

Annex

Annual Action Programme for 2005 for Community Assistance to the State Union of Serbia and Montenegro

1. Identification

Budget heading:	22 05 02 (Assistance to Serbia and Montenegro)
Total cost:	EU contribution : €7.5 million
Legal basis:	Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001 (CARDS)
Annual programming/ implementation:	European Agency for Reconstruction € 7.0 million; Commission headquarters (Customs) € 0.5 million

2. Country (and regional) update

The introduction of the Twin-track Stabilisation and Association Agreement (SAA) approach presents new opportunities for the State Union of Serbia and Montenegro. The Belgrade Agreement in 2002 set up the State Union while the Constitutional Charter (2003) formed the legal basis for the Union. The law for Implementation of the Constitutional Charter makes it incumbent upon the member states to adapt their constitutions and legal frameworks to the Charter. The Twin track approach enhances the good working relations of the State Union *vis-à-vis* the EU. The State Union is now in a position to determine how best to work with the Republics in meeting the challenges of EU accession. Equally the Republics have the flexibility to make greater progress in meeting their commitments under the SAP.

The overall goal is to eventually develop a single SAA for the State Union. To that end a SAA Feasibility Report for Serbia and Montenegro is in progress and is expected to be complete in the first quarter of 2005. This report will provide information on the progress of reform and the readiness of Serbia and Montenegro to meet the demands of a SAA.

While this new approach means a continuation of the State Union president's office, Foreign and Defence Ministries competencies, other State Union ministries have to review policy relations with Republic level actors as well as inter-ministerial relations within the environment afforded by the Twin Track approach. Key ministries at State level that require new policy direction include the Ministry for International Economic Relations, Ministry for Internal Economic Relations, Ministry for Human and Minority Rights. Key organisations that will play an important role at State level include the General Secretariat, European Integration Office, Institute for Intellectual Property, Accreditation Body and Standardisation Office, Office for Measures and Precious Metals.

Future State union activities should build on the experience of the past in terms of carrying out technical activities that are crucial for SCG to meet the challenges of EU accession. Such actions include ensuring EU standards for SCG products to meet strict EU export criteria, support to the State Union Court to maintain the integrity of the Constitutional Charter, translation support to support approximation to the *acquis* and the Joint Customs Office. It is necessary for the ministries to identify new institutional configurations and new policy actions that can be best carried out at State level in the interests of both Republics.

3. Summary of the Action Programme – State Union of Serbia and Montenegro

A description of proposed project actions within each programme component is provided in the following sections. Background material is also provided for each sector so as to highlight the justification for the projects subsequently proposed. Further details on individual projects are available in separate Project Annexes.

- **Democratic Stabilisation (approx. €0.4 million)**

Within the new policy environment of the Twin Track approach the programme will contribute to strengthening the rule of law, transparency and democracy at State Union and Republican levels. The proposed programme will bolster democratic stabilisation by focusing on anti-discrimination legislation.

- **Good Governance and Institution Building (approx. €4.9 million)**
The programme will support the new challenges facing the administration at State level to meet the demands of EU policies, directives, standards and best practices. In particular the organisational assessment of the State Union Ministries will help clarify their roles and relationships with each other and their Republican counterparts.
- **Economic and Social Development (approx. €2.0 million)**
Success at the State Union level is crucial to meet the challenges of the internal market. The State Union already has a successful track record in terms of product quality and standardisation. There are also significant policy opportunities where the State Union can play an expanded role in directly increasing exports. The programme will serve to explore new trade support opportunities while expanding the State Union's internal market technical support capacities. The agricultural and fisheries sector provides substantial opportunities to increase exports; the State Union Programme will support the fisheries sector in meeting the challenges of EU standards.
- **Other, such as GTAF, Programme Reserve...(approx. €0.2 million)**
GTAF funds will be used to carry out feasibility studies or assessments at State Union level should the need arise to legitimate new policy actions or investments.

3.1 Democratic Stabilisation (approx. €0.4 million)

The components outlined below deal with proposed programmes/projects in the sector dealing with Minority Rights and Refugee Return.

3.1.1 Minority Rights and Refugee Return (approx. €0.4 million)

Background and cooperation related policy at State Union Level

During the last decade of the previous century Serbia and Montenegro became the country with the greatest refugee and IDP problem in Europe since the Second World War. Most of the refugees are Serbian or belong to minority groups (Roma). The arrival of the refugees and IDPs to Serbia and Montenegro caused a considerable blow to the already overstrained state-provided social welfare system and significantly added to unemployment and poverty. Furthermore, the poor state of the economy and labour market has further reduced the options for refugees and IDPs.

The Commissariat for Refugees and IDPs is the main Serbian government body dealing with the issues of refugees and IDPs in Serbia. The Montenegrin counterpart is the Commissariat for the Displaced. Regarding the State Union bodies, the Ministry for Human Rights and Minorities and the Coordination Centre for Kosovo are the two principal authorities in this sector. The Coordination Centre for Kosovo has been actively engaged in the past but its mandate under the present Government arrangements remains unclear. The 2004 State Union programme focuses on the implementation of anti-discrimination legislation.

Coherence with EC cooperation policy and the MIP

According to the MIP 2005-06, EU support should focus on supporting durable solutions for refugees and IDPs in collective centres in Serbia and Montenegro. This translates into policy actions such as integration and facilitation of return, social reintegration of minorities and fighting discrimination practices, implementation of anti-discrimination and equal rights legislation in both Republics, support to returnees under re-admission agreements and capacity building of relevant actors in the sector, both at the State Union and the Republican levels.

As a short-term priority, the EC Partnership calls for adequate cooperation between the State Union and Republics regarding the legislative basis and practical protection of the rights of refugees, displaced persons and minorities. Medium-term priorities underline the need to ensure full respect of human rights of refugees, IDPs and minorities, including access to health services

and easy access to personal documents; right of a real choice between sustainable return and integration; facilitation of integration for those who choose not to return and adoption of new legislation on refugees. The majority of issues are being addressed at the Republican levels.

Identified projects

Under the State Union programme, EU funds will support the implementation of anti-discrimination legislation and capacity building actions through OSCE.

3.2 Good Governance and Institution Building (approx. €4.9 million)

This priority sector includes programmes on general public administration reforms for European Integration and related State Union bodies, Economic Management and Statistics. Programmes in the areas of Justice and Home Affairs and Customs and Taxation are also included.

3.2.1 Justice and Home Affairs (approx. €0.3 million)

Background and cooperation related policy of the beneficiary country

Reform efforts within the Justice and Home Affairs (JHA) sector in the post Milošević era were sporadic. Promises committing Serbia and Montenegro to the “highest European rule of law and human rights standards” remain largely unfulfilled. In particular, there is a lack of clearly defined short to medium-term reform objectives and strategies. Some reforms have been initiated. Most of these efforts were aimed at improving the performance, professionalism and accountability of the Courts and the Police at the Republican levels. The State Union court requires further support to implement new legislation and to meet operational challenges under the new Twin Track Approach.

Coherence with EC cooperation policy and the MIP

Following the Copenhagen criteria and Thessaloniki recommendation and in line with the EC Partnership and the MIP, the proposed JHA programme will assist the authorities at the State Union level to support the operation of the State Court and to effectively implement new legislation.

Identified projects

EU funds will support the facilitation of asylum legislation in the area of visa, asylum and migration to the State Union of Serbia and Montenegro and improve the operations of the State Union Court. This support will include technical assistance, including training and equipment as well as possibly some works pertaining to the State Union Court and possibly holding facilities for asylum seekers and/or illegal migrants.

3.2.2 Public Administration Reform (part A and part B)

Part A: Public Administration Reform: European Integration (approx. €3.0 million)

Background and cooperation related policy of the beneficiary country and Republics

One of the main objectives of the State Union of Serbia and Montenegro is EU Accession. The first step in this direction will be the completion of the Feasibility Study, currently underway. A positive outcome of the Feasibility Study will open negotiations for one Stabilisation and Association Agreement (SAA) with separate “Republican” protocols.

EU assistance in EU Integration began in 2001 and continues to strengthen a number of key actors such as the State Union European Integration Office (State EIO) and Raising awareness concerning EU integration issues within Serbia and Montenegro is also supported through a call for

proposals open to NGOs and Governmental organisations. Training of staff dealing with EU Integration issues in line ministries is one of the components of an upcoming Twinning under the 2004 CARDS programme. The objectives of the Twinning are to facilitate the harmonisation of policies and laws in line with the EU *acquis*, strengthen capacities of coordinators of the European integration process on economic aspects of the EU integration process and strengthen capacities of the stakeholders in the SAP through training and education.

The overall process of harmonisation of legislation with the *acquis* should also be accompanied by its progressive translation into Serbian language. The State Union European Integration Office coordinates the whole process. Apart from highly specialised tasks such as the translation of the *acquis*, it is of vital importance that the knowledge concerning European Integration matters (legal, economic, political, cultural, etc.) is shared with the population in order to facilitate a better understanding of the EU and to broaden the scope of public participation, debate and support to the process of EU integration and regional cooperation. Thus these two components – support to the State EIO Translation Unit and awareness raising on EU matters through the European Integration Fund (to be financed under the Serbia 2005 Programme) will be the focus of the 2005 programme.

Coherence with EC cooperation policy and the MIP

One of the main priorities in the Public Administration Reform area, outlined in the MIP 2005-06, is to strengthen the European Integration Structures, European Integration Offices and European Integration Units in line Ministries and enhance public awareness on EU related matters.

The EC Partnership notes the following short-term priorities: respect fully the Constitutional Charter and ensure the effective functioning of the state, fulfil all outstanding commitments laid down in the Constitutional Charter, notably the establishment of the State Court, revise the Republican Constitutions in line with the Constitutional Charter, adopt the State Parliament's Rules of Procedures and establish its committees, ensure the financial viability of the state institutions. Furthermore, it is of utmost importance to strengthen and maintain administrative capacity of the institutions dealing with European integration at the State and Republican level (in terms of staff, training and equipment) and improve cooperation among them.

As for medium-term priorities, it is necessary to further develop European Integration structures, notably by strengthening the European Integration Offices, establishing smooth cooperation mechanisms as well as European Integration Units in the line ministries at State and Republican levels. At the State level, appropriate administrative capacity must be developed in order to adequately perform the State competences and develop and implement a reform strategy for the State Public Administration, including the necessary legislative basis. A reform strategy for the Parliament must be developed, to bring its working standards and resources to a level at which it can act as an effective institution. EU support for many of these issues is illustrated in the previous section dealing with the State Union.

EC Partnership also mentions support to other State Union bodies such as the Joint Customs Office, Federal Statistical Office (covered in 2005 through the sectoral programme), Joint Competition Commission, etc.

Identified Projects

Under the 2005 programme, the EU funds will contribute to: (i) organisational review of the ministries and implementation of review outputs to place State Union on better operational footing; (ii) development of the Translation Unit in the State EIO, which will make progressively available relevant *acquis* in the Serbian language to all institutions of the State Union and the Republics.

Part B: Public Administration Reform: Economic Management and Statistics
(approx. €1.1 million)

Background and cooperation related policy of the beneficiary country and Republics

Statistics is an essential tool for policy-decision making, good governance and monitoring socio-economic trends. The Stabilisation and Association Process foresees the implementation of a specific statistical chapter which defines harmonisation with international standards and rules as a main objective. Accurate economic statistics are vital since the EU adopted exceptional autonomous trade measures with the Western Balkans Region (over 95% of EU's trade is liberalised). The reform of statistical system towards EU standards is directly linked to economic transition since it will provide instruments for economic monitoring. Reliable statistics are also important to restore confidence of foreign direct investors.

From November 2001 to March 2002, EUROSTAT and UN-ECE jointly carried-out a "Global assessment of the statistical system of Yugoslavia". The report highlighted the unfavourable situation regarding the compliance of produced statistics with the needs to monitor a market-oriented economy.

Lack of resources has a severe influence on the implementation of required reforms. Poor management skills and experience impact negatively on decisions and on the efficiency of work. In addition, a weak public administration together with poor infrastructure is an obstacle to efficient statistical work (e.g. data collection) and regional statistical offices suffer even more from this situation. There is a weak statistical culture and users are not confident with official statistics.

Statistical office of Serbia and Montenegro (SOSM) performs a very complex task of harmonising data from both Republics at country level. Staff numbers at State level have recently been reduced. The Serbian Statistical Office (SORS) has increased its number of employees but lacks skills and experience. On the other hand, MONSTAT, the Montenegrin Statistical Office, has serious absorption capacity problems due to weak management and lack of human resources.

The objective of the EU 2005 Statistics project is to contribute to the reform of the statistical system towards EU and international standards through a vital complementary capacity-building programme that will substantiate and enhance the ongoing technical assistance in purely statistical areas at all levels.

Coherence with EC cooperation policy and the MIP

One of the EC Partnership short-term priorities in the area of market economy and structural reforms is to develop reliable statistics. The Partnership also notes the need to revise and adopt the master plan on statistics with a view to ensuring a clear allocation of responsibilities among the three Statistical Offices and effective legal coordination. The MIP 2005-06 envisages support to the statistical system, reinforcing the institutional capacities of the three Statistical Offices in Serbia and Montenegro and improving the effective cooperation between the three statistical offices.

Identified projects

EU support will assist in: (i) procurement of relevant know-how in areas complementary to statistics to all head Statistical offices and to Serbian Regional Offices, training activities in management, economics, EU structures and functioning, IT; (ii) procurement of logistical infrastructure to upgrade primary data-collection quality.

3.2.3 Customs and Taxation (Commission managed) (approx. €0.5 million)

The following section was taken out from the Serbia Action Programme for 2005.

Background and cooperation related policy of the beneficiary country and Republics

The development of the Customs and Tax Administrations stagnated during the Milošević years and from being the leading services in the region they found themselves to be lagging behind and in need of significant modernisation and development. They had also become increasingly corrupt.

Customs

The Customs Service clearly had too many Stations and Districts and was suffering from the problems associated with being not only overstaffed but also by officers who had been selected using non-transparent recruitment policies. There was also a need to consider that the Customs Service had been a national service with most of the business and business services being managed from Belgrade. Thus a number of reviews and studies were essential (including organisation and structure, pay and grading, equipment and infrastructure, law and procedures and trade facilitation) to provide a basis for a comprehensive programme of modernisation and development. The Service is now in the process of implementing the findings of these reviews with the support of technical assistance from the CAFAO programme.

The increasing separation of the Customs into two republican Services placed an increasing importance on operation of the Joint Customs Office and efforts have also been made to extend their slightly reluctant cooperation into the Enforcement area so as to have a more cohesive approach in the fight against organised crime including illicit trafficking. The equipping by the United Kingdom, on a bilateral basis, of an operational communication and coordination centre in each Republic is facilitating their efforts in this area. The CAFAO programme Enforcement project which is providing identical programmes in both Republics is encouraging and supporting closer working between the two operational centres.

Taxation

Taxation has always been managed at the Republican level and in Serbia has the GTZ as major donor while in Montenegro the major donor is USAID. Montenegro took a very early decision to replace the existing Sales Tax with a 6th Directive compliant VAT. Serbia is now in the process of implementing VAT and the CAFAO programme is providing support to ensure that the planning is feasible as well as ensuring a clear linkage between the two Services as well as promoting close working between the Customs and Tax Services.

Coherence with EC cooperation policy and the MIP

The EC Partnership calls for Serbia and Montenegro to ensure the full implementation of the customs reform plan to secure a high degree of administrative capacity, including a specific focus on the observance of the obligations which arise from the granting of preferential trade measures (origin), notably the strengthening of the Joint Customs Office.

In relation to taxation the EC Partnership calls for Serbia and Montenegro to review both fiscal legislation and administrative procedures with a view to ensuring the effective and non-discriminatory enforcement of tax legislation as well as continuing to strengthen the administrative capacity of the tax administrations.

The project directly addresses Section 2.4 of the MIP 2005-06.

The Country Strategy Paper requires that assistance should be provided with a view to the modernisation and development of the customs and Tax Services in line with EU standards.

Identified projects

The CAFAO programme will provide support in the following areas: Legislation, Enforcement and Compliance, Border Control and Integrated Border Management, Procedures, Internal Audit, Human Resource Management, Training, the development of Organisation and Planning Systems, Action Programme 2005 for the State Union of Serbia and Montenegro

Compliance, VAT, Excise and External Audit. There will also be some supply of specialised equipment to support the implementation of change in the field.

Additionally the existing CAFAO project to support the Joint Customs Office will be strengthened with a view to ensuring that Serbia and Montenegro can meet their joint obligations in the Customs field, notably related to the management of preferential trade measures. This support will be coordinated by one to ensure a fully consistent implementation in both Republics.

3.3 Economic and Social Development (approx. €2.0 million)

This section of the Action Programme addresses Trade, Rural Economy and Agriculture Sector Support. The summary of proposed activities is outlined below.

3.3.1 Trade (approx. €2.0 million)

Background and cooperation related policy of the beneficiary country

Serbia and Montenegro have significant opportunities to increase exports and exploit market opportunities presented by the EU. These opportunities are not realised because of a limited product portfolio, product standards and market information. The EU has been very active in promoting trade. Trade support actions include: developing an IBM strategy, promoting product standardisation/quality, supporting the Serbian Export Promotion Agency (SIEPA), investing in transport and physical border crossings to reduce delays, restructuring State Owned Enterprises, implementing SME strategies and improving customs and taxation (through CAFAO). Yet Serbia and Montenegro continues to have the weakest export record in the region. Increasing agricultural and fishery exports by reducing the barriers to trade can make an important contribution to addressing Serbia and Montenegro's weak economic performance in the short-term.

Coherence with EC cooperation policy and the MIP

The EC Partnership highlights the need for Serbia and Montenegro to establish a single external trade regime. This requires approximation of rules and laws to the EU internal market.

Identified Projects

EU funds will support: (i) implementation and associated training of a new rule book for the fisheries sector in line with EU standards; (ii) rehabilitation and equipping of Fish laboratories (Ecotoxicological). This programme/project will be implemented by the respective Montenegrin institutions under an agreement between the two Republics.

3.4 Opening of the EC Community Programmes

The MIP 2005-06 does not foresee an allocation for participation in the Community Programmes at the State Union level, essentially because of the need to prepare the authorities to actively participate in these programmes.

3.5 EAR Running Costs

Estimated 2005 Action Programme administrative costs for the State Union Programme are approximately €0.5 million.

3.6 GTAF (General Technical Assistance Facility) and Programme Reserve

The main purpose of the General Technical Assistance Facility (GTAF) is to support the preparation and early implementation of activities under the Action Programme and support the planning process for future Programmes. The Programme Reserve may be used to cover unforeseen programme and other priority expenditures.

4. Past EC assistance and lessons learnt

In the previous Action Programmes EU support included provision of technical assistance to State Union and Republican administrations. The technical assistance is covering harmonisation with the *acquis*; trade, including WTO and the transition to a market economy; general and specialised training on EU Integration issues. Other EU actions support the State Union Intellectual Property Institute, the State Union and the two Republican Parliaments, Quality management and infrastructures, the State Union bodies dealing with standardisation, accreditation and metrology. Activities raising awareness concerning EU integration issues within Serbia and Montenegro are also supported through the European Integration Fund. Under the CARDS Regional Programme 2003, the European Patent Office is carrying out a project aimed at strengthening the protection of IP in the 5 CARDS countries. The Customs and Fiscal Assistance Office (CAFAO), a European Commission-funded programme, is providing training and equipment to the Joint Customs Office.

For Lessons learnt please refer to the *Serbia 2005 Action Programme Main Text*.

5. Complementary actions⁽¹⁾

The main objectives of EU-funded State Union programmes managed by the Agency are: (i) to support good governance, institution building and the rule of law; (ii) to continue supporting the development of a market economy while investing further in vital physical infrastructure and environmental actions and (iii) to support democratic stabilisation, social development and strengthening of civil society. These objectives contribute to the all-encompassing goal of this Action Programme which is to help the Serbian, Montenegrin and the State Union administrations prepare for the subsequent EU accession.

6. Donor coordination

The EU and the Member States are the main donor in the area of support to the European Integration process and to the State Union. Furthermore, SIGMA, with a backing from the EU and the OECD, carried out a comprehensive assessment of the Public Administration sector, both in the State Union and for the two Republics.

Other donors that are funding projects that support the State Union institutions include: UNHCR - working with the Ministry of Human and Minority Rights; UNDP has done an organisational review of State Union ministries/institutions; Roma minority rights are supported by CIDA, Finland and SIDA. UNDP is also supporting, through Dutch funding, management and strategic policies of the Ministry of International Economic Relations and the Council of Ministers. Furthermore, OSCE provided legal advice to the draft laws on Ombudsman both in Serbia and in Montenegro, together with the Council of Europe and the UNHCR.

¹ Detailed information on complementary activities, activities of other donors and the Government can be found in the individual project annexes

7. Cost and financing

Priority Sectors (titles as per draft MIP 2005-06)	EUR million (+/- 20%)
1. Democratic Stabilisation	
1.1 Minority Rights and Refugee Return	0.4
2. Good Governance and Institution Building	
2.1 Justice and Home Affairs	0.3
2.2 Public Administration Reform (including Statistics)	4.1
2.3 Customs and Taxation	0.5
3. Economic and Social Development	
3.1 Trade	2.0
GTAf, Programme Reserve	0.2
Total	7.5

Note: Excludes EAR running costs estimated at €0.5 million.