



USAID
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SERBIA AND MONTENEGRO

STRATEGY STATEMENT
THE REPUBLIC OF SERBIA

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Executive Summary

The USAID Serbia and Montenegro (SAM) Mission will begin implementation of a new multi-year strategy for the Republic of Serbia in FY2006 (the Strategy) which will serve as the foundation for future programs. The proposed strategic framework described in this document is based on an extensive series of assessments and analyses by local and international experts, stakeholder meetings with central and local government representatives, civil society and other donors, and two two-day retreats with mission staff. Input was also gathered through meetings with Embassy and Washington staff, including the Interagency Country Assistance Review (ICAR) and the Pre-strategy Consultation. Strategy design also incorporated key policy frameworks and guidance embodied in USAID's *U.S. Foreign Aid: Meeting the Challenges of the Twenty-first Century* (known as the "White Paper"), the E&E Bureau Strategic Framework, the State/USAID Strategic Plan and the U.S. Embassy's FY 2007 Mission Performance Plan (MPP).

The Strategy addresses the Republic's development needs, while at the same time remaining in line with U.S. Government (USG) foreign policy objectives. It also conforms to new Agency guidance that includes a more visionary and flexible approach to strategy design, arguably further justified in the cases of Serbia and Montenegro, where a number of political uncertainties, including the status of Kosovo and the State Union of Serbia and Montenegro, could impact country needs as well as USG objectives. The Mission has adopted an innovative approach to strategic objectives that integrates key democracy and economic growth components to respond to this environment. In strategy design, attention was also focused on the comparative contexts and needs of both Serbia and Montenegro, and whether separate strategic frameworks were necessary. Although at different points on the road to development, Serbia and Montenegro face many of the same issues. Accordingly, although the Mission is presenting separate strategy papers for Serbia and Montenegro, the same basic framework and strategic objectives apply to both, with differences most likely to emerge below the intermediate result (IR) level, as well as in performance targets.

Like the transitional countries in the E&E region, Serbia faces a wide range of developmental obstacles. The move from a centralized to a market economy requires government and citizens anywhere to make difficult choices. However, while countries like Bulgaria and Romania¹ started on this demanding path in 1989, Serbia did not initiate its reform process until early 2001. More than ten years of economic, social and institutional deterioration that preceded 2001 seem to have left a more difficult legacy than the stabilization and reform vagaries facing other countries in Central and Eastern Europe in the early 1990s. In the case of Serbia, there was a loss of international markets due to international economic sanctions, as well as reluctance to impose financial discipline and build government institutions. There is also deep resentment over the widespread decline in its status and conditions that, though difficult to measure, is nonetheless an important factor in further reform. Although Serbia has been on a definite, if not always linear, path of economic and political reform since 2001 and has had impressive accomplishments, the Republic today lags behind many of its neighbors. It is at a particularly difficult point of the transition path where the benefits of a market democracy have not materialized for most residents, even as additional painful steps need to be taken. Uncertainties regarding EU expansion could reduce the value of EU integration as a key motivator for reform. The absence of an effective coalition of democratic political parties and excessive infighting among them has resulted in a lack of political and public consensus on key transition policies and consistent political will to make difficult but necessary reforms. Attention to reform is also diverted by issues such as the status of Kosovo and the State Union of Serbia and Montenegro, and compliance with the International Criminal Tribunal for the Former Yugoslavia (ICTY). Once Kosovo status talks reach the next level, regardless of outcome, there is potential for negative and possibly destabilizing effects in Serbia. The impact of fragmented political leadership has been exacerbated by the presence of political appointees in what should be professional, civil service positions throughout executive agencies, leaving little expert institutional memory. This dangerous cycle of a weak public sector, transition delays and an increasingly disillusioned electorate that has not seen positive change, has created opportunities for a rise in the influence

of nationalist and populist parties, with their better organization and consistent appeal to a substantial block of voters. Consequently, although many positive changes have taken place in Serbia in a relatively short period of time, much work remains to be done and there is cause for concern given the current political situation. Taken together, all of these factors could still tip the balance against Serbia's reform process and, in the worst case scenario, its stability.

This Strategy addresses this challenging development context and derives from an overall vision of a democratic, prosperous Serbia (and Montenegro), moving toward Euro-Atlantic integration. Key themes include: improved governance accountable to constituents and responsive to the needs of the private sector that, in turn, improves conditions for a market economy; more targeted assistance to municipalities and sectors to foster private sector growth; and increased political stability through strengthened democratic processes and structures, as well as more specific interventions in vulnerable areas. Given the crucial economic and democratic components embedded in each theme, an integrated approach that combines these elements in program design, implementation and measurement will have a higher aggregate impact. Integration of strategic elements reflects the philosophy that democratic and economic reforms are not only critical to an overall successful transformation in Serbia, but also inextricably linked to achieving successes in each reform area; democratic processes are an essential component of Serbia's economic growth and stability, and economic growth is essential to create the conditions for a continuing stable democracy. Reform in the social sector is also necessary; however, given the relative priority of economic and democratic challenges and the scarcity of resources to impact reform, it will not be a priority theme of the Strategy. The Strategy has three Strategic Objectives (SOs):

- **Strategic Objective 1.31: Democratic Governance of the Market Economy Strengthened.** This SO concentrates on work at the republic level, strengthening policy and legal frameworks and implementation of those frameworks. A key component of the SO is improved governance, with better balance and delegations of authorities, cohesive policies and accountability to the public.
- **Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities.** This SO captures the local dynamic for private sector growth by improving the business climate and the capacity of key sectors and businesses to compete in the market.
- **Strategic Objective 2.11: Risk of Political Instability Reduced.** This SO will focus on the support of key democratic structures and processes at all levels Republic-wide to increase political stability. It will also improve conditions in specific, vulnerable areas, by increasing economic opportunities, civic participation and community interventions.

Key cross-cutting areas recognized in this Strategy are: gender, youth, anti-corruption, human and institutional capacity development, job creation, media/public information, and cross-border integration.

I. U.S. Interests in Serbia

As the social, political, and geographic crossroads between Western and Eastern Europe, for centuries Serbia has occupied the key strategic juncture in the Balkans. It has also been the locus of instability in the Balkans since the end of the Cold War. As its decade of military and civilian efforts to promote peace in Southeastern Europe attests, the United States, along with other actors such as the European Union (EU), has an enormous stake in stabilizing the region. In the wake of NATO's intervention in the region, the fate of democratic institutions and processes in Serbia and Montenegro (SAM) will be judged internationally as a measure of NATO effectiveness. U.S. foreign policy also views cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY) as a model for resolving responsibility for war crimes in the Balkans and elsewhere.

II. Assistance Environment

Since 2000, international assistance in the amount of €4.0 billion has been committed to the Republic of Serbia on grant or soft loan terms². There has been a recent shift to more policy-based adjustment lending as opposed to grant terms. However, years after the end of the Balkans wars, the international community still does not regard Serbia's cooperation (and that of several neighbors) with the ICTY to be adequate. The EU has repeatedly indicated this is a major obstacle to Serbia's accession to the EU. The United States also twice restricted annual assistance for the same reason. Positive developments occurred in the first half of 2005, when Serbia delivered a number of indictees to the Hague, and acknowledged that war crimes had been committed during the wars of the 1990s. However, top indictees remain at large, and without further progress EU and USG restrictions may again be invoked in coming years.

One of the main goals that has given coherence to the reform process to date is European integration. The EU's approval of the Feasibility Study in April 2005 will lay the foundation for Serbia's entrance into the EU accession process. A European Partnership Agreement and Action Plan which set out priority reforms towards accession have been drafted. Uncertainties arising from demand for continued ICTY compliance and from the negative votes on the EU Constitution, however, may impede the EU accession process and, in turn, reduce the value of integration as one of the main "carrots" in continuing to drive Serbia's reform process.

Although some ministries have drafted sector specific strategies of varying quality in such areas as SME development, education, agriculture and judicial reform, Serbia's central government does not have an overall country development plan and the particular strategies don't appear to represent any government consensus. The Poverty Reduction Strategy Paper (PRSP) is one potential tool for building stronger ownership across government of an integrated strategy and reform agenda. The PRSP was created by an impressive consultation process including the government and all major stakeholder groups and is supported by key donors. Implementation, however, has been impeded by the change of government in 2004, as well as breadth of the plan and lack of resources to address it.

A. Social Environment

Demographics: Serbia, excluding Kosovo, has a population of 7.5 million which is predominantly (over 80 percent) Serbian. There are several historical ethnic minority populations as well as a significant number of displaced persons who came to Serbia during the 1990's.³ Poor integration of minority communities and regional economic disparities increase the risk of conflict in certain areas of the Republic, which jeopardizes Serbia's political stability. The region with the highest poverty rates is Southern Serbia and includes four municipalities which border on Kosovo and have a large Albanian Muslim population. Other potential crisis regions are the Sandzak, with its majority Bosniak population, and Vojvodina, with 26 nationalities on its territory.

*Gender*⁴: Serbia lags behind other countries in the region with regard to the established mechanisms for legal regulation of gender equality. It is the only country in Europe without a law on gender equality, but a draft is expected to be submitted to Parliament in 2005. Although women make up slightly more than half of the population in Serbia, the female employment rate is significantly lower than for men, and they do not proportionally occupy high positions. They have extremely low participation in institutional politics and a relatively high participation in the NGO sector. Some estimates indicate domestic violence continues to affect up to half the women of all different socio-economic and ethnic backgrounds.

*Youth*⁵: Youth, defined as aged between 15-24, make up 13.5 percent of the Serbian population. Perhaps due to the slow creation of new jobs within the formal sector, the employment rate for this age group is only 18 percent, significantly lower than the EU average of 41 percent. Youth in Serbia are also faced with difficulties in relating to an older generation that grew up in a profoundly different world that was stable and, although controlled, still afforded international travel and a better international image. On top of the economic crisis and social dislocation, many young people went through the NATO bombing of 1999, and the impacts of this traumatic event on their health and well-being are not yet fully known.

*Poverty*⁶: In 2002, approximately 10.6 percent of the population was living below the national poverty line. The concentration of population around the poverty line is high, and a small shift upwards increases the percentage of the poor to 20 percent. In addition, the data does not include displaced persons or Roma, who certainly belong to extremely vulnerable groups. Many of the poor depend on remittances from abroad to survive, or have turned to subsistence farming or other basic survival strategies. In this environment of scarcity, competition within and between groups becomes more severe.

*Education*⁷: Approximately 50 percent of Serbia's workforce has completed secondary education, and only 12 percent have finished university or graduate school. The secondary education system is structured around educational profiles corresponding to an already obsolete economy; and vocational schools are under-funded with teachers untrained in modern techniques. The outdated education system and its lack of flexibility to adapt to the changing needs of the market and society is broadly recognized as an impediment for the development of a dynamic, entrepreneurial, adaptable and well educated/trained labor force.

*Health*⁸: The health sector deteriorated in Serbia during the years of regional wars and international sanctions. Behavioral and environmental risk factors, along with aging of the population, unemployment and social deprivation and the spread of risky life styles contribute to declining health of the population. The existing health care system cannot meet these challenges.

B. Political/Democratic Environment

Political Parties: Since 2001, Serbia has elected a *bona fide* reform president, Serbs actively exercise their freedom of speech, and proponents of democratic change have seen important transition legislation passed on a range of issues. However, the assassination of Zoran Djindjic marked at least a temporary end of most unified support for particular reform measures among civil society, democratic parties and government. Democratic political parties have proved unable to form effective coalitions leading to weak leadership and fragmented approaches to reform; together with poor management of public information and expectations for reform, this has produced a disillusioned public still waiting for tangible benefits from democratic government. Many who once supported reforms have quit voting, facilitating victories of nationalist candidates who are likely to promote policies that are detrimental to the whole republic. These factors, combined with long-established regional patterns of ethnic divisions, create a dangerous cycle of deteriorating performance by short-lived governments and increased public dissatisfaction with so-called reformers. If not addressed, Serbia's future could easily include increased control of

central and local government by non-democratic forces, or fragile governments of uneasy coalitions unable to pursue reform.

Central Government Institutions: Unresolved fundamental issues about Serbia's borders, such as the status of Kosovo and the State Union, as well as ICTY cooperation, have left Serbia's leaders and the public with little energy to spend on key internal reforms, including institutional capacity building. Frequent elections and changes of political appointments of even lower-level government officials have seriously undermined capacity and institutional memory. The Milosevic-era constitution of 1990 is still in place and important changes are needed to ensure effective checks and balances in government. The ill effects of these conditions are aggravated by corruption in all branches of government, and imbalances caused by the particularly weak roles played by parliament and the courts. Parliament is not reviewing bills or monitoring legislation. The courts, historically perceived as subject to executive domination, still lack independence and need other fundamental reforms to operate efficiently and transparently. Resistance to devolving resources and authority to local governments has also further slowed the reform process.

Legal Reform: Legal reform is often driven by donors and/or individual political parties. Legislation is drafted and enacted with little public, parliamentary or expert input, or subsequent scrutiny, leading to a seriously flawed process. Consequently, new laws may not be consistent with the existing legal framework or sufficiently understood and are less likely to be enforced. Frequent changes in key legislation have also made it difficult for even strong supporters to have corresponding regulations adopted or to enforce laws which have been passed. These issues, together with institutional weaknesses of parliament and the courts and the perceived corruption of the courts, seriously undermine public confidence in the rule of law.

Civil Society: Serbia's successful civil society campaign against Milosevic served as a model for opposition forces in Ukraine, Georgia, and Kyrgyzstan. Since October 2000, few of the NGOs that had formed to oust Milosevic have created new roles for themselves as effective advocates of reform in particular sectors. Those groups working on war crimes or human rights issues have done particularly well, due partly to the availability of donor funding for those issues. Nationalist supporters have used the visibility of these groups, however, to attack NGOs as a whole as unpatriotic and to worsen their public image. To fulfill their vital roles in representing the public interest and acting as a check to excessive government power, Serbian NGOs must have a more supportive legal framework, better coordination, stronger staff and institutional capacity and less donor dependency, especially in the face of diminishing donor funds.

Media: Serbia's media outlets no longer fear direct interference in their editorial policies from Belgrade, but other efforts at intimidation are still common and the explosion of new media voices since October 2000 has created a different set of serious problems. There are still no government mechanisms in place to issue licenses or frequencies: with more than 1,500 unregulated stations interfering with each other's signals, irresponsible broadcasters with questionable backing undercut the ability of responsible stations to survive. More than 80 percent of the population gets most of its information from television and there are few professional alternative sources of news (e.g., Internet penetration is less than 10 percent). Reliability of information is further compromised by the lack of professionalism of sensationalist papers that have dubious ownership and dominate the print market.

C. *Economic Environment*⁹

Macro-Economic Situation: In 2001, the first post-Milosevic Serbian government kicked off a program to shift Serbia to a market economy and integrate the country with regional, EU and international markets. The reforms began with price and exchange rate liberalization and stabilization measures to curb inflation and then shifted to fiscal reform, privatization and restructuring the banking sector. Although there has been significant progress in a relatively short time frame, important steps remain to ensure sustained stability. Tax revenues have risen but

are still well below target. Despite tough fiscal policies, domestic expenditure is still high, putting pressure on inflation and the budget. Growing domestic demand, driven by a credit boom and inflows of remittances, also has fuelled inflation and widened the current account deficit. Sustained higher growth rates over the medium-term can only be achieved if reforms are implemented that will change the pattern of consumption-led growth exhibited so far. This will entail reducing domestic consumption demand and shifting towards greater investment and exports. While the regulatory framework is far from complete, sustainable growth hinges largely on making market-supporting institutions and organizational structures more effective. Continued privatization and company restructuring as well as a steep increase in the effectiveness of public institutions (particularly the courts and regulatory authorities) will be necessary. Greater domestic production and export led growth are particularly important to create new jobs that will absorb the large mass of unemployed and underemployed.

Private Sector Growth: Low investment persists due to high perceptions of political and economic risk perceptions, a still underdeveloped business environment, and private sector wages which are out of line with the level of productivity. Numerous bankrupt state enterprises have created a kind of limbo that holds workers and assets in a non-productive capacity. Loss of markets, skills and technology has been a serious handicap for many of the domestic private enterprises, impeding growth. In July 2004, the Serbian National Assembly ratified 10 laws key to improving the environment for business development, investment and economic growth. Implementation of much of the legislation remains slow, with one notable success in the area of facilitating business startups. The number of business associations is on the rise but the lack of coordinated private sector lobbying means business' participation in the reform process, a crucial element in ensuring the effectiveness of reforms, is limited. There is still heavy reliance upon remittances which, although an important subsidy source during the 1990's, may now be serving a less valuable role in reducing incentives for employment. Around one third of the workforce holds their primary or secondary job in the gray economy. While tax revenues have suffered, many have argued that the gray economy has kept people active and has been one of the mechanisms that kept the economy moving during the difficult years.

International Integration: Serbia lacks any real consensus or strategy for trade, investment and integration. This has led to slow progress in joining international institutions and trade initiatives, partly due to a lack of will at the union level to join key institutions as a single entity. Furthermore, the SAM is not fully complying with its bilateral and regional trade agreements, leading to disputes and a lack of credibility with its trade partners. While there is a current opportunity to accelerate progress on WTO accession given the EU's recent agreement to consider separate tracks for Serbia and Montenegro, Serbia must take steps to bring its trade regime into compliance. Furthermore, there is additional work needed to expand regional market integration with a view toward increasing regional and global trade.

Slow Pace of Decentralization: Municipalities are trying to grapple with local problems of high unemployment and non-performing enterprises awaiting privatization. However, lack of delegated authorities and control of resources, as well as an inadequately trained cadre of civil servants, have left them with insufficient tools to confront these problems. More than a decade of neglect has had serious negative consequences for many municipal infrastructure systems, putting an additional burden on municipal coffers. As a result municipalities' limited capacity to provide essential services to citizens and businesses constrain the economic growth needed to resolve these problems.

III. Proposed Strategic Framework

A. Rationale

In developing the Strategy, key considerations included Serbia's relative position in the transition process, its development history and its strategic importance to stability in the Balkans. These resulted in a focus on market economy promotion, with strong attention paid to improved

governance and implementation of economic reforms, as well as private sector growth. This work will be complemented by assistance to improve core democracy structures and also conditions in select vulnerable areas. These areas of focus mutually reinforce one another and should place Serbia on a sustainable path of economic and democratic development. Given the integral value of democracy and economic elements within and across these assistance themes, the Mission has adopted Strategic Objectives (SOs) which combine democracy and economic components. The Strategy also reflects key values, as well as cross-cutting areas of importance, that will be incorporated into program design, implementation and measurement.

The ethnic and religious tensions that contributed significantly to the break up of Yugoslavia still pose a risk of future violence and highlight the importance of placing value in programs that will utilize opportunities to lower ethnic tensions. In addition, since the principles of democracy and of an open market orientation are relatively new in Serbia and still not embedded, each SO will support those principles in a manner to induce long-term acceptance. A number of other important cross-cutting issues have impact across the Mission's SOs and will either be incorporated into activity design or implemented as stand-alone projects, to support results in all three SOs. These include:

- *Gender*: Gender considerations must be ensured at all levels so that reforms and their consequences affect men and women equitably – from political participation to access to finance to legal protection.
- *Youth*: A strong youth focus across program areas is warranted by their key role in social stability, their particularly high unemployment status, and their value to the future of Serbia.
- *Anti-corruption*: The need for anti-corruption initiatives permeates all branches of government as well as the economic sphere, playing a particularly central role in boosting public trust in institutions and stimulating confidence from the broader public as well as investors.
- *Public information/media*: It is critical to establish more effective communication between the government and citizens to explain the need for changes, generate support for reforms, and encourage open debate. The media presents an ideal vehicle for facilitating this exchange – and at the same time building its own professional capacity.
- *Human and institutional capacity development*: A focus on human capacity and institutional development underscores the importance of improving the capacity building for a wide range of actors whose strength and vitality are key to the strategy's success, including key government and NGO institutions, as well as sectors of the workforce.
- *Job creation*: Job creation is a critical ingredient to improving Serbia's prosperity and stability, and represents a key concern of most citizens. Opportunities to maximize employment will be a strong theme across all programs.
- *Cross-border integration*: Cross-border activities serve to encourage the development of strong economic linkages between communities and/or countries and also alleviate tensions among different populations.

The Mission also intends to optimize resources and impact of programs through alliances with non-traditional partners by utilizing the Global Development Alliance model, Development Credit Authorities and Public-Private Partnerships, to the greatest extent possible.

Although the Strategy was designed to be flexible, the success of the program rests on several critical assumptions:

- Regional stability does not decline into violent conflict;
- Kosovo final status does not destabilize neighboring areas;
- The result of Montenegro referendum does not destabilize relationships between Serbia and Montenegro;
- ICTY cooperation is adequate for continuation of USG assistance; and
- The new constitution, if any, is compatible with democratic governance.

B. Strategic Objectives and Areas of Program Emphasis

The start date for all SOs is 2006. The Mission will monitor progress closely to ensure that work under the SOs remains relevant and will review the SOs by 2010 so it may revise or replace them while at least two years of program implementation are anticipated. Assuming that the current environment remains the same, SOs 1.31 and 2.11 will each receive approximately 25 percent of the Mission's annual budget, while SO 1.32 will receive approximately 50 percent.

Strategic Objective 1.31: Democratic Governance of the Market Economy Strengthened

Serbia has made important progress in creating a legal and policy framework for economic growth. However, important gaps remain and the sustainability of the reform process is threatened by weak institutional capacity to take needed changes to the next step, lack of government leadership and consensus on reforms, and inadequate participation by key actors. The Mission's first SO will focus on three areas of intervention: first it will continue to build on USAID's previous economic policy and legal reform work. This will be accomplished through activities focused on deepening structural reforms and improving the legislative process. Since the framework is only a first step, the second area of focus will be on actual implementation and enforcement actions to ensure a dynamic and meaningful reform process. Finally, specific work will also be undertaken to help improve governance, including the balance and exercise of authorities. The expected results of this SO would be heightened investor confidence in the rules and behavior of the key institutions affecting economic growth and investments in Serbia. A more cohesive, accountable and responsive government should also lead to more domestic confidence and stronger support for continued democracy and economic reforms.

In continuing to work on an economic policy and legal framework, there will be attention to Euro-Atlantic integration requirements, and also ensuring a process that allows citizens and government institutions to play their rightful roles. Activities to strengthen executive institutions responsible for implementing structural reforms will include elements to reduce opportunities for corruption and to increase consistency and accountability, regardless of democratic changes in administrations. A key element in improving the legislative process will be strengthening the capacity of the judiciary and parliament, as well as ensuring improved public participation and monitoring. This will also be crucial to building security and trust in the reformed economic system and the rule of law. An important aspect of assistance in the governance area will be work with democratic political parties to assist in developing more effective coalitions, as well as responsiveness to and communication with their constituents. Given the importance of local government authorities as an important element of private sector growth, as well as a means to ensure more responsiveness to minorities, assistance to promote devolution of authority and resources to local government will also be a likely component under the SO. This SO will be a strong complement to both SOs 1.32 and 2.11, as it creates the conditions necessary at the republic level to foster private sector growth and to support democratic processes and institutions.

Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities

War and economic sanctions during the 1990's caused severe hardships and also created serious setbacks to Serbia's economic recovery. Along with the loss of markets and exodus of many skilled workers, the infrastructure system has deteriorated, technology is outdated and the capacity of the remaining workforce has lessened due to a weakening educational system. Privatization of state enterprises, most of which are bankrupt, is critical to create more productive alternatives for workers and assets that are currently underutilized. The SO will focus on two key targeted avenues of support: improving the local environment that will enable businesses to grow and prosper; and strengthening the capacity of businesses to enter and participate in the market. To ensure a larger, more immediate impact, this objective advances enterprise growth in targeted sectors and municipalities where high potential for growth has been identified. This will also provide a model for adoption by other sectors and municipalities. The expected results of this SO would be an increase in the number of new businesses and jobs, as well as increased domestic and market share for Serbian companies in regional and international markets (in select areas

and municipalities). In the longer term these improvements, coupled with SO 1.31's improved economic and governance conditions, should lead to sustainable job growth.

The SO will build on USAID's results under the previous strategy by working with strong municipalities to implement policies that help businesses thrive. Local governments have an important role to play in facilitating private sector growth but lack capability to provide support. Identifying and addressing priority needs will require advancing cooperation among local government, the business community and civil society organizations. Activities will support local governments in increasing their technical capacity to provide and maintain basic public services and infrastructure, lessening business constraints that impede investment, and setting up targeted incentive systems. Assistance in facilitating financing for needed infrastructure will explore alliances, as well as options for regional cooperation in areas such as Sava or Danube River development. In complement to the work under SO 1.31 for devolved resources and authorities, support will be provided to help municipalities exercise these authorities. On the other side of the equation, the SO will focus on increased efficiency and productivity of small and medium sized enterprises, with an emphasis on the medium sized enterprises that are more likely to have an aggregate impact on Serbia's economy and job creation. In order to improve competitiveness, enterprises will need better tools, including market information, business skills and access to finance. Programs will work to reverse deterioration of the private sector by increasing the skills of the private sector as well as access to and use of market information. Further gains in competitiveness will come from improved compliance with international standards and certifications as well as more extensive use of modern technologies. Assistance will be provided to strengthen business associations so that they can provide necessary services to their members and also enhance advocacy on critical private sector issues. Access to credit will be supported by providing skills to enterprises to assist them in securing loans.

Strategic Objective 2.11: Risk of political instability reduced

The violent break-up of Yugoslavia and the NATO intervention over Kosovo left a legacy of resentment over the failed aspirations of various factions and widespread decline in living standards. These unresolved tensions in Serbia have been exacerbated by weak political leadership and the growing disillusionment of many voters who once supported reforms but have seen few benefits. Left unaddressed, current conditions undermine the potential for a functioning market democracy and increase the potential risk for further violence. USAID activities under this SO will address conditions in specific vulnerable areas, as well as systemic weaknesses that inhibit stability throughout the Republic. The SO envisages primarily a two-track approach to interventions, with a third rapid response mechanism available in the event of actual conflict. The first will be aimed at improving economic security in vulnerable areas, not only to reduce poverty but also to ensure that improvements are addressed fairly throughout the population and are sustainable. The second will target crucial democratic structures and processes at all levels republic-wide to create continued support for democratic reforms, as well as a stronger check to the potential rise of non-democratic forces. SO 2.11 will also include a third intervention mechanism to respond quickly to a crisis situation anywhere in the Republic with more specific conflict assistance. The results of success in SO 2.11 would include a civil society with more confidence and engagement in the political process, through strengthened NGO advocacy, improved information, and better representation by political parties. In vulnerable areas, improvement in living conditions and heightened community integration and participation in local social, political and economic processes is expected. SO 2.11 complements key governance elements under SO 1.31, and results should also be enhanced by improved economic conditions resulting from SOs 1.31 and 1.32.

Although Serbia is categorized as a transformational development country in the E&E Bureau Strategic Framework, this implies only that development objectives should dominate the USAID program. USAID assistance has played a substantial role in alleviating the conditions for violence to date, and the continuation of this type of assistance, more typically associated with fragile states, is justified by current tensions and by the additional pressures that may accompany the on-going efforts to resolve the status of Kosovo. The goal is to establish a platform of stability

and basic governance that provides a foundation for transformational development. Programs addressing vulnerable areas will first be introduced in Southern Serbia, the region currently most at risk for conflict. Activities designed in accord with USAID's Fragile States Strategy will look to improving economic opportunities, increasing the responsiveness of local government to citizen needs, and empowering citizens to take an active role in creating positive change in their own lives. Working with small and particularly micro- enterprises under this scenario is not expected to have an aggregate impact on the economy, but will alleviate poverty and reduce risk. Trade reaching beyond vulnerable areas will also be considered to reduce isolation, facilitate more concrete exchanges and improve the incentives for cooperation. Activities throughout the Republic will work to strengthen civil society advocacy, enhance the capacity of the media to transmit crucial information to citizens, and also to strengthen the ability of democratic parties to represent constituent interests in political processes. Attention will be paid to key upcoming political events concerning the status of Kosovo and the State Union to heighten advocacy efforts for peaceful transitions regardless of outcome, work more closely with the media to increase professional reporting and to monitor conditions to be better prepared to address increasing tensions and, in the worst case, to rapidly respond to conflict.

Endnotes:

¹ In the E&E Bureau's Monitoring Country Progress Report, the progress made by Bulgaria and Romania at the time of NATO accession is used as a graduation threshold for the rest of the region.

² Major multilateral and bilateral donors other than USAID include the World Bank, the IMF, the European Union, GTZ, DFID, SIDA, CIDA, UNDP and OSCE.

³ According to 2002 census of Republican Statistical Office, the population is made of Serbs (82.86 percent), Hungarians (3.91 percent), Bosniaks (1.82 percent), Roma (1.44 percent); Yugoslavs (1.08 percent). A further 16 listed ethnicities are all under 1 percent, with Montenegrins, Albanians, and Croats all above 0.80 percent. Refugees from Croatia and Bosnia and internally displaced persons (IDPs) from Kosovo make up around 6.7 percent of the population.

⁴ According to USAID Gender Assessment, of the total population, 48.6 percent are men and 51.4 percent women. In 2002, the life expectancy for men was 69.7 and for women 75.0 with the average age for women is 41.5 and 39.0 for men. There was a 44:100 female-to-male ratio of legislators, decision makers or managers in 2002

⁵ Source: A Brave New Generation, UNICEF 2002

⁶ Source: Poverty Reduction Strategy Paper, 2002; Poverty and social exclusion in the EU, Dennis and Guio, April 2004; USAID Conflict Assessment, March 2005

⁷ Source: Republican Statistical Office of Serbia; National Employment Service; EAR Labor Market Assessment, April 2005

⁸ Source: Poverty Reduction Strategy Paper, 2002

⁹ Sources for this section: World Bank Serbia Economic Memorandum, December 2004; EAR Labor Market Assessment, April 2005; Poverty Reduction Strategy Paper, 2002; Assessment of Serbia's Economic Reform Progress, CEVES 2005
