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ANNEX IV

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 Budget Support for Public Administration 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 8 of IPA III Regulation and Article 23 of NDICI - Global Europe Regulation.

1. SYNOPSIS

1.1. Action Summary Table

Title	Sector Budget Support for Public Administration Reform Annual Action Plan in favour of the Republic of Serbia for 2022			
CRIS/OPSYS	ACT-60875			
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 2, Thematic priority 1: Good governance			
Sustainable Development Goals (SDGs)	Main SDG (1 only): Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Other significant SDGs (up to 9) and where appropriate, targets: Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.			
DAC code(s)	15110 - Public sector policy and administrative management			
Main Delivery Channel @	Central government - 12001			
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 budget contribution EUR 30 000 000 of which: EUR 26 000 000 for budget support EUR 4 000 000 for complementary support.			
MANAGEMENT AND IMPLEMENTATION				
Implementation modalities (type of financing and management mode)	Budget Support Direct management through: -Budget Support: Sector Reform Performance Contract - Procurement			
Relevant priorities and flagships from Economic and	Priorities: "Governance, Rule of Law, PAR"			

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 good governance, increase the compliance with Union's values and their alignment with the Union's rules, standards and practices in the relevant areas. The overall objective of this Sector budget support is to further improvement of public administration operations and the quality of formulation of public policies in line with the European Principles of Public Administration; delivering high quality services to citizens and businesses; as well as professional public administration which will significantly contribute to economic stability and improvement of the standard of living. This goal will be accomplished by supporting the Government in achieving the objectives of the PAR strategy, through complementing measures envisaged by the PAR action plan, as well as action plans of the public financial management (PFM) reform programme, local self-government reform programme, and programme for improving public policy management and regulatory reform.

In line with the overall objective of IPA III the Action will be instrumental for the development and implementation of relevant reforms and strategies.

In particular, the Support will assist the Government to improve the recruitment process in public administration, to increase the level of accountability and transparency at all levels of government, to improve capacities for budget planning and public investment management, to effectively collect and manage budget funds and to improve the Financial Management and Control (FMC) system in public sector institutions. This Support contributes to the Serbian efforts to apply the revised EU enlargement methodology, by addressing the key recommendations from the European Commission Report for the year 2021 regarding public administration reform¹. Planned results are coherent with IPA III programming framework focus on modernisation of public administrations at all levels of government and ensuring fiscal sustainability and sound management of public finances as applicable in the EU, in order to contribute to sustainable growth and to improve competitiveness.

The Action will contribute to Sustainable Development Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all and 16: Promote peaceful and

¹ 2021 Communication on EU Enlargement Policy, Strasbourg, 19.10.2021 COM(2021) 644 final.

inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels. More specifically the Action will contribute to Target 16.6: Develop effective, accountable and transparent institutions at all levels; Target 16.7: Ensure responsive, inclusive, participatory and representative decision-making at all levels and Target 16.10: Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements

2. RATIONALE

2.1. Context

The quality of public administration impacts all areas of society. Public administration reform (PAR) is an essential requirement for the successful implementation of various ongoing sectoral reforms in Serbia, also in view of Serbia's EU accession perspective. This vital role of PAR is strongly reiterated in the EU's enlargement strategy from October 2014, where PAR is explicitly referred to as one of the three fundamental pillars of the enlargement process together with rule of law and economic governance. All three areas need to be systematically addressed early on in the accession process. Public financial management (PFM) is an integral part of PAR. It has an impact on economic governance and sustainability of socio-economic reforms. PFM is also closely linked and directly impacts specific accession negotiation chapters such as taxation (Chapter 16), customs (Chapter 29), budgetary frameworks (Chapter 17), public procurement (Chapter 5) and internal control and external audit (Chapter 32).

Accession negotiations will increasingly require that Serbia improves the capacity of public administration for taking over the membership obligations. Capacity development is needed both in terms of developing adequate institutional structures, but also in terms of ensuring the sufficient number of qualified experts and competent civil servants with knowledge to work on the harmonisation of the national legislation with the EU *acquis*, including the improving the quality of policy and legal drafting processes, effective enforcement of harmonised legislation and management of EU and public funds. Increasing accountability and professionalism of administration, de-politicisation and transparency, more transparent management of public finances, and better services for citizens on all government levels is the main horizontal precondition for addressing reforms. The new strategic framework for public administration reform streamlines the efforts towards development of an efficient recruitment process and career management system applied in practice and a functional and innovative system of professional development in public administration in order to ensure the improvement of the work of public administration and the quality of policy making in accordance with European Principles of Public Administration and establishment.

The specific objective of IPA III support in the good governance area is to modernise public administrations at all levels of the government and strengthen statistical systems. The proposed support corresponds to the **IPA III Thematic priority 1: Good governance** to modernise public administrations at all levels of government, strengthen statistical systems and economic governance, and hence contribute to sustainable growth and to improve competitiveness. More specifically this support will be focused on improvement of human resource management, public policy management and coordination, accountability and transparency, public financial management and local-self governance thus will underpin administrations at sub-national levels to improve the quality of their governance and develop or upgrade relevant governance reform plans that can be monitored over time. Focus on further improvement of merit-based recruitment in public administration will address the problem of professionalization of senior civil servants and their employment on the principle of merit. Through creating conditions to efficiently implement recommendations of independent state bodies this support will contribute to increased level of reactive transparency of the public administration entities in which efficient supervision systems enable performance management and work efficiency. Strengthening medium-term planning and capital projects management, strengthening the competition at the public procurement markets, and building capacities of public institutions to perform financial management and control will contribute to public administration reform, being fully in line with the IPA III key priority under PFM to support IPA III beneficiaries in implementing and upgrading their reform strategies to ensure fiscal sustainability and sound management of public finances as applicable in the EU.

The Republic of Serbia is dedicated to **public administration reform**, which is confirmed through adoption of the new **PAR Strategy 2021-2030** and its accompanying Action Plan for the period 2021-2025. Going further in the area of Human Resources Management (HRM), the main goal, inter alia, is the improvement of the recruitment process, the establishment of an integrated HRM system in the public sector and a viable, effective, efficient and innovative system of professional development. Actions and measures for improvement of the recruitment process within this goal are focused on establishing and improving the HRM system based on competences. One of the specific objectives of PAR Strategy is dedicated to an improved level of accountability and transparency at all levels of government enabling public administration accountable for its results and which achieves its objectives in accordance with the principles of “good governance”.

The strategic goals from the **Public Finance Management Reform Programme 2021-2025** to improve budget planning capacities, public investment management and fiscal risks monitoring, collection and management of public funds and implementation of the system of public internal financial control will ensure fiscal sustainability and sound management of public finances as applicable in the EU. This corresponds to IPA III priorities in the public finance management sub-area. Next steps in enhancing efficiency of collection and management of public funds include further modernisation of the tax and custom administration, improved public debt sustainability analysis and further development of electronic public procurement, as well as better management of EU funds. Actions and measures for improvement of budget planning capacities and public investment management envisage support to the public institutions to develop mid-term plans and strengthening institutional capacities for more efficient capital projects management. Measures to improve implementation of Internal Financial Control (IFC) system, inter alia, foresee support to public sector institutions for further implementation of FMC system.

Alongside the PAR Strategy, **the Programme for Local Self-Government System Reform 2021-2025** determined complete and comprehensive reform of local self-government. Regarding Local Self-Governments (LSGs), measures and activities in these documents are directed toward further strengthening of the capacities of local administrations applying the principles of good governance.

The Support will enable provision of quality services and work towards ensuring the economic stability thus contributing to the objective in the Public Administration Reform Strategy 2021 – 2030, *‘further improvement of work of Public Administration in accordance with principles of the European Administrative Space and provision of high-quality services to citizens and business entities, as well as the creation of public administration which shall significantly contribute to the economic stability and increase of the living standard’*.

The Western Balkans Strategy² recognises public administration reform as paramount to strengthening governance at all levels, including improving the quality and accountability of administration, and increasing professionalism, including more transparent management of public finances, and better services for citizens. The Support contributes to building of high-quality public administration through professionalization of the civil service, which is emphasized in the **Economic and Investment Plan for the Western Balkans**³ as one of the essential reforms to achieve sustainable economic growth.

The Support is addressing the issues from the **European Commission Report for the year 2021** which emphasizes that Serbia should: ensure that recruitment procedures are launched for all the acting posts in order to reduce the excessive number of acting positions, and allocate sufficient resources for effective, merit-based recruitment processes; ensure a strong quality control role for the Public Policy Secretariat to allow for the effective implementation of the law on the planning system; put in place a unified, comprehensive and transparent system for capital investment planning and management. The Support will, in the area of public finance management, address the recommendations related to public procurement *“ensure further, full*

² A credible enlargement perspective for and enhanced EU engagement with the Western Balkans, Strasbourg, 6.2.2018 COM(2018) 65 final.

³ An Economic and Investment Plan for the Western Balkans, Brussels, 6.10.2020 COM(2020) 641 final.

alignment with the 2014 EU directives on public procurement”, and financial control that “improved legislative framework for public procurement and internal control needs to be implemented in practice”

Regarding the Economic Reform Programme 2022-2024 (ERP), the support is linked to the implementation of the policy guidelines set out in the conclusions of the ECOFIN Council from May 2022 for the Republic of Serbia, particularly regarding application of the principles of competition, equal treatment, non-discrimination and transparency in public procurement and state aid procedures in line with the EU *acquis* for all public investment projects regardless of the financing source.

2.2. Problem Analysis

Short problem analysis – Public Administration Reform

The Public Administration Reform Strategy, European Commission and SIGMA Reports, as well as other documents indicate the need to address the problem of professionalization of senior civil servants and their employment on the principle of merit. The 2021 European Commission Report on Serbia stresses that the legal provision allowing for appointments to ‘acting positions’ for 6 months (with a maximum extension of 3 months) is mostly misused. The average number of candidates in competitions remained low, which indicates the necessity to make competitions more attractive and understandable for external candidates. The data show that 142 persons were appointed to senior managerial positions after the regular competition procedure, while 183 persons held positions in the status of acting managers. As of June 2021, 62% (March 2020: 56%) of filled senior positions were held on an acting basis. Despite the amendments to the law on civil servants restricting the appointments to already existing civil servants as of 1 July 2019, the government continued to appoint non civil servants on an acting basis and result that more than half of appointed acting posts after the set deadline were not civil servants.

The issue of the status of acting officials is one of the problems that deserves a special approach, bearing in mind that the depoliticization of senior officials is a high priority in the EU accession process. Through a broad dialogue on this issue with all relevant stakeholders, it is necessary to create a new common framework on the management of senior officials. Until then, it is necessary to establish a mechanism of communication between all relevant participants who have a role in the process of filling the position, in order to consider what measures in the existing normative framework can eliminate the negative practice of appointing senior officials. The limited capacity of the High Civil Service Council remains a concern as regards the need to organise a large number of competitions in order to replace at a reasonable speed all the existing acting managers. Clear political will, sufficient resources and effective monitoring by the responsible institutions, are necessary to address this issue as a matter of urgency.

The legislative and institutional framework for accountability and transparency has been greatly improved with the adoption of the Law on the Planning System (LPS), but also with the establishment of the Open Data Portal, which is a central place where open data from public institutions are consolidated and made available to citizens, private and non-governmental sectors. It is important to note that the obligation to announce the start of preparation of public policy documents and draft laws, holding consultations and public hearings has been introduced. The introduction of the obligation significantly affects the increase of transparency in the process of drafting public policy documents and laws. However, data needs to be published more up-to-date, both proactively and reactively. The Law on Free Access to Information of Public Importance, which came into force in 2004, provides conditions to achieve transparency in the work of public administration bodies. Recent amendments to the Law envisage expanding the circle of entities to whom the law applies which will inevitably increase the number of complaints submitted to the Commissioner. One of the common challenge in the area of accountability and transparency, as confirmed in the European Commission Report 2021, refer to inadequate consideration of reports by independent state bodies in the National Assembly. Although it was determined as a legal obligation, in the period from 2015 to 2018, the National Assembly did not consider the annual reports of independent state bodies in the plenum. However, the progress has been made in 2019, when the National Assembly considered and debated in the plenum the reports of those institutions for 2018, and finally reached conclusions with recommendations. The Ombudsman’s annual report was discussed in a Parliament plenary session and conclusions were adopted in December 2020. Improvement of effectiveness

in enforcement of the decisions taken by the Commissioner for Information of Public Importance has yet to be ensured. Further development of mechanisms for the implementation and reporting to the public on the implementation of the recommendations of independent state bodies remains a priority in this area.

Main stakeholders – PAR

At the central government level, the main beneficiary is the **Ministry of Public Administration and Local Self-government (MPALSG)**, as the driver of PAR in Serbia together with the **HRM Service**, responsible for introduction of the competency framework and implementation of the merit-based recruitment are the key stakeholders for this intervention. **Public Policy Secretariat as a key institution** for public policy planning and support development of institutional mid-term plans is responsible for operating with Unified Information System.

Short problem analysis - Public Financial Management

Although great progress in the field of medium-term planning has been made by the adoption of the Law on the Planning System to set a legal framework for adequate management of public policies and their budgeting, further improvement is needed in linking medium-term budgets with relevant strategic plans of public beneficiaries. The provisions of the LPS prescribe preparation of medium-term plans at the institutional level, which is still a relatively new concept in Serbia. So far, 20 central government institutions have developed and published their 2022-2024 mid-term plans with general support from the Policy Planning Secretariat (PPS). The biggest challenge for adopting medium-term plans is to optimize the existing strategic framework. Main policy areas in a majority of ministries are covered by sector strategies or other strategic plans adopted by the Government.

The new Public Procurement Law („Official Gazette RS“, no. 91/19) is simplifying the procedures in public procurements and reducing the costs of preparing bids, which resulted in a heightened interest of economic operators, most notably of small and medium enterprises, in taking part in the public procurement market. Nevertheless, these provisions did not make an enough influence to increase competition or to decrease the share of concluded public procurement procedures when there is only one tender submitted in total number of concluded public procurement procedures. Lack of capacity of economic operators and low awareness of advantages that are brought by the new Public Procurement Law and Portal, are the main reasons for this issue on the market. In recent years, all indicators regarding competition in public procurement procedures, are almost on the same level. Furthermore, as one of the special objectives in Programme of the development of public procurement in the republic of Serbia for period 2019-2023 and following actions plans, is particularly defined “Strengthening competition at the public procurement market”. The Public Procurement Office (PPO) is expecting raising some of these indicators by conducting trainings, workshops, seminars etc about PPL, Portal and its implementation, with aim to make public procurement procedures more competitive

Despite significant progress made in harmonising existing internal control mechanisms in the public sector with the concept of Public Internal Financial Control (PIFC), challenges remain in its full and systematic implementation. PIFC specific objective within PFM Programme is to improve its implementation. In order to do so, external review of work of internal auditors remains one of the very useful tools which can be further strengthened. According to the Internal Audit (IA) standards, external quality review of work of IA unit should be performed at least once in 5 years period. Logic behind that is to maintain quality of IA function and enable its further improvement. Within previous SBS Instrument, external quality review of work of IA, an important function envisaged by IA Standards, was implemented by Central harmonisation unit (CHU) staff and became one of regular jobs performed by CHU. With the growth of expected number of IA Units, CHU will have only limited capacities to address all needs for this service. Peer review performed by actual IA colleagues from public sector was identified as practical solution and promoted by the Public Expenditure Management Peer Assisted Learning network PEM PAL. Peer review should be performed by the best auditors with steering and coordinative role of CHU. This is why CHU included implementation of peer review as preferred methodology for performing external assessment of work of internal auditors as one of activities within the last PIFC Strategy 2017-2020. Beside obvious growth of capacity which this modality offers, it brings improved objectivity and maximisation of the best IA expertise within Serbian public sector. However, implementation

of this activity turned out to be much more complex than originally expected. It was one of only few unimplemented activities – draft Rulebook was prepared but it was not sufficient. Specific methodology was created, more suitable for peer review than the methodology which is in use when CHU staff is performing quality review. It was created through piloting of two actual peer reviews performed by first group of IA champions selected by CHU. As a result, Serbia has five trained peer reviewers, developed methodology and first version of training material. Final adoption of rulebook, providing sustainability of exercise and training of new generations of reviewers are tasks ahead.

Main stakeholders – Public Financial Management

The **Ministry of Finance** leads and coordinates the overall process of the public financial management reforms. The **Central Harmonization Unit** as a department of the Ministry of Finance (MoF) is a key stakeholder in the process of the further development of the public internal financial control and managerial accountability. **Public Procurement Office** is key stakeholder responsible for establishing and developing of public procurement system in the Republic of Serbia. The **Public Policy Secretariat** as a key institution for coordination of public policy planning provides support to development of institutional mid-term plan

Short problem analysis - Local Self-Governance

Despite significant reform steps in previous years, a number of challenges remain in the area of good governance in local self-government. One of the systemic challenges for the reform of the local self-government system is asymmetric decentralisation. The consequence of the monotypic (uniform) system of local self-government is the disproportion between the size of the local self-government unit and the jobs assigned to it. It is necessary to differentiate the competencies and types of work of different levels of government in the management of public affairs, with the effective application of subsidiarity and bringing the government closer to the citizens. The existing system of supervision over the work of local self-government and the system of regulated relations in terms of cooperation and preventive action of the central level of government is not sufficiently developed. The reasons for inefficient administrative action lie in low or uneven organisational and administrative capacities, as well as the lack of adequate human, technical and financial resources of local self-government. The principles of good governance, accountability and transparency in the work of local self-government have not been fully applied. The current electoral system does not favour the election of councillors and holders of executive functions who would be more directly responsible to the citizens for performing their functions. Although over 100 Local self-governments (LSGs) have adopted local anti-corruption plans, most have not yet begun to implement them adequately.

Findings of the research of the Standing Conference on Towns and Municipalities (SCTM) from 2021 that monitors the capacity of LSGs in application of the good governance principles ((1) accountability; (2) transparency and participation; (3) equality; (4) predictability, efficiency and effectiveness (5) anti-corruption) indicate that the average value of the index for all 5 good governance areas, on the level of the representative sample of 60 LSGUs, was 47,4%. In the two specific good governance areas covered by this indicator (accountability; transparency and participation) average value in 2021 was 52,8%. Analysis has shown that cities are better ranked than municipalities (58,9% vs. 51% respectively), more developed LSGUs are better ranked than less developed, according to the Decree on determining the single list of development of regions and LSGUs from 2014 (first group 67,4%, second group 52,2%, third group 51,2%, fourth group 49,5%).

Analysis of the achievement of the good governance principles in these two areas shows that the smaller LSGUs do not have capacities to, in term of organisation, human and financial resources, continuously differentiate the public jobs/tasks and ever higher number of requirements toward LSGUs and which needs to be implemented through the application of good governance, which also requires significant resources. Following conclusion is that the results are better where clear regulatory provision establishes the responsibility of the LSGUs (followed with the provision on responsibility for its implementation). Conducted research has demonstrated this, and it is thus possible to also measure the quality of the regulatory provisions in the area in such a way. Existence of the regulatory framework, however, does not ensure the application of the accountability, transparency and participation principles in full capacity, and it requires additional support, knowledge and practice exchange between LSGUs.

Main stakeholders – Local Self-Government Units

At the central government level, the main beneficiary is the **Ministry of Public Administration and Local Self-government (MPALSG)**, as the driver of PAR in Serbia. **Local self-governments units** will be directly supported through the intervention to upgrade their procedures to apply good governance principles and the **Standing Conference of Towns and Municipalities (SCTM)** which has the unique position as the interface between the national and local governments and is able to reach and motivate LSGs through its established tool such as Good Governance Index.

2.3. Additional Areas of Assessment for Budget Support Actions only

2.3.1. Pre-condition on Fundamental Values for a Sustainable Development Goals Contract only

2.3.2. Public Policy

A comprehensive strategic framework for PAR Sector has been fully established by the overarching PAR Strategy 2021-2030, the Action Plan 2021-2025 and corresponding reform programs of specific PAR priority areas. The PAR Strategy establishes a full strategic framework for reform of HRM, public services, and transparency and accountability while remaining PAR priority areas are further developed by three sub-sectoral reform programmes i) the Public Financial Management Reform Programme 2021-2025 with the Action plan 2021-2025, ii) the Public Policy Management and Regulatory Reform Programme 2021-2025 with the Action plan 2021-2025, and iii) the Local-Self Government Reform Programme 2021-2025, with the Action plan 2021-2023. The strategic framework creates the environment for improvement of the quality of regulations, improvement of analytical skills and planning of public policy and planning documents at all levels of government in accordance with European Principles of Public Administration. It 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.

By this overarching strategic framework, the Republic of Serbia continues to show commitment in achieving the Sustainable Development Goals through a sectoral approach. The PAR strategy 2021-2030 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. In particular, it contributes to achieve several sub-objectives under this goal aiming to reduce corruption and bribery in all its forms, to develop effective, accountable and transparent institutions at all levels, to ensure responsible, inclusive, participatory and representative decision-making at all levels, and to ensure public access to information and protection of fundamental freedoms. In addition, the commitment and effort to further contribute to these global goals through public administration reform is evident from the way in which the Strategy defines the vision of "Administration tailored to all of us". This vision emphasises the desire to establish a government that will continue to develop efficient public administration based on European principles and values which contributes to the achievement of sustainable development goals with special focus on rule of law, social cohesion and social welfare." The PAR strategic framework takes into account conditions for conducting public policies in accordance with the principles, procedures and standards of a modern democratic state, which is part of the process of European integration. In addition to the "Principles of Public Administration", development of the PAR Strategy took into account relevant documents, assessments and recommendations, including Copenhagen criteria (general criteria for membership), Commission Communications on EU Enlargement policy, Reports of the European Commission on Serbia, Western Balkans Strategy from 2018, as well as the revised enlargement methodology.

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 principles and methodology of cost calculation presented in the Manual are in accordance with examples of good practice

and guidelines from the SIGMA Strategy Toolkit and the European Commission Instruction on Costing from Methodological Guidelines for Structural Reforms costing from 2019.

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 consented to a full financial sustainability of planned reforms regarding the medium-term budget framework. Regularly updated PAR Mid-term expenditure framework MTEF has become useful instruments utilized in providing clear overviews of budget development and expenditures and linking budgets to policies, thus making their implementation more secure and facilitating the identification of capacity needs and providing early warning of possible implementation delays. Key institutions involved in the planning, implementation and monitoring of PAR activities, increased their capacity over time to fully take over the ownership and responsibility for priority reform areas. The Ministry of Public Administration and Local self-Government (MPALSG) and the MoF continued to effectively manage PAR and PFM processes, while the PPS has a leading role in the policy management reform process. In 2020, the MPALSG started to implement the Common Assessment Framework (CAF), as an umbrella tool for quality and change management, to strengthen its own capacities and provide better services to business, citizens and other parts of public administration. The PAR strategy Action plan 2021-2025 envisages introduction of CAF in 10 state administration bodies. The MPALSG adopted two-year AP: In cooperation with National training Academy for Public Administration NAPA, the PPS provides policy management training which became part of the Annual Training Programme for Civil Servants. Since staff retention is crucial to building the capacity needed to successfully implement reform, the Human Resources Management Service (HRMS) has started preparing outflow reports with proposed measures to create a more desirable and stimulating work environment. A new human resources information system (HRMIS) is developed, and it is expected to be fully operational in 2023. This information system will significantly contribute to the efficient management of human resources and enable institutions to focus resources on strategic issues and priorities. The Government undertook necessary measures to strengthen institutional capacities for PARS implementation by increasing the number of employees in the MPALSG Strategic Planning Department for PAR Coordination and Monitoring. The PARS AP 2021-2025 foresees an increase in capacities of the Sector for European Integration and International Cooperation of the MPALSG to strengthen capacities for donor assistance management and donor coordination, within the system managed by Ministry of European Integration MEI.

A system of indicators for monitoring the progress in PAR Strategy 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 2019 rests on the Unified Information System for planning, implementation monitoring, policy coordination and reporting operated by the Government through the PPS, as an internal system whose data can be accessed by state administration bodies. Information on the results in the field of PAR is available to the general public through the online monitoring application (on-line monitoring tool - OMT), which became active in April 2020, and whose main source is UIS. The process of monitoring and evaluation of the implementation of the PAR Strategy is coordinated by MPALSG through the Department for PAR and eGovernment which provides administrative and professional support to the Public Administration Reform Council and the Inter-Ministerial Project Group).

The overarching strategic framework is strongly related to the responsiveness of the Serbian government to the emerging needs for social inclusion and cohesion, allowing all citizens to benefit from fairer access to services and enhancing participation in the decision-making process, regardless of gender, ethnic background, sexual orientation or social status. It was developed with full consideration of gender equality promotion and girls and women empowerment, in line with the requirements of the EU Gender Equality Strategy 2020-2025⁴. The main results achieved in this area comprise application of gender responsive budgeting together with

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https://ec.europa.eu/info/sites/default/files/aid_development_cooperation_fundamental_rights/gender_equality_strategy_factsheet_en.pdf

gender sensitive indicators in programmes, programme activities and projects of all budget users at all levels, taking into account gender issues when choosing public policy options within the development of planning documents, and bringing gender issues into design and implementation of the Annual Training Programme for Civil Servants. The measures envisaged by the PAR strategic framework will be implemented in the most environmentally friendly possible way, without any major and negative impact on the environment, health and security. Mandatory environmental impact assessments have been introduced when selecting policy options within the development of planning documents. In relation to environmental and climate objectives significant results have been achieved in terms of digitalisation of services and development of e-government in the direction of establishing paperless administration.

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.

2.3.3. Macroeconomic Policy

The persistent trend of fiscal stabilisation 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 Gross Domestic Product 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 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 realisation 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 operationalisation 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 harmonisation with EU legislation 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 billion 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 10 December 2021, and improved the outlook for further credit growth ratings from stable to positive. It's Fitch Ratings in the latest report of 25 February 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 characterised by resistance to financial shocks from the international environment. Foreign exchange reserves at the end of September 2021 increased by 3.3 billion euros since the beginning of the year and amounted to 16.8 billion euros. 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 Russia's aggression against 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 Russia's unjustified and unprovoked aggression against 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 recognised 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 EU Council. 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 in 2020 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 favour 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 USD 400-600 million.

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

2.3.4. Public Financial Management

Existing 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 European 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 State Audit Institution 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 realisation 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 harmonisation 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 7⁵, 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.⁶

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 Methodology⁷ 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 centralised 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 (*COTS*). Moreover, a

⁵ At the same time, the target value of the Outcome indicator at the level of the measure, which was fully achieved.

⁶ 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.

⁷ Unified Methodology for Monitoring Fiscal Risks in the Republic of Serbia ("Official Gazette of RS", No. 99/2021).

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 centralised 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 harmonise 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 Organisation 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 systematisation 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 2021⁸, as well as by strengthening the capacity for inspection control. In this regard, last year,

⁸ Law on Budget Inspection 2021 <https://www.propisi.net/zakon-o-budzetskoj-inspekciji/>

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 United Nations development Programme (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. Optimising the organisation 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 harmonisation of legal regulations in the field of accounting with the International Public Sector Accounting Standards (IPSAS). It is therefore expected to harmonise 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 optimise the organisational 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 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 PFM RP, 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 PFM RP. 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 PFM RP are shown in the separate table on page 101 of this Report.

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

The introduction of Gender-Responsive Budgeting (GRB) 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 24 April 2022, following a comprehensive public consultation procedure. PFM Policy Dialogue meeting was held in May 2022.

2.3.5. 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 the WB framework, was adopted together with respective by-laws 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, organisational 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 European 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, Civil society organisations CSOs and interested citizens, and conclusions are documented and available at the webpage of the National Assembly.

The last Open Budget Index 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 OBI 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 24 November 2021 at website of the National Assembly⁹ DESCRIPTION OF THE ACTION

2.4. Intervention Logic

The general objective of the support is further improvement of public administration operations and the quality of policy making in accordance with European Principles of Public Administration and delivering high quality services to citizens and businesses, as well as professional public administration that will significantly contribute to economic stability and increase living standards.

Expected outcomes of the support are:

1. To improve recruitment process in public administration
2. To increase level of accountability and transparency at all levels of the government (central and local)
3. To improve capacities for public policy and budget planning
4. To increase efficiency and control in execution of public funds

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

Induced output 1 contributing to Outcome 1: Improved procedure for merit-based filling of senior civil service positions is applied.

Induced output 2 contributing to Outcome 2: Enhanced reactive transparency of the public administration entities upon the decisions/recommendations of the independent state bodies.

Induced output 3 contributing to Outcome 2: Increased local self-government capacity for the application of the good governance principles in the areas of (1) accountability and (2) transparency and participation

Induced output 4 contributing to Outcome 3: Improved medium-term planning and reporting

Induced output 5 contributing to Outcome 4: Strengthened competition at the public procurement market

Induced output 6 contributing to Outcome 4: The external quality review of work of IA units improved

⁹ <http://www.parlament.gov.rs/upload/archive/files/cir/doc/zakoni/2021/1955-21%20za%20sajt.pdf>

Improvement of the recruitment procedure, in general, largely depends on the progress of merit-based recruitment of senior civil service positions. The latter will be grounded on detailed analysis of the legislative framework and establishment of cooperation mechanism between key institutions responsible for recruitment of senior officials.

Increased level of accountability and transparency at central level of the Government will be achieved through creating conditions to efficiently implement recommendations of independent state bodies thus further contributing to improvement of reactive transparency of the public administration entities. This will be achieved with the changes in the normative framework and further improvement of work of Ombudsman and the Commissioner for Information of Public Importance and Personal Data Protection.

In order to increase level of accountability and transparency at local level of the Government it is necessary to improve capacities of LSG units to apply good governance principles and ensure systematic monitoring of their performance including collection and analysis of objectively verifiable data.

The progress in improvement of budget planning requires improvement in medium-term planning, as medium-term planning enables linking of medium-term budgets with relevant strategic plans of budget beneficiaries. In order to achieve improvement in medium-term planning, the information system for budget planning, execution and accounting needs to be developed and connected with the Unified Information System (UIS). Moreover, budget users need to improve costing of medium-term plans and monitoring based on performance indicators.

The enhanced efficiency and control in execution of public funds, being the envisaged outcome of this support, is predominantly determined by the progress achieved in reforms in the areas of public procurement and public internal financial control. This action will enhance efficiency and control in execution of public funds through strengthening competition at the public procurement market and improved external review of work of internal units, under assumption that the Government is strongly committed towards implementation of the PFM Reform Programme. Strengthening the competition at the public procurement market will contribute in achieving the outcome through strengthening capacity of PPO staff to enable greater participation of economic operators in public procurement procedures. Improved external review of work of IA units will contribute in achieving the outcome by gradual growth of share of peer reviews within total number of external quality reviews.

2.5. Indicative Activities

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

Induced Output 1: Improved procedure for merit-based filling of senior civil service positions is applied

The action links to the specific measure 2.3 of the PAR Strategy 2021-2030 that will support application of the guidelines from the strategic framework for management of persons in senior managerial position putting greater emphasis on priority competencies within selection procedure. It will support improvement of the competency framework for civil servants in senior managerial positions in order to clearly express expectations from that category of civil servants and put the focus on leadership competencies. The priority is to establish a mechanism of cooperation between key institutions responsible for the implementation of the policy regarding managing persons in senior managerial positions. Activities will be aimed at considering the reasons for current appointments and, if necessary, revising the legal framework in order to eliminate the negative consequences caused by the appointments of so-called 'acting managers'. In order to ensure that acting managers are appointed only in situations when it is not possible to fill the position or to conduct a competitive procedure for objective reasons, the implementation of this action would be grounded on detailed analysis of the normative framework and the current situation in the bodies in relation to the appointment of senior managerial positions.

Induced Output 2: Enhanced reactive transparency of the public administration entities upon the decisions/recommendations of the independent state bodies

This action corresponds to Measure 6.5 of the PAR Strategy 2021 - 2030 that supports improvement of reactive transparency, acting according to regulations within the scope of independent state bodies, i.e. upon the recommendations of independent state bodies. In line with this, certain changes in the normative framework to ensure the exercise of the right to access information of public importance and further improvement of work of independent state bodies (the Ombudsman and the Commissioner for Information of Public Importance and Personal Data Protection) will contribute to creating conditions to efficiently implement their recommendations. Improvement of the process and institutional framework of external PA control during the previous period created good basis, but there are still pertaining challenges arising from the existing legal and institutional framework. Efforts will be focused on elimination of different shortcomings in legislative framework regulating the status and the work of independent state bodies. Special attention will be paid on ensuring appropriate actions by individual, primarily PA bodies, following the final decisions by the resolutions of the independent state bodies, which is particularly highlighted in the European Commission Report 2021 in order to increase transparency and accountability of public administration.

Induced Output 3: Increased local self-government capacity for the application of the good governance principles in the areas of (1) accountability and (2) transparency and participation.

This support would enable local self-government units to gain insight into the efficiency and effectiveness of their own work, to assess their performance using objective and measurable indicators and single out procedures that need to be improved through the application of the Good Governance Index methodology developed by the SCTM in direct cooperation with MPALSG. Systematic monitoring of the performance of local self-government units, based on the collection and analysis of objectively verifiable data, to which this Good Governance Index in subareas of accountability and transparency and participation is of great importance for the promotion and introduction of the aforementioned principles of good governance. The Good Governance Index at the local level should serve this purpose - it should indicate whether in areas of accountability, transparency and participation, not only legal obligations have been met, but also whether local governments have established good practice and improved their practices. Systematic monitoring of the performance of local self-government units, based on the collection and analysis of objectively verifiable data, to which this Good Governance Index is of great importance for the promotion and introduction of the principles of good governance.

Induced Output 4: Improved medium-term planning and reporting

This support contributes to the measure 1.3. of the PFM RP 2021-2025 Action Plan through further linking of measure and activities from policy document with medium-term plans of budget beneficiaries. It will set up the effective program budget and medium-term expenditure framework at the national level in line with objectives and priorities of public policy documents and the Government. Subsequently, it will enable a comprehensive and timely overview of measures and activities that the institution should carry out over a period of three years, allowing harmonisation of their scope and dynamics with available human and financial resources and priorities. By obliging the institution to implement a clearly defined set of measures and activities and report on their implementation, increased transparency of accountability for implementation of public policies will be achieved. Consistency between public policy documents (in terms of deadlines, responsibilities and additional details implementation) will be established with indirect impact into the quality and comprehensiveness of policy framework in policy areas leading to reduced proliferation of the policy documents and better policy coordination.

Induced Output 5: Strengthened competition at the public procurement market

This action contributes to the implementation of measure 2.5 of the PFM RP 2021-2025 Action Plan through the strengthened capacity of PPO staff and all economic operators in public procurement system. Bearing in mind the lack of knowledge about EU regulations and practices in field of public procurement, there is a need for additional strengthening of capacities of PPO staff to organise the adequate trainings for economic operators and to transfer them the EU experiences and recommendations. Through this support, PPO would strengthen the capacities through acquiring a knowledge and getting acquainted with best experiences and practices of EU countries (preferably some countries with the most development competition on the public procurement market or the lowest degree of corruption in public procurement), in order to transfer it to

economic operators through trainings with aim to incline the awareness of economic operators regarding greater participation in public procurement procedures.

Induced Output 6: The external quality review of work of IA units improved

This action supports measure 4.2 (activity 4.2.5) of the PFM RP 2021-2025 Action Plan aiming to improve Quality of work of IA Units. The primary objective of both internal and external quality review is to assess the quality of established PFBs' internal audit functions with the objective of improving current practices with International Standards for the Professional Practice of Internal Auditing (ISPPiAs). External quality review focuses on evaluation of internal auditors' self-assessment questionnaires and both desk and field review to ensure compliance with regulations, IA definitions, applicable standards, and the Code of Ethics, as well as to assess the efficiency and effectiveness of internal auditors and identify likely areas for improvement. Currently it is performed by CHU but introducing peer review and bringing IA champion into this exercise would enable further growth of this function, in line with growth of number of IA units which is expected. It will also bring improvement of its quality and objectivity. The idea of this synthetic approach is to have gradual growth of share of peer reviews within total number of external quality reviews. CHU will continue to perform external quality reviews but share of peer review will slowly grow, in line with growth of number of trained peer reviewers.

2.6. 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.

Gender equality and empowerment of women and girls

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G0. 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 Equality¹⁰ 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 2020-2025. 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 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 Public Administration reform processes supported through this Sector Budget Support SBS intervention need to be consistent with the principles of non-discrimination and gender equality. A crucial

10 Official Gazette RS, No. 52/2021

aspect for the PAR reform will be the application of the gender disaggregation of statistical data, needed to both inform and guide the process, but also to measure and evaluate the impact of the measures upon the issue of equality of man and women in the PA systems.

2.7. Risks and Lessons Learned

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium / Low)	Mitigating measures
3-to people and the organisation 3.	Lack of political leadership to support and implement a comprehensive reform agenda, including the risk of changes in Government structure that may affect coordination between key institutions	M	M	Proper and timely support to the political level of PAR management, acquainting them with the process of reform and especially with the effects and benefits of comprehensive reform agenda implementation; Effective coordination of the institutions involved and timely reporting on the PAR and PFM implementation. 4.
3-to people and the organisation	Resistance to professionalization and depoliticization, as well as resistance to changes within the system, may affect changes of the normative framework and further implementation of foreseen reform activities	H	H	Established mechanism of cooperation between key institutions led by High Civil Service Council to ensure political commitment in professionalisation and depoliticisation reforms.
3-to people and the organisation	Inadequate staffing and high turnover rates in the public administration influences the absorption capacities in line ministries and relevant bodies involved in the reform activities 5.	M	M	Strong commitment of the Government towards implementation of the public administration reform strategy. The required positions will be filled with properly educated and trained stuff. 6.
1-external environment	Possible prolonged duration of	H	M	Modification of the implementation approaches, wherever feasible, to

	COVID-19 pandemic may affect the timing and implementation of the reform activities and quality of achieved results			ensure progress of activities. Close communication with the donor and the key national beneficiary 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 operate at the level of PAR subsystems	M	M	Enhanced investments in ICT infrastructure and improved coordination between institutions which are owners of the IT systems at the PAR subsystems level; Increased cooperation with the ITE.

Lessons Learned:

According to the country-level evaluation of the EU cooperation with Serbia, the use of SBS 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. SBS moves the ownership of the reform process decisively to the government and line ministries 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 SBS, particularly at senior levels, provided a forum through which EU-supported interventions became more visible across government. This level of visibility, together with the conditionality of funds for SBS, created an informal but effective intra-governmental 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. The SIGMA initiative worked well in support of public administration reform. It provided an external, neutral and expertise-led basis for setting mutually agreed standards against which reforms in Serbia could be measured. The structured approach to assessing progress gave credible and acceptable data on progress and provided a solid basis for policy dialogue and planning of support.

The Sector Reform Performance Contract for PAR contracted in 2016 is credited with making EU support more coherent and more strategic. In relation to the SBS influence at the policy level, there are (at least) two plausible mechanisms by which it contributed to policy reform. The first is during the preparation for the SBS, and the motivation which it generates for the government to meet the general conditions, particularly in relation to required standards for public financial management. The second is during implementation, when the enhanced dialogue has the opportunity to feedback on progress and to address stalled and arising policy issues. SBS was found to increase the confidence and competence of national authorities in managing large-scale change, as an unintended effect of the intervention

The monitoring support for the SBS programmes provided highly valuable information on progress. The direct links between the monitoring information and the SBS inputs and activities provided useful understanding of what was working and what was not working in terms of assistance, as well as recommendations on future actions to improve overall reform performance. The SBS modality also faced some constraints that offer some learning for future interventions. Planning was focused on what the SBS was intended to achieve and how to measure it, whereas insufficient attention was paid to how the work would achieve the planned goals. Design of indicators showed a prevalence of outputs compared to other types of indicators such as outcome. Complementary support contracts were mostly contracted after the start of the SBS contract.

This action builds on ongoing and past EU-funded support and mid-term reviews of the government's own strategies, while seeking to complement other donors' initiatives. Budget support for PAR and PFM pave the way for a follow up action to further strengthen reform implementation. Moreover, lessons learned from ongoing sector budget support programmes highlight the need for political leadership, commitment and strong coordination, and stability of the public administration, especially for cross-cutting reforms to be implemented across government, both at central and local levels, and for further engagement through policy dialogue.

3.5. Indicative Logical Framework Matrix

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (2025)	Sources of data (1 per indicator)
Indicative impact of the policy	Further improvement of public administration operations and the quality of policy making in accordance with European Principles of Public Administration and delivering high quality services to citizens and businesses, as well as professional public administration that will significantly contribute to economic stability and increase living standards.	Satisfaction of citizens and businesses with services delivered by public administration	4, (2020)	6,5 (2025)	Balkan Barometer, https://www.rcc.int/balkanbarometer/publications 7.
		Government Effectiveness (World Bank)	53.37% (2019)	60-63% (2025) 8.	World Bank, https://info.worldbank.org/governance/wgi/Home/Documents
Expected outcomes of the policy	Expected outcome 1: To improve recruitment process in public administration	Meritocracy and effectiveness of recruitment of civil servants (SIGMA principle)	3, (2019)	4, (2025)	SIGMA Monitoring Report
	Expected outcome 2: To increase level of accountability and transparency at all levels of the government (central and local)	SIGMA indicator: accessibility of public information	21/30, (2017)	30/30, 2025	SIGMA Monitoring Report – http://www.sigmaweb.org/publications/Monitoring-Report-2017-Serbia.pdf
	Expected Outcome 3: To improve capacities for public policy and budget planning	Public services performance information	C+ (2020)	B (2025)	PEFA assessment for the Republic of Serbia
	Expected Outcome 4: To increase efficiency and control in execution of public funds	Progress identified, in the area of the PIFC and Public procurements within the Commission reports on Serbia per specific years.	Moderately prepared (2021)	Good level of preparation, (2025)	Commission report on Serbia
Induced outputs	Induced output 1: Improved procedure for merit-based filling of senior civil service positions is applied	<i>Percentage of senior civil service positions filled in accordance with the competency framework, compared to the total number of positions</i>	40%, 2021	>95%, 2025	HRMS Report

	Induced output 2: Enhanced reactive transparency of the public administration entities upon the decisions/recommendations of the independent state bodies.	Percentage of recommendations / decisions of the Commissioner for Information of Public Importance and Personal Data Protection, and the Ombudsman (Protector of Citizens) on which public administration bodies acted (addressed).	Commissioner : 65%; Ombudsman: 77.52% (2021)	Commissioner: 80% Ombudsman: 82% (2025)	Annual report of the Commissioner for Information of Public Importance and Personal Data Protection/Ombudsman
	Induced Output 3: Increased local self-government capacity for the application of the good governance principles in the areas of (1) accountability and (2) transparency and participation	Average capacity of the local self-government to apply good governance principles in the areas of (1) accountability and (2) transparency and participation	52.8% (2018)	62% (2025)	Standing Conference of Towns and Municipalities Report on Good Governance Index in LSGUs.
	Induced output 4: Improved medium-term planning and reporting	Number of MTPs implementation reports developed through Unified information system for planning and reporting of public policies (UIS)	10% (4 MTPs (2021)	100% (2025)	PPS annual performance Report
	Induced output 5: Strengthened competition at the public procurement market	Share of concluded public procurement procedures when there is only one tender submitted in total number of concluded PP procedures.	52,61% (2021)	46% (2025)	Reports on the implementation of the Action Plan of the Program of Development of Public Procurements.
	Induced output 6: The external quality review of work of IA units improved.	Number of external reviews of the quality of work of internal audit units within public fund beneficiary institutions with gradually growing number of peer reviews within total number of reviews	8 (2021)	12 (2025)	Reports on performed quality reviews of work of IA units and/or Consolidated report for the Minister on performed quality reviews for the respective year.
Direct outputs	1. Strengthened political and policy dialogue between the EU and the Government in the area of PAR	Regular technical and high-level meetings to discuss and review implementation of the PAR strategy, focusing on variable tranche targets	PAR Strategy adopted PFM Programme adopted LSG Programme adopted	PAR AP, PFM programme and LSG Programme are implemented in accordance with the schedule	Commission Report, Annual Reports on implementation of PARS, PFM programme and LSG Programme

	2. Intra and inter-ministerial consultation mechanisms are capable to translate into actions the provisions of the PAR action plan and the PFM Reform programme	9. Implementation of the PAR AP and the PFM Reform programme is on track	The policy coordination, management and monitoring structure is in place.	The consultation mechanisms are effectively supporting the implementation of the PAR AP and the PFM Reform programme	SBS Self-assessment reports, MPALSG and MFIN monitoring reports on PAR and PFM Programme
	3. Increased use of Government mechanisms for dialogue with donors and stakeholders to coordinate and further align development cooperation.	Number of sub-donor meetings within PAR sector per year	SWG meet twice a year on reform processes in the PAR/PFM area under MEI guidance	Sub-donor coordination mechanism is in place, takes specifically into account PAR issues. 2 sub-donor meeting per year.	Minutes of donor sub-coordination meetings.
	4. Complementary support: improved capacities of line institutions to coordinate the implementation of the PAR and PFM	One Service contract is contracted and implemented in line with the ToR and procedure			

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 2.4 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 26 000 000, and for two contracts under the complementary support EUR 4 000 000. According to the envisaged dynamics in the implementation of Sector budget support component, EUR 26 000 000 will be disbursed through base 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 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 Public Administration Reform Strategy 2021-2030 with the Action Plan 2021-2025 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.

The specific conditions as well as the tranches to which they apply are as follows:

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

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action.

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 shocks 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 measures¹¹.

4.4.1. Direct Management (Grants)

N.A.

4.4.2. Direct Management (Prize(s))

N.A.

¹¹ www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.4.3. Direct Management (Procurement)

The complementary support component of the programme amounts to EUR 4 000 000 will be implemented through procurement. This measure is planned to be implemented through two contacts, and it should ensure technical assistance to support the PAR and PFM areas 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.

Therefore, complementary support component will be directly managed by the EU Delegation to the Republic of Serbia and is going to be composed of:

Activity 1: Support to the capacity building for the MPALSG, PPS, MoF and other institutions in the implementation, coordination, monitoring and reporting on PAR sector reform agenda will be implemented through one Service Contract in the amount of EUR 3 000 000.

Activity 2: Support to the implementation of the monitoring and evaluation framework for the measurement of the specific targets and indicators under the Sector Budget Support component will be implemented through one Service contract in the amount of EUR 1 000 000.

Activity 1: Technical assistance through a Service Contract will be composed of three components including:

- The first component will focus on support in further improvement of capacities for evidence-based policy making, enhancement of capacities in the area of strategic planning, implementation and monitoring in the area of PAR, improvement of legal framework in the area of human resource management.
- The second component will focus on strengthening of the capacities in the area of planning, implementation, monitoring and reporting on Public Financial Management Reform Programme, as well as enhancement of capacities related to planning, management and execution of public funds and internal financial control system in the public sector.
- The third component will be targeted on ensuring enhanced visibility of PAR and SRC and providing support for SRC monitoring and reporting is provided

Activity 2: This second component of the complementary support that will be implemented through second Service contract will be needed for the implementation of the monitoring and evaluation framework for the measurement of the targets and indicators within this sector budget support, through specifically dedicated framework contracts.

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	EU contribution (amount in EUR)	Indicative third-party contribution, in
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		currency identified
Budget support component - cf. section 4.3	26 000 000	N.A.
Methods of implementation – cf. section 4.4		
Outcome 1 composed of two Service contracts (complementary support measures), composed of	4 000 000	N.A.
Procurement (direct management) – cf. section 4.4.3	N.A.	
Procurement – total envelope under section 4.4.3	4 000 000	N.A.
Budgetary guarantee – amount of annual provisioning	N.A.	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	N.A.

4.7. Organisational Set-up and Responsibilities

A specific structure for the coordination, monitoring, reporting and evaluation of this Sector Reform Contract intervention has been already established within the previous PAR implementation framework. This structure is also foreseen in the new PAR Strategy and includes three levels of management and coordination. The MPALSG performs activities at the first operational level, the second level consists of the Inter-Ministerial Project Group, while the PAR Council operates at the third and highest level of the three-tier structure.

The role of MPALSG as the PAR coordinator is to ensure coherence and synergy of the entire PAR process. The first level of coordination of the PAR, which primarily consists of performing operational tasks of the PAR process. The Inter-Ministerial Project Group is tasked with ensuring the administrative coordination and the monitoring of the PAR Strategy implementation. Tasks of the Inter-Ministerial Project Group members are primarily aimed at administrative coordination and endorsement of reports on the implementation of the PAR Strategy. This mechanism ensures the active participation of all relevant state administration bodies in the PAR process, as well as representatives of civil society organisations and local self-government. The Council has been established as the central political coordination body for the PAR. The Council is chaired by the Prime Minister, co-chaired by the Deputy Prime Minister and Minister of Public Administration and Local Self-Governance, while high-level representatives from other relevant state authorities are appointed for members of the Council.

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 logframe matrix (for project modality) and 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 new PAR Strategy identifies measurable indicators for each year of implementation at the level of general and specific objectives of the Strategy, then indicators at the level of specific objectives of each of the three subordinated reform programmes, as well as indicators at the level of measures for the three thematic areas elaborated in the accompanying action plan for the period 2021-2025. Technical specifications of indicators have been developed including key institutional responsibilities for collection. Monitoring the implementation of the PAR Strategy implies regular collection of data on the implementation of activities at dynamics set out in the action plans.

The System for collecting, processing and analysing information and data since 2019 relies on the *Unified information system for planning, implementation monitoring, policy coordination and reporting* operated by the Government through the Public Policy Secretariat, as an internal system whose data can be accessed by state administration bodies. The process of monitoring and evaluation of the implementation of the PAR Strategy is coordinated by MPALSG through the Department for PAR and eGovernment responsible for collection, processing and analysis of data, as well as the preparation of the draft report on the implementation of the PAR Strategy. Reporting on results implementation of the public policy documents is legally established by the LPS. Regarding PAR strategy and the LPS provisions, the MPALSG reports to the Government through the PPS. Data on the implementation of the action plan and program are collected and entered into the UIS after the end of each calendar year. The LPS also envisages deadlines for reporting - 120 days from the end of the previous calendar year. In order to achieve harmonisation of higher and lower hierarchical documents of public policies and their reports, it is necessary that all data for action plans and programs in the field of public administration reform be entered no later than February 1 of the calendar year.

Responsible institutions identified as bearers of activities in the Action Plan for the implementation of the PAR Strategy continuously monitor the implementation of activities. If the implementation of the PAR Strategy deviates from the planned activities, the responsible institutions shall inform the Inter-Ministerial Project Group or the MPALSG in order to take appropriate actions and steps to mitigate negative consequences.

With regards to coordination of activities related to the management of EU funds and other international assistance (donor coordination) the Sector Working Group (SWG) for PAR, including PFM has been established. The SWG is responsible for coordinating activities related to the programming and management of EU funds and other international assistance. Representatives of the donor community participate in the SWG meetings based on the needs and requirements of each SWG meeting and take part in consultation processes. The SWG also acts as the Sectorial Monitoring Subcommittee for IPA under the Decentralised Management. NIPAC/NIPAC TS is responsible for coordination and ensuring the efficient functioning of all activities of the SWG.

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:

Review missions for the disbursement of fixed and variable tranches will take place in the third quarter of the year following the reference year, at which point the beneficiaries will have prepared a self-assessment report, and will make available the materials/data defined as sources of verification in the policy matrix. The MPALSG will be responsible for the collection and collation of materials/data to be used in the review missions. Pre-assessment missions in the third or fourth quarter of the reference year may be deployed to provide advance information to the beneficiary and the Commission on the state of play related to the achievement of targets.

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). Monitoring exercises will be carried out as prescribed by the DG NEAR guidelines on linking planning/programming, monitoring and evaluation.

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.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

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 SBS intervention in particular, and to the overall reform process in PAR and PFM 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 SBS. 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. The sustainability of the results of this action will be supported by following-up on the implementation of the PARS as well as on the complementary assistance geared toward the creation of the required capacities within the key institutions leading the reform process.

This SBS 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. The PAR MTEF, developed in the previous SBS, will be used to secure financial resources for the implementation of Action and maintenance of the results once the Action is completed, through linking of the expenditures incurred with the medium-term budget framework.