### 1. Identification

<table>
<thead>
<tr>
<th>Title</th>
<th>1 -Public Administration Reform Sector</th>
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<tr>
<td>MIPD Sector Code</td>
<td>1. Public Administration Reform</td>
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<tr>
<td>ELARG Statistical code</td>
<td>34 - Institutions</td>
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<td>DAC Sector code</td>
<td>15111</td>
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<tr>
<td>Total cost (VAT excluded)</td>
<td>6,120,000 EUR</td>
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<td>EU contribution</td>
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<tr>
<td>Management mode</td>
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<td>Decentralised mngmt:</td>
<td>Central Finance and Contracting Unit (CFCU) - Ministry of Finance and Economy, Department for Contracting and Financing of EU Funded Projects</td>
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<tr>
<td>Responsible Unit or National Authority/Implementing Agency(ies)</td>
<td>Programme Authorising Officer (PAO) – Assistant Minister at the Ministry of Finance and Economy, Head of Department for Contracting and Financing of EU Funded Projects Mrs. Nataša Šimšić</td>
</tr>
<tr>
<td>Implementation management</td>
<td>Nominated SPO at the Ministry of Finance and Economy – relevant for measures 1.1 and 1.2: Mrs. Jelena Sedlaček, Head of European Integration Department, Sector for International Financial Relations and European Integration, Ministry of Finance and Economy</td>
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<td>Benefits:</td>
<td>Measure 1.1: Ministry of Finance and Economy, Sector – Central Harmonisation Unit; Measure 1.2: Ministry of Finance and Economy – Treasury Administration</td>
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<td>Zone benefiting from the action(s)</td>
<td>Republic of Serbia</td>
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### 2. Rationale

The sector support for Public Administration Reform (hereinafter: PAR) within IPA 2013 is focusing on public finance management. Support will be provided to public internal financial control (PIFC), public expenditure management (PEM) and especially improvement of functioning of Treasury IT system, and public procurement (PP). These selected measures are based on the following strategic documents: Fiscal Strategy of the Republic of Serbia for period 2013-2015, Strategy of Public Internal Financial Control in the Public Sector and

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1 The total cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.
Strategy for Development of Public Procurement in the Republic of Serbia, while draft Strategy of Public Administration Reform has also been consulted. These measures complement IPA 2012 sector support to PAR, where the focus is on civil service reform and training of civil servants both at central and local government level as well as on e-government.

2.1 LINKS WITH NATIONAL SECTOR OBJECTIVE(S) AND MIPD SECTOR OBJECTIVE(S)

PAR covers a wide scope of public sector institutions, including executive power at the central level (ministries, public agencies and special organizations), local self-government institutions (there are in total 168 towns and municipalities) and public utility companies. The sector embeds the current PAR process in the Republic of Serbia, i.e. the whole range of areas which provide efficient management and efficient state functioning at all management levels, financial management and control and other areas enabling undisturbed functioning of the executive power, such as public procurement, human resources management, e-government etc.

The Needs Assessment Document (NAD) 2011-2013 defines the following priorities of the Republic of Serbia in PAR sector:

- Enhanced professional development and institutional capacity of civil service at all levels;
- Improve development and implementation of efficient public policies;
- Ensure the transparent and accountable functioning of public administration;
- Reengineer administrative processes through introduction of new IT solutions

The MIPD for 2011-2013 highlights the following objectives for IPA support in PAR sector:

- To improve the efficiency, effectiveness, transparency, commitment to non-discrimination and accountability of the public administration at both central and local level;
- To support Serbia's adoption, implementation and enforcement of EU-related legislation;
- To improve policy coordination for EU integration;
- To rationalise the administrative resources;
- To build capacity in managing IPA funds; and,
- To further align the statistical system with the EU acquis and to further enhance coordination of statistical activities.

In general terms, those objectives are formulated largely in line with European Partnership and complemented by requirements of the Stabilisation and Association Agreement. While substantial support for the sector (including statistics) is programmed within 2011-2012 IPA allocations (approximately 78 million EUR) addressing the majority of listed priorities, the effects of the assistance can be expected only once the full fledged implementation of all the interventions takes place. However, for the update of needs and for a more focused prioritisation of assistance to be provided within IPA 2013, guidance is recognized in the findings and recommendations of published EC and SIGMA Reports for Serbia. In addition, it is necessary to advocate for a more profound reading of Public Financial Management Performance Report for Serbia (Public Expenditure and Financial Accountability Assessment – PEFA) as well as of the Fiscal Strategy 2013-2015 (and the respective Pre-Accession Economic Program of the Republic of Serbia for year 2013 - PEP) which provide guidance
for a more comprehensive approach in addressing the needs leading to improvements in the area of public finances.

2.2  **Sector assessment – Policies and Challenges**

2.2.1.  **National Sector policy, strategy and context**

The policy of the Public Administration Sector in the Republic of Serbia is structured through series of general documents, the majority of them not being positioned in hierarchical subordination, but rather juxtaposed horizontally, mutually interlinked and complementary. Furthermore, those are the documents of different nature, some of them being strategic papers, the others outlining economic context and projections and some dealing more particularly with plans of necessary interventions bringing Serbia closer to clearly set goals (such is accession to the EU). The implementation of the policy is than carried out through normative level documents (laws, by-laws, etc.) Following the general consensus on overarching values, challenges and achievements guiding the development and reforms in PA sector, it can be presented along the lines of underlying principles as defined by the *Public Administration Reform Strategy in the Republic of Serbia*. In accordance with this document, the main objectives of PA are to create a democratic state based on the rule of law, accountability, transparency, effectiveness and efficiency and to create a public administration directed towards the citizens, capable of offering high quality services to the citizens and private sector, against payment of reasonable costs. The achievement of these objectives is based on the principles of decentralisation, rationalisation, de-politicisation, professionalization, and modernisation. Control mechanisms and European integration also represent important elements for a sound and effective reform in accordance with the Strategy. Although the time horizon of the existing PAR Strategy and its Action Plan has elapsed (it was adopted for the period 2009-2012) it is likely that the guiding principles shall outlive the existing strategic document and be resumed with the new one. Being a pivotal document expressing the vision and plans for further governance reforms in the Republic of Serbia, the PAR Strategy has to be based on unanimity of major decision-making structures. From the technical point of view, having in mind the parliamentary elections and the establishment of the new Government in mid 2012, the process of the development of the new PAR Strategy was inevitably affected and delayed, which led to prolonging the deadline for the adoption of the new Strategy (now set to the August 2013). The work is currently concentrated towards redefining of strategic framework and putting into operation the inter-institutional governmental structure which will be tasked with development of the draft Strategy (and the respective Action Plan) for the period post 2012, coordinated by the Ministry of Justice and Public Administration. The composition of the working structure with one horizontal group gathering high level officials (the so-called Project Group) and seven working sub-groups (on 1. public administration; 2. regional development and local self-government; 3. public finances and public procurement; 4. other public authorities – agencies, funds; 5. e-government; 6. anti-corruption; and the 7. control of work of public administration), as well as the intention to broaden the scope of the Strategy compared to the previous one by encompassing totality of public authorities as the starting point in elaboration of the document, increase immensely the expectations and impose a true challenge of maturity and readiness of the Republic of Serbia to move forward in the PA sector. The approach in conceptualising the new Strategy is declared to be very inclusive one also on the level of recognising all the other existing and/or planned more specific strategic documents content-wise. This means also that the strategy document will contain fewer details on areas where
particular strategy exists or is planned, with clear references to those other documents and with levelling the details in the format of the Action Plan. The pertaining with **the principles** of the PAR is however not questioned, thus ensuring the internal coherence, continuation and sustainability in the evolving logic underlying strategic reforms in public administration.

Although the principle of **decentralisation** has not been encircled with the relevant national Strategy of Decentralisation as planned in the previous period, the integrative elements of this principle continue to be promoted by the state authorities in their respective remits. As a consequence, the reform measures leading towards decentralisation are being undertaken in a rather fragmented manner, usually driven by the priority topics on the Government agenda in certain areas, thus leaving significant room for improvements with the view of synchronising those undertakings and carrying out the decentralisation in strategically planned and coordinated manner and ideally resulting in the increase of efficiency and quality in the provision of public services to citizens, as he principle of the PAR Strategy stipulates. Conscious of the importance of the decentralisation process, authorities of the Republic of Serbia have nevertheless intervened with some pieces of legislation of significance for the competences of local self-government (LSG) units. As much as the adopted Law on Financing of Local Self-government Units, Law on Communal Police and Law on Regional development, including relevant by-laws for the implementation of these legal acts, represent a matter of compliance with the Constitution of the Republic of Serbia, they are also important milestones in Serbia’s aligning with governance principles of European countries. The Law on Public Property which entails transfers of competences to the Province of Vojvodina, as well as to LSGs, was adopted in September 2011. The adoption of this Law represents the formal resolution of a disputable situation existing under the previous Law on the Means in the Possession of the Republic of Serbia which was criticised for its inconsistency with the Constitution, the core problem being the absence of the property in the possession of the LSG units in the strict sense. With the adoption of the Law on Public Property, legislative preconditions are created for a better adherence of the Republic of Serbia with the principle of substantive local autonomy dominant in the European Charter on Local Authorities (ratified by the National Assembly in 2007). The Law on Financing of Local Self-government Units (regulating elements of fiscal decentralisation) was adopted in June 2011 (and amended in 2012) with the aim to establish transparency in providing municipalities with additional funding through allocations stemming from the income tax. By its nature, this Law is one of the main pillars of the decentralisation process, and the actual bringing it into effect proved to be very challenging, notably as it revealed the necessity of adjustments of some adjacent legislation as well as of moving other aspects of decentralisation (and not only fiscal) forward in parallel. Therefore, both the Fiscal Strategy and the PEP announce the further amendments of the Law on Financing of LSG Units aiming at more efficient mobilisation of capacities of local public finances and fostering the fiscal responsibility of local self-government. The changes shall go in the direction of establishing the link between the volume of funds transferred to the LSG units and the volume of their source incomes. The scale for establishing development criteria of LSG units, influencing the volume of transfers, will also be embedded in the Law. Other measures envisaged to improve management of local public finances concern setting the limitation to growth of wages and subsidies on the local level and transfer of competences in transport infrastructure, education, social protection and health polices from central to local level. Furthermore, it is recognized that the efficiency of services provided by the local self-government can be increased only by greater and more cost-effective investments in local development projects, while some pre-conditions have to be addressed in parallel, such as: acceleration of the process of property restitution to LSG units, and improving business environment by removal of administrative obstacles, simplification of
procedures and introduction of e-government. Those governmental plans seem to be well aligned with - and motivated by the same reasoning as presented in - the *Serbia 2012 Progress Report* which records the lack of clarity with regards to legislation on municipal finance and the necessity of its proper implementation to ensure that municipal funding is predictable. According to the Fiscal Strategy and the PEP, the effects of the outlined measures for improving local public finances to be implemented in the period mid 2013-2015, are estimated to savings in approximately 1% of GDP in medium term.

The **rationalization** of the public expenditure (and consequently also the reduction of public administration) emerged as a major theme in the period of economic crisis, when the inadequacy of the size and structure of Serbia’s public spending became particularly evident, and as part of the measures agreed with the International Monetary Fund as conditions of the Stand-By Arrangement (in 2009). Against the background of a significant fiscal deterioration, the authorities took steps to address some of the structural weaknesses of public finances. A multi-annual budgetary process, which is supposed to underpin a more rigorous and efficient medium-term planning, has been formalised in the revised Budget System Law (amendments as of October 2010). The amendments adopted in 2010 established numerical fiscal rules and procedures, including the setting-up of a Fiscal Council, which determine the path of expenditure-driven fiscal consolidation. The national strategic document which defines the objectives and guidelines of the Government’s economic and fiscal policy for the mid-term period is the **Fiscal Strategy** for period 2013-2015, adopted in November 2012. It represents the replacement of the previous *Memorandum on Budget and Economic and Fiscal Policy* (the last of which was adopted for period 2011-2013) as well as of the Report on Fiscal Strategy adopted only for the period 2012-2014. On economic policy, the Fiscal Strategy sets down macroeconomic stability, sustainable economic growth and the development of a competitive economy, increased employment and standards of living, and balanced regional development as strategic objectives for this period. Implementation of fiscal policy will be directed towards achievement of a strengthened legal framework and implementation of fiscal responsibility and discipline on all levels. This document is complemented by several already adopted strategies providing more in-depth orientation for programmatic interventions in the short- and medium-term periods. Such is the **Public Debt Management Strategy 2013-2015** *(updated each year for the next 3 year period and adopted within the scope of Fiscal Strategy)* which streamlines both fiscal and monetary policies. Likewise, **Strategy of the Ministry of Finance for Successful European Integration Process** *(adopted in 2011)* analyses main gaps between the *acquis* and the national legislation in the area of free movement of capital, public procurement, state aid, financial services, taxations and customs union and outlines recommendations for reducing the gaps.

Efforts to strengthen the legal framework of public finances are pursued also by means of adoption of Amendments to the BSL in autumn 2012. They aim at more rigorous implementation of the new fiscal responsibility provisions and introducing additional systemic changes over the medium term, including the improvements of the cost-effectiveness of the public sector and insisting on activating policy of balanced regional development. In accordance with the Fiscal Strategy 2013-2015 and the Pre-Accession Economic Program for 2013 (PEP), the way forward has to be twofold – meaning the simultaneous and dedicated implementation of fiscal and monetary policy which goes in hand with the structural policy developments. Specific fiscal rules, as they are outlined in the Budget System Law, determine and limit movements of the major public spending categories, wages and salaries of public sector employees and pensions. Enforcement of those rules is expected to gradually lead to the relative reduction in the share of these expenditures. The remaining required fiscal adjustment are planned to be carried out by reduction in discretionary expenditures, i.e. expenditures for
purchase of goods and services, subsidies and budget loans and by a more comprehensive presentation of the state budget with the elimination of own or proper budget sources as previously present in public finance system. This approach is already exercised to a certain extent, with the preparations of the Law on Budget for year 2013. With the amended BSL, the totality of incomes and expenditures of budget beneficiaries and extra-budgetary funds are integrated within the budget process, which will ensure better liquidity management via general ledger of the Treasury. In those terms, the new provisions of the BSL envisage for the Treasury to host comprehensive IT system for financial management, encompassing all the public sector institutions, including the ones which are not budget beneficiaries. To carry out fiscal adjustment to the required extent, it is necessary to undertake cost-cutting measures at all government levels, both central and local, and among other things - to ensure more efficient public procurement process (it is exactly through reduction of costs for the purchase of goods and services that major savings are projected in general expenditure records).

**Strategy for Development of Public Procurement in the Republic of Serbia and the respective Action Plan**\(^2\) (adopted in year 2011) is an important document which manifests the strategic commitment of the Republic of Serbia to facilitate joining the EU by setting following overall objectives in the area of PP:

- Promoting the common public procurement system in the Republic of Serbia;
- Increasing efficiency of the public procurement system;
- Decreasing irregularities in the public procurement system;
- Harmonization with EU directives and other legal acts;
- Encouraging the sustainable economic growth of the Republic of Serbia and the increase of standard of living of its citizens.

From the point of view of fiscal sustainability in the long term, substantial **structural reforms** of the public sector (especially reforms of the pension system, health sector, education and public enterprises), shall play the key role. Importantly, in the context of public financial management reforms in the period post 2012, Fiscal Strategy and the PEP prioritize also achieving progress with establishing medium-term expenditure framework through inter-institutional fiscal coordination, introduction of program budgeting and improving the system of capital investment budgeting (three-years budgeting of capital investments being introduced with the Law on Budget for year 2013 for the first time). Limitations of expenditures in medium term will have to be based on forecasted fiscal deficit and estimated effects stemming out of the implementation of structural reforms. Equally important will be the coordination among direct budget beneficiaries in setting the three-year priorities for financing. The evident challenge will be the capacity of those institutions in terms of analytical skills and potential to undertake clear prioritization for financing, while the absence of political pressures is the assumption influencing the successful transition to exercising medium-term economic and fiscal policy. Tightly linked with this is the planned introduction of program budgeting which will allow for continual and multi-annual financing of priority policies, programs and projects requiring longer periods of time for effective implementation. To embark with program budgeting obligatory from year 2015 (in accordance with the BSL), comprehensive preparation of institutions is envisaged in the meantime under the coordination of the Ministry of Finance an Economy.

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\(^2\) However, the respective Action Plan in the existing format requires immediate revision in order for it to substantially align with the Strategy. Furthermore, the necessity for adoption of the new, revised Action Plan was recognised among the main stakeholders in the Serbian public procurement system
The area of control mechanisms, although not outlined as a guiding principle in the PAR Strategy, is and remains highly relevant on the PA sector policy level. In the strict sense, it concerns administrative and judicial controls over functioning of PA, which have seen some important developments during the period of implementation of the Strategy viable for period 2009-2012. The Administrative court has started its effective functioning, the independent state institutions – Ombudsman and the Commissioner for Information of Public Importance and Protection of Personal Data continued exercising their competences in overseeing the implementation of relevant legislation (incremental increase of staff and project support provided in both cases), etc. However, controls immanent to public finances were not so evidently outlined with the previous PAR Strategy, the preparations of the new one providing space to address this more systematically. Activities related to work and improvements of capacities within institutions in charge for external and internal financial control have been gradually intensifying over the past several years. Practically in parallel, while the State Audit Institution (SAI) was preparing its first annual audit report during year 2009 (for the financial statements of budget beneficiaries in 2008), Central Harmonisation Unit was working on the consolidation of the first report on the state of play of PIFC in the Republic of Serbia for year 2009. During year 2012, the State Audit Institution (SAI) expanded the scope of the audits of budget beneficiaries for the 2011 fiscal year in accordance with the Strategic development plan 2011-2015 and the improved methodology, so that in addition to final statement of accounts of the 2011 Budget of the Republic of Serbia, it also encompassed financial statements of 16 public enterprises, 21 local governments, Health Insurance Fund of the Republic of Serbia and the National Bank of Serbia in accordance with the 2011 Audit Program. When adopting 2012 Audit Program, one of the criteria for determining subjects of audit were the notifications from the Public Procurement Office on irregularities in the area of public procurement, and notifications and information the SAI received during previous year. Some of the analyses for previous years indicate that there are positive effects from reports with all entities where audit was conducted – i.e. that the majority of irregularities are being removed. However, given that the Report for year 2011 was released only in December 2012, the follow-up on the recommendations and the SAI Opinions issued to various auditees yet remains to be monitored and analysed. Some important observations were presented together with the latest report on external financial audit, very indicative as to where to concentrate further attention in the public financial management – i.e.: both on the financial management and control (FMC) and on the internal audit (IA), SAI contested the actual existence of the functional mechanisms with the subjects of audit allowing them to abide to the applicable legislation and to fulfil the set PIFC objectives. Likewise, significant funds have been found irregularly spent through the PP procedures (in total over 47 billion dinars, or over 415 million EUR) and the breach of the regulations consisting notably in ignoring the PP procedures (although obligatory for the cases in question), using the negotiated procedure as opposed to open without legal grounds, contradictions with annual procurement plans, avoiding publishing as prescribed, etc.

In order to strengthen cooperation in the area of financial management and internal control a closer interaction has been established between the Central Harmonization Unit (CHU) and the SAI in the format of cooperation which is closely monitored and supported by SIGMA. Likewise, the CHU has established cooperation with the Association of Internal Auditors of Serbia, the branch office of the Institute of Internal Auditors (IIA).

The Strategy of Public Internal Financial Control (PIFC) in the Public Sector was adopted by the Government in 2009 in accordance with the NPI and as a tool for alignment with requirements of the aquis Chapter 32 in the area of PIFC. The strategy presents the key elements of the existing systems and outlines a long-term plan for introduction and
development of a comprehensive and efficient PIFC system leading towards prudent management of public resources, regardless of their source. The Action plan associated with the Strategy encompasses the period by the end of year 2014, but the updating of this plan is in the course and is supposed to be adopted by the Government in the first quarter of year 2013. The revision of the Strategy document is scheduled latter-on during year 2013. However, in the overall assessment of the PIFC system, it is observed that largely the Internal Audit has been the main focus of PIFC development in Serbia and notably on the central level, while in addition to this aspect much more weight has to be given to encouraging the managerial accountability underpinned by financial management and control systems. This translates into necessity to broaden the outreach of internal audits on local-level institutions as well as to further strengthen the CHU which develops respective methodologies and standards and to increase its cooperation with organisations responsible for overall PA and civil service reforms in order to root the concept of managerial accountability. This is strongly emphasized with the Serbia 2012 Progress Report saying that substantial efforts are needed to develop public sector financial management and control based on the underlying concept of managerial accountability. Still in the domain of controls in public finances, the Public Procurement Strategy recognizes the necessity of strengthening control/monitoring mechanisms in PP which proved to be a weak points of the procurement system. The new Law on PP has taken this forward very concretely by envisaging new institutes, such as services for control of PP (Article 22. of the Law) and/or the oversight of higher value purchases by civil supervisor (Article 28 of the Law). In-between the requirements to achieve savings of public money, increase accountability and reduce corruption, particularly in the light of the economic crisis on one hand, and continuous efforts to harmonize with EU acquis attempting to modernize PP system on the other hand, the Serbian PP system should strongly benefit from the assistance in facing those challenges. The Serbia 2012 Progress Report assesses that Serbia needs to keep up steady efforts to implement its legislative framework on PP, and in particular to avoid irregularities in the use of the negotiated procedure. Effective coordination between the main stakeholders, including audit and judicial institutions, needs to be ensured.

In the area of professionalization of public administration in the Republic of Serbia, the Law on Amending the Law on Civil Servants was prepared and adopted in the previous period, including by-laws for its implementation. Strategic documents in the area of professional development of civil servants are partially adopted (for the central level) and partially under preparation – when it comes to professional development of the employees in local self-government units. Namely, Strategy for professional training of LSG units’ employees should be finalized by mid 2013 (as presented in the Government Working Plan or year 2013, which indicates equally that the Law on local self-government unit’s employees and the Law on salaries of employees in local self-government units should be adopted approximately at that same period). Meanwhile, the Strategy for the professional training of civil servants for the period 2011-2013 was adopted in July 2011. Linked to this is the principle of depoliticisation, key elements of which include development and strengthening of career and merit based promotion system, as well as preventing political influence to appointed decision-makers in PA. Strategic framework for this concept is largely in place, but in practice a lot remains to be done to prevent exposure of the system to politicisation. Transparency of the work of state institutions and political parties has been enhanced. In this respect, the Serbia 2012 Progress Report remarks the following: The recruitment and career system is not yet fully merit-based and recruitment is still prone to political influence. Local government does not have a merit-based and professional human resources service. Merit-based recruitment and promotion systems should be developed and implemented.
The modernisation of the PA is being addressed partly through preparation of a general legal framework (laws and by-laws) allowing the introduction and putting into operation of e-government procedures. The Strategy for e-Government Development with the Action Plan for the Strategy implementation in period of 2009 to 2013 sets out the objectives of the introduction of e-government which should allow more efficient and effective operation of administrative bodies and public authorities in the provision of public services to citizens, companies and other organisations. Progress was also achieved in improvement of existing and introduction of new registers (taxpayers registry, unified address code, etc.). The new Law on State Registry Books foresees the establishment of a unique information system and currently this system is under development, including the information system for the single electoral roll for the whole territory of Serbia. Main innovations concerned the introduction of general standardised operations for payments of services; mechanisms and instruments to facilitate business start-ups, registration and management; facilitation of tax administration and collection etc. Still, it is explained in the Serbia 2012 Progress Report that the need remains to strengthen overall IT capacity in the country and especially at local level, in spite of the developments concerning the introduction of e-government.

Serbia is striding towards a better programming and management of EU funds and, more specifically, the preparation and implementation of a decentralised management, in accordance with the Strategy for Introduction of DIS in Serbia. In terms of programming, substantial efforts are being invested in rooting the sector based approach and coordination of institutions with the view of joint strategic planning and programming. This is expected to be of crucial importance with regards to the upcoming multi-annual financial framework 2014-2020 and presently the focus is on the assessing the quality, readiness and availability of national strategic plans which could serve as basis for proper designing of contents and the scope of sector programs to be supported by the IPA 2014-2020. Serbia finalized preparations under the Roadmap and Action Plan for decentralised management of IPA funds for Components I-IV and in June 2012 submitted the accreditation package for the conferral of management of these Components. Considerable additional efforts are required in order to ensure adequate administrative capacity in line with the future workload. A more profound overview and consolidation of planning in PA reform is aimed to be achieved with the National Plan for the Adoption of Acquis (NPAA) which envisages an array of developments, such as the harmonisation of legislation related to the foreign currency reserves with European legislation, the further modernisation of the Tax Administration, the full simplification and rationalisation of the procedure for exercising the rights and obligations of taxpayers, integral risk management in the functions of control and collection of payments, improvement of budget management and fiscal consolidation resulting in a lower fiscal deficit, the control of budget expenditure further improved, to reduce the share of current expenditure and increase the share of capital expenditure. As a country in the status of a candidate for membership into the EU, Republic of Serbia will revise the NPAA on an annual basis aiming at punctual presentation of the both legislative adaptations necessary for the alignment with the acquis as well as at outlining the incumbent measures and interventions necessary for the implementation of the harmonised legislation. In this context it is important to reiterate that as the candidate country for the membership into the EU Republic of Serbia is obliged for the first time in year 2013 to submit to the EC the Pre-Accession Economic Program (PEP, while in previous years, as a potential candidate Serbia was submitting Economic and Fiscal Program). PEP has been prepared in inter-institutional coordination guided by the Ministry of Finance and Economy (adopted by the Government on January 24, 2013 and submitted it to the European Commission on January 31, 2013.). Content-wise it can be compared to the Government Fiscal Strategy. Some additional
methodological requirements in PEP presentation had to be fulfilled nevertheless, so PEP (unlike the Fiscal Strategy) contains a comprehensive matrix on economic policies and structural reforms for the period 2013-2015, with basic objectives, main measures and activities, expected effects and estimated fiscal implications, institutions in charge for undertaking envisaged measures and activities and indicative time horizons (until 2015).

A series of activities have been undertaken in the area of coordination of public policies, related to the development of strategic planning in the PA, as well as setting standards regarding the structure of strategic documents. General Secretariat as the Centre of the Government has the leading role in this process and is currently still focusing on the strategic planning system with the intention to subsequently dedicate more resources on the policy coordination issues and on supporting Government in setting its objectives. With this regards, it is planned that the methodology for strategic planning shall be adopted and enter into force in February 2013. Immediately after this attention shall be awarded to the strengthening of the connection between political priorities and administrative planning, as there is almost no direct link between political priorities and the Government work program and the many sectoral strategies. Yet another priority for the Centre of the Government (Genera Secretariat) is fostering the cooperation with the Ministry of Finance and Economy, in particular concerning coherence of strategic planning and the budgetary planning cycle and introducing program budgeting. With this regards, the Serbia 2012 Progress Report observes that the policy planning and coordination system needs to be improved to steer policy development and produce consistent work plans for the PA. Likewise, it recognizes that the administration and management capacity at local level are weak and significant disparities between municipalities persist. *The Strategy of Regulatory Reform in Republic of Serbia* exist for the period 2008-2011 and the Office for Regulatory Reform and Regulatory Impact Assessment operated in the implementation of the Strategy under this umbrella also during year 2012, when also the draft of the new Strategy was prepared. Its adoption is expected early in 2013. The Office is in charge for control of the implementation of the regulatory impact assessment throughout administration, but has likewise implemented during year 2009 a single process of repeal or amendments (the guillotine) of legal acts detrimental for the national economy or simply outdated and superfluous. Another round of regulatory guillotine is planned in 2013 and shall be implemented in accordance with the new Strategy of Regulatory Reform.

The enumeration of the above strategies which fit in the PAR sector, although voluminous is still not extensive. Yet, as presented, some new strategic documents are under development. In such a vast and complex area risks of appearance of overlaps and inconsistencies in-between strategic documents become higher. This is also evident in some of the in-depth analyses undertaken by the Government of Republic of Serbia with the aim of ensuring improvements in policy coordination. In October 2010, General Secretariat of the Government published a document on Analysis of strategic documents in Serbia with recommendations on improvements of overall strategic framework. Some of substantial remarks are noted for the PA area, pointing out the necessity to ensure better consistency. Such is the case for example with the PAR Strategy when it comes to relations with Strategy for e-Government Development and the Strategy for Regulatory Reform; in the case of Strategy on PIFC in relation to NPI, and for several strategic and planning documents in the area of European Integrations, etc. Overall, situation is not quite satisfactory and further efforts have to be deployed in line with Government’s guidance on policy coordination.

The challenge is not only the consolidation of strategic framework but also its development where it does not exist in a coherent manner, such is the case with the PFM area. As presented above, substantial information on plans and targets are contained in a variety of documents,
yet without a single document presenting the full scope of this broad area, references to particular strategic or planning papers and coverage of the gaps (when elements of the PFM are not covered with any medium or long-term planning document whatsoever). While the absence of such framework for the PFM does not prevent progressing with more immediate objectives in accordance with general working plan of the Government and existing separate planning documents, it does pose a constraint for a convincing articulation of longer-term priorities and planning the support accordingly. Such remarks are repeatedly outlined in reports and assessments on the PFM and recommendations of the donor community.

The 2011/2012 SIGMA assessments underline that a concise and pragmatic new plan for reforming the Serbian public expenditure management system needs to be elaborated and approved, placing an emphasis on clarifying the roles and responsibilities of the various stakeholders in the PEM process and on creating proper co-operation mechanisms. The plan should start with an assessment of the current situation and should set concrete goals and targets, as well as planning measures to achieve the targets that are set. However, the plan must be realistic and must not set overly-ambitious targets to be achieved within a short time frame.

PEFA report is explicit in that: PFM reform requires government leadership and commitment. The uncertain political environment in Serbia has made PFM reform to a certain extent dependent on the EC accession agenda rather than a coherent internally owned PFM reform agenda. A more systematic approach with a specific leadership team to take it forward is seen as a good idea. With this regards the PEFA assessment could be used as baseline data to assist in this process. It is intended to provide a basis for information and monitoring to facilitate and update the dialogue on PFM and assist in the preparation of a PFM reform strategy (and related action plan) as well as a PFM capacity development program.

Conscious of those challenges and the necessity to address the consolidation of the planning framework in PFM, the Ministry of Finance and Economy has expressed its firm intention to logically integrate the PFM reform and planning agenda within the broader scope of the development of the new PAR Strategy. This work is supported by advisory services financed from IPA 2010 PAR project; its progress shall be closely monitored by the EU Delegation and the first results should be expected in a short term. At this point, the impression of the participatory ambitions of the Ministry in charge of finances to this process can also be obtained from the importance awarded to it in the PEP document, proposed by the Ministry of Finance and Economy and adopted by the Government in January 2013.

2.2.2. Sector and donor coordination

The coordination and harmonisation of donor activities in Serbia, with a particular focus on country ownership over coordinating aid-funded activities, will be ensured under the leadership of the Serbian European Integration Office (SEIO) – Sector for Planning, Programming, Monitoring and Reporting on EU funds and Development Assistance.

Coordination of programming at the highest policy level is the responsibility of the Commission for Programming and Monitoring of EU Funds and Development Assistance. The Commission meets annually and is chaired by National IPA Coordinator. The Commission is composed of 11 ministers and the Director of the SEIO. The task of the Commission is to review draft documents that will be presented to donors, suggest priorities for use of resources of international development assistance, and consider and make proposals to the Government on other significant issues related to the use and management of EU funds and development assistance. As a monitoring tool, the EU Delegation and NIPAC have also
created bimonthly “bottleneck meetings” between DEU, NIPAC and line ministries to discuss the progress of IPA funded projects and to ensure their smooth implementation.

The NIPAC and NIPAC Technical Secretariat have established eight Sectoral Working Groups (SWGs), initially to prepare the Needs Assessment Document (NAD) for international assistance in 2011-2013, as the basis for identifying annual IPA I programmes, multi-annual IPA III-V programmes and bilateral donor projects, but also for carrying out regular consultations regarding programming and monitoring of the assistance. These SWGs comprise representatives from Line Ministries and other beneficiaries as the main actors in programming and project identification. The SWGs contribute to the identification and prioritisation of projects, ensuring co-financing and analysis of project implementation. SWG for PAR corresponds largely to the MIPD PAR sector, with somewhat broader scope of areas and stakeholders (the PAR SWG involves for example also the PP which is in the MIPD addressed rather in the JHA sector and the Private Development sector).

Within recently improved Aid Coordination Mechanism informal donor coordination groups (previously mostly donor driven) have been rearranged and their work formalized based on increased national leadership. In PAR national sector, in line with new mechanism’s recommendations for rearrangement of existing donor groups, Public Finance and Public Procurement donor coordination groups have been joined to the PAR aid coordination group. It is planned that the group shall be co-chaired by Ministry of Justice and Public Administration and the Ministry of Finance and Economy as lead national institutions. Presently, the ToR for the group’s functioning is being adjusted as a formal pre-requisite for organising first consultations in the new format (with the aim to hold group’s meeting during the third quarter of 2012). To this group most probably the EUD shall be the lead donor (this proposal is subject to further consultations, an if not before, it will be decided on the occasion of the first meeting of the group in question), while other active donors are the following: SIDA, WB, GIZ, Italy, USAID, Norway, Spain and France. In addition to sectoral aid coordination groups, mechanism envisages the following four cross-sector groups: Local Development, Regional Development, Roma Integration and Gender Equality.

Aiming to include Serbian civil sector in development assistance planning in a substantial way, SEIO decided to establish a consultation mechanism with civil society organisations in the end of 2010. The so-called Sector Civil Society Organisation (SECO), where each SECO was to represent one sector, has been established in the following 7 sectors that corresponds to the NAD classification: Rule of Law, Public administration reform, Civil society, media and cultural rights, Human resources development, Agriculture and rural development, Environment and energy and Competitiveness. During 2012 SECOs as representatives of their associated networks participated in the identification phase of programming by taking part in sectoral working group meetings composed of line ministries and other state bodies and by providing inputs for identification of the needs and development of sector (gap) analysis. SECO for public administration reform largely corresponds to the MIPD PAR sector.

The action plan for programming and reporting on international assistance is prepared annually by the NIPAC Technical Secretariat, to ensure synchronization with national planning and budgeting processes and consider IPA programming specific requirements. By defining activities, timeframe and roles and responsibilities of relevant institutions, it serves as a tool for coordination and instrument for aligning donor activities. ISDACON, as both a website and database of development assistance and priority projects, serves as a programming, reporting and communication tool.

**2.2.3. Sector budget and medium term perspective**
With the aim of increasing predictability of public financing for the budget users, as well as of improving transparency of the planning process in general, the Budget system Law prescribes the obligation of presenting the medium term expenditure framework as the three-year expenditure limits for budget users. According to the Fiscal Strategy for year 2013, with Projections for years 2014 and 2015, based on the medium-term macroeconomic projections and the targeted deficit for the respective years, the following funds are planned to be allocated from the state budget to the state institutions associated with the PAR sector:

**Budget expenditure limits for 2013-2015 (in EUR*)**

<table>
<thead>
<tr>
<th>Institution</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Parliament</td>
<td>16,999,415</td>
<td>17,679,381</td>
<td>18,386,555</td>
</tr>
<tr>
<td>Government</td>
<td>70,461,346</td>
<td>73,279,816</td>
<td>76,211,003</td>
</tr>
<tr>
<td>State Audit Institution</td>
<td>2,927,793</td>
<td>3,044,908</td>
<td>3,166,706</td>
</tr>
<tr>
<td>State Legislation Secretariat</td>
<td>706,890</td>
<td>735,159</td>
<td>764,565</td>
</tr>
<tr>
<td>State Statistics Agency</td>
<td>10,549,222</td>
<td>10,971,196</td>
<td>11,410,042</td>
</tr>
<tr>
<td>Directorate of State Property</td>
<td>2,200,452</td>
<td>2,288,462</td>
<td>2,380,000</td>
</tr>
<tr>
<td>Public Procurement Office</td>
<td>529,582</td>
<td>550,769</td>
<td>572,801</td>
</tr>
<tr>
<td>Administration for Joint Services of the Republic Bodies</td>
<td>25,929,900</td>
<td>26,967,090</td>
<td>28,045,778</td>
</tr>
<tr>
<td>Administrative Districts</td>
<td>3,852,993</td>
<td>4,007,099</td>
<td>4,167,375</td>
</tr>
<tr>
<td>Ministry of Justice and State Administration</td>
<td>95,089,181</td>
<td>98,892,742</td>
<td>102,848,453</td>
</tr>
<tr>
<td>Ministry of Regional Development and Local Self-Government</td>
<td>56,963,294</td>
<td>59,241,823</td>
<td>61,611,497</td>
</tr>
<tr>
<td>President of the Republic</td>
<td>2,046,179</td>
<td>2,128,027</td>
<td>2,213,144</td>
</tr>
<tr>
<td>Fiscal Council</td>
<td>311,564</td>
<td>324,030</td>
<td>336,990</td>
</tr>
<tr>
<td>State Administration of Geodesy</td>
<td>36,372,960</td>
<td>37,827,885</td>
<td>39,340,995</td>
</tr>
<tr>
<td>Republic Commission for the Protection of Rights in Public Procurement Procedures</td>
<td>930,727</td>
<td>967,960</td>
<td>1,006,681</td>
</tr>
</tbody>
</table>

*Converted at the agreed budgeting rate of 119.6 RSD: 1 EUR*

The **strategic goal** of the Government economic policy on the medium-term 2013-2015 as outlined in the Fiscal Strategy is the **acceleration of the European integration process** of the Republic of Serbia, by undertaking activities leading to the initiation of accession negotiations and by implementing systemic reforms leading to the fulfilment of the Copenhagen criteria. To this end, the adoption of the necessary systemic laws shall be accelerated, as well as the implementation of the adopted legislation with the aim of establishing market economy, macroeconomic stability and suppression of the corruption and the organized crime. The document further clarifies that in order to fulfil economic and political criteria for membership to the EU, the resources shall be provided for strengthening of the administrative capacities and for the stability of institutions guaranteeing democracy, the rule of law and the protection of minorities, for the development of market economy and of its potentials to respond to the competition and market pressures from the EU, as well as for creating the stable economic and monetary surrounding.

Having in mind the above strategic goal of the country, the focus of the economic policy in the medium-term perspective shall be on the economic recovery of the country and on the creation of conditions for the sustainable and balanced economic growth based on the increase of investments and export, and leading towards the increase in employment and of the living standard. With this regards, it is recognized that reforms in PA and of public services have to be continued for the purpose of stabilization and solvency of public finances, leading to the decrease of costs in providing public services and to the increase of the

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efficiency of administration on central and local levels. Envisaged structural reforms of relevance for the PAR sector include improving of the PFM (for example, the improvement in managing of the treasury single account by means of a comprehensive information system aimed at encompassing all the state sector stakeholders including the institutions which are not budget users); annulment of obsolete and irrelevant republic and local level taxes and charges; improving the management of local public finances (for example through a structured approach in assigning the property to local self-government units, improving the business environment by removing the administrative barriers and unnecessary procedures, introducing e-government tools, etc.); improving of tax policy and administration; accelerating reforms of state and public enterprises, etc.

2.2.4 Sector monitoring system

Sector performance should be monitored by sector outputs and consequent impacts that will be continuously monitored based on the existing strategies and action plans. Sector monitoring is currently under development. For time being sector monitoring for PAR sector is based on two key mechanisms: system of performance indicators which have been developed to accompany the document "Needs of the Republic of Serbia for International Assistance 2011-2013" and on periodical review of the implementation of the Action Plan for PAR. In order to monitor the implementation of the Action Plan for PAR, the Ministry in charge for Public Administration in the period since 2009 had continuously collected relevant information and data from ministries, other PA bodies, state bodies and organisations that were in the Action Plan identified as carriers of certain activities, through semi-structured questionnaire. Collected information and data were used for preparation of periodic Reviews of the Action Plan implementation.

Result-based system of indicators accompanying document "Needs of the Republic of Serbia for International Assistance" defines baseline and target values (benchmarks) for a four-year period and will be revised annually. Indicators are linked with the relevant sector priorities and measures defined in the document, and are, to the extent possible, taken from sector performance frameworks described in the first paragraph. It is intended that this system of indicators is used in planning and monitoring of EU funds and development assistance and integrated in the relevant planning/ programming documents (including sector/ project fiches).

The monitoring system under decentralised management of IPA is defined in detail in relevant Manuals of Procedures. System is based on a set of monitoring committees examining relevant monitoring reports- IPA Monitoring Committee, Sectoral Monitoring Committees (TAIB MC being one of them) and Sectoral Monitoring Sub-Committees (SMSCs). SMSCs will be examining IPA monitoring reports on activities funded through first IPA component per sector (it is envisaged that 8 SMSCs will be functional in the following sectors: rule of law; public administration reform; civil society, media and culture; transport; energy and environment; competitiveness; human resource development and agriculture and rural development). Progress in achieving the target values per indicator set in the relevant sector/ project fiches will be included in the relevant monitoring report and examined at the SMSC and TAIB MC meetings. A round of pilot SMSCs took place during November 2012, with the exercise being limited only to IPA 2010 projects. This provided for valuable lessons and indications on further improvement of the monitoring system.

2.2.5 Institutional setting
According to the Law on Ministries, the PAR policies are predominantly addressed by the following institutions: the Ministry of Justice and Public Administration, the Ministry of Finance and Economy, Ministry of Regional Development and Local Self-government, General Secretariat and Serbian European Integration Office. Institutions which do not fall under Government structures, such as National Assembly, National Bank of Serbia, State Audit Institution etc., fit to institutional setting under this sector. The present Sector Fiche requires also a more precise recognition of stakeholders involved with specific measures, so that for example the Public Procurement Office appears as the beneficiary, and interlinked with the measure on Public Procurement also the Republic Commission for the Protection of Rights in PP Procedures and the Commission for Public-Private Partnership. When it comes to local level administration, which is an important interested party in all the measures of the present SF, beside involvement of local level counterparts which will be ensured directly by the central-level institutions, the Standing Conference of Towns and Municipalities (SCTM) shall be consulted as a partner organisation. The SCTM has proven to be a valuable partner in supporting the local level administration notably through their internal consultation mechanism covering the LSG units and based on their specific committees covering specific sectors (e.g. finance, planning, communal services, administration etc.). SCTM has already been recognized as a participatory organisation within the PAR sector working group, they have been attending the SWG meetings on an ad hoc basis and their permanent participation shall be formalised in the new round of nomination of the participants of the PAR SWG (expected in September 2013). But beyond that, in the concrete implementation of the envisaged activities under this SF, the SCTM shall be invited to provide recommendations and the views in conceptualising activities whenever they involve local level administration.

It is important to recognize another stakeholder structure concerned notably with ensuring respect of gender equality principles. On the basis of Article 39 of the Gender Equality Law, permanent working parties are established in the authorities of local self-governments or officers for gender equality designated in them to perform activities towards exercise of equal opportunities. Currently, in the Republic of Serbia, there are over 100 local bodies for gender equality (councils, committees, etc), and 20 officers – employed persons – for gender equality. In certain LSGs there are bodies for gender equality and officers responsible for gender issues. Although no formal requirement can be imposed for the involvement of the mentioned groups directly in the implementation of project activities, as by nature this SF is not dominantly about gender equality, it shall be advised to the partners from the local level administration to inform local bodies and/or officers for gender equality about the support activities financed through this SF. They should be invited to contribute with their recommendations on how best to ensure that public administration reform activities to be undertaken within the scope of this fiche, match the requirements of gender equality.

The main actors in the consultation mechanism with CSOs are Sector Civil Society Organisations (SECOs). SECO is a consortium of CSOs of maximum three partners, where one is clearly defined as a lead partner. In the case of PAR sector the consortium is composed of: European Movement in Serbia (as the lead partner), Belgrade Open School and Belgrade Fund for Political Excellence. The representative consortium is charge for bidirectional communication towards and from a wider platform (network) of CSOs, thus ensuring an outreach towards numerous organisations throughout Serbia, which otherwise would hardly be feasible from a centralised national institution. The network of CSOs for the PAR sector currently encompasses 25 organisations (in addition to three CSOs forming the consortium), while the membership is open for also for additional potentially interested organisations. (See also section on sector and donor coordination, paragraph 6 of the fiche and for the PAR
2.2.6 Macro-economic context and Public Financial Management

According to the Fiscal Strategy and the macro-economic indicators presented therein, it is obvious that at the end of the year 2012 Serbian economy was in the recession. In general, the negative tendencies started with the second wave of economic crisis in the second half of year 2011, and continued throughout 2012 (the evident slow-down of the economic activities and of export and import of goods, the increase of fiscal and current account imbalances, growth of inflation, decrease of employment, dinar deterioration, decrease of foreign exchange reserves and of crediting activities in the banking sector, the increase of the share of the non-performing loans in the dept portfolio, etc.). The stagnation of economic activities at the EU Member states, the recession in the countries of EURO-zone, and particularly in the countries of the region, strongly affected Serbian economy being heavily dependent exactly on those trade partners. This shall continue to represent major external risk for the national economy, but the comparative anticipations are such that the recession shall decelerate during 2013, while modest growth in economic activities and employment can only be foreseen in the horizon of year 2014. The Fiscal Strategy forecasts a macroeconomic scenario with real GDP growth at average rate of 3.2% per year over the period 2013-2015.

The prospects of economic recovery and growth are based on the projections and expectations of the increase of export, of savings in public sector, of productivity and of competition, as well as on the anticipation of the economic recovery of the markets of EURO-zone. As presented in the Fiscal Strategy, the macro-economic stability is the key pre-condition for fulfilling the outlined priorities of economic growth and the increase of employment and of the living standard in the Republic of Serbia. In that sense, a strict coordination of fiscal and monetary policy in the following three years is of crucial importance for macro-economic stability and for the decrease of macro-economic imbalances (inflation, fiscal deficit, current account deficit). The prevailing orientation is therefore towards undertaking rational economic policies and on the acceleration of structural reforms. Fiscal policy shall focus on the decrease of fiscal deficit by introducing changes in tax policy and mostly through fiscal adjustments on the expenditure side in line with the rules of fiscal responsibility. Monetary policy shall aim at attaining targeted inflation and on carrying out the floating exchange rate regime. In parallel, structural policy shall promote reforms leading to increasing productivity and export capacities, improving the business environment and attracting potential foreign investors, as well as reforms in the public sector. With this regards, a particular challenge for the economic policy shall be to ensure the financial incentives for the most effective programs, particularly in agriculture, energy sector and in infrastructure. By strengthening the rule of law, suppressing the systemic corruption and with mitigation of the rigidity on the labour market, a better investment climate is to be created. Complementary special economic policies to be emphasized in the medium-term perspective are: policy of protection of competition, active population policy increasing birth-rates, balanced regional development policy, social policy (guaranteeing social rights and inclusiveness); Key sector policies towards which more substantial financial resources are going to be allocated, are again closely interlinked with the aims of economic growth and employment and presented as follows: agricultural policy, mining and energy, transport, telecommunications, tourism, health policy, education and science.

Envisaged structural reforms of the public sector are of great influence to the efficient management of public finances. The principal legal bases for the PFM in the Republic of
Serbia are set out with the Budget System Law which is assessed rather positively in terms that it “provides for many of the essential components of a sound budget system”. In the recent years (2010/2011), important new institutes such as medium-term expenditure framework and fiscal responsibility rules, have been introduced to streamline the management system. However, the implementation of those new concepts has not been fully exercised, largely because of the challenges the state faced with the financial crisis, and due to incremental approach in introducing the changes in practice. In addition to this, a significant reform potential is to be seen in the recent amendments of the Budget System Law (BSL). One of the major changes concerns the broadening of the definition of public finances, which previously referred exclusively to budget (local and central level) funds and did not encompass the totality of revenues/incomes (for example, the so-called own, or proper revenues of some public sector institutions were left out of the system of managing the public finances and of the treasury single account). The system and the Law as amended in September 2012, now provide for a more comprehensive approach in planning, spending and reporting on public funds and as such create conditions for a better control of spending in the public sector. Likewise, the amended BSL has incorporated system changes concerning the approach in establishing and charging of various taxes, levies and duties affecting particularly the private sector. Namely, the assessments carried out with this regards, revealed that much of the fiscal duties were being introduced in opaque and unpredictable manner. The amended BSL establishes fairly transparent principles in introducing such financial charges and obliges for the subsequent adjustment of other pieces of legislation not aligned with the outlined principles; Further on, in line with the recommendations of the EC DG BUDGET, the definition of the managerial accountability has been adjusted, while in anticipation of the conferral of management powers for decentralized management of EU Funds, a new budget reserve has been introduced in order for Serbia to cope with the requirements of accreditation criteria.

Notwithstanding those improvements in the budget system, the PEM still remains short of a consolidated plan for reforming the PEM, which would focus exactly on implementing reforms that have already been agreed and launched. In 2010 PFM in the Republic of Serbia has been reassessed in accordance with the Public Expenditure and Financial Accountability (PEFA) methodology. A basis is therefore now available for information and monitoring of PFM, for planning of the reform strategy and capacity development programme. Assessment of the PFM institutions, processes and systems, has been carried out in several important areas: budget credibility; transparency and comprehensiveness; policy-based budgeting; predictability and control in budget execution; accounting, recording and reporting; external scrutiny and audit; and donor practices. A standardised scoring system is applied in the structure (sub-elements) of each of the topics, so that weaker scoring directly signals the necessity to concentrate efforts on improvements in a medium-term perspective. The PEFA Report recognises the dependency between PFM reforms and the EU accession agenda and recommends a more systematic approach and stronger specific leadership to ensure consistency of future PFM reforms.

4 SIGMA Assessment for Serbia, published in March 2012. The same Assessment underlines however that amending of the BSL on annual basis shows that the BLS is nevertheless weak in several respects and fails to put the budget on a sound legal footing
5 The Law on Amendments to the Budget System Law was adopted by the Parliament on September 25th and published in the Official Gazette No. 93/12, September 28th, 2012.
6 The Republic of Serbia PEFA Assessment and PFM Performance Report 2010 has been published in November 2010
2.2.7 Sector assessment

The Government of Serbia is firmly committed to institutional building within the public administration sector, in pursuit of its national policy objectives and reform agenda, and the path to European integration and accession to the EU. The needs for international assistance of PAR sector for 2011-2013 have been fully articulated by the Sector Working Group for PAR, and described in the ''Needs of the Republic of Serbia for International Assistance 2011-2013 (NAD)'', adopted by the Government in February 2011. Apart from the consultations with relevant national institutions (held within the abovementioned eight sector working groups), the process of drafting the sector chapters of the NAD included consultations with representatives of civil society organisations, the donor community and local self-government. The consultation process was based on a number of sector-specific meetings, in order to present draft documents and discuss recommendations and input provided by CSOs, donor community representatives and local self-government. Recommendations provided were taken into consideration and are reflected in the final text of the document.

The process of IPA 2013 programming extended the already established consultation process developed on a sector basis during the preparation of the NAD 2011-2013 and the IPA 2012 programme preparation. Strategic approach to the programming process has been improved through more systematic approach in identification of the priority needs and earlier involvement of all relevant stakeholders in programming process, including civil society organisations.

A strategic (or gap) analysis has been conducted to identify priority areas relevant for the IPA 2013 programme. The strategic (or gap) analysis has been conducted through a range of actions including analysis of the correlation between the NAD 2011-2013, the MIPD 2011-2013, the analysis of EC Opinion on Serbia (Analytic Report) 2011 and correlation with ongoing and proposed 2012 assistance. Analysis has been carried out through the framework of Sector Working Groups (SWG) (SEIO, Line ministries, the EUD representatives and Civil Society Organisations) that have discussed the key messages derived from the abovementioned strategic documents. On the basis of this cross-checking strategic analysis, SWG during the consultation process have identified a number of IPA I 2013 priority areas (also commented by the EUD and DG Enlargement) which have been used as basis for development of the Sector Identification Fiche and through further rounds of consultations, also for the present Sector Fiche. Scoping of the PAR sector has also been discussed at the level of respective SWG, notably from the programming point of view, although such aspects are also being reconsidered with the development of the new PAR Strategy which will hopefully result in approximation of national policy framework with EC (MIPD) and national (NAD) planning/programming documents. For the programming purposes, a comparison and consolidation has been agreed between the MIPD and NAD. While MIPD recognises the PAR sector as the totality of PAR at central and local level, including statistics, PFM, IPA management, tax and customs administration, the NAD similarly outlines the following constitutive areas to PAR sector: PAR at central and local level (including e-government); PFM; IPA management; PP; tax and customs administration and statistics. With the Sector Fiche for IPA 2013 an attempt is made to preserve a program-type presentation as a sequence to IPA 2012 PAR sector support, whereby the presentation of the sector is a general one and the focus is brought to its further priority support areas for program year 2013, those being PFM (including PIFC) and PP.
In October 2010, General Secretariat of the Government published a document on Analysis of strategic documents in Serbia with recommendations on improvements of overall strategic framework. Some of substantial remarks are noted for the PA area, pointing out the necessity to ensure better consistency. Such is the case for example with the PAR Strategy when it comes to relations with Strategy for e-Government Development and the Strategy for Regulatory Reform; in the case of Strategy on PIFC in relation to NPI, and for several strategic and planning documents in the area of European Integrations, etc.

In general terms, besides already implemented improvements, for full implementation of the sector approach it will be necessary in the coming period to create a unified methodology for the development of strategies, review existing strategic framework in relation to the new financial perspective 2014-2020, improve monitoring and evaluation requirements with a focus on results and consequently contribute to improvement of the strategic planning, improve planning of the national budget by linking strategies and action plans with the budget planning and avoid any overlap of responsibilities between different institutions. Finally, it is necessary also to ensure a constant development of project documentation, since without ready projects strategies cannot be implemented.

3 DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE IPA SECTOR SUPPORT

In line with MIPD sector objectives, IPA support to PAR sector for 2013 should contribute at improving the efficiency, effectiveness, transparency and accountability of the public administration at both central and local level. This support will also be useful to rationalise the administrative resources and to support Serbia's adoption, implementation and enforcement of EU-related legislation.

The overall objective of IPA sector support for 2013 is to have modern and efficient public finance management processes at all government levels, expressed in a more transparent use and savings of public resources of the Republic of Serbia.

Such an objective is closely interlinked with the efforts deployed by the Republic of Serbia to achieve fiscal consolidation and a sustainable long term fiscal stabilisation, as it is likewise driven by further approximation to the solidity of public finances at the EU space, i.e. with the requirements embodied, among others, by relevant chapters of the acquis.

Recognition of such dual challenge and the sense of inclusiveness into the EU agenda through interventions envisaged under IPA 2013, will be a valuable achievement with the local self-government, civil society and professional organizations. Effective implementation of the structural policies as defined by the Fiscal Strategy is subject to several preconditions which include provision of sufficient resources (to cover the cost of those policies) and the underlying improvement in PFM (to ensure - stronger executive control of expenditures and revenues, improved financial information as a tool for managing the resources, improved coordination of central and local government, and increased accountability for use of public funds). In parallel with on-going Government’s endeavours to improve budget and capital investment planning, the way towards the overall objective is perceived much more realistic.

7 As presented in the logical framework, the indicators for the Sector Support Objective are intended to be correlated with the PEFA exercise to be scheduled for years 2015/2016. The possibility for financing the new PEFA exercise is incorporated within the PF on European Integration and Project Preparation Facility for IPA 2013.
through timely focusing of EU support on the achievements anticipated by the negotiation chapters 32 (on Financial Control) and 5 (on Public Procurement), the logical specific objective of the sector support being:

3.2 **SPECIFIC OBJECTIVE(S) OF THE IPA SECTOR SUPPORT**

Support for improvement/modernisation of management of public finance system in Serbia with focus on PIFC, treasury management and PP

*Indicators:*

- Ratio between implemented and issued recommendations on Internal Audit on annual level (expressed in %);
- PI -20 (ii) PEFA indicator: comprehensiveness, relevance and understanding of other internal control rules/procedures. Baseline score: C, upon 2010 Serbia PEFA assessment - target: improving the score to B or B+ in Serbia PEFA assessment measured in year of the project completion;
- PI -16 (ii) PEFA indicator: reliability and horizon of periodic in-year information to budget beneficiaries on ceilings for expenditure commitment. Baseline score: C, upon 2010 Serbia PEFA assessment - target: improving the score to B or B+ in Serbia PEFA assessment measured in year of the project completion;
- Increase in public expenditure (spent) through public procurement as percentage of the GDP
- Improving international scoring of Serbia over the years demonstrating decrease of corruption in public sector (public procurement included)
- Ratio between implemented and the planned NPAA activities/measures for Chapters 5 and 32 (expressed in %)

3.3. **RESULTS**

IPA support to the sector provided in 2013 is expected to achieve the following results:

**Result 1: Ensured systemic rollout of consolidated PEM and PIFC methodologies and procedures throughout public sector in line with applicable international standards and best EU practices**

*Measurable indicators:*

- Increase of the number of persons employed on working posts of internal auditors on annual level;
- Increase in the number of submitted reports on FMC on annual level (to be compared against the total number of direct BBs, which is 400);
- Increase in % of the number of budget beneficiaries that have established a system of FMC by the end of the project implementation period in comparison to the number in the baseline year8;
- Improving the redundancy of the existing treasury network infrastructure and increasing the functionality of the backup Data Centre

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8 The CHU disposes of gender sensitive statistics when it comes to data on certified internal auditors. Presently there are 112 women (67%) and 67 men (33%) among certified internal auditors. This type of statistics is annually updated and trends on gender representation monitored.
Total of Budget Beneficiaries connected to both primary and secondary (backup) Treasury Data Centres, benefiting of safe data recovery in case of failure

Result 2: Improved implementation of the public procurement strategic and legislative framework for an effective, accountable and transparent public procurement system

Measurable indicators:

- Decrease in use of non-competitive procedures expressed as % of total number of procedures;
- Increase in average number of bids in tender
- Improved realisation of the annual procurement plans of CA’s (expressed in %);
- Decrease of deviation in costs during the actual implementation of PP contracts as compared to the contracted price;
- Review procedures: Ratio between decisions issued by the Commission (cancelling public procurement procedure wholly or partially) and implemented by the interested parties, on annual level (expressed in %)

3.4. MEASURES/OPERATIONS\(^9\) TO ACHIEVE RESULTS

Measure 1.1: Support for further development of PIFC

Introductory remarks

The core efforts in support for further development of PIFC system are to be concentrated on emphasizing the FMC usefulness and its incorporation in the practice of institutions of the public sector as this proved to be the greatest challenge so far. The support activities are to be invested principally in rising coherent implementation of financial management and control (FMC), including managerial accountability, further development of the system of internal auditing (with continual training and education and development PIFC in Territorial Autonomy and local self-government), and further strengthening of the central harmonization function (CHU) in networking with all PIFC stakeholders. Strengthening capacities for a more effective implementation of PIFC at all government levels (including local self-government) is needed once the new policy framework (PIFC Strategy and its action plan for the period 2014-19) will enter into effect.

In 2013, the third phase of EU funded support to PIFC shall be completed, marking a decade of development efforts in this area. This has resulted in visible impact on the central-level institutions, although the results are uneven. Fostering of all the pillars of the effective and efficient PIFC system (FMC – as a basis for implementation of the managerial accountability concept; functionally independent and decentralised Internal Audit; and the CHU – Central Harmonization Unit responsible for preparation and promotion of control and internal audit methodologies in accordance with internationally accepted standards and best practices) is clearly the responsibility of national institutions, currently undergoing preparations for negotiations with the EC on Chapter 32 (Financial Control). The upcoming negotiations and the candidate status itself are bringing about a more stringent type of scrutiny on the progress achieved and a more pressure to consolidate the approach with the reform steps ahead.

\(^9\) As defined in Article 6(2) of the IPA Implementing Regulation No 718/2006. IPA Component I programmes are subdivided into sectors (priorities), each of which define a global objective to attain and which shall be implemented through measures, which may be subdivided into operations, or directly through operations. Operations shall comprise a project or a group of projects (implemented by the Commission or the beneficiary country).
Further development of the PIFC system shall be conducted in line with findings and recommendations of relevant assessments (notably EC and SIGMA reports), and also based on the experiences gained in previous period, when the total of 3 consolidated annual reports (2009, 2010 and 2011) were published, and relying on a solid base of knowledge rooted with the competent institutions. The new PIFC Strategy should bring more into focus the mechanisms for monitoring and follow-up on findings and recommendations outlined in consolidated annual reports of the CHU on the state of play of PIFC in Serbia. Due attention will also have to be paid to the interaction and collaboration of the CHU with other institutions competent for different types of audits, inspections, monitoring in public sector and legal proceedings and actions arising from such controls (such as - external audit, budgetary inspection, PP, etc), all with the view of achieving systemic changes and improvements in transparency and accountability in public sector. This, however, has to be done in accordance with clear competences and responsibilities of enrolled stakeholders (e.g. separation of tasks of the budget inspection from PIFC, etc.). Furthermore, legislative basis for reinforcing of the PIFC has recently been improved with the adjustment of notion/definition of managerial accountability in the Budget System Law (as amended in October 2012) and is now more consistent with relevant by-laws as well as with the requirements of DG Budget, which provides for more manoeuvring space for insisting on incorporation of this approach in everyday practice of institutions of public sector. Another challenge for the new phase of PIFC reforms in Serbia concerns expansion of the coverage of audited institutions/organizations towards local-level administration and public enterprises, which are also required to perform in accordance with FMC principles. The CHU is expected to fulfill a demanding role in ensuring such outreach and standardization as a precondition for effective decentralization both horizontally (on the central level) and vertically (towards local self-government units/LSGs and public enterprises/PPs). This will only be possible with adapting a more proactive approach by the CHU to networking and promoting PIFC through presence in the field and discussions with other stakeholders, including the clear profiling within other strategic documents (such is the PAR Strategy). It is therefore seen that an uninterrupted support by the EU, including the assistance in the scope of IPA 2013, is crucial for ensuring sufficient leverage in the new phase of PIFC expansion and reform.

Measure description

As part of the Government of Serbia’s commitment to improve internal control systems and the internal audit function in the public sector, the measure is aimed at building the capacity of the CHU and assisting the CHU to continue the development and delivery of FMC and IA training and accreditation programmes in Internal Audit. The measure consists in the provision of training and capacity building actions towards the CHU and budget users on the spot to further implement PIFC and specifically to spread the understanding of importance of internal control concepts, principles, audit tools and techniques applicable to the Serbian public sector. Therefore, the emphasis of the support shall be on true and successful decentralisation of Internal Audit and on systemic introduction and practicing FMC with the variety of obliged subjects. This will require for the assistance to manage multifaceted dialogues with stakeholders on central decision-making level and local level, as well as with public enterprises subject to PIFC (in accordance with the viable legislation).

With this new phase of support, the focus of this measure will be on actual implementation of FMC principles by the budget beneficiaries. More particularly, this should result in embracing full scope of requirements under the financial management (not just as financial control), beyond formal appointment of persons with specific FMC responsibilities and developing the real understanding of managerial accountability. To address this it will be beneficial to
develop recommended organizational models as well as to organise further provision of trainings and consultations for budget beneficiaries on their responsibility in disposing with public funds and the causality between efficiency and effectiveness of related spending and achievements. Findings of the functional reviews undertaken during the third phase of PIFC development already provide solid grounds with this regards. A further way to approach identification of recommended/best solutions within this measure would be to carry out a piloting exercise with one or a group of selected representative beneficiary organisations to define exactly how FMC should be implemented in an organisation and the impact that this would have on managerial structures, budgets, information requirements and reporting arrangements. This would then provide a practical Serbian model that could subsequently be followed throughout the public sector.

On the side of training activities for the FMC, it will be very challenging but necessary to further develop and expand coordinator’s and working groups network or other modalities for providing on-the-spot assistance in producing business procedures with “SMART” objectives, related risks and audit trails with controls regarding risks, risk analysis and risk register production. In order to focus the present measure further with regards to FMC interventions, a number of institutions/organizations – budget beneficiaries (also from the local level and among obligatory insurance organizations) to be enrolled in project/twinning implementation is anticipated as follows: Ministries in charge of finance and economy, regional development and local self-government, labour, employment and social affairs, education, science and technology development, health, energy, environment, youth and sport, justice and public administration, agriculture, forestry and water management; also Funds for obligatory pension and health insurance; several state owned enterprises notably from energy and telecommunication sectors; as well as the cities of Belgrade, Novi Sad and Nis. It is planned to exercise the FMC activities with those stakeholders as a complete on-the-job exercise.

Unlike FMC which is a cross-cutting function (defined by the Budget system Law as a system of procedures and responsibilities of all the persons in an organisation) and thus more demanding for introduction as a matter of general good governance, Internal Audit is a clearly singled out function with precise requirements on institutional positioning within budget beneficiary institutions/organizations, with obligatory establishment and functional independence. The concept of IA encompasses particular training and qualification schemes and obligatory qualifications for internal auditors, in line with international standards and incorporated in national laws and by-laws. It is therefore more instrumental for introduction and in the Serbian environment has had more success compared to FMC. However, even if the IA system has progressed from introduction to development phase, substantial challenges can be anticipated in the medium to long term period, such is achieving the full coverage of budget beneficiaries at all government levels, sustainability of IA related institutional and human capacities, improving the quality of performance and reporting and reaching its full decentralization, independence and objectivity. The twinning measure envisaged herewith should provide support in addressing these aspects of the system. The new Strategic paper 2014-2019 (currently available only as early draft) shall deal with this in more detail, but it is evident that assistance will have to be provided in ensuring continuous learning and education of certified auditors, developing of mechanisms for sharing and dissemination of good practices, undertaking further training needs assessments as well as redefining the concept of trainings’ delivery in order to structure it in realistic and feasible manner reaching towards all the obliged institutions/organisations on central and local levels (approximately 9,000 direct and indirect budget beneficiaries). Therefore, certain share of resources within this measure will have to be directed towards elaboration and implementation of a training roadmap.
Although the decentralisation is the ultimate requirement both for FMC and IA, it is coordinated and monitored through a centrally regulated framework, i.e. through the central mechanism of harmonisation embedded at the Central Harmonisation Unit. Through the three phases of PIFC establishment, the CHU has carried significant burden of legislative/regulatory setting and implementation, including resource demanding training and certification activities, coordination of functional reviews and pilot audits and controls in parallel with efforts invested in promoting the PIFC also at the level of senior decision-makers throughout the administration. Certain conceptual change will nevertheless have to take place in the future period of CHU operations, bringing Serbian CHU closer to preferred EU model by incorporating good practices of counterpart institutions of EU Member States.

Therefore, an important part of this measure will have to be directed towards further evolution of the CHU as the standard-setting body, capacitated with sufficient resources to serve as the centre of excellence coping with international and EU standards and best practices in PIFC, and for their further transmission and dissemination throughout the system. With this regards, assistance should be invested in development of skills and instruments of CHU for greater networking and promoting PIFC throughout public organizations enabling them to contribute to the development of PIFC. This also includes the support for the CHU in raising its profile and increasing its ability to actively influence reforms in broader context, by making sure that PIFC principles and requirements are dully incorporated within relevant governmental plans and strategies on PEM and PA in general. It will consequently imply the necessity of the CHU to be advised on configuring and implementing the alternatives and systemic solutions for massive trainings’ provision and the gradual dislocation of those training activities from the CHU (while the certification will inevitably remain within). Besides fostering the coordination and harmonization performance of the CHU as the institutional core of the PIFC system, along the lines of the future strategic document this measure shall also support strengthening of the CHU role in monitoring and the follow-up activities deriving from the reports’ consolidation and provision of recommendations for PIFC subjects (organizations/institutions). This Sector Fiche provides also the advantage of synchronizing and coordinating between the support activities for the CHU under the Measure 1.1 and the technical assistance envisaged for the PP system under the Measure 2.

In addition to all the described axes of interventions within this measure, essential will also be the support for the CHU with normative activities (possible modifications of relevant legal acts and elaboration/adaptation of by-laws, rulebooks, charters, etc.) throughout the period of implementation of IPA 2013 and in close coordination with SIGMA as always in the case of PIFC.

Although not addressed by this measure, the developments regarding budgetary inspection do matter in the view of Chapter 32 and in the national system of PEM. Whenever necessary and mutually useful, the IPA support actions provided to PIFC and GIZ assistance in the area of budget inspection shall be coordinated.

This measure will be implemented through one operation:

Operation 1.1: One twinning contract to support the new phase of PIFC system development in Serbia

Measure 1.2: Ensuring the redundancy and sound functioning of Treasury system by building a functional backup Data Centre

Introductory remarks
As outlined in the section 2.2.1 on national sector policy, strategy and context, the new provisions of the BSL envisage for the Treasury to host comprehensive IT system for financial management, encompassing all the public sector institutions, including all direct and indirect budget beneficiaries, and also the ones which are not budget beneficiaries. Sustainable capacities need to be built to deal with budget planning, efficient execution, and timely and accurate accounting and reporting in line with EU standards and recognized practices. In particular, consolidation of financial reports from all government levels and efficient control of earmarked spending of budget resources at the local government level need to be enhanced. So does the overall financial discipline.

As far as the business services are concerned, it is important to emphasize that the Treasury Administration is the central financial institution, through which the economic policy of the State is directly or indirectly implemented. In this context, for instance, a requirement for implementation of the fiscal consolidation programme, i.e., the rationalization and reduction of the budget expenditure by establishing the control of numerous own revenues of the ministries and regular funding of their expenditure from traditional fiscal revenues sources, implies the implementation of a range of business processes within the PFM system, the core of which encompasses the budget realization system (Bex), general ledger (GL) and payment operations including the accompanying sub-systems (Jafin). There is a similar requirement concerning the reform of own revenues of various agencies, commissions and so forth, one part of which operates in Bex and the other part in Jafin, and there is also a certain number beyond the treasury system. Therefore, each consolidation which would be encompassed by such reform is itself a complex process, due to the above mentioned diversity in the business methods and various regulations governing that issue. Only particular processes may be implemented by changes in the existing systems, while comprehensive and efficient solutions imply the development of new modules, which would make the business processes easily manageable from the initialization thereof, to the business reporting. Also, one of the objectives of the Government of the RS is the reform of the fiscal system, and of the VAT system which, although not falling within the competence of the Treasury Administration, indirectly affects the business system of the Treasury Administration, taking into account that the process of monitoring fiscal and non-fiscal revenues of the Republic and the VAT refund system assume a modified form, i.e. constitute new project tasks for the Treasury Administration. Furthermore, the fiscal decentralization topic and amendments of a range of laws governing that area imply different and new business processes within the Treasury Administration, and also a modified coordination between the Treasury Administration and the local self-government treasuries, each with their own competences. New activities are introduced for organizational units of the Treasury Administration, as the first financial service of the LSGs. This predominantly means the implementation of the Law on Payment Terms and Amendments of the Budget System Law (BSL, October 2012), in the context of early notice of obligations to be assumed, and improved monitoring of the indebtedness of LSG units. Also, the application of the Law on the Establishing of Maximum Wage in the public sector, extension of the employees’ register, implemented in accordance with laws on the maximum number of employees in the Republic and LSG administration, and inclusion of new beneficiaries in the wage calculation system, carried out by the Treasury Administration (direct budget beneficiaries and indirect ones within the Ministry in charge of Education), may be implemented through upgrade of existing software, which ensures the execution of activities in segments related to the data collection, processing thereof, and high-quality reporting. The above mentioned changes imply the integration of various systems and technologies, and therefore the consolidation and improvement of the Data Centre within this implementation is also a prerequisite for a high-quality and flexible service and business
process. It is obvious that the requirements concerned cannot be carried out in an efficient way without a modern, secure and reliable IT system. The approach of the Government of the RS also addresses the strengthening of the agrarian policy, i.e. higher investments and various activities regarding the predictability and improvement of the incentive system, which, for the Treasury Administration as the implementer of the project of the agricultural estates register (AER), means additional requirements. In particular, flexibility is required regarding the adjustments to modifications of the AER project which has since the beginning of its implementation (in the year 2005) almost completely changed the appearance and intended use. Therefore, in the business and technical context it is almost impossible to implement those serious requirements, taking into account the obsolescence of the existing technology, equipment and constant modification of the software solution. During 2013 it will be inevitable to implement also the project of the foreign currency payment operations (FCPO), pursuant to the changes of the BSL and the Law on Foreign Currency Operations. The project of the foreign currency payment operations, although measured by the processed quantity being multiple times smaller than the dinar-related system, is by the complexity and the number of business processes multiple larger than the dinar-related system. In addition, the implementation of the project of the foreign currency payment operations alone implies the integration with the existing dinar-related systems Jafin and Bex, within the uniform Data Centre, in parallel to the planned software changes and hardware and communication improvements of the existing infrastructure. The significant improvements are expected also in the domain of development of electronic services within the government administration system, namely of those intended for physical persons and legal entities and budget funds beneficiaries, where the system of the Treasury Administration is an inevitable factor when e-payments are concerned, but also in cases of any other electronic data exchange (forms, returns, slips, reports, and so forth) with budget beneficiaries, in particular with large ones who have their own IT systems (funds and administrations (M4, PPP forms, annual financial statements), agencies (BRA – register of measurements), registers (Central Register of Securities – Auction Platform, booking notes), large ministries and administrations within them (Ministry of Internal Affairs, Digital Agenda Administration – e-payments, vehicle registration), local self-government (debit forms, investments, revenues and expenditure) etc.).

The basic task of the Treasury Administration is to efficiently manage the system of consolidated treasury account (CTA), which implies the inclusion of all participants of the CTA in the financial management information system (FMIS). This means that the Treasury has to integrate all of the public funds beneficiaries, with the aim to improve the funds management, as well as the monitoring and planning of expenditure from special purpose accounts. The improvement of the financial planning system and application of the Law on Terms for Payment of Financial Liabilities is particularly emphasized.

The Treasury financial information system is of critical importance for this. Significant national funds are already being invested for the consolidation of the system which is considered as the comprehensive first phase of new reform adjustments including rolling-out of the FMIS. To ensure sustainability and undisturbed functioning of the system once established in its greater volume, additional technical safeguards are inevitable. This is exactly the objective of the support envisaged under present measure:

**Measure description**

The electronic data the Treasury Administration is in charge of, are of critical importance to the Republic of Serbia. To ensure sustainability and preservation of enormous amount of incorporated data from any casualties, the Treasury has planned to fully habilitate and
optimise its storage Data Centres. The fulfilment of requirements for upgrading the existing IT architecture (through the on-going procurement) is not feasible - and in a relatively short run may result in serious delays in operation - without the vision of a uniform, highly-available, redundant, modular Data centre with high-quality server and communication equipment and modern software equipment for protection and management of the system, and integration of various applicative systems which enable the business process performance. During the past period there were several examples where the information safety was jeopardized. The Data Centre is not able to meet all the security standards, because the equipment does not support all the modern tools. The modular nature of the future Data Centre implies that aside from the primary Data Centre (currently located at the Treasury Central Office in Pop Lukina 7-9), the secondary/backup Data Centre has to be fully functional and equipped. Time wise, the upgrade of primary Data Centre has to take place as soon as possible to match and support the expansion of the Treasury information system, and this undertaking shall be fully covered by the supply which will take place in year 2013. Furthermore, to comply with the security requirements, Treasury has to ensure safe location for the secondary Data Centre – the one significantly remote from the primary one, so that earthquake or similar risks are mitigated. This means that one of the Treasury’s regional offices will be selected for the location of the secondary Data Centre. Consideration is currently narrowed down to two options – either the premises of the Kragujevac local treasury or the ones of Novi Sad local treasury, where human capacities for managing and maintenance of such system are also satisfactory. Once the equipment is at place, there will be trainings provided to the employees for usage of new system, and also subsequent changes in job descriptions and classification will be introduced. Currently, this secondary Data Centre is located at regional Office in Belgrade, Obilicev venac 9-11, and is in very poor condition of the physical infrastructure and software. Budget funds are not available for the purpose of transferring and upgrading of the secondary Data Centre and for making the overall system completely redundant and functional. In terms of timing, the consolidation of the secondary Data Centre can (and has to) be sequenced with the upgrading of the first one, so the funds form IPA 2013 could well fit with the timeline in the second half of year 2014 (or latter eventually). The advantage for the preparation of the technical specifications for the supply intended for the secondary Data Centre (to be financed from IPA 2013), is in the fact that technical features and requirements are largely similar to the ones which have recently been prepared for the primary Data Centre. The compatibility between the primary and the backup centre is essential for the facilitation of the data migration. Technical specifications would again be prepared by the Treasury experts, while the completion of the tender dossier in line with PRAG requirements would be coordinated with the Treasury by the CFCU.

Operation 1.2: One supply contract for purchase of the hardware necessary for enabling of the full functionality of secondary/backup Data Centre and for providing specialized related trainings and certification for Treasury staff

Measure 2: Support for further improvement of Public Procurement system in Serbia

Introductory remarks

The whole Public Procurement System also needs to be considerably strengthened as it is awarded particular importance in Government’s plan to ensure savings and reduce public expenditure. Better discipline throughout the PP system, particularly from the point of view of monitoring, reporting, control and enforcement aspects, including capacities and cooperation between relevant institutions/organizations, is expected likewise to contribute to increasing transparency and reducing corrupt practices in Serbia. The support for the system should be designed so to follow the legislative requirements initiated with the adoption of the new Law on
Public Procurement at the end of year 2012\textsuperscript{10}, while the guidance on systemic changes is clearly outlined in the Strategy for Development of Public Procurement in the Republic of Serbia. More immediately, during year 2013 further work shall be invested in elaboration of by-laws in accordance with the new Law as well as in updating the Action Plan for the implementation of the Strategy. With the sector support proposed for IPA 2013 the aim is rather to ensure assistance for comprehensive work underlying legislative and strategic texts and to reinforce the institutions of the PP system in the new procedural and functional environment, bringing national and EU standards closer together. This shall be quite a challenging task having in mind the expectations from within institutions on different levels of government and by civil society organisations and business.

Importantly, requirements of Chapter 5 apply equally to (numerous) institutions/Contracting Authorities on central and local levels. Both EC and SIGMA reports point out the necessity to dedicate particular attention in carrying out reforms at the local level and in ensuring that judicial and audit institutions are well on track with the requirements of the PP system. Further professionalization and training of procurement officers and of bidders is required, whereby the association of procurement officials is estimated to be potentially very instrumental in spreading the good practices, recommendations and in ensuring the dialogue and mutual understanding between various actors of the PP system. In accordance with the Strategy and the newly adopted Law, there are several clearly outlined new lines of action in the PP system, going towards better addressing of the week points of the previous system and/or towards introducing new concepts and related institutional changes. IPA 2013 support shall consequently intervene along those directive axes: the scope of public financial spending which to which the PP rules apply is now broadened, so for example the confidential procurements are encompassed, as well as the procurements undertaken by the private companies entitled with exclusive rights, the tenders which have previously not subject to registration and partially also the procurements financed by foreign loans. As a consequence, the level of knowledge of the system and procedures within the institutions now obliged to respect PP rules has to be closely assessed and required actions undertaken, while at the same time reporting, monitoring and control tools have to be applied (extended) to all the procurements subject to the Law. Particular attention is being awarded to anti-corruption measures and integrity of the institutions within the system, which shall be concretized by redefining of communication and instruction lines (introduction of new written and electronic procedures), by obligatory adopting of internal acts on PP within CAs and by introduction of the new tailored control service for PP (with the tasks and competences deferent than those of internal audit), for CAs with annual procurement values above the proscribed threshold (other types of measures are envisaged as well, but should be more logically addressed by the anti-corruption fiche for IPA 2013, such as development of internal plans for prevention of corruption in accordance with the General Plan for fighting corruption in PP; protection of whistle-blowers; prevention of the conflict of interest and introduction of civil supervisor for the high value procurements). With the new Law also the principle of the centralization of procurements is coming into effect both on the central state level (for the PA bodies, regulatory and independent state bodies, judiciary institutions – the Body for Centralized Procurement is the Administration for Joint Services of the Republic Bodies) and the LSG level (all the procurements for LSG administration in one place for each LSG unit and introduction of the possibility of centralizing procurements of several LSG units). Although the relevance of the centralization as the modality of undertaking purchases on the central level is estimated to only approximately 10%, the supporting mechanisms for the transition towards the new approach and for the capacities of the respective service bodies for Centralized Procurement have to be timely envisaged. Furthermore, the new PP procedures are being introduced – framework agreements, competitive dialogue and the
dynamic procurements with electronic qualification. With regards to control and audit, broadening of competences (and the introduction of new ones) for the PP Office and the State Audit Institution is envisaged, ex ante controls for certain modalities and the controls of PP plans based on risk assessment are being introduced as well as expansion of data collection for monitoring and statistic purposes. The novelties regarding protection of rights in PP procedures and respective sanctions are also substantial and should be addressed with the IPA 2013 support to the extent they concern the PPO, the CAs, economic operators and the competences of the judiciary bodies, including therefore also the support for the Republic Commission for Protection of Rights in PP procedures under IPA 2013 allocation.

Measure description

This measure is aimed at further strengthening of the PP system, which is a highly relevant area on Serbia’s accession agenda. The previous Law on PP which was in force from the start of year 2009 until January 2013, when the new/viable PPL entered into force, provided for a new general framework which is to a large extent aligned with the EU PP concept, and it’s implementation in the legislative and economic environment of the Republic of Serbia has therefore presented a serious of challenges for various actors in the national PP system. The effects of the Law, its advantages and weaknesses, have been monitored in last several years both by national competent institutions and the EU. In parallel with this, a significant institutional support has been provided by means of technical assistance financed by EU and some other development partners, in order to ensure good guidance and contemporary and comparative best practices. At the point when a critical amount of information from various aspects and stakeholders became available, the initiative was launched in the period 2011/2012 for the preparation of the new Law on PP which would address the observed weaknesses and improve the existing system. The new Law was adopted in December 2012 and the measure in the scope of this SF is being prepared so that the timely support is ensured for transparent implementation and enforcement of the new Law. While the consolidation of the regulative framework regarding the by-laws, as well as alignment with the new **acquis** on PP (new Directive to be adopted in the year 2013) will be closely coordinated with SIGMA, the focus of this measure for IPA 2013 SF is rather on setting-up accompanying mechanisms enabling proper implementation and enforcement of PP regulations. With this regards, it will be important that the implementation of this measure encompasses provision of concrete recommendations for improvement of control mechanisms in PP as well as on models for organisation of PP units at local level and within public enterprises and on central level with special attention to anticorruption mechanisms within. Training component within the proposed measure deserves particular attention and is likely to consume significant share of resources. Improvement of skills on PP processes in use and on the forthcoming EU Directives in the field of PP and concessions is equally important for the PPO as for the CAs and bidders. Therefore, efforts will have to be made in broadening the target of trainings to Contracting Authorities, Economic Operators and Administrative Court departments dealing with public contracts, as well as on ensuring hands-on experience/exchange with EU member States’ PP institutions for PP key stakeholders (notably the Commission for the protection of rights in PP procedures). On the side of the PPO, it can be reasonably expected that implementation of the new legislative solutions will require internal structural reconfiguration and broadening the competences in the monitoring and control functions paired with the increase of staff. This has to be acknowledged with the design of the present measure and reflected in certain level of flexibility to adjust interventions to new requirements and diversified training needs. In consistency with efforts invested so far through the IPA 2007 twinning project, further activities should address improving the transparency of information internally among the institutions of the PP system (for example by establishing of newsletter
circulation) and externally towards the all potentially interested parties in the country and on the marked, including media, CSOs, etc. (by developing of a comprehensive manual on guidelines for PP, transparency and publicity of public procurements and by developing, establishing and monitoring a system of regular publishing results of procurement contracts). The expertise provided in the scope of the measure shall also look at the implementation of contracts - the change of contractual obligations after signature; the signature of annexes to contracts etc. Furthermore, piloting of e-auctions (as a second phase of e-procurement development) including further functional improvement of PP web-portal and undertaking preparatory activities for PEPPOL initiative will be very beneficial in the envisaged time-horizon for the implementation of this measure. Coordination efforts shall also be pursued towards improving coordination between institutions of the PP system, including with the judicial and control structures, but also with CSOs, established Association of Professionals in PP, etc.

Likewise, particular attention is required in supporting PP reviewing and monitoring system by strengthening institutional and human capacities for efficient enforcement of PP regulations and decisions and establishing accompanying mechanisms enabling proper implementation, monitoring and enforcement of PP regulations. Again, this is not only to be seen as assistance to the Commission for the protection of rights in PP procedures, but also in increasing awareness and knowledge on remedies and review procedures in PP with the broader target of Contracting Authorities, economic operators and relevant judiciary structures alongside the enhanced institutional and human capacities of administration bodies with the mandate related to the PP system.

All of the planned interventions will be harmonized and coordinated with those anticipated in projects concerning prevention and fight against corruption where PP institutions are also envisaged as stakeholders for projects’ design and implementation.

This measure will be implemented through one operation:

**Operation 2.:** Comprehensive technical assistance to support the modernization and transparency of the public procurement system in line with the PP Law and PP Strategy and for the various stakeholders defined therein shall be ensured through one service contract.

### 3.5. Overview of past or ongoing assistance, lessons learned, mechanisms for donor coordination/sector working group and/or policy dialogue

According to the ISDACON database, in the period between 2007 and 2012, it is estimated that a total amount of approximately €1 billion was actually disbursed in assistance from the international donor community to the PAR sector in Serbia.

In the six annual programmes 2007-2012, IPA component I is financing projects in the PAR sector worth approximately €170 million, subdivided into 22 projects, consisting in the material and technical support to PAR and LSGs and seeing a wide array of beneficiary institutions. This large number of projects does not include those project preparation facilities and other forms of unspecified technical assistance (GTAF and reserves). The most substantial amount of up to €112 million of the financial assistance for the LSGs addresses the development of capital municipal infrastructure, implemented by works and services contracts. Approximately €19 million have been allocated to support reform of the PA to EU

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11 These sums do not include national co-financing.
standards\textsuperscript{12}, including the capacity building of the local-level administration to meet the challenges in the early phases of decentralization, reorganise and acquire modern management skills. Out of this, approximately € 4.5 million is allocated for technical assistance to support the process of accreditation to Decentralised management. Overall IPA support to public sector financial management and control amounts to approximately €6 million disbursed via direct grants, twinning projects and technical assistance, €7 million was allocated to support customs development and harmonisation, through the implementation of technical assistance, supply and twinning projects. PAR itself is supported for € 6.5 million through supply and services, including provisions for e-Government. In relation to the remarks made by the European Commission in its \textit{Analytical Report for Serbia 2011}, a number of improvements are expected as a result of the on-going assistance to this sector which is provided by both IPA and development partners. An impulse to the overall PAR strategy implementation and a more merit-based criteria in recruitment of civil servants, together with the provision of adequate training to PA managers are the likely outcomes of the support provided through IPA‘10 assistance. Moreover, IPA‘12 is providing a substantial input to the implementation of PAR strategy which is likely to consistently speed-up the professionalisation of civil service, the further enhancement of E-Government and the effectiveness and administrative capacities in local self-government units. This is also going to be reflected through the strengthening of capacities to administer EU funds and for the preparation of mature projects. A wide set of support has been so far programmed and it is currently provided through projects such as EXCHANGE 3, MSP (IPA‘07), MISP (IPA‘08 and‘10), ESSWeSP (IPA‘10). The lack of policy coordination and monitoring is going to be covered by IPA ‘11, while M&E system for EU funds will be covered by the on-going IPA‘08 and planned IPA‘12 assistance. Necessary improvements of the external audit system and the operational independence of SAI are targeted by IPA 2011.

The measures proposed in the scope of IPA 2012 for the PAR sector are structured in one SF and the additional PF for statistical system. The Sector Fiche deals in parallel with central and local level reforms in professionalisation of the civil service, with further support to development of e-Government services and in particular with enhancing administrative capacities of LSGs through establishment of a professional training system and improved Human Resources Management (HRM) function, financial management and preparation and implementation of local strategic and project planning documents.

The national IPA envelopes have over the years also been complemented with regional projects financed through MB IPA: \textit{Improving Public Financial Management in the Western Balkans (MB IPA 2010)} aimed at providing of a platform for systematic improvement of PFM across the Western Balkans through coordinated action by donors, using a common diagnostic and analytical framework (PEFA methodology) to guide intervention and encourage cooperation and dialogue between Beneficiaries. \textit{Training in Public Procurement in the Western Balkans and Turkey, (MB IPA 2009)} whereby the purpose of this project was to develop a sustainable procurement training strategy at regional and national levels in the Beneficiaries that is in compliance with EU PP legislation and practices and with related national legislation in the Beneficiaries. \textit{Project component 2 of the ReSPA Project in MB IPA 2012 program}, defined as “strategic planning and budgeting” can be seen as particularly complementary for the present SF related to PFM. It aims at strengthening capacities of Beneficiary public administration officials’ capacities, and sharing experience and good

\textsuperscript{12} Including the European Integration Scholarship Programme and the 2007 and 2008 entry tickets for Community Programmes.
practices across the region in order to help improve the development of the medium term macroeconomic, fiscal and budgetary frameworks across public sectors (the project is expected to start in the last quarter of year 2012).

The USA (exclusively for LSGs), Germany, Sweden and Norway can be quoted among the most relevant development partners of the other donors in terms of grants. Sustainable Local Development Project (USAID’10/’15) worth approximately €20 million rises expectations in terms of anticipated impacts at the local level and provides for a wide platform in consolidating various interventions directed towards LSGs. A particular USAID program component on Macroeconomic policy and Public Finance Management has already resulted in substantial developments in cooperation with the Ministry of Finance on budget programming and macroeconomic forecasting models and the systemic support is planned to extend over the next 3 years. In the last three years, the Government of Sweden has provided approximately €2 million support to the development of statistics, and the continuous support by the same Development Partner has been directed towards preparations for better programming and monitoring of EU assistance. The Government of Germany has allocated €1.5 million for the reform of the financial sector. The Kingdom of Norway has channelled approximately €1.7 million for the integration of Serbia public sector to the EU and €2.8 million for the factual implementation of the PAR. This Development Partner also provides the long term twinning-like assistance to the SAI by the Office of the Supreme Auditor of the Kingdom of Norway.

There are several key messages resulting out of development cooperation through significant number of projects invested in the PAR sector with involvement of institutions from all government levels. The crucial lessons learnt can be summarized as: the necessity to ensure strong political, resource and time commitments by all stakeholders and particularly to identify leader and coordination lines among the institutions involved; the necessity to structure reform projects along the lines of clearly formulated strategies adopted with the wide consent of all the subjects identified therein; the necessity to streamline policy coordination which will allow for better planning, prioritisation, monitoring and attribution of financial resources in a cost – effective manner. When it comes to implementation of the projects (in the case of SF – measures) effects of which are expected both on central and local levels, strong guidance and outreach towards local level is required by national level institutions (usually nominal beneficiaries of projects/measures). Preparation of this kind of interventions requires timely taking into consideration number of involved stakeholders and particularly from the implementation and management point of view, thorough resource planning and design of mechanisms for vertical coordination.

For the donor coordination mechanism and the system of SWGs, please refer to section 2.2.2.

Currently, there is ongoing a number of evaluations aimed at providing information on effectiveness of IPA and development assistance in relevant sectors in the past period and drawing conclusions and recommendations for the future planning of assistance. They include: EC funded evaluations of assistance implemented and financed by IPA programs and other donors in the Republic of Serbia per sector; IPA Interim Evaluations and meta-evaluation of IPA assistance, funded by the EC; and Evaluation of Effectiveness and Efficiency of Development Assistance to the Republic of Serbia per sector in the period 2007-2011, initiated by SEIO and implemented with the SIDA support. Also, EC has initiated a project “Monitoring and Evaluation Capacity Building in Western Balkans and Turkey”, implemented by the World Bank, in order to assist the beneficiary countries in strengthening capacities in monitoring and evaluation, with a focus on defining the performance indicators on the sector level.
3.6. SUSTAINABILITY

The sustainability of the sector measures for IPA 2013 support is given by the fact that all envisaged operations are deeply rooted within the mainstream of the overall PA reform currently undergoing in the country. The tools and improvements resultant from the sector support will trigger major efficiency (and implicit savings) in PFM ensuring the necessary resources for their continual use and increase. All planned sector measures are backed up with more specific Government strategies which anticipate desired effects of planned interventions in medium to long term and are as such integrated also in the medium-term working plans of respective institutions. Along with this goes the national budget planning which is to be complemented by IPA support – in other words, both nationally financed activities and operations to be financed through IPA align with the same targeted objectives and results in working plans of national institutions. Even after the horizon of IPA support the national plans shall develop further to encompass new budgeting periods which shall ensure that results achieved in the scope of IPA 2013 sector measures are embedded as starting points or benchmarks for future governmental plans for which adequate national resources inevitably have to be provided for.

The direct beneficiary, the CHU, is a relatively new Unit within the Ministry of Finance functionally independent as of early 2010. It will take time to fully develop its capacities to cater for the needs of the 2500 DBB's and around 6000 IBB's in developing an effective PIFC system in Serbia with both IA and FMC processes fully developed. There is no doubt that this intervention will tackle the majority of the current weaknesses concerning the capacity building measures and further strengthening of the institutional capacity of the CHU and the line ministries, Mandatory Social Security Organisations (MSSO's) and the local self-government sector. However the top-level management responsible for the implementation of the FMC processes in DBB's must be stable during this intervention period, so as not to pose threats to sustainability of the capacity building within the sector.

Furthermore, improvement of the certification scheme towards the CHU certification process being accredited by internationally recognised body will no doubt be a powerful driving force to the sustainability and viability of developing a professional pool of internal auditors in the public sector. Long-time existence the PIFC chapter in Budget system law with three rulebooks, have deep impact on development in this area. Their permanent changes and improvement follow the best European practice and streams in PIFC.

As far as the support for the Central Treasury backup Data Centre is concerned, the financial sustainability will be secured by regulated contract with the supplier, providing functionality of the system and its ability to be integrated in the existing, operational system (Public Payments System, Budget Execution System, Treasury General Ledger, Public Debt System). IT Department within Treasury Administration is skilled and experienced in aligning IT systems to the existing needs, and will also be provided with trainings on use of the new system. This new system needs to be stable, sustainable and centralised in terms of maintenance. The supplier would be accountable for maintenance costs during the guarantee period (3 years), and Treasury Administration will be responsible for financing for operating and maintenance costs after this period, which should be brought down to the lowest possible level.
3.7. **ASSUMPTIONS AND PRECONDITIONS**

**Assumptions**

In general terms, external prospects expected to take place and allow for undisturbed achievement of results as envisaged in the present Sector Fiche concern: commitment of the Government of Serbia to the objectives and principles of the Stabilisation and Association (SAA) process and continuation in pursuing its stated goal of accession to the European Union; the preparedness of public service in Serbia to absorb the concepts and principles of managerial accountability, and exercise its responsibilities through the development of comprehensive systems of internal control, supported by an effective internal audit function in all public sector bodies; absence of any major political or macro-economic shocks in the country or the region which force the EU or the GoS to suspend or review the SAA. In line with the logical framework matrix, the following more concrete assumptions are associated with the present SF:

- Ease of recession pressures and successful mitigation of the negative effects of financial crisis;
- Effective implementation of fiscal consolidation and stabilisation measures by the Government, in accordance with the Fiscal Strategy;
- Support by top-level decision-makers to embark with systemic internal financial controls in public sector;
- Effective monitoring of implementation of PP legislation and efficient enforcement of decisions in the cases of protection of rights of participants in PP procedures;
- Necessary coordination capacities among stakeholders’ institutions and especially between those from different administrative levels are assumed;
- Capacities built within the target institutions are capitalised vis-à-vis the risk of dispersion due to staff turnover or spoiling system;

**Pre-conditions**

- In the case of PIFC measure 1.1, adoption of the new PIFC Strategy and Action Plan for the period 2014-2019 is a necessary pre-condition for the implementation of the activities envisaged under the respective measure (given that the IPA 2013 measure is supposed to support exactly the priorities to be defined by the Strategy and the AP);

When it comes to upgrading the overall Treasury information system, there are two closely interlinked phases, first of which is financed from national budget and concerns the roll-out of the FMIS and upgrading of the large part of Treasury information architecture. The second phase concerns the enabling of the full functionality of secondary/backup Data Centre by purchasing hardware to build secondary Data Centre, and for providing specialized related trainings and certification for Treasury staff. The second purchase is being proposed herewith for the IPA 2013 financing (with 15% of obligatory national co-financing).

- As formulated in the logical framework matrix: launching of the tender for the supply contract 1.2 for Central Treasury backup Data Centre, is conditioned by the

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13 Assumptions are external factors that have the potential to influence (or even determine) the success of a project but lie outside the control of the implementation managers. Such factors are sometimes referred to as risks or assumptions but the Commission requires that all risks shall be expressed as assumptions. Pre-conditions are requirements that must be met before the sector support can start.
satisfactory completion of the nationally funded first phase concerning the roll-out of the FMIS and upgrading of the large part of Treasury information architecture.

- Likewise, the supply of equipment for this contract is pre-conditioned by availability of storage and installation space.

4. **IMPLEMENTATION ISSUES**
### 4.1. **Indicative Budget**

Indicative budget (amounts in EUR) *(for decentralised management)*

<table>
<thead>
<tr>
<th>SECTOR TITLE: Public Administration Reform Sector</th>
<th>TOTAL EXPENDITURE</th>
<th>TOTAL PUBLIC EXPENDITURE</th>
<th>IPA CONTRIBUTION</th>
<th>SOURCES OF FUNDING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IB (1)</td>
<td>INV (1)</td>
<td>EUR (a)=(b)+(e)</td>
<td>EUR (b)=(c)+(d)</td>
</tr>
<tr>
<td>Measure 1.1</td>
<td></td>
<td></td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Operation 1.1 – Twinning contract for PIFC</td>
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<td></td>
<td>2,000,000</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Measure 1.2</td>
<td></td>
<td></td>
<td>1,620,000</td>
<td>1,620,000</td>
</tr>
<tr>
<td>Operation 1.2 - Supply contract for establishing backup Treasury Data Centre</td>
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<td></td>
<td>1,620,000</td>
<td>1,620,000</td>
</tr>
<tr>
<td>Measure 2</td>
<td></td>
<td></td>
<td>2,500,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>Operation 2. – Service contract for</td>
<td>X</td>
<td></td>
<td>2,500,000</td>
<td>2,500,000</td>
</tr>
<tr>
<td>PP</td>
<td>TOTAL IB</td>
<td>4,500,000</td>
<td>4,500,000</td>
<td>4,150,000</td>
</tr>
<tr>
<td>----</td>
<td>----------</td>
<td>-----------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>TOTAL INV</td>
<td>1,620,000</td>
<td>1,620,000</td>
<td>1,377,000</td>
<td>85</td>
</tr>
<tr>
<td>TOTAL SECTOR SUPPORT</td>
<td>6,120,000</td>
<td>6,120,000</td>
<td>5,527,000</td>
<td>90</td>
</tr>
</tbody>
</table>

**NOTE: DO NOT MIX IB AND INV IN THE SAME OPERATION ROW. USE SEPARATE ROWS**

Amounts net of VAT

(1) In the Operation row, use "X" to identify whether IB or INV

(2) Expressed in % of the Public Expenditure (column (b))

(3) Expressed in % of the Total Expenditure (column (a))
4.2. **INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN PER QUARTER)**

<table>
<thead>
<tr>
<th>Operations</th>
<th>Start of Tendering/ Call(s) for proposals</th>
<th>Signature of contract(s)</th>
<th>Activity Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operation 1.1 – Twinning contract (PIFC)</td>
<td>T + 1Q</td>
<td>T + 3Q</td>
<td>T + 15Q</td>
</tr>
<tr>
<td>Operation 1.2 – Supply contract (Treasury)</td>
<td>T + 1Q</td>
<td>T + 3Q</td>
<td>T + 13Q</td>
</tr>
<tr>
<td>Operation 2. – Service contract (PP)</td>
<td>T + 1Q</td>
<td>T + 3Q</td>
<td>T + 13Q</td>
</tr>
</tbody>
</table>

In general, it is planned to implement the IPA 2013 Program for the Republic of Serbia through the system of decentralised management (DM), pending the conferral of management powers from the EC to national authorities. Respective procedures of the implementing manuals for DM shall apply also to implementing modalities envisaged for PAR IPA 2013 sector support.

While a Twinning Contract is planned for the implementation the measure on PIFC (operation 1.1), there shall be one supply contract (operation 1.2) for establishment of the full functionality of the backup data centre of the Treasury Administration. This Supply contract includes a smaller proportion of funds which will be allocated for the provision of specialized related trainings and certification for Treasury staff in management and maintenance of the new backup centre, and for the purpose of PP procedures in accordance with PRAG all activities are herewith treated under a single supply contract.

In the case of measure for PP, a Service Contract (operation 2.) is envisaged to implement activities proposed therein. Having in mind diversification and the nature of needs and the contents of the presented measure on PP, such as intensification of interactions with economic operators and CAs, knowledge of the market necessary for adopting standards and procedures, increasing usage of e-procurement and necessity for the related expertise, etc., the service contract is judged to be a more suitable modality. The previous twinning project financed within the scope of IPA 2007 Program and completed in 2012, provided for an important contribution to achievements the beneficiary institutions made in the respective period. With the IPA 2013 support, the ambition is to mobilise suitable expertise, which would be clearly demand-driven and responsive to tasks beyond the immediate work with central-level national institutions and at the same time capable of transferring the experience, logic and understanding of the market scene the PP contracts take place on back to the national institutions. Moreover, opting for a service contract became even more obvious choice as the support through the proposed measure is closely interlinked with the new requirements stemming out of the new Law on PP. Namely, in accordance with the Law, there is also the new institutional aspect of diversification, whereby the active beneficiaries along with the PPO shall also be the Commission for protection of Rights in PP procedures as well as the Body for Centralized Procurement – i.e. the Administration for Joint Services of the Republic Bodies. Recognizing the importance of direct institutional exchange with counterparts from the EU MSs, the PPO is currently considering the option of engaging with the Twinning Light partners for implementing more immediate and focused activities on legislative adjustments, provision of model contracts and bidding applications to facilitate implementation of the new Law, etc. This intervention shall be approved in coordination with SEIO and the EU Delegation and would precede the implementation of activities under the measure 2 of this SF.
When it comes to the implementation issues, to all the institutions dealing with preparatory steps for the implementation and with the implementation itself, it is advised to promote gender equality principles and requirements, as evidenced in tender documentation and the Twinning Fiche, through the evaluation and selection aspects, etc.

4.3. **CROSS CUTTING ISSUES**

4.3.1. **Equal Opportunities and non discrimination**

Observance of equal opportunities and non discrimination is promoted in the majority of strategic documents defining the PAR sector. This principle is to be applied throughout action plans and measures undertaken by public administration at all levels. Enforcement of those principles is ensured through specific administrative procedures applied in accordance with the Law on non-discrimination, etc. In the implementation of measures and activities under this Sector Fiche, the same principles shall apply, so that participation in the project will be guaranteed on the basis of equal access regardless of sex, ethnic origin, religion or belief, disability, age, etc. Gender equality incentives are incorporated particularly in activities concerning capacity building, as well as through the monitoring mechanism, whereby some of the indicators are structured so that data shall be disaggregated by gender, etc. Likewise, this fiche recognizes (section 2.2.5) a role for permanent working parties established in the authorities of local self-governments or officers for gender equality designated in them to perform activities towards exercise of equal opportunities on the basis of Article 39 of the Gender Equality Law.

4.3.2. **Environment and climate change**

The measures under this Sector Fiche do not have a direct global impact to the protection of the environment. However, in the case of public procurement for example, it should be noted that the Strategy for Development of Public Procurement recognizes the promotion of *green procurement* as the strategic goal. The Strategy likewise remarks very limited experience in actual implementation of this aspect of public procurement, but also the increasing awareness and readiness for introducing green procurement on a wider scale. For that matter, the operation concerning PP within this fiche shall provide a good opportunity for the competent authorities to learn more e.g. on EC Buying green approach. Dissemination of green principle in procurement should help public authorities to buy goods and services with a lower environmental impact. It is also a useful reference for policy makers and businesses responding to green tenders. Other than that, also in the implementation of other Operations herewith, environmental policies will be incorporated in tender documentation whenever possible. This shall be particularly important for the supply contract, as it is expected to purchase hardware which is least harmful for the working conditions and environment. For all the operations, recycling of paper and the reduction of paper-based activities is recommended.

4.3.3. **Minorities and vulnerable groups**

This Sector Fiche does not deal with minorities and vulnerable groups in any direct manner, but as a general principle, sensitivity towards minorities and vulnerable groups, where meaningful, should be reflected in the improved provision of public services.

4.3.4. **Civil Society/Stakeholders involvement**

The involvement of civil society organisations and other relevant stakeholders has already been ensured notably in the design phase of the Fiche through their participation in the programming working group for PAR. As the SECO mechanism grew more operational (see also section
2.2.5), the feedback from CSOs became more substantial and timely. All the other permanent members of the PAR working group have endorsed the scope of PAR sector support for IPA 2013, while several main beneficiary institutions per measure are entrusted with detail fiche design under the coordination of SEIO. When it comes to local level administration, which is an important interested party in all the measures of the present SF, beside involvement of local level counterparts which will be ensured directly by the central-level institutions, the SCTM shall be consulted as a partner organisation (see section 2.2.5.).

4.4. **Sector Monitoring, Evaluation and Audit**

Monitoring of the progress in sector support implementation will be done in accordance with the rules and procedures for monitoring under Decentralized Management (DM), as specified in the DM Decree and DM Manuals of Procedures. Manuals of procedures include detailed procedure for monitoring on different levels (contract, sector support/ project, IPA TAIB Sub-Committees, IPA TAIB Committee, IPA MC), with clear responsibilities and deadlines in the monitoring process. Specifically, it is envisaged that on the spot checks (monitoring visits, verification checks and supervisory checks) will be performed throughout the implementation process by the SPO and CFCU, as part of the contract management activities, while regular monitoring of the implementation will be done through the Steering Committee meetings and regular reporting by the Contractor. In addition, IPA monitoring process organized and lead by the NIPAC/ NIPAC TS includes regular meetings of Monitoring Committees on different levels, examining relevant monitoring reports and providing recommendations for ensuring delivery of planned results, as well as follow up of their implementation. With regards to the monitoring of sector support, it is envisaged that responsible SPO submits a Sector Support Monitoring Report to NIPAC twice a year, in a prescribed template. After quality check, NIPAC TS prepares the TAIB Sub-Sector Monitoring Report to be examined by the relevant Sector Monitoring Sub-Committee (SMSC), in this case - SMSC for Public Administration Reform. Report examined by the SMSC is envisaged to include information on status and progress in implementation of all relevant sector support/ projects in that respective sector. Depending on the issues/ problems identified, conclusions and recommendations of the SMSC may be taken forward to the TAIB MC and ultimately, the IPA MC. Monitoring process envisages participation of various stakeholders such as EC/EUD, NIPAC/ NIPAC TS, SPO/IPA Unit, CFCU, NF, AA and other institutions and civil society organizations per need.

Evaluation and audit of sector support will be done in accordance with the Decentralized Management rules and procedures, defined in the DM Decree and DM Manuals of procedures. In line with IPA IR, Manuals of procedures envisage responsibility of the national authorities to provide for the IPA Interim evaluation, while other types of evaluation (ex ante, ex post, thematic, etc) may be initiated by national institutions on ad hoc basis and per need. With regards to the audit, procedures on internal controls under decentralized management regulate in detail various types of audit to be performed (internal and external), audit planning, carrying out of audits, following up on audit recommendations and reporting on follow up activities.