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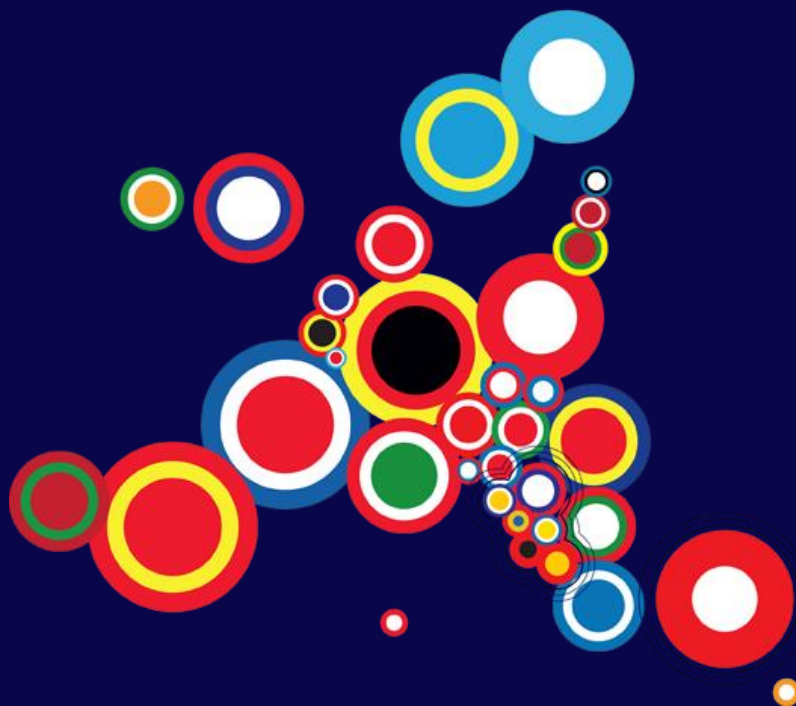
ANNEX

to the

COMMISSION IMPLEMENTING DECISION

**amending Commission Decision C(2014)5872 of 19.8.2014 adopting the Indicative
Strategy Paper for Serbia for the period 2014-2020**

INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II)



REVISED INDICATIVE STRATEGY PAPER
FOR **SERBIA**
(2014-2020)
ADOPTED ON 10/08/2018

TABLE OF CONTENTS

PART I: INTRODUCTION	3
1 Purpose	3
2 Consultation on this Strategy Paper	4
PART II: ANALYSIS OF NEEDS AND CAPACITIES	4
1 Political and economic context	4
2 Context for the planning of assistance	6
PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY	12
PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020	17
1 Democracy and governance	17
2 Rule of law and fundamental rights	22
3 Environment, climate action and energy	29
4 Transport	35
5 Competitiveness and innovation, agriculture and rural development	37
6 Education, employment and social policies	42
7 Territorial and regional cooperation	46
ANNEX 1: INDICATIVE ALLOCATIONS.....	49
ANNEX 2: PERFORMANCE INDICATORS	49

PART I: INTRODUCTION

1. Purpose

The Instrument for Pre-accession Assistance (IPA II)¹ is the main financial instrument to provide EU support to the beneficiaries listed in Annex I of the IPA II regulation in implementing reforms with a view to Union Membership.

This Indicative Strategy Paper (the Strategy Paper) sets out the priorities for EU financial assistance for the period 2014-2020 to support Serbia on its path to EU accession. It translates the political priorities, set out in the enlargement policy framework, into key areas where financial assistance is most useful to meet the accession criteria. Priorities are in line with the 2030 Agenda and its Sustainable Development Goals (SDGs). This strategy paper – initially adopted by the European Commission with decision C(2014) 5872 of 19 August 2014- has been revised and updated at mid-term in accordance with Article 6.4 of the IPA II Regulation. It may also be revised at any time upon the initiative of the European Commission.

Financial assistance under IPA II pursues the following four specific objectives: (a) support for political reforms, (b) support for economic, social and territorial development, (c) strengthening the ability of the beneficiaries listed in Annex I to fulfil the obligations stemming from Union membership by supporting progressive alignment with, implementation and adoption of, the Union *acquis*, (d) strengthening regional integration and territorial cooperation. Furthermore, the IPA II Regulation states that financial assistance shall mainly address five policy areas: a) reforms in preparation for EU membership and related institution and capacity-building, b) socio-economic and regional development, c) employment, social policies, education, promotion of gender equality, and human resources development, d) agriculture and rural development, and e) regional and territorial cooperation.

In order to increase its impact, EU financial assistance shall be concentrated on the areas where reforms or investments are most needed to meet accession criteria and tailored to take into account the capacities of the country to meet these needs. Assistance shall be planned in a coherent and comprehensive way with a view to best meet the four specific objectives and address, as appropriate, the thematic priorities for assistance listed in Annex II of the IPA II Regulation, as well as the thematic priorities for assistance for territorial cooperation listed in Annex III of the same Regulation.

Moreover, EU assistance is only one of the means to achieve the necessary progress. When deciding on priorities for action, due account needs to be taken of the beneficiary's own means as well as of the support provided through other EU instruments and by other stakeholders, in particular bilateral donors or International Financial Institutions. In view of the above aspects, preference shall be given to providing financial assistance under a sector approach, to ensure a more long-term, coherent and sustainable approach, allow for increased ownership, facilitate cooperation among donors, eliminate duplication of efforts and bring greater efficiency and effectiveness.

With a view to delivering on the priorities set for EU financial assistance for Serbia for the seven years period, this Strategy Paper sets realistic objectives, identifies the key actions and actors, describes the expected results, indicates how progress will be measured and

¹ OJ L 77, 15.03.2014, p. 11.

monitored, and sets out indicative financial allocations. The priorities defined for financial assistance will serve as a basis for the (multi-) annual programming of IPA II funds.

The mid-term revision of this Strategy Paper has taken into account the priorities already addressed in the period 2014-2017. A performance reward exercise has been conducted during 2017 on the basis of an assessment of performance and progress; a second performance reward exercise will be conducted by 2020, as defined in Article 14 of the IPA II Regulation.

2. Consultation on this Strategy Paper

This Country Strategy Paper has been prepared in close partnership with Serbia. Several rounds of consultations were held with the Ministry for European integration (MEI). Specific consultations were organised with the sector working groups composed of representatives of line ministries and other national stakeholders, a number of civil society organisations, EU Member States, other donors and international organisations in Belgrade in July 2013 and November 2013. International Financial Institutions (IFIs) and international organisations have also been consulted.

The civil society organisations (CSO) have been consulted more widely via MEI, having in mind MEI's national leadership in programming of IPA funds. MEI has organised consultations with CSOs in cooperation with the Office for Cooperation with Civil Society, which is in charge of coordinating the processes with the wide range of CSOs, irrespective of their size, sector or area of work or geographic location.

All the consulted stakeholders provided valuable input in their respective fields of expertise. Their comments have been reflected to the extent possible. They will be further taken into account during programming of IPA assistance. The consultation process was also instrumental in terms of achieving better coordination of strategic priorities and complementarity of assistance among donors.

During the revision process which took place between 2016 and 2018 consultations have been carried out with the Serbian authorities through MEI, CSOs, EU Member States, IFIs and International organisations.

Strategic dialogues with the European Parliament were conducted both when the document was initially drafted in 2014 and at mid-term in 2018.

PART II: ANALYSIS OF NEEDS AND CAPACITIES

1. Political and economic context

Serbia is a parliamentary democracy with a population of nearly 7.11 million (2016) (51,3% women 48,7% men). Over half of the population lives in rural areas. Serbia is organised into central, provincial and local (self) governments. Serbia's constitutional and legislative framework is largely in line with European principles and standards. The public administration is generally well developed at a central government level. The local self-government level, which holds delegated competences in areas such as local infrastructure, building permits, utilities, education, culture, social and child welfare, protection of the environment and agricultural land, has overall very weak capacities. Capacities for parliamentary oversight and governmental policy planning, coordination, monitoring and implementation need strengthening. Serbia is committed to its objective of EU membership and has since 2008, when the Stabilisation and Association Agreement was signed, dedicated

efforts on the EU-related reform agenda. Serbia's ability to attract and retain qualified staff in the administration dealing with EU issues will be crucial.

Serbia is moderately prepared when it comes to the Copenhagen economic criteria of a fully functioning market economy that can withstand competitive pressures from the EU single market. Serbia's economy depends highly on services (71% of GDP), while industry (19% of GDP) and agriculture (10% of GDP) play a minor role. The country was strongly hit by the economic crisis of 2009 and stayed in stagnation until 2015. Since then it has successfully consolidated its budget supported by an IMF standby agreement. Further acceleration of economic activity is forecast, to be driven by robust investment and export growth. Despite this latest positive trend, Serbia's GDP per capita has stalled at 35% of the EU average.

The impressive fiscal consolidation masks delays in some reforms and deficiencies in budget planning and execution. The restructuring of large state-owned enterprises has been progressing unevenly and slowly and the reform of the public administration has encountered delays. The level of state aid is still high and subsidies are granted to a large extent to unprofitable public companies or to non-transparent FDI projects. A number of sectors such as energy, telecommunications, infrastructure, postal services, broadcasting, agriculture and the environment are still strongly state-influenced and steps towards liberalisation are needed. Small and medium-sized enterprises account for nearly 60% of employment in business economy and around 50% of GDP. According to the Global Competitiveness Report 2017/2018, Serbia ranks 78 out of 137 countries.

Agriculture remains of key importance for economic growth, employment and trade. It accounts for around 10 % of GDP, employs about half a million people (20 % of total employment), and generates significant foreign trade surpluses. There is significant room for increasing competitiveness in agriculture, as the sector's potential is weighed down by land fragmentation, low productivity due to outdated technologies, small economic size and low utilisation of agricultural land per farm compared to the EU average

The informal economy remains strong and is a major hindrance to fair competition and business development, which reflects the challenging situation on the formal labour market. The unemployment rate remains high over 13 % in mid-2017- (14,3 % for women and 12,9% for men). The long-term unemployment rates as well as unemployment rates of women and youth have been persistently high. The overall education system is unresponsive to labour market needs, resulting into structural problems including a mismatch of supply and demand. Serbia ranks only 43rd out of 65 countries participating in the Programme for International Student Assessment (PISA) from the Organisation for Economic Cooperation and Development (OECD).

In terms of gender equality, equal participation of women and men at all levels of society remains a key challenge. Existing gender stereotypes and discrimination help to preserve a structural gender gap in economic, political and social areas and gender-based violence remain an issue of concern. Support for shelters for victims of domestic violence remains insufficient.

Nearly 10% of Serbian people are estimated living in absolute poverty and nearly one quarter of population is estimated of being at the risk of poverty. Roma people are among the poorest and most disadvantaged groups in Serbia, with nearly 30% of them estimated living in absolute poverty.

Government's overall investment in physical infrastructure fell to 2.2% in 2013 and 2.5% in 2014, the lowest level ever. It improved in 2015 and 2016, but remained well under 4% and under the Western Balkan average of 4.5%. International Financial Institutions (IFI) have provided loans for major infrastructure projects mainly in transport, environment and energy,

of which EIB loans are worth over EUR 44.4 billion since 2000. Despite these commitments there are substantial amounts of still undisbursed funds. Serbia will need to make further considerable investment in physical infrastructure in environment, transport, digital and energy sectors, first and foremost for the direct benefit of its citizens, but also in view of the accession to the EU.

Serbia's economy is highly energy-intensive and carbon-intensive due to its heavy reliance on fossil fuels. In 2011 Serbia consumed and emitted 2.7 times more energy and CO₂, respectively, per unit of output than the Organisation for Economic Co-operation and Development (OECD) average, according to the International Energy Agency. Also, Serbia is located in an area highly vulnerable to climate change impacts.

Corruption is perceived to be widespread in Serbia, impacting also on economic development. According to the 2013 *Business, corruption and crime in Serbia* report by the United Nations Office on Drugs and Crime, more than half of business representatives participating in the survey considered corruption a major obstacle to doing business. The fear of having to pay bribes to obtain requisite services or permits led over 9% of business leaders not to make a major investment in the 12 months prior to the survey. Beside corruption, Serbia faces further substantial challenges in the rule of law sector regarding judicial independence and efficiency. Decisive action and effective results to tackle all these issues will be crucial for Serbia's EU accession perspective.

During 2015 and 2016 Serbia faced a dramatic increase in the number of refugees and migrants. More than 700,000 people passed through Serbia in 2015. In 2016, following the EU-Turkey Statement and the border restrictions applied by some EU Member States and along the Western Balkans route, the influx diminished considerably, but the number of people stranded on Serbia's territory rose, stabilising in 2017 around 3.500-4.000 people. Serbia showed good cooperation with the EU in managing the migration flow. Although Serbia's response has been commendable, it needs to step up its capacities in accommodating and managing large numbers of migrants and refugees, including through mid-long term plans and measures, while applying the necessary EU and international standards.

The refugee crisis on the Eastern Mediterranean – Western Balkans route has revealed the need to improve the capacities of Western Balkan countries to better manage mixed migration flows.

EU assistance has been allocated since the beginning of the crisis in support of Serbia to increase control of migration flows at the border and to improve reception capacities for migrants and refugees, among others. These funds complement steps by the Commission to implement the commitments agreed at the Leaders' Meeting on the Western Balkans Migration Route. The leaders' meeting on refugee flows along the Western Balkans Route took place in October 2015, at the invitation of the President of the European Commission, the Heads of State or Government of Albania, Austria, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Germany, Greece, Hungary, Romania, Serbia and Slovenia.

All countries agreed to strengthen their coordination by having regular video conferences, together with the European Commission, the European Border Coast Guard Agency, Europol, UNHCR and IOM. This proved to be an important tool to seek a common EU solution to the challenges along the route.

2. Context for the planning of assistance

2.1. EU Enlargement Strategy

Serbia – along with five other Western Balkans countries – was identified as a potential candidate for EU membership during the Thessaloniki European Council in 2003. In 2008, a European partnership for Serbia was adopted, setting out priorities for the country's membership application, and in 2009 Serbia formally applied. The European Council granted Serbia candidate country status in March 2012. In June 2013 the European Council decided on opening accession negotiations. The Commission was asked to carry out an analytical examination of the EU *acquis* with Serbia, which started in September 2013. Also in September 2013, the Stabilisation and Association Agreement, signed in 2008 between the EU and Serbia, entered into force. The Council adopted the framework for negotiations with Serbia in December 2013, and the first intergovernmental conference with Serbia took place in January 2014, signalling the formal start of the accession negotiations. By the end of 2017, 12 negotiating chapters have been opened (chapters 5, 6, 7, 20, 23, 24, 25, 26, 29, 30, 32, 35), two negotiating chapters are provisionally closed (chapters 25 and 26).

The 2014-2015 EU enlargement strategy underlined that the accession process is more rigorous and comprehensive than in the past, not only due to the evolution of EU policies but also due to lessons learned from the previous enlargements. It set out that a key lesson is the importance of addressing the fundamentals first: rule of law/fundamental rights, economic governance and public administration reform.

On 6 February 2018, the Commission adopted a Communication on "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans". This strategy aims to generate renewed reform momentum in the Western Balkans and provide significantly enhanced EU engagement to better support their preparations on the European path. It clearly states that the accession process is strictly merit-based and requires substantive reforms particularly in the area of rule of law and fundamental rights.

For the period 2018-2020, this Strategy Paper has been revised to ensure coherence with the new strategic orientations, in particular as regards the implementation of the six Flagship Initiatives presented in the Communication.

The rule of law will remain at the heart of the enlargement process. The new approach, endorsed by the Council in December 2011, means that countries need to tackle issues such as judicial reform and the fight against organised crime and corruption early in the accession negotiations. Serbia has to sustain the momentum of reforms over time in the key areas of the rule of law, particularly judicial reform and anti-corruption policy, independence of key institutions, freedom of expression, anti-discrimination policy, the protection of minorities, and develop a solid track record of reform implementation, thereby ensuring that reforms are deeply rooted and irreversible. The full and timely implementation of the relevant strategies and the action plans in the area of rule of law and fundamental rights is essential in this regard.

The global economic crisis has underlined the need for all countries to strengthen their economic governance, improve competitiveness, and create a more stable and transparent business environment to attract investments and stimulate growth. The enlargement strategy 2014-2015 set out proposals to support this aim, including enhancement of economic policy and its governance through the introduction of annual Economic Reform Programmes, as well as action plans for public financial management. This new approach responds more

systematically to the economic criteria², as defined by the Copenhagen European Council in 1993. The Economic Reform Programmes (ERP) and the policy guidance jointly adopted by the EU and the Western Balkans and Turkey annually are the EU's main instruments for economic policy dialogue with Serbia. The latest report was adopted by Serbia in January 2018. In November 2015 Serbia adopted its first Public Finance Management programme covering the period 2016-2020.

The Digital Agenda for the Western Balkans will also induce a stronger emphasis on preparing Serbia for a digital transformation in order to maximally reap benefits of today's digital economy and society. Investing in digital projects can also contribute to the success of the other sectors. For example, the use of digital technology and services can enhance transparency, reduce fraud, make it easier to establish businesses, and help modernise public administration. Five areas will be placed central and should lead to several deliverables over the next three years. These five actions areas are: the lowering the cost of roaming; the deployment of broadband; the development of eGovernment, eProcurement, eHealth, & digital skills; capacity building in digital trust and security, in parallel to efforts to enhance digitalisation of industries; the adoption, implementation and enforcement of the acquis.

There is also a need to more intensively strengthen democratic institutions and make democratic processes more inclusive. There will be continued focus on public administration reform (PAR), including public finance management (PFM) in line with the Principles of Public Administration, which provide the overall reference and monitoring framework to measure progress with implementation of reforms. The support will continue to enhance transparency, accountability and effectiveness of public administration with greater focus on the needs of citizens and businesses. A stronger role for civil society is a key in this respect, as are cross-party platforms for EU integration.

Finally, good neighbourly relations and regional cooperation are essential elements of the Stabilisation and Association process. Serbia needs to maintain its commitment to regional cooperation and reconciliation. Following the landmark agreement signed with Kosovo* on 19 April 2013, continued visible and sustainable progress in the normalisation of relations with Kosovo including the implementation of agreements reached so far, will remain essential for advancing the European future of Serbia. Progress in this respect is monitored in the framework of accession negotiations.

2.2. Relevant national/regional strategies

The strategic programming document *National Priorities for International Assistance in the Republic of Serbia 2014-17 with projections until 2020 (NAD)*, prepared by MEI in cooperation with the relevant national authorities and following a wide consultation process with development partners and civil society, was adopted in January 2014, and is currently under revision for the period 2018-2020. NAD aims to help donors align international financial assistance with national sector priorities, eliminate duplication and rationalise donor

² The first criterion concerns a functioning market economy, including economic governance, macroeconomic stability, functioning of product markets, the financial market and the labour market. The second criterion concerns the capacity to compete in the single market, including education and innovation, physical capital and quality of infrastructure, sectoral and enterprise structures, and economic integration with the EU and price competitiveness.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

activities. The priorities identified in the NAD focus on systematic reforms needed to meet the accession criteria and to create a more attractive economic environment which will act as a driver for economic and social development. NAD defines nine sectors as the basis for sector approach and contains indicators, a set of verifiable, annual and mid-term, targets which can be used for assessing the progress of reforms. This Strategy Paper therefore closely mirrors NAD regarding the priorities for EU assistance in the next seven years.

Serbia is fully committed to the implementation of the Agenda 2030 and its Sustainable Development Goals. Their adaptation to situation in country is in progress. In 2017, Serbia and the UN launched the Development Partnership Framework for the period 2016 to 2020. The Development Partnership Framework is fully aligned with the national development priorities, as well as with the process of process of accession negotiations of the Republic of Serbia and the European Union and the UN Agenda for sustainable development by 2030.

In June 2016 Serbia adopted its first Employment and Social Reform Programme (ESPRP) including inclusive growth issues and complementing other aspects of economic governance.

In February 2013, Serbia adopted a *National Plan for the Adoption of the Acquis (NPAA) 2013-16*. In 2018 Serbia adopted a revised NPAA covering the period 2018-2021. The NPAA establishes a plan for harmonisation with EU legislation and defines human resources required for implementation. The current version of the NPAA reflects the changes in the accession path of Serbia, and includes the identification of financial and human resources for each measure covered.

In December 2013, Serbia finalised a new national Strategy for Agriculture and Rural Development for the period 2014-2024. The Strategy was adopted by the Government in August 2014 and provides an overview on development of the agriculture sector, including policy, legal and institutional reforms.

Since 2014 Serbia has adopted a single investment project pipeline, which includes the most strategic priority investment projects in the environment, transport, energy and competitiveness sectors for the coming years. The Serbian authorities have adopted in November 2013 the related methodology, which defines both eligibility and selection criteria for investment projects. A National Investment Committee (NIC) was established to monitor its implementation. IPA II funding concentrates on those priority investment projects included in the pipeline. However, capital expenditure execution remains hampered by weaknesses in budgeting, planning and contract oversight. Serbia adopted in June 2017 a decree on capital investment management. It aims at linking investment planning to the budgetary process. However, EU funded investment projects are not covered by the decree. Rather, they are channelled through the National Investment Committee and the Single Project Pipeline. Serbia therefore still needs to develop a single mechanism for prioritising all investments regardless of the source of financing, as foreseen in the public financial management reform programme adopted by the government.

Another key document is the National Public Administration Reform Strategy which was adopted in January 2014, followed by an Action Plan for PAR Strategy Implementation adopted in 2015, which will be updated in 2018 for the period 2018-2020. The public finance management chapter is relevant² because negotiations on Chapter 32 (Financial Control) were opened in December 2015. A PFM Reform Programme 2016-2020 was adopted by the Government in November 2015 and amended in December 2015. A Strategy for the Development of Public Internal Financial Control has also been adopted.

In 2015, Serbia adopted the Action Plans for Chapters 23 and 24, which are the national strategies guiding the work for the coming years in the context of EU accession negotiations.

The first is complemented by the "Action Plan for the Realisation of the Rights of National Minorities", adopted in March 2016. Serbia is in the process of revising its action plans with more realistic deadlines.

The new National Strategy for Gender Equality (2016-2020) and the accompanying Action Plan (2016-2018) were adopted in January 2016. The Strategy particularly focuses on improving the position of disadvantaged groups of women, such as Roma, older women, rural women, women with small children, pregnant women, women victims of domestic violence, women with disabilities, self-supported mothers, unemployed women, and uneducated women.

Regarding Roma inclusion, Serbia adopted the Strategy for social inclusion of Roma 2016 – 2025 in March 2016, and its action plan was adopted in June 2017. Roma are also targeted through main strategic documents in the areas of education, employment, housing and health and social welfare.

In May 2017 Serbia adopted Official statistics development strategy and modernisation of the Statistical Office of the Republic of Serbia, which focuses on alignment of Serbian statistics with the requirements of European Statistical System, on professional independence of Serbian statistical office, development of methodological and analytical sectors, development of the system of registers, application of modern technologies, and other areas.

Serbia is a signatory of many treaties with a regional aspect and participates in a number of regional initiatives. The *Central European Free Trade Agreement (CEFTA)* aims to expand trade in goods and services, foster investment, eliminate barriers to trade, provide protection of intellectual property rights in accordance with international standards and harmonise provisions in areas such as competition rules and state aid between non-EU countries in Southeast Europe. The *Energy Community Treaty* provides for the creation of an integrated energy market in electricity and gas between the EU and the contracting parties and includes a social memorandum. The *Transport Community Treaty*, provides for a binding legal framework for the transposition of transport EU *acquis*, independently from the status of accession negotiations. It will contribute to greater connectivity and integration with the rest of the European transport legislative framework and transport network. Serbia also participates in the *EU Strategy for the Danube Region (EUSDR)* and the *EU Strategy for the Adriatic and Ionian Region (EUSAIR)*, which are macro-regional strategies to enhance cooperation, socioeconomic development and territorial cohesion among the Member States and non-EU countries in the respective regions. These strategies offer solutions to common challenges in the concerned macro-regions. They are focusing on improved connectivity of (transport and energy), better environmental quality, sustainable tourism actions, and socioeconomic development measures in the geographically specific context. In the EUSDR, Serbia is leading in the Land and Air Transport priority area as well as in the Knowledge Society priority area. In the EUSAIR, Serbia is leading in the Connectivity pillar (Transport and Energy networks). Macro-regional strategies foster cooperation with neighbouring countries and facilitate the preparation of candidates and potential candidate countries for EU integration. Serbia participates actively in the *Regional Cooperation Council (RCC)* and has committed to the South East Europe (SEE) 2020 strategy and its growth targets agreed in a ministerial conference in November 2013. Serbia is also part of the *Migration, Asylum, Refugees Regional Initiative (MARRI)*, which deals with the issues of migration management in the Western Balkans by promoting closer regional cooperation and a comprehensive, integrated, and coherent approach to the issues of migration, asylum, border management, visa policies and consular cooperation, refugee return and settlement in order to meet international and European standards.

2.3. Conditions for managing pre-accession assistance

There is an important shift between the past EU assistance and the assistance to be provided to Serbia over the period 2014-20. Serbia has gradually moved to sector approach since 2011. Serbia has also started moving towards a multi-annual perspective in planning of EU assistance. Since 2014 the minimum conditions have been in place for programming of IPA II assistance through sector approach and with a multi-annual planning perspective in all the sectors. Sector working groups are functioning, donor coordination mechanisms under the leadership of the MEI have been set up and institutional setting with lead institutions for each sector has been identified with sufficient capacity for implementation. The ability of beneficiaries to design sector support programmes is an important success factor for IPA II programming and therefore represents also a key element of performance measurement.

The current weaknesses that hinder the move to fully-fledged sector approach concern the lack of well-defined national sector strategies (due to too many overlapping strategies in each sector) and the lack of clear link between national strategies and the national budgetary process. In 2013, the General Secretariat of the Government and the MEI initiated a process aiming to improve the strategy framework in each sector, which is bringing positive results in linking the strategies with the necessary budgets and establish proper monitoring mechanisms for the sector policies' implementation.

The thematic evaluation on the sector approach launched in 2017 by the Commission will be relevant for future orientation on the sector approach in Serbia.

IPA II support may be delivered through sector reform performance contracts to support key reforms in the enlargement countries upon meeting the eligibility criteria: a stable macro-economic framework; a credible and relevant programme to improve public financial management; transparency and oversight of budget; and credible and relevant sector strategies that are consistent with the EU accession strategy. In this context, Serbia has been implementing sector budget support programmes since 2015.

Pre-accession assistance programmes for the period 2007-2013 were implemented by the European Commission with the exception of IPA 2013 national programme for Serbia (Component I). In 2007-2013 Serbia successfully participated in four cross-border cooperation programmes (IPA CBC) with Member States, run under shared management.

In the financial period 2014-2020, IPA II promotes a balance between direct management from the European Commission, and indirect management by the Serbian authorities, once the conditions are in place. The mix of the different implementation arrangements is determined by the management capacities of the beneficiary institution, their track-record on implementation of EU funds in accordance with EU procurement and financial control standards and the type of sector to be supported with a preference for implementation in indirect management in those sectors which are precursors of structural funds .

2.4. Donor coordination and complementarity with other EU assistance

The main donors in Serbia are the EU, USAID, Germany, Sweden, Switzerland and Norway. Many of the EU Member States also provide targeted assistance in specific sectors. The IFIs – EBRD, EIB, KfW, CEB, World Bank - provide loans for development of the Serbian economy.

Donor coordination is ensured by the National IPA Coordinator (NIPAC). The previous informal and mostly donor-led coordination groups have been rearranged following the NIPAC's increased leadership for programming of assistance. The NIPAC's Technical Secretariat, MEI, guides the work of nine sector working groups for programming and

monitoring of external assistance, comprising of representatives of relevant national institutions responsible for policy making, implementation and monitoring in their respective sectors. They are responsible for sector and donor coordination, co-financing, analysis of project implementation and monitoring of implementation. The sector working groups are a forum for consultation with the civil society and development partners, and they also serve as IPA sector monitoring sub-committees. A lead donor has been agreed and associated to each sector working group.

This reform on donor coordination is progressing well but is not yet fully effective in all the sectors. Once completed, this reform will be a major step towards better coordination and ownership. In addition, the EU holds regular consultations with the EIB, EBRD, KfW, CEB and the World Bank in order to explore synergies for cooperation, including blending of EU grants with loans.

Serbia also benefits from the participation in EU Programmes, namely: Horizon 2020, Cosme, Creative Europe, EaSI, Europe for Citizens, Customs, Fiscalis, Erasmus +, Health, Civil Protection Mechanism. Serbia may in the future decide to participate in other EU Programmes, through specific international agreements with the EU.

Finally Serbia is a beneficiary also of the European Instrument for Democracy and Human Rights (EIDHR) and of support through a regional Exceptional Assistance Measure under the Instrument contributing to Stability and Peace (IcSP).

2.5. Consistency with EU policies

Overall, priorities for IPA II assistance shall contribute to the reaching of the 17 goals of the Agenda 2030 for Sustainable Development and to the Paris Agreement targets on climate action.

Financial assistance in the priority areas identified in this ISPI will be granted in line with and in support of the enlargement strategy for Serbia. It will be shaped to be consistent with EU policies in the respective sectors. Attention will be paid in particular to ensure alignment with the European Agenda on Migration, the EU Roma integration Framework (2011-2020), the EU Better Regulation Agenda, the EU Gender Action Plan 2016-2020, the Education and training 2020, the Bruges - Copenhagen Process for Vocational Education and Training as well as with the Europe 2020, the EUSDR, the EUSAIR, and the SEE 2020 strategies as EU flagship initiatives to boost growth and jobs and promote smart, inclusive and sustainable growth initiatives.

The objectives set until 2020 reflect the level of economic development and Serbia's level of preparedness in the accession process.

Finally, priorities for IPA II assistance shall also contribute to the reaching of the 17 goals of the Agenda 2030 for Sustainable Development and the objective of the Paris Agreement on Climate Change.

PART III: THE OVERALL DESIGN OF PRE-ACCESSION ASSISTANCE TO THE COUNTRY

The EU is determined to strengthen and intensify its engagement at all levels to support the region's political, economic and social transformation, including through increased assistance based on tangible progress in the rule of law, as well as in socio-economic reforms, by the Western Balkans partners.

The EU assistance to Serbia for the period 2014-20 is designed to support Serbia in its specific path to the EU, in line with the enlargement strategy, which highlights the importance of addressing the fundamentals first in the accession process. The EU financial assistance will complement the national sector reform efforts and assistance by other donors and IFIs on two main pillars: Democracy and Rule of Law, and Competitiveness and Growth. Under those pillars and within each sector, the EU assistance will be focused, on a yearly basis, on a limited number of priority areas, which have the most impact on Serbia's path towards EU accession.

The start of the EU accession negotiations has an impact on EU assistance to Serbia. Based on the specific needs arising from the screening process and further during the accession negotiations, sector based support will be essentially based on strategies and action plans or specific actions required in the framework of the EU accession negotiations. In addition, IPA support may be mobilised in response to unforeseen priority needs relevant to the accession negotiations, but which do not fall under the identified priority areas. In particular, this may include, but will not be limited to, ad hoc and short-term technical assistance provided under the TAIEX instrument and through twinning. IPA will also continue to co-finance Serbia's contribution for its participation in the EU programmes, subject to the national prioritisation process among the different programmes.

For the period 2014-2020 pre-accession assistance will fall under the following two pillars:

Democracy and rule of law

This first pillar will cover two key sectors: democracy and governance; and, rule of law and fundamental rights.

In the **democracy and governance sector** assistance will be focused on supporting Serbia's public administration reform efforts in order to establish a more professional, depoliticised, accountable, fiscally responsible and digital public administration, which provides services to citizens and businesses both at central and local level. A specific focus will be also put on supporting the reform of the public financial management system, which is both an integral part of the public administration reform efforts and the basis for economic governance and sustainable socio-economic reforms. In line with the enlargement strategy, economic policy and its governance will be enhanced through support of the economic reform programme , which will lead to country-specific policy guidance on reforms needed for achieving further progress in gradually meeting the economic accession criteria. In this context, specific measures to improve legal predictability and enforcement of laws and court decisions will be also supported. Serbia's political and administrative reforms related to the EU integration process will be supported, including to the extent needed normalisation of relations between Serbia and Kosovo. Strengthening transparency and quality of the policy and law-making processes in Serbia will be also addressed. Specific needs arising in the course of the accession process such as in the areas of statistics will be also supported. Capacity of Serbian authorities will also be enhanced for EU funds management and investment project preparation both at central and local government level. Finally, civil society organisations will be supported through the Civil Society Facility.

The reforms in the **rule of law and fundamental rights sector** are a key priority for Serbia, in line with the accession negotiation framework, which incorporates the new approach to the accession negotiations and puts the Rule of Law chapters at the heart of the enlargement process. The action plans under Chapters 23 and 24 adopted by the Serbian Government have become the core of EU assistance in this sector. In the **judiciary and fundamental rights sub-sector** assistance will focus on supporting the creation of an accountable, independent and efficient judicial system, the prevention and fight against corruption, as well as protection

of minorities, including Roma (with emphasis on four main priority areas: education, employment, housing, health and social welfare), as well as other groups that are vulnerable to discrimination, in particular on grounds of sexual orientation, i.e. the lesbian, gay, bisexual, transgender and intersex (LGBTI) persons and gender. The 2018 "Western Balkans Strategy" reiterates the importance of Roma integration as part of the Fundamental Rights enlargement priority. Furthermore, the EU Roma integration Framework (2011-2020) mandates the Commission to improve the delivery of support under IPA towards a strategic and results oriented programming. The Roma integration objective will be supported both by including Roma integration benchmarks in mainstream actions and through targeted projects. IPA II assistance will also take into account the national policy framework (Roma integration Strategy and Action Plan), the enlargement related Roma integration commitments taken under the negotiation chapter 23, the visa liberalisation and the conclusions of the Roma Seminar

It is important to note that the absence of a legal framework on the free legal aid and assistance impedes women from properly and satisfactorily claiming their right to non-discrimination and equality. Poor women, rural women, Roma women, women with disabilities and illiterate women particularly face obstacles in accessing legal aid and justice. Also, **freedom of expression** (media freedom and pluralism) will be a focus of assistance. In the **Home Affairs sub-sector** support will focus on the creation of an effective and efficient law enforcement system in the fight against organised crime, the need for enhanced cybersecurity capacity, border management, migration and asylum, counter-terrorism and the prevention of violent extremism, as well as supporting the system of social inclusion of IDPs and returnees under the Readmission agreement.

Keeping in mind the external dimension of EU's migration policy (the policy framework of which is set by the Global Approach to Migration and Mobility and the European Agenda on Migration), IPA II supports legal migration, mobility, including through maximising the development impacts of migration, the development of functioning asylum systems, the improvement of integrated border management, and reduction of irregular migration through both focused actions and technical assistance. Assistance in Serbia should therefore aim to develop efficient national systems of migration management and asylum by formulating actions that provide a balance between the support given to the specific areas of migration and that given to mainstream migration in the implementation of bilateral and regional cooperation frameworks. Assistance in the various areas of migration management will build on, and complement, the substantial support of IPA assistance to Serbia in response to the refugee crisis in Europe in 2015-2016.

Although Serbia is not among the most affected countries in the region, the issue of radicalisation leading to violent extremism is increasingly a part of policy discussions in the Western Balkans. The prominence of the topic has been driven to a large extent by the concerns of ISIL-inspired terrorist acts, the threat of foreign terrorist fighters (FTFs) returning to their home countries and the media attention surrounding terrorist activities.

As stated in the 2015 European Agenda on Security and the 2016 EU Global Strategy on Foreign and Security Policy, the EU will work on preventing and countering violent extremism by broadening partnerships with civil society, social actors, the private sector and the victims of terrorism, as well as through inter-religious and inter-cultural dialogue.

Within the scope of the current enlargement policy, which is also a strategic investment in Europe's security and prosperity, the challenges of terrorism and organised crime are shared between the EU and the Western Balkans and should be tackled in cooperation, as highlighted by the Integrative Internal Security Governance adopted by the Justice and Home Affairs

Council and endorsed by the Western Balkans. A comprehensive EU response would therefore include strengthening partnerships with key countries, supporting capacity building, countering radicalisation and violent extremism, as well as addressing underlying factors and the ongoing crisis.

IPA II will further contribute to the 2030 Agenda for Sustainable Development, notably in fulfilling its "leave no-one behind" pledge, by applying the Rights-Based Approach (RBA) principles [(i) legality, universality and indivisibility of human rights, (ii) participation, (iii) non-discrimination, (iv) accountability, and (v) transparency] in each step of the programming, implementation, monitoring and evaluation of its support.

Competitiveness and Growth

In light of the current economic outlook, Serbia needs to develop and implement further substantial structural reforms. To support Serbia to achieve sustainable and inclusive growth in line with the Europe 2020 priorities, EU assistance will focus on supporting the key reform measures identified in the annual Economic Reform Programme as part of the economic governance dialogue.

The improvement of the connectivity within the Western Balkans, as well as between the Western Balkans and the European Union, is a key factor for growth and will bring clear benefits for the region's economies and citizens, including for Serbia.

The regional cooperation in the Western Balkans combines high-level political commitment and technical follow-up, notably through WB6 Berlin process. It supports the adoption of the Transport Community Treaty, a Connectivity investment package from IPA and a number of soft measures on regional level including opening of transport market, the establishment of competitive, reliable and safe transport systems as well as increasing effectiveness of border crossing procedure.

Support will be provided for key infrastructure investments in the **transport, digital, environment and climate action, and energy sectors** as well as for *acquis* alignment and institution building in these sectors, in line with the ERP priorities and the single project pipeline. The transport sector has a strong potential to contribute to competitiveness and trade, as Serbia is located at the crossroads of Pan-European Corridor VII (the Danube river), which connects the North Sea to the Black Sea, and Corridor X (road and rail) between Austria and Greece. Investments in the digital sector are needed to rollout large-scale broadband infrastructure development projects to address the low penetration rates, rural-urban divide and to bring Serbia closer to the EU's ambitious 2025 Gigabit targets. Substantial investments in the environment sector – especially in waste management, water management and municipal wastewater treatment – are also needed for Serbia to meet the requirements of the EU environmental policies. Climate action sector is important for accelerating economic growth and building resilience to climate change and its impact. The programming frameworks for IPA II support to Serbia needs to be further aligned to the EU policy on the transition to a low carbon, resource efficient and circular economy, for example in the areas of investments in waste and water infrastructure, sustainable and climate-resilient construction, critical raw materials, biofuels and biochemical. Energy and climate related investments should also reflect the alignment with the relevant *acquis*. In the energy sector the focus of EU assistance will be on improving competitiveness of the energy market, energy efficiency and security of supply (also in the regional context) as well as on developing renewable energy sources. Only strategic, as well as technically and financially viable investment projects, which are part of a single national investment pipeline, will be eligible for EU funding. In the context of the Berlin process, the selected projects are coordinated with the EU connectivity agenda and in particular with the Projects of Energy Community Interest (PECI), which are of

strategic interest for the EU. Attention should be given to a priority list of connectivity reform measures prepared by the Energy Community. In the short term, Serbia is expected to engage fully in implementing these measures, which also include the unbundling of Srbijagas and ensuring third party access to the energy market in Serbia. The measures will require strong political commitment. This also applies to the funding through the Western Balkans Investment Framework (WBIF), which provides a unique facility for blending loans and grants, to further address Serbia's investment needs in these sectors. IPA II will support the implementation of the connectivity agenda and improve the links between Serbia and the other countries of the region, in particular through regional support under the Western Balkans Investment Facility (WBIF).

The European Union has set aside up to EUR1 billion for connectivity investment projects in the Western Balkans and for technical assistance over the period of 2014-2020. Up to 15 projects are mature for co-financing (in road, railway and inland waterways sectors) with typical investment value of EUR 14 to EUR 300 million.

As regards **competitiveness and innovation**, EU assistance will focus on improvements of the business environment, on structural reforms to reduce the state presence in the economy, on preparing the business environment better for a digital transformation, on development of research and innovation capacity and on improving the business sector, especially small and medium-sized enterprises. Investing in new technologies remains one of the key obstacles to the development of the SME sector and safeguarding jobs. These enterprises need specific expertise to strengthen their market position and become more bankable. The assistance will, therefore, contribute at improving the technological structure of local level SMEs and their ability to export and to increased provision of specialised services for SMEs at local level. In this context, developing and improving the national broadband communication infrastructure is important. The assistance to **agriculture and rural development** will also focus on improving competitiveness, as well as on gradual alignment of the Serbian agricultural policy with requirements of the EU's Common Agricultural Policy. Serbia should also ensure the strengthening of its administrative capacity in Fisheries in line with requirements of EU's Common Fisheries Policy.

The focus of assistance in the education, employment and social policies sector will be on implementing measures for tackling the high level of unemployment, especially among youth, continues to be a persistent challenge in Serbia. In the area of **education, employment and social policies sector** support will focus on implementing the new education strategy and supporting the reform to improve the quality and relevance of the education provision to match it better with the Serbian labour market needs, in accordance with the reforms outlined in the annual Economic Reform Programme and policy guidance. Among the key priorities in this sector is also social inclusion of the most disadvantaged groups, especially Roma (with emphasis on four main priority areas: education, employment, housing, health and social welfare) as well as supporting the system of social inclusion of all socially vulnerable population categories. For all three policy areas, assistance should be designed in accordance with the reforms outlined in Serbia's annual Economic Reform Programme, while taking into account the policy guidance Serbia is receiving in the economic governance process.

Within the framework of the Berlin Process, the **regional economic integration** agenda has accelerated over the years leading to new agreements (for instance Trade Facilitation Agreement in 2016, Agreement on Trade in Services in 2017 as additional protocols to CEFTA); these agreements, based on the compliance to the EU *acquis*, will require significant involvement of the Ministry in charge of Trade and other governmental stakeholders (custom authority, phyto-sanitary agency, market surveillance, etc...) to be able to implement them smoothly. In this context, the National Committee for Trade Facilitation,

whose Secretariat will have a key role to implement the aforesaid agreements, may need support to reinforce its capacity. This could be also the case for other governmental stakeholders involved in the process.

Furthermore, the participation in **regional and territorial cooperation** programmes has contributed to further strengthening good neighbourly relations and the lives of people in the border regions. These programmes also contribute to EU integration and preparation for ERDF territorial cooperation programmes which will be implemented upon accession. It is therefore foreseen to continue bilateral cross-border programmes between Serbia and its neighbouring EU Member States --Hungary, Romania, Bulgaria and Croatia-- and with Montenegro and Bosnia and Herzegovina. Additionally implementation of the new CBC programme between Serbia and the former Yugoslav Republic of Macedonia adopted in 2016 will start. Until 2020 IPA assistance is also foreseen for territorial cooperation programmes with Kosovo. Serbia will also continue participating in the Interreg Danube and Adriatic Ionian transnational cooperation programmes.

Finally, while programming IPA II assistance, specific attention will be paid to a number of **cross-cutting issues** that impact more than one sector and therefore require action in many of them parallel. These include the prevention of and fight against corruption, environmental sustainability and climate action, gender equality, anti-discrimination, strengthening of democracy, human rights and civil society participation, as well as protection of cultural heritage as appropriate.

Keeping in mind the importance of public administration reform in the enlargement process, the commitment of Serbia to meet the Principles of Public Administration in the adopted public administration strategy and the commitment of the EU to the Better Regulation agenda, the key elements of public administration reform will be systematically addressed in all IPA II sector interventions. IPA II assistance will especially ensure the **Better Regulation approach**, whereby policies and legislation in all sectors are prepared on the basis of best available evidence (impact assessments) in an inclusive approach involving both internal and external stakeholders.

IPA II will further contribute to the 2030 Agenda for Sustainable Development, notably in fulfilling its "leave no-one behind" pledge, by applying the Rights-Based Approach (RBA) principles ((i) legality, universality and indivisibility of human rights, (ii) participation, (iii) non-discrimination, (iv) accountability, and (v) transparency) in each step of the programming, implementation, monitoring and evaluation of its support.

Gender mainstreaming shall be ensured by all stakeholders and implementing partners throughout all phases of the programme cycle of IPA II. IPA assistance shall include an assessment of the different situations and needs for women and men and translate this assessment into indicators, activities and results.

Climate relevant expenditure will be tracked across the range of IPA II interventions in line with the OECD-DAC's statistical markers on climate change mitigation and adaptation.

All stakeholders and implementing partners shall ensure the **visibility** of EU financial assistance provided through IPA II throughout all phases of the programme cycle. They shall ensure communication about the results of the activities implemented through this assistance. Visibility and communication aspects shall follow the guidance provided by the Communication and Visibility manual for EU external actions and shall be complementary to the activities implemented by the EU in the field. In this regard, any visibility or

communication measures linked to IPA II assistance shall highlight the impact of EU's interventions and promote transparency and accountability on the use of funds.

The indicative financial allocations per policy area and sector, resulting from the priorities defined in this strategy paper are set out in Annex 1.

PART IV: EU ASSISTANCE DURING THE PERIOD 2014-2020

1. Democracy and governance

1.1. Needs and capacities in the sector

Serbia is addressing its public administration reform in line with the Principles of Public Administration. Serbia adopted in January 2014 a **public administration reform** (PAR) strategy and in 2015 the corresponding action plan, which will be updated in 2018 for the period 2018-2020. Serbia has in place the necessary structures to monitor reform implementation, The Ministry of Public Administration and Local Self-Government coordinates the reform efforts in cooperation with all key stakeholders.

In the past PAR has suffered from weak political coordination, but efforts have been made to improve political steering. The PAR Council brings together all key stakeholders The EU has a regular policy dialogue on PAR in the Special Group on Public Administration Reform.

The overall institutional and administrative capacity for *policy development and coordination* in Serbian administration, including strategic and budgetary planning and monitoring, needs to be further enhanced. Also, capacity for inclusive and evidence-based policy and legislative development needs to be improved in line with the better regulation approach. As concerns *public service and human resources management*, recruitment, both for middle management positions and at local level, continues to be an issue of serious concern, as a substantial proportion has been conducted through non-transparent procedures. The current legal framework and its uneven application leave room for undue influence in the recruitment process. The remuneration system is expected to become more transparent following the adoption of a law on the public salaries system in 2016. Full enforcement of the public salaries system is expected to take place as of 2019 Administrative capacities especially at local level are weak and there are significant disparities between municipalities. The Law on employees in autonomous provinces and local self-government was adopted in 2016. Substantial changes in recruitment practices are needed to establish a merit based professional public administration.

Accountability of administration is an issue in Serbia and it also impacts the government's rightsizing efforts. Lines of accountability between agencies and parent institutions are blurred and they contribute to overlapping functions, fragmentation and increased politicisation. Citizens' rights for good administration and their access to public information need to be strengthened.

There need to focus on *eGovernment and connected eServices* in Serbia. In order to improve *service delivery* to citizens and businesses, a new law on general administrative procedure was adopted in 2016. Specific administrative procedures still need to be addressed. An e-government strategy was adopted in December 2015 along with its action plan. This action plan is currently under preparation but should take into account user-centricity transparency and cross-border mobility of services. A new Office for IT and e-Government accountable directly to the Prime Minister was established in July 2017. This new office is tasked with policy implementation and horizontal coordination of various ministries and other institutions

at central and local government level while the Ministry of Public Administration and Local Self Government remains responsible for policy development. There is an increased number of e-government services such as such as electronic tax declarations and one-stop shops for registration,, but their full integration into the overall PAR framework remains to be achieved.

A comprehensive *public financial management* reform programme, defining the reform priorities for the period 2016-2020 was adopted in November 2015. The PFM reform programme covers six broad areas of action: sustainable medium term macro-fiscal and budgetary framework; planning and budgeting of public expenditure; budget execution; effective financial control of public expenditure; accounting and reporting; and external supervision of public finances. As concerns revenue administration and collection, the operational and administrative capacity of the Customs and Tax Administrations need to be further improved. A medium-term expenditure framework based on well-founded assumptions and targets is to be further developed. Performance indicators are not widely used. Move to policy-based (programme) budgeting is ongoing, but substantial efforts are needed for implementation over the coming years. With regard to accounting and reporting, there is room for improving the presentation of the information and gradually aligning with accrual accounting standards. The public procurement system has improved following the adoption of the 2012 Public Procurement Law and its amendments in July 2015, but is not yet fully aligned with the *acquis*. The perception of irregularities, fraud and corruption in public procurement is high. Structures for public internal financial control (PIFC) have been largely put in place, but practical implementation, especially of the concept of managerial accountability, is still weak. The administrative capacity of the budget inspection needs to be strengthened. Although Serbia has set up basic procedures for reporting on irregularities and suspected fraud cases, a track record on cooperation in investigative activity needs to be developed and anti-fraud coordination structures need to be further strengthened. The State Audit Institution is to ensure systematic follow-up on audit recommendations and the parliament's capacity to ensure effective scrutiny and follow-up to SAI reports and audit findings needs to be improved. In addition, since some of the public financial management sub-systems are covered under specific accession negotiation chapters (economic and monetary policy, public procurement, public internal financial control, external audit, customs and taxation), there is a need to also address these accession specific aspects. This concerns particularly IT interconnectivity and interoperability of customs and tax administration systems with the EU systems. Furthermore, an Serbia faces macroeconomic and fiscal policy challenges, which demand that **economic governance** be further enhanced focus on eProcurement is needed to simplify participation for businesses by creating more transparency and simpler processes – following up the implementation of the EU directive (2014/24/EU) on public procurement is necessary to make it easier and cheaper for small and medium-sized enterprises (SMEs) to bid for public contracts, to ensure the best value. for money for public purchases and to respect the EU's principles of transparency and competition.

Serbia faces macroeconomic and fiscal policy challenges, which demand that **economic governance** be further enhanced. Reforms will be designed on the basis of the annual Economic Reform Programme, which deal with external sustainability and structural obstacles to growth. The annual programmes lead to country-specific policy guidance on reforms needed for achieving further progress in gradually meeting the economic accession criteria. The implementation of these targeted policy guidance will depend on further strengthening of the government's capacity for effective economic governance.

Serbia and Kosovo have constructively participated in the EU-facilitated dialogue, which after the Serbian elections in 2012 was upgraded to a high level political process with the facilitation of the High Representative. Implementation of all agreements reached so far is

ongoing and is supported with EU assistance, where needed. Implementation of all current and future agreements is crucial for Serbia in the EU integration process, to reach the ultimate goal of comprehensive normalisation of relations between Serbia and Kosovo. They are monitored in the framework of the Chapter 35 negotiations.

Statistics is a key cross-cutting area in the EU accession process. The legal framework is broadly aligned with the international standards. The Serbian Statistical Office needs to further build its administrative capacity to adopt more modern methodologies and adequate mechanisms in order to comply with the European Statistical System.

The central and local administration lacks capacities for strategic design, planning, permitting, inspection, enforcement, monitoring, and project management of large investment projects. This has in the past resulted in delays with procurement and implementation of EU-funded investment projects. There is therefore a need to allocate substantial assistance for project preparation facilities in the first years of IPA II, to support the central and local government to prepare investment projects especially in environment, transport and energy sectors. Enhanced capacity is especially important in view of preparation for future implementation of the Structural Funds. In order to increase the readiness of projects for financing, within the scope of the local development programme, support will be provided for the development or upgrading of the urban planning documentation and project technical documentation for infrastructure projects that have a demonstrated impact on the local economy.

Serbia faces a range of challenges, especially regarding the rule of law, corruption, organised crime, the economic situation and social cohesion. Civil society organisations can make a substantial contribution to addressing many of these challenges through their lobbying, advocacy and oversight activities at national, regional and local level. They can create demand for enhanced transparency, accountability and effectiveness from public institutions and facilitate a greater focus on the needs of citizens in policy-making. The involvement of civil society in the pre-accession process can contribute to deepening citizens' understanding of the reforms a country needs to complete in order to qualify for EU membership. This can help ensure EU accession is not just a government exercise and stimulate a balanced public debate, which is crucial to achieving a well-informed decision on EU membership at the end of the accession process.

Democracy and governance sector was among the largest recipients of international donor assistance with over EUR 1 billion, including an estimated over EUR 200 million of IPA assistance over the period 2007-13.

1.2. Objectives, results, actions and indicators

EU assistance aims to support Serbia's ongoing public administration reform efforts in order to establish a more professional, digital, depoliticised, accountable and fiscally responsible administration, which provides services to citizens and businesses. It also aims to support Serbia becoming a gradually functioning market economy by enhancing Serbia's economic policy and its governance. A specific objective is to support Serbia in its comprehensive public financial management reform, in order to have a sound basis for socio-economic and structural reforms, and additionally to support Serbia meeting the EU requirements on taxation and customs (Chapters 16 and 29), budgetary frameworks (Chapter 17), public procurement (Chapter 5), information society and media (Chapter 10) and internal control and external audit (Chapter 32).

As concerns the political and administrative reforms related to EU integration, the objective is to support both normalisation of the relations with Kosovo and legislative alignment and institution-building in those areas, which are necessary for Serbia's EU accession but are not

covered in the other sectors such as the negotiation chapter on statistics. A specific objective is to enhance administrative capacity for the EU funds management and investment project preparation both at the central and local level. With regard to civil society the objective is both to promote an environment that is conducive to civil society activities and to build the capacity of civil society organisations to be effective and accountable independent actors.

The expected **results** are the following:

- Improved capacities of democratic institutions, especially the parliament, for efficient oversight;
- Efficient system for PAR coordination and monitoring, including for the public financial management reform programme, in place;
- Policy planning system established with medium-term planning documents and consolidated sector strategies, supporting the objectives of the Government and enabling prioritisation and budgetary planning and monitoring and more inclusive and evidence-based policy and legislative development, including for alignment with the *acquis*, ensured;
- Public service and human resources management system based on merit in place, including integrity systems and regularly trained civil servants both at central and local government level;
- Enhanced accountability of administration, including by gradual reduction of overlapping functions between ministries and agencies;
- Improved service delivery and legal certainty to citizens and businesses, including through sound administrative procedures and by upgraded e-government services;
- Improved public finances in line with a medium-term PFM reform programme, which sequences the key reforms in relevant sub-systems, including in revenue administration and collection, budget preparation, budget execution with cash management, debt management, public procurement, accounting and reporting, public internal financial control, and external audit. It contributes to Serbia meeting accession requirements in related negotiation Chapters;
- Enhanced macroeconomic stability and competitiveness through multilateral surveillance and implementation of the Economic Reform Programme and the policy guidance; Customs and Tax Administration supported to meet the *acquis* requirements, including IT interconnectivity and interoperability with the EU systems.
- Agreements between Serbia and Kosovo implemented according to an agreed timetable;
- Statistical methods applied by the Serbian Statistical Office are in line with the requirements of the European Statistical System;
- Serbia's EU accession process supported with harmonisation of the *acquis* in line with the better regulation approach and general institution and capacity-building in other areas that fall outside the specific sectors;
- Enhanced capacity for EU funds management, as evidenced by timely procurement and contracting;
- Investment project preparation substantially improved both at the central and local government level, resulting in mature investment projects;

- Enhanced competitiveness and economic and social cohesion of the less developed areas;
- Enhanced cooperation of civil society organisations with public institutions; and
- Strengthened capacities of civil society organisations to increase their autonomy, representativeness and accountability, as well as their membership base, fundraising and effectiveness.

Assistance will be provided for implementation of the PAR strategy and its action plan and the PFM reform programme. These strategic documents cover the core areas of PAR in line with the Principles of Public Administration, including policy development and coordination; public service and human resources management both at central and local government level; accountability of administration; service delivery, including government and public financial management. Serbia's first Sector Budget Support programme focuses on public administration reform and some elements of public financial management, helping Serbia to tackle some of the most crucial parts of its reform. .

Assistance will be also provided for implementation of the country-specific recommendations which will be developed on the basis of the annual Economic Reform Programme. In this context, specific measures to improve legal predictability and enforcement of laws and court decisions in the interest of businesses and citizens will be also supported.

Assistance will be also provided to both Customs and Tax Administrations to bring the legal framework fully in line with the *acquis* and to improve operational capacity, including development of the Customs Declaration Processing System, the customs laboratory, appropriate control mechanisms for individual tax authorities and IT interconnectivity and interoperability.

According to needs, assistance will be also provided for implementation of the agreements between Serbia and Kosovo in the process of normalisation of their relations. This will also support Serbia's accession process and negotiations on Chapter 35.

Support will be also provided in specific areas that fall outside the different sectors but are nevertheless important for Serbia's accession to the EU. Specifically, the capacity of the Serbian Statistical Office will be further enhanced to adopt methodologies in line with European standards and adequate mechanisms, following best practices of the European Statistical System. Furthermore, assistance will be focused on further capacity building of national authorities responsible for the EU funds management as well as on supporting the central and local government level to prepare investment projects, also in view of preparations for the management of the future Structural Funds.

As concerns civil society, the EU will offer a combination of political and financial support to meet these objectives, employing a more strategic, effective and results-focused approach to deliver maximum impact. The approach, including indicators and baselines and targets, will be specified in the Guidelines for EU support to civil society in enlargement countries in the period 2014-2020. Monitoring of results and indicators will be realised on annual basis.

In its political contacts the EU will encourage enlargement countries to make legislation more conducive for civil society. It will also promote the involvement of civil society in the pre-accession process, including in the formulation, implementation and monitoring of sector strategies for EU financial assistance. The financial support under the civil society facility will be provided both from the national and multi-country programmes. An appropriate mix of funding instruments will be used to respond to different types of needs and country contexts in a flexible, transparent, cost-effective and results focused manner across the sectors. This will

include: aiming for longer term contracts, recognising that capacity building and advocacy work requires time and resources; moving away from project based support to a more flexible approach that fosters partnership and coalition building; and doing more to reach out to grass-root organisations, in particular through re-granting and flexible support mechanisms to respond to their immediate needs. Civil society will also be supported under different sectors through measures enhancing its role and capacities to participate actively in formulation and implementation of sector strategies for EU financial assistance.

The following indicators will be used to measure progress:

- Composite indicator Government Effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB);
- Composite indicators Global Corruption (TI) and Control of Corruption (WB);
- Statistical compliance (Eurostat).

1.3. Types of financing

Assistance will be provided primarily through twinning, technical assistance, supplies of equipment and possibly also through calls for proposals and direct grants to relevant national authorities. Sector budget support has been used since 2015 to support the PAR, including public financial management reform. Complementary support to the PAR reform area is provided from the IPA II multi-country programme through cooperation with SIGMA (OECD) and the Regional School of Public Administration. Economic governance will also be supported under the multi-country programme through cooperation with IMF. In the area of statistics, Eurostat will also continue to provide support to the National Statistical Offices under the IPA II multi-country programme. IPA II may co-finance Serbia's contribution for its participation in EU programmes for which it has signed an international agreement, including: Hercule III (promoting activities against fraud, corruption and any other illegal activities affecting the financial interests of the Union), Pericles 2020 (protection of the euro against counterfeiting), Fiscalis 2020 (contributing to the fight against tax fraud and revenue collection) and Customs 2020.

1.4. Risks

There have been weaknesses in the past regarding continuous political leadership and commitment for the PAR reform. There have also been some delays with implementation of the PAR strategy and its action plan as well as with implementation of the public financial management reform programme and its action plan. Weak administrative capacity for coordination of the PAR reform and weak capacities at local government level to implement reforms represent an additional risk. To mitigate these risks, the Commission will closely monitor progress made with the PAR and public financial management reforms in its political dialogue with the Serbian authorities. Furthermore, capacity-building activities are foreseen at local government level to support implementation of horizontal reforms. Weak capacity of line Ministries in the Economic Reform Programme exercise risks resulting in poor analysis, design and implementation of economic reforms. As concerns civil society, there is a risk that weak financial and administrative capacities of civil society organisations may affect their capacities to engage in an effective dialogue with the government. Risks will be minimised through activities implemented under the civil society facility, the civil society task force, the working group including the European Commission, and by technical assistance at national and regional level.

2. Rule of law and fundamental rights

2.1. Needs and capacities in the sector

Serbia faces a number of challenges in the **judiciary and fundamental rights sub-sector**, which is at the heart of Serbia's accession process to the EU and is covered under the negotiation Chapter 23 (Judiciary and Fundamental rights). There are weaknesses regarding independence and efficiency of judiciary (judicial elections, budgetary dependence, court network, electronic case management, capacities of the key stakeholders, procedural laws, prosecutorial investigation, access to legislation and jurisprudence).

The National Judicial Reform Strategy was revised and brought in line with the Chapter 23 Action Plan, Accession negotiations on the rule of law chapters were opened in July 2016.

The legal framework is not yet in line with EU standards thus leaving scope for political influence in the recruitment and the appointment of judges and prosecutors. Serbia needs to amend the constitutional provisions related to the system for recruitment and career management in line with European standards related to the independence of the justice system. All these elements would contribute to further ensure a more transparent or predictable judicial career system and apply a consistent approach to judges' and prosecutors' career development.

A national backlog reduction programme is in place but led to limited results. The overall length of proceedings and the backlog of cases remain serious concerns. There is a need to clearly enroot a systematic approach to judges' and prosecutors' career, based on performance criteria.

Adequate support to the High Judicial Council and Special Prosecutorial Council in preparation for timely take-over of the independent management over the justice system needs to be ensured that is critical for securing judicial independence and improving the functioning of the judiciary as per the requirements and timeframe of the Action Plan for Chapter 23. Furthermore the Councils need to adopt integrity plans for judges and prosecutors, to organise training and to have an adequate inspection. There is a need to strengthen fair and impartial disciplinary procedures.

The independence of the Judicial Academy needs to be reinforced while a quality review mechanism to evaluate the training courses provided, to provide adequate infrastructure, staff and financial resources for the Academy shall be promoted

Serbia intends to develop further an e-Justice system, building on the existing automated case management system. There is a need to develop robust statistics as an indispensable tool for managing the judiciary, including on workload monitoring

Alignment with the *acquis* on the protection of personal data is to be actively promoted.

Concerning war crime, there is a need to ensure that all priority and serious allegations are properly investigated, that suspects are treated equally before the court and that there is an adequate protection of victims and witnesses. There is a need to bring victim and witness support in line with EU and international standards and to strengthen the capacity of the witness protection and support service.

Quality and access to justice for citizens remains problematic. The concept of judicial education needs streamlining and the Judicial Academy also needs strengthening. Corruption is prevalent in many areas of public and economic life and continues to be a serious cause of concern. Corruption is perceived to be high in Serbia. The 2015-2016 Corruption barometer survey conducted by Transparency International showed that 22% of respondents (or their household members) gave a bribe at least once in the course of the year. Corruption acts as a

facilitator for organised crime and affects economic development and welfare. The legal and institutional framework for the prevention and fight against corruption is largely in place, but implementation is lagging behind. The administrative capacity of relevant authorities and especially inter-institutional cooperation and coordination among relevant authorities such as judiciary, prosecution, police, customs and tax authorities remains insufficient for proper joint investigations. The Financial investigations strategy has been adopted, but is not implemented yet. It foresees a new institutional organisation of the work of the police and prosecution and introduces a number of novelties, which are yet to be implemented. The institutional set-up should be substantially strengthened, both in terms of staff and in terms of respecting the full independence of law enforcement and judicial bodies dealing with investigations especially into high level corruption. The Law on whistle-blower protection entered into force in June 2015, and training for the judiciary has been conducted. It still needs to result in an increased number of convictions in corruption cases. Monitoring of individual corruption cases is problematic due to lack of common electronic databases and efficient procedures for exchanging information. Track record of investigations, prosecutions and final convictions in corruption cases needs to be developed. The economic crimes section of the Criminal code requires amendments, and training and support for its implementation. The sub-section of the Action Plan for Chapter 23 and the National strategy for the prevention and fight against corruption for the period 2013-2018 and its action plan have a structural approach covering issues such as good governance, independent institutions, internal control and external audit, and protection of whistle-blowers, and a sector approach addressing corruption in most sensitive sectors such as public procurement, spatial planning, judiciary, police, education and health. To decisively impact on the level of corruption, strong coordination mechanisms at the highest level will be needed for implementation of the strategy.

As concerns fundamental rights a comprehensive anti-discrimination strategy covering the period 2013-18 was adopted in June 2013. In October 2014, the action plan on chapter 23 was adopted by Serbia, setting the priorities for the coming years in this area. Serbia has ratified all the main international human rights instruments. The legislative and institutional framework is largely in place. The Law on Prohibition of Discrimination and the Law on the Equality between Sexes additionally stress equality before law of both women and men; that all people are equal and enjoy the same status and equal legal protection regardless of their personal properties. However, consistent implementation throughout Serbia needs to be fully ensured, notably in the areas of education, use of language, and access to the media and religious services in minority languages. Further alignment will need to be achieved in areas such as access to justice, equal treatment and accommodation of people with disabilities. Homophobia, discrimination and hate crimes on the basis of sexual orientation and gender identity are still present. Although the pride parade was held two years in a row, LGBTI persons and activists often face hate speech and threats and in some cases physical violence.

In 2015, the Protector of Citizens received 75.76% more complaints (212) than in previous year in the field of gender equality. The largest number of complaints received by the CEP alleged gender based discrimination (22.1%).

Poor living conditions and ill-treatment of prisoners has been reported in the mental health institutions, prisons, social care centres and police stations. Regarding the prison population, women have special needs and requirements in comparison to men, so their treatment should be gender sensitive.

Serbia still provides refuge to some 29,000 refugees and some 203,000 IDPs from the wars of the 1990's. Their situation remains to be improved. The number of collective centres has been further reduced to 5 hosting 177 displaced persons and refugees. Moreover Serbia is hosting several thousands of refugees, asylum seekers and migrant since the opening of the so-called

Western Balkans Route in 2015. Particular attention should be given to vulnerable individuals such as unaccompanied minors. The emphasis should be put on addressing the protection needs of the refugees.

Roma are very often the victims of racism, discrimination and social exclusion and live in extreme poverty. Serbia adopted a new National Strategy for Roma inclusion in March 2016 and actively follows up on the recommendations of the June 2015 EU-Serbia seminar on inclusion of Roma, including a new set of operational conclusions.

As concerns freedom of expression, Serbia has a media strategy and an action plan for the period 2012-16 in place, but there has been very little progress with implementation over the last two years. There is lack of transparency in media ownership. Financing of the media sector from the state budget is still not fully in line with the EU *acquis* on state aid.

The **Home Affairs sub-sector** covers the areas of the negotiation Chapter 24 (Justice, freedom and security), including fight against organised crime, migration, asylum, visa policy, external borders and Schengen. Fight against organised crime is one of the major challenges faced by Serbia. Criminal groups originating from Serbia or having links to Serbia operate within and beyond the borders of the country. The legal and institutional framework to fight *organised crime* is generally in place. The national strategy for fighting organised crime dates from 2009. However, in December 2015 Serbia adopted its first strategic analysis of the organised crime situation on its territory based on Europol's methodology for Serious and Organized Crime Threat Assessment (SOCTA) in line with EUROPOL requirements. A new anti-trafficking strategy and a new strategy against drug trafficking still remain to be adopted. A detailed action plan on Chapter 24 was adopted in 2015 by the Serbian Government, which will serve as the national strategy in this area for the coming years, until EU accession. Regional and international cooperation has led to a number of high profile investigations into organised crime groups. However, capacity for intelligence-led policing, particularly intelligence analysis, and inter-agency cooperation needs to be enhanced, especially in order to improve information flow and exchanges between law enforcement agencies, and to ensure prosecution. Capacity to run complex financial investigations in parallel with criminal investigations needs to be enhanced. There is a need for a centralised criminal intelligence system together with harmonised statistical data. Serbia is on the main Balkans drug trafficking routes, which requires sustained efforts by the customs administration to detect and seize narcotics at the borders. Capacities to properly store and destruct drugs need to be improved. Cooperation between law enforcement bodies needs to be improved. Although Serbia is a country of origin, of destination and of transit of illicit firearms, trafficking is not properly investigated. In 2016 and 2017, the provision of the Serbian criminal code on firearms trafficking (article 348 CC) was applied only once. Besides, law enforcement authorities are not sufficiently involved in cases of firearms trafficking, which often fall under the remit of intelligence agencies. As concerns trafficking in human beings, Serbia remains a country of origin, transit and destination. The procedures for the identification and handling of identified victims remain weak and the protection of victims needs to be improved. As concerns money laundering, there is lack of analytical capacities to systematically identify suspicious cases, and a need for an effective system for monitoring and analysing cash transactions.

In the field of cyber security and crime, there is a need for further resources, specialist tools and capacity-building for authorities to manage the increasing volume and complexity of the task. On the level of cyber-security, Serbia has to continue with the development and implementation of a national NIS Strategy and a competent authority. The development of

both Computer Security Response Teams (CSIRTs) and Computer Emergency Response Teams (CERTs) has to be strengthened.

Serbia faces substantial challenges during the accession process on migration, asylum, visa policy, external borders and Schengen. Serbia has adopted a revised Integrated Border Management (IBM) strategy with the objective to further strengthen inter-agency cooperation and coordination between the border police, customs and phytosanitary services. Cooperation with neighbouring countries needs to be improved to counter cross-border crimes. There is a need to have better connectivity of databases and improvement of physical infrastructure of specific border crossing points. The legal framework for legal and irregular migration is not fully in line with the *acquis*. In order to counter more effectively irregular migration, analytical and technical capabilities, communication and working procedures have to be further improved. A unified system for data and information collection on migratory movements needs to be implemented. Improved coordination among administrative bodies is needed as well. Serbia also needs to prepare a comprehensive Schengen Action Plan, covering visa policy and Schengen *acquis* alignment.

Serbia has faced a substantial increase of asylum applications since the past years, rising from 271 applications in 2010 to 2768 applications in 2012 and over 5000 in 2013 according to UNHCR. In the context of the migration/refugee crisis, around 500,000 people showed their intention to seek asylum in Serbia in 2015, even if most of them did not apply for asylum. The legal framework on asylum is however still not in line with the *acquis*, and the institutional framework still needs to be brought in line with the legislation. The asylum processing needs to be substantially improved. There is a need for a national database for checking personal data of asylum seekers. There is also a need for additional reception facilities with adequate conditions for asylum seekers, especially because the access to asylum procedure is dependent on recognised accommodation. The conditions in the reception facilities should be significantly enhanced and adapted to a protracted stay of refugees, migrants and asylum seekers.

Rule of law and fundamental rights sector received around EUR 180 million of international donor assistance, including EUR 130 million of IPA assistance, over the period 2007-13.

2.2. Objectives, results, actions and indicators

The overall objective in this sector is to support Serbia's accession to the EU in line with the Negotiations Framework for Serbia, covering both Chapters 23 and 24. In the judiciary and fundamental rights sub-sector the objective is to harmonise Serbia's legislation with the *acquis* and EU standards on Chapter 23 and build capacity for implementation and enforcement, especially by supporting implementation of the action plan to be devised under Chapter 23 as well as to improve democratisation of media and freedom of expression. In the Home affairs sub-sector the objective is to harmonise Serbia's legislation with the *acquis* on Chapter 24 and build capacity for implementation and enforcement, especially by supporting implementation of the action plan to be devised under Chapter 24.

The expected **results** are the following:

- Judicial independence, impartiality and efficiency improved and brought closer to the EU standards, including improved constitutional and legal framework, technical and administrative capacities of the judicial network and substantial reduction of backlog of cases;
- Professionalism strengthened through merit-based and transparent criteria for appointments and career of judges, prosecutors and court administrators, as well as through regular evaluations of performance, and court inspections and a track record

demonstrating that the career advancement of its magistrates is governed by merit and professionalism established;

- An effective, close and permanent monitoring of the implementation of its Action Plan in the field of Judiciary and Fundamental Rights, through a robust and multi-disciplinary mechanism that involve civil society established;
- All priority and serious allegations on war crime properly investigated;
- E-justice system established, including a case management system to improve the efficiency, transparency and consistency of the judicial process;
- Duration of proceedings substantially reduced and quality improved;
- Improved quality and consistency of legislation and its interpretation, as well as jurisprudence harmonised and timely and efficient enforcement of judicial rulings ensured;
- Integrated approach to the prevention and fight against corruption implemented, including an effective system for protection of whistle-blowers, strengthening capacities and efficiency of the relevant bodies, in particular the Anti-Corruption Agency;
- Improved track record of inter-agency cooperation, investigation, processing, prosecution and final convictions in corruption cases;
- Strengthened legal framework enabling efficient fight against corruption;
- Improved alignment of the national regulatory framework with EU standards in the field of cybersecurity.
- Fundamental rights, including the protection of minorities and disadvantaged groups in particular Roma, LGBTI persons and freedom of expression, efficiently ensured, especially through improved access to justice, consistent implementation of anti-discrimination policies and measures, improved transparency of media sector financing in line with EU standards, and improved monitoring of the European media standards (media freedom and pluralism);
- Integrated approach to organised crime implemented, including risk assessment, crime mapping, improved capacities of the police for investigations, including financial investigations, the identification and tracing of criminal assets and the establishment of an Asset Recovery Office, implementation of a centralised criminal intelligence system, improved inter-agency cooperation, solid track record of investigations, prosecutions and final convictions in organised crime cases developed, strengthened control system for public procurement, and enhanced protection of witnesses in organised crime cases and victims of human trafficking;
- Integrated Border Management (IBM) approach implemented with improved facilities and strengthened cross-border and inter-agency coordination between border police, customs and phytosanitary services and improved risk assessment, data collection and databases systems; particularly, mechanisms for gathering information on migrants (including those overstaying their legal rights in the country), and an effectively trained body tasked with border control and security are implemented;
- Comprehensive Schengen Action plan developed and implementation thereof on track;

- Migration (including irregular migration and border management, international protection, legal migration and development) efficiently managed, and regular migrants integrated into the society (including the contribution of migration to the national economic development strategy), in line with EU requirements; and,
- Asylum processing and asylum management improved in line with EU requirements, including adequate protection reception facilities.

Support will be provided for implementation of the current National judiciary reform strategy, its implementing action plans to be devised under Chapters 23 and 24. This will include among others strengthening of judiciary efficiency and independence through training and capacity building, in particular through the Judicial Academy; institutional capacity-building, including for the High Judicial Council and State Prosecutorial Council; and training and capacity-building of judges court presidents, prosecutors and deputy prosecutors. Implementation of the legislative framework and institutional measures and tools for enforcement mechanisms to reduce court backlog and decrease the overall length of judicial proceedings also will receive assistance. Technical capacities will be enhanced through investments in judicial infrastructure in order to secure adequate and equal working conditions within the court system.

Implementation of the Government's anti-corruption strategy and eventually the future action plan to be devised under Chapter 23 will receive IPA II assistance. A specific focus will be on a cross-sectorial approach, the principle of participation, knowledge transfer and "zero tolerance" to corruption. Protection of whistle-blowers will be supported as well.

Support will be provided for training, monitoring and evaluation systems for fundamental rights; improved and consistent implementation of related policies throughout the entire territory; national and/or community-based mechanisms to prevent and eliminate torture, ill treatment, hate speech, gender and all other types of violence and pain-infliction in prisons; improving legal aid, access to justice, education, durable housing solution, employment and health and social welfare and anti-discrimination measures for national minorities, including Roma and other disadvantaged groups such as LGBTI; supporting incorporation of non-discrimination, gender equality, diversity, non-violent communication into education curricula, employment environments, health centres/institutions etc.; and supporting the implementation of the Serbian anti-discrimination strategy and action plan , Roma action plans and Action Plan for the Realisation of the Rights of National Minorities adopted in March 2016. Implementation of the media strategy and its action plan for the period 2012-16 will also receive assistance as well as strengthening the freedom and professionalisation of media, investigative journalism and quality of journalism. Relevant regulatory bodies will be supported as well. The role of civil society organisations will be enhanced in monitoring of media freedom and respect for fundamental rights.

Support will be provided to strengthen the development of a Cybersecurity programme to enhance capacity, focussing on training of Cybersecurity officers and the establishment of a centre of Excellence linked to existing institutions.

In the area of organised crime, support will be provided for strengthening strategic framework, inter-agency cooperation and capacities to implement an integrated approach. Specific support will be provided for the police to carry out complex investigations and improve their analytical capacities. Support also will be provided for addressing human trafficking and for ensuring effective compensation and social inclusion of victims, as well as combating cyber-crime. As concerns IBM, support will be provided for integration of all border services (border police, customs, phytosanitary and veterinary inspections) into one intelligence-gathering and implementation system. Furthermore, the most strategically

relevant facilities at border crossings will be upgraded and support will be provided for joint risk assessment, and improving overall management and organisation of borders, specifically to fight irregular migration. In the area of asylum, support will be provided for improving efficiency of procedures and for improving accommodation of asylum seekers.

The following **indicators** will be used to measure progress:

- Composite indicator Access to Justice (WJP) and Judicial independence (WEF);
- Composite indicator Global Corruption (TI) and Control of Corruption (WB);
- Composite indicator Freedom of Press (RH) and Press Freedom (RWB).

In addition, the most relevant indicators that will be included in the Action Plans for Chapters 23 and 24 will be also used to measure progress.

2.3. Types of financing

Assistance will be provided through twinning, technical assistance, supplies of equipment, calls for proposals and investments (especially in the areas of IBM and asylum). Subject to Serbia meeting the budget support pre-conditions, sector budget support can be considered especially for supporting the implementation of the Chapter 23 and 24 related action plans from 2015 onwards. In this respect, a sector reform contract was adopted in 2016 to support the integrated border management Strategy 2016-2020. Under the IPA II multi-country programme, the key priority is to continue to support the Regional Housing Programme (RHP), which aims at providing sustainable housing solutions, including for some 45000 refugees in need in Serbia, as part of the Sarajevo process. Also, further support will be provided for witness protection, border surveillance and migration management. IPA II may co-finance Serbia's contribution for its participation in EU programmes for which it has signed an international agreement, including: Europe for Citizens, the Justice programme (judicial cooperation in civil and criminal matters), the Rights and Citizenship (promoting fundamental rights and non-discrimination), and Union Civil Protection Financial Mechanism as well Creative Europe programme.

2.4. Risks

The main risk for EU assistance lies in the potential delays in implementation of the key strategies on judicial reform, anti-corruption, anti-discrimination, fight against organised crime and media and the implementation of the action plans on Chapters 23 and 24. The reforms in the above mentioned areas require also sufficient political will of the political class and of the administration in order to achieve the desired results. The organisational and administrative capacities may affect especially inter-institutional coordination and cooperation in this area. There is also a risk that the number of irregular migrants and asylum seekers will further increase, and the foreseen measures will not be sufficient. To mitigate these risks, specific capacity-building measures will be targeted to inter-agency cooperation to improve coordination and information sharing.

3. Environment, climate action and energy

3.1. Needs and capacities in the sector

As concerns **environment** Serbia has advanced with harmonising its legal framework with the environment *acquis* in recent years, but further substantial efforts are needed, especially as regards the design of modern, financially sustainable interventions in the areas of waste management, water management and wastewater treatment systems, nature protection, industrial pollution control and risk management, and air quality. Moreover, Serbia needs to further align with climate legislation.

The institutional and administrative capacity to implement and enforce the EU environmental and climate action legislation is very weak, especially at the local government level. Investments in environmental infrastructure and environmental protection are very low, representing only an estimated 0.3% of GNP. Utility prices need to reflect the full costs of services, including e.g. waste management and/or wastewater treatment. The polluter-pays principle should generate revenues that will be used to fund environmental protection measures. Serbia's capacity to develop sustainable investment projects in environment and climate sector is also low.

Waste management remains a major challenge. Serbia lacks infrastructure for treatment, disposal and storage of hazardous waste. Only eight regional landfills/waste management centres from around 3500 waste dumpsites comply with the EU requirements, while an additional 24 regional land fields are planned. Over 140 landfills and dumpsites have been estimated posing high risks to the environment. The level of recycling and re-use of waste is very low with only about 4%. Serbia will need to increasingly focus on other forms of waste management, following the waste hierarchy, and using landfilling as a last resort. The switch to circular economy principles and goals with measures covering the whole cycle: from production and consumption to waste management and the market for secondary raw materials will help the country boost its global competitiveness, foster sustainable economic growth and generate new jobs. The aim is to contribute to "closing the loop" of product lifecycles through greater recycling and re-use, by this bringing benefits for both the environment and the economy.

The lack of a national water protection strategy hampers strategic investment planning in the water sector. Completion of the surface and groundwater monitoring network is pending. Water pollution is another major problem, mainly due to outdated technology, lack of pollution abatement installations, inadequate storage and disposal of by-products, untreated industrial and municipal waste water, drainage water from agriculture, leachate from landfills, and pollution related to river navigation. Serbia will need to comply with the Water Framework, Urban Waste Water, Drinking Water, Groundwater, Water Quality Standards directives requiring Serbia to invest in the relevant water management and wastewater treatment facilities in the coming years. Currently, they exist in 21 municipalities out of over 200 registered agglomerations.

As regards nature protection, the institutional framework for Natura 2000 network is not yet completed. There is a need to collect and process sound scientific data for designation of future Natura 2000 sites and build capacity for their management³.

Air quality is generally poor, mainly due to outdated technology, lack of pollution abatement installations, low energy efficiency in existing industry and energy facilities, as well as poor quality of heating fuel used for households. Serbia will need to consolidate integration and geographical coverage of its ambient air quality monitoring systems and adopt and implement cleaner air plans in its agglomerations.

As for climate action a national strategy for climate change mitigation and adaptation needs to be developed and implemented in line with the expected EU 2030 climate and energy policies and objectives of the 2015 Paris Agreement. Furthermore, integration of climate change relevant issues into the national development strategies is essential. In the area of mitigation of climate change, there is a need to strengthen the institutional capacity to design, implement

³ Serbia is participating in the Danube Sturgeon Task Force to secure viable population of this fish in the river. It is recommended that Serbia capitalise this experience for a broader use.

and monitor mitigation policies and measures, with particular attention to Greenhouse Gas (GHG) emission reduction activities. More particularly, a system for economy-wide and systemic data collection on greenhouse gas emissions needs to be developed and implemented to comply with the EU requirements on monitoring, reporting and verification. Moreover, Serbia needs to further align with climate legislation.

Serbia is vulnerable climate change impacts, which have particularly led to excessive rainfall, flash floods and landslides. According to a GFDRR-supported post-disaster needs assessment (PDNA), thirty percent of the country's agricultural land and over 3,000 kilometres of its roads are at risk from these impacts. In May 2014, Serbia was affected by the most severe flooding and landslides in 120 years, which affected over 1.6 million people and caused substantial damage, loss, and recovery needs. In the aftermath, the government developed a national framework to institutionalise Disaster Risk Management, including disaster risk identification, risk monitoring, and early warning systems. It also adopted a National DRM Programme that enhances Serbia's existing strategies for managing disaster risk.

The Serbian environment and climate sector received around EUR 275 million of international donor assistance, including around EUR 200 million from IPA national programmes over the period 2007-13. IPA support included investment projects especially in waste water treatment, municipal and hazardous waste management, reduction of emissions from the thermal plants, legal alignment and capacity building, including support to the Serbian Environmental Protection Agency, Natura 2000, chemicals management, environmental inspection. From the EU Member States especially Germany, Sweden, the Netherlands and Spain have provided support in this area. Soft loans have been provided by EBRD, KfW and the World Bank.

As concerns **energy**, Serbia has made some progress in recent years with harmonisation of the national energy legislation with the *acquis*, but further efforts are required to move Serbia's energy policy in the direction of the Europe 2020 climate and energy targets and EU 2030 climate and energy framework. Investments in line with the EU standards will also have to be increased.

Poor energy efficiency and high carbon intensity due to heavy reliance on fossil fuels are few of the main challenges in this sector. This means that Serbia's economy would become more vulnerable to fuel price shocks, thus undermining Serbia's prospects for growth and prosperity. Serbia's economy is highly energy-intensive. Serbia consumes 2.7 times more energy per unit of output than an average OECD country. Some progress has been made following Serbia's commitments under the Energy Community Treaty to implement the Directive on energy end-use efficiency and energy services. Serbia has adopted the new Law on Efficient Use of Energy in 2013 and preparation of implementing legislation is under way, with full implementation expected from 2015 onwards. The Third Second National Energy Efficiency Action Plan to comply with Energy Community Treaty obligations was adopted in 2016. It sets out the target of a 9% reduction of the final domestic energy consumption by 2018 compared with a 2008 baseline.

As concerns market liberalisation, the 2011 Energy Law has been harmonised with the second and partially with the third internal market package for electricity and gas. The law prescribes deadlines, including 1 January 2015 for full market opening.

The energy sector in Serbia is dependent on fossil fuel. According to the International Energy Agency, Serbia is annually emitting about 60 million tons of CO₂. In 2011, the share of renewable sources of energy in the final energy consumption was 17.8%, while in 2015 the share increased to 21%. Serbia has minor capacity or practically no new, renewable sources of energy, apart from the large hydro power plants, which produce around 7% of electricity. The use of renewable energy must be increased in order for Serbia to meet the Energy Community

Treaty target of 27% of final energy consumption by 2020. Progress in this area has been made with the adoption of the national renewable energy action plan in June 2013. Further progress is needed in order to establish an attractive investment climate for renewable energy sources. Particular attention needs to be paid to the promotion of renewable energy in transport, heating and cooling systems.

With regard to security of supply, while Serbia's electricity system is relatively well connected with its neighbouring countries, better integration is still needed in order to facilitate the smooth functioning of a regional and pan-European electricity market. In the gas sector, improved interconnections are necessary to meet the objective of increased security of supply. Currently, Serbia's dependence on natural gas imported from Russia through Ukraine and Hungary exceeds 80%. High energy dependence renders Serbia's economy more vulnerable to fuel price shocks, thus affecting the country's prospects for socioeconomic growth. Infrastructure development will benefit the entire region (gas to power initiative). Furthermore, in accordance with Energy Community Treaty requirements, Serbia has obligations to harmonise existing and new plants with Emission limit values set by the Large Combustion Plant Directive part of Industrial Emissions directive in the area of environmental protection in the energy sector. Finally, Serbia also needs to comply with the Directive on oil emergency stocks by 2023.

Serbia plays an active role in the connectivity agenda, which the ambition to create a regional electricity market as a guiding principle for reforms, in line with the objectives of the external dimension of the Energy Union. This initiative represents a basis for leveraging investments in transport infrastructure, notably along the agreed corridors with the aim to provide quality transport services for citizens and businesses. In parallel with the planning and implementation of the investments, the implementation of "Connectivity Reform Measures" is on-going with the set targets for aligning technical standards, opening of the energy market and formalising cross-border operation between the countries.

The energy sector received around EUR 655 million of international donor assistance, including over EUR 50 million of IPA assistance over the period 2007-13. IPA supported a number of activities, including implementation of obligations arising from the Energy Community Treaty, law enforcement in the field of industrial pollution control, energy efficiency measures and security of supply in South Serbia. A number of EU Member States and other bilateral donors have provided capacity-building support, and EBRD, KfW and the World Bank have further provided loans.

Regarding civil protection, Serbia joined the Union Civil Protection Mechanism in May 2015. It still needs to establish Secure Trans European Services for Telematics between Administrations (sTESTA) connections, which is a precondition to access the Common Emergency Communication and Information System (CECIS) of the Union Civil Protection Mechanism.

3.2. Objectives, results, actions and indicators

The objective of EU assistance concerning **environment and climate action** is to align Serbian legislation with the EU environmental and climate change *acquis* and to strengthen institutional capacities for implementation and enforcement. A further objective is to develop and improve environmental infrastructure, especially in the areas of waste management, water management and urban wastewater treatment. As concerns **energy**, the objective of EU assistance is to increase energy efficiency and competitiveness of the Serbian energy market, to improve security of supply (also in the regional context), and develop renewable energy sources.

The expected **results** are the following:

- Serbian legislation harmonised with the environment and climate *acquis* and strengthened institutional framework and administrative capacity for implementation both at the central and local government level, including to support the 2015 Paris Agreement on Climate Change, also through increasing the EU expenditure dedicated to climate action;
- Waste management improved in line with the EU requirements, including improved physical infrastructure and increased recycling rates at the largest waste collection areas;
- Water management and municipal wastewater collection (sewage) and wastewater treatment, including physical infrastructure, in the largest agglomerations improved in line with the EU Directives;
- Natura 2000 network sites selected on the basis of sound scientific data, and implementation started accordingly;
- Air quality improved in line with the Ambient Air Quality Directive 2008/50/EC and through adoption and implementation of cleaner air plans for all agglomerations;
- Capacity improved for climate change action;
- Enhanced resilience to climate change impacts and improved capacity for disaster risk reduction, including floods prevention⁴;
- Reduced greenhouse gas emissions by 2020;
- Third national energy efficiency action plan fully implemented;
- National energy markets fully liberalised and integrated into regional markets;
- Fully independent energy regulatory body and strong regulatory frame
- Increased use of renewable energy to 27% by 2020 in line with the Energy Community Treaty obligations;
- Reduced Greenhouse gas emission intensity of energy sector;
- Improved security of supply in electricity generation, transmission and gas transport enabling regional market integration, including compliance with the Oil stocks Directive; and,
- Decreased pollution from the energy sector impacting air, water and soil quality.

In the area of **environment**, support will be provided for further harmonisation, implementation and enforcement, in particular of the concerning the Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) Directives. Inclusive, effective and transparent public participation, as well as other relevant horizontal legislation will be supported. Development of integrated monitoring and information systems on environmental quality will be supported to improve reporting and to strengthen enforcement.

⁴ At the ICPDR (International Commission for the Protection of the Danube River) Ministerial Meeting in 2010, Danube Ministers committed to develop a single international Flood Risk Management Plan or a set of Flood Risk management Plans based on the ICPDR Action Programme for Sustainable Flood Protection. This objective is also pursued by the Danube macro-regional strategy.

The institutional set-up and procedures to carry out environmental assessments will be supported as well.

In order to improve waste management in the country, IPA assistance will concentrate on the establishment of collecting and recycling facilities for different waste categories and facilities for the treatment of hazardous waste. Landfilling should only be used as a last resort. Any requests to upgrade existing landfills should be considered on a case-by-case basis. Non-compliant landfills should be closed.

IPA II assistance will also focus on improvement of quality of the surface and groundwater and quality of drinking water according to the relevant directives as well as for preparation and implementation of river basin management plans. Investment projects implementing the Drinking Water and Urban Waste Water Directives will be supported, concentrating on the largest and strategically most important agglomerations (densely populated and industrialised territories) and environmentally sensitive areas, where both national and local authorities demonstrate clear ownership and commitment for timely design and implementation as well as maintenance of investments.

The process of designation of Natura 2000 sites, including capacity building for data collection, monitoring, and enforcement as well as reporting will be supported. Support will also be provided for completing and implementing cleaner air plans in the key agglomerations as well as for implementation of obligations stemming from the Industrial Emissions Directive. This will include support for the creation of an effective permitting system and improving capacities of installations. Specific attention will be paid to improving internal and external emergency plans of Seveso installations in order to prevent major accidents involving dangerous substances and to ensure appropriate preparedness and response should such accidents nevertheless happen. Support will be also provided to capacity building and priority investment projects.

As for **climate action**, IPA II assistance will focus on implementation of a national cross-sectorial climate change strategy and an action plan. Simultaneously, it will also address EU *acquis* alignment especially concerning greenhouse gas monitoring, reporting and verification legislation. In the field of climate change mitigation, support will focus on strengthening the institutional capacity to design, implement and monitor mitigation policies and measures, integrating climate action into other sectoral policies and on improving capacity for transition to a low carbon, resource-efficient and circular economy. Measures should also aim to support Serbia's economy-wide revised greenhouse gas emission reduction target. In the field of adaptation to climate change, support will focus on increasing administrative capacity at all levels to ensure appropriate assessment of vulnerability, and implementation of the necessary measures to enhance climate and disaster resilience of economic sectors and infrastructures.

As regards risks management, support will be granted for Serbia to implement the EU legislation on civil protection and to bring the country closer to the Union Civil Protection Mechanism.

Finally, in order to increase general environmental and climate change awareness and to improve civil responsibility in these areas, support may be provided for awareness-raising activities and other measures with relevant stakeholders such as energy sector and business communities, agriculture and other interest organisations, schools, municipalities and civil society organisations.

In the area of **energy**, support will be provided for further harmonisation of the Serbian energy legislation to meet the Energy Community Treaty and the *acquis* obligations. Focus will be on strengthening institutional capacities for effective implementation, on strengthening

monitoring and reporting mechanisms as well as on improving strategic planning. To improve household energy efficiency, support is foreseen for analysis of available heat production alternatives and operationalisation of selected options. Priority investments from the national single project pipeline will be supported, especially in areas such as gas transport and electricity interconnection, renewable energies (with a focus on biomass) and energy efficient technologies. Furthermore, support to environmental measures in energy sector to prevent adverse effects impacting air, water and soil quality will be supported. Finally, in order to increase the competitiveness of Serbian energy market and to integrate it into European energy markets, support will be provided to unbundling of public entities in the energy sector, procedural reforms and improvement of business environment (see also competitiveness sector).

Regarding civil protection, support will be granted to Serbia to implement the EU legislation on civil protection and to further integrate the country into the Union Civil Protection Mechanism.

The following **indicators** will be used to measure progress:

- Extent to which climate change strategies are (a) developed and/or (b) implemented with EU support;
- Quality of electricity supply (WEF).

3.3. Types of financing

In the field of **environment and climate change**, assistance will be provided through twinning, technical assistance, calls for proposals, supplies of equipment and investments. Since the investment needs of the Serbian environment and climate sector substantially exceed the available national and IPA II funds, further funding, including blending of IFI loans and grants, is foreseen through WBIF, which receives EU funding from the multi-country programme. IPA II may also co-finance Serbia's contribution for its participation in EU programmes and agencies, for which Serbia has signed an international agreement, including: LIFE programme with its two sub-programmes on environment and on climate action, and the Copernicus programme (providing continuous, independent and reliable access to earth observation information relevant to policy-makers) and the European Environmental Agency.

Regarding **energy**, assistance will be provided through twinning, technical assistance, calls for proposals, supplies of equipment and investments. Further funding, including blending of IFI loans and IPA II grants, is foreseen through WBIF, which receive IPA II funding from the IPA II multi-country programme. Under the Connecting Europe Facility (CEF) actions in the neighbouring non-EU countries may be supported if they are necessary for the implementation of a project of common interest on the TEN-T core network. The priorities of CEF in the transport area – improving cross-border connections, ensuring sustainable and efficient railway network, and optimising integration and interconnection of transport modes and enhancing interoperability of transport services – are in line with the assistance priorities for Serbia.

IPA II national and multi-country assistance can be used for improving disaster risk management and disaster management.

3.4. Risks

Regarding environment and climate change, weak project identification, problems with land expropriation, delays by national and local authorities to issue building permits, disputes over

land ownership, and delays with preparation of technical documentation for investment projects have caused considerable delays for implementation of investment projects until now, sometimes even putting the IPA II and IFI funded projects at risk. To counter these risks, IPA II support will be provided only to investments, which are part of the nationally adopted investment project pipeline and which are sufficiently advanced in terms of technical preparation. In the first years of IPA II assistance, technical assistance will also be provided to help national authorities prepare a viable project pipeline. Another risk relates to the fact that responsibility for policy making is divided among several Serbian institutions. This has made policy coordination and legislation implementation difficult in this sector, even though institutional cooperation and coordination is essential. In order to mitigate this risk, a lot of emphasis will be placed on inter-institutional capacity-building.

Regarding energy, Serbia is a land-locked country with limited options for oil and gas supply and yet it is very reliant on this supply. Capacities for policy implementation and monitoring are limited, putting targets for this sector at risk. To reduce the risk, support will be provided to capacity building and improvement of monitoring and evaluation systems. Furthermore, similar risks as have been highlighted in the environment and transport sectors apply for the development of a nationally adopted investment project pipeline. These risks are mitigated by substantial technical assistance under the Democracy and governance sector for project preparation through the Project Preparation Facility especially during the first years of IPA II assistance.

4. Transport

4.1. Needs and capacities in the sector

The transport sector encompasses rail, road, inland waterways, civil aviation and intermodal transport modes. The Serbian transport legislation is partially aligned with the *acquis*, but further legal alignment is needed especially on road transport, accident investigation procedures, rail transport, support to the European Common Aviation Area (ECAA) and Implementation of the Common European Sky in South East Europe (ISIS). Assistance is also needed for supporting administrative capacity for implementation and enforcement of new legislation in all modes of transport, especially due to establishment of a number of new regulatory bodies.

The General Master Plan for Transport 2009-27 provides an overall picture of the transport infrastructure needs in Serbia. The total costs of public investment required have been calculated as over 22 billion EUR for investments and maintenance. Significant amounts of national, donor and IFI funding have already been committed in transport infrastructure, particularly in Corridor X (road and rail). Construction of Corridor X has not however progressed as planned, and is currently delayed on several sections, due to ineffective investments planning, slow preparation of technical documentation and unresolved land property issues. Further substantial investment needs exist also as regards the construction of Route 4 from Belgrade to the Montenegrin border (Boljare). As concerns Corridor VII (inland waterway), navigation conditions on the Serbian part of the Danube river are characterised by a number of critical bottlenecks. On the stretch of around 180 km, there are 24 bottlenecks hindering the safe navigation of standard convoys, most notably the Apatin bottleneck at the border with Croatia. In addition to already planned remediation, further considerable investments are needed to remove all of them.

Competitive and environmentally friendly transport solutions will require efficiently combining transport modes by road, rail and inland waterways. There is therefore a particular need for greater multi-modality. The existing tariff policy and legal framework do not however stimulate the use of intermodal transport. There are currently only three partly

developed intermodal terminals in Serbia while construction of a new fully functional facility is expected in 2017. A further priority is the preparation for implementation of the EU Railway packages, especially the forthcoming fourth railway package. So far, the third EU railway package is valid and the fourth one will have to be implemented in the coming years. Several reforms have already started implementation in this respect in Serbia, including gradual opening of the rail market, separation of infrastructure manager from rail transport operators and improvement of rail safety.

Serbia plays an active role in the connectivity agenda, which has extended the EU Trans-European Transport Network (TEN-T) core network and core corridors to the Western Balkans. This initiative represents a basis for leveraging investments in transport infrastructure, notably along the agreed corridors with the aim to provide quality transport services for citizens and businesses. In parallel with the planning and implementation of the investments, the implementation of "Connectivity Reform Measures" is on-going with the set targets for aligning technical standards, opening of the transport market and formalising cross-border operation between the countries.

Serbia opened rail transportation market in 2016 to private foreign and domestic providers (as a follow-up to formal separation of a single railway company). Alignment of railway interoperability technical specifications is underway. Further support to infrastructure connectivity is expected through utilisation of WBIF grants and IFI financing, particularly in railway sector.

Over the period 2007-13 nearly EUR 150 million of IPA funds were committed for the transport sector, mainly for harmonisation of legislation with the *acquis*, implementation of the ECAA agreement, construction and supervisory works (in connection to IFI loans) on Corridor X and on development of river information services and river training and dredging on Corridor VII. Serbia also benefited from WBIF funding and IFI loans from EIB (around EUR 905 million), EBRD (around EUR 430 million) and the World Bank (around EUR 388 million). From bilateral donors especially the Hellenic Plan, the Czech Republic and China have provided support in this sector.

4.2. Objectives, results, actions and indicators

The objective of EU assistance is to further align the Serbian transport legislation with the *acquis* and to improve implementation and enforcement capacity, to enhance regional cooperation and transport infrastructure planning in line with the South East Europe Transport Observatory (SEETO) network development plan and to promote sustainable and low-carbon transport as well as to contribute to the rail reform process.

The expected **results** are the following:

- Serbian transport legislation harmonised with the *acquis* and strengthened institutional framework and administrative capacity for implementation;
- Rail and road transport infrastructures on the SEETO comprehensive network improved, especially Corridor X and Corridor XI, including to support the 2015 Paris Agreement on Climate Change, also through increasing the EU expenditure dedicated to climate action;
- Navigation conditions on Corridor VII improved in line with the Danube Commission standards;
- Intermodal transport and connectivity of transport modes improved;

- Reduced greenhouse gas emission in the transport sector; and,
- Rail reform process implemented in line with the EU Railway packages.

Support will be provided for alignment of the Serbian transport legislation with the *acquis* and strengthening administrative capacity. As concerns infrastructure, investments should be done on the SEETO comprehensive network, especially on Corridor X with a focus on the southern part of rail connection Nis- Border with the Former Yugoslav Republic of Macedonia, Nis-Border with Bulgaria and north of Belgrade towards junction with Corridor Xb; as well as on Corridor Xb on the rail connection Belgrade– Hungarian Border. Furthermore, investments on Route 4 (Corridor XI) between Belgrade – Montenegrin border (Boljare) both on motorway and rail will be supported. Support on Corridor VII will be provided for implementation of the hydro-technical works and dredging of the river beds to eliminate critical sectors of the fairway, as well as other bottlenecks which endanger safe navigation. The support will build on results achieved under IPA I project working on 6 out of 24 critical sections of Danube river. Support for multi-modality includes both investment support for specific projects, especially in the first instance Belgrade intermodal terminal, as well as capacity-building measures for responsible institutions and operators. Capacity-building and technical assistance support will be provided to the railway sector to enhance the rail reform process in line with the requirements of the EU railway legislation.

The following **indicators** will be used to measure progress:

- Logistics performance indicator - score (WB).

4.3. Types of financing

Assistance will be provided through twinning, technical assistance, calls for proposals, supplies of equipment and investments. Further funding, including blending of IFI loans and IPA II grants, is foreseen through WBIF, which receive IPA II funding from the IPA II multi-country programme. Under the Connecting Europe Facility (CEF) actions in the neighbouring non-EU countries may be supported if they are necessary for the implementation of a project of common interest on the TEN-T core network. The priorities of CEF in the transport area – improving cross-border connections, ensuring sustainable and efficient railway network, and optimising integration and interconnection of transport modes and enhancing interoperability of transport services – are in line with the assistance priorities for Serbia.

4.4. Risks

Similar risks as have been highlighted in the environment sector apply for the development of an investment project pipeline. These risks are mitigated providing substantial technical assistance under the Democracy and governance sector for project preparation through the Project Preparation Facility especially during the first years of IPA II assistance. The limited fiscal space and budgetary constraints in the country could constitute a risk for infrastructure investments and maintenance.

5. Competitiveness and innovation, agriculture and rural development

5.1. Needs and capacities in the sector

Concerning **competitiveness and innovation**, Serbia's internal market remains too weak to fuel economic growth and convergence with the EU. The overall business environment in Serbia is characterised by significant state presence in the economy, high level of state aid, weak private sector, low levels and structural distortions to competition and legal uncertainty, which substantially increase the cost of doing business. Many state-owned companies need to

be further restructured or privatised, markets to be liberalised. The informal economy remains strong and represents a major hindrance to fair competition and business growth.

The introduction of the ‘one-stop shop’ business registration system in 2009 has improved the efficiency and speed of the registration procedure to some extent. More than 100 administrative fees have been abolished. Issuance of building permits has been improved, notably with the introduction of e-permits as of January 2016. The availability and uptake of these and similar eServices have to be further developed. Property rights have been improved as well. Substantial further efforts are still needed, notably to simplify the administrative and regulatory framework which is hampering both market entry and exit and dispute settlements. Furthermore, the Serbian legal framework in this area needs to be brought in line with the *acquis*. Also administrative and technical capacity need to be improved, especially concerning free movement of goods (technical harmonisation, standardisation and metrology and market surveillance), competition policy, intellectual property rights, consumer and health protection, company law and enterprise and industrial policy.

Serbia also needs to improve the business environment by investing in broadband infrastructure, both fixed and mobile/wireless, particularly in more rural regions, to reduce the digital divide within the country and the digital gap with the EU.

Serbia also needs to improve competition within the electronic communications and ICT sectors as well as support the ability of traditional industries to compete and innovate through ICT improvements, training and digital skills development.

Serbia has very limited capacities with regard to innovation and technology transfer, even though these areas could be important drivers for economic growth. Investment in Research and Development (R&D) has remained marginal, and is also influenced by the lack of modernisation of the education system and lack of available support to stimulate innovation at business level. This in turn has resulted in a low level of development in domestic technologies and innovative product and services.

As regards research and innovation, a Smart Specialisation Strategy (currently under development) is the prerequisite that underpins national research and innovation strategies and policies. It helps to prioritise national research efforts and to allocate the resources needed. In terms of research and innovation capacity building it also helps to identify regional centres of excellence.

SMEs struggle with low productivity. Enhancing productivity and competitiveness in this area will be crucial since this sector highly influences the performance of the Serbian economy. The majority of SMEs lack market intelligence and access to information. They have inadequate technology and limited access to affordable finance. Only around 26% of SMEs use external sources of funding. Improved access to external funding and diversification of financing sources need to be improved. Finally, in order to reduce regional disparities, support to investment in business infrastructure has to be targeted according to the selected priority projects.

This sector was among the largest recipients of international donor assistance with nearly EUR 1 billion over the period 2007-13. Around EUR 105 million were provided from the national IPA programmes, including both capacity-building and investment support to quality infrastructure. Serbia also benefited from support under the IPA multi-beneficiary programme, including support from WBIF and the Western Balkan Enterprise Development and Innovation Facility (EDIF). Other main donors have included Germany, Austria, Denmark, Italy, Slovakia, Switzerland, the US and the World Bank.

Even though the **agriculture sector** is important to Serbia's economy, contributing to 10% of GDP, there is a scope for considerable increase of competitiveness of its agricultural production. Farms are highly fragmented and there are big regional disparities. While in the northern part of Serbia there are some large, well-equipped holdings, the southeast is dominated by small farms. Farms above 20 ha represent only 3% of all agricultural holdings according to the 2012 agricultural census. The agriculture sector suffers from a lack of investments, dependence on weather conditions and uncertain land market. Food quality, food safety and hygiene standards will have to be further improved for all Serbian products to get increased access to the EU market.

Regional disparities are high due to geographical conditions (mountainous, hilly, plain agricultural land), demographic trends, economic structures, environmental conditions, transport accessibility and employment and income possibilities. Services in rural areas are generally in decline and many areas lack access to basic services due to lack of investments in construction or reconstruction of local roads, waste management, and sewage systems. Climate change poses additional risks to agricultural production, supply of water and other natural resources. Depopulation, internal migration and lack of access to job possibilities in rural areas remain critical issues and were so far not efficiently addressed. Creation of new employment possibilities through diversification of on/off farm economic activities is needed. Overall, there is a need to improve socio-economic living conditions of rural population, including development of rural infrastructure.

In the agriculture and rural development area, the alignment of legislation and the establishment of the necessary administrative and control structures required by the *acquis* are the main challenges. This will, in particular, require Serbia to develop the structures and systems necessary to apply EU rules on direct support schemes and to ensure the implementation of the common market organisation for various agricultural products. Coordination between the various governmental bodies and other key players in the agriculture sector, including civil society, needs to be enhanced. Advisory services will need to be strengthened and incorporate advice on modern technologies and implementation of agriculture policy. The link between agricultural research and vocational agricultural education requires strengthening.

While some progress has been made on harmonisation of legislation with the *acquis*, effective implementation is only at an early stage or moderately advanced in most areas. Improved implementation and further alignment of legislation and control standards is required in the areas of food safety, veterinary, and phytosanitary policy. The Ministry of Agriculture has adopted a new national agriculture strategy for agriculture and rural development for the period 2014-2024, covering policy, legal and institutional reforms.

The agriculture sector received around EUR 90 million of international donor assistance, including EUR 60 million of IPA assistance, over the period 2007-13. IPA supported a whole range of activities, including food safety, animal welfare, preparation for the establishment of the Farm Accountancy Data Network, the National Reference Laboratory System. Support was also provided for preparatory work for the IPARD programme. A number of bilateral donors and international organisations also provided support in this sector.

Serbia's annual Economic Reform Programme contains an analysis of key obstacles to competitiveness, growth and job creation within the agricultural sector. It also contains several reform measures planned to be implemented over a three-year period. IPA II should support these reforms where relevant.

Serbia should make sure that the current division of responsibilities in regards to the Fisheries, between the Ministry of Agriculture, Forestry and Water Economy and the Ministry

of Environment is comprehensive (with no gaps and overlaps). Sufficient administrative capacities should be put in place in both institutions in order support harmonisation with *acquis* requirements under Chapter 13. The administrative capacities should also reflect the need of coordination between the two institutions.

5.2. Objectives, results, actions and indicators

The objective of EU assistance is to support **competitiveness** as an engine for economic growth. Innovation, increasing the level of competition, stimulating high investment, and improving productivity and consumer protection will be crucial in order to advance economic development and improve living standards. EU assistance will aim to improve the overall business environment, support the ongoing structural reform process, develop research and innovation capacity, and support SMEs. In this context, IPA II will in particular be supportive of related reforms of the business environment, trade and investment facilitation and research and innovation foreseen in the Economic Reform Programme. In the area of agriculture more specifically, the objective of EU assistance is to support gradual alignment of the Serbian agricultural policy with the Common Agricultural Policy (CAP), to contribute to a competitive, sustainable and efficient agriculture sector while maintaining vibrant rural communities, and to improve food safety, resilience to climate change impacts, and implementation of EU compliant veterinary and phytosanitary standards.

The expected **results** are the following:

- Overall environment for doing business improved through simplification of the regulatory framework and through harmonisation of legislation with the *acquis*;
- Economic environment enhanced through implementation of the structural reform programmes, in particular restructuring of public enterprises;
- Development of a Smart Specialisation Strategy;
- Digital divide in Serbia and the digital gap with the EU reduced, in line with the new Serbian broadband access development strategy;
- Quality and quantity of both public and private research and innovation increased to enable it to better contribute to economic development;
- Functioning of the business sector, especially SMEs, improved, including by provision of better access to finance;
- Continuation of the implementation of the Small Business Act ensured;
- Serbian agriculture policy aligned with the EU *acquis*, including the establishment of the structures and systems necessary for implementation of the CAP;
- Competitiveness of the Serbian agricultural sector improved through modernisation of agri-food establishments to meet the EU environmental, food safety and other relevant standards;
- Balanced territorial development in rural areas, including diversification of economic activities and investments in rural infrastructure;
- Reduction of socioeconomic disparities and greater economic, social and territorial cohesion of Serbian regions;
- Better involvement of rural civil society in private-public partnerships and in preparation and implementation of local strategies through the Leader method;

- Improved food safety in line with the EU standards;
- Improved resilience of agriculture activities to climate change impacts;
- Veterinary and phytosanitary services and controls increasingly aligned with the EU requirements both in terms of adoption of legal basis and its implementation; and,
- Animal health and welfare improved through eradication of diseases and/or better control of brucellosis, bovine leucosis and tuberculosis, rabies and classical swine fever, and further alignment with the EU legislation (animal welfare).

Support will be provided for harmonisation of legislation and implementation of policies in line with the EU *acquis*, particularly in the areas of competition and state aid control, information society, consumer protection, company law and free movement of goods, capital and services. Support will be provided for further development of a strong quality infrastructure, especially as concerns metrology, standardisation, accreditation, conformity assessment and market surveillance of products as well as for strengthening the protection of intellectual property rights (IPR) and administrative capacity in this area. Support will also be provided for reducing regulatory barriers for businesses.

Support will be provided for digital projects in Serbia that are aimed at preparing society and the business environment for digital transformation. This support should for example create a better overview of the start-up ecosystem and enable more informed decision-making, stimulate the entrepreneurial culture of the young generation, enable the development of national digitising industry strategies.

Support is also foreseen for the implementation of the new Serbian broadband access development strategy, especially in terms of investments in broadband connectivity.

In order to support Serbia's structural reform process, assistance will be provided for preparation and implementation of restructuring, bankruptcy or liquidation plans for loss-making state owned and socially owned enterprises and improving competitiveness of public utilities companies.

In the area of research and development, support will be provided for development of new technologies, research training and education, improved access to research infrastructure, better use of loans and grant programs and for fostering of international collaborations and networking with other research institutes, and better transfer of technology to the commercial sector.

In order to enable companies to better comply with the new and more demanding operating environment and legislation, the business sector, especially SMEs and start-ups, will receive support through direct grants, training and advisory programmes in particular in the areas of competition, consumer protection and patent law. Specific measures will be also implemented to support and promote entrepreneurship, in particular among women and young people. Access to financing will be supported as well as investment in modern business infrastructure.

In the area of **agriculture and rural development**, IPA II assistance will be provided under two strands: 1) institution and capacity building and 2) the rural development programme.

As regards capacity building, support will address legislative reforms and structural adjustments necessary for Serbia to assume the obligations of EU membership. Further support will be dedicated for establishment of the structures and systems necessary for the implementation of the CAP.

Further legal harmonisation and capacity building will be supported in the areas of agriculture and rural development policy, food safety, veterinary and phytosanitary services and controls

as well as plant and animal health. In the area of food safety in particular, assistance will focus on the creation of an improved system of official food and feed control and labelling; by improving the system of the collection and processing of animal by-products; by risk assessments; by increasing training of farmers, by developing nation-wide awareness campaigns and by general capacity-building measures as well as support to the national reference laboratory system. Support will be provided for further animal health control measures for brucellosis, bovine leucosis and tuberculosis as well as for eradication of further diseases, including for adoption and implementation of contingency plans for diseases other than rabies and classical swine fever.

Rural development is supported via a 7-year rural development programme (IPARD). IPA II provides primarily investment support to boost the competitiveness of agri-food sector and it assists with its gradual adjustment to EU hygiene, food safety, veterinary and environmental standards, and to develop climate-resilience and diversify rural economy. Moreover, establishment of producer groups, rural infrastructure, training actions, including advisory services, agri-environmental measures, forestry, and Leader local initiatives may be supported through the IPARD programme. The IPARD programme also reinforces capacities of relevant EU funds management structures for them to be able to efficiently manage and implement the programme in line with the EU requirements; the establishment of the IPARD implementation system should therefore be one of the main priorities. Institutional capacities of the agrarian agency and supporting organisations such as extension and advisory services should be strengthened in order to prepare for access to EU support through direct implementation of projects.

The following **indicators** will be used to measure progress:

- Doing Business – Distance to frontier, score (WB).
- Total investment generated via IPA in agri-food sector and rural development (DG AGRI).

5.3. Types of financing

In the area of competitiveness and innovation, Assistance will be provided through twinning, technical assistance, direct grants and supplies of equipment and investments, including through financial instruments, possibly also through calls for proposals and direct grants to relevant national authorities. Sector budget support can be considered, especially to support the ongoing structural reform process, provided that Serbia meets the relevant pre-conditions for sector budget support. Specific infrastructure projects in this sector may be also funded through WBIF and EDIF. IPA II may also co-finance Serbia's contribution for its participation in the following EU programmes: Horizon 2020 (research and innovation), COSME (competitiveness of enterprises and SMEs) and the Consumer programme. Under the Connecting Europe Facility (CEF), which is not open for Serbia as such, actions in the non-EU countries may be supported if they are necessary for the implementation of a project of EU common interest. The priorities of CEF with regard to telecommunications networks focus on deployment of fast and ultrafast broadband networks and their uptake, including by SMEs, and are therefore in line with the IPA II priorities for Serbia in this sector.

In the area of agriculture, the reform and administrative capacity building process will be supported through services, works, supplies, and twinning. Grant contracts can be used to support other services. IPA II multi-annual support in the area of rural development shall be provided through measures financed under the Rural Development Programme (IPARD).

5.4. Risks

As regards competitiveness and innovation, there is a risk that implementation of macro-economic and fiscal measures, as well as enterprise restructuring and improvements in business environment measures are delayed. There is also a risk that relevant authorities needing mostly investments will not have capacities to develop technically viable strategic projects. In order for the investments also to contribute to reduction of regional disparities, capacity building for local authorities as well as project preparation support will be provided.

The lack of strong co-ordination at national level and the unavailability of favourable credit terms to the agricultural sector may risk the development of this sector. It is therefore necessary to ensure at the outset appropriate coordination between national sources of funding, IPARD and international donors. Furthermore, there is considerable lack of appropriate IT tools facilitating smooth implementation of the IPARD programme that may result in long processing of applications.⁶

6. Education, employment and social policies

6.1. Needs and capacities in the sector

Serbia needs to develop the quality of its education system to support economic growth through human capital development. Even though higher education in Serbia is being aligned to the Bologna process, many reforms are still to be fully or properly implemented. The national recommendations in the area of curricula modernisation, , recognition of academic qualifications, human resource management, link with the world of work, strengthening research and the role of higher education in society should be implemented, in accordance with the commitment under the Western Balkans Platform on Education and Training. The enrolment rate of compulsory pre-school education is relatively satisfactory (96% in 2017) but the coverage of non-compulsory pre-school education is rather low and stands below 50%. The participation rate in tertiary education is below EU standards and the quality assurance system needs to be strengthened and include external evaluators. The inclusion of the Serbian Quality Assurance Agency as member of the European Association for Quality Assurance in Higher Education is already a positive stepping stone, with a national legislation which increasingly reflects the ESG2015⁵.

The school drop-out rate of around 30 % needs to be reduced and access to education for everyone, including disadvantaged groups, needs to be secured, especially for Roma boys and girls.. Current data shows that in 2014 the out of school indicator for Roma children aged 15 years old was 60%, and at 13 years old it was 17.3%.%. The quality of education needs to be improved at all levels. Another major issue is the relevance of the educational offer. In general, the system does not prepare students well enough for work, it is unresponsive to the needs of the economy and not enough training programmes are in place providing workers with the opportunity to upgrade their skills. Further efforts are therefore needed to match education with labour market needs.

The quality of educational provision is to a large extent directly dependent on teacher and their performance. The way in which teachers are prepared for their profession is therefore of utmost importance. A student centred approach and curricula based on learning outcomes need to be further developed.

Serbia ranked 43rd out of 65 countries participating in the Programme for International Student Assessment (PISA) from the Organisation for Economic Cooperation and

⁵ The Standards and guidelines for quality assurance in the European Higher Education Area

Development (OECD) back in 2012. The country did not participate in the 2015 edition but is expected to take part in the upcoming round of testing in 2018.

Serbia's labour market faces structural problems including low labour market participation, especially for women, a mismatch of supply and demand and a large informal economy. Furthermore the global financial crisis, slow growth and slow recovery have also negatively affected the labour market. The unemployment rate was above 20 % at the end of 2013, with three quarters of the unemployed being long-term unemployed. Women, youth, Roma people, low-skilled individuals and people with disabilities remain the most disadvantaged on the labour market. Active labour market policies have not received substantial funding and they have not sufficiently addressed youth and long-term unemployment. Further progress must be made in the redesigning of active labour market policies, including as regards to managing labour migration to meet demand for skills and support economic growth. Moreover, the coverage of these policies needs to be both broadened and better targeted to the needs of the unemployed and the most disadvantaged groups.

Social inclusion and access to social welfare services is a further challenge. The social welfare system needs to be reformed to be more supportive of labour market participation and of active inclusion. The most disadvantaged groups still have very limited access to community-based social services. This needs to be improved along with the availability, mainstreaming and better targeting of services such as home-care and day-care for children with disabilities. The process of de-institutionalisation needs also to be further supported through the development of local community based services. Serbia still provides refuge to some 29,000 refugees and 203,000 IDPs. Their situation remains to be improved. The number of collective centres has been further reduced to five and housing has been provided for over 2400 displaced persons. In the framework of the EUSDR, Serbia is developing Capacity Building of Institutions involved in Migration Management and Reintegration of Returnees in the Republic of Serbia. Inclusion policies have to be strengthened and better targeted to relevant disadvantaged groups notably to the Roma population which is among the most vulnerable and disadvantaged in Serbia. Roma are very often the victims of racism, discrimination and social exclusion and live in extreme poverty, lacking sufficient access to healthcare, education and training, housing and employment. Serbia adopted new National Strategy for Roma inclusion in March 2016 and actively follows up on the recommendations of the June 2015 EU-Serbia seminar on inclusion of Roma, including a new set of operational conclusions. The range of social services and initiatives to promote their inclusion such as ensuring access to social and health care centres remains to be improved. Further efforts are needed to find durable solutions to the informal settlements across the country and compliance with international standards on forced evictions and relocations still needs to be systematically ensured. Also, living conditions of Roma need to be substantially improved, including through support for sustainable housing solutions.

The Employment and Social Reform Programme (ESRP) adopted in June 2016 outlines key challenges, policy reforms and measures covering labour market, employment policies, human capital, social protection and inclusion. A further prioritisation is made in the annual Economic Reform Programme. The Ministerial ERP policy guidance also contains recommendations for reforms within the areas of education and employment. IPA II should support these reforms where relevant.

Support to youth and education policies shall be supported and mainstreamed through IPA II. This will be in line with the major EU policies in the area.

The education, employment and social policies sector received around EUR 425 million of international donor assistance, including nearly EUR 180 million of IPA assistance, over the

period 2007-13. IPA supported various activities, including Vocational Education and Training policy reform, support to the curriculum reform and to the teacher training, quality assurance of the education system at elementary and secondary level, and development of the national qualifications framework, support to active labour market policies through the National Employment Service, integration of internally displaced persons, provision of community based social services, social inclusion of disadvantaged groups, including housing solutions for Roma. Other donors, especially the World Bank, EIB, UN organisations, Austria, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, the UK and Norway have supported reforms in this sector.

6.2. Objectives, results, actions and indicators

The objective of EU assistance is to support the ongoing education and training reforms in order to improve the quality of educational provisions (at all levels) and its relevance to the labour market, to support the reforms of employment and social protection policies and to improve social inclusion of the most disadvantaged groups. It should be noted that the earlier the investment in education, the greater the impact is on growth and competitiveness. IPA II should therefore be geared towards interventions improving early childhood education and care and primary education. Support will also be provided for consumer and health protection in line with the EU *acquis* requirements. The EU will support in particular the education and employment reforms foreseen in the ERP exercise.

The expected **results** are the following:

- Strengthened harmonisation of legislation with the *acquis* implemented and institutional framework and administrative capacity for implementation;
- Enhanced competitiveness and inclusive growth through implementation of the employment and social reform programmes (ESRP), the Economic Reform Programme (ERP) and the annual policy guidance;
- Enhanced access to basic rights for individuals belonging to vulnerable population through improved strategic framework and implementation of rights-based policies;;
- Strengthened social dialogue;
- Reinforced Vocational Education and Training system to better match the needs of the Serbian labour market;
- Active labour market policies better targeted and implemented;
- Enhanced social protection supporting labour market participation and employment enhanced;
- Increased social inclusion of the most disadvantaged groups, especially people with disabilities, women, children and Roma, following implementation of community-based solutions in education, health, housing and job creation, and improved child-care provision;; and
- Strengthened administrative capacities for gender equality and significant progress achieved in implementation of EU and national gender equality commitments through gender mainstreaming.

Support will be provided for harmonisation and implementation of legislation in line with the EU *acquis*, especially concerning labour market policy, work conditions, social dialogue/social partners, health and safety at work and consumer and health protection. Another important area is to build capacity for inter-institutional cooperation so that more

integrated policies, including employment and social reform programmes, can be developed and implemented in this area.

Improvement of the overall quality of education will be supported as well as implementation of the vocational education and training sector reforms increasing the relevance of education provision to better reflect labour market needs, capacity-building of local governments, alumni networks, social, health and education institutions in order to increase access to education. Prevention of early school drop-outs will be addressed for implementation of corrective mechanisms, development of early warning system and innovative approaches such as remedial teaching, pedagogical assistance, teaching and learning styles, assistive technologies. An important focus area is also the concept of life-long learning and development of the National Qualifications Framework (NQF) system. Increased participation of children in pre-school education will be targeted as key action for sustainable and long term social inclusion.

As concerns active labour market policies, support will be provided for implementation of the Employment and Social Reform Program (ERSP) and the national employment strategy 2011-20, which aim to increase the impact of labour market and employment policies by increasing out-reach, by introducing and designing programmes better tailored and targeted to the needs of specific groups, by enhancing decentralisation of employment policies, by strengthening job counselling system, by improving data analysis, and by collection and policy monitoring.

To enhance social inclusion, IPA II will support for making social welfare more supportive to active inclusion and for further development of community-based solutions in education, health, housing and job creation for integration of the most disadvantaged groups. The focus will be on strengthening the implementation of existing community based solutions and promoting implementation of new and innovative and integrated solutions in other communities. Support will also be dedicated to the implementation of the strategy and action plan for the social inclusion of Roma in Serbia as well as to the implementation of the June 2015 "Roma social inclusion" seminar's conclusions. Specific actions include investments needed to find sustainable solutions to the informal settlements and providing permanent housing solutions for the most vulnerable people in need as well as to supporting measures on social and health care issues such as developing the network of health mediators and pedagogical assistants and ensuring better access to social protection. IPA II support will also aim at better inclusion of pupils from disadvantaged groups, amongst which many are Roma, in the education system and improvement of their respective academic achievements, as well as strengthening coordination, cooperation and implementation of measures in the areas of Roma inclusion both on national and local level.

The following **indicators** will be used to measure progress:

- Employment rate 20 to 64 years, total % (Eurostat), sex disaggregated.

6.3. Types of financing

Assistance will be provided through twinning, technical assistance, supplies of equipment and minor investments, possibly also through calls for proposals and direct grants to relevant national authorities. Sector budget support can be considered from 2015 onwards, especially for implementation of the Education strategy, of the Roma strategy, subject to Serbia meeting the pre-conditions for budget support. In 2016, a Sector reform contract supporting the implementation of the education strategy was adopted. IPA II may also co-finance Serbia's contribution for its participation in EU programmes, for which it signed an international agreement, including: Erasmus+, the Employment and Social Innovation (EaSI) and the

Health programmes. Under the IPA II multi-country programme, the key priority is to continue to support the Regional Housing Programme (RHP), which aims at providing sustainable housing solutions, including for some 45,000 refugees in need in Serbia, as part of the Sarajevo process.

6.4. Risks

Regional disparities are increasing and Serbia faces unfavourable demographic trends with low birth rate, ageing population, outward migration (brain drain), depopulation of rural areas and inflow of population to major towns. There is therefore a risk that the funding available to this sector through IPA II and other donor contributions will not be sufficient to cover all the needs. The areas covered in this sector are closely inter-linked and cannot be developed or implemented in isolation. Effective cooperation and coordination among involved ministries and agencies, including ministry responsible for the agricultural sector is crucial, also, because socio-economic development of rural areas is foreseen under the future IPARD programme. Furthermore, there is a need for strong political will to effectively address integration of Roma population and other disadvantaged groups into society.

7. Regional cooperation and territorial cooperation

7.1. Needs and capacities in the sector

In addition to the needs and objectives identified in this Strategy Paper, Serbia will benefit, together with the other IPA II beneficiaries, from support under the EU horizontal and regional pre-accession financial assistance programmes.

The regional priorities are set in a Multi-country Strategy Paper, designed to complement the objectives set in the national Papers. Regional assistance will be delivered along the following four axes, each one representing one dimension of the added value of the horizontal and regional programming: i) Horizontal support to sector policies and reforms; ii) Regional structures and networks; iii) Regional investment support; iv) Territorial cooperation.

Regarding territorial cooperation more specifically, IPA assistance will continue to support Serbia's already well established cross-border cooperation with EU Member States (Hungary, Romania, Bulgaria and Croatia) and with other neighbouring IPA beneficiaries including, since 2016 the former Yugoslav Republic of Macedonia. Additionally, IPA is continuing to support Serbia's participation in the Interreg Danube and the Adriatic Ionian transnational cooperation programmes⁶. In line with the objective of reconciliation and normalisation of relations with Kosovo, and once the conditions are in place, IPA assistance will also be provided for development of territorial cooperation with Kosovo. Development of this cooperation will be agreed and prepared jointly, in line with the on-going dialogue between Belgrade and Pristina facilitated by the EU.

7.2. Objectives, results, actions and indicators

The multi-country programmes under the pillars horizontal support to sector policies and reforms, regional structures and networks and regional investment support will complement and contribute to the objectives, actions, results and indicators established under the sectors included in this Strategy Paper from a regional perspective.

⁶ The geographical scope of these two Interreg transnational programmes matches that of the EUSDR and EUSAIR macro-regional strategies. These programmes partly contribute to the support of the implementation of the respective macro-regional strategies, notably the functioning of their governance structures.

Cross-border cooperation programmes aim at promoting reconciliation, confidence-building, reconstruction and improvement of neighbourly relations. At the same time, they aim at fostering socio-economic development of border regions, improving the living conditions of the population in the border regions, and contributing to building the capacities of local, regional and national governmental institutions and non-state actors to manage EU structural funds under the European Territorial Cooperation objective (Serbian partners participate in joint projects on equal footing with the partners from the Member States). It also supports European Integration of Serbia through participation in cross-border and transnational cooperation programmes with EU member states

As regards cross-border cooperation with other IPA beneficiaries, Serbia participates in three programmes. The 2014-2020 CBC Serbia – Bosnia and Herzegovina and 2014-2020 CBC Serbia – Montenegro both focusing on the following thematic priorities: (1) promoting employment, labour mobility and social and cultural inclusion; (2) protecting the environment, promoting climate change adaptation and mitigation, risk prevention and management; (3) encouraging tourism and cultural and natural heritage. The recently adopted 2016-2020 CBC Serbia - the former Yugoslav Republic of Macedonia focuses on the thematic priorities: (1) promoting employment, labour mobility and social and cultural inclusion and (2) encouraging tourism and cultural and natural heritage.

The specific objectives, targets and expected results to be achieved within each thematic priority are laid down in the specific CBC multi-annual programmes 2014-2020 drafted on the basis of extensive consultation with local stakeholders. The programmes also include the indicative annual budget allocations until 2020; define a set of indicators to measure the impact of the programme and identify the specific areas, which are eligible for funding.

As regards Cross border Cooperation with Member States, the following programmes are in place: Croatia-Serbia; Hungary-Serbia; Romania-Serbia; Bulgaria-Serbia. These programmes support thematic priorities related to environmental protection and climate change adaptation, tourism and cultural and natural heritage, sustainable transport and improvement of public infrastructure, enhancing competitiveness of SMEs, investments in youth, education and skills etc.

Serbia is also part of the following Interreg transnational programmes:

- Interreg V-B Adriatic-Ionian transnational cooperation programme 2014-2020;
- Interreg V-B Danube transnational cooperation programme 2014-2020

Both programmes have a rather broad geographical outreach, which encompass EU member states and non-EU countries.

Both programmes focus on innovation, natural and cultural assets, and transport (Danube programme also energy efficiency). Moreover, they both have a priority axis dedicated to supporting the governance system of, respectively, the EUSAIR and EUSDR macro-regional strategies.

77.3. Type of financing

Assistance will be provided primarily through grant contracts. Investments may also be financed depending of the objectives of each programme. Technical assistance will be provided to improve the capacity of the institutions involved in the implementation of the programmes.

According to the Framework Agreement between the Republic of Serbia and the EU on arrangements for implementation of Union financial assistance, cross-border cooperation

programmes with IPA beneficiaries can be implemented under direct or indirect management; in case of direct management the Contracting authority is the designated EU Delegation.

IPA CBC programmes and Interreg transnational cooperation programmes are implemented in shared management between the Commission (DG Regional and Urban Policy) and (one of) the participating EU member state(s).

7.4. Risks

The main risks involve lack of capacity in the beneficiary institutions to manage the complex programming and implementation procedures foreseen notably for the CBC programmes with IPA beneficiaries. This will be addressed through targeted technical assistance to the joint operating structures in the countries.

ANNEX 1: INDICATIVE ALLOCATIONS (million EUR)⁷ - per policy areas and sectors

SERBIA	2014	2015	2016	2017	2014-2017	2018	2019	2020	Total 2018-2020	Total 2014-2020	Of which climate change relevant (%)
DEMOCRACY AND RULE OF LAW	80,4	143,3	106,7	109	439.4	96.5	78.6	78.1	253.2	692,6	
Democracy and governance	52,9	115,7	60,3	36,8	265.7	67.8	78.6	34.4	180.7	446,4	
Rule of law and fundamental rights	27,5	27,6	46,4	72,2	173.7	28,7	0,0	43.8	72.5	246,2	
COMPETITIVENESS AND GROWTH	98,6	79,8	96,1	103,2	377.8	159.4	150.8	158.8	469	846,8	
Environment, climate change and energy	74.7	0,0	0,0	78,2	152,9	65,1	103,8	0,0	168,9	321,8	60%
Transport	0,0	64,8	0,0	0,0	64,8	0,0	0,0	0,0	0,0	64,8	
Competitiveness, innovation, agriculture and rural development	5,0	15,0	68,7	25,0	113.7	70,8	47,0	105,0	222,8	336,5 ⁸	
Education, employment and social policies	19,0	0,0	27.4	0,0	46.4	23,5	0,0	53,8	77,3	123,7	
TOTAL	179,0	223,1	202,8	212,2	817.2	255,9	229,4	236,9	722,2	1.539,1	

⁷ Any possible differences in figures displayed in policy areas and sectors compared to the annual totals are the effect of rounding to one decimal.

⁸ Part of these funds have been allocated to the IPARD programme for Serbia C(2015) 257 of 20.01.2015. In accordance with such programme, the following funds have been earmarked for IPARD: EUR 15 million (2015), EUR 20 million (2016), EUR 25 million (2017), EUR 30 million (2018), EUR 40 million (2019) and EUR 45 million (2020).

¹¹ Part of these funds have been allocated to the IPARD programme for Serbia C(2015) 257 of 20.01.2015. In accordance with such programme, the following funds have been earmarked for IPARD: EUR 15 million (2015), EUR 20 million (2016), EUR 25 million (2017), EUR 30 million (2018), EUR 40 million (2019) and EUR 45 million (2020).

ANNEX 2: PERFORMANCE INDICATORS

Context indicators

Indicators	Baseline (2010)	Last value (year)
General government consolidated gross debt/GDP (%) (Eurostat)	40.8	73.3 (2016)
GDP at market prices (million euro) (Eurostat)	29,766.3	36,795.4 (2017)
Unemployment rate (%) (Eurostat)	19.2	15.4 (2016)
GDP per capita at current prices (PPS €) (Eurostat)	9,000	10,700 (2016)
FDI per capita (€) (Eurostat)	137	301 (2016)
CO2 emissions (metric tons per capita) (World Bank)	6,303	5.283 (2014)

Outcome and impact indicators

Indicator	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Composite indicator - average ranking provided by eight external sources: Corruption Barometer, Control of Corruption, Freedom of Press, Press Freedom, Rule of Law, Government Effectiveness, Regulatory Quality, Voice and Accountability	54.41	53.61 (2016)	59.02	65.72

Common sector indicators*

Sectors	Indicators	Baseline (2010)	Last value (year)	Milestone (2017)	Target (2020)
Democracy & governance					
<i>Governance and PAR</i>	Composite indicator (Government effectiveness (WB), Burden of Government Regulation (WEF) and Regulatory Quality (WB))	46.29	48.29 (2016)	43.21	45.46
<i>Statistics</i>	Statistical compliance - % - Eurostat	30-35	49-55 (2015)	67-77	81-91
Rule of law & fundamental rights					
<i>Judicial reform</i>	Composite indicator (Access to Justice (WJP) and Judicial Independence (WEF))	41.43	44.50 (2016)	46.43	55.71
<i>Fight against corruption and organised crime</i>	Composite indicators Global Corruption (TI) and Control of Corruption (WB)	40.31	43.84 (2016)	54.21	65.25
<i>Fundamental rights</i>	Composite indicator Freedom of Press (FH) and Press Freedom (RWB)	28.00	36.30 (2016)	30.00	25.00
Environment, climate action and energy					
<i>Environment</i>					
<i>Climate Action</i>	Extent to which climate change strategies are (a) developed and/or (b) implemented with EU support	No Strategy in place.		Climate change Strategy and Law in line with EU 2030 framework being developed	Climate change Strategy and Law adopted, financing secured.
<i>Energy</i>	Quality of electricity supply (score) - WEF	3.84	4.7 (2015)	3.84	3.84

Transport	Logistics performance indicator (score) - WB	2.69	2.76 (2016)	2.8-3.1	3.2-3.5
Education, employment & social policies					
<i>Employment</i>	Employment rate (15-64 years; also 20-64 years if available) (%) - Eurostat	47.3	52.1 (2015)	Not Provided	Not Provided
Agriculture, rural development, competitiveness and innovation					
<i>Agriculture and Rural Development</i>	Total investment generated via IPA in agri-food sector and rural development – DG AGRI			Not Provided	Not Provided
<i>Competitiveness and Innovation</i>	Distance to frontier, Doing Business (score) - WB	58.16	68.41 (2015)	61.5-62	63-64
Regional & territorial cooperation	N. of involved municipalities - MIS	4.00		5.00	7.00