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ANNEX II

of the Commission Implementing Decision on the financing of the annual action plan in favour of the Republic of Serbia for 2022

Action Document for Sector Reform Performance Contract for Justice Reform

ANNUAL ACTION PLAN

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23 of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	Sector Reform Performance Contract for Justice Reform Annual Action Plan in favour of the Republic of Serbia for 2022			
OPSYS	ACT-60872			
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)			
Team Europe Initiative	No			
Zone benefiting from the action	The action shall be carried out in Republic of Serbia			
Programming document	IPA III Programming Framework			
PRIORITY AREAS AND SECTOR INFORMATION				
Window and thematic priority	Window 1 Thematic priority 1, share of thematic priority 100%			
Sustainable Development Goals (SDGs)	Main SDG (1 only): 16 Other significant SDGs (up to 9) and where appropriate, targets:			
DAC code(s)	15130			
Main Delivery Channel @	<i>Central government - 12001</i>			
Markers (from DAC form)	General policy objective @	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers @	Not targeted	Significant objective	Principal objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal markers	Policy objectives	Not targeted	Significant objective	Principal objective
	Connectivity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
Amounts concerned	Budget line: 15.020101.01 JAD.998125 Total estimated cost: EUR 30 000 000 Total amount of EU contribution: EUR 30 000 000 of which: - EUR 27 000 000 for budget support - EUR 3 000 000 for complementary support			
MANAGEMENT AND IMPLEMENTATION				
Implementation modalities (type of financing and management mode)	Budget Support Direct management through: - Budget Support - Procurement			
Relevant priorities and flagships from	Priorities: "Governance, Rule of Law,"			

Economic and Investment Plan for the Western Balkans	
Final Date for conclusion of Financing Agreement	At the latest by 31 December 2023
Final date for concluding contribution / delegation agreements, procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
Indicative operational implementation period	72 months following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement	12 years following the conclusion of the Financing Agreement

1.2. Summary of the Action

The support is designed to promote rule of law, increase the compliance with Union's values and their alignment with the Union's standards and practices in the justice sector. The overall objective of this sector budget support is to strengthen independence, efficiency and competence of judiciary and the quality judicial services and governance over the sector.

This goal will be achieved by supporting Government and judiciary in implementing measures that are part of the Judicial Development Strategy (2020-2025) and accompanying Action plan for period 2022-2025. In line with the overall objective of IPA III the Action will be instrumental for the development and implementation of relevant reforms and strategies.

The impact of the Support is further strengthening of the legal state, accessibility of justice and legal security for the purpose of quality and efficient protection of rights and freedoms of citizens and raising the level of trust in the judicial system.

In particular, the Support will assist the judicial stakeholders to strengthen independence of judiciary at all levels. Planned results are coherent with IPA III programming framework focus on modernisation of judiciary.

The Action will contribute to sustainable goal 16. Develop effective, accountable and transparent institutions at all levels promoting peaceful and inclusive societies for sustainable development. More specifically the Action will contribute to targets 16.3. Ensuring access to justice for all and building efficient, reliable and inclusive institutions at all levels and 16.6. Develop effective, accountable and transparent institutions at all levels.

2. RATIONALE

2.1. Context

The judicial reform is an essential requirement for Serbia's EU accession perspective. This crucial role of the judicial reform is strongly reiterated in the Commission Communication on EU's

enlargement policy from October 2020,¹ where rule of law is explicitly referred to as one of the three fundamental pillars of the enlargement process together with the economy, functioning of democratic institutions and public administration. All three areas need to be systematically addressed early on in the accession process, which allows the countries maximum time before accession to build up a track record of concrete results ensuring the sustainability of reforms.² Strengthening the rule of law is crucial for accession process since it increases legal certainty, encourages investments and contribute to economic development and proper application of EU rules and standards not only in law but in practice.

Accession negotiations increasingly require that Serbia improves the rule of law and establishes and promotes the proper functioning of the core institutions necessary for securing the rule of law, especially an independent and efficient judiciary. Capacity development is needed both in terms of developing adequate institutional structures for administration of justice and governing over the system, but also in terms of ensuring competent judges, public prosecutors and judicial staff that will ensure high quality of justice and effective application of national and international standards within the reasonable time.

The specific objective of IPA III support in the Rule of law, fundamental rights and democracy area is to strengthen the rule of law, democracy, the respect of human rights and international law, civil society and security as well as to improve migration management. The proposed Support corresponds to the **IPA III Thematic priority 1: Judiciary** to improve the independence, accountability, quality and efficiency of the judicial systems of each beneficiary. Among other priorities, this Support will focus on the improvement of human resource management through improvement of the professionalization of judges and of the justice system as a whole, including the skills and capacities of officers concerned in the administration of justice. Focus on further strengthening of the independent bodies such as High Judicial and State Prosecutorial Councils will address challenge of full assuming of their institutional and managerial role.

The 2018 Western Balkans Strategy³ recognised the judicial reforms as precondition for meeting the well-established membership criteria in crucial areas. Strengthening of the system which will ensure respecting and full enforcement of these values remains the key benchmark against which the prospects of Serbia will be judged by the EU until all closing benchmarks for all chapters have been met, including a credible and sustainable track record of reform implementation, notably on the rule of law area. The Western Balkans Strategy, has also indicated that organised crime's foothold in the Western Balkans remains strong, so is the need to dismantle criminal networks and their economic bases more effectively. Furthermore, the recommendations of the Commission Communication of 2021, Flagship Initiative 1, seek more targeted technical assistance on law enforcement areas..

The Support contributes to building of rule of law, especially independent and effective judiciary, which is emphasised in the 2020 **Economic and Investment Plan for the Western Balkans**⁴ as one of the essential reforms to achieve sustainable economic growth.

The Support is contributing to address some of the key challenges included in the **Commission report on Serbia for 2021**, which emphasises that Serbia should: strengthen independence of

¹ 2021 Communication on EU Enlargement Policy, Strasbourg, 19.10.2021, COM(2021) 644 final, at : https://neighbourhood-enlargement.ec.europa.eu/2021-communication-eu-enlargement-policy_en

² Enhancing the Accession Process – A Credible EU Perspective for the Western Balkans, COM (2020) 57 final, p. 2. Available at: https://ec.europa.eu/neighbourhood-enlargement/enhancing-accession-process-credible-eu-perspective-western-balkans_en

³ A credible enlargement perspective for and enhanced EU engagement with the Western Balkans 2018. Available at: https://ec.europa.eu/commission/sites/beta-political/files/communication-credible-enlargement-perspective-western-balkans_en.pdf

⁴ An Economic and Investment Plan for the Western Balkans, COM (2020) 641 final. Available at: https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf

judiciary and autonomy of the prosecution, including through the amendments to constitutional and legislative provisions related to the appointment, career management and disciplinary proceedings of judges and prosecutors; amend the laws on for the High Judicial Council and the State Prosecutorial Council, so that they are empowered to fully assume their role to proactively defend judicial independence and prosecutorial autonomy in practice in line with the European standards; adopt and implement a comprehensive human resource strategy for the entire justice sector together with establishment of uniform and centralised case management system, necessary for a measurable improvement in efficiency and effectiveness of the justice system.

The Support is in line with the Government of Serbia policy document "Partnership for Development – Priorities for International Assistance up to 2025", which indicates that one of the overall objectives is to ensure independent, impartial, accountable and transparent judicial system that ensures an effective fight against corruption and the protection of human rights and freedoms.

The Support is addressing objectives of the **National Judicial Development Strategy for period 2020-2025** and accompanying **Action plan** for period 2022-2025 to strengthen the independence of the judiciary and the autonomy of the prosecution, appointment, career management and disciplinary proceedings of judges and prosecutors. The strategic framework is also prioritising improvement of efficiency and effectiveness of the justice system through continuous monitoring of the caseload of courts and prosecutors' offices, adoption, which will be addressed though the Support.

The Support is also relevant for the achievement of activities under the revised **Action Plan for Chapter 23 – Judiciary and Fundamental Rights in July 2020** and **Human Resources Strategy in the Judiciary** adopted in December 2021. The Support will contribute to the achievement of the strategic approach in human resources management in the judiciary, specifically through the introduction of an impartial and transparent selection process, efficient performance assessment system, modern system of continuous professional training and development, strategic planning of human resources needs, as well as the establishment of a special function of human resources management in the judiciary, with the task to ensure the fulfilment of the aforementioned goals.

Furthermore, the Support will address the objectives of the **Strategy for the Development of the ICT Judicial System** adopted in February 2022, specifically the introduction of e-justice and uniform and centralised case management system that are needed for measuring progress in efficiency.

2.2. Problem Analysis

Short problem analysis – Justice Reform

The Judicial Development Strategy and Commission reports on Serbia, as well as other documents indicate the need to address the problem of clear governance and independence of judiciary, need to strengthen professionalism and competence of judiciary, improve the efficiency and effectiveness and advance management of resources in the judiciary.

The 2021 Commission report on Serbia stresses that the current legal framework does not provide sufficient guarantees against potential political influence over the judiciary and that full objective, transparent and merit-based system for appointing, transferring and promoting judges and prosecutors in line with European standards has still to be put in place. The Constitutional amendments have been adopted in February 2022 and will be followed by amendments of a large number of judicial laws that should address problem of governance and independence. The limited capacities of the High Judicial Council and State Prosecutorial Council remain concern as regards their functions and increase competences envisages in the amended Constitution.

The Serbian Government adopted in December 2021 the Human Resource Strategy in Judiciary; however, the implementation will be the challenge. The Serbian judicial system still needs application of adequate methodology for determining number of judges and public prosecutors, merit-based career development of judicial assistance, and improvement of qualification and skills through the initial and continues training.

The efficiency of Serbian courts improved in period from 2014 till now, however it should be further improved to ensure right within the reasonable time and equal distribution of cases. The total disposition time decreased from 580 days in 2014 to 274 days in 2020, however, the highest disposition time per court type in Serbia in 2019 was 20 times greater than the lowest.⁵ The courts still have a lot of backlog, although the average times to adjudication have improved. The goal of the National Backlog Reduction Programme was to reduce the backlog to 355,000 cases by the end of 2018, from 1.7 million at the end of 2013. However, 781,000 backlogged cases were still pending at the end of 2018. The strategy was amended in 2016 to include a goal of approximately 350,000 backlogged cases for the end of 2020, which was not met. Although, interoperability of databases within justice and wider government is improved, and some electronic services are available (i.e. eBoard, eCourt) Serbian e-justice services are not fully in place and further efforts are needed to reach the citizens and improve access to justice. The ICT Strategy is addressing these challenges, including investment planning and strengthening of internal human resources that should contribute to better performance of judiciary.

Main stakeholders – Justice sector

At the central government level, the main beneficiary is the **Ministry of Justice** as a driver of the judicial reform together with the justice sector. The role of the Ministry of Justice is central to the delivery of the Action plan for Chapter 23 and the successful conclusion of the EU accession negotiations. As a leader of the Negotiating Group for Chapter 23, the Ministry has to ensure the functioning of the entire delivery chain of approximation, adaptation and change management from the Action plan to closure of sub-chapters and eventually the Chapter 23. The Ministry is responsible for development of strategic documents in the field of the judiciary, as well as the relevant legislative framework for the functioning of the judiciary. Ministry of Justice is responsible for overall policy coordination in the justice sector and provide overall monitoring of the activities enacted and results achieved. The budget for the judiciary and the prosecution, responsibilities continue to be divided between the Ministry of Justice and the two councils, High Judicial Council and State Prosecutorial Council. However, the Ministry of Justice needs to strengthen capacities to continue reforms and effectively conduct the negotiation process. The sectors that need special focus are Department for normative affairs, Sector for EU integration and international projects and the Department for the judiciary. As of January 2022, the Ministry had only 131 full-time employees, although the Rulebook on internal organisation and systematisation authorised 170 posts.

The **High Judicial Council (HJC)** will play a key role in setting the agenda for the policy dialogues. The High Judicial Council is the management and oversight authority of the judicial system which plays a decisive role in the appointment, promotion, responsibility, financial status, permanence, immunity and termination of judicial office. It is also responsible for human resources, organization and supervision, budgeting, performance evaluation, the general framework, internal organization and operation of the courts. However, skills central to the strategic development of the judicial system, such as strategic planning, policy analysis and organisational assessments are lacking in the High Judicial Council. In 2021 the Administrative office of the High Judicial Council has filled 43 out of 60 planned positions.

The **State Prosecutorial Council (SPC)** will also play a key role in setting the agenda for the policy dialogues, in becoming financially more autonomous and in the development of a human resources strategy. Prosecutors have the mandatory duty to lead the investigation of all crimes under their

⁵ The highest disposition time in 2019 per court type was reported by the Administrative Court with 665 days (an improvement from 2018 but still roughly 100 to 200 days higher than from 2014 to 2017); the lowest was reported by the Appellate Misdemeanor Court at 34 days.

jurisdiction, while many specific fields of operation are under other sections of chapters 23 and 24. The Administrative office of the State Prosecutorial Council is in the short supply of the analytic positions needed for the policy analysis, organisational assessment and management advisory services to the public prosecutor offices. Furthermore, the Training Needs Analysis conducted in 2016 in the SPC⁶ shows that many SPC staff perceive their roles as encompassing only technical functions. In 2021 the Administrative office of the State Prosecutorial Council has filled 20 out of 28 planned positions.

The **Supreme Court of Cassation (SCC)** is the highest court in the Republic of Serbia. It began to operate on 1 January 2010, and its jurisdiction was extended by the amendments and supplements to the Law on Organization of Courts implemented on 22 May 2014. It is amongst others responsible for backlog reduction and harmonisation of case law.

The **Republic Public Prosecution Office (RPPO)** is in charge of the operations which contribute to fulfilling the functions of the Republic Public Prosecutor's Office, operations related to public relations and media communications, as well as coordinating the work of lower-level public prosecutor's offices, including mandatory instructions and special assignments.

The **Judicial Academy (JA)** is actively engaged in special trainings and continuous development of professional knowledge and skills, not only for judges and prosecutors in Serbia but, to a large extent, also for other staff employed in the judiciary system.

The **Ministry of European Integration (MEI)** is the technical secretariat for the National IPA Coordinator, NIPAC, and is in charge of overall programming, monitoring and reporting on EU funds and other international assistance to Serbia. It is also responsible for coordination and ensuring the efficient functioning of all activities of the sector working groups and is responsible for the coordination of the preparation of the programming documents for IPA, including sector planning documents and Action documents.

2.3. Additional Areas of Assessment for Budget Support Actions only

2.3.1. Public Policy

A comprehensive strategic framework for the Justice Sector has been fully established by the overarching Justice Development Strategy 2020-2025, the Action Plan 2022-2025 and corresponding reform programs of specific priority areas. The Justice Development Strategy establishes a full strategic framework for strengthening independence, impartiality and accountability, competence, efficiency, e-judiciary and transparency, while remaining priority areas are further developed by two sub-sectoral reform programmes i) the Human Resource Strategy in Judiciary 2022-2026 with the Action plan, ii) the ICT Strategy 2022-2027 with the Action plan.

The strategic framework was developed in line with the Law on the Planning System of the Republic of Serbia which established clear provisions for the development of public policies, and in particular - the obligation to harmonise a number of strategic documents in this sector. The Unified Information System to support planning and decision-making has also been developed, creating the ground for transparent and efficient monitoring and reporting systems.

Through this overarching strategic framework, the Republic of Serbia continues to show commitment in achieving the Sustainable Development Goals through a sectoral approach. The Judicial Development Strategy 2020-2025 continues to contribute to the realisation of Sustainable Development Goal 16 - promoting peaceful and inclusive societies for sustainable development, ensuring access to justice for all and building efficient, reliable and inclusive institutions at all levels.

⁶ MDTF-JSS, Training Plan for the Serbian State Prosecutorial Council Administrative Office, May, 2016.

In particular, it contributes to achieve several sub-objectives under this goal aiming to ensure equal access to justice for all and develop effective, accountable and transparent institutions at all levels. In addition, the commitment and effort to further contribute to these global goals through judicial reform is evident from the way in which the Strategy defines the vision of judiciary as independent, autonomous, modern and accountable, open to citizens and society. This vision emphasise the desire to establish a judiciary that will continue to develop independent and efficient judiciary based on European values and standards which contributes to the achievement of sustainable development goals with special focus on rule of law.

The judicial sector strategic framework takes into account relevant documents, assessment and recommendations, including Commission Communications on EU Enlargement, Reports of the European Commission on Serbia, EU Enlargement Strategy for the Western Balkans from 2018 and the revised methodology for the EU enlargement process⁷.

The above-mentioned strategic framework including the corresponding Action plans of corresponding public policy documents is credible and properly costed in line with the methodological instructions provided by the Manual for costing of public policies and regulations, as well as the Methodology for calculating standard costs for the preparation of planning documents, developed by the Public Policy Secretariat.

The costing of the Action Plan also includes a breakdown of estimated costs according to years of implementation, specific objectives and measures, and sources of financing (budget/donor support). Through the consultations with other state bodies, the Ministry of Finance.

Key institutions involved in the planning, implementation and monitoring of justice reform activities, increased their capacity over time to fully take over the ownership and responsibility for priority reform areas. The Ministry of Justice continued to effectively manage judicial reform processes.

A system of indicators for monitoring the progress in Judicial Development Strategy Action Plan implementation is established in line with provisions of the Law on the Planning System and the accompanying regulation. A system for collecting, processing and analysing information and data since 2022 rests on the Unified Information System for planning, implementation monitoring, policy coordination and reporting operated by the Government. The process of monitoring and evaluation of the implementation of the Judicial Development Strategy is coordinated by Ministry of Justice through the Department for European Integration and International Projects which provides administrative and professional support.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

2.3.2. Macroeconomic Policy

The persistent trend of fiscal stabilization and economic growth in the aftermath of fiscal consolidation was interrupted by the outbreak of the COVID-19 pandemic in 2020. In response to the economic difficulties caused by the pandemic, the government in 2020 provided a support programme worth around 704.4 billion dinars (12.7% of GDP) that included direct and indirect assistance to businesses and entrepreneurs, fiscal incentives to households, tax breaks and deferrals. This led to the high 8.1% fiscal deficit in 2020, and consequently to the increase in public debt from 53% up to 58% of GDP. On the other hand, implementation of the support package was successful, and the economy rebounded quickly from the COVID-19 shock in the second quarter of 2021. Overall contraction of real GDP in 2020 was around 1 percent, which is the lowest fall of economic activity in the region and one of the lowest in Europe. Job losses have mostly been contained to the informal sector due to

⁷ 2020 Communication on EU enlargement policy of 06/10/2020, COM (2020) 660.

policy measures aimed at preserving formal employment. The supportive measures of the Government and the National Bank to mitigate the effects of pandemic and their contribution to economic recovery and preservation of macroeconomic stability have been endorsed by the IMF and World Bank.

The macroeconomic data confirms strong recovery of the Serbian economy in 2021. The economic activity in the first quarter of 2021 has exceeded pre-pandemic level by 1.8%, driven by strong growth of real exports which contributed 4.8 p.p. to GDP growth. Positive economic developments continued in the second quarter with an increase in GDP of 13.7%, led by the recovery of private consumption and its contribution to GDP growth of 11.9 p.p. In addition, acceleration of private investments and continued realization of infrastructure projects resulted in an increase in investment activity of 22.5%. The volume of total industrial production in the first eight months of 2021 was higher by 6.9%, driven by a 7.8% increase in the manufacturing sector. The unemployment rate in the second quarter of 2021 was recorded at 11.1%, which is a 1.7 p.p fall relative to the first quarter. In the first half of 2021, the average net salary increased y-o-y by 6.0% in real terms, with about 80% of the growth coming from the private sector. From the mid 2021, inflation was at a slightly higher level than expected, being influenced by temporary rise in world prices.

Positive developments are also visible in international trade, as recovery of Serbia's most important trading partners has resulted in increase of external demand. The total value of foreign trade in the first eight months of 2021 amounted to 31.6 billion euros and was 25.8% higher than in the same period last year. Such trends in foreign trade resulted in an increase in trade deficit, but strong growth of exports in the manufacturing sector contributed to improving coverage of imports by exports from 73.4% to 76.3%. Balance of payments developments during 2021 are characterized by a 29.5% decrease in the current account deficit. The current deficit is fully covered by FDI, which amounted to 2.4 billion euros in the first eight months of 2021. Due to good macroeconomic trends, economic growth and solid inflow of FDI, stability in the foreign exchange market has continued in 2021.

Considering the economic developments at the end of 2020 and complexity of epidemiological situation, the Government decided to provide additional support to the economy and households. In order to preserve the achieved results, the new support package worth 4.2% of GDP is approved by the budget revision. The impact of the package on the fiscal deficit in 2021 is estimated at 2.3% of GDP. However, the latest estimates indicated that the general government fiscal deficit in 2021 will be around 4.9% of GDP, which is significantly less than forecasted 6.9% in April and only 1.9 p.p higher than projection made before budget rebalance. Revision of the fiscal result was induced by the operationalization of the third package of economic support, providing additional funds for health care of the population, increased investment in infrastructure projects and revision of public revenue projection due to strong economic recovery.

The mid-term macroeconomic framework presented in the Fiscal Strategy 2022-2024 was revised during 2021 to accommodate recent positive economic and fiscal developments. The key policy assumption is that recovery of economic activity in 2021 will be sustained in the mid-run, based on expectations that the health crisis caused by the COVID-19 pandemic will gradually fade. The baseline macroeconomic scenario in the revised Fiscal Strategy seems prudent and respective mid-term projections of key variables are deemed as credible by the Fiscal Council. Mid-term growth is expected to be export and investment-led and forecasted growth rates (4.5% in 2022 and 5% in 2023 and 2024) are close to those projected by the IMF. The medium-term fiscal framework envisages a gradual reduction of the general government deficit to 1.0% by 2024 and a decline in the share of public debt to 53.8% of GDP. Projections of fiscal aggregates in the period from 2022 to 2024 are based on projections of overall macroeconomic developments, planned tax policy which implies further harmonization with EU laws and directives and fiscal and structural measures, including further reform of large public companies.

Temporary increase in fiscal deficit and public debt caused by COVID-19 pandemic has not jeopardized public debt sustainability. The baseline scenario in the Fiscal Strategy envisages decline of government debt in the long run from 58.2% in 2021 down to 45% by 2028. This is in line with

the most recent debt sustainability assessment of the IMF that projected a marginal increase of debt as a share of GDP in 2021 and gradual decline thereafter, despite risk factors stemming from the possible loss of fiscal discipline, negative growth shocks, and exchange rate volatility. In addition, temporary fiscal deterioration has not shaken investors' confidence in Serbian sovereign rating. At the beginning of 2021, the government issued for the first time 12-year Eurobonds worth EUR 1 bil at an auspicious 1.92% yield. In March 2021, Moody's increased credit rating from Ba2 to Ba3, while Fitch and S&P have recently confirmed Serbian credit rating at BB+ with stable outlook. In September 2021, Serbia issued a green Eurobond for financing environmentally friendly projects at a coupon rate of 1.00%, the lowest ever achieved on the international market. Significant progress was made in strengthening the liquidity of the secondary market of government securities by including the long-term government bonds of the Republic of Serbia in J.P. Morgan Government Bonds Index for Emerging Markets, as additional confirmation of the quality of Serbian bonds on the world financial market. Rating agency Standard and Poor's confirmed the assessment credit rating of the Republic of Serbia at the level of BB + in a report released on 10th of December 2021, and improved the outlook for further credit growth ratings from stable to positive. It's Fitch Ratings in the latest report of February 25, 2022 confirmed the credit rating of the Republic Serbia at the level of BB +, with stable prospects for its further increase.

Serbia's external position during 2021 is characterized by resistance to financial shocks from the international environment. Foreign exchange reserves at the end of September 2021 increased by EUR 3.3 billion since the beginning of the year and amounted to EUR 16.8 billion. The ratio of foreign exchange reserves and short-term debt increased compared to the end of the 2021, due to the simultaneous growth of foreign exchange reserves and the reduction of short-term debt. In the same period, there was an improvement in the external solvency ratio. The share of external debt in GDP remained unchanged at 65.8%, while the share of external debt in the export of goods and services at the end of the second quarter of 2021 was 128.8%, which is significantly below the World Bank criteria of 220% and is a guarantee of the sustainability of its servicing. The debt sustainability analysis of the IMF assessed Serbia's external debt "to be sustainable over the medium term, although the COVID-19 pandemic temporarily influenced its path adversely relative to pre-pandemic projections. In addition, external debt dynamics are particularly sensitive to real exchange rate shocks, given that external debt is mainly denominated in foreign currencies."

Current macroeconomic trends in early 2022 are generally at the level of projected in the previous Fiscal Strategy, but their prospects have significantly worsened. In the moments when finally looming the end of the pandemic came a new one global shock caused by the conflict in Ukraine. Total package of economic measures during the two crisis years in the total of 17.3% of GDP, contributed to the increase liquidity of economic entities and facilitation of business, while it stimulated domestic demand through providing to the population, which indirectly affected the economic activity. In addition to these temporary factors that have positively contributed to GDP growth, structural improvements have also been achieved. These are, above all, reflected in the activation of new and expansion existing export-competitive manufacturing capacity, as well as in the further accelerated development of the road and railway infrastructure which are permanent increased the potential of the domestic economy. Growth economic activities and the economic support package have resulted in stable market movements work. Jobs and salaries have been preserved, in private as well as in the public sector, and the rate unemployment in 2021 was below pre-pandemic level. At the same time, neither internal nor external balance has been disturbed, and there has been a steady influx of foreign direct investments (hereinafter: FDI) which have provided more than full coverage of the current account deficit. Restrictions and disturbances of international trade, with strong rising energy prices, primary prices agricultural products and other raw materials have affected increased inflationary pressures and general price growth.

Although Serbia's GDP growth in the first quarter of 2022 was 4.3% perennial, the more significant negative effects of these geopolitical developments on the dynamics of domestic economic activity were absent. However, the escalation of the conflict and aggravation of international economic and political relations, followed by record energy prices and consequently reduced global trade and

external demand, will inevitably be reflected in domestic economic activity in the coming period. Accordingly, the projection of economic growth for 2022 has been revised to 3.5% ,due to lower than previously expected growth rates in the second half of the year, and it also reduced GDP growth projection in 2023 for 1.0 p.p. it i. Record energy prices, along with an increase in imported quantities, will affect the deterioration of balance of payments movements, and under the influence of these factors, it is expected that the current account deficit in 2022 and 2023 will be higher than previously projected. Price growth during the last quarter of 2021, which was expected to be of temporary character as a consequence of gradual disappearance the effects of the pandemic, was further accelerated, above all, due to record energy and food prices caused by the conflict in Ukraine. That conditioned the upward revision of the expected inflation during this and the following year at 9.2% and 5.3%, respectively. The government is continuously adopting measures that have a goal of mitigating the consequences of extremely unfavourable impact of the international environment on the economy and population, as well as preserving stability in the energy sector. This orientation will remain in the focus of the economic policy creators in the coming period, keeping public debt below 60% will continue to be the basic anchor for conducting fiscal policy. In addition, it has been recognized that it is necessary to find new sources of growth, so innovation, research and development and creative industries are in constant focus when it comes to defining future policies

On 20 January 2022, the Government of the Republic of Serbia adopted the Programme of Economic Reforms for the period 2022-2024 (ERP) as the most important strategic document in the economic dialogue with the European Commission and the Member States of the European Union. Most of the 24 reforms presented are aimed at improving the business environment, combating the informal economy, research, development and innovation, and digital transformation. Three key areas stand out in particular: increasing employment, especially of young people and women, creating a more favourable business environment for investment and greening the energy sector, and fully opening up the energy market. The Economic Reform Programme thematically links structural reforms to the UN Agenda 2030 on Sustainable Development Goals and provides a direct link to the priority areas of the Common Regional Market Action Plan adopted last year at the Western Balkans Summit in Sofia.

The programme supported by the IMF Policy Coordination Instrument (PCI), approved to Serbia in July 2018 for a period of 30 months, was of advisory nature and did not envisage the use of financial resources. On 8 January 2021, the Board of Executive Directors of the International Monetary Fund made a decision on the successful completion of the fifth, last review of the results of the economic programme of the Republic of Serbia. In June 2021 the IMF approved a new 30-month PCI in favor of credibility of government plans to reduce deficits and debt beyond 2021 without financial assistance from the IMF. The new PCI aims at supporting the recovery from the crisis, maintaining macroeconomic stability, and anchoring the medium-term fiscal policy framework, while pushing ahead with structural reforms to deliver more inclusive and sustainable growth. The value of the total signed and ratified agreements with the World Bank in 2020 was over 4 billion euros. The World Bank Group (WBG) is currently preparing a new Country Partnership Framework (CPF) for 2022–26, with the overarching goals of supporting Serbia in achieving a robust recovery from the impact of COVID-19 and of fostering faster, greener, and more inclusive growth. In the private sector, the International Finance Corporation (IFC) is expected to support companies in the amount of 400-600 million US dollars.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

2.3.3. Public Financial Management

PFM reform program is relevant and credible. The strategic framework for PFM reforms has been established by the PAR Strategy and the Public Financial Management Reform Program (PFMRP). Although it does not exist as a separate negotiating chapter, the areas of the PFM are significantly contained in seven negotiating chapters, five of which are open. A comprehensive public financial

management reform programme, defining the reform priorities for the period 2016-2020, was adopted in November 2015, revised in 2019 and successfully concluded in 2020. The relevance of The PFMRP 2016-2020 and its contribution to the improvement of the PFM system was highlighted by the several external evaluations of PFM performance, including the SIGMA 2017 report, the Commission Reports and the IMF reviews.

The PFMRP 2016-2020 was implemented in a credible way, contributing to building strengths of the current PFM system. Since the beginning of the implementation of the PFMRP 2016-2020, significant progress has been made in all subsystems of the PFM. The process of program budgeting and medium-term planning has been significantly improved following the introduction of program budgeting. The planning and monitoring of capital projects have been improved through a better ranking of capital investments with respect to priority objectives, by applying regulations and forms stipulated by the Regulation on Capital Projects. The coverage of indirect budget users in the budget execution system has been significantly expanded. The process of transformation of the Tax Administration and modernisation of the Customs Administration has been accelerated. Public debt management software developed at the end of 2018 contributed to overcome operational problems in the work of the Public Debt Administration. Great progress has been made in regulating the field of public procurement, through the implementation of the Law on PP, the development of a new portal, the advances in green procurements and the strengthening of the PP Office operational capacity. Implementation of the PIFC Strategy 2017-2020 has strengthened institutional and HR capacities in the area of financial management and control and internal audit. Progress has been made in combating irregularities and fraud in the management of EU funds and the capacities of the Budget Inspection has been strengthened. Improvements in parliamentary oversight of public finances and enhanced quality of SAI audits had an overall positive impact on transparency and accountability of the public sector.

The main strengths of the existing PFM system, identified by the latest PEFA (2021) Report, are related to the budget formulation, budget execution, debt management and external scrutiny. Budgets are reliable, with deviations of actual revenue and expenditure outturns compared to those budgeted remaining low to moderate. Budget documentation is deemed as comprehensive, whereas most of the key fiscal documents are transparent and publicly available. Budgets are executed within approved allocations, for which hard controls are embedded in the system for all beneficiaries integrated in the budget execution system. The PIFC functions within budget beneficiaries increasingly contribute to control and efficiency in public funds spending. Revenue administration and public procurement are progressively aligning with good practices. Implementation of the debt management strategy is properly monitored, and related reports are kept up to date and published monthly and quarterly. The SAI performs audits independently in line with the annual audit plan and international standards and all audit reports are duly published shortly after completion. The parliament's review of the annual budget is appropriately established, and the review of the government's final account has improved.

The same report identifies some issues in the current PFM system that will be addressed by the new PFM RP through further reforms and improvements. Linkage of the public policy documents costing to the central government's budget is not always obvious and further efforts will be needed to materialize the expected benefits of improved planning coordination and budgeting of public policies under the LPS. While performance plans are prepared and reported by the budget beneficiaries, there is limited analysis and follow-up with regard to the reported performance. There is a need for the further development of public investment management and fiscal risks monitoring. The quality of the information reported in the government's accounts is undermined without accrual standards being applied. Another area for further improvement is fiscal transparency legislation and implementation, as implied by the moderate scores that Serbia has recorded in the Open Budget Survey. In the Open Budget Survey 2019, Serbia rates 40 out of 100 budget transparency scores, which is near the global average score of 45, but still below the scores achieved by some of the regional peers.

The Serbian Government remained committed to the further improvement of the PFM system. One of the shortcomings of the PFMRP 2016-2020, the inconsistency and insufficient compliance with

the PAR Strategy, was addressed by the new PFM for the period 2021-2025, which is fully harmonised with the umbrella PAR Strategy 2021-2030 and the Law on the Planning System. The PFMRP 2021-2025 with the accompanying action plan, including an assessment of the measures' costing and indicators for implementation monitoring, was prepared by the PFMRP Working Group and adopted in June 2021, following the public debate that lasted from 25 March to 15 April 2021. The objectives and priorities of the new PFMRP are based on the findings of the PEFA Report conducted by the World Bank, as well as on a series of internal analyses and consultations, including the analysis that the technical assistance of the European Union provided during the drafting of the new PFMRP through the project "Support to the Ministry of Finance within the Sector reform Contract". The PFMRP 2021-2025 contains key reform measures within each specific objective, while certain PFM subsystems will be updated with additional planning documents and operational plans, such as Tax Administration Transformation Program 2021-2025, Program of Public Procurement Development 2019-2023, Strategy for the Fight against Fraud and the Management of Irregularities in the Handling of European Union Funds, Strategic Plan of Budget Inspection 2021-2026, Strategic plan of the SAI 2019-2023, etc. The PFM policy measures have been planned to ensure compliance with the objectives of public administration development, as well as continuity in the implementation of reforms in the field of public financial management.

The reporting on PFMRP 2021-2025 implementation continued according to the model established in the previous PFMRP, which proved to be very successful. The preparation of the report is coordinated by the Technical Secretariat of the PFMRP and prepared in cooperation with all members of the Working Group for the development, monitoring and reporting on the implementation of the PFMRP. After drafting, the report is adopted by the Supervisory Board consisting of the Minister, State Secretaries, the President of the State Audit Institution and the President of the Committee on Finance, Republic Budget and Control of Spending of Public Funds of the National Assembly. After that, the Report is adopted by the Government of the Republic of Serbia. Following the recommendations of the EC and with the help of SIGMA experts, the quality of the Report on the implementation of the PFMRP has significantly improved in recent years toward greater emphasis on analysis of results and key challenges in implementing activities. In addition to the Government, the Ministry of Finance reports on progress in the area of PFM reforms also to stakeholders. The Public Financial Management Policy Dialogue is held once a year and is a platform for cooperation with the European Commission, international financial institutions, the donor community and the civil sector. In the coming period, efforts will be made to further increase the visibility of the PFMRP and the contribution of civil society representatives to the PFM reform process. In line with provisions of the LPS, a report on PFMRP 2021-2025 implementation is integrated into the Reports on Implementation of the PAR Strategy 2021-2030 and supported by the Unified Information System, contributing to higher efficiency of the reporting.

In 2021, progress was made in all areas covered by the Public Financial Management Reform Programme, as evidenced by the successful implementation of 11 of the 12 planned activities (a total of 6 measures and 12 activities) of the 2021-20285 PFMRP Action Plan with implementation deadline by the end of the fourth quarter 2021, whereby the rate of realization of activities amounted to 92%.

In the area of public expenditure budgeting, the Ministry of Finance continued investing its efforts to increase the quality of programme budgeting at all levels of government. Given that reporting on programmes and programme activities performance, whereby users must report on the implementation of performance indicators, was identified as one of the priorities, one of the important steps was the analysis of programme structure, as well as goals and performance indicators of individual ministries. Recommendations that users of public funds will apply when defining priority areas of financing in the period 2023-2025 years have been formulated and they will lead to more effective planning of budget funds. In addition to programme budgeting, the attention was paid to the harmonization of regulations with the normative acts of the European Union regarding the budget preparation process in 2021.

Public Policy Secretariat of the Republic of Serbia intensified its efforts to develop medium-term planning and link the budgets of beneficiaries of public funds with valid planning documents, which resulted in better consideration of long-term obligations of beneficiaries identified through planning documents, devoting attention to the performance indicators, and indicator-based reporting, better policy planning and more efficient budget implementation. In 2021, the first cycle of reporting on the implementation of medium-term plans for 2020 began, a total of 7⁸, which were adopted through Unified Information System for planning and reporting of public policies (UIS), which laid the foundation for further transparent presentation of the performance of institutions in implementing established public policies in relation to spent resources. Also, in addition to strengthening the capacity of institutions to develop medium-term plans, which was identified as one of the main challenges, an important step was to start the process of medium-term planning for local governments (LSGs) based on adopted development plans. During 2021, support for the development of the first five medium-term plans for the period 2022-2024 for the municipalities of Sjenica, Kursumlija, Petrovac na Mlavi, Mali Zvornik and Bački Petrovac continued.⁹

Public investment management is one of the priorities of the Ministry of Finance, so in 2021 the focus was on procurement and establishment of the PIMIS information system, on full implementation of the Decree on Capital Project Management and more comprehensive monitoring of capital projects regardless of funding source. During 2021, the Republic Commission for Capital Investments held four sessions. The reports of the Republic Commission for Capital Investments were continuously improved and contained the classification of projects by phase (pre-implementation, implementation) and category, while the scope of projects was significantly increased and improved, all in order to complete the picture of capital projects, so as to provide the decision makers with all relevant information pertaining to the decision-making process. In addition, the Department for Fiscal Risk Monitoring of the Ministry of Finance was committed to strengthening administrative capacity and preparing a methodology for monitoring fiscal risks related to public sector operations and other fiscal related risks. Accordingly, in October 2021, the Government of the Republic of Serbia adopted the Unified Methodology¹⁰ in question, which would enable a comprehensive review of fiscal risks, which is crucial for the stability of public finances.

The new fiscalisation system will also contribute to the improvement of public finances and business environment and reduce the grey economy. The introduction of a new fiscalisation model is one of the most important projects currently being implemented by the Ministry of Finance and the Tax Administration of the Republic of Serbia. It concerns a major and important structural reform that will bring numerous benefits to the entire society and the state, i.e. to the economy and citizens. The National Assembly of the Republic of Serbia adopted the Law on Fiscalisation on 21 December 2020. This Law created the normative conditions for the introduction of a new model of fiscalisation through a centralized digital platform within the Tax Administration, as well as online transmission and verification of data sent from fiscal cash registers to the Tax Administration in real time. The transition period to the new system lasts from 1 November 2021 to 30 April 2022. All taxpayers in the Republic of Serbia should make transition to a new model of fiscalisation, which includes the use of new hardware and software solutions.

In addition to preparing and adopting a negotiating position for Chapter 16 - Taxation, in 2021 the operations of the Tax Administration were mostly focused on IT system development and business process reengineering, whereby the gap analyses between the STA business model and international best practice was made. In November 2021, a contract was concluded for consulting services for market analysis and development of specifications for a ready-made commercial solution

⁸ At the same time, the target value of the Outcome indicator at the level of the measure, which was fully achieved.

⁹ The project is financed from the Slovak Aid grant of Slovak development aid, and is implemented with the support of the UNDP in cooperation with the PPS and the SCTM. At the time of this reporting, two user LGSs have already adopted medium-term plans in early 2022, namely Petrovac na Mlavi and Mali Zvornik, while the remaining 3 LGSs are still being provided with the support so as to finalize its documents.

¹⁰ Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia ("Official Gazette of RS", No. 99/2021).

(COTS). Moreover, a project proposal for the development of *VIES* systems under *IPA 2021* was made. After the adoption of the new Law on Fiscalisation at the end of 2020, the conditions for the introduction of a new model of fiscalisation through the centralized digital platform STA were made, enabling the collection of information on the flow of fiscal invoices in real time. As part of the further development of the *IT* system, in 2021 the Customs Administration conducted a public procurement procedure for equipment and software for the need to establish the *NCTS* system Phase 5. Namely, at the level of the European Union, the introduction of the upgraded *NCTS* system was planned for the period from 2021 to 1 December 2023, when all contracting parties to the Convention on a Common Transit Procedure would be obliged to submit transit declarations only in the upgraded system. The obligation to harmonize business processes with the new European regulations also affects the electronic data exchange in the current *NCTS* system (Phase 4), which is already used by the Customs Administration.

In order to improve the efficiency of the Tobacco Administration, a uniform system of registers was established in 2021, which consolidates 9 registers and 3 record lists thus enabling more efficient handling of requests from business entities and more efficient exchange of information with other competent authorities. In addition to the progress made in the development of IT systems, the Tobacco Administration was committed to strengthening the capacity so as to use the new system and activities for raising the awareness of businesses operating in the tobacco and tobacco products market to submit their requests electronically and through the e-Government portal.

In the field of public procurement, having in mind the provisions of the Law on Public Procurement, "Official Gazette of RS", No. 91/19, hereinafter referred to as: PPL), one of the key innovations is the introduction of an e-platform. The new PPL introduced the obligation of electronic communication and electronic data exchange in public procurement procedures. New Public Procurement Portal (hereinafter referred to as: the Portal), which was established on 1 July 2020, represents a significant step forward in the process of digitisation of public procurement procedures. Compared to the previous Portal, whose main purpose was "advertising", the new Portal is a unique information system that allows advertising and communication among different business entities in public procurement procedures. New Portal enables contracting authorities to compile and publish plans and notices on the Portal, publish tender documentations and decisions in public procurement procedures, as well as many other options and functionalities such as: e-bidding, e-auctions, dynamic procurement system, e-planning, e-complaints and e-catalogue.

In addition to these efforts, the Public Procurement Office was committed to strengthening the capacity of contracting authorities and bidders to implement the Law on Public Procurement, as well as to participating in training sessions dedicated to combating corruption and irregularities in the public procurement system.

Strengthening the capacity of the Governmental Audit Office of EU Funds was one of the priorities in 2021, and in this regard, a new Rulebook on Internal Organization and Job Classification was proposed and submitted for harmonisation, while a project proposal for advanced training of employees from non-allocated *IPA* funds was proposed, and it is in the phase of adjustment in cooperation with the EU Delegation.

In addition to the audit authority, capacity building has been one of the priorities of the structure of indirect management of EU funds within the Ministry of Finance through changes made in systematization and continuous training. Capacity building is of additional importance given that in 2022 the programme will be closed from the perspective of 2007-2013 and the system will be adjusted to the perspective of 2021-2027. Also, in the first quarter of 2021, the public procurement for management information system (*MIS*) was completed which will contribute to the improvement of the work processes of the institutions involved in indirect management.

The area of inspection control and protection of budget funds in the previous year was improved by strengthening the legislative framework with the adoption of the new Law on

Budget Inspection in December 2021¹¹, as well as by strengthening the capacity for inspection control. In this regard, last year, the budget inspection adopted three professional and methodological instructions for performing inspection control per the areas of control. Also, trainings pertaining to the adopted training programme for budget inspectors were conducted through specific training sessions and workshops, and new staff was hired, whereby the goal of providing the planned number of inspectors was met.

In 2021, the Department-Central Harmonization Unit of the Ministry of Finance focused on strengthening its capacities in the areas of financial management and control and internal audit at the local level. Support was provided through the *RELOF 2* project. A pilot project was prepared for the establishment of the FMC system in schools with the support of the mentioned project. In addition, support was provided for the establishment/improvement of FMC and IA at the local level. In the previous period, great attention was paid to raising awareness on the importance of the profession of internal auditor. With the support of the *UNDP*, an analysis of the status of the IA and competencies for IA in the public sector was prepared with competency assessment tools, particularly segment intended for PFBs managers and segment intended for potential future internal auditors. Optimizing the organization of IA and improving the certification of internal auditors are important processes that will enable the inclusion of more mentors in the IA units among users, who will be able to transfer the necessary knowledge in the field of IA and thus reduce pressure on CHU, that has so far had a leading role in the IA expertise. The preparation of the Rulebook for IA was completed and its adoption is expected in the coming period. In order to facilitate and expedite the submission of reports on the functioning of financial management and control and internal audit system, continuous work is being done with a view of improving the web application for reporting. As per the 2020 reporting year, electronic reporting was fully functional, and all PFBs that submitted reports did so electronically. Reporting for the year of 2021 was further enhanced by introducing a possibility to electronically sign documents.

In 2021, as part of further improvement of the public sector accounting system, the Treasury Administration invested its efforts to prepare a plan for improving public sector accounting in stages. Moreover, a draft Public Sector Accounting Improvement Plan was prepared in cooperation with experts by the end of 2021. Also, in order to harmonise the accounting regulations of the Republic of Serbia with international accounting standards and best practices, a Commission for the Application of International Public Sector Accounting Standards was established. It will have a supervisory role in this process. On the other hand, the importance of adequate translation of the set of international accounting standards *IPSAS* was recognised. In addition, in 2021, great efforts were dedicated to strengthening human resources through professional development of accountants so as to acquire the necessary knowledge for the implementation of the *IPSAS*. To this end, the continuous training of public sector accountants continued, thus meeting the target value of the performance indicator pertaining to the measure 5.2 for 2021, which was 80 percent. The performance indicators for measure 5.1 and 5.3 were not planned for 2021.

The Treasury Administrations has recognized the importance of harmonization of legal regulations in the field of accounting with the International Public Sector Accounting Standards (*IPSAS*). It is therefore expected to harmonize legal regulations for cash based accounting and adopt Accounting Policy for Financial Reporting in accordance with *IPSAS* for cash based accounting in the coming period.

In terms of the external control over public finances within the purview of the State Audit Institution (SAI), significant efforts were invested to optimize the organizational structure in order to increase the number of performance audits and the coverage of public funds by its audits in 2021. In addition, the SAI's focus was to update methodological enactments and guidelines

¹¹ Law on Budget Inspection 2021 <https://www.propisi.net/zakon-o-budzetskoj-inspekciiji/>

for financial audits, compliance audits and performance audits. With a view to further harmonising with the standards, improving methodologies and planning, the Guidelines for the Audit of Consolidated Financial Statements, the Guidelines for Strategic Planning and Reporting and the new Methodological Rules and Guidelines for the Financial and Compliance Audits and the Instruction on the Follow-Up Procedure were adopted.

In 2021, the Parliamentary oversight of public finances was further improved by holding sessions outside the headquarters. These sessions served to review audit reports on consolidated financial statements of the annual statement of accounts, as well as to adopt the SAI Activity Report. In addition to these sessions, in order to increase transparency and reach greater public participation, the Committee on Finance, State Budget and Control of Public Spending, in accordance with the recommendation of the PEFA analysis for the Republic of Serbia, which was an important basis for devising the new PFMRP, organised public hearing for the presentation of Draft Law on Budget and Draft Law on Final Account of the Budget.

The biggest challenges in the implementation of measures and activities in 2021 were related to the unfavourable circumstances caused by the COVID-19 pandemic. The bad epidemiological situation made it difficult to organise the planned training sessions aimed at professional development of the current and new staff in all areas covered by the 2021-2025 PFMRP. It can be expected that the implementation of certain activities that did not have a deadline for implementation by the end of 2021, will be slowed down due to lack of funds planned to be provided from donor assistance. Therefore, it is necessary to intensify the cooperation with the donor community vis-à-vis support in the area of public finance reform. The risks presented in the 2021-2025 PFMRP are shown in the separate table on page 101 of this Report.

Having in mind that all activities of the PFMRP in 2021 were successfully implemented, the financial resources necessary for the implementation of the 2021-2025 PFMRP for 2021 from the budget and donor funds were adequately planned in the PFMRP Action Plan.

Depending on the results of the ex-post analysis of the effects, which is planned for 2023 in accordance with the Law on Planning System and accompanying bylaws, there is a possibility to revise the PFMRP Action Plan.

The introduction of Gender-Responsive Budgeting with the restructuring of revenues and expenditures to promote gender equality has further contributed to the transparency and effectiveness of the budget preparation. The GRB has been gradually developed since 2016 when gender-sensitive indicators were introduced to the program budgeting. The plan for the gradual introduction of GRB, including the number of programmes and the number of budget users, is adopted by the Minister in charge of finance no later than 31 March of the current year for the following year. In the past four years, progress has been made in monitoring environmental procurement policy and developing green public procurement. Efforts in the field of green procurement, including development of Guidelines for the improvement of green public procurement for contracting authorities and bidders, are in line with best practices for environmental policies and protection, which is one of the key areas in which it is necessary to make progress within the process of accession of the Republic of Serbia to the EU.

In conclusion, the Public Financial Management Reform Program is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met. Detailed PFM Implementation Report was adopted by the Government on April 24th, 2022, following a comprehensive public consultation procedure. PFM Policy Dialogue meeting was held in May 2022.

2.3.4. Transparency and Oversight of the Budget

The Republic of Serbia recognises transparency and budget oversight as one of the key elements of good governance and systematically implements measures to further improve the situation in this area. The PAR and PFM strategic framework set out a series of reform measures whose implementation has contributed to greater transparency and budget oversight in terms of greater transparency of budget documentation, more effective process of budgeting, prioritisation and control

of spending. Overall, transparency and oversight of the budget has been improved in recent years in terms of quantity and relevance of information at both central and local level with the implementation of the PAR and PFM reform. This was recognised by the latest PEFA (2021) Report, wherein higher credibility and comprehensiveness of the budget documentation, compliance with the budget calendar and external audit coverage are among the main improvements between PEFA assessments in 2015 and 2020.

Over the past years, significant improvements in transparency of budget planning have been achieved as a result of reform measures implementation, especially regarding the legislation and institutional setup. The Law on the Planning System was adopted in April 2018, which established the basis for better and more transparent coordination of public policy planning and budget planning. Credibility of macroeconomic projections has increased by the efforts of the MoF to introduce new models and analytical instruments and to improve data exchange. In 2019, Decree on Capital Projects Management, developed with support from the World Bank and based on their public investment management framework, was adopted together with respective bylaws to guide implementation of the Decree in further detail. The Capital Investment Commission has been established to rank capital investments based on strategic relevance, adopt a list of capital projects and further develop capital investment management systems.

Budget documentation is comprehensive and provides key fiscal information to the public. The Budget proposal is presented using all relevant budget classifications, namely economic, functional, organizational and program classifications. As part of the budget documentation, the MoF prepares the Explanatory Note that consists of the discussion related to the general part of the budget and the program information. Transparency of budget documents has been increased by introducing a legal obligation to publish programme information, as well as drafting and publishing the annual report on the performance of budget programmes. In 2020 all budget users prepared and published a programme performance report. Although the quality of program information varies across institutions, the quality and structure provided by most of them adhere to the highest standards. Since the 2017 Law on Budget, project loans for financing large infrastructure projects were integrated into the budget, which makes it more comprehensive and transparent. Expenditure and revenue execution is reported in the course of the year only by economic and program classification, but the annual financial statements are presented along the full spectrum of prescribed classifications and are directly comparable to the budget. Comprehensive budget execution report containing detailed information on expenditure and revenue from all sources of all budgetary users is compiled at year-end based on the consolidated financial data.

Most of the key fiscal and budget reports are publicly available and timely published. Budget preparation takes place in accordance with the budget calendar defined in the Law on Budget System. The budget calendar is generally respected, with the exception of deadlines related to the Fiscal Strategy. The Law on Budget is timely adopted before the end of the fiscal year and budget users have enough time to complete the budget assessment. The budget proposal and enacted budget are accessible to the public and published on the websites of the Government of Serbia and the National Assembly on the day of adoption. The Ministry of Finance recognises the importance of the citizen budget as an instrument for presenting key budget information to the general public and regularly publishes the Citizen's Guide to the Budget. In-year budget execution reports are consolidated and published each month within the Public Finance Bulletin prepared by the MoF. Mid-year execution reports are prepared during the year but not published, while year-end government financial reports are published with a time delay (usually in the second half of the previous year). The transparency of public finances at the local level has also been improved by the "Open Budgets" platform, through which over 90 units of LSG have made data on the planned budget, revenues and expenditures publicly available to the citizens.

Legislative, institutional and procedural preconditions for effective budget oversight are in place. External audit and scrutiny in the Republic of Serbia are discharged by the SAI and the National Assembly. Serbia's constitutional and legal framework provides full independence of the State Audit

Institution. The Law on SAI provides a sufficiently broad mandate for the SAI to perform financial, regularity and performance audits of state and EU funds. Development of the SAI was guided by its Strategic Development Plan 2019-2023. The Law on SAI foresees scrutiny of the SAI's reports by the National Assembly and these duties were discharged by the Committee on Finance, State Budget and Control of Public Spending. An effective system for follow-up of audit recommendations by the auditees is foreseen in the legislation and followed in practice. Legislative scrutiny over annual budgets and external audit reports have been improved in terms of established and applied procedures and timeliness of the parliament's actions.

The quality of external audit and oversight is continuously improving. The SAI annually conducts a broad range of financial, regularity and performance audits, including audit of the Final Account of the RS. The Commission Report on Serbia (2021) and PEFA Report (2021) recognise the increased coverage and quality of the audit of public funds as well as the further improvement of the implementation of recommendations by audit subjects. The quality of the SAI audit work is continuously improving with the support of the dedicated sector for audit methodology and quality control. The SAI has continued to increase the impact of its audit work by improving monitoring the implementation of its recommendations, in cooperation with stakeholders. The Committee on Finance, State Budget and Control of Public Spending has continued to discuss SAI's reports, and the extent of parliamentary hearings based on audit findings has improved. All Committee hearings on audit findings have been conducted in public with participation of the representatives of local government, CSOs and interested citizens, and conclusions are documented and available at the webpage of the National Assembly.

The last OBI report for Serbia refers to the process of budgeting for 2021 and provides an overview of quality and timeline of budget documentation produced during 2020. Regarding budget transparency score, Serbia rates 46 out of 100, below its highpoint 54 in 2010 but more than a global average score of 45. The OBI report acknowledged prompt publication and content of the budget proposal, enacted budget and in-year reports, but overall budget transparency score was downgraded due to belated publication of the Fiscal Strategy, mid-year reports prepared only for internal use and lack of year-end reporting. Since the last OB survey year-end reports have been regularly produced and published, while the MOF made significant efforts to timely prepare Fiscal Strategy. Accordingly, it is expected that the next OB survey will bring improvement of the budget transparency score. The budget oversight is rated 54 out of 100, with audit oversight deemed adequate while strengthening the legislative oversight represents the major room for improvement in this area.

In conclusion, the entry point is met as the relevant budget documentation (Enacted Budget for 2022) has been published on 24th November 2021 at website of the National Assembly <http://www.parlament.gov.rs/upload/archive/files/cir/doc/zakoni/2021/1955-21%20za%20sajt.pdf>

3. DESCRIPTION OF THE ACTION

3.1. Intervention Logic

The indicative impact of the support is further strengthening of the legal state, accessibility of justice and legal security for the purpose of quality and efficient protection of rights and freedoms of citizens and raising the level of trust in the judicial system.

The judiciary subchapter was selected for the SRPC given that previous support to the judicial reforms were focused on specific institutions (i.e. Supreme Court of Cassation, High Judicial Council, State Proctorial Council or Ministry of Justice). The SRPC and proposed outcomes require involvement of all judicial stakeholders and coordinated approach towards the achievement and continuation of the Constitutional Amendments and Judicial Development Strategy goals. Judiciary is a complex sector since it involves at least two branches of government (executive and judiciary) that have to put joint efforts to implement planned reforms. Furthermore, the structure and rules of

the SRPC will provide incentives for the stakeholders to fulfil targets set for each year. That type of conditionality is expected to build upon and deliver increased results compared to the previously used support modalities.

Support to the anti-corruption and fundamental rights subchapters is ensured through ongoing IPA 2019 flexible facility, while the following support to these two subchapters is planned under the following IPA programming cycles.

Expected outcomes of the support are:

1. Strengthened independence of judiciary
2. Strengthened management of human resource in judiciary
3. Strengthened external independence of the judiciary
4. Effective and comprehensive case management system is in place
5. Improved efficiency of the judiciary

To induced outputs to be delivered within this support contributing to the corresponding outcomes are:

Induced output 1 contributing to Outcome 1: Legislative framework on independence of judiciary in line with the Constitution improved

Induced output 2 contributing to Outcome 1: Secondary legislation on independence of judiciary in line with new laws improved

Induced output 3 contributing to Outcome 2: Judiciary Human Resource Strategy Action Plan implemented

Induced output 4 contributing to Outcome 3: Undue influence on ongoing cases or investigations by the central government officials (ministers, state secretaries and assistant ministers) outside the remits of their mandate decreased.

Induced output 5 contributing to Outcome 3: Councils effectively protect integrity of judiciary

Induced output 6 contributing to Outcome 4: Improved judicial case management system introduced

Induced output 7 contributing to Outcome 5: Improved case flow of other than criminal cases

Induced output 8 contributing to Outcome 5 Improved case flow of criminal cases

If legislative framework on independence of judiciary in line with the new Constitution improved and amendments of legislation adopted in line with the opinion of Venice Commission than the independence of judiciary will be strengthened.

If secondary legislation on independence of judiciary in line with the new legislation improved and amendments of bylaws adopted in line with the judicial laws aligned with the opinion of Venice Commission for the laws than the independence of judiciary will be strengthened.

If the implementation of the Human Resources Strategy is conducted in line with the accompanying Action Plan, that the management of human resources in judiciary will be strengthened.

If High Judicial Council and State Prosecutorial Council fully assume their functions in protecting the external independence of judges and prosecutors, than of the judiciary will be protected.

If the system of automatic case management in courts of general and specialised jurisdiction introduced than the effective and comprehensive case management system will be in place.

If the clearance rate, disposition time and pending cases related to both, criminal and other than criminal cases, in accordance with the CEPEJ Dashboard, is decreased, than efficiency of the judiciary will be improved.

3.2. Indicative Activities

Taking into consideration the above listed priority areas of interventions, the current state of play and the envisaged dynamics of implementation of Judicial Development Strategy agenda, the main indicative Activities related to Outputs that are planned to be achieved through this sector reform contract include:

Induced Output 1: Legislative framework on independence of judiciary in line with the Constitution improved

The action links to the specific measure 1.3 of the Judicial Development Strategy 2020-2025 that will support harmonisation of judicial laws with the new Constitutional provisions. It will support division of competences between the High Judicial Council, State Prosecutorial Council and the Ministry of Justice with the aim of strengthening organisational and budget independence of judiciary and autonomy of public prosecution. Activities will be aimed to drafting laws in line with EU standards on independence of judiciary and Venice Commission opinion in order to eliminate all entry points for influence over judiciary and public prosecution. The action would be grounded on the detail analysis of the normative framework and the guidelines for drafting judicial laws. The legislative framework will be adopted based on positive opinion of Venice Commission to ensure compatibility with EU standards.

Induced Output 2: Secondary legislation on independence of judiciary in line with new laws improved

The action links to the specific measure 1.3 of the Judicial Development Strategy 2020-2025 that will support harmonisation of judicial bylaws with the new legislative framework. It will support adoption of bylaws on status issues of judges and public prosecutors necessary for ensuring independence (appointment, promotion, evaluation, disciplinary procedure), rules of procedure on functioning of High Judicial Council and State Prosecutorial Council. Activities will be aimed to drafting bylaws in line with EU standards on independence of judiciary in order to ensure independence of judiciary and autonomy of public prosecution. The action would be grounded on the detail analysis of the bylaws. The legislative framework will be adopted based on legislative framework that received positive opinion of Venice Commission to ensure compatibility with EU standards.

Induced Output 3: Judiciary Human Resource Strategy Action Plan implemented

The action corresponds to Measure 4.4. of the Judicial Development Strategy 2020-2025 that will contribute to improvement of the institutional framework in line with the new Constitutional and legislative solutions and relevant analysis. The judicial system is still lacking effective management over the human resources. To ensure improvement of governance, efficiency and quality of the system the implementation of the Human Resource Strategy in the Judiciary is required.

Induced Output 4: Undue influence on ongoing cases or investigations by the central government officials outside the remits of their mandate decreased measured by newly agreed methodology and survey perception.

The action, that will be related to the central government officials (ministers , state secretaries and assistant ministers), corresponds to Measure 2.6. of the Judicial Development Strategy 2020-2025 that will contribute to the strengthening of capacities of judges and prosecutors in relation to their external independence. The action should contribute to decrease of the undue influence on judiciary by the ministers and state secretaries, among others, outside the remits of their mandate.

Induced Output 5: Councils effectively protect external independence of judiciary

The action contributes to Measure 2.3 of the Judicial Development Strategy 2020-2025 that will contribute that Councils fully assume their functions in protection of independence of judges and prosecutors. The legislative changes enable establishment of mechanisms for protection of judges

and prosecutors against undue influences. Effective functioning of these mechanisms should contribute to perception of judges and increasing their external independence.

Induced Output 6: Improved judicial case management system introduced

The action supports measure 5.1. of the Judicial Development Strategy 2020-2025 and ICT Strategy that will contribute to the improvement of the ICT system through development of standardised and centralised ICT systems in courts, public prosecutor offices, automatised allocation and distribution of cases in courts and prosecutor offices, efficient use of hardware and interconnection of different IT technologies in one system. The support will be provided to further modernization of the ICT system based on the upgrade of ICT infrastructure components deemed crucial for effective functioning of the justice system.

Induced Output 7: Improved case flow of criminal cases in line with the CEPEJ Dashboard

The action contributes to measure 4.6. of the Judicial Development Strategy 2020-2025 that will contribute to the continuous decrease of number of pending cases and old cases, which will be reported in the CEPEJ Dashboard Report.

Induced Output 8: Improved case flow of other than criminal cases in line with the CEPEJ Dashboard

The action contributes to measure 4.6. of the Judicial Development Strategy 2020-2025 that will contribute to the continuous decrease of number of pending cases and old cases, which will be reported in the CEPEJ Dashboard Report.

3.3. Mainstreaming

Environmental Protection, Climate Change and Biodiversity

Based on the nature of the proposed activities in this Action, it can be concluded that there is no direct influence on the environment. For selected activities that may have or will have an impact on the environment (for example on biodiversity, nature protection, air quality, etc.) it is necessary to act in accordance with the national regulations and EU *acquis* in this area. At least, it is important to consider the impact of activities on climate change, i.e. whether it will be a mitigation measure or the selected project will contribute to adaptation to climate change. In particular, the Action will comply with the enforcement of environmental regulations concerning Environmental Impact Assessment, Strategic Environmental Assessment, and Climate Risk and Vulnerability Assessment.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that proposed Action has been screened against the markers, but it is identified that Action objectives (outcomes) and results (outputs) are not specifically designed to target gender equality.

Although the Action is not recognising specific gender related intervention, Action will take into consideration the requirements of the recently adopted Law on Gender Equality¹² and priorities defined by the Gender Equality Strategy 2021-2030. Consequently, gender perspective will be promoted in interventions financed through IPA III and thereby better serve the needs of citizens, both women and men. Whenever relevant, the particular needs of women and girls will especially be taken into consideration, through gender disaggregated statistics and indicators and/or gender responsible budgets in line with the requirements of the EU gender equality strategy 2020-2025¹³. The interventions financed through this Action will aspire to promote non-discriminatory practices and procedures and to prohibit any form of gender-based violence, unlawful discrimination including

¹² Official Gazette RS, No. 52/2021

¹³ https://ec.europa.eu/info/policies/justice-and-fundamental-rights/gender-equality/gender-equality-strategy_en

race, colour, religion, national-origin, political affiliation, sex, age, marital status, or disability; economic and social rights and empowering girls and women; equal participation and leadership. Finally, the action will also build on the needs for addressing the challenges and harnessing the opportunities offered by the green transition and the digital transformation.

When it comes to the relevant documents, Serbia has adopted a Law on the Prohibition of Discrimination, the National Anti-Discrimination Strategy, Action Plan for the implementation of this strategy, supporting measures in a number of sectors of society.

Any of the proposed Judiciary reform processes supported through this SRPC intervention need to be consistent with the principles of non-discrimination and gender equality.

3.4. Risks and Lessons Learned

Category	Risks	Likelihood (High/Medium/Low)	Impact (High/Medium/Low)	Mitigating measures
1 – to external environment	April 2022 Parliamentary elections could influence the postponement of reform activities	M	M	Elections have a direct impact on the Action by reason of the changes in the decision-making staff in the relevant institutions at the central or local government levels. This could significantly contribute to the slowing down of the process. Permanent coordination and dialogue with all stakeholders, wherever feasible, to ensure progress of activities.
3 – top people and organisation	Lack of sufficient human and financial resources available for the implementation of the SRPC-related reform activities, which may lead to delays in reaching set targets.	H	H	The MoJ, as the coordinator, will strive to ensure that all objective conditions that might lead to such a result are eliminated. The MoJ will establish a permanent mechanism of coordination and early warning mechanism, and will discuss each planning of activities with stakeholders in advance, in order to provide them with enough time to organise internal resources to reach their targets.
1 - to external environment	Possible prolonged duration of COVID-19 pandemic may affect the timing and implementation of the reform activities and quality of achieved results	M	M	Modification of the implementation approaches, wherever feasible, to ensure progress of activities. Close communication with all stakeholders would be established, in order to assess the effect on the intervention and facilitate identification of solutions to possible obstacles.
5 - to communication and information	Delays in development/upgrade and insufficient interconnectivity of the IT systems that	H	M	Enhanced investments in ICT infrastructure and improved coordination between institutions which are owners of the IT systems at the justice system level.

mati on	operate at the level of justice sector			
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Lessons Learned:

According to the country-level evaluation of the EU cooperation with Serbia, the use of SRPC modalities in Serbia have demonstrated the potential to overcome many of the shortcomings of ‘classical’ technical assistance identified in earlier evaluations in support of wide-ranging institutional reform. The SRPC moves the ownership of the reform process decisively to the government and line ministries, as well as the judicial institutions, and creates a positive incentive structure which mobilises political commitment and interdepartmental and inter-ministerial actions in support of clearly defined goals.

Accountability mechanisms were vital elements of more successful interventions. Policy dialogue linked to SRPC, particularly at senior levels, provided a forum through which EU-supported interventions became more visible across government and judicial institutions. This level of visibility, together with the conditionality of funds for SRPC, created an informal but effective accountability mechanism. Future interventions need to be designed with explicit and realistic accountability mechanisms, underpinned by effective monitoring, that provide real incentives and responsibility for delivering agreed outcomes.

3.5. Indicative Logical Framework Matrix

Results	Results chain	Indicators (max. 15)	Baselines 2021	Targets by the end of the budget support contract (2025)	Sources of data (1 per indicator)
Indicative impact of the policy	The indicative impact of the support is further strengthening of the legal state, accessibility of justice and legal security for the purpose of quality and efficient protection of rights and freedoms of citizens and raising the level of trust in the judicial system.	World Justice Project - International rule of law index – civil law	0.50	0.55	World Justice Project - Rule of Law index – civil law
Expected outcomes of the policy	Expected outcome 1: Strengthened independence of judiciary	1.1. Percentage of laws and by-laws adopted fully in compliance with the Venice Commission Opinion provided for the laws.	0%	100%	Official Gazette RS; Venice Commission Opinion on draft Constitution; Reports on implementation of the Action Plan for Chapter 23, official versions of bylaws.
	Expected outcome 2: Strengthened management of human resources in judiciary	2.1. Percentage of the Judiciary Human Resources Action plan implemented in line with the timelines foreseen in the strategy.	0%	100%	Reports on implementation of the Action Plan for Chapter 23 and Report on implementation of the Judiciary Human Resources Action plan
	Expected Outcome 3: Strengthened external independence of the judiciary	3.1. Undue influence on the judiciary	tbd ¹⁴	tbd ¹⁵	Report on implementation of the Action plan for Chapter 23; Annual report of the HJC; Annual report of the SPC

¹⁴ Baseline to be determined based on the implementation of the agreed methodology in year 1.

¹⁵ Target Decrease (measured in degree based on an agreed methodology and following establishment of baseline).

	Expected Outcome 4: Effective and comprehensive case management system is in place	4.1. Number of introduced centralised software solutions for case management in judiciary introduced	0	3	Report on implementation of the Action plan for Chapter 23; Report on implementation of the ICT Development Strategy in Judiciary
	Expected Outcome 5: Improved efficiency of the judiciary	5.1 Share of old cases in total number of pending cases reduced	9.19%	2.61%	Annual Report of SCC
Induced outputs	Induced output 1: Legislative framework on independence of judiciary in line with the Constitution improved	1.1. Number of Laws adopted fully in compliance with the Venice Commission Opinion	0%	100%	Official Gazette RS; Venice Commission Opinion on draft Constitution; Reports on implementation of the Action Plan for Chapter 23
	Induced output 2: Secondary legislation on independence of judiciary in line with new laws improved	2.1. Percentage of by-laws adopted fully in compliance with the Venice Commission Opinion provided for the laws	0%	100%	Official Gazette RS; Venice Commission Opinion on draft Constitution; Reports on implementation of the Action Plan for Chapter 23, official versions of bylaws.
	Induced Output 3: Judiciary Human Resource Strategy Action Plan implemented	3.1. Percentage of the Judiciary Human Resources Action plan implemented in line with the foreseen timeline	0%	100%	Annual report on implementation of the Judiciary Human Resource Strategy
	Induced output 4: Undue influence on ongoing cases or investigations by the central government officials outside the remits of their mandate decreased measured by newly agreed methodology	4.1. Degree of influence on judiciary by the central government officials outside the remits of their mandate decreased measured by newly agreed methodology	tbd ¹⁶	tbd ¹⁷	Reporting on newly established Methodology for measuring undue influence CoE
	Induced output 5: Councils effectively protect external independence of judiciary	5.1 Ratio between the number of filed cases and the number of cases where the Councils initiated the procedure.	1/1	1/1	Annual Report of High Judicial Council and State Prosecutorial Council

¹⁶ Baseline to be determined based on the implementation of the agreed methodology in year 1.

¹⁷ Target Decrease (measured in degree based on an agreed methodology and following establishment of baseline).

	Induced output 6: Improved judicial case management system introduced	6.1. Fully operational CMS in prison administration (until the end of 2023), in prosecution office (until the end of 2024) and in courts (until the end of 2025).	0%	100%	Reports on implementation of the Action Plan for Chapter 23; Report on implementation of the ICT Development Strategy in Judiciary
	Induced output 7: Improved case flow of other than criminal cases	7.1. Case flow other than criminal (clearance rate, disposition time and pending cases) in CEPEJ Dashboard'	Baselines ¹⁸ (CEPEJ Report 2021) Baseline to be included	increase decrease	CEPEJ Dashboard
	Induced output 8: Improved case flow of criminal cases	8.1. Case flow criminal (clearance rate, disposition time and pending cases) in CEPEJ Dashboard	Baselines ¹⁹ (CEPEJ Report 2021) Baseline to be included	increase decrease	CEPEJ Dashboard
Direct outputs	1. Strengthened political and policy dialogue between the EU and the Government in the area of judiciary reform	Regular technical and high-level meetings to discuss and review implementation of the judicial reform strategy, focusing on variable tranche targets	Judicial Development Strategy adopted	The national judicial reform strategy is implemented in accordance with the schedule	Reports on implementation of the Action Plan for Chapter 23
	2. Intra and inter-institutional consultation mechanisms are capable to translate into actions the provisions of the Judicial Development Strategy and its action plan	Implementation of the Judicial Development Strategy and its action plan is on track	The policy coordination, management and monitoring structure is defined in the strategy and newly adopted Action Plan	The consultation mechanisms are effectively supporting the implementation of the national strategy	Reports of the Coordination Body for monitoring the implementation of the Action Plan for Chapter 23, Report on Human Resources Strategy and ICT Strategy in Judiciary

¹⁸ Data on disposition time is not available in the CEPEJ report and due to this fact, this should not be included in the passport of indicators. Moreover, given that this indicator is related to all civil cases (not just the specific ones), there is no methodology for measuring the disposition time and it is not possible to track this information.

¹⁹ Data on disposition time is not available in the CEPEJ report and due to this fact, this should not be included in the passport of indicators.

	3. Increased use of institutional mechanisms for dialogue with donors and stakeholders to coordinate and further align development cooperation in the area of judiciary reform.	Number of sector working group meetings with partners and donors within the judiciary sector per year	Sector working group meetings once per year in 2021	Sector working group meetings meet regularly 9at least 3 times per year)	SWG meetings minutes Report of the Ministry of European Integration
	4. Complementary support allows for improved capacities of the key institutions to coordinate the implementation of the judiciary reform	Service contracts are contracted and implemented in line with the ToRs and procedures	No ToRs ready	Complementary assistance is operational and supporting the institutions in coordinating the process	Contract reports

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Republic of Serbia.

4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3.1 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

4.3. Implementation of the Budget Support Component

The Programme will be subject to direct management by the European Delegation to the Republic of Serbia. A budget of EUR 30 000 000 has been allocated to this Action. The amount allocated for the budget support component is EUR 27 000 000, and for contracts under the complementary support EUR 3 000 000. According to the envisaged dynamics in the implementation of Sector budget support component, 27 000 000 EUR will be disbursed through fixed and variable tranches. In line with the procedure relevant for disbursement of variable tranches, positive assessment of progress in implementation of this reform process will be a precondition for disbursement of variable tranches.

4.3.1. Rationale for the Amounts Allocated to Budget Support

This amount is based on comprehensive discussions with the stakeholders and is reflective of: the financing needs of the partner country; and added value that Sector Budget Support will bring to the achievement of the partner country's targeted policy objectives; and the incentive that it will provide to introduce a more policy-driven, results-oriented, information-based management approach in public institutions.

4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Judiciary Development Strategy and its corresponding Action Plan and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement that may be used for variable tranches may focus on the following policy priorities: presented in the section on the intervention logic (3.5: Indicative Logical Framework Matrix), in the text above.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the end of the first quarter of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external factor or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the euro transfers disbursed into RSD will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

4.4. Methods of implementation applicable for complementary support to a Budget Support

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.

4.4.1. Direct Management (Grants)

N.A.

4.4.2. Direct Management (Prize(s))

N.A.

4.4.3. Direct Management (Procurement)

This complementary support component of the programme amounts to EUR 3 000 000. This measure is planned to be implemented through a service contract and it should ensure technical assistance to support the line institutions in the areas of judiciary reform to design, guide, coordinate, monitor and report on the implementation of the reform agendas; for the implementation of visibility and communication measures and for the assessment of the achievement of targets and indicators.

The complementary support component will be directly managed by the EU Delegation to the Republic of Serbia.

4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply, subject to the following provisions.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realisation of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

4.6. Indicative Budget

Indicative Budget components This section will be filled in following discussions and agreement with DG NEAR and the EUD.	EU contribution (amount in EUR)	Indicative third-party contribution, in currency identified
Budget support - cf. section 0	27 000 000	N.A.
Methods of implementation – cf. section 4.4		
Outcome 1 composed of	3 000 000	N.A.
Procurement (direct management) – cf. section Error! Reference source not found.		N.A.
Procurement – total envelope under section Error! Reference source not found.	3 000 000	N.A.
Evaluation – cf. section 5.2 Audit – cf. section 5.3	will be covered by another Decision	N.A.
Communication and visibility – cf. section 6	will be covered by another Decision	N.A.
Contingencies	N.A.	N.A.
Totals	30 000 000	

4.7. Organisational Set-up and Responsibilities

A specific structure for the coordination, monitoring, reporting and evaluation of this Sector Reform Performance Contract intervention will be set up by the Ministry of Justice in order to coordinate and oversee the proper implementation of the SRPC. The structure will be incorporated within the existing coordination and monitoring mechanism that the Ministry of Justice is already leading for implementation of the Actin plan for Chapter 23 and Action plan for implementation of the National Judicial Development Strategy. The AD and the Sector Performance Reform Contract are based on the Action plan for implementation of the National Judicial Development Strategy which includes activities contained in the Action plan for Chapter 23, the Human Resource Strategy in Judiciary and the ICT Strategy in Judiciary. Acknowledging the need for rationalisation of the monitoring and reporting process, these activities will be entrusted to the Ministry of Justice. The use of the already existing structures should ensure effective use of administrative resources and avoid duplication of structures and tasks.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5. PERFORMANCE MEASUREMENT

5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list (for budget support). The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: An Operational Plan for the implementation of the National Judiciary Reform Strategy was produced and adopted by the Government of Serbia, covering the period of the implementation of this budget support, and including the specific activities, indicators and responsible implementing institutions per each outcome of the National Judiciary Reform Strategy, as well as the budgetary commitments for the realisation of each outcome. This Operational Plan served as the basis for the development of the present Action. Its monitoring and the reporting against its achievements will be led by the Ministry of Justice in the context of the coordination over the implementation of the National Judiciary Reform Strategy, and will also serve as one of the bases for reporting on the policy developments linked to this budget support.

5.2. Evaluation

Having regard to the nature of the action, a mid-term and ex-post evaluation will be carried out for this action or areas of support via independent consultants contracted by the Commission.

The midterm evaluation will be carried out for learning purposes, in particular with respect to variable tranche payments.

The ex post evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision).

The Commission shall inform the implementing partner at least 3 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities. The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a Financing Decision.

Evaluations of the budget support component should be aligned with similar exercises of other budget support providers for accountability and learning purposes at various levels (including for policy revision) and carried out via independent consultants.

Having regard to the importance of the action, a final, mid-term or ex-post evaluation(s) for this Action, or its components may be carried out via independent consultants, through joint missions, contracted by the Commission or via an implementing partner.

The mid-term evaluation will be carried out for learning purposes, in particular with respect that it includes numerous components concerning the accession process.

The final or ex-post evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that it includes numerous components concerning the accession process.

In case an evaluation is not foreseen, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The Commission shall inform the implementing partner at least 6 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Finally, the evaluations envelope will generate systemic recommendations and inputs relevant for future programming. Evaluation services may be contracted under a framework contract.

5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

6. COMMUNICATION AND VISIBILITY

Visibility of EU funding and communication about objectives and impact of Actions are a legal obligation for all Actions funded by the EU, as set out in the EU communication and visibility requirements in force.

In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

- providing a statement highlighting the support received from the EU in a visible manner on all documents and communication material relating to the implementation of the funds, including on an official website and social media accounts, where these exist; and
- promoting the actions and their results by providing coherent, effective and proportionate targeted information to multiple audiences, including the media.

Visibility and communication measures shall be implemented, as relevant, by the national administrations (for instance, concerning the reforms linked to EU budget support), entrusted entities, contractors and grant beneficiaries. Appropriate contractual obligations shall be included, respectively, in financing agreements, delegation agreements, and procurement and grant contracts.

The measures shall be based on a specific Communication and Visibility Plan, established and implemented in line with the EU communication and visibility requirements in force. The plan shall include, inter alia, a communication narrative and master messages for the Action, customised for the various target audiences (stakeholders, civil society, general public, etc.)

Visibility and communication measures specific to this Action shall be complementary to the broader communication activities implemented directly by the European Commission services and/or the EU Delegations and Offices. The European Commission and the EU Delegations and Offices should be fully

informed of the planning and implementation of the specific visibility and communication activities, notably with respect to the communication narrative and master messages.

Communication and visibility are considered a critical element to the success of this SRPC intervention in particular, and to the overall reform process in justice in general. Communication within the reform process is part of the relevant change management aspects, and as such a key element of the actions to be undertaken for the achievement of the results included into this SRPC. For this purpose, a designated communications and visibility team will be established, in order to ensure that there is clear, coherent, and positive internal and external communications developed within and among the different public administration institutions and with the relevant stakeholders and wider audience. All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additionally, the Visibility Guidelines developed by the Commission (DG NEAR) will have to be followed. The Action shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

7. SUSTAINABILITY

The sustainability of the SRPC intervention will be ensured primarily through the comprehensive policy dialogue between the EU and the principal stakeholders (the central public authorities), but also with civil society organisations. Two main assumptions relate to continued political commitment to the implementation of the good governance reforms and the EU accession agenda and the presence and further build-up of management and technical capacities at the central and local administration.

This SRPC intervention has been specifically designed in line with the strong focus of IPA III on supporting partners' reform efforts directly linked with the negotiation process, in particular in the area of good governance. The visibility component will help improve the internal and external communication lines which are necessary so that the reform has a spill-over effect. This aspect will also ensure that the citizens of Serbia understand the reform process and buy into the objectives and deliverables of the reform. A key element of the sustainability of the intervention is the ownership over the process and the reform results.