

Slovak Republic
Ministry of Foreign Affairs

COUNTRY
STRATEGY PAPER

Slovak Official Development
Assistance to the State Union of Serbia and Montenegro

Ministry of Foreign Affairs
Bratislava
Slovak Republic

November 2003

KAJH: C255-04

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1 SLOVAK ODA RESPONSIBILITIES

The Slovak Republic has a well-established history of offering development assistance to its neighbours and to several developing countries. In recent years Slovakia has been contributing development assistance in amounts of SKK300-400 million per annum to developing countries. This was 0.042% of GDP in 2001. These amounts were mainly voluntary contributions to international organisations for humanitarian aid and scholarship programmes. Now that the Slovak Republic has been a member of the OECD for three years and is expecting to accede to membership of the European Union in May 2004, it is commencing a program of Official Development Assistance (ODA). An important element of this initiative is the inauguration of a bilateral ODA program for the Union State of Serbia and Montenegro.

In 2003, an amount SKK 140.66 million was allocated to the Slovak Ministry of Foreign Affairs (MFA) for purposes of official development assistance. The MFA has undertaken to be the sole Slovak agency (SlovakAid) that will develop mechanisms, structures, human resources, legal frameworks and establish a working development co-operation strategy. This document details that strategy as it applies to Slovak ODA planned for Serbia and Montenegro over a three year planning horizon, using a mechanism named the *“Bratislava-Belgrade Fund”*.

Upon joining the European Union (EU) in 2004, Slovakia will automatically become part of the common European system of providing development assistance. Given the desires of the State Union of Serbia and Montenegro (SCG) also to join the EU later in this decade, and to accede to the World Trade Organisation, Slovakia can offer SCG considerable current know-how and understanding about these processes. Moreover, given the long-standing friendly ties between Slovakia and SCG, and the similarity of recent experiences in moving from an elected but authoritarian regime towards full democracy, Slovakia has a special and unique understanding of the complexities of this transition process in SCG.

Furthermore, not only is there a large Slovak minority living in the Vojvodina region of northern Serbia, but non-governmental organisations from Slovakia have already been active in this area and well beyond it, throughout SCG. They have encouraged democratisation, as well as advocating the strengthening of civil society, caring for vulnerable groups, and attempting to support fledgling enterprises. There is a recent history of humanitarian aid from Slovakia to SCG that involved shipments of supplies, parts and infrastructure items during the immediate recovery period from 2000. Thus there are strong factors to consider when deciding that SCG should be the primary focus of Slovakia’s impending ODA program.

What follows in this document is the rationale for this choice, and an outline of its programme goals and objectives. Then the document details the conditions and needs of Serbia and Montenegro for 2003-2006, and suggests ways in which Slovak ODA (hereafter SlovakAid) can effectively and efficiently be an agent for change for the betterment of the SCG people.

2 REASONS, GOALS AND PRIORITIES OF SLOVAK AID¹

As noted, Slovakia is soon to join the EU and will be required to have an ODA program. Slovakia also sees ODA as a moral obligation consequent not only upon its formal requirements but also arising from its material changes. Slovakia has signed the UN *Millennium Development Goals* and is committed to assisting in the settlement of global issues and sharing responsibility for international development.

Development assistance is a standard tool of foreign policy. It contributes - with political, diplomatic and economic tools - to the accomplishment of foreign policy goals. Five goals have been defined specifically for SlovakAid: the transfer of Slovak experience and know-how to recipient countries; the provision of Slovak experts in international development activities and mechanising; the involvement of Slovak entities in international development projects; the enhancement of economic co-operation with developing countries; and the offering of assistance to ethnic Slovaks. Monitoring and evaluation of these goals will indicate the efficiency and effectiveness of funds spent, in accordance with the wishes of the Slovak people.

SlovakAid will be specialised, concentrated and limited to a small number of recipient countries. This is because Slovakia has limited financial and human resources and wishes to use its capabilities efficiently. SlovakAid will therefore select beneficiary countries with which it seeks to build upon existing good relationships and to further develop a broader basis for mutual co-operation. To achieve strong results from relatively small projects, SlovakAid expects to co-operate with larger donors and in some instances use the modalities of co-financing and trilateral co-operation. SlovakAid will harmonise its assistance programs with those of other donors in order to achieve the best levels of beneficial impact leverage. The first programme country selected for Slovak ODA is Serbia and Montenegro. To implement this assistance, the Slovak MFA has established the '*Bratislava - Belgrade Fund*' (BBF), with an initial endowment of approximately US\$1.6 million as a first tranche for 2003-2004.

¹ A more detailed version is given in, '*Medium-Term Strategy for Official Development Assistance: 2003-2008*', Ministry of Foreign Affairs of the Slovak Republic, Bratislava, 2003.

3 PRINCIPLES OF SLOVAK AID

With a limited amount of ODA funding, SlovakAid must specialise in its SCG activities in order to avoid fragmentation and a risk that funds are spent inefficiently. Furthermore, the provision of all Slovak aid to SCG will be administered by the MFA through the 'Bratislava - Belgrade Fund', in order to avoid decentralisation and a lack of co-ordination. The Co-ordination Committee for Development Assistance is special consultative body of the Slovak Foreign Minister.

In seeking to harmonise the needs of SCG with the capabilities of the Slovak Republic, many stakeholders will be involved, on both sides. These stakeholders will include NGDOs (*non-governmental development organisations*) universities and institutes, private foundations, enterprise sector representatives, government ministries and agencies. In commencing the Slovak aid program for SCG, Slovak NGDOs will play an important initiating role. The political independence of Slovak NGDOs, their domestic experience, their knowledge of key project opportunities in SCG, their ties to SCG partner NGOs, and their continuing access to vulnerable groups in Serbia and Montenegro, gives them an important head-start in effective aid involvement. They have experience from Slovakia that can be applied, with suitable flexibility, in SCG, mainly in the social sphere, training, education, health, civic animation and working with SCG volunteers. Universities, institutes and private companies are also expected to be able to provide experts and consultants, as may be required. Slovak ministries have expertise in preparing for accession to the EU and WTO, as examples, which can be shared with counterparts in SCG. Their knowledge of privatisation, improving public safety, and developing modern legislation that is EU acceptable is a valuable transferable asset. Democratisation of the military and renewal of the public service and fund administration are also important Slovak expert areas.

SlovakAid will co-operate with bilateral and multilateral donors already active in Serbia and Montenegro. SlovakAid seeks to maximise the impact of its ODA efforts by co-ordinating its activities with key donor groups in order to obtain the greatest development impact and leverage from its carefully targeted interventions. Therefore, key modalities will involve trilateral co-operation and co-financing. Along with its current partners—CIDA and UNDP—Slovak Aid will seek to co-operate in trilateral projects with other donors, principally from within the EU.

4 SLOVAKIA AND SERBIA: HISTORIC TIES

There are strong historic ties between the peoples of Slovakia and Serbia, dating back centuries, and continuing right up to this day. Slovaks migrated in large numbers to northern Serbia in the eighteenth and nineteenth century. The region of Vojvodina still has many ethnic Slovaks, living together with Serbs and other peoples, in harmony. This region is familiar to non-government and private organisations from Slovakia and provides an obvious arena in which to initiate assistance, learn-lessons, and formulate project concepts for implementation elsewhere in Serbia and Montenegro.

Very similar languages, and linguistic understanding on both sides echo the ethnic roots of Slovaks and Serbs. Cultural and business ties between Slovakia and Serbia are naturally long-standing. There is a positive remembrance of companies and ministries working together on school, hospital and infrastructure projects in the developing world - Africa, Asia and Americas - during the socialist era. More recently, experience from the Slovak democratic revolution was carried into Serbia, via the '*Bratislava Process*'¹ by young people and dedicated democrats as members of Slovak non-governmental organisations. Using ideas and techniques that had helped bring about a peaceful democratic revolution in 1989 and democratic changes in 1998, these NGOs passed on their enthusiasm and knowledge to their Serbian counterparts. By engaging civil society, animating latent democratic instincts, and pressing for peaceful solutions, Serbian NGOs contributed substantially to the recent democratisation of their country.

These organisations now stand ready to work with the poor, the vulnerable, refugees and IDPs, in the quest to renew individual lives, rebuild civil society and restore overall prosperity to Serbia and Montenegro. Based on these partnerships and relationships, recently reconfirmed and deepened, there exists a strong basis for collaboration between Slovaks and Serbs at the enterprise level, between ministries, and among NGOs, in the sharing of experiences, the pooling of know-how, the provision of services and goods, and the working together of two nations for the betterment of their peoples and the stability for both countries.

¹ '*The Bratislava process – Programme for Democratic Yugoslavia*' was a series of conference and workshops with participation of the Serbian pro-democratic opposition, media, independent experts and representatives of international institutions. This process started by the conference: '*The future of the FRY in the Context of Post – War Reconstruction*', which took place in Bratislava on July 21 – 22, 1999. The main idea of the above-mentioned process was to help and support the activities leading to the democratic changes in Serbia during authoritative and repressive regime of former Yugoslavian President Slobodan Milošević. Bratislava process presents a very important initiative towards unification of Serbian opposition against Milošević's regime.

5 SERBIA AND MONTENEGRO: OVERVIEW

5.1 *Economic Considerations*

The Federal Republic of Yugoslavia (hereafter FRY) was established in April 1992, comprising the republics of Serbia and Montenegro, upon the dissolution of the Socialist Federal Republic of Yugoslavia in 1991. Assisted by the European Union the two republics agreed to set-up a new common state in March 2002, named Serbia and Montenegro. Since June 1999, Kosovo, a province of Serbia, has been administered directly by the UN (UNMIK), but remains a legal province of Serbia.

Serbia and Montenegro underwent a democratic revolution in October 2000, and reformist governments at all levels - federal and republican - are now committed to social and economic change. The FRY was then transformed into a looser State Union of Serbia and Montenegro (SCG) in early February 2003. Comprehensive and rapid reform programs have been inaugurated. They are aimed at promoting a democratic system based on the rule of law, after a long period of authoritarian rule. At both of the Federal and Republican levels of government in Serbia and Montenegro, politicians and officials have used '*lessons learned*' from other countries in the region to assist them with the design and implementation of an effective approach to reform and transition to a new society. Early reform momentum ran high, but it has recently stalled due to increasing political uncertainties.

According to the IMF, the population of Serbia and Montenegro was 10.7 million people at mid-year 2002. Of this total, about 52% were urban dwellers, considerably below the European and Central Asian average of 63%. Birth rates are running below death rates in Serbia, whereas net birth rates are very high in Montenegro. Consequently, for SCG as a whole, the population is growing at only 0.1% per annum and the labour force at 0.4% annually.

At one level, recent economic reforms have been very successful. The overall macroeconomics framework of SCG has been temporarily stabilised. Inflation in Serbia has been brought under control; from over 90% in 2001, to 25% in 2002, to less than 10% in 2003. The Serbian Dinar exchange rate has weakened, but not seriously; export competitiveness therefore has been somewhat enhanced in 2003. Export growth has been led by metals and machinery, but with declines in traditional items such as textiles and clothing. Exports are only about half the value of imports, and the trade gap is widening. Foreign exchange reserves, much assisted by donor transfers, are adequate but there are no signs of renewed foreign direct investment. Overall net resource transfers are increasingly negative.

Economic growth has been revived and ran at 5.5% (SCG) for 2001 and 4.0% for 2002. The IMF projects a 4.0% average growth for 2002-6, based on favourable assumptions. However, the actual 2003-growth performance is already closer to 3%, highly dependent on trade and services, with the agricultural sector lagging badly. Trade liberalisation has begun, with a view to re-integration of SCG into the international community and planned accession to the European Union (EU) and World Trade Organisation (WTO), in the foreseeable future.

5.2 *European Integration*

The SCG republics have as a goal their membership accession to the EU during this first decade of the 21st century. In achieving their objective, they are being encouraged by expert assistance from the European Commission and by the strenuous efforts at economic rehabilitation being undertaken by the European Agency for Reconstruction (EAR), the European Bank for Reconstruction and Development (EBRD), the World Bank (WB), the United Nations Development Program (UNDP), together with numerous other multilateral and bilateral donors. Bilateral donors include: United States Agency for International Development (USAID); Department for International Development (DFID-UK); Canadian International Development Agency (CIDA); Swedish International Development Agency (SIDA) and several other key bilateral donors representing the member states of the European Union. Private foundations and NGOs are also active in SCG at this time.

5.3 *Individual Workers and Firms*

However, at the human level, the state of personal economic welfare in SCG is not improving. Wealthy classes are growing better off, while the former middle class and blue collar workers are seeing their economic circumstances deteriorate. The grey (informal) economy in SCG is thought to be as large as 40% of Gross National Income and is expanding. The unemployment rate is over 30% and is likely to further worsen during 2004-2006.

Privatisation of state-owned corporations has been proceeding apace. But in several instances, privatised entities have ended up being stripped of their assets, unbounded and resold, with no gains in production, efficiency, or job creation. Nor has this process brought forth very much new productive investment from either domestic or foreign sources. There remain two strong sectors to privatise - telecoms and utilities -, which may reverse previous unproductive trends. But there are also a large number of heavy and light industry plants - often regionally concentrated -, which are scheduled for imminent privatisation. Many of these entities have been limping along, producing little and selling less, yet maintaining wages and employment locally. Since their passing into private hands is unlikely to herald business revivals, there are expected to be further increases in industrial unemployment, concentrated in old industrial regions and causing extreme economic hardship for ex-workers and their families.

As in many economies, it is the small and medium size enterprises (SMEs) that are the fastest growing business drivers in the new SCG economy. Furthermore, the services sector is out-pacing the manufacturing sector in rate of expansion in SCG, reflecting a global trend towards greater trade in services than goods. Thus one path towards to economic recovery is to encourage micro-enterprises and SMEs in new production and service sectors. The traditional skills of SCG workers, the expertise of SCG professionals, and the knowledge of SCG managers need to be harnessed into a new entrepreneurial spirit of innovation and market responsiveness.

With a revival of grass roots employment and business activities, whole communities will once more become economically viable and socially vibrant.

Such an atmosphere will encourage a return of both domestic and foreign investment. It will also begin to shift SCG away from an ethos of long-term dependency on major donors. One consequence will be that there can be an increased capacity to integrate refugees and Internally Displaced Persons (IDPs) back into the mainstream of SCG society and business life. The government plan to close refugee shelters makes these objectives even more pressing. Pressure on local communities to cope with refugee and IDP issues, rising local unemployment, few job opportunities for youth, and over-stretched social services, all suggest critical local needs that will not disappear over the next few years.

There are many on-going administrative and organisational changes occurring in the Federal and Republic governments of SCG. Public service modernisation is well established, from the top down. Many of the authoritarian elements have been successfully liberalised. The role of the Federal military is in transition and strenuous efforts are underway to democratise the situation of ordinary service persons. The SCG Federal Ministry of Defence is leading these efforts. In particular, options are being offered to conscripts who object to military involvement. Objectors of Conscience (OCs) may now be segregated from the military presence and trained in emergency services, paramedical services, fire fighting and care for the elderly and other socially valuable services. Currently, the International Commission of the Red Cross (ICRC) is providing some training, but if this program is to be successful in contributing to social service provision all over SCG, then training, mentoring and administration will be required over several years. There is a significant opportunity for donors to participate in this process.

Co-ordination between the Federal and State governments and their various departments poses some difficulties for small donors, such as Slovakia. With the ratification of Agreements achieved, it is expected that the path will be cleared for close co-operation in undertaking a SlovakAid program to SCG that will involve Serbia, Montenegro and Kosovo.

5.4 SERBIA

The Republic of Serbia has produced a *Poverty Reduction Strategy Paper for Serbia* (PRSPS) in 2003, which serves as a guide to its current situation and requirements.²

The PRSPS shows the following poverty concerns:

- In 2002, vulnerable groups accounted for 20% nationally and the poor were just over 10% of the total population.

² Government of the Republic of Serbia, *Poverty Reduction Strategy Paper for Serbia*, Belgrade, 2003. A PRSP for Montenegro is in process, but was not available in Nov. 2003. Analysis and data on Montenegro are partly based on United Nations, *Common Country Assessment for Serbia and Montenegro*, Belgrade, October 2003.

- ❑ In 2002, roughly two-thirds of the vulnerable and poor were in rural areas and one-third in urban regions;
- ❑ Low education attainment is a key contributor to poverty, with failure to complete primary education doubling the risk of poverty;
- ❑ Unemployed were most at risk of poverty as well as being likely to experience the greatest depth and severity of poverty; this was especially so in rural areas;
- ❑ Elderly make up almost a quarter of the poor, or more than one-sixth of the total population, particularly those without pensions;
- ❑ Children are a high poverty risk group; their risk being one-fifth higher than the population as a whole.
- ❑ Households with five or more members, single person households and two-person elderly households, all face a very high risk of poverty;
- ❑ Disabled persons are also a particularly vulnerable group (about 350,000 people), of which only about one-eighth have a job, and
- ❑ Women in Serbia on average earn 15 percent lower wages than men, have less job stability, and more exposed to old-age poverty. Those most at risk from poverty are elderly women in rural areas, single mothers, housewives, Roma women, refugees, victims of violence, disabled, the uneducated and unemployed

At the macro-level, the SCG Poverty Reduction Strategy must focus on economic development, since the main cause of general poverty is the low level of GNI per capita and high levels of unemployment, plus high levels of dependent. Yet poverty is also a multi - dimensional phenomenon. It reflects a lack of employment opportunities in SCG; inadequate housing; weak access to social services, health, education, and utility services; especially for the vulnerable, poor and socially excluded groups. There is also an inability to exercise basic human rights and to enjoy a healthy environment. Thus a micro-level holistic approach at the grass-roots is also required to link SCG goals of poverty reduction to the UN-MDG's (*Millennium Development Goals*) and the European Union's recommendations for the process of SCG's European integration.

The PRSPS has three main directions, as of 2003. These are:

1. **Strategy of dynamic economic growth and development** (macro-economics); legalising enterprises; controlling the grey economy; combating corruption; improving the rule of law; and improving the functioning of State authorities.

These activities can be assisted by ODA from the international financial institutions, multilateral agencies and the larger bilateral ODA programs in SCG. SlovakAid will only indirectly contribute to these efforts through fund transfers.

2. **Strategy of modernising and restructuring the economy** (industrial organisation and labour markets); retraining of workers for the private sector and particularly services jobs; work with municipalities, NGOs and the international community to generate jobs for those displaced as a result of the process of transition.

The PRSPS directly calls for international and NGO assistance in retraining, re-educating and re-starting of displaced workers in economically and socially acceptable work. SlovakAid is well positioned to respond, in part, to these requests for assistance.

3. **Strategy of implementing existing and new programs directly targeting the poorest and most vulnerable groups** (individual economy); children; elderly; disabled; refugees and IDPs; Roma; rural groups and uneducated; particularly in least developed regions. This is not just for survival purposes but also to improve their access to employment, health, educational and utilities services.

SlovakAid and Slovak NGDOs are already working in SCG on several of these 'third strategy' up-lift activities and are expected to continue to do so, while expanding their outreach to more vulnerable groups at an increasing number of rural and suburban locations.

It is evident that neither Serbia nor Montenegro can achieve poverty reduction goals without improvements in their currently available fiscal resources and the continued commitments of support from the international community and donors, such as SlovakAid.³

The combined SCG economy may be able to sustain 4% real growth from 2002 to 2007. But to achieve it will require: expanded exports - particularly in services and agriculture -; a more vibrant SME sector; a less unemployment-intensive privatisation approach; more induced investment and productivity improvements; enhanced private capital flows induced by political and economic stability; improved balance in the energy sector; and sustained donor interest in rehabilitating SCG society and economy.

3. If GNI growth in SCG can be sustained at 4-5% through 2010, then the poverty rate may fall from 11% to 6.5%. If growth slows to 2-3% in the same period, then the outlook is for no decline in poverty, worsening of income distribution, and very few resources available to help the most vulnerable. Growth is expected to be no more than 3% in 2003.

5.5 MONTENEGRO

The real GDP of the Republic of Montenegro contracted by 9% in 1999, reflecting the impact of the Kosovo conflict. It rebounded to grow at 4% in 2000, and continued to grow at 2% in each of the following two years. Trade, transport and construction have been the main economic drivers recently. Yet industrial growth is stagnating at levels reached in 2000, and has weak prospects.

Montenegro adopted the DM as its currency in the late 1990s, subsequently switching to the Euro. Donors, such as the EU and USAID, assisted it by helping to fund fiscal and external deficits, in an effort to move towards more sustainable levels of financing by 2001. A VAT tax scheme was introduced and privatisation of state assets was programmed, using a mass voucher method of popular participation. Nevertheless, inflation has persisted, even with the Euro as legal tender, running at 9.4% price rises in 2002 and expected to be again at 9% in 2003.

The combination of low growth and relatively high inflation works particular hardships on the poor and vulnerable groups. Given the high population growth rate (about 10% in 2002), real per capital incomes are falling. Fiscal deficits are climbing towards 5% of GDP and appear to be unsustainable in the medium term. The medium term economic outlook is therefore uncertain.

Montenegro's population is approximately 660,000. There are approximately 40,000 refugees and IDPs. It has a labour force of some 270,000, of which about one-third work in the informal economy. Official employment data have sharply declined since the 1990s, and official unemployment registered 40% in 2000, although this ignores those engaged in the informal economy. Informal work yields no pension, health or other benefits, but income is not taxed. Recent legislation levies fines for hiring non-Montenegrens and thus discriminates against refugees and IDPs from Kosovo. Gender, education and age are significant factors in Montenegrin job status, with men more likely to find jobs, and men more likely to hold better paying jobs. A large portion of the unemployed has completed secondary school. But tens of thousands of educated youth have left the country in the past decade. However, today's unemployed are primarily young people. Unemployment is highest in the central and northern regions of Montenegro.

Consumption poverty is defined as those living below 107 Euro's per person, per month and impacts just less than 10% of Montenegrin society. Many refugees, IDPs and Roma make up intense pockets of poverty. Elsewhere, poverty is most evident among the elderly and children under 16, while pensions are often too low to maintain a minimum standard of living. About one in five adults is jobless and 13% of people live in dwellings without running water or bathrooms. Montenegro's health budget is less than 3% of GDP, or about one-third of Serbia's, and per capita health spending was around US\$25 per capita, per year in 2001, or less than a third of Serbia's at over US\$80. Health spending has increased in both countries since 2000, but outreach services for remote areas are particularly ill developed in Montenegro, especially in mountainous areas. Life expectancy for male Serbs is 70 years and for women 74 years; corresponding for male Montenegrens is 71 years for males and 76 for women.

Public spending on education is increasing in Montenegro, but not in *real* terms. Funding is only about 70% of the needed education budget. About half is spent on primary education, about a quarter on secondary, and the rest on science and universities. A lack of trained teachers is critical, overcrowding--together with an out-mode and impractical curricula-- has led to an ill-trained and uncompetitive workforce, especially when compared to EU standards.

An Environment Law (1996) and Regulation on Environmental Impact Assessment (1997) have sound principles, but have failed to be implemented. While Montenegro is not heavily industrialised, the low level of technologies and lack of proper maintenance have caused serious environmental concerns. A large aluminium plant close to Podgorica and a steelworks in Niksic both produce gases, particulate, and untreated waste water. The aluminium plant requires very large amounts of imported energy, although renewable energy sources might be tapped. Subsidised energy prices contribute to waste and inefficiency. Meanwhile, unregulated coastline development --30,000 illegal new housing units over 10 years --has contributed to contamination and coastal zone degradation.

Montenegrin society can be characterised as patriarchal and traditional, having a strong preference in many families for male children. Women constitute 51% of the population in Montenegro and about three-fifths of the grey economy work force. While the law stipulates that women enjoy equal status, this is not always the case. Early marriages, lower salaries, and modest education often leave women vulnerable and poor. Women are expected to raise children, maintain the family, avoid divorce, accept abuse and cope with domestic violence. Many children also end up being abused in alcoholic households.

Like Serbia, Montenegro is drafting a Constitution to harmonise it with that of Union of Serbia and Montenegro (SCG). Fundamental laws will be changed, including adoption of a new Criminal Code and Criminal Procedure Code. The work of judges, prosecutors and law enforcement offices will be directly affected. These changes will require retraining and intensive capacity building in the Montenegrin judicial system.

Fiscal decentralisation has yet to be introduced in Montenegro, although it is underway in Serbia. The State must ensure that vulnerable populations are protected and able to participate in society and the economy without discrimination, especially during the transition period. As noted various groups find themselves in precarious situations. Like Serbia, Montenegro will have to pay particular attention to refugees, and IDPs, migrants, minorities, Roma, juveniles, elderly, disabled and women.

'The vulnerability of these groups to further marginalization and violations of their basic rights is likely to become more acute over the next five years since the face of economic restructuring, and the termination of humanitarian assistance programs' [UN, CCA for Serbia and Montenegro, Belgrade, Oct. 2003, p. 68]

Slovakia subscribes to the new global commitments set out in the UN *Millennium Summit Declaration*, which includes the MDG's. These are a set of specific goals agreed to by the world community for the year 2015. They touch upon such key areas as poverty reduction, primary education, gender equality, child mortality, maternal health, HIV/AIDS and the environment.

In principle, SlovakAid will adopt a results-based accountability framework that is linked to the afore-stated MDG's and to some intermediate development objectives. Using targets and indicators, SlovakAid expects to deliver strategic outcomes with enduring development results and mechanisms to sustain positive initiatives. It is intended that efficient management will support an effective enabling programme, which in turn will contribute towards a beneficial development impact for target groups.

Although Slovakia's development programming will represent only a modest share of global aid efforts, SlovakAid accepts its international responsibility for achieving MDG targets and expects to demonstrate its commitment to such results by aligning its planning, programme and corporate priorities in accordance with MDG goals.

Poverty reduction is a principal objective of donor efforts in recipient countries, and is an explicit MDG target. SlovakAid's mandate to assist in poverty reduction through inputs to sustainable development is its own contribution to achieving a more secure, equitable and prosperous world. These efforts will be initiated in the State Union of Serbia and Montenegro (SCG). In this respect, SlovakAid's programming framework for SCG will be integrated into their national plans and priorities to improve local living standards and reduce poverty.

6.1 COMPARATIVE ADVANTAGES OF THE SLOVAK REPUBLIC

The overall goal of the BBF is to contribute to poverty reduction in Serbia and Montenegro. The extent of poverty and the vulnerability of many groups throughout the two republics are clearly set out earlier in this document. It is evident that there are deep and widespread human problems at the personal level, business level, and in government and other public entities. The extent of SCG's poverty related problems is considerable. There are many opportunities for Slovak non-governmental development organisations (NGDOs), business managers, and government experts to offer tangible assistance in attempting to halt and reverse SCG's slide into broader structural poverty.

Slovak Aid believes that it can offer ODA to SCG under three broad headings:

1 Developing Democratic Institutions and a Market-oriented Environment

This arises from Slovakia's unique experience since 1989: developing a market economy; changing ownership structures; enabling a business environment; reforming the public sector- finances, trade accession, reform of administration and public service.

2 Social and Physical Infrastructure Development

Slovakia has technical expertise in: health care, elderly care; women; minorities and education. It also has capabilities in: transport; de-mining; water and sewage systems; waste management; civil engineering and energy infrastructure; among others.

3 Environmental, Agriculture and Food Safety Applications and Regulatory Standards

Slovakia can offer know-how and capabilities in the above-named areas, plus: forest management; irrigation; and geology.

6.2 SLOVAKAID PRIORITIES

The Slovak Ministry of Foreign Affairs, in co-operation with CIDA-ODACE, has undertaken two missions to SCG during 2003, to examine and analyse the potential for mounting an effective and efficient bilateral Official Development Assistance program, named the “*Bratislava-Belgrade Fund*”.

Based upon the long-standing relationships between Slovakia and Serbia and Montenegro, their evident needs for poverty reduction and social revival, the interests in co-operation of potential counterpart entities at the government, non-government and enterprise levels, a set of SlovakAid priorities has been developed. On the one hand, these choices reflect the capabilities, size, and objectives of Slovakia as a donor country, and on the other hand, they represent some of the pressing needs of Serbia and Montenegro as a recipient country.

They are intended to offer guidelines for Slovak project programming which will harmonise with the objectives and efforts of other donors working in SCG. Opportunities for co-financing and trilateral donor involvement will be welcomed. The priorities are also believed to fit well with Slovakia’s capacity to provide and SCG’s ability to absorb these types of Official Development Assistance.

7 GUIDELINES FOR POSSIBLE SLOVAKAID PROJECTS IN SERBIA AND MONTENEGRO

The following list is indicative of interest areas identified by recipient- and donor-country entities and which, in turn, fit with the goals and objectives of SlovakAid's "Bratislava-Belgrade Fund". These guidelines may be subject to change.

7.1 *Civil Society, Social Animation and Regional Development*

- 7.1.1 Assisting with strengthening of civil society by working with poor, vulnerable and minority groups to allow them to become self-sustaining.
- 7.1.2 Supporting schooling, training, re-education and involvement of young people at local levels in order to broaden opportunities for advancement.
- 7.1.3 Involvement in public health and women's advisory activities with a view to improving social integration and broadening opportunities.
- 7.1.4 Education in the uses of local public information and regional multi-ethnic journalism as tools of democratisation.
- 7.1.5 Assistance with building capacities for local self-government and with building the capacity of all levels of government to work with civil society.
- 7.1.6 Working with local rural entities and municipalities to encourage environmentally sensitive tourism (in Montenegro).
- 7.1.7 Democratisation and transformation of the armed forces including the training of conscript personnel who are Objectors by Conscience to being members of the military; in social uses such as: disaster relief; first aid; para-medicals; fire-fighting; care providers for elderly; and similar socially beneficial activities.
- 7.1.8 Exchange of faculty, staff and students so as to foster collaboration between selected Universities, principally in the social sciences, science and technologies, with special reference to social animation and strengthening civil society.

7.2 *Involvement in New Enterprise Development and Infrastructure Repair and Rehabilitation.*

- 7.2.1 Improving local labour market efficiency and supporting the start-up and development of Small- and Medium-size Enterprises (SME's).
- 7.2.2 Training and supporting of new rural and suburban micro and small business enterprises.
- 7.2.3 Provision of small-scale local infrastructure of high social and economic benefit, e.g. temporary bridges.
- 7.2.3 Repairs and re-development of infrastructure as may assist in social cohesion and improvements in local welfare.

7.3 *Assisting with the Integration of Serbia and Montenegro into International Organisations, such as the WTO, and groupings such as the EU.*

- 7.3.1 Drawing upon the experiences of the Slovak Republic in preparing for and commencing the process of accession to the EU, and assisting with preparing capabilities to make effective meetings with the EU.
- 7.3.2 Offering support, analysis, methodologies, document development and consultations in approaching processes to join the WTO.

- 7.3.3 Applying know-how and exemplary experiences from customs union negotiations and activities between the Slovak Republic and Czech Republic, to the requirements for trade and tariff harmonisation between the Republics of Serbia and Montenegro.
- 7.3.4 Assisting with the involvement and negotiations of Serbia and Montenegro with regional economic groupings, based on Slovak experiences from the CEFTA.
- 7.3.5 Collaborating with the State and non-governmental sectors in Serbia and Montenegro to build-up human resource skills, with a view to improving the involvement of non-governmental sectors and other stakeholder buy-ins, to international treaties.

8.1 *Analysis of Risks*

The present political situation in Serbia is one of on-going uncertainty. There is little likelihood of the current Presidential election yielding a clear outcome, leaving the country without a President for the third time and reflecting growing voter apathy. Serbia has also recently announced general parliamentary elections after dissolving the Republic's parliament in the second week of November 2003. Elections are intended to be held towards the end of the year and should yield a stronger coalition result. New ministers will be appointed and with them will come new staffs, new policies and new action plans. All this may change the ranking of social goals and objectives and may see poverty alleviation elevated to a higher level of consideration.

In the meantime, the Development Agreement between Slovakia and the State Union of Serbia and Montenegro awaits ratification. While both parties have signed it, this Agreement has yet to be ratified by the Federal parliament. To proceed very far with Slovak ODA to SCG would be foolhardy, until ratification is achieved. Without that vital step, action could expose Slovak ODA-related goods and services to SCG licenses and taxes from which they are explicitly exempted in the Agreement. Thus it is vital to the management of risk that this Agreement be ratified before the SlovakAid program is initiated.

Recognising the preceding concerns, it is generally believed that Slovak entities and their SCG counterparts when dealing with lower levels of government can more effectively contain political risk. In particular, projects that involve regional governments, local municipalities and village communities may be less open to problems of instability and rapidly changing policies than those that deal with higher level government agencies. This is especially so for projects which are being executed in a partnership with the enterprise or non-governmental sectors. Government-to-government exchanges of experts and know-how are relatively free of these concerns, although it will still be necessary to ensure that any new high-level decision-makers continue to favour the exchange and will make the appropriate counterparts available to fully effectuate the transfer of skills and analysis.

The program will take account of the environmental risk presented by any of its project proposals and seek to eliminate or minimise any such impacts. All infrastructure-related projects will be subject to such tests.

Program financial risk is high until the afore-mentioned Agreement is ratified. Montenegro's use of the Euro somewhat diminishes exchange risk, but if they fail to bring inflation under control there could be severe financial disruption. These concerns must be well understood by the program administrators and steps to hedge against potential losses of value in the

Bratislava-Belgrade Fund due solely to price and exchange rate concerns in the recipient countries must be guarded against⁴.

8.2 *Delivery Mechanisms of SlovakAid*

SlovakAid's Official Development Assistance to the State Union of Serbia and Montenegro is a bilateral program that is intended to run for a three year cycle. This program is entirely grant based. It conforms to the intentions of SlovakAid and the SCG to engage in a commonly agreed upon strategy that will guide this program over the life of its management cycle. It will serve as a platform for policy dialogue between donor and recipient. This provides for annual reviews and adjustments to the program's strategic orientation, which may be accomplished through the monitoring of performance indicators in relation to baseline/starting data. Buy-in by SCG stakeholders in the recipient regions, municipalities and villages is seen as a most important characteristic of making the "*Bratislava-Belgrade Fund*" a truly effective instrument of bilateral development co-operation.

The choice of executing agencies as delivery mechanisms for SlovakAid to SCG recognises four broad categories of entities which may serve in these roles. They are as follows:

1. Non-governmental development organisations.
2. Private enterprises.
3. Academic and Research Institutions.
4. Government Ministries and Agencies

These entities are encouraged to combine their efforts within and across the categories listed above. This is especially beneficial as a means of encouraging on-the-job learning, spreading and managing project risk, and promoting the cross-fertilisation of ideas. Project proposal calls will be made regularly for both social and enterprise driven types of projects. Strong consideration will be given to elements of field experience, stability of the proposed SCG partner entity, and financial soundness, and to the fit of the project with the strategic objectives—particularly poverty alleviation—of the SlovakAid program.

8.3 *Achieving Results, Monitoring and Reporting*

This is a new program and an entirely new set of initiatives on both sides—Slovak and Serbian and Montenegrin. For this reason it is most important that executing agencies working within this program act to share social and economic information and experiences in an on-going way. This applies not only to the NGDO platform, but also to members of the Slovak-Serbia Chamber of Commerce, other enterprise and academic groups, and the inter-governmental agencies working in SCG. Lessons learned must be promptly used and respected by all entities involved in SlovakAid. This goes towards the notion of shared accountability of all the entities working in this program. Furthermore, every project must seek to recognise both its direct

4. Consideration should be given to maintaining funds in Slovak Crowns or using Euro's as a store of value.

and indirect effects on poverty alleviation, gender and minority equity, food security, environmental integrity and other commonly defined program objectives.

General considerations of efficient project financial management require that executing agencies ensure that there is real value for SlovakAid funds spent, that milestones are met, outcomes realised and results visible. Monitoring, reporting and evaluation norms are expected to be met, and a serious concern for achieving sustainable results on behalf of the peoples of both SCG and Slovakia must always be kept at the forefront of project day-to-day management.

To ensure the program's effectiveness, performance indicators will be used. Annually, the program's actual performance will be compared to the expectations set out in the original framework and in individual project proposals. Monitoring--through performance indicators and regular reports--will identify when and how performance is occurring, particularly when assessed and timed against pre-agreed milestones and disbursement rates. Using these data and reports, performance of the program as a whole will be monitored each year of the program cycle. A brief report (no less than 4 pages) will be submitted by the Program Administrator to the MFA as input into the ministry's corporate reporting and performance review process. This report will be available to the people of Slovakia.

SlovakAid intends to work closely with other donors. In the first instance it will cooperate directly with the UNDP and the Canadian International Development Agency--ODACE Program. SlovakAid wishes to participate in donor co-ordination on SCG and will maintain direct relations with the EU as a prospective accession member of the EU. Part of its funding under the *"Bratislava-Belgrade Fund"* is expected to go towards the provision of expert advice to Serbian ministries on their requirements for preparation for EU and WTO membership, both recently experienced by the Slovak Republic. Careful co-operation with EU experts already in Belgrade is envisaged. In other instances, work with international NGOs, such as the ICRC, can enhance the impact of Slovak NGDO and agency efforts. Combining enterprise efforts with those of firms supported by donations/loans from other countries, or multilateral agencies, may also serve to increase the development impact of SlovakAid. These opportunities are encouraged. SlovakAid wishes to ensure that it acts positively to enhance donor co-ordination, information sharing and policy coherence in all its activities in SCG. It welcomes opportunities for CO-financing and trilateral project involvement.

Should there be a major political or economic change in SCG⁵ during the programming cycle, or a shift in donor group policies, or a generally recognised need to re-define strategic orientation, SlovakAid may then seek to re-align its bilateral ODA operations in the Balkans region, in co-ordination with other members of the donor community.

⁵ The status of Kosovo is to be reviewed in 2005 and the arrangements of the State Union in 2006.