voluntary blood donations	MH	1,824,353	1,824,353		12 months
32. Promoting health condition of persons suffering from haemophilia	MH	69,929	69,929		12 months
33. Modernisation of plasma fractioning centres	MH	19,015,294	9,411,764		36 months
34. Ionising radiation and health of employees	MH	32,530	32,530		12 months
35. Promotion of preventive health services	MH	3,750,000		3,750,000	24 months

36. Preventive dentistry health care program	MH	52,941	52,941		12 months
37. Primary health care policy in the Balkans	MH	2,105,263		2,105,263	36 months
38. Testing health state of the population	MH	283,011	283,011		12 months
39. Establishing a central register of anti-rabbis care for persons injured by animals in the territory of RS	MH	58,823	58,823		12 months
40. Development of a national programme and monitoring the prevention, and early detection and treatment of poisoning	MH	148, 235	148, 235		12 months
41. Safe transportation and stocking of radio-active waste	MH	1,356,986	1,356,986		12 months
42. Monitoring and analysing health state of the population based on information from the routine and vital statistics and use o health services	MH	668,612	668,612		12 months
43. Development of health IT system (resources data bank)	MH	978,215	978,215		12 months
44. Monitoring of the quality of work of health institutions and organizations in the implementation of the quality assessment of professional work.	MH	150,684	150,684		12 months

45. Preparation of the plan of professional development of health workers and associates	MH	1,319,932	1,319,932		12 months
46. Organization and implementation of activities for the promotion of health, particularly of vulnerable groups and local community	MH	1,333,783	1,333,783		12 months
47. Infectious diseases prevention and control including and national immunization programs	MH	1,021,856	1,021,856		12 months
48. Records and monitoring of leading chronic non-infectious diseases	MH	1,007,858	1,007,858		12 months
49. Registration and collection and analysis of data on risk environmental factors threatening health, and proposed measures for improving the situation	MH	321,131	321,131		12 months
50. Supporting activities of professional organizations, councils, associations and humanitarian organizations in priority activities set out in the developmental plan and special health care programmes	MH	62,353	62,353		12 months
51. Founding of the Agency for quality and accreditation of health institutions	MH	1,670,000		1,670,000	24 months

52. Fund raising for construction, maintenance of state-owned health institutions	MH	15,247,059	15,247,059		12 months
53. Adoption of the plan for the financing of the procurement of medical equipment for health institutions in the Republic of Serbia	MH	29,113,412	29,113,412		12 months
54. Creating conditions for the work of the republican expert committees for the assessment of health technologies	MH	200,000	200,000		12 months
55. Assessment of health technologies	MH	2,400,000			36 months
56. Strengthening of services of public health laboratories	MH	1,500,000			12 months
57. Developing good practice guidelines – continuation of the project	MH	24,705	24,705		12 months
58. Emergency health care services reform in the Republic of Serbia, phase 1	MH	300,000		300,000	12 months
59. Restructuring of tertiary health care	MH	*			
60. 60. Implementation of the Plan for the financing of investment maintenance of Serbian health institutions - NIP	MH	84,000,000		84,000,000	12 months
61. Privatisation of health institutions	MH	988,235	988,235		12 months

62. Rationalization of energy consumption in hospitals by introducing cogeneration system through applying positive experiences of the "Energy Efficiency" project	MH	3,427,964	210,576		12 months
63. Promotion of quality of the Centre of chemo-dialysis and gynaecology and paediatrics services in the Republic of Serbia	MH	6,050,000		6,050,000	12 months
64. Promotion of health care for persons suffering of psycho-physiological disorders and speech disorders,	M3	92,863		92,863 Kingdom of Norway	12 months
65. Research of death causes and the degree of consent in clinical diagnosis and autopsy findings	MH	47,058	47,058		12 months
66. Funding of applied research in health care	MH	117,647	117,647		12 months
67. Promotion of registering of adverse effects of drugs	MH	117,647	117,647		12 months
68. Promotion of primary health care by introducing capitation model	MH	3,750,000		3,750,000	24 months
69. Reform of the funding system in health through the capitation model and diagnostically similar groups	MH	*			

70. Drafting and implementation of training programs for the MH employees	MH	88,235	88,235		12 months
71. Education of health workers	MH	88,235	88,235		12 months
72. Kingdom of Norway project – Towards a more efficient implementation of reform – promotion of capacities of the Ministry of Health for the development of the action plan	MH	25,000			12 months
73. Developing of the MH portal	MH	7,082	7,082		12 months
74. Education and training of public relations personnel – second phase	MH	23,235	23,235		12 months
75. Developing of procurement plan for the PR offices in health institutions (computers, internet, telephones)	MH	367,647	367,647		12 months

** Values of the projects should be assessed in cooperation with the competent ministry*

Table 24b Investment activities program in the health sector in the period 2007-2009

Project name	Institution in charge	Estimated project value (in EUR)	Sources of funding		Planned start of the project implementation
			Own funds	External sources of funding	
1. Procurement of X-Ray and mammography machines for the Local health centres in Serbia	MH	7,000,000		7,000,000	12 months
2. Urgent reconstruction of health institutions in Serbia	MH	12,336,471		12,336,471	9 months

Projects supported by the international partners will help accelerate the reform of the health care system: the World Bank, the European Union through the European Agency for Reconstruction, UNICEF, the Canadian International Development Agency (CIDA), and a number of bilateral donors– Norway, China, and Japan being the most important. The projects are directed to the promotion of primary health care, reconstruction of general hospitals, equipping of health institutions, providing equipment of health institutions, reform of the health insurance funding, promotion of drugs management policy, development of basic health services packages, introduction of new models of payment of health workers - primarily introduction of capitation and development of an integrated IT system in health care.

3.11. Science and Environmental Protection

Science

Although there are sufficient professionals in the field of scientific research, this area is insufficiently technically equipped to be able to achieve competitive results on a European level. This is a consequence of the poor condition of existing equipment, which has become obsolete in the past 15 years and become the biggest limiting factor for development. In Serbia it is hindering the implementation of the policy of integrated research, one of the mid-term economic priorities of the European partnership, implemented through the Framework Programmes for Research, Development and Demonstration Activities of the European Union. There is also a

serious slowdown in innovation development field, hence in economic development and creation of new jobs based on them, thereby also investment of the economy in research and development and achievement of the EU's Lisbon objective of 3% of the GDP being invested in R&D. Taking into consideration the burden the state budget suffers from the need to resolve numerous social, ecological and other problems amassed in the transition period, international aid is truly a key resource of improving the situation in this area by helping to renew scientific research hardware and capacities.

The Law on Scientific Research and the Law on Innovation sets up the strategic legislative framework for reforming the scientific research and development of innovations by rationalising the network of scientific research organisations, harmonising scientific research standards with those extant in the EU and worldwide, improving the conditions in which scientific research and development of innovations operate, and by increasing the effectiveness of investments in these activities and of the applicability of their results in the economy. Research and development will have a key role as the prime moving force of broad economic, social and cultural change in the process of building up a society based on knowledge. Given that the results of scientific research activities are directly tied with and directly proportional to the all-round development of society, the necessary preconditions and environment will be created for scientific research and higher education to become the engine of economic and social development.

The Ministry of Science and Environmental Protection (MSEP) initiated on January 1, 2006 a new scientific research cycle (2006–10), which includes the following activities and goals: monitoring set measurable criteria for assessing the scientific research competency of researchers, drafting efficiency analyses of the application of scientific research results in the economy, productively engaging all available scientific research resources, especially young researchers, controlling the efficient utilisation of budget funds in R&D activities, improving the conditions in which scientific research activities take place (equipment levels in scientific research organisations, material status of researchers etc.), developing international scientific research co-operation and increasing GDP outlay for R&D. In the field of international co-operation, emphasis will be placed on bringing Serbia into the 7th EU Framework Programme for Research and Development (2007-13), for which donor funds are needed to assist national participation in the Programme. Much attention will also be paid to multi-lateral programmes which industrialised European countries are opening for south-eastern Europe and the western Balkan countries. Also planned is

adoption of criteria for establishing the proficiency of scientific researchers, which includes bringing more young researchers into scientific research activities so as to ensure their continuous scientific development. Accordingly, a National Programme for the Development of Scientific Expert Personnel will be adopted. An important objective of the Government and the MSEP is the development of an optical academic network and local computer networks, acquisition of computer hardware for scientific research organisations and similar activities as prerequisites for the development of an information society. The Greek Government's SEELight project, part of the Hellenic Plan, would make possible long-term safe and rapid access of the Serbian academic network to the GÉANT European academic network. Another of the priorities in the forthcoming period is promotion of domestic publishing activities in the area of scientific research, both through programmed financial support and by establishing world standards aimed at promoting the utilisation and impact of scientific research activities on the domestic and international planes.

Protection from ionising radiation and nuclear safety is an inter-sectoral field which includes problems covered by the ministries in charge of science, environmental protection, health, interior and defence. Given that the Republic of Serbia lacks sufficient funds to sufficiently respond the needs of protection from ionising radiation and nuclear safety and security, this priority must also be included in the international aid requirements. International assistance will be directed towards the implementation of the new Law on Protection from Ionising Radiation and Nuclear Safety, and the establishment of an Agency for Protection from Ionising Radiation and Nuclear Safety, an independent regulatory body covering this field. This new law, together with related secondary legislation, will incorporate in the Serbian legal system all provisions emerging from international conventions, International Atomic Energy Agency (IAEA) recommendations and EU directives.

A major problem of nuclear safety and security in Serbia remains the depleted nuclear fuel in the research reactor of the Vinča Nuclear Sciences Institute. The IAEA is involved in the project of repatriating the fuel from Vinča to the Russian Federation as that agency's biggest active endeavour in its programme of technical assistance to its member countries. The IAEA, the Vinča Institute and a consortium of three Russian companies have signed a contract on repackaging (4.3 million USD coming from donors) and transporting (5.4 million USD still not secured) the fuel to Russia. Another 19.5 million USD will be needed in phase three – reprocessing fuel on its arrival in Russia. Some 20% of the overall value (24.9 million USD) is provided by the

U.S. Department of Energy, and about 20 million USD thus remains to be secured from donor funds.

IT sector in the Republic of Serbia is still in its infancy. Like in many other areas, there is a lack of precise and published statistical data to provide a preliminary statistical profile and other indicators for the *IT sector*. Development of information society (IS) is in direct correlation to the promotion of democracy, economy, efficient state administration and other social areas of key importance for the welfare of the people and their quality of life. Promoting the development of the IS also helps bridge the gap between the transition countries and the industrialised world and is a step on the way to membership in the EU. The MSEP's *Draft National Strategy for the Information Society* is now in the final stage of the process of adoption by the Government. The *Strategy* defines goals, procedures and subjects of the implementation of e-initiatives in all segments of social and economic life. The strategic objectives, coordinated by the MSEP, include the following: electronic government, health care, education, science and financial institution, all with the aim of making possible access to those institutions through the public communication networks. These aims could be realised by relying on the developmental potentials of the scientific research organisations, and would be preceded by the reorganisation of the institutions, as well as measures to promote and implement the services. The realisation of the Strategy's aims requires, besides the limited state budget funds, also considerable international assistance.

An important part of reforming scientific institutions is *drafting standardised documents for establishing clear operational procedures of the Ministry of Science and Environmental protection (MSEP)* as part of the reform of the state administration. Better organisation of operational processes requires the standardisation of documents, as a key factor of success in the application of IT and communication technologies in complex systems. Given that e-government is an extremely extensive and complex system, implementation of standards is of vital importance for its successful development and introduction.

Given that modern social and economic development is based primarily on the implementation of the results of R&D activities in economic area, it is necessary to consider scientific research and development as the main resources of development. Accordingly, it is necessary to increase investment in the development of the R&D systems in the Republic of Serbia from the current 0.5% of the GDP to a figure of 1.0%. Achieving this will not be possible without extensive international aid, especially in view of efforts to reach the declared EU Lisbon objective of 3% of GDP in R&D.

The following table shows high-priority projects and programmes identified by the MSEP which should contribute to the realisation of the goals set out above in the field of science.

Table 25. High-priority reform projects and programmes in the area of science in the 2007-2009 period.

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources	
1. SEELight -- linking computer networks of several SE European countries	Belgrade University computer centre	8,500,000	1,600,000		
2. International Atomic Energy Agency projects	MSEP	23,100,000	3,150,000	IAEA	2006
3. Belgrade University microscope centre	B.U. Faculties of Physics, Chemistry and Physical Chemistry	2,000,000			
4. Support to national GRID infrastructure – AEGIS	Institute for Physics, Belgrade	2,150,000			
5. „Center for Nanomaterials reinforcement”	Belgrade University	1,900,000			
6. Proton radiation eye therapy in Serbia	Laboratory for Physics, Vinča Institute for Nuclear Sciences	1,825,000			
7. Physical security system project, Vinča Institute for Nuclear Sciences	Vinča Institute for Nuclear Sciences	1,000,000			
8. Investments in major scientific development equipment		17,000,000	NIP		2006
9. Funding realisation of up to 50 innovations per annum		2,500,000	NIP		2006
10. Helping construction of innovation organisations – from idea to final product or service (R&D centres)			NIP		

11. Helping construction of organisations for infrastructural support for innovation organisations (Science and Technology parks and commercial and technology incubators)		7,500,000	2,500,000 NIP	5,000,000	2006
12. Helping formation of data bases (latest scientific developments world-wide and in Serbia, library materials, promotion of science)		7,900,000	NIP		2006

In co-operation with the MSEP, it is also necessary to formulate projects and programmes in the following high-priority areas:

- renewal of the R&D infrastructure and outfitting science and technology parks;
- protection from ionising radiation, nuclear safety and security;
- establishment of a National Council, accreditation committees and other scientific research bodies;
- defining measurable criteria for assessing the scientific research proficiency of researchers;
- drafting studies on the efficiency of the application of scientific research results in the economy;
- financially upgrading the Fund for Innovation Activities and creating the necessary conditions for recovering funds to the Fund;
- developing scientific data bases to provide sources of relevant information needed to upgrade scientific research work;
- establishing centralised registers of scientific research organisations, scientists, scientific research equipment etc;

- establishing an Information Society Forum as an independent regulatory body in charge of the efficient functioning of the information society in Serbia;
- drafting a data base on the IT potential and indicators of knowledge in IT, not only at a level of scientific research organisations but also the IT potential of the entire Republic of Serbia;
- establishing a unified register of national internet domain;
- systematised approach to the selection, development and implementation of standards in all MSEP sub-systems which should be a part of the integrated e-administration system;
- educating people on E-business
- establishing a system which would include a national accreditation body, a supervisory body and other certifying bodies in electronic business operation.

Environmental Protection

The biggest ecological problems in the Republic of Serbia lie in air pollution, water pollution, declining water resources and inappropriate waste management. Air pollution accounts for some 55% of all the overall costs of environmental protection, followed by water pollution (22%) and waste management (11%).

Air quality in Serbia suffers from emissions of CO₂, NO_x, CO, soot, powdery materials discharged by thermo-electric power plants (burning lignite and with poor soot management) and industrial facilities. Air quality deteriorates particularly on windless days and during the heating season, especially caused by using low-grade fuels. Particularly troubling is high sulphur and lead air pollution caused by poor motor fuel (leaded petrol and diesel fuel with a high sulphur content). When the Agreement on the Energy Community was signed in 2005, the Republic of Serbia began incorporating environmental protection into other sectoral policies. A national register of greenhouse gas emissions, which is technically a list of ozone-layer-depleting substances, is still in the phase of preparation. The existing legislation on emissions and immisions is being harmonised with EU regulations, while the incomplete monitoring results in an unrealistic image on the level of environmental pollution in the Republic of Serbia. A Draft Law on Air Protection has been completed.

The overall quality of drinking water in the Republic of Serbia is unsatisfactory. Some 60% of the population of the Republic of Serbia have access to water-supply systems; antiquated networks and a lack of rationalisation incentives result in excessive exploitation of this important resource. Some 33% of the population of the Republic of Serbia are connected to sewage systems. The country's biggest cities – Belgrade, Novi Sad and Niš – have no waste water-treatment facilities. Almost 90% of all waste water in the industry is discharged without any treatment. A Draft Law on Financing Water Management has been prepared, while the Law on Waters is in preparation; standards for the quality of discharged waste waters are still lacking.

Land quality is affected badly by the uncontrolled and inappropriate use of industrial fertilizers and pesticides, and the lack of control of water used for irrigation. The widespread use of leaded motor fuel pollutes soil alongside the main roads. Poor management of waste materials and chemicals cause degradation of land.

The Environmental Protection Office has listed the following as its priorities:

- waste management,
- management of chemicals and protection from accidents,
- air quality and climate change,
- protection of nature, bio-diversity, soil protection,
- noise protection,
- protection from ionising and non-ionising radiations.

Some 60 % to 70% of all *solid household wastes* are collected in the Republic of Serbia. The disposal sites do not meet technical standards for waste dumps. No reliable data exist on the quantities of hazardous wastes generated by industry. An estimated 460,000 tonnes of hazardous industrial and medical waste are generated in the Republic of Serbia every year. There are no facilities for treating and disposing of hazardous waste; much of it is stored temporarily at inappropriate sites, some of which have existed for several decades. Every year some six to seven million tonnes of flying ash from TE power plants is dumped at inappropriate storage sites. The amount of waste generated per unit industrial product is excessively high, exploitation of raw materials is uneconomical and energy efficiency is low. A Draft Law on Waste Management has been completed and a Law on Packaging and Packaging Waste is being prepared. The National Strategy for Waste Management, adopted in 2003, is being implemented at a certain rate.

The Government has initiated a reform in the area of environmental protection by drafting and adopting several relevant strategic documents: the Draft National Environmental Protection Programme (NEPP) and National Waste Management Strategy (NWMS) with a programme of harmonising with EU regulations. The institutional framework has been reinforced by the strengthening of the following institutions: the Directorate for Environmental Protection, the Environmental Protection Fund and the Agency for Environmental Protection, upgrading whose capacities is a priority in the coming period. The legislative framework is in place, with adoption of system laws in 2004, and a number of laws dealing with individual issues, which are being prepared.

Several reform objectives have been achieved with international support and assistance. Most of the projects helped upgrade human, material and technical capacities in the area of environmental protection, and some were directed straight towards the control and reduction of pollution. The following list presents an overview of the most important projects in the 2001-2006 period.

The most important environmental protection projects of the Ministry of Science and Environmental Protection in the 2001-2006 period:

1. Development of environmental protection legislation in the Republic of Serbia	the Government of Finland 2,000,000 EUR	2002 – 2005
2. Support for the development of environmental protection legislation and relevant institutions in the Republic of Serbia	SDC, the German, Italian and Norwegian governments, OSCE, SIDA, WB, SC, EBRD	
3. Upgrading capacities for management in the field of environmental protection in the Directorate for Environmental Protection	7,000,000 MSEK, SIDA,	2004-2007
4. Danube River Industrial Pollution Reduction (DRIPR) – feasibility study costs	350,000 USD, WB-GEF	2003-2009
5. Development of National Strategy and Action Plan for the problem of Greenhouse Gases in Serbia	Japan Special Fund	2004-2005
8. GEF National Plan for the Implementation of the Stockholm Convention (POP)	GEF, UNEP 349,300 USD	2005 – present
9. Biodiversity Preservation Strategy, Action Plan and National Report	319.970 USD, GEF	On-going
10. National Programme for Final Withdrawal from the CFC – Multilateral Fund for Implementation of the Montreal Protocol	Multilateral Fund for Implementation of the Montreal Protocol 2,600,000 USD	2005-2007

11. Pilot-project, Pančevo: "Monitoring the Environment and Sustainable Change of the Activity of Certain Industrial Complexes".	the Government of Italy 2,000,000 USD	On-going
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In line with the most important measures to promote the development and preservation of the environment, a high priority is the establishment of regulatory and economic mechanisms for the realisation of the concept of sustainable economic development. This should follow on indirectly from national priorities in the policies of environmental protection in accordance with the aims and instruments of the National Programme. Under the Law on Environmental Protection, Action plans will be drafted for the following fields: upgrading regional planning and landscape management; protection of land; protection of water; protection of air and the atmosphere; protection of forests; eco-system protection; protected natural resources; waste management; management of chemicals; protection from ionising and non-ionising radiation; accident protection; protection from noise and vibration; sustainable energy management; information system development; development of scientific research and education; development and implementation of economic instruments, etc. The National Programme will be implemented through the action plans, which will define concrete measures, exponents and funds.

The 2007-2009 period should encompass practical and financially acceptable reforms that can be implemented immediately, in particular regulatory reforms, whose aim is harmonisation with the EU *acquis* for the environment. The measures' objectives are aimed at upgrading the legislative framework, development of sectoral strategies and investment plans, improvement of the monitoring system and raising public awareness. Institutional competences must be defined clearly in the new regulations in order to clear up existing overlaps and inconsistencies. The key institutional priorities are building the capacities of the Ministry for Science and Environmental Protection, the Agency for Environmental Protection and the Environmental Protection Fund.

Besides these regulatory reforms, it is also necessary to work on reducing pollution of the air, land, ground and underground waters by the energy and transport sectors and the industry. Accordingly, financial and other assets should be directed towards endangered locations and priority areas, such as air pollution by large industrial complexes and TE power plants, treatment of waste water released by large industrial plants, treatment of urban waste water in large towns etc. In the process of privatisation of the economy it is necessary to develop mechanisms for resolving inherited pollution problems and damage inflicted to the environment. The resolution

must be based on the 'polluter pays' principle. It is also necessary to promote competition and involve the private sector in providing services, especially in the waste and water management sectors.

The above mentioned activities, in respect of regulatory measures and reduction of pollution, should be implemented in the following environmental fields:

- the quality of water and water resources,
- waste management,
- management of chemicals and accident protection,
- the quality of air and climate changes,
- protection of nature, biodiversity and forests,
- protection of land,
- protection from noise,
- protection from ionising and non-ionising radiation.

An estimate of the costs for the implementation of NEPP in the forthcoming period is made up of the overall implementation costs calculated on the basis of the costs of individual measures and an estimate of the funds needed to implement the aims and reform of the mid-term policies, based on projected data and comparative costs incurred in the central European countries. The overall NEPP costs will include expenditure for institutions that deals with environmental protection, as well as the costs for monitoring system and operating costs of the infrastructure in the field of environmental protection (collecting and disposing of waste, collecting and treating waste water etc.). The percentage of the overall costs for the NEPP will depend on the annual rate of economic growth recorded in the Republic of Serbia. Experiences of the new EU members from central Europe indicate that their expenditure for environmental issues in the pre-EU period were 1.5%-2.5% of the GDPs. Taking this into consideration, as well as the average economic growth rate, it is expected that the share of the GDP of the Republic of Serbia for this purpose will reach 1.4% in the mid-term. The key precondition for achieving this goal will be contribution of EU funds as well as other donors in funding the system of environmental protection in the Republic of Serbia.

Total environmental protection investments within the NEPP are expected to grow from an initial figure of 26 million EUR per annum to 667 million EUR in 2012. In the 2007-2009 period the increase will be gradual, the reason being orientation towards

building up an efficient legal and financial system, as well as a system of monitoring and reporting on environmental protection where activities are not capital-intensive. The estimate is that the energy and mining sector will account for the largest share of the overall NEPP expenditure with 26%, followed by water resources management (15%) and transport (costs connected directly to environmental issues, 9%). Transport costs indirectly linked with environmental protection (improving public transport, new beltways, etc.) account for 22% of the overall NEPP costs. The biggest projects in the waste-management sector will probably be the construction of sanitary landfills (estimated 14.5 million EUR per annum). Over two million EUR a year is needed to upgrade existing dumps, and over one million EUR for management of medical waste. Given the limited funds available in the budget of the Republic of Serbia, achieving these objectives will not be possible without extensive international assistance and support,

The tables which follow show high-priority projects and plans identified by the MSEP which are within the purview of the ministry and which should contribute to the achievement of the environmental protection objectives listed above.

Table 26a. High-priority reform projects and programmes of the MSEP in the area of environmental protection in the 2007-2009 period

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources	
1. Drafting and adoption of regional plans for waste management for 10 regions	MSEP	750,000	Budget	Donors	2007
2. Drafting secondary legislation under Law on Chemicals	MSEP	900,000		Donors	2006-2009
3. Forming and updating data base of chemicals on the market and their properties, including data base of hazardous materials	MSEP, Ministry of Agriculture, Forestry and Water Management, SEPA	*	Budget	Donors	2006-2009

4.	Revision of existing methodology for forming register of air polluters	MSEP, SEPA	50,000		Donors	2007
5.	Developing national capacity for protection and sustainable use of bio-diversity in accordance with international obligations and drafting Action Plan for developing capacity	MSEP	180,000	Budget	Donors	2007
6.	Development of plans, programmes and foundations for sustainable use of individual natural resources	MSEP, Institute for the Protection of Nature	*	Budget	Donors	2007-2009
7.	Assessment of threats to biodiversity components according to agreed criteria and indicators.	Institute for the Protection of Nature, Belgrade University Faculty of Biology, Forestry Institute	500,000		Donors	2007-2008

8.	Consideration of existing standards (WHO, Directive for Sewer Sludge 86/278/EEC, Dutch of British standards) and development of corresponding standards for the Republic of Serbia with regard to the chief polluters and sources and pollution. (harmonisation of national soil protection legislation with EU regulations)	Ministry of Agriculture, Forestry and Water Management, Land Institute	*	Budget	Donors	2006
9.	Development of information system on data on noise	SEPA, MSEP	130,000	Budget	Donors	2006-2007
10.	Development of data base on sources of ion-ising radiation in accordance with the IAEA's RAIS Programme	MSEP	*	Budget		2006-2007
11.	Drafting data base of radioactive sources	MSEP	*	Budget		2007
12.	Development of national strategy for cleaner production standards	MSEP	*	Budget	Donors	2006
13.	Publication of technical standards (BREF) for certain industrial sectors.	Ministry of Energy and Mining, Ministry of the Economy, industry	100,000		Donors	2007

Table 26b. High-priority capital investment projects and programmes of the MSEP in the area of environmental protection in the 2007-2009 period

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources	
1. Equipping laboratories for control of chemicals	MSEP, SEPA, laboratories	2,000,000	Budget, laboratories	Donors	2007-2009
2. Developing and outfitting accident response teams	MSEP	2,000,000 (400,000 already secured)	Budget	Donors	2006-2009
3. Development of data base of register of air polluters, as part of the integrated register	MSEP, SEPA	250,000	Budget	Donors	2007-2008
4. Modernisation of existing data collection equipment in 15 biggest towns, upgrading existing monitoring network, improving existing ambient air monitoring laboratories	MSEP, municipalities, Republican Hydro-Meteorological Bureau	2,600,000		Donors	2006-2009
5. Development of concept of establishing a national mechanism of promotion of technical and scientific co-operation in the area of sustainable use of components of biodiversity (Clearing House Mechanism).	MSEP	12,000		Donors	2006
6. Installation of measuring equipment and software for on-line measurements (in the municipalities with the highest noise levels, in accordance with Directive 2002/49/EC)	MSEP, municipalities	300,000	Municipalities	Donors	2007-2009

7.	Decontamination of the land contaminated by depleted uranium in the Reljana area	MSEP	400,000	Budget	Donors	2006
8.	Establishment of pilot UV radiation monitoring station	MSEP	70,000	Budget	Donors	2009
9.	Pilot project: Introduction of integrated prevention and control of environmental pollution permit in a selected enterprise.	MSEP	100,000		Donors	2007
10.	Construction of 10 regional waste landfills	MSEP	50,000,000	Budget		2006-2009

** It is necessary to estimate the value of the projects and the structure of the sources of funding, in co-operation with the competent ministry and institutions*

Besides the above projects and programmes, in co-operation with the MSEP it is also necessary to formulate projects and programmes in the following high-priority areas:

- development and adoption of Action Plans for the realisation of the National Environmental Protection Programme;
- capacity building of the unit for planning and management of projects and strengthening capacities for planning and managing projects;
- strengthening administrative capacities in the area of industrial pollution;
- increasing energy efficiency and efficiency of utilisation of raw materials in the industry and reducing generation of waste;
- Developing of unique register of National internet domain;
- Systemetic approach in selection, development and implementation of standards in all sub-systems of MSEP which has to become a part of E-government system as a whole;
- Public awareness and education in E-business.
- Establishment of National Accreditation Body, National Supervision Body and other certification bodies in the field of E-business.

3.12. Internal Affairs

Reforming the police is a high-priority task in the EU accession process in the coming period. The reform is aimed at achieving a high level of security of person and property from all possible threats and maintaining stable law and order and a favourable security situation in the Republic of Serbia. Accordingly, the reform covers upgrading cost-effectiveness of the entire service, its modernisation, establishment of an efficient, flexible and economic police educational system intended to train police personnel at all levels and of all job descriptions for the duration of their service. It is also necessary to continue upgrading mechanisms of internal control, legality, professionalism and accountability of all Ministry of Internal Affairs (MIA) personnel, and providing requisite assistance and co-operation in developing external, parliamentary supervision of the work of the police.

The following are high-priority strategic tasks of the MIA, harmonised with European Partnership requirements:

- combating organised crime in all its forms, particularly in the area of financial crime,
- efficiently combating the most serious forms of crime, preventing attempts to destabilise security in southern Serbia,
- assuming control of the national frontiers according to the planned dynamics and establishing a fully-integrated border-control system,
- reinforcing internal control and establishing external supervision, upgrading capacities criminal investigation capacities by modernising technology,
- modernising IT and communication hardware in order to speed up the exercise of citizens' rights (realisation of ID document projects, TETRA, AFIS, FiS and others),
- developing the police education system, as well as institutional development of the MIA and implementation of comprehensive reforms of the Ministry.

For the purpose of achieving these aims has been adopted the Law on the Police, which is founded on the highest standards set in EU documents and in line with the reform objective that the police should become a public service. The basic principles of the initiated reform of the police have been built into the Law, which regulates specific issues in connection with police personnel and other MIA employees, as their

status, responsibilities, rights and duties differ from those of other state officials, as well as other questions in connection with the control of the work of the police, funding, co-operation in the performance of police business, auxiliary police and other issues.

A Law on the Protection of Participants in Criminal Proceedings has also been adopted, and a special MIA unit (Protection Unit) formed thereunder; a Programme of Protecting Participants in Criminal Proceedings is also being realised under the Law.

In the preceding period important reform objectives in this area have been achieved with international support and assistance. Most of the projects implemented dealt with upgrading professional, material and technical capacities of the MIA, such as development of border-control capacities, IT equipment and various types of education and training. The following list contains an overview of the most important projects in the 2001-2006 period.

The most important Ministry of Internal Affairs projects in the 2001-2006 period:

1. Integrated border management, Horgoš	EUR 5,000,000	European Commission	2001
2. IT equipment for the Serbian MIA	1,879,073	Germany	2005
3. Police work based on security of citizens in 2004	410,000	United Kingdom	2003
4. Reforms and support to the internal affairs sector	1,610,879	Switzerland	2002
5. Border crossing infrastructure Batrovci (2002 budget)	4,000,000	European Commission	2001
6. Border crossing infrastructure Horgos – phase 2 (2002 budget)	5,000,000	European Commission	2002
7. Control of light weapons in Serbia and Montenegro	585,000	UNDP	2002
8. Foundation of planned immigration management service	1,286,278	Italy	2005
9. Support to the rule of law and creating necessary conditions for good-quality court prosecutions and crime scene investigations in the Republic of Serbia	12,430,000	Sweden	2002
10. CARDS 2003 support to the MIA	12,000,000	European Commission	2002
11. CARDS 2004 support to the MIA	1,000,000	European Commission	2003

12. Capacity building of the Border Crossing Committee and rehabilitation of border crossings CARDS 2004	6,000,000	European Commission	2004
13. Management of Information Improvement Project (MIIP) – Norwegian bilateral assistance 2004	1,688,630	Norway	2004
14. Trainers for coaching civilian police	540,000	Canada	2005
15. Internal affairs CARDS 2005 – Strengthening the capacities of law enforcement agencies		European Commission	2001
16. Construction of reception centre for asylum seekers	200,000	European Commission	2005
17. Support for the MIA – Border Police Department – CARDS 2005	3,000,000	European Commission	2007
18. Support for the MIA – Border Police Department – CARDS 2006	3,000,000	European Commission	2007
19. Development of criminal intelligence analytics of the border police services of Serbia and Montenegro	132,746.87	Great Britain and OSCE project	2005
20. Upgrading capacities of border police	76.895.16	Italy and OSCE project	2005.
21. Upgrading MIA capacities in the fight against human trafficking – equipment procurement phase	65,266.21	Norway and OSCE project	2005
22. Forensic training for border police personnel on use of Docubox and identification of stolen vehicles	8,630	OSCE	2006
23. Support in technical equipment for MIA – special teams for fighting against trafficking in human beings	110,000\$	United States	2003
24. Support for MIA – Border Police Department – in CMIS software and equipment, for upgrading criminal intelligence capacities	54,000	Great Britain	2006
25. Support for MIA – Border Police Department – in I2 software, for upgrading criminal intelligence capacities	5,000	Great Britain	2004
26. Support to MIA – Border Police Department – for developing capacities for approving humanitarian stay to foreign citizens who are victims of trafficking in human beings	30,000	International Organisation for Migrations	2004
27. Support to MIA – Department for Foreigners in the Belgrade Regional Bureau – for upgrading capacities to	10,000	Great Britain	2004

	combat trafficking in human beings			
28.	Support to MIA – Units for Combating Trafficking in Human Beings – in equipment	10,000	United States	
29.	Support to MIA – Units for Combating Trafficking in Human Beings – in vehicles	160,000\$	United States	2005
30.	Management of Information Improvement Project (MIIP), phase 1, Procurement of hardware and software for upgrading financial and accounting operations	882,000	Government of the Kingdom of Norway	2006

Realisation of the reform requires continuation of activities on improving legislation on which the Ministry's work is based, in particular laws on supervision of the national frontier, on foreigners, on asylum, on protection of personal data, on confidentiality of data, on the personal ID card, on permanent and temporary residence, on the personal ID number. Activities in progress which need to be completed include establishment of the border control system and development of secondary legislation based on the Law on the Police which will regulate this subject matter in detail and make possible the full realisation of the police reform. As regards control of the border, the border with Hungary is now completely under police control (a Regional Centre has been formed in Subotica and six border police stations opened), while on the Romanian border the process is in its final phase; full police control of the rest of the national frontier is expected by the end of 2007 (in keeping with the Dynamic Plan of Transferring Control of the National Frontier from the Border Units of the Army of Serbia and Montenegro and the MIA of the Republic of Serbia). The Government has approved the Strategy of Integrated Management of the Border of the Republic of Serbia, and the Action Plan for the implementation of that Strategy.

The Strategy is a document whereby the Republic of Serbia defines policies in connection with the establishment of a system of integrated border management, the framework for drafting corresponding synchronised sectoral strategies and plans of implementation, and the roles and responsibilities of state agencies, identifies strategic goals and defines basic activities in the process of establishing and maintaining long-term sustainability and stability of the established system of integrated border management. The Strategy is based on the National Strategy of Serbia for Accession to the European Union and the on-going reform processes in the country, in particular those listed in the European Partnership document. Sources of good practice and standards which exist in this area that were also used include

Directives of the European Commission on integrated border management for the western Balkan countries, the Schengen catalogue, the Schengen legal heritage, and international conventions on human rights and the rights of asylum-seekers and refugees.

The following table contains a list of high-priority projects and programmes identified by the Ministry of Internal Affairs which should contribute to the realisation of the goals set out above.

Table 27. High-priority projects and programmes of the Ministry of Internal Affairs in the 2007-2009 period

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources	
1. Management Information Improvement Project (MIIP), Financial Management of the Ministry of Interior - MIIP Phase 2 Procurement of hardware and software for improvement of operations, building maintenance and vehicle use	General Services Department	953,734		Govt. of the Kingdom of Norway	2007
2. Improvement of Management Information Project (MIIP), Phase3, Procurement of hardware and software for upgrading personnel operations	General Services Department	*			
3. MIIP, Phase 4, Procurement of hardware and software to upgrade general services and housing affairs	General Services Department	*			

4.	Contribution to improvement of traffic safety on Corridor-X routes in Serbia by upgrading detection and documentation of traffic violations (Phase 1)	Traffic Police Department	650,000			2007 (Phase 1)
5.	Contribution to improvement of traffic safety on Corridor-X routes in Serbia by upgrading detection and documentation of traffic violations (Phase 2)	Traffic Police Department	650,000			2008 (Phase 2)
6.	Improving traffic police equipment standards and procedures for processing traffic accidents and their harmonisation with EU standards and procedures.	Traffic Police Department	1,500,000	NIP		Realisation begun in 2006, to be completed in 2007
7.	Contribution of traffic police to the fight against terrorism – through Corridor 10	Traffic Police Department	500,000			2007 (Phase 1)
8.	Contribution of traffic police to the fight against terrorism – through Corridor 10	Traffic Police Department	500,000			2008 (Phase 2)
9.	Outfitting two police helicopters for prevention and detection of terrorist activities through road traffic control	Traffic Police Department	680,000			2007

10. Improving analytical data bases on traffic and traffic accidents in accordance with European standards	Traffic Police Department	300,000			2007
11. Speed-management strategy on national roads with the aim of reducing accident rates and consequences	Traffic Police Department	460,000			2007 (phase 1: research and drafting project)
12. Speed-management strategy on national roads with the aim of reducing accident rates and consequences	Traffic Police Department	3,000,000			2008 (phase 2: equipment procurement)
13. Speed-management strategy on national roads with the aim of reducing accident rates and consequences	Traffic Police Department	140,000			2009 (phase 3: evaluation)
14. Prevention campaigns directed at particular-risk groups (alcohol, narcotics, excessive speed)	Traffic Police Department	300,000			2008
15. Contribution by traffic police to the fight against trafficking in human beings	Traffic Police Department	1,000,000			2008

16. Prevention campaigns directed at vulnerable groups (children, pedestrians, cyclists, scooter users)	Traffic Police Department	400,000			2009
17. Development of programme system for monitoring the work of traffic police	Traffic Police Department	300,000			2009
18. Upgrading technical capacities and outfitting units for conventional surveillance	Criminal Police Department	900,000	450,000		2007
19. Establishment of covert surveillance unit	Criminal Police Department	1,500,000	500,000		
20. Upgrading technical capacities and outfitting with assets for application of special investigative techniques and special techniques of proving criminal offences	Criminal Police Department	2,000,000	-		2007

21. Development of methodology and technical capacities for recording investigatory activities, statements of suspects, witnesses and protected witnesses, as well as transfer, keeping, processing and procedural use of materials, in accordance with new provisions of the Criminal Procedure Law.	Criminal Police Department	2,000,000	265,000		2007
22. Upgrading capacities for working with informers in the fight against organised crime in the Republic of Serbia	Criminal Police Department	72,520		OSCE	2007
23. Support for the capacities of the criminal intelligence services in Serbia	Criminal Police Department	442,000		UNDOC	April 2006: realisation not yet begun
24. Upgrading existing capacities of the National Criminology Technical Centre	Criminal Police Department	600,000			
25. Establishment of forensic toxicology lab	Criminal Police Department	150,000			
26. Establishment of forensic phonetic lab	Criminal Police Department	150,000			
27. Procuring and equipping special crime-scene investigation vehicles	Criminal Police Department	1,000,000			

28. IT equipment for the criminology technical line	Criminal Police Department	200,000			
29. Upgrading observation and recording capacities in the fight against international organised crime in Serbia	Criminal Police Department	252,088		OSCE	2006-2007
30. PACO Serbia, project for combating economic crime in the Republic of Serbia	Criminal Police Department			European Union	
31. Project for the establishment of a criminal intelligence system in the MIA of the Republic of Serbia	Criminal Police Department	3,300,000		SIDA, Swedish International Development Agency	2005-2008
32. Project for a digital telephone network designed according to the TETRA standard	Liaison and Communication Security Department	85,000,000 (At least Phase II should be realised, worth about 25,000,000)	Phase I realised with budget funds in 2005-2006 20,000,000		2005-
33. Project for a telecommunications transport network	Liaison and Communication Security Department	9,000,000	600,000 (from the Budget)		2004-
34. Project for procurement of a network of local telephone networks	Liaison and Communication Security Department	3,000,000	300,000 (from the Budget)		2007

35. Procurement of funds for implementing pro-programme of protection of witnesses in criminal proceedings needed to fund the Protection Unit and the Commission for Implementing the Protection Programme	Ministry of Finance MIA	5,300,000			2006
36. Development of National Strategy of Protection and Rescue in Emergency Situations	Government, (MIA, Ministry of Capital Investment [MCI], Ministry of Agriculture, Ministry of Health, MSEP)				2007
37. Drafting basic laws in the area of protection and rescue in emergency situations	MIA Sector for Protection and Rescue (Office of the Minister, Department for Systemic-Legal Affairs), local governments, NGOs, insurance firms, professional organisations and associations				2007
38. Drafting study for integrated assessment of threats and vulnerability of facilities and land from natural disasters, fire and technological threats in the production, storage, transport and use of hazardous and harmful materials	MIA Sector for Protection and Rescue, MSEP, MCI, Ministry of Agriculture, Ministry of Health, Ministry of Culture, Ministry of Trade, companies which produce, use and transport hazardous materials and other enterprises of interest to the Republic, local governments	1,000,000			2007

39. Development of plans of action in emergency situations	MIA Sector for Protection and Rescue, MSEP, MCI, Ministry of Agriculture, Ministry of Health, Ministry of Culture, Ministry of Trade, companies which produce, use and transport hazardous materials and other enterprises of interest to the Republic, local governments	500,000			2007
40. Organising professional services which are active in emergency situations	Local governments, paramilitary police, special ops units, MIA helicopter unit, sports associations (scuba divers, mountaineers, cavers, parachutists etc.), the Red Cross, the Serbian Army, fire-fighting and rescue units in enterprises, hydro-meteorological organisations, , seismological bureaus, amateur radio clubs	5,000,000			2007
41. Equipping fire-fighting and rescue units and building and renovating accommodation facilities for them	The Government, local self-administration organs, professional services active in emergencies, equipment manufacturers, professional associations	50,000,000			2007

42. Establishing and equipping training centres for fire-fighting and rescue units and civil defence personnel	MIA Sector for Protection and Rescue, professional services active in emergencies, local self-administration organs	2,500,000			2007
43. Foreign language training	MIA Sector for Protection and Rescue, language schools	100,000			2007
44. Encouraging the activity of citizens, NGOs and non-profit organisations	Sector for Protection and Rescue, MIA, industrial and territorial voluntary fire brigades and their associations, sports clubs and their associations (scuba divers, mountaineers, cavers, parachutists, amateur radio clubs etc.), the army	1,000,000			2007
45. Education and training of rescue personnel for providing paramedic assistance	MIA Sector for Protection and Rescue, Ministry of Health, medical educational institutions	100,000			2007
46. Updating training programmes in educational institutions for personnel active in emergency situations and other schools and faculties	Sector for Protection and Rescue, MIA, Education Department, MIA, MPS, professional associations of teaching staff, voluntary fire brigades and associations	100,000			2007
47. Reconstruction and modernisation of existing centres for providing information and establishment of a national centre in Belgrade	IT Department	*			2007

48. Electronic personalisation of travel documents	IT Department	5,000,000			2007
49. Establishment of an Infodesk for users of MIA information technologies and systems	IT Department	3,000,000			2007
50. Development of a system of verification, authentication and issue of visas at border crossings of the Serbia	IT Department and Ministry of Foreign Affairs	*			2008
51. Project for developing an information system for automatic monitoring of moving objects and establishment of spatial infrastructure in the Serbian MIA	IT Department	1,500,000	500,000	1,000,000	2008
52. Project for developing an information system for controlling crossings and security of the Serbian national frontier	IT Department	1,000,000			2007
53. Project for developing a national asylum system - Phase I, preliminary study and normative documents	IT Department	130,000			2007 Phase I
54. Project for developing a national asylum system - Phase II – development of asylum information system	IT Department	250,000			2008 Phase II

55. Project for developing a national asylum system - Phase III – equipping and training personnel	IT Department	300,000			2008 Phase III
56. Project for developing an information system for monitoring illegal migration	IT Department	250,000			2007
57. Upgrading IT communication infrastructure with the aim of preventing terrorism	IT Department	1,500,000			2007
58. Project for securing critical IT technology Phase I – feasibility study	IT Department	100,000			2007 Phase I
59. Project for securing critical IT technology Phase II – planning and establishing resource basis for project realisation	IT Department	4,000,000			2008 Phase II
60. Project for securing critical IT technology Phase III	IT Department	5,000,000			2009 Phase III
61. Project for technical modernisation (procurement of hardware and software for modernising regional Internal Control centres)	Police Internal Control Sector				2007
62. Educational programmes for upgrading systemic training and advanced training in the field of Internal Control affairs	Police Internal Control Sector				2007

63. Preventive campaigns directed towards the fight against corruption, organised crime and torture	Police Internal Control Sector				2007
64. Project for consolidating and equipping Internal Control and internal grievances procedures	Police Internal Control Sector				2007
65. Introducing high standards for border police	Border Police Department	10,000,000			2008
66. Refurbishment of premises and procurement of prefabricated accommodation units	Border Police Department	12,900,000	12,900,000 NIP		2007
67. Procurement and installation of telecommunication system for border police and Customs on Bulgarian border	Border Police Department	17,000	17,000 NIP		2007
68. Equipping border police with vehicles, IT hardware and communication equipment	Border Police Department	3,200,000	3,200,000		2007
69. Taking over control of border from Army units - equipping border police with vehicles, IT hardware and communication equipment	Border Police Department	3,205,000	3,205,000 NIP		2007

70. Taking over control of border from Army units - construction and improvement of infrastructure for border police use	Border Police Department	12,900,000	12,900,000 NIP		2008
71. Development of criminal intelligence capacities of border police	MIA-Border Police Department	500,000			2007
72. Development of early-warning system	Border Police Department	100,000			2007

** The value of project and the financing structure need to be assessed in co-operation with the competent ministry and institutions*

Besides the above-mentioned projects and programmes, it is also necessary to formulate, in co-operation with the MIA, projects and programmes pertaining to police co-operation with customs and inspectorial services, the prosecution service and other bodies involved in the process of controlling border crossings and border security. It is also necessary to carry out an organisational reform of the Border Police Department by establishing regional centres (besides the central and local centres), as has already been done on the borders with Hungary and partially also Romania.

3.13. Capital Investment

Transport

One of the most important preconditions for successful economic development in Serbia is restructuring the entire transport sector into a modern, safe and functional system. A satisfactory traffic infrastructure is an important factor of the efficiency of the entire transport system, but also a key precondition for a sustainable economic and social development of the Republic of Serbia and its integration into the EU. It is also an important promoter of regional development and the utilization of the comparative advantages of local areas by linking the touristic and the agricultural zones with the economic centres.

The Republic of Serbia, with its geographical position, situated on the crossing of traffic Corridors VII and X, provides the shortest and most rational transit routes between the central and western European countries and southern Europe and the Middle and Far East. In the final report of the High Level Group³², founded under the aegis of the European Commission, five main multimodal axes were identified as extensions of the Trans-European Transport Network (TEN-T) towards neighbouring countries and regions. Project proposals on Corridor X (road and rail), Corridor VII, and the Multimodal Platform of Metropolitan Belgrade have been incorporated within the South-East Multimodal Axis. Based on the 2003 Regional Balkans Infrastructure Study (REBIS), on June 11, 2004 the western Balkan countries signed in Luxembourg a *Memorandum of Understanding on the Development of the South-East Europe Core Regional Transport Network*, whose aim is developing infrastructure and improving policies in the area of transport and which anticipates close co-operation between participants in the process of harmonising procedures and technical standards, regulatory and administrative provisions concerning transport, in accordance with EU standards and directives. For the purpose of implementing the Memorandum of Understanding, the South-East Europe Transport Observatory (SEETO) was formed with permanent Secretariat located in Belgrade. The first Multi Annual Development Plan of the South-East Europe Core Regional

³² Report from the High Level Group chaired by Loyola de Palacio, *Networks for peace and development – Extension of the major trans-European transport axes to the neighboring countries and regions*, November 2005

Transport Network was adopted in April 2006 and defines long-term investment requirements for the western Balkan countries in the period 2006-2010.

In reference to the European Transport Policy for 2010³³, the Serbian Government is looking forward to improving road and rail infrastructure in the Republic of Serbia, with financial assistance from the EU, and to establishing the necessary conditions for unhindered inland navigation, particularly on the rivers Danube and Sava. Accordingly, study, project and tender documentation will be prepared in connection with a number of projects for modernising the traffic network in the Republic of Serbia, including removing and eliminating bottlenecks on the pan-European Corridor VII, as the most important waterway, reconstruction and increasing capacity of the railway Corridor X, and boosting capacity of the road Corridor X. The priority will be construction of a highway connecting Belgrade and the southern Adriatic Sea and reconstruction of the Belgrade-Bar rail line. A feasibility study for a motorway connecting Pancevo with Timisoara in Romania is planned as well.

The transport development strategy in the Republic of Serbia should be based on the concept of (ecologically, technically, financially and operationally) sustainable and multimodal approach to development, implying integrated planning of the development the transport system and more economical utilisation of all modes of transport.

Certain important reform goals in the area of transport have already been met with international assistance and support. Most of the projects implemented concerned road and rail transport, primarily through concession loans, as well as assistance in performing feasibility studies, etc. Other projects realised included strengthening institutional and human capacities of the Ministry for Capital Investment, and those aimed at restructuring public enterprises in the field of transport. The following table provides an overview of the most important projects in the 2001-2006 period.

The most important transport sector projects in the 2001-2006 period:

1. Railways Rehabilitation project loan	70,000,000 EUR	Eur. Investment bank (EIB)	Completed
2. Yugoslav railways - Belgrade ZTP reconstruction project	2,600,000 USD	Canada	Completed

³³ *White Paper - "European transport policy for 2010 : time to decide" (COM 370/2001)*

3. Procurement of 93 buses for the public transport enterprise - GSP Belgrade	15,200,000 USD	Japan	Completed
4. Reconstruction of Niš Airport (2002)	2,550,000 EUR	Norway	Completed
5. Reconstruction of Niš Airport (2003)	13,500,000 NOK	Norway	Completed
6. Twinning project between Serbian Road Directorate and Swedish Road Authority	14,000,000 SEK	Sweden	On-going
7. Loan for European Roads B project	120,000,000 EUR	EIB	On-going
8. Loan for modernising and upgrading air traffic control system	33,500,000 EUR	European bank for Reconstruction and Development (EBRD)	On-going
9. Loan for Roads and Bridges Rehabilitation – B1 project	33,000,000 EUR	EIB	Loan signed May 2006
10. Loan for Belgrade Urban Renewal project	90,000,000 EUR	EIB	On-going
11. Loan for road reconstruction project in Serbia	76,000,000 EUR	EBRD	On-going
12. Loan for ZTP Belgrade Reconstruction Project	57,000,000 EUR	EBRD	On-going
13. Loan for Urgent road rehabilitation project	50,000,000 EUR	EIB	On-going
14. Loan for Roads rehabilitation project in the Republic of Serbia	95,000,000 EUR	EIB	On-going
15. Loan for Air traffic control infrastructural rehabilitation project	34,000,000 EUR	EIB	On-going
16. Support for road public enterprise "Roads of Serbia"	1,300,000 EUR	European Commission CARDS 2004	On-going
17. Support to the Transport Sector Reform	14,000,000 EUR	European Commission CARDS 2005	On-going
18. Transport rehabilitation project	55,000,000 USD	World Bank	On-going
19. Rehabilitation of a priority interchange on the Belgrade to Montenegro road	4,500,000 EUR	European Commission CARDS 2004	On-going
20. Feasibility study for Loznica – Novi Sad highway	1,200,000 EUR	European Commission CARDS 2004	On-going

21. Feasibility study for section of road from Belgrade to the Montenegro border	1,500,000 EUR	European Commission CARDS 2003	?
22. Feasibility study for Belgrade ring road	1,000,000 EUR	European Commission CARDS 2003	Completed
23. Master Plan for Inland Waterway Transport in the Republic of Serbia	2,000,000 EUR	European Commission CARDS 2003	Completed
24. Reconstruction of 'Sloboda' bridge - Novi Sad	40,000,000 EUR	European Commission CARDS 2002	Completed
25. Integrated Socio-economic Development Plan Based on the Rehabilitation of the Middle Danube River Basin and Inland Waterway System of Serbia	1,000,000 EUR	European Commission CARDS 2004	On-going
26. Capacity-building of Ministry for Capital Investments and other competent institutions	3,000,000 EUR	European Commission CARDS 2004	On-going
27. Twinning project - harmonisation of legislation with <i>acquis communautaire</i>	1,500,000 EUR	European Commission CARDS 2006	On-going
28. Modernisation of railways traffic in Railways' ZTP Belgrade sector	1,720,000 CHF	Switzerland	On-going
29. IMOD X - Inter-modal solutions for competitive transport in the Republic of Serbia	372,000 EUR	Norway	Final phase
30. Drafting strategy of development of PPP model for road construction in the Republic of Serbia	260,000 EUR	Canada	Final phase

Road transport –The Republic of Serbia has a relatively well developed network of roads, both as regards density of roads and total roadway area, compared with central and eastern European countries. The road network consists of 5,525 km of trunk roads (380 km of dual-carriageway roads and 170 km of semi-motorway), 11,540 km of regional roads covered by the JP Putevi Srbije public enterprise and another 23,780 km of local roads upkept by local governments. Some 96.4% of all trunk roads and 79.4% of regional roads are paved. Some 2,150 km of Serbia's road network is part of the E-75, E-70 and E-80 international routes, which make up part of the Pan-European Transport Corridor X. The two immediate priorities are the construction of motorways linking Horgoš with Požega and Niš with Dimitrovgrad, and construction of the Belgrade bypass and bridges at Beška and Ostružnica. For the purpose of obtaining new foreign credits and granting concessions will be proposed and promoted sections of Corridor X, as well as the conclusion of agreements on public private partnerships.

Railway transport – The Republic of Serbia has a railway network of 3,809 kilometres, 7.2% of which is double-track. The throughput capacity is sufficient, but the railways lag behind European standards in respect of electrification, length of double-track routes, maximum allowable speeds and maximum axle loadings, all of which calls for modernisation. The poor condition of track and permanent way has led to speed restrictions of 20-40 kph on a total of 162 km of track, or over 4% of the total network. Just 32.7% of the network is electrified. The rolling stock is very technologically outdated and in poor condition, in short supply and with a high percentage out of service at any given time. Reorganisation of railway transport based on the new Law on Railways maintains state ownership of the infrastructure, while organisation of traffic and its control will be adapted and prepared for future competition. Work on technical and technological modernisation of the railway infrastructure will continue in the next three years, in particular on Corridor X, as well as the upgrading of rolling stock. Accordingly, the Government's main task is railway electrification, which will contribute to better and more stable operation of the railways (The Railway Rehabilitation Project I funded by the EBRD and Railway Rehabilitation Project II). For these purposes will be used international financial organisation funds in an amount of 140,000,000 EUR: 60 million for rolling stock and 80 million for railway infrastructure.

River transport – There are a total of 1,419 kilometres of navigable waterways in the Republic of Serbia. The river Danube (Corridor VII) is navigable along 588 km in Serbia and is a strategic traffic link which should help boost development of trade, tourism and services. The Danube accounts for some 85% of all cargo transported by ship in Serbia. Some 207 km of the river Sava is navigable in the Republic of Serbia, and some 41 km of the river Tamiš, for vessels displacing up to 150 tonnes. The Danube-Tisa-Danube system is a multi-purpose water-management network made up of a total of 12 navigable canals in the Bačka and Banat regions in Vojvodina providing a link between the Danube and Tisa rivers and the Rhein-Main-Danube river navigation system. In the past decade river navigation has been affected by NATO bombing and inadequate maintenance of waterways. Restoration of unhindered and safe navigation in Serbia would contribute to the advancement of regional co-operation and development and the possibility of linking the river Sava with the Danube trunk route and thereby to the rest of the European inland waterway system. Development of a modern River Information Service would intensify the exchange of geographical data and establish closer co-operation between countries in managing the Danube waterway.

Air traffic – The Republic of Serbia has three airports qualified for passenger transport – Belgrade, Niš and Priština. There are intentions to upgrade three military airfields – Ponikve (Užice), Ladjevci (Kraljevo) and Sombor – to full civil aviation standards. Belgrade's Nikola Tesla International Airport is owned by the Republic of Serbia. Given that it satisfies navigational and spatial requirements, Belgrade airport has a tendency to develop as a regional air traffic centre. Its infrastructure and equipment are fully operational, but lacking as regards capacity. The airport aspires to secure the position of an important transit centre, especially in cargo transport; for this purpose it needs a second runway, a business centre, a hotel, an office building and other facilities. JAT Airways, the national air carrier, is operating in a diminished and economically weak market, has surplus capacities and labour, an organisational structure poorly adapted to contemporary conditions and an oversized and outdated fleet, and is still burdened by debts, and is therefore forced to work on winning for itself a niche in international air transport from a completely new starting position. The most important requirement for achieving competitiveness would be a fleet renewal.

Multi-modal transport – The development of multi-modal transport in the Republic of Serbia is in its infancy. Development of inter-modal transport terminals is a precondition for the development of modern transport and distribution technologies. There is no fully-developed inter-modal transport terminal in the Republic of Serbia, only ZIT Beograd (a subsidiary of Serbian Railways) and the Port of Belgrade being equipped to handle standard container transport. In the forthcoming period adequate attention will be focused on upgrading the institutional framework and drafting studies on support to this form of transport. Conditions will be created to boost the presence of combined railway-road-river transport. The ratified AGTC agreement (European Agreement on Important International Combined Transport Lines and Related Installations) makes possible a systemic approach to the reconstruction, construction and modernisation of railways of the highest international importance, terminals for combined transport, border crossings and other infrastructure. The agreement reflects a commitment to the development of combined transport, creating the necessary preconditions for attracting international financial organisations in respect of loans and donations in the area of transport infrastructure and related facilities.

The Government is planning to intensify in the period ahead the process of restructuring public enterprises – JAT Airways, Belgrade Airport, PTT Srbija, Serbian Railways – in which the pre-privatisation stage has been completed. Taking into

consideration the high social and other cost of restructuring, international assistance will be very important in this endeavour.

Speeding up reforms in the transport sector will not be possible without the assistance of international organisations and bilateral donors. Several important projects have already been realised with international assistance or with the help of initiatives of international organisations, including: reconstruction of the ‘Sloboda’ bridge in Novi Sad (European Agency for Reconstruction), reconstruction of the railway bridge between Erdut and Bogojevo, with the help of donations from the Governments of the Kingdom of Belgium and the Kingdom of Norway; bilateral agreements on railway and combined transport with the Republic of Bulgaria and the Republic of Croatia; multilateral agreements on railway and combined transport.

The following table presents high-priority projects and programmes identified by the Ministry for Capital Investment (MCI) which should contribute to the realisation of the goals set out above in the transport sector.

Table 28. High-priority projects and programmes in the transport sector for the 2007-2009 period

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources	
1. Supervision – construction of Belgrade bypass “Sector 0, Batajnica – Dobanovci” and traffic interchange	Public road enterprise “Roads of Serbia”	1,500,000		CARDS 2006	2007-2008
2. Supervision – construction of Belgrade bypass “Sector Ostružnica - Bubanj Potok”	Public road enterprise “Roads of Serbia”	1,500,000		CARDS 2006	2007-2008
3. Supervision – reconstruction of the “Gazela” bridge and E75 section: Nikola Tesla Airport – Bubanj Potok	Public road enterprise “Roads of Serbia”	2,000,000		CARDS 2006	2007-2008

4.	General project of motorway section Bubanj Potok – Vinča – Pančevo – Banatsko Novo Selo	MCI	1,000,000	NIP 1,000,000	-	2006-2007
5.	General project of Danube bridge at Vinča	MCI	1,000,000	NIP 1,000,000	-	2006-2007
6.	Intelligent Transport Systems (ITS) – Master Plan	MCI	2,000,000			2007-2008
7.	Supervision – Žeželj bridge – reconstruction	MCI	2,000,000			2008
8.	Project of analysis of condition of railways in Serbia	Serbian Railways	3,000,000			2008
9.	Dredging river Danube with river-bed construction works – preparation of:					
	a. project documentation	MCI	1,500,000			2007-2008
	b. tender documentation		1,500,000			
	c. supervision		2,000,000			
10.	Supervision – River Information System – RIS	MCI	2,000,000			2007-2008
11.	Supervision – Removal of World War II sunken vessels at Djerdap 2 Sector	MCI	1,500,000			2007-2008
12.	Supervision – Revitalisation of Navigation locks at Djerdap 1 and at Djerdap 2	MCI	2,000,000			2007-2008

13. Winter harbours on the Danube – project documentation	MCI	2,000,000			2009
14. Institutional building of inter-modal transport in the MCI	MCI	2,000,000			2007-2008
15. TA – Establishment of Project Implementation Unit – PIU – railways	Serbian Railways	1.500,000			2007-2008
16. TA – Establishment of Project Implementation Unit – PIU – roads	Public road enterprise “Roads of Serbia”	2,000,000			2007-2008
17. Capacity building – Strategy of developing PPP model for all modes of traffic infrastructure	MCI	1,000,000			2008
18. Twinning project – standardisation in the construction sector, B.U. Faculty of Civil Engineering		2,000,000			2007-2008
19. Twinning project – Technical standards in road and railway sector	MCI	2,000,000			2007-2009
20. Study – development of railway transport in the Republic of Serbia	MCI	3,000,000			2008

21. STRATIMOD – Strategy of developing terminals for inter-modal transport and logistics centres (continuation of IMOD X project)	MCI	400,000			2007
22. Feasibility study establishment of market oriented relation of combined transport between Austria and the Republic of Serbia	MCI	500,000			2007
23. Study of development of road network in the Republic of Serbia	MCI	2,000,000			2008
24. Construction of section of Belgrade bypass “Sector 0, Batajnica – Dobanovci” and traffic interchange	Public road enterprise “Roads of Serbia”	110,000,000	-	EIB-55,000,000 EBRD-55,000,000	2007-2008
25. Construction of section of Belgrade bypass “Sector Ostružnica – Orlovača – Eubanji Potok”	Public road enterprise “Roads of Serbia”	180,000,000	NIP 30,000,000	IFI ³⁴ 150,000,000	2007-2008
26. Reconstruction of E75 route ‘Zmaj –Gazela’ and ‘Gazela - Bujanji Potok’ sections	Public road enterprise “Roads of Serbia”	40,000,000		IFI 40,000,000	2007-2008
27. Reconstruction of Gazela bridge	Public road enterprise “Roads of Serbia”	32,500,000	7,500,000 City of Belgrade	25,000,000 EIB	2007-2008

³⁴ International financial institutions

28. Construction of southern sector of Corridor X:						
- Leskovac-Macedonia border, E-75	MCI	- 470,000,000	NIP (98,000,000 for 2006/2007)	Hellenic Plan 100,000,000	2006-2009	
- Niš-Dimitrovgrad, E-80		- 450,000,000				
29. Modernisation of border crossings (Ribarci, Gradina, Batrovci, Preševo and crossings on Romanian border)	MCI	10,500,000	NIP 6,000,000	Credit - IFI 4.500,000	2006-2007	
30. Žeželj bridge – reconstruction ³⁵	MCI	35,000,000	10% City of Novi Sad	50% IFI 40% grant	2007-2008	
31. Dredging Danube river bed	MCI	40,000,000		50% IFI 50% grant	2007-2008	
32. River Information Service – RIS	MCI	25,000,000		50% IFI 50% grant	2007-2008	
33. Removal of World War II sunken vessels at Djerdap 2 Sector	MCI	20,000,000		50% IFI 50% grant	2007-2008	
34. Revitalisation of Navigation locks at Djerdap 1 and at Djerdap 2	MCI	62.200,000		50% IFI 50% grant	2007-2008	
35. Reconstruction of Ostružnica railway bridge with approach ramps	MCI	2.500,000	NIP 2.500,000	-	2006-2007	

³⁵ Infrastructural projects of improving navigation conditions on the Danube (Corridor VII) will partly be funded through credits, while it is planned to secure the rest of the money from EU funds (about 50% of the project's value).

36. Loan for Railway Rehabilitation project II	Serbian Railways	160,000,000	20,000,000	EBRD 60,000,000	loan signed 2006
				EIB 80,000,000	Signing procedure in progress
37. Reconstruction of rail infrastructure to UIC-C profile standard on (Bar)-Vrbnica-Belgrade-Vršac-Romanian border railway	Serbian Railways	3,000,000			2007-2009
38. Reducing train stoppage times at railway border crossings on trans-European corridors	Serbian Railways	29,000,000		IFI	2008-2009
39. Adaptation of Ponikve regional airport: - Mine clearance - Construction, modernisation	MCI	1,465,000	NIP 1.465,000	-	2006-2007
40. Modernisation of 'Konstantin veliki' Airport, Niš	MCI	-	-		2007-2009 Identified in SEETO Plan for 2007-11 period
41. Functional upgrading of air-space at 'Nikola Tesla' Airport, Belgrade	MCI	7,000,000			2007-2009 Identified in SEETO Plan for 2007-11 period

** it is necessary to assess the values of the projects and structure of sources of funding, in co-operation with competent ministries and other institutions.*

Telecommunications

The Republic of Serbia together with Macedonia were the last two south-east European countries to begin deregulation of the telecommunications market. It was also the last to establish a regulatory body, the Telecommunications Agency, which became operational in 2006; the first results of its functioning are still to be seen (the Law on Telecommunications was adopted in 2003 and provided for full deregulation and the formation of a regulatory body).

Existing problems in the fixed telephony sector in the Republic of Serbia are best seen in the large number of twinned lines, insufficient penetration and low rate of digitalisation, as well as the small number of broadband internet connections (cable and ADSL). Around 700 million EUR has been invested since 2001 in the development and construction of the fixed network, considerably improving the situation in that network over that five years ago; since then about 600,000 new connections have been activated, increasing the capacity of the fixed network by some 28%. The overall digitalisation rate in the Republic of Serbia is about 84%, and telephony penetration over 36%. The Republic of Serbia now has about 2,700,000 subscribers. Dial-up access to the internet is predominant, mainly via the SMIN network (Serbian Multiservice Internet Network) of Telekom Srbija a.d., used by all ISPs in Serbia. In its network Telekom Srbija a.d. has sufficient capacity to enable broadband ADSL access via end-user modems; there are now over 20,000 ADSL subscribers in the three biggest cities. Development of the cable network is extremely dynamic, with about half a million subscribers at this moment. There are two large TV and internet cable providers, PTT and SBB, and a number of smaller ones; but this area is still not fully regulated in Serbia and requires quite a lot of legislative effort. Another unregulated area in the Republic of Serbia is VoIP (Voice over Internet Protocol).

In order to overcome these problems it is necessary to gradually liberalise the telecommunications market for all participants, improve the quality of services and protection of users, move the regulatory function from the state to the independent regulatory body legally and functionally free from the influence of the state and other interest groups - operators, (the Republican Telecommunications Agency, the independent regulatory body, became operational on August 28, 2005), link telecommunications systems with those of other countries, perform efficient allocation, management and control of operating frequencies, in accordance with the

Law on the Issue of Broadcasting Permits, and increase use of ICT as a motivator of development which requires high-quality education of human resources.

For the realisation of those goals the Government plans to adopt a Telecommunications Development Strategy whose aim is a medium-term liberalisation of the telecommunications market for all participants, improvement of the quality of services and protection of users. The Telecommunications Development Strategy and Broadcasting Development Strategy, interlinked and harmonised with the other development strategies, and adjustment of the legislative and regulatory frameworks determined by the Law on Telecommunications and the Law on Broadcasting, represent the foundation for speedier development of the telecommunications services market and development of the telecommunications infrastructure. International support was not primarily focused in the previous period on the telecommunications sector, and was focused in particular on legislative development, such as assistance in drafting the Law on Telecommunications.

In order to increase the share of telecommunications services in the GDP and upgrade the universal service, it is necessary, in co-operation with the Ministry of Capital Investments³⁶, to formulate projects and programmes in the following high-priority areas:

- Building the institutional capacities of the Republican Agency for Telecommunications – provision of resources needed to ensure the autonomy and professionalism of the regulatory authority
- Higher efficiency in the development and adoption of spatial and urban development plans and updating cadastre to create the necessary conditions for the construction of telecommunications facilities, particularly infrastructural, in accordance with the Law on Planning and Construction.
- Simplification of regulations and laws on the construction of telecommunications facilities. Where permits have been issued for the construction of other facilities (water supplies, natural gas, sewers, central heating supply, access roads), the investor should also have an obligation to lay conduits for telecommunications cables whose ownership would be retained by local authorities.
- Encouraging the development of the Information Society by implementing *e-government*, *e-education*, *e-learning*, *e-business*, *e-banking* and *e-health*. Implementation of e-government should stimulate better coordination and

³⁶ The Ministry of Capital Investments has not submitted high-priority programmes and projects in the area of telecommunications in the 2007-2009 period.

efficiency of the Government – local self-administration and local self-administration – citizen linkage;

- Supporting regional expansion of the telecommunications industry and operators active on the territory of the Republic of Serbia;
- Involvement of research & development centres in the development programmes of leading world manufacturers;
- Creating all necessary preconditions to secure provision of universal service by the end of 2009, which includes its definition, and the establishment of a fund for its implementation;
- Establishment of an educational network and linking it with the Academic Network of Serbia;
- Realisation of a broadband intranet for the state administration;
- Embracement of a modern enumeration plan and its implementation;
- Continuous adaptation and adjustment of the broadcasting spectrum allocation and use plan in accordance with requirements and technological developments.

Urban and spatial planning and housing policy

The Law on the Spatial Plan of the Republic of Serbia with the *Spatial Plan of the Republic of Serbia - SPRS (Official Gazette of the RS, No. 13/96)* is still a strategic development framework. Although it needs changes, primarily in connection with changing land exhaustion circumstances and changes which have taken place in the environment, the SPRS continues to be a valid and feasible framework for guiding the urban development process, development and construction of towns and suburban settlements, as well as the traffic network on the national level.

The strategic objective in the area of urban and spatial planning is the achievement of a sustainable urban and spatial development of the Republic of Serbia

Medium-term objectives in the area of urban and spatial planning call for:

1. Increasing responsibility in the area of spatial planning and development
2. Increasing efficiency in managing, using, protecting and developing space, as well as stimulating territorially balanced development of the Republic of Serbia while preserving the quality and diversity of available natural and man-made resources
3. providing efficient, high-quality, inexpensive and reliable services for individual citizens in areas within the purview of the MCI
4. institutional strengthening and raising professional capacities of civil servants

In co-operation with the U.N. Economic Commission for Europe – Committee for Human Settlements, a Country Profile on the Housing Sector of Serbia and Montenegro has been drafted, published and available on the UNECE website. This document was the basis for the *Draft Study of the Housing Sector of the Republic of Serbia*, currently in the harmonisation phase with other competent ministries and expected to be forwarded to the Government by the end of May 2007. The study's recommendations are a basis for adopting a *National Housing Policy*, a strategic developmental document for the housing sector which has not existed so far. Based on the Draft Law on Social Housing, work will begin in the second half of this year on developing a National Social Housing Strategy which provides strategic directives for the area of social housing, a part of the public interest whose aim is social sustainability of the community. Certain elements of the strategic housing framework are also contained in the *Poverty-Reduction Strategy – the First Report on the Implementation of the Poverty-Reduction Strategy in Serbia*, and the *Memorandum on the Budget and Economic and Fiscal Policy for 2006*.

The strategic objective in the area of housing is to secure the social sustainability of the community by clearly defining protection of the public interest in the area of housing in the Republic of Serbia.

Medium-term goals in the area of housing are:

1. Upgrading legislation in the area of housing policy, especially social housing;
2. Increasing efficiency in the management, exploitation and maintenance of the existing housing;
3. Institutional strengthening in the housing sector at the central level and raising professional standards in this area

4. Support for institutional strengthening of local self-administrations in the housing area to help increase housing construction and resolving the problem of inappropriate forms of housing
5. Advancement of the system of planning and managing building land in order to secure sites for affordable housing construction and prevention of unlawful building activities.

The following table presents high-priority projects and programmes identified by the Ministry for Capital Investments (MCI) which should contribute to the realisation of the aims set out above in the area of urban and spatial planning in the 2007-2009 period.

Table 29. High-priority MCI programmes and projects in urban and spatial planning in the 2007-2009 period

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External funding	
1. Drafting Spatial Development Strategy of Republic of Serbia	Rep. Agency for Spatial Planning (RASP)/ MCI	*			
2. Drafting new Law on Planning and Construction	MCI	*			
3. Establishment of information system on space urban areas in Serbia	RASP/ MCI	*			
4. Establishment of urban indicators	MCI	*			
5. Drafting regional spatial plans for the Republic of Serbia	RASP/ MCI	*			
6. Forming Republican Agency for Housing and local housing agencies in the major towns and at municipality level	MCI	*			

7. Drafting study of the housing sector in the Republic of Serbia	MCI	*			
8. Drafting national housing policy document	MCI	*			
9. Drafting national social housing strategy	MCI	*			
10. Drafting new law on managing and maintenance of residential buildings	MCI	*			
11. Building up institutional capacities to improve quality of life in the suburbs of Krnjača and Borča in the Palilula Municipality, Belgrade City	MCI	*			
12. Creating institutional capacities to improve quality of housing in the poorest Roma settlements in the Kraljevo Municipality	MCI	*			
13. Programme of repairing and rebuilding housing in the Kolubara Region damaged in the 1998 earthquake	MCI	*			
14. Programme of compensating people for damage sustained in the 1999 NATO bombing.	MCI	*			
15. Construction of housing for people hit by flooding in 2005.	MCI	*			

16. Assessment of damage and construction and repairs in areas hit by 2006 landslides.	MCI	*			
17. Construction of 70 houses for internally displaced persons in the Gračanica Municipality area	MCI	*			
18. Formulating programme of building 1,200 homes for socially threatened Roma populations within the Action Plan for Improving Roma Housing	MCI	*			

** it is necessary to assess the values of the projects and structure of sources of funding, in co-operation with competent ministries and other institutions*

3.14. Justice

There is an urgent need to implement strategic reforms at all levels of the judicial system with the aim of establishing the rule of law and legal security in the Republic of Serbia. The need for the reform comes from the serious conflict between the outdated political and legal system based on the 1990 Constitution and the new social relations, founded on totally different principles and values. It is no longer possible to keep adopting modern legislation so as to make compensation for outdated principles of the old Constitution, under which has been created a deficient judicial system open to improper influence. Working in such conditions has led to a decline in the reputation of the judiciary as a state institution. All of the above means that property and other rights which are essential for the normal functioning of the economy and the existence of trust in the institutions of society continue to be poorly protected.

In the past four years analytical work has uncovered the following weaknesses:

- An inadequate constitutional and legal framework, resulting in an excessive duration of court procedures, problems in the enforcement of decisions, a lack of accountability of the judiciary, and even corruption;
- An excessively complex and expansive system of courts, costing more than necessary and reducing the efficiency of access to justice;
- Unclear standards of electing, removing and promoting judges, and of assessing their performance, resulting in inequalities in the efficiency of courts and reduction of public confidence in the judicial profession;
- The absence of capacities for integrated planning, definition of budgets and measurement of results, all reducing the ability of the judiciary to monitor performance and improve it in an efficient manner;
- Outdated organisation of the court administration, preventing efficient dispensation of justice and processing of court cases;
- The heavy burden of administrative business on behalf of judges which reduces their efficiency as well as their morale;
- Lack of continuous training for judges and other court officers, which is an obstacle to the development of a modern and fully professionalized personnel well trained for management and judicial administration;
- Inappropriate university law school programmes, reducing the competency of future leaders in the legal and judicial professions;
- Poorly equipped and maintained court buildings, reducing access to justice and putting great pressure on resources in the judiciary;
- An overpopulated and antiquated system of penal sanctions institutions, which is neither conducive to rehabilitation nor does it fulfil international standards;
- Insufficient utilisation of IT and automated systems, leading to constant utilisation of inefficient and labour-intensive practices.

In order to rectify the weaknesses identified above, the Government has embraced a set of reforms aimed at achieving a more efficient, modern and adequate judiciary system. Accordingly, a National Judicial Reform Strategy has been adopted, and also an Action Plan based on the Strategy. *The National Judicial Reform Strategy*

identifies the challenges faced by the judiciary within the framework of four key principles and corresponding aims. The *Action Plan* lists concrete activities which are needed in order to achieve those aims, directed towards enhancing the accountability and independence of courts, the rule of law and harmonisation of regulations with European and international legal standards. The main aim of the judicial reform is to increase the quality of judicial practice and bring it to a level equal to those of modern European societies. A number of laws are either before parliament or in the preparatory stage, including the following: Law on Public Notaries, Law on Requirements for Performing Expert Assessments, Law on Organisation and Competences of the State Authorities in Suppressing Organised Crime, Law on the State Authorities and the Procedure in connection with Criminal Offences Against Humanity and other Assets Protected by International Law, Law on the Training of Judges, Public Prosecutors and Deputy Public Prosecutors and Judges' and Prosecutors' Assistants, Law on the Anti-Corruption Agency, Law on Confiscation of Property Acquired through Crime, Law on a National DNA Register, Law on Commercial Offences, Law on Special Custodial Regime, Law on Alterations and Amendments to the Law on Torts and Contracts and the Law on the Practice of Law. The Ministry of Justice will also continue activities in connection with international co-operation and European integration processes, in particular on harmonising domestic legislation with EU regulations, standards of the U.N. and the Council of Europe, monitoring fulfilment of international obligations, promoting the ongoing dialogue with the EU and realising European Partnership priorities.

Important reform goals have already been reached with international assistance and support. Most of the projects concerned upgrading the human, material and technical capacities of the judiciary in the Republic of Serbia, and development of legislation. The following list presents an overview of the most important projects in the 2001-2006 period.

Most important projects in the judiciary in the 2001-2006 period:

1. Access to Justice	2,500,000 GBP	United Kingdom	Completed
2. Training of judges, prosecutors, defence attorneys and police investigators in international law and extradition of war criminals	1,890,000 SEK	Sweden	Begun
3. Establishment of Judicial Training Centre UNDP/OSCE	788,000 EUR	The Netherlands	Completed

4.	Support to the Ministry of Justice CARDS 2004	11,500,000 EUR	European Commission	Agreed
5.	Support for the judiciary (2002 budget)	3,000,000 EUR	European Commission	Begun
6.	Support for the judiciary CARDS 2003	1,000,000 EUR	European Commission	Agreed
7.	Support for Alternative Conflict Resolution project	750,000 CAD	Canada	Begun
8.	Support to judicial reform	1,328.659 CHF	Switzerland	Begun
9.	Support to judicial system and training of judges	8,000,000 SEK	Sweden	Begun
10.	Justice CARDS 2005 - procurement and technical assistance for judicial reform strategy	2,500,000 EUR	European Commission	Agreed
11.	Independent judiciary project	1,000,000 CAD	Canada	Begun
12.	Judicial reform and rule of law 2001	2,000,000 USD	United States	Completed
13.	Judicial reform and rule of law 2005	2,900,000 USD	United States	Completed
14.	Judicial reform and rule of law 2006	2,900,000 USD	United States	Begun
15.	Judicial reform and rule of law 2003	1,290,000 USD	United States	Completed
16.	Judicial reform and rule of law 2004	5,560,000 USD	United States	Completed
17.	Reform of the Commercial Court 2004	3,550,000 USD	United States	Completed
18.	Reform of Commercial Courts 2004	3,550,000 USD	United States	Completed
19.	Rehabilitation of the Supreme Court	541,278 EUR	Germany	Completed
20.	Co-operation with UNICEF on the project "Prosecution of Minors"	19,000,000 SEK	Sweden	Begun
21.	SILD: training of judges, prosecutors and lawyers on international law	1.870,000 SEK	Sweden	Completed
22.	SILD: project preparation for training Serbian judges, lawyers and prosecutors for the Hague Tribunal	439,000 SEK	Sweden	Completed
23.	Technical assistance and advisory service for legislative reform in the Republic of Serbia	3.443,000 EUR	Germany	Completed
24.	Improving the judicial system in the Republic of Serbia	33.532.250 SEK	Swedish International Development Agency	Agreed
25.	Centre for training court personnel – co-financed with UNDP – 2003	9,000,000 SEK	Sweden	Begun

26. Centre for training court personnel, UNDP – 2002	4,000,000 SEK	Sweden	Completed
27. IT equipment for prosecutors'			
28. offices – 2003	400,000 EUR	EAR	Completed
29. Preparation of ADR action plan in Municipal Court – 2004	700,000 EUR	EAR	Completed
30. Establishment of professional centre for training judges and prosecutors (January 2002 -)	850,000 \$ (forming centre) +3,400,000 \$ (oper. costs)	UNDP, OSCE (CIDA, RNE)	Begun
31. Quicker Access to Courts project (2002- 20 months)	665,000 GBP	United Kingdom - DFID / KPMG	Completed
32. Development of rule of law in the Republic of Serbia (December 2005)	550,000 USD	US AID / ABA-CEELI	Completed
33. Strengthening court administration systems in the Republic of Serbia (May 2003 - May 2006)	300,000 USD	World Bank- Ministry of Justice	Completed
34. Strengthening court resources and support to Judicial Training Centre (March 2004 – April 2006)	745,148 USD	UNDP / CIDA	Completed
35. Strengthening human rights protection mechanism (2004 / 10 months)	100,000 USD	UNDP / TTF	Completed
36. Raising public awareness in Serbia (2004-2006)	242,593 EUR	Norwegian Foreign Ministry	On-going
37. Joint project on capacity building of Ministry of Justice (2003-2006 / 30 months)	1,491,028 EUR	EAR / IRZ	On-going
38. Strengthening the System of Misdemeanours and Magistrates' Courts in Serbia (2004 – 2006- two years)	1,055,500 \$	UNDP / CIDA	Ongoing
39. Reform of the judiciary in the Balkans (February 2004 - March 2010)	5,000,000 CAD	Canada / CIDA / Genivar / Ottawa University	Begun
40. Reform of the judicial system (2006-2008 / 24 months)	1,121,495 USD	UNDP / CIDA	Begun
41. Training for judges (2003-2006)	500,000 \$	US AID	Begun
42. Training for judges (2003-2006)	304,303 \$	CCASA	Begun
43. Support in reform of system for cautions (March 2006 - April 2007)	1,200,000 CAD	Council of Europe-CIDA	Begun
44. Serbian correctional system (March 2006 - September 2007)	1,200,000 CAD	OSCE/CIDA	Begun
45. Entrepreneurship system development in south-eastern Europe (November 2004 – April 2006)	325,000 CAD	IFC/CIDA	Completed

46. Independence and impartiality of judges (September 2001 – April 2005)	715,113 CAD	CIDA – International Advocates Commission, Canada section	Completed
47. OSCE support to the Ministry of Justice and the Ministry of Internal Affairs (2001-2006)	196,105 USD	OSCE	Completed

The judicial reform framework in the Republic of Serbia contains 12 main reform objectives. Each of the key principles contains three aims. Individually and together, these reform goals and associated projects deal with the main challenges now faced by the judiciary. The judicial reform framework is shown in the following table, where the initiatives are grouped according to short-term (2006-2007), medium-term (2008-2009) and long-term (2010-2011) implementation deadlines.

Table 30. Judicial reform framework

AIMS	INDEPENDENCE	TRANSPARENCY	RESPONSIBILITY	EFFICIENCY
TIMEFRAME				
Short-term (2006-2007)	Independent management	Open process of election, advancement, accountability and termination of judgeship	Clear standards for assessing performance and results of judges' work	Better access to justice
Mid-term (2008-2009)	Independent budget-funded authority	Corresponding access to information from court records and proceedings	Efficient management of court cases	Standardised system of training and advanced training for staff
Long-term (2010-2011)	Independent definition of general framework and internal organisation and work of courts	Improved relations with the public and public participation	Efficient use of resources by courts and by prosecution services	Modern network of courts

The following priorities have been identified in the realisation of these aims:

- ensuring better legal security;
- improving the efficiency of the courts, the public prosecution service and the state attorney's office;
- preparing a programme of comprehensive clearance of delayed cases in order to ensure judicial processing within a reasonable timeframe, the long-term goal being complete clearance of all backlogs;
- providing additional procedural training for judges and prosecutors, especially in the areas of economic crimes, corruption and organised crime;

- simplifying and standardising court procedures, both on the legislative level and in practice (e.g., by exchanging good-practice data), with the aim of improving the efficiency of prosecuting cases and decision making process by public prosecutors and judges;
- working to computerise all court business (introduction of informative registers, complete use of electronic operations between clients and the courts) in order to increase efficiency, shorten court processing times and help resolve the backlog problem;
- working to computerise all parts of the public prosecution service (electronic registers, computerisation of all activities, exchanging all information with courts and the police electronically) so as to streamline and shorten all procedures;
- working to computerise all prisons and other institutions of the Directorate for the Execution of Custodial Sanctions of the Ministry of Justice (electronic data bases on persons deprived of liberty and employees, electronic prison statistics etc.) to increase efficiency;
- working to integrate individual IT systems (courts of general jurisdiction, commercial courts, minor offences courts, the Administrative Court, the public prosecution service and penal institutions) into an integrated Judicial Information System (*e-justice* within the *e-government* system) and looking after the protection and security of data in the system(s).

The judicial reform is a complex long-term effort requiring besides legislative and constitutional changes also significant funds for numerous structural and organisation changes. In order to guarantee sustainable and successful implementation of the Strategy, the Republic of Serbia will set aside from available resources requisite material preconditions and funds for the goals and activities determined in the Strategy. Support from the international community, especially the European Commission, the Council of Europe, the World Bank and other international and regional organisations and governmental agencies which are already providing major contributions to reforms in Serbia, will also be of great significance for the implementation of the Strategy.

Realisation of the aims will be ensured through high-priority projects and programmes in the 2007-2009 period presented in the following table.

Table 31. High-priority projects and programmes in the judiciary in the 2007-2009 period

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External funding	
1. Development of the High Judicial Council and Administrative Office	Min. of Justice, High Jud.Council	2,650,000			2008
2. Building capacities of Administrative Office to prepare integrated court budget as part of transitional stage to an independent court budget	Ministry of Justice	102,000			2007-2008
3. Building capacities of public relations service in selected courts and improvement of data base of legislation and court decisions	Ministry of Justice	210,000			2007 - 2009
4. Establishment of single mechanism of recording all complaints about the judicial system and establishment of system for analysis and reporting	Ministry of Justice	300,000			2007 - 2009
5. Establishment of integrated court statistics system (performance of individ. courts and judges)	Ministry of Justice	1,325,000			2009
6. Modernisation of IT systems in courts and establishment of computerised case-management system in all courts	Ministry of Justice	1,200,000			2007 - 2009
7. Improving efficiency of court administrations by creating new specialized jobs in court administrations	Ministry of Justice	1,400,000			2007 - 2009
8. Application of the new Criminal Procedure Law (CPL) – training prosecutors and judges for new roles and new legal provisions	Ministry of Justice	3,000,000			2008
9. Procurement of new technical equipment needed for new CPL	Ministry of Justice	1,500,000			2008

10. Establishment of integrated free legal aid system	Ministry of Justice	1,200,000		UNDP project	2007 - 2009
11. Boosting institutional capacity of the Mediating Centre	Ministry of Justice	2,700,000			2007 - 2009
12. Construction of new building for the National Judicial Training Institute	Ministry of Justice	*			2007
13. Establishment of the National Judicial Training Institute	Ministry of Justice	2,112.500			2007 - 2009
14. Identification of investment needs in the large courts in the major cities	Ministry of Justice	*			2007
15. Reconstruction and adaptation of a new building for the Min. of Justice of the Republic of Serbia	Ministry of Justice	2,000,000	2,000,000. NIP		2007
16. Reconstruction and adaptation of the building housing the District Public Prosecutor's Office and the First and Second Municipal Public Prosecutor (Zeleni venac No. 18)	Ministry of Justice	2,200,000	2,200,000 NIP		2006-2007
17. Building capacities of the Administrative Office to prepare an integrated court budget as part of the transitional phase towards establishment of independent court budget	Ministry of Justice	102,000			2007-2008
18. Application of the new Criminal Procedure Law (CPL) – training prosecutors and judges for new roles and new legal provisions	Ministry of Justice	3,000,000			2008
19. Procurement of technical equipment for application of new CPL	Ministry of Justice	1,500,000			2008
20. Establishment of integrated free legal aid system	Ministry of Justice	1,200,000		UNDP project	2007 - 2009

21. Establishment of new more efficient network of courts and prosecution services (reconstruction, adaptation, outfitting)	Ministry of Justice	49,500,000	13,600,000 NIP		2007 - 2009
22. Establishment of State Prosecutors' Council	Ministry of Justice	1,200,000			2007 - 2009
23. Training prosecutors for a new and wider role in collecting evidence and managing cases	Ministry of Justice	*			2008-2009
24. Building capacity of the Ministry of Justice in sectors directly involved of EU association process	Ministry of Justice	700,000			2007 - 2009
25. Improvement of conditions in custodial institutions in accordance with international standards	Ministry of Justice	25,000,000	12,000,000 NIP		2007 - 2009
26. Introduction of integrated reporting system in the Directorate for Executing Custodial Sanctions	Ministry of Justice	500,000			2007 - 2009
27. Promotion of other forms of sanctions besides custodial sanctions for punishing and re-educating convicted persons	Ministry of Justice	500,000			2007 - 2009
28.1. Adaptation of Pavilion I in the Sremska Mitrovica prison	Ministry of Justice Dir. for Exec. of Custod. Sanctions	1.130,000	1.130,000 NIP		2007
28.2. Construction of pavilion for serving sentences with reception department, hospital, drug-free unit, laundry and other facilities in the Novi Sad District Prison	Ministry of Justice Dir. for Exec. of Custod. Sanctions	956,000	956,000 NIP		2007

28.3. Construction of new prison building with a maximum capacity of 450 inmates in Padinska Skela	Ministry of Justice Dir. for Exec. of Custod. Sanctions	6,000,000	6,000,000 NIP		2007
28.4. Adaptation of Special Prison Hospital and District Prison in Belgrade (block refurbishment)	Ministry of Justice Dir. for Exec. of Custod. Sanctions	1.400,000	1.400,000 NIP		2007
28.5. Construction of detention unit and reception department and reconstruction of Pavilion B in the Niš Prison	Ministry of Justice Dir. for Exec. of Custod. Sanctions	1.200,000	1.200,000 NIP		2007
28.6. Construction of residential unit for persons deprived of liberty with infirmary in low-security unit of Sremska Mitrovica Prison	Ministry of Justice Dir. for Exec. of Custod. Sanctions	880,000	880,000 NIP		2007
28.7. Construction of facility for treating convicted drug addicts in the Sremska Mitrovica Prison	Ministry of Justice Dir. for Exec. of Custod. Sanctions	800,000	800,000 NIP		2007
28.8. Adaptation and repair of Special Detention Unit in Ustanička Street No. 29, Belgrade	Ministry of Justice Dir. for Exec. of Custod. Sanctions	688,000	688,000 NIP		2007
28.9. Installation of natural gas supply in Niš Prison	Ministry of Justice Dir. for Exec. of Custod. Sanctions	238,000	238,000 NIP		2007
28.10. Construction of building for accommodating convicted persons in District Prison in Subotica	Ministry of Justice Dir. for Exec. of Custod. Sanctions	159,000	159,000 NIP		2007
29. IT modernisation of courts	Ministry of Justice	4,000,000	4,000,000 NIP		2007

30. Reducing corruption and achieving anti-corruption culture on the level of well-developed European countries	Ministry of Justice	2,000,000.			2008
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3.15. Promoting international economic relations

Topics in connection with the promotion of foreign economic relations discussed in this section include attracting foreign investments, concessions, bilateral economic relations, as well as multi-lateral economic co-operation, accession to the World Trade Organisation (WTO), the foreign trade policy and regime, international development assistance, as well as reform of legislation on international economic relations.

Besides the general strategic framework defined in the National Strategy for Accession to the European Union, the Poverty-Reduction Strategy, the Strategy for Reforming the Public Administration, and the Action Plan for Implementing European Partnership Priorities, policies and high-priority aims in the area of international economic relations are also defined in the Strategy of Encouraging and Developing Foreign Investments and the Action Plan for Removing Administrative Obstacles to Foreign Investment.

Activities on promoting international economic relations call for a high-level of inter-sectoral co-operation and coordination, as well as an active role of the Ministry for International Economic Relations (MIER), on the realisation of sectoral and intersectoral strategic documents, by securing international support for the implementation of national developmental priorities.

The institutional framework in this area are the Ministry of International Economic Relations, the Serbian Investment and Export Promotion Agency, and several governmental commissions formed to facilitate inter-sectoral coordination and decision-making on various issues: the Commission for Stimulating Investments in the Serbian Economy, the Commission for Coordinating Humanitarian and Developmental Assistance, the Commission for Coordinating the Process of Accession to the WTO.

Negotiations and the process of concluding bilateral agreements on economic, commercial and scientific and technological co-operation, as well as monitoring the

implementation of such agreements, are done by joint committees and commissions and *ad hoc* working groups formed for specific areas of co-operation.

Systemic laws in this field are the Law on Foreign Investments, the Law on Concessions and the Law on Foreign Trade Transactions.

The Law on Concessions (*Official Gazette of the RS*, No. 55/03) has widened considerably the scope for foreign investments in the Republic of Serbia. Concessions are essentially investments into the domestic economy according to the legal procedure involving equal conditions for all potential investors (domestic and foreign) through partnership with the public sector, according to the “build – operate – transfer” principle. It is one of the few laws in the region which emphasises the principles of transparency, non-discrimination, proportionality and efficiency.

The concessions law provides for investments by way of granting concessions in various fields up to a maximum of thirty years, which together with the Law on Foreign Investments forms a framework for the inflow of green-field investments in the domestic economy. The Serbian economy, subjected to reforms aimed at establishing market principles, is undergoing massive changes caused by the privatisation and restructuring process, where the potential for concession investments, besides the usual gains from the resolution of important infrastructural problems, creation of jobs and fresh budget income, also has a very positive influence on improving the quality and cost of services by enhancing the competitiveness of the market players.

The WTO accession process, after a slowdown caused by the redefinition of the relations between the republics, was intensified in 2006: negotiations on membership in the WTO and comprehensive activities in connection with harmonisation with WTO rules and regulations are in progress, while full membership has been optimistically forecasted for 2008. Serbia's membership in the WTO will have a positive effect on economic growth, reduction of the prices of some products, further foreign trade liberalisation and a privileged status for Serbia in international trade.

Conclusion of bilateral free trade agreements under the Pact for Stability of South Eastern Europe has liberalised commodity trade with seven regional countries. The free-trade zone that should be established in the region by 2010 will also mean a liberalisation of the services market.

The Ministry of International Economic Relations is among other things involved in coordination with competent state authorities and organisations aimed at developing sectoral and inter-sectoral strategies, defining high-priority requirements and

selecting suitable projects and programmes which should be funded from donations and development assistance, including resources from international funds for reconstruction, development and stabilisation, cohesive and structural funds, funds for regional, international and cross-border co-operation and other bilateral and multi-lateral sources of specific-purpose funds; informing donors about priority projects and programmes; co-operating with donors on harmonising their priorities with those of the Republic of Serbia, preparing donor strategies, planning and realising projects and programmes funded from donations and developmental assistance; monitoring the realisation of projects and programmes from reports submitted by users of donor funds and of development aid and donors; collection of data, analytical processing of data and drafting reports on donations and developmental aid, as well as other relevant activities. The institutional basis for programming and coordinating international assistance has been created and is being enhanced, as are capacities of the relevant ministries for programming that assistance, as well as management of EU funds (a department for managing cross-border co-operation programmes and four regional offices have been formed), and an information system for programming, monitoring and reporting on international assistance to the Republic of Serbia has been developed.

Certain activities have been supported by various forms of technical assistance provided by the international community, including the engagement of experts in the work on developing strategic documents, action plans, situation analyses, implementation of laws, improvement of the work of institutions, various types of seminars and training. It is essential to continue the work on drafting these documents and the training activities to ensure that they become a permanent process helping to boost the capacities of the public administration and ensuring success of the reforms. The reform process in the Republic of Serbia emphasises the importance of adequate professionalism of the personnel rendering technical assistance, as well as corresponding human resources on the user side.

The most important completed or on-going projects in the field of international economic relations (2001- 2006 period):

1. Support for programming and implementation of Norwegian assistance (Norwegian bilateral assistance, 132,000€, 2005)
2. Technical assistance in the process of accession to the WTO (USA, 4,250,000\$, 2001)
- 3a. Technical assistance for implementation of Cross-Border and Neighbour Co-operation Programme (EAR, 1.5 + 1 million €) October 2004 – October 2006 + 300 workday extension
- 3b. Capacity building, Unit for Managing Cross-Border and Neighbour Co-operation Programmes of the Sector for Donations and Development Aid (UNDP/EAR/MIER: 54,600€/ 927,904€/ 64,200€) June 2005 – July 2007
4. Trade policy and strategy of accession to the WTO (Switzerland, 491,000€, 2004)
5. Joint support programme for the Sector for Donations and Development Aid / MIER (SIDA / DFID, 1,778,000€, 2006)
6. Upgrading SIEPA capacities (EAR, 4.5 million € – CARDS 2004)
7. PLAC – Policy and Legal Advice Center (part of CARDS programme, 1.5 million EUR, support for processes of accession to the EU and WTO). Beneficiaries of funds were the MIER and the Serbian EU Integration Office.

Ensuring the full contribution of the state authorities in the process of integration of the Republic of Serbia in the European Union requires continuous assistance for building up their capacities. The importance of building up the administrative capacities involved directly in the integration process is clearly defined in the defined short- and medium-term European Partnership priorities, as well as priorities of the strategies of the competent ministries. It follows that it is necessary to make provision for continuous development of all structures involved in the European integration (especially structures attached to ministries) and for the establishment of mechanisms for their mutual co-operation. The CARDS Programme envisages a Twinning programme for accession to the WTO – 1.5 million EUR for 2007 and 2008. Part of these funds will be used for the realisation of this priority. Building up capacities for the implementation of the process of European integrations and utilising European Union funds also implies improvement of the overall coordination of programme goals and activities at the Government level, as well as of institutional capacities for operational planning in the competent ministries, with the aim of improving the process of policy-making and linking the priorities of the Government with available funds from the Budget and international assistance. Accordingly, it is necessary to upgrade capacities in the competent ministries with the aim of

improving planning of priorities through the development of comprehensive and more realistic sector plans of activities which would make possible successful harmonisation of programming the budget and international funds in accordance with the priorities of European partnership and priorities defined in the national strategic documents.

In the area of managing international development assistance, in the forthcoming period the aim is to improve the effectiveness and efficiency of international assistance through the following: aligning donor activities with national development priorities; improving the coordination and harmonisation of international assistance; linking the process of planning and utilising international assistance with budget resources; building up and consolidating capacities in the relevant institutions at republican and local level for managing the EU funds (new financial instrument for the 2007-2013 period – Instrument of Pre-Accession Assistance- IPA), and especially for the introduction of a decentralised system of managing those funds³⁷.

Two processes which are going on in parallel – accession to the WTO and the EU integration– are a framework for development of the export-oriented concept of development of the Republic of Serbia. Accordingly, it is necessary to continue reforms aimed at adopting WTO rules and fulfilling obligations towards the WTO in order to speed up the process of joining that organisation.

It is a fact that the EU is now Serbia's biggest trade partner and that its share in overall trade will continue to grow as Serbia comes nearer membership in the EU, and this calls for the existence of a well-developed market economy in Serbia as one of the most important requirements for being able to face competition and strong market forces in the EU. This is especially important in view of the EU's enlargement to 25 members, including the latest, Romania and Bulgaria. These developments in our region make it essential to locate niches on the EU market, which calls for increasing the competitiveness of domestic production in the function of developing a global quality of goods and services, whereby exports are increased. Foreign trade policy must primarily be defined by those demands that it will face from the establishment of a zone of free trade with the EU in the context of the Agreement on Stabilisation and Association. Accordingly, it is necessary to continue requisite adjustment of the foreign trade regime and make it compatible with autonomous trade

³⁷ The aim of switching from a centralised to a decentralised system of managing EU funds represents gradual preparation of the Republic of Serbia to assume control of managing EU funds from the European Commission at the moment of joining the EU.

measures, WTO regulations and the future Agreement on Stabilisation and Association.

Another priority goal in the medium term is the development of bilateral economic co-operation, conclusion and implementation of free-trade agreements, and especially negotiations for the conclusion and monitoring of the implementation of a free-trade agreement in the south eastern European region.

In the transition countries and underdeveloped countries foreign investments are the principal engine of economic development, revenue growth, economic modernisation and poverty reduction. Adoption of the Strategy for Encouraging and Attracting Foreign Investments is the first step towards that aim. The Strategy's aims are to create favourable conditions for foreign and domestic investments, create a positive framework for attracting, retaining and expanding internationally competitive and export-oriented investments which will improve and stabilise the commercial environment, upgrade the technologically outdated economy, ensure competitiveness on domestic and world markets and create new jobs in the Republic of Serbia.

For its implementation it is necessary to effect appropriate reforms of legislation, upgrade institutional capacities, create conditions for enhancing competitiveness and invest in internal and international marketing campaigns, carry out a land reform (restitution of urban building land), streamline the procedure of issuing building permits, and upgrade spatial and urban planning, reform the education sector in keeping with requirements of the labour market, economic development and foreign investments in order to create a climate conducive to investment. One of the ways to build up the confidence of foreign investors is certainly the establishment of the Fund for Stimulating Foreign Investments.

The Fund for Stimulating Foreign Investments should be founded by the Government at the initiative of the MIER, which will finance its work initially. In the Fund would also be invested capital from international financial institutions (such as for example the *Caisse des Depots* with whom contacts have already been established and who are ready to contribute to the Fund). From those funds would be formed credit lines which would serve to finance activities and objectives defined by the Strategy for Encouraging and Attracting Foreign Investments.

The following activities are seen as priorities in the next three years:

Programming, coordination and monitoring the implementation of international development assistance:

- Programming of the EU funds by drafting the guidelines for identifying priorities and drafting project fiches, as well as assisting the relevant ministries in drafting them.
- Carrying out training for successful programming and implementation of the EU funds.
- Support to ministries in the process of strategic planning and budgeting.
- Initiating and taking part in the identification and launch of new institutions, raising their capacities, and building the capacities of existing ones, related to the implementation of a decentralised implementation system for EU funds - Pre-Accession Instrument - IPA.
- Continuation of the implementation of existing cross-border co-operation programmes (Hungary-Romania-Serbia and Montenegro Neighbourhood Programme, Romania-Serbia and Montenegro Neighbourhood Programme, Bulgaria-Serbia and Montenegro Neighbourhood Programme, CADSES and the New Adriatic Neighbourhood Programme – CARDS funds for 2005 and 2006) by sending out invitations to submit project proposals, training potential end-users at national and local level, harmonising programme documents with the new financial instrument of the EU. Work is also under way on drafting new programme documents for the 2007-2013 period for all of the aforementioned programmes.
- Work on the development of programme documents and programmes of Neighbourhood Co-operation with Bosnia and Herzegovina, the Republic of Croatia and the Republic of Montenegro.
- Aligning the international assistance with national priorities.
- Implementation of the sector support concept, increasing the level of predictability of foreign funds and upgrading and more intensive use by donors of the national system for public procurement and financial management.
- Upgrading and development of the ISDACON information system which registers international assistance provided to the Republic of Serbia (adaptation of the system to monitor projects realised within the Neighbourhood programmes will

continue with training of users at national and local levels, the information provided will be diversified and a stable version of the data base will be completed). Given that the development of the Information System is now being funded by donors, in September 2006, after the existing funding agreement expires, the IS will pass into Government ownership and will be funded from Government budget funds.

Reform of foreign economic relations legislation:

- Development of a Draft Law on the Management of International Assistance, which would cover the coordination of financial, technical and other assistance (EU funds and bilateral aid) and the management of that assistance.
- Adoption and implementation of the Law on Industrial Parks, development of a register of industrial parks and promotion and presentation,
- Improving the perception of the investment risk (*Country risk*) of the Republic of Serbia in the leading international institutions and organisations covering this area and reducing that risk as fast as possible.

Multilateral and regional trade co-operation:

- Establishment of a free-trade zone in south-eastern Europe in 2007,
- Membership in the WTO, late in 2008,
- Completion of negotiations and conclusion of Agreement on Stabilisation and Association with the EU, 2007,
- Start of talks on an agreement on free trade with the EFTA countries, 2007,
- Gradual harmonisation and liberalisation of the overall economic and foreign-trade system in line with WTO rules and EU regulations and gradual introduction of EU Customs Code regulations,
- Intensification of co-operation with the OECD, UNCTAD and UNECE.

Foreign trade policy and regime:

- Upgrading the foreign trade system and policy so as to facilitate foreign trade, analyses of their implementation, and adoption of strategies and measures aimed at promoting exports,
- Adjusting the foreign trade system and mechanisms to comply with international financial and economic institutions' standards (WTO, EU, EFTA, etc.).

Attracting foreign investments:

- Reform of regulations relevant to foreign investments (alterations and amendments to laws eliminating the last remaining administrative obstacles to foreign investments, adoption of laws which will increase competitiveness of the Republic of Serbia as a regional investment destination, their harmonisation with the EU regulations).
- Building up institutional capacities (training human resources at local and republican level for providing support to foreign investors, establishing an information centre attached to the Government, forming an expert working group for Information and Communication Technology [ICT] made up of representatives of the Government, the public sector, the private sector [industrial ICT] and academics to help define necessary ICT training and infrastructural needs, establishing pilot IT committees at local level, with the participation of the private sector, educating MIER and SIEPA employees in the areas of promoting investments and the business climate, good examples of legislation conducive to foreign investments).
- Activities on increasing competitiveness (financial support for the development of industrial and technological parks, financial support for the establishment of clusters, feasibility study of granting concession for exploitation of natural resources in the Republic of Serbia, drafting programmes of proposed concession investments and a promotional manual with concession projects, foundation of a Concession Office/Concession Agency, establishing a fund for stimulating foreign investments).
- Internal and international market campaign (international promotion of the investment climate in the Republic of Serbia, raising awareness on the significance of foreign investments (as well as all new investments) at local level, promotion of investment leaders and the most successful municipalities in

attracting foreign capital, building up Serbia as a brand conducive for foreign investments, lobbying to boost the country's good reputation).

Bilateral economic co-operation:

- Monitoring the implementation of the Agreement on Free Trade with the Russian Federation and further trade liberalisation,
- Conclusion of bilateral free trade agreements with Turkey, the Ukraine and Belarus and other countries which are launching identical or similar initiatives at bilateral level.
- Monitoring the work of existing business and trade councils and working to create new ones, organisation of business conferences and economic fora with the aim of promoting potential advantages of investing in the domestic economy and opportunities for balancing export and import flows in bilateral commodity trade.
- Promoting bilateral economic relations (especially increasing Serbian exports and foreign investments) with the EU countries and other industrialised countries in Europe, as well as the major overseas economies (USA, Canada, Japan);
- Developing bilateral economic co-operation and good-neighbourly relations with neighbouring countries and the rest of south east Europe;
- Intensifying bilateral economic relations with the Russian Federation and China and major developing countries (India, Egypt, Iran, Morocco).
- Adoption of a plan of meetings of inter-governmental joint committees and commissions (at annual level, quarterly and by partner country);
- Adoption of proposals for appointments of presidents of the Serbian parts of inter-governmental joint committees and commissions;
- Adoption of national strategies of development of bilateral economic relations and co-operation with strategic economic partner countries.

Concessions:

- Given that concessions are within the competences of several ministries and other public agencies and institutions, an appropriate inter-sectoral body should be established, which would operate according to principles similar to those valid for the Commission for Stimulating Investments in the Economy of the Republic of Serbia and work on defining priorities, developing activities and undertaking planning for the entire area of concessions.
- Establishment of an agency/bureau for concessions which would do research, studies and analyses to serve as a basic for upgrading and implementing concession policy, perform administrative and profession supervision of the performance of concession deals and conduct communications with existing and potential concession holders.
- Preparation and publication of a concession manual to point out the relationship between various laws which implementation is necessary in the preparation of proposals for granting concessions, and also during the realisation of the concession project itself.

Table 32. Programme of high-priority reform projects in the area of promoting international economic relations in the 2007- 2009 period

Project name	Institution in charge	Est. project value (EUR)	Sources of funding		Planned start of project implementation	Documentation status
			Own funds	External sources		
Training of staff of competent institutions for successful programming and implementation of EU funds	MIER	10,000,000			2007 - 2009	
Support for preparing introduction of decentralised implementation system for managing EU funds in the Republic of Serbia – technical assistance	MIER MoF	229,339.00		229,339.00 Government of the Kingdom of Norway	2007	Project proposal prepared

Building capacities of MIER for implementing Neighbourhood co-operation programmes	MIER, relevant ministries, local offices for implementing neighbourhood programmes	1,000,000	MIER employees and those of relevant ministries involved in these activities	900,000 EU	2007-2009	Proposal for continuation or a new project under preparation
Neighbourhood Programmes (IPA)	MIER	Cca 23,000,000	Owns funds at least 15%	Cca 20 million EUR (IPA)	2007 -2009	Programme documents for bilateral & multi-lateral programmes for 2007-13 period under preparation
Regional co-operation – implementation of agreements with neighbouring countries, especially those relating to free trade and cross-border co-operation, and the regional free trade agreement			9,193,380.94 dinars for 2006	Travel costs of Working Groups for negotiations covered by CLDP (US Government fund)	2007	
Implementation of Decree precisely defining implementation of anti-dumping measures, Decree precisely defining implementation of compensatory measures and Decree precisely defining implementation of measures of protection from excessive imports, based on provisions of the Foreign Trade Operations Law;			2,062,514.28 dinars approved for 2006 budget year Proposed funding for 2007: 5,500,000 dinars	Part of funds from Twinning Programme for 2007 and 2008 worth 1.5 million EUR ³⁸	On-going project	
Adoption and implementation of Law on Industrial Parks, formation of Register of Industrial Parks and promotion of industrial parks in Serbia	MIER	70,000	500,000 dinars (for Register only)	-	2007	Law has entered the adoption procedure

³⁸ Implementation of procedures according to these decrees requires considerable additional funds from the budget whose size cannot be estimated at this moment in time.

Drafting Law on Optical Disks	MIER	10,000		-	2007	Foundations defined
Drafting Law on management of the international assistance and appropriate changes of the law on the public administration and relevant secondary legislation	MIER	30,000		-	2007	Foundations defined
Drafting Law on Denationalisation	MIER MoF	25,000		-	2007	Foundations defined
Establishment of direct contacts with institutions which assess countries' investment risks, - analysis of methodological approaches of those organisations in the process of assessing national investment risks (<i>Country risk</i>);	MIER MoF MoInterior MoJ	120,000		-	2007	Direct contacts realised with <i>COFACE</i> insurance company, contacts also established with <i>FATF/GAFI</i> with the aim of starting direct negotiations for Serbia's membership

<p>Attracting foreign investments – personnel training at local and republican level – study trips for employees of Sector for Foreign Investments (agencies for promoting investments in Czech Republic, Hungary, Ireland and Estonia)</p> <p>Organisation of seven smaller thematic and two major seminars for representatives of all municipalities about the significance of foreign investments and communication with investors</p>		35,000 28,000			2007	Preparatory phase
Establishment of information centre attached to Government; Site – <i>Investor Tracking System</i>	MIER SIEPA	76,000			2007	
International promotion of investment climate in the Republic of Serbia – taking part in international fairs, investment fora;	MIER	52,000			2007-2009	List of international events
Development of statistical data base of foreign investments – by investor, branch, location in the Republic of Serbia	MIER, SIEPA, NBS, Republican Statistics Office	95,000			2007	

Promotion of investment leaders – publication of list, media promotion, organisation of promotional gatherings of the most successful municipalities (quarterly)	MIER	16,000			2007	Plan of activities, list of the most successful municipalities and <i>success story</i> investors
Preparation of promotion materials on investment conditions, and translations	MIER	7,000			2007-2009	
Lobbying to promote the country's reputation – targeting investors	MIER	20,000			2007 - 2009	List of desirable companies
Preparation and publication of manual for concessions	MIER					
Technical assistance in shaping new sector/ administration profile	MIER					

3.16. Defence

In the defence sector there are two main strategic documents: the Strategic Defence Survey and Plan of Development of the System of Defence until the Year 2010; their preparation is in its final stage and they are expected to be adopted by end of 2006. The Strategic Defence Survey is the main long-term strategic planning document in the system of defence and the key instrument for implementing reforms in the Ministry of Defence and the Army of Serbia until the year 2010. The Plan of Development of the System of Defence until the Year 2010 is the main operational document for planning development in the system of defence which should be in the service of the implementation of envisaged organisational changes and resolution of key problems in the system of defence in the period until the year 2010. The document should include programmes and projects for the development of individual segments of the defence system and thereby make possible the implementation of

solutions defined by the Strategic Defence Survey in the said period taking into consideration available resources.

The most important Ministry of Defence projects in the 2000-2005 period:

- | | | |
|---|-----------------------------|----------|
| 1. 'PRISMA' project: | | |
| • Programme of training for civilian professions; | | |
| • Motivational training programme; | | |
| • Programme of informing on small and medium-sized entrepreneurship; | External sources of funding | On-going |
| • Programme of providing advice and assistance in seeking new employment; | | |
| • Programme of regular redundancy payments. | | |
| 2. Reform of the state administration – support for reform of the Ministry of Defence | | |
| | External sources of funding | On-going |
| 3. IT technology development | | |
| | External sources of funding | On-going |

One of the most important projects so far in the Ministry of Defence is 'PRISMA' – the Programme of Resettlement in the Army, whose aim is comprehensive resolution of social problems of persons whose employment in the military is being terminated and their economic integration into non-military structures. The realisation of the following programmes has commenced: training for civilian professions; motivational training courses; providing information about small and medium-scale entrepreneurship; advisory services and assistance in looking for new employment; regular redundancy payment programme. The 'PRISMA' programme (with its 11 sub-programmes) is planned to continue until 2010, the focus being on the following activities: continuation of re-training activities for officers and the start of corresponding training for NCOs and civilian army employees; establishment of a Guarantee Fund to help re-employ former armed forces personnel; establishment of business incubators; intensifying media support and marketing activities in connection with the programme. On-going 'PRISMA' activities require considerable funds from own sources and donations. The NIP includes an allocation for the defence sector, for the modernisation of aircraft for military and civilian purposes - 30 million EUR, for 2006 and 2007. Viewed overall, realisation of Defence Strategy aims and the vision of the Army anticipated for the year 2015 require defence spending of about 2.4% of the GDP.

The European Partnership document in its defence segment sets medium-term priorities demanding "continuation of the process of restructuring and reforming the armed forces, including, as needed, personnel cuts (taking into consideration the

social effect), transformation and privatisation of defence assets and the defence industry, as well as more transparent civilian control". Continuing reforms calls in the Ministry's view for implementing or continuing the following high-priority programmes (Table 33).

Table 33. High-priority programmes of the Ministry of Defence in the 2007-2009 period

Project title	Institution in charge	Estimated project value (EUR)	Sources of funding		Planned start of project implementation
			Own funds	External sources	
1. PRISMA project: <ul style="list-style-type: none"> Continuation of re-training programme for officers and start of corresponding programme for NCOs and civilian army personnel; Establishment of Guarantee Fund to promote re-employment of persons leaving the military; Establishment of business incubators; Intensifying media support and marketing activities 	MoD	2,000,000		External sources of funding	2007-
2. Housing problems, MoD and Serbian Army staff	MoD	50,000,000		50,000,000	2007-
3. Civil Defence reform	Government of Serbia	2,000,000		2,000,000	2007-
4. Harmonisation of defence legislation with EU standards	MoD	1,000,000		1,000,000	2007-
5. Construction of eight new mid-size storage facilities and reconstruction of 21 existing ones		103,000,000			
6. Modernisation of information centres		1,000,000			
7. Modernising and updating early-warning systems		500,000			

8. Outfitting and training expert team and four operational teams for detecting and disposing of unexploded ordnance		500,000			
9. Building, establishing and outfitting two training and rescue centres (Civil Defence bases) in Belgrade and Novi Sad		3,000,000			
10. Disposal of surplus munitions	MoD	15,000,000		15,000,000	

Source: Ministry of Defence

** Part of the funds will be secured from own sources; it is not possible to estimate the precise figures at this moment.*

