

USAID/Serbia
Operational Plan

FY 2006

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Please Note:

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Program Performance Summary FY 2005: I. Democratic Reform

A. Country Situation: The assassination of Serbian Prime Minister Zoran Djindjic in 2003 marked at least a temporary end to most unified support for particular reform measures in Serbia. 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 high expectations for reform, this has produced a disillusioned public still waiting to see the tangible benefits of democratic government. Frequent elections in past years 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. Resistance to devolving resources and authority to local governments has further slowed the reform process.

Since the democratic changes of October 2000, few of the NGOs that worked to oust Milosevic have succeeded to redefine themselves as effective advocates of reform. To fulfill their vital roles in representing the public interest and acting as a check on excessive government power, Serbian NGOs must have a more supportive legal framework, greater cooperation among themselves and with other sectors, a more positive public image, stronger staff and institutional capacity, and more diverse funding sources. Draft figures for the 2005 NGO Sustainability Index indicate that the sector remains in mid-transition. Like much of Serbia's realization of democratic promise, progress has for the most part remained stagnant. The overall question for the sector is whether the lack of needed changes, such as delays in passing a new law on NGOs, represents the maintenance of a status quo or demonstrates a worsening situation.

The Serbian government has continued to fail in its responsibility to stabilize the still chaotic media sector. August 2005 amendments to an unimplemented Broadcasting Act now compromise the impartiality of the Broadcasting Council-the institution responsible for granting long overdue licenses-and frequency allocation has yet to take place. With more than 1,500 unregulated stations interfering with each other's signals, irresponsible broadcasters with questionable backing undercut the survival of responsible stations. The August amendments further delayed the privatization of municipal broadcast media until December 2007, ensuring that these outlets remain subject to political influence during the next round of local elections. Changes to the criminal code removed prison sentences for slander and libel, but retained stiff fines. The print market is dominated by the lack of professionalism of sensationalist papers with dubious ownership, further compromising the reliability of information.

At the local level, municipalities are trying to grapple with 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. One of the bottlenecks in this respect is the fact that state property in the municipalities has not yet been transferred to local governments. This lack of collateral prevents the municipalities from acquiring credits to upgrade local public services, and the central government is reluctant to guarantee loans taken out by municipalities. As a result municipalities' limited capacity to provide essential services to citizens and businesses constrain the economic growth needed to resolve these problems. The non-reformist SPS and SRS parties had a strong showing in the local elections in September 2004; mayors from those parties now control 40 of Serbia's 164 municipalities.

B. U.S. Assistance Priorities: These factors, combined with the political uncertainties and tough upcoming decisions concerning national status, exacerbate the region's historical ethnic divisions and 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. USAID FY 2005 programs in Serbia focused attention on the institutions most critical as advocates for reform through activities that included working with other donors

to lobby for the independence of the judiciary; strengthening legal associations; providing grants, training, networking opportunities, and technical assistance to a broad range of civil society organizations; promoting NGO advocacy capacity; supporting efforts to reform the media framework and improve capacity; and improving the ability of political parties to communicate with the public. USAID has also funded several initiatives to promote Serbia's cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY).

C. Program Performance

Judicial Reform and Rule of Law: Analysis of the 2005 Judicial Reform Index for Serbia reveals that the republic has made some important strides in reforming the judiciary and providing structural safeguards for its independence. However, Serbian judicial reform has not yet resolved many obstacles to an independent, accountable, and efficient judiciary. USAID's Serbia Rule of Law Project is designed to increase efficiency and reduce backlog in Serbia's general jurisdiction courts and to provide assistance to Serbian law faculties. USAID also worked with key legal associations to help them develop as organizations that can respond to their members' needs and provide important training. Among these, the Magistrates' Association of Serbia is becoming a self-sustaining organization from which donors and national and international organizations may carry out their legal reform projects, while membership in the Young Lawyers of Serbia has grown from a handful of lawyers in late 2003 to more than 400 members in 2005. USAID assistance has also focused on the development of the Humanitarian Law Center (HLC) as a research institution focused on truth and reconciliation. USAID funding has enabled the HLC to identify victims, their families, and witnesses; make arrangements for their travel to Serbia and accommodation in Belgrade for several war crimes trials; arrange for psychological counseling during their stay; and provide attorneys for victims and witnesses with legal questions. The commercial court assistance program has been actively engaged in a broad range of activities including training and professional development for judges and court personnel; improvement of court operational and financial management; development of new performance monitoring capabilities; support for change of outdated laws, regulations, and procedures; and, communications assistance for public education.

Civil Society, NGOs and Small Grants: Draft findings from the 2005 NGO Sustainability Index show that progress has for the most part remained stagnant. Despite continuing problems the civil sector has seen some advocacy successes over the year. In November 2004, the Serbian Parliament adopted the Law on Free Access to Information after a two-year campaign of lobbying and pressure from the civil sector. A coalition of NGOs is now working to ensure the law's implementation. The sector also continues to lobby the Ministry for Public Administration and Local Self-government, which has recently been responsive to civil society suggestions on the NGO draft law though the legislation has still not been passed after five years. Over the year, USAID issued 33 grants totaling just under \$1 million to support diverse activities including free legal assistance addressing issues such as access to justice, police torture, and, the excess of police authorities; research on the movement of people and trade between Kosovo and Serbia; and development of a model for planning and implementing domestic violence protection measures. NGOs also played an important role in official acknowledgement of the 10th anniversary of the 1995 Srebrenica massacre, including bringing to light the taped execution of six Srebrenica Muslims. USG programs with Serbian trade unions and associated civil society organizations implemented activities designed to encourage social dialogue, dispute resolution, coalition building, and educational services to workers' representatives and a new generation of union leaders. Three Labor Counseling Centers provided legal counseling to workers; technical assistance on collective bargaining; assistance in interpreting laws on privatization, bankruptcy, shareholder rights, and corporate governance; and advice to laid-off or retired workers.

Media: USAID has been addressing the practical implications of media privatization, including technical support to municipal media managers in preparing privatization bid documents and distribution of a handbook on media privatization that will assist local media and municipalities in complying with the need to privatize. USAID supported training to a wide range of media professionals to raise the standards of professional journalism and technical capacity at selected outlets, support local associations, improve business management practices, encourage specialized reporting on transitional issues, and advocate for legal reform. USAID also continued assistance to Serbian media in covering war crimes trials from the

ICTY in the Hague and producing domestic programming on human and minority rights. With USG support, eight shows on truth and reconciliation, which encouraged debate about the way young people in the region can work together to ensure peace and forgiveness for the future, were broadcast on national television. The series attracted an average weekly audience of 400,000 with viewers watching and corresponding from neighboring states and across the world, including the United States.

Political Process and Election Assistance: More than 50% of Serbian citizens believe their country is heading in the wrong direction. Many feel that their economic situation has worsened in the five years since Slobodan Milosevic left power, and few have faith that their situation will improve in the coming year. USAID assistance has focused on the critical area of communication, including a continuing need for the government and political parties to improve the ways in which they effectively communicate successes, respond to citizen concerns, and set realistic expectations regarding the reform process. Programs have helped central governing institutions to adopt more effective internal and external communication mechanisms and have supported civic organizations in contributing to public debate on political reform. Other activities included the promotion of participation by women and youth, short-term support for security sector reform, and the continued development of long-term local partner, the Center for Free Elections and Democracy (CeSID).

Community Revitalization: USAID's Community Revitalization through Democratic Action (CRDA) program is the USG's most visible program in Serbia. By providing citizens with a means to voice their concerns and priorities, CRDA has motivated citizens to work together to achieve community goals and contributed to a strengthening of grass-roots democracy. By the end of FY 2005 CRDA was active in 577 communities throughout the country, covering a population of more than four million people. The program initiated or continued work on 713 projects and completed work on 180 last year. Although the communities are highly appreciative and desperately in need of the improved infrastructure as well as income-generating activities that result from the activity, citizens consistently report that the most important aspect of the program is that for the first time they are being heard. By providing citizens with a means to voice their concerns and priorities, the program has motivated them to work together to achieve common community goals and contributed to strengthening grass-roots democracy in Serbia.

Decentralization and Local Governance: Assistance has been provided to 83 municipalities throughout Serbia, covering more than 80% of the total population. Transparent and accountable budgeting and financing systems have been or are being established in 70 municipalities and 67 participating towns have held public budget hearings for the first time. Public-private partnerships to create business improvement districts have been established in four municipalities. In 2005, nine new citizen assistance centers and one-stop permitting centers started, bringing the project total to 23. Assistance was provided to the Serbian local government association, the Standing Conference of Towns and Municipalities (SCTM), to become an effective advocate for local governments. More than 95% of the Serbian municipalities are now participating in the SCTM's quarterly and annual meetings. The SCTM has also been officially recognized by the Serbian Government as the representative of local government interests. As of the end of FY 2005, the local government program had leveraged \$3.7 million from other donor agencies, \$0.2 million from international NGOs, and \$2.9 million from participating municipalities, for a total to date of \$6.8 million.

II. Economic Reform

A. **Country Situation:** FY 2004 saw a quickening recovery of Serbia's economy, which has continued into 2005. Due to a slowdown in the first half of the year, GDP is projected to grow by 4.5% in 2005, less impressive than the 7.2% in 2004 but still an improvement on earlier years. Taming inflation remains one of the main macroeconomic challenges in Serbia. Annual inflation rose to above 13% by the end of 2004, and by November the year-to-date figure for 2005 was 15.2%. On the fiscal side, the Republic is performing above target. A revised budget for 2005 was passed by parliament in July, envisaging a surplus for the full year of about 2% of GDP.

Tax reform advanced significantly in 2005 with the adaptation and successful implementation of the VAT. As of September the cash revenue increase in real terms was 40.2%. There was a virtual halt in privatization and enterprise restructuring in Serbia throughout 2004 due to lack of political will, but activity

appears to be picking up again in late 2005. By mid-2005 around 1,250 enterprises had been successfully privatized. A new bankruptcy law entered into force in February 2005. Financial intermediation also progressed. Interest rates on loans have fallen due to increased competition. Bank privatization has advanced in 2005 with the sale of several banks to foreign investors, and others are being tendered. Nevertheless, EBRD figures show that only around 7% of GDP was made up of domestic credit to the private sector in 2004, expected to increase slightly to 8.5% by end-2005, but still behind all the other countries in Central and Eastern Europe.

The EBRD anticipates \$1.6 billion in foreign direct investment (FDI) by 2005 year-end, a 60% increase. Foreign trade increased 12.3% to \$12 billion in the first 10 months of 2005, and exports climbed 35.5% in January-October, bringing down the foreign trade deficit by 10.7% to \$4.8 billion. There remains a great deal of room for improvement. The Economist magazine places Serbia as the worst performer in Central and Eastern Europe in estimates for exports of goods and services as a percentage of GDP in 2005. Though Serbia continues to experience high trade deficits, these have largely been offset to date by remittances (17% of GDP in 2004). Future direction in the balance of payments will largely be determined by a three-way race involving: decreasing trends in trade deficits, increasing scheduled debt payments abroad, and the ongoing stability of remittances. Trends in direct investment and funds lent to banks will also come into play. Though direct investment may wane after the sale of major assets, what has become a highly competitive banking sector could see additional funds flowing in. Proposed new restrictions on credit creation, however, could slow growth.

The increase in FDI in 2005 is a sign of increased confidence, but risk perceptions continue to slow investment, fostered by among other factors a still underdeveloped business environment. Loss of markets, skills, and technology has impeded growth for many of the domestic private enterprises. Implementation of much of the business 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, is limited. Unemployment remains a significant issue, which will be exacerbated in the short-term by more active privatization. The large remittances, which served as an important subsidy source during the 1990's and currently help balance trade deficits, may be serving a less valuable role by reducing incentives for employment. Around one third of the workforce holds their primary or secondary job in the gray economy.

In line with the agreement signed with the London Club in 2004, in April 2005 Serbia's debt was exchanged for bonds valued at approximately \$57 million and listed on the Luxembourg stock exchange, and in November 2005 the rating agency Standard and Poor's assigned a credit rating to Serbia. The Serbian government is currently in negotiations with the IMF, the successful completion of which would lead to a \$700 million debt write-off from the Paris Club. The full reintegration into international capital markets resulting from these actions will provide enhanced financing options to foreign and local investors, and eventually for public finance.

B. U.S. Assistance Priorities: 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. Much work remains on improving tax administration, including improving the data base, accounting and recording process for statistics and working on a global income tax for individuals. 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. USAID objectives in FY 2005 were to improve economic policy and governance in Serbia, improve the business environment for private sector growth, enhance the financial sector's contribution to economic growth, and increase Serbia's participation in global trade and investment. In many instances, the focus shifted from drafting laws to successful implementation, as exemplified by the Bankruptcy Law. The political challenges of the coming year may distract attention from much-needed reform. However, with significant progress on these fronts in the past year, Serbia's long-term outlook is positive.

C. Program Performance

Economic Policy and Institutional Reform: USAID continued its focus on strengthening institutions that will promote and sustain economic reform. Assistance was provided to increase the ability of the National Bank of Serbia to effectively regulate the entire financial sector and support the development of a sound, stable and well-regulated insurance industry. FY 2005 saw the enactment of several key laws which USAID advisors helped to draft, including the Laws on Civil Procedure, Mediation and Enforcement Procedure, and Business Companies, with conforming amendments to the Law on Registration of Business Entities and the Collateral Registry. A modernized banking law was passed in November 2005, with significant drafting assistance from the USG. USAID also advised on other measures to strengthen implementation of existing laws, including amendments to the Privatization and Bankruptcy Laws. In support of a pending World Bank loan, USAID conducted a comprehensive actuarial analysis of the current state pension system to determine the extent of problems and analyze potential measures and their fiscal effects, for discussion with high officials of the Ministry of Labor, Employment and Social Affairs, the Ministry of Finance, and the State Pension Fund.

In 2005, USAID assistance supported the establishment of three key institutions for business development: the Company Registry, which has cut the time for registering a new business from 51 to 15 days and was cited by the World Bank as a major factor in naming Serbia as the year's biggest reformer in its Doing Business in 2006 report; the Leasing Registry, which is a major contribution to business financing; and the Collateral Registry, which institutes a wholly new system of secured lending to promote access to credit. Work to strengthen the commercial court system has included the installation of a network linking 16 commercial courts, a new court data system to replace the old manual system (much of which is accessible to the public), and more than 100 training courses.

Tax: The new VAT took effect as of January 1, 2005. At the urgent request of the Ministry of Finance, USAID became the main assistance provider in the introduction of the new tax. The result was a successful launch of the VAT and an increase in consumption tax revenues of 40% in real terms, which wiped out Serbia's fiscal deficit and yielded a small surplus for 2005.

Enterprise Development, Trade and Finance: Assistance was provided to business groups to advocate for policy changes and firms and business sectors to improve their market competitiveness. Notable successes in FY 2005 included a 63% increase in tourism revenues, and a 40% growth in fruit juice and fruit product exports. Clinical research organizations investing in Serbia more than tripled, with drug trials up over 50%. The new Law on Enforcement Procedure, passed by the Serbian National Assembly in November 2004, has reduced the average number of days for enforcing contracts from 1,028 to 635. In FY 2005, following agreement by the EU to allow Serbia and Montenegro to proceed on separate accession tracks, the progress of negotiations on each state's gaining membership in the WTO quickened considerably. Accession for Serbia is now projected to come in 2008. USAID has advised on legislation to bring Serbia's laws into conformance with international and/or EU standards, and a number of key laws were enacted in FY 2005, including Laws on Copyright, Trademarks and Consumer Protection, and amendments to the Laws on Customs and Value Added Tax. At the end of September, the USAID-supported microfinance facility Opportunity International Serbia (OIS) was serving 2,998 clients, with an active portfolio of approximately \$7.5 million. Since its inception, OIS has made 7,436 loans totaling around \$20 million, with an excellent repayment record. To date, OIS loans have created 3,602 new jobs and sustained an additional 19,812 jobs.

Community Revitalization through Democratic Action-Economic Focus (CRDA-E): This year, CRDA programming efforts through community-driven projects demonstrated a natural progression towards local economic growth activities. Over 85% of the project's 713 projects targeted economic infrastructure or income-generating activities. As of the end of FY 2005, these activities created 10,700 full-time equivalent jobs and generated \$22 million in additional income and \$2.7 million in increased agricultural sales. The response of the communities has been extraordinary, with counterpart contributions averaging 50% of total project costs, demonstrating excellent buy-in to the new economic emphasis of the CRDA program.

Development Credit Authority (DCA): The DCA is a tool that USAID is using to expand lending to municipalities as well as microenterprises and SMEs. A \$10 million Loan Portfolio Guarantee for Municipal Lending with Raiffeisen Bank in Belgrade was signed in September 2005, and plans are underway to expand the program to other banks in FY 2006. This 15-year facility will enable municipalities in Serbia to get loans for capital investments on affordable commercial terms. Planning for two other DCAs started in FY 2005 to support lending to microenterprises and SMEs.

Donor Relations: The United States is Serbia's largest bilateral donor and coordinates its work closely with the Government of Serbia, other bilateral and multilateral donors, and international finance institutions. Other bilateral donors and their principal areas of focus include Germany (macroeconomic reform, municipal development through GTZ, infrastructure loans through KfW), Sweden (education and training, donor harmonization), Canada (social sector restructuring) and the United Kingdom (macroeconomic reform, local government). The primary multilateral donor in Serbia is the European Agency for Reconstruction (EAR), whose €154 million 2005 program focused on strengthening partnerships with the Government in its process of European integration, as well as fostering economic development and paving the way for investment from international financial institutions. Other multilateral donors include the World Bank (macroeconomic and public administration reform), the International Monetary Fund (fiscal and monetary policy), the European Bank for Reconstruction and Development (infrastructure and trade), the European Investment Bank (infrastructure) and the Organization for Security and Cooperation in Europe (civil society reform, rule of law). UNDP, with funding from the EAR, Germany, Canada, and the Netherlands, is working mainly in civil society development and the rule of law. Although humanitarian aid has dwindled significantly since 2000, a number of organizations such as UNHCR, the International Catholic Migration Commission, and the Danish Refugee Council still have small programs working with refugees and IDPs. On the strategic level, USAID participated in the Donor Coordination Group "Law in Transition," along with major bilateral and multilateral donors that jointly presented a list of critical laws to the new ruling coalition. On the program level, USAID staff coordinates closely with all donors working in the relevant areas on both formal and informal levels. Implementers participate in working groups in the areas of Southern Serbia, commercial law, media, coordination for presidential elections get-out-the-vote efforts and the rule of law.

III. Other Programs of Significance

Anti-Trafficking: USAID's program has included a number of measures aimed at prevention, victim protection, and assistance. These measures target foreign and Serbian victims, people at risk of being trafficked, and entities concerned with the care of trafficked victims. In FY 2005, 32 national and 28 foreign victims of trafficking received assistance through the USAID program. Of this number, 31 national victims received reintegration assistance, while 21 foreign victims benefited from pre-departure and return assistance. Eleven of these foreign victims also received temporary residence permits, following successful efforts in FY 2004 to secure temporary legal status. Other activities included an 11-month information campaign to reach out to high-school age populations in Serbia, comprising the distribution of 30,000 leaflets in Serbian, Roma language and Albanian, as well as the production and broadcasting of a TV spot and several radio shows. In addition, the Magistrates Association of Serbia provided training to almost all 800 Serbian magistrates on trafficking in persons, and produced three related training videos and a reference bench book.

Anti-corruption: With an eye on compliance with international best practices in the area of anti-money laundering and financial crime prevention, USAID worked with the U.S. Treasury to assist the Serbian Financial Intelligence Unit (FIU) to finish the first phase of creating the necessary IT infrastructure to receive and analyze information in electronic form from banks, insurance companies, exchange offices, and other government agencies as well as the National Bank of Serbia. Under the local government program, several activities directly or indirectly promote transparency or reduce corruption at the municipal level, including training on budgeting and financial management, combined with public budget hearings as well as procurement training. Four civil society organizations received grants to address transparency and anti-corruption issues to improve the existing legal framework, interpret vague provisions, address conflict of interest issues more appropriately in new regulations, and enhance public

awareness of key issues, current and new legislation, and policy implementation.

IV. Cross-cutting Activities

Global Development Alliances and Partnerships: The Mission is exploring opportunities with the Global Development Alliance (GDA) program. Through the Development Credit Authority (DCA), the Mission signed a \$10 million municipal loan guarantee with Raiffeisen Bank and is looking to expand the program in FY 2006. The Small Enterprise Assistance Funds (SEAF) has established a fund with USAID support to provide equity, in combination with technical and managerial assistance to SMEs, in companies across a diversified range of industries. Partners include donors, governments, the private sector, corporates, pension funds and foundations. Public-private partnerships to create business improvement districts have been established in four municipalities and a deal with Microsoft was signed to develop municipal e-business capabilities. The Mission has been actively exploring mechanisms to harness Diaspora funds and partnerships to support USAID objectives.

Gender: A gender assessment for Serbia and Montenegro was completed in March 2005. The assessment identified a number of best practices and provided recommendations for future consideration. In USAID's new strategy gender is a key cross-cutting issue. As under the former strategy, gender will continue to be integrated and institutionalized at all stages of the Mission's work, e.g. policy or activity planning, implementation, and monitoring evaluations.

For more information, go to www.usaid.org.yu

FY 2006 Program**SO: 169-0131 Democratic Governance of Market Economy Strengthened****Improve Economic Policy and the Business Environment**

Improve Economic Policy and the Business Environment (\$4,115,000 AEEB, \$700,000 AEEB prior year recoveries). USAID's activities will improve economic policy and governance, promote private sector growth, strengthen the financial sector, and broaden Serbia's participation in global trade. A new 52-month program, Serbia Economic Growth Activity (SEGA), will cover a broad range of macroeconomic issues: financial sector strengthening through work with the National Bank of Serbia (NBS) on banking, insurance, and private pension fund supervision; with the Securities and Exchange Commission (SEC) on capital markets supervision; and fiscal reform through close cooperation with the Ministry of Finance (MOF) on tax policy and administration, fiscal decentralization, and pension reform. Secured lending to the agriculture sector will be enabled through a Warehouse Receipts program allowing grain in storage to be used as collateral. Trade will be expanded through aid for Serbia's accession to the World Trade Organization (WTO) expected in 2008, and later to the European Union (EU), through help for bringing relevant laws into compliance with WTO and EU standards and negotiating a Stabilization and Association Agreement (SAA) with the EU. A new activity will focus on implementing the recently enacted Bankruptcy Law through training, information systems, and policy advice to help realize the potential of modern bankruptcy processes for strengthening the market economy. This activity will also improve confidence in the justice system by strengthening enforcement of commercial court judgments. Principal contractors: IBM Consulting and others to be determined.

Strengthen the Justice Sector

Strengthen the Justice Sector (\$4,805,000 AEEB, \$400,000 AEEB prior year recoveries). USAID assistance will focus on increasing efficiency of the courts, reducing the case backlog, helping Serbian law faculties orient their curriculum toward meeting the demands of a market economy, and providing capacity building and training to professional associations linked to the judiciary, including the Judges' Association, the Prosecutors' Association, the Magistrates' Association, and the Young Lawyers of Serbia. In FY 2006 USAID will initiate a new rule-of-law activity focusing on strengthening capacity of general courts, supporting economic growth as well as judicial ethics and transparency. The Commercial Courts Administration & Strengthening Activity (CCASA) will continue to improve the efficiency of the commercial courts and help the judiciary understand the new market-oriented laws so that entrepreneurs and investors get a fair hearing in disputes over contracts and other business matters. Principal contractors: Booz-Allen-Hamilton (BAH), the American Bar Association/Central European and Eurasian Law Initiative (ABA/CEELI), and others to be determined.

Strengthen the Legislative Function/Legal Framework

Strengthen the Legislative Function/Legal Framework (\$4,000,000 AEEB, \$400,000 AEEB prior year recoveries). In FY 2006, USAID plans to strengthen the legal framework for business development in Serbia through aid in formulating and implementing laws and regulations needed to build the market economy, in such areas as tax reform, financial sector supervision, secured lending, and international trade, through the new SEGA and Warehouse Receipts activities and the continuing WTO accession program. A new activity will strengthen the capacity of the Serbian National Assembly to analyze and deliberate on legislation and to assess the impact of legislation affecting economic growth and investor confidence. A particular focus will be on parliamentary oversight of government programs and public access to information on parliamentary activities. Principal contractors: to be determined.

FY 2007 Program**SO: 169-0131 Democratic Governance of Market Economy Strengthened****Improve Economic Policy and the Business Environment**

Improve Economic Policy and the Business Environment (\$6,500,000 AEEB). USAID intends to further engage in the implementation of economic policy and financial measures designed to improve the investment climate. SEGA will begin work on a combined revenue collection and accounting system in the Serbian Tax Administration to establish individual accounts for tax and pension payments and support activities under the World Bank Pension Administration Loan. Assistance for Bankruptcy Law implementation and enforcement of judgments will continue, with development of key institutions and training of all personnel involved. Public information efforts will show the utility of financial reorganization under the Bankruptcy Law. Support for WTO and EU accession will continue as well as a focus on trade capacity development.

Strengthen the Justice Sector

Strengthen the Justice Sector (\$4,500,000 AEEB). USAID intends to continue support for strengthening the legal framework for economic growth and to build on results achieved. CCASA will end during FY 2007, with all information systems installed and extensive training provided to judges and other participants, resulting in significant improvements to the commercial court system. The rule-of-law activity initiated in FY 2006 will continue to strengthen general court systems and legal professionals.

Strengthen the Legislative Function/Legal Framework

Strengthen the Legislative Function/Legal Framework (\$4,500,000 AEEB). USAID plans to assist the MOF and Treasury to implement the new income tax law resulting from FY 2006 assistance. The parliament support activity will get underway and will result in improved deliberations on economic legislation.

FY 2006 Program

SO: 169-0132 Enterprise Growth Increased In High Potential Sectors and Municipalities

Improve Private Sector Competitiveness

Improve Private Sector Competitiveness (\$22,962,264 AEEB, \$628,782 AEEB prior year recoveries). USAID will continue the community based Community Revitalization through Democratic Action-Economic (CRDA-E) program to revive economic growth at the local level. This community-based program was revised in FY 2005 to focus on local economic development. CRDA-E engages key stakeholders at the local level in building economic growth through a sector- and municipal-level focus. In FY 2006 USAID will continue enterprise development by supporting accelerated growth in five sectors (fruit, apparel, information and communication technology, pharmaceutical research, and tourism) through the existing Serbia Enterprise Development Project (SEDP). Support for micro-enterprise and small- and medium-enterprise (SME) development will continue through existing programs on micro-enterprise lending. A new fund, the Small Enterprise Assistance Fund (SEAF), will provide equity and quasi-equity financing (long-term debt financing) to promote promising venture opportunities, in combination with technical and managerial assistance to South Balkan enterprises. USAID will expand its Development Credit Authority (DCA) program to increase key sectors' access to finance, enhance lending to SMEs, and enable municipalities to secure needed financing for infrastructure development and local economic development. USAID anticipates transferring \$1,000,000 to a Development Credit Authority (DCA) to support \$10 million in loans to SMEs; support for a bond guarantee to capitalize ProCredit bank for micro-enterprise lending; and funds for expanded municipal infrastructure loans. CRDA-E will continue to promote local economic growth and job creation, including access to credit, marketing and exporting for SMEs. In conjunction with SEDP, CRDA-E will increase competitiveness of the tourism industry, support community development centers and regional development agencies, and provide small grants to vulnerable populations to establish micro-enterprises. In addition, USAID will continue assistance to the Serbian Junior Achievement Program. Principal partners: Booz Allen Hamilton (prime), Opportunity International, America's Development Foundation (prime), the University of Delaware's FLAG

International (sub), and the International Executive Service Corps (sub); Mercy Corps International (prime), Deloitte, Touche, Tomatsu (sub); International Relief and Development, Inc. (prime), the United Methodist Committee on Relief (UMCOR) (sub), Camp, Dresser, McKee International (sub); ACDI/VOCA (prime), Overseas Strategic Consulting, Ltd (sub); CHF International (prime), and others to be determined.

Support Democratic Local Government & Decentralization

Support Democratic Local Government & Decentralization (\$7,982,736 AEEB, \$250,000 AEEB prior year recoveries). USAID initiated at the end of FY 2005 a three-year Municipal Economic Growth Activity (MEGA). MEGA will build on the current local government program that is coming to a close, a capacity-building program that addressed key constraints in municipal management by focusing on the municipal role in local economic development. MEGA has four principal areas: national advocacy for decentralization; municipal economic development planning and implementation; private sector development; and capacity development in municipal functions key to economic development. During the first phase of implementation the new activity will focus on 10 municipalities that constitute centers of regional economic development to develop the skills of local governments and local business groups to foster economic growth and job creation, assist communities to put these concepts and skills into practice, and help them create business-friendly environments where the local private sector may flourish. Principal partners: the Urban Institute and DAI.

FY 2007 Program

SO: 169-0132 Enterprise Growth Increased In High Potential Sectors and Municipalities

Improve Private Sector Competitiveness

Improve Private Sector Competitiveness (\$15,000,000 AEEB). USAID will continue support for SME development through existing lending programs, SEAF and further expansion of DCAs, to capitalize on micro-enterprise transitional growth as a result of prior assistance. New programs aimed at improving private-sector competitiveness and local economic growth will be designed to build on results achieved through major local economic development programs expected to end during FY 2007. New activities will focus on areas such as: business/trade development; association and capacity building; training of youth, and increasing public/private sectors investments.

Support Democratic Local Government & Decentralization

Support Democratic Local Government & Decentralization (\$10,882,000 AEEB). As an adjunct to MEGA, USAID will initiate the City Links program to pair Serbian municipalities with American cities, promoting American best practices in local economic development and promoting bilateral ties between the United States and Serbia. USAID will continue support to select municipalities that constitute centers of regional economic development through MEGA and the City Links Program, pairing Serbian municipalities with the U.S. cities. The municipal DCA is expected to be supplemented with additional loans offered through various local banks. Other activities are under review for improving the business environment that could include expanding the MEGA program to other municipalities, supported with additional technical assistance and the capacity-building of national and municipal institutions for improving trade.

FY 2006 Program

SO: 169-0211 Risk of Political Instability Reduced

Protect and Increase the Assets and Livelihoods of the Poor

Protect and Increase the Assets and Livelihoods of the Poor (\$6,900,000 AEEB, \$250,000 AEEB prior year recoveries). This program will address local-level economic/social factors that contribute to the risk of instability or conflict. Activities will focus on several "vulnerable areas" or populations and develop local

and national capacity to respond to different types of crises and emergencies. The program will initially rely on the existing Community Revitalization through Democratic Action - Economic (CRDA-E) program, particularly in Southern Serbia, to promote economic growth, security, and job creation. These activities will be complemented by other USAID efforts. The activity will also capitalize on existing local economic development committees, community development centers, and regional development agencies to promote micro-enterprise and will continue assistance to the Junior Achievement program. A new economic/social activity will be initiated in select vulnerable areas that will gear up as CRDA-E winds down. USAID will also design a new program to develop crisis planning and management skills at the local and national levels and to ensure rapid and effective response to potential crisis. Principal partners: Cooperative Housing Foundation International and others to be determined.

Strengthen Civil Society

Strengthen Civil Society (\$3,000,000 AEEB). USAID will provide grants, training, and technical assistance to strengthen NGO capacity to support and monitor a range of democratic reforms (including human rights, truth and reconciliation, Serbia's reintegration into the Balkans, accession to the European Union (EU), and transparency in government). The program will focus on non-governmental organization (NGO) advocacy skills, professional and financial management, and fundraising capacity; the legal environment for NGOs and independent media; media privatization; and professional and business skills for independent media. Principal partners: to be determined.

Strengthen Democratic Political Parties

Strengthen Democratic Political Parties (\$1,400,000 AEEB). USAID will support a more responsive, democratic political system by strengthening the capacity of political parties to access and incorporate citizen input, develop party platforms and policies, and communicate effectively with party members and citizens. Assistance will also prepare democratic parties, both in and out of power, to govern more effectively, foster issue-based coalitions, strengthen political party caucuses, and enhance internal democracy. This work is closely integrated with support for free and fair elections, focusing on developing campaign messages, recruiting grassroots volunteers, and targeting voters. USAID programming aims to include ethnic minorities, women and youth in the political process. Principal partners: International Republican Institute and National Democratic Institute.

FY 2007 Program

SO: 169-0211 Risk of Political Instability Reduced

Protect and Increase the Assets and Livelihoods of the Poor

Protect and Increase the Assets and Livelihoods of the Poor (\$3,071,000 AEEB). As the CRDA-E program closes out in late FY 2007, USAID will expand work initiated in FY 2006 to improve economic opportunities, enhance economic security in vulnerable areas, and continue developing local and national capacity to deal with various types of potential crises and emergencies.

Strengthen Civil Society

Strengthen Civil Society (\$3,500,000 AEEB). In FY 2007, USAID will continue to build NGO capacity to conduct sustained campaigns to analyze and influence public policy and serve as government watchdogs, particularly on reforms required for EU accession, as well as support the professionalism and sustainability of independent, private media.

Strengthen Democratic Political Parties

Strengthen Democratic Political Parties (\$1,400,000 AEED). USAID will continue to build a more responsive, democratic political system by strengthening the capacity of political parties, with a greater emphasis on internal and external communication. USAID will also continue to foster issue-based coalitions, strengthen political party caucuses, and enhance internal democracy. Programming will continue to support the inclusion of ethnic minorities, women, and youth.

FY 2006 Program

SO: 169-0420 Cross-Cutting Programs

Program Support

Program Support (\$2,600,000 AEED, \$3,286,313 AEED carryover). Resources provide salary and logistical support for all of its program-funded personnel and the operational costs of the four field offices that currently monitor and manage many of USAID's programs in Serbia. The field offices may be re-located during this fiscal year as the Mission's new strategy begins implementation and the Mission can more accurately pinpoint where resources should be located in order to most effectively monitor its new programs. Additionally, the costs to design new activities planned under the new Strategic Plan, audits, and evaluations and assessments of ongoing activities will be borne by this objective. USAID intends to initiate a human and institutional capacity development activity in FY 2006 that will focus primarily on participant training and upgrading human capacity of Serbia's private and public sector. During FY 2006, the Mission intends to conduct the following assessments and evaluations: evaluation of Serbia Enterprise Development Project (SEDP) and assessment of current judicial apparatus for handling bankruptcy cases.

FY 2007 Program

SO: 169-0420 Cross-Cutting Programs

Program Support

Program Support (\$2,327,000 AEED). Resources provide salary and logistical support for all of its program-funded personnel and the operational costs of the four field offices that currently monitor and manage many of USAID's programs in Serbia. An increasing portion of the funds requested here (in comparison to FY 2006) will be used for activity design, evaluations, audit, and training. USAID intends to further expand the human and institutional capacity development activity initiated in FY 2006 that will focus primarily on participant training and upgrading human capacity of Serbia's private and public sectors.

Results Framework

169-0130 Accelerated Development and Growth of Private Enterprise

Program Title: Economic Policy and Finance

IR 169-0131: Financial and Banking Systems Stabilized and Restructured

IR 169-0132: State and Socially-Owned Enterprises Privatized

IR 169-0133: Commercial and Related Laws Enhanced and Strengthened

IR 169-0134: Serbia and Montenegro/Serbian Economy Reconnected to International and Regional Market Networks

169-0131 Democratic Governance of Market Economy Strengthened

Program Title: Economic Policy and Governance

169-0132 Enterprise Growth Increased In High Potential Sectors and Municipalities

Program Title: Local Economic Growth

169-0200 More Effective, Responsive, and Accountable Democratic Institutions

Program Title: Democracy and Governance

IR 169-0201: Capacity and Competitiveness of Independent Media Enhanced

IR 169-0202: Civil Society, Political Party, and Trade Union Capacity to Serve and Represent Citizen Interests

IR 169-0203: Rule of Law Increased

IR 169-0204: Record of Largely Free, Fair Elections Established

169-0210 Increased, Better Informed Citizens' Participation in Political and Economic Decision Making

Program Title: Community Development and Local Governance

IR 169-0211: Citizens Improve their Living Conditions through Participation in Community Development Committees

IR 169-0212: Improved Interactions Between Citizens and Local Governments

IR 169-0213: Transparent Financial Management and Improved Service Delivery by Local Governments

IR 169-0214: Broadened Minority Participation in the Political Process and Decision-Making

169-0211 Risk of Political Instability Reduced

Program Title: Democracy and Economic Security

169-0230 More Effective, Responsive and Accountable Local Government

Program Title: Local Governance

169-0310 Humanitarian Community Services and Facilities

Program Title: Humanitarian Assistance

169-0410 Special Initiatives

Program Title: Special Initiatives

169-0420 Cross-Cutting Programs

Program Title: Cross-Cutting Programs