

MEDIUM TERM CONCEPT SERBIA & MONTENEGRO 2002–2006

OEZA DIREKTION FÜR ENTWICKLUNG UND ZUSAMMENARBEIT
DDC DIRECTION DU DÉVELOPPEMENT ET DE LA COOPÉRATION
DSC DIREZIONE DELLO SVILUPPO E DELLA COOPERAZIONE
SDC SWISS AGENCY FOR DEVELOPMENT AND COOPERATION
COSUDE AGENCIA SUÍZA PARA EL DESARROLLO Y LA COOPERACIÓN



Staatssekretariat für Wirtschaft
Secrétariat d'Etat à l'économie
Segretariato di Stato dell'economia
State Secretariat for Economic Affairs

seco

LIST OF ABBREVIATIONS

CEB	Council of Europe Development Bank
CENS	Centre for European Nuclear Safety
CIS	Commonwealth of Independent States
COOF	Cooperation Office (SDC/seco)
DCE	Department for the Cooperation with Eastern Europe and the CIS
DFID	Department for International Development
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EDO	Executive Director Office
EIB	European Investment Bank
FOFA	(Swiss) Federal Ministry for Foreign Affairs
FOFEA	(Swiss) Federal Ministry for Economic Affairs
FOR	(Swiss) Federal Office for Refugees (BFF)
MNEC	Ministry of National and Ethnic Communities
S&M	Serbia & Montenegro
GPS	General Preference Status
GTZ	Gesellschaft für Technische Zusammenarbeit
HA/SHA	Department for Humanitarian Aid / Swiss Humanitarian Aid Unit
HQ	Headquarters
ICL	Institute of Comparative Law
ICTY	International Criminal Tribunal for the former Yugoslavia
ICRC	International Committee of the Red Cross
IDP	Internally Displaced Person
IMF	International Monetary Fund
IOM	International Organisation for Migration
KfW	Kreditanstalt für Wiederaufbau
MERY	Monitoring Entwicklungsrelevanter Veränderungen (SDC)
MFA	Ministry of Foreign Affairs
MNEC	Ministry of National and Ethnic Communities
MoES	Ministry of Education and Sport
MSP	Municipal Support Programme
MTC	Medium-Term Concept
NGO	Non-Government Organisation
NHLO	Network of Humanitarian Legal Offices
OCHA	Office for the Coordination of Humanitarian Affairs (UN)
OSCE	Organisation for Cooperation and Security in Europe
PCM	Project Cycle Management
PD IV	Political Affairs Division IV, Swiss MFA
PEMT	Planning, Evaluation, Monitoring, Transfer
SAA	Stabilisation and Association Agreement of EU
SCR	Serbian Commissariat for Refugees
SDC	Swiss Agency for Development and Cooperation
seco	State Secretariat for Economic Affairs
SHA	Swiss Humanitarian Aid Unit
SME	Small and Medium Enterprise
SNP	Socialist People's Party
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNHCR	United Nations High Commissariat for Refugees
WB	World Bank

Introduction

Summary

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From "Quickstart" to Concept to Programme

While Swiss humanitarian activities in Serbia & Montenegro, S&M, started in 1991, Switzerland initiated programmes and projects after the political changes in 2000, which were in many ways a direct response to the immediate needs of the country. Their rationale considered the general strategic orientation of Switzerland's development cooperation and was based on the particular advantages and expertise of the participating partners. As the need for urgent humanitarian type support is decreasing, the activities will more and more focus on technical and financial cooperation with a medium-term perspective.

Accordingly, the Swiss involvement has to be developed into a coherent programme, in order to be efficient in terms of resources and effective in terms of achieving strategic goals.

Based on a still fragile political situation and little experience with implementing local partners, the decision has been taken to develop a coherent programme in two steps:

- Definition of a medium-term concept (MTC) as a preliminary orientation based on first experiences in the country; illustrated by the current paper;
- Detailed elaboration of a comprehensive country programme based on continued project and sector implementation by the end of 2006.

Structure of the Concept

The MTC has been developed based on deliberations in a workshop held in Belgrade in October 2001 and has been fine-tuned among the Swiss

partners in a series of consultations. The final touch had to consider not only the change of status – from Federal Republic of Yugoslavia (FRY) to Union Serbia and Montenegro (S&M) – but equally the most tragic assassination of PM Zoran Djindjic.

- Part 1 reflects the mutual assessment of the current situation in S&M by the partners, appropriately integrating inputs from high-level Yugoslav resource persons. With regard to the uncertainty inherent to the future situation in S&M – and subsequently to programme development – the MTC reflects scenarios which were devised to illustrate possible future developments in S&M;
- Part 2 provides a brief of past Swiss activities, the partners involved and the experiences made to date;
- Part 3 outlines the strategic orientation of the concept;
- Part 4 illustrates the partners involved in the implementation of the concept;
- Part 5, finally, is illustrative of the considerable management requirements in this building-up phase.

Change of Names

To simplify matters, the following document refers to our partner country as "Serbia & Montenegro, S&M", despite the fact that Switzerland's commitment started well in advance of the adoption of the new constitutional charta in February 2003, and the subsequent change of names.


The undersigned institutions approve the present Medium Term Concept, which they have developed together and view as common undertaking. While they will work closely together in its implementation, each of the institutions remains responsible for the execution of its part of the Programme and for the achievement of related results and objectives.

Berne, 10.7.2003

Swiss Agency for Development
and Cooperation (SDC)


Walter Fust
Director

State Secretariat for
Economic Affairs (seco)


David Syz
State Secretary

General Situation

Supported by its people, the Government of S&M has maintained relative political stability, despite consistently pursuing much needed and often painful institutional, social and economic reforms. Alas, the political situation remains fragile: the relation between the two republics, Montenegro and Serbia, remain tainted, despite the creation of a joint Union "Serbia & Montenegro" in February 2003; politics in the Serb republic is marked by conflicts, reflecting a deep split in the society between those pushing for an expedient transition, and those favouring a slower pace, safeguarding old values. The cold-blooded assassination of PM Zoran Djindjic in April 2003 produced an earthquake on the political scene, but reforms continued and received new impetus with an additional support from the international community. However, future (political) development is unsure and may cause ruptures in the transition process.

The relative economic prosperity of former Yugoslavia has eroded due to inapt economic policies, in combination with the international sanctions. While the new authorities are gradually devising a favourable trade and investment environment, the challenges of privatising big companies and of reviving economic activities in an ailing global economy are considerable. For the majority of people, the political changes have brought little improvements in their daily lives. The rapid reform of the economy has led to a controlled liberalisation. Despite an increase of income, the parallel price increase of goods leaves only little room for an improved life-style. The social gap between the have and have-not is increasing and the pending pension reform may easily affect a considerable group of people, who already live on the minimum.

Cooperation with Switzerland

After a decade of conflict and destruction, in S&M international cooperation has a major role to play in support of the institutional and economic reform in S&M, and its integration in the region. The Swiss commitment in S&M started in 1991 (as of 1994/5 with own infrastructure) and continued throughout the NATO-bombing, focusing on humanitarian actions. Immediately after the political changes in Yugoslavia, Switzerland

set up an emergency assistance package of CHF 8 Million. In October 2000, the Swiss government pledged CHF 50 Million for a three year bilateral cooperation programme with a medium-term perspective. In addition, Switzerland participates in the efforts of multilateral donors, such as World Bank, UNDP etc.

Medium-Term Concept

The Medium-Term Concept illustrates a joint programmatic orientation of SDC, seco and PD IV. It responds to the needs in S&M and capitalises on experiences made since 1991. Swiss Support aims at consolidating the political change, enhancing a democratic rule of the country and accomplishing a successful institutional, economic, and social transition process, which respects human rights. The ultimate goal of the Swiss support is to enable the people of S&M to live in social and economic security and to participate in the (political) processes, which shape their lives. With this in mind, the Swiss support concept concentrates on five sectors, namely: Institutional Reform; Public Services; Education; Private Sector (promotion); and Minorities, Marginalised Groups and Refugees. The focus in all programmatic areas is on capacity building with the local partners and improving framework conditions. The choice of "Reform / Change Management" as transversal theme will allow to specifically address the implications of the transition process, while DCE's thematic regional programmes on Police and Justice Reform, Culture, and Research, will further enhance the range and impact of the Swiss Support.

Implementation

The Cooperation Office of SDC/seco in Belgrade has a key responsibility to play in the implementation of the Swiss support. It constitutes the "interface" both between the strategic level and project implementation, and between the partners in Switzerland and in S&M. To ensure that the support is relevant for the development in S&M, and the objectives are achieved effectively and efficiently, an appropriate controlling system is being developed.

A Government to Government Agreement between Switzerland and S&M was signed on 21.02.2003.

Basic Data about S&M**Capital:**

Belgrade

Surface:

102'173 sq.km

Inhabitants in 2001:

S&M: 10'867'000

Montenegro:

654'000

Serbia:

10'213'000

(incl. Kosovo)

Neighbouring countries

are: Hungary, Romania, Bulgaria, Macedonia, Albania, Bosnia-Herzegovina, Croatia.

1.1 Political and Institutional Situation

The political situation in Serbia and Montenegro remains marred by a number of sensitive issues, the development of which may foster or hamper the transition process.

1.1.1 The Future of the Union

The international community, mainly the US and the EU, have become vocal in opposing Montenegro's independence plans, because it might trigger a domino effect potentially involving changes of borders in S&M/Kosovo, Macedonia and Bosnia-Herzegovina. To moderate Podgorica's irredentist moves, the EU imposed the Belgrade Agreement of March 14, 2002, which was a sanctification of the status quo in the disintegration process of the Yugoslav Federation. This agreement, signed by the authorities of Serbia, Montenegro and the Federation, stipulates the creation of a loose and decentralised state, called "Union of Serbia and Montenegro", formally abolishing the "Federal Republic of Yugoslavia".

A Constitutional Charter, specifying that only five ministries would remain common in the new "Union", provides to the constituting republics the possibility to leave the "Union" after a period of three years only. This Charter, which was due to be signed in June 2002, was only agreed upon in February 2003, after endless debates and controversies. A parliament of the Union was established (replacing the former federal parliament) and Svetozar Marovic, who also became Chairman of the Council of Ministers of the Union, was nominated president of the newly created Union State of S&M. Some major institutional reforms have been undertaken in this process, but several uncertainties remain over the future of this "Union" and many observers question its long-term viability. The idea of separation, so far confined to limited groups in Serbia, is spreading among always larger circles, as well as in Montenegro, where the new president Vujanovic made it clear that his Government would call for a referendum as soon as this will become possible.

Montenegro

During 2000–2001, there were serious institutional blockades and a situation of a quasi "vacuum of power" in Montenegro, when both major political entities, Milo Djukanovic's bloc and the "Together for Yugoslavia" coalition, as it was called at that time (led by the pro-Milosevic Socialists People's Party, SNP), had nearly equal support among the voters. In this period, very little progress was possible and the reforms were on stand by. This situation changed when Djukanovic's "Democratic Party of Socialists" (DPS) increased progressively its power, first in local consultations and then at the parliament elections.

After Milo Djukanovic surprisingly resigned from his presidential post in November 2002 to become Montenegro's Prime Minister (a post he had held already in the past), Filip Vujanovic, speaker of the Montenegrin parliament and Djukanovic's closest associate, became the new President of Montenegro, after a failed first attempt, when the required 50% quorum of votes was not obtained.

The opposition coalition "Together for Changes", more and more divided, has been marginalised on the Montenegrin political scene and the DPS holds full grip on the power in the coastal republic since the elections of October 2002.

Thus the political situation has stabilised – at least momentarily – and it is clear now who the partner for negotiations in Montenegro is. It will therefore be possible for the new Government to start the necessary reforms, in particular in the economic field. However, Montenegro faces huge economic challenges and is still considered as a major "plaque-tournante" for Mafia activities in South-eastern Europe.

Kosovo

The issue of the return of the Serb population to Kosovo will remain high on the agenda, not least because of the more than 200'000 IDPs from Kosovo living in Serbia proper and Montenegro. A framework has been established between UNMIK and the authorities in Belgrade to discuss the return of IDPs, freedom of movement and security of the remaining Serbian population.

However, significant steps that would clarify the final status of Kosovo are not expected in the



foreseeable future. With UNMIK's foreseen steps towards decentralisation of the Kosovo administration, perceived by the Serb side as steps towards independence, the dialogue between Belgrade and Pristina, which has actually not really started yet, has still a very long way to go.

Southern Serbia

After the clashes of the winter 2000/2001, the Yugoslav and Serbian governments took firm action, together with the international community, to regain control over the area. The situation is relatively stable for the time being. However, renewed tensions are not to be excluded, depending in particular on the developments in Macedonia and Kosovo.

Serb Politics

The domestic political scene of Serbia is dominated by the uneasy relationship between the "Democratic Party" (DS), the party of late PM Djindjic and the more conservative and nationalist forces around former Yugoslav President Kostunica and his "Democratic Party of Serbia" (DSS). This apparent clash, which is the result of a fierce struggle for power, has led to institutional blockades, even at the local level in some cases, and reduced the pace of reform.

The year 2002 witnessed a deepening of the split between the two major political forces within the Democratic Opposition of Serbia (DOS), the still ruling coalition¹.

After two presidential elections in October and December 2002 (where Vojislav Kostunica got most of the votes) were declared invalid due to low participation², Natasa Micic, Speaker of the Parliament, was elected as "acting President" of Serbia, for an unspecified period of time.

On March 12th, PM Djindjic was assassinated by a Mafia group, provoking the immediate calling of a "state of emergency". A major police operation was organised, and thousands of wrongdoers were arrested. A real "purge" took place in the Police, Army, Justice and other state organs, in which corrupted representatives of the old regime were either arrested, dismissed or forced to retire.

The critical period after this tragic event was overcome peacefully, and thanks to an additional financial support from the World Bank and the IMF, the reforms could continue. However, in all sectors, changes are very slow and difficult to implement, in particular in the legal field, where the Serb parliament is performing its duty with lots of delays, sometimes severely affecting the pace of the reforms.

On April 3rd, and for the first time in its history, S&M became a member of the Council of Europe – a major diplomatic success for Belgrade and Podgorica.

After very difficult times in 2001 and 2002, the relations with the International Crime Tribunal for Yugoslavia (ICTY) improved in March 2003, when a new piece of legislation was passed in

Consequences of the March 14th Agreement on the future Union S&M for Switzerland's involvement in S&M

While the signing of the agreement can be seen as a success story of autonomous EU foreign politics, the agreement itself remains most controversial within the Union itself, as it is judged by many, even liberal forces, as an enforced and not a free act of cooperation.

With regard to the consequences for the Swiss concept, and as the main partners are mostly at the Republican level or with ministries, which will remain in place, a first assessment revealed no immediate need for action or adaptation. A close monitoring and well established contacts with the relevant local partners will allow for a timely reaction if the situation changes.

the Serb parliament, facilitating the arrest of new indictees, who were previously not possible to apprehend.

In conclusion, the overall political situation in Serbia is rather fluid, with many pending issues, such as the project of drafting a new constitution, the possible call for early elections and a growing social unrest and economic discontent of large sectors of the population. But, most importantly, tensions among the 16 parties constituting the DOS coalition are rising. In such a volatile political context, even if the DS's influence increased after Djindjic's assassination, the Government is not in a favourable position to govern and introduce changes in the country.

However, important steps remain to be taken to switch from an aid-driven economy to an investment-led growth. Laws on labour, investment, bankruptcy, enterprise, property among others, remain to be adopted. Equally important, the judiciary as well as the cadastre system urgently needs to be reformed.

The government is striving for a revival of foreign trade. Free-trade agreements are being negotiated with all neighbours except Macedonia, with which such an agreement already exists. This process is supported by the Stability Pact, which took the initiative to have a MoU signed in June 2001 suggesting to all States in the region to conclude free-trade agreements as soon as possible. Several rounds of discussions took place with the European Commission on a Stabilisation and Association Agreement (SAA), and S&M would like to enter into negotiations with EFTA on a free-trade agreement in order to re-establish the special relations that existed between Yugoslavia and EFTA in the eighties. However, these two sets of talks are made difficult in particular by the uneasy situation regarding the union of Serbia and Montenegro.

Basic economic figures

GDP/capita (2001):

US \$ 1'020

Average Net Salary:

160 euros/month

Unemployment:

30%

Inflation rate 2002:

14,8%

Grey Economy:

40%

Exports Serbia 2002:

2'275 mio. \$

Imports Serbia 2002:

6'320 mio. \$

Trade deficit:

4'045 mio. \$

Major Trade partners

Exports:

Italy	13%
Macedonia	12%
Germany	11%
Switzerland	6%

Imports:

Germany	13%
Italy	11%
Bulgaria	9%
Russia	8.6%

1.2 Economic Situation

Whereas the former Yugoslavia enjoyed a significantly higher level of development than other countries of Central and Eastern Europe, these achievements have been to a large extent destroyed during the last decade. The international sanctions and absurd economic policies favoured the enrichment of the ruling circles and urged many to leave the country as a consequence of this desperate economic situation. The NATO bombing, which targeted not only military objectives but also the country's infrastructure and industrial centres, also explains partly the economic downfall of Yugoslavia.

Since the political changes of autumn 2000, the new authorities have focused on the creation of a favourable trade and investment environment. Some major achievements were realised already in 2001: the joining of the international financial institutions IMF, EBRD, World Bank (as a member of the Swiss constituency); the successful negotiations with the Paris Club (two thirds of the debt written off); the successful negotiation with the International Development Agency – Consolidation Structural Adjustment Credit (IDA CSAC) which Switzerland partly finances; the maintaining of a stable exchange rate; the reconstitution of the foreign reserves; the containment of the budget deficit; the passing of a number of crucial pieces of legislation in particular on trade and privatisation; the start of restructuring the banking sector; the alleviation of the foreign debt and the control of the level of inflation.

