

**DRAFT PROGRAMME**  
**AN ADDITIONAL SUPPORT PROGRAMME FOR SERBIA IN**  
**2001**

**1. IDENTIFICATION**

**Beneficiary state:** SERBIA - The Federal Republic of Yugoslavia  
**Programme:** Council Regulation (EC) No.2666/2000  
**Year:** 2001  
**Budget:** Total €50.3 million  
**Expiry date:** 31.12.2003 contracting  
31.12.2004 disbursements  
**Sector:** AA  
**Group:** M  
**Budget lines:** B7-542, €45,3 million,  
B7-541, €5 million  
**Implementing Body:** European Agency for Reconstruction

**2. SUMMARY**

This proposal has two aims. First, it is designed to reinforce and maximise the impact of our 2001 programme. Second, it is designed to further support and consolidate the economic and political reforms and continue to strengthen civil society and institutions in Serbia.

This proposal consists of:

- **Energy - € 27.3 million (+/-20%).** Further funding to enhance the impact of our current rehabilitation and maintenance programmes in power generation, distribution and in the coalmines; as well as further funding of electricity imports whilst these repairs are being undertaken. These imports will be critical to reduce blackouts to socially and economically acceptable levels in what will be a difficult winter in terms of the availability and reliability of electricity. (See annex 1).
- **Health - € 5 million (+/- 20%).** Funding for maintenance and repair of key equipment, both at the primary and secondary health care levels. Currently, about 70% of the equipment in hospitals and health centres is not in working order, of which about half can be repaired. Beneficiaries would be the main referral hospitals and health centres (some 50 health centres and 30 hospitals). (See annex 2).
- **Regional Development in the Presevo Valley - € 4 million (+/- 20%).** Funding for a short-term programme for the rapid employment of local people to undertake local civil and environmental improvements. (See annex 3).

- **Enterprise Support- € 6 million (+/- 20%).** Further funding for a credit line administered by local banks, which supports the development of small and medium enterprises: and, funding for technical assistance for the first stages of financial and corporate restructuring of selected state/socially owned enterprises (SOEs). (See annex 4).
- **Media - € 2 million (+/- 20%).** Funding for a full management audit of the Serbian State Radio and Television company (RTS) as well as finance for a small grants fund for the independent media in order to ensure their financial sustainability in the medium-term. (See annex 5)
- **Technical and Administrative Assistance Fund - € 1 million (+/- 20%).** To provide short-term technical expertise in project preparation, evaluation of bids, audits, programme/project evaluations, etc. (See annex 6).
- **Integrated Border Management - €5 million (+/-20%).** To improve the facilities and management of the Serbian side of the Horgos border crossing with Hungary so as to ease the passage of people and goods, whilst ensuring sound and secure customs procedures. (See annex 7).

<p style="text-align: center;"><b>Maximum available:</b> <b>€45.3 Million from the Serbia Programme (Annexes 1–6)</b> <b>€5 Million from Regional Funds (Annex 7)</b></p>
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### 3. GENERAL BACKGROUND

#### 3.1. Past EC Funding: 1998 - 2000

Past EC funding has been focused on emergency assistance, rehabilitation of municipal infrastructure, heating fuel, media support and humanitarian aid. The details are shown below:

year	projects	committed	contracted	contr/ comm	paid	paid/ comm
1998	Media	4,650	4,628	100%	2,472	53%
1999	Energy for Democracy	4,400	4,277	97%	4,239	96%
	Media	2,550	2,550	100%	1,220	48%
	<b>Total 1999</b>	<b>6,950</b>	<b>6,827</b>	<b>98%</b>	<b>5,459</b>	<b>79%</b>
2000	Energy for Democracy	4,400	3,439	78%	3,347	76%
	Schools for Democratic Serbia	3,800	3,790	100%	3,224	85%
	Food	26,658	26,658	100%	25,048	94%
	Health	20,000	20,000	100%	18,650	93%
	Energy	99,342	98,976	100%	91,597	92%
	Media	1,000	1,000	100%	542	54%
	Administrative and Technical Assistance	3,000	2,560	85%	1,881	63%
	Agency running costs	3,000	3,000	100%	981	33%
	Needs Assessments	2,000	1,454	73%	311	16%
	Municipal Infrastructure	25,000	24,999	100%	6,497	26%
	<b>Total 2000</b>	<b>188,200</b>	<b>185,876</b>	<b>99%</b>	<b>152,078</b>	<b>81%</b>

These assistance programmes have been successful in terms of both their speed of implementation and impact. They have proved to be a crucial factor in helping to stabilise an emergency situation. The main 2000 programme got underway within days of the Commission Decision in November 2000. The practical benefits of the programme are already being widely felt across Serbia – e.g., heating oil for some 1,000 schools and hospitals and for district heating systems in municipalities that cover some 80% of the population; electricity imports thus avoiding major power cuts; the supply of essential drugs (e.g., insulin); and food commodities (sugar, cooking oil). Implementation of the 2000 programme will very largely be completed by June 2001 with some 99% of the funds contracted and 81% disbursed.

### 3.2 EC Funding 2001: First Tranche

The current status of our 2001 programme is illustrated below:

year	projects	committed	contracted	contr/ comm	paid	paid/ comm
2001	Energy	80,000	24,763	31%	725	1%
	Agriculture	20,000	15,631	78%	0	0%
	Enterprise Development	10,000	5,435	54%	4,348	43%
	Health	26,500	23,700	89%	5,880	22%
	Policy and Legal Advice Centre	5,000	0	0%	0	0%
	Technical and Administrative Assistance	2,000	307	15%	0	0%
	<b>Total 2001</b>		<b>143,500</b>	<b>69,836</b>	<b>49%</b>	<b>10,953</b>

The 2001 Programme is also under rapid implementation. Forty-nine per cent has already been contracted and eight percent disbursed. The Agency expects to contract most of the funds by end October 2001.

### 3.3 Socio-economic issues

The new Federal and Serbian authorities moved quickly upon taking office. They focussed their efforts on three main areas:

- i) Stabilising the economy;
- ii) Meeting the urgent needs of the most vulnerable;
- iii) Re-integration within the international community.

Good progress was made on all fronts. FRY is now a member of the World Bank, it is benefiting from an IMF Standby agreement, and it is pursuing closer integration with the EU.

The new governments are now beginning to implement comprehensive structural reforms in order to quickly introduce a market economy. For example, they have introduced significant tax reforms; a privatisation law and an agency to manage the process; developed a strategy to restructure the banking sector; increased electricity, district heating and other public utility tariffs; and established a "Transition Fund" to mitigate the social difficulties that lie ahead. Encouraged by the breadth of the governments' commitment, the recent donor conference in Brussels (June 29), held under EC/World Bank auspices resulted in pledges of assistance of some €1.5 billion.

Nevertheless, the macro-economic environment remains fragile. Output has recovered partly from the economic dislocation caused by the Kosovo war, but it is still estimated to be only about 40% of the 1990 level. The external debt to GDP ratio remains at about 140% and is clearly unsustainable. A massive rescheduling by the Paris and London Clubs (along most favourable terms) will be necessary if Serbia is to become credit worthy. The World Bank estimated that GDP per capita at the end of 2000 was in the region of US\$800-940 (this includes internally displaced persons (IDPs) and refugees). Unemployment - official and involuntary - is about 30% of the labour force.

While existing data are poor, absolute poverty is now about twice as high as it was in 1990. An estimated 1.3 million people (12% of the population) live in absolute poverty, defined as a monthly income of DEM 100 or less. Inevitably the unemployed, the elderly, the disabled, and families with many children and/or single parents bear the brunt along with the refugees and IDPs. Regional differences are also important, with significantly higher poverty rates in Southern Serbia. "Coping" strategies such as subsistence farming and "informal" employment, together with remittances from the Diaspora, help to ameliorate matters for some. But many of the poorest have little access to these coping strategies. And with increasing economic liberalization, unemployment and poverty are likely to grow for some time.

In summary, Serbia is pursuing a bold economic reform programme. Most of the population appears to support those reforms. Serbia is anxious to avoid becoming dependent on foreign assistance. However, given the enormous weight of the past, Serbia will require significant support from the international community, especially in the short-term, if it is to succeed.

### **3.4 Socio-political issues**

The main strategic objective is to make a clean break with the misery of the recent past and move forward politically along with the rest of the region through full reintegration into the international community; a self-sustaining economy; and eventually entering into a Stabilisation and Association Agreement. The restoration of external ties, including trade links and normal relations with official and other creditors, should become the engine of growth for the economy. Moreover, political and economic reintegration will allow FRY to make a vital contribution to the peace, stability and economic development of the whole region.

However, serious political and economic challenges remain. First, as experienced in many other transition economies, vested interests, and an inadequate capacity to implement reforms, could result in delayed and incomplete reforms. In such a situation, aspects of the policy framework would stagnate and the positive impact of assistance programmes would lessen. Economic growth would be reduced, slowing the increase in employment and creating more persistent poverty. Lower spending on social programmes would exacerbate this effect. Political instability would increase. The government is quite sensitive to this risk and hopes to be able to manage it with greater short-term help from the international donor community.

Second, maintaining the focus of the 18-party coalition in the Republic of Serbia will be increasingly difficult as the reforms become more painful before economic recovery is actually felt by the population. Moreover, the crisis of the government at the federal level created after Mr. Milosovic's extradition to The Hague between the DOS of Serbia and its Montenegrin partner, the Serbian Peoples Party (SNP) continues to simmer despite the formation of a "new" Federal government. Some Serbian politicians are now considering holding a referendum on the question if it is in the interest of Serbia to continue to support a Federal structure.

Third, a related uncertainty remains the status of FRY's relationship with the Republic of Montenegro, which is seeking more and more autonomy. The Serbian province of Kosovo remains under international administration (UNMIK) and provincial elections will be held in November 2001 causing anxiety among the Serbian community. Also, the recent outbreak of violence in the FYR of Macedonia has heightened regional tensions.

Fourth, and perhaps most critically, after ten lost years, Serbians now have high expectations of a speedy return to "normal life" and increased prosperity. A delayed or mismanaged transition could have very negative political consequences.

#### **4. PROGRAMMING CONTEXT**

The main criteria are to:

- Concentrate resources on a limited number of fields crucial to economic and social stability and recovery;
- Ensure a sense of local "ownership" of the programme, and in particular that it accords with the Federal and Republican level Governments' priorities;
- Provide assistance that can be absorbed quickly;
- Intervene in ways that will help to begin the process of institutional and economic reform;
- Build on past and existing programmes;
- Work closely with other donors.

#### **5. IMPLEMENTATION**

This programme will be implemented under the responsibility of the European Agency for Reconstruction that will sign all necessary contracts with service providers and suppliers. Selection of contractors will be carried out in conformity with the CARDS Regulations, with maximum emphasis placed on local tendering.

Implementation of projects will be carried out in close co-ordination and consultation with the FRY and Serbian authorities and those international agencies and donors that are active in the various fields of the programme.

## 6. INDICATIVE DISBURSEMENT SCHEDULE (M€ACCUMULATED)

<b>Sector</b>	Dec 2001	June 2002	Dec 2002	June 2003	Dec 2003	June 2004	Dec 2004
Energy	4.0	18	24	25	26	26	27.3
Health	0.5	2.0	4.5	5.0	5.0	5.0	5.0
Presevo Valley	0.2	2.6	3.5	4.0	4.0	4.0	4.0
Enterprise Support	3.0	4.0	5.0	5.0	5.0	6.0	6.0
Media	0.1	1.5	1.9	2.0	2.0	2.0	2.0
T A A Fund	0.2	0.6	0.9	1.0	1.0	1.0	1.0
<b>SERBIA TOTAL</b>	<b>8.0</b>	<b>28.7</b>	<b>39.8</b>	<b>42.0</b>	<b>43.0</b>	<b>44.0</b>	<b>45.3</b>

Integrated Border Management	-	1.0	3.0	4.0	5.0	5.0	5.0
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## 7. MONITORING, EVALUATION AND AUDIT

This programme will be supervised and monitored by the European Agency for Reconstruction who shall:

- a) Supervise the implementation of the programme on the basis of regular reports;
- b) Carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after the completion of the programme.

The accounts and operations of the programme components may be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities the European Antifraud Office (OLAF) and the European Union's Court of Auditors.