

Annex 21 - Progress Report on the Performance of the PPMC system

Note: Report is designed to function as a stand-alone document, presenting all elements necessary to understand logic and developments in the process of PPMC modeling and testing within the C&J Project (standard reporting format with case study elements)

1. Background

Serbia has a window of opportunity to accelerate structural reforms to restart growth. Following the achievement of some of its political objectives, the government in 2014 turned its focus toward the unfinished economic reform agenda, and made tangible efforts to initiate reforms in critical areas, including reducing the role of the state, improving the business environment, and restoring macro-fiscal stability. For higher and sustainable growth in the future, Serbia will need to rely more on increased capital accumulation, enhanced productivity, improved competitiveness and deeper integration with global markets.

To restart growth, reduce poverty, and increase shared prosperity, it will be necessary to boost private sector investment, exports, productivity, and jobs. To address constraints to jobs and competitiveness, Serbia needs to improve the capacity of key institutions, as well as strategic planning and policy coordination. Project support is organized across 3 main themes: private sector investment and export promotion; firm-led innovation and research sector reforms; and labor market intermediation. In addition, there is a horizontal theme that focuses on policy planning, monitoring, and coordination. The sectorial and institutional context for the main components can be found in Annex 3 of the PAD. In Serbia, little attention in government is given to output and outcomes, and strategies are rarely evidence-based. According to the Bank's 2015 Systematic Country Diagnostic, policy coordination is among the weakest points for Serbia. Better planning and inter agency coordination should help improve policy predictability and encourage more long-term investment. This will be facilitated by the project through the creation of an inter-ministerial "policy planning, monitoring, and coordination" working group and creation of the PPMC System model, under the WB's Competitiveness and Jobs Project.

The International Bank for Reconstruction and Development (the Bank) and the Republic of Serbia (RS) have agreed a EUR 89.5 million loan (100 million USD) to finance the Competitiveness and Jobs Project (Project). The Project Development Objective (PDO), as the overall objective of the Project, is to **improve the effectiveness and coordination of selected public programs** to alleviate constraints to competitiveness and jobs creation including investment and export promotion, innovation, active labor market programs, labor intermediation, and activation of social assistance beneficiaries and their transition into formal jobs. The project focuses on a targeted set of achievable reforms of existing policies - as well as the effectiveness of their implementation - which have been identified as key drivers of the competitiveness and jobs agenda by the Bank, as well as other relevant analytical work.

There are several ongoing reforms within the overall public administration reform in the Republic of Serbia which are of crucial importance for the Project, and to which the Project contributes significantly. The overall Public Administration Reform (PAR) itself is closely related to the economic reform in the Republic of Serbia, since it is focused on the need to increase the efficiency of the public administration which should enable business entities and citizens to conduct economic activity freely and efficiently. It should

also allow increased investments in the Republic of Serbia. The key aspects of the public administration reform that relate the most directly to the economic reform and help boosting competitiveness and employment in the Republic of Serbia are the reforms of the overall planning system and reform of capital projects' management, as well as strengthening of the inspection system (however, it's less related to the Project than two other).

The planning system reform has been envisaged by the Action Plan for the Implementation of the Strategy for Public Administration Reform for 2016 and 2017, while the reform of the capital projects' management has been envisaged by the Public Finance Management (PFM) Reform Program and accompanying Action Plan for period 2016-2020. PFM Reform Program also encompasses strengthening of the program budgeting exercise through, inter alia, analysis of the process, monitoring and control of program budgeting and defining measures for its improvement and strengthening of capacities within the MoF and budget beneficiaries.

It is also important to point to the Strategy for Regulatory Reform and Improvement of Public Policy Management System for the period 2016-2020, including Action Plan for its implementation in the period 2016 – 2017, envisaging different mechanisms for improving policy planning, coordination and monitoring and evaluation, but also for regulatory reform aiming to improve the quality of regulation, representing an instrument for public policy implementation and improving the quality of public policies itself at the same time. The regulatory reform is particularly important for the Project, since it represents a connection between public administration reform and reforms aiming at boosting business environment and investments. The Project contributes to a successful implementation of the all three mentioned documents and reforms adopted by the Government.

In accordance with its political and strategic orientation towards the EU membership, Serbia has embraced the new tools and mechanism foreseen by the EU for candidate and potential candidate countries. This includes development of Economic Reform Program (ERP), as well as Employment and Social Reform Program (ESRP). Both of these programs are subjects to thorough planning coordination exercise, as well as monitoring and evaluation. Recommendations of the EU on improvement of ERP are given to candidate and potential candidate countries during mid-year Economic and Financial Affairs Council meetings in the form of Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey. In this way, candidate and potential candidates for EU membership are drawn into the EU Semester, already applied to Member States. ESRP is monitored on annual basis and through thematic meetings and conferences.

Another EU tool, promoting orientation toward results, is the Sector Budget Support mechanism, which has been defined as the mechanism to support the budget of the RoS deriving from the results achieved in implementation of the elements of the PAR Strategy Action Plan. There is also a new result-based lending operation of the World Bank implemented through Modernization and Optimization of the Public Administration Program.

All of the above mentioned initiatives, projects and programs are structured as a combination of compatible measures oriented toward increase of competitiveness of the RoS, increase of efficiency and professionalism of the public administration and better achievement of the accession criteria. Thus, it can be understood that RoS understands the importance of policy planning, monitoring and coordination and follows the external requirements on this matter. However, the compatibility (either dynamic or by content) of different elements of the reforms is yet to be explored.

In this context, PPMC system in competitiveness and jobs policy area, envisaged under the Competitiveness and Jobs Project, is an opportunity to comprehensively cover and assess the contents, dynamics and compatibility of the reforms, and mechanisms and instruments of the PPMC system, since PPMC system is both the object of the Project, as well as its goal.

As it is determined by the Bank during the Project assessment, RS allocates significant funds to the programs related to the competitiveness and jobs creation, which, however, lack coordination and strategic planning limiting their effectiveness. In the context of fiscal consolidation and limited budgetary resources, the Project activities mostly target areas where the Government of RS is spending significant resources and would like to put these funds to more efficient use, as well as to improve their coordination, i.e. to improve efficiency of current spending, rather than increasing public spending beyond present levels. Thus, the **primary purpose of the Project** is to achieve better policy coordination, and to systematically address their impacts. This Project purpose is reflected in the A.1 component of the Project, which focuses on policy planning, monitoring and coordination within the scope of this Project. This Project component should also prevent dilution of this comprehensive reform process into three independent projects. Project component should also prevent dilution of this comprehensive reform process into three independent projects. It should also secure that policy planning, monitoring and coordination based on results becomes a practice in the Republic of Serbia.

Project supports, inter alia, implementation of the program of the RoS for policy planning, monitoring and coordination (PPMC) through developing and piloting an inter-ministerial PPMC system in support of competitiveness and jobs reforms, embedded in the Component A.1 - horizontal component of the Project. This will also include development of individual planning and monitoring frameworks at the ministry level (to feed into the inter-ministerial PPMC system), and the piloting of the PPMC system, including through semi-annual progress reports and annual performance review reports with inputs from each participating ministry.

The component directly addresses two of the main challenges related to Serbia's policy making framework - weak strategic planning and policy coordination - and aims to increase the effectiveness of Government spending targeting competitiveness and jobs. Through the PPMC framework, the participating institutions are expected to set performance targets on competitiveness and jobs, monitor and evaluate progress, conduct analysis, and contribute to policy development. Results matrices with a hierarchy of outcome and output indicators should be developed by each ministry in collaboration with the Bank along with protocols on monitoring and reporting. The inter-ministerial working body (PPMC IMWB), led by the PPS and comprising representatives of participating institutions will oversee the planning and monitoring framework and coordinate policies. The PPMC IMWB also includes representatives from the MoF, MoPALS and Prime Minister's office.

Policy planning, monitoring and coordination system needs to be better connected with, as well as to build upon the existing Government's initiatives in policy planning and coordination, including development, revision and implementation of the Action plan for the implementation of the Governments Program, the alignment and enhancement of the sectorial strategies, as well as enhancement of the program budgeting.

PPMC system needs to bring to better evidence-based policy design and coordination, as well as to the synergy of efforts made by individual institutions, given that, with the support from this Project, it will become a part of the clear, strategic framework with monitoring and evaluation system. The framework will be a work-in-progress in the coming years, requiring frequent adjustment and improvement (which

can be caused, inter alia, with the adoption of the legislative package on planning system and program budgeting practice enhancement, as well as with including additional activities in the project with the aim of achieving better performance). It should build on and link together existing government initiatives, including a Government Action Plan, sectorial strategies, and program-based budgeting (rolled out for the 2015). The PPMC framework will incorporate and strengthen the relevant elements of each of these initiatives in the pilot thematic areas.

The PPMC system is expected to help the Government conduct better economic analyses of their programs, and the PPMC IMWB is expected to help with cost-benefit analyses, gap analyses, and evaluations of select competitiveness and jobs-related programs, all of which will lead to improvements in the efficiency of public spending.

Results monitoring and evaluation will be a key part of the project through the PPMC piloting, within the general framework that will be set formally by the PPS (policy evaluation and monitoring methodologies, processes, criteria). Results monitoring is expected to take place on a semi-annual basis and be managed by PPM IMWB. It is expected that this results monitoring system will become institutionalized within the PPS and line ministries through the PPMC system. If successful, this could be a prelude to a results-based management system that is rolled out in the future to other government entities. The PPS will coordinate the results monitoring and provide guidance on evaluations of select programs that will be undertaken by the line ministries.

The first component of the Project also directly relates and contributes to the planning system reform. Namely, all the policy planning, monitoring and coordination tools and mechanisms are embedded into the draft set of regulation on planning and public policy management (consisting of the Law on Planning System and two accompanying methodologies, namely - Regulation on Mid-Term Institutional Planning and Regulation on Public Policy Management, Impact Assessment and Content of Public Policy Documents), and will be applied during the Project. In addition, the second component of the Project directly relates and contributes to the reform of capital project's management that is being pursued by adopting and implementation of the Regulation on the Content, Methods of Preparation, Evaluation, Prioritization, as well as Monitoring and Reporting on the Implementation of Capital Projects by the Ministry of Finance.

On the other hand, the Project activities within the first component of the Project will help the planning system reform to pilot the abovementioned reforms in the areas of competitiveness, employment and investment which is of crucial importance for the reform itself. The Project activities will also significantly contribute to the piloting of different mechanisms and good practices related to the evaluation, prioritization, monitoring and reporting on the implementation of capital projects and other investments. Activities to be implemented through this component include:

- Establishment and maintaining operative the IMWB, insuring in such a way that policy coordination leads to achievement of the Project objectives, as well as to the synergy of the results between Project components (membership and mandate of the IMWB are defined with its Rules of procedure);
- Establishment of the institution-level Internal units with adequate mandate which participate in the PPMC system;
- Improvement and, as needed, updating of the rules and protocols for coordination of the resources on this project (EEPs, Procurement plan) and reporting on results described with POM with the aim of adoption by all participating institutions, i.e. by the IMWB;

- Determining the methodology and resources needed for transition of this pilot PPMC system in other sectorial or horizontal policy areas, which would be integrated into the legislative package on planning system;
- Determining the framework for evidence-based PPMC system harmonization with the program budgeting process/budgetary calendar and with the Action plan for the implementation of the Governments Program;
- Analysis of the legislative package on planning system in comparison with the experience and recommendations deriving from this project end eventual revision of the its provisions accordingly;
- Development of the tools for policy monitoring and evaluation on institutional and project level, where needed, with the aim of enhancement of internal and project procedures for monitoring and evaluation (i.e. Balanced Scorecard, Logical framework matrix etc.);
- Strengthening of the capacities within PPS and participating institutions for evidence-based policy planning, budgeting, coordination, monitoring, evaluation as well as for relevant data and indicators collection, analysis and interpretation;
- Development of the plan for transition of the methods for monitoring and evaluation, developed with this project support, into other policy areas;

In further chapters are described policy, legal and institutional aspects of the PPMC System developments in a reporting period, currently established functions/procedures and instrument/tools within the PPMC System model, as well as present status of available capacities within the PPMC System model. Based on that analysis are identified lessons learned and defined next steps in further development of the PPMC System modeling.

2. Setup

2.1 Policy framework

One of the main project goals is to improve competitiveness of the Serbian economy through the support to public programs which are related to the competitiveness and jobs creation. One of the main constrains in the implementation of those programs is the lack of policy coordination and strategic planning that could limit programs effectiveness, which was the main reason to introduce a horizontal PPMC component in the C&J Project.

Policies and policy measures in Serbia in general are defined by policy documents, which in most cases includes strategies and action plans. Within the strategies, among other, outline of the policies and its goals are presented, while the policy measures, programs and actions towards fulfilling those policy goals are defined and described in more detail within the action plans. This is the case in most of the adopted policy documents, but also there are cases in which the authors did not follow this methodological approach. As a consequence of the lack of uniformity in drafting policy documents sometimes it is hard to clearly define desired policy, policy objectives, measures and activities that are foreseen in order to achieve desired goals. In some cases, strategies are adopted without action plan for their implementation during the lifecycle of the strategy, or for a shorter period of time. Also, question about the quality of some of the adopted strategic documents can be easily raised, but definite conclusion on this matter requires further, more detailed analysis.

Another disadvantage of the current policy framework in general is the lack of the clearly defined hierarchy among the strategic documents and policies and clearly defined priorities in their implementation, even though there were previous initiatives and analysis contributing to development of this hierarchy. Furthermore, only nominal connections between strategic documents and policies are determined, by simple referring on other documents and policies for which principled compliance was determined. This often leads to contradictory policies, policies' objectives, measures and programs which results in lower efficiency and effectiveness of the selected policies.

In addition to that, the current number of the strategic documents is too big for the effective policy implementation due to organizational constrains that arise from too many policy documents institutions responsible for their implementation. The big question is whether all the topics that are subject of the strategic documents are important enough to devote them special attention in the form of separate strategic documents. In order to simplify current policy planning, monitoring, and coordination system and to make it more efficient it is necessary to merge some of the currently valid strategic documents. To answer the question which of the strategic documents would be a best candidate for merging requires further analysis.

Among other, all of the above mentioned constrains are the result of the lack of any legal, law or bylaw, solutions which would properly regulate and methodologically systematize this matter. All of this recorded issues have some negative consequences on the effectiveness in planning, monitoring, coordination and in implementation of desired policies.

National competitiveness refers to a country's ability to create, produce, distribute and service products in the international trade while earning rising returns on its resources. In this regard, national competitiveness can be explained by observing competitiveness at the firm level, at the industrial level and at the international level. National competitiveness at the firm level implies the ability to make production at lower costs and higher quality. National competitiveness at the industrial level is generally defined as the ability of an industry to achieve the highest level of efficiency to meet challenges posed by foreign rivals. In the perspective of competitiveness at the international level, a country should have the ability to increase the welfare and real income levels for those who participate in economy process. In this regard, the performance of firms and industries play a crucial role for international competitiveness.

Besides the above mentioned definition of competitiveness, which is broadly accepted by the OECD and the World Bank, the European Union has further broadened its definition of competitiveness by including the following aspects: Creativity (R&D capacities), Economic performance, Infrastructure and Accessibility, Knowledge Employment and Education. According to the EU definition, competitiveness is defined as the capability of an economy to maintain increasing standards of living for those who participate in it, by attracting and maintaining firms with stable or rising market shares in an activity.

Based on those two concepts could be concluded that competitiveness of the country depends on its ability to anticipate and successfully adapt to internal and external economic and social challenges, by applying adequate policies and policy measures in the areas which have profound impact on competitiveness.

At the competitiveness sector's level, policy framework in RoS is more coherent and with less constrains than the general one. The main features are still lack of clearly defined structured hierarchy and alignment between most important current policies, lack of general methodological framework for their development, as well as pending of preparation and adoption of some of them, but importance of the

competitiveness sector in overall reform agenda, as well as adoption of the ERP, as the framework document of the economic reform, provides solid basis for successful piloting of the PPMC System model.

It is a common practice that accession countries Governments, in the absence of the coherent policy framework, use mandatory documents in the process of EU accession as a beacon in which direction it should steer in its policy development. In the case of Serbia, this approach proved itself as a good intermediate solution. In that course, the Program of economic reforms for the period from 2016 to 2018 (ERP) at the moment represents one of the most important national policy documents. This document represents a framework for any further policy development towards achieving more efficient economic and fiscal policy management. Some other documents with the same or similar significance in EU accession process such as Strategy for Smart Specialization is expected to be adopted in coming years, which will be considered as a main strategic document for the economic development of the Republic of Serbia, with the focus on research and innovation.

Having in mind priorities in reform process that was set in the Program of economic reforms for the period from 2016 to 2018, a short description of the current strategic documents, adopted policies, goals and measures that are the most relevant to the subject of competitiveness of the Serbian economy and to the C&J Project is presented in the further text.

These documents have been selected as the most relevant documents which will shape the public policy in this sector and some of them as the best practice example of the RBM methodology used so far in Serbia. Once the Law on Planning and and by-laws on mid-term planning, impact evaluation and policy document preparation methodologies have been adopted, these documents will be first in line to be checked, discussed and advised for revision if necessary according to the rules of good PPMC system.

[Program of economic reforms for the period from 2016 to 2018 \(ERP\)](#)

Program of economic reforms for the period from 2016 to 2018 (ERP) was adopted by the Government of the Republic of Serbia 3 March 3rd 2016. The Republic of Serbia as a candidate country for EU membership in the pre-accession period prepared this document in order to improve the platform for more effective economic and fiscal policy management. The ERP contains medium-term framework of macroeconomic and fiscal policies, as well as specific priority of the structural reforms. ERP integrates priority reforms defined in previously adopted strategic documents.

ERP defines in total of 15 priority structural reforms that have been selected in accordance with the guidelines of the European Commission which were presented in 8 key areas:

- Public financial management (1. Transformation of tax administration and 2. Improving management of capital projects / investments);
- Infrastructure (3. Improving physical infrastructure to provide links with EU markets and environment and development and 4. The improvement of national broadband communication infrastructure);
- Sectors Development (5. Improving the competitiveness and position of agricultural holdings 6. Increasing the competitiveness of the manufacturing industry and, 7. The package of measures to improve access to finance for SMEs,);
- Business Environment, Corporate Management and the fight against gray economy (7. package of measures to improve access to finance for SMEs, 8. Reform of public enterprises, 9.

Simplification of procedures for the functioning of the economy and, 10. Establishment of a common information platform for all inspections at the national level (e-inspection));

- Technology absorption and innovation (11. Program to support innovation and technological development in the public and private sector);
- Trade integration (12. The National System for Improvement of Quality Infrastructure);
- Employment and labor market requirements (13. Establishment of a system of national qualifications frameworks in order to improve competencies and 14. Improving the effectiveness of active employment policies with a particular focus on young people, surpluses and long-term unemployed);
- Social inclusion, poverty reduction and the promotion of equal opportunities (15. Improving adequacy, quality and are targeted social protection measures).

The program is determined by the pace of implementation of priority activities for the implementation of structural reforms, as well as the effects of their implementation of the budget. In order to better control over the implementation of structural reforms and fiscal measures, the Commission will monitor and analyze the implementation and conclusions of the evaluation will be presented in the annual Progress Report.

[The program of reforms of employment and social policy in the EU accession process \(ESRP\)](#)

Based on the European Union's Enlargement Strategy 2013-2014, the European Commission has launched a new process which will establish and monitor priorities in the field of employment and social policy for the countries in the accession process - The reform of employment policy and social policy (Employment and Social Reform Program - ESRP). The process of making ESRP in Serbia officially started in September 2013 and it was adopted by the Government of the Republic of Serbia in April 2016.

The program of reforms of employment and social policy covers the labor market and employment, human capital and skills, social inclusion and social protection, challenges in the system of pensions and health care and youth unemployment. In addition, the document contains horizontal aspects such as capacity building, governance and institutional reforms, as well as the use of EU funds for the implementation of the planned reforms.

The main objective of the active employment policy is to prevent a large increase in unemployment, which will be achieved by implementation of measures for prevention activity and timely involvement of persons in active labor market measures and to reduce inactivity.

The main objectives within the field of human capital and skills relates to: harmonization of outcomes of the education system with the needs of the labor market by: increasing the quality and relevance of education, increase in the general level of education of the population and increase the efficiency of the education system.

The objectives in the field of social inclusion and social protection, as well as in the area of pension and health care will be implemented through the planned measures and courses of action.

Capacity building and institutional reform for the implementation of the Program of reforms in the field of employment and social policy (ESRP) will be implemented in line with the broader administrative reform envisaged by the Action Plan for the implementation of the Strategy of Public Administration

Reform in the Republic of Serbia for the period 2015-2017. In the implementation of this program, it will be required to invest more resources in relation to the funds from the budget.

The ESRP is designed to be the primary strategic document which will direct reform process in employment and social policy by providing guidance for other strategic documents that should also regulate this matter. The ESRP stipulates a large number of specific goals and concrete measures within the main objectives in employment policy, human capital and skills, social inclusion and social protection and Capacity building and institutional reform. Also ESRP stipulates specific list of indicators which should be used for measuring progress of reforms, but the envisaged indicators were not designed to follow the progress in achieving of all of the specific goals and measures.

Strategy for Public Administration Reform in the Republic of Serbia

The Government of the Republic of Serbia on January 24th 2014 has adopted Strategy for Public Administration Reform. The strategy represents primary strategic document of the reform of public administration and it represents a continuation of ongoing reform activities in public administration and it extends them to the whole system of public administration. According to the authors this strategy is in line with four others national strategic documents.

Action Plan for the implementation of the Strategy was adopted for the period 2015-2017, which defines the extent and results of activities for the implementation of public administration reform. Indicators for monitoring the performance of the Action Plan have been defined at the level of objectives and results. Also, for each of the results the main activities necessary for its achievement was listed and timetable was given for the implementation of these activities.

Strategy and the Action plan stipulate the adoption a set of sub-sectorial strategy, strategies of lower hierarchical order whose purpose would be detail elaboration of the established goals in the primary strategy.

The overall objective of the reform of public administration is the further improvement of the public administration in accordance with the principles of the so-called European administrative space, and the provision of high quality services to citizens and businesses, as well as the creation of such a public administration in the Republic of Serbia, which will significantly contribute to economic stability and to increase in living standard.

The specific objectives of the Strategy for Public Administration Reform relates to:

- Improving organizational and functional subsystems of public administration;
- The establishment of a harmonized public-service system based on merit and improvement in human resource management;
- Improving public financial management and public procurement;
- Increase in legal certainty and improvement in business environment and quality of public services;
- Strengthening transparency, ethics and accountability in the performance of public administration.

Achievement of all of these goals requires significant financial resources of which on part it is planned to be acquired through IPA funds and from donations. Given the result orientation of the Strategy and its Action plan, the document was chosen by the EU to be supported through Sector Budget Support mechanism.

The Strategy for Public Administration Reform is design to be the primary strategic document which will direct reform process in public administration by providing guidance for other strategic documents that should also regulate this matter. The specific goals are broadly defined which allows the set of sub-sectorial strategy to freely define goals and measures for achieving specific goals mentioned in the primary strategic document.

National Employment Strategy for the period from 2011 to 2020

The Serbian government on May 19th 2011, has adopted the National Employment Strategy for the period 2011-2020, which for its goals has to support the development of the Republic of Serbia focusing on the employment and the reduction of relative poverty. Employment Strategy focuses on those sectors and priorities which include support for pro-investment and export-oriented industries. The strategy was prepared in the context of the guidelines and recommendations of the Europe 2020.

The National Action Plan for Employment (NAPE) is a key instrument for the implementation of active employment policy, which is adopted annually and it defines objectives and priorities of employment policy and establishes programs and measures to be implemented. Performance indicators were determined to track the progress in conducting active employment policy, as well as responsibilities for enforcement and funding sources.

The main objective of Serbian employment policy is to establish an effective, stable and sustainable trend of growth in employment and that employment and labor market institutions fully comply with the EU acquis by the end of 2020.

In order to achieve the general (strategic) objective, in accordance with the identified challenges, specific objectives are identified which, through implementation of different programs, measures and activities, should contribute to increasing employment in the Republic of Serbia:

- Promoting employment in less developed regions and promoting the development of regional and local employment policies;
- Improving of the quality of human capital;
- The development of institutional capacity and expansion of active labor market programs;
- Reducing the duality on the labor market.

Implementation of the strategic guidelines is the responsibility of the Ministry of Labor, Employment, Veteran and Social Affairs. Financing measures of active employment policy will be carried out from the budget of the Republic of Serbia, autonomous province budget and budgets of local governments, donations, loans and funds from contributions to unemployment insurance and from other sources. In the annual Action employment plans necessary financial resources are defined.

Identified specific goals of national employment policies are clearly defined and described and they provide a clear guidance for the National Action Plan for Employment (NAPE) to implement adequate measures necessary for achieving the established objectives. The performance indicators that are listed

in the NAPE are taken from the National Employment Strategy. Identified performance indicators are designed independently from the specific goals, or in other words with these indicators we cannot track the progress of all identified specific goals. They are designed to track the movement in employment and unemployment and progress in some aspects of labor market, but it is not possible to clearly and explicitly identify progress in achieving objectives to each of the identified specific goals. Also, identified performance indicators are not suitable to track the progress and the results of suggest programs and measures within the National Action Plan for Employment (NAPE).

Strategy and policy development of the industry of the Republic of Serbia for the period from 2011 until 2020.

The strategy was adopted on June 30th 2011, it contains an action plan which was adopted on December 22nd 2011 with the amendments that were made on July 4th 2013. The center place of the Government's industrial policy is the development of manufacturing industry and improving of its competitiveness in order to increase production, productivity and exports in all areas of manufacturing industry. According to the authors this strategy is in line with twelve other domestic and international (EU) strategic documents. Also, according to the authors of the strategy, industrial policy is associated with ten other key state policies. Action Plan for the strategy implementation includes goals and measures, activities for the implementation of measures, competent institutions and deadlines. Performance indicators are not set in the action plan.

The goal of the industrial development of the Republic of Serbia for the period from 2011 until 2020 are identified as follows:

- Doubled industrial production in 2020 compare to the level from the 2010;
- The increase in labor productivity in industry and construction by 2020 of at least 50%;
- Increased participation of exports of goods to 50% of GDP in 2020;
- The average annual investment growth of 10%;
- Expected average annual FDI inflow of 2.35 billion EUR;
- Employment growth in the manufacturing industry of 75,000 workers.

Besides the above mentioned goals, the strategy also stipulates three strategic priorities: 1) Technological revitalization, 2) Technological reengineering and 3) Technological development.

Privatization, Greenfield investments, Competition and Strengthening of competitive companies are identified as key drivers which would enable realization of the above mentioned goals and priorities. Financial resources for the strategy implementation were not foreseen by this document.

There are a couple of issues with the above mentioned strategy. As it was mentioned earlier the strategy is in line, at least nominally, with twelve other strategic documents. Besides mentioning of this fact in the document there is no other reference which would support this claim. Determination of the real compliance with all of the identified strategic documents requires a detail analysis of compliance. Further analysis is also necessary for the identification of all the policies that are associated with the industrial policy.

Strategy of Scientific and Technological Development of the Republic of Serbia for the period from 2016 to 2020 - Research for Innovation

The strategy was adopted on March 3rd 2016 and it still does not contain an action plan for its implementation, foreseen within the C&J Project objectives. It is planned to adopt action plan in the period up to six months from the date of adoption of this strategy. According to the authors this strategy is in line with four others national strategic documents. The strategy stipulates general and specific goals. The general goal of the strategy is the improvement of the efficiency and effectiveness of the research system. Also six separate specific goals were identified in the strategy:

- Encouraging excellence and relevance of scientific research in the Republic of Serbia;
- Strengthening the connection between science, economy and society to encourage innovation;
- Establishing an effective system of management science and innovation in the Republic of Serbia;
- Ensuring excellence and the availability of human resources for science and economy and social affairs;
- Improving international cooperation in the field of science and innovation;
- Increasing investment in research and development through public funding and encourage the business sector investment in research and development.

For each of these six specific goals in the strategy a list of measures which should allow achievement of the above mentioned goals was foreseen as well as key indicators of success. Financial resources for the strategy implementation were not foreseen by this document.

Because of the broadness of definition of desired goals, the success of achieving those goals depends vastly on the action plan which is not yet adopted. The quality of action plan for strategy implementation is important because the broadly defined goals can be easily interpreted in a manner that will result in unsuccessful implementation of reforms. Also, indicators are defined on the level of specific objectives of strategy without clear links to measures. Baseline and targeted values for indicators were not defined, and there is no prioritization of proposed measures. Action plan should significantly narrow the scope of suggested measures and also to introduce new proper measures which will ensure the fulfillment of the established goals.

Figure 1 illustrates a hierarchy of the currently valid strategic documents within the competitiveness sector, which not includes additional policy paper that supposed to be adopted during the course of the C&J Project, namely:

- Strategic framework and overall action plan for investment and export promotion including identification of priority industrial sectors;
- Plan for reform/restructuring of investment and export supporting agency/organization and/or their new or improved services;

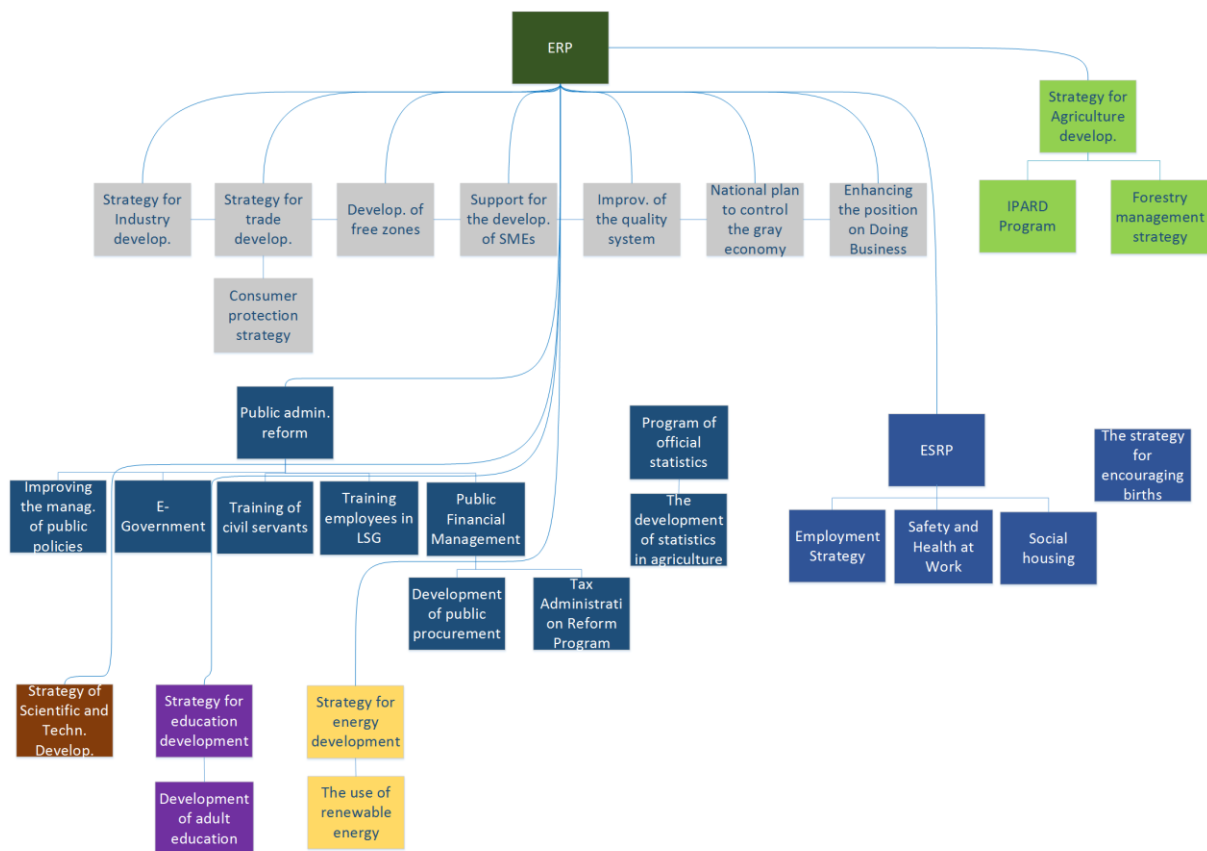
- Development and adoption of a 2016-2020 R&I Strategy and its Action Plan with commitment to reforming the public RDI sector;
- Time bound R&I Infrastructure Roadmap and its Action Plan;
- Action plan to enhance the quality of employer services and case management (NES action plan);
- Action plan for monitoring, evaluation and redesign of the ALMPs

Having in mind the different widely accepted definition of the competitiveness sector, for the purpose of this analysis we have equalized the scope of the competitiveness sector and the scope of the Competitiveness and Jobs Project. As there are no clearly defined above mentioned hierarchy, the illustration is based on the authors' of this document subjective opinion on this matter. All observed strategic documents are organized according to the area of planning which encompass business and economic environment, agriculture, public administration, social and labor environment, education and science.

As it is shown on the graph, most of the observed strategic documents are placed at the same hierarchy level. Because there is no any established system which would regulate the hierarchy of the adopted strategic documents, it was not possible to identify reliable, more precise hierarchy structure solely based on documents' content. In some of the area of planning, based on the documents' content, it was not possible to form unify hierarchy structure, but the hierarchy had to be presented through two mutually independent structures.

Because of the established practice where the authors of the strategic documents determine only principled compliance between strategic documents too many of those links are identified. For the identified strategic documents within the competitiveness sector there are more than 300 of those connections. For the illustrative purposes in the following Table 1 list of strategic documents is presented for which principled compliance with the six currently most important strategic documents within the competitiveness sector is established.

Figure 1 Hierarchy of the currently valid strategic documents within the competitiveness sector



● Hierarchical link between the planning documents were established by performing logical conclusions based on comparisons of their content

Source: Public Policy Secretariat of the Republic of Serbia

Table 1 Compliance of the six most important strategic documents within the competitiveness sector.

Num.	Strategic planning document	Connected with following documents
1	Program of economic reforms for the period from 2016 to 2018 (ERP)	Strategy and policy development of the industry of the Republic of Serbia for the period from 2011 until 2020.
		Strategy for Public Administration Reform in the Republic of Serbia
		Strategy for regulatory reform and improvement of the management system of public policies for the period 2016-2020
		Spatial Plan of the Republic of Serbia
		The strategy for resolving of NPL
		Program Public Finance Management reform 2016-2020
		Program of transformation of the tax administration for the period from 2015 to 2020
		National Strategy for Energy Development until 2025, with projections to 2030
		Strategy for Information Society Development in the Republic of Serbia until 2020

Num.	Strategic planning document	Connected with following documents
		<p>The strategy of road safety for the period 2015-2020</p> <p>Strategy for Development of Electronic Communications in the Republic of Serbia from 2010 to 2020</p> <p>Plan of railway, road, inland waterway, air and intermodal transport in the Republic of Serbia from 2015 to 2020</p> <p>Strategy for the Development of Agriculture and Rural Development</p> <p>Fiscal Strategy for 2016 with projections for 2017 and 2018</p> <p>Public Debt Management Strategy for the period from 2015 to 2017</p> <p>National Employment Strategy for the period 2011-2020</p> <p>The Youth Strategy 2015-2017</p>
2	Strategy and policy development of the industry of the Republic of Serbia for the period from 2011 until 2020.	<p>Trade Development Strategy of the Republic of Serbia</p> <p>The strategy of development of free zones in the Republic of Serbia for the period from 2011 to 2016</p> <p>Strategy for Information Society Development in the Republic of Serbia until 2020</p> <p>The strategy for support and development of SME's, entrepreneurship and competitiveness</p> <p>Strategy for improving the system of quality infrastructure in the Republic of Serbia in the period from 2015 to 2020</p> <p>Strategy of prevention and protection against discrimination</p> <p>Forestry management strategy of the Republic of Serbia</p> <p>Strategy for the Development of Agriculture and Rural Development</p> <p>National Strategy for Energy Development until 2025, with projections to 2030</p> <p>Education Development Strategy</p> <p>Adult Education Development Strategy</p>
3	The program of reforms of employment and social policy in the EU accession process (ESRP)	<p>Strategy and policy development of the industry of the Republic of Serbia for the period from 2011 until 2020.</p> <p>The strategy for support and development of SME's, entrepreneurship and competitiveness</p> <p>Public Administration Reform Strategy</p> <p>The strategy for professional training of civil servants</p> <p>Education Development Strategy</p> <p>Adult Education Development Strategy</p> <p>The strategy of safety and health at work in the Republic of Serbia for the period from 2013 to 2017</p> <p>National Employment Strategy for the period 2011-2020</p> <p>South East Europe 2020</p> <p>Program of economic reforms for the period from 2016 to 2018 (ERP)</p>
4	National Employment Strategy for the period 2011-2020	<p>Strategy and policy development of the industry of the Republic of Serbia for the period from 2011 until 2020.</p> <p>Trade Development Strategy of the Republic of Serbia</p> <p>The strategy for support and development of SME's, entrepreneurship and competitiveness</p>

Num.	Strategic planning document	Connected with following documents
		Strategy of prevention and protection against discrimination
		Education Development Strategy
		Adult Education Development Strategy
5	Strategy for Public Administration Reform in the Republic of Serbia	The strategy for support and development of SME's, entrepreneurship and competitiveness
		Strategy for the Protection of Personal Data
		Strategy of prevention and protection against discrimination
		Strategy for the Development of Agriculture and Rural Development
		Strategy for professional training of employees in local self-government
		Strategy for professional training of civil servants in the Republic of Serbia
		Strategy for regulatory reform and improvement of the management system of public policies for the period 2016-2020
		The development strategy of public procurement in the Republic of Serbia for the period from 2014 to 2018
		The national strategy for the fight against corruption in the Republic of Serbia for the period from 2013 to 2018
		The strategy of development of E- government in the Republic of Serbia for the period from 2015 to 2018
		National program for controlling the gray economy
6	Strategy of Scientific and Technological Development of the Republic of Serbia for the period from 2016 to 2020 - Research for Innovation	Strategy and policy development of the industry of the Republic of Serbia for the period from 2011 until 2020.
		Strategy for Information Society Development in the Republic of Serbia until 2020
		The strategy for support and development of SME's, entrepreneurship and competitiveness
		Strategy for the Development of Agriculture and Rural Development
		Education Development Strategy

Source: Public Policy Secretariat of the Republic of Serbia

Current policy framework, un-coherent and poorly structured, is result of previous unstructured policy making process, without clearly defined legal and methodology basis. Nevertheless, in a recent period within overall reform process significant results are achieved in creation of the legal, institutional and methodological basis towards policy framework structuring and coherence. At the present, overall efforts in this field, including those within the C&J Project are focused on completion of the legal and methodological framework for the PPMC process, which includes the Law on Planning System, and by-laws on mid-term planning, impact evaluation and policy documents content, as well as on capital investments. By that, legal basis for standardization of the future policy coordination and development of scalable PPMC System model will be provided, as well as transition period for enforcement of this regulatory framework to existing policy documents. In that course, in reporting period, one of priority activities within the PPMC System modeling process was support to the development of the above regulation package.

2.2 Legal framework

Project legal framework includes the Loan Agreement, bilaterally signed on October 7, 2015, and the Law on Ratification of the Loan Agreement (Competitiveness and Jobs Project) which has been adopted by the Parliament of the RS on December 29, 2015 and published in “Official Gazette” of Republic of Serbia – International Agreements, No. 024/2015. The Law on Ratification of the LA entered into force on January 7, 2016.

The Loan Agreement and the Law on its ratification, besides provision of the conditions of the landing operation, includes a clear framework on expected results to be achieved by the RoS during Project implementation period. These results are measured against Disbursement Linked Indicators for each of the 9 DLIs foreseen. Further, each DLI foresees different results to be achieved during each year of the project implementation period, and are additionally subject of verification of achievement through Verification Protocols for each of their elements. The Loan Agreement itself foresees additional individual acts of the Government and of the participating institutions, such as Governments Decision of the establishment of the PPMC IMWB, and internal Decisions of the participating institutions on establishment of the Internal PPMC Units.

Broader legal framework in which Project PPMC system is being implemented currently encompasses, but is not limited to following legislative framework:

The Law on Government contains provisions regarding Prime minister’s’ and Deputy prime ministers’ Cabinets. These cabinets, based on the request of Prime or Deputy prime minister, undertake professional and other tasks for their needs. Advisors can also take part in cabinets’ work. It also establishes legal basis for functioning of the G-S, as well as basis for establishment and functioning of GoS working bodies. Governments’ working bodies can be permanent, providing opinions and proposals in questions within Governments’ competencies and harmonization of opinions of the state administration organs, before the question is brought to Governments’ session. Working bodies of the Government can be also temporary, considering the particular questions form their competency and provision of proposals, opinions and professional explanations. Permanent working bodies are established by the Governments rules of procedure, while temporary by decision which contains their mandate and composition.

The Law on Ministries defining competencies of each participating ministry and PPS. The Law on Ministries also contains provision regarding care of scientific and research organizations which states that ministries, under their competencies, give prior consent on distribution of financial resources in the budget of RoS, to scientific and research organizations established in areas of their competencies, for implementation of programs of general interest of the RoS defined by the law related to scientific and research activity, and participate in control of their appropriate spending.

The Law on Public Administration provides the principles for public administration functioning, such as autonomy and legality, professionalism, impartiality and political neutrality, effectiveness in enabling the exercise of the rights to public and openness to the public, and defines tasks of the public administration. It also stipulates legal basis for establishment and functioning of different form of the legal bodies within the state administration, which was used as a legal framework for establishment of different element of the PPMC System organizational structure.

Special organizations of the Government are established for professional and executive tasks connected to professional, whose nature requires more autonomy than the one defined for the bodies within the public administration organs. Special organizations may be established as secretariats and bureaus, as well as differently denominated ones through legal procedure. Secretariat are established for professional tasks important for all organs of state administration, and executive tasks related to them, while a bureau is established for professional tasks requiring application of special methods and knowledge, and executive tasks related to them. Special organization of the Government can acquire a status of the legal entity if foreseen by the law.

Relations of the state administration bodies with Government - Government, through Conclusions, stirs the activities of state administration in implementation of the policy and enforcement of the laws and other regulations, harmonizes their work and determines deadlines for ministries and special organizations for adoption of regulations in case they are not determined with laws or general acts of the Government. Government is obliged to, upon request of the state administration body, to take a stand on issue within the competence of such organ, through Conclusion. The Government can, through Conclusion, issue an order to the state administration organ to study a specific issue or undertake a specific task ant to prepare a report on it.

Ministries and Special organizations are obliged to develop annual working plan, which are embedded into the Governments Annual Working Plan, and they report, at least once annually on their work. Reports contain description of the state of affairs in the area of competency of the organ, information on law and other regulation enforcement, as well as on undertaken measures and their effects.

Government may establish Coordination bodies with the aim of stirring the specific tasks within competencies of multiple state administration bodies. Government determines tasks of the coordination body, management and other issues related to coordination body's work.

Relations between state administration bodies - State administration bodies are obliged to cooperate in all common issues and to provide each other data and information necessary for their work. State administration organs establish common bodies and project groups with the aim of implementation of tasks whose nature requires participation of multiple state administration bodies. Common bodies are established by Governments' decree. Ministries and special organizations, during preparation of laws and other regulation, need to obtain opinions of those ministries and special organizations whose competencies are connected to the subject being regulated.

In case there are tasks which pertain to competencies of two or more state administration bodies, the task is being performed by the state administration body in whose competence is the majority of activities. Openness to the public is mandatory to the state administration bodies, since they are obliged to inform the public on their work through media and other convenient modes.

The Budget System Law defines planning, preparation, adoption and execution of the RoS, provincial and local self-government budget, and preparation and adoption of financial plan of social insurance organizations, including National Employment Agency. It set rules for budgetary accounting, reporting, financial management, control and audit of the users of public resources and of the budget of the RoS. The Budget System Law also defines Fiscal strategy as a document containing fiscal objectives of the Government and gives an evaluation of the sustainability of fiscal policy. Fiscal strategy also contains an annex regarding progress and results achieved which were defined for the previous year. Public finance management is defined with this law as a group of activities and proceedings aimed at establishment of financial coherence in the recording of revenues and proceeds and expenditures and outflows, and the

execution of expenditures of the Republic of Serbia budget beneficiaries, and/or local government budget beneficiaries, which shall enable the accomplishment of budget system integrity and budget objectives. Central unit for harmonization within the Ministry of Finance is tasked in increasing capacities of public servants in financial management according to international standards.

The Budget System Law also regulates the assessment of financial effects of draft law, other regulation or act on the budget. Assessment needs to contain information whether the act increases or reduces the budgetary revenues or costs in that fiscal and following two fiscal years.

The Budget System Law defines programs as a set of measures implemented by the budget beneficiaries in accordance with their key competencies and defined mid-term objectives. It contains independent, but closely related components – program activities/projects, it's not time limited and is implemented by one or more budget beneficiaries. Program activity is current and continuous activity of the budget beneficiary, and it's not time limited. Implementation of program activity brings to achievement of objectives which contribute to the achievement of objectives of the program. Program activity is defined based upon narrowly defined competencies of the budget beneficiary and has to be a part of the program. Projects are defined as time limited business undertaking of the budget beneficiary, whose implementation brings to achievement of projects, i.e. program.

The Budget System Law also defines Mid-term plan as the comprehensive plan of the budget beneficiary containing detailed elaboration of all programs, projects and program activities for the budget year with projections for additional two years, in accordance with defined mid-term objectives and priorities, serving as the basis for explanation of the financial plan of the budget beneficiary. Mid-term plan is developed in accordance with the instructions for preparation of the budget.

The Budget System Law defines detailed budgetary calendar, starting with definition of priority areas of financing in February, through development of draft and final Fiscal strategy, ending in adoption of the budget in October by the Government and in December by the Parliament. After adoption of the Fiscal strategy, Ministry of Finance presents to budget beneficiaries the instructions for preparation of the mid-term plans and financial plans for preparation of the budget.

Instructions for preparation of the program budget contain guidelines for development of the elements of the program budget such as budget sectors, purpose and objectives, indicators, target values and verification sources, as well as basic elements of the program budget structure – program, program activity and project. Objectives are defined on program level (1-3 objectives) and on program activity/project level (1-2 objectives). Indicator are defined for outputs, outcomes and effects. Strategies and action plans for their implementation cannot be considered as verification sources. Descriptions are not acceptable as target values, while YES/NO values are considered appropriate for some indicators. Instructions provide recommendation to avoid process indicators (such as number of issued opinions, meetings held etc).

Priority areas of financing (PAF) represent the long term goals declared in the program budget, which represents the desired change of conditions or behavior in the society. The PAF are linked to the mandate of the budget beneficiary and are defined on the basis of the analysis of the existing strategies for which the institution is in charge. The basis for determination of the PAF, besides the Budget System Law, the Fiscal strategy and the existing budget structure, are the results achieved and the experience gained from the previous cycle of medium-term planning. The instructions for preparation of the proposal of PAF, with the aim of harmonization of the process of planning and budgeting, propose to take into account also the

data and information existing in the application for Governments annual work planning as well as items contained in the Action plan for the implementation of the Governments Program.

During preparation of the proposal of PAF the budget beneficiaries have to take into consideration existing legislation, strategies and action plans, financial agreements regarding IPA financed projects, action plans developed for negotiations within EU acquis chapters, fiscal limits determined with the fiscal strategy and instructions for the preparation of the program budget from the previous year, as well as Article 5 of the Budget Law regarding medium-term public investment priorities.

The existing budget structure reflects the existing policies, and the PAF can represent either existing or new policies of the institution. The new policies are supposed to contribute to more efficient achievement of the goals set out by the priorities of the Government, and they can be financed either by dismissing expired projects or program activities, or by substitution of those which gave no or insufficient results. When proposing new program activities and new projects it is necessary to define priority level (starting from no. 1 to nn, so that there cannot be the repetition, and where nn represents the total number of new program activities/projects). All PAF must be expressed in financial terms. The budgeted beneficiaries are expected to respect the fiscal limits determined with the previous year's Fiscal strategy, as well as projections for the following years.

When medium-term priority public investments are concerned (as foreseen by the Budget System Law) the development of proposal of PAF starts from the existing, ongoing project and contracted obligations. New projects are dependent of the realistic budget possibilities, and is suggested that new projects proposed regard those who can contribute to economic and regional development and employment. Impact indicators are needed to be presented for new projects.

The Law on employment and unemployment insurance defines employment tasks, such as informing on possibilities and conditions of employment, mediation in employment in the country and abroad, professional orientation and career planning counselling, implementation of the measures of active employment policy etc. Employment tasks are carried out by the National Employment Service, and employment agency. National Employment Service is in charge for unemployment insurance, exercise of rights deriving from unemployment insurance and other rights, in accordance with the law, as well as employment-relevant record keeping. National Employment Service is a legal entity, with a status of the mandatory social insurance organization. Provincial service, branches and other internal units are established within the National Employment Service. National Employment Service is obliged to provide, upon request, information on laws, by-laws, collective contracts and other general acts in force, rights, obligations and responsibilities of employers and employees, as well as their associations, related to employment and insurance while unemployed. National Employment Service provides advice on terms and proceedings for exercise of rights and execution of obligations, and helps in compilations and submitting of forms and documents.

The Law on Innovation Activity establishes the Innovation Fund as legal entity with a purpose to ensure financial resources for encouragement of innovations. Innovation Fund performs tasks related to preparation, implementation and development of programs, projects and other activities in the innovation implementation area, especially professional and other tasks related to acquiring, managing and usage of the resources of the fund, mediation in financing of the innovation activity form resources of international organizations, financial institutions and bodies, as well as from national or foreign natural or legal entities, especially in scientific and technological areas defined as priorities. The fund holds data bases on programs, projects and other activities in innovation activity financed by the fund, as well as on

necessary and available financial resources for their implementation. The fund encourages, established and implements the cooperation with international and national financial institutions and other legal and natural entities for financing of the innovation activity, in accordance with the innovation policy and other strategic programs and plans and international contracts concluded.

Funds' resources are used for financing of the innovation activity, especially for investment in production and commerce of market-oriented innovations of start-ups, encouragement innovation in scientific and technological priority areas and functioning of the fund. Fund can participate in co-financing of programs, projects and other activities in case they are organized and financed by international organizations, financial institutions and bodies or other national or foreign legal or natural entities. When financing of the innovation is provided from national budgetary resources, *de minimis* state aid rules apply. Fund adopts its' annual and mid-term work program, defines financial plans, periodical and annual statements, monitors implementation of programs and controls appropriate usage of resources. Mid-term program of the fund is approved by the Government, while the annual program is approved by the ministry. Fund reports to the ministry on implementation of its program.

Current legal framework as it is above described, provided solid basis for establishment of the first PPMC System model. These legal acts will have to be born in mind while developing KPI since they are setting the boundaries and timeline for their defining, monitoring and evaluation.

In order to build sustainable functional model, applicable not only for the development intervention purposes, but scalable to the system level, it is necessary to strengthen legal basis for the overall PPMC process. Therefore, in a reporting period considerable effort is invested in supporting of preparation of the new regulation package (LPS and by-laws on mid-term planning, impact evaluation and policy document preparation methodologies). By this package legal framework will be created for the evidence based policy making and planning, and management and coordination of implementation on the RBM principles. Law on Planning System of RoS and Decree on Methodology for Public Policy Management, Impact Assessment of the Public Policies and Regulations are drafted based on the Theory of Change methodology and application of the 4-pillar Sustainability Model (3-pillar plus Governance). It should ensure further development of the PPMC System model on sustainable systemic legal framework, and provide necessary basis for further adjustments with legal framework for particular elements and instruments within the PPMC System, such as programmatic budget, mid-term planning, rules of procedures for planning, implementation and M&E of the public policies etc. The package will also set a necessary legal basis for completion of the institutional and procedural framework for PPMC System, and provide set of methodological tools for the PPMC process.

2.3 Institutional framework

Institutional Framework for Project Implementation includes following institutions/organizations:

- Public Policy Secretariat (PPS),
- Ministry of Economy (MoE),
- Ministry of Education, Science and Technological Development, in coordination with Innovation Fund
- Ministry of Labor, Employment, Veteran and Social Affairs (MoLEVSA) with National Employment Service (NES).

Table 2 Participating institutions and beneficiaries of the C&J Project

Ministry/organization (Direct Beneficiaries)	Final beneficiaries
Public Policy Secretariat (PPS);	The Government, line ministries, and public which benefit from better overall policy planning and coordination, and consequently from more efficient and effective spending of public resources.
Ministry of Economy (MoE); Development Agency of Serbia; other MoE development agencies under MoE;	Local and foreign firms that participate in MoE and development agency programs. Male and female workers in those firms.
Ministry of Education, Science, and Technological Development (MoESTD); Innovation Fund (IF);	Serbian firms and entrepreneurs that benefit from matching grants and technology transfer programs, as well as workers in those firms. Spillovers from innovations to other firms and workers. Researchers working in research and development institutes (RDIs) and local technology transfer offices (TTOs).
Ministry of Labor, Employment, Veteran and Social Affairs (MoLEVSA); National Employment Service (NES)	Job seekers, especially those from hardly employable categories defined in the National Action Plans, those with low earnings potential, including women, Roma, and people with disabilities. Social assistance beneficiaries and their families. Firms looking to fill employees from NES registry.

In addition to the institutions participating in the project, new bodies, i.e. units, are formed as a part of the PPMC institutional framework, and they will be responsible for the coordination, reforms implementation, reporting and monitoring (component A.1) of the reforms supported by the Project. Those bodies are:

- Inter-ministerial Working Body for Policy Planning, Monitoring and Coordination under Competitiveness and Jobs Policy Area;
- Project Implementation Unit (PIU);
- Internal units at the level of institutions (hereinafter: Internal units).

Central coordinating entity on the project is PPS, whose representative chairs the Working Body. The PPS leads the Working Body, and with the support of the PIU, and in close cooperation with the Internal Units, and procurement, financial and operational consultants at MoLEVSA, will coordinate the monitoring of all results, report, perform safeguard and fiduciary functions.

Institutional framework in relation with these activities have been described in Project Operational Manual, Part IV, 4.1.3. Responsibilities of all institutions related to the Component A.1.

Competitiveness and Jobs PPMC Inter-Ministerial Working Body

The establishment and functioning of the Inter-Ministerial C&J Policy Planning, Monitoring and Coordination Working Body (IMWB) is one of the results, which had to be achieved on the project under component A.1. IMWB is established by the Government Decision from the January 14, 2016 in accordance with Law on Government („Official Gazette of RS”, no. 55/05, 71/05 - corr, 101/07, 65/08, 16/11, 68/12 – CC, 72/12, 74/12, 7/14 – CC and 44/14), according to which Government can create

temporary working bodies in order to discuss specific questions from its scope of work and give suggestions, opinions and expert explanations.

In line with previously mentioned Governments Decision, scope of work of the IMWB is defined in the Project and Projects Operation Manual, and, inter alia, includes cooperation with units/civil servants in participating institutions which are, in line with the Project, responsible for planning and monitoring, including proposing modifications of goals and targets, activities and indicators related to the Project (Internal Units). They are also responsible for compliance of all goals, activities and indicators with Government priorities, as well as for data analysis for policy development, as well as for monitoring and evaluation of achieved results. IMWB also supervises the application of all processes and protocols on the Projects described in POM.

Primary purpose of the IMWB is directing activities of the participating institutions in order to successfully implement the Project and achieve expected results, by considering specific questions related to the reforms supported by the Project and giving suggestions, opinions and expert explanations, as well as successful implementation and functioning of the PPMC related to the competitiveness and jobs creation, which are supported by the Project. Generally, IMWB directs and unifies results of the participating institutions which are Project beneficiaries, monitors Project implementation, suggests solution to the problems identified by the participating institutions, supports monitoring and evaluation, cost benefit analysis, gap analysis, and serves as the forum for the knowledge exchange, evaluations and adjustments of the planning system, policy monitoring and coordination.

Additionally, in accordance with the Governments Decision on its establishment, the IMWB regularly reports to the Government on its work, on progress in the implementation of the Project and the results achieved, i.e. the process of reform in competitiveness and jobs policy area, through Progress and Performance Reports. In this way timely informing the Government on possible problems and the lack of effect which could not be solved within the IMWB is enabled. The activities of the technical secretariat for the needs of IMWB are performed by the PPS. Tasks, composition, working methods and decision making of the Working Body are described in detail in its Rules of procedure.

IMWB adopted necessary documents (POM, Rules of procedure, revision of Procurement plan, Status report and semi-annual Progress report) and established preconditions for implementation of the pilot PPMC system within the Project.

Within reporting period, three sessions of IMWB has been held and three additional by the end of August. IMWB discussed Project related matters within the scope of IMWB responsibility and made conclusions, recommendations and decisions, as defined in IMWB Rules of Procedures. Key results of PPMC IMWB in reporting period addressed technical and organizational issues related to management of the Project. Discussion on the status of reforms is regular topic on the agenda of each session. This practice aims to fulfill the role of IMWB as a forum for discussion and alignment of complementary activities, conducted by different stakeholders.

On last session, held on August 24. IMWB agreed on the Plan of thematic sessions to be held till the end of 2016.

On initiative of IMWB, 27.05.2016 study "From University to Employment: Higher Education Provision and Labor Market Needs in Serbia" has been presented. Study on Serbia is part of Western Balkans research on this topic and it was made under Western Balkans Platform on Education and Training. Also, during this event, MoESTD presented progress achieved so far in development of the National Qualification Framework. Having in mind that representatives of CSO and scientific community participated in that event, after presentation of the Study, vivid discussion and exchange of opinions took place. Goal of this event

was to increase awareness about process of public policy reforms initiated by European Union, as well as World Bank Competitiveness and Jobs Project and CIIP Project.

To conclude, in previous period IMWB has been mostly dedicated to establishment of the Project infrastructure, which is mostly done, and in future period coordination and harmonization of the activities aimed to PPMC system implementation will be in focus through discussion regarding general development status of the PPMC, specific thematic areas, open issues and coordinated measures to overcome expected difficulties in realization.

2.4 Functions/Procedures

First PPMC System model, aimed to provide implementation framework for the C&J Project, was built on the existing procedural/functional framework of the GoS, on which was added Project Operation Manual POM and other necessary rules of procedures, such as those of IMWB. Further building of the PPMC System procedural model will be enabled by adoption of the mentioned regulation package, which stipulates methodologies, procedures and functions within the GoS policy planning, programming and implementation system.

Governments rules of procedure contain additional provisions regarding Temporary working bodies, such as deadlines in which it submits reports on its' work to the relevant Governments' board and the Government and provisions relevant to technical support to the work of the body.

Governments' rules of procedure define also the necessity to obtain opinions of Legislative secretariat and the Ministry of finance during preparation of the draft laws and decrees, Fiscal strategy, development strategy, declarations and conclusions.

In case the act is relevant to the RoS foreign relations, opinion of Ministry of Foreign Affairs is mandatory, as well as of the Ministry of Justice in case the act regards criminal, economic offences or infringements, or in case it foresees establishment or canceling of judicial mandate or establishment of real jurisdiction. Opinion of State Attorney is mandatory in case the act relates to protection of property rights and interests of the RoS or if it foresees establishment of contractual obligations of the RoS. In case of harmonization of legislation of the RoS with those of the EU, as well as in case of the development strategy, opinion of the Serbia European Integration Office is mandatory. Opinions are also required from those state administration organs to whose competency the act is related.

When draft law, Fiscal strategy and development strategy are prepared, as well as impact analysis of the law, opinion of the Public Policy Secretariat is mandatory. In case the proponent estimates that no impact assessment should be prepared together with the draft law, opinion on this matter from Public Policy Secretariat is also required.

Government, through relevant ministries, special organizations and Governments' services, cooperates with other state administration organs, professional associations, syndicates, municipalities, cities, city of Belgrade, provinces and other legal entities.

Project Operation Manual POM describes the institutional framework under the Heading **Error! Reference source not found.** Expected results and performance indicators are described under

components and subcomponents of the Project under the Heading **Error! Reference source not found.**, procedures for monitoring and reporting of the results under the Heading **Error! Reference source not found.** and individually by components of the Project under the Headings **Error! Reference source not found.**, and lines of communication and cash flows under the headings of **Error! Reference source not found.** and **Error! Reference source not found.**

The Rules of Procedure of the IMWB describe in detail organization, working methods and decision making of the Working Body. The Rules of Procedure are adopted during the first, constitutive session of the IMWB, and can be modified during the Project.

In line with Project requirements, Internal Units are in all participating institutions. They are also authorized by internal acts to participate in PPMC system. The same acts authorize individuals responsible for managing Internal Units, as well as individual responsibility of each member of the internal units.

Distribution of responsibilities among participating institutions

The participating institutions are responsible for implementation of the reforms supported by the Project and reporting on progress and performance. Support to the improvement of the effectiveness of the reforms is provided also by other participants in the PPMC IMWB, such as MoF and MoPALS, as it is described in its Rules of Procedure and POM.

Besides implementing reforms within its scope of work, i.e. the overall public policy planning, monitoring and coordination, the PPS also plays the role of the central coordinating entity on the Project, which includes chairing the PPMC IMWB as well as facilitating Project management, implementation and reporting, with support of the PIU and in direct coordination with Internal units. Those units are, among other, established in order to facilitate coordination of Project and its component implementation, and participation in the PPMC system.

Bank provides additional implementation support throughout the project's lifespan. This will include periodic supervision missions and a detailed midterm review roughly 1.5 years after project effectiveness. The midterm review will, among other things, analyze progress toward achieving all of the results indicators and DLIs and determine where adjustments are needed. In cases where not enough information was available at the time of project approval to establish indicator baselines and realistic targets, these will be determined or adjusted during the midterm review.

Shared responsibilities – Institutional Framework for components A.1 and B.1¹

Component A.1 is the horizontal component of the Project. It requires commitment by all participating institutions, and it depends on the analysis of data collected from the institutions that implement components of the project Part A. Component A.1 relates to the DLI 1- Piloting the systems for planning, monitoring and coordination of policies in the field of competitiveness and jobs, including:

- Establishing and functioning of PPMC IMWB, chaired by PPS, with participants from PPS, MoE, MoESTD, MoLEVSA, NES, MoF, MoPALS and Prime Minister Cabinet.

¹ Component B2, although it is carried out by MoLEVSA, it is complementary to the component B1, and belongs to the unique support system which is provided by B1 through PIU.

- Establishing Internal Units for planning and monitoring – units at the level of participating institutions (Internal Units) by MoE, MoESTD and NES2, which contribute to the IMWB work and overall coordination, implementation and monitoring of implementation of the reforms supported by Project, and
- Piloting PPMC Competitiveness and Jobs System through semiannual Progress Reports and annual Performance Reviews using data collected from participating institutions.

Component B.1 directly supports the management and implementation of components A.1, A.2 and A.3 through technical assistance provided by the PIU, established under the PPS, and indirectly component A.4 (through experts engaged on the component B.2).

When Component A is in the question, participating institutions are obliged to:

- Appoint members and deputy members to the IMWB and actively participate in its work;
- Identify and give mandate to the Internal Unit that will, inter alia, be responsible for monitoring, reporting and coordination of the Project activities;
- Develop Key Performance Indicators (KPIs), their hierarchy, set their initial values and annual targets;
- Create a platform to track/monitoring indicators and relevant budget performance (Eligible Expenditure Programs (EEPs³));
- Follow the Verification protocols and submit the appropriate documentation confirming achievement of the DLIs as described in LA and in line with rules set in POM, for each component and subcomponent individually; periodically, as appropriate, evaluate and revise Verification protocols and indicator target values;
- Produce semi-annual Progress Report for their respective ministers/managers and IMWB, and submit them to the PPS in accordance with the reporting timeline;
- Produce an annual Performance Review with measures for performance improvements for their respective ministers /managers and IMWB and submit them to PPS in accordance with the reporting timeline;
- Use Progress Reports and Performance Review in order to decide on the improvement of performance and compliance with the Program Budget;
- Propose convening IMWB thematic sessions each time when, within the activities supported by the Project, prepare or adopt any kind of programs, projects, strategic documents and action plans, as well as in cases where the output of some of the activities related to Project are studies or analysis, before their adoption or final decisions on further action, as defined by the Rules of procedure of the IMWB;
- Identify and solve problems in the Project;
- Other activities related to the planning, monitoring and coordination of policies within their scope of work.

In terms of reporting and Verification protocols, data submitted by the Internal Units are shared with all participants in the IMWB in accordance with the reporting protocols defined in POM and Minutes of

² Although Project documentation does not oblige some institutions to form Internal Units (MoLEVSA, PPS), all institutions participating in the project decided to form them in order to fully support implementation of project activities and complex reform agenda within their scope of work.

³ As the EEPs are defined only for MoE, MoESTD and NES, these institution report on the EEPs execution.

Meetings of the Working Body. Unified project reports must be publicly available and published on the PPS website (and of the participating institutions if necessary).

In addition to that, foreseen regulation package, which is at the present drafted and submitted to the public consultation process via PPMS web-site, sets procedural, methodological and functional framework for policy planning, programming and implementation, as well as for the mid-term planning process. Furthermore, it redefines role of existing key participants of the process, including the C&J Project participants, and introduces principles of evidence-based participative policy making. With adoption of this package, which is foreseen for the next reporting period, latest for the next cycle of the PPMC System modeling, functional element of the PPMC System model will be significantly improved towards sustainable and scalable one.

2.5 Instruments

Current Policy Planning, Monitoring and Coordination System model consists of following elements defined within the **C&J Project framework**:

- Institutions that participate in the Project implementation (described in the Chapter 2.2);
- Expected results and performance indicators (DLIs and KPIs, which are described in the chapter 3);
- Procedures for defining, monitoring and reporting on the results (methodology and reporting templates, defined in the POM), and
- Project communication lines (presented in the Chapter 2.3).

Beside the Result Chain and M&E Framework (KPI and DLI), which are described in more detailed manner in the Chapter 3, and which are instrument developed solely for the Project purposes, two main instruments are part of **overall** system:

- Government Planning Framework (Program of GoS, Action Plan for the Implementation of the Program of GoS, and the Annual Working Plan of GoS)
- Programmatic Budget.

Governments' Annual Working Plan and Report on Government's work are described by the Governments' rules of procedure. Government defines its' objectives and tasks, as well as objectives and tasks of the state administration organs, and expected results. Governments' Annual Working Plan is based on the annual working plans of the state administration organs, developed in accordance with a mid-term planning methodology, and which are submitted to the General Secretariat of the Government through planning and reporting IS. Instructions determining methodology, proceedings and structure for development of the Governments' Annual Working Plan are defined by the General Secretariat of the Government. During the preparation of the draft plan, General Secretariat is supported by the Ministry of Finance and Legislative Secretariat. Government adopts its' annual working plan by the end of December for the next year. Amendments of the plan are possible, in case needed, after adoption of the budget of the RoS.

Annual report on Governments' work, presenting evaluation of implementation of the Governments' Annual Working Plan and other tasks implemented, is presented to the Parliament. It is based upon reports of state administration bodies, compiled by the General Secretariat supported by the Ministry of Finance and Legislative Secretariat. Government adopts this report by the May 1st for the previous year.

Action Plan for the Implementation of the Governments' Program, adopted by the Government, defines priority objectives, deadlines for their achievement and expected results. Proposal of this action plan is prepared by the Public Policy Secretariat, and submitted for opinion to all state administration organs. Public Policy Secretariat, through annual reports of state administration organs, monitors the implementation of the Governments' program, and reports to the Government on the level of achievement of priority objectives in determined deadline. Besides reports on the work and on Governments' program, each state administration organ is obliged to prepare a report on its work upon request of the Parliament.

While the current legal framework for the **mid-term planning and programmatic budgeting** are considered in the Chapter 2.2, further comments considering programmatic budget as a PPMC instrument. The project is in its largest part intended to finance existing expenditures included in the state budget, therefore it will rely on the country's budgeting system. The Government's budget process still includes a number of weaknesses, with reforms resulting in gradual improvements. Supplementary budgets are passed practically every budget year on one to two occasions. There are variances between the budget and actual figures, which according to the Public Expenditures and Financial Accountability (PEFA) assessment (ongoing) have been brought down to reasonable levels of deviations, with particular improvements on the revenue side.

The 2015 Budget was the first that was presented on a program budget basis, but this does not extend to creating strong links between allocated expenditure and policy objectives. There is no emphasis on results yet. The Government publishes its three-year Fiscal Strategy annually. The Strategy covers the whole of government, and the budgetary framework is coordinated by the Ministry of Finance (MoF) with input from line ministries and subordinated bodies. It contains macroeconomic projections, as well as fiscal projections that are based on existing government policies.

The Fiscal Strategy is founded in the Budget System Law, which requires the Government to seek the opinion of the Parliament (though the Parliament does not approve it) and the Fiscal Council. The Fiscal Council, which exists under the Budget System Law and is accountable to the Parliament, is active and regularly issues opinions on the Government's fiscal policies. However, there are no clearly defined monitoring and enforcement procedures. It is clear from the differences between actual and projected revenues and expenditures that the fiscal projections are indicative rather than binding. The Strategy covers ministries, but not strategic initiatives and programs, so it is not possible to say that the strategic plans of individual organizations are consistent with the medium-term budgetary framework (MTBF).

The PFM reform program presents a strategic and an operational framework for reforms. It addresses the key weaknesses and strengths of the existing PFM system, comprising the full budget cycle and core dimensions of the PFM system. It further sequences the proposed reform actions among the different subsystems, to ensure a credible reform plan to address the identified key weaknesses. In that course, foreseen by-law on mid-term planning, which is at the present under preparation, will provide necessary procedural and instrumental framework for financial planning and programming on RBM principles.

2.6 Capacities

Development and implementation of the PPMC System model is foreseen to be largely based on existing capacities of the participating institutions, supported with minimal outsourced expertise. In that course, role of initially provided expertise will gradually reduce along the process, leaving at the end PPMC System model based solely on the trained and experienced in house capacities, available to use built model in sustainable manner.

Several policy documents mention the public service and its capacities: the Public Administration Reform (PAR) Strategy approved in January 2014, the Action Plan for PAR Strategy Implementation 2015-2017, the Strategy on Professional Development of Civil Servants 2013-2015, adopted in 2013, and the document on National Priorities for International Assistance in the Republic of Serbia for the period 2014-2017.

Public administration reform (PAR) is acknowledged by the Government of Serbia as one of its priorities. The administrative responsibility for PAR within the Government rests with the Ministry of Public Administration and Local Self-Government (MPALSG). In 2014, the PAR Strategy was adopted, followed by a PAR Action Plan early in 2015. Co-ordination and management structures for PAR have been established, consisting of a number of formalized discussion forums, including at two political levels and one technical level. The PAR priorities are well defined and are set out in terms of measures and activities within the Action Plan. The costs of these activities are clearly defined (including different sources of funding).

Overall, there is a clear distribution of responsibilities among the institutions involved in the implementation of PAR policy in Serbia. The MPALSG is the lead institution and has a specially designated unit within it to deal with the daily co-ordination of PAR issues. The Ministry of Public Administration and Local Self-Government (MPALSG) is the political institution responsible for the public service and in charge of policy design in the area of state administration. It drafts the legislation related to public administration and public service. The Ministry also drafted the PAR Strategy, which gives it a leading role in monitoring and evaluating the implementation of the Strategy. Finally, the monitoring of the CSL implementation is the responsibility of the Administrative Inspectorate, which is subordinate to the MPALSG.

Although the central co-ordination unit for public service, the Human Resources Management Service (HRMS), does not have policy making powers, it is assigned an important role as facilitator of HRM processes. Its competences include advertising vacancies for internal competition and supporting and monitoring competition procedures at the executive level. It also prepares the Annual Human Resources (HR) plan for the Government, keeping track of the implementation of HR plans of state administrative authorities. In addition, it maintains the Civil Service Registry, prepares and conducts training programs, and assists the High Civil Service Council (HCSC) and the Government's Appeals Commission. The coordinating role of the HRMS includes publication of handbooks and guidelines to better implement the CSL and several by-laws, as well as bilateral contacts with HR managers in public bodies. However, because the HRMS is not accountable to the MPALSG but to the Secretariat of the Government, and has only formal communication with the MPALSG, it does not have the authority to ensure that public service legislation is implemented consistently across the administration.

The HRMS is in charge of the Civil Service Registry, but its data is not used to manage and monitor the system. It is conceived of as an instrument to help different authorities manage their human resources, but individual authorities normally use their own registry or database for that purpose. The data is updated by the state authorities and the HRMS monitors it. But it has not been effective so far in getting the state authorities to update the information in the Registry in a timely fashion.

The legal framework, policies and institutional set-up are in place, but some challenges remain in ensuring a professional public service. The central co-ordination unit, the HRMS, as it is not accountable to the Minister responsible for public administration, lacks the authority to ensure the implementation of the legislation in a coherent manner across the public service.

HRMS is authorized to provide an adequate training program with curriculum designed in accordance with needs of PA capacity building. Nevertheless, just fewer than 10% of public servants a year are able to take the courses the HRMS offers. The HRMS surveys participants' satisfaction in the training courses and evaluates the outcome of the trainings, but no evaluation has yet been made of the impact of training. Training has not yet been made a part of the appraisal system, since training needs are not a consequence of performance appraisal.

Austerity measures included in the fiscal consolidation process, such as planned rationalization at the annual rate of 5%, stipulated with the Stand-by Arrangement with IMF, and measure that prohibits additional employment within the public administration (prolonged by the last Law on Budget System for next three years), adding additional limitation to available institutional capacities, eligible to be engaged on the PPMC System development. It influences not only on the capacity quantity, but also on its quality. From that point of view, development and implementation of the PPMC system model, which requires a set of advanced knowledge and skills, could be hampered if it's not foreseen a comprehensive CB activity along the overall process. It will be based on the training/coaching/mentoring process of the peer learning from the consultants engaged on the PPMC System development, additional outsourced trainers and pre-trained PPS staff, and defined within Provisional Training Plan. The Plan will be adopted by IMWB in September 2016, and amended regularly in accordance with needs arising along the PPMC System development.

3. Performance and results

At the present, first PPMC System model is established and fully functional, but from methodological point of view semi-annual reporting would not give a clear picture of its main achievements and/or weaknesses and shortcomings. Nevertheless, a reporting exercise provides sufficient basis for valid conclusions concerning further focusing and narrowing of the process, as well as for planning of the future steps. In this chapter are presented main findings gained through development and establishment of the first model, as well as through semi-annual reporting exercise, by overview of Result-Chain and M&E Framework.

3.1 Result Chain

Result Chains, summarized and per Component, are defined within the Competitiveness and Jobs Project Appraisal Document PAD, as a main RBM framework of the intervention, and in that course connected with particular Disbursement Linked Indicator DLI Framework. Technically, progress against this framework is subject of the progress reporting of the Project, while performance of the overall PPMC System, element of which is RBM framework too, supposed to be subject of the Performance Report on Development of the PPMC System. Nevertheless, at the present, since PPMC System, based on this

framework is in a full capacity functioning less than six months, it is too early to evaluate any of these elements against performance criteria, and presented Result Chains are still expected ones.

Figure 4 Summary Result Chain

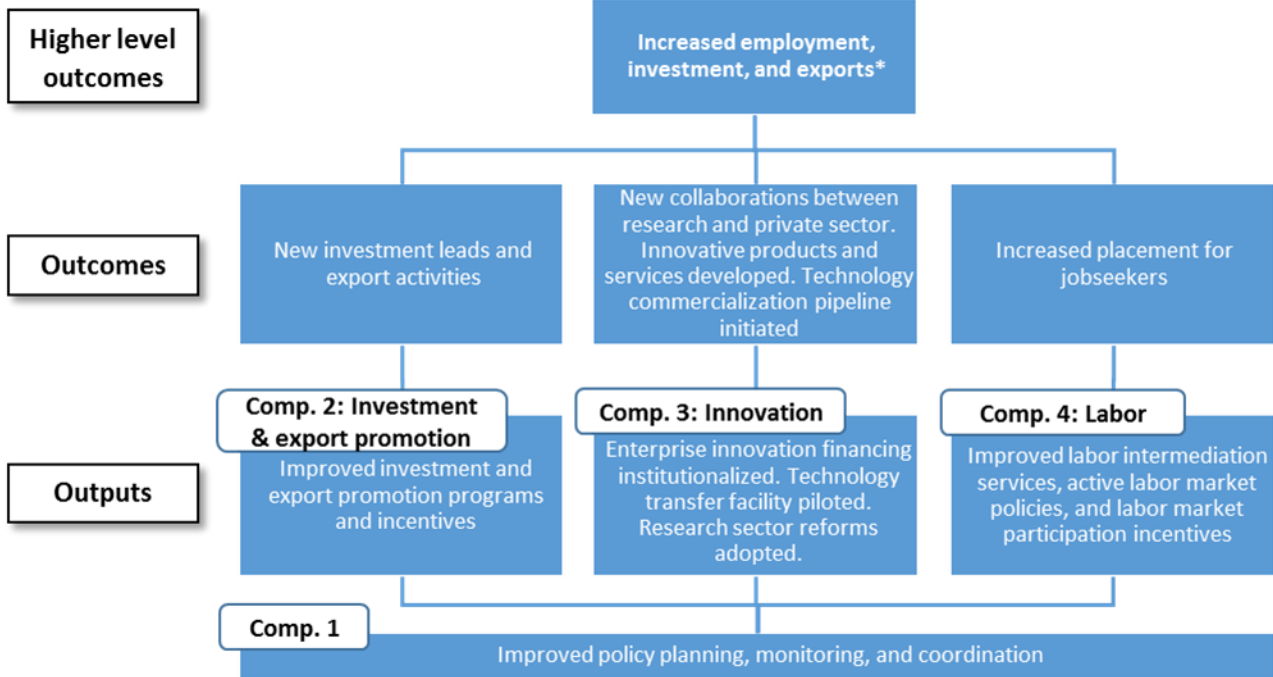


Figure 5 Expected Result Chain for the Component 1.

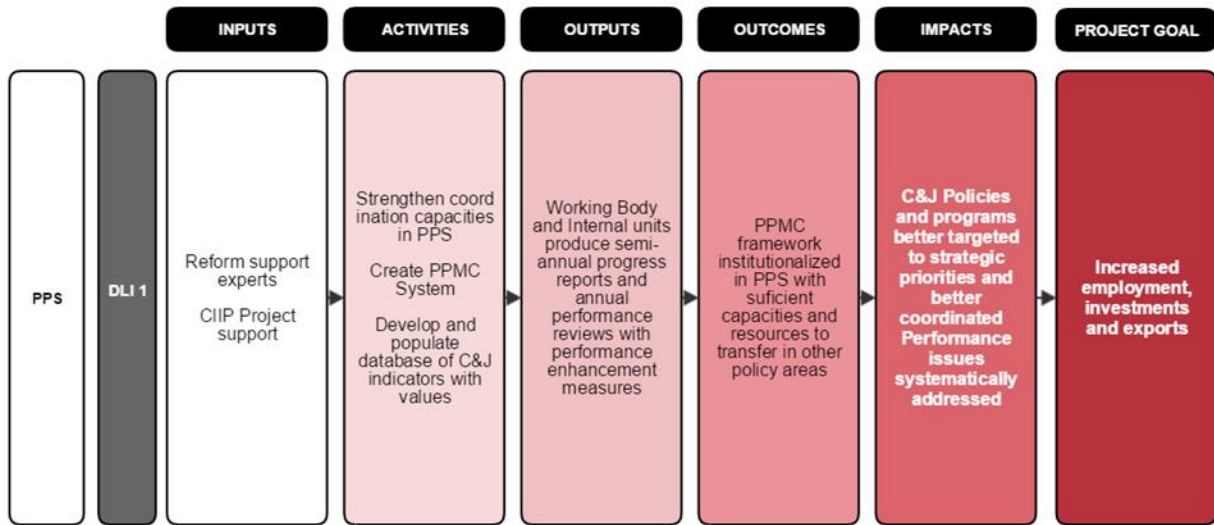


Figure 6 Expected Result Chain for the Component 2.

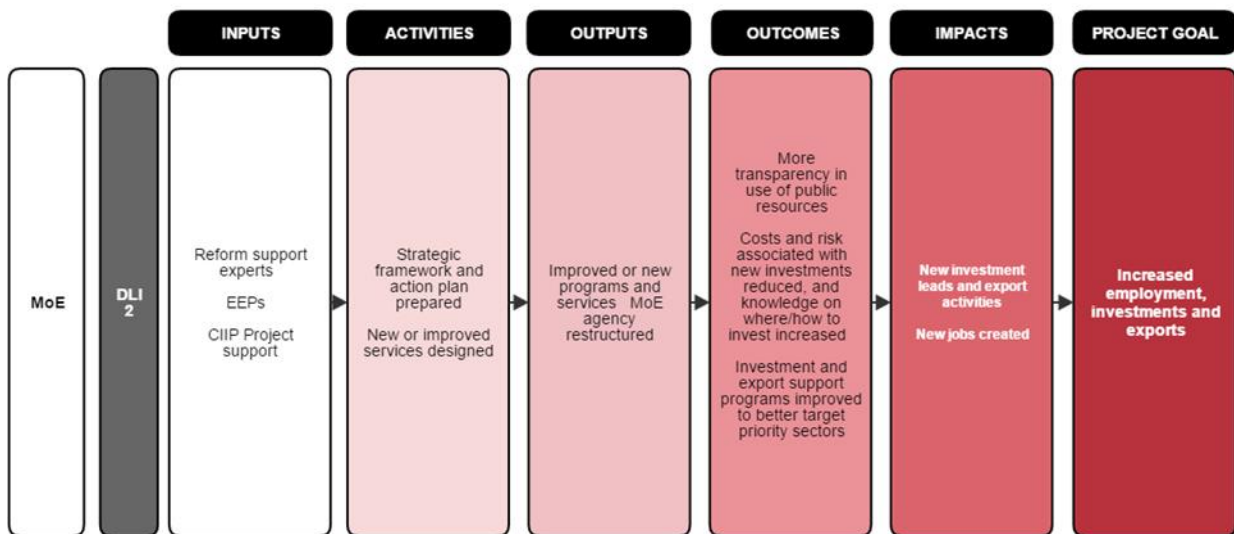


Figure 7 Expected Result Chain for the Component 3.

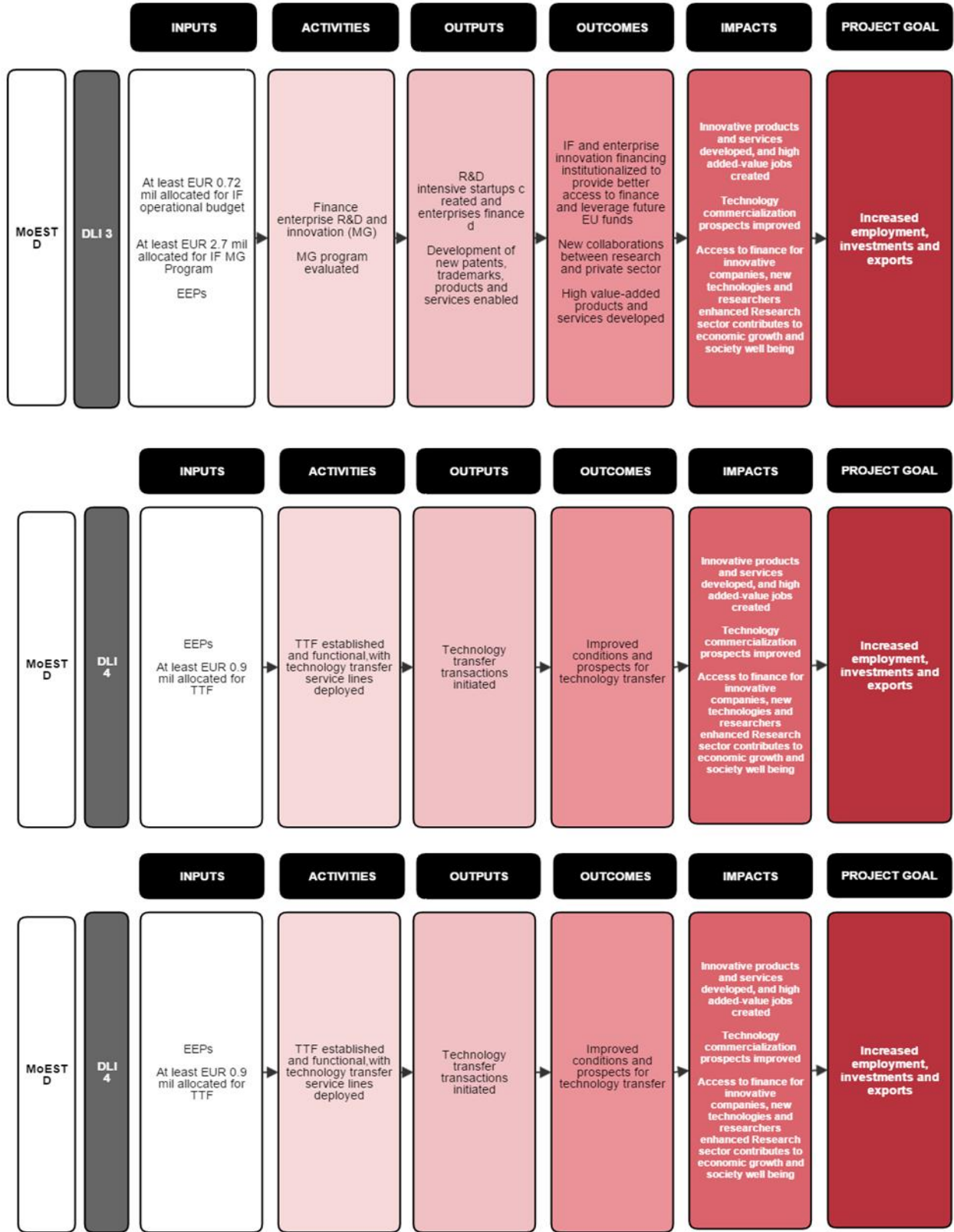
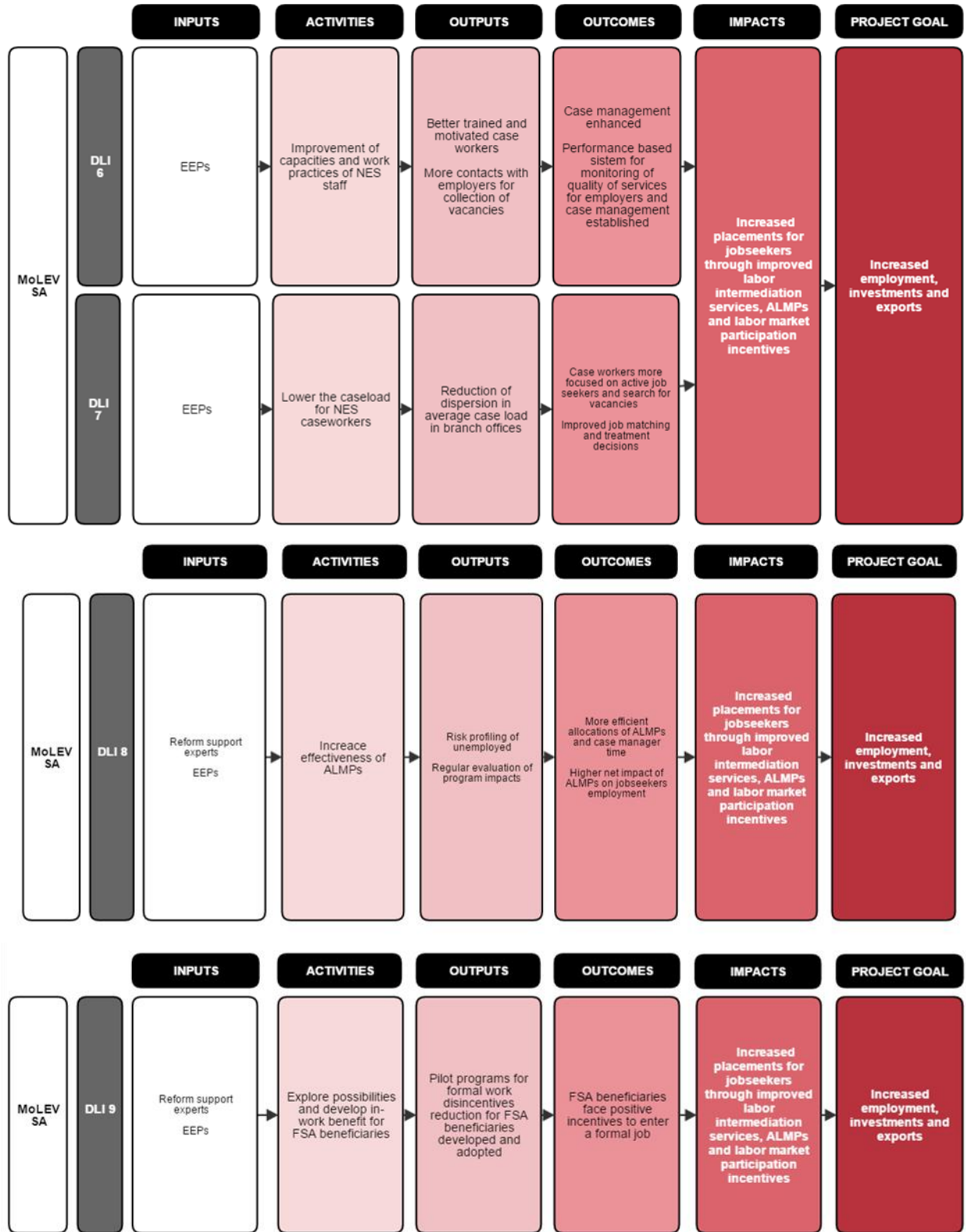


Figure 8 Expected Result Chain for the Component 4.



3.2 M&E Framework

One of the main objectives of the Competitiveness and Jobs Project is to provide support to the Republic of Serbia in improvement of its currently established PPMC practice, and directly addresses the two main challenges in the policy development process in the RS: 1) weak strategic evidence-based planning, and 2) policy coordination. The ultimate goal of the project is to establish functional PPMC system. The project is designed as a pilot project of introducing the PPMC system for the competitiveness and jobs creation sector, namely into the Ministry of Education, Science and Technological Development (MoESTD), Ministry of Labor, Employment and Veteran Affairs (MoLEVSA), Ministry of Economy (MoE) and into the Public Policy Secretariat (PPS).

Public Policy Secretariat is responsible for implementation of the Component A1, aimed to develop PPMC System model. The project is implemented through development and piloting of inter-ministerial system for planning, monitoring and coordination of policies in area of competitiveness and jobs, through establishment and functioning of PPMC Inter-Ministerial Working Body (IMWB). Significant limitation of the project is the absence of the Ministry of Finance as a direct participant of the project, except as a member of IMWB. The Ministry of Finance as an institution in-charged for the PFM is of the crucial importance for the successful implementation of the project, such as program budgeting. Lack of the mandatory participation of the Ministry of Finance on the project could create obstacles to the PPMC System model development and testing.

The whole process of the introducing the effective PPMC system is designed to be implemented in phases. The initial idea of the PPS is to improve the existing practice of PPMC at the institutions which participate on the project, to the extent that this is possible, and later on to slowly establish necessary elements of the improved PPMC system, based on regulatory framework that will be created during the first half of the process.

Following this logic, the participating Ministries have begun to practice result based management (RBM), and as a part of it they have developed result chain, KPIs and their hierarchy in area of competitiveness and jobs. It was done mainly on the in-house capacities basis, though a consultative process facilitated and supported by PPS and external expertise provided by CIIP funded project. Parallel with this PPS has actively worked on reform of the PPMC system and management, by preparing set of regulations composed of Draft Law on Planning System, Draft regulation on medium term planning as well as Draft regulation on public policy management, policy and regulatory impact assessment and content of individual public policy documents

Adoption of Law on Planning System will be a significant milestone in development of public policy management and results-based management system in RS public sector. This law addresses identified weaknesses in area of policy planning and coordination, clearly in line with the objectives of the C&J Project. It will establish a solid regulatory base for all further improvements in this area, including a spillover of results-based management system to other government entities, based on results and experiences gained in this Project.

Key Performance Indicators (KPI) for all components of the Project have been defined by participating institutions, as well as relevant budget lines. Majority of KPIs used is equal to those used for national program budget, in order to avoid additional obligations for participating institutions. This was the main consideration in establishing the current set of KPIs, although because of already elaborated weaknesses in the budget programming, as well as because of lack of adequate capacities, further monitoring and reporting against set KPIs proven considerable weaknesses of the established M&E framework.

For all of the four institutions that participate in this project, up to this point of time, 21 Key Performance Indicators (KPI) have been identified in a way required by PAD and POM and presented in the report. For each of them defined base and annual target values and respective relevant budget lines. Later on, as it is foreseen in the POP elaborated in the Chapter 4, current M&E Framework will be, based on this preliminary analysis, additionally improved so it could be fully implemented in frame of Policy Planning, Monitoring and Coordination (PPMC) System.

Several obstacles are noticed in the current setup of Key Performance Indicators (KPI), which prevent implementation of genuine concept of the Result Based Management (RBM) and proper setup of KPIs. The most common obstacles are related to the: issues with setting the proper and stimulatory KPIs target values, KPI's relevance, conclusiveness and attributability, and its low informative value. Additionally, a serious methodology constrain was noticed regarding identification of relevant budgetary lines for the selected KPIs.

All of the above mentioned issues regarding the current setup of KPIs requires its reevaluation and further improvements in order to fulfill the purpose of introducing the concept of RBM and KPIs. In order to provide basis for regular revisiting of the PPMC System model, and ensure its continuous improvement towards sustainable, functional and scalable model, it is foreseen to narrow and focus further process by development and implementation of the Provisional Operational Plan for Development of the PPMC System, as it is elaborated in the Chapter 4.

During the preparation of the Progress report a serious methodology issue was noticed that could have a significant impact on the process of defining relevant budgetary lines for the selected KPIs. This methodology issue is systemic in its nature and refers to the program budgeting of the Republic of Serbia. The Republic of Serbia has introduced program budgeting as a concept, but it didn't embrace it completely, and the whole process of introducing genuine program budgeting is still work in progress. Among others, the program budgeting should classify budgetary expenses according to the narrowly defined responsibilities and program activities of the budget users, which was not the case in the Law on Budget of the Republic of Serbia for the year 2016. As a result of this gap between current model of program budgeting in the Republic of Serbia and the sheer model of program budgeting, that was already elaborated in the Chapter 2, are created methodology constrains that affect process of identifying relevant budgetary lines for selected KPIs.

As it was previously elaborated, the main issue, in the context of defining relevant budgetary lines for the selected KPIs, is the formulation of the scope of programs and its associated budgetary expenses in the Law on Budget of the Republic of Serbia for the year 2016. These programs and its associated budgetary expenses are defined too broadly compare to the activities and associated expenses necessary for achieving the previously defined targets within the observed KPIs. This inconsistency prevents accurately identification of relevant budgetary lines that would reflect real KPI's related expenses.

As a consequence of this methodology issue it is not possible to establish reliable conclusions regarding the absolute efficiency of the implemented programs. The only methodologically correct conclusion that we can draw at the moment regarding the question of the efficiency is the one that refers to some aspects of the relative efficiency of the implemented programs. Nevertheless, it could be expected that basis for the solution of this issue will be provided by adoption of the mentioned regulation package that includes by-law on mid-term planning methodology.

More detailed individual analysis of selected KPI's, their relevance, conclusiveness and attributability, as well as of performance/progress measured against targeted values is presented in the Annex 21.1. In this point of the Project execution, it would be too early to present overall progress towards KPI target values, since the brief assessment conducted to the reporting cut-off date, could not confirm reliability to a level sufficient to be published. The overall progress towards KPI target values per participating institutions is presented in the Annex 21.1 just for the illustrative purposes. However, in most cases due to certain methodology issue the achieved percentage of average overall KPIs progress per participating institutions cannot be sufficient for a measurement of overall progress within the observed project component.

Within the Project Component A.1, Policy planning, monitoring and coordination, the average overall progress in achieving annual KPI's target values as of June 30th 2016 was on the level of 29,9%. However, due to incomplete data set, the above mentioned percentage of average overall KPIs progress cannot be used as a measurement of overall progress within the component A.1

Within the Project Component A.2, Investment and export promotion, the average overall progress in achieving annual KPI's target values as of June 30th 2016 was on the level of 61.7%. Most of the six observed KPIs within the Component A.2 have a really high percentage of realization of KPI's annual target values. In one case the target value for the 2018 has been already achieved at the end of June 2016. Having in mind such overachievement in just six months of the year, it is necessary to review the presently established KPIs and its target values, in order to explore possibilities of their improvement and also to fulfill the purpose of introducing the concept of KPIs.

Within the Project Component A.3, Innovation, the average overall progress in achieving annual KPI's target values as of June 30th 2016 was on the level of 115.6%. Methodologically, it implies necessity for further analysis to determine whether the such overachievement is the result of the real improvement in innovation sector, or rather consequence of methodological issues, which some of the observed KPIs have manifested in the process of its analysis. All of this require the reevaluation of the KPIs framework and its further improvement to successfully fulfill the purpose of introducing the concept of KPIs.

Within the Project Component A.4, Labor, the average overall progress in achieving annual KPI's target values as of June 30th 2016 was on the level of 83.1%. The above mention result is a consequence of the certain characteristics of the selected KPIs which prevents us to make reliable measure achieved overall KPI's progress. There is a need for further analysis of result in achieving annual KPI's target values, before conclusion on improvement of the capacities and services of the National Employment Service (NES) is made. All of this require a reevaluation of the KPIs framework and its further improvement to successfully fulfill the purpose of introducing the concept of KPIs. Additionally, 5 KPIs defined by MoLEVSA that were not included in this report due to the fact that they are defined to follow activities that will start during 2017 and 2018 will be analyzed, as well, so it could be used in course of the Project up to the maximum extent.

4. Conclusions and further steps

4.1 Conclusions

As it is already stressed, reporting period of six months was not sufficient to get valid findings and conclusions over performance of the initial PPMC System model, since it reached its full functionality only

in the middle of the reporting period. Nevertheless, a process of its setting, especially of definition of the M&E Framework (which was based on existing capacities of participating institutions, and was just supported and facilitated by expertise outsourced through CIIP funded project), provided sufficient material to draw conclusions about all elements of the model and further steps.

Main conclusions derived within reporting period, based on the process of setting Project's PPMC System and first semi-annual reporting exercise are:

- Having in mind highly dynamic system environment (on-going reforms and structural adjustments including Public Administration Reform, legal and institutional changes, budget planning and implementation and fiscal consolidation requirements, et c.), developing PPMC System model should be highly adaptable, which implies necessity of regular revisions and adjustments and an iterative development process;
- It is necessary to develop more coherent and functional relations between participating institutions, as well as with institutions outside of the Project that are functionally connected with project targets (such as MoF, MoPALS, Statistical Office of RoS, ...), since a present level of interconnections is based solely on the functioning of IMWB and vertical interconnections;
- It is necessary to strengthen feed-back functions and interconnections within PPMC System, in order to ensure M&E results feeding to evidence based policy making process;
- It is necessary to provide regular monitoring and analysis of the overall system gaps and needs (policy, legal, institutional, functional, capacities and instruments) in order to enable timely interventions and ensure sustainability of built PPMC System model;
- Capacities within participating institutions are unevenly developed, which implies that further capacity building actions within a process of PPMC System modeling should be planned partially as joint, for all participants, and partially tailor-made according to on-going gap analysis and needs assessment for each participant, as well as for system in whole;
- Quality of the present M&E framework elements, especially KPIs is not satisfactory, due to initial lack of capacities and instruments necessary for their proper defining, and their further reassessing and revision is necessary.

Having in mind duration of the Project, as well as targeted result (sectorial PPMC System model, scalable to overall system), assumed iterative modeling process will be limited on 3 annual cycles, including current 2016 cycle, based on initial Project's PPMC model. Annual cycle fits also into present Governmental planning and programming cycle, which is necessary for real-time testing and evaluation. Each cycle (except 2016 one, due to time constraints), includes model definition, implementation and testing of the PPMC model (through planning, programming and M&E process). First two cycles (2016 and 2017) will be exercised on the Project platform, while in the third one PPMC System will be developed and tested on C&J sector basis, in order to produce verifiable sectorial PPMC system model, scalable on the overall system, and in same time to neutralize negative effects of duality (PPMC System model as a project management tool, and as a project outcome) and enable optimal implementation structure for the C&J Project, which not going to be exposed to frequent changes.

4.2 POP

In order to focus and streamline further process of the PPMC System model development, ensure its efficiency and effectiveness, and create best possible conditions for development of a sustainable scalable model within the C&J Project timeline, it was decided to develop and adopt the Provisional Operational

Plan for Development of the PPMC System (POP). Developed POP is presented in the Annex 21.2., together with the Gant-Chart in the Annex 21.3.

Presented POP is developed according to following **objectives**, based on previously elaborated conclusions:

- to ensure alignment of the modeling/testing cycle with GoS planning/programming cycle,
- to ensure participation of all necessary institutions – inside and outside of the Project,
- to use POP as testing planning/implementation exercise for the PPMC System model within the Project (in 2016 and 2017 cycles), and
- to build a coherent platform for PPMC model M&E and for regular PPMC System reporting.

POP is based on 3-cycle **structure**, while each of cycles is structured on four **steps**:

- Designing/revision of the model
- Implementation of the model
- M&E of the model (including Impact Evaluation exercise)
- Meta-analysis (analysis of the PPMC model and results of steps 1-3)

As key elements/parameters of the developing model are identified:

- Policy framework
- Legal Framework
- Institutional framework
- Functions/Procedures
- Instruments
- Capacities

As criteria for development of M&E framework and planned Impact Evaluation exercises, are foreseen OECD DAC **criteria**:

- Relevance
- Efficiency
- Effectiveness
- Impact
- Sustainability

Having in mind findings of the process so far, for the remained part of the first cycle is foreseen detailed System Analysis, aimed to provide an assessment of all key elements (policy, legal, institutional framework, functions, instruments and capacities) of participating institutions and system in generally, and to set baselines for key PPMC System parameters that will be modeled and tested during next to cycles. Methodology for the System Analysis, as well as for other analysis/evaluations/assessments envisaged within the POP, will be defined along the process, in accordance with specific needs, but based on same set of key elements and criteria in each cycle and for overall process, in order to provide common framework for managing of the PPMC System development. In same time, each analytical exercise will be used to derive conclusions and lessons learned concerning of applicability of particular methodology/technique in sustainable PPMC System, embedded in the administrative structure of the GoS.