

ANNEX

Instrument for Pre-accession Assistance (IPA)

Multi-annual Indicative Planning Document

MIPD

2011-2013

Republic of Serbia

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Executive summary

The purpose of this Multi-annual Indicative Planning Document (MIPD) is to set out the EU's priorities for assistance to Serbia for the programming period 2011-2013.

The MIPDs are based on the needs identified in the European Partnership of the country as well as the latest Enlargement Strategy and Progress Report (adopted on 9 November 2010) take the country's own strategies into account. The Government of Serbia, local stakeholders, EU Member States and other donors have all been consulted in the design of this MIPD.

The Commission has taken a number of steps to enhance the strategic nature of this process over the last few years and to strengthen the link between the priorities established in the progress reports and the programming of assistance. To better illustrate this focus, and to strengthen the beneficiary countries ownership, the Commission will increase its use of a sector-based¹ logic in its planning of pre-accession assistance.

To increase the impact of the Instrument for Pre-accession Assistance (IPA) and to place a greater focus on achievable results, the Commission has decided to concentrate its efforts on targeted sectors. A sector approach will facilitate cooperation among donors and beneficiaries, where possible under the lead of the national authorities, eliminating duplication of efforts and leading to greater efficiency and effectiveness. This in turn should allow all stakeholders to focus more on the impact of our combined efforts.

To date, the number of fully fledged programmes developed by IPA beneficiary countries is limited. Nonetheless, by beginning to focus more on priority sectors now, the Commission can better support the development of such programmes on which EU and other donor assistance can then be based.

The following priorities for IPA support over the period covered by this MIPD have been identified:

(1) Strengthening the rule of law and public administration

These are essential areas for the political criteria, as identified by the 2010 Progress Report on Serbia. Within the area of rule of law, special attention is to be paid to judicial reform and the fight against corruption and organised crime. The public administration needs to turn into an efficient, merit-based and accountable civil service, fully capable of coping with the alignment and implementation of the EU acquis. Activities under this priority have an important bearing on the stability and enhancement of democratic institutions and local government, as well as on the country's business environment.

(2) Overcoming the economic crisis and improving competitiveness

This is a challenge emphasised by the enlargement strategy 2010-2011. Serbia was particularly hit by the crisis. At a moment when it slowly starts to recover from the main impact of the crisis, its economic development needs to be sustained. A major objective here is to improve the business environment in order to stimulate domestic growth and attract foreign investment.

¹ Or programme-based approach where the selected priorities span across sectors

(3) Social inclusion and reconciliation

The integration of vulnerable groups and minorities, including the Roma, as well as refugees, internally displaced persons (IDPs) and returnees, in accordance with the Readmission Agreement, is a major challenge for Serbia. High levels of unemployment, especially among the youth, low employment rates and widespread and acute poverty throughout Serbia have been identified as a key challenge in the enlargement strategy.

To achieve the priorities selected for support in the programming period 2011-2013, the Commission will primarily focus its assistance on the following sectors:

- (1) Justice and Home Affairs
- (2) Public Administration Reform
- (3) Social Development
- (4) Private Sector Development
- (5) Transport
- (6) Environment, Climate Change and Energy
- (7) Agriculture and Rural Development

1. IPA STRATEGIC OBJECTIVE

The overall objective of EU financial assistance to Serbia is to support the country's reform efforts and its movement towards compliance with the EU *acquis*, so that it becomes capable of taking on the obligations of European Union membership.

The Europe 2020 agenda offers the enlargement countries an important inspiration for reforms. Serbia is invited to consider the priorities of the strategy and adapt its main challenges in the national context. Enlargement policy also supports the Europe 2020 strategy by extending the internal market and enhancing cooperation in areas where cross-border cooperation is key.

2. STRATEGIC PLANNING OF IPA ASSISTANCE

2.1. Country challenges and needs assessment

Serbia is a democratic republic in South East Europe, located in the middle of the Balkan Peninsula on one of the most important routes linking Europe and Asia.

Serbia has a population of 7.4 million inhabitants. Its ethnic composition is diverse: Serbs 82.9%, Hungarians 3.9%, Bosniaks 1.8%, Roma 1.4%, Yugoslavs 1.1%, Montenegrins 0.9%, other 8% (2002 census). According to the United Nations High Commissioner for Refugees, there are approximately 83,000 refugees and 205,000 internally displaced persons in Serbia. The official language is Serbian. In areas inhabited by ethnic minorities, the languages of the minorities are in official use, as provided by law.

The present government is a coalition government in which the largest block is made up of the Democratic Party (DS), the Socialist Party of Serbia (SPS), Group 17 Plus (G17+) and a number of smaller parties. The Serbian parliament adopted a new constitution in November 2006. The country is administratively divided into 168 municipalities. Belgrade is the capital of Serbia. With a population of 1.6 million, it is the country's administrative, cultural and economic centre.

Serbia is a middle-income country with a Gross Domestic Product (GDP) per capita of about €4,300 in 2009. The country has a great potential for rapid economic growth as it is endowed with natural mineral resources as well as fertile and arable agricultural land. It also has potential to become a major transport hub due to its strategic location. Serbia's economy is principally based on services, which account for 65% of the GDP. Industry accounts for 24% and agriculture for 11%.

Since 2001, Serbia has undergone major democratic and economic changes in an effort to catch-up following a late start to its transition to a market economy. These reforms have revolved around the institutional framework, privatisation of productive and financial assets, liberalisation of the trade regime, improvement of the business environment, the development of a new system of industrial relations, social security, employment and social policies. As a consequence of these reforms, the share of the population living in poverty has fallen significantly.

The country's main economic problems remain high unemployment, a large trade deficit and a large external debt. In the past, Serbia has attracted substantial amounts of foreign direct

investment (FDI), but further reforms are necessary to improve the business climate and boost investment.

Serbia was severely hit by the 2008 financial crisis. GDP fell 3% in real terms in 2009 and the budget deficit grew quickly to 4.5%. Unemployment approached 20% in 2010 and is affecting young persons and minority groups in particular. As a consequence of the crisis, the pace of privatisation has also slowed. Deficiencies in competition, the regulatory environment, administrative procedures, rule of law and infrastructure bottlenecks remain barriers to doing business.

Following an agreement with the Serbian government, the IMF granted Serbia a €3 billion loan in May 2009, roughly half of which Serbia has so far has drawn upon. To top up the IMF loans, the European Commission signed a €200 million macro financial assistance loan (although it plans to disburse only up to €100 million in light of the gradual economic recovery, and lower foreign financing needs). The EU also provided €100 million of budget support through IPA funds. The World Bank approved lending of US\$250 million through Private Sector and Finance and Public Expenditure Development Policy Loans in late 2009 and beginning of 2010. An additional US\$200 million is expected to be approved in 2011. The Serbian Government's efforts to contain the crisis are now bearing fruit. In 2010 the Serbian economy is expected to have grown by approximately 1.5-2%.

Fighting poverty and the social exclusion of vulnerable groups, in particular the Roma population, refugees, IDPs, persons with disabilities, the elderly and pensioners, remains a key challenge. The deepening disparity between regions is also a matter of concern. The regional economic disparities are in fact among the highest in Europe, the difference in the level of economic development being 1:10 between Belgrade and certain municipalities in the south. According to the Single List of Development of Municipalities and Regions (Official Gazette of the Republic of Serbia No. 51/2010), the least developed municipalities (19 out of 46) are concentrated in only 4 districts of South-Eastern Serbia.

Serbia has further progressed towards aligning its legislation with the EU *acquis*. Progress was achieved on the fight against organised crime with good results in high-profile investigations against organised crime groups. However, further efforts are necessary to bring legislation and policies into line with European standards. Serbia can learn from experiences of new EU Member States in the transition period leading to accession.

The reform of the judicial system in Serbia follows a national strategy but the appointment of judges and prosecutors is not fully transparent yet. This puts into question the independence of the judiciary and reform should continue. Shortcomings in the fight against corruption and organised crime persist and the relevant authorities need further strengthening. Corruption is prevalent in many areas of the country and is a serious problem. Public procurement, privatisation and public expenditure are particularly affected. Despite the active ongoing cooperation of Serbia with the International Criminal Tribunal for the former Yugoslavia (ICTY), the two remaining ICTY fugitives, Ratko Mladić and Goran Hadžić, are still at large.

The capacity of the public administration is generally good but reforms in this area are advancing at a slow and uneven pace. A stronger commitment to respect the mandate of independent regulatory bodies and provide them with adequate resources is needed.

2.2. National strategies

Serbia has made efforts to implement an ambitious National Programme for Integration in the European Union (NPI) and has established a large number of multi-sector and sector

strategies to progress towards the EU. This needs to be used to press ahead with the reform agenda, leading to tangible results in priority areas such as strengthening the rule of law. Further sustained efforts on the reform agenda, including the improvement, implementation and enforcement of existing laws are needed.

Coordination and programming of the assistance at country level is the responsibility of the Development Assistance Coordination Unit (DACU) within the Serbian European Integration Office (SEIO). The Deputy Prime Minister for European Integration fulfils the role of National IPA Coordinator (NIPAC). The Serbian government initiated in 2010 a Needs Assessment for 2011-2013 aimed at identifying priorities for assistance, both from IPA and other donors. This process is aligned with the preparation of the MIPD.

The preparation of the MIPD for 2011-2013 also helped to focus national strategies on key sector priorities for socio-economic development and European integration. Among the most relevant strategies are those for public administration reform (PAR), the judicial sector reform strategy, social welfare development and the strategy against corruption and organised crime.

2.3. Relations with the EU

Serbia applied for EU membership in December 2009 and has demonstrated a renewed commitment towards meeting the Copenhagen criteria. In October 2010, the Council invited the Commission to submit its Opinion on this application. The Opinion is currently in the process of being drafted and is foreseen to be adopted, in the framework of the 2011 enlargement package, in October. The Stabilisation and Association Agreement (SAA) was signed, along with the Interim Agreement, in April 2008. In February 2010 the Interim Agreement entered into force and in June 2010 the Member States agreed to submit the Stabilisation and Association Agreement to their parliaments for ratification.

Serbia has continued to make progress in meeting the political and economic criteria and in addressing European Partnership priorities. The government has remained stable and continued to demonstrate a high degree of consensus on EU integration as a strategic priority. It has also demonstrated its commitment to bringing the country closer to the European Union by undertaking a number of initiatives including the implementation of the provisions of the Interim Agreement. A visa free travel regime for Serbian citizens holding biometric passports was achieved in December 2009.

However, in order for Serbia to meet the conditions for accession, additional efforts are required, *inter alia* regarding judicial reform, public administration reform as well as the fight against organised crime and corruption. Full cooperation with the ICTY remains an essential condition.

The EU is the largest donor in Serbia. IPA assistance is essential in maintaining Serbia on the path of EU integration. The focus of EU support is linked with the shortcomings identified in the Progress Report. IPA has also a catalytic effect on other donors and international financial institutions (IFIs), whose programmes are increasingly aligned with the EU integration agenda.

2.4. Lessons learned

Lessons learned from the implementation of assistance in Serbia, as well as findings of evaluations conducted by the Directorate General for Enlargement², suggest that planning and programming of IPA assistance can be improved by:

- A more focused MIPD. The adopted sector approach for the period 2011-2013 should lead to simplification of the project identification process and a more co-ordinated sense of direction from all stakeholders;
- Increased administrative and monitoring capacity. This is particularly essential if Serbia is to achieve accreditation for implementation of assistance under the DIS (Decentralised Implementation System);
- Better attention to project maturity. This should also be linked to timely planning and sequencing of the programming process;
- Better linking of EU assistance to sector strategies and action plans of the Serbian institutions. The new approach adopted with the MIPD 2011-2013 responds to this need; and,
- Improving division of labour among donors; encouraging the association of other donors to IPA management (through joint financing mechanisms or delegated cooperation) in areas where these have a comparative advantage.

2.5. Consultations with stakeholders and donors

In order to define the strategy for assistance, the Commission, the DACU and the relevant Serbian ministries and institutions joined efforts in preparing so-called sector identification fiches. The fiches provided information on sector activities, a preliminary assessment of the strategies in place and linked them to the requirements of the Stabilisation and Association Agreement (SAA), the European Partnership and the conclusions of the 2009 Progress Report.

A series of consultative meetings were held from October 2009 to June 2010 within the Inter-sector Working Groups³ that were established with the purpose of defining priorities for financing. The national, local and regional authorities, the donor community in Serbia, civil society organisations as well as other relevant stakeholders were invited to take part and actively participated in the consultative meetings. The discussions that took place addressed the mid-term development needs of Serbia. The reform of the judicial system was identified as a priority area at an early stage and on 14 July 2010 a specific workshop for the sector was organised.

Further consultations with national stakeholders, donors and civil society were held in December 2010. The conclusions from this consultative process were further adapted in light of the conclusions of the 2010 Progress Report and Enlargement Strategy.

² Retrospective evaluation of CARDS programmes in the Republic of Serbia, 2009; Interim / Strategic evaluation of EU IPA pre-accession assistance to Serbia, 2010

³ There were five Working Groups: economy and human resource development; local, regional and rural development; infrastructure development; public administration reform; and the rule of law.

Since 2007, the annual European Commission Communication on the Enlargement Strategy underlined the importance of civil society being able to play its role in a participatory democracy. The "*Civil Society Facility*" (CSF), financed under both the IPA Multi-beneficiary and the IPA national programmes, was set up as the tool to financially support the development of civil society. A network of technical assistance desks (TACSO) has been established in the Western Balkans. This network became operational in autumn 2009. Local Advisory Groups have also been established consisting of representatives from the EU delegations, governments, civil society and other donors.

2.6. Selected priorities for EU assistance

The selection of priorities for EU assistance was conducted in coordination with the Needs Assessment 2011-2013 being carried out by the Serbian authorities. Priorities are aligned with the conclusions of the Enlargement Strategy and Progress Report 2010 and also aim at contributing to the Europe 2020 strategy, particularly in the areas of inclusion and sustainability.

The following priorities for IPA support over the period covered by this MIPD have been identified:

- Strengthening the rule of law and public administration

These are essential areas for the political criteria, as identified by the Commission's 2010 Progress Report on Serbia. Within the area of rule of law, special attention is to be paid to judicial reform and the fight against corruption and organised crime. Serbia's public administration needs to turn into an efficient, merit-based and accountable civil service, fully able to cope with alignment and implementation of the EU *acquis*. Activities under this priority have an important bearing on the stability and enhancement of democratic institutions, as well as on the country's business environment.

This priority will be addressed by providing assistance to the sectors of Justice and Home Affairs and Public Administration Reform.

- Overcoming the economic crisis and improving competitiveness

This is a challenge identified by the enlargement strategy 2010-2011. Serbia is more integrated into the global economy than most other economies in the region and was particularly hit by the crisis. It made use of IMF support as well as EU budget support and is now slowly recovering from the crisis.

To boost economic growth and to attract foreign direct investment, Serbia needs to improve its business environment and infrastructure, in particular in areas where Serbia has export potential. Furthermore, policy reforms in a large number of areas such as market entry and exit, transport and energy, will contribute to a more favourable regulatory environment for foreign investors. The link to rule of law is crucial in order to establish a predictable, stable and transparent business environment. Promotion of low-carbon development can enhance the competitiveness of Serbia's industries.

This priority will be addressed by providing specific EU assistance to Private Sector Development. It will also be addressed by facilitating policy reforms in a number of areas such as justice, environment, climate change, transport, energy, and agriculture. Cooperation measures in relation to the EU Strategy for the Danube Region, adopted by the Commission

in December 2010 and endorsed by the Council in April 2011, will also support this priority. Serbia is an important actor in the Danube region.

- Social inclusion and reconciliation

The integration of vulnerable groups and minorities, including the Roma, as well as refugees, internally displaced persons (IDPs) and returnees in accordance with the Readmission Agreement is a challenge for Serbia. High levels of unemployment (especially youth unemployment), low labour force participation rates, poverty, low inclusion and high drop-out rates from the education system of vulnerable groups, are widespread throughout the region. This priority will be addressed by providing assistance within the sector of Social Development. IPA will support the country's efforts to adhere to the targets of Europe 2020 in employment, poverty and social exclusion and, in particular, to the objectives and actions of the related flagship Initiatives – An Agenda for New Skills and Jobs, the European Platform against Poverty and Social Exclusion, as well as the Youth on the Move initiative.

3. MAIN SECTORS FOR EU SUPPORT FOR 2011 – 2013

To achieve the priorities selected for support in the programming period 2011-2013, the Commission will primarily focus its assistance on the following sectors:

(1) Justice and Home Affairs

This area is of crucial importance for Serbia's EU integration and is a sector in which serious gaps still remain. A strategic framework for this policy area is developed and it is a good candidate for receiving assistance through a sector wide approach.

The main goal is the strengthening of the rule of law. Focus will be placed on the implementation and further development of the judiciary reform strategy, which aims at ensuring independence, efficiency, effectiveness and accountability of the judiciary system, and on the fight against corruption and organised crime.

Support for this sector will help improve the country's competitiveness, as well as strengthen the rule of law.

(2) Public Administration Reform

Despite good overall capacity of the public administration, reforms in this area are advancing at a slow and uneven pace. Further improvements are key for progress towards EU accession. Moreover, DIS accreditation and activation of IPA components III to V are possible during the MIPD period.

The main goal is to support policy reforms for EU integration. Focus will be placed on building administrative capacity in all fields covered by the EU *acquis* in order to enhance policy coordination and enable the country to align and implement the EU *acquis* effectively, as well as to meet the requirements for implementation of IPA assistance under the Decentralised Management System (DIS).

(3) Social Development

Livelihood and living conditions of vulnerable groups, such as persons with disabilities, IDPs, refugees and returnees is a pressing problem in Serbia and in the region. The high unemployment rate, especially among young people, is also a matter of concern.

The main goal is to align social policies in Serbia with EU standards, supporting the country's efforts to adhere to the targets of Europe 2020 in employment, poverty and social exclusion and, in particular, to the objectives and actions of the Agenda for New Skills and Jobs and of the future European Platform against Poverty and Social Exclusion. Focus will be placed on improving living conditions, employment and social inclusion of vulnerable groups, including the Roma.

(4) Private Sector Development

Despite developments over recent years, Serbian companies still face large challenges in increasing their competitiveness and export potential. Support is needed in order to help Serbia improve its business environment, attract foreign direct investment and increase exports. Support should also be given to help Serbia move to an innovation driven economy and to align with Europe 2020 targets for smart growth.

The main goal is to increase Serbia's integration and competitiveness on the European market, taking into consideration local and regional needs as well. Focus will be given to entrepreneurship and SMEs, innovation, Research and Development including IT, tourism, business environment and infrastructure, as well as strengthening the ability of enterprises to fulfill the requirements prescribed in EU legislation.

(5) Transport

Restoration and development of the infrastructure network is one of the priorities of the Serbian government. The development of Pan-European Corridors VII - the Danube River - and Corridor X - which runs between Austria and Greece - is a priority for both the EU and Serbia. A good strategic framework is in place for multi-donor support and a possible sector wide approach.

The main goals are to promote the integration of Serbia into the European transport network and to promote sustainable economic growth. The focus will be on rail and road transport and inland waterways.

(6) Environment, Climate Change and Energy

Environment, climate change and energy are not only important fields for Serbia but also for its neighbouring countries. Serbia is one of the most industrialised countries in the region and a potential energy hub. Reform of the overall energy policy is crucial in order to attract foreign investment, reduce carbon emissions and ensure stability of supply. Support for these fields could be provided through a sector wide approach. In the environmental field, the implementation of the *acquis* entails substantial investment. Serbia needs to step up efforts on climate change if it is to converge with EU requirements.

The main goal is to promote sustainable growth. Focus will be placed on water and air quality, waste management, mitigation of and adaptation to climate change, renewable energy resources, energy efficiency and security.

(7) Agriculture and Rural Development

Agriculture and rural development is an important sector in the Serbian economy and has an important social dimension, as approximately half the Serbian population live in rural areas. Progress in this sector (including food safety, veterinary and phytosanitary issues) is a key challenge for Serbia in the pre-accession period. Alignment and implementation of the *acquis* is a demanding exercise and is an important part of Serbia's preparations to assume the obligations of EU membership.

The main goal here is to support the development of a sustainable and competitive agricultural sector and to address the challenges of alignment with the Common Agricultural Policy (CAP). Support will focus on the implementation of EU standards and on the preparation of Serbia's administration for the use of pre-accession assistance under Component V.

According to the Multi-annual Indicative Financial Framework for IPA for the years 2011-2013⁴, Serbia will receive an indicative allocation of €622.3 million of pre-accession funds. The planned allocation per sector is presented below.

Indicative Financial Allocation per Sector (€million)			
2011-2013	<i>Period 2007 - 2010</i>	<i>Period 2011 - 2013</i>	
Justice and Home Affairs	42.00	75.00	12%
Public Administration Reform	89.00	75.00	12%
Social Development	96.00	75.00	12%
Private Sector Development	34.00	75.00	12%
Transport	71.00	75.00	12%
Environment, Climate Change & Energy	93.00	99.00	16%
Agriculture and Rural Development	34.00	75.00	12%
Other EU <i>acquis</i> and horizontal activities	120.00	75.00	12%
TOTAL	579.00	624.00	100%

⁴ COM (2010) 640 final of 10 November 2010.

The financial assistance will be implemented through the relevant IPA components as follows:

In € million

IPA Component	2011	2012	2013
Transition Assistance and Institution Building	190.00	194.00	203.00
Cross-border Cooperation*	12.00	12.00	12.00
TOTAL	202.00	206.00	215.00

* IPA Component II, Cross-border cooperation, is dealt with in a separate MIPD

Financial allocations are indicative and may vary according to actual financial needs identified at the time of programming.

With a view to assist Serbia implement the *acquis*, IPA may finance actions that fall outside the scope of the seven selected sectors under the above-mentioned heading "*Other EU acquis and horizontal activities*". Such activities could include: i) project/sector programme identification and preparation; ii) *acquis* related actions that need to be adopted/implemented according to an established timetable; iii) participation in EU Programmes to which the country becomes eligible, unless they are included in one of the sectors chosen above; as well as, iv) support measures for the implementation, monitoring and audit of IPA programmes.

Cross cutting intervention may include support to freedom of expression and to the professionalisation of media, support to civil society, electronic communications and information society, the promotion of regional cooperation, human rights and the mainstreaming of climate change considerations into other policy sectors.

Equal opportunities and non-discrimination will be respected *vis-à-vis* gender at the programming and implementation stage, particularly in relation to socio-economic support programmes. Minority and vulnerable groups' concerns will be reflected in all activities programmed under IPA, in particular when it concerns public services, legislative matters and socioeconomic development.

3.1. Justice and Home Affairs

3.1.1. Description of sector

The strategic framework for this policy area is relatively well developed. The sector is a good candidate for delivering assistance through a sector wide approach. In line with the recommendations of the 2010 enlargement strategy, fighting corruption is a crucial challenge for most of the countries in the enlargement process. Tangible results and a credible track-record in the fight against corruption are important elements for moving forward in the stages of the EU accession process. Financial assistance will pay particular attention to this aspect, as corruption remains prevalent in many areas and needs to be tackled.

The independence, transparency, accountability and efficiency of the judicial system are supported by the National judicial reform strategy, which was adopted in 2006 and is currently being revised with the assistance of the Council of Europe. The Serbian authorities

have launched measures to remedy the shortcomings in the recent re-appointment process of judges and prosecutors. However, further efforts are needed to ensure merit based recruitment and career progression in the Serbian judiciary. The reduction of the number of judges and recent changes to the court network could impact negatively on the overall efficiency of the judiciary. Therefore, further efforts are needed to reduce the existing backlog of pending cases and the length of court proceedings. This includes improvements in the legislative framework, which should simplify and streamline rules of procedure, better internal organisation of courts and increased efficiency of individual judges and prosecutors.

The Reform of the Correctional System in Serbia, adopted in 2005, defines modern instruments and working methods to build the capacity of prison staff and to contribute to the development of a safe, secure and transparent environment for persons detained in prisons. However, prisons in Serbia remain overcrowded and significant improvements cannot be achieved without more profound reforms that lead to a reduction of the prison population. An improved reform strategy should include conditioned sentences as an alternative to imprisonment and, when imprisonment is used, the possibility of a conditioned parole. This would allow a reduction of overcrowding in prisons and the negative effects of imprisonment, in particular on first time offenders. In both these cases, there should be a probation period that can be combined with support and surveillance by, or on behalf of, the probation authority. Such a reform will require the building-up of a probation authority organisation and appropriate time for planning and preparation.

In order to reduce corruption and achieve an anti-corruption culture in line with EU standards, the Government of Serbia adopted the National anti-corruption strategy in 2005. One year later the Government adopted the Action Plan for implementation of the Strategy. It will be important to ensure that the recently created Anti-Corruption Agency has sufficient competencies and means to carry out its task, in particular supervision of the key conflict of interest cases and funding of political parties. More transparency and improved monitoring is also needed in key vulnerable areas such as public procurement.

To enhance prevention and fight against organised crime, Serbia has adopted a National strategy for the fight against organised crime in 2009. An Action Plan has also been adopted in order to support the implementation of the Strategy. Clear commitment on the law enforcement side has led to good results in investigations into organised crime groups. Implementation of confiscation of asset legislation started with good results. However, further efforts are needed to improve the operational capacities of the law enforcement agencies, in particular as regards financial investigations and other modern investigative techniques. Preparations for the implementation of a new Criminal Procedure Code (CPC) need to be improved. The number of final convictions remains very low compared to the number of investigations. In order to make the fight against organised crime more efficient and effective, the development of a crime intelligence model as a core concept and methodology to tackle organised crime is needed. The implementation of the European Crime Intelligence Model would enhance a problem solving approach, based on analysis and involvement of both private and public partners. The utilisation of an analytical model would also raise the quality of the EU Organised Crime Threat Assessment.

An Integrated Border Management Strategy was adopted in 2006. However, in practice it is not always working smoothly and border controls need further improvements. Significant differences between border crossing points continue to exist. The surveillance of the Administrative Boundary Line with Kosovo⁵ also needs to be improved.

⁵ under UNSCR 1244.

A Customs Risk Analysis and Risk Management Strategy was adopted in 2008. It aims to decrease customs fraud and irregularities, increase the volume of collected import duties and increase the number of discovered offences. Serbia has made good progress in the area of customs. However, further alignment with the EU Customs Code is still required, in particular with regard to transit and risk analysis. There is also a need to strengthen customs operating procedures in order to reduce the discretionary powers of customs officers. Serbia's customs and IT infrastructure and procedures, risk-analysis system, post-clearance controls and human capital in this area need to be further strengthened.

3.1.2. Past and ongoing assistance (EU and other donors)

The total allocation of IPA assistance to Justice and Home Affairs for the period 2007-2010 was €44 million. Projects focused mainly on the efficiency of the courts, training for judges and prosecutors and improvement of prison conditions. Fight against corruption was supported through assistance in the establishment of an Anti-Corruption Agency, as well as support to the Directorate for Confiscated Property Management of the Ministry of Justice and other national stakeholders.

Capacity building assistance was delivered to the police and the administration of legal and illegal migration. Equipment was supplied for the police and border crossing stations.

Active other international actors are the Organisation for Security and Co-operation in Europe (OSCE) and the Council of Europe. They deal with the strengthening of educational, human and technical capacities of the law enforcement agencies and with prison reform. Austria, France, Germany, Italy, the Netherlands, Spain, Sweden, United States and the World Bank are the main donors active in judiciary reform. Norway and Sweden are active in police reform.

A "Multi-Donor Trust Fund" (MDTF), developed by the World Bank, has been established. The participation of the EU in this fund would contribute to the reinforcement of donor coordination under the lead of the Ministry of Justice and to the use of country systems in the implementation of assistance. It will be important that the MDTF complements EU assistance and is in line with European standards.

In the area of police reform, the Ministry of Interior is working closely with the OSCE with whom it signed a Memorandum of Understanding (MoU) determining priorities for co-operation and assistance. There is also a donor coordination mechanism for police reform facilitated by Sweden, with plans to involve the Ministry.

3.1.3. Sector Objectives for EU support over next three years

Strengthening the rule of law is a key challenge of the Enlargement Strategy 2010, in particular intensified judicial and police cooperation (including coordination and information sharing), the fight against organised crime and corruption. Better rule of law is also necessary in Serbia for improving the business environment.

The focus will be on justice and the judiciary, the penitentiary system, law enforcement, human rights, the protection of minorities and migration. The Progress Report 2010 pointed to shortcomings in the reform of the judicial system. Support for the reform may be provided through participation in the Multi-Donor Trust Fund.

The specific objectives that IPA assistance will focus on are:

- To strengthen the independence, efficiency, and accountability of the judiciary;
- To improve the fight against corruption and organised crime, including through increasing the capacity and expertise of law enforcement bodies – especially in areas such as financial investigations – and enhancing their national and international cooperation;
- To strengthen and implement the relevant legislative framework and improve alignment with European standards;
- To strengthen the functioning of border controls and the customs administration and to improve the fight against illegal migration;
- To strengthen migration management and the asylum system;
- To reduce the prison population through the development of a functioning probation system and improvement of prison conditions; and,
- To increase the awareness of citizens about their rights.

Achievements will be measured with the help of the following indicators:

- Transparent selection process and career development for judges and prosecutors;
- Reduction in the length of court proceedings and reduction in backlog of cases;
- Strengthened ability of the country to fight corruption, in particular in the areas of conflict of interest, funding of political parties and public procurement;
- Strengthened capacity of law enforcement bodies and higher final conviction rates in areas such as corruption and organised crime;
- Amount of recovered proceeds from crime;
- Completion of the legislation framework;
- Strengthened effective integrated border management and prevention of illegal migration;
- Decrease of customs frauds and irregularities;
- Established mechanism for management of migration flows, including; completion of the institutional framework for asylum procedures and increased reception capacities;
- Decrease of the prison population and improved prison conditions; and,
- Improved environment for civil society, with more effective dialogue between civil society and the government and more effective civic participation in policy processes.

3.2. Public Administration Reform

3.2.1. Description of sector

The Strategy for Public Administration Reform (PAR) adopted in 2004 defines the goals of decentralisation, de-politisation, professionalisation, rationalisation and modernisation of the Serbian public administration.

The next stage of the reform activities have been defined in the Action plan for implementation of PAR for the period 2009-2012. Information and Communication Technologies will be a key element in the reform.

The legislative framework in the sector is being completed with the drafting of the Law on Administrative Procedures. Furthermore, the Law on Administrative Dispute was adopted in 2009. However, further efforts are needed to put this law fully in line with European standards. A new strategy on professional development of civil servants is also being drafted and is planned to be adopted in 2011.

A public internal financial control policy (PIFC) has been regulated by the adoption of the PIFC Strategy paper in 2009. In order to improve management of EU funds and to transfer responsibilities of tendering and implementation to the national authorities, the Government adopted the Strategy for DIS accreditation in 2008. This strategy is accompanied by the DIS Roadmaps for IPA components I, II, III and IV. Preparation for IPA DIS is ongoing. For components I and II the "gap plugging" process began in December 2009 and is ongoing. Preparations also started for components III, IV, and V in 2010. All key persons have been nominated and have demonstrated their commitment to the process. The main issues of concern remain the delays in the recruitment of necessary staff and the establishment of the Audit Authority.

A Strategy of development of Information Technology for the Serbian Tax Administration aims at properly and efficiently managing tax collection and improving the servicing and auditing of taxpayers.

The Ministry of Public Administration and Local Self-Government is in charge of managing the implementation of the PAR through coordination of all public administration bodies. In terms of policy coordination and planning, the General Secretariat has been recently restructured and reinforced and is slowly taking up consistent coordination functions. In view of an expected intensification of the EU integration process in the coming years, Serbia needs to further strengthen capacity on EU integration, in particular the central coordination between the General Secretariat, the Serbian EU Integration Office and the Ministry of Finance.

The National Programme of Integration into the European Union (NIP) enables Serbia to coordinate reforms needed for further EU integration. In principle, it incorporates all Action Plans needed in the EU accession process.

3.2.2. Past and ongoing assistance (EU and other donors)

IPA has contributed to the implementation of public administration reform through assistance in drafting administrative legislation, human resources management and training. The development of a statistical system has been supported.

Support has been provided in public financial management and planning, budget accounting, reporting and debt management, internal financial control, development of state aid institutional capacity. Assistance was given in improving the activities and efficiency of the National Bank of Serbia and in strengthening the legal, institutional and methodological framework of the Serbian public procurement system.

In addition, the Serbian administration was assisted in meeting the demands of IPA programming, preparation for IPA components III, IV and V and in developing a strategy that would lead to conferral of management of EU funds under DIS. In the area of tax and customs administration, IPA has financed training programmes and assisted the Serbian customs administration to set up structures for the implementation of a compatible automated transit system.

Bilateral donors and international financial institutions (IFIs) that are active in the area of public finance are Germany, Sweden, the United States and the World Bank. France, Norway, Spain, the United Nations Development Programme (UNDP) and the World Bank are active in public administration reform. The OSCE intervenes in the area of public procurement.

3.2.3. Sector Objectives for EU support over next three years

An efficient and merit-based public administration is key for progress towards EU accession. But reforms in this area are advancing at a slow and uneven pace, as pointed out by the Progress Report. This is also very relevant considering that DIS accreditation and activation of components III to V are possible during the MIPD period. Implementation of EU assistance under DIS requires adequate capacities for the planning and management of funds to be in place. Serbia has in this respect started the preparation of the Strategic Coherence Framework (SCF) for the planning of IPA components III and IV, and the planning process for component V.

Focus will be on capacity building for policy reforms, support for programmatic budgeting implementation of the existing legal and strategic framework, and the functioning of key institutions, including the Parliament. Attempts may be made, together with other donors, to support a wide approach programme.

Particular attention will be paid to the administrative capacities in the European integration process. There is a need to strengthen capacities in all line Ministries dealing with the EU *acquis*.

The specific objectives that IPA assistance will focus on are:

- To improve the efficiency, effectiveness, transparency, commitment to non-discrimination and accountability of the public administration at both central and local level;
- To support Serbia's preparation, adoption, implementation and enforcement of EU-related legislation;
- To improve policy coordination for EU integration;
- To rationalise the administrative resources;
- To build capacity in managing IPA funds; and,

- To further align the statistical system with the EU *acquis* and to further enhance coordination of statistical activities.

Achievements will be measured with the help of the following indicators:

- Alignment of the civil service legislative framework with European standards;
- Strengthened capacities of the line ministries to deal with EU *acquis* issues;
- Strengthened capacity in strategic policy planning for EU integration and funding;
- Transition from centralised to decentralised management and establishment of operational programmes for components III and IV; and,
- Production and dissemination of reliable statistical data.

3.3. Social Development

3.3.1. Description of sector

Over recent years, the Serbian Government has been active in fighting poverty and social exclusion, implementing its poverty reduction strategy, establishing a specific cross-cutting poverty reduction unit in the office of the Deputy Prime Minister and a Working Group for Social Inclusion. This Working Group involves the representatives of Government institutions with key responsibilities in defining, implementing and monitoring social inclusion policies.

As a result of this work, Serbia has been relatively successful in fighting poverty. The rate of those living under absolute poverty decreased from 8.8% in 2006 to 6.1% in 2008. However, because of the economic downturn, the rate has risen to 6.9% in 2009. At the same time, the disparities between regions are increasing. The labour market situation is also a matter of concern, as unemployment approached 20% in 2010 and youth unemployment remained very high.

The strategic framework for Human Resources Development is well developed and is integrated into the Poverty Reduction Strategy of 2002. However, a thorough rationalisation of the process is required. An Operational Programme for 2012-2013 is being prepared by the Government with the help of technical assistance under IPA 2007.

A National Employment Strategy also exists and is being updated for the period 2011-2020 and brought in line with the Europe 2020 Strategy.

A Strategy for the Development of Vocational Education and Training (VET) and a Strategy for the Development of Adult Education are both underpinned by National Action Plans, whilst an overarching Strategy for Education Development is currently in preparation. A Strategy and Action Plan for Careers Guidance and Counselling is also in place. Under the EU Strategy for the Danube Region, Serbia has been appointed country coordinator, together with Slovakia, for the priority area of knowledge society.

Serbia has a large system of educational institutions, from pre-school to higher education, with rather obsolete infrastructure and equipment. Public expenditure in education remains well below the EU average. The system requires intervention in all areas, with the reorganisation of Vocational Education and Training (VET) being estimated as the most important because it would encompass 70% of the secondary schools. Serbia needs to make

further efforts to meet the Europe 2020 benchmarks in education and training, starting with early childhood development, the reeducation of children from vulnerable groups who drop-out, development of lifelong learning systems and connecting formal and non-formal education. Expanded participation in pre-school programmes is critical to facilitating the social inclusion of children from disadvantaged groups.

The social inclusion policy is guided by the Social Welfare Development Strategy and dedicated strategies and action plans for vulnerable and disadvantaged groups, such as: children, women, people with disabilities, elderly citizens, Roma, returnees and migrants. Serbia has also initiated the drafting of the First National Social Inclusion and Poverty Reduction Report for the period 2008-2010 (set for adoption by the Government in early 2011) in anticipation of the preparation of a Joint Memorandum on Social Inclusion, which would have to be made if candidate country status is granted.

The Strategy for Reintegration of Returnees upon Readmission, adopted in 2009, defines processes and measures for sustainable reintegration of the returnees through psychosocial, informative, legal and economic assistance. A Strategy for the improvement of the status of Roma in Serbia, adopted in 2009, envisages the establishment of a mechanism for the promotion of tolerance and respect of diversity. For the period 2010/11, the Government has also adopted an Action Plan for the promotion of human rights, in accordance with the Vienna Declaration and Programme of Action accepted at the Vienna World Conference of Human Rights (1993). The implementation of the Anti-discrimination Act can be achieved with the participation of civil society.

3.3.2. Past and ongoing assistance (EU and other donors)

Since 2007 IPA has financed projects in social development worth around €80 million and mainly focused on: support to education and vocational education and training systems; improvement of the quality of higher education teaching and infrastructure; promotion of the inclusion of children from marginalised groups and with special needs in pre- and primary school; and, reform of higher education (Tempus).

Support was also provided to the defence of human rights and the protection of minorities. Capacities of national and local stakeholders were improved, and support was provided to the Ombudsman. Solutions were proposed for internally displaced persons (IDPs) and refugees and the needs of vulnerable groups such as the Roma. In addition, IPA projects have addressed IDPs, refugees, returnees (to improve their living conditions), children and people with mental disabilities.

Assistance was also given to the National Employment Service (NES) to upgrade analysis and forecasting of labour market trends and monitoring and evaluation of active labour market programmes.

The Project Preparation Facility (PPF), funded by IPA 2007, is ensuring support to national authorities in preparation of the Strategic Coherence Framework and Operational Programme for IPA component IV. Support to the Operating Structure for IPA component IV in the DIS process has been ensured by IPA 2008.

While there are no lead donors assigned to the specific policy areas of social development, synergies are apparent in the design and coordination of assistance. The policy for Permanent Integration of Refugees in Serbia was developed with the support of the Council of Europe Development Bank.

Donor coordination is also important in education. Austria, Canada, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the World Bank, UNDP and the United Nations Children's Fund (UNICEF) are all active in this area.

3.3.3. Sector Objectives for EU support over next three years

Living conditions of minorities, internally displaced persons (IDPs), refugees and returnees is a pressing problem in Serbia and in the region as a whole. The enlargement strategy 2010-2011 and Progress Report point to high levels of unemployment in the aftermath of the economic crisis and to the vulnerability of the Roma population. Better employment opportunities and social inclusion also help to regulate migration flows.

The focus in this sector will be on social inclusion, employment and human resources development, human rights, the protection of minorities, anti-discrimination policies and early education. Particular attention will be given to the improvement of the conditions of vulnerable groups.

The specific objectives that IPA assistance will focus on are:

- To align social policies in Serbia with EU standards;
- To support Serbia's efforts to adhere to the targets of Europe 2020 in employment, poverty and social exclusion;
- To prevent social exclusion of vulnerable groups and minorities, notably the Roma;
- To improve conditions for migrants, refugees and IDPs and support the proper treatment of all prisoners in accordance with EU standards;
- To support the work and capacities of the newly established national councils of national minorities; and,
- To improve enforcement of the education and employment policy, notably for the youth.

Achievements will be measured with the help of the following indicators:

- Adoption and implementation of relevant legislation and action plans;
- Improvements in the EU's common statistical indicators for social inclusion;
- Decreased number of people at risk of poverty and reduction of poverty gaps between regions;
- Number of school drop-outs and rate of children in full time education;
- Increased number of services for vulnerable people;
- Progressive closure of collective centres and re-integration of refugees and IDPs;
- Increased employment rate of vulnerable groups; and,
- Decreased unemployment, in particular young people.

3.4. Private Sector Development

3.4.1. Description of sector

Serbia is continuing the transition to a market economy, but further reform is necessary to improve the business climate and continue to attract both domestic and foreign investment. Deficiencies in the legal framework, competition, the regulatory environment, institutional capacity, administrative procedures, rule of law and infrastructure bottlenecks remain barriers to doing business and to the development of the private sector. In the World Bank's 2011 Doing business report, Serbia ranks 89 out of 183.

Despite the growth in activity achieved over the past years, Serbian industry, and in particular SMEs, still face large challenges in increasing their competitiveness, innovation capacity and export potential and are still hampered by financing difficulties.

Serbia's position in key international benchmark indicators shows evidence of a low level of innovation activities and relatively weak international competitiveness. In order to move to an innovation driven phase, where the economy shifts to higher value added products creating greater wealth and securing long-term competitiveness, it is necessary to upgrade innovation support services, build capacities of all innovation stakeholders and strengthen links between education, research institutes and business.

The National Strategy for Economic Development (2006-2012) aims at creating a more attractive business environment as a basic condition for increasing the overall competitiveness of the Serbian economy. It envisages the acceleration of privatisation and a restructuring of existing enterprises, the simplification of the legislative framework, support to SME establishment and growth, the stimulation of export and foreign direct investment, and the stimulation of the development of high technology sectors. SME sectoral policies are now developed, but very limited progress has been made in industrial policy development and implementation. In November 2010, the Government presented an ambitious economic programme outlining a new growth strategy 2010-2020, based on higher investment in infrastructure and export-oriented sectors.

The Strategy for Development of Competitive and Innovative SMEs 2008-2013 envisages the development of a knowledge-based economy, which creates a strong and export oriented SME sector that contributes to an increase in the standard of living in Serbia.

The Strategy for Trade Development identifies support to the creation of modern trade institutions. The Strategy for the Development of Information Society until 2020 identifies priorities in electronic communications and information technologies. A Strategy for scientific and technological development (2010-2015) also exists.

A National Strategy for Tourism Development envisages the development of a positive international image of the country, long-term protection of natural and cultural resources and the achievement of international quality standards.

Serbia is actively engaged in promoting of the competitiveness of Danube river region. It will be a participating country in the EU Strategy for the Danube, adopted by the Commission in December 2010 and endorsed by the Council in April 2011.

3.4.2. Past and ongoing assistance (EU and other donors)

In the four annual programmes since 2007, IPA has financed activities in this area worth around €10 million. Assistance covers the improvement of business support services and infrastructure. It is helping the development of SMEs through innovation and technology transfer, and by supporting cluster development, and export promotion. In addition, IPA is supporting the implementation of the National Tourism Strategy.

An Operational Programme for Economic Development for 2012-2013, covering regional competitiveness, environment and transport, is also currently being prepared by the government with the help of technical assistance under IPA 2007.

Bilateral donors and IFIs especially active in this sector are Austria, Denmark, Germany, Italy, the Netherlands, Slovakia, Sweden, Switzerland, the United States, and the World Bank. Access to finance for SMEs was improved through credit lines provided by the European Investment Bank, KfW and the Italian Government, while World Bank projects contributed significantly to several aspects of private sector development. Furthermore, the European Investment Bank has also agreed a €200 million loan with the Serbian Government for Research and Development (R&D) infrastructure. A donor coordination group exists in the areas of Private Sector Development and Financial Markets and is led by the German aid body *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) and the World Bank respectively.

3.4.3. Sector Objectives for EU support over next three years

The objective of increasing the country's integration and competitiveness with the European market is high among the government's priorities and a challenge identified in the 2010 Progress Report. Privatisation has slowed in pace. The business environment continues to be constrained by limits to competition, burdensome administrative procedures and weak legal predictability, in particular with respect to effective enforcement of property rights. Serbian SMEs still face large challenges in increasing their competitiveness and export potential. They are still hampered by financing difficulties. Support in this area will be aligned with the Europe 2020 objectives and in particular the initiative for an Industrial Policy for the Globalisation Era and the Innovation Union.

The focus will be on business infrastructure, entrepreneurship and human resources development, competitiveness of SMEs, R&D including IT and tourism.

The specific objectives that IPA assistance will focus on are:

- To improve the regulatory and administrative environment for doing business in Serbia;
- To develop public services and information businesses, including market opportunities in the green economy;
- To increase the competitiveness of Serbian enterprises and industry in the EU market;
- To improve public procurement and competition policy;
- To increase foreign direct investment (FDI);
- To increase investment in research and innovation;

- To promote the establishment of SMEs and strengthen their capacities to innovate and develop environmentally friendly technologies; and,
- To facilitate socio-economic development and inter-municipal cooperation in the hinterland of the Danube and raise its visibility as an area of growth.

Achievements will be measured with the help of the following indicators:

- Rate of enterprise creation and abilities to innovate;
- Increased export;
- Level of FDI;
- Improved access to finance for the private sector, in particular for SMEs;
- Improved cooperation between SMEs, R&D institutions and educational institutions;
- Serbia's active involvement in the implementation of the EU Strategy for the Danube; and,
- Improvement of Serbia's ranking in the World Bank's annual Doing Business Report.

3.5. Transport

3.5.1. Description of sector

In the nineties, Serbia's extensive transport infrastructure network suffered from a lack of maintenance and extensive war damage. Although a large number of road rehabilitation and construction projects have been implemented and significant improvements have been achieved over the past decade, much remains to be done. Restoration of the infrastructure network is one of the priorities of the Serbian government and extensive IFI loans have been made to support and finance it.

An overall Strategy for Transport Development was adopted in 2008. The General Master Plan for Transport (MPT) in Serbia provides a list of priorities, a comprehensive plan of future investment until 2027 and serves as a basis for planning and coordination of national and international funds. The MPT identifies 14 projects for all modes of transport in the railway and intermodal sub-sectors.

Serbia, with its natural geographic position at the crossroads of transport Pan-European Corridor VII (the Danube) and Corridor X (running between Austria and Greece), has the shortest and the most rational transit connections between the countries of Central and Western Europe and the countries of Southern Europe and Middle and Far East. The development of Corridor X is a priority both for the EU and for the region. However, difficulties exist with expropriation, financing and management of the works undertaken by public companies.

The SAA makes reference to the development of multi-modal infrastructures in connection with the main Trans-European networks to reinforce regional links in South East Europe for economic development. It refers in particular to Corridors VII and X, and the rail connection from Belgrade to Vrbnica at the border with Montenegro. This connection can play a major role in the development of the region, as it is a direct railway link between South Adriatic ports, the Port of Bar and the Port of Belgrade, which gives waterway access to Central and

Eastern Europe. The SAA also envisages operating standards comparable to those of the EU, improved free movement of passengers and goods, enhanced access to the transport market and facilities, including ports and airports.

In the field of road transport, transit traffic for EU carriers in Serbia and Serbian carriers in the EU was liberalised as a consequence of the entering into force of the Interim Agreement on trade and trade-related issues. However, road safety in Serbia needs to improve both through implementation of the *acquis* and modernisation of the infrastructure.

Reform of the railway sector needs to be stepped up for improved competitiveness in railway transport. Restructuring of the sector and the opening of the market is pending.

Air transport has moved forward. The market opened in 2010 for new carriers, doubling the number of air operators with license to operate in the country. The situation of the national carrier is difficult and restructuring measures are needed. A specific strategy for air transport is being considered along with related legislation.

The Master Plan and Feasibility Study, *Inland Waterway Transports for Serbia*, portrays the present situation and capacity of waterway transport in Serbia. For the development of an efficient and sustainable transport system in the whole region, River Information Services (RIS) are being developed on the Serbian section of the Danube. The RIS have to be integrated in a seamless chain of RIS from the North Sea to the Black Sea. The Danube has a key role in the socio-economic development of the region and in linking it to the EU. This has been recognised in the Commission Communication on the EU strategy for the Danube Region, adopted by the Commission December 2010 and endorsed by the Council in April 2011. Under the Strategy, Serbia was appointed country coordinator, together with Slovenia, for the priority area of mobility and intermodality on rail, road and air.

Serbia has started the preparation of the SCF as the overarching reference document for the planning and coordination of IPA component III and IV and national resources. The SCF provides a cohesive strategy for individual measures and operations to be financed through the Operational Programme for Economic Development, which includes regional competitiveness, transport and environment.

3.5.2. Past and ongoing assistance (EU and other donors)

The allocation of IPA assistance to transport for 2007-2010 is €73 million. The EU has increased the support for capacity building activities through projects such as “Implementation of the European Common Aviation Area Agreement (ECAA) in air transport” and twinning projects for transposing European standards. Substantial funds were allocated for improving the conditions on the Danube (Pan European Corridor VII), including through development and implementation of River Information Services (RIS), as well as for railway track condition analysis, development of technical documentation for intermodal terminals, rehabilitation of railway lines, removal of unexploded ordinances from the river and navigation improvement. Support was also provided to project management and supervision works, such as the construction of the Zezelj bridge on the Danube in Novi Sad, at the intersection between Corridor VII and Corridor X.

The National programme for the Integration of the Republic of Serbia into the EU envisages the implementation of large infrastructure projects of special interest for the economic growth of the country (Corridor X and other projects in 2011 and 2012). The 2008-2015 Strategy for Railway, Road, Inland Waterway, Air and Intermodal Transport Development aims at

modernising the Pan-European transport corridors, including intermodal transport, traffic safety and security of transport systems.

The Project Preparation Facility (PPF), funded by IPA 2007, ensures support to national authorities in the preparation of the Strategic Coherence Framework and Operational Programmes for IPA component III and IV. Support to the Operating Structure for IPA component III in the process leading to a Decentralised Implementation System (DIS) has been ensured by IPA 2008. The preparation of project documentation under IPA component I is crucial for potential future funding of major projects under IPA component III.

IPA's activities on the main corridors are complemented with loans from the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the World Bank. Other bilateral donors for the transport sector are Canada, the Czech Republic, the Netherlands, Norway and Switzerland.

3.5.3. Sector Objectives for EU support over next three years

The main objective of EU support for the transport sector is to promote sustainable economic growth. Transport is a key element of the EU's cooperation with its neighbouring countries to promote sustainable economic growth, trade and cultural exchange, employment, and to improve living conditions.

Reconstruction, maintenance and development of the transport infrastructure network is one of the priorities of the Serbian government together with the development of Corridors VII and X. It is also a priority objective for the EU. These corridors provide improved and sustainable market connectivity between the West and the East, and contribute directly to the Europe 2020 targets

The current MPID will focus on supporting the reconstruction and modernisation of the railway system, improving the navigability of the Danube and on further improvements along Corridor X (rail as well as road). Selected activities will be aligned with the ones identified in the Multi-annual Programmes of the South East Europe Transport Observatory (SEETO).

The specific objectives that IPA assistance will focus on are:

- To develop the capacities of the national administration to adopt and implement the EU *acquis*, in particular with regard to the restructuring and market opening of the rail transport sector;
- To support the modernisation of the transport system within the Pan-European Corridor X;
- To improve the conditions for navigation on the Danube (Pan-European Corridor VII), in line with the EU Danube strategy;
- To improve road safety;
- To prepare viable projects for investment; and,
- To strengthen regional cooperation and implement the commitments made in the framework of regional transport initiatives.

Achievements will be measured with the help of the following indicators:

- Adoption and implementation of relevant legislation;
- State of development of Pan-European Corridors VII and X;
- Improved regional trade; and,
- Number of projects prepared for investment.

3.6. Environment, Climate Change and Energy

3.6.1. Description of sector

Environment, climate change and energy are closely interlinked and progress in one often has a direct impact on the others. They are also strategic priorities for the government.

The National Sustainable Development Strategy (NSDS) seeks to establish a balance between the three pillars of sustainable development: economic growth, social development and environmental protection. It sets out objectives for the short-term (2009-2011) and longer-term (2009-17) and is accompanied by an Action Plan.

The National Programme for Environmental Protection (NPEP) is a cross-cutting national strategy, covering the whole environmental sector, including water supply and wastewater treatment, waste management, air quality, ionising radiation, land degradation, urbanisation, forestry and fisheries. The Waste Management Strategy complements the NPEP and defines policy objectives up to 2014. To introduce cleaner production and environmental management systems in industrial facilities a National Cleaner Production Strategy was adopted in 2009.

Concerning climate change, the National Strategy for Incorporation of Serbia into the Clean Development Mechanism under the Kyoto Protocol was adopted by the Government in February 2010 for agriculture, forestry and waste management. The first National Communication under the United Nations Framework Convention on Climate Change (UNFCCC) was submitted in November 2010. Serbia has associated itself with the Copenhagen Accord. A national ozone office responsible for the phasing out of ozone depleting substances was recently established within the Ministry of Environment and Spatial Planning.

In spite of this strategic framework, poor environmental indicators remain: Serbia has a CO₂ footprint twice the size of economies with a comparable GDP per capita. A number of problematic air pollutants exceed EU ambient air quality standards by a considerable margin, 90% of domestic and household waste water remain untreated and 40% of the population is not connected to public solid waste collection systems. Orderly treatment and disposal of hazardous waste is not assured. Drinking water quality is problematic in parts of the country and more than 600 animal and plant species are considered to be under threat.

The Energy Sector Development Strategy defines policy objectives up to 2015, lists priorities, and estimates the necessary investment costs.

Concerning renewable energy, regulation on privileged power producers was adopted by the Serbian government in 2009. Such new regulation intends to reduce prices for renewable energy sources and attract investment. Up until June 2010, more than ten energy permits for the construction of new generation facilities using renewable energy sources have been issued for a total power generation of about 450 MW.

In June 2010 Serbia adopted its First Energy Efficiency Action Plan, which has set out short-term and long-term goals for final energy consumption reduction. The plan covers the following sectors: commercial and residential, transport and industry. The long-term goal is to reduce final energy consumption by 9.5% by 2018 compared to 2008.

In spite of these encouraging signals for reform, energy is a sector where the amount of foreign investment remains limited compared to the potential. Low electricity tariffs and a lack of market openness are significant barriers for foreign investment. The energy market remains dominated by traditional, rather polluting, energy sources, in particular lignite. Serbia needs to take steps to promote low-carbon development and fully comply with the provisions of the Energy Community Treaty.

3.6.2. Past and ongoing assistance (EU and other donors)

Since 2007, IPA has financed projects for an overall value of €100 million in environment, climate change and energy. Projects mainly focused on air quality, hazardous waste management, support to the implementation of the Energy Community Treaty and the energy component of the National Strategy for Sustainable Development. The EU is also contributing to energy security in South Serbia by building a new electricity substation at Vranje, extending the capability of the electricity substation at Leskovac and strengthening the capacity of Srbijagas and the gas transmission system operator.

Support was provided by increasing the capacity of the Serbian Environmental Protection Agency (SEPA) as a national focal point for cooperation with the European Environment Agency. IPA assistance is strengthening the institutional framework for environmental inspection to enforce regulations at national, provincial and local levels. It also supports administrative capacities in protected areas according to Natura 2000, the elaboration of a master plan for the West Morava river basin and studies on flood prone areas.

IPA also provides technical assistance for the preparation of the Operational Programme for Economic Development for 2012-2013, which covers regional competitiveness, environment and transport.

The bilateral and multilateral donor community has been prominent in funding projects in environment, climate change and energy. Bilateral donors include Austria, the Czech Republic, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States while major multilateral donors in Serbia include the EBRD, UNDP and the World Bank.

Coordination across institutions in charge of environment, climate change, energy, health, agriculture, forestry, water management and regional development is a crucial factor for improved identification and targeting of environmental problems in order to maximise the impact and synergies of assistance. Serbia also participates in cross-border cooperation, where environmental problems are one of the top priorities.

3.6.3. Sector Objectives for EU support over next three years

Environment, climate change and energy are key for the economic growth of Serbia but also for its neighbouring countries within and outside the EU. Serbia is the most industrialised country among potential candidates and has a key geopolitical role in energy, both for the region and for the EU. Support to this area in Serbia has a direct, potentially substantial impact in helping Europe meet its 2020 targets in climate change and energy. It also has an indirect impact on production, employment and living conditions.

Focus will be on water and air quality, waste water treatment, waste management, mitigation of and adaption to climate change, renewable energy sources, energy efficiency and security. Support is in particular important for energy policy reforms. This may be done through a sector wide approach, in cooperation with other donors.

The specific objectives that IPA assistance will focus on are:

- To help Serbia align with the EU environmental and climate *acquis* and the requirements of the Energy Community Treaty;
- To reform energy policy and increase competition in the sector;
- To improve environmental infrastructure;
- To improve environmental standards in air, water and waste management;
- To strengthen regional and cross-border cooperation;
- To contribute to Europe 2020 targets in energy and climate change;
- To prepare overarching financing strategies for the sub-sectors, viable projects for investment and attract FDI; and,
- To promote adaptation to climate change.

Achievements will be measured with the help of the following indicators:

- Adoption and implementation of relevant legislation;
- Strengthened capacity of the environment protection administration;
- Status of regional interconnectivity and security of energy supply for both Serbia and the EU;
- Progress in formulating and implementing the national climate policy;
- Development of waste management plans at regional and local levels;
- Improved air and water quality;
- Amount of domestic energy produced from renewable sources;
- Number of projects prepared for investment; and,
- Level of FDI in the sector.

3.7. Agriculture and Rural Development

3.7.1. Description of the sector

Agriculture and rural development is an important sector in the Serbian economy which has a direct social dimension, as approximately half the Serbian population live in rural areas. This sector, which includes food safety, veterinary and phytosanitary issues, is therefore a key

challenge for Serbia in the pre-accession period. Alignment and implementation of the *acquis* in this sector is a demanding exercise and a key part of Serbia's preparations to assume the obligations of EU membership.

The Serbian National Programme for Agriculture (SNPA) was adopted by the government in November 2010. It is accompanied by a National Strategy for Agriculture and Rural Development (under public debate) and a Rural Development Programme which is currently under the adoption procedure. The SNPA incorporates an action plan for support in various sectors (dairy, cereals, oil crops, meat, vegetables, fruit, viticulture, wine and spirits, tobacco, and sugar) and contains indicators to address three broad categories of activities: legislation; capacity development; and, support measures. The establishment of reliable statistics from farms (FADN) and rural areas and the provision of suitable phyto-sanitary conditions for European integration need to be created to ensure sector growth and viable rural areas in the future. The National Rural Development Programme targets improvement in the competitiveness of the rural economy and encourages diversification of economic activity and an improvement in the quality of life in rural areas.

Sustainable management and conservation of forest resources, as well as measures to achieve an increased contribution of the forestry sector to the economic and rural development of the country, are regulated by the National Forestry Strategy.

3.7.2. Past and ongoing assistance (EU and other donors)

In the four annual programmes since 2007, IPA has financed projects for an overall value of €25 million in the agriculture and rural development sector. This support has focused on the following specific issues: harmonisation with EU legislation for placing plant protection products on the market and their control; support for the control and eradication of classical swine fever; capacity-building and technical support to renewal of viticulture zoning and control of the production of wine with designation of origin; establishment of the Serbian Farm Accountancy Data Network (FADN); and, capacity-building of the Serbian National Reference Laboratories Directorate. Technical assistance has also been provided for the preparation of the implementation of IPA Component V.

Bilateral and multilateral projects also contribute to addressing the sectors challenges. Support has been received from Germany, Japan, the Netherlands, Norway, Romania, Spain, Sweden, the United States and the United Nations.

Donor coordination is under the joint responsibility of the Ministry of Agriculture, Forestry and Water Management and DACU, with the goal of ensuring that aid for this sector focuses on meeting future EU obligations.

3.7.3. Sector Objectives for EU support over next three years

Progress in the agriculture and rural development sector (including food safety and veterinary issues) is a key challenge for Serbia in the pre-accession period. Support will focus on the development of a sustainable agricultural sector, improving competitiveness, alignment to the CAP, implementation of EU standards and capacity building for the utilisation of pre-accession assistance under Component V.

The specific objectives that IPA assistance will focus on are:

- Improve capacities within state institutions for policy formulation and implementation with respect to agriculture and rural development;

- Progress in transposition of the *acquis* and alignment in line with the Common Agricultural Policy's (CAP) principles and objectives;
- Develop implementing structures within the management and control system under Component V;
- Further strengthen the food safety and veterinary sectors with a particular focus on the national system of laboratories for food chain control, animal welfare, control of diseases and controls at external borders;
- Increase the competitiveness and environmental sustainability of the agriculture sector and enhance the standard of living in rural areas; and,
- Improve the capacity of advisory and extension services and increase and facilitate access to credits in rural areas.

Achievements will be measured with the help of the following indicators:

- Adoption and/or implementation of relevant legislation in the sector;
- Access to and availability of credit facilities for farmers and rural dwellers;
- Improved competitiveness of the agriculture sector; and,
- Progress in establishing an operational programme for component V and related management and control systems.

List of abbreviations

DACU	Development Assistance Coordination Unit within the Serbian Integration Office
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
IDPs	Internally Displaced Persons
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPA	Instrument for Pre-accession Assistance
IT	Information Technology
MIPD	Multi-Annual Indicative Planning Document
NIP	National Programme of Integration into the European Union
NSDS	National Sustainable Development Strategy
PAR	Public Administration Reform
SAA	Stabilisation and Association Agreement
SCF	Strategic Coherence Framework
SEETO	South East Europe Transport Observatory
SEIO	Serbian European Integration Office
SEPA	Serbian Environmental Protection Agency
SMEs	Small and Medium-sized Enterprises
UN	United Nations
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund

