

Serbia and Montenegro



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List of Abbreviations

BTD	Balkan Trust for Democracy
DACU	Development Assistance Coordination Unit
DFID	Department for International Development
GTZ	German Organization for Technical Assistance
HRMIS	Human Resources Management Information System
ICTY	International Criminal Tribunal for the former Yugoslavia
IFC	International Finance Corporation
IOM	International Organization for Migrations
IPA	Instrument for Pre-accession Assistance
MIER	Ministry of International Economic Relations
MONSTAT	Statistical Office of the Republic of Montenegro
NES	National Employment Service
PRS	Poverty Reduction Strategy
SAA	Stabilization and Association
SCTM	Standing Conference of Towns and Municipalities
SIPU	Swedish Institute for Public Administration
SOSM	Statistical Office of Serbia and Montenegro
SORS	Statistical Office of the Republic of Serbia
SPO	Srpski Pokret Obnove (Serbian Renewal Movement)
SSMIRP	Southern Serbia Municipal Improvement and Recovery Programme
UNDP	United Nations Development Programme
VAT	Value added tax

Published by Sida 2006

Department for Europe

Author: Embassy of Sweden in Belgrade

Printed by Edita Communication AB, 2006

Art. no.: SIDA28933en

This publication can be downloaded/ordered from www.sida.se/publications

1. Summary

In 2005 development cooperation between Sweden and Serbia and Montenegro was implemented according to the Country Plan and in most parts followed the country strategy for Serbia and Montenegro and the priorities defined therein.

As a result of overall efforts to focus Swedish cooperation on fewer sectors, activities within the area of Social Development and Security were limited to HIV/AIDS prevention programmes. It is foreseen that the deepening of cooperation to fewer sectors will continue. Within the existing frames Sida continued to prioritize programmes contributing to Serbia and Montenegro's integration into the EU as well as those contributing to the implementation of other main national strategic reform documents (i.e. Sustainable Development, Poverty Reduction Strategy and Public Administration Reform).

A majority of the programmes were implemented according to plan, with very few deviations. The development cooperation section within the Embassy of Sweden in Belgrade has good capacities for the continued implementation of the Country Strategy and the Country Plan in the coming years. More work remains to be done to improve the visibility of Swedish development cooperation. The present visibility does not entirely reflect the strategic importance of Swedish cooperation for the development of Serbia and Montenegro.

2. Political, Economic and Poverty Development

The *political* scene during 2005 was relatively stable, with the Serbian minority government able to deliver a number of important laws thanks to continued support by the Socialist Party of Serbia. The small social democratic party faced a crisis when withdrawing support from the Government in the hope of triggering new elections. SPO (Draskovic) also had a serious internal crisis, resulting in a split, but not the fall of the Government which still enjoys support by more than the necessary 125 deputies.

The human rights situation remained relatively stable, although the issue of minorities in Vojvodina was the subject of discussion at the European Parliament, and created some tension between Hungary and Serbia. ICTY cooperation improved with most remaining Serbian indictees being transferred to The Hague, except for the elusive Bosnian Serb general Ratko Mladic. This continues to be a key problem for Serbia in its relations with the EU and USA. Internal War Crimes proceedings gained momentum, and regional cooperation on the issue continued to develop well. Problems in the justice system continued, especially with respect to the commercial courts, who were accused by the Government of siding with those prepared to pay the most, rather than with the law.

The risks of external *armed conflicts* during 2006 must be considered practically non-existent. Internal political conflicts are commonplace in both Serbia and Montenegro, but unlikely to result in violence. Possible catalysts for political crises (and possibly new elections) in Serbia are the Kosovo status process, and work on a new Serbian constitution, which has to define, inter alia, the status of Vojvodina. In Montenegro all political attention is focused on the coming referendum on independence, likely to occur in spring 2006, and with an outcome difficult to predict. These are difficult challenges for Serbia, with a potential of deflecting attention from the main economic and social priorities.

2005 was a reasonably good year for the Serbian *economy*. GDP growth has been estimated at more than six percent, mainly as a result of increases in the service sector, but with stable growth also in goods production. Foreign trade increased by more than 15 percent, with imports nearly 2.5 times higher than exports, but sustainable from a balance-of-payments point of view thanks to e.g. sizeable foreign direct investment, and favorable debt repayment terms granted earlier by the Paris and London clubs. Thanks to a successful introduction of a VAT system in January 2005, the Government recorded a sizeable budget

surplus. The main worry now is inflation, with retail price increases during 2005 estimated to more than 17 percent by the end of the year, and showing no real signs of abating. The budget for 2006 foresees a continued surplus, and GDP growth at a perhaps slightly lower rate.

In December 2005 the Government of Serbia adopted *The First Progress Report on the implementation of the Poverty Reduction Strategy (PRS)*. The report presents results of PRS implementation since 2004 to the middle of 2005 as well as the available data on poverty trends in Serbia. According to data presented in this document the poverty level was stable within the period of the last two years but with significant regional differences. The gap between urban and rural areas has widened as well as between poor and rich regions.

Important steps were taken towards improved donor co-ordination with the EC in the driving seat. Following a joint Sida and DFID initiative, the Commission organized a “Learning Event” for Member States on 17 November 2005, with the aim to foster cross-country learning about current donor co-ordination practices in the region, agree upon a common definition of co-ordination and identify next steps for taking forward the co-ordination agenda across the region. The meeting resulted in a written summary, with the proposed actions and expected results outlined in detail. The recommended modality of future co-ordination builds from joint involvement of donors and national governments in working out action plans in the transition towards greater national ownership of aid management. Sida has been working closely with the DFID in providing harmonized assistance, in several sectors of development cooperation efforts in Serbia. The lessons learnt are expected to be a valuable resource to encourage donors’ collaborative approach to harmonize and align aid delivery, and thus to enhance possible further collective efficiency and alignment in supporting the Serbian development policies and strategies.

The twin-track approach in the *EU integration process* has during 2005 contributed to increasing the speed of the negotiation process with Serbia and Montenegro. The year 2005 saw some important breakthroughs in this area, but some of the old problems persisted, slowing down the SAP, primarily the slow co-operation with the ICTY. A positive Feasibility Study adopted in April 2005, followed by the establishment of the structure for SAA negotiations on all three levels (State Union and Member Republics), and outlined the future trends in the negotiation process. In addition to that, the Parliament of the State Union adopted the Serbia and Montenegro Strategy for EU Accession in June 2005. The negotiations were formally opened on 10 October 2005 and the first round, which took place on 7 November 2005, proved to be rather successful: the contractual parties were defined, the preamble and general principles were agreed upon. The first technical round, which took place 21–22 December 2005, helped determine whether the planned dynamics (3 official and 5 technical rounds and signing of the SAA in the autumn of 2006) would be realistic.

A new draft European Partnership document was presented in November 2005 and the Enhanced Permanent Dialogue continued to be the main instrument for political and technical consultations and expert assistance. According to this document, Swedish development cooperation is in line with the priorities of the European Partnership.

In the autumn of 2005, the Draft Council Regulation Establishing the Instrument for Pre-Accession Assistance (IPA), outlining the financial perspective of EU assistance beyond 2007, was presented to Member States. It identified Transition Assistance and Institution Building and Regional and Cross-Border Co-operation as the two components that

shall be made available to both candidate and potential candidate countries. Implementation framework for IPA is yet to be adopted.

Although Serbia and Montenegro is still classified as a country with low prevalence rate for *HIV/AIDS*, the prevalence in general in the SEE region is estimated to be ten times greater than reported which makes Serbia and Montenegro the most affected country in the region. The official figure states 900 cases of *HIV/AIDS* in Serbia and Montenegro while UNAIDS estimates the real number to be close to 15 000. The reason for the inaccuracy of the official figure is a weak surveillance system which in the transitional and post conflict context of the country combined with low testing rates and high levels of stigma and discrimination provide an opportunity for further spread of the disease.

3. Swedish Development Cooperation

– Overall Assessment of the Country Programme

The implementation of the Country Plan has mostly gone as foreseen. However, as always, there are exceptions. A few planned programmes have been delayed, due to changes and problems with absorption capacity, i.e. the Database on Donor Support and the Public Procurement Commission of Montenegro. Some programmes have been cancelled due to changes in national and Sida priorities, i.e. ICT Management and Industrial Policy.

The spirit and visions of the Country Strategy remain valid. Due to efforts to further focus and concentrate, cooperation within the field of social development and security has been limited to support to HIV/AIDS programmes. Otherwise, the on-going work contributes strongly to facilitate EU integration, one of the main goals of the Country Strategy. If Montenegro gains independence in 2006, a review of the Country Strategy and Country Plan would be required.

UNDP is one of our biggest single multilateral partners on the ground, with approximately 70 MSEK of on-going and planned common programmes. Sweden being the main bilateral partner of UNDP in Serbia and Montenegro gives us a unique opportunity to influence both UNDP programming and implementation.

Disbursements during 2005 equalled 138.1 MSEK (Annex 1), plus an additional 22.5 MSEK that was disbursed to Serbia and Montenegro in the form of regional support¹. The budget for 2006 is less than originally planned with a resulting over-planning. The situation is expected to improve during the year 2006 and the budget will be kept under control. For the first six months of 2006 a moratorium was imposed not allowing for preparation of new, not previously planned/foreseen activities (for 2006). After the summer 2006 the disbursement situation will be reviewed, and if favourable conditions exist the moratorium will be lifted.

¹ The report covers the regional projects.

4. Specific Country Overview of the Swedish Development Cooperation

– Sector-wide Analyses and Brief Presentations of Programmemes

4.1. Democracy and Good Governance

Within the Country Strategy for Serbia and Montenegro, the democracy and good governance sector is one of the priority areas. The importance and necessity for reforms in this sector are also emphasised in the European Commission's Feasibility Study to Serbia and Montenegro (and positively assessed by the Commission in April 2005).

The Government of Serbia is prioritising reforms in this area. Several reform strategies have been adopted (Public Administration Reform Strategy, Serbian European Integration Strategy) or drafted (Strategy of Judicial Reform) and a number of relevant laws have been adopted in the Serbian Parliament. Implementation of these strategies and laws, which has barely begun, is one of the prerequisites for Serbia and Montenegro's integration into the EU. This process will require considerable effort and resources from the Government as well as additional support from development partners. Sweden is supporting several ministries and governmental agencies through different capacity building programmemes. These programmemes are designed to address priorities at the recipient side and are all characterized by strong ownership of the beneficiary institutions.

The Development Assistance Coordination Unit (DACU) at the Ministry of International Economic Relations (MIER) of the Republic of Serbia have received considerable support during the last five years. Within this period both Sida and DFID provided funds for capacity building and for the creation of networks with other line ministries. Both Sida and DFID were satisfied with their cooperation with MIER/DACU and the projects supported within this unit were assessed as relevant and successful. As the projects at MIER were about to expire during summer 2005 the three parties initiated discussions about possible new interventions that would address new urgent needs of MIER/DACU in the process of Serbia's integration into the EU. Issues regarding harmonization of donor funds with the Government's own undertakings and budgetary planning were also to be addressed. After extensive consultations, the programmeme document and the mechanisms for implementation were accepted by all parties in December 2005, and the two donors agreed that Sida would be the lead donor for this initiative. After receiving the formal approval by the Serbian Government the programmeme is expected to be launched in February 2006.

The implementation of the project "*Development of Modern Human Resources in the Civil Service of the Republic of Serbia*" was continued in 2005

according to plans agreed between Sida, Ministry of Public Administration and Local Self-Governance and SIPU (the implementing consultant). The project had a number of important achievements in all its project components. The Human Resources Management Information System (HRMIS) was streamlined, uniformed and made user friendly. In some institutions the system has been used as an information base for decision making (e.g. in the staff reduction process). Further support is needed in training of administrators and the maintenance of the system. The process of establishing Human Resources Management (HRM) functions in ministries and Government agencies had a different pace across the Serbian public administration. While the Pilot Group of the ministries were capable of implementing a number of modern HRM functions, the second group of institutions was rather weak, mostly because HRM units were not yet established nor stable enough (due to rather high turnover of personnel). Within the overall reforms of the Serbian Public Administration and in accordance with laws adopted during autumn 2005, the overall responsibility for the HRM functions across the public administration is now placed in the newly established Office for Human Resources Management.

Sida support, through UNDP, to capacity building at the *Standing Conference of Towns and Municipalities (SCTM)* in the Republic of Serbia has entered into its final year. At the beginning of 2005 an evaluation of the project was done in order to assess the achievements of the project and give recommendations for the possible continuation of support. The evaluation found the results achieved fully satisfactory. The evaluators recommended continued Sida support to the Standing Conference since it was still fragile and lacked resources and competences in areas of crucial importance to achieve sustainability, such as strategic and financial planning, human resources management and communication activities.

Following recommendations in the evaluation report, UNDP has developed a proposal for the second phase of support to SCTM. The new phase will consist of two "tracks". The first track will address existing structural weaknesses of the SCTM and support the association on its way to self-sustainability. The second track will support activities related to implementation of the decentralization component within the Public Administration Reform in Serbia where SCTM plays an important role. The proposal was discussed with Sida during autumn 2005. The launch of the new programme is expected for March 2006.

The *Partnership in Statistics* programme is implemented by Statistics Sweden (SCB) and it involves all three statistical offices in Serbia and Montenegro: Statistical Office of Serbia and Montenegro (SOSM), Statistical Office of the Republic of Serbia (SORS) and Statistical Office of the Republic of Montenegro (MONSTAT). In 2005 the programme has focused on two main areas: agricultural statistics and economic statistics. In addition to these two overall areas the programme provided support to SORS in the area of energy statistics, energy balances and to MONSTAT with the Household Budget Survey.

The three statistics offices were also involved in regional programmes covering gender statistics, environmental statistics and survey methodology. This programme was assessed as most relevant and important by the beneficiaries.

An evaluation mission conducted in spring 2005 concluded that the whole programme was highly relevant and in line with the on-going processes of Stabilisation and Association as well as the Poverty Reduc-

tion Strategy. Following recommendations from the monitoring mission the programme will continue in 2006–2008.

In 2005 the project *Labour Market Institutional Capacity Building in the Republic of Serbia* has focused on the following areas: development of a system for Management by Objectives, establishment of self-service centres in pilot branch offices of the National Employment Service of the Republic of Serbia (NES) as well as the improvement of internal and external communication of NES. The implementation of some activities was delayed due to a rather lengthy process of redrafting the project document. The Quality Group reviewed the projects on two occasions during 2005. As a result of these missions a number of recommendations were presented to all parties and many of them were agreed between Sida, the Swedish National Labour Market Board (implementer) and the NES (recipient). The Quality Group assessed the project as relevant in the context of Government's ongoing reform initiatives and the implementation of the recently adopted National Employment Strategy. It is expected that the project will contribute to the poverty reduction process in a medium or long-term perspective.

After a comprehensive project formulation period, which proved to be an excellent example of donor co-ordination and harmonisation, Sweden decided to continue its support to the decentralization reform in Southern Serbia through *Southern Serbia Municipal Improvement and Recovery Programme (SSMIRP)*. The main objective of the new programme is to support the implementation of the Law on Local Self-governance by strengthening local good governance in Southern Serbia in terms of delivery of services to citizens and local and inter-municipal stewardship of social and economic development. It is being co-financed by Sweden, EAR, Austria, Norway and the Government of Serbia. A continued support in this region has been deemed necessary, in support to the overall shift of emphasis from political stabilisation to economic development objectives.

The first phase of the *Integrated Milk and Dairy Development Programme* ends beginning of 2006 and Sida has been active for quite some time in deciding on a possible continuation of the support, as envisaged in the original Terms of Reference. A continued support is recommended if the future intervention concept manages to create a link to the policy level and focus on institution building of rural development advisory infrastructure. This decision has been made due to the enormous potential of the sector in question, but also due to the fact that the impact of the programme can be compromised if disrupted at this stage.

The project *Strengthening Governance Systems in Urban Planning in Montenegro*, supported through UNDP, noted a major achievement during the year with the adoption of the Law on Planning and Development. The adoption of the law was followed by development of a number of bylaws and a capacity building programme to enable municipalities to apply the new rules. The process will be accompanied by an awareness-raising campaign that will present the new legal framework as an opportunity for citizens to e.g. legalize illegal construction, but at the same time, will emphasize measures taken to prevent further escalation of illegal construction.

Certain improvements with regards to fighting corruption can be noted with the introduction of more transparent and predictable methods for procurement and contracting. Sida finances twinning between the *Serbian Road Directorate* and their Swedish counterpart, where the cooperation clearly has influenced and improved some routines and procedures.

In spring 2005 Sida and DFID agreed to jointly support the implementation of the *Serbian Public Administration Reform Strategy*. The future programme has been discussed with the UNDP (future implementer) and the Ministry of Public Administration and Local Self Governance (recipient). The main goal of the programme is to support reforms leading to improved efficiency, accountability and transparency in the public administration. The programme is expected to start in March 2006.

A *Juvenile Justice Reform Initiative in Serbia and Montenegro* implemented by UNICEF had outstanding results in 2005. A number of training activities were organized for juvenile justice professionals, decision-makers and students, with subjects varying from awareness-raising to the introduction of new methods and practices regarding the care and protection of children in conflict with the law.

Mobile Teams active in 15 Serbian municipalities significantly improved psychological care given to children at risk in family and community settings. A restorative justice concept was introduced in the everyday practice of the Juvenile Correctional Institution in Krusevac and the Mediation Center in Nis.

UNICEF had an important role in the development of the Ministry of Justice's Juvenile Justice Committee. The committee includes representatives of several other ministries, NGOs, judiciary, prosecution, centres for social work and other institutions working with juveniles. The Committee deals with concrete problems related to the reform of the juvenile justice system. In October 2005 a new Juvenile Justice Law was adopted by the Serbian Parliament. The law, drafted within the policy development and legislative reform component of the project, is fully harmonized with the Convention of the Rights of Children and in line with European standards. Restorative justice and alternative community-based care methods are for the first time introduced in the Serbian legal practice. By piloting these methods and training a number of professionals for their implementation the Juvenile Justice programme created a solid basis for the full implementation of the new law in the Serbian practice.

In 2005 the majority of activities implemented within the *Strengthening the System of Misdemeanors and Magistrates' Courts in Serbia* were within the training component of the project. Strong demand coming from the beneficiary side (magistrate judges) was a driving force for activities, focusing on identifying priority areas for training, development of training methodology and criteria for the selection of trainers. Within the project activities considerable efforts were put into drafting the legislation related to the reform of the magistrate system. In addition to this, a Working Group for drafting the reform strategy for magistrates was formed. The functional review of the Ministry of Justice's department for judiciary and magistrates (third component of the project) was initiated in September 2005 with the active support from the Ministry of Justice. The project and its activities fit very well into the priority reform areas identified in the draft Strategy of Judicial Reform presented to donors in July 2005.

4.2. Organized Crime and Corruption

Efforts aimed at combating corruption and organised crime maintained their high priority status in Swedish development co-operation with Serbia and Montenegro in 2005. Swedish support to these areas has clearly been relevant to existing needs and highly compliant with EU standards, as outlined in the Feasibility Study and European Partnership. The Swedish support focused on capacity building activities and aimed at strengthening

and developing functioning institutional and policy framework. In accordance with the Sida Guidelines for Justice and Home Affairs, the capacities of the legal chain approach were exploited to the fullest, particularly in the area of police reform, where different elements of the criminal justice system (Police, Prosecution, Court of Law) were involved in development activities (i.e. *crime scene investigation policies*).

Sweden has maintained a transparent approach in its development co-operation efforts in the area and continues to take care to co-ordinate with other international actors. OSCE has the overall co-ordination mandate in the area of Rule of Law, but the government is also showing an increased will and interest to own the co-ordination process.

In 2005, the need to fight corruption and organised crime continued to resonate from both the Serbian and Montenegrin forums. Strong commitment to the cause was declared on both sides, coupled with the recognition of the importance of strengthening the rule of law as a powerful obstacle to corruption.

Open debates and round table discussions were organised by relevant government institutions, civil society and international organisations involved in the fight against corruption, demonstrating a visible shift of focus towards operational issues and compliance with international anti-corruption standards. These discussions resulted in identifying the remaining loopholes in the legislation and other implementation obstacles from the judicial and police point of view: inadequate authorisation for the use of special investigative techniques; the discrepancy between the trial law and the material law when it comes to the sanction system; introduction of the liability of legal entities into the legislation, etc.

During 2005, Swedish support in the area of *fight against corruption* gained very tangible results: under the auspices of the Sida-funded *PACO project*, a National Strategy for Fight against Corruption was elaborated and adopted by the Serbian Parliament after long delays and procedures following limited political will in this area. Likewise, Montenegro adopted a revised Programme for Combating Corruption and Organised Crime. Further steps are required in strengthening the institutional framework to support the implementation of such new policies.

Furthermore, Serbia and Montenegro has ratified the UN Convention on Corruption and the Council of Europe Criminal Law Convention on Corruption and is now expected to develop adequate anti-corruption services. To that end, the Committee for Judicial Reform in Serbia has created a working group to draft a Law on Anti-Corruption Agency, a new body, with a mandate which would incorporate both preventive and law enforcement activities. Similar changes are expected in Montenegro.

This year saw an expansion of Swedish support in the area of *police reform* in both Serbia and Montenegro. Sweden continued supporting measures aimed at the democratisation and modernisation of police systems in both republics, aiding to the fulfilment of European Partnership standards: strengthening of criminal intelligence systems (Serbia); support to police education and overall institutional development. Both Serbia and Montenegro have adopted new police laws, introducing new, professional standards for police work.

Sida's implementing partners for the regional *Anti-trafficking Programmes* are the International Organization for Migration (IOM) and Save the Children. In implementing the project activities, IOM is closely cooperating with the state-funded Agency for Coordination of Protection of Trafficked Victims, formed as a result of a joined project of the Serbian Ministry of Labour, Employment and Social Policy, the OSCE

mission to Serbia and Montenegro as well as with the two local non-governmental organizations directly involved in the project activities. The plan is to increase the capacity of local NGO partners so that they can assume the role of main actors in the field of reintegration of trafficking victims. During 2005 IOM assisted 61 victims of trafficking and is expecting an increase in the number of victims during 2006. Towards the end of the last year, IOM took steps towards institutionalizing cooperation between the NGO sector and state institutions in the field of anti trafficking. Results of this initiative are expected during 2006. A new initiative was also started in child trafficking in 2005, implemented by Save the Children.

4.3. Economic Growth

The Swedish support to private sector development during 2005 has in general been relevant to Serbia's needs and priorities, particularly related to requirements and norms in economic and business development fields regarding integration to EU structures.

Progress has been made in a number of areas where Swedish support has been provided, in the first place financial and banking sector restructuring and opening to trade and investment.

At the country level, Sida support is increasingly taking a sector wide approach, building on government priorities as identified in the PRSP, or other nationally agreed priorities. Those new development cooperation practices call for a move away from financing of individual projects towards sector programmes and budgetary support; accordingly, Sida undertook active support considerations to the area of business enabling environment as well as in-depth preparations regarding possible further support to legal and regulatory reform, including standards and norms according to the EU *acquis*. Swedish support to a sustainable economic growth will in the future focus at those two areas of the private sector development, aiming to encourage a supportive framework for business formation, investment and job creation.

The important Swedish support to the process of *restructuring the banking sector* has been coordinated with the other ongoing or planned initiatives in the sector supported by i.e. the World Bank, GTZ, USAID and DFID. DFID and Sida emphasized a collaborative approach in joining efforts to support the restructuring of the banking sector. The financed activities are complementary and are the constituent parts of an ambitious Serbian reform programme. The harmonization issues have been particularly highlighted in considering the project execution model. The Serbian cooperation partner has lead in all the key strategic and operational decisions, and the harmonized donors' efforts are successfully progressing towards reaching the project goals, in many ways due to the Serbian partner's professional and committed implementation. The initiative aims to support the privatization of Serbian state owned banks. The privatization is expected to result in a positive impact on the economy by encouraging entry of new capital, technologies and financial products.

Microfinance interventions are mainly not suited for sector or programme support through governments. Support at the sector level such as favorable legislation or efficient supervision, has not been the Serbian authorities' interest. Sida does not intend to expand its microfinance portfolio in Serbia, but rather to assess the quality and consolidate the current portfolio and level of engagement.

Enhanced political stability and improved governance are key prerequisites for Serbian sustained economic growth. A high level of perceived

risk is the main obstacle to both domestic and foreign investment. Regulatory burden and policy uncertainty remain the greatest weaknesses in the business enabling environment. The Swedish support to formulating a national strategy to improve the climate for *foreign direct investments (FDI)*, and to the business registration reform have been essential to the private sector in order to improve the business environment, to provide a supportive framework for business formation and investment, and to bring the Serbian general business environment and private sector legal and regulatory framework into conformity with the European standards.

The support to the reform of the *Serbian business registration* has been evaluated as very successful and essential for alignment with the European Company Law Directives. The World Bank Doing Business in 2006 report ranks Serbia among the top reformer countries, in a comprehensive comparison based on a set of different indicators related to the regulations that enhance or constrain investment and growth in 155 countries around the world.

The cooperation with the *World Bank* mainly aims at strengthening reform processes and sound government policies, providing room for private initiative and set a regulatory framework which channels private initiative in ways that benefit society as a whole. The World Bank is considered an important multilateral development cooperation partner, particularly with regards to larger initiatives related to institutional and structural reforms.

The Serbian reform programme is built on implementation of two complementary strategies: the Stabilisation and Association Process (SAP) and the PRSP – with a shared ultimate objective of EU integration. These two strategies represent a comprehensive reform agenda designed to achieve sustainable long-term growth and poverty reduction. The World Bank Country Office works closely with bilateral and multilateral donors providing support to the national overall reform programme, and promotes donor assistance and reforms linked with the SAP. The World Bank and the EC are working jointly with the Serbian authorities and other donors towards harmonization, including procurement and financial management policies.

4.4. Sustainable Use of Natural Resources and Concern for the Environment

An increased awareness of the need for improved environmental services and infrastructure, not least in order to comply with the complex and costly requirements of the EU environment acquis, has developed in the government over the recent years. Following the passing of the environment framework law and the new energy law last year, laws on air, waste and water are in the process of development and adoption along with strategies ordinances.

Limited capacity for absorption and for project development and preparation hampers the implementation of approved decisions and strategies. This is apparent both at central administrative levels, where responsibilities are shared between several agencies with little coordination, and at local level, where municipal governance structures are weak, lack capacity and determination to include environmental concerns in management, planning and prioritising of activities, investments and use of resources.

The environment and sustainable development project portfolio follows Sida's guidelines for environmental cooperation with South East Europe and on-going activities function well. Preparations for the drafting of the *country's National Sustainable Development Strategy* have started with Swedish

support and have been implemented through UNDP. There are thus good conditions and ample scope for further development of the cooperation with government authorities for environment, water and environmental protection, in line with the Swedish Country Strategy.

The development of *Local Environmental Action Plans (LEAPs)* is ongoing and a number of proposed pilot projects are now ready for implementation. The LEAP concept will have a sustained impact, however, only if municipalities are encouraged by central authorities to develop and update such plans on a national scale, not on a limited project basis as currently done through the Regional Environmental Center (REC).

The new energy law enables the necessary restructuring of the energy sector and harmonization with European standards. Such harmonization was a requirement for continued Swedish support, which gives priority to environmental aspects and energy efficiency, and to support to capacity building and institutional development.

There have been significant delays in the cooperation regarding energy. These were partly linked to the slow reform process, but also to overly optimistic time frames, lack of institutional capacity and organizational difficulties among project partners. However, improvements have taken place in recent months e.g. in cooperation with the *electric power company EPS* and with the *district heating company* in Belgrade. As for the latter, the Beogradske Elektrane, it has been recognised that in order to move further, it is necessary to involve actively its owner to create an enabling business environment for the utility to operate in.

With the adoption of a *National Strategy for Solid Waste Management*, municipalities are mobilised to engage in solid waste management, and Sida is likely to play a significant role in the sector along with EBRD and EAR, not least regarding capacity development in the municipalities.

Sida signed an agreement with the World Bank regarding support to the *Danube River Enterprise Pollution Reduction Project*. The objective is improved water quality and environment in the Danube river drainage basin through reduced leakage of nutrients to the Danube, from livestock farming, slaughterhouses and meat processing industries. Support is also being provided to the Department of Environment.

A new regional programme was approved for support for *capacity development, activities and networking among environmental civil organisations* in South Eastern Europe. The programme is proposed to be managed through the Regional Environmental Center for Central and Eastern Europe (REC) and its offices in Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro and Kosovo.

4.5. Respect for Human Rights

The bulk of the Swedish assistance disbursements in Serbia and Montenegro in the field of human rights is earmarked to the Swedish framework organisations but extends also to other international organisations such as IOM, Balkan Trust for Democracy and Save the Children.

Sida's human rights programme has a value which is double-sided in its nature: on one hand it provides support to the local, grass-roots civil society organisations and as such, is in line with the first *Copenhagen criteria*, "Stability of institutions guaranteeing democracy, the rule of law, human rights and the respect for and protection of minorities". The human rights/civil society development programme tries to ensure that the culture of human rights and pluralist democracy is promoted and respected at a society-wide level. It aims at strengthening the capacity of grass root civil society to deal with a wide array of acute social

issues and to engage all other layers of the society such as local and national decision makers, judiciary, law enforcement, social services and general public.

On the other hand, through funding the activities in the field of human rights protection, Sida is often engaged in broad strategic issues figuring high on a national agenda, such as Roma issues, and cooperates closely with other international donors and state authorities, ensuring a more effective and harmonized delivery of aid. The Country Strategy and Country Plan in the human rights field were implemented during 2005 in the following thematic areas:

In the field of *anti-discrimination*, Sida's engagement was reflected through the Swedish Helsinki Committee for Human Rights, which invested notable efforts into the field of drafting general anti-discriminatory legislation in Serbia, in the absence of similar actions on the part of the Serbian authorities. Adoption of the law is expected during the course of 2006. Montenegro adopted an anti-discrimination law at the end of 2005.

The protection of the *rights of minorities* in Serbia is an important benchmark for the compliance with the EU accession agenda. At the State Union level, the general principles of the human rights protection, such as non-discrimination and participation in public life are defined in the Law on Protection of the Rights and Freedoms of National Minorities. However, this law does not offer a clear guidance on the division of responsibilities among the Government bodies of both State Union member states, which is necessary for the operationalisation of the general provisions it contains.

As far as the *situation of Roma* is concerned, they are still gravely affected by economic hardship and unemployment. Most of them live in sub-standard non-hygienic settlements and are faced with discrimination in education, employment and health. In the area of inter-ethnic relations, Sida's activities were primarily based around the position of Roma in the society. Although there are a number of initiatives which have been taken within the framework of the Decade of Roma, there is a notable scarcity of funds. Apart from the EU funds there are very few donors active in this field. On the part of the Government, Serbia is still to begin implementation of the Roma National Plan. In order for that to happen there must be a synchronization of various ministries' activities and materialization of an unambiguous political will at all levels of government. The *European Centre for Minority Issues (ECMI)* has started a project, with Swedish support, designed to help the Roma to secure resources needed for playing an effective role in a democratic society based on the rule of law and for participating successfully in a competitive labour market, while also attending to the role of non-Roma in the process of Roma integration. The *Swedish Helsinki Committee* was also active in the field of protection of Roma rights through its activities with local civil society organisations.

Within the field of *freedom of expression*, apart from some limited positive developments such as the abolition of prison sentence for slander, other needed developments in this field have not taken place, such as privatization of municipal media and privatization of the state-controlled media. There are still issues that need to be addressed such as state monopoly and de-politicization of state controlled media. One of the main obstacles to the acceleration of the privatization process of the local media (local press, radio and TV stations) is that local authorities are used to installing and deposing editors-in-chief and thus exercising the political control. There is also a widespread fear on the part of the

journalists that privatization will bring along a widespread loss of jobs. In Serbia and Montenegro activities related to freedom of expression, supported by Sida, are managed through Swedish Helsinki Committee for Human Rights and mainly focus on topics such as legal aid, journalist ethic and privatization of local media.

In the Country Strategy for Serbia and Montenegro *gender equality* is not only an all-pervasive thematic element in all developments sectors, but also a thematic priority in itself. So far, Sida has been placing a high value on cooperation with the local civil society as a way to strengthen the position of women in the society. In 2005 Sida was active in the field of gender equality and strengthening the role of women in general, through the NGO Kvinna till Kvinna (KtK). The general thrust of KtK's work in Serbia and Montenegro is continuous support to capacity building of local women organizations dealing with peace, anti-discrimination, violence against women, gender legislation monitoring and minority women (especially Roma) issues. The pending approval of the Gender Equality Act in the Serbian Parliament during 2006 might require Sida to adjust its assistance in this field according to new circumstances, assuming a more strategic monitoring approach.

In addition to the main mode of Sida support to civil society and human rights through Swedish framework organisations, a slightly different way of work has been introduced by the cooperation with the *Balkan Trust for Democracy (BTD)*. BTD is a new partner in the area of civil society development. The programme aims at strengthening civil society and linking the sector with local and central government. Cooperation with the BTD represents a new way of working with civil society initiatives, since Sida is taking an active role in the selection of future activities at BTD grant-making committee meetings.

In the area of *children rights*, the National Plan for Children presented in the Serbian Parliament in the late 2005 is working directly towards the realisation of the UN Millennium Development Goals in Serbia, especially those concerning child mortality rate, maternal health, universality of primary education and eradication of extreme poverty and hunger. Another development in 2005 was the adoption by the Government of Serbia of the Protocol on the Protection of Children from Abuse and Neglect. However, its implementation has not started yet. In the course of 2005 Sida did not support any specifically children's rights-related projects. Rights of a child were a cross-cutting theme in many of the Sida supported activities in other areas within human rights portfolio. It is necessary to continue with mainstreaming children rights as a cross-cutting issue. In the Country Strategy it is stressed that efforts toward improving the state of children rights have to be continued. Therefore, this specific thematic line should be further exploited with more substance and quality in future Sida efforts in Serbia and Montenegro.

A *Re-admission Centre* with the aim to serve as first aid support for citizens of Serbia and Montenegro being returned within the readmission process, mainly from EU countries, has been established with Swedish support at the Surcin (Belgrade) airport in November 2005. Although established with certain delay, the activities are currently ongoing according to plan. The Ministry of Human and Minority Rights has written a first draft of a Strategy for the Integration of Returnees, addressing the special problematic issues of this category of citizens.

4.6. Social Development and Security

During 2005 the Government of the Republic of Serbia adopted a *National Strategy for the Fight against HIV/AIDS* representing a basic framework for the definition of aims and measures in the sphere of prevention,

treatment and support to persons infected and affected by the disease, as well as the framework for raising the level of public understanding of the situation related to HIV/AIDS problems. The Strategy (2005–2010) contains recommendations with regard to: introduction of routine voluntary HIV testing for pregnant women, further development of voluntary counselling and testing services, strengthening of local medical centres to deal with HIV patients and improving the HIV/AIDS data collection system.

Both regional programmes in the area of HIV/AIDS prevention: the UNICEF implemented *“HIV prevention with especially vulnerable young people in South Eastern Europe”* and the *“Western Balkans Programme to Fight HIV/AIDS”* implemented by Partnerships in Health are in line with these recommendations. The second programme has seen considerable improvement in the implementation of project objectives, as a result of internal organizational changes of the implementing agency and following the recommendations from a mid-term evaluation.

5. Office and Administrative Issues

The staffing structure at the Embassy Development Cooperation Section has changed during the year. The Regional EU Coordinator left for Tirana and the EU part of the position (50%) was abolished. The coordination of regional EU issues was moved back to Sida Stockholm. A fourth NPO was recruited. Following these changes all internal job descriptions were reviewed, resulting in a more even work load, reshuffling of certain main tasks and responsibilities. The resulting structure is functioning satisfactory with a normal work load and opportunity for all to develop and grow in their assigned roles.

In 2006 the management of the section will change and one NPO will go on maternity leave.

Quality assurance has been secured during 2005 through continuous training and competence development. One NPO spent 6 months in Sweden replacing a Swedish colleague.

As the MFA has drastically reduced the Embassy competence development budget for 2006, the outlook for continued quality assurance through competence development leaves a lot to be desired.

Annex A

Macro-economic and Social Indicators

POVERTY and SOCIAL				
	Serbia and Montenegro	Europe & Central Asia	Lower-middle-income	
2004				
Population, mid-year (<i>millions</i>)	8.2	472	2,430	
GNI per capita (<i>Atlas method, US\$</i>)	2,620	3,290	1,580	
GNI (<i>Atlas method, US\$ billions</i>)	21.4	1,553	3,847	
Average annual growth, 1998-04				
Population (%)	-4.4	-0.1	1.0	
Labor force (%)	-5.0	-0.5	0.7	
Most recent estimate (latest year available, 1998-04)				
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	52	64	49	
Life expectancy at birth (<i>years</i>)	73	68	70	
Infant mortality (<i>per 1,000 live births</i>)	12	29	33	
Child malnutrition (% of children under 5)	2	..	11	
Access to an improved water source (% of population)	93	91	81	
Literacy (% of population age 15+)	96	97	90	
Gross primary enrollment (% of school-age population)	98	101	114	
Male	98	103	115	
Female	98	101	113	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1984	1994	2003	2004
GDP (<i>US\$ billions</i>)	..	10.9	20.7	24.0
Gross capital formation/GDP	..	..	16.1	17.6
Exports of goods and services/GDP	..	..	20.2	24.6
Gross domestic savings/GDP	..	..	-5.9	-11.3
Gross national savings/GDP	..	..	6.4	4.5
Current account balance/GDP	..	..	-9.7	-13.1
Interest payments/GDP	..	..	1.1	1.2
Total debt/GDP	..	..	69.2	62.0
Total debt service/exports	..	..	6.5	9.6
Present value of debt/GDP	..	..	64.0	..
Present value of debt/exports	..	..	191.2	..
(average annual growth)				
	1984-94	1994-04	2003	2004
GDP	..	1.4	2.7	7.2
GDP per capita	..	4.9	2.8	7.1
Exports of goods and services	..	9.4	7.3	42.5
				2004-08
				19.6

Development diamond*

Life expectancy

GNI per capita

Gross primary enrollment

Access to improved water source

Serbia and Montenegro

Lower-middle-income group

Economic ratios*

Trade

Domestic savings

Capital formation

Indebtedness

Serbia and Montenegro

Lower-middle-income group

Growth of capital and GDP (%)

GCF

GDP

Growth of exports and imports (%)

Exports

Imports

Note: 2004 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

Domestic prices

(% change)

Consumer prices

Implicit GDP deflator

Government finance

(% of GDP, includes current grants)

Current revenue

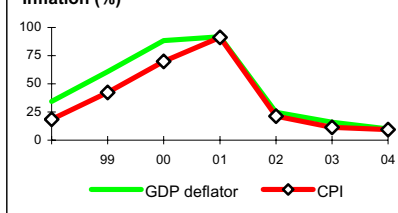
Current budget balance

Overall surplus/deficit

1984 1994 2003 2004

.. .. 11.3 9.5
.. .. 16.0 9.9
.. .. 42.5 44.8
.. .. 0.3 2.3
.. .. -3.1 -0.2

Inflation (%)



TRADE

(US\$ millions)

Total exports (fob)

n.a.

n.a.

Manufactures

Total imports (cif)

Food

Fuel and energy

Capital goods

Export price index (2000=100)

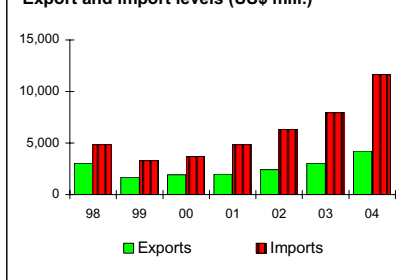
Import price index (2000=100)

Terms of trade (2000=100)

1984 1994 2003 2004

.. .. 3,054 4,219
..
..
..
.. .. 7,941 11,653
..
..
..
..
..
..
..

Export and import levels (US\$ mill.)



BALANCE of PAYMENTS

(US\$ millions)

Exports of goods and services

Imports of goods and services

Resource balance

Net income

Net current transfers

Current account balance

Financing items (net)

Changes in net reserves

Memo:

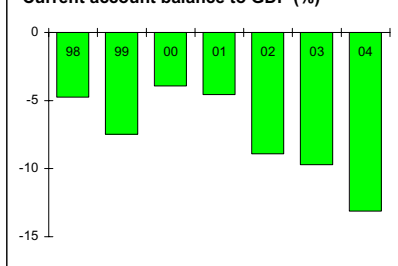
Reserves including gold (US\$ millions)

Conversion rate (DEC, local/US\$)

1984 1994 2003 2004

.. .. 4,184 5,897
.. .. 8,736 12,845
.. .. -4,552 -6,948
.. .. -231 -293
.. .. 2,777 4,093
.. .. -2,006 -3,148
.. .. 3,007 3,859
.. .. -1,001 -711
.. .. 3,557 4,302
.. 1.9 57.5 58.4

Current account balance to GDP (%)



EXTERNAL DEBT and RESOURCE FLOWS

(US\$ millions)

Total debt outstanding and disbursed

IBRD

IDA

Total debt service

IBRD

IDA

Composition of net resource flows

Official grants

Official creditors

Private creditors

Foreign direct investment (net inflows)

Portfolio equity (net inflows)

World Bank program

Commitments

Disbursements

Principal repayments

Net flows

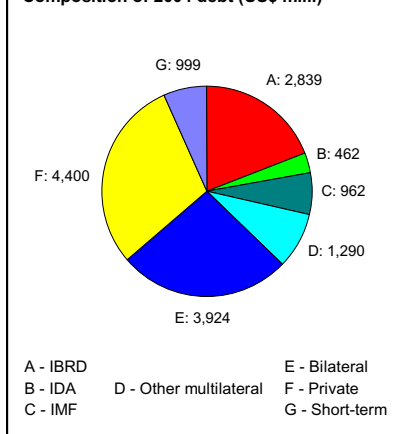
Interest payments

Net transfers

1984 1994 2003 2004

.. .. 14,302 14,876
.. .. 2,270 2,839
.. .. 283 462
.. .. 451 972
.. .. 104 123
.. .. 1 2
.. .. 538 583
.. .. 302 419
.. .. 357 703
.. .. 1,405 1,028
..
.. .. 190 181
.. .. 95 164
.. .. 0 0
.. .. 95 164
.. .. 106 125
.. .. -11 39

Composition of 2004 debt (US\$ mill.)



Annex B

Planning Overview

Country report - Serbia & Montenegro

Outcome and forecast in TSEK

Allocation Frame		Allocation Account	Main Sector	Data			
		15561 Non-governmental organisations		Outcome 2005	Outcome 2006	Forecast 2006	Forecast 2007
Outside country allocation			01 Health	502	67	266	0
			02 Education	1 001	186	771	0
			04 HR & Democratic governance	1 075	209	658	0
			05 Conflict, peace & security	73	10	19	0
			07 Infrastructure	13	0	2	0
			09 Trade, business & fin. syst	270	109	239	0
			10 Natural resources&environm.	396	33	165	0
			12 Other	520	113	389	0
			15561 Non-governmental organisations Total	3 851	727	2 510	0
		15571 Humanitarian assistance	2 756	424	2 829	0	
		15571 Humanitarian assistance Total	2 756	424	2 829	0	
		15681 Western Balkans					
			01 Health	1 860	0	3 100	2 790
			02 Education	3 447	-903	-235	668
			04 HR & Democratic governance	69 354	19 979	130 194	74 987
			07 Infrastructure	29 146	2 086	25 254	11 440
			09 Trade, business & fin. syst	3 436	1 925	13 166	9 597
			10 Natural resources&environm.	20 448	980	26 242	19 248
			12 Other	10 571	754	7 300	6 300
			No sector stated	0	0	13 225	33 300
		15681 Western Balkans Total	Total	138 262	24 821	218 246	158 331
				144 869	25 972	223 584	158 331
Outside country allocation Total							
Grand Total				144 869	25 972	223 584	158 331

Country report - Serbia & Montenegro

Outcome and forecast in TSEK

Allocation Frame	Allocation Account	Main Sector	Data			
			Outcome 2005	Outcome 2006	Forecast 2006	Forecast 2007
Outside country allocation	15561 Non-governmental organisations	01 Health	-1	0	0	0
		02 Education	-1	0	0	0
		04 HR & Democratic governance	-3	0	0	0
		12 Other	0	0	0	0
	15561 Non-governmental organisations Total		-5	0	0	0
	15571 Humanitarian assistance	06 Humanitarian assistance	1 940	0	1 980	0
		15571 Humanitarian assistance Total		1 940	0	1 980	0
	15681 Western Balkans	01 Health	1 860	0	3 100	2 790
		02 Education	3 447	-903	-235	668
		04 HR & Democratic governance	23 160	17 499	59 619	24 748
07 Infrastructure		383	0	277	0	
09 Trade, business & fin. syst		13	0	20	0	
10 Natural resources&environm.		5 156	0	5 037	2 500	
12 Other		7 463	754	7 300	6 300	
No sector stated		0	0	9 225	27 300	
15681 Western Balkans Total		41 483	17 350	84 344	64 306	
Outside country allocation Total		43 418	17 350	86 324	64 306	
Grand Total		43 418	17 350	86 324	64 306	

Country report - Montenegro

Outcome and forecast in TSEK

Allocation Frame	Allocation Account	Main Sector	Outcome 2005	Outcome 2006	Forecast 2006	Forecast 2007
Outside country allocation	15561 Non-governmental organisations	01 Health	20	0	0	0
		02 Education	36	0	0	0
		04 HR & Democratic governance	48	0	0	0
		07 Infrastructure	0	0	0	0
		09 Trade, business & fin. syst	2	0	0	0
		10 Natural resources&environm.	27	0	0	0
		12 Other	30	0	0	0
		15561 Non-governmental organisations Total	163	0	0	0
	15681 Western Balkans	01 Health	0	0	0	0
		04 HR & Democratic governance	3 315	984	12 457	14 205
07 Infrastructure		2 824	0	86	0	
15681 Western Balkans Total	6 139	984	12 543	14 205		
Outside country allocation Total			6 302	984	12 543	14 205
Grand Total			6 302	984	12 543	14 205

Country report - Serbia

Outcome and forecast in TSEK

Allocation Frame	Allocation Account	Main Sector	Outcome 2005	Outcome 2006	Forecast 2006	Forecast 2007
Outside country allocation	15561 Non-governmental organisations	01 Health	483	67	266	0
		02 Education	966	186	771	0
		04 HR & Democratic governance	1 030	209	658	0
		05 Conflict, peace & security	73	10	19	0
		07 Infrastructure	13	0	2	0
		09 Trade, business & fin. syst	268	109	239	0
		10 Natural resources&environm.	369	33	165	0
		12 Other	491	113	389	0
	15561 Non-governmental organisations	Total	3 692	727	2 510	0
	15571 Humanitarian assistance					
		06 Humanitarian assistance	815	424	849	0
		07 Infrastructure	0	0	0	0
	15571 Humanitarian assistance	Total	815	424	849	0
	15681 Western Balkans	01 Health	0	0	0	0
		04 HR & Democratic governance	42 879	1 496	58 118	36 034
		07 Infrastructure	25 939	2 086	24 891	11 440
		09 Trade, business & fin. syst	3 423	1 925	13 146	9 597
		10 Natural resources&environm.	15 291	980	21 205	16 748
		12 Other	3 108	0	0	0
		No sector stated	0	0	4 000	6 000
	15681 Western Balkans	Total	90 641	6 488	121 359	79 820
	Outside country allocation Total		95 149	7 639	124 718	79 820
	Grand Total		95 149	7 639	124 718	79 820

Annex C

List of Strategic Documents

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|
| 1. Human Development Report Serbia 2005, Strength of Diversity | UNDP Serbia and Montenegro, 2005 |
| 2. Poverty Reduction in Serbia, The Role of Civil Society | UNDP Serbia and Montenegro, 2005 |
| 3. Report on the preparedness of Serbia and Montenegro to negotiate a Stabilisation and Association Agreement with the European Union | The European Commission, 2005 |
| 4. The First Progress Report on the Implementation of the Poverty Reduction Strategy in Serbia | Government of the Republic of Serbia, 2005 |
| 5. Strategy of Public Administration Reform in the Republic of Serbia | Government of the Republic of Serbia, 2005 |
| 6. National Strategy of Republic of Serbia for SCG's EU Accession | Government of Serbia, 2005 |
| 7. National Strategy for the Fight against HIV/AIDS 2005–2010 | Republic of Serbia, Ministry of Health, 2005 |
| 8. National Strategy on Fight Against Corruption | Government of the Republic of Serbia, 2005 |

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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