

Country strategy

Serbia and Montenegro

September 2004 – December 2007



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**Strategy for development cooperation with Serbia and Montenegro
(excluding Kosovo) 2004-2007**

I. Introduction

The Government's country strategy establishes the direction of Sweden's development cooperation with Serbia and Montenegro for the period 2004-2007. The strategy has been drawn up by the Ministry for Foreign Affairs in consultation with other Ministries concerned, based on a draft prepared by Sida (Swedish International Development Cooperation Agency) and supplementary information from agencies involved. Consultations have taken place in Serbia and Montenegro with representatives of the government and civil society. The overall objective for Sweden's development cooperation is to help create conditions that will enable the poor to improve their living conditions. Focus for development cooperation with Serbia and Montenegro is to support equitable and sustainable reforms that help the country develop closer ties with the EU and its integration in European cooperative structures.

II. Background

2.1 Status report

In 2004, four years after the fall of Milosevic, Serbia and Montenegro faces great challenges of an economic and social nature, as well as with domestic and foreign policies. The legacy from the communist era, the consequences of Milosevic's authoritarian rule and the war in the Western Balkans in the 1990s have left deep scars and still have a major negative impact on the country's development and the situation of the population.

In the autumn of 2000, democratic forces worked together to oust Milosevic. Afterwards, the work of reforming the country on a broad front gained momentum and many important steps were taken during the first two or three years. However, the onerous legacy and domestic political power struggles later caused a major slowdown in the reform processes. The murder of Serbia's Prime Minister Zoran Djindjic in the spring of 2003 led to the proclamation of a state of emergency, bringing the reform processes virtually to a halt.

The high expectations of the people have not been met. Dissatisfaction has spread and led to a number of consecutive presidential elections being declared invalid due to low election turnout, which has further paralysed both political life and the reform processes.

Developments in the country during recent years have had repercussions politically, economically and socially, as well as impact on the environment, human rights and gender issues. Efforts aimed at reducing ethnic tensions and dealing with the problem of internally displaced persons have also been made more difficult due to the halted reform process.

Developments in the area of political reform have been uneven. Progress has been made in the important area of human rights, including the rights of minorities, and in regional cooperation, while reforms in the judicial system generally leave a lot to be desired. The process of reforming state structures and administration is also progressing slowly and will require major efforts in the future.

Approximately 10 % of the population of Serbia and Montenegro live below the poverty line. GDP per capita is reported to be approximately USD 2500. At the same time, the country currently shows positive growth of approximately 4 % in recent years, as well as macroeconomic stability. Unemployment remains high, close to 30 %, and a significant "grey" sector and extensive economic corruption combine to hamper economic development. Structural reforms are continuing, particularly in the banking and business sectors, but need to be increased, as does development of the private sector, increased trade, more foreign investment (FDI) and a global integration of the economy. The social structure is under great pressure and aspects such as high pension costs and large refugee populations entail high public expenditure for the health and medical care sector.

Serbia and Montenegro is rich in natural resources. Increased pressure on the environment and pollution from antiquated industrial structures, war and bombings, erosion and landfill of waste mean, however, that 20 % of the land area is classified as degraded. Institutional and legal frameworks are weak, but proposals regarding environmental legislation are pending.

Serbia and Montenegro is still a multiethnic state in the Balkans. However, ethnic tension is stirred up through the presence of hundreds of thousands of internally displaced persons in the country. Ethnic aspects are particularly sensitive in southern Serbia, where one section of the population aspires to be integrated with Kosovo. The Roma comprise a vulnerable minority in the country and there are also considerable minorities in Vojvodina and Sandzak (Hungarians and Slavic Muslims, respectively). The situation is currently relatively calm, but the risk of conflicts arising should the situation deteriorate cannot be excluded. At State Union level, the Ministry of Human and Minority Rights is working on implementing the country's minority strategy.

Serbia and Montenegro is still characterised by its patriarchal structures. There is a conspicuous lack of equality between men and women. In addition, the situation of women in society has radically deteriorated as a result of the events during the 1990s. This is most noticeable in the form of unemployment, wage differentials and double workload.

Consequently, the new government after the parliamentary election in Serbia in December 2003 is faced with many substantial challenges. Extensive reforms are needed on all levels. Aside from foreign policy aspects, including the essential cooperation with the International Criminal Tribunal for the former Yugoslavia (ICTY) in The Hague and the future solution of Kosovo's status, economic and social reforms, and perhaps most importantly reforms in the legal sector and the field of security, are challenges that require and will continue to require the attention of the new administration.

2.2 The Stabilisation and Association Process (SAp)

Serbia and Montenegro aspires to membership in the EU. Developing closer ties with the EU is a long and demanding process that, by means of the SA process, links domestic policy reforms and development with foreign policy aspirations. The weakness of the state union is a problem, hampering the process of economic harmonisation between the republics that is a precondition for closer ties with the EU.

EU and Swedish policy regarding the SEE (South and Eastern European) countries is based on the premise that closer economic and political ties with the EU are the linchpin of political stability and sustainable economic development in the region. The Stabilisation and Association process (SAp) marks the way for these countries to achieve closer cooperation with the EU, with a view towards future membership in the EU. The SAp is a framework of different instruments including bilateral stabilisation and association agreements between the EU and the region's countries, preferential trade agreements and extensive financial support aimed at speeding up EU integration (Community Assistance for Reconstruction and Development and Stabilisation, CARDS). It also includes economic and political conditionality requirements including an annual review mechanism that monitors compliance with conditionality and requirements for regional cooperation. The Stability Pact for South Eastern Europe supports SAp's regional dimension and represents an important supplement to this process.

To further strengthen SAp, the EU has decided to draw up additional instruments. The most important of these will be "European partnership" established with each country. These partnerships formulate the most important priorities for each country's EU integration, based in part on the EU Commission's annual review report. The countries themselves respond by drawing up their own programmes for how the national budget and CARDS funds should be allocated to support the development of closer ties with the EU. This approach makes it possible to plan long-term financial support for the reform process. More extensive political dialogue with the EU and access to some of the Community programmes and to the Technical Assistance and Information Exchange Office (TAIEX) are other new elements of SAp. Through SAp, the EU can support the SEE countries' in developing closer ties with the EU, but the main responsibility for ensuring that progress is made lies with the countries themselves.

III. The strategy period 2001-2003

Bilateral development cooperation with Serbia and Montenegro (excluding humanitarian and certain regional efforts) amounted to approx. SEK 365 million during 2001-2003. A results analysis, commissioned by the Swedish International Development Cooperation Agency (Sida), studied the most important sectors for Swedish

development cooperation with Serbia and Montenegro (formerly the Federal Republic of Yugoslavia) during the strategy period. Since many projects were begun recently, the support's long-term effects have not always been possible to assess. However, the analysis does draw the conclusion that the sectors and projects supported have generally been relevant to Serbia and Montenegro's needs and priorities during the period, and have been in line with the country strategy approved in 2000. Below is a brief list of the main conclusions from the results analysis:

Extensive support has been allotted to initiatives for **human rights and democracy**. In the case of future support to organisations working to promote human rights and democracy in general and women's, young people's and minorities' rights in particular, as well as support to independent media, consideration should be given to internal capacity development and sustainability, according to the analysis.

The Integrated Area Programmes comprise a large part of Sida's programme in Croatia and in Bosnia and Herzegovina. Projects exist in Serbia and Montenegro concerning **information to those refugees who might consider opting to return** to these two countries. The operations are closely coordinated with the reconstruction activity in Croatia and Bosnia and Herzegovina. According to the analysis, the programme has been very successful and, according to the Office of the UN High Commissioner for Refugees, definitely helped people in reaching the decision to return home. Of those who returned in 2002, only 25 % had indicated that they wanted to return the year before.

The **public administration** is, according to the analysis, generally characterised as having weak institutional capacity and a low level of professional skills, combined with overstaffing and low wages. Future projects should help to correct these weaknesses. The projects currently being financed by Sida were started much too recently for an assessment of the results to be made.

Short-term effects of **rural development projects**, such as the one in Topola, seem to be positive, according to the analysis. The projects combine support for local administration and infrastructure with cooperation with groups in civil society, local authorities and companies, and play an important role in reducing the gap between city and countryside.

The **micro-credit projects** that were supported seem to have been successful according to the analysis, but new legislation in Serbia is currently limiting the development of such projects. This legislation states that only registered banks are allowed to grant credit, which excludes most micro-credit organisations, which are NGOs or non-profit organisations. The results of the International Finance Corporation's (IFC) programmes have been difficult to evaluate. In order to continue the much-needed support to small and medium-sized enterprises, alternatives to micro-credits must be found or the law be changed. Cooperation with the European Bank for Reconstruction and Development (EBRD) seems to have been positive and further cooperation should be encouraged, according to the analysis.

Support for the improvement of **electricity distribution** in southern Serbia has met with success. The institutional support to the electricity transmission company and the development of financial management systems are still in the initial stages, but so far seem promising. The projects supporting **maintenance of railway locomotives** appear to have produced the desired result.

IV Guiding principles and general considerations

Establishing closer ties with the EU is the major incentive for the reforms that Serbia and Montenegro must implement to combat poverty, promote democracy, good governance and respect for human rights. Swedish development cooperation with Serbia and Montenegro will therefore chiefly focus on the country's EU adjustment and thus:

- be based on Serbia and Montenegro's own priorities and national plans for EU adjustment in the framework of the Stabilisation- and Association process and European Partnerships,
- combine a long-term perspective and flexibility, be characterised by local ownership wherever possible and take the absorption capacity of cooperation partners into consideration,
- place greater focus on institution building and capacity development. In this, both central and local levels must be involved,
- be coordinated with other donors, particularly with the EU Commission and the CARDS programme,
- support initiatives that strengthen regional cooperation,

- make use of Swedish development cooperation experience with the new EU member countries and wherever possible, develop three-party cooperation between the latter, Sweden and Serbia and Montenegro,
- be characterised by a close dialogue between the Ministry for Foreign Affairs and Sida at central and local levels.

Sweden will support initiatives that encourage participation by citizens and give them greater opportunities to influence the reform process in Serbia and Montenegro. Sweden will also support initiatives that promote human rights and the building and deepening of a culture of democracy. Gender equality, sustainable use of natural resources and environmental consideration should be integrated into all parts of the cooperation. In addition, special actions will be implemented to promote both gender equality and environmental consideration.

Development cooperation should primarily focus on capacity development. In connection with this, grants for investment and the purchase of equipment may be considered.

Parallel and co-financing of other donors' programmes should be actively considered when this leads to clear added value.

Future focus

The focus for development cooperation with Serbia and Montenegro is to support reforms that will help the country develop closer ties with the EU and its integration in European cooperative structures. This means shifting the emphasis of development assistance to measures aimed at strengthening central structures and long-term processes affecting all parts of the nation.

One of the primary tasks of Swedish development cooperation with Serbia and Montenegro in the future will be to contribute to the creation of a functional, transparent and democratic administrative system that can guide the country into the EU. Development cooperation shall also promote growth and a sound economy by helping to strengthen the private sector and create better conditions for trade and foreign investment. Our development cooperation must also contribute to a transparent and functional legal system, which is a prerequisite for the functioning of administration, for the development of the private sector and for ensuring that human rights are respected and strengthened. Pilot projects at local level can serve as illustrative

examples for cooperation with central structures. However, one consequence of the overall shift in emphasis is that no new major investment projects are to be started and support to integrated rural development projects will only be granted in so far as they constitute well-defined components of a national strategy for regional development in accordance with the country's endeavour to achieve EU integration.

Efforts in civil society aimed at strengthening human rights and democracy will also receive continued support, primarily in the form of support for strengthening independent media as well as the rights of minorities, women and children.

During the strategy period, cooperation in the field of environment will be developed and significantly increased compared with the previous period.

Closer ties to the EU guide the way in Montenegro as well, and development cooperation in the Republic will therefore deal with institution-building and strengthening administrative structures to a greater extent than previously. As in the case of development cooperation with Serbia, efforts in the environment sector will also be developed during the period. It is anticipated that, at least during the first half of the coming strategy period, the focus of efforts in Montenegro will continue to be on democracy and human rights.

V. Prioritised areas of activities 2004-2007

Based on the objectives and principles, experiences and general considerations defined above, Swedish development cooperation with Serbia and Montenegro for the period 2004-2007 will primarily focus on the following sectors:

- Democracy and good governance
- Respect for human rights
- Gender equality
- Economic growth
- Sustainable use of natural resources and concern for the environment

Efforts may also be made in the social development sector.

5.1 Democracy and good governance

To help achieve long-term improvements of the **public administration's capacity**, Sweden should primarily aim to strengthen the administrative capacity of ministries and government agencies by means of knowledge transfer. Efforts contributing to legislation and **structural reforms in the legal sector** are to be given particular attention. Support can be given to certain **areas of administration in Montenegro**. This applies primarily to cooperation at agency level, for example the Statistical Office and the Equality Office.

Efforts aimed at combating **organised crime, corruption and trafficking in human beings** will be given high priority during the strategy period. Cooperation in the legal sector is to follow the Guidelines for Justice and Home Affairs, Western Balkans, aimed at long-term, sustainable development in the legal sphere. Support will be given to activities such as legal education, access to legal information and legal aid, property rights reform, the fight against corruption and organised crime as well as to an Ombudsman institution. Sweden will also assist in strengthening and developing a functioning police and judicial system.

Experience of and suspicion of corruption and organised crime at various levels obstructs foreign investment and also damages the country's relations with other states. Therefore, Swedish development cooperation during the strategy period will also specifically focus on **anti-corruption actions in the economic sphere, especially with reference to transparency and proper methods in public procurement**. The efforts can include education/transfer of knowledge and should be conducted in close cooperation with the relevant ministries in Serbia and Montenegro, as well as international organisations.

Comprehensive **reforms of the security sector** in Serbia and Montenegro are a vital key to continued democratic development in the country. Changes are foreseen in the international guidelines for development assistance in this sector. High priority should be given to measures in the area.

Within the framework of support to promote democracy, there should be scope for carrying out various actions in the area of **culture**. Here the Swedish Institute can be involved.

5.2 Respect for human rights

Efforts to promote **human rights and democracy** are to focus on support to independent media as well as the rights of minorities, women and children. **Support for the media** in Serbia should focus on the creation of sustainable structures and investigative journalism. Support to individual media should primarily be given through credits and not through grant assistance, as is currently often the case. However, the faltering economy makes it virtually impossible for most serious media in Montenegro to achieve self-sufficiency. Therefore, grant support should continue to be awarded to independent media in Montenegro.

Continued focus will be placed on **the rights of minorities**, and special attention given to the **situation of the Roma**. Minority policy in Serbia and Montenegro is of central importance to this task. Sweden should i.a. support the Ministry of Human and Minority Rights by contributing to the further development of the country's existing minority strategies. Support should also be given to programmes aimed at directly strengthening the position and participation of various minorities in society in general, in accordance with the strategy established by the Serbia and Montenegro government. Serbia and Montenegro's strategy regarding integration of the Roma will form the basis of Swedish efforts to improve the standard of living of the Roma and strengthen their role in society. Swedish development cooperation should assist in the implementation of the strategy and it should also be investigated whether Swedish support, in consultation with the government, can be used to further develop the strategy.

Swedish development cooperation should aim at creating favourable conditions for the **sustainable return of refugees**, both to and within the region. Since many of the region's refugees live in Serbia and Montenegro, it is important to create incentives for refugees to return to their original homes. Projects linking refugees in Serbia and Montenegro with returnee programmes (integrated area programmes) in Croatia and Bosnia and Herzegovina should therefore be supported.

Trafficking in human beings is a phenomenon that must be combated by regional and international legal cooperation. It also concerns human rights in general, and particularly the rights of women and children. Swedish development cooperation should actively **support projects against trafficking in human beings** that encompass all aspects of this phenomenon. The projects should focus on combating organised crime, and the content must also be based on rights. Special consideration

should be given to trafficking in human beings where the victims are children. Efforts in the work against trafficking should also follow the guidelines drawn up in Sweden's global strategy against trafficking in human beings.

Projects for improving the **rights of children** and the conditions they live in, within the family and in society in general, will continue to be supported. Other examples are projects working with juvenile delinquents. Otherwise, issues concerning children and young people should primarily be viewed in a regional perspective. Projects for creating youth associations across borders should be eligible for Swedish support, as should programmes focusing on human rights and the promotion of democracy for and with children and youths/students.

The weak civil society in Montenegro and the conflicts of interests between the republic's northern and southern sections constitute a serious obstacle to its development. Therefore, Sweden should continue to help vitalise civil society by supporting **human rights and democracy efforts** in Montenegro.

5.3 Gender equality

In addition to promoting gender equality as a pervasive aspect in all sectors of development cooperation, programmes directly aimed at **strengthening the role of women** at all levels of society should continue to be supported. Support can also be granted to projects against domestic violence. Efforts aimed at strengthening the position of women should be given particular attention in Montenegro. The newly opened bureau for gender equality should serve as a central point for Swedish efforts in the field there. Continued cooperation with civil society and NGOs working specifically with the situation of women is also of great importance.

5.4 Economic growth

Through knowledge transfer, twinning projects and education, Swedish development cooperation should **help adapt legislation and standards to the EU acquis**, requirements and norms in economic and business development fields.

Sweden should support measures that promote **reform of the financial sector** so that it fulfils the task of providing small and medium-sized

enterprises with capital. Cooperation with the World Bank, the IFC and the EBRD in this sector should continue. Continued support to micro-credits for small and medium-sized enterprises should be considered in both Serbia and Montenegro.

In order to stimulate economic growth in Serbia and Montenegro, the opportunities for helping **develop effective industry organisations and special interest groups** should be investigated.

Within the framework for support to small and medium-sized enterprises (SMEs), Swedish development cooperation is to stimulate entrepreneurship and raise the expertise of SMEs by supporting **skills development measures**. Sweden should also be able to directly support measures for **increased productivity, improved quality and marketing**. Measures of this kind should actively seek to adjust standards to EU requirements and norms.

The “**start programme**”, which currently covers Serbia and Montenegro, Bosnia and Herzegovina, Albania, and Macedonia in the Balkans, should continue and be expanded to keep pace with increased demand.

5.5 Sustainable use of natural resources and concern for the environment

Support for Serbia and Montenegro should specifically focus on areas where Sweden has extensive expertise, such as water and sewage treatment as well as efficient energy use. Swedish support should also be given to strengthen environmental administration. Development cooperation related to the environment must comply with EU regulations and contribute to the country’s EU alignment.

Support to the **transport and energy sectors**, in which Sweden is already involved and so has special opportunities, should continue during the period (such as railways and the distribution of electricity). In connection with major investment projects in energy and water purification, Sweden should consider financing institutional capacity building.

5.6 Social development and security

Projects in **social development** should concentrate on the development of social administrative structures. One example of such activities is

reforming the social worker profession. There should be a close connection to other activities supported by Sweden in institutional strengthening and capacity building.

In the sector of health, development cooperation should focus on support to HIV/AIDS programmes.

VI. Economic framework

The budget for development cooperation with the countries of South Eastern Europe is not allocated to individual countries but can be used flexibly according to the needs, progress and absorption capacity of the individual countries. During the period covered by the latest strategy (2001-2003), support in excess of SEK 150 million per year has been provided to Serbia and Montenegro.

Initiatives aimed at promoting reforms should be conditional on the Serbia and Montenegro government's and parliament's support for the reforms. Given the right conditions, development cooperation can continue on about the same scale as in the previous strategy period. Before new initiatives are begun, discussions should be held with the cooperation partners on the reforms and measures needed for effective implementation. Weak political support or lack of will to implement reforms will affect the scope of Swedish support.

VII. Follow-up

Implementation of this strategy will be followed up in Sida's semi-annual country reports that provide the basis for the bi-annual review meetings, to be held between the Ministry for Foreign Affairs and Sida.



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Cover: Editorial Office, The Ministry for Foreign Affairs

Printed by XBS Grafisk service, 2004

Article no: UD 04.051