

Serbia and Montenegro





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Content

Background	3
Political developments	6
The Milošević regime period	6
Post-Milošević democratic developments in Serbia and Montenegro	8
Economic development	17
Social development	22
Environmental situation	26
Public administration	27
References	29

Published by Sida 2004

Department for Europe

Printed by Edita Sverige AB, 2004

Art. no.:SIDA4068en

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

Background

The State Union of Serbia and Montenegro is constituted of the Republics of Serbia and Montenegro.¹ Belgrade is the capital city of the new state. With the population of 1,6 millions, it is the administrative and economic heart of Serbia and of the Union. Podgorica is the largest city and the administrative capital of Montenegro.² The state of Serbia and Montenegro is located in the central part of the Balkan Peninsula, on the very important crossroad of routes linking Europe and Asia. It shares borders with Croatia, Bosnia and Herzegovina, Hungary, Romania, Bulgaria, Macedonia (FYROM), and Albania. This makes it into one of the key factors for stability in the whole of region. Its geographic size is 102,173 sq. km, with Serbia occupying 88,361³ sq. km and Montenegro making up the remaining 13,812 sq. km. According to the 2002 census⁴ there are 7,458,820 people living in the Republic of Serbia (excluding Kosovo⁵). As for Montenegro, the 1998 estimate puts its population at 650, 575.⁶ The existing figures for the two republics indicate the State Union's current population at 10,009,395 inhabitants.⁷

The ethnic composition of Serbia and Montenegro is highly varied and is the result of a tumultuous history in this part of Europe. In the Republic of Serbia, the majority of the population belongs to the Serb national corpus, but an additional 37 nationalities live on its territory. Serbs make up 66 per cent of the population, Albanians 17 per cent, Hungarians 3.5 per cent, followed by Romanians, Roma, Slovaks, Croats,

¹ Serbia, the bigger of the two components in the Union, also consists of two 'provinces', Vojvodina and Kosovo. After the war in 1999, the UN has placed Kosovo under an interim international civil and military administration, while at the same time perfunctorily recognising the sovereignty and territorial integrity of the Republic of Serbia, as well as of Serbia and Montenegro. See: United Nations (1999, 4011) Resolution, in Resolution 1244 (1999) Adopted by the Security Council at its 4011th meeting on 10 June 1999, in: S/RES/1244 (1999); Tekst Ustavne Povelje Srbije i Crne Gore- preambula (2002).

² The town of Cetinje is seen traditionally as the capital of Montenegro, the Prijestonica of the country, while Podgorica represents the administrative centre.

³ One should note that this also includes Kosovo's 10,887 sq km.

⁴ Note that census was not conducted and thus excludes the population in Kosovo. Source Savezni zavod za statistiku- Republički zavod za statistiku Srbije (2002) Popis stanovništva, domaćinstava i stanova 2002.; Prvi rezultati popisa po opštinama i naseljima Republike Srbije, in: YU ISSN 0354-3641:

⁵ The 2002 estimates indicate the population of Kosovo figures in the range between 1,7– 1,9 million. See: UNMIK (2003, May) Fact Sheet Kosovo, www.unmikonline.org/eu/index_fs.pdf (UNMIK). 15/08/2003.

⁶ According to the official sources, the estimate was made on the basis of the 1981 and 1991 censuses and natural migration in the country. See Vlada Republike Crne Gore (2000/01) Republic of Montenegro- basic facts, <http://www.montenegro.yu/english/podaci/population.htm>. 20/08/2003:

Bulgarians, Turks, and others.⁸ The three largest minority communities in the Republic of Serbia- Albanians, Hungarians and Bosniaks- make up an estimated 23% of the entire population, comprising more than four fifths of the minority population, forming monoethnic communities in the provinces of Kosovo⁹, parts of Vojvodina¹⁰, and the region of Sandžak¹¹ respectively. The population of the Republic of Montenegro is also multiethnic and multicultural in its structure. According to the official sources from 1998, out of a total of 650,575 inhabitants Montenegrins comprised 61, 9%, Bosniaks (Muslim Slavs) 14,6%, Serbs 9,3%, Albanians 6,6%, and Others 7,6%.¹²

Serbia and Montenegro has been formed on the remains of the Federal Republic of Yugoslavia. FR Yugoslavia was created in April 1992, in the midst of the violent implosion of the Socialist Federative Republic of Yugoslavia. From its beginnings the Federal organs were under strong political influence of Slobodan Milošević and his regime, and in its structure it served as an end to anchor the regimes' political power in the country. During the early 1990's, the Federation played a crucial role in the ethnic conflict that engulfed the region by abetting and lending its infrastructural and political support to the Serb ethnic cause in Croatia and Bosnia.¹³ At the same time, the country suffered internally from political, economical and social decline. In 1997, previously cooperative parts of the Montenegrin political nomenclature grew contumacious to further increase of Milošević's political control in the country and with it began the rapid wakening of the Federation. The process was exacerbated during the Kosovo war in 1998–9 and continued unhampered until late 2002. The result of the process was a total atrophy of the federal institutions and a de facto existence of dissociated states of Montenegro and Serbia. The State Union of Serbia and Montenegro comes as the result of a last ditch effort of the international diplomacy to halt the total break up and salvage the pith out of the sapless federation. While the work to translate the Union agreement into a functional state is ongoing, the outcome of the process remains highly uncertain and depends on the ability and will of the current leaderships of Serbia and Montenegro to deal with the following challenges; securing the functioning of the Union in relation to each other and in relation to the joint organs of the state, continuing the work on the consolidation of democracy, implementing

⁷ The final figure includes the estimated population of 1,9 million of Kosovo's population.

⁸ The population overview is based on 1991 census.

⁹ According to the 2002 estimate Albanians made up 88% of the overall population of Kosovo. Serbs followed with 6%, 3% Muslim Slavs (Bosniaks, Gorani), 2% Roma and 1% Turks. UNMIK (2003, May) Fact Sheet Kosovo, www.unmikonline.org/eu/index_fs.pdf (UNMIK). 15/08/2003.

¹⁰ The province of Vojvodina is populated by Serbs (1,143,723), Hungarians (339,491), Croats (96,240), Slovaks (63,543), Montenegrins (44,838) Romanians (38,809), Ruthenes (17,652), Roma (24,366), Slovenians (2,730), Macedonians (17,472) and Bosnians (5,851).

¹¹ The Sandžak region is inhabited 300,000 Bosniaks large population and it is for the most part ethnically homogenous.

¹² See: Vlada Republike Crne Gore (2000/01) Republic of Montenegro- basic facts, <http://www.montenegro.yu/english/podaci/population.htm>. 20/08/2003. Note however that the whole issue of Montenegrin versus Serb national belonging remains a bone of contention in the republic. Because some Montenegrins regards themselves both as Montenegrin and Serb at the same time, the census figures cannot be endorsed as fully representative.

¹³ For various accounts of this see: Sekulić, M. (2001) *Knin Je Pao u Beogradu* (Beograd, NIDDA); Vasić, M. (1996) *The Yugoslav Army and the Post-Yugoslav Armies*, in: D. Dyker & I. Vejvoda (Eds) *Yugoslavia and After: A Study in Fragmentation, Despair and Rebirth*, pp. 116–137 (London and New York, Longman); Teokarević, J. (1996) *Neither War nor Peace: Serbia and Montenegro in the First Half of the 1990s*, in *Ibid.*, pp. 179–195 (London and New York, Longman); Hadžić, M. (2002) *The Yugoslav People's Agony: The Role of the Yugoslav People's Army* (England, Ashgate).

painstaking economic and social reforms, dealing with the complex security situation in Kosovo and southern Serbia, improving cooperation with the ICTY, advancing the cooperation in the region, and fighting crime and corruption. The new agreement as such represents a positive development in relationship between the two republics, yet the multitude and complexity of the tasks point to a rocky and uncertain road ahead of Serbia and Montenegro.

Political developments

The Milošević's regime period

Serbian and Montenegrin elites played a prominent role in definition and formation of the kingdom of Yugoslavia in 1918¹⁴ as well as of the Socialist Federative Republic of Yugoslavia after WW II. Both the period of royal Yugoslavia and the period of the second, socialist state, were underlined by structural tensions between the state's core and periphery. Frequent political tensions between Croats and Serbs, and numerous other unresolved national questions exacerbated the complexity of the problems. In particular, the economic problems of socialist Yugoslavia¹⁵ and the ambiguous constitution of 1974¹⁶ brought to the surface the nationalist whetting in the SFRY. These together set the background for polarisation between the 'centralist- revisionist' and 'status quo- federalist' forces within the Yugoslav communist party in the 1980s, and created a ground for ascendance to power of various nationalist options in the republics of SFRY.¹⁷ The ethnic mobilisation reached its crescendo in the 1990s and resulted in the violent break up of the SFRY.

¹⁴ Before 1929, the kingdom of Yugoslavia, ruled by the Serbian dynasty Karađorđević, was known under the name of the Kingdom of Serbs, Croats and Slovenes. The kingdom era was marred by the political conflict of the Croat and Serb political elites. It was dismembered by the Axis powers and their local allies at the outbreak of WW II. An inter-ethnic conflict, as well as the antifascist struggle ensued after the disillusion.

¹⁵ The CPY had to deal with set of issues including the exigent legacy of the WWII inter-ethnic violence, numerous unresolved national questions, and the underdeveloped economic system. The solution was sought in ideological matrix which included the positive legacy of communist antifascist struggle, the premise of brotherhood and unity of the Yugoslav peoples, and socialist economic system of self-management.

¹⁶ The 1974 constitution was the Communist Party's response to a combination of problems including the economic shortcomings and the awakening Croatian, Albanian, and other nationalisms within the structures of the communist party in the 1960s. Yet, it exacerbated the existing problems by strengthening republics and provinces, and the identities within, by defining Yugoslavia as a community of sovereign nations that exercised their rights through their respective republics and provinces. This outcome particularly affected SR Serbia. While the constitution defined the status of provinces within the SR Serbia and the federation, it failed to define the status of inner Serbia in the SR Serbia and its relation to the provinces. The autonomous provinces of Vojvodina and Kosovo, although having their parliaments also had the right of veto in the SR Serbia's parliament. The republic-provinces relationship was marred by political bickering where the federal centre frequently intervened. Overall, the communist nomenclature in Serbia viewed the 1974 constitution as unfair; while all other republics centralised and consolidated internally, Serbia was de facto weakened and left in disarray. The problematic issue of provinces would boil over again in 1980 during the Kosovo Albanian revolt, which marked the start of the SFRY's break up. See: Stambolić, I. (1995) *Put u Bespuće: Odgovori Ivana Stambolića Na Pitanja Slobodana Inića* (Beograd, Radion B-92).

¹⁷ Throughout the late 1980s the republics' political elites struggled for political constituencies which resulted in their alliances with emerging nationalist political opposition, thus transforming eventually inter-party political conflicts into inter-ethnic ones. Goati, V. (1997) *The Impact of Parliamentary Democracy on Ethnic Relations in Yugoslavia 1989–96*, in: D. Janjić (Ed) *Ethnic Conflict Management- the Case of Yugoslavia* (Ravenna, Longo Editore).

By 'securing' the control of the Federal functions, and with the new echelon of JNA¹⁸ generals on their side, the political establishment of Serbia and Montenegro was at first directly involved in the ensuing wars in Croatia and Bosnia and Herzegovina.¹⁹ In an attempt to secure the right of succession of the SFRY, the leaders of Serbia and Montenegro formed the Federal Republic of Yugoslavia, albeit on par with the international recognition of Slovenia, Croatia, Bosnia and Herzegovina, and Macedonia. Despite the efforts to officially distance itself from the wars in the 'neighbourhood', the Milošević's regime did not only fail to gain recognition of the FRY as the only successor state of the old federation, but came under international economic sanctions.²⁰ Despite the sanctions, the Yugoslav authorities continued providing infrastructural and political support to the Serb ethnic cause in Croatia and Bosnia until late 1995.²¹ During this period, Milošević and his allies used the wars 'near abroad' as the pretext for badgering of the internal opposition in the country. Simultaneously an establishment-related web of economic actors, thriving on conditions of economic sanctions and war profiteering, developed own networks throughout the state. In the troublesome province of Kosovo the existence of dual Serbian and Albanian societies became a reality.²²

The signing of the Dayton peace agreement in 1995 heralded the end of Croatian and Bosnia wars. Milošević was one of the key negotiators and guarantors of the peace agreement.²³ With it came the EU recognition of the FRY. But the positive developments in one part of the Balkans had destabilising effects in another.²⁴ The intensification of KLA activities against the Serbian authorities and civilians in Kosovo and the disproportional counterinsurgency responses of the Yugoslav army and police, frequently hard-hitting Albanian civilian population, brought the

¹⁸ Yugoslav Peoples Army went through a transition from a defender of the SFRY to a protector of the Serb ethnic cause on the territories of Croatia and Bosnia and Herzegovina. (Hadžić 2002).

¹⁹ From Milošević's side, the consolidation of power base included a political manoeuvring resulting in severe reduction of Kosovo and Vojvodina's autonomies in 1989. The installing of his person from the provinces in the Federal presidency followed. Yet, the hope to secure a majority against the 'secessionist' of Slovenia and Croatia ended in a stalemate and break up of the federal presidency.

²⁰ Conference on Yugoslavia Arbitration Commission: Opinions and Questions Arising From the Dissolution of Yugoslavia: Opinion No.8, at 1523, in: 8, 31 I.L.M. 1523 (1992), Yugoslavia Arbitration Commission, Ed.

²¹ While the Krajina region in Croatia was 'lost' to Croats in 1995 (Sekulić 2001), the financial support for the RS in Bosnia and Herzegovina has continued after the signing of the Dayton agreement in 1996.

²² The parallel system that developed through the 1990's, by the Albanians in Kosovo was largely built on pre-1990s institutions, albeit refined and extended as separate Albanian institutions parallel to the state institutions. See: Sorensen, J. S. (1999) *The Threatening Precedent: Kosovo and the Remaking of Crisis*, 2, C.-U. Schierup, Ed. *Papers on transcultural studies* (Umea, Norrköping, Malmö). The development of these came in the course of Serbian clampdown on the existing institutions and increased state repressive measures. See: Maliqi, S. (1998) *Kosovo- Separate Worlds* (Pristina, MM Society Prishtina & Dukagjini Publishing House).

²³ See: Holbrooke, R. (1999) *To End a War* (New York, The Modern Library).

²⁴ In Kosovo, leading Albanian politicians protested against the EU's unconditional recognition of the FRY and repatriation of 130,000 Kosovo Albanians to Serbia. See: Troebst (1998) *Conflict in Kosovo: Failure of Prevention*, 1. Working Paper (Flensburg, European Center for Minority Issues); (Sorensen 1999). Albanian political leaders were faced with the fact that the Dayton agreement, on one hand legitimised the violence and ethnic cleansing in shape of two Bosnian entities, while on the other it totally ignored peaceful resistance and problems of the Albanians in Kosovo. As the result, the Albanian proponents of peaceful resistance were marginalised, while the radicalisation of politics bore results in shape of Albanian paramilitary movement- KLA and its first attacks on the Serbian authorities in 1996 (Sorensen 1999). Additionally, the suspension of international sanctions led to breakdown of the Albanian pyramid scheme which by-and-large thrived on the revenues from the sanctions-breaking activities. The revolt and ensuing breakdown of state authority plunged Albania in anarchy, while the looted military weapons poured across the borders to Kosovo and other neighboring countries. Racsmány, Z. (1998) *Conflict Prevention and Early Intervention in Albania: Too Little, Too Late?* in: P. Wallensteen (Ed) *Preventing Violent Conflict: Past Record and Future Challenges*, pp. 101-139 (Department of Peace and Conflict Research, Uppsala University, Elanders Gotab).

conflict to the fore of international interest. The Kosovo conflict made it possible to undermine the Milošević regime in the FRY, which was generally perceived by international actors as the single greatest cause of the protracted instability in the region.^{25,26} The conflict reached its peak in the failure of the 'Rambouillet negotiations' and the NATO bombing of Yugoslavia in the spring of 1999.²⁷ The signing of the Military Technical Agreement in Kumanovo marked the end of the war and the assumption of the interim UN control over the province.²⁸

Post-Milošević democratic developments in Serbia and Montenegro

Economically on its knees and defunct in practice, the FRY entered presidential and parliamentary elections on the 24 September 2000.^{29,30} Milošević's attempt to cling to power despite the defeat at the hands of the Democratic Opposition of Serbia³¹ candidate, Vojislav Koštunica, resulted in the 5 October revolt on the streets of Belgrade. It spelled out the end of Milošević's rule. Yet, the victory of DOS in the Federal Parliamentary elections gave the coalition only the tentative control over the Federal Parliament, while the sources of real power, the republican governments of Serbia or secessionist Montenegro stayed outside its control. Lastly, despite the DOS's seizure of power via a crisis staffs model following the October revolution, many of Milošević cadres retained important functions in the federal bureaucracy, VJ and the police. This created a duality of power based on varying levels of authority. The real reform and democratization of the state was anticipated to begin after the DOS' victory in the 23 December 2000 Serbian elections.

Despite high international expectations after the 5 October 2000, DOS started showing signs of internal weakness projected in the split between the newly elected prime minister of Serbia Zoran Djindjić and the Federal president Vojislav Koštunica. While Djindjić, firmly in control of the power levers in Serbia, appeared to pushing for drastic and swift internal reforms much to liking of the Western community,

²⁵ ICG (2000, 30/05) Serbia's Embattled Opposition, 94, pp. 1–16 (Washington DC/Brussels, ICG), p. ii.

²⁶ Part of the strategy included international financial support and political courting of the Montenegrin anti-Milošević government of Milo Djukanović from 1997 onwards. During the Kosovo conflict, the Montenegrin government proclaimed neutrality and offered refugee to Albanian civilians escaping the fighting and bombings in Kosovo.

²⁷ In depth analyses of the set up point out that the Rambouillet talks were never envisaged as a negotiation process. Rather, it was an ultimatum to Milošević's regime and the Yugoslav authorities and a way to legitimize the NATO military attack on the FRY. (Sorensen 1999); Magnusson, K. (1999) Rambouilletavtalet- Texten, Förhandlingar, Bakgrunden, 1, H. Rumbum & K. Magnusson, Eds. Current Issues, vol. 1 (Centre for Multiethnic Research, Uppsala University, Elanders Gotab, Stockholm).

²⁸ The arrival of international protectorate to the province was marked by the Kosovo Albanian extremist attacks and the exodus 267,500 of Kosovo Serbs and Roma to Serbia proper. (For IDP's numbers see UNHCR Global report 2000)

²⁹ The economic implosion was a result of structural decline of unreformed Serbian economy and institutional malpractices, but was gravely exacerbated by decade of international economic sanctions, the NATO bombings of the vital industrial objects valued at proximately US dollars 4.1 billions in 1999, and the influx of approximately 720,000 Serb refugees from regions of Croatian Krajina in 1995 and Kosovo in 1999.

³⁰ Since 1997, Montenegro, led by Milo Djukanović, begun a process of distancing from the Milošević's regime. This gave Djukanović a substantial international economic and political support, particularly after the introduction of dual currency system and the responding Serbian economic sanctions (ICG, Serbia's Grain Trade, June 2000). The elite struggle in Serbia and Montenegro rendered the federation almost inanimate, particularly after Milošević-instigated federal constitutional amendments in July 2000.

³¹ Initially DOS represented a 19 member coalition of 18 parties, both small and large, and one trade union created under heavy political pressure and with strong financial and technical backing of the EU and U.S. Yet, the members brought all their unresolved political, ideological, and personal differences with them, many of which originate in the last ten years of Serbian opposition squabbling. ICG (2001, 09/21) Serbia's Transition: Reforms under Siege, 117, pp. 1–30 (Belgrade/Brussels).

Koštunica adopted a "go slowly" policy, particularly when dealing with nationally sensitive issues such as the cooperation with the ICTY and the final resolution of the status of Kosovo. A period of intra-coalition tensions ended in the open rupture surrounding the 28 June 2001 extradition of Slobodan Milošević to The Hague by the internationally pressured Serbian government, despite Koštunica's objection and while awaiting the Constitutional Court ruling on the issue.³² The political battle escalated in August 2001 through the DSS-DOS mutual accusations of corruptions and cooperation with criminal structures.³³ This was followed by the Serbian government encroachment on the mandate of the federal custom institutions, around the issue of internal reform and the control of the VJ, and has resulted in numerous political affairs which derailed the reform process in Serbia.^{34,35}

The democratic changes in Serbia had a dramatic effect on the international position of Montenegro. A Djukanović-led Montenegrin independence movement grew from Djukanović's anti-Milošević stance in 1997. Since then and until 2001, Djukanović succeeded in minimizing the influence of the pro-Yugoslav SNP party in Montenegro, while building institutions and rallying public support for a de-facto independent Montenegrin state. Montenegrin government has controlled the payment bureau, national bank, currency, customs, border control, public and state-owned institutions and companies, and a 20,000 strong well-equipped police force. Since 1998, the Western governments gave political and unconditional economic support to the government in Montenegro. The non-conditionality of the aid allowed the Montenegrin government to 'secure' public support by increasing subsidies to struggling state enterprises, to maintain social transfers, expand state bureaucracies, build a strong police force and raise public sector salaries.³⁶ The international support intensified after Djukanović's distancing from the conflict in Kosovo and by 2001 Podgorica in practice behaved as it was a fully independent state, despite the genuine division of home opinion on the final status of Montenegro. USAID allocated US\$ 55 million in 1999 and 2000 to support government payment to pensions and imports of electricity, as well as an additional US\$ 12.2 million in food aid after the Serbian economic embargo. If adding the EU's support of 20 million Euros in May 2000, this made one of the highest aid efforts per capita in the region.³⁷ Yet, political changes in Belgrade tapered Montenegro's strategic importance to the West, and have resulted in a policy u-turn regarding Montenegro's status. The confirmation came in November 2001 when Javier Solana begun his diplomatic mission to prevent the total dissolution of the Yugoslav federation.

³² Kako je Sloba odveden u Hag (2001, 29 June), Nedeljni telegraf. special edition (Beograd).

³³ Vesić: Kampanja protiv demokratskih vlasti (2001, 11 August), Danas (Beograd)

³⁴ The Serbian government's encroachments were reportedly done in order to regulate import and sales of petroleum, goods in transit for Kosovo, and the collection of public revenues for goods to be sold in Kosovo. (ICG, Serbia's Transition: Reforms under siege, 2001) Yet, they represented a shift of the political power from the federal to the republic level.

³⁵ See Milošević, M. (2003, 21/08) 10 afera koje su potresle Srbiju, Vreme (Beograd).

³⁶ ESI (2001, 28/06) Rethoric and Reform: A case study of institutional building in Montenegro 1998–2001, pp. 1–30 (Podgorica and Berlin).

³⁷ ESI (2000, 04/08) Autonomy, Dependency, Security: The Montenegrin Dilemma, pp. 1–17 (Podgorica and Berlin).

The new state of Serbia and Montenegro was proclaimed on 4 February 2003.³⁸ It ended the constitutional uncertainties that dated back to the foundation of FRY in 1992, and were exacerbated by Milošević-Djukanović stalemate in the late 1990s. The Constitutional Charter was the result of a year of intense negotiations and international pressures following the signing of the March 2002 Belgrade agreement.³⁹ The new Parliament of Serbia and Montenegro was elected by the Serbian and Montenegrin legislature on 25 February 2003. Svetozar Marović, formerly a speaker in the Montenegrin parliament, was appointed president of the state on 7 March 2003. The headquarters of the Assembly and the Council of Ministers are located in Belgrade, while the Court of Serbia and Montenegro is located in Podgorica. Yet, the union is very weak in centre. There is a unicameral assembly consisting of 91 deputies from Serbia and 35 from Montenegro. Laws must be passed by a majority of deputies from each republic. During the initial two years, the deputies will be delegated by the ruling parliamentary majority from each of the two republics, while direct elections are envisaged after the expiry of the two year period.⁴⁰ The Council of Ministers has few competences, namely foreign affairs⁴¹, defence, international economic relations, protection of human and minority rights. Yet, it acts more as a coordinating body, while most government functions remain at the republican level. The national bank of Serbia acts as the main financial institution in the state union, albeit the Montenegrin National Bank has an advisory function. The two republics retain different currencies and separate central banks. Yet, the two republics are converging customs tariffs and working on establishing a single market, which are prerequisites for commencing negotiations with EU on the Stabilisation and Association Agreement. If the creation of a single market proves a success for both entities, the Union could develop into a tighter and more effective state.⁴²

Yet, the unstable political scaffolding could result in the collapse of the whole structure. With the signing of the Charter, the EU postponed the Montenegrin independence referendum for at least three years. Thus, the divided international community postponed addressing the arduous issue of Kosovo's status, left unresolved since 1999.⁴³ Additionally, the EU and other international organisations got a single international presence and "one letterbox" for communication with the authorities of Serbia and Montenegro. Djukanović's Montenegrin government was given the chance to minimise the influence of the leading Montenegrin

³⁸ The proclamation followed the Constitutional Charter's approval by the parliament of the erstwhile FRY.

³⁹ The negotiations between the pro-independence Montenegrin government and the Serbian counterparts were deadlocked on many issues, the key one being the mode of election to the new joint parliament, whereby the Montenegrin side preferred delegated representation while the Serbian part insisted on the direct election which would ensure more legitimacy of the parliament. The breakthrough came only in November 2002 after intense pressure by the EU's High Representative for Common Foreign and Security policy, Javier Solana, and a concession by Milo Djukanović. For more read ICG (2003, 18/03) Serbia After Djindjic, 141, pp. 1–16 (Beograd/Brussels).

⁴⁰ The first two years raise the problem of legitimacy of the parliament, as most of its work may depend on consensus between two republican governments, often made elsewhere, in the period of direct elections it could result in the gridlock between republican and federal governments regarding the numerous important decisions. Lastly, the arrangement raises the problematic issue of consensus making between drastically smaller Montenegro and Serbia as bigger member of the union. The risk is that possible Montenegrin political stalling could frustrate the pace of reforms in Serbia. (ICG, Serbia after Djindić, 2003).

⁴¹ The ministry of foreign affairs is already functioning, while the issue of army is in the process of resolution.

⁴² This scenario would not exclude further transfer of competences to the central level.

⁴³ See: United Nations, Resolution 1244 (1999).

opposition SNP party in the union's parliament while retaining a highest possible level of internal autonomy. Additionally, in hindsight, postponing the independence referendum was as a face-saving measure given the uncertainty of the outcome in the highly polarised Montenegrin political landscape. Lastly, the cash strapped government could continue to bank on international financial support avoiding the total collapse of a mainly unreformed and illiquid state economy. By signing the Charter, Djindjić succeeded in temporarily marginalising his greatest political opponent, Vojislav Koštunica of the DSS, who despite great personal popularity was made jobless after the end of FRY.⁴⁴ This would have given him the time to further stabilise own power base in Serbia, while at the same time pursuing the course of economic reform towards closer European integration.

The assassination of Serbian Prime Minister Zoran Djindjić on 12 March 2003 came as a confirmation of opinions that the reforms in Serbia were not totally true to its international image.⁴⁵ Additionally, it highlighted the failure of Serbian politics to distance itself from the Milošević era legacy.⁴⁶ The assassination was conducted by the parastatal structures inherited from Milošević, which have remained well connected through a patron-client relationship to the nomenclature in the Serbian government.⁴⁷⁴⁸ The Serbian government's response to the assassination, dubbed "Operation Sabre", was swift and seemingly meticulous. The operation apparently dismantled the military-criminal network responsible for the murder of Djindjić, but also shed light on a number of politically motivated murders and attempted assassinations

⁴⁴ Koštunica won two elections for the president of Serbia, but due to the total participation below 50% threshold, the poll was not validated. After the creation of Serbia and Montenegro, Koštunica was made jobless and has to wait for the new constitution of Serbia, and its harmonisation with the Montenegrin constitution before a new presidential election. The elections will now take place on 16 November, but they are regarded as flawed from the beginning, since no changes have been made to voter turn-out requirements or Milošević-era voter lists.

⁴⁵ For more see: (ICG, *Serbia's Transition: Reforms under Siege*, 2001).

⁴⁶ Before its assassination Djindjić was mentioned in the context of his acquaintance with both the Zemun and Surčin mafia. Reportedly, he had some contacts with the commander of the JSO and apparent affiliate of the Zemun clan, Milorad Luković aka Legija, whom he reportedly considered a great patriot. Yet, allegedly, the Zemun clan was much closer to Koštunica, while the Surčin clan allied itself with Djindjić. Temporary elimination of Koštunica from the Serbian power politics reportedly escalated the existing feud between the two groups. See: Legija, Čume, Kriminal, Politika, Policija i Mediji (2003, 30/01), Vreme (Beograd); (Milošević, 10 afera koje su potresle Srbiju, 2003).

⁴⁷ Djindjić was allegedly killed by the members of Zemun clan led by Dušan Spasojević-Šiptar together with Milorad (Ulemek) Luković- Legija. Legija was the head of JSO (unit for special operations). The unit was formerly known as the Red Berets. The Red Berets were formed at the onset of the Yugoslav wars by the head of State Security (SB) Jovica Stanišić, and were led until 1998 by Franko Simatović. They were active during the war in Croatian Krajina, East Slavonia, Bosnia and Herzegovina, and Kosovo. During the October 2000 revolution Legija, who came after Simatović in the position of JSO commander, apparently struck a deal with Djindjić and stood by the Serbian opposition during the crucial moments of Milošević's downfall probably in exchange for guarantees against the ICTY extradition. Later on, Luković, informed of a pending ICTY indictment against him, reportedly viewed Djindjić's intense cooperation with The Hague as a direct attempt of his elimination. Among other conspirators there the key personalities involve Borislav Mikelić, former prime minister of the Republika Srpska Krajina, army general Aleksandar Tomić, and Vojislav Šešelj, the leader of the Serbian radical party. Tomić apparently kept Legija and Spasojević informed on the ICTY indictments and egged them on against Djindjić. See: Šešelj izravno umiješan u atentat na Djindjića (2003, 30/04), Večernji List (Zagreb); (Legija, Čume, Kriminal, Politika, Policija i Mediji, 2003); (Milošević, 10 afera koje su potresle Srbiju, 2003); Zlata, P. (2001, 23/11) Srbija pred drzavnim udarom: Tajanstveni Hrvat Franko Simatović organizirao je u Beogradu više ubojstava nego pokojni Arkan, Globus (Zagreb); Na nišanu tri meseca, treći pokušaj koban (2003, 04/09), Glas Javnosti (Belgrade).

⁴⁸ These structures served the interests of the regime in the 1990s wars and were frequently repaid in favours and ability to run private, often illicit business without legal consequences. While protecting their personal position, they increasingly came to act as the 'guardians' of Serbian national interest in the post-Milošević era. (Milošević, 10 afera koje su potresle Srbiju, 2003); (Zlata, Srbija pred drzavnim udarom: Tajanstveni Hrvat Franko Simatović organizirao je u Beogradu više ubojstava nego pokojni Arkan, 2001); (Legija, Čume, Kriminal, Politika, Policija i Mediji, 2003).

that had remained unresolved for years.⁴⁹ The appointment of Zoran Živković for the post of Serbian Prime Minister was seen as a guarantee that the reform process would continue. Serbia and Montenegro membership in the Council of Europe was an additional encouragement to the inherited course of reform.

Yet, extraordinary measures have proven to be a challenge to the weak government institutions and democratic consolidation in Serbia. The institutions can be easily circumvented for illegal gains by the financial oligarchy. Clearly, without strong institutions it is hard to envisage how Serbia will carry out the rest of its reform in the economy, media, social and security sectors. The judiciary is one of the weakest points of the present system. Unreformed in its structure, it easily succumbed under the control of the government in the aftermath of Djindjić's assassination. Some 35 Supreme Court judges were removed by the parliament and were suspended without due procedure since the assassination. The government pushed through several laws that gave the police extraordinary powers, while further increasing the judges' dependency on politicians.⁵⁰ Finally, the judiciary has been scapegoated by the government, which during Operation Sabre frequently lashed at the judiciary in media to cover up its own mistakes, while at the same time excusing its current imposition on the judiciary.

Since Djindjić's assassination freedom of media has been restricted and came under greater government control. While under the state of emergency this could be accepted as legitimate, government's actions lately indicate that this may become a long term attitude.⁵¹ Furthermore, it seems that certain elements within the DOS used the state of emergency to muzzle the media, a process which started while Djindjić was still alive.⁵² The law on radio diffusion was not passed until July 2002 and still remains to be implemented. The law on public information was rushed through during the state of emergency, while the law on source of information is yet to be passed. Significantly, Serbian politicians, under the cover of the state of emergency, altered the law on public information to such an extent that it makes it a libel law to protect them, while very little guarantees the freedom of media.⁵³ The new situation has resulted in journalist fears of being taken to courts while electronic media reportedly risks losing access to national frequencies.⁵⁴ The prospect of new Serbian elections in early 2004 leaves little hope for overall improvements. Despite EU pressure, the ruling coalition is likely to try and utilise the current media situation for its political goals.⁵⁵

⁴⁹ Most prominent of all is probably the kidnapping and murder of the former Serbian President and aspiring presidential candidate in 2000, Ivan Stambolić. Another prominent case is the attempt on life of opposition politician Vuk Drašković. See Stefanović, N. L. (2003, 14/08) *Neuspelo Haško saslušanje: Ništa bez televizije, Vreme* (Belgrade); Grujić, D. (2003, 14/08) *Praćenje Vuka Draškovića (II), Vreme* (Beograd).

⁵⁰ The Law on the Battle against Organised Crime and the Law on the Public Prosecutor for example are in violation of the Council of Europe standard, and will have to be modified. (ICG, *Serbia After Djindjic*, 2003).

⁵¹ South East Europe Media Organisation (10/07/2003) SEEMO IP: Saopštenje Za Stampu o Medijskoj Situaciji u Srbiji, (Vienna, SEEMO).

⁵² In 2002 Serbia topped the regional rankings with 64 recorded attacks against media. This has been related to the lack of appropriate legal framework to guarantee freedom of press. South East Europe Media Organisation (31/01/2003) SEEMO IP: Saopštenje Za Stampu o Medijskoj Situaciji u Srbiji, (Vienna, SEEMO).

⁵³ Veća zaštita političara (2003, 23/04), *Glas Javnosti* (Beograd); Vujović, O., SEEMO Secretary General (2003, 24/04) SEEMO protest Serbia, www.freeb92.net (Vienna, B92). 02/09/2003.

⁵⁴ B92 (2003, 06/19), NUNS: tenzije između vlasti i medija štete obema stranama, www.b92.net. 20/06/2003.

⁵⁵ The situation in media resulted in sharp criticism from the head of EU's delegation in Belgrade. See: Ibid.

The current situation reflects of the wider political disarray at the centre of the Serbian and Montenegrin political landscape. What is abundantly clear in the aftermath of Operation Sabre is that parts of the new Serbian elite inherited many of the old regime's habits when it comes to the running of the country.⁵⁶ Among others, there is still strong presence of Milosević era businesspersons, who sought protection from the new elite.⁵⁷ The disturbing interconnectedness is exemplified in the Kolesar affair. In 1997, Milošević was reportedly able to privatise 49% of the Telekom Srbija, with help of Italian and Greek political and financial connections.⁵⁸ When the whole affair assumed wider international connotations, the Italian enterprise returned its 29% of shares to the Serbian government in exchange for US\$195 million. They repayment of the 4th instalment by the Serbian government became a source of a current affair. The PTT "Srbija" took a commercial credit from the Jugorant banka, despite the 70,000 euro cheaper offer of the Nova Ljubljanska banka.⁵⁹ It is alleged that the minister of transport, Marija Rašeta-Vukosavljević, influenced the PTT's loan decision. The media were quick pointed out that the Jugorant banka is owned by Nemanja Kolesar.⁶⁰ Kolesar, former employee of Delta Holding, and afterwards head of Djindjić's cabinet and currently director of the *agency for bankruptcy*, was together with Zoran Janjušević, former Djindjić's adviser for state security, accused of criminal privatisation and money laundering by the former National Bank of Serbia Governor Mladjan Dinkić.⁶¹ Another affair emerged after Operation Sabre report, when the top DS politician commended Janjušević's technical assistance to the police and authorities.⁶² The recent spite of accusations that some members of DOS assisted the Legia and the Zemun clan to launder money through privatisation investments, hence avoiding the edge of Operation Sabre, further undermines the credibility of the leading DOS coalition and of the

⁵⁶ Despite their promises in 2000, many of the new politicians such as Serbian prime minister Živković, or interim president Nataša Micić could not refuse the temptation to inhabit the villa complex on Dedinje, partly still inhabited (considering that Karić brothers, two most influential Milosević-linked businessmen still live there) by the members of the despised old establishment. Vlahović, D. (2003, 02/09) Dobar komšija para vredi, Glas Javnosti (Beograd).

⁵⁷ The sugar affair is an example of such an amalgamation. In March 2003, the EU removed the preferential status and blocked Serbian and Montenegro companies from exporting domestic sugar to EU market after it caught a number of them re-selling sugar of foreign origin. The sugar that often came to Montenegro to be transferred to Kosovo ended up elsewhere. Many of the companies involved in the business were apparently owned by people close to the leading DOS coalition, but most frequently mentioned was Miodrag Kostić, the owner of MK Komerc. The business reportedly started again at the end of August, with arrival of 37,000 tones of sugar to the port of Bar to be transferred to Kosovo. R.V. (2003, 27/08) Ponovo krenuo "slatki" posao, zbog kojega je Evropa uvela sankcije SCG: U Bar za mjesec dana stiglo 37 hiljada tona šećera, po papirima Kosovo se kupu u šećeru, Vijesti (Podgorica).

⁵⁸ The allegation go as far as the former British minister of foreign affairs, Douglas Hurd, and his adviser Braithwaite, currently first adviser to the OHR in Bosnia, whose firm Net West represented Serbian government. The affair reportedly touches the top of Italian political spectrum. Purportedly some of 1,5 billions DM profit were used by the Serbian state afterwards to pay for the war in Kosovo and is thus investigated by The Hague. See: Dedić, M. (2003, 31/07) Milošević je provizijom od prodaje "Telekoma" korumpirao italijanske i evropske političare, Slobodna Bosna (Sarajevo); Mihaljinac, S. (2003, 04/09) Berlusconi traži 15 miliona odštete, Vijesti (Podgorica).

⁵⁹ Beta (2003, 27/08) Odbijena ponuda Nove ljubljanske banke, Glas Javnosti (Belgrade).

⁶⁰ (2003, 27/08), Dinkić: Jovanović omogućio da Legija legalizuje bogatstvo, Vijesti (Podgorica)

⁶¹ The whole affair purportedly started by the Hungarian police who reported the money laundering to Serbian authorities. Allegedly, both government employees, Kolesar and Janjušević were involved in the privatisation of the cement plant, while the money ended up in off-shore accounts and was afterwards used to purchase real estate in Belgrade, all without paying any tax. Djindjićevi savetnici "prali" novac (2003, 27/07), Patriot (Banja Luka); (Dinkić: Jovanović omogućio da Legija legalizuje bogatstvo, 2003); (Milošević, 10 afera koje su potresle Srbiju, 2003).

⁶² Dinkić accused Janjušević of tapping the telephones of prominent politicians and running the DS's private security service in the country. (Milošević, 10 afera koje su potresle Srbiju, 2003); Z.M. (2003, 27/08) Janjušević prisluškivao, Glas Javnosti (Belgrade).

reform process in Serbia.⁶³ The situation in Montenegro has little more to be desired in relations of political elites, rule of law, and business. Prime Minister Djukanović is under suspicion of leading the Balkan tobacco smuggling ring with connections in both Croatia and Serbia, while Montenegrin police reportedly drives vehicles stolen in Slovenia and Bosnia and Herzegovina.⁶⁴ While the accusations in media fly between different political factions the quality of democratic governance has been diminishing. The fact that the opposition SNP boycotts the work of parliament in Montenegro, while in Serbia the election of new National Bank Governor erupted into another parliamentary scandal, puts into question the consolidation of democracy in Serbia and Montenegro.^{65,66}

Cooperation with The Hague has been perhaps the largest obstacle to Belgrade to realise the majority of its foreign policy goals. The government's determination to resolve all outstanding cases is faced with the opposition both within the army and security services and of the popular opinion.⁶⁷ The dissolution of *the Commission of the Army of Serbia and Montenegro for the Cooperation with the ICTY* eliminated some obstacles in the cooperation. Furthermore, the transfer of the army's Directorate of Security (KOS) from army HQ to Ministry of Defence should be seen as an additional step in weakening the resistance to cooperation with the ICTY. The extraditions of Franko Simatović and Jovica Stanišić, and recently, of the Vukovar suspect Šljivančanin, came as a result of both international pressure and internal willingness to cooperate. Yet, the Serbian government is reluctant to provide new evidence in the ICTY Milošević trial, fearing that it may be used by Croatia and Bosnia in separate cases before the international court of justice. The majority of home opinion is against cooperation with The Hague, perhaps because of the perception that The Hague focuses mainly on Serb suspects while failing to equally eagerly prosecute perpetrators of the crimes against the Serbs.⁶⁸ In such an environment, given the relative proximity of next years' parliamentary elections, it is hard to anticipate major improvement in the cooperation with the ICTY.⁶⁹

However, other aspects of the Serbian and Montenegrin international engagement leave place for some optimism. The ongoing reform of the army, due to intensified the cooperation of Montenegrin and Serbian republican government, opens the way for the country's membership within in Partnership for Peace.⁷⁰ The remaining problem is the cancella-

⁶³ Mihajlović, Z. (2003, 27/08) Kriminalci kupovali firme, Glas javnost (Belgrade); (ICG, Serbia After Djindić, 2003); (Dinkić: Jovanović omogućio da Legija legalizuje bogatstvo, 2003)

⁶⁴ Nacional reveals the Head Mafia Boss of the Balkans (2001, 17/05), Nacional (Zagreb); Bećirović, D. (2003, 11/06) Crnogorski MUP kupio ukradeni autobus, Politika (Belgrade); FoNet (2003, 19/06) Limuzine se registruju u Crnoj Gori, Glas Javnosti (Beograd).

⁶⁵ Gost prevideo da ovdje nema demokratije (2003, 03/09), Vijesti (Podgorica).

⁶⁶ Reportedly during the 22 July vote, at least 11 MP's were absent from Serbia, while their presence was listed in the parliament and somebody from within DOS coalition voted in their behalf. If this proves true, the whole election of the new governor will have to be annulled. Bošković, S. (2003, 04/09) Labus: Novi guverner izabran kradjom glasova, Vijesti (Podgorica); Beta (2003, 27/08) Odbijena ponuda Nove ljubljanske banke, Glas Javnosti (Belgrade).

⁶⁷ Rameta, S. & Lyon, P. (2002, October/November) Discord, Denial, Dysfunction: The Serbian-Montenegrin-Kosovar triangle, Problems of Post-Communism, 49(5), 3–39.

⁶⁸ Indictments against KLA leaders must be filed, www.srbia.sr.gov.yu (2003, 15/08), (Belgrade). 19/08; Tužilac Del Ponte nema dokaze protiv OVK (2003, 03/09), Glas Javnosti (Belgrade).

⁶⁹ According to the Strategic Marketing agency two thirds of surveyed citizens would prefer an early election in Serbia. (Beta, Dve trećine građana za privremene izbore, 2003).

⁷⁰ The Defence Ministry envisages downsizing of the army from 78,000 to 35,000 troops. J.M. (2003, 02/09) Postavlja se okvir reformama vojske, Glas Javnosti (Belgrade).

tion of Serbia's lawsuit before the International Court of Justice against NATO over the 1999 bombings.⁷¹ As yet, Serbia refuses to withdraw the case until Croatia and Bosnia withdraw their cases against Serbia pertaining to the Yugoslav wars of separation from the same court. However, the solution to this problem is likely to emerge from increased regional cooperation, particularly with Croatia. The improving relations have been already have been marked by Croatian suspension of the visa regime for the Serbia and Montenegro citizens.⁷² Additionally, Serbia and Montenegro adroitly evaded a Slovenian diplomatic offer to side in the ongoing sea-borders dispute against Croatia.⁷³ The spirit of cooperation and neighborly relations culminated in public apologies of the Serbian and Montenegrin and Croatian presidents for the evils citizens of each state committed against each other in the 1990s wars.⁷⁴ The expectation is that the two states will continue resolving the remaining obstacles and thus intensifying mutual support on the road to European integration. Beside regional cooperation, the recent adoption of the Action plan for harmonization of economic systems of represents an internal sign of Serbia and Montenegro commitment towards European integration.⁷⁵ Together with the ongoing work on the state's feasibility study by the European Commission, this gives reason for contained optimism.^{76/77}

The process of states and nations building in the central Balkans is still uncertain and calls for caution. Currently, Serbia embodies an entity with disputed borders, uncertain symbols, with a disputed recent history, and an uncertain future.⁷⁸ The security dilemmas remain a potent source of mobilisation and are linked to other regional developments.⁷⁹ Similar dilemmas riddle Montenegro, where the open issues of Montenegrin independence and Montenegrin vs. Serb identity remain a source of polarisations.⁸⁰ Lastly, there is the crucial issue of the simmering Albanian ethnic mobilisation and unresolved national aspiration within the

⁷¹ NATO has made the withdrawal of this case a condition for PFP membership.

⁷² HINA (2003, 07/09) Djukanović odbio svjedočiti protiv Miloševića, www.iskon.hr (Zagreb). 08/09.

⁷³ Beta (2003, 27/08) Odbijena ponuda Nove ljubljanske banke, Glas Javnosti (Belgrade); DSC (2003, 03/09) Svilanovic prepusta Jadran Crnogorcima, Glas Javnosti (Belgrade).

⁷⁴ Iskon (2003, 11/09) Agencije: Isprike su završni čin rata, www.iskon.hr (Zagreb, Iskon). 11/09; BBC News (2003, 10/09) Presidents apologise over Croatian war, <http://news.bbc.co.uk> (London, BBC News). 11/09/2003.

⁷⁵ Direkcija za Informisanje (2003, 01/09) Usvojen ključni dokument na putu za Evropu, www.info.gov.yu (Belgrade, Direkcija za informisanje Srbije i Crne Gore). 04/09/2003.

⁷⁶ The study will initiate talks on the agreement on stabilisation and integration between Serbia and Montenegro and European Union.

⁷⁷ Tanjug (2003, 11/09) Radi se Studija izvodljivost, Glas javnosti (Belgrade).

⁷⁸ The design of Serbian symbols is pending the outcome of the constitutional changes. N.R. (2003, 04/09) Zastava zajednice sa dva grba? Vijesti (Podgorica).

⁷⁹ Numbers of Serbian politicians, like the popular DSS leader Vojislav Koštunica, have reiterated hitherto that the final resolution of Kosovo status will consequently affect the position of Republika Srpska within Bosnia and Herzegovina. The common argument posits that if Kosovo is granted a right to separate from Serbia, the Serbs in Bosnia should be granted the right to join Serbia. Recent pole in the RS indicate that 60% of those asked prefer to join Serbia if Kosovo is granted independence. See APA (2003, 01/09) Većina želi da se ujedini s Srbijom, Glas javnosti (Belgrade).

⁸⁰ For details see the current discussion on the Serbian Orthodox Church, Montenegrin ethnicity and language before the census in November 2003. Parlament da raspravlja i o crnogorskom jeziku (2003, 04/09), Vijesti (Podgorica) Sudije pozivaju na ekavici (2003, 25/08), Vijesti (Podgorica);; Zugic, V. (2003, 25/08) Oštre reakcije na subotnji skup u Mainama: Amfilohije pred popis krenuo u posrbljavanje Crnogoraca, Vijesti (Podgorica) V.Z. (2003, 26/08) Nacionalno opredjeljenje nije jedina vruća tema uoči novembarskoga popisa stanovništva u Crnoj Gori: Crnogorski jezik pod "ostalo," Vijesti (Podgorica);.

territories of Kosovo⁸¹, Southern Serbia⁸², and western Macedonia⁸³, which at present is one of the main sources of instability in the region. Like in the past, collectivist and ethnocentric political traditions combined with undefined borders and often counterproductive international responses to these issues feed on each other, and remain a potent source of interethnic tension and conflict.⁸⁴ Until the process is addressed in its full regional context by the international community, it remains the paramount threat to the rule of law, democratic consolidation, economic reform, and ultimately to the existence of Serbia and Montenegro.

⁸¹ The recent spate of murders, mainly of Serbs at the hand of Albanian extremists, points out that the UNMIK has been relatively unsuccessful in providing basic security guarantees to all citizens in Kosovo. Hitherto, it not only fails to facilitate the conditions for the return of the IDP's forced out in 1999, but there is a risk of the new departures of the Kosovo Serbs Srbi razmisliju o iseljenu (2003, 03/09), Glas Javnosti (Belgrade).; Policija UN u Cernici: Ni traga ubicama (2003, 03/09), Glas Javnosti (Belgrade) B92, N. (2003, 18/08) KFOR "aware of" terrorist organisations, www.b92.net (Pristina, B92). 19/08/2003; HINA (2003, 07/09) Djukanovic odbio svjedočiti protiv Miloševića, www.iskon.hr (Zagreb). 08/09.; Arifaj (2003, 18/08) Violence returns Serbia to Kosovo, www.unmikonline.org (Pristina, UNMIK). 18/08/2003 United Nations (2003, 4809) Press Release, in: Speakers in Security Council condemn recent violence in Kosovo, insist extremist must not be allowed to undermine future, in: SC/7846.

⁸² Recent actions of Albanian Liberation Army, a military wing of the Albanian Front for National Unity, against the Serbian authorities and civilians puts in danger the peace in the Preševo valley, but also in northern Macedonia. According to some analysis, the escalations of attacks could be the beginning of the new cycle of destabilisation in the area. ANA's recently stated goal is unification of all Albanian ethnic lands Mobilizacija ANA u Makedoniji (2003, 03/09), Blic (Belgrade).; Albaniski ili drzavni terorizam (2003, 25/08), Vijesti (Podgorica) Za "Veliku Albaniju" (2003, 25/08), Glas Javnosti (Belgrade); HINA (2003, 07/09) Djukanovic odbio svjedočiti protiv Miloševića, www.iskon.hr (Zagreb). 08/09; AP & AFP (2003, 17/08) ANA claims responsibility for attacks in Southern Serbia, www.setimes.com (Southeast European Times). 19/08/2003; B92, N. (2003, 18/08) KFOR "aware of" terrorist organisations, www.b92.net (Pristina, B92). 19/08/2003.

⁸³ HINA (2003, 07/09) Djukanovic odbio svjedočiti protiv Miloševića, www.iskon.hr (Zagreb).

⁸⁴ See Dulic, T. (1999) Jugoslaviens historia: Kosovo och det förlutna Nationella projekt och kollektiviska tradition, *Multiethnica*(24–25), 36–40.

Economic development

The economic effects of a decade of wars, international sanctions, unsustainable economic and financial policies and de-industrialisation have been extremely stifling for Serbia and Montenegro. In the period between 1990 and 1999, the economy of then FRY registered a negative annual growth rate of 7%. This resulted in the halving of the total GDP in 1999 in comparison with the GDP in 1990. The foreign debt almost doubled and was estimated at US\$11.3 billion, including US\$4 billion in arrears, in early 2000.⁸⁵ The first sharp output decline of output came between 1990 and 1993. Sluggish recovery ensued after 1994, but the destruction of physical infrastructure related to the Kosovo war, re-foisting of international sanctions and supply disruption led to a new output contraction in 1999. This led to a sharp increase in unemployment and poverty, particularly felt in Serbia. These problems were amplified by distortive fiscal, monetary, and structural policies, resulting in an inefficient external tariff regime, adverse business environment and high inflation. Additionally, the wide-spread corruption embedded in the high-level politics channelled away funds from vital economic and social objectives.⁸⁶

Montenegrin reform started already in 1998, due to its precarious position and distancing from the Federation. The Serbian reforms were triggered in late 2000, following the October revolution and the subsequent parliamentary elections. With the reform oriented governments in office in both republics, the extensive economic reform gained inertia. In Serbia, it entailed liberalisation of the prices, foreign trade and exchange, tax reform, improved privatisation, bank restructuring regimes, improved transparency in the budgetary process, and reduction in the grey economy and smuggling activities.⁸⁷ In Montenegro, the results of reforms are less certain due to serious constraints in the economic capac-

⁸⁵ The projected foreign debt of the FRY in 1992 was \$6,9 billion The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38. Volume II, p.5.

⁸⁶ The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38.

⁸⁷ Also note that the expedient fiscal policies of the NBY resulted in reduction of inflation from 114 percent in 2000 to 15 percent in 2002. The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38, p.8.

ity.⁸⁸ Since 2000, an IMF supported stabilisation programme has been in place in both republics. The Laws on the Budget System, adopted by Montenegro in 2001 and by Serbia in early 2002, together with the Public Expenditure and Institutional Review outline further goals of reforms. In both republics it involves improvements in the revenue side (simplified and economically stimulating tax structure as well as the efficient revenue administration), and the expenditure side (improved budget management, reform of the pension system and phasing out of the quasi-fiscal activities⁸⁹).⁹⁰

Serbia's share of the FRY debt is estimated in range from 91 to 96 per cent, and includes debt that has been explicitly guaranteed by the Federal and Republic Government as well as liabilities occurring from the default of banks and enterprises.⁹¹ There is also pension and health care spending as another area of fiscal distress.⁹² The Serbian pension system currently absorbs 12.7% of the GDP and meets its obligations only as a result of budgetary transfers totaling up to 4% of GDP.⁹³ Large expansion of the retired population, owing to generous eligibility and early retirement criteria on one hand, and decline in output and revenue on the other, have undermined the viability of the pension system. The healthcare system is in similar shape. In 2001 spending on health was estimated at 10 percent of the total GDP.⁹⁴ The Government of Serbia has accumulated large arrears to the Health insurance Fund, which in turn has accumulated large debts to the health providers and the rest of economy. Such developments have jeopardized both the delivery and the financing of the services. Despite the started reforms, the per capita contribution to the HIF in 2001 were ranging US\$107-US\$67, which is considered comparatively low by CEEC standard.⁹⁵ Lastly, Serbia's bank and enterprise sector includes a contingent of liabilities, mainly as a result of a decade of mismanagement, and wars and sanctions induced loss of traditional markets. Furthermore, many enterprises were isolated from technological advancements of the last decade. This has been amplified by unreformed, non-market oriented, ownership structures used to soft budgets and often tightly linked to political structures and susceptible to its interference. With over half of the firms not paying their suppliers, much of the

⁸⁸ European Stability Initiative (2001, 26/11) Politics, Interests and the future of Yugoslavia: an Agenda for Dialogue, in: ESI (Ed) Politics, Interests and the Future of Yugoslavia: An Agenda for Dialogue, pp. 1–11 (Podgorica and Berlin, ESI).

⁸⁹ According to the World Bank definition, these are the activities not explicitly executed via budgetary mechanisms, but have or may have measurable fiscal implications. The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38.

⁹⁰ The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38, p.2.

⁹¹ The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38, volume II, p.5.

⁹² Reportedly Pension and Health Care are the largest spending items accounting for over 1/3 of total consolidated government spending. The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank), Volume II, 1–108, p. 41.

⁹³ The size of FRY's (without Montenegro) GDP in 2001 was estimated at YUD 724 billion, and YUD 978 billion in 2002. The estimates are done by the Federal Ministry of Finance (FMOF), Serbian MOFE, World Bank and IMF staff. For an overview of FRY's fiscal operations see Ibid., p. 12.

⁹⁴ Note that this overall figure includes also the estimates of private expenditure. Yet, macroeconomic analysis highlights that per capita expenditure on health is relatively low. Ibid, p.49

⁹⁵ The range is due to the different estimates of population covered used by Public Health Institute and HIF. The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38, p.16.

growing illiquidity effect had to be dampened by the liquidity credits from the NBY.

The ongoing reform already deals with some of the economic problems, and has created a base for more sustainable economic management in Serbia. While tax evasion activities are combated, this takes place with the tax system increase in efficiency through reduction of numerous sales taxes while the average tax rate was raised. On the expenditure side, wages have been relatively constant, while the administration salaries freeze was instituted at the January 2001 level.⁹⁶ Fiscal transparency was further enhanced through the integration of various extra-budgetary programs into the Republic Budget. Furthermore, since late 2000, banks are no longer under government's direction to make credits to specific sectors. Given the scope and the depth of economic reform undertakings, the 2002 inflation estimate at an acceptable 15 percent give way to some optimism.

Attempting to judge the performance of Serbian reform by reading the macroeconomic indices may be premature and perhaps misleading. These reforms represent only the first step towards a fiscal and macroeconomic stability and will include further adjustments and planning in the economy. According to available figures the Serbian government's consolidate spending increased by 3.5 percentage points of GDP in 2001.⁹⁷ This was the result of incorporation of costs that were previously off-budget⁹⁸ as well as the additional transfers to poor household and subsidies to enterprises to cushion the effects of electricity and gas prices restoration to its cost recovery level. However, the additional expenditures are expected to stabilize as a share of GDP over time. The real GDP growth at around 4 percent and inflation of 15 percent in 2002 are likely to soften the effects of the transitional recession. Yet, it is noted that the growth is primarily driven by the recovery of agriculture and electricity production, while the industrial output has not made major contribution to the growth as yet.⁹⁹ Sustainability of an average 4% per year growth depends on gradual reintegration of the grey economy as well as on the improved efficiency of growing private and key infrastructure sectors (energy and transport). Yet, these growth predictions are made under the premises of reduced burden of external and public debt, and the growth in export activity. Additionally, they are based on the premise of greater external support for Serbia and Montenegro and acceleration of privatization.¹⁰⁰ Under such a scenario, the envisaged GDP would rise to US\$10,4 billion, resulting in per capita GDP at approximately US\$1400

⁹⁶ One of the key measures was the freezing of the wages and reduction in overall military spending, which reportedly constituted the single largest component of spending, although much of the defence spending has been off-budget. While the access to defence figures remains problematic, the World Bank estimate its reduction from 5–6 percent at its peaks in the past to around 3 percent of GDP for 2002. The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38., Volume II, p.7, 39, 41.

⁹⁷ The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit, 23689-YU (The World Bank). 1–38, Volume II, p.11.

⁹⁸ Note: These include the extra-budgetary expenses financed by own revenues of public institutions.

⁹⁹ The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*, The World Bank, Ed., p. 1–77 (Washington, DC, The World Bank), p.65.

¹⁰⁰ Note that 90% of budget deficit is expected to be financed through privatisation revenues and external financial support. Ibid.

¹⁰¹ The trend predictions partly depend on the degree to which the refugees remain in FRY. The integration of refugees would lead to growth in population, while pulling down per capita figures. Ibid., p.67.

in 2005.¹⁰¹

The key topics in public expenditure reform in Montenegro differ to a degree from those in Serbia, primarily because of the early start and different pace of the public finances reforms, the more limited local institutional capacity to sustain the reform, and the greater dependence of external financial support.¹⁰² Already in 1997 the government initiated reforms promoting the tenets of market mechanism in the country. By 2000 the tariffs were cut down to average 3%, while the introduction of the DM and later on of the Euro as legal tenders resulted in 12% inflation in 2002.¹⁰³ As perhaps anticipated, given the absence of a monetary and exchange rate policy, the government's attention has been mainly within the fiscal sphere. In 1999 the government introduced strict limits on bank lending in order to reduce the budgetary risks while stabilizing banking sector. This was followed by establishment of the core central bank functions, while a set of regulation came in place to regulate the work of commercial banks.¹⁰⁴ Furthermore, two packages of tax laws were passed in aiming to reduce tax evasion through better tax administration and collection, and to expand revenue base. Notwithstanding the progress hitherto, the reforms are still at an early stage and further actions are required to remove distortions in the enterprise, banking, and other sectors.¹⁰⁵

The 2001 budget deficit was 5 percent of GDP¹⁰⁶, however the problem has been the allocation of spending across major categories.¹⁰⁷ Public expenditure on pensions in Montenegro is high, estimated at 13.2 percent of GDP in 2001.¹⁰⁸ At the same time the total Health Expenditure amounted to 9.9 percent of GDP, while the costs of public order were estimated at 2.5 percent of GDP.¹⁰⁹ Yet, the budgetary pressures are likely to increase. In 2002 Montenegro should have commenced paying its contribution to its share of the FRY's external debt service payments. It is projected that the interest payments will rise from 0.1 percent of total spending in 2001 to 4.8 percent in 2002.¹¹⁰ Fiscal sustainability is likely to be further challenged by the decline of external grant financing.¹¹¹ Considering that future financial assistance will be judged by the policy performance should be a source of concern for the Montenegrin government. They are left with few policy options to improve fiscal

¹⁰² For more see ESI, *Rethoric and Reform: A case study of institutional building in Montenegro 1998–2001*, pp. 1–30.

¹⁰³ The World Bank (2003) *Serbia and Montenegro Public Expenditure and Institutional Review. Poverty Reduction and Economic Management Unit*, 23689-YU (The World Bank). 1–38.

¹⁰⁴ The numbers of regulations include licensing provisions, reporting, performance requirements, as well as bankruptcy and liquidation of insolvent banks.

¹⁰⁵ The World Bank (2003) *Serbia and Montenegro Public Expenditure and Institutional Review*.

¹⁰⁶ The Montenegrin GDP in 2001 was DM 1963 million, with projected DM 2271 million in 2002. The World Bank (2003) *Serbia and Montenegro Public Expenditure and Institutional Review, Volume III*, p.28.

¹⁰⁷ With the prioritisation of wages and other consumption commitments, the government had turned the important capital expenditure into a residual item. This affects the quality of public service, large contingent of liabilities and can lead to arrested overall growth.

¹⁰⁸ Yet, it is recognised that if Pension Fund met its obligations in full, the figure would be at 14.9 percent of GDP. The World Bank (2003) *Serbia and Montenegro Public Expenditure and Institutional Review, Volume III*, p.25.

¹⁰⁹ Note that in 2001 the budget of Montenegro did not include defence allocations. *Ibid.*, p. 23.

¹¹⁰ The World Bank (2003) *Serbia and Montenegro Public Expenditure and Institutional Review, Volume I*, p.24.

¹¹¹ The donor fear of developing aid dependency is one of the arguments for the reduction in the grant financing. It is reported that foreign grants in 2000 totaled 9 percent of GDP, while in 2002 they averaged 3 percent of GDP closing about 60 percent of the fiscal gap. *Ibid.*, p.25.

sustainability. On one hand, it is socially costly and politically difficult to reduce the role of government in the economy.¹¹² Yet, on the other, the tax is already high, and the further tax evasion could undermine attempts to boost revenues. Considering that the prospect of attracting significant investment in the short-term is limited, the radical reform would have to entail drastic public administration reform, further reform of revenue administration, and the reform of the police force.¹¹³

The key premise for continuous growth in Serbia and Montenegro is the increase in growth of exports of goods and services. This growth is expected to outpace the real GDP growth over the next few years, yet not reaching its historic levels.¹¹⁴ Most of the export growth is accounted by restarting of the traditional export activities such as textiles and food processing. Furthermore, there is an increasing trade with neighbors. However, more rapid export growth could be achieved by an increase in domestic production capacity through development of private sector, increased access to capital and inputs, foreign direct investment, and full integration into the regional, European and global economy. Successful privatization to strategic investors and the trade expansions with the SEE markets will be fundamental to this process.¹¹⁵ The recent agreement on the Action plan for harmonization of economic systems, entailing among others a single external tariff and single trade policy, strengthens the optimism about economic reforms in Serbia and Montenegro.

¹¹² It is noted that public service employees (health care, education, and central administration) account for 6 percent of population and around 20 percent of the labour force. According to the World Bank this represents one of the highest levels of public employment in Europe. Public Sector Wages and Salaries made up largest non-discretionary spending item, accounting for 12 percent of GDP in 2001. The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review, Volume III, p.1, 20.

¹¹³ ESI (2001) Rethoric and Reform: A case study of institutional building in Montenegro 1998–2001.

¹¹⁴ The World Bank (2002) Breaking with the Past: The Path to Stability and Growth, THE World Bank, Ed., p. 1–77 (Washington, DC, The World Bank).

¹¹⁵ Ibid.

Social development

Serbia and Montenegro have operated a mandatory pay-as-you-go pension system. Relatively generous benefits combined with a drastic fall of contributors per beneficiary resulted in high and unsustainable pension related spending. Only in 2001, it absorbed 12.7 percent of GDP, and was able to meet its obligations only after budgetary transfers amounting to 4 percent of GDP.¹¹⁶ According to available data there are about 1.6 million pensioners in Serbia and Montenegro, their numbers increasing by over 47 percent during the 1990s.¹¹⁷ While Serbia and Montenegro have introduced a range of measures to contain the level of spending, these are unlikely to eliminate the deficit, at least not in near future.¹¹⁸ The hope is that such measures would increase the saving up to 0.8 percent of GDP by 2005. However, it has been pointed out that the overall pension reform in Serbia and Montenegro should not only bring immediate fiscal relief, but also reduce the long term structural imbalances.¹¹⁹

Unemployment compensations in Serbia and Montenegro are considered to be relatively generous, however spending is viewed as high.¹²⁰ Most of the provisions are provided by the Labour Market Bureaux (LMBs). The services include provisions of information on vacancies, job search assistance, training, and self-employment programmes. It also assists in job 'creation' for the jobless, physically impaired, and those made redundant. Yet, it should be kept in mind that only small proportion of the unemployed receives UB.¹²¹ Despite the size of recipients the system is generating arrears.¹²² In the next period, the authorities face the challenging task of reducing the excessive administrative costs within the LMBs. Additionally they are expected to make the system more incentive compatible while moving away from cost-ineffective labour market programmes.¹²³

¹¹⁶ The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review, Volume II.

¹¹⁷ The World Bank (2002) Breaking with the Past: The Path to Stability and Growth, p.281.

¹¹⁸ Since early 2002 retirement age for men (60) and women (55) were raised to 63 and 58 respectively. The measures also include the change in pension indexation and the structure of minimum pension. The World Bank (2003) Serbia and Montenegro Public Expenditure and Institutional Review, p.47.

¹¹⁹ The World Bank (2002) Breaking with the Past: The Path to Stability and Growth, Volume II.

¹²⁰ This is because benefits are limited to those who have contributed for a minimum period. See Ibid.

¹²¹ In the Serbian case data for 2000 indicates that out of 731,000 registered unemployed only 6.5 percent received UB. In Montenegro out of 84,000 registered unemployed only 4 percent were receiving UB.

¹²² In 2001, the Serbian authorities were 3.5 months behind in payments, while in Montenegro they have been arrears in UB since 1997. The World Bank (2002) Breaking with the Past: The Path to Stability and Growth.

¹²³ For example the provision of small 'self-employment' loans by the LMB should be abolished, leaving such tasks to the banks. See Ibid.

Administration and delivery of social services are under the jurisdiction of the Ministry of Social Affairs in Serbia and of the Ministry of Labour and Social Affairs in Montenegro. The basic social service, the benefit of last resort, is available to households whose income fails below a specific 'social security level'.¹²⁴ While in both republics, regular benefits are financed from the general budget, the one-time help is administered from local budgets.¹²⁵ In December 2000 Serbian arrears in payments were up to 26 months. Montenegro had more modest arrears up to two months. Reportedly most of the outstanding debts arising from various social transfers have been settled during 2002.¹²⁶ Children allowance administration is conducted separately from social assistance in Serbia, though the function is merged in Montenegro. Social welfare administration is well-developed, the network of CSW¹²⁷ consisting of 143 local centres in Serbia and 10 in Montenegro. On the down side, Serbia and Montenegro's welfare spending relative to their GDP was at a mid-range and up level in 2000 relative to the rest of the region.¹²⁸ However, the social welfare system will be presented with great challenges in coming years, particularly when considering the negative social impact of economic restructuring and likely beneficiary inflow due to integration of refugees. The complex wholesale reform of the system will have to include the simplification of the complex benefit structure, streamlining and strengthening of the welfare delivery, upgrading of staff skills, introducing computerised databases, developing operational manuals and most importantly developing partnership with non-governmental sector in regular activities.¹²⁹

Serbian and Montenegrin health care system suffers from the problem of fiscal sustainability. Public spending on health care in Serbia was at 7 percent of GDP in 2001. With the estimates of private expenditure added, total health expenditure ranges between 9 and 11 percent of GDP and is one of the highest in the region. The country's difficulties in financing even the basic services are due to a poorly functioning contribution system and unclear division of responsibilities between the main agencies.¹³⁰ Similarly, lack of leadership has also obstructed the progress on a national medical policy. As it is now, the responsibility for medicine management fails under various state bodies, often with overlapping functions. The ongoing set up of a new legal framework and a National Medicine Agency are the promising steps in the right direction. However, the next steps will have to emphasise capacity building of the Ministry of Health employees, strengthening MoH planning and policy, and designing of a national plan for human resources development as a part of deeper reform in the health system.¹³¹

¹²⁴ In December 2000 these ranged from 6 DM- 82 DM in Serbia, and up to 165 DM in Montenegro, although the current difference between the republics is anticipated to be smaller.

¹²⁵ It is pointed out that in Serbia locally available one-time help is significant, and recent years more than total republic's spending on social assistance. The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*.

¹²⁶ The Government of the Republic of Serbia (Ministry of International Economic Relations) (2003) *The Reform Agenda of the Republic of Serbia* (Belgrade).

¹²⁷ Centre for Social Work

¹²⁸ The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*, Volume I.

¹²⁹ *Ibid.*, p.289-306.

¹³⁰ European Commission (2002) Draft Annual Action Programme 2003 for FRY/Serbia, in: EAR/2002/21/03 (Brussels).

¹³¹ *Ibid.*

A decade of armed conflict, international isolation and economic instability affected the living standard of the vast majority of Serbian and Montenegrin population. The effects of war were devastating and resulted in 720,000 refugees and IDPs in the country.¹³² Also, the decline in economic performance and reduction in real wages added to increase in poverty. Despite the recent progress, poverty remains widespread in Serbia and Montenegro. According to Survey of the Standard of Living, conducted in 2002, 10.6 percent of Serbian population lives below the poverty line.¹³³ The incidence is roughly the same in Montenegro.¹³⁴ The rural population is dominant among the poor.¹³⁵ Additionally, the elderly, the disabled, and families with many children appear to have the highest risk of poverty, as well as the refugees and IDPs who arrived amid the war and economic turmoil. Regionally the highest poverty rates were noted in Southern Serbia and Northern Montenegro.¹³⁶ Also, general clustering of households around the poverty line is present. This implies that even a slight change in the income will considerably affect the poverty status of a considerable number of people. The concern is that liberalisation of economic activities may result in the increase of poverty. The government of Serbia estimated that the poverty gap amounted to 1 percent of GDP in 2002, given the perfect targeting of assistance to the poverty stricken. The poverty gap is likely to increase as the process of reforms continues. Clearly, more work needs to be done to monitor the social impact of reforms. There is also a need for technical assistance to help government forecasting the impact of the policies on the poor. However, a long term strategy to combat poverty envisages a structural reform of the social security system.

Displaced population represent a significant social welfare issue in Serbia and Montenegro. The fighting and civilian expulsions in Croatia and Bosnia-Herzegovina wars, and afterwards in Kosovo led to migrations Serbian population to Serbia and Montenegro. Most sources approximate the number of refugees and internally displaced persons (IDPs) at around 720,000.¹³⁷ Out of this number 451,980 were refugees. It is reported that out of this number 72,249 do not meet all the necessary conditions to acquire refugee status under international law.¹³⁸ The greatest numbers of refugees originate from Croatia, some 63%, while the percentage of those from Bosnia and Herzegovina has reportedly declined to 36%.¹³⁹ Clearly, refugees and IDPs represent an additional responsibility for a country already burdened with a host of transitional problems. Sustainable options for displaced population can be classified into three categories: repatriation to their original homes, emigration to a third country, and integration into the community where the refugee settled initially. Although in some cases the returns are possible, the relative majority of refugees (60.6% of those from Croatia and 59.8% of

¹³² The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*, Volume I.

¹³³ The poverty line is defined as the sum of the minimum consumer basket and other basic expenses per unit of equal consumption. Also note that the survey did not include refugees and IDPs. The Government of the Republic of Serbia (2003) *The Reform Agenda of the Republic of Serbia*.

¹³⁴ The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*, Volume I.

¹³⁵ The Government of the Republic of Serbia (2003) *The Reform Agenda of the Republic of Serbia*.

¹³⁶ The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*.

¹³⁷ Ibid.

¹³⁸ See: <http://www.serbia.sr.gov.yu>, visited on 02/09/2003

¹³⁹ See: Ibid.

those from Bosnia-Herzegovina) have opted for integration in Serbia and Montenegro. The future of IDPs in Serbia and Montenegro is linked to the eventual political outcome and the provision of physical security in Kosovo, which at the present are lacking.

Environmental situation

During the 1990s, Serbian and Montenegrin environmental situation went through a period of drastic deterioration. A decade of neglecting problems in the environmental sector resulted in a state of moderate to severe pollution in Serbia and Montenegro. This included industrial contamination and domestically generated waste. The 1999 air strikes further exacerbated the environmental problems, pertaining to air, land and water.¹⁴⁰ Serbia and Montenegro face numerous challenges including water supply, solid waste services, inadequate hazardous waste management facilities and services, urban air pollution, soil erosion, deforestation, and degradation of coastal areas.¹⁴¹ During 1999 the joint UNEP/ UNCHS Balkan task Force report identified "hot spots" which pose serious threat to human health and ecological system and thus require urgent attention.¹⁴² Recent Government initiatives include the establishment of a Ministry for the Protection of Natural Resources and Environment in June 2002. However, presently the Ministry is faced with a weak institutional and legal framework. The situation is further exacerbated by the limitation in financial and human resources.¹⁴³ Hence, strengthening of institutional capacity on both central and local levels is viewed as the priority. This would involve enacting of environmental regulations, increasing awareness of environmental issues, developing environmental management capacity at the municipal level, promoting public participation and ensuring dissemination of information on environment.¹⁴⁴ Additionally, the emphasis should be on strengthening the NGO community, which already plays a significant role in the field of environment. Finally, Serbia and Montenegro should continue to participate in the EU promoted regional environmental initiatives aiming at development that is both environmentally and economically sustainable.¹⁴⁵

¹⁴⁰ European Commission (2002) Draft Annual Action Programme 2003 for FRY/Serbia.

¹⁴¹ The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*.

¹⁴² The hot spots are industrial sites in Bor, Kragujevac, Pančevo and Novi Sad. The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*.

¹⁴³ European Commission (2002) Draft Annual Action Programme 2003 for FRY/Serbia.

¹⁴⁴ The World Bank (2002) *Breaking with the Past: The Path to Stability and Growth*.

¹⁴⁵ The most relevant one is the Regional Environmental Reconstruction Programme which is being carried under the Stability Pact. See *Ibid*.

Public administration

The state of Serbia and Montenegro came to life in February 2003. The new Parliament of Serbia and Montenegro was elected by the Serbian and Montenegrin legislature on 25 February 2003. Svetozar Marović, previously Speaker of the Montenegrin parliament, was appointed President of the state. The headquarters of the Assembly and the Council of Ministers are located in Belgrade, while the Court of Serbia and Montenegro is located in Podgorica. The unicameral assembly consists of 91 deputies from Serbia and 35 from Montenegro. Laws must be passed by a majority of deputies from each republic. During the initial two years, the deputies will be delegated by the ruling parliamentary majority from each of the two republics. Direct elections are envisaged after the expiry of the two year period.¹⁴⁶ The Council of Ministers has few competences, namely foreign affairs¹⁴⁷, defence, international economic relations, protection of human and minority rights. It functions more as a coordinating body, while most government functions remain at the republican level. The national bank of Serbia acts as the main financial institution in the state union, while the Montenegrin National Bank is an advisory in the process. The two republics retain different currencies, the dinar and Euro respectively, and separate but related central banks. Notwithstanding the republics are currently working on converging customs tariffs and establishing a single market.

The Serbia and Montenegro state structure leaves a lot to be desired. The state consists of two in geographic, population and economic terms disproportional entities. Additionally their economies developed and reformed differently in terms of pace and structure. Hence, Serbia would prefer higher common tariffs to protect its still unreformed textile and metal industry, while Montenegro, lacking in heavy industry, and with a small, foreign trade-oriented, economy, prefers lower common tariffs. The risk is that this type of the relationship hardly corresponds to the wishes of neither yet it depends on consensus.¹⁴⁸ The concern is that

¹⁴⁶ The first two years raise the problem of legitimacy of the parliament, as most of its work may depend on consensus between two republican governments, often made elsewhere, in the period of direct elections it could result in the gridlock between republican and federal governments regarding the numerous important decisions. Lastly, the arrangement raises the problematic issue of consensus making between drastically smaller Montenegro and Serbia as bigger member of the union. The risk is that possible Montenegrin political stalling could frustrate the pace of reforms in Serbia (ICG, *Serbia After Djindjić*, 2003).

¹⁴⁷ The ministry of foreign affairs is already functioning, while the issue of army is in the process of resolution through reform and downsizing.

prolonged political bickerings and negotiations may frustrate the pace of reforms, particularly in Serbia, and eventually spell an end to the joint state.

The problem of internal arrangement is amplified through Kosovo situation. Kosovo is mentioned directly only in the preamble of Constitutional Charter of the State Union of Serbia and Montenegro.¹⁴⁹ Yet, it is legally part of Serbia as the successor of FRY, although under the interim UN control. Yet, the status of Kosovo in the current institutional structure remains an open question, likely to appear at each stage of Serbia and Montenegro's international integrations process. For example, It remains unclear how Serbian and Montenegrin membership in the Council of Europe practically pertains to Kosovo. Namely, the status of Kosovo vis-a-vis the Council of Europe remains ambiguous. Additionally, it seems that the negotiations on a Stability and Association Agreement would not relate Kosovo either.¹⁵⁰ As some analyses point out, as long as Kosovo's future remains unresolved, the territory and the constitutional make-up of Serbia, and of Serbia and Montenegro stays less than fully defined.¹⁵¹

While the state level remains ambiguous, Serbian Government is conducting the public administration reform. Years of centralised policies together with economic decline diminished the position of municipalities.¹⁵² Municipalities in general struggle to develop the concept of local governance as 'a service to citizens' due to lack of legal authority as well as of adequate resources to cover the services expenses. Current delineation between central and local government is unclear and inconsistent, while the fiscal system does not provide dependable sources of municipal revenues. Thus, mechanisms for citizen and civil society involvement in local governance are minimal at the present. However, the government has acted progressively by launching an administrative reform programme. The programme includes both, devolution of responsibility and fiscal measures for municipal financing. Additionally, regional policy is also being developed. As a confirmation of its commitment, a new law on Local Government has been adopted in February 2002.¹⁵³ It is expected that the reform of local government will continue after the writing of the new Serbian constitution.

¹⁴⁸ (ICG, *Serbia After Djindić*, 2003).

¹⁴⁹ *Tekst Ustavne Povelje Srbije i Crne Gore- preambula* (2002).

¹⁵⁰ (ICG, *Serbia After Djindić*, 2003).

¹⁵¹ *Ibid.*

¹⁵² European Commission (2002) *Draft Annual Action Programme 2003 for FRY/Serbia*.

¹⁵³ *Ibid.*

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