



# FINAL REPORT

## Evaluation of effectiveness and efficiency of development assistance to the Republic of Serbia per sector

*Reference:*

**SWE14/OC01-18**



Conducted by:  
**Maxima Consulting**



In partnership with InTER



## TABLE OF CONTENTS

<b>LIST OF ABBREVIATIONS</b> .....	ii
<b>1. INTRODUCTION</b> .....	1
<b>2. APPROACH AND METHODOLOGY</b> .....	2
<b>3. THE EVOLVING CONTEXT FOR PROGRAMMING ODA</b> .....	5
<b>4. EVALUATION BY SECTOR</b> .....	9
<i>Rule of law</i> .....	13
<i>Public administration reform</i> .....	22
<i>Civil society, media and culture</i> .....	29
<i>Competitiveness</i> .....	34
<i>Human resources development</i> .....	42
<i>Agriculture and rural development</i> .....	48
<i>Transport</i> .....	54
<i>Environment and energy</i> .....	60
<b>5. INTER-SECTOR AND HORIZONTAL THEMES</b> .....	68
<i>The impact of governance on ODA</i> .....	71
<i>Piloting the sector-based approach in 2007-2011</i> .....	74
<i>Borrowing to develop</i> .....	77
<i>Alternative modalities</i> .....	81
<b>6. OVERALL EVALUATION FINDINGS</b> .....	86
<i>Relevance</i> .....	86
<i>Effectiveness</i> .....	88
<i>Efficiency</i> .....	91
<i>Impact</i> .....	94
<i>Sustainability</i> .....	96
<b>7. CONCLUSIONS AND RECOMMENDATIONS FOR 2014-2020</b> .....	99
<i>Recommendation 1: Concentrate and integrate ODA to maximise its impact</i> .....	101
<i>Recommendation 2: Strengthen policy planning and coordination at CoG</i> .....	105
<i>Recommendation 3: Apply rules for the most effective &amp; efficient modalities</i> .....	109
<i>Recommendation 4: Establish monitoring &amp; evaluation systems and culture</i> .....	113
<b>ANNEX A: ORGANISATIONS INTERVIEWED</b> .....	116
<b>ANNEX B: INTEGRATED TERRITORIAL INVESTMENT</b> .....	118

## **LIST OF ABBREVIATIONS**

<b>ALMP</b>	Active labour market policies
<b>ARD</b>	Agriculture and rural development
<b>CARDS</b>	Community Assistance for Reconstruction, Development and Stabilization
<b>CFCU</b>	Central finance and contracting unit
<b>CHP</b>	Combined heat and power
<b>CoG</b>	Centre of Government
<b>CSO</b>	Civil Society Organisation
<b>CSW</b>	Centres for Social Work
<b>DAC</b>	Development Assistance Committee
<b>DACU</b>	'Donor Aid Coordination Unit' ( <i>formal title - Sector for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance</i> )
<b>DIS</b>	Decentralised Implementation System
<b>DMSCA</b>	Directorate for Management of Seized and Confiscated Assets
<b>EAS</b>	Environmental Approximation Strategy
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EC</b>	European Commission
<b>EIB</b>	European Investment Bank
<b>ETC</b>	European territorial cooperation
<b>EU</b>	European Union
<b>EUD</b>	European Union Delegation
<b>FDI</b>	Foreign direct investment
<b>FMC</b>	Financial management and control
<b>GCR</b>	Global Competitiveness Report
<b>GDP</b>	Gross Domestic Product
<b>GEF</b>	Global Environment Facility
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit
<b>GOP</b>	Annual Operational Planning ( <i>in Serbian</i> )
<b>GVA</b>	Gross value added
<b>HPP</b>	Hydro power plant
<b>HRD</b>	Human resources development
<b>HRM</b>	Human resources management
<b>ICIP</b>	Improved SME Competitiveness and Innovation project
<b>ICT</b>	Information and Communications Technology
<b>IFI</b>	International Financial Institutions
<b>ILO</b>	International Labour Organisation
<b>IMC</b>	Inter-municipal cooperation
<b>IMG</b>	International Management Group
<b>IOM</b>	International Organization for Migration
<b>IPA</b>	Instrument for Pre-accession Assistance
<b>IPARD</b>	Instrument for Pre-Accession Assistance in Rural Development
<b>IPF</b>	Infrastructure Projects Facility
<b>IR</b>	Inception Report

<b>IRB</b>	Independent regulatory body
<b>ISDACON</b>	Inter-sectorial Development Assistance Coordination Network
<b>IT</b>	Information technology
<b>JICA</b>	Japan International Cooperation Agency
<b>LSG</b>	Local self-government
<b>MAFWM</b>	Ministry of Agriculture, Forestry and Water Management
<b>MDTF-JSS</b>	Multi donor trust fund for justice sector support
<b>MEGA</b>	Municipal Economic Growth Activity
<b>MFE</b>	Ministry of Finance and Economy
<b>MIPD</b>	Multi-annual Indicative Planning Document
<b>MISP</b>	Municipal Infrastructure Support Programme
<b>MoLSP</b>	Ministry of Labour and Social Policy of the Republic of <i>Serbia</i>
<b>MSP</b>	Municipal Support Programme
<b>NAD</b>	Needs Assessment Document
<b>NALED</b>	National Alliance for Local Economic Development
<b>NAO</b>	National Authorising Officer
<b>NARD</b>	National Agency for Regional Development
<b>NES</b>	National Employment Service
<b>NIPAC</b>	National IPA Coordinator
<b>NKEs</b>	Non Key Experts
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OSCE</b>	Organisation for Security and Cooperation in Europe
<b>PAO</b>	Programme Authorising Officer
<b>PAR</b>	Public administration reform
<b>PHARE</b>	Poland and Hungary: Assistance for Restructuring their Economies
<b>PIU</b>	Project Implementation Unit
<b>PPF</b>	Project Preparation Facility
<b>PRAG</b>	Practical Guide to contract procedures for EU external actions
<b>PUC</b>	Public Utility Companies
<b>R&amp;D</b>	Research and development
<b>RDA</b>	Regional Development Agency
<b>REDAŠP</b>	Regional Economic Development Agency for Šumadija and Pomoravlje
<b>RGA</b>	Republic Geodetic Authority
<b>ROM</b>	Results-oriented monitoring
<b>RRA</b>	Regional Development Agency ( <i>in Serbian</i> )
<b>RWMC</b>	Regional waste management centre
<b>SAA</b>	Stabilisation and Association Agreement
<b>SAI</b>	Supreme Audit Institution
<b>SAP</b>	Stabilisation and Association process
<b>SBA</b>	Sector-based approach
<b>SDC</b>	Swiss Cooperation Office
<b>SECO</b>	Sectoral Civil Society Organisation
<b>SENECO</b>	South-East European Network of Excellence of Cluster Organisations
<b>SEIO</b>	Serbian European Integration Office

<b>SIDA</b>	Swedish International Development and Cooperation Agency
<b>SIGMA</b>	Support for Improvement in Governance and Management
<b>SLDP</b>	Sustainable Local Development Program
<b>SME</b>	Small and Medium-sized Enterprise
<b>SORS</b>	Statistical Office of the Republic of Serbia
<b>SPO</b>	Senior Programme Officer
<b>STAR</b>	Transitional Agriculture Reform project
<b>SWG</b>	Sector Working Group
<b>TA</b>	Technical assistance
<b>ToR</b>	Terms of reference
<b>TPP</b>	Thermal power plant
<b>UNDP</b>	United Nations Development Programme
<b>UNECE</b>	United Nations Economic Commission for Europe
<b>UN-HABITAT</b>	United Nations Human Settlements Programme
<b>UNHCR</b>	United Nations High Commissioner for Refugees
<b>UNICEF</b>	United Nations Children’s Fund
<b>UNOPS</b>	United Nations Office for Project Services
<b>USAID</b>	United States Agency for International Development
<b>VEEDA</b>	Regional economic and entrepreneurship development agency Pčinja district
<b>VET</b>	Vocational education and training
<b>WBIF</b>	Western Balkans Investment Framework
<b>WEM</b>	Women Entrepreneurship Mentors
<b>WENS</b>	European Network of Female Entrepreneurship Ambassadors
<b>WHO</b>	World Health Organisation
<b>YEM</b>	Youth Employment and Migration

## 1. INTRODUCTION

The purpose of this evaluation is to provide an impartial and comprehensive assessment of the effectiveness and efficiency of the international development assistance to the Republic of Serbia for each sector (and thematic sub-sector) in the period 2007-2011. The overall objective is to contribute to the effectiveness of international development assistance programming, by ensuring the quality of relevant mid-term planning documents. The evaluation has been performed by Maxima Consulting, in partnership with InTER, financed by the Swedish International Development Cooperation Agency (SIDA) and managed by IMG, in partnership with the beneficiary, the Serbian European Integration Office (SEIO).

This is the first time that the impact of all official development assistance (ODA) from all donors has been evaluated in Serbia over an extended period: in effect, a **country evaluation, with a sector based approach**. It draws upon performance data and meta-analysis of monitoring and evaluation studies, where available, and the experiences and insights of a range of stakeholders and interested parties in ODA's programming and management, to assess and understand better the underlying causes and effects, and most crucially, to learn lessons, rather than simply pick over the past.

This is also intended as a **strategic evaluation**. It is calculated that there were well over 1,400 projects (grants and concessional loans) active in 2007-2011 involving 30 development partners – EU, bilateral, multilateral partners (including IFIs). It would not be feasible to evaluate every project in detail within the available timeframe and resources. Instead, we have looked at the relevance, effectiveness, efficiency, impact and sustainability of assistance as a whole, at the level of the eight sectors in the Needs Assessment Document (NAD) for 2011-2013: public administration reform; rule of law; civil society, media and culture; competitiveness; human resources development; agriculture and rural development; transport; and environment and energy. From 2014, the NAD will be titled 'National Priorities for International Assistance'.

This evaluation does not intend to be 'wise after the event', exhibiting perfect hindsight. It would be easy to fall into the trap of assessing the performance of ODA that was programmed in the early-mid 2000s from the perspective of today's structures and state of development. For example, there was **no sector-based approach until the end of this period**, the 'eight NAD sectors' only emerging in Serbia in late 2010 for planning purposes for 2011-2013, and the system of sector working groups and aid coordination has also evolved throughout the period. Instead, the evaluation takes account of the situation as it was and not how it could have been; what was planned and could be reasonably anticipated; what occurred in real-time and therefore what can be learned from this experience for programming now.

Ultimately, this evaluation seeks to answer the questions: what has been achieved with ODA in 2007-2011, and what worked (or did not) and why, to inform the updating of the NAD<sup>1</sup> and future programming of international assistance, including IPA 2014-2020.

---

<sup>1</sup> For 2014-2017, with projections up to 2020

## 2. APPROACH AND METHODOLOGY

The evaluation takes, as its starting point, the OECD/DAC **definition** of official development assistance (ODA)<sup>2</sup>, as:

*“provided by official agencies, including state and local governments, or by their executive agencies; and each transaction of which: a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).”*

The evaluation covers all ODA within this definition that was either **implemented or completed in the period 2007 to 2011**. Hence, this embraces projects which were programmed and launched before 2007 (including some CARDS-funded projects, for example), and those that continued into 2012 and beyond.

In line with the ToR, the evaluation considers ODA performance against the OECD/DAC **criteria**:

- **Relevance** - The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies;
- **Effectiveness** - The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance;
- **Efficiency** - A measure of how economically resources/inputs (funds, expertise, time etc.) are converted to results (outputs and outcomes);
- **Impact** - Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended; and
- **Sustainability** - The continuation of benefits from a development intervention after major development assistance has been completed; the probability of continued long-term benefits; the resilience to risk of the net benefit flows over time

The evaluators were asked by the 'Donor Aid Coordination Unit (DACU)'<sup>3</sup> within SEIO at the kick-off meeting to also look specifically at the experience with different **modalities and delivery mechanisms**, including the role of technical assistance, twinning and other forms of service

---

<sup>2</sup> <http://www.oecd.org/dac/aidstatistics/34086975.pdf>

<sup>3</sup> The official title of the Department within SEIO is the 'Sector for Planning, Programming, Monitoring and Reporting on EU Funds and Development Assistance', but DACU is used throughout this report as shorthand. 'DACU' was originally located within the Ministry of Finance at the start of the evaluation period, but was merged with SEIO in July 2010

agreement (contribution agreements and indirect centralised management), and project implementation units (PIUs) outside the formal ministry structures.

In order to manage this extensive evaluation within the short timeframe, the three 'key experts' (KEs) in the approved **project team** was expanded with the addition of 'non-key experts' (NKEs) with considerable experience of evaluation and the Serbian context. Each expert was assigned one or more of the eight sectors, as follows, overseen by the project director, Ms Jasmina Krunic:

<b>Expert</b>	<b>Position</b>	<b>Sector(s)</b>
Iain Mackie	TL & KE1	Public administration reform; environment and energy
Dr Bernard O' Sullivan	KE2	Rule of law; transport
Dr Marie Kaufmann	KE3	Agriculture and rural development
Dragisa Mijačić	NKE	Competitiveness
Paul Georis	NKE	Human resources development
Zehra Kačapor-Dzihić	NKE	Civil society, media and culture

The principal source for **project-level data**, and hence the scope and scale of the sectors being evaluated, is the ISDACON Information System (IS). ISDACON is a huge asset for an evaluation of this nature, which would be impossible to complete within the timeframe without a comprehensive database that lists projects (ideally with accompanying descriptions), donors, total values over the project's entire timespan, and estimated 'spending' during 2007-2011<sup>4</sup>.

The first action of the evaluation team during the **inception phase** (21 January to 8 February 2013) was to convert the raw data from ISDACON into a pivot table which would allow additional fields to be added for themes (within sectors) and fields of intervention (within themes) and to perform cross-tabulations for the evaluation. As a system that has evolved over the past 8 years and continues to do so, it is to be expected that the quality of the contents varies, particularly within earlier data entries, and inevitably there are also some gaps and inaccuracies. Any database is only as good as the data entered into it, and it is clear from the evaluation interviews that not all donors and ministries provide information on their projects on a consistent basis, particularly where there is a bilateral agreement between donor and beneficiary that is not coordinated with SEIO and ends up unreported. Furthermore, the data is drawn from the 'donation' element of ISDACON, which is entered by SEIO staff (as one among many tasks) and is the most complete and reliable, but is based on whole project fiches (in the case of EU funds), which can include several components and contracts, and programmes which contain many individual grants or loans (in the case of other donors). As ISDACON is a classic 'public good', accessible to all, it is in the interests of the whole user community that it is as up-to-date and accurate as possible. Where we have come across a project of substantial size and significance that is not in the database, we have added it to the pivot table for the purposes of the evaluation.

---

<sup>4</sup> Disbursement is calculated in two ways: in the case of budget support and loans, and other ODA provided in cash, ISDACON records actual receipts to the Treasury account; in the case of all other ODA, provided in services/ goods/ works the budgeted allocation is profiled on a quarterly basis according to the monetary values of expected implementation/ benefits accruing to Serbian beneficiaries (not contract values and cash payments)



All figures for numbers of projects, allocations and disbursement in this report should be taken as **approximations** (they are henceforth described as estimates). Given this is a strategic evaluation, not an audit, the value of these numbers is the indication of scale of ODA, and hence the emphasis, when comparing the resources directed towards a sector or theme against another.

Following the inception period, the **implementation phase** of the evaluation, covering desk research, fieldwork and report preparation, has spanned seven weeks (11 February to 29 March 2013). Based on the methodology agreed with SEIO and IMG in the inception report, the evaluation team has reviewed background research, policy papers, EC progress reports, existing monitoring and evaluation documents provided by donors, including 87 ROM reports for IPA projects, and participated in 101 meetings with **67 organisations** (listed in Annex A), including some ministries and other bodies more than once. Given the strategic and multi-sectorial nature of this evaluation, and finite time, the approach has been to gather a 'mosaic' of experiences and perspectives, drawn from:

- EU, bilateral and multi-lateral **donors** that are the source of the ODA (including the 10 largest that were active in the majority of sectors), each of which has its own objectives, strategy, rules, expectations and perceptions of performance;
- Persons responsible for programming and monitoring in **SEIO and 'IPA units'** (the relevant departments for European integration and international cooperation) in all Serbian line ministries, being particularly well placed to offer insights on ODA performance against all five evaluation criteria;
- A selection of **beneficiaries** of ODA, either individual projects or portfolios of assistance, drawn from public bodies (ministries, agencies and public enterprises) and civil society organisations (CSOs) that are able to comment on their effectiveness and efficiency in achieving their goals;
- A range of **non-governmental 'commentators'** that are independent from the planning and management of ODA and are able to express an expert opinion on the overall benefits to Serbia within and across sectors.

In some cases, interviewees crossed more than one category, either being involved as both 'programmer' and recipient of specific ODA, or as a beneficiary that was also capable of providing an authoritative view on the sector more widely.

The key evaluation findings for each sector are summarised in section 4. As required by the ToR, this includes the evaluation team's assessment of performance against each of the OECD/DAC criteria, which is based on the information gathered through the interviews and reviews of project and other documentation (ROMs and evaluation studies). It also includes the team's thoughts and proposals for future interventions, as requested by SEIO ('sector-specific recommendations').

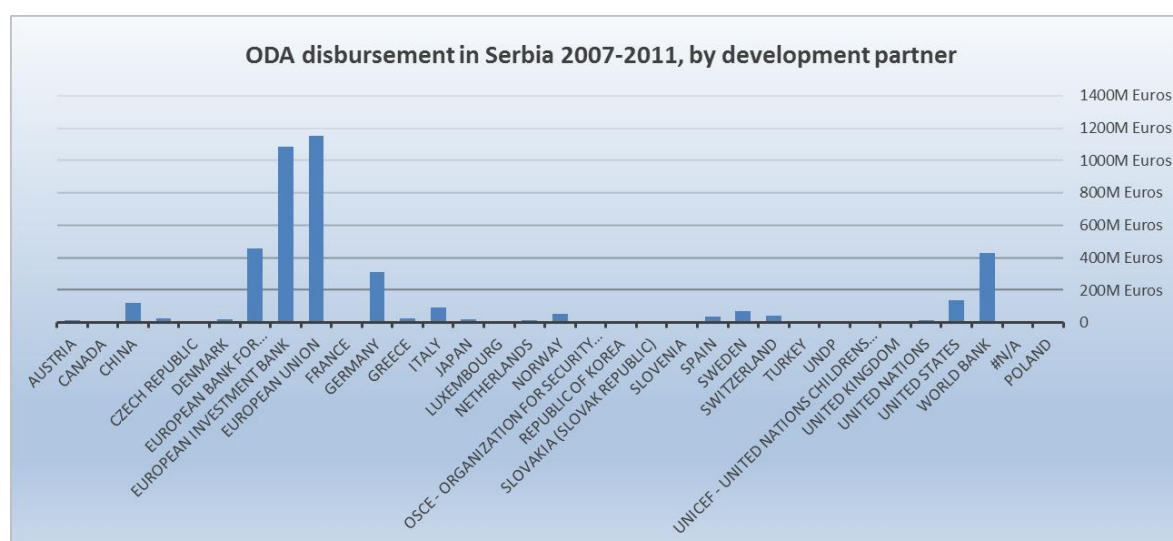
The next section sets the scene by comparing the environment for ODA programming in 2007-2011 with the context for our recommendations in 2014 and beyond.

### 3. THE EVOLVING CONTEXT FOR PROGRAMMING ODA

In the years preceding 2007 and throughout the evaluation period, **EU funds** (CARDS and IPA I) were programmed on an annual and project-centred basis. Starting from 2007, the Commission’s priorities for IPA over a three year period (on a rolling basis) were articulated in the Multi-annual Indicative Programming Document (MIPD), while Serbia’s expectations of all ODA were set out in its ‘Needs Assessment Document’ (NAD) on the same basis. Until 2011, the MIPD was structured according to the three Copenhagen principles of political criteria, economic criteria and *acquis* harmonisation, while the NAD was largely a long ‘wish list’ of possible intervention areas for ODA support for each ministry. For 2011-2013, the NAD and MIPD were both prepared according to the sector-based approach, albeit on marginally different formulations. The NAD was structured according to eight sectors, each being elaborated with a description and recent developments, strategic framework and sector priorities, measures, on-going activities, forecasts and future challenges; monitoring indicators were developed subsequently.

The timeframes for programming **CARDS and IPA projects** were very tight each year, with ministries invited to submit project concepts to DACU for review, before selected fiches were prepared and refined, and discussed with EUD and ultimately Brussels through several rounds, all within a few months. Scarce EU resources were always assigned across the full spectrum of public policy, neglecting no major field, such as public administration, rule of law, energy, environment, transport, HRD, civil society and so on, especially where there was a need to make progress with *acquis* approximation.

The EU has been the largest donor to Serbia throughout 2007-2011, but does not make the majority contribution. The **international financial institutions** (IFIs), especially EIB and EBRD, but also World Bank have been highly active before, during and after the period, as have **bilateral donors**, especially Germany (including KfW, also an IFI), the United States, Italy, Sweden, Norway and Switzerland, each of which has granted or lent more than €40 million across the majority of sectors. Beyond these largest 10 donors, significant contributions were made by other donors, particularly in specific sectors and localities



Source: ISDACON IS

Each bilateral donor had their own distinct **country strategies and priorities for Serbia**. Programming exercises are usually based on (in-depth) needs assessments and problem analysis in the area of interventions, following the strategic objectives of donor's development cooperation framework, and consulting with the national authorities about priorities for intervention. In many cases new programs and projects are based on previous interventions.

Broadly speaking, bilateral donors fall into two categories. The first group (eg GIZ and USAID) tend to be directly involved in implementation of the intervention usually design the project interventions themselves, in consultation with the targeted authorities and other beneficiary groups. The second group (eg SIDA, Norway, SDC, JICA) tend to provide support through development agencies, technical assistance consultancies or non-governmental organizations, and usually receive project applications from ministries and other beneficiaries before deciding whether or not to finance. In this category, there are cases of programming multi-donor interventions that comprise several bilateral and/or multilateral agencies.<sup>5</sup>

While the EU has timescales and eligibility conditions laid down in its Financial Regulation (and accompanying Implementing Regulations), and elaborated through the PRAG, other bilateral and multi-lateral donors have operated under very different regimes. For example, while EU service contracts for technical assistance tend to be one or two years, with possible extensions up to a further 50%, according to the contracting, execution and disbursement deadlines in the financing agreement with Serbia, some bilateral donors run and roll out their advisory projects for 5-7 years or longer. The pros and cons are discussed further in section 5 of this evaluation.

**Donor and aid coordination** was less evolved in 2007-2011 than it is today. Many of the structures that exist now, such as sector working groups and donor coordination groups, have only been designed and put in place by SEIO and its partners within the donor community over the last 3-4 years.

Against this background then, there were no sector allocations for 2007-2011, and neither baselines nor performance targets for sector interventions by ODA, which means that any sector-based evaluation of effectiveness, efficiency and impact can only be approximated. However, the three NADs covering 2007 to 2011<sup>6</sup> provide a helpful reference point, even though they are institution-centred, rather than sector-oriented, with longer term aspirational objectives.

In assessing the past, this sector-based country evaluation is mindful of the **'direction of travel' into the future**, and hence the changing climate for ODA programming and implementation.

The sector-based approach (SBA) is now being piloted under IPA 2012 and 2013, and is due to be applied **more systematically to multi-annual programmes in the next EU financial perspective**, as

---

<sup>5</sup> MIR, PRO, PROGRES and PBILD (see also section 5)

<sup>6</sup> NAD for 2007-2009; NAD for 2008-2010; NAD for 2009-2011

proposed in the draft 'IPA II' regulation covering 2014-2020<sup>7</sup>. In principle, this should generate several benefits compared with 2007-2011:

- ✓ Better coordination across ministries and other institutions within each sector, to agree objectives and measures for sector programmes and prioritise resource allocation;
- ✓ More considered and strategic analysis within a medium-term planning horizon;
- ✓ More time for consultation and engaging with stakeholders (socio-economic partners and civil society);
- ✓ Increased scope for synchronising IPA and national programmes with the plans and ongoing actions of bilateral and multilateral donors.

Until the IPA II regulation is adopted, some of the details can only be speculated, but the draft has already signalled a willingness to use all existing delivery mechanisms plus sector budget support, to encourage more 'blending' of grants and loans to maximise effectiveness and efficiency of limited funding, to impose more pre-conditions on releasing IPA funds ('X needs to be in place for Y to happen') and to simplify the administration.

The move to more systematic sector-based programming is likely to be accompanied by a shift in responsibility for the **management and implementation of EU funds** from the European Commission to the Serbian administration:

- CARDS and IPA were both subject to **centralised management** in 2007-2011, meaning the EU Delegation was fully responsible for tendering (works, supplies and services) and calls for proposals (grant schemes), selection, contracting (all agreements, including direct awards, contribution agreements and indirect centralised management) and payments. The Serbian administration (NIPAC and operating structures, namely the PAO and SPOs) participated in programming and monitoring, but the key roles affecting the EU's budget remained with EUD.
- Over the last 4-5 years, the national administration (NAO, NIPAC, National Fund and designated operating structures, including CFCU) have been preparing for **decentralised management** (in anticipation of candidate country status<sup>8</sup> which was awarded in 2012), whereby Serbia takes on the tendering, contracting and payment responsibilities from the EUD, after a rigorous process of assessment and accreditation, for each IPA component individually. These management powers have not been conferred on Serbia yet, but the final stage of accreditation has now been reached and a decision is currently awaited.

---

<sup>7</sup> Still to be adopted at the time of the evaluation, and expected in mid-2013

<sup>8</sup> Decentralised management is an obligation for candidate countries under the IPA regulation 2007-2011

The IPA II regulation is more ambiguous on future implications for Serbia’s management of EU funds, as it leaves open the option of centralised management continuing for candidate countries, being ‘status neutral’ between candidate and potential candidate countries. However, the **consequences of decentralised management** are significant, in several ways.

- First, it will increase the workload on the Serbian administration and ranges of duties, compared with 2007-2011, especially in the Ministry of Finance’s National Fund and CFCU, but also ‘IPA units’ within line ministries.
- Second, it will involve a shift from the ‘parallel co-financing’ system under centralised management, whereby Serbia demonstrated its commitment and contribution to the mainly EU-funded project by financing and implementing a complementary action, which was designed to achieve the overall project objective, including through IFI interventions. Under decentralised management, the system of ‘joint co-financing’ involves all funds – EU and domestic (potentially including IFI loans) - being channelled through the Serbian authorities, which has two implications: the project is implemented as a single initiative (avoiding the scope for synchronisation failures, as happened under parallel-financing), but also that the contribution from the Serbian side is unavoidable (the complementary actions were rarely monitored in the past).

In **summary**, the following table contrasts the reality of 2007-2011 with the expectations for 2014-2020, based on both IPA II and applying the principles of the Paris Declaration on Aid Effectiveness, to which Serbia, the European Commission and all bilateral donors active in Serbia are signatories.

<b>2007-2011</b>	<b>2014-2020</b>
Annual, project-oriented EU programmes - hence shorter-term analysis, more operational focus	Multi-annual, sector-based EU programmes – hence, medium-term analysis, more strategic vision
Many donors, but limited coordination (each had own strategies, priorities, preferences, procedures)	Fewer donors, but more effective coordination (applying the principles of Paris Declaration and SBA)
Centralised management of EU funds by EUD	Decentralised management of EU funds by Serbian authorities (with ex ante checks by EUD)
‘Parallel co-financing’ of EU projects to achieve % contribution by Serbian side (including IFIs )	‘Joint co-financing’ of programmes and projects with all EU and domestic (including IFI) monies channelled through the National Fund (or its future equivalent)
Non-refundable grants plus concessional loans	Greater blending of grants and loans
Works, supplies, TA / twinning / FWCs, contribution & delegation agreements, indirect centralised management, direct awards, grant schemes	All 2007-2011 aid instrument options, but more emphasis on global price TA for EU service contracts, and option of sector-based budgetary support
Monitoring of EU projects to manage performance in real-time	Monitoring of performance for real-time management plus evidence of results achieved as condition of future funding

## 4. EVALUATION BY SECTOR

### *Overview*

Based on our analysis of ISDACON IS data (adjusted through the fieldwork)<sup>9</sup>, the **1,432 active projects** in 2007-2011 consisted of 1,346 individual grant donations and 86 concessional loans.

- The estimated value of these projects accruing during 2007-2011 (“disbursement”) was **€4.2 billion**, of which grants accounted for €1.8 billion and loans for €2.4 billion.
- Taking the entire lifespan of each project, many of which commenced before 2007 and/or continue beyond 2011, their total value (“allocation”) was **€7.3 billion**, of which grants accounted for €2.6 billion and soft loans for €4.6 billion.

This scale of intervention averages €0.9 billion a year and can be expected to have a material effect on public policy and its implementation, in the context of annual average public expenditure<sup>10</sup> of around €12.7 billion for the whole of Government (central, provincial and local).

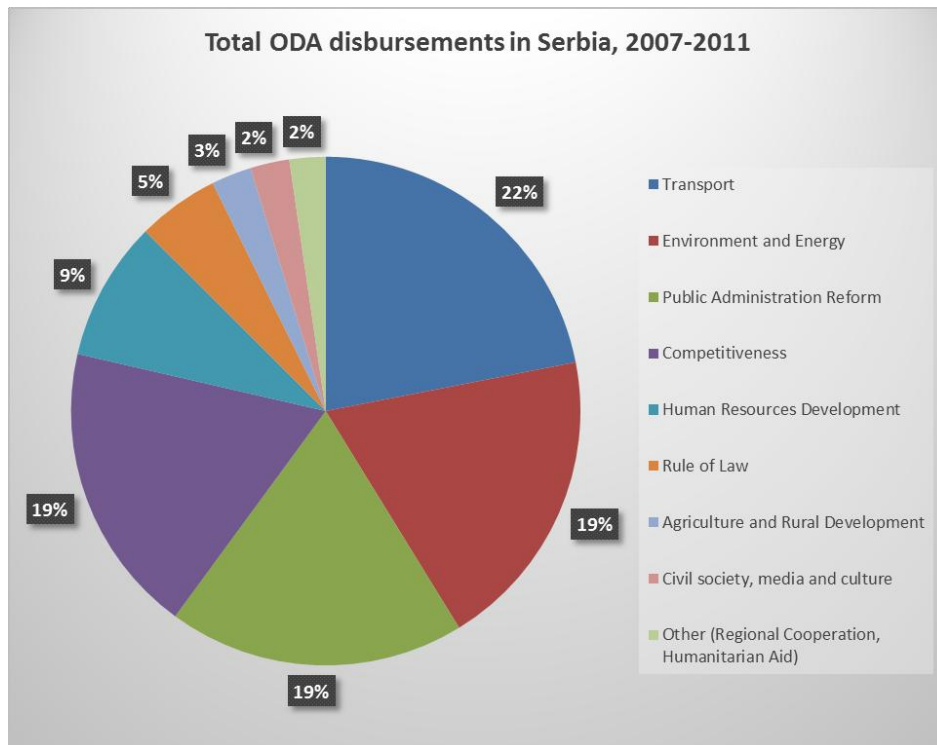
The differentiation of grants and soft loans is important, as loans represent the ‘lion’s share’ of ODA (63% of allocated assistance and 57% of disbursed assistance in the period) and must ultimately be repaid with interest, albeit on more favourable terms than the debt markets. Based on allocations, the average size of a loan was €54 million (although this includes packages of loans for municipal infrastructure), within a range of €1.9 million to €279 million, while the average size of a grant was around €1.9 million.

Based on disbursement data and our assignment of projects to sectors, the largest recipients of total ODA in 2007-2011 (see diagram overleaf) were transport (22% of all ODA), followed by public administration reform, environment and energy, and competitiveness (19% each). Together, these four sectors account for 79% of all donor-funded interventions.

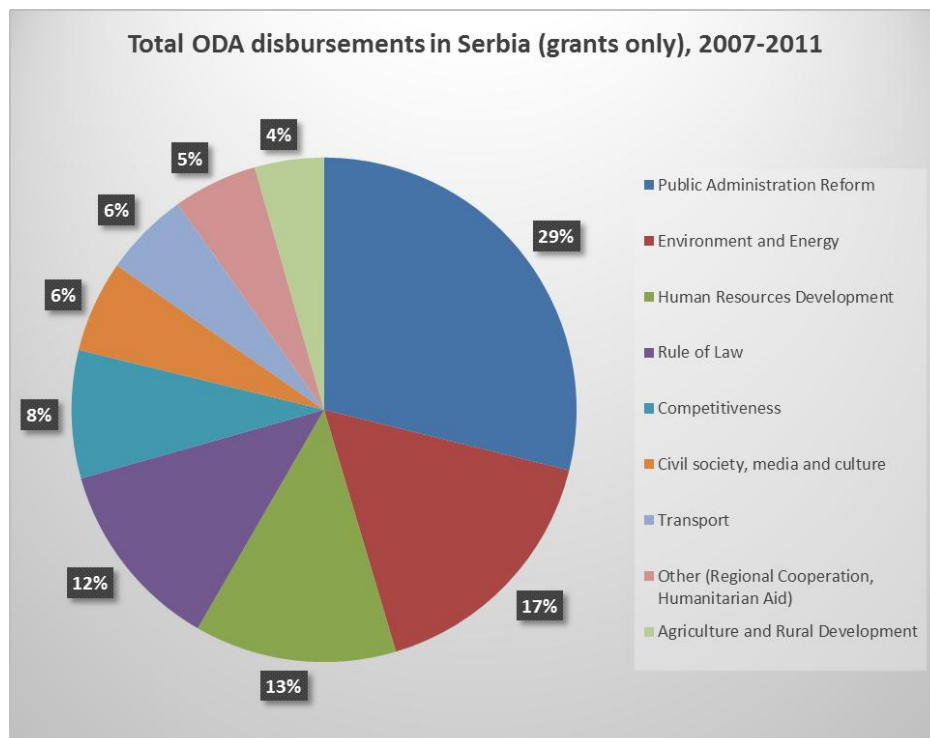
---

<sup>9</sup> The following data excludes two substantial items of general budgetary support that are registered on ISDACON (€200 million loan from the EU and €151 million equivalent loan from Russia) for financing the fiscal deficit, rather than for developmental purposes, which it was agreed to exclude from the evaluation in the inception phase. The €200 million loan for macro-financial assistance (MFA) from the EU (out of which only first tranche of €100 million was withdrawn/dispensed) will be subject of an independent evaluation launched by DG ECFIN in March 2013, in the context of a broader programme of evaluations of MFA operations.

<sup>10</sup> Consolidated general government expenditure (source: Ministry of Finance’s Public Finance Bulletin, July 2012), in nominal terms, averaged for the period 2007-2011 and converted at rough exchange rate of 100 RSD



Analysis of grant disbursement alone, however, presents a picture of aid more evenly spread, but dominated by public administration reform (29% of all grants) and followed by environment and energy (17%) human resources development (13%), and competitiveness (12%). These four largest sectors account for 71% of grant aid. The 'grant only' data highlights the importance of soft loans to transport (whose share of granted ODA is just 6%) and competitiveness (8%).



However, we have to be careful to not attach too much weight to percentage shares by sector, as the numbers reflect decisions regarding the assignment of projects to sectors, as highlighted in the inception report. In many cases, projects fall under several headings, and a decision must be taken to assign to the sector which reflects the dominant or ‘senior’ policy rationale based on the project’s purpose and expected benefits. There is also considerable overlap across sectors; we explore this issue further in section 5. In particular, the numbers for public administration reform (PAR) are inflated by the assignment of two multi-sectorial elements to the PAR sector:

- Budget support (with a developmental objective), through three donations<sup>11</sup>, worth a total allocation of €247 million, of which €242 million was disbursed in 2007-2011;
- Municipal development projects, often across several territories, with the main aim of institution-building in local self-government, but also covering multiple sectors (competitiveness, environment and energy, transport, agriculture and rural development and/or HRD, often with civil society involvement), through 30 projects with a total allocation of €324 million and disbursement in 2007-2011 of €200 million.

In order to make the sector-based evaluation manageable, we have broken down each sector into its constituent **themes**, each of which has its own coherence:

Sector	Theme	Description
Rule of law	Justice and judicial reform	Organisation, independence and efficiency of the judiciary and courts network, the prison system and use of alternative sanctions
	Fundamental rights, anti-discrimination and minorities	Establishment and protection of human and minority rights, prevention of torture, and tackling discrimination in all its forms, including against ethnic and religious groups
	Interior affairs	Police modernisation and reform, international cooperation, crime prevention, law enforcement, the fight against organised crime, tackling corruption, money-laundering and terrorist financing
	Security and defence	Structure, professionalization, equipment and training of the military and national security system
	Border cooperation, management and migration	Visa policy and liberalisation, border protection and control, the management of migration and asylum
	Internally displaced persons (IDPs) and refugees	Meeting the needs of internally displaced person and refugees, including housing and employment.
Public administration reform	Protection and rescue in irregular circumstances	Protection and rescue, disaster planning (except climate change and flood planning, which falls under environment and energy)
	Effective administration	Policy planning and coordination, (regulatory) impact assessment, the development of Serbia’s capacity for statistical analysis, and strategy development, particularly of a cross-cutting nature, and the basis for spatial planning across sectors, including cadastres, digital mapping and land use management
	Public finance management	Programme budgeting, budget execution (treasury functions), tax and customs administration, internal financial control and audit, debt management, general and multi-sector budget support, state aid
	Local governance	Strengthening of local self-government and municipal PUCs, transfer of functions and responsibilities from central government, regional policy and strategy, inter-municipal cooperation
	Efficient administration	Improving the performance of public services delivery and increasing value for money, including public procurement, professionalization, de-politicisation, rationalisation, human resources management (HRM) and development, information systems, IT, e-government

<sup>11</sup> €100 million grant under IPA 2009 and two concessional World Bank loans with the euro equivalent value of €76 million and €71 million



Civil society, media and culture	Accountable administration	Strengthening oversight of the executive, external audit functions, increasing transparency and enable citizens to exercise their rights, including support to the National Assembly, State Audit Institution, the Ombudsman's Office, and the availability of information of public importance
	EU accession and funds management	Programming and implementation of IPA (including DIS) and all actions to harmonise with the EU acquis that are not sector-specific (and hence covered by the scope of other sectors)
	Civil society	Development of civil society organisations (CSOs), individually and as the 'third sector'
	Media	Ensuring freedom of expression and information, broadcasting, electronic communication and data protection
Competitiveness	Culture	Preserving cultural identities, rights, diversity and heritage
	Conditions for competitiveness	Company law, competition policy and institutions, business-enabling environment / regulations, consumer rights and protection, market surveillance, product safety (except food which falls under ARD)
	Business competitiveness	Support to start-ups, micros, small and medium-sized enterprises, state-owned / public enterprises and privatisation, industrial zones and business parks, operating grants to RDAs
	Industrial policy and clusters	Support to specific industries (except agriculture, which falls under ARD), including tourism, financial sector, and support to foreign direct investment
Human resources development	Trade and export development	Trade policy, quality and conformity, support to exporting
	R&D, innovation and ICT	Intellectual property, science and research, technology transfer, incubators for innovative businesses, science and technology parks, e-commerce, information society, broadband communications infrastructure
	Employment and labour	Design and delivery of employment policy, including active labour market programmes, careers guidance, vocational rehabilitation and employment of people with disabilities, labour rights, occupational health & safety, working conditions & reducing the scope of the informal economy & employment
	Education and training	All forms of education (primary, secondary, tertiary, and adult), vocational education and training (VET), the national qualifications system
Agriculture and rural development	Social inclusion	(Re)integration of vulnerable, disadvantaged and marginalised groups, social welfare and social services
	Health	All aspects of public healthcare, including primary, secondary and tertiary, palliative, prevention and treatment, environmental health
	Youth policies	Interventions to support young people, including employment
	Institutional preparedness	Institutional preparedness, including the IPARD Agency (managing authority) and Payment Authority
Transport	Safety and standards	EU and other obligations relating to food safety, standards, animal health and welfare, inspection, control and certification
	Agricultural competitiveness	Production (cereals, fruit, vegetables, livestock), processing, productivity, marketing and exporting, outreach advisory services
	Forestry and fishing	Forestry development and fishing
	Sustainable rural development	Diversification of the rural economy, improve quality of life, reducing depopulation
Environment and energy	Policy framework for transport	Horizontal legal, strategic and institutional framework not covered by individual sub-sectors
	Road transport	Corridor X, Route 4, motorways, regional, urban and local roads
	Rail transport	Corridor X, passenger and freight transport
	Inland waterways transport	Corridor VII (Danube), Sava, the Danube-Tisa-Danube hydro-system, ports and locks, removal of UXO
Environment and energy	Air transport	International, regional and former military airports and air transport
	Intermodal transportation	Infrastructure for cargo handling and transfer between road, rail and/or water
	Policy framework for environment and energy	Horizontal legal, institutional & strategic underpinning for environment and energy policy, not covered by individual sub-sectors, including Serbia's obligations towards the Energy Community Treaty, and monitoring and enforcement of environmental laws and regulations
	'Quality of life'	Preserving the natural habitat, biodiversity and meeting the protected areas requirements of Natura 2000, improving air quality (reduction of emissions), industrial pollution prevention & control, reducing noise pollution & vibrations
	Water management	Sourcing, supply and treatment of drinking water, and the collection, treatment and disposal of wastewater
Environment and energy	Waste management	Collection and processing of municipal, hazardous and industrial waste, including recycling, reuse, treatment and disposal, the closure of wild dumpsites and non-sanitary landfills, and the remediation / clean-up of contaminated land
	Chemicals management	Regulation, monitoring and inspection of chemicals

Security of supply	Mining of lignite for Serbia's coal-fired power stations, and exploitation of other natural resources (metals and minerals), electricity generation and the storage, transmission and/or distribution of electricity, gas and oil
Internal energy market	Unbundling of transmission, distribution and supply and opening up to competition
Nuclear safety	Radiation protection, nuclear waste processing, etc
Heating	Municipal district heating for residents, businesses and public sector institutions, such as schools, combined heat and power
Sustainable energy	Development and use of renewable energy sources, energy efficiency, meeting the requirements of the clean development mechanism
Climate change and flood protection	Anticipating and mitigating the effects of changing climactic conditions, including managing flood risk (prevention and clean-up)

These themes form the basis of the sector-based evaluation against the OECD/DAC criteria presented below.

## **Rule of law**

The rule of law affects all aspects of Serbian society. Rule of law forms the basis for a stable and democratic government (including change and peaceful transfer of power), preserving national security and defence, ensuring access to justice, protecting human rights (citizens, refugees, internally displaced persons and asylum seekers) and holding government accountable by citizens.

Serbia has faced criticism from actors such as SIGMA and the EU for the slow pace of reform in the sector and the lack of tangible results, particularly with the implementation of legislation. Unfortunately, the historical legacy of a break down in due legal process, combined with a culture of despondency among Serbian citizens that accepts lack of transparency in public life, has made reform of rule of law in Serbia a very difficult policy challenge.<sup>12</sup>

This prevalent culture of despondency towards the institutions of rule of law among Serbian citizens is further compounded by the perception that power remains strongly concentrated in the executive despite judicial reform. As such, the institutions within the rule of law sector in Serbia are to be negotiated rather than utilised. There is also a belief that rule of law, whether criminal or civil, can be circumvented by having a 'contact' or a person with 'influence' to intercede. While rule of law ODA funding has proved valuable, this prevalent culture towards the institutions of rule of law reduces the impact of the overall reform process to a production line of new rules, procedures and training.<sup>13</sup>

Clearly, tackling this negative cultural challenge associated with rule of law is more complex than preparing new legislation or supplying vehicles for the border police. But cultural change both within rule of law institutions, as well as wider Serbian society, is an overwhelming need in the sector. Addressing this challenge of cultural despondency can be made if the rule of law reform process is

---

<sup>12</sup> This culture was defined by one donor as Serbia having 'rule by law' and not 'rule of law'.

<sup>13</sup> Interviews carried out for this study identified this culture of despondency in Serbian society towards the institutions of rule of law as an important obstacle to overcome in combination with the institutional reform process. Furthermore, UNDP citizen surveys in Serbia have identified corruption as the third most important policy issue to be addressed, with unemployment being the first priority. The Serbian unemployment rate is almost 30%. The absence of a policy connection between reform of rule of law, the fight against corruption and new employment generation or economic development is very evident.

made less abstract from the everyday life of Serbian citizens, particularly with the role of rule of law with wider economic development and the generation of employment opportunities.<sup>14</sup>

ODA has supported a series of themes under rule of law, including judicial reform, border police, IDPs and refugees, fundamental rights and migration. The judicial reform process forms the centrepiece of the rule of law sector. For the period 2007-2011, the judicial reform strategy (2006) defined the overall direction of the reform process, which was based on introducing transparency, independence, accountability and efficiency into the Serbian judicial system. New institutions were formed (e.g. High Judicial Council, State Prosecutorial Council and Judicial Academy), court networks modernised and new regulations introduced.

Over €216 million of ODA funding has been disbursed under the rule of law sector during 2007-11. The total amount is broken down under the following seven main themes:

Rule of law									
Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Border cooperation, management & migration	22	0	22	€ 39.2m	€ 0.0m	€ 39.2m	€ 35.1m	€ 0.0m	€ 35.1m
Fundamental rights, anti-discrimination & minorities	16	0	16	€ 7.6m	€ 0.0m	€ 7.6m	€ 7.0m	€ 0.0m	€ 7.0m
IDPs & refugees	24	0	24	€ 74.8m	€ 0.0m	€ 74.8m	€ 53.6m	€ 0.0m	€ 53.6m
Interior affairs	46	0	46	€ 49.5m	€ 0.0m	€ 49.5m	€ 38.6m	€ 0.0m	€ 38.6m
Justice & judicial reform	51	0	51	€ 97.6m	€ 0.0m	€ 97.6m	€ 70.5m	€ 0.0m	€ 70.5m
Protection & rescue in irregular circumstances	6	0	6	€ 1.2m	€ 0.0m	€ 1.2m	€ 1.1m	€ 0.0m	€ 1.1m
Security & defence system reform	16	0	16	€ 10.7m	€ 0.0m	€ 10.7m	€ 10.8m	€ 0.0m	€ 10.8m
Other or unallocated	2	0	2	€ 0.3m	€ 0.0m	€ 0.3m	€ 0.3m	€ 0.0m	€ 0.3m
<b>TOTAL</b>	<b>183</b>	<b>0</b>	<b>183</b>	<b>€ 281.0m</b>	<b>€ 0.0m</b>	<b>€ 281.0m</b>	<b>€ 216.9m</b>	<b>€ 0.0m</b>	<b>€ 216.9m</b>

## Relevance

ODA has been relevant to both government and donor policy objectives for rule of law. Funding has been directed to building the regulatory institutional framework, reforming the law enforcement system including prosecution and police services. In terms of the EU accession process, ODA has been relevant with the introduction of international standards and new regulatory areas such as fundamental rights and anti-discrimination. As in earlier funding periods, particularly with EU CARDS funding, the onus has been on formal institution building, the transfer of international best practice, technical modernisation and supply of equipment.<sup>15</sup>

Overall, the relevance of ODA can be considered **high** in terms of the traditional approach to improving rule of law within the EU accession process, namely strengthening institutions, and supporting new regulations and procedures. However, as SIGMA recognised in its assessment, this institutional-actor approach has limitations, in focusing on *“the means rather than the ends served by the “Rule of Law”*. In other words, these approaches simply limit the conceptual space for treating *“Rule of Law” reform for what it is: the core mechanism addressing socio-political conflict beyond the implementation of formal democratic representations. Institution-centred assessments usually fail to*

<sup>14</sup> Interview with Anti-Corruption Agency, March 2013

<sup>15</sup> Examples of ODA institution-building support include High Judicial Council, National Judicial Academy, the State Prosecutorial Council and the Anti-Corruption Agency

*consider why the judicial, penal, and law enforcement systems are in their degraded states, who benefits, and what must be done about it. While some "Rule of Law" problems may indeed result from a lack of training or resources, most are at the root about politics, society and the relationship between them.*"<sup>16</sup>

## **Effectiveness**

The effectiveness of ODA can be tracked by outputs of programmed objectives. ODA has supported the production of key legislation, the modernisation of courts, case management systems, the improvement of police investigation procedures, the policing of borders and penal reform. As ROM reports for the period have cited, ODA has been effective in supporting institutional change. For example, the implementation of the CARDS funded 2009 project '*Support to the implementation of the Integrated Border Management Strategy*' (with Austria and Hungary) identified the effectiveness of the project in terms of delivery of results, particularly the training components. However the effectiveness of the project (and the impact) was undermined due to the slow adoption of legislative documents produced by the project.<sup>17</sup> This is a common theme leading to ineffective ODA support - the absence of legislative and policy implementation follow-through.

Successive governments have been committed to support reform in the sector, but the rule of law remains ineffective. Why is this? An identified source of this ineffectiveness is located in the legislative process itself namely weak policy-driven legislation, which is often rushed in preparation to deal with urgent issues (requiring subsequent amendments) and is not followed up with by-laws and institutional arrangements for implementation (SIGMA Serbia Report 2012). There is a lack of foresight in terms of how regulation will enable policy objectives. Law-making can substitute for policy-making, which undermines the implementation of legislation. While government coordinates the production of legislation, the function of preparing necessary domestic legislation is devolved to individual ministries within their policy competences. Critically, financial and administrative implications of legislation implementation and control are not effectively considered.<sup>18</sup> ODA support cannot be seen as effective unless institution building translates into regulatory implementation that achieves policy objectives (e.g. increase in number of prosecuted cases, improvement in prison conditions, reduction in organised crime activities).

While institutions such as the Commissioner for the Protection of Equality have an important function in tracking law implementation, , civil society organisations are also valuable actors in raising attention regarding non-implementation of law. For example, the 'Youth Initiative for Human Rights and Civil Rights' has highlighted the fact that while human rights protection, in line with European standards, has been incorporated into Serbian legislation, its implementation remains poor. This contributes to the public perception that Serbian authorities adopt legislation for the

---

<sup>16</sup> SIGMA (2012) "Rethinking Europe's "Rule of Law" and Enlargement Agenda: The Fundamental Dilemma", Kalypso Nicolaidis and Rachel Kleinfeld, Paper No. 49

<sup>17</sup> EC Monitoring Report -133980.02 Support to the Implementation of the Integrated Border Strategy, Serbia ( 2012)

<sup>18</sup> The recent example of milk contamination is a case in point where the Minister of Agriculture, Goran Knežević stated at a Parliamentary session (13 March 2013) that safety system in Serbia is regulated by laws and regulations passed in order to harmonize standards with that of the EU, but that this was done without "enough understanding for reality and their enforceability."

attention of the international community. In tackling corruption, effectiveness is undermined by the lack of capacity to carry out complex investigations and reduce the backlog of cases.

Overall the effectiveness of ODA is rated *medium*.

## **Efficiency**

Rule of law ODA beneficiaries clearly favour experts that have a prior understanding of the Serbian rule of law and institutional culture. The efficiency of some ODA activities was reduced because selected experts had to inform themselves of the Serbian policy situation on the beneficiary's time. This has a double negative impact of reducing the beneficiary's time to carry out day-to-day duties, while catering for the expert's short-comings<sup>19</sup>. Beneficiaries favour ODA that supplies expertise requiring very limited 'hand-holding'.<sup>20</sup> Examples of rule of law support provided by USAID were referenced by interviewees as very efficient in supplying experts that match the needs of beneficiaries and producing outputs speedily. EU funded projects were seen as less efficient in replacing non-performing experts in a timely manner. USAID support projects under the justice theme were also integrated and not managed as separate support actions, inclusive of legal training, with ICT support, financial planning and budgeting management<sup>21</sup>. USAID experts were also seen as particularly effective in training on court management techniques<sup>22</sup>.

With regard to the selection of ODA instruments for technical assistance, expert service contracts are preferred. Twinning contracts are seen as effective for police reform and Integrated border management projects, but are highly dependent on good fortune to have suitable twinning experts available and willing to work in Serbia. There are also concerns about the difficulty of replacing twinning experts as there is a beneficiary sensitivity about upsetting member states. Direct agreements with international organisations are seen as valuable for building the international profile and network of beneficiaries, but less effective than service contracts to mobilise experts.

The EU is a major source of supplies for the sector and issues have been raised about the complexity of the tendering process particularly with IT supplies. However, there is acknowledgement from the beneficiary side that the responsibility is on them to have a clear understanding of their supply needs and defined technical specifications to allow the EU to tender effectively. This is particularly the case with ICT support related to databases and system connectivity and the e-justice project senior civil servants in the Ministry of Justice have developed an awareness of the importance to connect ICT supplies with procedural reform and this requires a technical understanding of ICT capabilities within judicial institutions.<sup>23</sup>

---

<sup>19</sup> Interviews with the Ministry of Justice, Anti-Corruption Agency and Public Prosecutor's Office identified the importance of ODA technical assistance experts having an understanding of the culture and specifics of the rule of law reform process in Serbia before recruitment.

<sup>20</sup> Interview with Anti-Corruption Agency, March 2013

<sup>21</sup> Interview with Ministry of Justice, March 2013.

<sup>22</sup> See text box in section 5 on Multi Donor Trust Fund for Justice Sector Support (MDTF-JSS)

<sup>23</sup> Interview with Ministry of Justice, March 2013

The efficiency of ODA support can be considered **low-medium**. This low ranking is partly due to the limited ability of ODA support to ‘negotiate’ the Serbian context and reliance on external rule of law methods, models or initiatives. This is particularly the case with the introduction of free legal aid and alternative penal sanctions.

## **Impact**

The outputs of ODA can be tracked by legislation passed, number of courts modernised, equipment supplied to border posts or supply of data interchange equipment. The impact of ODA funding should be understood by progress made in fulfilling the principles of rule of law namely: the government and its officials and agents are accountable under the law; the laws are clear, publicized, stable and fair, and protect fundamental rights, including the security of persons and property; the process by which the laws are enacted, administered, and enforced is accessible, efficient, and fair; and justice is delivered by competent, ethical, and independent representatives and neutrals of a sufficient number, with adequate resources, and reflecting the makeup of the communities they serve.<sup>24</sup>

There is evidence of impact in line with these principles. For example, there has been an increase of indictments for computer fraud under the new criminal code; fewer than 90 persons were charged with bribery in 2009, but this had increased to 126 persons in 2011; the number of persons charged with abuse of an official position increased to over 1,500 persons in 2011. The implementation of the law on seizure and confiscation of the proceeds of crime has resulted in the seizure of proceeds of €350 million. There has been an increase in detection of illegal travellers at border points, with the annual figure increasing four times in one year - from 2,797 (2010) to 10,217 (2011), in the context that the total number of travellers (by land, air and sea) remained the same. The impact of OSCE support in police reform has introduced new standards and capabilities. Impact can also be understood in terms of the correlation between the implementation of the rule of law and quality of life in Serbia, such as access to employment, public services and crime reduction. In this regard there is still much to be achieved, particularly with supporting access to employment opportunities, addressing unfair competition and market monopolies. Repeated citizen surveys by UNDP in Serbia cite the high perceptions of corruption and political influence in Serbian society, particularly with employment or access to public funding.<sup>25</sup> Such sentiments are also reflected with the results of a 2011 stakeholder survey funded by the Multi Donor Trust Fund for Justice Sector Support, which identified interviewees’ concerns about the integrity of the judicial system.

*“A large majority of citizens (97 per cent), business sector representatives (95 per cent), judges (89 per cent), prosecutors (88 per cent), and lawyers (98 per cent) felt that the judicial system was not fully independent. According to legal professionals, the entities that most endangered the independence of the judiciary were politicians, political parties, and the media. Legal professionals (84 per cent of judges, 85 per cent of prosecutors, and 91 per cent of lawyers) also responded that the duration of court*

---

<sup>24</sup> World Justice Project <http://worldjusticeproject.org/what-rule-law>

<sup>25</sup> “Corruption in Serbia”, United Nations Office on Drugs and Crime 2011

*proceedings undermined judicial integrity. The duration of court proceedings was found to lessen businesses' trust in the judiciary, while citizens' trust was negatively affected by perceptions of corruption and by politicians' perceived influence on judges and prosecutors"<sup>26</sup>*

While there has been success in court modernisation, as well as the preparation of new legislation, judicial procedures and training, the overall impact has been less than expected. This continued lack of public trust and confidence is the main challenge facing the judiciary. The fallout from the problems associated with the re-appointment of Judges in 2009 has only contributed to this lack of public trust.

For example, the main legislation concerning antitrust matters is the Competition Law of 2009 which also sets out the mandate of the Commission for the Protection of Competition. The Administrative Court is the review body for decisions made by the Commission. The system is in place for action to be taken regarding fair competition:-

*"The Serbian Criminal Code contains a wide provision sanctioning the person responsible for the 'abuse of a monopolist or a dominant market position or the conclusion of a monopolistic agreement'. This means that the responsible person could be criminally prosecuted and may be sentenced from six months to three years in prison, together with a pecuniary fine. However, the provision is rather vague, and only one proceeding had ever been initiated for this crime, though the charges were dropped. Criminal responsibility for competition infringements had never really taken hold in Serbia"<sup>27</sup>.*

The judicial process in combating corruption is still not producing the desired results. While the anti-corruption legislation, Agency and Strategy is in place, implementation resources are insufficient including financial and human. As such, the judiciary is not processing an adequate number of corruption cases and building a credible track record to realise the anti-corruption strategy objectives.

An efficient and transparent regulatory system is essential for economic development, especially in stimulating the creation of start-up enterprises, enabling SMEs to plan for growth, and attracting new (foreign) investors, through predictable, implementable and enforceable laws for business operation and contract enforcement. The impact of new legislation has to be carefully considered from a policy perspective to support business.

The policy design and implementation of legislation requires closer working relations and greater integration of public services. For example, the impact of border control measures can only be assured if there is integration of all border services into one intelligence-gathering and implementation system (border police, customs, phyto-sanitary and veterinary inspections) covering all the services involved.

---

<sup>26</sup> Multi Donor Trust Fund for Justice Sector Support (2011) Justice in Serbia: A Multi-Stakeholder Perspective Survey Feedback on Judiciary Efficiency, Quality, Accessibility, Fairness, Integrity, Costs, and Reform Expectations

<sup>27</sup> 'Source: The European Anti-Trust Review (2013) Rastko Petaković (Karanović' & Nikolić Partners, Serbia)

Overall, impact of ODA is **low**. While new legislation has been introduced such as anti-discrimination and new institutions created (Anti-Corruption Agency) lack of implementation reduces actual impact. In the judiciary key reform areas remain namely; impartiality of judicial appointments, regulation of private sector, backlog of case workloads, access to free legal aid ( despite the efforts of the MDTF-JSS). The low impact is not the responsibility of ODA alone but is linked to weaknesses in the beneficiary, particularly resource weaknesses and political will. It is salutary to compare the EC progress reports in the subsectors of rule of law. Under the fight against corruption the reports stated the following:

*“A more systemic approach to fighting corruption, including proper financial control, transparent public procurement procedures and parliamentary oversight is needed.” (Serbia EC Progress Report 2006) “Stronger political direction and more effective inter-agency coordination are needed to significantly improve performance in combating corruption.” (Serbia EC Progress Report 2012)*

## **Sustainability**

Availability of public resources is a critical consideration for the sustainability of rule of law interventions. Judicial reform generally, the approximation of EU legislation, the modernisation of court systems and the increase in number of regulatory actors and institutions has increased the overall costs of rule of law in Serbia. This does raise the question of how the benefits of ODA will be continued after funding has ceased. While some rule of law activities do lead to revenue generation (e.g. fees and fines etc.) costs will largely fall on the public spending side of the fiscal equation. Failures to implement new legislation can be tracked to a lack of policy and financial planning, and subsequent lack of resources, which results in a backlog of cases or failure to process new cases. A case-in-point is the increased number of prosecutors’ offices throughout Serbia which by default demands more running cost resources.<sup>28</sup> Sustainability concerns were also raised regarding the 25% shortfall in human resources to adequately police the borders.<sup>29</sup> Despite the success of the Directorate for Management of Seized and Confiscated Assets (DMSCA) and the Financial Investigation Unit (FIU), financial sustainability was identified as the major challenge.<sup>30</sup> Finally regarding the IPA 2007 project supporting IT systems in the judiciary sector the monitoring report identified the lack of resources available to the Ministry of Justice as a risk *“ it is clear that the Ministry of Justice lacks the human and financial resources to support the nationwide implementation of the new software application....there is a need for strategic management capacity in the Ministry to match the substantial investment of ICT resources in the sector. It is certain that Serbia will need further substantial funds to respond to international cooperation requirements and further reform the judiciary system.”*<sup>31</sup>

---

<sup>28</sup> Interview with Republic Prosecutor’s Office, which also requested financial and budgeting planning support to manage operations

<sup>29</sup> EU Monitoring Report (MR-133980.02): Implementation of integrated border management (IBM) in Serbia, 2012

<sup>30</sup> EU Monitoring Report (MR-136641.02) Capacity building for directorate for management of seized and confiscated assets

<sup>31</sup> EU Monitoring Report (MR-134320.02) Technical assistance to improve the efficiency and transparency of the Judiciary System, Republic of Serbia



Sustainability is also a major factor with penal reform. The EC Progress Report 2012 identified the continued problem of the Serbian prison system with over 11,500 prisoners for 6,000 places and recommended the introduction of alternative sanctions on a larger scale, which is a reform objective of Serbia's Penal Reform Strategy.

The IPA 2010 project 'Strengthening the Alternative Sanctions System' was designed to support this objective. But the sustainability of the project is under question. The Probation Service is understaffed. Staff members from prisons are being switched to the probation system thereby weakening prison capability. There are no budget allocations for logistics, transport and equipment to roll out the alternative sanctions system nationwide.<sup>32</sup>

In the case of IDPs and refugees, ODA actions are not durable without a more pro-active approach by the Serbian social welfare system, in terms of access to employment, training and welfare support. This requires a national budget commitment and a policy of mainstreaming the needs of minorities into the national system.

Sustainability of ODA actions is categorised as **low**. But sustainability should be positioned in the context of increased pressures on the public budget to fund rule of law expenditure and the relationship between rule of law and economic development in Serbia. Rule of law has an important role in attracting investment and increasing business activities in Serbia. In turn, expansion of business activities will result in greater tax revenues which can be used to fund public sector services. The failure of rule of law in the privatisation process has undermined Serbia's competitiveness in the agriculture sector, with important agri-food companies broken up. This has had a direct impact on creating rural unemployment and increasing the crime rate. The failure of rule of law had directly contributed to lack of employment opportunities (unemployment rate is almost 30%), which in turn fuels crime and border smuggling. This larger picture (cause and effect linkages) is absent from the policy formulation debate regarding ODA intervention in the sector.

### **Sector-specific recommendations**

The introduction of a new Judicial Strategy and Action Plan, as well as the IPA 2014-2020 multi-annual programming process is an important opportunity for judicial reform specifically and the rule of law sector generally in Serbia. Importantly, the EC underlines the need for a "*change in judicial culture*" towards a focus on delivering a *service for citizens and not seeing the judiciary and the reform process as an end to itself*".<sup>33</sup> This reflects SIGMA arguments recommending a wider definition of the rule of law to encompass the socio-political and socio-cultural realms.<sup>34</sup> The programming of future ODA rule of law should firmly link the institutional/technical aspects of

---

<sup>32</sup> EU Monitoring Report MR-144901.01 (7/11/2012) Note, there has however been an allocation under the 2013 Budget for the hiring of 30 probation officers and the Law on probation is envisaged to be adopted in 2013 as well as a new strategy for the enforcement of penal sanctions

<sup>33</sup> EC 2012: Enlargement Strategy and Main Challenges 2012-2013- Communication from the Commission to the European Parliament and the Council.

<sup>34</sup> SIGMA (2012) "Rethinking Europe's "Rule of Law" and Enlargement Agenda: The Fundamental Dilemma" Kalypso Nicolaidis and Rachel Kleinfeld, Paper No. 49

judicial reform, tackling corruption, support to interior affairs and anti-discrimination within **the context of improved quality of life**. As such, ODA monitoring indicators should not focus solely on number of police trained or regulations produced, but also how reforms will impact directly on the life of citizens. ODA should incorporate conditionalities for the beneficiary to develop out-reach mechanisms and to communicate the benefits of reform to the general public. This role cannot be the responsibility of civil society organisations alone. For example, there is no practice for publishing information on applications and procedures to determine the accountability of judiciary officials for violations of regulations or the ethical code.<sup>35</sup> With commercial courts, there are no comprehensive statistics available concerning public procurement cases. Such out-reach mechanisms should be designed to build public trust in judicial institutions and facilitate changes in attitude within Serbian society, by providing information provisions about the judicial reform process and to promote whistle-blowing and corruption reporting.<sup>36</sup>

Generally, the rule of law reform process in Serbia has been driven by the production of new legislation and institutional building. There has been less foresight and investment in determining the capacities to ensure compliance with, and enforcement of, new legislation or policies. The **financial and administrative implications of implementing new legislation, procedures, or institutions** must be in place before ODA funding is committed and the Ministry of Finance has signed off on the necessary budget commitments. This also requires increased financial planning and budgeting capabilities by all rule of law institutions to effectively manage resources and deliver policies. Some ministries are being more imaginative in addressing their needs with donor funds. Through the Directorate for Project Management, the Ministry of Defence is adopting a more proactive approach to donor funding. Through the Directorate, the Ministry will identify more inter-ministerial cooperation opportunities, particularly with the Ministry of Interior on emergency planning, training and implementation, where financial resources can be pooled.

Serbia's high unemployment rate at nearly 30% is a major factor in the lack of opportunities for minorities, high prison population, crime rates and corruption<sup>37</sup>. Rule of law has an important role to play in the competitiveness of the Serbian economy, increasing investment and creating new employment opportunities. Serbia desperately needs investment and particularly foreign direct investment (FDI). While it is impossible to segregate one aspect of the rule of law/legislative process, future ODA should strongly focus on addressing the main regulatory and policy impediments to building a **better business-enabling environment for investment**. The World Economic Forum's Global Competitiveness Report for 2012-2013, which considers performance on various indicators against 144 countries worldwide (with 1<sup>st</sup> being best) has Serbia ranked 130<sup>th</sup> on property rights, 116<sup>th</sup> on intellectual property protection, 129<sup>th</sup> on judicial independence, 132<sup>nd</sup> in favouritism in decisions of government officials, 133<sup>rd</sup> in the efficiency of the legal framework in challenging

---

<sup>35</sup>Transparency Serbia/Judges Association of Serbia (2013): Judiciary in the Fight against Corruption Key Findings of Research and Recommendations, funded by Government of Norway.

<sup>36</sup> The Serbian Minister of Justice and Public Administration Nikola Selaković has highlighted this socio-political context in the fight against corruption "... We cannot do everything at once because in Serbia, corruption has become a system which would tumble the entire state if you removed it with a magic wand since the state rests on the system of corruption to a considerable degree," stated at the opening of a public debate on the draft National Strategy for the Fight against Corruption 2013 - 2018. (Tanjug, 21 March 2013).

<sup>37</sup> Interview, Commissariat for Refugees, March 2013

regulations, and 138<sup>th</sup> in the efficiency of the legal framework in settling disputes<sup>38</sup>. At present, the strategy for attracting FDI is based on offering very attractive subsidies but addressing investor concerns about corruption, transparency, political interference, implementation of contract law and border controls can provide a powerful incentive for future investors.

## **Public administration reform**

The role and reform of the public administration is a common factor across all ODA sectors. Maximising service performance and experience for citizens and businesses is vital for economic prosperity and social cohesion on a sustainable basis. Private enterprise and ingenuity is ultimately the determinant of an economy's development, but the rules that govern and also constrain its operation are decided in the public sphere, including the extent to which business chooses the formal or 'grey' economies. The reform process is stimulated by accountability of the executive (government) to the people (parliament and the electorate).

Among the largest challenges to Serbia's development revealed by independent analysis, previous monitoring and evaluation, and international benchmarks, are: weak policy coordination across Government; overlap of responsibilities or unclear responsibilities; poor record of preparing and executing costed and timed implementation plans; a disconnect between central and municipal government, and across local self-government, that undermines the delivery of national policy objectives and the organisation of inter-municipal solutions<sup>39</sup>; public expenditure management which is input-based, not outcome-oriented, and a public finance system which is focused on economy (spending controls), rather than effectiveness and efficiency (resource management to achieve objectives); a culture of bureaucracy which stifles rather than enables business (see also Competitiveness), through under-developed regulatory reform and impact assessment, and through corruption which imposes extra and variable costs on citizens and businesses and thereby distorts decision-making (see also Rule of Law). In preparing for EU accession, PAR is subject to nine of the 35 *acquis* chapters.

The PAR sector, as formulated, was comfortably the largest beneficiary sector of grant aid in 2007-2011 and the joint 2nd largest recipient of ODA overall, with estimated total disbursement amounted to €789 million, of which €512 million was granted through 272 donations and €279 million was borrowed through seven concessional loans. However, as noted in the overview, these raw numbers do not present the true picture of the resources available for reforming public administration.

Stripped of the budget support (which is not project based) and the complex municipal development projects (which support institution-building but are largely multi-sectorial in nature), the total allocation to PAR would fall to €468 million and disbursement to €297 million.

---

<sup>38</sup> Perhaps surprisingly by comparison, Serbia ranks 'just' 86<sup>th</sup> on irregular payments and bribes, and 85<sup>th</sup> on the business costs of crime and violence, which may indicate both the effect of lower levels of corruption within the private sector, and endemic corruption and crime in many other countries worldwide respectively.

<sup>39</sup> As for example, set out in "Evaluation of Exchange 1 and 3 Grant Schemes", IPA 2007 Municipal Support Programme, Final Report, December 2012

For the purposes of analysis, this sector can be best understood as comprising six main themes, presented in the table below.

Public administration reform									
Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Accountable administration	18	0	18	€ 20.3m	€ 0.0m	€ 20.3m	€ 20.3m	€ 0.0m	€ 20.3m
Local governance	47	3	50	€ 313.9m	€ 143.0m	€ 457.0m	€ 210.3m	€ 108.3m	€ 318.6m
Effective administration	52	1	53	€ 60.9m	€ 24.1m	€ 85.1m	€ 41.4m	€ 15.3m	€ 56.7m
Efficient administration	41	0	41	€ 59.2m	€ 0.0m	€ 59.2m	€ 42.8m	€ 0.0m	€ 42.8m
EU accession & funds management	60	0	60	€ 66.8m	€ 0.0m	€ 66.8m	€ 42.7m	€ 0.0m	€ 42.7m
Public finance management	41	3	44	€ 173.3m	€ 166.7m	€ 340.0m	€ 150.6m	€ 153.2m	€ 303.8m
Other or unallocated	13	0	13	€ 7.5m	€ 0.0m	€ 7.5m	€ 4.0m	€ 0.0m	€ 4.0m
<b>TOTAL</b>	<b>272</b>	<b>7</b>	<b>279</b>	<b>€ 702.0m</b>	<b>€ 333.8m</b>	<b>€ 1,035.8m</b>	<b>€ 512.0m</b>	<b>€ 276.8m</b>	<b>€ 788.9m</b>

\* Note: Budget support falls under 'public finance management', while complex municipal development projects fall under 'local governance'. (each of which is intended to support municipal capacity-building, but also includes activities which would nominally fall under other sectors (eg Exchange 1-3, IPA 2007 MSP, USAID's MEGA and SLDP, GIZ's Danube-Serbia initiative), some of which include infrastructure development (eg MISP, MSP-NE, PROGRES and IPA 2011 Danube-Serbia)

## Relevance

Against this backdrop, the activities supported by ODA in the PAR sector can be said to be overwhelmingly relevant to Serbia's needs and fit within national and donor strategies. As the preceding table indicates, the support to PAR has been broad-based, covering all the main themes and fields of intervention.

In funding terms, the focus in 2007-2011 has largely been on readying for accession and, particularly negotiating the nine *acquis* chapters, to raise Serbia's standards and capacity to European levels (statistics, customs and taxation reform, financial control, oversight of the financial sector and public procurement process) and preparing EU programmes, projects and future decentralised management systems. This is not surprising given the largest and most important donor in this sector has been the EU. At first sight, it is not immediately obvious that this emphasis in disbursed funds reflects Serbia's greatest concerns for public administration reform. For example, the largest individual beneficiaries of ODA include the Republic Geodetic Authority (RGA), Customs, Tax and Treasury Administrations and the Statistics Office (SORS). However, this can be misleading; much of this funding has gone to more expensive supplies and systems development, including major IT projects, as well as advisory services. Moreover, ODA in theme and fields that are purely national competences, but are essential to sound public sector management, are well covered, but have largely been the domain of bilateral donors. Assistance to policy coordination and strategic planning (including impact assessment and regulatory reform) and programme budgeting have been financed almost continuously throughout the period, especially with Norwegian, Swedish and UK aid, while parliamentary and political reform to hold the executive to account has also attracted support from the US and Italy, alongside the EU's help to set-up and strengthen the independent regulatory bodies (IRBs). As such, relevance can be observed as **very high**.

## Effectiveness

Judged on the record of attaining expected results (or being on track to do so), the overall impression is positive across all the themes, within the stated ambitions of the individual projects themselves. Most interventions in this sector were expected to increase the capacity and capabilities of beneficiaries, and in some cases to provide new or more efficient services or produce specific deliverables. This has largely occurred, often aided by IT solutions. For example, the General Secretariat has introduced new department, procedures and systems to manage the annual Government work programme; the GOP process of annual planning and programme budgeting has been piloted in five ministries; Customs, Tax and Treasury Administrations have each advanced their competences in revenue collection and budget execution; the statistics collected, organised and presented by SORS is considerably closer to the standard expected by Eurostat, and the population census was conducted successfully; the RGA has made huge advances in real estate registration and digitalisation of spatial data, simplifying and speeding up the property registration process; the Central Harmonisation Unit is operational and coordinating internal audit; the Public Procurement Office and other IRBs, namely the State Audit Institution (SAI), Ombudsman and Information Commissioner, are well established and seemingly part of the permanent administrative landscape for keeping the government accountable; the bodies responsible for financial oversight (such as the National Bank of Serbia) are meeting their mandates; the municipal development projects have generally produced the intended outputs; SEIO has successfully prepared programming, project and supporting tender documentation with TA support and delivered against pre-accession milestones; the Ministry of Finance and operating structures have progressed towards decentralised management.

To some extent, the 2004 PAR Strategy lays down benchmarks against which the effectiveness of ODA can be measured at a more strategic level, through the five principles of rationalisation modernisation, professionalization, de-politicisation, and decentralisation. Rationalisation has taken place, due to the devastating effect of the global financial crisis, which led to the need for ODA-financed budget support in 2009-2010 and the IMF Stand-by Arrangement which was tied to staff cuts across the administration. Some modernisation and professionalization has also taken place, with the improvements in the HRM and training system through SUK, and within specific institutions (eg SORS, RGA, Customs Administration, Treasury Administration, Tax Administration and the Public Procurement Office), including investment in IT. However, the division of responsibilities between institutions has been blurred in every Law on Ministries, creating a complex tapestry of relationships and coordination dilemmas, and leaving room for Ministers to make statements and negotiate agreements outside their conventional policy territory (for example, in the areas of transport and environment). De-politicisation arises from open recruitment and meritocratic promotion, which has yet to be fully achieved according to the EC's Progress Report 2012 and Transparency International<sup>40</sup>. Decentralisation has been an explicit objective of support to local and regional development, but the main effect of ODA-funded projects has been to strengthen the capacities of individual municipalities (often together with partners), rather than universally, and to create a network of regional agencies without statutory powers or comprehensive coverage, some of which overlap territorially.

---

<sup>40</sup> [http://www.transparentnost.org.rs/index.php?option=com\\_content&view=article&id=270%3Aproblem-sa-postavljanjem-slubenika-na-poloaju-i-depolitizacija-dravne-uprave&catid=14%3Avesti&lang=en](http://www.transparentnost.org.rs/index.php?option=com_content&view=article&id=270%3Aproblem-sa-postavljanjem-slubenika-na-poloaju-i-depolitizacija-dravne-uprave&catid=14%3Avesti&lang=en)

Taking the project-level and strategic assessments together, the overall performance on effectiveness is **medium**. The main conclusion is that attaining project objectives only tells part of the story, especially when goals are defined as intermediate steps (capacities and capabilities).

## **Efficiency**

The headline figure of €1 billion disbursed on PAR in 2007-2011, drawn from ISDACON data, is a substantial amount of public spending, but is considerably reduced after all budget support is removed to a more realistic sum of €546 million. At the strategic level, the efficiency of disbursement is dissipated by being spread thinly (by our classification) over six themes and well over 50 distinct fields of intervention, with the only substantial concentrations being municipal capacity-building, digitalisation, tax and customs reform, and preparing for EU funds (programming, project preparation and management). In this context, it is impressive that the ODA has achieved such a diverse set of outcomes for PAR (as elaborated under 'effectiveness') over 5 years with less than €300 million (after multi-sectorial municipal projects are excepted).

Nevertheless, a closer look at the experience of implementation is less encouraging. In respect to EU support, as the most substantial donor for PAR, the sample of ROM reports analysed for this sector record a substantial proportion of projects with management problems, higher than any other sector, especially regarding the need to replace key experts. It is not clear why this is the case.

Moreover, some areas have shown particularly slow movement in converting ODA inputs into realised objectives since the mid-2000s, including GOP annual planning and programme budgeting, preparations for decentralised management (DIS accreditation), and public internal financial control. In this light, the performance on efficiency is considered on balance as **low-medium**.

## **Impact**

The ultimate test of the effect of ODA on public administration reform is not whether institutional competences have improved, but the extent to which interventions have translated into better policy, sounder public sector management, and improved service delivery to citizens and businesses. The World Economic Forum's Global Competitiveness Report (GCR) sets the scene for considering impact of the public administration in this light:

*"The quality of institutions has a strong bearing on competitiveness and growth. It influences investment decisions and the organization of production and plays a key role in the ways in which societies distribute the benefits and bear the costs of development strategies and policies. The role of institutions goes beyond the legal framework. Government attitudes toward markets and freedoms and the efficiency of its operations are also very important: excessive bureaucracy and red tape, overregulation, corruption, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, inability to provide appropriate services for the business sector, and political dependence of the judicial system impose significant economic costs to businesses and slow the*

*process of economic development. In addition, the proper management of public finances is also critical to ensuring trust in the national business environment”.*<sup>41</sup>

The SIGMA assessments, EC progress reports have drawn repeated attention throughout the period to weaknesses in policy-making and coordination (as evidenced by the multiplicity and inconsistent quality of strategies), inadequate impact assessment, and inaction on regulatory reform to ease the administrative burden on business (see also Competitiveness). With ODA support, Serbia now has a more comprehensive and reliable statistical base and a wealth of digitalised geo-data, but interviews and studies signal that policy-makers in ministries and municipalities are not able to gain ready access to this intelligence because of fee charges or lack of IT connectivity. ODA spending on HRM and IT has been piecemeal, rather than systematic, outside of overall Government-wide strategies to connect these islands of investment, the whole is less than the sum of the parts. Programme budgeting has benefited from ODA since 2006, but has still not been rolled-out from the pilot ministries, despite repeated commitments. The rate of public revenue collection was steadily improving until 2008, when the global crisis hit Serbian hard, but the grey economy has not been tackled and continues to flourish. Internal audit has been widely introduced to ministries, but the emphasis on financial control has been largely on legality and regularity, rather than the efficiency and effectiveness of public spending management. The IRBs are increasingly active in highlighting reform needs, but their findings are not fully followed through by the executive and, in the case of the SAI, their work is undermined by time spent preparing cases against individual civil servants, rather than conducting performance audits that might strengthen the whole system. The planning, management and coordination of EU funds and the accession process has become highly effective at the centre (SEIO and Finance Ministry), but ministries and beneficiaries still make uneven provision for project preparation, while programming is undermined by the absence of a national development plan and coordination. Support to municipal capacity-building has yielded many positive benefits in taking a multi-faceted (rather than narrow) perspective to local development, and encouraging inter-municipal solutions, but without statutory underpinning to compel or incentivise collaboration, local self-government is too fragmented to achieve scale economies<sup>42</sup>, (almost half of municipalities have fewer than 20,000 residents<sup>43</sup>), and the dialogue with ministries is often poor<sup>44</sup>.

The consequences of ODA interventions, some of which have not been finalised, have still to be fully felt, but the signals are already clear that the impact is minimal. By 2012-2013, the GCR's rating of performance on key institutional indicators against 144 countries worldwide (with 1<sup>st</sup> being best) has Serbia ranked 111<sup>th</sup> on transparency of government policy-making, 132<sup>nd</sup> on wastefulness of government spending, and 136<sup>th</sup> on the burden of government regulation. Hence impact is assessed overall as **very low**.

---

<sup>41</sup> [http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf)

<sup>42</sup> Local economies and local labour markets often extend beyond municipal boundaries, making cross-territorial interventions more appropriate for encouraging investment, supporting key industries and nurturing clusters, while in the area of environmental protection, the Government's Environmental Approximation Strategy (developed under IPA 2007) recommends minimum population coverage of 400,000 for regional waste management centres, and notes for water supply, "PUCs currently operate at the municipal level; in many cases this results in operations that are smaller than the generally accepted level at which reasonable economies of scale are achieved"

<sup>43</sup> 2011 Census of Population

<sup>44</sup> "Evaluation of Exchange 1 and 3 grant schemes", op cit

## **Sustainability**

The sustainability of ODA in the PAR sector is largely down to whether individual interventions have created lasting change through new laws, regulations, procedures, know-how and skills within specific institutions of the public administration, creating irreversible progress and/or institutional memory. Here, the picture is mixed.

The strengthening of statistics, treasury, taxation, customs, financial control, external audit, ombudsman and EU programming and management functions through ODA 2007-2011 appears to have set in train an enduring and systemic change in the responsible bodies (SORS, MFE and various Administrations, SAI, SEIO, etc), not least in the expectations created by users (other ministries and agencies, municipalities, the public, and of course EU institutions). However, this does not mean these benefits cannot be reversed, especially through organisational engineering (merging or abolishing institutions, as happened in September 2012, with the closure of some agencies and reassignment of duties to their parent ministries), staff reductions or shortages, failure to follow-up primary legislation with by-laws (see section 5), or shortfalls in ongoing finance from national budgets. These gains are fragile, and liable to the changes in the political and external environment (including austerity measures).

Moreover, a lot of ODA during 2007-2011 took the form of technical assistance to write laws, conduct analysis, generate strategies, and produce project documentation which did not obviously have a sustainable effect on capacity development, as the same institutions have repeated their requests for help with preparing new laws, strategies and other documents. The repetition of requests for TA implies that little has been done to actually ensure that competences in planning, analysis and drafting have been retained. In this light, sustainability is considered to be **low**.

## **Sector-specific recommendations**

PAR is the most integrated of the ODA sectors, its successes or shortcoming pervading all others. As the 2012-2013 GCR data demonstrates, Serbia's institutions are currently under-performing hugely when compared to other countries, undercutting the growth potential of the economy. The shape of ODA in 2007-2013 will partly depend on the direction from the new PAR Strategy with the accompanying Action Plan for 2013-2016, which was still in preparation at the time of the evaluation with support from IPA 2010 TA, but expected to go into Government procedure at end of May 2013. It is understood that this will build upon the same five principles as its predecessor, but with seven themes: public administration; regional development and local self-government; other forms of achieving public interest and exercising public authority; anti-corruption; public finance and public procurement; control of work of public administration; and e-government.

Against this backdrop, the top priority and pre-condition for the next period should be to empower the Centre of Government (CoG)<sup>45</sup> in taking forward **policy planning and coordination**, which would

---

<sup>45</sup> See section 5 for further description of the CoG and recommendation 2 in section 7.



have a 'ripple effect' on the performance of the public sector and the impact of ODA. More than anything, the administration needs a strong CoG to communicate Government's policy priorities, set and enforce standards, act as a 'clearing house' to vet all strategies and legislation before approval for content, and ensure that 'boundary disputes' between institutions do not get in the way of effective governance. Towards the end of the evaluation period, SIGMA articulated a well-crafted vision in its 2011 assessment report: *"The government should establish more top-down elements to its policy planning by introducing a clearer strategic planning process that sets out the main objectives of government policy. Line ministries, following those main objectives, should prepare their own strategic plans with objectives and timescales including an assessment of the resources that will be required. It is important to ensure that the main policy priorities of the government are driving the administrative work-plans of the government and ministries. With a more top-down approach and right timing, the work plan of the government could serve as key strategic input to the budget planning process and also as a tool to better integrate the agendas of the political and administrative leadership".*<sup>46</sup>

The strong CoG is also a prerequisite for the successful Government-wide introduction of **programme budgeting** from 2015. In the words of the IMF's study of lessons from global practice, *"An effective programme budgeting system cannot be developed centrally by the ministry of finance alone. Programme budgeting is not simply about changing the way a budget is presented, but about changing the way policy officials, the public and government staff think of the government, how they plan, manage and budget"*. Assuming this commitment becomes a reality, it will be a major step forward in modernising the public administration, by increasing transparency, enabling better decision-making on alternative spending options, and improving the effectiveness and efficiency of public expenditure management. An informed CoG should play a pivotal (not procedural) role in checking the substance of programmes and their plans for implementation, including implications for public indebtedness. The roll-out of programme budgeting will create a seismic waves through the administration, and hence the USAID's Business Enabling Program has been enlisted to help manage the transition from line-item budgeting in the short term with guidelines and staff training, but it will take a number of years for programme budgeting to become embedded, and hence there is a case for 'hand-holding' ODA throughout 2014-2020. To be successful, programme budgeting will need to be married to better strategy development, a clearer division of functions and dialogue across institutions (including between central and local levels), and the introduction of a culture of monitoring and evaluation with underpinning systems<sup>47</sup> Support to programme budgeting at the sub-national level will be very important in order to accomplish sound vertical integration of public finance management.

The implementation of programme budgets will also put the onus on **financial management and control (FMC)** in a number of respects. First, it will place demands on public sector managers to exercise judgement on the management element of FMC (economy, efficiency and effectiveness), as much as the traditional control element (legality and regularity of financial transactions), to ensure scarce public resources to be used as prudently as possible. This has implications for the future

---

<sup>46</sup> This recommendation is elaborated further in sections 5 and 7.

<sup>47</sup> See recommendation 4 in section 7

development of PIFC, although this is much a matter of administrative culture as ODA guidance. Second, managers will need to inform their decisions with real-time information on budget execution, to understand the effects of spending, and hence whether programme outputs are being delivered and objectives met, or whether resources should be re-deployed, creating a more efficient feedback loop from budgeting to execution (and inspection) to budget amendments. This is part of the monitoring process, but will have systems implications. Third, the establishment of programme budgeting will increase the value of the SAI moving into performance audit, as a management tool to improve decision-making.

Public indebtedness means not only that limited resources must be managed more carefully, but also that **revenues** must be maximised. The EC will undoubtedly continue to support the Tax and Customs Administrations to meet EU standards through IPA, but the 'grey elephant in the room' is the informal economy, which means 30-40% of transactions are undeclared. This is partly an issue of sanctions and enforcement, but largely a matter of incentives and simpler administration, making it easier for businesses to choose the legitimate path. This brings us back to policy planning, and in particular impact assessment and regulatory reform.

**E-government** is an essential ingredient of simpler administration, at least from the user's perspective. For both business and citizens, the government should be 'indivisible'; dealing with one part should be the same as dealing with another, in terms of consistency of approach, not a contradictory outcome. ODA has funded a series of actions during 2007-2011, some of them isolated (for example, within individual municipalities) and without the umbrella of an overarching vision and plan, which is envisaged as a consequence of the new PAR Strategy. E-government is a catch-all term for various electronic interactions with the public sector, from simple information provision (passive) to on-line submission of forms, returns and applications (semi-active), to making transactions and engaging in participatory democracy (fully active). Towards the most interactive end of the spectrum, e-government is less about the front-end portal and more about the back office implications. The challenge for the public sector will be partly about IT solutions, but significantly about organisation and efficiency. Improving the service to citizens and businesses has the beneficial side-effect of also undermining corruption by automating processes, improving transparency, and reducing the potential for bribery and influence in its various forms. Together, these effects should help to raise productivity and public revenues at the same time.

### ***Civil society, media and culture***

The sector of civil society, media and culture is diverse, covering a wide spectrum of activities that ensure information and inclusion of citizens in policy-making processes, actions and performance of government institutions and officials, and at the same time strengthening the autonomous cultural sector as an essential element of civil society.

The main challenges facing the sector are multi-faceted, including overall weak strategic framework, unsystematic support from the government, and also varying capacities of organisations and institutions within each theme in the sector. These challenges are intensified by the changing focus of donors and their withdrawal as well as the global economic crisis. Each thematic area saw in most cases unsystematic and ad-hoc assistance to individual projects, due to the fact that there has been

no strategic framework set by the government for areas of civil society and culture. The civil society has received strong ODA support, mainly for advocacy, capacity building and other initiatives linked to empowerment of citizens and community work. Throughout the period of 2007-2011, this support resulted in significant improvement of the overall institutional framework for work with civil society, most important of which was establishment of the Office for Cooperation with Civil Society, but also inclusion of civil society organisations (CSOs) through the SECO mechanism. However, civil society is still a heterogeneous sector facing challenges of their own organisational development, financial sustainability and recognition by the society and particularly the Government.

The media in Serbia faces various challenges, linked to freedom of expression, financing their activities, keeping up with new developments in the media field (such as digital switchover), professionalism of media and organising their work in a rather unfair media market, whereby public broadcasters receive funds that are inaccessible to independent media. The adoption of the first Media Strategy was a step forward in systematising this field, as well as creation of the Media Coalition, which is a strong advocacy and expert body. The Media Coalition works closely with the government on drafting a new Media Strategy.

Culture is the weakest and probably the most marginalised theme within the eight sectors supported by ODA. Culture is characterised by lack of any systematic approach to development, with changing political visions to what culture should represent, as well as extremely weak, fragmented and sporadic funding by individual donors. Culture today struggles with dilapidated institutions, scarce funding, no strategy and weak support from all sources.

In total, 130 projects have been mapped as those underway or completed during the period 2007-2011, with an estimated €123.9 million allocated and €104 million disbursed during the period. As it may be seen from the table below, the assistance has been channelled through grants, many of which were provided in the form of programmes, which within themselves contained small grants for various initiatives in each theme and capacity building measures accompanying the grant support. Examples of such programmes are the EU Civil Society Facility, the Support to Media Advocacy Programme funded by USAID, Culture Programme of the EU and various other donor-funded programmes. The assistance also included grants for rehabilitation of cultural heritage and institutions, support to media institutions through provision of equipment, and supporting civic initiatives locally, regionally and at national level. The analysis of programmes shows that international organisations or companies were still prevalent implementers of programmes, within whose small grant schemes local organisations applied for grants. These organisations in most cases organised capacity building of some form.

<b>Civil society, media and culture</b>									
Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Civil society	78	0	78	€ 70.8m	€ 0.0m	€ 70.8m	€ 56.2m	€ 0.0m	€ 56.2m
Media	19	0	19	€ 33.1m	€ 0.0m	€ 33.1m	€ 28.7m	€ 0.0m	€ 28.7m
Culture	30	0	30	€ 20.0m	€ 0.0m	€ 20.0m	€ 19.1m	€ 0.0m	€ 19.1m
Other or unallocated	3	0	3	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m
<b>TOTAL</b>	<b>130</b>	<b>0</b>	<b>130</b>	<b>€ 123.9m</b>	<b>€ 0.0m</b>	<b>€ 123.9m</b>	<b>€ 104.0m</b>	<b>€ 0.0m</b>	<b>€ 104.0m</b>

Analysis shows that, while civil society and media belong to their own sector, a lot of their activities (and therefore funds) have been cross-cutting and integrated in reforms and developments within other sectors (particularly, human resource development, rule of law, environment, etc.). Both media and civil society contribute to reform goals within other sectors (for example, through the SECO mechanism), and this is an important dimension that needs to be understood when analysing the effectiveness and impacts of donor assistance in Serbia. Good examples of these spin-off benefits of EU and bilateral donor support for strengthening the CSO sector is that it expands and enhances local capacity, for example, designing and delivering community-based social services (HRD) or clean-up and recycling campaigns (environment and energy) or business support and growth through chambers and professional associations (competitiveness), etc.

## **Relevance**

The assistance to the sector of civil society, media and culture can be evaluated as generally relevant to the developmental context and needs of the country. During the reporting period, the assistance was instrumental in developing more enabling framework for developments in two out of the three themes within the sector (civil society and media). The Media Strategy was adopted during the period of focus of this evaluation, while civil society benefited from a set of legislation and institutional solutions for cooperation with civil society through establishment of the Office for Cooperation with Civil Society. However, the ODA has not provided significant and coherent support to the government in the development of such a framework in the culture theme. The relevance of the support may be best evidenced in individual projects supported, whose interventions generally responded to identified needs of the beneficiaries. The overall conclusion relating to the relevance of the assistance is that it has been **high**, as it responded to the needs of the government in all respective areas with the lesser degree of support to culture sector.

## **Effectiveness**

The sector has seen numerous effects of projects within the assistance to the sector. The support to creation of enabling environment for civil society has resulted in a set of laws and institutional solutions that are favourable for growth and cooperation between civil society and government. Support to media resulted in the first more comprehensive Media Strategy, which despite its gaps and weaknesses, still represents a step forward to provision of systematic approach to media reforms. However, assistance to the culture has not brought any significant contribution to systematic approach to this field. Investment in building capacities within each theme has been effective, and brought significant improvements in the way the civil society, media and culture institutions operate and work together. Improvements in capacities have been an important pillar in overall changes within the sector. The assistance also resulted in creation of new networks and coalitions in the civil society and media subsectors, which raise profile and offer more unified voice in issues and decision-making in areas of interest for the members and constituencies.

## **Efficiency**

The efficiency of assistance can be considered as generally acceptable, as the assistance was distributed in form of grants within the sector, which allows for a more straightforward and

systematised approach to organising utilisation of human, material and financial resources. The rating of efficiency of assistance is **high**.

## **Impact**

The impact of ODA may be visible not only within this sector, but across other sectors of development of the country as a whole. Today, civil society organisations are active and rather recognised (and inevitable) partners of the government (and donors) in policy-making processes. For example, the Media Coalition, composed of different media associations, has been recognised as an active and recognised partner of the government providing a unified voice. Capacity-building of various actors within the sector resulted in overall strengthening of the human resources in all of the three sub-sectors. However, the impacts are threatened by negative factors related to the economic crisis, political changes and unsystematic approach to the subsector, as it is most visible in the culture. Therefore, the overall rating of the impact of ODA assistance within the sector is **low-medium**.

## **Sustainability**

For the same reasons, the sustainability of assistance to the sector may be assessed as generally not satisfactory. Lack of strategic framework for culture or systematic approach to this area is an important barrier to achievement of comprehensive and sustainable results in this field. While the institutional foundations for enabling environment for growth of civil society have been established through the Office for Cooperation with Civil Society, the overall strategy is still not in place, which may hinder the systematic support to the CSOs. Sustainability of achievements is further threatened by the struggle that civil society organisations face in ensuring continuous funds for their activities, and on top of that, to co-finance grants. Also, the currently on-going transformation of civil society organisations is a painful process, which will potentially lead to far-reaching changes in the way the civil society operates in the country. The media, particularly, independent media outlets, face challenges to ensure economic sustainability but also to exercise the right to media freedoms, and ensure professionalism due to high turnover of staff. Non-transparent media ownership, political capture and other negative factors influence sustainability of achieved changes in this area to a great extent. The overall findings relating to the sustainability of assistance in this sector lead to rating the sustainability of assistance as **low-medium**.

## **Sector-specific recommendations**

The ODA support to the sector of civil society, media and culture has been very diverse, with some themes attracting more support than others. Namely, the support to civil society and media has been much more consistent than that to culture, which has been fragmented, ad-hoc, and related to the immediate interests and focus of donors. The weak support to culture can also be attributed to the fact that there is no comprehensive policy framework and the ministry's involvement in programming of assistance has been very weak. However, the assistance did address the needs of individual cultural institutions.

In this context, and the agreement to continue with the project-based approach for civil society, media and culture in 2014-2020, the top priority of the ODA assistance to the sector as a whole in the next programming period should be to ensure there continues to be **improvements in donor coordination with ministries, OCCS and other stakeholders and a common vision for each theme** on where the support and goals of the assistance should go with regards to empowerment of civil society, strengthening media's independence and role in good governance and societal development, and enriching Serbia's culture as part of the country's heritage but also an economic asset. All three themes are extremely relevant for the overall democratisation and development of the country, and thus deserve more integrated approach to programming of assistance. So far, the donor assistance has been fragmented and there have been some overlaps in support in the sector and these should be avoided in future programming.

The ODA assistance to civil society should be continuous and should focus on further support to building capacities and tools of civil society to monitor the implementation of policies and legislation, as well for contributing to policy making as such. Also, there needs to be a greater focus on further **strengthening of the enabling environment** (legal and institutional, but also financial framework) as well as investment in capacities of organisations within **sectorial networks** in all relevant areas, as a large number of CSOs, particularly at local level, do not have extensive experience with sector-based networking.

The analysis of available data and interviews with a variety of stakeholders points to the fact that economic viability and media freedoms in the country are vulnerable. Many media outlets, particularly independent ones, which were previously funded by international donors, are closing down, while others struggle with financial sustainability and unfair competition. Non-transparent media ownership, political capture and other negative factors influence sustainability of achieved changes in the sector to a great extent. ODA in the next programming cycle should ensure that further support to the enhancing media freedoms, through ongoing assistance to the Government in **adoption and particularly implementation of legislation relating to media freedoms** with full inclusion of representatives of media sector (both independent and state owned). At the same time, ODA should continue supporting strengthening capacities of media outlets in the areas of **financial sustainability and strengthening market orientation** of the media.

The field of culture is a seriously underfunded and marginalised, with fragmented and inconsistent legislative and institutional reforms. Donor aid supported a number of projects in the area of protection of cultural heritage, but there is no overarching governmental strategy on support to culture in Serbia. This is accompanied by the generally accepted opinion that culture is a "luxury" and that there are other more important issues as many interlocutors complain, which brings scarce and inconsistent results within this theme. The support to this theme should be carefully considered, primarily as investment in culture brings multiple benefits for a society as a whole that are higher than economic, tourist and social benefits as such. It is strongly recommended that the ODA support to this theme is primarily directed towards **support to development of a comprehensive policy framework for culture**, composed of a Culture Strategy and relevant action plans and legislation, with full participation of relevant CSOs and culture institutions, to standards set and enforced by the Centre of Government (see section 5). The ODA assistance should be programmed based on lessons

learned from interventions such as the overall support to cultural heritage (including the Senjak Rudnik project) and the Culture Contact Point.

## Competitiveness

Serbia is in a process of transition to a fully-functioning market economy, by improving the business enabling environment and attracting inward foreign investments. The crucial point in the evaluation period coincides with the 2008 global financial crisis followed by a slight recovery.<sup>48</sup> Serbia was badly hit despite being an import driven, not export-led economy. This aside, according to global indicators, such as the Global Competitiveness Index or the World Bank's Doing Business, Serbia continuously ranks behind most of its neighbours and other European countries as a location to do business.

There are many obstacles to competitiveness in Serbia, from inadequate factor conditions<sup>49</sup> to low degrees of productivity, technology usage and IFI penetration of the domestic economy. Privatisation of state- and socially-owned enterprises failed to stimulate the economy, increase export market exposure and create the necessary new employment opportunities, to drive gross domestic product (GDP). Companies in strategic sectors such as energy, telecommunications, postal services and public utilities remain under state control, which also affects the competitiveness of the Serbian economy.

The competitiveness sector is among the largest recipients of ODA over the period 2007-2011, with 116 projects in total, with estimated total disbursement amounting to €775 million, of which €145 million was granted through 102 projects and €630 million was borrowed through 14 concessional loans. For the purposes of analysis, this sector can be best understood as comprising five main themes, presented in the table below.

Competitiveness									
Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Conditions for competitiveness	18	2	20	€ 33.4m	€ 86.7m	€ 120.1m	€ 29.8m	€ 83.5m	€ 113.3m
Business competitiveness	40	7	47	€ 157.6m	€ 410.4m	€ 568.0m	€ 66.6m	€ 188.3m	€ 255.0m
Industrial policy & clusters	15	2	17	€ 9.6m	€ 200.0m	€ 209.6m	€ 2.3m	€ 135.0m	€ 137.3m
R&D, innovation & ICT	7	1	8	€ 44.3m	€ 200.0m	€ 244.3m	€ 41.0m	€ 200.0m	€ 241.0m
Trade & export development	18	2	20	€ 5.7m	€ 32.8m	€ 38.6m	€ 3.8m	€ 23.2m	€ 27.0m
Other or unallocated	4	0	4	€ 2.1m	€ 0.0m	€ 2.1m	€ 1.6m	€ 0.0m	€ 1.6m
<b>TOTAL</b>	<b>102</b>	<b>14</b>	<b>116</b>	<b>€ 252.7m</b>	<b>€ 929.9m</b>	<b>€ 1,182.7m</b>	<b>€ 145.2m</b>	<b>€ 630.0m</b>	<b>€ 775.2m</b>

## Relevance

In general, the relevance of activities supported by ODA in the competitiveness sector to Serbia's needs was **high**, and in line with the national strategies and donor objectives. Nevertheless, one of the main constraints in achieving better results of ODA is the lack of clear and consistent

<sup>48</sup> The GDP growth rate has fallen from 5.4% in 2007 to -3.5% in 2009, yet slightly increasing by 1.0% and 1.6% in 2010 and 2011 respectively.

<sup>49</sup> Deficiencies in the legal framework, regulatory environment, infrastructure, rule of law, transparency, institutional capacity, inflation, administrative procedures, access to affordable financial assistance mechanisms.

development vision of the Government about desirable outcomes in the competitiveness sector. This is especially visible (yet not exclusively) in interventions where ODA goes ahead of national policies. European Union provided significant support in establishing Regional SME Agencies across Serbia, some of these Agencies converted into Regional Development Agencies (RDAs, namely REDAŠP - Kragujevac, Centre for Development - Leskovac, RRA Zlatibor - Užice, RRA Banat - Zrenjanin), while others continued to operate as SME Agencies without getting support from the Government (Alma Mons - Novi Sad, VEEDA - Vranje, SME Agency "Timok" Zaječar, Regional Centre for SME development in Kruševac), following Government decision to create a policy framework for regional development which is wider than SME support policy. In the cases of Novi Sad and Zaječar, RDAs have been accredited whose activities include SME development, while SME Agencies already continue to operate in parallel in those cities (in the case of Novi Sad, the city is not a founding member of the RDA).

Even though the competitiveness sector itself does not have a single umbrella strategy, its goals are covered by several strategies that provide a framework for each theme within the sector.<sup>50</sup> Development goals and objectives are defined so widely that any type of intervention is somewhat relevant to the sector, as it is the case with the ODA 2007-2011. As a consequence, the scope of intervention was rather scattered than focused, which later limited achievements in outcomes, and especially on impact to the overall competitiveness of the private sector in Serbia.

ODA in this sector focused either on public sector reform, or on the provision of better quality services for private sector development. In both cases, development interventions coincided with the priorities and objectives of other sectors, mainly Public Administration Reform but also others e.g. Agriculture and Rural Development, Environment, Transport, Human Resources Development. When ODA focused on the public sector itself, it usually targeted adjustment of legislation with the *acquis* or improvement of business environment either at the national or sub-national level. The main beneficiaries were the line ministries including finance, economy, trade, telecommunications, regional development and science. This type of intervention was highly relevant to the EU integration of the Republic of Serbia.

Development interventions that focused on the provision of services to the private sector usually targeted public, quasi-public or non-governmental organizations that offer services to businesses.<sup>51</sup> The range of services varied from general training courses through tailor-made technical assistance for business development,<sup>52</sup> innovations, to support to market penetration through standardisation

---

<sup>50</sup> Strategy for Industrial Policy (2011-2020) is considered as the one that provides strategic framework for most of the themes, followed by the Strategy for Development of Competitive and Innovative Small and Medium-sized Enterprises (2008-2013). Other strategies within this sector are rather focused on specific issues such as Regional Development Strategy 2007-2012, Regulatory Reform Strategy 2013-2015, Scientific and Technological Development Strategy 2010-2015, National Strategy for Tourism Development until 2015, Trade Development Strategy of the Republic of Serbia until 2012, Strategy of Market Surveillance 2010-2014, National Consumer Protection Programme for the period 2007-2012, Strategy for Development of Information Society up to 2020.

<sup>51</sup> Here it should be noted that there is a tendency of donor agencies not to work directly with the private sector but to support business support organisations to provide better quality services to the enterprises. In that regard ODA supported national government agencies, regional development agencies, business incubators, cluster initiatives, chambers of commerce, NALED.

<sup>52</sup> JICA Mentoring, GIZ WBF, USAID Competitiveness, USAID Economic Security Project



and certification<sup>53</sup>, market intelligence and fair exhibitions.<sup>54</sup> ODA also included interventions that provided concessional loans for SMEs in Serbia, such as the example funded by the Italian Government.<sup>55</sup> Within the framework of CIP project Čačanska Banka provided concessional loans to entrepreneurs and start-up companies. Among donors, Help e.V. provided small scale grants to start-up entrepreneurs and micro-enterprises for purchasing necessary equipment and machinery.

Importantly, the Innovation Serbia Project implemented in cooperation with the Innovation Fund provides financial assistance to enterprise innovations.<sup>56</sup> This is the first EU project that offers direct financial support to the private sector.<sup>57</sup> Although there is no specific rule why private companies cannot be directly supported by the IPA funds, provision of financial assistance through grant schemes has not been welcomed by the European Commission in the past. Part of the reasons could be found in the fact the European Commission requires that support to SMEs should be framed within state aid rules, which has not been adopted by the Government of Serbia yet. Nevertheless, in order to reach better results and larger impact of development assistance to the private sector development and competitiveness of the economy, both the European Commission and the Government of Serbia should work together to find best-suited mechanisms for providing direct financial assistance to the SMEs.

Overall, the relevance of this type of interventions is also high, yet there were cases where ODA were exploring new opportunities for stimulating private sector development that later did not produce desirable outcomes due to many reasons.<sup>58</sup> Although there was a great demand for financial assistance through concessional loans to the private sector, especially to SMEs, there were only a few interventions that provided this type of support in the observed period.

Geographically, development projects were either spread over the whole of Serbia, or focused on certain territories such as South Serbia<sup>59</sup>, South West Serbia<sup>60</sup> or Vojvodina.<sup>61</sup> Sector-wise, the projects were mainly focusing on ICT; automotive industry; apparel, textile and fashion industry; food processing; and agriculture (including organic production).

## **Effectiveness**

The effectiveness of ODA for competitiveness was **high**, producing many results that contributed to targeted objectives of the competitiveness sector. As mentioned earlier, interventions in the competitiveness sector can be split between support for the improvement of Serbia's overall competitiveness through business enabling environment on the one hand and promotion of

---

<sup>53</sup> GIZ WBF, EBRD TAM/BAS, USAID Competitiveness, USAID Economic Security Project

<sup>54</sup> GIZ WBF, USAID Competitiveness, USAID Economic Security Project, SDC SIPPO.

<sup>55</sup> The concessional loans provided within this project are much more affordable than the ones provided by commercial banks, yet the clients are conditioned to spend at least 70% in purchasing equipment or machinery produced in Italy.

<sup>56</sup> This project is funded by EU IPA 2011 and is administered by the World Bank.

<sup>57</sup> Private sector has been directly supported by other EU projects such as EU PROGRES, SECEP, RSEDP2, yet the Innovation Serbia Project is the first one that gives financial support to the companies.

<sup>58</sup> That is. investments in business incubators, clusters, business improvement districts, etc

<sup>59</sup> Help e.V., SDC's Private Sector Development in South Serbia, USAID Economic Security Project, EU PROGRES

<sup>60</sup> SDC's Private Sector Development in South West Serbia, USAID Economic Security Project, EU PROGRES.

<sup>61</sup> ADA's Support to the Integrated Regional Development Programme of Vojvodina

competitiveness in the private sector on the other hand. There are significant results in the field of national competitiveness, either through preparation of new legislation,<sup>62</sup> strategies and policy documents,<sup>63</sup> support to establishing and strengthening the capacity of public sector institutions and agencies<sup>64</sup> or analysing and removing business barriers.<sup>65</sup> Many interventions promoted better conditions for competitiveness through institutional building at the sub-national level, such as the establishment of regional development agencies and SME agencies<sup>66</sup> or local economic development offices.<sup>67</sup> The number of interventions at the provincial level is rather limited.<sup>68</sup> All those interventions have contributed to the capacity of the Government to improve the environment for doing business although not in areas connected with the implementation of new legislation/policies and the sustainability of achieved results.

There are a number of interventions that supported competitiveness of the private sector, either through business support organizations or directly. The first type of interventions included support to the development of new services for the private sector provided by public, semi-public or private service providers,<sup>69</sup> the creation of business infrastructure: business incubators<sup>70</sup> clusters,<sup>71</sup> and industrial zones,<sup>72</sup> as well as support to business associations.<sup>73</sup> Although ODA supported the establishment of many business support organizations, especially at the sub-national (local) level, significant results were missing due to the lack of a clear government strategy to adequately integrate these entities into an institutional framework for stimulating entrepreneurship and private sector development and due to of the absence of clear priorities for financing business infrastructure.<sup>74</sup> Nevertheless, there are some recent attempts to regulate the market of services provision to entrepreneurs and SMEs. For instance, ICIP has supported NARD to develop a standardised set of services for SME development and create mechanisms for certification of service providers. ICIP has also developed an online SME portal connected to the NARD's website which provides all necessary information about financial and non-financial support programs to SMEs and entrepreneurship development in Serbia. Besides, RDAs are integrated in the institutional

---

<sup>62</sup> Company Law, Bankruptcy Law, Consumer protection law, law on general product safety, law on protection of competition, draft law on cooperatives, draft law on handicrafts, and many others.

<sup>63</sup> Sustainable Development Strategy, National Plan for Regional Development, Action plan for removing barriers for SMEs

<sup>64</sup> SIEPA, Business Registers Agency, NARD (formerly Serbian Agency for SME Development), the Intellectual Property Office, the Innovation Fund, the Office for Regulatory Reform

<sup>65</sup> *Guillotine project*, NALED's Grey Book, USAID BEP, GIZ ACCESS.

<sup>66</sup> EU RSEDP 1 and 2, PRO, MIR, ADA's Support to Sustainable Regional Development of Jablanica and Pčinja Districts.

<sup>67</sup> USAID MEGA, EU Exchange.

<sup>68</sup> Only ADA has a project that targeted institutional building on the provincial level, called "Support to the Integrated Regional Development Programme of Vojvodina".

<sup>69</sup> EBRD TAM/BAS, JICA's Mentoring support, JICA's Strengthening of the institutions for SME support in Serbia, GIZ WBF, SDC's Private Sector Development in South West Serbia, SDC's Private Sector Development in South Serbia, USAID Competitiveness, GIZ ACCESS

<sup>70</sup> ENTRANSE, ADA's Support to the Integrated Regional Development Programme of Vojvodina within BBI component

<sup>71</sup> ENTRANSE, Norway's Cluster Development Support Project in 2007, GIZ WBF, LEDIB, USAID Competitiveness, USAID Economic Security Project, SECEP, RSEDP2, EU PROGRES, GIZ ACCESS

<sup>72</sup> MISP IPA 2008, Exchange, EU PROGRES

<sup>73</sup> GIZ WBF, USAID Competitiveness, SECEP, GIZ ACCESS

<sup>74</sup> As of 2005, many bilateral and multilateral donors were involved in cluster development in Serbia. Besides, in 2007, the Government created a policy measure to support cluster development. However, after so many years the Government still has no clear objective what should be achieved with cluster development in Serbia. The situation is similar with business incubators, which were also supported by ODA and the government programs, yet their role remains undefined within institutional framework for SME development. In both cases, sustainability of those elements of business infrastructure remained highly dependent from further donor support.

framework for regional development, including provision of services to SMEs, which might also be considered as a success of ODA in terms of effectiveness and sustainability.

## **Efficiency**

In general, there was a **high** level of efficiency in implementation of projects from this sector. Efficiency is affected by many factors, from the lack of consistent development agenda (lack of continuity), through difficulties in inter-ministry coordination and cooperation, to weak capacity of public administration to promptly respond to the demands within the project cycle. There are also cases where the scale of ODA exceeded available human capacities of the line ministries. In any case, there is a need to advance the capacity of civil servants for successful management of all stages of a project cycle.

Efficiency is higher for projects managed by specialised public sector entities<sup>75</sup> than for those entrusted to line ministries. This is due to the fact that government agencies adjust more easily to the need of efficient project implementation than line ministries. Besides, line ministries have staff shortages with only a few people who can fully commit to project implementation. Projects requiring inter-ministerial cooperation are the most difficult to manage.

Project delivery at the sub-national level is additionally constrained by insufficient decentralization policies and lack of responsiveness of the central authorities. Namely, due to social pressure for economic development and job creation, provincial and local governments often seek and get support for projects outside their responsibility and capacity. In order to implement those projects, local authorities often need to get all sorts of approvals, permissions and licences from the national authorities. However, the national government and the central level institutions<sup>76</sup> are often not responsive enough within the project lifetime, which usually creates difficulties in implementation later on.

The highest degree of efficiency is recorded for interventions carrying forward a long-term development agenda<sup>77</sup> and combining quality human resources and a good knowledge of problems and challenges with excellent relationship with key stakeholders and beneficiaries. Efficiency is also high in projects managed by development agencies such as USAID and the World Bank.

## **Impact**

Due to the global financial crisis the headline metrics (GDP growth, GVA, number of enterprises, employment, inflation, etc.) showed a negative trend. In addition, the conditions for business were not significantly improved, as can be seen in the 'Doing Business Rankings' presented in table 2. Serbia's business enabling environment remains affected by low degree of predictability, lack of

---

<sup>75</sup> Such as NARD, SIEPA, SEIO, the Innovation fund, the Project Implementation Unit Ltd

<sup>76</sup> Line ministries, different agencies but also public enterprises such as JP Elektroprivreda Srbije, JP PTT Srbija, JP Srbijašume, JP Srbijavode, etc

<sup>77</sup> Those examples could be found with GIZ ACCESS (which has a base in GIZ WBF) and EU PROGRES (as a continuation of UNDP PRO and UNDP MIR).

transparency, inconsistency in implementation of legislation and government interference in the market through the provision of state subsidies and support to public sector monopolies. As such, ODA has had a **low** impact on increasing competitiveness and economic performance, despite the €775 million invested over the 5 year period.

### Doing Business Rankings of the Republic of Serbia, 2007-2013

	2007	2008	2009	2010	2011	2012	2013
<b>Ease of doing business</b>	<b>68</b>	<b>86</b>	<b>94</b>	<b>88</b>	<b>89</b>	<b>92</b>	<b>86</b>
Starting a business	60	90	106	73	83	92	42
Dealing with licenses	157	149					
Dealing with construction permits			171	174	176	175	179
Employing workers	73	110	91	94			
Getting Electricity						79	76
Registering property	110	115	97	105	100	39	41
Getting credit	33	13	28	4	15	24	40
Protecting investors	60	64	70	73	74	79	82
Paying taxes	64	121	126	137	138	143	149
Trading across borders	51	58	62	69	74	79	94
Enforcing contracts	76	101	96	97	94	104	103
Closing a business	103	103	99	102	86		
Resolving insolvency						113	103
<b>Number of economies</b>	<b>175</b>	<b>178</b>	<b>181</b>	<b>183</b>	<b>183</b>	<b>183</b>	<b>185</b>

Source: <http://www.doingbusiness.org/>

Projects supported by ODA have produced individual impacts that are significant to the economy. Impact is also expected for interventions which targeted development of legislative acts (laws and bylaws) and strategies, yet this might be hampered by insufficient efforts with actual implementation. ODA to government agencies providing services to the private sector has have had an impact on government private sector interventions<sup>78</sup> Impact is also visible for interventions which focused on removing business barriers<sup>79</sup> or with direct support to the private sector.<sup>80</sup> Nevertheless, the impact on the private sector is proportional to the scope of interventions and is subject to external factors such as businesses environment and economic crisis.

## Sustainability

Sustainability of development assistance can be considered as **medium**. Sustainability is highly dependent on the government's capacity to incorporate achieved results into policy interventions, or the political willingness to support the institutions and services developed with ODA. In this

<sup>78</sup> Such as Business Registers Agency, NARD, SIEPA and the Innovation Fund.

<sup>79</sup> *Guillotine project*, NALED's Grey Book, USAID BEP, GIZ ACCESS. Although it is not part of ODA, Foreign Investors Council with their White book also contributed to removing business barriers in Serbia.

<sup>80</sup> According to USAID's final report on Economic Security Project, job creation within companies that are supported by this project was increased by 20% compared to the companies from the control group (that lost 5% of their employment). Support of GIZ ACCESS to organic production has increased incomes of paprika powder producers from €3 per kg to €10 per kg, with the possibility of selling all produced quantities to a German company. Investments of EU PROGRES in Leskovac Green Zone will generate investments over €3.5 million and will create jobs for more than 1,000 people. Italian credit lines benefited 161 companies that have employed 731 new workers. There are many similar examples with other interventions that supported the private sector through business incubators, clusters, fair exhibition, standardisation and certification, and many other aspects.

regard, there has been some progress with sustainability over the observed period. When the level of ownership is high during project implementation and ODA is matching national priorities, the government structures are usually ready to incorporate achieved results and best practices into their operations. For instance, NARD is keen to adopt good practices and policy recommendations to improve its services to the private sector, drawing on numerous interventions such as ICIP, JICA, WENS, WEM, SEENECO and other projects of interest to this agency.

However, sustainability is weaker when the government has no clear policy approach.<sup>81</sup> For example, the sustainability of investments in business incubators, clusters and SME agencies is under question due to the lack of government policies in these fields. The situation is better with the RDAs, which became a part of the institutional framework for regional development, yet that might change with the incoming law on regional development.

Sustainability of results is weak when the government is not sufficiently involved in project implementation<sup>82</sup>. Project-based institutions created by those interventions are mainly dependent for their survival on their ability to attract further donor support. Sustainability of results was sometimes secured by sequencing assistance in specific areas, or through a higher involvement of the private sector. Examples include interventions related to consumer protection,<sup>83</sup> quality infrastructure,<sup>84</sup> market surveillance,<sup>85</sup> innovation,<sup>86</sup> and regional/local development.<sup>87</sup> Good sequencing was also achieved in interventions involving bilateral support and IPA funds.<sup>88</sup> Interventions targeting business support organisations scored better in terms of sustainability, in particular interventions combining good governance principles with the empowerment of ownership within the private sector entities e.g. GIZ ACCESS intervention in Vojvodina ICT Cluster. Best practices in incorporating good governance mechanisms in economic development projects is also evident with EU PROGRES support to the Green Zone Leskovac, where ODA is adopting a holistic approach, from investment in infrastructure through business plan development, management and operational procedures, to promotion of investment opportunities.

## **Sector-specific recommendations**

One of the key findings of the evaluation is the lack of a consistent sector-based development agenda addressing competitiveness priorities. Although priorities within sector themes are well

---

<sup>81</sup> Sustainability of investments in business incubators, clusters and SME agencies are under questions due to the lack of government policies in these fields. The incoming law on regional development might also threaten sustainability of RDAs.

<sup>82</sup> Private sector development projects such as USAID Competitiveness, USAID Economic Security Project, Help e.V., SPARK's Private Sector Development Project, SDC Private Sector Development Projects in South and South-West Serbia, and many others. However, it is fair to say that many of these projects have not been designed to achieve sustainability through government interventions.

<sup>83</sup> EU CARDS/IPA Support to the Ministry of Trade and Telecommunication (and its predecessors).

<sup>84</sup> GIZ ACCESS provides a support to the Ministry of Finance and Economy for preparing technical documentation for specialised equipment for quality control laboratories that will be purchased by IPA 2013.

<sup>85</sup> EU IPA and USAID support to the Ministry of Trade and Telecommunication and the inspectorates.

<sup>86</sup> GIZ ACCESS, World Bank and EU IPA support to innovation, combined with the concessional loans from IFIs.

<sup>87</sup> EU CARDS/IPA support to Regional Development Agencies, combined with the support of a few bilateral donors that support this sector (ADA, Sida and Norway).

<sup>88</sup> GIZ ACCESS provides a support to the Ministry of Finance and Economy for preparing technical documentation for specialised equipment for quality control laboratories that will be purchased by IPA 2013.

covered by strategic documents, there is a need to have an overall consensus on **long-term sector-based development priorities**. In addition, there is a need to improve the supportive policy framework for business clusters, business incubators, industrial, science and technology parks, regional development, e-commerce and broadband infrastructure.

Cooperation and coordination between public sector entities (ministries, public agencies and provincial / local self-governments) remains very weak and diminishes the impact of national policies and ODA activities. Although four line ministries cover competitiveness as a sector,<sup>89</sup> SEIO is the key institution for inter-ministerial coordination of external assistance. It is highly recommended that the Ministry of Finance and Economy takes a more active role in **leading and coordinating assistance** in the sector. Ministries have to reach out and involve public agencies and provincial/local self-governments, in the programming of ODA. Activities are developed at central levels that are not proofed at the local level in terms of implementation. Increasing capabilities of the public administration, especially the line ministries, in implementation, monitoring and evaluation of development assistance in this sector should remain a priority in the forthcoming period. This will not be achieved by the provision of new training inputs or improved indicators alone. There is a failure by policy makers to learn from past interventions and effectively use indicator data to inform future ODA activities.

ODA support to **private sector development** must be more creative and respond to the real needs of Serbian business, especially small and medium-sized enterprises. The Government should combine policy change with direct financial and non-financial assistance to companies, especially in strategic sectors (agriculture) or in geographic areas of special interest (such as disadvantaged areas with high unemployment rates). ODA should continue to focus on: developing the quality of business advisory services to private sector entities; export promotion and market penetration; FDI and inward investments; development of business infrastructure; technology transfer and increasing productivity and innovation. But future support must be market oriented with clear evidence of same. ODA should also support government initiatives to develop a knowledge-based, innovation-driven economy (technology transfer, strengthening links between research and the private sector) to avail of well identified and informed new market opportunities. Activities to address obstacles in building broadband infrastructure across the country are critical in this regard.

Creating a **business-friendly climate** should remain an absolute priority for future ODA. Importantly, this should be on the basis of strict beneficiary conditionalities in terms of budgetary and resource commitments for implementation, which has been a particular failing with past ODA interventions. Support priorities should be ensuring fair competition, creating a predictable and transparent legal system,<sup>90</sup> fighting corruption (particularly interference with foreign investors) and reform of the public administration. Addressing these issues requires coordination with reform activities in other sectors, primarily with the Public Administration Reform and the Rule of Law. This translates into a need for inter-ministerial coordination at centre of government level.

---

<sup>89</sup> Ministry of Finance and Economy, Ministry of Regional Development and Local Self-government, Ministry of Foreign and Internal Trade and Telecommunications, and Ministry of Education and Science

<sup>90</sup> There are cases of partial implementation of the legislation, which create instability and insecurity in doing business.

Strengthening cooperation between public and private sector should remain a priority of the development assistance in this sector. There is also a need to strengthen capacities for **evidence-based policy-making** through support to both public institutes and independent think tanks.

Special attention is warranted for **territorial development** with the overall aim of reducing the high regional disparities in Serbia. Support to area-based initiatives that stimulate inter-municipal and cross-border cooperation in economic development should be continued and expanded based on lessons learned from previous interventions. These initiatives should have a strong economic and market rationale to ensure sustainability.

Development assistance needs to further strengthen the government capacities for **market surveillance, product safety and consumer protection**. Building laboratories for quality control and advancing policy framework and human capacities within inspectorates should be continued but with a greater focus on implementation and data evaluation to inform future standards and policy.

### ***Human resources development***

The sector of Human Resources Development (HRD) comprises policies which are concerned with the development of human potential through education and training, better working and living conditions of the citizens and a fairer access to quality services, in the perspective of achieving a more equitable, cohesive and healthy society while responding to the challenges of a globalised and knowledge-based economy.

The main challenges facing the sector are: high unemployment and low employment rates; skills mismatch on the labour market; weak performance of the education sector in preparing young people for employment and insufficient education opportunities for adults, limited coverage of employment policy; active labour market programmes not sufficiently targeted to the needs of the unemployed and not sufficiently taking into account local realities and needs; large share of the labour force employed in the informal economy, enforcement issues with labour law and occupational health and safety regulations; weak social dialogue; weak coverage of employment, social welfare and health policies and services among vulnerable and disadvantaged groups; lack of integrated/cross-sector services; insufficient involvement of local self-governments in designing, implementing and evaluating HRD policies at the local level (see PAR) and lack of regulatory and quality control systems. In preparing for EU accession, HRD is subject to six of the 35 acquis chapters<sup>91</sup>.

HRD was the third largest beneficiary sector of grant aid in 2007-2011 and the 5<sup>th</sup> largest recipient of ODA, with estimated total disbursement amounted to €371 million, of which €229 million was granted through 305 projects and €142 million was borrowed through eight concessional loans. For the purposes of analysis, this sector can be best understood as comprising four main themes, presented in the table below.

---

<sup>91</sup> Chapter 2 - Freedom of movement of workers; Chapter 3- Right of establishment and freedom to provide services; Chapter 19 - Social policy and employment; Chapter 22 - Regional policy and coordination of structural instruments; and Chapter 26 - Education and culture; and Chapter 28 - Consumer and health protection

Human resources development									
Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Employment & labour	25	0	25	€ 29.4m	€ 0.0m	€ 29.4m	€ 17.4m	€ 0.0m	€ 17.4m
Education & training	100	3	103	€ 146.4m	€ 110.0m	€ 256.4m	€ 83.8m	€ 35.3m	€ 119.1m
Social inclusion	113	1	114	€ 61.7m	€ 33.4m	€ 95.1m	€ 51.8m	€ 22.4m	€ 74.2m
Health	65	4	69	€ 86.8m	€ 229.7m	€ 316.5m	€ 75.7m	€ 84.5m	€ 160.2m
Other or unallocated	2	0	2	€ 2.3m	€ 0.0m	€ 2.3m	€ 0.1m	€ 0.0m	€ 0.1m
<b>TOTAL</b>	<b>305</b>	<b>8</b>	<b>313</b>	<b>€ 326.7m</b>	<b>€ 373.0m</b>	<b>€ 699.7m</b>	<b>€ 228.9m</b>	<b>€ 142.2m</b>	<b>€ 371.0m</b>

## Relevance

The ODA was very relevant to the needs of the sector: in order to combat unemployment and increase the employment rates, Serbia needs effective employment policies. ODA covered all aspects linked to this issue: strategic and policy frameworks, better targeting of ALMPs to the needs of unemployed, decentralisation of employment policies and specific programmes for the “hard-to-employed” groups (youth, people with disabilities). ODA also tackled acquis-related issues such as social dialogue and occupational health and safety.

The Serbian education system is underperforming as evidenced by the poor PISA<sup>92</sup> results and the continuing skills mismatch on the labour market. ODA supported efforts to modernise the education system through policy advice, large-scale refurbishment and equipment of schools (general education and VET), the introduction of student-centred teaching methods, the revision of profiles and curricula, teacher training, development of a National Qualifications Framework and quality assurance system. A large amount of ODA was channelled to higher education through the Tempus and Erasmus programmes.

Better social inclusion policies are required to give vulnerable and disadvantaged groups access to education, social and health systems and improve their employment prospects. ODA supported social welfare reforms through policy advice, the development of community-based social services as an alternative to residential care and the promotion of integrated/cross-sector services.

The Serbian healthcare system is being reformed to ensure that quality, affordable, efficient services are equally accessible to all citizens. ODA provided resources and expertise to modernise hospital infrastructure and equipment, reform the financing and payment systems, introduce new services (e.g. palliative care) and improve the management and performance of healthcare institutions. Overall, the relevance can be considered to be **very high**.

## Effectiveness

While ODA delivered useful outputs and results, which contributed to the objectives of reforms across the entire sector, the extent to which these achievements were used to push reforms forward

<sup>92</sup> The Programme for International Student Assessment (PISA) is a worldwide study by the Organisation for Economic Co-operation and Development (OECD) in member and non-member nations of 15-year-old school pupils' scholastic performance on mathematics, science, and reading.



varies from one theme to another. Support to employment policies has yielded tangible results: the employment policy is based on multi-annual priorities, the range of ALMPs has been expanded and local employment policies have been initiated. ODA was instrumental in developing tailored-made measures for specific categories of unemployed. The Youth Employment and Migration (YEM) programme, which combined financial assistance with training and work activation, sets a good example of what a multifaceted approach can achieve to remove the various obstacles preventing a target group from joining the labour market. However, it is still not possible to assess the effectiveness of ALMPs in the absence of a properly functioning monitoring and evaluation system. Social dialogue remains weak and problems with occupational safety and health have not yet been addressed thoroughly. These issues were only marginally tackled by ODA.

ODA support to the education sector produced mixed results: while the teaching conditions and environment were improved at school level through targeted investment into school premises/facilities, curricula modernisation and teacher training, the results are disappointing at the national level, where little progress has been made in creating regulatory and quality control systems, building a National Qualifications Framework and mainstreaming the best practices developed with the support of ODA. The governance of the VET sector remains particularly weak. Promising results with the development of inclusive education supported by ODA remain also to be disseminated and systematised.

ODA facilitated the implementation of the Social Welfare law. It was instrumental in improving the cash benefit system, establishing a country's foster care network and modernising the Centres for Social Work (CSWs) in particular through the introduction of case management and the development of national minimum standards for priority services. Procedures for coordinating the provision of social services between various sectors (social, employment, education, health etc.) at the local level were also pioneered thanks to ODA. However, community-based social services remain insufficient to respond to the needs of disadvantaged groups, the capacity of local self-governments to steer social inclusion policies is still in its infancy and the regulatory framework needs to be built up as the range of services expands.

In the health sector, major healthcare institutions in the secondary and tertiary care benefited from the investment into infrastructure and equipment made possible thanks to concessional loans. It is clear that ODA, however, did not succeed in reforming the health financing and payment systems to this date and systemic change in the management of healthcare institutions has not yet materialised.

Overall, the effectiveness can be considered to be **medium**.

## **Efficiency**

The bulk of ODA over the period went to health and education. Both themes included large concessional loans to modernise infrastructure and equipment. These investments were justified given the obsolescence of existing health and education networks. In the long-run, these investments will pay off only if in the Government manages to push through true reforms in the sector. Better schools will produce a more qualified labour force that sustains productivity and

innovation in the private sector and government. Likewise, a quality healthcare system improves health standards among the population with positive economic side-effects e.g. higher labour productivity, longer active life, decrease in health and social spending. Unfortunately, the implementation of a €150m EIB loan to refurbish four clinical centres in Serbia<sup>93</sup> has been plagued with numerous problems and delays and there is still a risk it could be cancelled. The efficiency of ODA spent on technical assistance to help reform the health and education systems does not appear very high given the mixed results achieved in these areas.

Efficiency is higher in the social inclusion and employment themes where pilot projects supported by ODA have resulted in systemic changes enabling the continuation of reforms with additional funds from international donors. . The absorption of ODA in the field of social inclusion was also facilitated by the Social Innovation Fund (SIF), which was established within the Ministry of Labour and Social Policy in 2003 to coordinate and channel funding for community-based social services through various calls for proposals<sup>94</sup>. However, the portion of ODA dedicated to employment and labour market over the period was negligible when put next to the challenges Serbia is facing on the labour market as a result of the economic crisis. Overall, the funding available has been well used to improve employment policy tools and methodology, starting with labour market institutions at the central level. The most valuable experience has been gained regarding the tailoring of ALMPs to the needs of the unemployed with innovative approaches developed for youth, which lend themselves well to dissemination and replication. The overall efficiency can be considered to be **medium**.

## **Impact**

The scarce resources available for employment policies - even when topped up with ODA – were always unlikely to lead to dramatic improvements on the labour market. The real impact of ODA in this field should therefore be measured in terms of increased capacity at national and local levels to lead more effective policies. In this respect, there is no doubt that employment policies are better planned and ALMPs are more sophisticated and diversified than a few years ago. However, there is still little impact regarding key aspects of employment reforms such as the decentralisation of employment policies and monitoring/evaluation systems. There is also little connectivity with industrial, R&D and regional development policies.

In the education sector, the impact has been reduced by a continuing failure to capitalise on the - sometimes remarkable - achievements of pilot projects. This is particularly true in the VET sector where only a minority of revised profiles have been mainstreamed to date and resistance to change is well entrenched within the system. In order to tackle education reforms head on, Serbia needs much stronger leadership and vision. This can only be achieved by giving greater institutional prominence to government bodies in charge of the reforms. Impact has also been disappointing in the health sector. While ODA accelerated the pace of change, improving the quality of services in many areas through equipment, advice and training, a lack of leadership seriously weakened the transformative value of those results. There was no real breakthrough with major reform issues

---

<sup>93</sup> In Belgrade, Kragujevac, Niš and Novi Sad

<sup>94</sup> SIF was later discontinued as responsibilities for the management of IPA funds moved to line ministries in accordance with the DIS process.

(payment methods, financial sustainability, management system based on achievement and performance). As a consequence, the health system as a whole remains under-productive, and on a very bad footing financially.

Despite isolated examples, there is still no comprehensive attempt at integrating employment, social and health policies, a difficult step but widely acknowledged as the best means to respond to the needs of vulnerable and disadvantaged groups. The overall impact can be considered to be **low**.

### **Sustainability**

The policy framework for employment policies has been strengthened, in particular with the adoption of national employment strategies and action plans. There is some concern, however, that employment policies might not be allocated sufficient funding in the future to be worthwhile, especially in the current adverse economic environment. In the context of diminishing resources, there is an even stronger case for improving the relevance and quality of ALMPs through an effective monitoring and evaluation system and better connection with other national policies.

The sustainability of results achieved in the education sector is always alarmingly precarious given the weak governance, in particular in the field of VET and adult education. There are similar concerns in the health sector where major projects achieved relatively little in terms of transforming the system, in particular with regard to financing and payment mechanisms<sup>95</sup>. As a result, some of the results achieved by the ODA are jeopardised. Sustainability looks more promising in the social inclusion sector where the adoption of regulations and standards (for a still limited number of services) creates a clear framework for the development of community-based social services, a major reform goal on its way to be reached. However, the lack of financial means at the local level to sustain and expand these services remains a serious constraint, in particular in the current economic climate, and argues for continued support from ODA and more efficiency in using available resources. The success of the social welfare reform also depends on the engagement of the civil society and their capacity to deliver quality social services. The role from the media is also essential to raise awareness, explain and enlist support for reforms among the population.

Overall, the sustainability can be currently considered to be **low**.

### **Sector-specific recommendations**

HRD policies remain central to the transformation of Serbian society and economy to face the twin challenges of EU accession and globalisation. There is therefore a strong case for further ODA support to the sector over the period 2014-2020.

---

<sup>95</sup> *Projects that have been successfully completed have more often than not involved expenditure on buildings or equipment or the establishment of an institution rather than the systemic change of the whole system that is required. Much less has changed in respect of non-capital or institutional / individual capacity building and performance, meaning the system has not changed much – a factor summed up succinctly by a hospital director who said “all this training and nothing happens”.* Assessment of International Assistance in the Serbian Health Sector, Ecorys, 2010

In the **employment and labour market** field, ODA should channel its support through NES and MoLSP providing them with additional resources and expertise with the design, implementation and evaluation of ALMPs. The goal should be to reach as many unemployed as possible with well-targeted measures taking into account the needs of the local economy. The best practices in combining financial assistance with training, work activation and social inclusion measures, which were developed under such project as YEM should be expanded and replicated for other target groups. Accent should be put on combining employment, education and social inclusion policies to bring more people to the labour market. The sector-based approach which will apply under the new IPA should give plenty of opportunities to do so. However, there is also a need for a more strategic approach to employment policy by linking it to other policies at the national level (FDI promotion, R&D, SME development) through a concerted effort to develop certain sectors and/or regions as future sources of growth. Social dialogue, which received relatively little attention from ODA, should be given higher priority since it remains largely ineffective. Deadlocks around the representativeness of social and economic councils should be overcome and the capacity of social partners to engage the Government on social and economic issues should be raised. There is also a need to streamline the institutional set-up for social dialogue, for example by merging local employment councils with economic and social councils. The issue of informal economy should be tackled through a comprehensive programme of measures combining social welfare, labour law and taxation aspects.

In the field of **education and VET**, further ODA support should be imperatively conditioned to progress made with the systematisation of profiles revised until present. The development of an effective in-service teacher training for all levels of education deserves more attention given its importance for raising the quality of education and ensuring the success of reforms, which cannot be carried out without the active participation of the teaching profession. A financially-viable system for updating/raising the skills and competences of teachers in line with modern standards is still to be developed and implemented. Serbia should disseminate the best practices achieved through inclusive education projects, such as “Education for all” and “Second chance”. There is also a case for applying the principles and methods of inclusive education to the VET sector. Finally, a concerted effort to establish a process of life-long learning is needed as a means to increase the flexibility and employability of the labour force.

Regarding **social inclusion**, ODA support will be critical in the current economic crisis to maintain the momentum of on-going reforms, which could be jeopardised by budgetary cuts. ODA should build on the results and best practices of pilot projects to reach out to new target groups and address their needs with personalised measures and advice. The emphasis should be on labour market integration as the best means to promote social inclusion without putting extra burden on public finances. The long-term goal should be to achieve the progressive integration of employment, social and health services through the development of joint national standards and financing mechanisms.

Serbia should also strengthen its capacity to **monitor and evaluate social expenditures** in order to make the best use of resources available. This is critical for maintaining an effective and equitable social welfare system as Serbia’s population gets older and fiscal policies curtail the means available for social policies.

Regarding the **healthcare** system, there are many needs covering all aspects of the healthcare system (range and quality of health services and the access to healthcare, skills development of health workforce, introduction of performance management and information systems, institutional challenges such as evidence-based policy-making, monitoring and evaluation systems, etc.). A functioning health financing system is crucial to ensure the long-term sustainability of the healthcare system and fight corruption. More attention should also be applied to the efficiency of existing health expenditures. However, there will be limited opportunities to finance health reforms with pre-accession funds as EU assistance will be more narrowly focused on preparing for EU membership<sup>96</sup>. Support to the health sector is likely to be on *acquis*-related issues or provided indirectly, for example through social inclusion measures.

### ***Agriculture and rural development***

The agriculture sector is a critical source of economic competitiveness, employment generation and social inclusion. While agriculture forms a major part of the Serbia economy with respect to market opportunities, based on resources and location, the sector is not realising its full potential. There are a series of reasons for this, including: a legacy of limited technical investment in the agri-food sector; a domination of small producer farms with irregular, modest surpluses and non-standard quality products; the dismantling of agricultural value chains by the privatisation process; and a weak capability to respond to the demands of export markets, in terms of product portfolio, quality and volume. This situation is compounded by a poor agriculture support system, based on payment distribution rather than support to improve competitiveness.

The updated National Agriculture Programme 2010-2013 has three overall aims: i) sector restructuring of producers' ownership and institutions; ii) development of market and market mechanisms; and iii) improving rural development and environment protection. While the strategy does identify critical needs facing the industry, its positioning within the forces of global change in the food sector is absent. Successive government have adopted a very passive approach to the sector, with repeated commitments to attaining EU standards and increased budget allocations. Agriculture and rural development (ARD) is critical to Serbia's future and needs to be located within an inter-ministerial support framework integrated with business competitiveness, rule of law, transport, HRD and environment support measures. For example, irrigation and flooding are two major policy issues facing the ARD sector. The rehabilitation of the inland waterways system is seen as a transport policy matter, but has major implications for access to water and future agriculture production. In terms of sector investment, there is a need for a sophisticated FDI agri-food strategy, targeting investment companies that will boost technological and R&D capacities. To date, the agriculture education, extension and research system suffers from a lack of financial means and coordination of activities based on long-term programmes. Generally, ODA during 2007-2011 has not been positioned within such a development perspective and has suffered from the lack of a supportive framework from the centre. A focus on the institution-building demands of managing subsidies and farm payments will not provide the strategic change required in the sector.

---

<sup>96</sup> Even at present, the EU Multi-annual Indicative Planning Document for Serbia 2011-2013 does not include any health priority.

Clearly, as a candidate country, the *acquis* is a major challenge with 40% of the legislation dedicated to agriculture, rural development and food safety. But this extensive resource commitment to EU standards and institution building should not distract from strategic thinking and policy commitment to sector competitiveness, productivity and new market development, outside of the EU framework. EU standards are not an end to themselves, but a means to increase sector competitiveness, thereby addressing rural depopulation and poverty. At the same time, Serbian agriculture and rural areas will be required to meet climate and energy targets, and biodiversity strategies as per the 2020 agenda. Farmers, who are the main land managers together with foresters, will need to be supported in adopting and maintaining farming systems and practices that are particularly favourable to environmental and climate objectives.

ODA in 2007-2011 has sought to play an important role in facilitating change in Serbia's agriculture sector, particularly at the local level. Broadly, the majority of ODA has been directed to safety standards and competitiveness. In total, 68 projects were underway or completed during 2007-2011, including two concessional loans, with estimated disbursement of €106m. The sector is broken down into five main themes, presented in the table below:

#### Agriculture and rural development

Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Agricultural competitiveness	30	2	32	€ 58.1m	€ 38.7m	€ 96.8m	€ 41.8m	€ 28.0m	€ 69.7m
Forestry and fishing	2	0	2	€ 0.5m	€ 0.0m	€ 0.5m	€ 0.4m	€ 0.0m	€ 0.4m
Institutional preparedness	8	0	8	€ 16.8m	€ 0.0m	€ 16.8m	€ 6.1m	€ 0.0m	€ 6.1m
Safety and standards	11	0	11	€ 37.4m	€ 0.0m	€ 37.4m	€ 26.9m	€ 0.0m	€ 26.9m
Sustainable rural development	15	0	15	€ 3.6m	€ 0.0m	€ 3.6m	€ 3.2m	€ 0.0m	€ 3.2m
Other or unallocated	0	0	0	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m	€ 0.0m
<b>TOTAL</b>	<b>66</b>	<b>2</b>	<b>68</b>	<b>€ 116.4m</b>	<b>€ 38.7m</b>	<b>€ 155.2m</b>	<b>€ 78.3m</b>	<b>€ 28.0m</b>	<b>€ 106.3m</b>

#### Relevance

ODA has been relevant to the needs of Serbia with institution-building, raising quality standards and improving competitiveness in the ARD sector. The purpose of ODA actions was in line with national priorities from the 2005 National Agriculture Strategy, namely: i) increasing the wealth of the nation through an efficient agricultural sector, and producing products that are internationally competitive in terms of quality and price; ii) ensuring that the food provided to Serbian consumers meets acceptable standards of quality and safety; and iii) preparing Serbia's agricultural sector for accession to the EU, as well as aligned with the updated National Agriculture Programme, 2010-2013. Hence, relevance overall can be considered to be **high**.

Not surprisingly, the EU has been the main source of ODA supporting institution-building, food safety, food chain and eradication of animal diseases. Competitiveness support to the ARD sector has addressed production and quality objectives. Bilateral and IFI donors match their interventions with EU support, such as the World Bank's STAR project and Germany and the EU in 'Effective Land Management'. The Danish private sector programme 'Support to the fruits and berries sector in south Serbia' has supported five fruit value chains for domestic and export markets. This has been a very relevant project as Serbia has particular competitive advantages in the fruit sector. USAID's

Agribusiness project has also supported the fruit sector by both improving the enabling environment for fruit producers. Forestry and fishing has not been the most important priority, but MAFWM has acknowledged they need to be promoted in the following period.

## Effectiveness

Evidence would suggest effectiveness of ODA support can be best captured at the local level and with bilateral projects, often financed by smaller donors and assistance covered by other sector (PAR, Competitiveness, Civil Society, Media and Culture). In contrast, the effectiveness of EU and other ODA support at the central level has been less successful, particularly considering the volume of funds disbursed. Clearly, ARD institution-building at the central level in preparation for the *acquis* is a challenge, but after seven years of ODA support, progress in creating the structures for the IPARD programme has been limited.<sup>97</sup> Projects have been effective in supporting areas such as the Veterinary Directorate, disease eradication, and structures for the Farm Accountancy Data Network (FADN). There is a resource capacity issue that is an influencing factor, but a greater commitment is expected from the Government for such an important sector to the economy to support ODA effectiveness, particularly in quality standards, market inspection and enforcement of regulations. Effectiveness overall can be considered to be *medium*.

## Efficiency

In the case of ARD, the efficient utilisation of ODA funding has been *low*. There have been implementation delays with important projects designed to support the competitiveness of Serbian agriculture, such as the World Bank's Transitional Agricultural Reform (STAR) project<sup>98</sup> and the Danish-funded support to the fruit and berries sector, while a number of IPA projects have had to arrange no-cost extensions since the evaluation period (for example in animal health and plant protection). An identified efficiency problem is the lack of managerial capacity and a culture that is reactive to emerging events or EU demands, rather than having a pro-active approach to ODA resources within a long term development perspective of the sector<sup>99</sup>. Clearly, the multiple changes in management structure with the ministry through reorganisations have undermined a consistent and efficient managerial approach within the ministry. The division of responsibilities between the various agricultural directorates is unclear, resulting in poor coordination and lack of

---

<sup>97</sup> STAR Project, Final Evaluation Report – Version 2.0 (component 1 and 2), August 2012, NIRAS.

<sup>98</sup> “The project is currently rated moderately unsatisfactory for progress towards achievement of the Project Development Objective (PDO) and Global Environmental Objective (GEO), and moderately satisfactory for overall implementation progress. In the first three years following approval, the project suffered severe delays, including a 16-month effectiveness delay, and disbursed only 6 per cent of the loan and 7.6 per cent of the Global Environment Facility (GEF) grant. Since mid-2010, project performance has been mixed, with strong performance between mid- and end-2010 but stalled implementation between end-2010 and mid-2011. The most recent project stalemate was caused by changes in key leadership within the implementing agency, the Ministry of Agriculture, Trade, Forestry and Water Management (MATFWM)”, STAR Project, Final Evaluation Report, op cit

<sup>99</sup> For example, the final evaluation of the \$4,000,000 Sustainable Tourism for Rural Development Joint Programme (JP) identified that, “The MAFWM participation was hampered by a number of factors, not least changes in its own internal structures and leadership, meaning there was a lack of consistency in participation from the Ministry. Leadership changed, priorities changed, assignments changed and focus on the JP was lost. This happened more than once. There were more fundamental issues within the Ministry and Government themselves, in relation to the directions of agriculture and rural development, issues which took away from a clear direction and purpose, affecting MAFWM participation in the JP”

communication. This uncertain situation has reduced the efficiency of key ODA projects. For example, establishing the institutional capacity required to implement the rural development component of IPA (Managing Authority and Paying Agency) has proved a stop-go process. Building the chain laboratory network protecting human health, animals, plants and the environment through provision of safe and good quality food to domestic and international markets has also proved a difficult and inefficient process.<sup>100</sup> Based on project reports and interviews carried out for this evaluation that the MAFWM has a particular challenge in understanding and coordinating ODA support interventions to facilitate agriculture competitiveness in Serbia.

## **Impact**

While individual projects achieved their objectives (effectiveness) and have gone on to achieve outcomes (impact) in their own narrow sense, the overall impact on the ARD sector is quite weak. For example, considerable resources have been committed to food safety, but the recent case of milk contamination demonstrates systemic weaknesses which suggest the impact of interventions is restricted to regulatory formulation at best, as ODA support in the period evaluated was designed to avoid such cases. Acknowledging this, the Minister of Agriculture, Goran Knežević, stated at a Parliamentary session (13 March 2013) that safety systems in Serbia are regulated by laws and regulations passed in order to harmonize standards with that of the EU, but that this was done without "*enough understanding for reality and their enforceability.*" Failure to make progress with IPARD has delayed access to pre-accession funding support for Serbian farmers. Support to national reference laboratories to date has had very limited impact. When aggregating all the projects, poor overall management by central authorities emerges as the common source of weak impact. Where impact of ODA funding is most evident is at the local level, supporting municipalities and producer groups that are committed to ODA programmes. Preparation for the LEADER programme is a case-in-point, whereby actors at the local level demonstrate commitment and readiness to organise but this is not replicated at the centre which has failed to prepare the implementation procedures for the programme. Overall, the repeated lack of commitment at the ministerial level makes the institution building process for EU accession a difficult support task for ODA. Due to the importance of ARD to Serbia, this raises the risk question of leaving full responsibility for the strategic development of agriculture, IPARD and safety standards with the MAFWM alone. To improve impact of ODA interventions, the performance of the MAFWAM has to improve in terms of organisation, management and policy implementation. The impact overall can be considered to be **low**.

## **Sustainability**

Due to the lack of capacity that the MAFWM has demonstrated in absorbing ODA in 2007-2011, sustainability of outcomes is a major issue. The sector is a major recipient of state aid, which is mainly used for direct payments. The MAFWM needs more resources to meet the demands of IPARD, the National Reference Laboratory Directorate, FADN, Inspection Services and the National LEADER framework. Every new piece of legislation passed dealing with the *acquis* in the ARD sector

---

<sup>100</sup> Along with the substantial interventions under CARDS and IPA, the Counterpart Fund established in 2002 has provided €8 million for the food chain laboratories network.



makes demands on resources for implementation. Moreover, the MAFWM also has to commit resources to the strategic development of the sector in terms of future production planning, new market development, water irrigation and environmental sustainability planning. The agriculture strategy should form a pillar of any future national development plan, well integrated with other sectors such as transport and competitiveness, and playing a key role in supporting the overall objective of an export driven economy. In a period of limited budget resources, the MAFWM should be considering policy options to meet this varied mandate. This could take the form of closer inter-ministerial working relations and the sharing of resources or improving central-local relations to better implement new regulations and policies. Clearly, the present situation cannot continue and without improvement of managerial and organisational structures, future ODA funding will find limited opportunities to make a meaningful and sustainable impact. Sustainability overall can be considered to be **low to medium**.

### **Sector-specific recommendations**

Agriculture and rural development (ARD) is critical to Serbia's future. The agriculture industry has been identified by the Prime Minister as a priority for Serbia's reindustrialisation<sup>101</sup> and for the National Council for Economic Recovery to identify actions to increase exports and reduce unemployment. This reflects a political consensus and longstanding recognition of the contribution of agriculture to GDP and jobs in a largely agrarian economy, but that the full potential of the sector is far from being fulfilled. The long-term prospects are highly favourable, in light of forecasts that worldwide "food production will have to rise 60% by 2050 just to keep pace with increases in the expected global population and changing demand"<sup>102</sup>, and that staple foods will more than double in price over this period. At the same time, however, the sector faces threats from climate change and droughts which add unpredictability to its outlook, as demonstrated by the estimated fall of over 20% in Serbia's agricultural production in 2012<sup>103</sup>. The ending of government-controlled commodity stocks in both the EU and US has added to global volatility in the food sector, with direct implications for Serbia. Higher food commodity prices will continue to be driven by higher input costs (energy and fertilizer) for farmers, which will affect Serbia's cereal producers.

To realise the opportunities provided by Serbia's natural assets (highly fertile land, biodiversity, location and climate) and heritage, the sector requires a **more creative development vision**, well positioned within the changes that are on-going in the global food sector. New emerging markets offer opportunities that require non-traditional product portfolios, higher quality standards and variation in production. This will require Serbia to move away from traditional food products or move up the value chain to becoming a producer of food ingredients<sup>104</sup>, and to tackle the legacy of a poorly conducted privatization process which resulted in the break-up of large-scale agricultural enterprises and value chains, and a failure to raise technical food processing capacities. The sector faces major restructuring challenges with small farm units, low productivity and low incomes (65% of

---

<sup>101</sup> <http://www.tanjug.rs/news/78619/serbian-economy-has-future-in-reindustrialisation.htm>

<sup>102</sup> Frank Rijsberman, head of the world's 15 international CGIAR crop research centres <http://www.guardian.co.uk/global-development/2013/apr/13/climate-change-millions-starvation-scientists>

<sup>103</sup> <http://www.tanjug.rs/news/83817/value-of-agricultural-production-drops-by-a-fifth.htm>

<sup>104</sup> OECD/FAO (Food and Agriculture Organization), Agricultural Outlook 2011

farms are subsistence based). Census 2012 data shows that Serbia has a total of 631,122 agriculture holdings, of which 628,555 are family-owned, occupying 4.5 hectares of land on average. Major changes are required including farm size and land consolidation to achieve the possibility of scale economies in production.<sup>105</sup>

Clearly, **IPARD** will continue to form an important source of funding for the sector, particularly in the areas of improving standards, food safety and animal welfare, and action in rural communities. But EU subsidies alone have not reversed de-ruralisation or raised agricultural productivity in recent accession states. To realise this more dynamic vision for ARD, traditional EU-funded activities should be complemented in a sector programme which puts the '**competitiveness**' of agriculture to the fore, which to date has been the domain of bilateral donors, with the aim of increasing investment and output, productivity, product quality and value. This calls for ODA support to reorient the agriculture industry in several areas:

- While CEFTA and the EU are Serbia's main export markets, research is required to determine future food product demands, in both existing and new target markets. This **market research** should inform government policy and support measures and move the sector from a production-based to market-based orientation.
- High value products such as food ingredients require **research and development (R&D) capacities**. In 2011, over 20% of state aid support went to the agriculture sector in direct support payments, but there was limited state aid for R&D or training in the ARD sector<sup>106</sup>. This gap can be addressed in partnership with SIEPA by targeting FDI that also offers specific R&D capabilities that can benefit Serbia, as part of an overall FDI strategy for the sector.
- While FDI can play a critical role, **agri-business SMEs** are important source of employment in rural areas. There is a range of ODA-funded SME support schemes and VET initiatives that can be utilised by the MAFWM.
- Access to water is a major challenge facing the agriculture sector globally. Serbia has an extensive inland waterway network that can be exploited for **irrigation** purposes which should be developed in partnership between the Water Directorate, MAFWM and the Ministry of Transport.

The links between the ARD and Environment sectors also need to be consolidated in 2014-2020, given the importance of water both as a source and a threat, making **flood protection** as vital as drought prevention.

Similarly, agricultural development must be factored into the thinking in other sectors, especially **competitiveness, HRD, transport and PAR** (municipal development and inter-municipal cooperation). A completed Corridor X (and the potential of the Danube as Corridor VII), and free

---

<sup>105</sup> The Post-Crisis Economic Growth and Development Model 2011-2020, Economic Institute in Belgrade and Foundation for the Advancement of Economics, Faculty of Economy, Belgrade, 2010.

<sup>106</sup> EC Progress Report 2012

trade access to Russia and Turkey can make an attractive offer for agri-food multinationals considering their investment options. An example such as the Leskovac Green Zone (see section 5) provides a potential example for attracting such investment which can be replicated along Corridor X to supply foodstuffs to corridor urban markets such as Istanbul. The approach to territorial planning of ODA which is a headline recommendation from this evaluation (see section 7) should have ARD at its core. In that context, the Ministry should also take the lead in identifying and disseminating good practice from the local level, such as the example of Čačak's ODA-funded advisory services and action to improve crop protection under the IPA 2008 Exchange 3 grant scheme (see section 5), which has helped local farmers to maintain product quality and exports to Russia.

Currently, relatively many projects are supporting media companies and mass communication towards farmers about, for example, good agricultural practice and the use of modern technologies. This type of initiative is relevant in order to reach a large audience, but it is very difficult to ensure an appropriate take-up of knowledge among the farming community from TV programmes only. More effort should be put on extension service as the main channel for dissemination of knowledge to farmers.

The evaluation would suggest that, in general, Serbia should focus on improving efficiency of the governance of the accession process, decentralisation, meeting conditionalities, and results-based management, so as to increase efficiency of the interventions, and raising standards of public administration more generally.

It is recommended to use more opportunities for regional sharing of learning and experiences along the road to accession, including valuable lessons from Croatia and previous candidate countries. In particular, there is a need to prepare a pipeline of projects for funding. The success of the Czech SAPARD in 115% of funds committed was in the effective support of potential beneficiaries in preparation of projects, pilot-testing from the national budget and an efficient public awareness campaign.

## ***Transport***

The strategic framework for ODA funding in the sector is provided by the Strategy of Development of Rail, Road, Water, Air and Intermodal Transport in the Republic of Serbia for 2008-2015<sup>107</sup>, whose overall objective is to realise compatibility with the EU's transport system in an environmentally sustainable manner. The strategy is based on the principles of safety, inter-modality, application of new technologies, complementary use of different transport modes and rational use of available capacities and resources in Serbia.

The opportunities and growth potential of Serbia, based on the advantages of being a 'cross-roads' country of major European transport routes, is repeatedly referenced in national and international policy documentation. As such, the completion and modernisation of the TEN-T Corridor X (road and rail) has been, and continues to be, the absolute transport priority for successive Serbian

---

<sup>107</sup> Official Gazette of the Republic of Serbia No. 004/08, 13 January 2008

administrations, the EU and IFIs, and the main objective of the abovementioned strategy. Other national transport priorities include the development of Corridor VII (Danube), exploiting the advantages of various transport modes, increasing the safety of the transport system, introducing new mechanisms for the maintenance of transport infrastructure (road and rail), reducing the adverse environmental impacts of the sector and establishing a stable financing model for the sector.<sup>108</sup>

The transport sector has the largest disbursement of ODA funding for the period at €916 million, under six main themes as shown in the table below. Transport funding is driven by infrastructure investment, with roads rehabilitation accounting for over €0.5 billion and railways for €143 million, reflecting the status of road transport as the dominant mode and its huge capital investment needs, and the location of Serbia on the European transport network translating into strong international pressure to complete Corridor X.

<b>Transport</b>									
Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Air transport	1	4	5	€ 10.0m	€ 105.0m	€ 115.0m	€ 2.7m	€ 88.8m	€ 91.5m
Inland waterways transport	3	0	3	€ 16.8m	€ 0.0m	€ 16.8m	€ 14.1m	€ 0.0m	€ 14.1m
Intermodal transportation	2	0	2	€ 2.1m	€ 0.0m	€ 2.1m	€ 1.9m	€ 0.0m	€ 1.9m
Policy framework for transport	10	1	11	€ 207.7m	€ 32.5m	€ 240.2m	€ 35.9m	€ 32.5m	€ 68.4m
Rail transport	6	6	12	€ 8.6m	€ 384.3m	€ 392.8m	€ 7.0m	€ 136.0m	€ 143.0m
Road transport	6	15	21	€ 14.1m	€ 1,360.4m	€ 1,374.5m	€ 7.9m	€ 517.9m	€ 525.8m
Other or unallocated	5	1	6	€ 48.3m	€ 84.5m	€ 132.8m	€ 27.2m	€ 44.4m	€ 71.5m
<b>TOTAL</b>	<b>33</b>	<b>27</b>	<b>60</b>	<b>€ 307.6m</b>	<b>€ 1,966.6m</b>	<b>€ 2,274.3m</b>	<b>€ 96.7m</b>	<b>€ 819.6m</b>	<b>€ 916.3m</b>

## Relevance

All project actions identified for the period are relevant to building a modern transport system compatible with EU standards, as reflected in national, EU and donor strategies. While there is a strong policy focus on exploiting intermodal advantages, reducing the negative environmental impact of transport and improving safety and standards, the allocation of funding reflects the weight given to completing Corridor X.

A series of EU-funded projects in the period have supported the regulatory framework. Air transport is the most advanced in harmonisation with Serbian law, with 22 regulations passed to implement the requirements under the first transitional phase of the European Common Aviation Area (ECAA) agreement.

The concentration of spending on Corridor X, especially road investment, has meant that other identified priorities such as inland waterways transport and non-Corridor secondary roads or rail feeder networks have received less funding. The scale of Corridor X ODA does raise a question of relevance in the wider context of the needs of the Serbian economy. Clearly, transport investment should not be an end to itself; rather, transport facilitates economic productivity and access. With a

<sup>108</sup> To realise these objectives, it is estimated that €1.5 billion should be invested annually in transportation infrastructure to 2027. These cost estimates exclude maintenance costs of existing and new infrastructure (*draft IPA III Operational Programme for Serbia, 2012-2013*).

completed Corridor X, transit traffic will prove an important revenue generator (tolls). These revenues should be used to fund corridor maintenance and pay-back IFI/other loan arrangements to build Corridor X. Experience to date would suggest that toll revenues are not sufficient for the maintenance of the road network. The World Bank is funding one road rehabilitation programme, while a similar programme is currently under negotiation with the World Bank, EIB and EBRD.

Overall, the relevance of ODA support to all transport modes, as well as policy framework support and intermodal transport, is considered **high**.

## **Effectiveness**

As with any large-scale infrastructure investments, there is a time lag whereby the effectiveness of investment is only realised after a period has lapsed and other infrastructure components are in place. Clearly, ODA funding has helped to successfully address specific major bottlenecks and reduce travel times such as the Belgrade by-pass (as yet uncompleted), rehabilitation of the Gazela Bridge, and construction of the ADA Bridge. ODA-funded rail track condition analysis, which should serve as one of the elements for the prioritisation of maintenance and investments in the railway infrastructure, and IFI loan arrangements have modernised air transport, railways connections such as Belgrade-Šid line, Belgrade-Niš line and Niš-Dimitrovgrad, and supplied new rolling stock.

ODA activities have been effective in building the transport policy framework within the context of EU accession, have supported considerable advances in road, rail and air regulatory standards, and have helped to establish a Road Safety Council and developed a National Road Safety Strategy. . ODA has been less effective with inland waterways and intermodal transport, due to the very limited allocation of funding. Unlike railways or road transport, there have been no IFI loans under these two themes. Clearly, Corridor VII is in the shadow of Corridor X in terms of prioritisation based on ODA 2007-2011. . This may very well prove a short-sighted policy as the environmental effects of increased road traffic can be ameliorated by taking advantage of the inland water way system for freight transport. Overall, the effectiveness of ODA to the transport sector is **medium**.

## **Efficiency**

The levels of capital funding required for rehabilitating the road and railways networks are considerable.<sup>109</sup> This is a result of the historic lack of investment combined with poor network maintenance. The use of IFI and other loan sources has been the only recourse open to Serbia to address this funding shortfall. As the majority of ODA infrastructure is loan-based, it is incumbent upon the Ministry of Transport and the Road and Rail Directorates to maximise the benefits of loan arrangements. This translates into project readiness and speedy implementation. Despite substantial historical CARDS and IPA funding, the technical project identification, preparation and implementation of the Serbian authorities remains weak. There are major inefficiencies in taking an infrastructure project in Serbia from concept to implementation, which are not only related to

---

<sup>109</sup> The total cost of public investments required for the development of transport infrastructure in 2010-2027 is estimated at up to €15 billion. Modernisation of Corridors X and VII alone is estimated at €4 billion, excluding maintenance costs (NAD 2011-2013)

technical issues: construction works are delayed due to disputes between contractors and financiers; issues related to the quality of the documentation are caused by questionable relevance of the input data used during documentation preparation; and coordination between spatial planning processes, technical documentation preparation and budget planning for land acquisition is very poor.

In Serbia, there is a focus on the technical design of the actual project which differs from IFI-funded project preparation that also determines the economic and financial feasibility of the project. IFIs utilise the Western Balkans Investment Framework to identify projects, but this instrument does not prepare full technical project documentation. Moreover, donor resources are also required to fund the supervision of transport projects. Delays with grant funded projects by the beneficiaries are a problem, but delays on loan-based infrastructure financing means that both the national finances and the Serbian economy suffer. Loans are not cost free, even on preferential terms, and particularly if they are not directed to productive investments or not utilised in a timely manner.

Sources of inefficiency with ODA projects can be traced to land acquisition (Žeželj Bridge), construction permits, tendering procedures and addressing social factors (e.g. the Roma community under Gazela Bridge). High visibility project inefficiencies include the failure to procure IFI-funded multi-system locomotives which led to non-commitment penalties. Policy support has been inefficient in making progress with the liberalisation of the transport sector, the facilitation of competition and private sector investment. As stated, funding of the transport sector is public debt driven. In terms of the scale of investment required (including maintenance) and financial sustainability, the public purse cannot remain the only source of transport investment. An efficient financing model for the transport sector is not in place, including public-private partnership arrangements that can accommodate private sector investment. This will require greater liberalisation of transport sector, greater confidence by investors in the rule of law in Serbia and higher rates of FDI flows.<sup>110</sup> ODA projects have been efficient in developing the sector's regulatory framework particularly dealing with civil aviation, safety and inland waterway navigation. Twinning has proved an efficient instrument for building regulatory frameworks and capacities in the sector. However, overall efficiency in the use of ODA has been **low**.

## **Impact**

There has been an incremental impact of ODA 2007-2011 funding at the level of individual operations, in terms of capacity, travel times, safety standards, improved access and increased revenues (tolls). For example, the Gazela Bridge in Belgrade now has a capacity of 200,000 vehicles per day which has greatly improved transport times, while the Ada Bridge over the Sava has reduced traffic levels both on the Gazela Bridge and in Belgrade city centre. With the Belgrade by-pass, the alleviation of transit traffic away from urban areas can have both positive and negative impacts for the various sections such as Batajnica–Dobanovci, connecting the Belgrade–Novi Sad highway (E75) in the north and Šid–Belgrade highway in the west (E70). Thanks to ODA, road safety standards have

---

<sup>110</sup> "Risks of project financing of infrastructure projects in Serbia" (2011), Slađana Benković, et al, Faculty of Organizational Sciences, University of Belgrade, Serbia, African Journal of Business Management Vol. 5(7), pp. 2828-2836, 4 April, 2011 <http://www.academicjournals.org/AJBM>

been raised, but the accident rate remains very high. In 2010 alone, there were 50,000 traffic accidents in Serbia which resulted in 590 fatalities and 19,000 injuries.<sup>111</sup>

Overall, the transport system remains poor by regional and international standards, despite substantial ODA and national investment. The Global Competitiveness Report (GCR) 2011-2012, ranked Serbia 131<sup>st</sup> out of 142 countries for the quality of roads, down from 117<sup>th</sup> out of 133 countries in 2009-2010. Regarding railways investments, travel times remain desperately slow and the Corridor X network remains uncompleted; only 2.5% of the Serbian rail network can reach speeds of 100 to 120 km/h, while a quarter of Serbia's trains can only travel at 30 km/h. The secondary and tertiary road networks in Serbia are in a very poor state of repair. For example, the quality of the Belgrade-Čačak road not only causes major delays linking the largest municipality in western Serbia to Belgrade, but is also responsible for a high rate of auto accidents.

Indirectly, road rehabilitation under ODA can impact on industry location, international trade, land prices, housing and labour markets. In practice, there is little evidence of the actual economic impact of ODA transport infrastructure. For the period 2007-2011, Corridor X has been seen solely as a transit route, not an axis of spatial economic development. To optimise the socio-economic return from the investment, however, there have been few projects in 2007-2011 linking Corridor X development with local economies through secondary roads. For the Ministry of Transport, the period 2007-2011 was driven by the importance of completing Corridor X, and addressing the bottlenecks around Belgrade.

Considerable funds have been spent, but the under-performance of the transport system, particularly road and railways, and its disconnection from wider socio-economic benefits, leads to the conclusion that the impact of ODA in the transport sector is **low**.

## **Sustainability**

Sustainability of ODA investments is dependent on the continued funding and maintenance of transport infrastructure after donor funding has ceased. The factors determining sustainability, particularly for Corridor X, are future traffic flows and the overall financing model for Serbia's overall transport system. The lack of maintenance on Serbian railways reduces the operational efficiency of the network with Temporary Speed Restrictions (TSRs) randomly introduced. Moreover, low productivity of rolling stock and labour, together with low freight traffic density, undermines the competitiveness of Serbian Railways. Regarding road investment in Corridor X, annual toll fees at present amount to €160 million<sup>112</sup>, but this is forecast to rise considerably with the completion of Corridor X. These revenues should be re-invested in its maintenance. In this sense, the management of the road and rail network also determine sustainability. This can be in the form of a road network rationalisation programme, improved financial planning, and productivity improvements by transport staff. Public sector transport companies are overstaffed with low productivity levels;

---

<sup>111</sup> Source: Road Traffic Safety Agency Serbia

<sup>112</sup> Ministry of Transport

labour productivity in the railways is less than 30% of the EU average<sup>113</sup>. Serbian Railways consistently posts large losses, which are subsidised and socialised through tax revenues.

The World Bank has identified the need for greater economic justification for the rehabilitation of rail Corridor X in terms of the scale of investments needs and associated expenditures (real economic impact), including: the cost differentials of upgrading infrastructure from 120 km/hour to 160 km/hour, in relation to the fact that freight traffic constitutes over 80% of total traffic and revenue - traffic that does not require speeds in excess of 100 km/hour; and the maintenance backlog on other parts of the railway network that will require upgrading over the medium to long-term. To address rail speed restrictions, the World Bank has suggested the promotion of joint processing of freight trains by Customs Administration at inland terminals.<sup>114</sup> Improved border management and customs administration also impacts on the transport financing model.

New policy ideas are clearly required to increase transport revenues. For the Serbian Association of Road Hauliers, this could be a reform of the tolling system to compete with rival routes and the rapid customs processing of Serbian FDI produced exports via truck.<sup>115</sup> The on-going World Bank road maintenance programme is developing a model that could be rolled out nationally.

The overall ranking for sustainability is **low** due to the absence of a comprehensive transport financing plan, weak economic feasibility planning in the sector and the over-reliance on public debt as the main financing source.

### **Sector-specific recommendations**

Realising EU standards in transport networks is a major challenge facing the Serbian government, in terms of both financing and project preparation to draw down and use available funds. Due to the considerable amount of funds that will continue to be invested in transport, especially Corridor X, it is important to both prioritise investment and maximise the impact of the sector on Serbia's socio-economy. The transport sector contributes to the Serbian economy directly (8% to GNP), but it is transport's role as a factor of competitiveness that requires increased policy thinking. The transport network links people to jobs, delivers products to markets, and supports supply chains, logistics and international trade. Such a perspective is not evident in the period examined. There remains a technical focus on infrastructure construction in Serbia and not on the socio-economic feasibility of infrastructure investment and **maximising its contribution to productivity and growth** (see also section 5).

*"It is a harsh reality that construction of roads to undeveloped areas is not economically justified. Construction of highway Požarevac-Bor, for instance, would not help economic development of Bor. Modern development comes in the form of business clusters, and they will not be formed only because of modern highways if other important factors are missing. On the contrary, it is necessary*

---

<sup>113</sup> World Bank

<sup>114</sup> "Railway Reform in South East Europe and Turkey - On the Right Track?", Transport Unit, Sustainable Development Europe and Central Asia Region, Report No. 60223-ECA, March 2011

<sup>115</sup> Interview with Serbian Association of Road Hauliers, March 2013



*to connect existing clusters and foster their development, which will have a positive influence on the surrounding areas, as well".<sup>116</sup>*

Serbian transit traffic forecasts for Corridor X are highly dependent on external economic growth and the on-going financial crisis may impact in the future on capacity utilisation of transport investments. Under these circumstances, it is important for the viability of investments to better integrate bordering economies within an overall corridor development framework. This sees Corridor X as a 'development' axis which allows interaction between urban nodes/growth along but also outside the corridor. Corridor X and the transport sector as a whole requires a greater **strategic development perspective** based on an inter-ministerial approach, coordinated and championed by the centre of Government and related to Serbia's re-industrialisation.

Such a strategic development perspective towards transport needs to be linked with efficiency in the use of public funds to finance infrastructure. There are limited funds available for the transport sector, mainly from IFI/external loan sources. Taking external loans to fund infrastructure has costs and risk implications for the Serbian economy. These costs can be recuperated and risks ameliorated if loans are utilised on productive infrastructure assets that promote economic development and employment generation. Once a decision to loan finance is made, the conditions of the loan arrangement have to be met as efficiently as possible, which has not been the case with transport sector loans in Serbia to date. The lack of technical project documentation, failure to produce building permits, disputes over land ownership, the need to purchase land, non-transparent procurement, weak project management, disputes between contractors and financiers leading to payment disputes, all contribute to project delays. As such it is recommended that loan-based ODA support for transport infrastructure is based on **performance-based contracts** and is extended to all transport modes and maintenance contracts.

The investment demands for the rehabilitation of Serbia's overall transport network are substantial. Low economic growth and other demands on the public finances mean that sufficient tax revenues cannot be generated to fully meet projected costs. To date, there has been an over-reliance on external loans, with Serbia exceeding its debt threshold, and hence the transport sector needs new sources of private finance, alongside liberalisation of transport operations as part of an overall national financing framework. It is recommended that **concession agreements** with the public sector are developed, as an incentive for private sector partners to meet contractual obligations and avoid financial losses by maintaining infrastructure assets more successfully than the public sector. The alternative is to continue to debt finance transport infrastructure with the associated risks for national finances.

## ***Environment and energy***

Environment and energy is the second largest ODA sector, including individually for both grants and soft loans. It also covers a wide spectrum of activities: exploiting scarce natural resources;

---

<sup>116</sup> Miroljub Labus, Siniša Milošević (2010) "Competition and Growth Policies in Serbia Within the New Economic Geography Framework", Serbian Association of Economists

safeguarding nature and biodiversity; generating and transporting power and heat for consumers, to ensure security of supply and maximise sustainability; and meliorating the consequences of human activity and *force majeure* (waste, sewage, chemicals, radioactivity, land and water contamination, noise and air pollution, climate change and flooding). Given this scale and diversity, a decision has been taken to separate the sector into its two constituent parts for 2014-2020.

In total, 201 projects were underway or completed during 2007-2011 that have been assigned to this sector, including 28 'soft loans', with an estimated €809 million disbursed during the period. For the purposes of analysis, this sector can be best understood as comprising 11 main themes, presented in the table below.

<b>Environment and energy</b>									
Sub-sector	Projects			Allocations			Disbursement		
	Grants	Loans	Total	Grants	Loans	Total	Grants	Loans	Total
Chemicals management	2	0	2	€ 3.5m	€ 0.0m	€ 3.5m	€ 2.7m	€ 0.0m	€ 2.7m
Climate change & flooding	22	0	22	€ 12.5m	€ 0.0m	€ 12.5m	€ 6.0m	€ 0.0m	€ 6.0m
Heating	6	1	7	€ 18.1m	€ 20.0m	€ 38.1m	€ 3.4m	€ 10.6m	€ 14.0m
Internal energy market	6	0	6	€ 42.1m	€ 0.0m	€ 42.1m	€ 37.2m	€ 0.0m	€ 37.2m
Nuclear safety	9	0	9	€ 20.5m	€ 0.0m	€ 20.5m	€ 14.8m	€ 0.0m	€ 14.8m
Policy framework for environment & energy	16	0	16	€ 14.1m	€ 0.0m	€ 14.1m	€ 10.7m	€ 0.0m	€ 10.7m
Quality of life	11	0	11	€ 82.0m	€ 0.0m	€ 82.0m	€ 71.9m	€ 0.0m	€ 71.9m
Security of supply	16	12	28	€ 88.1m	€ 607.8m	€ 695.9m	€ 50.5m	€ 322.2m	€ 372.7m
Sustainable energy	21	6	27	€ 45.6m	€ 204.3m	€ 249.9m	€ 16.3m	€ 125.8m	€ 142.1m
Waste management	17	0	17	€ 24.6m	€ 0.0m	€ 24.6m	€ 20.3m	€ 0.0m	€ 20.3m
Water management	42	9	51	€ 98.4m	€ 202.3m	€ 300.6m	€ 55.7m	€ 55.3m	€ 111.0m
Other or unallocated	5	0	5	€ 3.8m	€ 0.0m	€ 3.8m	€ 3.2m	€ 0.0m	€ 3.2m
<b>TOTAL</b>	<b>173</b>	<b>28</b>	<b>201</b>	<b>€ 453.3m</b>	<b>€ 1,034.4m</b>	<b>€ 1,487.7m</b>	<b>€ 292.8m</b>	<b>€ 513.9m</b>	<b>€ 806.7m</b>

In practice, however, it should be emphasised that much assistance that benefits environment and energy actually falls under other sectors. In particular, the integrated territorial projects that fit within the 'decentralisation' agenda of PAR include substantial investments in municipal capacity-building, local environmental planning, and the preparation and construction of infrastructure, through projects like MISP, PROGRES, Danube-Serbia, etc. Similarly, the PAR theme includes the preparation of documentation for infrastructure projects for IPA, WBIF and other funding, under PPFs and IPFs.

## Relevance

There is no doubt about the relevance of ODA to this sector: environment and energy are where the interests of Serbia and the donor community coincide. Environmental media (air and water) do not respect national boundaries in transporting pollution, energy is increasingly organised through international and even intercontinental structures, and climate change is a result of global anthropogenic activity, with the consequences being visited on Serbia in droughts and flooding with potentially devastating effects on communities, nature and industry, especially food production. Like any country, Serbia is primarily concerned with securing a reliable, safe and sustainable energy supply for power, gas, oil and heating (including from regional markets), sourcing water for households, industry and commerce, and then managing the results of economic development (use of chemicals and dangerous substances, waste and waste water production, water, air and noise pollution, and land contamination), including interactions with the natural habitat that are important

for quality of life and Serbia's future prospects. All these aspects fell within the coverage of ODA interventions during 2007-2011.

Again, the question is one of weighting: where best to allocate limited funds to maximum effect, given the sheer scale of needs. Both allocation and disbursement of ODA in this sector have been mainly concentrated on energy (security of supply and sustainable energy), quality of life (especially air emissions from TPPs) and water management (especially water supply and to a lesser extent wastewater collection and/or treatment). Less resources-intensive, but subject to significant funding proportionately are the institution-building activities<sup>117</sup>, market liberalisation to develop the regional energy market, and action to decommission the Vinča nuclear research reactor. Even if the coverage is limited by available funding, this balance seems broadly right, particularly the weight given to environmental factors (cleaning up air emissions, improving energy efficiency and quality, and promoting sustainable sources). The areas of (relative) weakness, however, are actions on noise pollution and poor air quality due to road transport, both of which were subject to just one small project each, and the extension of Serbia's protected areas. However, it should not be expected that ODA finances all sector needs, only those of greater priority and where international assistance can add value. Hence, relevance overall can be considered to be **very high**.

## **Effectiveness**

Not surprisingly, effectiveness *appears* to have been greatest in those fields which lend themselves to *relatively* quick actions and early results in a 2-3 year timeframe, including policy development, capacity-building of the ministries in charge of energy and environment, and regulatory bodies, especially the Energy Agency, and proportionately small supplies and works contracts. The IPA-financed TA to prepare the Environmental Approximation Strategy (EAS) is a fine example: far from straightforward calculations based on best available data and assumptions, and widely agreed to have met its objectives, being adopted by the Government in 2011. This provides a solid platform for action in the sector, along with its realistic recommendations and follow-up directive-specific investment plans (DISPs). Other examples include actual transpositions, strengthening environmental inspection, nuclear decommissioning and establishing systems for air quality monitoring, which Serbia could not otherwise afford. By contrast, constructing the heavy infrastructure for energy, water and waste to secure supply and meet these higher standards involves 5-7 year timeframes or longer, with risks of failure at each phase with a medium-high probability and steadily growing impact if materialised.

Effectiveness can only be assessed for those infrastructure projects that have progressed through all stages to works acceptance. Many of these early projects (programmed in early-mid 2000s) were successful in rehabilitating electricity generation and distribution, and water supply systems when they were devastated by sanctions and conflict, investing in energy management systems to improve efficiency and supply, and cleaning up air emissions. These major projects can be considered to have fulfilled their objectives, with a high level of additionality; that is, they would simply not have

---

<sup>117</sup> These fall under the 'policy framework' theme and include support to the ministries in charge of energy and environment, Energy Agency, Serbian Environmental Protection Agency, Environmental Inspectorate, and Regional Environmental Network for Accession

happened without ODA. In many cases of communal infrastructure (particularly municipal projects classified to the PAR sector under 'decentralisation'), the ODA has only financed steps in the whole process (feasibility study, preliminary design, etc) and hence the project might be effective in its own narrow terms, but only partially completed and then registered on SLAP. Other projects have been either partly successful (for example, the Duboko RWMC, which has a functioning but under-utilised waste separation line and a complex organizational structure), or subject to significant delays and hence costs (for example, the preparation of a hazardous waste facility, which has been delayed by two changes in site location), or stalled by factors external to the specific ODA project (for example, establishing a PUC to manage the Pirot RWMC). There are explanations for all these difficulties in policy, planning and execution, which have to be turned into learning points for future interventions (see section 5). On balance, effectiveness can be considered as **medium to high**, to reflect the full spectrum of sector interventions, which have ranged from the highly beneficial (meeting all objectives) to the partly successful (meeting some) and incomplete.

## **Efficiency**

Efficiency is not only a matter of achieving outcomes, but also the resources deployed to attain them, and especially, managing the relationship between inputs and results to maximise the likelihood of project completion and its value for money.

In the case of the institution-building activities under 'policy framework' and 'internal energy market', the efficiency of resource use seems to be high: the benefits to Serbia not just immediately (in terms of objectives met), but also longer-term (assuming the outcomes are operationalized) are proportionately great when compared with the inputs.

The situation is more complicated for themes dominated by investments. Each major infrastructure project under this sector has its own minimum scale and scope to be a viable, sustainable and stand-alone (complete, not partial), whether construction or rehabilitation of new TPP, HPP, geothermal and plants, installation of transmission lines and upgrading sub-stations, water supply or wastewater networks, or waste management solution (collection, separation, treatment, disposal, and reuse or recycling where possible). The costs of individual constructions in this sector – works and supplies alone - can run from tens to hundreds of millions of euros. The full project also needs to take account of all preparatory phases, starting from spatial planning, pre-feasibility and institution-building (PUCs, tariffs, management systems, etc), and hence the associated TA (including supervision, monitoring and training). Annual (and even multi-annual) budgets soon become exhausted. Individual donors have upper bounds on their financial packages meaning the beneficiaries (typically ministries, public enterprises and municipalities), or even the donors themselves, often faced the practicalities of combining different funding sources under the 'parallel financing' system, each with their own eligibility criteria, timescales, rules and procedures. Moreover, there are inefficiencies when individual loans, or entire lending programmes (such as water management), are approved before projects are selected, as project documentation is often seriously under-developed. Overall, efficiency can be considered to be **medium**.

## Impact

The impact of ODA is hard to gauge, partly due to the extended timescales for infrastructure preparation and investment that go beyond the five year timeframe of this evaluation, meaning many of the outputs from ODA in 2007-2011 have either not been delivered yet or have still to translate into substantial economic and environmental benefits. Nevertheless, there are many examples of project impact, showing through as more efficient coal extraction and heat and power generation realising cost savings, access to clean drinking water for households in medium-sized cities, reduced pollution from power plants as measured by a network of air monitoring stations, a functioning regulator taking active measures to reform the energy sector, etc. Some of these projects have wider value in demonstrating new approaches, such as the actions taken in Vrbas and Kula to improve municipal energy management, satisfy the upcoming law on rational use of energy and achieve savings. However, these localised innovations are rarely promoted on a systematic basis, county-wide, to other potential beneficiaries.

What is less visible is sector impact. The technology for power generation is still ageing and increasingly obsolete. The air is still polluted, in part because traffic is the major source, cars are old and the fuel is dirty. Water quality is better in many towns, but untreated wastewater in large swathes of Serbia continues to contaminate water sources. As with water, individual steps at the local level have been taken in the area of waste management (to construct landfills, to improve collection and to promote recycling), but there is still no viable strategy for ensuring comprehensive waste management across the country to meet Serbian and EU standards, and no fully functioning RWMCs. Even at the institutional level, the energy market is still dominated by monopoly state-owned enterprises, with only minimal entry by new providers to date. Moreover, the steps taken in 2007-2011 are dwarfed by the scale of Serbia's need for rehabilitated and new infrastructure, which far exceeds the available ODA (and is constrained by typical project size). The legacy of historic under-investment in electricity generation (no major power plants constructed since the 1980s) and power transportation, translates into identified investments proposed by the Ministry for Energy, Development and Environment Protection for 2014-2020 exceeding €7 billion in value. The EAS projections of the cost of Serbia's approximation of investment-heavy environmental *acquis* amounts to €10.6 billion (2010 prices), with the heaviest burdens falling on water (€5.6 billion), followed by waste (€2.8 billion) and industrial pollution and noise (€1.3 billion). In this light, the disbursement of more than €700 million for environment and energy infrastructure in 2007-2011 that has already happened and does not feature in these numbers is the proverbial drop in the ocean. Overall then, impact can be considered to be **low**.

## Sustainability

As with transport, the greatest challenge to environment and energy infrastructure is sustainability - ensuring that the investment is operated, maintained, upgraded and closed / replaced at the end of its useful life. This sector has made extensive use of concessional loan finance, which can only be justified, if the investment is viable, the works are completed, the infrastructure becomes operational, the tariffs are affordable and there is sufficient revenue generation to cover the cost of capital, as well as operation, maintenance, and closure / replacement. There are some excellent examples of where this has been factored into the project from the outset, including through

institution-building support, such as the KfW loans for water supply and district heating. However, there are also cases, for example in the waste field, where either no plans have been made for the stages beyond the immediate project, the project design does not reflect the operational context, or the assumptions regarding future funding are not realistic (regarding affordable tariffs or population changes). Institutional development has also been undermined by actual or threatened reorganisation, an example being the closure in September 2012 of the Chemicals Agency (SHemA), a beneficiary of IPA during 2007-2011, and expected to be part of the European network overseeing the chemicals *acquis* (REACH, CLP and BPD).

Ultimately, however, the sustainability of interventions in environment and energy is not simply a matter of sound project design and implementation, although this is extremely important, but also the national policy framework, tariffs and financing arrangements including subsidies to take account of environmental impact (for example, to ensure the costs of wastewater collection and treatment are affordable to small municipalities, especially where the benefits for water quality are enjoyed further downstream). Currently, the regulatory environment for energy (including feed-in tariffs to increase the use of renewable sources), water and waste is being improved to enable and encourage investment, including by new market entrants, but still falls short of a fully sustainable system, with tariffs below the level of cost recovery, and the costs of environmental despoliation not fully reflected in charges or a system of sanctions. On this basis, sustainability of existing ODA can be currently considered to be **low**.

### **Sector-specific recommendations**

The strengthening of institutions responsible for policy, regulatory oversight and implementation (or reorganisation, in the case of energy liberalisation) should be synchronised with infrastructure development, given the two are inextricably linked<sup>118</sup>. The major challenges for the next phase of ODA will be to advance substantially (but not complete, as the timescales will run into the 2020s and beyond) the upgrading of environmental and energy infrastructure in a systematic, sequenced, and coordinated way. Based on the feedback from the evaluation, it is proposed that the priorities should be:

- Constructing the next generation of **power stations using cleaner technologies / renewable sources**, and improving **efficiency of energy use** (contributing concurrently to the policy objectives of security of supply, sustainable energy, better air quality and tackling climate change);
- Extending and upgrading the **energy transmission and distribution network** in order to reduce reliance on the single entry point for gas and satisfy the internal energy markets, especially connected to the unbundling of Srbijagas and restructuring of EPS;

---

<sup>118</sup> The pitfalls of investment planning and implementation are elaborated further in section 5, while recommendations for their improvement are contained in section 7

- Putting viable regional strategies for **water management** (on a whole system basis) and **waste management** in place and into action, which serve the needs of communities and businesses, while achieving Serbia's national goals for a cleaner environment and acquis obligations based on European standards<sup>119</sup>, and completion of the national hazardous waste management facility;
- Achieving all these actions while preserving and expanding Serbia's **natural heritage** (protected areas) and **biodiversity** (especially rare crop and livestock species as agricultural assets), and putting its maintenance on a sustainable footing (including the woodland used in part for biomass).

In order to be financially viable on a long-term basis, the **pre-conditions** for these infrastructure investments will be: measurement and charging systems that reflects both usage (reducing over-consumption and supply inefficiencies) and full cost recovery; the break-up of state monopolies in energy to inject competition into pricing; establishment of inter-municipal PUCs; and a welfare policy that subsidises poorer households to prevent the effects of sustainable pricing from driving up fuel and other forms of poverty.

More than any other, the management of ODA in this sector relies on highly effective **forward-planning and coordination**, especially at the central-local levels in the cases of water and waste. The inadequacy of this planning framework has been the major bottleneck to date. All the major themes are currently undergoing a strategic review: the energy strategy is currently being updated to 2025; the waste management strategy is being reconsidered in light of experience; and the water management strategy is now expected by end 2013. It is essential that these strategies are based on sound policy, realistic assumptions, consultation with all relevant stakeholders but especially the bodies that will take them forward (including municipalities), and underpinned by a feasible implementation plan, backed up by the right framework of regulations, incentives, sanctions and interventions to ensure cooperation where it is essential (especially at the municipal level). The role of the private sector in financing infrastructure should be a major consideration, given the limitations on public debt and hence borrowing. The EAS provides a valuable baseline for the environmental measures, and the DSIPs should set out a clear road map.

Essentially, the ministries know what needs to be done. The key questions are how, where and when. The 'how' means taking account of what is already there, through an inventory of existing infrastructure in each field (water, waste, district heating, energy assets, etc), and using this as the starting point, without being constrained by past mistakes (in other words, if the needs and actual practice is diverging from a previously agreed 'regional plan', then the plan should adapt to accommodate the reality). The 'where' should reflect spatial planning (existing geo-data), but also the changing landscape of industrial development, business location and demographics, so that infrastructure is networked into the real economy, and proposed sites and technical solutions tested through full options analysis. The 'when' is a question of sequencing investment based on dividing

---

<sup>119</sup> Water Framework Directive, Drinking Water Directive, Urban Waste Water Treatment Directive, Nitrate Directive; Waste Framework Directive; Landfill Directive, and other acquis related to specific waste streams, etc

projects into two categories: bankable projects that can attract private funds and non-bankable projects that require judicious use of (syndicated) IFI loans and subsidies, all synchronised with the regulatory framework to ensure investments are sustainable.



## **5. INTER-SECTOR AND HORIZONTAL THEMES**

The sector-based approach has been widely welcomed by ministries as the way forward for a more strategic and coherent approach to programming ODA, especially for the next financial perspective. However, every system has its limitations. For the purposes of sector-based programming, every project must fit under one sector or another. The evaluation team's own experience of classifying projects to sectors highlights the dilemmas of interpretation and reveals anomalies. For example: projects supporting enforcement of administrative/commercial law that are allocated to the rule of law sector could also be positioned under public administration reform or competitiveness; action on irrigation will support agricultural production, but is organised as part of a flood protection and water use initiative so falls under environment and energy;

Moreover, no sector exists in isolation from the others; rule of law, public administration reform and civil society, media and culture, in particular, are cross-cutting in their essence. In particular, civil society is a fundamental element of keeping public administration accountable, alongside the National Assembly, Supreme Audit Institution, Information Commissioner, Ombudsman and the Commissioner for the Protection of Equality, in the frame of its mandate.

At a definitional level, it is clear that the eight sectors are not mutually exclusive and there are overlaps and synergies. The matrix overleaf maps out the inter-linkages between the sectors, with the left hand column showing the sector with the 'senior' responsibility, and hence where we would expect interventions to be programmed. The sector papers annexed separately will elaborate these synergies further, at the thematic level.

This is not presented for academic interest. To be truly strategic, the framing of policy within each sector cannot be separated from the wider context and consequences in other sectors. Recognising these inter-dependencies should be an explicit element of the programming process. In this manner, the richest benefits of a multi-annual sector approach can be captured.

For example:

- Competitiveness is undermined by burdensome bureaucracy (PAR) and weak contract enforcement (rule of law), as evidenced by Serbia's poor rankings on the 'Global Competitiveness Report' and 'Doing Business' indices. Lack of confidence in rule of law impacts on investor confidence and retards FDI flows, particularly when considering alternative locations in neighbouring EU member states.
- Investment in transport modes is justified in the Transport Master Plan on historic traffic flows and forecast throughputs, but not on a future development trajectory or vision (for example, linking transport to urban growth centres of future exports to non-CEFTA markets). In the absence of a national economic development plan, there is no strategy for transport infrastructure and management based on Serbia's economic and industrial needs (and which then takes into account the social and environmental consequences).

### Inter-sectorial synergies

	ROL	PAR	CSMC	COMP	HRD	ARD	TRAN	EN
<b>Rule of law (ROL)</b>		Training of judges, police, border control; tackling corruption in the public sector; border controls by customs	-	Commercial courts and enforcement of contracts; enforcement of IPR	Employment rights, health and safety, outlawing the 'black' and 'grey' economies; tackling medical corruption	-	Border controls and management affecting cross-border traffic flows	-
<b>Public administration reform (PAR)</b>	Customs administration at Serbia's borders; citizens' rights protected by the Ombudsman		Making Government accountable through non-governmental bodies (Parliament, SAI, Ombudsman) and media	Management of state aids; project preparation for economic infrastructure	Project preparation for social infrastructure	Developing capacity to programme EU funds and move to decentralised management across all administration	Project preparation for transport infrastructure; funding local roads through municipal grants	Project preparation for environment & energy infrastructure
<b>Civil society, media &amp; culture (CSMC)</b>	CSOs active in justice, human and minority rights, supporting refugees, IDPs and asylum seekers	CSOs active in democratisation		CSOs operating as professional associations and trades unions; culture's role in tourism	CSOs active in supporting socially excluded groups and youth services	CSOs active in rural communities	-	CSOs active in environmental activism locally
<b>Competitiveness (COMP)</b>	Company law, consumer rights and protection	Preparing institutions for EU accession and funds management	Tourism initiatives around cultural assets; investing in telecommunications		Investing in R&D and innovation in higher education	Conditions for competitiveness, business support, exporting, R&D & innovation	Attracting FDI to maximise opportunities from TEN-T corridors	R&D and innovation for new environmental & energy technologies, FDI opportunities
<b>Human resources development (HRD)</b>	Non-housing needs of refugees, IPDs and asylum seekers	Preparing institutions for EU accession and funds management	Community-based social services; support to the network of youth councils	Developing the skills base for employers; active labour market measures to find jobs		Employment, education, social services and health measures in rural communities.	VET profiles for the transport sector	Management of medical waste
<b>Agriculture and rural development (ARD)</b>	Establish standards of food safety and animal welfare for law enforcement, including at border	Preparing institutions for EU accession and funds management in ARD	Programming rural development with role for CSOs	Stimulating enterprises and innovation in rural communities	Education, employment and social inclusion in rural communities		-	Biomass from animals and forestry for sustainable energy
<b>Transport (TRAN)</b>	-	Preparing institutions for EU accession and funds management	-	TEN-T opportunities for business, FDI & exports	-	-		Access to water & waste management facilities
<b>Environment and energy (EN)</b>	Enforcement of environmental <i>acquis</i> ; flood protection for disaster prevention	Preparing institutions for EU accession and funds management, implementation of <i>acquis</i>	-	Management of industrial waste and wastewater, industrial emissions control	Treatment and disposal of hazardous medical waste	Protecting rare 'wild crop species; water for irrigation; flood protection	Action on noise pollution, air quality and climate change (sustainable transport)	

- HRD policy aims to reduce unemployment, but the reality is that, apart from temporary wage subsidies and small-scale public works projects, ALMPs do not create jobs of themselves, they serve to smooth the functioning of labour markets and provide access to jobs where they already exist. Employment creation requires action to raise competitiveness (enterprise, innovation, investment) and stimulate agriculture and rural development, based on a sound network infrastructure (transport, energy, environmental, telecommunications). At present, employment policy is too focused on one half of the labour market equation, the supply of unemployed, and not the demand side - employers' skill needs and future business development and location.
- Agriculture is a major competitive resource, but very dependent on primary production and low volume production. Global changes in world food markets are working in Serbia's favour, but to avail of these opportunities the sector has to switch to added value production but in volume.<sup>120</sup> The sector has to be integrated with the inland waterways system as a source of irrigation water and sustainable transport, with competitiveness measures to support agri-food SMEs and with a tailored FDI strategy that will help create export capacities to service free trade markets such as Russia and Turkey.
- The organisation of communal infrastructure (energy, telecommunications, water and waste) should be based around spatial planning and industrial development, as well as household needs (subject to demographic change, including population shifts from rural to urban areas, and from small towns to large cities).
- The free movement of people and goods, including freight for export, depends on effective border management and an efficient transport network. Integrated border management is not just a matter of ensuring national security, regulating migration, reducing illegal asylum and raising excise revenues, but has direct business, jobs and investment consequences.
- An estimated 1300 state-controlled companies account for an estimated 280,000 jobs, or 15% of formal employment, but made losses of around €1 billion in 2010, for example. Consistently unprofitable public enterprises, the largest being in the transport and energy sectors, distort competition while being financed and guaranteed by taxpayers. These public subsidies and transfers divert resources from other spending priorities worth 2-3% of GDP annually<sup>121</sup>, close to the value of total ODA.

The interconnections between different sectors highlight the policy dilemmas facing the Government in managing both policy and ODA.

---

<sup>120</sup> According to the Economics Institute, one farmer in Serbia feeds 15 people, while in Germany the number is 156; the gross value of Serbia's agriculture production currently amounts to €4.5 billion, but has the potential to reach €12 billion <http://www.tanjug.rs/news/80673/serbias-agricultural-potential---eur-12-billion.htm>

<sup>121</sup> Milojko Arsić, "Reform of State Owned and Public Enterprises", Faculty of Economics, University of Belgrade and FREN, Quarterly Bulletin, January-March 2013

This interaction of sectors, in the absence of an overall development plan for Serbia, puts the onus on **inter-institutional coordination** within Government (ministries and agencies), with outside stakeholders (socio-economic partners and civil society) and central-local (with cities and municipalities, individually and in cooperation). In the sphere of ODA, this responsibility falls to DACU within SEIO and its structures (sector working groups, donor coordination groups and SEKO mechanism). Within national systems, the coordination responsibility falls largely on the General Secretariat.

### ***The impact of governance on ODA***

According to an analysis of strategic documents<sup>122</sup> on behalf of the General Secretariat, 73 strategies and action plans plus other related national documents were adopted by Government from 2004, of which almost 60% in 2008-2010. Two-thirds have action plans, but a quarter of all documents had no defined implementation period. Activities were not clearly defined in 40% of analysed documents, and in most cases, outcomes were not precise, preventing the effective monitoring of results. Mostly, there was no feedback mechanism.

A recurring theme from interviews during this evaluation has been insufficient coordination across Government, outside of the process of EU funds programming, and between central and local levels, which undermines the impact of ODA.

This lack of coordination is apparent in: the *de facto* ownership of strategies by single ministries (even if the implications affect others); the failure to implement, monitor and enforce laws where responsibilities involve more than one ministry or agency; the bilateral negotiation of cooperation agreements with foreign governments and financing arrangements with IFIs and private banks, including multi-million euro loans, by ministries in unrelated policy fields; and the disconnect of national policy and municipal practice.

This situation has partly arisen through the political environment, not unique to Serbia, producing diverse, multi-party governments. With successive coalition governments, and the absence of an agreed national development agenda to shape the government's work programme, individual ministries have entered into competition for visibility and resources. The result is fire-fighting to respond to short-term, operational priorities, while at the same time, trying to promote a more developmental agenda with a series of high profile announcements of new initiatives. As the global crisis gripped Serbia through 2007-2011, with only a weak recovery in later years, resources grew more scarce, while pressures and workloads increased, undermining inter-ministerial collaboration still further. This situation is further compounded by the Serbian Government also having to balance sensitive international issues, EU integration, economic restructuring, public administration reform and national budgetary constraints.

---

<sup>122</sup> Performed under UK bilateral assistance: "Support to strengthening policy coordination at the Government of the Republic of Serbia", October 2010

Under challenging circumstances, the General Secretariat is tasked with coordinating government policy. Commentators, such as SIGMA and the World Bank, have indicated that due to the complexity and multi-dimensional nature of the Government's policy environment, there is an increased demand for a functional framework that can negotiate political/fiscal restrictions and deliver change, particularly in productive sectors (such as agriculture and industry). Successful coordination requires a focus on broad government goals, and a perspective that views all relevant policies as cross-ministry concerns. This is the challenge facing the Centre of Government.

Unfortunately, however, SIGMA's assessments in recent years (2010-2012) have consistently raised concerns about the quality of policy-making in ministries, decision-making that is concentrated at the highest level (rather than entrusted to civil service management), the need to improve coordination across Government and the fragmentation within the Centre of Government between the PM's Cabinet, General Secretariat and Government Office for Regulatory Reform, each of which is under-staffed with professional policy officials. These messages have been reflected in the EC's Progress Reports.

The inadequacy of '**joined-up government**' was singled out by many ministries, donors and other commentators in the interview, as undermining the goals of ODA-funded projects. For example:

*"The lack of coordination between the Ministry of Justice and all the other institutions is the worst problem in the fight against corruption" (Agency)*

*"The risk is that the sector approach is just window-dressing. It needs the coordination of government entities, but we don't find that" (Embassy)*

SIGMA and other commentators have been particularly critical of Serbia's track record in **legislative development**, including *acquis* transposition. SIGMA's concern is *"overproduction of legislation, which is adopted without proper prior consultation, some mechanically translated from EC Directives without proper impact analysis on the current domestic economic actors. Poor and unclear legislation leaves a lot of leeway for arbitrary interpretation of the rules by inspectors, which frequently happens. In addition, laws are often incoherent and contradict each other. Some regulations are not implementable and so are simply ignored, to the further detriment of the rule of law principle."*<sup>123</sup>

This view is shared by a leading CSO in Serbia: *"Donor assistance has assisted with changing laws, without really looking adequately enough at whether the institutions, mechanisms and people are in place to implement them. This leads to less predictability not more. Under the last Government, Parliament adopted more than 830 business-related laws, mostly as part of the EU integration process. Some laws transposed the *acquis* in totality, but without the by-laws and institutions, making the environment less business-friendly".* With the best of intentions, ODA has become complicit in this legislative gridlock. *"In many cases, ministries don't have the capacity, so donor assistance pays an expert to write the law. Then the donor project finishes, the law has been adopted*

---

<sup>123</sup> SIGMA 2012 Assessment Report, Serbia

*and the ministries are expected to interpret and implement a law and they weren't part of the process. It is unrealistic to blame the public administration".*

The message of unfulfilled promise was similar for **central-local coordination**. The evaluation of the Exchange 1 and 3 grant schemes to municipalities<sup>124</sup> under CARDS 2006 and IPA 2007 revealed a disconnection between national policy and local practice. At best, this means that missed opportunities, as innovative ODA-funded municipal projects are designed and delivered independently, and their lessons are not assimilated at the ministerial level or shared with other local authorities (such as the example below)

#### **Case study: Čačak (Exchange 3 Grant Scheme)**

Čačak's aim was to increase the volume of agricultural production and improve the protection of crops from natural hazards (hail and rain), diseases and pests, while at the same time raise the overall living conditions and bring municipal services closer to the rural population (Čačak's population according to the ODA-funded 2011 Census is almost 115,000). The project addressed the lack of **advisory services** for local producers, establishing and equipping Rural Development Centres and Extension Services, along with the City of Užice, and equipping Fruit Research Institute. An Association for Agricultural Producers has been formed with three staff. For **crop protection**, the project obtained research and analysed data on pests and diseases affecting the major fruit crop, organised training and forums on modern pest techniques for 117 farmers, benefitted from information on best practice for pesticide use from a Czech municipality, implemented reporting and forecasting services for primary agricultural producers and introduced a continuous monitoring and integrated management system for pests, disease and natural hazards, including the purchase of 18 weather stations. By implementing the METEOS system, farmers have reduced their use of pesticide sprays from every 7 days in the vegetative period to only 3 or 4 times in total, saving money (€100 per hectare + fuel cost + machine use), improving food quality, and significantly cutting the number of bacterial and viral plant infections. The soil is also less contaminated by pesticides, which have reduced by two-thirds (also partly due to drought). By introducing a "field diary" the farmers were able to export their goods to Russia (around 800 tons, based on data from the Fruit Institute), with fewer rejections at the border. The City has reorganised and increased its agriculture spending from 2% of the **budget** to 4%, and is now covering the maintenance cost for the METEOS system (€2000) and offers free services to the farmers. The Ministry of Agriculture has been informed of the results.

More typically, national government defines the overall policy objectives and targets, creates a set of rules for implementing this strategy in the form of laws and regulations, and then expect cities and municipalities to work within this framework, possibly encouraged by access to national funds or international assistance (EU, donor aid and IFI loans). In principle, this approach seems reasonable. However, problems arise when the design of the national framework does not take full account of the reality at the local level, how laws and regulations are interpreted, the obstacles to their implementation (institutional, contractual and financial), the need to balance incentives and sanctions, and especially does not include mechanisms to enforce rules when they are not followed. The consequence is divergence from the original policy objectives, with targets not being achieved. This raises the risk of ultimate non-compliance with legal standards, including the EU *acquis*, and penalties being occurred at the national level.

---

<sup>124</sup> 116 grants were financed in 86 Serbian cities and municipalities on projects worth €16.1 million, with EU funding of €14.1 million

## **Piloting the sector-based approach in 2007-2011**

The ministry-centric approach to Government is reflected in most ODA being targeted on a single, named beneficiary at the national level, which is either a ministry or, if not, an agency or public enterprise under a ministry's jurisdiction. It has been relatively rare for projects to explicitly have more than one beneficiary. Even where a project has several components, it is usual for each component to have a distinct beneficiary. While supplies and works are ultimately signed over to a single legal entity, which must be responsible for its operation and maintenance, there is no reason *a priori* why advisory services or studies (technical assistance or twinning) cannot be organised for the benefit of several recipients.

However, there were also examples of both inter-ministerial cooperation and donor coordination during 2007-2011 that provide valuable pointers for the future.

The preparation of draft operational programmes for IPA components III and IV, and the NAD for 2011-2013, with the support of Project Preparation Facilities under IPA 2007 and IPA 2009, and bilateral aid from SIDA, established the practice of the eight **Sector Working Groups (SWGs)**, chaired by SEIO, with representation from all ministries and other public bodies involved in each sector, allied to partner consultation. Since their introduction in mid-2009, the SWGs have become a stable feature of ODA programming in Serbia, and the principle of cooperation has become the norm.

The creation of the **Multi-Donor Trust Fund** in 2008 introduced to Serbia, for the first time, a form of sector support based on pooling donor resources, as an innovative mechanism to take forward judicial reform, with contributions from the EU, Denmark, Netherlands, Norway, Slovenia, Spain, Sweden, Switzerland and the United Kingdom. The Fund can provide a model for other multi-donor coordinated sector interventions, but impact to date has not been as anticipated.

### **Multi-Donor Trust Fund for Justice Sector Support (MDTF-JSS)**

The MDTF is jointly implemented by the World Bank and the Serbian Ministry of Justice, to support judicial reform by improving aid effectiveness, financial management, stakeholder participation and reporting on justice reform implementation. Progress has been made with support actions such as the Judicial Public Expenditure and Institutional Review which addressed budgeting, financial management, procurement and human resource management and set up a Reform Facilitation Unit in the Ministry of Justice. In addition the Fund's 'Multi-stakeholder Perception of Justice Survey' identified needs as an input to the formulation of the new judicial reform strategy and action plan, which MDTF is assisting. But there has been less progress in other areas, such as support to 'Access to Justice', developing a more effective system of legal aid. Both the World Bank and the Ministry of Justice agree that slow progress is due to the 'weak interaction' between both partners, while, in the case of 'Access to Justice', there were difficulties within the Ministry to facilitate the concept and no champion to drive the programme. In the words of one donor: *"It's been a lot of money, but we haven't seen many results yet"*.

**Multi-donor and multi-beneficiary ODA** is more common at the sub-national level, working across municipalities, particularly in southern, south-western and eastern Serbia. During 2007-2011, ODA funded four initiatives: Municipal Improvement and Revival Programme (MIR), Municipal Development in South-West Serbia Programme (PRO), European Partnership with Municipalities

(PROGRES), and Peace Building and Inclusive Local Development (PBILD). These have involved, variously, EU, Switzerland, Sweden, Norway, Spain, Austria and Liechtenstein.

Over the same period, **multi-beneficiary ODA** was financed by individual donors at the regional and local levels, namely Austria, Denmark, Germany, Switzerland, United States and World Bank, mainly through technical assistance teams, either operating at the national level or located with municipalities and RDAs to develop strategies, municipal planning, local development, economic, social and environmental infrastructure, alongside grant schemes in the case of CARDS and IPA (Exchange).

These initiatives are interesting for the sector-based approach for two main reasons:

- Most have been assigned to the PAR sector, because at their heart, they have an element of strengthening governance at the municipal level, which is a pre-requisite to taking the forward the decentralisation agenda. However, this municipal development is demonstrated with practical actions to benefit the local economy, society and environment, through multi-sector interventions.
- These initiatives typically centre on inter-municipal cooperation (IMC), most usefully with bordering territories, although sometimes with other parts of Serbia or EU partner municipalities. Neighbouring IMC starts the process of aligning ODA with real needs, as industries (business clusters) and labour markets are not contained by administrative boundaries, and environmental solutions often have a minimum efficient scale beyond individual municipalities; almost half can be considered small for development purposes with fewer than 20,000 residents.

It would not be practical to identify or list the achievements 'on the ground' of these complex, multi-sector projects (both for individual municipalities and IMC), although there are examples highlighted in evaluation studies. Not all initiatives are fully effective or efficient, but they have generated enough operational successes to justify a continued stream of ODA, with many initiatives progressing through several phases or funding rounds over 5-10 years (eg MSP, PRO, PROGRES). Problems, where they have arisen, have tended to coagulate around infrastructure (especially environmental), where IMC tends to highlight tensions regarding ownership, management, finances and land, rather than mutual benefits, as well as coordination failures during complex investment planning and implementation. These conflicts are less apparent in the 'softer' development issues of economic development - attracting investment, supporting businesses, increasing employment and training, etc.

It is clear, however, that few such ODA-funded initiatives have succeeded in achieving 'lift-off' for local economies, transforming their fortunes. However, there are emerging examples of interventions which combine and concentrate resources from several sectors and sources, national and ODA, to maximise the impact:



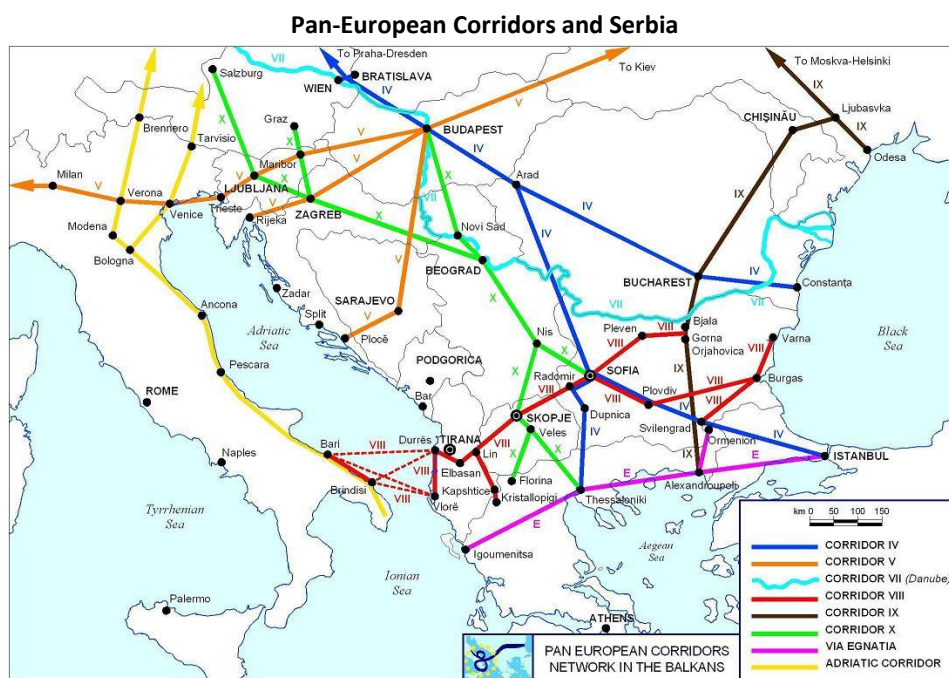
### Leskovac Green Zone

The Green Zone is currently being developed close to Corridor X as an agri-industry complex which will benefit the wider community in southern Serbia beyond the municipality of Leskovac. The Zone itself incorporates a 100 hectare site provided by the Government, as a warehousing and product distribution centre, and is already attracting interest from German and Italian investors. The Zone is linked to an Agrarian Fund designed to support local producers with direct grants, while ODA has complimented local and national involvement with the engagement of the EU's PROGRES initiative and USAID's Sustainable Local Development Program. Energy infrastructure is being developed and a wastewater treatment plant for the site will also be financed by the EU and the Dutch Development Agency, as well as national and local funds.

The Green Zone is illustrative of an integrated complex to encourage production that could be replicated on other sites to expand exporting to CEFTA and Serbia's free trade agreement markets of Russia and Turkey. Importantly, the Zone offers 'concentrated production' facilitating 'quality plus volume' consistency which is demanded by export markets.

This points the way to a more integrated approach to ODA in the next period, which marries the sector-based approach to place-based development of local and regional economies.

Taking the transport sector as an illustration, ODA funding in recent years has been mainly directed towards the construction of Corridor X, especially the road corridor. Serbia's Corridor X (running between Austria and Greece) has the shortest transit connections between the countries of Central and Western Europe and the countries of Southern Europe and the Middle East.



Source: World Bank

*“Because of its geographical location in the heart of the Western Balkans, transit traffic can become an important driver of economic activity for Serbia, re-invigorating the tradition of Serbia as a bridge between East and West, North and South .... Corridor X is a critical part of this vision. Further, it has been shown that road building not only provides jobs and a whole range of business opportunities in*

the short-term, but the existence of good roads is also an effective investment to encourage regional development in the medium-term.<sup>125</sup>

On completion, Serbia will be well positioned on a route that connects mature EU markets with the expanding economies of Turkey and the Middle East. To maximise the economic growth benefits of this corridor, development-oriented transport investments are required to connect adjacent local economies and new potential growth centres in Serbia. At present, the focus is on transit traffic. The completion of the Serbian section of Corridor X is a priority both for the EU and for the region but this is a long-term development investment for Serbia and should not be only a source of transit toll revenue.

Each NAD sector has its own challenges, policy priorities and rationale for sector-specific interventions, but no sector is an isolated island. The value of ODA in each sector can be multiplied by exploring the web of connections across sector boundaries.

### **Borrowing to develop**

As the headline data shows, the vast majority of ODA projects are granted on a non-repayable basis, but the majority of the allocations and disbursements come in the form of concessional loans, which offer better terms than commercial loans or debt markets, but which must still be repaid with interest and management fees.

The 85 loans in 2007-2011 featured in six of the eight sectors. The only sectors where there was no credit disbursed during the period were rule of law<sup>126</sup> and civil society, media and culture. International Financial Institutions (IFIs), particularly EIB, EBRD, KfW and World Bank are the major providers of ODA debt finance to Serbia. IFIs loans have played an important role in energy, transport, health, education and competitiveness. Some **examples** of larger borrowings are:

Purpose	Donor	Allocation
Corridor X highway	WB	€280m
Research and development in public sector	EIB	€200m
Railways rehabilitation II	EIB	€200m
Clinical centres	EIB	€150m
Srbijagas refinancing, network maintenance & upgrade, underground gas storage	EBRD	€150m
Corridor X road rehabilitation	EBRD	€150m
Loan for European Roads B project	EIB	€120m
Railways of Serbia - rolling stock	EBRD	€100m
Transport rehabilitation	WB	€85m
Support to municipal infrastructure	KfW	€62m
Roads of Serbia - Belgrade bypass	EIB	€60m
Irrigation & drainage rehabilitation project	WB	€60m
National Investment Plan - development of local and regional infrastructure	EIB	€50m
School modernisation programme	EIB	€50m
Delivery of Improved Local Services (DILS)	WB	€33m
Agriculture credit line	KfW	€23m

<sup>125</sup> Loup Brefort, World Bank Country Manager, Serbia (2010)

<sup>126</sup> A €15 million loan was taken for upgrading judiciary buildings in 2011, but not drawn down in the period

While IFI funds are known as concessional loans, they still bear a competitive interest rate, usually calculated as bases points above LIBOR<sup>127</sup>. IFI loans, like all loans should be used sparingly, be directed to clear, well-analysed priorities, and be managed effectively and efficiently to ensure costs are kept to the minimum and the benefits of the loans are maximised.

In the context of ODA (as opposed to raising debt finance to close the fiscal deficit between revenues and public spending), borrowing is valid for development purposes if it increases productive capacity.

*A priori*, the case for borrowing for development should be justified: either by increasing the long-run productive potential of the economy, so that GDP grows at a higher rate than the cost of capital or by investing in specific infrastructure that generates a revenue stream that more than offsets borrowing costs on a net present value basis. In all other circumstances, the loan is simply part of the debt financing of Government expenditure, and should be weighed up against other calls on public spending (current, as well as capital, budgets).

This approach implicitly takes on board not only impact, but also sustainability. If the development loan is raising productive capacity, it is effectively self-financing. In fact, the calculation of increased capacity needs to factor in operation, maintenance and replacement / closure (depending on the nature of the investment), so that the revenue stream is more than sufficient to cover these on-costs, as well as the original investment. Fortunately, there are examples of ODA being well planned and implemented, with sustainability in mind, particularly at the municipal level (eg KfW's loans for district heating).

The calculation of return to investment relies on the intervention proceeding (at least) on time and on budget. If there are delays and cost over-runs, the *a priori* justification is undermined at the same rate as the increasing cost of capital. The presence of fees and penalties in loan agreements with IFIs means that failure to execute infrastructure projects efficiently can divert resources to meeting these costs, without return. As the process (from the IFI's perspective) goes through the stages of loan approval, signing funding agreements, followed by draw-downs and disbursements, it is not possible to identify undrawn commitments for 2007-2011 alone on a meaningful basis. However, the rolling status of IFI disbursements is illustrative:

- As at 28 February 2013, **EBRD** had undrawn commitments in Serbia valued at almost €714 million, divided between transport (€435 million), power and energy (€268 million) and municipal and environmental infrastructure (€11 million) for public sector projects subject to a sovereign guarantee.
- As at 31 December 2012, **EIB** had signed funding agreements for the public and private sectors worth just under €4 billion since 2001, of which only €2.3 billion had been disbursed.

---

<sup>127</sup> See OECD/DAC definition of ODA in section 2, which specifies a concessional loan must include at least a 25% grant element; this is calculated based on the applicable terms and conditions, including interest rate, repayment period, grace period (repayment holiday).

This includes very low drawdowns for public sector projects relating to Corridor X (E75) motorway (€0m out of €314m), Corridor X (E80) motorway (€10m out of €265m), clinical centres (€5m out of €150m), Belgrade by-pass (€14m out of €60m), and Public Sector R&D (€60m out of €200m).

Equivalent comparisons for **KfW** are not appropriate, as their agreements and hence data include loan and grant elements, but there are no major concerns regarding disbursement at the present time and commitment fees charged are low.

Whereas EIB do not charge a non-use fee, EBRD applies a commitment fee, payable on the committed but undisbursed loan amount, as well as front-end commission up-front syndication fee (where applicable), and prepayment, cancellation and late-payment fees where applicable<sup>128</sup>. The case below is illustrative..

#### **Serbian Railways pays €2 million to EBRD for unused funds**

During the previous three years, Serbian Railways paid the European Bank for Reconstruction and Development penalties and fees in the amount of around €2 million, according to CEO of Serbian Railways, Dragoljub Simonović. Serbian Railways signed a contract in May 2009 with EBRD for a loan of €100 million for the purchase of new electric multiple unit (EMU) trains. Funds were made available in March 2010, but the company failed to carry out the tender procedure for almost three years, leading to unused loan, penalty interest and fees of just than €1.6 million. Serbian Railways signed another contract in September 2010 for another loan of €100 million to modernize the railway Corridor X and to purchase electric locomotives and railway construction machinery. Funds were available from July 2011, but were not drawn down leading to penalty interest and fees of around €400,000. (January 2013)

These penalties represent a double hit to the taxpayer: undeveloped infrastructure and a financial sanction.

The EIB has highlighted the source of delays as: the lengthy expropriation process and the lack of available funding from the state to expedite purchases; the low absorption capacity of public project promoters, weak project and procurement preparation; weak PIUs with inadequate experience and staffing; and political interference during project implementation.

Unless the loan is refinanced from tariffs, tolls or other charges related to the specific investment, the costs of borrowing fall on the taxpayer, with a time lag depending on the terms of repayment. This also applies to any failure to generate sufficient revenue to cover repayment; each loan, whether taken by a ministry or municipality is secured by a sovereign guarantee, and hence must be approved by the Ministry of Finance and the Government session. Ultimately, the taxpayer stands behind the borrowing in the same way as debt finance through Treasury operations.

It is in the interest (and expertise) of the IFIs to only select investments that will meet their repayment terms and conditions with a high degree of probability, but the presence of the state guarantee shifts the weight of assessment from project risk to sovereign risk (the likelihood of

---

<sup>128</sup> Please note there is neither appraisal nor structuring fees in sovereign projects. All fees are set in the Bank's standard terms and conditions equally applicable to all sovereign projects in all countries of operations

default by the Republic of Serbia). While this protects the IFI from losses, it makes it imperative that the Serbian side adheres to the highest standards of project planning and management; any less is simply a burden on the exchequer and ultimately public debt and future generations.

The alternative to IFI loans, increasingly being considered and negotiated by ministries, are the **'conditional' loans** with individual governments or their banks, including projects since 2011. Examples include Azerbaijan ('Corridor 11'), China (Zemun-Borča Bridge and Corridor X), Turkey (state roads in Sandzak), and Czech Republic (Niš-Dimitrovgrad Corridor X rail). These offer favourable terms and conditions, on a similar basis to concessional loans from IFIs (including management and commitment fees), but tied to using contractors from the donor nation, subject to 45% of the value benefiting Serbian subcontractors.

The interest rates offered by these conditional or tied loans, at present around 2-4% above LIBOR, are typically not as favourable as the traditional IFIs, which charge up to 1%. IFI support is also often accompanied by grant aid for technical assistance (project preparation and implementation) through available donor sources (for example, via WBIF). However, these tied loans offer one clear advantage: a single package of assistance comprising both finance and construction. There is no two step approach of negotiating and signing a funding agreement and then going out to tender for works and supervision, and hence, in principle, the whole implementation process should be considerably quicker. The downside, however, is the lack of competition in procuring a contractor, which may inflate costs, as the budget is effectively set at the outset. This puts the onus on the beneficiary to project investment costs with accuracy and foresight in advance, given the donor is being repaid with interest and has little incentive to maximise value for money to the Serbian taxpayer.

### **Reducing the prevalence of 'bottleneck' infrastructure projects**

The implementation of soft loans, but also grants, for infrastructure projects reveals a recurring problem of stalled progress and missed deadlines, and these projects occupying typically the majority of the 'bottleneck' list for the regular SEIO-EUD meetings.

As the evaluation of the Exchange grant schemes noted, the road from paper concept to fully functioning infrastructure is strewn with obstacles at every stage in the journey. Potential hurdles to be overcome, for example, include:

- ❖ **Planning stage:** The initial project concept is flawed, having not been rigorously analysed and tested against other options.
- ❖ **Feasibility study stage:** The revenue streams that are necessary to generate sufficient returns, not only to justify the investment, but also to finance its operation, maintenance and any replacement, expansion or closure costs, are based on unrealistic assumptions and projections.
- ❖ **Design stage:** The scale of investment and technology employed are inappropriate, because of the preferences of the client or the engineer for specific technical solutions.

- ❖ **Implementation stage:** The fundamental pre-conditions for implementing the investment project, but particularly land ownership, site suitability and availability of permits are not secured.

In addition, there is the ever-present risk from instability in the political, institutional or economic context. Sudden exogenous changes in circumstance can fundamentally alter key parameters, such as expected demand, preferred policy or partnership arrangements that fatally undermine the investment's viability.

### **ODA as a 'public good'**

Loans that are taken for purposes that are not explicitly justified by the development criteria, as they neither generate their own revenue streams nor higher GDP, essentially have the same status as public spending from the republic, provincial or municipal budget. An example would be the EIB loans for clinical centres and upgrading judicial buildings, and World Bank loans for DILS (health, education and social services) and the Republic Geodetic Authority, in order to develop land cadastres and digitalise data.

The resulting benefits (financed by the taxpayer out of the exchequer) should accrue to the public sector as a whole, not simply the agency that received the equipment and services. Indeed, the same logic applies to developments funded by ODA grants, as the donation is a gift to the Serbian people, and not the property of any individual institution. Unfortunately, the status of agencies that charge fees within the Serbian Budget System Law (BSL) during this period has encouraged the generation and retention of revenues from the sale of services resulting from ODA support, in a way which has helped 'sustainability' (funds for reinvestment) but at the cost of impact. Under changes to the BSL in 2012, it is understood that direct budget beneficiaries are no longer permitted to retain 'own source revenue', which should discourage this practice.

### **Alternative modalities**

While most ODA is directed towards construction works and equipment supply, most projects (particularly grant aided) is advisory services in all its guises: reviewing and preparing laws, developing policies and strategies, designing systems and procedures, drafting manuals, preparing studies, making designs, performing monitoring and evaluation, providing coaching and training, etc.

Within the context of EU funds, governed by the Financial Regulation and PRAG, there are essentially four types of modality to select the most suitable delivery mechanism<sup>129</sup>:

---

<sup>129</sup> There is also the option of a grant scheme, whereby the contracting of advisory services is devolved to the grant recipient, or direct award, which follows the same principle (and also grant-funded), but without a call for proposals and hence competition

- **Technical assistance (TA):** this is provided by consultants, most usually a consortium of private companies (although public enterprises also compete), and includes framework contracts for short contract below a set value defined in the PRAG;
- **Twinning** (or twinning light, whereby there is no resident twinning advisor in situ): this is provided by civil servants or other public officials from an EU member State (MS), the selection of the MS is also subject to competition;
- **'Direct agreements':** this is not a PRAG term, but is intended to convey the essence of arrangements where a contract is signed with a pre-determined public body, including contribution and association agreements (with World Bank, United Nations offices, Council of Europe) and indirect centralised management (with accredited bodies of EU member states);
- **Direct awards:** these are grants awarded without a call for proposals, either for humanitarian or other emergency reasons, or because the beneficiary has exclusive competence or a high degree of specialisation, duly justified.

Each modality has its own pros and cons. An evaluation<sup>130</sup> of the comparative merits of twinning and TA in the Western Balkans and Turkey was published by DG Enlargement in 2011, covering EU funds in 2005-2008. The main findings of the ELARG study have been largely echoed in the feedback from Serbian ministries and beneficiaries under this evaluation:

- TA has been the dominant mode, but twinning has also been used, particularly where the assignment is acquis-related.
- Ministries have good and bad experiences of both modalities, as well as 'direct agreements', in terms of day-to-day implementation, their effectiveness in delivering the expected results, and the efficiency with which they work. The general view was that much comes down to the knowledge, commitment, and professionalism of the individuals concerned, irrespective of whether the contract is TA or twinning.
- However, there were also practical differences. Twinning was seen as more 'invasive', as the twinning advisors expected to be working closely with their counterparts, sharing offices and advising on a daily basis, whereas TA was seen as more 'evasive', in that the consultants were semi-detached physically and operationally from the beneficiary's day-to-day activities, providing outputs when requested (ideally). In line with the Commission's manual, twinning was seen as only appropriate for mature beneficiaries that are clear about their needs and have sufficient absorption capacity (staff and space). TA was also seen as more flexible in that it was easier to 'hire and fire' experts, according to need and performance respectively, than twinning advisors (*"it took me six months to get rid of our RTA"*). It was remarked that the speed of replacement had improved following recent updates to the twinning manual,

---

<sup>130</sup> "Twinning versus Technical Assistance", Final Report, Ecorys Research and Consulting, January 2011

along with the ability to pre-select the MS which offers the best fit to the beneficiary's circumstances, but that the flipside of one advantage of twinning (building a long-term bond with a 'sister institution' in a MS) was the embarrassment factor if the relationship does not work out as expected.

The feedback from several Serbian ministries was an impression that the Commission's default position is to favour twinning unless a case can be made for TA, as Serbia should be at the stage of institution strengthening, not institution creation (in the words of the twinning manual), which circumscribes their choice. Examples were given where twinning had been strongly supported by the EU, where it was felt that TA would be more appropriate as local operational knowledge was essential and hence local consultants should be employed.

The ELARG-funded evaluation found that, *"in the cases studied no significant differences could be observed between performance of projects using technical assistance or twinning. In terms of impact, effectiveness, efficiency and sustainability, performance is fully comparable. There is neither a difference between the general opinion of the beneficiaries with regard to the ability of both instruments to give results: over 90 per cent of the survey respondents feel that both technical assistance and twinning 'always' or in a 'majority of cases' provide results"*.

Nevertheless, where the pre-conditions for twinning are present (*acquis*-related, mature beneficiary and sufficient capacity for cooperation), the ELARG study indicated that *"twinning has a large chance of success"*, but that *"for relatively short and single-objective assignments (e.g. a study, awareness event) twinning is too inflexible"* and *"although normally between three to four bids are received on a twinning request, in some cases no bids are received and technical assistance has to be used"*. In the words of one Serbian ministry, twinning can be *"too much of a blunt instrument"*, but in any policy field that relies on the operational experience of public officials (such as customs, police, inspection services, etc), twinning is a superior modality to TA<sup>131</sup>. The principal constraint then is the ability of the twinning advisor to interpret their 'home-based' knowledge within a different administrative culture and institutional set-up, rather than simply try to replicate their own systems, when they are not used to providing advice. As one interviewee put it: *"It's very interesting to hear what is happening in Slovakia, but ...."*.

This inability to think 'out of the box' or interact with beneficiaries is not restricted to twinning advisors, however; it can apply to TA consultants too. The high turnover rate of key experts, evidenced in the ROMs for 2007-2011 EU projects, is indicative of a systemic problem with the procurement and selection process. From a review of the ROMs of just 21 TA projects at various stages of progress, almost half (10 projects) had replaced a total of 16 key experts.

The ELARG study also highlights that the paradox in the choice between twinning and TA, that the underlying assumption is that twinning brings more benefits to *acquis* related assignments because the experts hold *"unique expertise"*, but find in practice *"the distinction between technical assistance and twinning is not that sharp, because: technical assistance providers have also access to expertise"*

---

<sup>131</sup> As was the case, for example, with the Border Police Twinning Project



*on acquis and public administration; there is a practice to use (almost) retired civil servants as resident twinning adviser .... [which] can very much reduce the potential for establishing long-term relations with the twinning provider; [and] mandated bodies, involved in twinning, are not always part of the public administration”.*

In principle, the use of ‘**direct agreements**’ should offer a potential middle way, combining the flexibility of technical assistance, but with either access to the public sector know-how of member states including their civil servants (indirect centralised management through delegation agreements) or the vast global resources and reach of multi-lateral institutions (contribution and association agreements). One of the main attractions to the contracting authority is that the budget is considered to be disbursed when the agreement is signed, which improves the absorption rate. Both types of recipients also have the advantage that they can employ their own procurement and management systems, having been subject to prior accreditation.

In practice, however, only a limited number of EU member state agencies have achieved compliance with the ‘six pillar’ criteria for indirect centralised management<sup>132</sup> out of around 42 that are eligible, and very few were active in institution-building projects in 2007-2011. Furthermore, both member state agencies and international organisations tend to draw from the same pool of self-employed consultants as the TA providers, while the flexibility of newly-accredited agencies can be offset by inexperience in managing consultancy projects, which may mean the high initial absorption of EU funds at contract signature masks problems in implementation and ability to draw-down committed funds. Another factor affecting the complexity of project management is the involvement of multiple agencies, for example in the Peace Building and Inclusive Development Programme (PBILD)<sup>133</sup>, Sustainable Waste Management Initiative for a Healthier Tomorrow (SWIFT)<sup>134</sup> and Danube-Serbia<sup>135</sup> initiatives. The use of ‘direct agreements’ is in any case declining (12 were programmed for IPA 2011, five for 2012, just two are expected in 2013), a trend which is likely to continue into 2014-2020.

Outside of EU funded service contracts, ministries and beneficiaries noted that **bilateral projects** offer an alternative approach which is attractive and popular for several reasons. Bilateral donors (such as USAID and GIZ) seem more able and ready to design projects which last beyond the standard 12-36 months of TA, twinning and direct agreements under the PRAG. Some of these initiatives have been running for 5-7 years, which is seen as offering several advantages. First, the bilateral project has time to build up a comprehension of the policy challenges and the beneficiary’s modus operandi. Second, the bilateral project has a continuous presence which allows them to react more rapidly to events, compared with EU assistance which is shorter in duration and hence urgent demands must either be fitted into existing projects or wait for a framework contract to be

---

<sup>132</sup> For example, Agence Française de Développement (AFD), Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), Stichting Ontwikkeling Nederlandse Antillen (SONA), Cooperation Technique Belge (BTC/CTB), Austrian Development Agency (ADA), Kreditanstalt für Wiederaufbau (KfW), UK Department for International Development (DFID), Ministry of Foreign Affairs Netherlands, Instituto Portugues de Apoio ao Desenvolvimento (IPAD), Lux-Development SA (LU), Ministry of Foreign Affairs Finland (FI), Danish Ministry of Foreign Affairs (DANIDA)

<sup>133</sup> UNDP, UN-HABITAT, UNICEF, UNHCR, IOM and ILO

<sup>134</sup> WHO, UNOPS and IOM

<sup>135</sup> ADA and IPAD

launched. Third, the bilateral projects tend to be more 'nimble' in responding to the beneficiary's concerns, especially regarding finding new experts or replacing under-performers, compared to the more cumbersome EU clearance procedures. In general, the feedback on bilateral aid was very positive, especially when beneficiaries were able to make comparisons about flexibility: *'We did not have a good experience with twinning ... not very dynamic compared to USAID support which was concrete and reached outputs.'* (Head of Department).

Serbia has also benefited from a few instances of **direct awards** to public bodies during 2007-2011, justified by their monopoly position and specialisms, principally the grants to the Statistical Office to conduct the population census and to the Ministry of Finance to perform first-level controls on IPA cross-border cooperation programmes with Member States (Bulgaria, Hungary and Romania). These awards have been a highly successful form of support, injected into national budgets and linking financial assistance to the achievement of particular outcomes.

Serbia's limited experience of **budget support** in 2007-2011 is harder to assess, as the outcomes were not specified or monitored. The extra-ordinary agreement to direct €100 million of IPA 2009 into the national budget was a product of its time, the global financial and economic crisis which was enveloping Serbia, and was aimed at alleviating the socio-economic consequences of the economic downturn, and help Serbia to pursue the pace of EU integration-related reforms. The injection was made in two €50 million tranches and predicated on various conditions being met and demonstrated, regarding Serbia's continued preparations for membership. Otherwise, it is understood that this type of general budget support is absorbed alongside all other income in the single treasury account and is used for public expenditure purposes, undifferentiated from other sources. The other type is sector budget support, which is assigned to specific ministries and other institutions, to augment national spending in aid of a sector's objectives. The World Bank's two concessional "Programmatic Public Expenditure Development Policy Loans" during 2007-2011 could be said to represent budget support of this nature, and are aimed at pension system reforms, rationalisation of the school network and payment reform in health areas. However, until Serbia establishes and fully embeds a system of programme budgeting, which enables the link from budgetary inputs to policy outcomes to be transparent and tracked, any system of sector budget support seems premature.

## 6. OVERALL EVALUATION FINDINGS

Taking the eight sectors together, and recognising the inter-sector and horizontal factors, this section seeks to answer the fundamental questions at the heart of this evaluation: what development has been achieved in Serbia from 2007-2011 ODA, and what lessons can be learned from this experience as pointers for programming for 2014 onwards?

### Relevance

*The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies*

As the evaluation per sector in section 4 showed, the collection of projects supported by ODA in Serbia are overwhelmingly relevant to Serbia's needs and fit within national priorities and donor policies. This is almost inevitable: the challenges faced by Serbia, both in individual sectors and collectively, are as broad as they are deep, while the programming process (particularly of CARDS and IPA) obliges potential beneficiaries to justify the identification and selection of projects against national strategies of which there are a multiplicity (over 70 were identified in the DFID-funded analysis for the General Secretariat). The sheer volume of sectorial strategies and programmes means almost every ODA initiative can be cross-referenced to a Government objective.

The sector evaluation and data reveal a concentration on certain themes and fields of intervention during 2007-2011 within the full spectrum of potential country needs, summarised below:

#### Concentrations on fields of interventions

Sector	High representation	Low or no representation
Rule of law	Judicial reform; IDPs and refugees; police; border management; prison system	Fundamental rights & anti-discrimination; enforcement
Public administration reform	Statistics; tax; customs; municipal development; EU funds management	Coordinated HRM; coordinated IT; Parliament; regulatory agencies
Civil society, media & culture	Civil society; media	Culture
Competitiveness	Conditions for competitiveness; SME credit lines; municipal economic development; R&D infrastructure; automotive (Fiat); tourism	Integrated economic planning; industrial policy; other sectors (outside automotive and tourism); export market opening; targeted FDI
Human resources development	ALMPs for unemployed; education and VET; health; social inclusion	Skills conversion; company restructuring; in-service teacher training; informal economy and employment
Agriculture and rural development	Institution building for EU funds; safety and standards; farm payments & credit lines	Sustainable rural development; sector planning and strategy; export market development
Transport	Corridor X road and rail	Regional and local roads; rail network; inland waterways (Corridor VII); inter-modal transport
Environment and energy	Rehabilitation, overhaul and security of energy supply; air quality from TPPs; water; hazardous waste; sustainable energy	Biodiversity & natural habitat; mobile; pollution; noise pollution & vibrations; new electricity generation; electricity and gas transportation; renewable energy

While individual project relevance can be tracked, this is not the same as strategic relevance, which is articulated at an aggregate level or when the portfolio of ODA in its entirety addresses the fundamental challenges facing the sector. This overall strategic perspective should examine what ODA was used for in 2007-2011, but also what it was not used for.

In understanding the use of funding in 2007-2011, interviews suggest that two factors have been influential.

The first factor is donor preferences, based on their strategies (focused on specific themes, beneficiaries and territories), eligibility criteria, and available funding / maximum feasible project size. This was most prevalent in the EU funding of projects to accelerate Serbia's preparedness to meet the Copenhagen criteria (especially *acquis* approximation), readiness for EU funds management and institutions, and other priorities such as completing Corridor X and implementing the Energy Community Treaty. Other activities (especially those outside the *acquis*) tend to reflect the interests that are considered most significant to individual donors, for example justice and rule of law, political process and public administration, and municipal development and cooperation, in the case of USAID. Some sectors had their focus pre-determined by donors' eligibility rules; for example, in the area of Competitiveness, the beneficiaries of EU assistance are all public bodies, because of the interpretation of PRAG rules regarding grants to the private sector (which were not so strictly applied in other beneficiary countries, for example Croatia<sup>136</sup>). Typical project size and total funding envelope, as well as eligibility criteria, appears to have been a variable in the selection of infrastructure projects, especially in terms of the construction or upgrading of road and rail track by length, or the rehabilitation of energy infrastructure (compared with the costs of new build).

The second factor is competition within the administration, in the context of limited ODA funding. The process within ministries of identifying and short-listing projects to submit for funding, often leading to a decision at Cabinet level on which to put forward, pits departments and/or agencies against each other. The most pro-active departments become expert in preparing project proposals that match the donors' preferences and criteria. This is not to imply that the 'best prepared' project concepts were inevitably successful, as other key factors were also in play, particularly needs and gaps being identified during the programming process and potential beneficiaries being supported in their project identification and elaboration. There were also reports of ministries using the tactic of multiple submissions in the hope that sheer volume would ensure that at least two to three would be financed. These features should become less influential under SBA in 2014-2020, as analysis of sector need in the context of medium-term planning becomes the dominant mode of multi-annual programming.

Other factors were also present, according to the findings from the interviews. There is a huge pressure from international organisations and their agencies towards potential beneficiaries that their engagement through direct agreement is pre-arranged, with ODA having become their main source of funding and continued presence. Some even perceive this as their 'right' and seek to use

---

<sup>136</sup> PRAG does not allow activities to be funded which would produce a profit for the beneficiary, but this can be taken as either meaning the actions themselves should not be immediately profit-generating (in the same way that state aid rules allow R&D and training), or more narrowly as outlawing 'for-profit' organisations from eligibility.

even diplomatic channels to impose themselves, while on the contrary, opting for the direct agreement as the modality of implementation and the choice of the agency should be the right of the beneficiaries, based on their estimation of the suitability of the international organisation / agencies and proven track record on performance.

There has been a 'supply-side' tendency in some areas for donors or project consultants to import development concepts wholesale from abroad, such as Regional Development Agencies and Business Improvement Districts, and then seek to make them fit the Serbian legal, administrative or business system. In these instances, this suggests a degree of innovation, which can work as long it is well-considered, well-implemented and welcomed willingly by the proposed beneficiaries. Some of the initiatives are pursued because they are deemed essential, even if Serbia does not appear fully ready yet to absorb the results (eg the switchover from analogue to digital, the introduction of legal aid and alternative sanctions), with knock-on effects on effectiveness and impact.

It is also important to remember that there are two parties to the programming process, and while donor priorities clearly carried a lot of weight, the needs of beneficiaries can only be promoted if they are clear about what they need, and where this fits into the bigger picture of policy, mainstream programmes and external factors. In this respect, the prevalence of national strategies masks the absence of an overall development strategy for Serbia which would send a clear signal about the direction and prioritisation of national and ODA resources.

Infrastructure projects have suffered from an unclear policy framework with national strategies that are either still in preparation (water), developed but since been subject to review and revision (waste), or accepted but without a clear roll-out plan for investment priorities (transport). Relevance is hard to gauge in these circumstances. Nevertheless, considerable ODA has been directed towards both preparation and construction at the national and municipal levels.

Whatever choices are made at the programming stage, these clearly have consequences for the effectiveness of ODA.

## ***Effectiveness***

*The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance*

Judged on this basis of attaining objectives, the sector-based evaluation summarised in section 4 leaves a mixed impression. There are undoubtedly considerable successes in specific areas, some of which are recognised in the EC's annual Progress Report. For example:

- ✓ The Republic Statistical Office has improved its standards, expanded into whole new statistical fields, and successfully conducted the 2011 population census with ODA support. Customs and tax administrations have enhanced their capacities, the Treasury has improved its management of budget execution and the regulatory agencies are going from strength-to-strength.

- ✓ The overall regulatory framework has been improved with key legislation drafted and adopted including laws on organisation of courts, state prosecutorial council and public prosecutors. Major steps forward have been taken in the fight against organised crime and police capabilities have been enhanced. Courts have been modernised throughout the country and case backlogs reduced through improved efficiencies in court management.
- ✓ The coordination body for implementing the Integrated Border Management (IBM) strategy is operational and the TETRA communication system has been set up, with border posts connected to a central database within the Ministry of Interior.
- ✓ The State Audit Institution has developed a strategic development plan for 2011-15 and increased its capacities to over 100 auditors. Audit coverage has been increased and audit methodologies improved.
- ✓ In veterinary policy, implementing legislation has been adopted and IT systems upgraded. Serbia is now participating in the EU Trade Control and Expert System (TRACES)

Sometimes, the objective itself was unrealistic (for example, 'democratisation' as the outcome from grant support for CSOs). It should also be acknowledged that even a five-year timescale is too short to assess performance for some types of intervention, especially those that commenced towards the end of the 2007-2011 period and have not yet finished (although the counter-examples are projects which started in the early-mid 2000s). This is particularly the case with infrastructure ODA, much of which has not had sufficient time to fulfil objectives, although in some cases this is because of delayed starts and slow implementation, which is an efficiency concern.

But there are also many examples of missed outcomes and under-performance against expected results. In many cases, ODA has had a surface effect only, in the sense of achieving its deliverables, but without transformative results. In the words of one ministry, lost opportunities arise from ODA projects that were ineffective: *"Unused feasibility studies, unused functional analysis, strategic documents that aren't implemented, idle equipment ... there are good examples too, but many projects didn't fulfil their objectives. We need to use the money available, but not to do projects just for the sake of programming, or for the deliverables. We should be asking: what is the purpose, where is the value added"* (Head of Department, IPA Unit). Cases include the adoption of new regulations that are not subsequently put into operation (see section 5), and the installation of new equipment or construction of new infrastructure which fulfils all the conditions in the supplies and works contracts, but is not functional because elements outside the specific parameters of the project has been omitted.

The most infamous example of the latter is the multi-donor investment in the Pirot landfill and regional waste management centre being stalled by municipal partners' inability to agree and establish a regional PUC to manage the new facility, but it is not the only one. Infrastructure projects only need one factor to be missing to render the ODA investment in project preparation obsolete, for example, failure to appropriate land, objection to the proposed site during public consultations, rejection of permit applications (or simply timed-out under the law, in the case of construction permits). With project preparation initiatives, these elements fall to the beneficiary (or end recipient)

under the law, and cannot be performed or resolved by the project team, and hence they are 'exogenous' to the intervention, but critical to its success.

With these examples, the boundary is blurred between effectiveness and impact, as the specific objectives of the project may have been met and outputs delivered, but the benefits will not materialise until complementary factors are in place, rendering the intervention worthless in impact terms. One of the prime examples is the preparation of feasibility studies and designs, without the rest of the documentation. The onus does not always rest on the beneficiary's side; the established adage that donors do not fund 'half a bridge' has not always been strictly followed, especially when the scale and scope of projects are restricted by available budgets, (notional) maximum project size, and project duration (under N+ rules). The EU has tended to be more constrained in these regards than bilateral donors and IFIs.

These experiences has encouraged the EUD, sometimes alongside other donors, to begin to apply conditions to new rounds of ODA, by proposing to suspend assistance unless bottlenecks are opened and/or prior assumptions are met. Prime examples are: programmatic budgeting which has received multi-donor and multi-project assistance since the mid-2000s, but which remained at pilot stage at the national level (albeit more advanced at the municipal level) and appeared no nearer being rolled-out; and the support to introducing e-government, which is meritorious in its own terms, but which was being planned against the backdrop of ODA-funded IT investments which had not been networked. In both cases, the perception is that threatened withdrawal of continued financial aid helped to give momentum to resolving the impasse, and hence, conditionalities are likely to become an integral feature of future ODA.

The timing of ODA is also highly pertinent, as well as the timescale. Programming was sometimes faster than Serbia was able to absorb it, or paradoxically, too late to meet ministries' needs, particularly when the focus is short-term and the priority is operational 'fire-fighting'. This is partly a matter of the sequencing of interventions, but also the lead times: for EU-funded projects, in particular, ministries and (other) beneficiaries have to be able to anticipate their requirements with a two year (or longer) time lag, to allow for programming, signing the annual financing agreement, tendering, selection, contracting, start of implementation and (for service contracts), the inception phase, before the serious work begins. Often the results will only start to materialise in the following 12-36 months, making a four to six year timeframe from identified need to achieved objective (if successful).

However, there also examples of the successful sequencing of ODA, such as the field of community-based social services, where Norwegian and UK bilateral aid supported the analysis and policy-making, which underpinned a new law and reorientation of institutions (linked to decentralisation) which is now being carried forward through grant schemes under IPA 2012 to develop new social services at the local level, accompanied by TA to help these innovation to be accredited, mainstreamed and rolled out at the national level.

Other initiatives, such as the IPA 2007 Environmental Approximation Strategy offer the same potential to become a springboard for future evidence-based programming, through Directive Specific Investment Plans (DSIPs), for the seven 'investment-heavy' directives; TA has been

requested under IPA 2013 to support the preparation of six DSIPs (the other, for the Landfill Directive, is already being developed, linked to a revision of the national waste management strategy).

## **Efficiency**

*A measure of how economically resources/inputs (funds, expertise, time etc.) are converted to results (outputs and outcomes)*

Efficiency is the relationship between resources and results: the input-output ratio. As such, it is a relative not an absolute concept, and requires a reference point to be meaningful. Efficiency is almost impossible to evaluate for whole sectors or all ODA (as compared to individual interventions), in the absence of comprehensive data on spending (based on actual disbursements, not budget or contract values), and aggregate performance indicators for the period. Nevertheless, the sector-based evaluation allows observations on both the resourcing of interventions and their management.

On the inputs side of the efficiency equation, feedback from IPA units in several ministries suggests that one of the hardest challenges in programming is to budget accurately for individual projects, especially knowing that implementation will not commence for 12-36 months (depending on the donor and the procurement process), meaning these future conditions must also be anticipated. Some of the donations made in 2007-2011 are also extremely small, with 25% of the donations on ISDACON being less than €100,000, which is inefficient from the viewpoint of transaction costs (as well as impact). In assessing the price of ODA, it is important to not only factor in the contract value, but also the hidden costs of administration by the donor and staff time and overheads (office space if provided) incurred by the beneficiary. It is not possible to estimate these costs within the confines of this evaluation, but they are likely to be material, to use an auditing term. Inputs are also about quality, not just cost and timings.

Efficiency is also about making the best choice of modality for the circumstances and desired outcomes. Government has a number of tools at its disposal to achieve its policy objectives, of which spending is often the most important, but not the only solution. Other options include:

- ✓ Regulation: either introducing or reducing laws and by-laws (and their implementation);
- ✓ Revenue-based incentives: increasing or cutting fees, charges, taxes, excises; and
- ✓ Institutions: creating, merging, abolishing or privatising state-owned bodies.

For example, the most influential factors in improving national competitiveness (attracting investment, encouraging new start-up businesses, keeping SMEs out of the grey economy) do not involve huge expenditure, such as ensuring fair competition, creating a predictable and transparent legal system, tackling corruption and making the administration more business friendly. To maximise national productivity and drive up GDP, however, they need to be accompanied by other factors which are more resource-intensive, such as infrastructure and public R&D facilities. The key ingredient is their coordination and the 'soft infrastructure' at the interface between public and



private sectors (including developments such as e-government for business, as well as intermediaries, like SME agencies and RDAs).

ODA can either advise on the best choice and mix of policy instruments (through technical assistance, twinning or direct agreements), or go down the path of direct expenditure on concrete interventions (through works, supplies and grants).

The analysis (outlined in section 5) suggests that neither twinning nor TA nor direct agreements represent a cure-all panacea, and the most suitable mechanism partly depends on the sector, but mainly on a mix of the purpose of the intervention and the capacity of the beneficiary. Twinning has the advantage when the recipient's needs are best satisfied by learning from a counterpart that has been through the same development process with systems and skills, either recently or to an advanced stage, and has practical insights of performing the equivalent public service in their own country on a daily basis, which consultants from the open market cannot provide. Absorption capacity requires institutions to have the physical space to accommodate twinning advisors for close cooperation, and enough staff with time to escape the day-to-day operational demands to trade experiences and, realistically, actively support the twinning. Successful experiences with twinning in 2007-2011 have followed this model, including support to the customs administration and border police.

Otherwise, TA was the default mechanism for EU contracts in 2007-2011, either through competitive tender or via direct agreements. Each instrument has its own pros and cons.

Competitive TA suffers from highly variable quality in a system which selects 'experts' predominantly by the quantity of experience on their CVs, rather than the quality of their track record, as signalled by the high turnover of key experts that need to be replaced. The most recent version of PRAG (January 2013) has set in train the diminishing use of fee-based service contracts with key experts in the future, except for specific circumstances, and a predilection for global price contracts instead, which will reward bidders with well-conceived methodologies and high quality outputs that satisfy beneficiary requirements. This is not without risk, however, as outputs will need to be predicted well in advance and will reduce the room for manoeuvrability in responding to events as they arise, if the beneficiary is suddenly confronted by a change in policy, economic, financial or other context. Paradoxically, this risk is likely to be higher with a series of marginal adjustments than a seismic shift, as the latter will be obviously recognisable and trigger an addendum, whereas the former (which is more probable) is likely to engender nit-picking on either side over contractual terms. In principle, this is a positive development for raising the quality of advisory services in the long-term, which does not fit with the current 'body-shopping' model of TA, and will most likely lead to short-medium term turbulence as providers, contractors and beneficiaries adjust.

Direct agreements short-cut the lengthy procurement process that competition creates, and offer the scope for international organisations and EU member states to draw on the best of both the twinning and competitive TA worlds, by taking either public officials or freelancers as experts, depending on circumstances and need. In practice, however, many of these bodies end up drawing from the same limited pool of consultants, but with a guaranteed % overhead from the contract

going straight to head office, and no scope for the donor to use the marketplace to drive down total contract costs or for the beneficiary to test other service offers.

The turnover of consultants through short span projects of 1-2 years is a source of frustration among some ministries: “*I do not want short-term experts. I want long-term experts*” (Assistant Minister). Bilateral projects appear to offer more flexibility to make adjustments and alter direction to suit changing circumstances, including external events or a shift in political priorities.

Service contracts also face the perennial risk of wasting resources, particularly on time spent on mobilisation and familiarisation (for example, reviewing laws which are already known by the beneficiary).<sup>137</sup> This cost in time is at least proportionately lower with longer duration projects.

There are also examples of interventions in 2007-2011 (and since) being repeated and hence duplicated, because the original assistance failed to fully achieve its objectives for various reasons (for example in VET policy, justice, programme budgeting, hazardous waste management), whereby a problem with effectiveness then becomes a matter of inefficiency. There are also infrastructure investments (such as the Duboko waste management centre) which have received considerable financial support from EU, bilateral donors and IFIs, and yet the outcome is not viable; the donor community is then faced with the dilemma of whether to draw a line and terminate support, or to inject more funding with the aim of turning performance around, and will almost inevitably chose the latter, rather than leave an under-performing asset or ‘white elephant’.

There have also been systemic inefficiencies from failing to make connections between ODA interventions, most notable in the IT sector, so that interventions have formed islands, disconnected from both other ODA and national programmes, although the Government is seeking to address this problem at source, through the new PAR Strategy and proposed e-government Strategy.

Strategic inefficiencies can arise from project design and selection. For example, the investment in solid waste and water management (both preparation and construction) has a mixed track record in producing outputs, but there are examples of successful, functioning infrastructure at the municipal level that undoubtedly make a positive difference to their communities. At the strategic level, however, Serbia must manage its total resources (domestic and ODA) to ensure that it implements the transposed acquis and achieves the mandatory standards (eg for drinking water quality, the collection and treatment of waste water, the sanitary disposal of waste) for the country as a whole. ODA interventions which only tackle hotspots or the ‘low hanging fruit’ of the most bankable projects may be effective and efficient (and sustainable, with enduring impact) in their own terms, but they are not enough to achieve strategic objectives, and may not be the best use of scarce financial resources in this wider context.

---

<sup>137</sup> The Ministry of Justice was particularly critical of the time wasted by experts to ‘catch up’ with the beneficiary. Interview, March 2013

## **Impact**

*Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended*

Effectiveness and efficiency are judged within the specific parameters of the ODA - evaluated against the agreed objectives and outcomes, and within the available resource constraints; impact takes the evaluation to a higher level. The greater test of ODA's value concerns its consequences, in other words, making a difference. Impact is at least one step removed from the ODA itself, not the immediate outputs, and is likely to be influenced by other variables, and if these factors are not in place when designing the original intervention, the ODA may achieve its specific aims, but fail to attain its higher goal. In other words, assistance can be effective and efficient, but still have no impact.

Taking ODA in 2007-2011 as a whole, annual average disbursement of €0.9 billion is around 3.1% of GDP (and around 7.0% of total public expenditure). This is not far below the maximum amount that Serbia could achieve under Structural Funds and Cohesion Fund (where the limit is currently just under 4% of GDP), and hence is a useful benchmark for assessing Serbia's preparedness to manage EU funds after accession.

However, as SBA was only introduced in practice for IPA 2012 projects, it would be harsh to criticise the Serbian administration for failing to achieve sector-based impacts in 2007-2011. Moreover, five further caveats must be added:

1. Structural Funds is more narrowly targeted than pre-accession funds. For example, there is no funding of 'rule of law', while *acquis* harmonisation is, of course, expected to be already in place. By contrast, ODA in 2007-2011 covers almost all public policy, which naturally has dissipated its effects. EU funds after accession are less thinly spread, which increases their impact, especially in regard to economic and social cohesion.
2. New MS at the point of accession are expected to have reached a more advanced state of development (although evidence suggests this has not always been the case in practice), and hence the needs should be much reduced, making Structural Funds go much further.
3. After EU membership, bilateral donor assistance will either stop or be cut substantially (and will anyway run-down in the run-up to accession), and hence the challenge for the Serbian administration will be the coordination of EU and domestic co-financing (including IFIs) not national programmes with 30 donors.
4. Funding in 2007-2011 was planned on mostly annual cycles (CARDS and IPA), or according to donors' individual strategies and timetables, for individual projects (not portfolios of assistance) and the total effect was built up on an incremental and piecemeal basis.
5. Repayable loans constitute 60% of the ODA, undermining the comparison with non-repayable Structural Funds and Cohesion Fund monies.

It is misleading to take the total allocation or disbursement in Serbia, and ask 'how has the money been spent', without recognising that these amounts were not programmed as a block: on a multi-annual basis and as coordinated funding streams involving all donors in a series of sector plans. If Serbia had been told in 2006 that the sum total of ODA for the next five years would be €4.2 billion (on a collection of interventions that would be ultimately worth €7.3 billion), and could be allocated to any development activity across the whole of public policy in accordance with Serbia's priorities, then it would be fair to expect spending to have a substantial and measurable impact, even if the majority share is borrowed.

Furthermore, the context for ODA in 2007-2011 was the emergence and escalation of the global economic and financial crisis, producing recession in Serbia. The environment for ODA was hostile, especially compared with the previous seven-year perspective of 2000-2007. Unsurprisingly, the fundamentals (GDP, employment, exports, incomes) have not shown any significant improvement, and on some measures (eg long-term and youth unemployment) are endemically weak.

Nevertheless, it is still reasonable to expect more than €4 billion of ODA, however fragmented, to have generated a greater overall outcome than the sum of the individual project outputs. In practice, the outturn presents a mixed picture, particularly where there are **systemic weaknesses**:

- The crafting of new **laws** has been a basic tenet of ODA throughout the period, but (as section 5 has shown), the track record of law implementation and enforcement is weak.
- Project documentation has been prepared, construction and rehabilitation works have been instigated to meet transport, environmental, economic and social needs in line with the project design, but many **infrastructure projects** have failed to be completed or become functional, because key ingredients have not been in place (land appropriation, permits, ownership, management arrangements).
- The investment in capacity-building, especially **training**, has achieved an improvement in know-how and techniques in many documented cases, but high staff turnover among the various target groups (public officials, medical staff, journalists, etc) dilutes the impact because the jobs are not sufficiently attractive to retain them.

Through desk research and interviews, the evaluation attempted to identify projects that could be held up as best examples of achieving impact, in order to understand and elaborate on the success factors that created such impact. These 'ideal' examples were not evident. In retrospect, this was an unrealistic expectation. Impact is not confined to the parameters of individual projects but subject to the availability of other non-project conditions. For example, under health an immediate impact was achieved with the improvement of services through training and supplies, but no impact was achieved in achieving managerial change which was the project design. In the agriculture sector, ODA projects produced new health and safety regulations and reference laboratories but failure to implement regulations (mainly due to lack of resource commitments) meant weak impact. This could have been rectified if the project was implemented with conditionalities met to fund additional inspectors and enforce regulations. Municipal environmental projects have improved water supply

which is a direct impact but at the same time the absence of waste water treatment facilities diminishes this impact. The setting up of a road safety agency has been a project impact but road deaths remain high which is also related to other factors such as quality of roads. Statistics and digitalised geo-data capacities have been improved due to ODA interventions but this data is not readily available to public authorities because of fee charges or lack of IT connectivity. The rationale of ODA support was to improve policy making by making statistical data readily available to policy makers.

It is unrealistic to expect a total project impact to be achieved for any ODA intervention. But what should be expected is that progress is made towards full impact through efficient programming, project design, organisation of non- project factors (e.g. partner commitment, procedures, budgets, human resources, coordination with other projects, political support) and implementation capabilities. Moreover, monitoring indicators and evaluations should inform programming and project design to inform on past mistakes so the goal of full impact can become a closer reality.

There are also examples from the sector analysis that demonstrate either benefits beyond individual project's immediate results, or the portfolio of assistance as part of a continuum towards a greater goal. For example municipal support grant programmes have not achieved the goal of facilitating decentralisation or closer central local relations in the period but have had a tangible impact in building municipal partnerships to address business local business needs and improved efficiencies by improving municipal budgeting/financial planning. These are immediate impacts locally which can accrue a wider impact in the long term when central government is capable of decentralisation.

## ***Sustainability***

*The continuation of benefits from a development intervention after major development assistance has been completed; the probability of continued long-term benefits; the resilience to risk of the net benefit flows over time*

Not every ODA intervention is expected to continue beyond the project's duration, by being 'mainstreamed' with domestic funding; some actions last for the lifetime of the project, but their benefits should endure - in new knowledge, skills and systems, better laws, higher standards. However, even these 'intangibles' must be nurtured, by retaining staff, spreading know-how, reviewing and updating systems, creating the mechanisms and institutions to implement laws and standards. In many cases, this requires a continuing financial commitment. In other cases, such as supplies and works, there is a direct financial cost to operation, maintenance and replacement.

While ODA funding is conditional, implicitly or explicitly, on committing the necessary resources to sustain outputs, there is little evidence of an organised approach by individual ministries to live up to these commitments. Restrictions on public finance since 2008 at all levels of Government have made the availability of necessary resources even more problematic. This is to be expected. But what is surprising is the lack of resource commitment to continue or build upon ODA projects that affect the economy or facilitate the availability of increased external funding. Under ARD, for example, continued delays with IPARD and lack of resources have delayed conferral status which translates into delayed funds. The failure to commit human resources to agricultural inspection services

jeopardises a critical export industry. Judicial and law enforcement agencies are concerned about their budget capabilities to meet new responsibilities and to cover the day-to-day running of offices.<sup>138</sup> The sustainability of results achieved in the education sector is precarious given the weak governance in the sector, in particular in the fields of VET and adult education. These sectors are crucial to address problems of long term unemployed and future skills needs to attract investment. Education officials have not succeeded in making the case to the Ministry of Finance for an expansion in budget resources to sustain and roll out ODA interventions.

Another form of sustainability is to 'internalise' the learning points from ODA and continue practices that were previously performed by the external agents (twinning advisors, consultants, international organisations etc). A case-in-point is project preparation. The WBIF is seen by IFIs as a valuable resource for project identification and preparation, as a facility to blend EU grants with IFI loans and also supports project implementation. In similar fashion, the EU from CARDS funding onwards built a strong record in Serbia of blending grants with IFI loans, as well as supporting project implementation. The provision of such facilities is expedient in the short term to draw down IFI loans, but raise questions about strategic planning and institution-building. Ministries have not committed the necessary resources to project preparation and implementation, as they can rely on the availability of instruments like the WBIF, despite the provision of repeated Project Preparation Facility support to infrastructure project preparation under IPA 2007, 2009, 2010 and 2011. As it stands, the WBIF itself cannot solve the weaknesses in the project pipeline for two reasons: only approved loans can be supported to prepare documentation, meaning WBIF's role is to close gaps not to initiate project development; and only IFIs, not beneficiaries, participate at the Project Financiers Group (PFG) meetings<sup>139</sup>;

Equipment and infrastructure are always most susceptible to the lack of operation, maintenance and replacement financing, especially in times of austerity. While ODA in the transport sector has largely consisted of IFI infrastructure loans, there has been little progress in building a sustainable financing system for the sector. Liberalisation in the sector is slow (as is the case with the internal energy market). The public purse remains the main source of revenue. There is a great expectation on toll revenues from Corridor X (which is in direct competition with Corridor IV for same transit traffic) but these revenues must be used to pay back IFI loans and fund maintenance. Transport desperately lacks an overall financing structure to maintain, not only ODA outputs, but the transport system as a whole. Transport IFI investment is largely based on traffic throughput forecasts and not on the economic factors (external and internal) that will increase transport use. In contrast, KfW loans for water supply and district heating are predicated on efficiency savings and charges being sufficient to cover borrowing, operation and maintenance costs, as sustainable investments.

Ironically, interventions at the local level appear to have a superior perspective on sustainability than those 'owned' by government ministries. For example under ARD municipal producer groups

---

<sup>138</sup> Interview with High Judicial Council and State Prosecutor's Office, March 2013

<sup>139</sup> PFG is "responsible for screening and assessing requests for financial support from the Joint Grant Facility with the objective of establishing a pipeline of priority projects. The Group is composed of representatives of the Commission (DG Enlargement coordinates the participation of all relevant Commission services), IFIs and bilateral donors. It is co-chaired by the Commission (permanent) and the partner IFIs (on a rotating basis every 6 months). The current Co-Chair is the European Investment Bank". (<http://www.wbif.eu/WBIF+Project+Financiers%27+Group>)

set up under USAID agribusiness and other bilateral interventions (Denmark) are more geared to achieving sustainability through increased competitiveness than public sector support. Similarly EU PROGRES, SPARK private sector development (NL) and USAID Economic Security support are building viable enterprises that will be sustainable on their own merits. Also at the local level, sustainability looks more promising in the social inclusion sector where the adoption of regulations and standards (for a still limited number of services) creates a clear framework for the development of community-based social services. Success at the local level is not universal. There are examples, particularly with infrastructure provision, where municipalities have failed to facilitate or delayed ODA interventions with problems associated with land ownership, permits and availability of local. With grant based support actions, municipalities have overstated their capacities to ensure sufficient resources are available to ensure outputs can be funded on a sustainable basis.

Perhaps the weakest area of foresight regarding sustainability, identified in the evaluation, is the implementation of laws, including transposed acquis, through to enforcement. This has been regularly documented by EC Progress Reports, SIGMA and other commentators, and it is hard to escape the conclusion that there is a systemic problem in converting legislative intentions into legal practice across sectors.

As stated, there are limitations on the public purse. But individual ministries and other beneficiaries accept, along with access to ODA funds, the responsibility to implement new regulations or policies in a sustainable manner. Sectors such as agriculture and transport are accepting ODA funding with poor planning regarding sustainability of project outcomes. In a period of economic growth this would not be as problematic but greater prioritisation of ODA funding responsibilities has to be introduced. The watchword should be: *'if you cannot absorb ODA sustainably, do not make the request'*. Both the beneficiary and donor need to ensure the resources are available to both actively engage with and sustain the project, before committing ODA, especially in the future context of programme budgeting. This suggests a greater role by the Centre of Government (General Secretariat and SEIO) allied with the Ministry of Finance to facilitate the implementation of critical projects and to ensure that resources will be made available to ensure sustainability. In particular projects that enhance the competitiveness of the Serbian economy should be prioritised, as increased tax revenues will result in the availability of resources for other non-productive sectors.

This test of sustainability can be put another way. To return to the first evaluation criterion, the relevance of ODA interventions can be demonstrated by the extent to which the beneficiary plans for its sustainability. If there is no budgetary commitment or other mechanism to ensure the benefits endure beyond the ODA, this inevitably raises questions about the validity of the intervention in the first place. In the case of Serbian institutions which are budget users, there should be explicit provisions for sustainability during the programming phase, which can then be incorporated into the fiscal projections of the Ministry of Finance, particularly in the context of programme budgeting.

## 7. CONCLUSIONS AND RECOMMENDATIONS FOR 2014-2020

*“I really like the sector approach. It will force us to work with other institutions that we need to work with. The challenge for the NIPAC is to ensure that all voices are heard”* (Agency Director).

The **sector approach will become a reality for all ODA in Serbia** with the updating of the NAD and the preparations for IPA II (country strategy paper and sector support programmes) during 2013-2014. The eight sectors in this evaluation will become nine, as rule of law is split into ‘justice’ and ‘home affairs’, environment and energy into ‘environment’ and ‘energy’, and civil society, media and culture are expected to be covered by a project approach<sup>140</sup>.

This evaluation has found a **widespread welcome for sector-based, multi-annual programming**, which is seen as critical to addressing the weaknesses of the past: short-term planning horizons; lack of strategic vision behind interventions; piecemeal and fragmented implementation (with repeat spending to correct previous oversights); and sometimes poor execution (especially of infrastructure projects).

At the heart of the SBA are the five core principles of the 2005 Paris Declaration<sup>141</sup> (ownership, alignment, harmonisation, results and mutual accountability), reinforced by the 2008 Accra Agenda for Action. These principles translate into the European Commission’s Programme Based Approach (PBA)<sup>142</sup> for applying to sectors, which comprises **four features**:

- Leadership by the host country;
- A single comprehensive programme and budget framework;
- A formalised process for donor co-ordination and harmonisation of donor procedures for reporting, budgeting, financial management and procurement; and
- Efforts to increase the use of national systems for programme design and implementation, financial management, monitoring and evaluation

Putting these principles and features into practice, however, presents **four demanding challenges** for the Serbian administration and its partners among the donor community, socio-economic stakeholders and civil society:

- To ensure national ownership of programming and implementation, implying at least parity of esteem from beneficiary side in directing donor involvement to what Serbia needs to achieve European standards and levels of sustainable socio-economic development;

---

<sup>140</sup> In addition, competitiveness will become ‘economic development’, and HRD becomes ‘social development’

<sup>141</sup> Signed by the EC & all the bilateral donors active in 2007-2011: Austria, Belgium, Canada, China, Czech Republic, Denmark, France, Germany, Greece, Italy, Japan, Korea, Luxembourg, The Netherlands, Norway, Poland, Russian Federation, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States

<sup>142</sup> [http://ec.europa.eu/europeaid/how/delivering-aid/sector-approach/index\\_en.htm](http://ec.europa.eu/europeaid/how/delivering-aid/sector-approach/index_en.htm)



- To instil the discipline of both domestic policy coordination (strategies, programmes and budgets), and harmonise donor engagement (evolving from the previous aid coordination groups and bilateral arrangements with beneficiaries) within a sector context;
- To establish national ODA management systems in practice, in the context of decentralised management of EU funds (greater responsibility and accountability, the move to joint co-financing), blending EU and IFI funds with different procurement rules, and the planned roll-out of programme budgeting from 2015;
- To introduce a culture of monitoring and evaluation into a public administration that is more familiar with inspection and control.

There are also **three important contextual factors**:

First, the timetable for preparing sector programmes for 2014 onwards is tight and many of the principles and features of SBA will not be in place from the outset, but instead should be established and embedded over the coming years.

Second, the future programming and management of ODA in Serbia will need to take account of the more austere economic and financial climate:

- The next EU financial perspective is likely to generate a similar level of IPA funding as currently, around €200-250m a year;
- The contribution from bilateral donors will remain important, but will be reduced overall, as several donors have already withdrawn from Serbia or reduced their involvement (e.g. UK, Denmark, Austria), and this shortfall is unlikely to be bridged by the remaining donors;
- The potential to take concessional loans for development will be squeezed by the limits on public debt, which already exceeds the 45% threshold and hence the scope for borrowing even on favourable terms will be reduced, and the need to drawdown and make best use of loans that are approved will be essential<sup>143</sup>;
- The European economy is currently 'flat', with consequences for Serbian economic performance and hence public revenues and spending, which will both increase the expectations of ODA to fund development and, at the same time, undermine the capacity to provide pre-financing and to a lesser extent national co-financing for IPA programmes (under decentralised management) and to service concessional loans with repayments and interest.

---

<sup>143</sup> Note, the 'grace period' of many concessional loans that were approved during 2007-2011 will end during 2014-2020, and hence the burden of repayment will also start to fall on the state budget

Taken together, this suggests an ODA allocation each year which may actually be smaller than the average annual funding envelope in 2007-2011. At the same time, the challenges facing Serbia from unrealised growth potential (in agri-food and industry, not consumerism), high and long-term unemployment (especially among the young), a large and persistent trade deficit, depopulation and rural poverty are not diminished. The costs and administrative demands of preparing for accession remain huge (as studies like the IPA 2007 Environmental Approximation Strategy demonstrate), and the financial demands of ensuring a secure and reliable energy supply with replacement power stations and fully-networked transmission and distribution systems will run into the billions of euros.

Hence, the fundamental challenge facing Serbia's use of ODA in 2014-2020 will be to **do better with less**, with targeted interventions in support of mainstream public spending.

Third, assuming a date is set for accession negotiations in 2013, SEIO is most likely to become the technical secretariat to the core negotiating team (conducting the negotiations on behalf of the Government). The sector support programmes for IPA II will need to reflect the demands and priorities of the accession/negotiation process.

To meet this challenge, we propose **four headline recommendations** to improve the relevance, effectiveness, efficiency, impact and sustainability of international development assistance:

1. Concentrate and integrate ODA to maximise impact;
2. Strengthen policy planning and coordination at the Centre of Government;
3. Apply the most effective and efficient modalities based on agreed rules;
4. Establishing a culture and embedding a system of monitoring and evaluation.

These recommendations are described below, accompanied by **19 specific sub-recommendations**, shown in green boxes, intended to operationalize each one.

### ***Recommendation 1: Concentrate and integrate ODA to maximise its impact***

ODA in 2007-2011 was characterised by the fragmentation of more than €4 billion across the eight sectors and 48 themes defined in the evaluation, which was effectively (although not intended as such) 'drip-fed' to the Serbian administration through mainly yearly allocations. Multi-annual, sector based programming will take ODA from 'piecemeal and annualised' to 'strategic and medium-term' planning, but the potential remains for resources and results to be too diffuse. To some extent, there will always be a tendency to spread ODA thinly, because Serbia's needs continue to be both deep and wide, but the experience of 2007-2011 suggest that this is detrimental to impact: the **sum ends up being less than the parts**. Previously, the choice of where to intervene was typically reduced to which institutions and which projects appeared to be the most ready to receive funds in that (annual) programming round; this cannot be the guiding principle under a strategic, sector-wide approach.

This leads to the logical question: in the context of visionary, multi-annual and donor-coordinated programming, how should ODA be best deployed to achieve the maximum impact and value for money? The evaluation of 2007-2011 ODA suggests the solution has several components.

First, the ODA agenda to date has been dominated by preparing for EU accession, which is natural. The EU has been the largest single source of international development assistance, with most of the major bilateral donors being EU member states, and achieving EU membership enjoys a broad political consensus (with some exceptions) and majority public support. Accession is not an end in itself, but the means for the Serbian people to achieve economic prosperity, a better quality of life, and optimism about the future. This comes from enjoying the **standards of prosperous European neighbours** while preserving Serbia's own identity and culture.

Many of the sector-specific interventions around *acquis* approximation, and complying with treaty conditions (eg customs, internal energy market) represent unfinished business and will continue into 2014-2020 – especially in **implementing** laws, transposed directives and standards in the areas of justice, home affairs, agriculture, environment, energy and competitiveness. This will inevitably form the baseline for sector support programmes under IPA II.

Second, European standards are a pre-cursor, but not enough to steer a path out of Serbia's current malaise. Both the last and current Governments have recognised the necessity of a new **economic model for Serbia, based on production and exporting**, not consumption and importing. With a thriving economy, Serbia will generate the prosperity, jobs and higher public revenues to address social needs, or at least, it will have more resources to determine its priorities for social equity: as John F Kennedy said in 1963: "A rising tide lifts all the boats". This is not to neglect the importance of social welfare and inclusion – the young and long-term unemployed, the rural poor, families with children in poverty, and other vulnerable and disadvantaged groups cannot wait for long-term growth to deliver living incomes and public services - but to place a greater weight to using ODA to improve economic performance, to accelerate reindustrialisation, make the most of Serbia's comparative advantages, and generate productive and stimulating jobs.

Third, Serbia's infrastructure, especially its **energy, transport and communications networks are the backbone of the economy**, and have already absorbed considerable resources from national funds and ODA. However, the major arterial routes (road, rail and inland waterways) remain incomplete or in poor condition, the energy system (especially power generation) is ageing rapidly and needs replacing with cleaner technologies, and broadband is under-developed.

#### **Sub-recommendation 1.1**

Serbia's infrastructure networks need to be completed and modernised as the foundation of a productive, export-oriented economy. The investment cost runs into the billions of euros and cannot be funded from national sources alone, so will have to be planned and sequenced over the medium term, through syndicated concessional loans, public-private partnerships and new market entrants. But these networks should also be seen as a national asset, especially the TEN-T corridors, around which to plan and encourage investment (*see sub-recommendation 1.3*), and loans should be planned according to an agreed set of principles (*see recommendation 3*).

Fourth, growth is built on the foundations of a **business-enabling environment** that is predictable, transparent, encourages competition, enterprise and investment, and does not favour any particular interest. Most fundamentally, the rule of law and a public administration should, as a minimum not

hinder and instead encourage start-ups, normal business operations, injections of investment and innovation and enterprise growth. The public sector defines the rules under which the private sector can flourish or flounder. Creating this environment does not necessitate large injections of public spending (in fact, it should cut wasteful and unnecessary bureaucracy), but does demand a more effective public administration, and better policy and law making, with an emphasis on the mechanisms for implementation. The public sector and the judiciary will need to become more efficient within the more austere financial climate, to reduce fiscal deficits and public debt, through savings and working more productively. E-government is a tool for both joined-up government and a better interface with business and citizens, which also reduces corruption, although it involves upfront costs especially reforming 'back office' operations, which would benefit from ODA support.

### **Sub-recommendation 1.2**

Reforming public administration and the rule of law should be the next top priority in 2014-2020, with two goals: to move towards more efficient public services, which interacts more effectively (and at lower cost) with business and citizens (including through e-government); and to create the right conditions for new investment, enterprise and jobs. This will require better integration of HRM and IT investments, and opening up ODA-supported information sources and systems, such as statistics, geo-data, and registers, as a public resource (see also sub-recommendation 2.2)

Third, beyond this basic precondition of a business-friendly climate, the next level of development is to actively marshal Serbia's assets and resources to **stimulate investment, growth and jobs in those industries and localities where Serbia has a comparative advantage** over other countries. This is about better planning, customised solutions, organising resources, and making appropriate linkages across ODA sectors, by coordinating instruments within territorial development plans, including for example:

- Strengthening public institutions, especially municipal capacity and cooperation, or restructuring PUCs, including improving property management, implementing public property reforms and empowering LSGs to efficiently dispose of their newly assigned property, in the light of fiscal decentralisation;
- Building physical infrastructure with proven impact, for example, business parks and industry-specific facilities (eg cold storage for agri-food), energy supply and communal services to link to national networks;
- Assisting local businesses to improve their productivity, achieve conformity with international standards, and help them access national and export markets;
- Increasing the quality, relevance and inclusiveness of all levels of education, and especially linking them to labour market needs, and building the capabilities for R&D and innovation; and
- Working with employers to provide educated labour and to fill skill shortages.

Hence, it will be important to approach SBA programming by recognising specific sector needs, but to also look beyond and across sector boundaries.

### **Sub-recommendation 1.3**

Aside from achieving European standards through *acquis* implementation and developing Serbia's infrastructure backbone, the principal focus of ODA in the sectors of competitiveness, agriculture and rural development, transport, environment, energy and HRD should be to stimulate sustainable development within local economies on a systematic and coordinated basis. This will require a process of territorial analysis from the centre, engaging with municipalities and other local stakeholders (in partnership), and cross-sector dialogue among SWGs, to feed into the preparation of measures which are assigned to specific sector support programmes.

To some extent, this multi-faceted approach to place-based development has been happening already during 2007-2011 and subsequently through the municipal support programmes and similar initiatives (PRO, MIR, PROGRES, SLDP, MSPs, etc) in south Serbia, south-west Serbia, east Serbia and north-east Serbia. The prime example is the innovation of Leskovac Green Zone (see section 5): a localised initiative with wider sub-regional impact. The challenge is to organise these interventions, on a consistent footing across Serbia, drawing on the best experiences and linking to national and local initiatives (eg SIEPA's export promotion and inward investment).<sup>144</sup> If Serbia was an EU member state already, this type of intervention would be encouraged by Structural Funds as an '**integrated territorial investment**' (see Annex B).

As well as Leskovac Green Zone, other examples include:

- The ongoing development of **Kragujevac**, as a national centre for automotive production, with first and second tier component systems suppliers clustered around the Fiat plant;
- The opportunity created by the investment in **Corridor X** to attract a ribbon of foreign direct investment along its north-south route, to take advantage of Serbia's better connectivity to regional markets and free trade agreements;
- The aspiration to strengthen the '**Danube-Serbia**' macro-region, as a locus for river trade, tourism, enterprise growth and innovation, building on the recognition of the Danube as a global brand, the potential of Corridor VII as a major transport route for bulk commodities spanning 10 European countries, and the opportunities afforded by Corridor X which effectively links the Danube-Serbia southwards to the Istanbul/East Marmara growth pole. Of all the transport modes, however, inland waterways received the least amount of ODA in 2007-2011 (EU grants only, no IFI loans).

---

<sup>144</sup> The National Plan for Regional Development and Regional Development Strategies, still under development at the time of the evaluation, can define place-based needs and apply sector-based approaches to territorial development that can be funded via the sector budgets of line ministries.

As well as sector strategies and programmes, such interventions need an overarching **umbrella of regional, industrial and national development plans from Government**, in order to prioritise and focus the use of limited resources, some of which are being developed under existing ODA, others could be supported under future programmes:

- The **regional development strategies** currently being produced for Vojvodina, Belgrade, Sumadija and Western Serbia, and Southern and Eastern Serbia provide a macro-regional context for these integrated territorial investments, some of which will cut across NUTS 2 boundaries, depending on the shape and scope of local economies and labour markets (which tend not to follow administrative borders).
- An **industrial development strategy** that details the actions required to take advantage of Serbia's comparative advantage in agri-food, and develop other export-oriented industries, such as automotive, electronics, ICT, clothing, defence equipment, etc;
- Most of all, Serbia needs an **overarching national development plan** that unifies these strategies under a clear vision of national priorities with a solid analytical base. This would serve to direct state and ODA funding into those industries and territories with the greatest potential, through interventions and incentives, discourage ministries, other state bodies and municipalities from competing with each other with initiatives that are too fragmented to have an impact, and foster inter-municipal and inter-ministerial cooperation around a shared agenda.

Individual sectors, including PAR, Justice and Home Affairs, need to make inter-sector linkages explicit in their support programmes for IPA 2014-2020.

#### **Sub-recommendation 1.4**

Every sector support programme should include a section<sup>145</sup> on 'relationship to other sectors', describing the interface with measures in other sectors and the synergies that will maximise the sector's impact. These proposed sections should also be consulted with the other relevant Sector Working Groups (SWGs), and membership of each SWG potentially broadened to incorporate ministries and other parties with a relevant policy interest, however indirect.

For example, the Transport SWG should include the Ministry of Finance and Economy (given the role of transport infrastructure in stimulating economic development), even though it would be a direct beneficiary.

This sets the scene for the second recommendation, which goes to the heart of the policy process.

### ***Recommendation 2: Strengthen policy planning and coordination at CoG***

---

<sup>145</sup> The EC's template for IPA II programming had not been published at the time of the draft evaluation report. If such a section is not included, we recommend that one is added for internal programming purposes.

To meet the standards of best European practice, the strategies which underpin IPA/ODA programmes under the sector-based approach need to contain several elements:

- Rigorous analysis, so that proposed policy responses are based upon the best available evidence of problems and their underlying causes and solutions;
- A hierarchy of strategic and operational objectives, with matching performance indicators;
- Prioritisation of activities, so that resources are weighted towards the most important or urgent needs;
- An action plan or other implementation structure, flexible enough to adapt to events as they happen, with a budget, timescale and widely understood responsibilities and a performance monitoring and evaluation system which enables a regular check to be made on progress and feedback;
- The coordination of planning and implementation across both national bodies and the central-local levels.

As noted in section 5, however, most existing Government strategies do not satisfy these criteria. They are not subject to sufficiently rigorous scrutiny and clearance procedures before they are adopted, with limited cost-benefit analysis and checks on the implications for public finance and business impacts. Inter-ministerial coordination is minimal, and (like the legislative process), the crucial next step of planned and actual implementation is given insufficient attention, while follow-up monitoring and evaluation is virtually non-existent.

Best practice in policy-making - in-depth problem analysis, objective-setting, options appraisal, selection of policy instruments (laws, public spending, regulation, institutional solutions), followed by strategy preparation and action planning (based around the chosen instrument) - needs to become the required standard across Government, especially given the impact on ODA effectiveness and efficiency. **National and EU funding will become increasingly intertwined in 2014-2020, especially under decentralised management and joint co-financing**, through the planning and implementation of sector programmes.

Serbia needs a strong Centre of Government (CoG) to set and police standards of policy and strategy development and organise inter-ministerial coordination, for both national programmes and ODA, especially in the context of the upcoming accession negotiations. The **CoG will need to coordinate line ministries during the negotiation process, most likely under SEIO's leadership**, ensuring that they implement their part of the National Programme for Adoption of the Acquis (NPAA) and contribute to negotiation positions on time and with quality inputs. As noted, this will also impact on the content of the sector support programmes. SIGMA's 2012 Assessment Report observed that: *"The roles for coordinating policy making between the General Secretariat, the Ministry of Finance and the Secretariat for European Integration are not clearly enough established or articulated .... If Serbia is granted candidate status, the management of negotiations will require a significant increase in policy capacities"*.

### **Sub-recommendation 2.1**

The General Secretariat and SEIO, both of which have explicit responsibilities for European integration, should form a strong alliance and engage also with the Office for Regulatory Reform (impact assessment), and the Ministry of Finance (financial approvals and, in the future, programme budgeting). The clear message from the evaluation is that a strong centre would create a positive 'ripple effect' across the public sector, including improving central-local coordination necessary for an orderly process of decentralisation.

To create a strong Centre would entail:

- The General Secretariat, with SEIO, having the mandate and backing from the top of Government to take on the roles of standard-setter and clearance house, including the authority to block bad policy, ill-prepared laws and 'rogue' actions by ministries outside their jurisdictions;
- The Office of Regulatory Reform gaining assigned the capacity and leverage from the top of Government to ensure that no policy, strategy or law is passed unless it signs off the impact assessment;
- The Ministry of Finance having sufficient resources to feasibly assess new laws, strategies and loan proposals for their financial implications.

Policy-making and coordination will take on a new perspective with the introduction of full programme budgeting from fiscal year 2015. The Budget Department will need to evaluate the merits of outcome-oriented budgets across the whole of Government. This will take several years to embed, and will require hand-holding support from the Centre of Government outwards.

Better policy implementation also means that the raising and retention of own revenue by budget users should be based on a public service ethos.

### **Sub-recommendation 2.2**

Public assets, such as statistics, cadastres, geo-data, business and citizen registers or other intelligence essential for policy-making and planning, should be freely available to other public bodies (and charged to private interests), particularly those which have been created with the support of ODA. This means, however, that the shortfall in income to the responsible agencies must be made up by the state budget to compensate (which should be fiscally neutral overall).

The widespread availability of free spatial data among ministries, municipalities and public enterprises would be a valuable first step in the planning process (including general and detailed regulation plans) for infrastructure development, whether environmental, social or economic. The evaluation has highlighted the weaknesses in preparing investments, which start with the failure to instigate proper options appraisal, through the systematic use of pre-feasibility studies, before embarking on expensive preparatory phases (technical designs, feasibility studies, EIAs, land appropriation, etc).



### **Sub-recommendation 2.3**

The planning of all ODA interventions, at the project identification and selection stage - but also by sector and theme - should start from the end: sustainability. The first consideration and primary criterion should be: how will the benefits arising from this project continue, beyond the ODA. The second criterion for ODA identification and selection should concern impact: are all the conditions in place to ensure that the project does not just achieve its own narrow operational objective, but the underlying goal of the action.

This reflects the reality of projects, identified through the evaluation, that tick all the boxes for outputs, but ultimately will never instil the fundamental changes they aim to attain, because they are too narrowly defined, without impact and sustainability at their core. A prime example of failure to ensure impact and sustainability is ODA's support (through technical assistance and twinning) to legislative development, without ensuring that laws are capable of being implemented. Another is isolated assistance to human resources or information systems within specific ministries and agencies, outside of the context of Government-wide HR management or data-sharing networks (including e-government), which then (despite the best of intentions) undermines the creation of an effective and efficient administration. Furthermore, no infrastructure investment should be approved, unless there is plan for financing its operation, maintenance, and replacement / closure which is based on realistic assumptions. For non-infrastructure projects, if the answer is that the outcome is not sustainable, but will bring benefits anyway in the short term (which is likely to be the case with support to CSOs, for example), it should be at least an explicit decision, and policy to improve the sustainability of the beneficiary group taken into consideration during the project design.

### **Sub-recommendation 2.4**

Constant preparation of project documentation. Ministries, agencies and local self-government should allocate more funds for project preparation, well linked to national and local strategies.

The main factor for poor absorption of funding in older and new EU countries is the lack of 'shovel' ready projects. The completion of a strategy or an action plan is only the first step in any territorial development process. The preparation of projects, including pre-feasibility, full feasibility, environmental impact assessment, implementation modalities and budgeting should be viewed as a minimum requirement to successfully draw down funds. Project preparation is a timely and resource intensive process and as such should be a **constant feature of activity** at ministerial and local levels. Public authorities cannot rely on external funding resources (such as the PPFs) to prepare projects for up-coming funding streams. Moreover, funding applications that are supported by mature technical project documentation and budget allocations have a higher rate of winning funding support. For infrastructure funding, pro-active municipalities that can demonstrate ready building permits, evidence of land acquisition and potential revenue streams will be more successful than municipalities that present partnership agreements to address these factors when funding is committed.

### **Recommendation 3: Apply rules for the most effective & efficient modalities**

The proposed multi-annual and sector-based approach to IPA for 2014-2020 provides, *in principle*, a more effective and efficient mechanism for planning and managing EU, national and IFI funds, in harmonisation with other donor assistance. This will demand a degree of donor and aid coordination that builds upon the momentum already generated in recent years, to the point of **synchronisation of funding streams**. In other words, the strategy once agreed (and on the basis of sound analysis, objectives, priorities and measures) is the vehicle for determining that activity 'A' is organised through national programmes, activity 'B' through IPA funding, activity 'C' through donor X, activity 'D' through IFI, etc

#### **Recommendation 3.1**

Optimising the opportunity presented by sector-based multi-annual programming will require the willing and active engagement of all donors, not just the EU. Donors should commit to subordinate their individual initiatives to the sector strategies prepared on a partnership basis (national and local stakeholders and the donor community) under Serbia's leadership, following the principle of national ownership laid down in the Paris Declaration to which they have subscribed. Given individual donors have their own funding priorities, the interventions they support will need to reflect their strategies, but within (not outside) the framework of the sector programme.

The fragmentation of ODA in 2007-2011 by theme is mirrored in the atomisation of ODA at the level of individual projects, many of which are very small (as noted, 25% of all donations in 2007-2011 fell below €100,000), and likely to be dwarfed by their **transaction costs**, counter to the principles in the Paris Declaration: "*Excessive fragmentation of aid at global, country or sector level impairs aid effectiveness. A pragmatic approach to the division of labour and burden sharing increases complementarity and can reduce transaction costs*"<sup>146</sup>.

#### **Sub-recommendation 3.2**

In the interests of efficiency, no individual donation should be less than €100,000. Ultimately, individual donors have to follow their own strategies, but grants below this level are likely to carry a proportionately high administrative burden. Rather than hundreds of micro-grants, it is better that donors combine resources (individually and collectively) to increase their effectiveness, within an overall sector programme that assigns different actions to both ODA and national programmes to optimise synergies and impact. This will require a greater level of coordination and budget planning between donors.

In considering modalities for sector programmes, special attention should be paid to **borrowing under ODA**, in terms of purpose, planning and management.

ODA loans are concessional but must be repaid, and should only be sought where there is a clear and explicit development purpose, the investment will increase **Serbia's productive capacity**, and

---

<sup>146</sup> <http://www.oecd.org/development/effectiveness/34428351.pdf> (page 6)

the repayment (including fees) can be justified in terms of higher GDP growth and/or future revenue streams. In other words, the loan should be taken if the resulting expenditure:

- Either creates an asset which will deliver a future revenue stream for the recipient (note, the Government is always the ultimate guarantor), such as infrastructure that can feasibly attract a charge or concession (eg toll roads, railways, waste management centres, drinking water supply);
- Or can be justified by raising GDP growth to a rate higher than the interest (plus management or other fees).

### **Sub-recommendation 3.3**

Borrowing should never take place under the 'ODA' banner for running costs of public administration, transfer payments (eg social welfare benefits), or capital costs which are non-recoverable (for example, the construction of court buildings which are beneficial of themselves, but do not generate any additional revenue), however popular or attractive this might seem in the short-term. ODA loans should only be approved if the expected return (calculated as either GDP growth or actual revenue streams from fees and charges discounted to net present value) exceeds the cost of capital, and the investment project itself passes the tests of impact and sustainability (*see sub-recommendations 2.3 and 2.4*), and contributes to the achievement of the sector objectives (*see sub-recommendation 3.5*).

Given the massive scale of spending required for transport, environment and energy infrastructure in the next period, ODA loans will make a vital contribution. This makes it all the more important that they are **used wisely and managed effectively**, particularly in the context of Serbia's public debt situation. To achieve the necessary funding packages, loans will need to be syndicated and blended with grant support (for preparation and supervision, inter alia), with institutions such as the WBIF playing a key part.

### **Sub-recommendation 3.4**

Government borrowing for infrastructure should be coordinated by the Centre of Government (GS/SEIO and Ministry of Finance), and the practice of individual ministries negotiating loan agreements bilaterally with donors – especially in policy fields outside their competence - should be foreclosed.

The lesson of the 2007-2011 evaluation is that infrastructure investment needs **careful planning and management** from the outset. The most critical stages are the first steps, starting from the overall national policy, through the design of a viable strategy (based on spatial data, realistic assumptions on usage, technology and performance, and organisational / institutional arrangements), a workable action plan that can be delivered or coordinated, given the institutions involved (especially where the investment covers several municipalities), and the consideration and appraisal of options (sites, technical solutions, etc), through pre-feasibility studies. The preparation and implementation of the investment project itself carries risks in every phase, but the most crucial element is the preceding policy, strategy, action planning and options stage, which can set the investment down the wrong path. In areas such as the environmental directives (landfill, drinking water, urban wastewater etc),

Serbia cannot afford missteps, as failure to manage these investments will not only waste scarce resources including borrowings, adding to public debt, but may lead to proceedings and fines at the European Court of Justice further down the road. Outputs from ODA projects such as the EU funded rail track assessments are programmed to inform and prioritise investment decisions on a technical and economic basis and should be incorporated in the railway rehabilitation strategy. At present, there is little evidence that this is the case.

### **Sub-recommendation 3.5**

Coordination is required from the Centre of Government to ensure consistently high and uniform standards in investment planning and management, including use of spatial planning, inter-municipal coordination, and options appraisal in pre-feasibility studies. ODA should be considered to develop these techniques and provide cross-ministry training.

Currently, new ODA loans are typically accompanied by the establishment of a Project Implementation Unit (PIU). There is no universally agreed definition, structure or remit for PIUs, being loosely understood as the organisation established to manage and implement a programme or project. PIUs tend to fall into particular categories: separate, free-standing units, typically with their own budget and legal status, employing staff from this budget on a temporary basis (examples include the PIUs managing the EIB public sector R&D loan and the Corridor X investments); or integrated units set up within the beneficiary institution (eg ministry), without a separate budget or legal form and employing the permanent staff of the institution (for example, the management of the National Investment Fund loan within Ministry of Regional Development and Local Self-Government).

The main IFIs typically stipulate PIUs within their Financing Agreements. For example, the World Bank completed studies in 2000 and 2001 in Latin America and the Caribbean, Europe, and Central Asia, demonstrated that most of its projects used PIUs, and that 80% of the World Bank projects in Europe and Central Asia had separate PIUs. The Paris Declaration proposed that the number of parallel PIUs per country should be reduced over time (the original target being two-thirds by 2010), in favour of using national structures and systems. For ODA loans that are agreed as joint financing for IPA sector programmes in 2014-2020 and channelled through the National Fund under decentralised management, PIUs should be largely redundant, as procurement, contracting and payment become the responsibility of the CFCU. However, if the IFI opts not to blend its loans and subordinate its procurement and payment rules to the EU's decentralised management arrangements, then presumably parallel financing will continue, along with the parallel PIU structures. Equally, Serbia is likely to continue signing IFI loan agreements outside the scope of IPA programmes and CFCU's jurisdiction.

The Commission's analysis of PIUs in 2008<sup>147</sup> found a series of weaknesses, including that "the use of 'PIU structures' is taken as a given, without questioning their appropriateness", while partner governments remarked that "the systematic creation of PIUs, without critical reflection on their role and purpose is considered inconsistent with commitment to partner-owned and managed

---

<sup>147</sup> "Reforming Technical Cooperation and Project Implementation Units for External Aid provided by the European Commission: A Backbone Strategy", July 2008

processes". The feedback on PIUs in Serbia has identified positive examples (for example, the R&D PIU, which is slated to extend its responsibilities to the regional housing programme for IDPs and refugees) but more often tends to highlight problems. One major IFI in Serbia has pinpointed weak PIUs as a particular factor in project implementation delays, due to "inadequate experience and staffing", including those embedded in national structures. This presents a dilemma as ideally loans would be managed by the investment and financial departments of ministries and other beneficiaries, but this presents a risk.

### **Sub-recommendation 3.6**

To avoid creating a parallel system, PIUs should only be created where there is a very strong justification, specifically where CFCU/national authorities lack the capacity and technical knowledge to manage the investment project under consideration. Furthermore, well- functioning PIUs should take over other assignments and the Government should ensure their sustainability for future management of the Structural Funds, while correspondingly failing PIUs should be closed.

Under EU funds (PRAG), the choice of modality for advisory and other services boils down to technical assistance, twinning or a 'direct agreement'. Twinning is a valuable tool, especially in building relationships with EU member states (although not without risks), in areas where daily experience of *acquis* and public service delivery is essential; otherwise TA is a more flexible tool, but subject to variable quality. Direct agreements are declining in use. Bilateral donors have a different method and rules, and typically contract for longer periods, and in phases, allowing the team to embed, evolve and respond more easily to events as they arise.

At present, every new 'advisory' project starts with a blank sheet of paper regarding the expectations of the role of the steering committee, the project director, team leader / resident twinning advisor, and especially the organisation of relations with the beneficiary and the donor. While this absence of a 'rulebook' opens up a healthy freedom to tailor working arrangements to the preferences and personal styles on both sides, the downside is that projects waste valuable time on building a basic appreciation of who does what, and create tensions while, for example, individual team members construct their own lines of communication with the beneficiary and donor and cut across each other. A well-designed, standardised but flexible manual could help to accelerate this mutual understanding and working arrangements, while allowing room for customisation.

### **Sub-recommendation 3.7**

In order to improve the efficiency of expert teams during inception and implementation, and the interaction with beneficiaries and donors, SEIO, in partnership with the donor community, should introduce an agreed set of guidelines for advisory services, based on the purpose of the intervention and the nature of assistance required. The EU should also consider the lessons from bilateral donors' practices and beneficiaries' feedback and consider longer-term projects (beyond the standard two-year service contracts), with greater latitude to respond to changing circumstances, as far as this is practicable within the overall shift to 'global price' contracts. The implementation of advisory services, irrespective of modality, should be codified around a common 'rule book' to govern the oversight (steering committee and project director), management and day-to-day operations in a structured manner which is flexible enough to suit the working styles and communication needs of both parties and the donor.

One of the main alternatives to twinning and TA for EU funded interventions, under the PRAG, is the direct award of grant aid to Serbian institutions with *de facto* or *de jure* monopolies to deliver sector programmes, using their own staff and systems with secondary procurement where needed. This modality has many of the advantages of sector budget support, in using national structures (budget users) to channel ODA in satisfying sector objectives, but with a high level of conditionality, as the activities are prescribed in an agreement and subject to clear monitoring and reporting arrangements.

### **Sub-recommendation 3.8**

IPA-funded sector programmes in 2014-2020 should explore the increased use of direct awards, where it is appropriate (given the purpose and objective), and the institutional capacity-building that is needed to prepare the targeted national bodies to fulfil the EU's obligations for grants management under PRAG.

Under decentralised management, the Serbian IPA administration will need to adjust to managing funds on the basis of joint financing, most likely having to match the EU's funds with a contribution of 15% of total public expenditure (subject to the provisions of the IPA II regulation), and channelling all drawdown from European Commission (and IFIs, where applicable) and payments through the National Fund and CFCU. However, there is also the added complication that this system must also manage cash flow, as the Serbian administration will be responsible for pre-financing and interim payments to contractors (which previously fell to the EUD under centralised management), creating a working capital requirement. Moreover, the system must be flexible enough to continue with parallel financing where IFI and other donor funds are not routed through National Fund and CFCU.

On a positive note, the introduction of programme budgeting should also enhance Serbia's management of joint co-financing of IPA in 2014-2020 and eventual Structural Funds, by making it easier for budget users to allocate matched funding from relevant programme budgets, rather than relying on a single, centralised budget under the National Fund that disconnects programming and funds management (project implementation) from the financial consequences for ministries.

### **Sub-recommendation 3.9**

The Serbian administration should explore and establish a functional mechanism for both pre-financing and co-financing of projects, in preparation for the parallel funding models that will be in place in 2014-2020, and which takes into consideration the roll-out of programme budgeting.

## ***Recommendation 4: Establish monitoring & evaluation systems and culture***

Primarily, monitoring and evaluation of ODA in 2007-2011 consisted of individual projects providing regular reports (inception, interim and final), visits by donors and beneficiaries to check progress, and/or external actors (usually consultants) performing results-oriented monitoring or conducting evaluations. The benchmark for these exercises was typically individual project objectives and activities, or a standard template for assessing and scoring performance. As a general rule, the outcome of projects was not judged by the attainment of their objectively verifiable indicators at the

end, and monitoring and evaluation has rarely influenced the design of subsequent interventions, partly due to timing issues, particularly in the context of annual programming rounds.

Monitoring and evaluation have been the poor relations of programming in the management cycle. In this sense, ODA is a microcosm of the malaise in national policy planning. As noted in section 5, the DFID-funded study for the General Secretariat found that most Serbian strategies did not set out precise outcomes or include a feedback mechanism, preventing lessons from being learned from successes and failings, in order to fine-tune policy or develop new strategies on an informed basis.

The introduction of a sector-based approach to the preparation of the NAD for 2011-2013 was followed for the first time by the development of performance indicators for each sector, in a process led by SEIO working with ministries. The preparations for decentralised management of EU funds have necessitated a dedicated capacity for monitoring programmes and projects within each IPA unit. Compared to 2007-2011 then, the Serbian administration is already better placed to push forward with a more rigorous approach to monitoring and evaluation within the sector approach.

From the donor side, the European Commission is also attaching greater weight to performance measurement, both 'on the ground' in terms of EUD operations and in proposals within the draft IPA II regulation. This includes strategic indicators (as opposed to purely project-level ones), targets, conditionalities (achieving agreed pre-conditions as a trigger to release funds) and incentives.

Here, however, it is important to inject some words of caution. It is almost impossible to design indicators which encapsulate all the dimensions and subtleties of a policy in a single metric, especially those which are behavioural, cultural or otherwise qualitative and hard to quantify. There are also dangers in the indicator driving the policy, rather than the reverse. The installation of indicators in the management system can create perverse incentives, whereby the implementing agencies work to satisfy the target, rather to serve the need and solve the problem, as they distort priorities, direct resources into some areas at the expense of others, or affect recording and follow-up-action (examples can be found in the UK's experience of strategic target-setting in the 2000s in health<sup>148</sup> and crime<sup>149</sup>).

This is not to disparage indicators; their absence leaves ODA (and other types of public spending) directionless, and the donor needs to know what they are 'buying' with public funds. However, it is important to see the target as just that – something to aim for, rather than to slavishly follow - and to explain and understand any variance. There may be good reasons why the target is not hit, and these should also be fed back into improving performance, including better indicator design, as well as seeking better policy solutions and their implementation.

---

<sup>148</sup> <http://www.kingsfund.org.uk/projects/general-election-2010/key-election-questions/performance-targets>

<sup>149</sup> <http://www.telegraph.co.uk/news/uknews/crime/9823775/Police-exaggerating-fall-in-crime-rate.html>

**Sub-recommendation 4.1**

In designing sector indicators for 2014-2020, the distortionary effect of individual indicators should be minimised by developing portfolios of indicators which capture different aspects of a policy challenge, including potentially conflicting ones (for example, raising productivity and increasing jobs), and to treat targets as a management tool for improving implementation and future design, rather than a strict test of the validity of an intervention.

Given the relative inexperience with monitoring and evaluation in Serbia's public administration, the narrow focus on developing staff, methodologies and tools for managing ODA (especially IPA under decentralised management) needs to be broadened into more generic systems for national policy and strategies. Again, this will be an inevitable ingredient of programme budgeting.

**Sub-recommendation 4.2**

The Centre of Government, including SEIO, General Secretariat and the Ministry of Finance, needs to adopt common approaches to monitoring and evaluation that embed both systems (templates for strategy preparation, toolkits for checking progress and outcomes) and more importantly a culture of enquiry and feedback at the implementation stage to inform future planning of sector policies and strategies.



## **ANNEX A: ORGANISATIONS INTERVIEWED**

Anti-Corruption Agency  
Association of Independent Electronic Media  
Administration of the Joint Services of the Republic Bodies  
Balkans Fund for Local Initiatives  
Border Police  
Centre for Development of Non-profit Sector  
City of Zrenjanin  
Civic Initiatives  
Commissariat for Refugees  
Cultural Contact Point -Serbia  
Customs Administration  
Czech Embassy  
Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH  
Directorate for Inland Waterways  
Electric Power of Serbia  
Energy Agency of the Republic of Serbia  
European Bank for Reconstruction and Development  
European Investment Bank  
European Movement in Serbia  
European Policy Centre  
European Union Delegation  
German Embassy  
Foreign Investors Council  
High Judicial Council  
Independent Journalists' Association of Serbia  
Innovation Fund  
Institute for Sustainable Communities  
Italian Embassy - Italian Development Cooperation  
Judges' Association  
Kreditanstalt für Wiederaufbau  
Media Centre  
Ministry of Agriculture, Forestry and Water Management  
Ministry of Culture and Information  
Ministry of Defence  
Ministry of Domestic and Foreign Trade and Telecommunications  
Ministry of Education, Science and Technological Development  
Ministry of Energy, Development and Environmental Protection  
Ministry of Finance and Economy  
Ministry of Health  
Ministry of Interior  
Ministry of Justice and Public Administration  
Ministry of Labour, Employment and Social Policy  
Ministry of Natural Resources, Mining and Spatial Planning

Ministry of Regional Development and Local Self-Government  
Ministry of Transport  
Ministry of Youth and Sport  
Multi-Donor Trust Fund  
National Agency for Regional Development  
National Alliance for Local Economic Development  
Norwegian Embassy  
Office for Cooperation with Civil Society  
Office for Human and Minority Rights  
Organisation for Security and Cooperation in Europe  
Plant Protection Directorate  
Republic Public Prosecutors Office  
Rural Development Centre, Novi Kneževac  
Serbian Association of International Road Hauliers  
Serbian European Integration Office  
Serbian Environmental Protection Agency  
Social Inclusion and Poverty Reduction Unit  
Support for Improvement in Governance and Management (SIGMA)<sup>150</sup>  
Swedish Embassy - Swedish Development Cooperation Agency (SIDA)  
Swiss Embassy - Swiss Agency for Development and Cooperation (SDC)  
University of Belgrade, Faculty of Agriculture  
United Nations Office for Project Services  
United States Embassy - US Agency for International Development (USAID)  
World Bank

---

<sup>150</sup> The evaluation team also participated as observers in the February 2013 SIGMA meetings with General Secretariat, the Ministry of Finance's Macroeconomics Department, Budget Department, Treasury Administration and Public Debt Administration, the Ministry of Justice and Public Administration, and members of the PAR Strategy Working Groups

## **ANNEX B: INTEGRATED TERRITORIAL INVESTMENT**

*The European Commission adopted legislative proposals for Cohesion Policy for 2014-2020 in October 2011. The following is extracted from the EC's factsheet:*

The multiple challenges confronting Europe – economic, environmental and social – show the need for an integrated and territorial place-based approach to deliver an effective response. An integrated and territorial approach is multi-dimensional, tailored to place-specific features and outcomes. This may mean going beyond traditional administrative boundaries, and may require greater willingness from different levels of government to co-operate and co-ordinate actions in order to achieve shared goals. This is in line with the new territorial cohesion objective introduced by the Lisbon Treaty, which acknowledges that economic and social cohesion cannot be achieved at the European level without a stronger focus on the territorial impact of EU policies.

ITI is a tool to implement territorial strategies in an integrated way. It is not an operation, nor a sub-priority of an Operational Programme. Instead, ITI allows Member States to implement Operational Programmes in a cross-cutting way and to draw on funding from several priority axes of one or more Operational Programmes to ensure the implementation of an integrated strategy for a specific territory. As such, the existence of ITI will both provide flexibility for Member States regarding the design of Operational Programmes, and enable the efficient implementation of integrated actions through simplified financing.

It is important to underline that ITIs can only be effectively used if the specific geographical area concerned has an integrated, cross-sectoral territorial strategy. Any geographical area with particular territorial features can be the subject of an ITI, ranging from specific urban neighbourhoods with multiple deprivations to the urban, metropolitan, urban-rural, sub-regional, or inter-regional levels. An ITI can also deliver integrated actions in detached geographical units with similar characteristics within a region (e.g. a network of small or medium-sized cities). It is not compulsory for an ITI to cover the whole territory of an administrative unit.

In addition, an ITI is suited to the delivery of actions in the context of European territorial cooperation (ETC). For example, ITIs in a cross-border context can be used to implement an integrated strategy for urban development in cross-border cities. The actions tailor-made to the specific territorial needs can be supported through the ITI instrument. However, the cooperation context still needs to be respected. This is why the ETC regulation requires that any intermediate body designated for the implementation of an ITI must be 'set up by public authorities from at least two participating countries' (Article 10 of ETC regulation).

Source: [http://ec.europa.eu/regional\\_policy/sources/docgener/informat/2014/iti\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/iti_en.pdf)