



# Serbia

## Country Programme 2006-2008



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Vienna, June 2006

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Cover: © Mirjana Živanović and Slobodan Polić, SEEMO Photo, Video and Monitoring Team



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## Preface

*„Die Verwirklichung der EU-Perspektive für die Länder des Balkans ist das Friedensprojekt unserer Generation.*

*“The realization of the Balkan countries’ EU perspective is the peace project of our generation.”*

Ursula Plassnik, Federal Minister for Foreign Affairs,  
January 2006

## Executive Summary

Serbia still has to deal with its political heritage of socialism and the Milosevic era. The overall functioning of democratic institutions remains affected by structural weaknesses. Serbia suffers from economic decline due to restructuring and previous mismanagement and malversations, casting large strata of the population into unemployment and poverty. Corruption remains a serious concern. The ongoing negotiations on the future status of Kosovo pose an additional challenge to the political stability of the country.

Nevertheless, Serbia has considerable potentials for development: People in Serbia are relatively well skilled and proficient in foreign languages. Serbian agriculture, agrobusiness and forestry are central assets. A strong industrial tradition provides chances for future economic development. Serbia has a favorable geostrategic position and represents one of the largest markets in South Eastern Europe (SEE). It also thrives in natural beauties, waiting to be carefully developed for touristic purposes.

In accordance with Serbian development strategies, notably the country's Poverty Reduction Strategy and its strife for completing the process of integration into European structures as soon as possible, the Austrian Development Cooperation's overarching programme objective is to *increase employment and promote European standards and values*.

In order to increase overall *employment*, ADC seeks to stimulate and support economic activity expected to have measurable impact on the labour market. ADC equally aims at improving the *employability* of persons aspiring to be or being part of the labour market, i.e. to develop their capacities to enable them to obtain and maintain productive, fulfilling and rewarding employments.

ADC perceives *European integration* as the most important vehicle for development and reform and therefore pursues the attainment of *European standards and values* as a cross-cutting issue. ADC will, therefore, be a partner for Serbia both in its efforts to *implement the acquis communautaire* and in its strive to incorporate European values into Serbian society, and in particular to build an *inclusive, culturally diverse society*.

In order to increase impact and effectiveness, ADC focuses on two regions, i.e. southern Serbia and Vojvodina; commits itself to the principles of harmonisation and alignment; and emphasises the importance of strengthening existing and building new partnerships between Serbia and Austria.

# 1. Background

## History Brief

In medieval times, the Serbs settled the Balkans peninsula (6<sup>th</sup> and 7<sup>th</sup> century), accepted Christianity (9<sup>th</sup> century) and founded a first, unified Serbian state (12<sup>th</sup> century). After the 14<sup>th</sup> century the Serbian territory was ruled by the Ottoman Empire for almost five centuries, a period marked by constant strife between the Austrian and Ottoman empire. In the course of the 19th century, the Serbs liberated themselves from the Turks and gained statehood by establishing a kingdom.

After the Balkan Wars (1912–1913), in which the Turks were finally defeated by an alliance of Balkan states, and World War I, during which Serbia has been totally conquered, Serbia founded together with Croatia and Slovenia a joint kingdom with a democratic system. The young state was facing difficulties due to the great diversity of languages, nationalities, and religions, the different history of the regions and great differences in economic development, resulting in the abolishment of constitution and parliament in 1929 by the king. During World War II, from 1941 to 1944, Serbia was a Nazi-occupied puppet state. In early 1945 the Kingdom was formally restored, but the new Communist authorities proclaimed the Democratic Federal Yugoslavia as a socialist state in November 1945. Yugoslavia was a non aligned state and had its specific economic system of workers' self management and social property.

After Tito's death in 1980 a decade of economic decline and growing tensions between republics and ethnicities began. From 1991 onwards Yugoslavia disintegrated and wars in Croatia and Bosnia and Herzegovina ensued. For more than a decade Serbia was controlled by the regime of Slobodan Milosevic. The 1990s were marked by a dramatic deterioration of the economy, an isolation of the society and a weak rule of law.

The December 2000 parliamentary elections brought to power the DOS (Democratic Opposition of Serbia), a group of 18 small parties and organizations. Vojislav Kostunica became president, Zoran Djindjic was elected Prime Minister in December 2000. Shortly after the elections political differences among DOS parties caused internal struggle, eventually leading to the falling apart of the coalition. In March 2003 Djindjic was assassinated, in the following elections in December DOS lost its majority. A minority government was established in March 2004.

## Current Form of State and Government

Following the positive outcome of the independence referendum in Montenegro and the dissolution of the State Union, the Republic of Serbia is currently debating to pass a new constitution. Meanwhile, Serbia's legislature is a unicameral Assembly of 250 deputies chosen in direct general elections for a period of four years. The deputies in the National Assembly elect the government which together with the President of the Republic (currently Boris Tadić) represents the country's executive authority. The current government is headed by Vojislav Koštunica and has 17 ministers.

Serbia is divided into 29 districts and the city of Belgrade as regional centers of state authority. Both the districts and the municipalities have limited competences. According to Serbia's constitution, Vojvodina in the north (54 municipalities) and Kosovo in the south (30 municipalities) constitute two autonomous provinces. Since mid-1999, the latter is governed by the United Nations.

## FIGURES AND FACTS

**Number of citizens:**  
7.498.001 (excl. Kosovo)  
**Surface:** 88.361 km<sup>2</sup>  
**Capital:** Belgrade  
**Official languages:**  
Serbian; in the areas inhabited by national minorities, their languages and scripts are in official use as well  
**Religions:**  
multi-confessional;  
dominant Christian Orthodox

## ECONOMIC DATA

**Economic growth (2004):**  
estimate 8.5%  
**GDP (2004):** 18 055 million EUR  
**GDP per capita (2004):**  
2500 EUR  
**Economic growth (2005):**  
estimate 6.5%  
**Unemployment:** 18.5%  
**Labour Force Survey (2004):**  
**officially registered (Oct. 2005):** 27.08%  
**FDI (up to Oct. 2005):**  
1.211 billion \$  
**Average earnings (Nov 2005):**  
**Gross:** dinars 27 378  
**Net:** dinars 18 697  
**Foreign trade balance (2005):** - 5 billion \$  
**Annual budget sufficient (2005):** estimate 26.8 billion dinars  
**Inflation rate (2005):**  
estimate 16.5% – 18%

## Economic Relations with Austria

Economic linkages between Serbia and Austria are presently at their peak: To date, investments by Austrian companies amount to EUR 1 billion, making Austria the biggest foreign direct investor in Serbia. There are 185 Austrian companies operating in Serbia, active in fields such as banking, insurance, and construction. Trade between the countries amounted to EUR 437.4 million (+14,2%) worth of Austrian exports to Serbia and EUR 109.6 million (+38,8%) worth of Serbian exports to Austria in 2004.

## 2. Austrian Cooperation 1999–2005

The Austrian Development Cooperation (ADC) has started its activities in Serbia in 1999, i.e. before the democratic changes of 2000, by supporting mainly alternative media and institutions of higher education and refugee housing programmes. Immediately after the fall of the Milosevic regime, Austria has started partnerships with smaller municipalities and gradually developed a full-fledged country-programme.

Over the years, grant support has been directed to sectors such as water and wastewater; education; social issues and economic development: A number of municipalities, including the city of Belgrade, have been supported in order to improve their water-supply or sewage systems and the management of their public enterprises. Austria was one of the leading donors as regards higher education and has supported the Ministry for Education and Sport in its institutional reform; later, some activities in vocational education and training have been launched. As regards social affairs, Austria has established a shelter for victims of trafficking in human beings and substantially supported several institutions dealing with persons with special needs. With regard to the support of economic development, Austria recently started activities related to forestry and financial instruments for SMEs.

In early 2002, ADC opened a Coordination Office for Technical Cooperation within the Austrian Embassy in Belgrade. Its task is the spot-management of ADC's programme in Serbia including the identification and monitoring of projects. In 2004, responsibility for implementing ADC programmes and projects, until then managed by the Austrian Ministry for Foreign Affairs, was transferred to the newly founded state-owned Austrian Development Agency (ADA) while the Ministry remains in charge of the strategic orientation of Austria's Development policy.

In 2005, the Austrian Development Cooperation has donated appr. EUR 3 million worth of grant funds in Serbia.

## 3. Challenges and Potentials

### 3.1 Challenges

Five years after the democratic changes, Serbia is still struggling with the political heritage of the 1990s. The present government coalition, having to tackle the political, economic and social problems arising from the transformation process, does not hold a majority in Parliament. In addition, the largest moderate party, the Democratic Party, is in opposition while populist parties (Vojislav Seselj's Srpska Radikalna Stranka and Bogoljub Karic's Pokret Snaga Srbije) are campaigning on the population's general disillusionment. Two topics, both inherited from the past, still dominate everyday political life: first, the future status of Kosovo; second, the

#### Political Heritage

(unsatisfactory) cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY). Given the volatility of the Serbia's domestic landscape, a return to power of radical forces cannot be excluded.

Fast and successful economic transformation is considered key to securing the democratic changes, fostering social cohesion and improving people's lives. Despite substantial progress in economic reforms, overcoming the economic heritage still proves to be politically difficult and socially costly.

#### **Heavy economic burden**

Serbia suffers from an economic structure established 25 years ago in the context of a much bigger state entity and dominated by a large foreign debt; non-market behaviours of economic actors as a result of several decades of self-management model of market operation; and the consequences of the 1990s warfare, including the international sanctions imposed on the country.

As a result, the dominant industrial infrastructure – energy, raw materials and food – is dramatically lagging behind international standards, productivity is very low, and private entrepreneurship is largely underdeveloped. Privatisation as well as the restructuring of public enterprises add to the economic dilemmas, which can be characterized as follows: Unstable economic growth, low GDP per capita (around EUR 2500), high inflation, minimal domestic accumulation, personal and public expenditure far above the production capacity, a huge trade deficit, a low level of FDI and an extremely high official unemployment rate (almost 30%).

Economic mismanagement during the 1990s, international isolation due to political conflicts and the transformation process have had disastrous consequences for the social situation in Serbia. Since the late eighties, the average living standard has dramatically dropped. Poverty analyses show that poverty is at 10,6%, with approximately 800,000 Serbs living below the national poverty thresholds. Poverty is higher among vulnerable groups and in rural regions; in southeastern Serbia, e.g., it is estimated at 23%. Poverty is clearly correlated to a number of factors such as unemployment, low levels of education (persons with secondary school education represent around two thirds of the total number of unemployed), large family size, single-member and elderly households.

#### **Poverty**

Characteristics of Serbia's employment situation are: a relatively low level of employment of the population; a high unemployment rate and its trend of continued growth; high hidden unemployment; a low share of employment in the private sector; and low mobility of the labour force.

#### **Unemployment**

Privatization and the necessity to further downsize public administration are likely to aggravate the situation in the years to come. Due to a nearly stagnating economy and a strong „grey economy“ the system of social welfare is additionally burdened and lacks funds; a large number of unemployed people are registered with the National Employment Service in order to qualify for health care insurance and financial compensation while at the same time working in the grey economy.

Features of unemployment giving rise to concern include the following:

- prevalence of long-term unemployment – more than a third of the unemployed have been seeking work for over a year;
- predominance of the youngest age group (15 to 25) in overall unemployment (40.7%); their unemployment rate being three times higher than the general rate in Serbia and three times higher than the average unemployment rate for this age group in EU countries;
- high level of unemployment among refugees and IDPs, Roma, and persons with disabilities, which is twice as high as that of the rest of the population;

- higher level of unemployment for women than for men, despite their generally higher level of education.

Causes of unemployment in Serbia can partly be found in the existing educational structure, in particular in the fact that secondary vocational schools are not fulfilling contemporary market demands. There is also a need for significant improvement of the qualifications of the unemployed; presently there are 348,000 unemployed and 143,000 employed unskilled workers.

Regional disparities in the levels of development within Serbia are the greatest in Europe and constantly increasing. Especially the south (having a lower Human Development Index/HDI than Moldova), the west bordering with Bulgaria and the central/southeastern parts of the country are facing enormous economic and social difficulties, whereas Belgrade and the Vojvodina have considerably higher living standards than average. In 2003, poverty in rural areas was twice as high (14,9%) as that in the urban areas (7,1%). The widening of these regional disparities in Serbia is reported to be one of the alarming current trends in the Serbian PRSP report 2005.

#### **Regional disparities**

In the first place, these disparities derive from the process of socialist industrialisation and urbanisation in the past decades, often characterized by irrational regional arrangement of business activities, non-market allocation of production and the prevalence of sector over structural and regional criteria. Furthermore they are a result of the absence of an institutional framework for a more balanced regional development. Serbia has no national strategy for regional development, nor a defined national policy of regional development or specialised regional financial institutions or regional development agencies.

Social and economic progress can only be achieved if preceded and accompanied by profound political changes. Therefore, the principles and norms set by the various processes of European integration are clearly the most important references for Serbia's overall development policies. Consequently, Serbia has embarked on the process of European integration and adopted an ambitious strategy.

#### **European integration**

For people living in Serbia adherence to Europe is not only synonymous of the cherished freedom of movement, lost a decade and a half ago with the disintegration of Yugoslavia, but more importantly of an end to the ostracism cast on Serbia. As painful the implementation of European standards, in particular the *acquis communautaire*, may be felt by the population and its ruling elites, the perspective of a membership to the European club is a vital stimulus for longterm development. For many citizens it does come, however, at a high cost in the short and medium term.

In order to be eligible for EU-membership, states must fulfill the so-called Copenhagen criteria, referring to the stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

#### **Democracy and the rule of law**

According to the Commission's SAP Progress Report on Serbia for 2005, the provisions of the current constitutions, largely dating back to the Milosevic era, do not provide all guarantees necessary for the consolidation of democracy, the rule of law and full respect for human and minority rights. The rule of law remains fragile because of constitutional and legal uncertainties, structural weakness and undue politicisation of the administration and the judiciary, a high level of corruption, pressure exerted by organised crime, and obstruction from parts of the institutional, political, military and state security systems.

While parliamentary control over the Government has been strengthened, the law-making process still suffers from inadequate public consultation and does not fully

take into consideration the expertise of relevant professional or international organisations.

Public administration institutions remain overstuffed, but also suffer from a shortage of qualified personnel and undue political interference, which affects both institutional and policy continuity. The judiciary has continued to exhibit serious weaknesses; its independence continues to be severely undermined by political pressure with regard to the appointment of judges and prosecutors and their work.

As regards the respect for *human rights*, there is progress in implementing the commitments undertaken when joining the Council of Europe. Problems remain with regard to freedom of expression and civil society. Cases of police ill-treatment occur. Little progress has taken place in relation to the investigation of crimes committed during the previous regime. There is no comprehensive anti-discrimination legislation yet. Respect for *minority rights* has continued to see some progress, incidents, however, still occur.

The wars in Croatia, Bosnia and Herzegovina and more recently in Kosovo have had heavy repercussions on Serbia itself: Under the international embargoes illegal trade in arms, cars and fuels, cigarettes and drugs, as well as in human beings have prospered on Serbian soil and fostered organized crime; with the regime having an interest and share in its growth. The 1990s have also seen the emergence of oligarchs, the so-called tycoons, who acquired fortunes during the Milosevic years; the result is a strong nexus between crime, politics and the police. Although in decline, bribery and fraud are part and parcel of public life in Serbia, involving all strata of society.

#### **Corruption and organized crime**

Despite determined efforts since Milosevic's fall, a great deal of reforms still remains to be undertaken, since the 1990s were also a period of decline in the area of education. When the democratic forces took over in 2000, educational reform was declared as one top priority, as they were confronted with inefficient, bureaucratic and strongly centralised school systems, poor up-to-date qualification and motivation of school teachers, inadequate curricula and teaching material, poor and dilapidated infrastructure; in higher education, Serbia's universities are lagging behind in implementing the European standards as defined by the Bologna declaration and are still providing education with limited practical relevance. There is no national strategy for higher education.

#### **Education**

The most pressing environmental problems are related to water, sanitation and waste management. Other challenges are pollution and energy inefficiency from outdated industrial complexes.

#### **Environment**

Water and wastewater infrastructure were well developed in Yugoslavia but as a consequence of lack of investment and poor maintenance during the 1990s the service levels decreased, and consequently the natural environment degraded. Serbia's waste management system is deteriorating and underdeveloped; only 50% of solid waste is collected. A big part of air pollution originates from inefficient power plants, which run on low quality lignite coal with poor pollution control technologies. Industrial areas in Serbia are known as air pollution hot spots. Environmental pressure from agricultural production is not very high at present but the situation will probably change rapidly with an increasing use of fertilizers and pesticides.

Former Yugoslavia was known as one of the six European centers of biological diversity, enhanced by ecosystems of global significance, only to be found in this region. Currently 5% of Serbia's territory are nature conservation areas; there are 5 national parks, 120 nature reserves, 20 nature parks and many national monuments.



The goal of meeting EU standards also includes the fulfilment of high environmental standards and thus poses the chance of inclusion of environmental concerns, but brings along enormous costs to be borne in the decade to come.

### 3.2 Potentials

In spite of a drawback of some fifteen years, which have been marked by a decay of infrastructure and a drain in human resources, Serbia still has remarkable development potentials. Serbia's strongest potentials are its geo-strategic position, its natural and human resources as well as a number of its industries.

The whole territory of Serbia consists of 70% of arable land, with traditional family-owned small farms and private estates prevailing. Serbia has first-class soils – deep, with good structure and fertile. Presently, agriculture accounts for 21% of the GDP and 26% of exports; 18% of the population live on agricultural incomes. Organic production, which has a longstanding tradition in Serbia especially in the field of vegetable production, is considered an important potential.

#### Agriculture

Vegetables (mainly potatoes, tomatoes, peppers and cabbage as well as beet), fruit (plums, all sorts of berries, peaches, cherries, apples, pears, grapes, and apricots) and grains (wheat and maize) as well as dairy products are important goods yielded by the agricultural sector.

One third of the territory of Serbia is covered by forests. 56.7% are state owned forests, 43.8% are private forests, held by some 600,000 owners. Serbia abounds in high-quality oak and beech forest, its forest ecosystems are rich in biodiversity. Although the production of timber and especially wood-processing has some importance, GDP revenues thus generated are relatively low. Hence, there is a huge potential to be developed, not the least as regards biomass.

#### Forestry

Despite outputs of the minerals industry have dropped considerably in the previous years, in the long term Serbia could become an attractive producer of minerals. Low-calorie coals – ignites – provide 65% of the electric power in Serbia. The metallurgical complex produce copper in quantities that is significant on a regional level.

#### Minerals

The territory of Serbia has favourable geothermal characteristics, but this potential is mostly used for balneological purposes and tourism and not for producing geothermal energy. Future exploitation could focus more on cascade and integrated utilization of geothermal energy.

#### Geothermal resources

With a share of almost 20%, the *food processing* industry is the largest industrial branch in Serbia. Opportunities exist in the processing of fruit and vegetables as well as canning, production of frozen and dried vegetables, juice production and dairy industry. Currently the industry exports juices, concentrates, purees, jams and frozen and dried fruit. Dairy industry is dominated by a few, large processing companies, with a fairly high level of technology, production skills and logistics. The demand for value added products is growing.

#### Industry

Traditionally, the *automotive industry* in Serbia has been strong, with some 2.6% of the workforce employed. Despite being dilapidated, Serbian car manufacturing industry has a good supply chain in place and a relatively skilled workforce. In the past, local automotive companies had been involved in joint ventures with leading international producers, both as component suppliers or licensed assemblers.

*Furniture industry* is facing a constantly growing, especially domestic market. Besides, Serbia has a booming *construction industry*, a strong *pharmaceutical industry*, a good potential in the *electronics and IT* sectors and some *textile industry*.

Serbia is heavily relying on coal as the most important source for heating and electrical energy. Serbia still insufficiently utilises renewable energy sources even though more than a quarter of the energy comes from hydro-plants. Over time, it can be expected that the role of gas powered plants and the usage of biomass will increase.

**Energy sector**

Considering its natural beauties, the favourable climate, as well as its cultural-historical and spiritual heritage, Serbia has some of the prerequisites for reviving or developing several types of tourism: mountain, spa, health, hunting, fishing, congress, hiking, rural, sports-recreational, ethno and eco tourism.

**Tourism**

Serbia has many neighbouring countries, making it a natural centre of the Balkan peninsula. Its geographical location makes Serbia a gateway to the East and South East of Europe, as two important European corridors pass through: Corridor X leading from Austria passing through Serbia, branching off to Greece and Bulgaria; and Corridor VII, the largest waterway in Europe. The Danube River, with its 580 kilometres through Serbia represents a natural connection between the Middle East, central Europe and Western Europe.

**Geo-strategic position**

Transportation can therefore become an important driving force for the development of Serbia. Besides the river Danube, the Tisa River, the Sava, and the projected canal Rhine-Main-Danube-Morava-Vardar-Aegean Sea could become significant transport routes.

Serbia with 7.5 million inhabitants represents one of the most interesting markets in SEE. In addition to that, its free-trade zones and, in particular, its free-trade agreement with Russia makes Serbia (as the only country outside the Commonwealth of Independent States) attractive for investments. The South East Europe Free Trade Area, representing 55 m customers, is an additional asset for Serbia, lying in the heart of the region.

**Market size**

In regional comparison Serbia still has a relatively competitive labour force at reasonable cost. By investing into human resources, education, research and innovations Serbia may strengthen its position. Serbia has one of the highest rates of English language proficiency in SEE.

**Human resources**

## 4. Serbian Development Strategies

### 4.1 Needs of the Republic of Serbia for International Support 2007–2009

By July 2006 the Serbian government will, under the guidance of the Ministry for International Economic Relations, create a three-year strategic framework and needs assessment as a tool for the alignment of international assistance with national priorities, in order to improve the efficiency and effectiveness of foreign assistance. The document will define priority goals and programmes/projects per sector for the period 2007–2009, define cross-sector priorities for the period 2007–2009 and provide an external financial need assessment. It will build on other available strategies, i.e. the PRSP, the EU-accession strategy, the Millennium Development Goals and others.

### 4.2 Poverty Reduction Strategy Paper

In October 2003, the Government of the Republic of Serbia adopted its Poverty Reduction Strategy Paper. It is a multi-sector strategy that serves as a basis for developing and integrating new and existing programmatic documents within

different social sectors, i.e. the fields of work of the line ministries and other government institutions.

The PRSP for Serbia represents a medium-term development framework directed at reducing poverty by means of creating the necessary preconditions and providing opportunities to all citizens to ensure better lives for themselves and their families. The PRSP is in line with the National Strategy of the Republic of Serbia for the accession of SaM to the EU (both processes are related to all social and economic factors) and contains an action plan for achieving the UN Millennium Development Goals (MDGs).

The PRSP aims to cut poverty in Serbia almost by half by the year 2010. The main strategic directions towards this aim are as follows:

- Establishing the conditions for dynamic and equitable economic growth with an emphasis on job creation within the private sector;
- Preventing new poverty resulting from the modernisation and restructuring of the economy through targeted training and social measures;
- Improved access to social services by the poor, through improved targeting of existing programmes, and improvements in the efficiency and quality of services delivered.

#### **4.3 National Strategy of the Republic of Serbia for Serbia's Accession to the EU**

In 2000, the European Union initiated the Stabilisation and Association Process (SAP), a strategy for preparing EU accession of the Western Balkan countries. It aims at instigating gradual legal and institutional reforms according to the *acquis communautaire* and at the removal of trade barriers. The instruments of the SAP are trade concessions, economic and financial assistance (the CARDS Programme) and contractual relationships (the Stabilisation and Association Agreements, SAA). Increasing regional cooperation in SEE is another important pillar of the strategy.

Serbia and Montenegro have so far jointly tackled the path of European integration, although the EU has acknowledged a certain need for differentiation ("twin-track approach") in October 2004. In the Thessaloniki Summit in June 2003 the European Council confirmed that Serbia and Montenegro is a potential candidate country for EU accession. In its Feasibility Report of 12 April 2005, the European Commission concluded that Serbia and Montenegro is sufficiently prepared to negotiate an SAA. Negotiations have started in late 2005 but have been suspended in 2006 due to Serbia's insufficient cooperation with the ICTY.

The "National Strategy of the Republic of Serbia for SaM's Accession to the European Union" adopted by the Serbian Government on 17 June 2005 aims at providing a coordinated set of measures, policies and institutions necessary for EU association, as well as a plan for the approximation of domestic legislation with the *acquis communautaire*. Above all, the National Strategy:

- is a synthesis of operational directives for the government, ministries and other public institutions involved in the EU integration process;
- is a basis for the development and implementation of the integration programmes by sectors and activities;
- is a basis for coordination of sectoral priorities in the European integration process;
- outlines the priorities for the adjustment of public administration to EU standards.

The strategy emphasizes the role of a well-informed public and an open dialogue between the government and the citizens in the integration process.

#### **4.4 National Employment Strategy 2005–2010**

In April 2005, the government of Serbia adopted its “National Employment Strategy 2005–2010”. Its general principles and goals are derived from the *European Employment Strategy*. It serves as a framework for issuing a national employment action plan up to 2010, a period considered critical for the transformation of the labour market from mainly social and public employment to employment in the private sector.

The National Employment Strategy takes up three comprehensive goals of the European Union Lisbon Strategy of 2000, i.e. full employment, quality and productivity of labour as well as social cohesion and labour market inclusion. Additional ten priorities for action as defined by the EU Commission Guidelines are adopted, including job search assistance, entrepreneurship support, gender equality, adaptability and mobility of the labour force, investment into human capital, combat against discrimination and reduction of informal employment. Considering the specific problems and needs of the Serbian labour market, the strategy defines as additional priorities the promotion of foreign direct investments and the activation of domestic savings for investment; as well as the diminishing of discrepancies between regional labour markets.

#### **4.5 Other Relevant Strategies**

- Strategy of Development of SMEs and Entrepreneurship in the Republic of Serbia for 2003–2008, January 2003
- Strategy of Agriculture in Serbia, August 2005
- National Strategy for Waste Management, 2003
- National Strategy for Fighting Corruption, December 2005
- Draft National Environmental Strategy, June 2005
- Draft National Competitiveness Strategy, June 2003
- Draft Serbian Vocational Training Policy and Development Strategy, 2005
- Strategy for Public Administration Reform in the Republic of Serbia, 2004
- Draft National Judicial Reform Strategy, December 2005

## **5. Country Programme Objectives, Strategies and Activities**

### **5.1 Legal Basis and General Programmatic Framework**

The legal basis for ADC’s country programme is the Austrian Development Cooperation Act 2002 and the ADC Three-Year-Programme 2005–2007.

The general objectives and principles of the Austrian Development Cooperation are laid down in the Austrian Development Cooperation Act. It stipulates that ADC aims at reducing poverty, ensuring peace and human security and protecting the environment.

Establishing closer ties with the EU and, eventually, becoming full member of the European Union, is the path Serbia has chosen to achieve political, economic and social stability and provide for the wellbeing of its citizens.



## 5.2 Overarching Programme Objective

ADC's overarching programme objective in Serbia is to increase employment and to promote European standards and values.

Both motives, employment and European integration, are equally important to this programme; the former will be targeted directly by this programme's immediate goal ("Fostering Employment and Employability", 5.3), the latter will be implemented as a cross-cutting issue ("European Standards and Values", 5.4).

## 5.3 Programme Goal: Fostering Employment and Improving Employability

ADC's country programme for Serbia aims at fostering employment in a short term perspective and improving overall employability in a long term perspective.

Recognizing that unemployment is the main challenge for combating poverty, the Serbian PRSP defines as its first direction a strategy of dynamic growth and development, with an emphasis on job creation; its second direction is to prevent new poverty resulting from modernizing and restructuring the economy.

**Rationale**

As in other European transformation countries economic development in Serbia is currently characterized by the phenomenon of "jobless growth". Furthermore, unemployment is expected to remain high or even grow in the forthcoming years, reflecting the most critical phase of economic restructuring and the gradual reduction of informal economic activity. This, in turn, is expected to have serious implications for the political and social stability in Serbia.

The sustainability of the reform process will depend to a considerable extent on the ability of the government to generate employment and enhance human capital, while protecting the most vulnerable groups of society from the negative effects of transition.

In accordance with PRSP priorities, the Austrian Development Cooperation, therefore, directs its thrust of activities along two intertwined aspects of economic development that affect people's lives in a very direct way, i.e. *employment* and *employability*. By doing so, ADC chooses to act at the very intersection of the economic, social and political challenges Serbia faces today.

ADC's country programme for Serbia aims at assisting the country in its efforts to increase overall levels of employment. In this regard, ADC seeks to stimulate and support economic activities expected to have a measurable impact on the labour market. This will be achieved by measures

**Employment**

- creating a conducive general environment for economic activity, including the institutional and legal framework as well as adequate physical and social infrastructure;
- promoting entrepreneurship and SME development, including business development services and financial instruments;
- bolstering production and services by enhancing competitiveness, including activities to raise quality and environmental standards.

Furthermore, ADC aims at improving overall employability of persons or groups of persons aspiring to be or being part of the labour market. Acknowledging that a globalised economy is increasingly knowledge based and competitive, it is of utmost importance to develop people's capacities (especially assets) to enable them to obtain and maintain productive, fulfilling and rewarding employments.

**Employability**



This will be achieved within this programme by means of

- active labour market measures aiming at improving the labour force's professional capacities, including activities to integrate those at a disadvantage into the labour market and upgrade the skills of the low qualified;
- reforming existing educational subsystems, especially VET and higher education; towards better catering for the requirements of a market economy;
- and building linkages between the educational system and the labour market.

This specific programme goal has an inherent longterm aspect, aiming at giving people, especially the youths and disadvantaged groups, a real perspective for their personal developments.

In order to translate this programme's goal into action, ADC will actively develop or participate in programmes and projects which

#### Selection criteria

- have maximum effects on the labour market;
- benefit to the most disadvantaged groups, especially the young;
- reduce the disparities between urban and rural areas;
- tackle necessary structural changes, but also have immediate impact on the employment situation.

### 5.4 Cross-cutting Issue: European Standards and Values

ADC perceives the European integration process as the most important vehicle for development and reform in Serbia and will, therefore, in addition to its vertical focus on employment generation pursue the attainment of *European standards and values* (as defined by the "Copenhagen criteria") as this programme's key horizontal motive, implemented as a cross-cutting issue. ADC, therefore, aims at promoting European standards and values at all levels of programme development and project design and implementation.

Serbia's most important longterm strategic goal is its adherence to the European Union, synonymous with a vast framework of treaties and more or less binding norms and standards, known as the *acquis communautaire*. Although the European integration process, initially, dealt primarily with economic policy issues, it has over decades spilt over to nearly every policy domaine, including e.g. labour, social and environmental policies, but also foreign and security policy as well as justice and home affairs.

#### European standards

The adjustment to this bulk of norms is an enormous challenge for Serbia. This process will not only require adapting the legal framework. What is needed is a total and thorough reform of all areas of governance, i.e. legislation, administration and the judiciary, necessitating strong political commitment and, sometimes, painful sacrifices. Serbia has to transpose and implement European laws and reform its public administration and judicial system by improving capacities and building up badly lacking institutions. Not only the public sector is concerned, though: Serbia's private economy will have to upgrade its technologies in order to apply European quality and environmental standards and systems of certification in order to become more competitive.

Austria has strongly committed itself to support this process and to offer its relevant expertise whenever the need arises. ADC will, therefore, not only promote European standards in all its activities, but whenever possible involve Austrian institutions ready to enter into short to long-term institutional partnerships. Such a twinning approach may also lead to improved linkages between ADCs efforts and the EC TWINNING instrument.



ADC, however, considers a broad understanding of Europe and the European model as vital for Serbia's successful further integration, an understanding that does not define integration as a mere technical process, reduced to the implementation of new rules and regulations.

#### European values

The vision of a common Europe is the vision of sharing the values and principles of democracy, the rule of law, human rights and respect for and protection of minorities. It is based on the belief that close regional cooperation and integration is the most successful model to bring about peace and a high standard of living to its citizens. The European model perceives cultural diversity as an asset, not a problem, and promotes tolerance, solidarity and social inclusion.

Contemporary history in South Eastern Europe, though, has seen heavy violations of these principles, with disastrous consequences still to be felt in each of the former Yugoslav republics, not the least in Serbia. The climate in Serbia in the past two decades has been marked by nationalistic tendencies and ethnic demarcation and strife.

Achieving European integration for Serbia means fully embracing and incorporating above mentioned principles into Serbian society: Most importantly, Serbia will have to build an inclusive, culturally diverse society by curbing nationalistic tendencies and promoting the notion of tolerance and the strength of diversity. The concept of cultural diversity will have to permeate society, if Serbia is to become a politically, socially and economically stable partner for the EU.

ADC will, therefore, promote the European model not as a mere cumulation of laws and markets, but as a model of regional cooperation and social and ethnic inclusion. Conflict prevention and long-term peace building will be important aspects for devising project-interventions.

In order to mainstream this cross-cutting issue into its programme and projects, ADC will be supporting activities that

#### Conception criteria

- strengthen institutions and capacities related to EU-accession and acquisition-implementation;
- build partnerships between Serbian and European institutions;
- increase awareness of European values within authorities and institutions as well as broad circles of the population;
- and, in particular, strengthen the notion of cultural diversity as an asset to a society.

Including regional cooperation and mobility components into programme activities will be one more way to achieve this objective.

To a limited extent, this theme may also be addressed through projects specifically targeted towards the promotion of European standards and values, provided they can make a significant contribution to Serbia's integration into EU structures and the building of a socially inclusive, culturally diverse society.

## 5.5 Other Strategic Considerations

International policy development guidelines recommend concentration of programme activities as an important principle for donor programmes. Recent evaluations of ADC programmes have highlighted the importance of this principle for Austria, a donor with comparatively limited resources.

#### Geographic focus

In order to maximise the impact and effectiveness of the Austrian programme, ADC chooses a strong geographical focus and will concentrate its activities on two specific geographic areas, southern Serbia and Vojvodina:



**Southern Serbia** as defined in this programme covers in its core the districts Jablanica and Pcinja, i.e. the 13 municipalities Bojnik, Lebane, Leskovac, Medvedja, Bosilegrad, Bujanovac, Presevo, Vladicin Han, Vranje, Surdulica, Trgoviste, Crna Trava and Vlasotince, with a total population number of 470.000. This region will be targeted by ADC out of the following considerations:

#### **Southern Serbia**

Economic development: Southern Serbia is not only the poorest region in Serbia with the largest share of poor in 2003 (23,5%); it has also the highest growth rate of poverty, thus contributing to the massive and widening regional development gap in Serbia.

Cultural diversity: Bordering Kosovo, southern Serbia faces all challenges of multiculturalism – different ethnicities (i.e. mainly Serbs and Albanians), different languages and religions as well as an enormous ethnic distance between the Serb and the Albanian populations.

Political situation: Due to above mentioned facts, the area especially in the very south shows significant political instability; its political future potentially being linked to the ongoing Kosovo status negotiations by parts of the population and political stakeholders.

Donor cooperation: The area is characterized by good-practice models of donor cooperation as well as high government and municipal ownership, with ADC well integrated.

Cross border cooperation: Bordering Bulgaria and Macedonia, European integration through cross border cooperation can be actively supported by ADC, helping stabilizing the region and building the basis for sustainable economic and social relations between Serbia and its neighboring countries.

**Vojvodina** is situated in the north of Serbia and covers a little more than one-fourth of the territory and population of Serbia. It has the status of an Autonomous Province, enjoying a relatively high degree of legislative and political autonomy. In spite of being traditionally one of the best developed regions in Serbia, Vojvodina faces tough challenges and has, therefore, been chosen as ADC's second geographic priority area:

#### **Vojvodina**

Economic development: Youth unemployment in Vojvodina is the highest in the country (50,9%), its employment participation rate the lowest. This could be due to the advanced stage of economic restructuring and the higher share of agricultural population, including a high number of elderly rural households. Vojvodina, however, could potentially become an important "locomotive" for overall growth in Serbia, its comparative advantages being its proximity to Western Europe, a rather strong SME tradition and its industries such as food processing, oil and cement.

Cultural diversity: Vojvodina has remained a genuine ethnic mosaic of Central Europe in a relatively small area; a total of 26 nations and ethnic groups represented. The centuries-long cohabitation of various ethnic communities is, however, threatened by the deterioration of economic and social living conditions over the past decades – resulting in ethnic tensions and nationalistic tendencies.

Refugee problem: Another threat to social cohesion in Vojvodina is the influx of refugees over the last years. Today, almost half of the 280.000 people still registered as refugees or Internally Displaced People/IDPs in Serbia live in Vojvodina.



Austrian cooperation potential: Due to geographic proximity a large number of business contacts and partnerships in the public sector have been established between Vojvodina and Austria. Common interests include development of the Danube region, establishing partnerships in the context of European integration and FDI. Vojvodina is, therefore, a region where ADC can build on existing and initiate new partnerships in order to enhance the sustainability of its activities.

Donor cooperation and ownership: Since the province of Vojvodina has developed an economic development strategy (IRDP), ADCs activities can be clearly targeted to the needs of a strongly committed partner on a strategic basis that allows for broad coordination of donor activities.

Cross border cooperation: Vojvodina bordering Hungary, Romania and Croatia, has a great potential for regional activities too, involving EU-memberstates and EU-candidate countries.

Ownership, alignment and harmonisation are three core principles of the *Paris Declaration on Aid Effectiveness*; in the Western Balkans, though, these concepts have had rather limited effect for various reasons: donors are often driven by divergent external political agendas; there is limited understanding of the OECD-DAC harmonisation agenda on the side of governments (and donors); rather than building up elaborate, long-term mechanisms for donor-coordination, the countries in South Eastern Europe (SEE) have to prepare for the absorption of EU structural funds in the foreseeable future.

#### Harmonisation & alignment

Nevertheless, awareness of and practical orientation towards better aid effectiveness have grown over the years, partially due to the debates about poverty reduction strategies, the efforts of the Stability Pact for SEE, but also due to the decreasing level of donor funds.

In Serbia, the Ministry for International Economic Relations (MIER), its Donor Aid Coordination Unit (DACU), the deputy prime-minister's PRSP-office and other institutions have made considerable efforts to build more governmental ownership and to provide guidance to donors. A number of national strategies have been developed or are in preparation. Furthermore, budgeting and monitoring capacities are being strengthened and models for well-functioning multi-donor-initiatives exist. Some sectoral pooling or alignment processes have been launched, such as the ENTRANSE programme for SME-development or a programme for municipal development under the auspices of MIER and the Standing Conference of Cities and Municipalities.

Consequently, ADC commits itself to

- abide by the guiding principles of harmonisation and alignment;
- develop its programme by means of a permanent dialogue with Serbia's authorities and institutions, be they on state, provincial, regional or municipal level;
- initiate or partake in any process aiming at harmonising, aligning or even pooling donors' efforts along strategies and processes driven by the government of Serbia;
- strengthen the capacities of its local partners for further developing and implementing the national, regional and local strategies for sustainable development;
- favour implementation procedures involving maximum national ownership, as pre-accession funds are expectedly becoming available in the near future;
- take part in multi-donor programmes and seek donor alliances wherever possible, in order to make best use of generally diminishing financial resources and limited absorption and implementation capacities.



ADC perceives the strong linkages between Austria and Serbia as strategic assets for its own work. Beyond the excellent political climate between Austria and Serbia exists a dense network of relationships, involving governmental bodies, public institutions as well as the private sector and civil society.

#### **Austrian partnerships**

ADC will, therefore, actively involve other Austrian partners and help intensify existing as well as establish new long-term partnerships and contacts, especially taking into account the considerable expertise Austria can offer to Serbia related to its process of European integration. By tapping this potential, ADC expects to mobilise additional financial and human resources and to increase the impact and sustainability of its efforts. Better coherence between all Austrian actors will also add to the visibility of Austria in Serbia.

Throughout the implementation of its programme, ADC will ensure that every action contributes to institution-building and capacity development, especially at decentralized, i.e. regional and local levels. By focusing on organizational and human resources development and on building planning and implementation capacity as well as sound financial management and control processes, ADC wishes to enhance Serbia's capacities to prepare for and absorb future EU-funds provided by the "Instrument for Pre-Accession" (IPA). In particular, ADC's activities in southern Serbia and in Vojvodina, aiming at regional and rural development, will be conceived in this light.

#### **Institution building & capacity development**

ADC is aware that development cooperation can – even in a post-conflict situation – affect or be affected by the (former) conflict or the root causes of the conflict. ADC, therefore, supports a conflict sensitive approach in the programmes and projects in order to avoid negative and to maximise positive impacts in the (conflict) context, incorporation peace building measures where necessary.

#### **Conflict sensitivity**

Throughout the implementation of its programme, ADC will assess any planned activity according to its implications for women and men. Women's and men's concerns and experiences will be made an integral dimension of the design, implementation, monitoring and evaluation of the activities stemming from this programme, so that women and men benefit equally and inequality is not perpetuated. In addition to that, ADC will, when defining its activities, seek to strengthen the capabilities, economic and political opportunities, and personal security of women.

#### **Gender mainstreaming**

Following its general goals and principles, ADC will in addition to the Strategic Environmental Assessment carried out on programme level, perform Environmental Impact Assessments (EIA) for every activity during the implementation of its programmes. EIAs aim at avoiding or minimizing potential negative impacts on the environment, identifying synergies and actively seeking opportunities for positive contributions to the environment. Environmental concerns are perceived as an integral dimension at all stages of the project cycle from project design to monitoring and evaluation.

#### **Environmental Impact Assessment (EIA)**

## **5.6 Activities**

The Austrian Development Cooperation will be devising the concrete implementation of its programme

- according to its focus on contributing to increasing employment and strengthening Serbia's aspirations towards European integration;
- in correspondence with the selection and conception criteria deduced from this programme's goal as outlined in this paper;
- by pursuing its strategic considerations, i.e. concentration on two regions; the principles of harmonisation and alignment; the emphasis on building long-term



partnerships, institution building and capacity development as well as on gender and environmental aspects.

The following enumeration of activities is not exhaustive, but provides examples for how ADC's programme is and will be translated into projects during the next three years:

### **Municipal Improvement and Revival Programme II (MIR II), UNDP**

MIR II is a vast and comprehensive multi-donor effort to "contribute to the implementation of the law on local self-government by strengthening local good governance in southern Serbia in terms of delivery of services to citizens and local and inter-municipal stewardship of social and economic development." MIR II focuses on capacity building at the municipal level in four core areas: regional cooperation for development, municipality strategic planning for development, improved municipal management and improved local administrative services delivery. Further programme components are the establishing a Regional Development Agency and the provision of funds for concrete municipal projects as well as support to agricultural cooperatives.

**Southern Serbia**

ADC has contributed co-financing to this programme in 2005 amounting to EUR 1.5 million, along with other donors such as the EC, Norway and Sweden. ADC will closely follow the programme's performance and consider complementary action specifically targeting employment generation.

### **Integrated Regional Development Programme (IRDP)**

The centerpiece of the Austrian involvement in Vojvodina is planned to be a substantial contribution to the province's long-term development plan, the Integrated Regional Development Plan. The IRDP is a multisectoral action plan to support the socio-economic development process in Vojvodina focusing on three priorities: Using internal potentials such as industry, SME, agriculture and tourism, improving the framework for economic development (energy, water, R&D, investment climate) and improving the quality and use of human resources (trainings, improving labour market access for disadvantaged social groups). Total programme costs are estimated at EUR 31 million, of which the government of Vojvodina intends to provide EUR 0.8 million.

**Vojvodina**

Implementation has started in 2005, albeit with limited progress due to the need for further conceptual work, capacity-building and financial means. Against the background of decreasing donor funds, the challenge for the partners in Vojvodina will be to mobilise resources in a strategic way by developing a multi-donor-support scheme that draws from the experience of best-practise examples, tapping existing funds such as the ECs Cross Border Cooperation Programme, and building capacities within the administration for the absorption and management of EU structural funds at a later time.

ADC intends to support the government of Vojvodina in its efforts to implement IRDP by means of a comprehensive multi-annual programme focusing on capacity-building, in addition to providing expertise and funds for implementation in selected areas of intervention.

### **Education for Employability: Higher Education and Vocational Education and Training (VET)**

Since 1999, ADC has been one of the leading donors supporting higher education in Serbia, with programmes strongly oriented towards the implementation of the so-called Bologna-process; aiming at integrating public universities and its teachers and students into the European Higher Education Area by increased cooperation, mobility and quality standards, but also practical relevance of courses and curricula. On the basis of the findings of an ADC evaluation on education programmes

**Activities potentially targeting both regions**

currently ongoing, ADC will seek to develop and expand the programme towards a stronger emphasis on the aspect of employability.

Building on lessons learnt from previous activities in the field of VET, ADC will also look into options of developing and supporting regionally needed interventions to enhance the local youth's professional skills.

### **Privatisation and Employment**

As the privatisation and restructuring of a large number of public enterprises is imminent, ADC considers to support measures aiming at alleviating the massive employment-related downsides of this process, such as job-creation, business-start-up and self-employment programmes.

### **Cleaner Production Programme**

ADC, through its multilateral programme, is examining to support an initiative directly targeting industries modernizing their production facilities to become economically and ecologically sustainable, thus securing or creating employment.

ADC may exceptionally support projects directly pursuing the promotion of European standards and values outside its geographic focus, especially when efforts on the central levels involving Austrian institutional partnerships are concerned.

**Cross-cutting issue**

## **5.7 Budget**

ADC is operating on the basis of annual budgets. For 2006, EUR 3 million worth of grant funds have been allocated to the ADC programme with Serbia, while similar amounts are being expected for the years 2007 and 2008.

The Country Programme for Serbia 2006-2008 shall lay the basis for an expansion of the programme in case of possible increases in ADC budgets as of 2008/2009 onwards.

## **5.8 Other ADC Programmes**

In addition to the bilateral Country Programme and budget as described in this document, ADC disposes of additional funds and programmes available for supporting activities in Serbia:

Acknowledging the importance of private sector activities for economic development in general, and its potential social value added in particular, ADC provides assistance to private companies engaged in developing and transition countries.

**Development and business partnerships**

In order to be eligible, a project must fulfill the following criteria:

- bring a benefit to the local population which extends beyond the corporate core business;
- be in line with development policy goals and quality criteria;
- adhere to national laws and international environmental and social standards;
- avoid unfair competition;
- be substantially financed by the partners concerned.

Within the "Development Partnership Programme" ADC supports joint projects with companies through public-private cooperation. Joining forces will help the partners reach their goals more quickly and effectively at less cost. Thus, companies can succeed under difficult circumstances and the situation of the population will be improved.

Within the “Business Partnership Programme” ADC supports cooperation between companies in Europe and developing or transition countries, i.e. business-to-business linkages. For instance, it encourages joint ventures, outsourcing, supply contracts, know-how transfer, joint marketing, management contracts and franchising agreements, which benefit local enterprises and communities.

Within both programs, ADC supports enterprises with

- financial support for development-related projects;
- advice and experts,
- project monitoring,

ADC will seek to finance medium sized municipal infrastructure projects by combining its grant funds with loan funds provided by the Oesterreichische Kontrollbank, Austria’s central provider of financial services to exporters.

**Infrastructure pilot projects**

Underlying the importance of regional cooperation in South Eastern Europe for long-term peace building and stability in the region, ADC provides additional funds for activities involving partner institutions from two or more SEE-countries, including for projects within the framework of the Stability Pact for South Eastern Europe.

**Regional cooperation in South Eastern Europe**

Examples of such projects are the Stability Pact Investment Compact, the REPARIS World Bank-led initiative (“The Road to Europe: Programme of Accounting Reform and Institutional Strengthening”) and the Balkan Case Challenge, a case study competition combined with a business fair for students in SEE.

ADC, through the Austrian Association of Cities and Towns, i.e. its Know How Transfer Centre (KHTC), can provide funding for study visits and alike, supporting contacts and the exchange of know-how in various fields of public administration. The programme focuses on cooperation at the municipal level and acts upon request of public Austrian institutions.

**Know How Transfer Centre**

ADC supports civil society activities and partnerships between Austrian and local NGOs through a specific co-financing scheme. Proposals are to be submitted by Austrian NGOs in the framework of a Call for Proposals, taking place twice a year. Currently, the thematic focus of this programme is on conflict prevention and reconciliation, human rights education, combatting trafficking in human beings and HIV/AIDS.

**NGO co-financing**

## 6. Implementation

Overall responsibility for the implementation of the country programme lies with the Austrian Development Agency (ADA). Projects financed by ADA are exclusively implemented by third parties, i.e. private firms, NGOs, International Organisations or the local partners themselves.

The implementation of the programme is overseen by ADA-headquarters in Vienna (country desk); programme and project implementation are directed and supervised by the Coordination Office for Technical Cooperation in Belgrade.

The Austrian Ministry for Foreign Affairs (MFA), Department for Development Cooperation, is responsible for programme monitoring.

In order to operationalise the country programme, ADA will, in the course of 2006, elaborate detailed objectives, indicators, results and activities for each of the two thematic directions – “fostering employment” and “improving employability” – related

to the two geographic priority regions. They will be decided upon by the common steering group (MFA, ADA).

ADC plans to review this country programme by means of a thorough evaluation in the course of its final year, i.e. 2008. **Review Process**

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## Annex A: Logical Framework

Logic of Intervention	Indicators	Sources of Verification	Assumptions and Risks
<p><u>Overarching objective:</u> ADC's overarching programme objective in Serbia is to increase employment and to promote European standards and values</p>	<p>Increased employment levels Achievement of the Copenhagen criteria defining eligibility for joining European Union</p>	<p>Economic reports as published by the National Bank, IFIs, etc. Progress reports on the Stabilisation and Association process</p>	<p>Continuous stabilisation of the political situation in Serbia, including peaceful and durable solutions concerning Montenegro and Kosovo Continuous reform efforts undertaken by the Serbian government</p>
<p><u>Programme goal:</u> ADC aims at fostering employment in a short term and improving overall employability in a long term perspective, concentrating on Southern Serbia and Vojvodina</p>	<p>Increased employment levels Improved qualification levels of the Serbian population</p>	<p>Economic reports as published by the National Bank, IFIs, etc. Assessment reports on education and qualification levels</p>	<p>Continuous commitment of the Serbian government towards economic reform as well as active labour market policies Commitment of Serbian education and labour-market authorities towards developing up-to-date and needs based qualification programmes</p>
<p><u>Cross-cutting issue:</u> European Standards and Values as defined by the Copenhagen Criteria</p>	<p>Approximation of laws Achievement of the Copenhagen criteria Absence of inter-ethnic tensions</p>	<p>Progress reports on the Stabilisation and Association process</p>	<p>Prevalence of pro-European forces on all political levels Constant levels of economic growth benefiting also to the most vulnerable groups</p>
<p><u>Results:</u></p> <ul style="list-style-type: none"> <li>■ Within a given area of intervention,</li> <li>■ the number of people employed has increased</li> <li>■ people will have obtained a higher level of qualification</li> <li>■ European standards have been implemented</li> <li>■ Awareness of human rights and the value of cultural diversity have been increased, interethnic tensions have been reduced</li> </ul>	<p>Number of people having been newly employed or re-employed Number of people trained or having attended adequate education Degree of implementation of the <i>acquis communautaire</i> and other European sets of norms and standards Degree of integration of the Serbian society</p>	<p>Project monitoring, reports and evaluations, labour market statistics, statistics of chamber of commerce Project monitoring, reports and evaluations, statistics of labour market and educational institutions EU country reports and similar instruments Relevant instruments and reports assessing the political and human-rights situation in Serbia</p>	<p>Sustainable economic growth rates Full commitment of relevant authorities and agencies towards developing and implementing adequate policies and measures</p>

## Annex B: Other Donors' Activities

The priorities identified for Serbia and Montenegro relate to its capacity to meet the criteria set by the Copenhagen European Council of 1993 and the conditions set for the Stabilisation and Association process, notably the conditions defined by the Council in its conclusions of April 1997 and June 1999, the content of the final declaration of the Zagreb Summit of November 2000 and the Thessaloniki agenda.

**European Commission,  
European Agency for  
Reconstruction (EAR)**

Immediately following the democratic changes in Serbia in October 2000, the EC launched a special programme of emergency aid which was followed by assistance through the Commissions' CARDS programme. Funds are provided through Annual Programmes, based on the Country Strategy Paper (CSP) and Multi-annual Indicative Programmes (MIP). CARDS assistance is currently managed by the EAR – the European Agency for Reconstruction. Thematic priorities 2005 were:

- Democratic Stabilisation: Minority Rights and Refugee Return, Civil Society, Media,
- Good Governance and Institution Building: Justice & Home Affairs, Public Administration Reform, Customs & Taxation and
- Economic and Social Development: Investment Climate, Trade, Infrastructure, Environment, Education and Employment.

Since 2000, the EC has provided funds for these programmes with a total value of € 1145 million. In addition, Serbia profited from the Regional CARDS programme, Humanitarian Assistance through ECHO (€ 218.5 million) and macro-financial assistance (€ 475 million).

As of 2007, CARDS will be replaced by IPA – Instrument for Pre-Accession Assistance, a single framework for all pre-accession assistance provided by the EU. The Transition Assistance and Institution Building Component and the Cross-border Cooperation Component will be available for potential candidate countries like Serbia, while the Regional Development, the Human Resources Development and the Rural Development Component will be restricted to candidate countries. As Serbia will gradually establish structures for decentralised management for programmes and funds, assistance in the areas of infrastructure, regional and rural development and labour and social policies will, meanwhile, be made available under the Transition Assistance Component.

Since the beginning of its activities in Serbia and Montenegro the EBRD has approved almost 40 projects totalling EUR 810 million, including major infrastructure loans for the transport and power sectors, investments in local banks mainly in support of small and medium-sized enterprises (SMEs), and investments in various private companies and new ventures.

**European Bank for  
Reconstruction and  
Development (EBRD)**

In the corporate sector the EBRD focuses on (i) privatisation and post-privatisation company restructuring, capital investments in new technology and environmental improvements, primarily with local investors; (ii) agribusiness; (iii) projects in the property sector; (iv) greenfield investment with foreign strategic investors who have commercial and viable investment plans and a track record in the given industry. In the financial sector the Bank targets (i) privatisation, financial and operational restructuring of state banks; (ii) cooperation with strong local or foreign banks looking for opportunities to increase market share; (iii) continued support to commercial banks and micro-lending institutions, and implementation of the recently agreed EU/EBRD Western Balkans SME facility. In the field of energy and other infrastructure, the Bank plays a crucial role in developing the transport, energy and



municipal infrastructure. Priority is given to infrastructure projects with a strong regional dimension as well as to projects supporting the required corporate restructuring in electricity, gas and oil.

The main priorities of the **World Bank** in SaM are:

**The World Bank**

- to restore and maintain macroeconomic stability;
- to encourage economic growth and create jobs;
- to promote social protection of the poor and vulnerable, better education and health care.

All activities envisaged under the Country Assistance Strategy (CAS) will contribute to meeting one or more of the three country goals that summarize the overall economic objectives and reforms envisaged under the Stabilization and Association Process (SAP) and the Poverty Reduction Strategy Paper (PRSP), i.e.:

- creating a smaller, more sustainable, more efficient public sector;
- creating a larger, more dynamic private sector; and
- reducing poverty levels, and improving social protection and access to social services.

By June 2004 the World Bank committed \$552 million in grants and IDA projects in SaM. The Country Assistance Strategy (CAS) for 2005-2007 envisages a combination of IDA and IBRD loans.

**UNDP's** focus in SaM has shifted away from a post-conflict response and towards a development-oriented agenda. The primary objective of UNDP's programme in SaM in the period 2005-2009 is to advance public administration and judicial reform, foster better access to services and rights, and promote local development, with a special focus on:

**UNDP**

- Institutional Building
- Judicial Reform and Rule of Law
- Poverty Reduction and Economic Development
- Sustainable Development
- Human Security
- Policy Unit

**USAID's** Strategy in Serbia is based on three pillars: democracy and governance; a large civil society programme aimed at fostering democracy at the local level; and broad-based economic policy reform that support sustained growth of the private sector and economic integration with Europe. The mission seeks to implement activities across three strategic objectives:

**USA/USAID**

- accelerated Growth and Development of Private Enterprise;
- more effective, responsive and accountable democratic institutions;
- increased, better-informed citizens' participation in political and economic decision-making.

By 2004 the USAID has committed EUR 352.28 million.

The overall purpose of **DFID's** programme in Serbia and Montenegro is to enhance the effectiveness of the overall international community engagement in promoting and supporting poverty reduction. DFID focuses on:

**UK/Department for International Development (DFID)**

- encouraging the Government to take a stronger lead in donor co-ordination and in policy coherence (e.g., in managing SAP, European Partnership, and PRSP);
- leveraging the work of the larger donors, notably the World Bank and the EC;



- Establishing momentum for pro poor policy initiatives by the government, either through PRSP or through mainstreaming poverty issues into government wide policy;
- Donor harmonisation;
- Influencing centre of government/public administration reform;

Since 2001 DFID has committed approximately £12 million for programmes in Serbia, in 2005 £2.7 million.

Through technical assistance **Germany** supports structural reforms, judiciary and legal reform, regional cooperation and local development as well as the development of democracy, support to media and humanitarian assistance. In the field of economic cooperation substantial assistance is provided by Germany through GTZ and KfW.

**Germany/GTZ, KfW**

**GTZ:** The priority goal of German Development Cooperation is to support the economic and social reforms of the Government in Belgrade in its efforts to stabilise the country and approach the European Union (EU). GTZ is providing technical assistance and project-related consulting services to social, economic and infrastructure development.

In conformity with the basic principles of the Stability Pact for South Eastern Europe, which has been in existence since 1999, GTZ is promoting projects and programmes in the area of economic and employment promotion with special focus on structural reforms and reorganizing the financial sector.

**KfW** – German Bank for Reconstruction and Development – focuses on energy, utility companies and SME development. It provides grant funding as well as loan financing.

**Switzerland**, represented by the SDC and its Humanitarian Aid Department and the Swiss Humanitarian Aid Unit, SHA, has been active in Serbia and Montenegro since 1991. A wide-range of humanitarian programmes was implemented in different sectors like housing, repair of schools and social institutions, heating infrastructure and water etc. Immediately after the political upheaval, SDC prepared a Medium-Term Concept Serbia and Montenegro 2002–2006 and launched a programme of technical assistance. The priorities for Serbia-Montenegro are:

**Switzerland/SDC**

- institutional reforms,
- public infrastructure and services,
- education and training,
- private sector,
- minorities, refugees and marginalized groups.

Since 2000, Swiss assistance to SaM amounted to EUR 94.38 million.

**Sweden** has developed a strategy for the Republic of Serbia for 2004–2007 which is implemented through the SIDA office in Belgrade.

**Sweden/SIDA**

Swedish development cooperation with Serbia and Montenegro focuses on the following sectors:

- democracy and good governance
- economic growth
- sustainable use of natural resources and concern for the environment
- respect for human rights
- gender equality



Since 2000, Swedish assistance by SIDA in SaM amounted to approximately EUR 67 million.

**Norway's** assistance to Serbia will concentrate on the following sectors:

**Norway**

- institution building
- economic development
- infrastructure
- democracy initiatives
- humanitarian initiatives
- focus on the South-East region of Serbia

From 2000 until 2004, Norway committed funds to Serbia amounting to approximately EUR 100 million. In 2005, Norway provided additional EUR 21 million for programmes in Serbia.

**Canadian assistance** to Serbia in the period 2004–2010 is directed towards three areas:

**CIDA**

- Rule of law
- Health reform and
- Education.

The total budget for the period covered by the Balkans Development Programming Framework (BDPF) 2004–2010 is \$100 million.



## Annex C: References

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