



# Swiss Cooperation Strategy

## Serbia 2014-2017



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

**Swiss Agency for Development  
and Cooperation SDC**

**State Secretariat for  
Economic Affairs SECO**



# Foreword

The Western Balkans rank high on the Swiss foreign policy agenda. Cooperation with the region and – since 1991 – with the Republic of Serbia is founded on solidarity as well as a mutual interest in peace, stability and economic prosperity. Swiss-Serbian relations have deepened over the years. Switzerland (2014) and Serbia (2015) will chair the Organization for Security and Cooperation in Europe (OSCE). Based on their common interest in a more functional and effective OSCE, they have identified common priorities and produced a biennial joint work plan. Besides such official relationships, the sizeable Serbian diaspora in Switzerland is further strong evidence of the close ties between the two countries, contributing positively to both the Swiss and Serbian economies. Furthermore, in 2012, Switzerland was the second biggest foreign direct investor in Serbia and trade between the two countries had increased significantly. Currently, over 130 Swiss companies are present in Serbia.

European integration is a top priority of Serbia and a key driver of reforms. In 2012, Serbia was awarded EU candidate status. At the end of June 2013, the European Council decided to launch accession talks by the end of January 2014.

This Swiss Cooperation Strategy for Serbia 2014-2017 is rooted in a spirit of partnership and mutual accountability. Building on Switzerland's long-term presence in the country and earlier accomplishments, it demonstrates a strong commitment to continued support for economic, social and political reform processes in view of Serbia's European integration.

Bern, January 2014

Swiss Agency for  
Development and Cooperation (SDC)



Martin Dahinden  
Ambassador  
Director-General

The overall goal of Swiss cooperation for the coming years is to contribute to Serbia's transition towards a stronger democracy, social inclusion and enhanced economic competitiveness in support of the country's European integration. Cooperation will focus on three domains: governance, economic development, and energy efficiency and renewable energy. Switzerland has relevant expertise and experience in these areas and is confident that it can make an effective contribution.

The present document begins by providing an overview of Serbia's political, economic, social and environmental context. It subsequently discusses the rationale for Swiss-Serbian cooperation and goes on to present achievements during the previous strategy cycle and to identify lessons learned. From this, the document draws implications for the new Cooperation Strategy 2014-2017, followed by an outline of the priorities, objectives and interventions for the forthcoming period. It concludes with information about programme management and implementation.

Responsible actors on the Swiss side are the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO). Both agencies closely cooperate and coordinate the implementation of their respective interventions outlined in the Cooperation Strategy. At the country level, they are represented by the Swiss Cooperation Office (SCO) in Belgrade.

The coming years offer exciting opportunities for Serbia. We are convinced that the strong partnership between our two countries will contribute to making a lasting success for everyone.

Swiss State Secretariat for  
Economic Affairs (SECO)



Marie-Gabrielle Ineichen-Fleisch  
State Secretary  
Director

# Abbreviations

BITF	Business Technical Incubator of Technological Faculties
CHP	Combined Heat and Power Plant
CHF	Swiss Franc
CSS	Citizens' satisfaction surveys
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EPS	Electric Power Company of Serbia
EU	European Union
EUR	Euro
FDFA	Swiss Federal Department of Foreign Affairs
FOM	Swiss Federal Office for Migration
GDP	Gross Domestic Product
GI	Geographical Indication of Origin
HDI	Human Development Index
IDS	Institute of Development Studies
IGE	Swiss Intellectual Property Office
IMF	International Monetary Fund
IMZ	Swiss Migration Partnership Strategy for the Western Balkans 2012-2015
IPA	Instrument for Pre-Accession Assistance
IT	Information technology
LSG	Local Self Governments
MEDEP	Micro Enterprise Development Program
MERV	Monitoring System for Development-Related Changes
MoF	Serbian Ministry of Finance
MoRDLSG	Serbian Ministry of Regional Development and Local Self Governments
MFER	World Bank Municipal Finance and Expenditure Review
M4P	Making Markets Work for the Poor
NAD	Government of Serbia Needs Assessment Document 2014-2017
NES	Serbian National Employment Strategy
ODA	Official Development Assistance
OSCE	Organization for Security and Cooperation in Europe
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PISA	Programme for International Student Assessment
PROGRES	European Support to South and Southwest Serbia
RDA	Regional Development Agency
SCO	Swiss Cooperation Office
SCTM	Standing Conference of Towns and Municipalities
SDC	Swiss Agency for Development and Cooperation
SECO	State Secretariat for Economic Affairs
SIEPA	Serbian Investment and Export Promotion Agency
SIPPO	Swiss Import Promotion Programme
SIPRU	Social Inclusion Unit within Deputy Prime Minister's Cabinet
SMEs	Small and Medium Enterprises
TENT B	Thermo Electric Power Plant Nikola Tesla B
UNDP	United Nations Development Programme
VEEDA	Regional Development Agency for South Serbia
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

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# Executive Summary

Switzerland has provided humanitarian and transition support to the Republic of Serbia since 1991. During the last strategy cycle, 2010-2013, the Swiss government collaborated with Serbia in four domains, i.e. economic development, rule of law and democracy, education, as well as energy efficiency and renewable energy, with an average annual budget of CHF 15 million.

A 2010-2013 country programme evaluation confirmed that domains and levels of intervention were well chosen considering the Serbian context and national priorities, and that they were coherent and complementary to the work of other international development partners. It also found evidence of well-recognized contributions to Serbia's European integration. Specific lessons learned for elaborating the new Cooperation Strategy 2014-2017 were that:

- Partners appreciate Swiss collaboration because it is tailor-made, innovative and flexible
- Swiss cooperation benefits from a strong network of reliable and influential national and international partners
- Switzerland's ability to connect reforms at local and national levels is an important strength
- A careful choice and mix of aid modalities helps increase effectiveness
- A broad project portfolio poses challenges for implementation and ensuring strategic coherence

The Swiss Federal Council Dispatch to Parliament on International Cooperation 2013-2016, the Government of Serbia Needs Assessment Document and the general framework of European integration-related reforms provided guidance for the present Swiss Cooperation Strategy.

Staying in line with national priorities and the EU reform agenda for Serbia, the general orientation of the Swiss Cooperation Strategy 2014-2017 is focused and larger in financial terms. Earlier domains of intervention will be retained while the education domain will come to an end. However, assets created under the education domain will provide a strong basis for labour-oriented measures to enhance employment, especially for young people, an area that Switzerland will emphasize during the coming years. In imple-



menting the Strategy, a strong focus will be put on social inclusion of vulnerable groups as well as on the underdeveloped regions of South, South-West and South-East Serbia. Gender and Good Governance remain cross-cutting issues.

The Strategy's overall goal is to contribute to Serbia's transition towards a stronger democracy, social inclusion and enhanced competitiveness of its economy in support of the country's European integration. In summary, it focuses on three objectives:

- Advance democratic, efficient and effective governance in Serbia
- Enhance the competitiveness of the Serbian economy
- Increase energy efficiency and the use of renewable energy

In order to advance democratic, efficient and effective governance, Switzerland will work towards increasing local governments' transparency and accountability. Furthermore, Swiss cooperation will contribute to improved municipal service delivery, to strengthened public financial management (PFM) at the sub-national level and to greater coherence of important decentralization and social inclusion reforms.

With regard to economic development, Switzerland will work with partners to generate income and employment opportunities in specific markets and sectors. Besides concentrating on underdeveloped regions, interventions will focus on employability for young people, thus also reducing pressures for them to migrate. Moreover, Swiss cooperation will promote exports of Serbian products and services, stimulate a conducive business environment for small and medium-sized enterprises (SMEs) and help create a more robust macro-economic environment by supporting reforms to strengthen budget management capacities as well as financial sector regulation.

Swiss interventions in the energy sector will experience a gradual shift away from the national to the sub-national level. In order to increase energy efficiency and the use of renewable energy, Switzerland will continue to support the introduction of energy-efficient and environmentally-sound technologies. It will also continue on-going and design new interventions to augment the production of heat and energy from renewable resources. In parallel, Swiss cooperation will build the capacities of selected municipalities to define and implement their own sustainable energy solutions.

Switzerland will increase its budget for cooperation with Serbia: For the period 2014-2017, planned disbursements amount to CHF 75 million or an average CHF 19 million per year. The number of local

staff within the SCO in Belgrade will be adjusted to ensure effective management. Systematic monitoring of the present Cooperation Strategy will permit the SCO to track progress toward achieving expected results. A comprehensive Results Framework and Monitoring System are an integral part of the Strategy.

Swiss cooperation is led by the commitments set out in the Busan Partnership for Effective Development Cooperation. Along these lines, Switzerland supports national ownership and aligns its interventions to Serbia's priorities. In order to increase effectiveness as well as to balance opportunities and risks, Switzerland will make a conscious choice of aid delivery modalities depending on the context.

In addition to its bilateral programmes and projects, continued regional cooperation is an essential element of the new Cooperation Strategy, specifically in the fields of science and research, police cooperation, Roma inclusion and PFM.

The established dialogue between Serbia and Switzerland within the frame of the Switzerland-Western Balkans Migration Partnerships Strategy 2012-2015 will be reinforced. Furthermore, Switzerland will continue to promote human security in Serbia through strengthening democratic institutions, enhancing political dialogue and strengthening ownership of dealing with the past.



# 1. Country Context

*Accession to the European Union (EU) is a key priority of the government of Serbia and the main driver of the reform agenda. In 2012, Serbia was awarded EU candidate status, following a comprehensive series of reforms and full cooperation with the International Criminal Tribunal for the former Yugoslavia. At the end of June 2013, the European Council decided to launch accession talks by the end of January 2014, thus recognizing important political decisions taken by Serbia, including the historic April 2013 agreement to normalise relations with Kosovo.*

*Accession negotiations are expected to accelerate the country's challenging reform agenda, leading to marked improvements in the political, economic, social and environmental spheres of the country.*



## **1.1 Political Development** *Democracy in transition*

Serbia's political reforms have progressed and the European Commission has concluded that it sufficiently fulfils the political criteria for membership talks with the EU. Over the past years, the country has made progress in key areas, such as rule of law, fight against corruption, anti-discrimination and protection of minorities.

Looking ahead, the government has launched an intensive campaign to fight widespread corruption. It has committed itself to pursuing politically sensitive reforms in public administration, tax, pensions and the labour law. Return of property to local governments and restitution of nationalized assets are expected to be fully addressed in the near future. Parliament has improved the transparency of its work, the consultation process on legislation as well as its oversight of the executive. The revised Judicial Strategy provides fresh impetus for reforming the judicial system.

Yet major reforms are required in the field of democratic governance; accountability of elected officials to the electorate is weak as a consequence of the electoral party-list system. Unlike in the neighbouring countries, mayors are not elected by the citizens of Serbia. Unpredictable central to local government transfers coupled with a lack of capacities affect coherence between administrative and financial decentralization. Budgetary constraints, unresolved property issues and inadequate human resources pose additional challenges. Equally, regional development efforts have not yet succeeded in removing high disparities. The government is expected to adopt a new decentralization strategy to address acknowledged weaknesses.

## **1.2 Economic Development** *Struggling economy*

Serbia has made some progress towards establishing a functioning market economy, but its difficult economic and fiscal situation persists. The budget deficit, currently estimated at over 7% of Gross Domestic Product (GDP), significantly exceeds the 4.25% target agreed with the International Monetary Fund (IMF) under the Stand-By Arrangement; the same applies to public debt with an estimated 60% of GDP (target 45%). Belgrade hopes to conclude a new arrangement with the IMF starting from 2014. However, to be successful, it will have to take decisive steps to consolidate its state finances, reduce foreign debt, reform the labour market and accelerate privatization.

The public sector continues to generate 40% of Serbia's GDP, and during the past four years, Serbia's annual GDP growth rate was very modest or even negative. In 2012, the country slipped back into recession with a real GDP contraction of 1.7%; its



GDP per capita was EUR 3,900, only 37% of the EU average. Positive GDP growth in 2013 hints at some recovery. Increased exports have been the driving force for growth, and an annual GDP growth of 2% is forecasted, almost exclusively attributable to the automobile and agriculture industries.

The competitiveness of the Serbian economy is low; the Global Competitiveness Index 2013-2014 by the World Economic Forum (WEF) ranks Serbia 101st out of 148 countries. Yet, the country's central and local governments are committed to improve the business environment, and Serbia has competitive advantages. The high-tech industry, especially the IT, biotech and medtech sectors, while currently small, is expected to show strong growth. Official intentions to reform public utility companies within the coming years are expected to lead to consolidation, efficiency gains and a reduction of the burden on the public purse. However, the country faces a range of significant challenges. These include poor infrastructure, heavy bureaucracy, weak protection of intellectual property, little economic diversification and skills mismatches in the labour market.

Serbia's historically good relations with Russia were maintained after the 1990's break-up of the former Yugoslav Federation and are reflected in considerable economic cooperation. In an attempt to revive its ailing economy, Serbia is also stepping up economic relations with Arab countries. World Trade Organization (WTO) accession will eventually open up further opportunities for investments and exports, apart from increasing Serbia's EU membership prospects.

Remittances from the Serbian diaspora constituted an important economic factor estimated at 14% of GDP during the 2000 to 2011 period. Affected by the slow-down in the EU economy and the region, however, 2012 noted a major drop (30%) in private transfers.

### **1.3 Social Development** *Below the regional average*

The United Nations Development Programme (UNDP) Human Development Index (HDI) provides a composite measure of three basic dimensions of human development, i.e. health, education and income. In 2013, Serbia's HDI rank was 64th out of 187 countries, placing it slightly below the regional average.<sup>1</sup>

Enrolment in preschool, primary and secondary schools is high, both for boys and girls. The Serbian education system has become more – but not sufficiently – socially inclusive, and quality assurance standards have been introduced. However, further steps are required to ensure that the education and training system responds better to labour market needs. 27% of Serbia's population was unemployed at the beginning of 2013; youth unemployment reached a dramatic 51%. The average monthly salary of EUR 380, whereby women clearly earn less than men in the private sector, is hardly sufficient to cover living expenses. Under such circumstances, state pensions, though a significant burden on the public budget, are a very important household income supplement.

Social exclusion remains widespread in Serbia, putting the stability and integrity of the country at stake. Vulnerable groups include people without educational qualifications, the Roma and other ethnic minorities, young people not able to enter the job market, elderly persons, women-headed households, people with disabilities, refugees from Bosnia and Herzegovina and Croatia, and displaced persons from Kosovo. Managing diversity remains a key challenge. Vulnerable groups and the population at large in towns and municipalities in South,

<sup>1</sup> UNDP, 2013: Human Development Report (<http://hdrstats.undp.org/en/countries/profiles/SRB.html>).

South-West and East Serbia are particularly hard hit. There, inhabitants suffer from intra- and inter-ethnic tensions, high poverty and unemployment rates, insufficient infrastructure and poor delivery of social services. Individuals who face multiple vulnerabilities, such as Roma women, carry an increased risk of exclusion.

Serbia's capacity to improve its migration management will play an important role in the country's European integration process. Serbia faces a critical problem of brain drain because of young educated people having difficulty finding a job at home and being poorly paid. Other migrants are villagers and members of minority ethnic groups who seek to escape unemployment, low standards of living and the consequences of poor household finances. Besides seeking improvement outside Serbia, a constant and possibly increasing trend of internal migration from the periphery to the fewer bigger cities of the country can be detected. Moreover, the number of irregular migrants passing through Serbia and whose final destination is the EU is increasing.

#### 1.4 Environment

##### *One of Europe's least energy efficient countries*

Serbia has achieved some progress in the area of the environment, including better air and water quality as well as improved waste management; less so in the area of nature protection. Neither has there been much progress in energy efficiency and renewable energy, which are crucial for a prosperous economy as well as for improving the quality of air and reducing CO<sub>2</sub> emissions, and which are also part of the EU acquis requirements.

Serbia's energy sector is characterised by the lack of a competitive market, under-investment and a very low efficiency requiring two to three times more energy than EU countries for an equivalent output. Electricity generation is heavily dependent on coal and considerably subsidized, impeding cost recovery. Renewable energy sources such as biomass, hydropower and wind exist but are far from being exploited. Recently, the Serbian parliament adopted several important laws and strategies, such as the Law on the Rational Use of Energy and the new Energy Strategy, putting the country in a better position to implement necessary reforms and make investments to modernize the energy sector. Still, implementation, for which local governments are responsible, has got off to a slow start.



## 2. Swiss Foreign Policy Objectives and Donor Landscape



Switzerland considers the Republic of Serbia a key actor in regional cooperation and in ensuring long-term stability in the Western Balkans. Serbia is an important partner that has close relations with both Eastern and Western parts of Europe. Swiss cooperation with Serbia and the region is founded on solidarity as well as a mutual interest in peace, stability and economic prosperity. It also builds on the Serbian diaspora's potential to contribute to the economy in Switzerland as well as their country of origin. Since the 1960s, Switzerland has been home to over 100,000 Serbs, one of the largest foreign populations.

Switzerland has provided humanitarian and transition support to Serbia, the largest country to emerge from the former Yugoslavia, since 1991. Represented by SDC and SECO, it currently provides support to Serbia within the overall framework of the Swiss Federal Council Dispatch to Parliament on International Cooperation 2013-2016. According to the Dispatch, the overall goals of Swiss cooperation with the countries of Eastern Europe are a) to strengthen human rights and democracy by creating political institutions that ensure the rule of law and citizens' rights; and b) to promote economic and social devel-

opment and the sustainable management of natural resources. In Serbia, Swiss support is also aligned with the Serbian government's Statement of Needs for International Donor Assistance and the general framework of EU accession-related reforms.

Since the EU became Serbia's major development partner, the presence and volume of bilateral assistance from individual EU member countries have declined. Key remaining development partners besides the EU, other multilateral organizations and Switzerland are Germany, Sweden, the United States and Norway. Important non-traditional development partners are China, Turkey and Russia. Total ODA in 2012 was some EUR 366 million (1.2% of GDP), of which the EU provided 60%. With support amounting to CHF 14 million in 2012, Switzerland came 6<sup>th</sup> in donor ranking. Its role as a donor is growing in importance given the budget increase from CHF 63 million (2010-2013) to CHF 75 million (2014-2017) and the withdrawal of other bilateral donors.

Three other examples are proof of the two countries' close bilateral relations and Swiss engagement for peace and stability in Europe. Firstly, Serbia is part of the Swiss-led constituencies (voting groups) in the Bretton Woods Institutions and the European Bank for Reconstruction and Development (EBRD). Secondly, signed in 2009, a Memorandum of Understanding established a Migration Partnership between Switzerland and Serbia with regular bilateral migration dialogues addressing priority areas currently outlined in the Swiss Migration Partnership Strategy for the Western Balkans (IMZ) 2012-2015. Thirdly, on the occasion of the Swiss-Serbian consecutive chairmanship of the OSCE in 2014 and 2015, the two countries, for the first time ever in the history of the Organization, have identified common priorities and produced a joint work plan to foster security and stability in the Euro-Atlantic and Eurasian regions, to improve the living conditions of local populations and to strengthen the role of the OSCE in conflict and crisis management.

# 3. Review of Swiss Cooperation: Past Achievements and Lessons Learned 2010-2013

*In line with Serbia's national priorities, the overall goal of the Swiss Cooperation Strategy for Serbia 2010-2013 was "to support Serbia in its efforts towards European integration, by contributing to improving social inclusion and reducing poverty and by increasing the competitiveness of the country's economy". To this intent, the Swiss government collaborated in four domains, i.e. economic development, rule of law and democracy, education, as well as energy efficiency and renewable energy.*

*In early 2013, SDC commissioned a final evaluation of the 2010-2013 Serbia Cooperation Strategy.<sup>2</sup> Overall, the evaluation found that strategy design and programme implementation were well aligned with the Serbian context and national priorities, notably the country's overall objective to achieve EU accession; that Switzerland's domains and levels of intervention were coherent and complementary to the approaches and thematic priorities of other international development partners; and that Switzerland had provided well-recognized and relevant contributions in fields such as support for economic reform processes, private sector development at sub-national level, local governance, education, and energy efficiency.*

## 3.1 Achievements in Advancing Economic Development 2010-2013

The overall goal of this domain was to enhance competitiveness and promote a regionally-balanced economy. Several important results have been achieved:

### › Income and Employment Generation

*"Line ministries increasingly acknowledge the M4P approach that aims at systemic changes for private sector initiatives in the South and South-West..." Country Evaluation 2013*

Applying the Making Markets Work for the Poor (M4P) approach, a systemic approach to market development focusing on sectors with high potential, Switzerland contributed to income and job creation for young people and women in the disadvantaged regions of South, South-West, Central and East Serbia. Thanks to a financial contribution of CHF 5.8 million, SMEs generated an income worth CHF 8.7 million, which is expected to grow further, and created 1,840 jobs (42% women) in sectors of tourism, traditional local dairy and fruit products, wood and non-timber forest products. Concurrently, the M4P approach in South Serbia up-graded the National Employment Service, also thanks to co-financing from targeted local government units. As a result, the National Employment Service has started to apply the M4P approach to increase employment in all 167 Serbian municipalities.

### › Export and Trade

Serbia's exports in two key sectors of the country's economy, agriculture and the high-tech industry, have grown. With the aim to contribute to a more favorable structure of trade and exports, programme interventions focused on sectors with high value added of domestic labour (high tech). Thanks to a Swiss investment of CHF 0.6 million, companies from the Business Incubator in Belgrade generated exports worth CHF 2.7 million. At the policy level, Swiss experts accompanied the important process of Serbian accession to the WTO. Serbia has meanwhile concluded all bilateral negotiations and is close to becoming a WTO member.

### › Macroeconomic Support

Switzerland provided support in core areas of public finance management reforms, a precondition for sustainable economic growth and poverty reduction. In particular, support was provided for modernizing the Serbian Tax Administration and for



<sup>2</sup> SDC, 2013, Country Evaluation Cooperation Strategy Serbia 2010-2013.

drafting new fiscal legislation including ceilings for public debt and budget deficit, which have meanwhile become key parameters for the government in view of EU accession.

#### › Business Environment

*"...the [Swiss] expertise in the area of strengthening business climate ... is well appreciated by the Serbian private sector, ministries and the academia."*  
Country Evaluation 2013

Serbia's business environment and regulatory framework is improving. Swiss support contributed to simplification of the regulatory environment in ten local government units, resulting in cost savings amounting to EUR 160 million for local businesses thanks to reduced fees and taxes. The introduction and promotion of corporate governance standards and practices helped improve company performance, resulting in investments of EUR 102 million.

### 3.2 Achievements in the Area of Rule of Law and Democracy 2010-2013

This domain focused on strengthening decentralization, local governance, social inclusion and judicial reform. Activities resulted in the following accomplishments:

#### › Decentralization and Local Governance

*"The profound knowledge and long-standing experience in terms of local governance, decentralisation and the federalism system are other fields of [Swiss] expertise recognized by the Serbian authorities."*  
Country Evaluation 2013

Through institutional support to the Standing Conference of Towns and Municipalities (SCTM), Switzerland has strengthened the position of towns and municipalities and their association within the local governance system in Serbia. Acting in the best interest of local governments, SCTM managed to save considerable funds for local budgets for service delivery and local development. Moreover, SCTM advo-

cacy resulted in the integration of local-level interests into policy and law-making relevant to decentralization and local governance.<sup>3</sup>

Support for 32 underdeveloped towns and municipalities enhanced municipal management and governance practices, such as improved planning and budgetary processes, greater transparency and participation, and growing public investments. Improved performance of local tax administrations was found to have led to increases in property tax revenue of up to 25%. Promotion of Good Governance (systematic introduction of regulations to clarify rights and responsibilities of governmental bodies and citizens) helped to reinforce the governance perspective of a substantial part of EU pre-accession (IPA) funding available to Serbian towns and municipalities, and generated transferable models.

#### › Social Inclusion

Support for the Serbian Social Inclusion and Poverty Reduction Unit (SIPRU) contributed to line ministries developing policies to increase accessibility and quality of services for vulnerable groups. In addition, the First National Report on Social Inclusion and Poverty Reduction was issued in 2011. Building on a comprehensive analysis of legal and institutional frameworks affecting social inclusion in Serbia, the report established directions for future reforms, in line with EU requirements and strategies.

#### › Judicial Reform

Serbia has made limited progress in implementing judicial reform. However, due to its critical importance in the EU accession negotiations, reforms are expected to accelerate in the coming years. Switzerland will continue to support the Ministry of Justice through a multi-donor trust fund.

### 3.3 Achievements in the Field of Education 2010-2013

Switzerland began supporting the education sector in 2000. Over time, its involvement evolved from single project activities into comprehensive education sector reforms. The overall goal of the education domain for the period 2010-2013 was to improve the quality and inclusiveness of education in order to raise the competencies of teachers and students. Support has produced a number of very positive results:

#### › Teacher Training

*"The Ministry of Education and other Serbian institutions appreciate the high-performance regional education centres set up by the Professional Development Programme, job market-related skills development and the curriculum development."*  
Country Evaluation 2013



<sup>3</sup> Examples: Public Property Law, Local Self Governments Financing Law, Property Restitution Law, Local Elections Law.

Swiss-Serbian collaboration resulted in the incorporation of an innovative system of professional development for teachers into Serbia's education sector. The system comprises a National Institute for Professional Development and ten regional centres that provide in-service training for teachers to improve their competences and skills in order to advance educational attainment in schools and ensure greater employability of young people. To date, more than 90,000 teachers have been trained, contributing to a significant increase in pupil learning outcomes, from 420 points in 2009 to 460 in 2011 according to PISA (Programme for International Student Assessment) results. In line with their mandate, the regional centres have diversified into professional development in other areas where they have trained 80,000 professionals from public and private sector in key skills relevant to job market needs.

➤ **Access to Education**

Support for education also led to the introduction of a new law on basic education that ensures inclusion



of Roma, disabled and other marginalised children in mainstream schools. Additional support allowed for the introduction of best practice models of inclusive education in over 70 towns and municipalities. These models contributed to increased school enrolment of Roma and disabled children by 25%, their increase in attainment by 10% and a decrease in drop-out rates.

**3.4 Achievements in Promoting Energy Efficiency and Renewable Energy 2010-2013**

This domain's goal was to enhance sustainable energy generation and environmentally-conscious consumption. Good progress has been made:

*"The current energy efficiency and renewable energy portfolio gives a high visibility for Switzerland." Country Evaluation 2013*

➤ **Modernization of Thermal Power Plant**

Thanks to Swiss funding, a new monitoring and control system of Serbia's largest thermal power plant, Nikola Tesla Thermal Power Plant B (TENT B), was put into operation in October 2012. The plant produces 20% of the country's electricity. The new monitoring and control system will increase the reliability and energy efficiency of the plant, in turn leading to reduced emissions of pollutant gases.

➤ **Combined Heat and Power Plant**

In December 2012, the governments of Switzerland and Serbia signed a partnership agreement on renewable energy. The agreement envisages the introduction of the first combined heat and power plant (CHP) run on biomass in Serbia. The CHP, located in Padinska Skela/Belgrade, has significant potential for replication and is expected to play a pioneering role in the area of renewable energy in Serbia.

## 4. Implications for the Swiss Cooperation Strategy 2014-2017

*The coming years are crucial for Serbia's European integration, which is expected to improve the country's socio-economic perspectives and increase political stability. In light of Swiss foreign policy objectives for the Western Balkans, Switzerland's history of engagement, positive political developments and the European Council's decision to launch EU accession talks with Serbia by the end of January 2014, Switzerland will continue to support Serbia's reform agenda and transition process to democratic and free market systems.*



Guided by elaborate consultations with Serbian government representatives, the EU Delegation and other development partners as well as a careful analysis of the above-mentioned country programme final evaluation, Switzerland has identified its added value and defined its immediate future role within Serbia's EU accession phase.

Based on the findings from this process and analysis, Swiss cooperation will continue to address the three domains governance, economic development, as well as energy efficiency and renewable energy. In all domains, Switzerland will align its interventions to national priorities as defined in the Government of Serbia Needs Assessment Document (NAD) 2014-2017 and the EU reform agenda for Serbia. Convinced of its positive impact on development, social inclusion of vulnerable groups will be given much prominence, anchored in the overall strategic

goal. While continuing to work with partners at the central level, Switzerland will intensify even further its engagement in the underdeveloped towns and municipalities of South, South-West and South-East Serbia. Moreover, it intends to explore options to involve the large Serbian diaspora in activities that benefit the socio-economic development of their country of origin.

Keeping Serbia's governance reform momentum on-going is important for stability in the country and the region. Experience shows that Swiss support for democracy and local governance has been effective. It therefore merits continuation. Cooperation will benefit from existing strong partnerships with local self-governments, line ministries in charge of regional development and local self-governments, the SCTM and SIPRU.

In the economic sphere, a comprehensive programme will address key challenges of the Serbian economy in crisis. At the macro-economic level, Switzerland will continue its support for PFM reforms and financial sector strengthening. Moreover, it will build on its good results in private sector development, trade promotion and business-friendly environment to contribute to increased economic competitiveness, create jobs and reduce regional disparities. Fighting high unemployment is a priority. Given extremely high youth unemployment rates, fostering entrepreneurship, improving the transition of young people from school to the labour market and creating decent jobs is of great urgency, which will also lessen the burden on social welfare and help prevent involuntary migration.

Serbia is one of Europe's least energy-efficient countries. There is a pressing need for both higher energy efficiency and more renewable energy in line with EU acquis requirements. Switzerland will continue its support for essential infrastructure at national level. It will initiate collaboration at the sub-national level where local governments have been delegated new responsibilities to define and implement sustainable energy solutions.

Education as a programmatic focus of Swiss cooperation will be gradually phased-out. Future Swiss interventions in the area of jobs and income generation, employability and labour market reforms will greatly benefit from assets created under the education domain, notably improved legal frameworks, strengthened institutions and empowered minorities.

# 5. Looking Ahead: Priorities and Objectives for 2014-2017

## 5.1 Overall Goal

The overall goal of the Swiss Cooperation Strategy 2014-2017 is to contribute to Serbia's transition towards strong democratic systems, social inclusion and enhanced competitiveness of its economy in support of Serbia's European integration.

## 5.2 Governance Domain 2014-2017

**What:** Building on achievements at local government level, as well as the successful relationships with central and local stakeholders, the overall objective of this domain is to advance democratic, efficient and effective governance in Serbia. Expected strategic outcomes are:

- A. Local governments practise transparency and accountability towards local assemblies and citizens, and manage public resources efficiently;
- B. Increased quality of and access to municipal services for citizens (in particular vulnerable groups) and companies;
- C. Good local economic governance and strengthened public finance management at sub-national level; and
- D. Coherent decentralization and social inclusion reform (vertical dimension).

**How:** Switzerland will support local assemblies to hold local governments accountable, and local governments to act transparently and consult their constituencies. If invited, it will also collaborate on electoral reforms with the intent to strengthen ac-

countability between the electorate and local governments. As for the way local governments manage public resources, Switzerland will support measures to increase municipal revenues and efficiency.

In terms of access to quality public services at local level, Switzerland will support modernization of municipal services and enhance municipal capacities for better executing current and new services for all citizens, with a special emphasis on vulnerable groups and private sector companies based on their needs. Switzerland will also assist local government units to make better use of IPA funds. In view of the shift towards local-level implementation of domestic legislation in line with the EU acquis, it will support organizational and public sector reforms to ensure better functioning of local administrations, and continue to collaborate with the SCTM to ensure representation of their interests in EU accession negotiations.

Complementary to Swiss interventions at the national level under the economic development domain, selected Serbian towns and municipalities will benefit from technical support for efficient public finance management. Specifically, inadequate priority setting in capital investments, lack of financial management and procurement skills and procedures, irregular tax enforcement and auditing will be targeted. Switzerland will also support the implementation of the Public Property Law.

Improved cooperation between higher and lower levels of government (vertical dimension of governance) will be addressed through support for new legislation defining municipal functions, services and performance management. A transparent, predictable and result-oriented system of inter-governmental transfers should ensure adequate funding of services and help reduce disparities. Furthermore, Switzerland will continue to facilitate the transition of social inclusion and gender mainstreaming policies and measures to the local level.



## 5.3 Economic Development Domain 2014-2017

**What:** In keeping with the earlier thrust, and in view of the challenging economic situation, the overall objective of this domain is to enhance the competitiveness of the Serbian economy. This objective will be approached from four mutually-supportive perspectives factoring in both demand and supply. They

encompass M4P interventions on the one hand and trade promotion, business environment and macro-economic activities on the other. Expected strategic outcomes are:

- A. Increased income and employment opportunities, with a focus on employability of youth;
- B. Increased exports/trade of Serbian products and services;
- C. Improved business environment for SMEs; and
- D. Strengthened macro-economic environment.

**How:** Switzerland will continue to promote income and job creation in Serbia through substantial M4P interventions fostering productivity. It will also support a wide range of efforts to align human resources development with actual labour market requirements, thus contributing to efficient school-to-work transition, increased employability and labour market access, in turn reducing migration pressures. Young Serbs will be the main beneficiaries of such systemic market development and vocational skills development measures.

To increase Serbian exports, Switzerland will remain involved in the WTO accession process and provide post-accession support. Furthermore, it will help improve quality standards and value chains for additional agricultural products (e.g. by attributing geographical indications of origin (GI)) and promote export of innovative products.

Simplified business-related administrative processes, local-level regulatory reform, promotion of good corporate governance practices, and easier access to finance and training will help to further improve the business environment for SMEs and to stimulate entrepreneurship, thus attracting investments as well as creating and retaining jobs, through knowledge-based economic growth. To ensure sustainability of such reforms, Switzerland will collaborate with the Serbian Chamber of Commerce and the SCTM.

In terms of exploring options to involve the large Serbian diaspora in activities that benefit Serbia's economic development, Switzerland plans to promote diaspora trade relations and entrepreneurship.

Switzerland will contribute to improved macro-economic stability through support for reforms to improve PFM at national level as well as reforms to strengthen financial market regulation and supervision. To this end, Switzerland will cooperate with key institutions such as the Serbian Ministry of Finance (MoF) and affiliated administrations as well as the Fiscal Council.

#### 5.4 Energy Efficiency and Renewable Energy Domain 2014-2017

**What:** The overall objective of this domain is to increase energy efficiency and the use of renewable



energy. Expected strategic outcomes contributing to this overall objective are:

- A. Introduction of improved energy-efficient and environmentally-sound technologies;
- B. Increased production of heat and energy from renewable resources; and
- C. Local governments accelerate progress towards energy targets.

**How:** Swiss support for energy efficiency and renewable energy in Serbia will benefit from considerable financial resources, particularly in support of improvements at the sub-national level. Besides implementing on-going projects, important new engagement opportunities will be identified.

Together with co-financing from the Serbian government, Switzerland intends to continue its involvement in modernizing the monitoring and control system of the TENT B Power Plant, Serbia's largest thermal power plant. This major investment is a significant contribution to the objectives of the Serbian energy sector development strategy and to enforcing the legal framework for environmental protection.

Following a Swiss-Serbian agreement at the end of 2012, and corresponding to Serbia's priorities regarding the stimulation of the use of renewable energy, the coming years will see the installation and start-up of a first CHP fuelled by biomass to heat public buildings and greenhouses as well as to generate electricity in Padinska Skela/Belgrade. Additional energy efficiency measures in the aforementioned public buildings will further contribute to the reduction of CO<sub>2</sub> emissions and to the improvement of the general living conditions of local inhabitants.

In addition to such infrastructure investments, Switzerland will start building the capacities of selected towns and municipalities to implement sustainable energy action planning in order to reduce their energy consumption and meet energy targets.

Main partners are the Ministry of Energy, Development and Environmental Protection, the City of Belgrade and selected local government units.

# 6. Programme Management and Implementation

## 6.1 Synergies

Under the overall political guidance of the Swiss Embassy, SDC and SECO play complementary roles and have their own responsibilities for implementing this Cooperation Strategy and achieving desired outcomes. At the same time, in order to optimize efficiencies and enhance the overall impact of Swiss interventions, both institutions will ensure close coordination of their activities and pursue a high level of portfolio coherence, in terms of geographic and thematic focus, such as in public finance management and private sector development, areas with the greatest potential for synergies.

## 6.2 Aid Effectiveness

Swiss cooperation is led by the commitments set out in the Busan Partnership for Effective Development Cooperation. Along these lines, Switzerland supports national ownership and aligns its interventions to Serbia's priorities as defined by the NAD 2014-2017. As in the past, Switzerland will make a conscious choice of aid delivery modalities depending on the context. Besides providing technical and financial assistance for fewer but larger projects in Serbia, it will explore opportunities for joining hands with bilateral and multilateral development partners in programme-based approaches and in supporting country systems. To this intent, the SCO represents Switzerland at the country level vis-à-vis the Serbian government and other international development partners, e.g. in the donor coordination and thematic working groups.



## 6.3 Partners

To enhance effectiveness and long-term sustainability, cooperation is strongly oriented towards partnerships. Switzerland will continue to engage in strategic dialogue with representatives of the Serbian government as well as with national and international development partners, in particular the EU Delegation. It will continue to implement programmes/projects through governmental bodies, international finance institutions, UN organizations, research organizations, academia and think tanks, local and Swiss NGOs, and private sector entities.

## 6.4 OSCE Presidency Project Facility

As member of the OSCE presidential troika (2013-2015) and to help implement the joint Swiss-Serbian work plan for 2014/2015, Switzerland has established a facility to finance projects in support of Swiss and OSCE priorities and Swiss visibility in the OSCE region.

## 6.5 Transversal Themes

Good Governance and gender are transversal themes. Switzerland commits to mainstreaming gender throughout its programme. Gender-related information will be integrated in the design, implementation and monitoring and evaluation of all programmes. Similarly, Switzerland will uphold its commitment to Good Governance as a transversal subject with a particular focus on transparency and accountability. Migration and development will be applied as an additional analytical lens and action will be taken based on opportunities.

## 6.6 Regional Cooperation

Regional cooperation is an essential element of Swiss Cooperation Strategies that provides an effective approach to tackling challenges common to countries of a specific region. Such transnational initiatives serve to encourage peer-learning, build regional capacities and support benchmarking, in order to adhere to international standards. Specifically, Serbia is part of long-standing regional programmes in the fields of science and research, police cooperation, municipal development, Roma inclusion and PFM.



### 6.7 Swiss-Serbian Migration Partnership

In 2009, Switzerland and Serbia established a migration partnership. A bi-annual migration policy dialogue has since addressed positive and critical aspects of cross-border migration and readmission. An important result of recent years is the introduction of standards for migration monitoring and reporting, in line with EU parameters. In accordance with the new Serbian Law on Migration Management, the exchange of good practices in migration management is fostered through a migration dialogue.

The more recent Switzerland-Western Balkans Migration Partnerships Strategy (IMZ) 2012-2015 addresses migration-related issues in a comprehensive manner. Adopting a “whole of government approach”, the SCO implements activities on behalf of the Swiss Federal Office for Migration (FOM), SDC and SECO that boost capacities of the Serbian migration authorities to manage migration and to improve the economic and social situation of vulnerable groups. Priority areas include: a) return and reintegration; b) migration and development, inter alia with the participation of the Serbian diaspora; c) prevention of irregular migration; d) opportunities for regular migration; and e) regional migration cooperation among Western Balkans states.

### 6.8 Human Security

Within the framework of the Federal Council’s Message to Parliament concerning the Continuation of Measures Relating to Civilian Peacebuilding and the Promotion of Human Rights 2012-2016 and based on a new Human Security Development Strategy for South-Eastern Europe, Serbia is one of three regional priorities in the Western Balkans. As of 2014, the Human Security Division of the Political Directorate within the Swiss Federal Department of Foreign

Affairs (FDFA) will continue to promote human security in Serbia through a) strengthening democratic institutions; b) enhancing political dialogue; and c) strengthening ownership of dealing with the past through support for regional and national initiatives as well as advocacy for the implementation of the rights to know, to justice, to reparations and the guarantee of non-recurrence. A particular focus will be placed on sustainable initiatives contributing to resolving inter-ethnic disputes through political dialogue and on increased integration of national minorities through more effective implementation of existing mechanisms and legal standards, including in Southern and South-Western Serbia.

### 6.9 “Cultural Percentage”

The principles of SDC’s work in the field of culture that were set out in 2002 remain valid, including the principle of the cultural percentage that allows at least one per cent of the total budget to be devoted to the promotion of local culture. The cultural programme will be managed regionally.

### 6.10 Financial and Human Resources

Annex 2 shows planned disbursements and commitments overall and per domain, both in absolute numbers and in percentage terms. During the period 2014-2017, Switzerland’s planned budget amounts to CHF 75 million.

The SCO is managed by the Director of Cooperation and a Deputy Director of Cooperation. They are supported by a team of operational, financial and administrative national staff, as well as regional advisors. The availability of national capacities will be adjusted to the higher programme budget and additional tasks of the SCO during the 2014 to 2017 strategy cycle.

## 7. Strategic Steering

This Cooperation Strategy is subject to systematic monitoring, the aim of which is to track progress toward achieving expected results, allowing for corrective measures as required (steering). The monitoring system (Annex 3) observes three dimensions: a) the country context; b) the Swiss Results Framework (Annex 4); and c) management. Country context monitoring tracks Serbia's economic, social, environ-

mental and political development and how it affects Swiss cooperation. Monitoring of the Swiss Results Framework assesses progress in achieving expected results of Swiss interventions, including with regard to the transversal themes gender and Good Governance. Monitoring of management focuses on the efficiency and effectiveness of the SCO and compliance with management and aid principles.



# Annex 1: Overview of the Swiss Cooperation Strategy Serbia 2014-2017

Overall goal

Switzerland contributes to Serbia's transition towards strong democratic systems, social inclusion and enhanced competitiveness of its economy in support of Serbia's European integration

Domain objectives and outcomes

## Governance

Advanced democratic, efficient and effective governance through:

- A. Local governments practise transparency and accountability towards local assemblies and citizens, and manage public resources efficiently;
- B. Increased quality of and access to municipal services for citizens (in particular vulnerable groups) and companies;
- C. Good local economic governance and strengthened public finance management at sub-national level; and
- D. Coherent decentralization and social inclusion reform (vertical dimension).

## Economic Development

Enhanced competitiveness of the Serbian economy through:

- A. Increased income and employment opportunities, with a focus on youth employability;
- B. Increased exports/trade of Serbian products and services;
- C. Improved business environment for SMEs; and
- D. Strengthened macro-economic environment.

## Energy Efficiency and Renewable Energy

Increased energy efficiency and use of renewable energy through:

- A. Introduction of improved energy-efficient and environmentally-sound technologies;
- B. Increased production of heat and energy from renewable sources; and
- C. Local governments accelerate progress towards energy targets.

Additional dimensions

Migration Partnership

Regional Cooperation

Gender and Good Governance (transversal themes)

# Annex 2:

## Disbursement and Commitment Planning

Domain of intervention	Planned disbursements 2014-2017			Planned disbursements 2014-2017			Planned commitments 2014-2017		
	<i>(in CHF million)</i>			<i>(in percentage of total planned disbursements)</i>			<i>(in CHF million; incl. new commitments that entail disbursements beyond 2017)</i>		
	SDC	SECO	Total	SDC	SECO	Total	SDC	SECO	Total
Governance	27.1	3.0	<b>30.1</b>	36%	4%	<b>40%</b>	30.1	3.0	<b>33.1</b>
Economic Development	14.2	11.0	<b>25.2</b>	19%	14%	<b>33%</b>	16.7	12.0**	<b>28.7</b>
Energy Efficiency and Renewable Energy		13.0	<b>13.0</b>		17%	<b>17%</b>		15.0	<b>15.0</b>
Programme Management and Other Costs*	5.2	2.0	<b>7.2</b>	7%	3%	<b>10%</b>	5.2	2.0	<b>7.2</b>
<b>Total</b>	<b>46.5</b>	<b>29.0</b>	<b>75.5</b>	<b>62%</b>	<b>38%</b>	<b>100%</b>	<b>52.0</b>	<b>32.0</b>	<b>84.0</b>

\* Includes: SCO Programme Management (CHF 5.8 million) and Global Credit (CHF 1.4 million)

\*\* Includes Regional SECO Programmes

Not included in this table are the contributions from the Federal Office for Migration, which amount to CHF 4 million for planned disbursements in accordance with the Swiss Migration Partnership Strategy for the Western Balkans (IMZ) 2012-2015.

**Note:** Any financial commitments beyond May 2017 are subject to the renewal or extension of the validity period of the Federal Act of 24 March 2006 on Cooperation with the States of Eastern Europe and the approval of the corresponding credits.

# Annex 3:

## Monitoring System

The SCO uses specific context, portfolio and management monitoring instruments to steer the implementation of the Swiss Cooperation Strategy Serbia (see Table below).

The first dimension – the country context – is monitored with the help of the so-called Monitoring System for Development-Related Changes (MERV), which allows for timely responses to impending contextual changes. To monitor the second dimension – the Swiss Results Framework (Annex 4) – a Results Monitoring Matrix is used to assess progress towards expected results, i.e. towards “Swiss portfolio outcomes” and towards “country development outcomes”. It is also used to monitor the transversal themes gender and Good Governance. Three instruments are used to monitor management, the third dimension, i.e. the Internal Control System, the Office Management Report and the Audit Report. These allow for monitoring the SCO’s efficiency and compliance, the allocation of financial resources, application of aid modality/donor coordination principles, human resource development and knowledge management.

Monitoring is a core activity of the SCO’s programme staff and is a key aspect of their interactions with project partners. Regular exchange allows them to generate and verify data relevant for programme steering and reporting on the implementation of the Cooperation Strategy.

Overall responsibility for monitoring and steering of the implementation of the Cooperation Strategy lies with SCO management.

**Table: Monitoring System of the Swiss Cooperation Strategy Serbia 2014-2017**

Dimension	Monitoring Area	Instrument	Periodicity	Responsibility
Country context	Overall country context relevant for the Swiss Cooperation Strategy	MERV	Annually: September	SCO
Swiss Results Framework	Swiss portfolio outcomes	Results Monitoring Matrix	Annually: September/October	SCO
	Country development outcomes			
	Transversal themes gender and Good Governance			
Management	SCO efficiency and compliance	Internal Control System	Annually: June	SCO
		Office Management Report	Annually: September	SCO
		Audit Report	Annually: March	HQ

# Annex 4:

## Results Framework of the Swiss Cooperation Strategy Serbia 2014-2017

<b>Domain of intervention 1: Governance</b>		
<b>Overall objective: Advanced democratic, efficient and effective governance in Serbia</b>		
<b>(1) Swiss portfolio outcomes</b>	<b>(2) Contribution of Swiss Programme</b>	<b>(3) Country development outcomes<sup>1</sup></b>
<p><b>Outcome statement 1:</b> <b>Local governments practise transparency and accountability towards local assemblies and citizens and manage public resources efficiently.</b></p> <p><b>Field of observation 1:</b> Accountability of local governments towards local assemblies and citizens. Baseline: Local governments are more accountable towards central government and political parties than towards citizens (source: Institute of Development Studies (IDS) Local Government Assessment 2012). Target value: Higher accountability of local governments towards citizens by 2017 (sources: Annual SCTM study based on self-evaluation by municipalities including progress in property tax base and completeness of the local budget cycle and Citizens' satisfaction surveys (CSS)).</p> <p><b>Field of observation 2:</b> Transparency of local government decision-taking and local budget cycle. Baseline: Follow up to participatory budget planning as well as citizens' complaints about service delivery is not systematic (source: Programme reports 2010-2013 PROGRES). Target value: Transparency of municipal decisions regarding sensitive matters such as procurement, property ownership, budget execution and access to services has increased (source: CSS 2015 and 2017).</p>	<p><b>Link between (1) and (3):</b> Switzerland will support good governance showcases in about one third of all Serbian local government units demonstrating transparency and stronger accountability of local governments towards their citizens. Switzerland will work with selected local assemblies to support local government accountability towards citizens and support SCTM to scale up good practices. As a general modality, incentive-based systems will be used to raise municipal performance to a desired level.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Lack of political will of local governments to be subjected to increased accountability and transparency</li> <li>• Local elections in the course of 2014-2017 and discontinuity in decision-making</li> <li>• Policy changes may affect municipal revenues</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Performance-based criteria and results orientation introduce more accountability in the actions of local governments</li> <li>• Changes in the Local Election Law, which would strengthen local accountability, are possible</li> <li>• No national data is available on citizens' satisfaction apart from surveys carried out through Swiss-supported actions in South, South-West and East Serbia, and random donor assessments.</li> </ul>	<p><b>Outcome statement 1:</b> <b>Transparent and accountable functioning of public administration.</b> (Government of Serbia Needs Assessment Document (NAD) 2014-2017)</p> <p><b>Field of observation 1:</b> Local accountability (nationwide). <i>2014 decentralization strategy might provide alternative accountability indicator.</i> Baseline: a) 16% of citizens trust municipal assemblies and 21% of citizens trust mayors (source: CSS 2011 European PROGRES area); b) No direct election of mayors (source: IDS Local Government Assessment 2012). Targets: a) More citizens trust municipal assemblies and mayors (source: CSS 2015 and 2017); b) Pros and cons of direct election of mayors discussed widely and publicly (source: media reports 2014-2017).</p> <p><b>Field of observation 2:</b> Local transparency (nationwide). Local governments are increasingly transparent towards their citizens (and the private sector). Baselines: a) 10% of citizens express to have sufficient information on actions and decisions of local governments (source: CSS 2011); b) Initial campaigns for merit-based jobs assignments launched (source: media reports 2013); c) E-governance strategy initialized (source: NAD 2014-2017). Target values: a) More citizens have sufficient information on actions and decisions of local governments (source: CSS 2015 and 2017); b) Cultural change towards merit-based job assignment observed (source: media reports 2014-2017); c) Functioning e-governance (source: NAD 2018-2021).</p>

1 Strategic documents: EU Progress Report; Serbian Needs Assessment Document (NAD) for international assistance 2014-2017; Action Plan for Serbian Public Administration Reform 2009-2012; Citizen Satisfaction Surveys supported by SDC; municipal self-assessment index by SCTM; National Social Inclusion Report; Memorandum on Budget and Economic and Fiscal Policy 2011-2013 including Strategy for Internal Financial Control in the Public Sector and Public Debt Management Strategy; Tax Administration Development Strategy 2010-2014; Joint Inclusion Memorandum; National Strategy for Improving the Position of Women and Promotion of Gender Equality; Serbia's Report on Implementing the Convention on the Elimination of All Forms of Discrimination against Women; Public Administration Reform Strategy and Decentralization Strategy due in 2014.

<b>Domain of intervention 1: Governance</b>		
<b>Overall objective: Advanced democratic, efficient and effective governance in Serbia</b>		
<b>(1) Swiss portfolio outcomes</b>	<b>(2) Contribution of Swiss Programme</b>	<b>(3) Country development outcomes</b>
<p><b>Outcome statement 2:</b> <b>Increased quality of and access to municipal services for citizens (in particular vulnerable groups) and companies.</b></p> <p><b>Field of observation 1:</b> Quality and access to municipal services for citizens (targeting women and men equally) and the private sector improved.</p> <p>Baseline: 17% of citizens express that local governments respond to the needs and interests of citizens (source: CSS 2011). Baseline measuring private sector satisfaction scheduled in 2014 by GIZ/ PROGRES for East and South Serbia respectively.</p> <p>Target values: a) Higher citizens' and private sector satisfaction with municipal services; b) Improved municipal competitiveness (2015 and 2017 respectively) (sources: Citizens' and private sector satisfaction surveys and Municipal competitiveness index).</p> <p><b>Field of observation 2:</b> Cross-sectorial development of community-based solutions that increase social inclusion of vulnerable groups.</p> <p>Baseline: Actors, plans and budgets in municipal education, social welfare and health are not coordinated to respond to the needs of vulnerable groups (source: 2011 Social Inclusion Unit within Deputy Prime Minister's Cabinet (SIPRU) report).</p> <p>Target value: Municipal authorities approach vulnerable groups in a systematic and tailor-made way. Consequently, available municipal funds meet the needs of vulnerable groups better (source: 2017 SIPRU report).</p>	<p><b>Link between (1) and (3):</b></p> <p>Switzerland will support the modernization of municipal services in about one third of all local government units and enhance capacities for the takeover of new and better execution of current municipal competencies for all citizens (women and men) (with a special emphasis on Roma and children from vulnerable groups) and the private sector.</p> <p>As a general modality, incentive-based systems will be used to raise municipal performance to a desired level.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Economic crisis and slow fiscal decentralization impact municipal ability to improve quality, inclusiveness and access to services</li> <li>• Local elections in the course of 2014-2017 and discontinuity in decision-making</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Planned adoption of the new decentralization strategy (in 2014) could enhance coherence in division of labour between central and local level, ensure more sustainable municipal finances and thus provide for a regular and more standardized quality of municipal services</li> </ul>	<p><b>Outcome statement 2:</b> <b>Further improving administrative and management processes in local self-governments and public utility companies. (NAD 2014-2017)</b></p> <p><b>Field of observation 1:</b> Improvement as per municipal self-assessment index by SCTM and the World Bank (WB) Doing Business Rating of Serbia.</p> <p>Baseline: a) First municipal self-assessment scheduled for 2014; b) WB Doing Business Report puts Serbia at 86<sup>th</sup> position in 2013.</p> <p>Target values: a) Improved municipal self-assessment index (2014-2017) (source: SCTM municipal self-assessment index); b) Improved WB rating for Serbia (2014-2017) (source: WB Doing Business Report).</p> <p><b>Field of observation 2:</b> Social inclusion measures are applied through increasingly diversified community-based social services.</p> <p>Baseline: Progress in inclusive education, health and social welfare is acknowledged. Still Roma, rural and uneducated people, in particular women and girls, face major obstacles in accessing public services (source: 2011 SIPRU report).</p> <p>Target values: a) Social exclusion is reduced and prevented (2017 SIPRU report); b) Vulnerable groups become equal users of public services (source: 2017 SIPRU report).</p>

## Domain of intervention 1: Governance

Overall objective: Advanced democratic, efficient and effective governance in Serbia

(1) Swiss portfolio outcomes	(2) Contribution of Swiss Programme	(3) Country development outcomes
<p><b>Outcome statement 3:</b>  <b>Good local economic governance and strengthened public finance management at sub-national level</b> (municipal finance, accounting, procurement and property departments, respective assembly committees).</p> <p><b>Field of observation 1:</b> Sub-national budget cycle and inter-governmental finance system.</p> <p>Baseline: Proven need and increasing demand for PFM reform: a) Unpredictable and non-transparent central to local government transfers; b) Inadequate priority setting in capital investment; c) Lacking financial management and procurement skills and procedures; d) Irregular tax enforcement; e) Only partial audits (source: WB Municipal Finance and Expenditure Review (MFER) 2013); f) Only initial steps taken for property transfer from central to local government ownership.</p> <p>Target values: a) Predictable and transparent central to local government transfers; b) Adequate priority setting in capital investment; c) Efficient financial management and effective procurement skills; d) Growing tax enforcement; e) Regular audit; f) Selected municipalities use their property as assets for revenue generation and collateral for loan taking.</p> <p><b>Field of observation 2:</b> Sub-national PFM assessment (e.g. according to Public Expenditure and Financial Accountability (PEFA) methodology).</p> <p>Baselines: a) WB MFER 2013; b) No experience in sub-national PEFA assessments; c) No sub-national PFM action plans available (source: WB MFER 2013).</p> <p>Target values: a) MFER finalized and discussed; b) PEFA sub-national assessments conducted and discussed; c) at least one municipal PFM action plan available and under implementation.</p>	<p><b>Link between (1) and (3):</b></p> <p>Switzerland will analyse efficiency and effectiveness of local government spending and identify weaknesses in PFM at local level. It will support the improvement of PFM capacities in about one third of all municipalities. Currently, effective sub-national PFM is also limited by the lack of a clear PFM strategy and reform plan at central government level. While the focus of Outcome 3 is on improved sub-national PFM, interventions can thus not be reduced to sub-national government level only and need to take national PFM reforms into account.</p> <p>PFM reforms always have to strike a balance between the objectives of macro-economic stability, sufficient funding for public service delivery and an attractive business environment. Therefore, close cooperation between the interventions for Outcome 3 (Governance Domain) and Outcomes 3 and 4 (Economic Development Domain) is required.</p> <p>SCTM advocacy aims at predictable and adequate transfers for municipal service delivery and to advance fiscal decentralization (enforce property transfer from central to local government).</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Severe economic situation hinders the reforms</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Political willingness of the government towards PFM reforms</li> </ul>	<p><b>Outcome statement 3:</b>  <b>Increased effectiveness and efficiency of public administration.</b>  (NAD 2014-2017)</p> <p><b>Field of observation 1:</b> Scrutiny of municipal state auditor's report and municipal annual financial reports.</p> <p>Baselines: a) Low scrutiny by municipal assemblies (source: UNDP survey 2013); b) Limited sample of municipalities for annual state audit review (approximately 20 according to SCTM in 2013).</p> <p>Target values: a) Reports discussed in municipal assemblies and recommendations followed up (source: UNDP survey 2015); b) Larger sample of municipalities for State Audit review (source: SCTM 2017).</p>

**Domain of intervention 1: Governance**

**Overall objective: Advanced democratic, efficient and effective governance in Serbia**

(1) Swiss portfolio outcomes	(2) Contribution of Swiss Programme	(3) Country development outcomes
<p><b>Outcome statement 4:</b>  <b>Coherent decentralization and social inclusion reform (vertical dimension of governance).</b></p> <p><b>Field of observation 1:</b> Decision-taking by line ministries, MoF and local governments.</p> <p>Baselines (decentralisation): a) Inter-governmental consultations have no binding character; b) Frequent ad hoc decisions taken by powerful ministries; c) Administrative, fiscal and political decentralization do not match (source: IDS report 2012).</p> <p>Target values (decentralisation): a) Predictable and adequate central to local government transfers; b) Informed decision-taking as a result of a transparent and institutionalized negotiation process between SCTM, MoF and line ministries, built on consensus or compromise (source: SDC sector assessment or capitalization 2017).</p> <p>Baseline (social inclusion): SIPRU has defined social inclusion policies in line with EU conditionality (source: SIPRU 2011).</p> <p>Target value (social inclusion): SIPRU facilitates the implementation of social inclusion and gender mainstreaming policies in education, health, social welfare and employment at the local level and advises local governments on responsible budgeting for social inclusion and gender mainstreaming (source: SIPRU 2017).</p>	<p><b>Link between (1) and (3):</b></p> <p>Switzerland will continue to support SCTM advocacy efforts towards coherent decentralization reforms. In addition, social inclusion policy mainstreaming will be supported in about one third of all municipalities. Switzerland will additionally invest resources for policy reform with the line ministries in charge of decentralization and social inclusion (including gender mainstreaming). Switzerland will continue supporting SIPRU in particular due to their higher involvement in EU negotiation process.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Lack of political will in line ministries to engage in the policy reform on fiscal decentralization issues and social inclusion agenda</li> <li>• Low buy-in by the MoF</li> <li>• Elections</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Ministry of Regional Development and Local Self Government (MoRDLSG) is able to define and implement the National Decentralization Strategy</li> <li>• Growing domestic drive for social inclusion agenda (additional to EU conditionality)</li> </ul>	<p><b>Outcome statement 4:</b>  <b>Improving public policy development and implementation in accordance with strategic priorities of the government of Serbia.</b> (NAD 2014-2017)</p> <p><b>Field of observation 1:</b> Adoption and implementation of relevant public policies and pieces of legislation that define functioning, service provision and performance of municipalities.</p> <p>Baselines: a) No annual plan for the adoption of new or revised laws and policies; b) Decentralization Council dissolved; c) Intergovernmental LSG (local self governments) financing committee not working (sources: IDS report 2012 and SCTM 2013).</p> <p>Target values: a) Consensus on New Decentralization Strategy between municipalities and central government reached; b) Full implementation of the Decentralization Strategy including budget allocation (source: Decentralization Strategy implementation report 2017).</p> <p><b>Field of observation 2:</b> Establishment of joint working bodies at national and local level to work on social inclusion policies and gender budgeting.</p> <p>Baselines: a) Inter-sectorial Commission on Social Inclusion established, however with very limited influence; b) Legal and institutional framework related to gender and anti-discrimination established, however, not implemented (source: SIPRU 2011).</p> <p>Target value: Legal basis for budget community-based social inclusion measures is established and implemented nationwide, with particular focus on multiple marginalized women and girls (with different municipal departments contributing financial means and responsible for monitoring) (source: SIPRU 2017).</p>

## **Domain of intervention 1: Governance**

**Overall objective: Advanced democratic, efficient and effective governance in Serbia**

### **(4) Lines of intervention (Swiss Programme)**

#### **For outcome 1:**

- Support local governments and assemblies to promote accountability and transparency (including property tax enforcement and completeness of budget cycle). If invited, support reform on (local) election law.
- Promote citizen consultation and participation, e-government and social media to enrich local democracy.

#### **For outcome 2:**

- Support municipalities in quality service delivery, municipal steering and oversight of public utility companies, and assuming new competencies.
- Advocate for the introduction of a merit-based system for municipal employees as a precondition for quality service delivery.
- Support municipalities in capital investment planning, technical documentation and developing project pipeline to attract investments (IPA, private and foreign direct investment).
- Support access to municipal services for all citizens and private sector (e.g. one stop shops and citizen assistance centres).
- Introduce integrated IT solutions for effective coordination between different municipal departments and more efficient service delivery.
- Support measures to prevent social exclusion in municipalities (e.g. early childhood development measures and inclusive pre-school for vulnerable groups) and coordinated response of municipal departments to efficiently and effectively meet the needs of vulnerable groups.

#### **For outcome 3:**

- Support to sub-national public finance management reform, also taking national PFM reform into account (e.g. diagnostics, budget planning, execution, procurement, reporting and audits).
- Support capacity building in PFM for local government officials.
- Increase municipal own revenues and advocate for higher predictability of central to local government transfers.
- Support implementation of the Public Property Law, central to local government property transfer and property management in municipalities.

#### **For outcome 4:**

- Continue institutional support for the SCTM to safeguard interests of all municipalities in on-going decentralization process.
- Provide advisory support to line ministries with competencies in the decentralization process (MoRDLSG and MoF).
- Work with academia and think-tanks to create a knowledge base of good governance and make it available to policy makers and decision takers.
- Facilitate translation and implementation of social inclusion and gender mainstreaming policies in line ministries and municipalities with continued support to the Social Inclusion Unit.

### **(5) Resources, partnerships (Swiss Programme)**

Tentative financial commitment: CHF 30.1 million SDC and CHF 3 million SECO

## Domain of intervention 2: Economic Development

### Overall objective: Enhanced competitiveness of the Serbian economy

(1) Swiss portfolio outcomes	(2) Contribution of Swiss Programme	(3) Country development outcomes
<p><b>Outcome statement 1:</b> <b>Increased income and employment opportunities, with a focus on youth employability.</b></p> <p><b>Field of observation 1:</b> Creation of quality jobs through better performance of market systems and income generation in selected sectors. Baselines: For Serbia: a) Wood industry: 11,000 jobs; b) Non-timber forest products: 10,000 jobs; For 25 municipalities of Southwest Serbia: c) Tourism: 5,200 jobs; d) Traditional products: 750 jobs (source: Regional Development Agency for South Serbia (VEEDA) and Regional Development Agency (RDA) Zlatibor 2012). Target values: Jobs created: a) 3,500 in the wood industry and non-timber forest products; b) 1,000 in the tourism and traditional products sectors (source: VEEDA and RDA Zlatibor 2017).</p> <p><b>Field of observation 2:</b> Additional income generation within targeted groups. Baselines: Yearly per person: a) Wood industry: CHF 0 – new jobs for unemployed; b) Non-timber forest products: CHF 2,400. Yearly per sector: c) Tourism: CHF 42.6 million; d) Traditional products: CHF 330,750 (source: VEEDA and RDA Zlatibor 2013). Target values: By 2017, additional income: a) Wood industry and non-timber forest products: CHF 11.2 million; b) Tourism and traditional products: CHF 11 million (sources: VEEDA and RDA Zlatibor).</p> <p><b>Field of observation 3:</b> Competences of young women and men and their school-to-work transition in regions prone to migration (South and South-West Serbia) – Employability. Baseline: Percentage of unemployed youth in South and South-West Serbia (ranging from 51-63%) higher than the national average of 43%, of which young females make 52% (source: Labour Force Survey 2013). Target value: Youth unemployment rate in South and South-West Serbia is closer to the national average (source: Labour Force Survey, 2013-2017).</p>	<p><b>Link between (1) and (3):</b> Switzerland contributes to systemic market development in selected sectors and value chains, which will result in more jobs and income generation with a particular focus on youth and women. The improved market performance of selected sectors contributes to fostering productivity and competitiveness of the Serbian economy in the regions of South, Southwest, Central and East Serbia. Switzerland supports human resources development and increases competences at local level, which will match better the requirements of the labour market and dynamic technological changes. Increased employment of young people in specific regions prevents migration and brain drain.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• The overall economic situation hampers the creation of new job opportunities especially for young job-seekers</li> <li>• Potential future political instability deters tourists, domestic and foreign investment</li> <li>• Investment in human capital is decreased as a result of crisis</li> <li>• Unfavorable demographic trends – outward migration from Serbia (brain drain) and depopulation of rural areas and inflow to cities/major towns</li> <li>• Low interest of young people to participate in specific training and employment programs</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Introduction of new technologies in order to improve the quality of products, which will result in higher profits</li> <li>• Continued growth of demand for products and services in the selected sectors</li> <li>• Unemployment of difficult-to-employ groups remains prominent topic on country's political agenda, also in view of the EU negotiation process</li> <li>• The EU accession process will ensure/ encourage creation of new jobs</li> </ul>	<p><b>Outcome statement 1<sup>2</sup>:</b> <b>Improved capacity of the economy to make the most of its assets, bringing value added to its own resources, in order to achieve higher levels of productivity, raise living standards and expand employment opportunities.</b> (NAD 2014-2017)</p> <p><b>Field of observation 1:</b> Unemployment in targeted regions of South, Southwest, Central and East Serbia. Baseline: 24.1% overall unemployment with 22.3% for men and 26.5% for women (source: Labour Force Survey of the Serbian Statistics Office 2013). Target value: Less than 15% in 2015 (source: National Employment Strategy (NES) 2011-2020).</p> <p><b>Field of observation 2:</b> Income for target groups. Baseline: Yearly for Serbia per sector: a) Wood industry: CHF 33 million; b) Non-timber forest products: CHF 24 million; Yearly for 25 municipalities of Southwest Serbia per sector: c) Tourism: CHF 42.6 million; d) Traditional products: CHF 330,750 (source: VEEDA and RDA Zlatibor 2013). Target value: By 2017, 15% income increase in targeted sectors (sources: VEEDA and RDA Zlatibor).</p> <p><b>Field of observation 3:</b> Number of young people targeted by youth employment programmes, establishing start-ups and enterprises. Baselines: a) 25% of unemployed youth are included in entrepreneurship programmes (source: NES, November 2012); b) Youth-at-risk-of-poverty rate: 18.1% for young men and 18.4% for young women. Target values: a) Increased participation of unemployed youth in entrepreneurship programmes (source: NES Yearly Reports 2014-2017); b) Increased women and young women's employability and career choices outside traditional occupations (source: National Strategy for Employment 2020).</p> <p><b>Field of observation 4:</b> Specifically-designed active labour market programmes targeting returnees and other migrants groups. Baseline: No specific programmes exist (source: NES 2013). Target value: NAD 2014-2017 (tbd).</p>

2 Strategic documents Outcome Statement 1: Needs Assessment of Serbia for International Assistance 2014-2017; National Employment Strategy 2011-2020; Strategy and policy of the Industrial Development of Republic of Serbia 2011-2020; National Qualifications Framework – being updated; Memorandum of Understanding between the Government of Serbian and the European Commission on Life Long Learning and Competence Building; Strategy on the Reintegration of Returnees (2009), Migration Management Strategy (2009)

<b>Domain of intervention 2: Economic Development</b>		
<b>Overall objective: Enhanced competitiveness of the Serbian economy</b>		
<b>(1) Swiss portfolio outcomes</b>	<b>(2) Contribution of Swiss Programme</b>	<b>(3) Country development outcomes</b>
<p><b>Outcome statement 2:</b> <b>Increased exports/trade of Serbian products and services.</b></p> <p><b>Field of observation 1:</b> WTO membership and post-accession standards. Baselines: a) Three bilateral agreements pending signature in 2013 (source: Serbian Ministry of Trade); b) In 2013, Serbia is not yet a WTO member. Target values: a) All pending bilateral agreements signed by 2014 or 2015 (source: Serbian Ministry of Trade); b) Serbia is a member of WTO by 2014 or 2015.</p> <p><b>Field of observation 2:</b> Quality standards for/certification of agricultural products. Baseline: In 2013, two products (Zlatar cheese and Sremski kulen) registered in Serbia with a geographical indication of origin (GI) (source: Serbian Intellectual Property Office). Target value: By 2017, two to three new products have a registered GI (source: Serbian Ministry of Agriculture).</p> <p><b>Field of observation 3:</b> Export of innovative products and services through the new Science Technological Park. Baseline: EUR 185 million of IT exports in 2012 (source: Serbian Investment and Export Promotion Agency and Serbian IT clusters). Target value: 3% increase of IT exports (EUR 5.5 million) through the Science Technological Park by 2017 (source: Serbian Investment and Export Promotion Agency and Serbian IT clusters).</p>	<p><b>Link between (1) and (3):</b> Switzerland will provide further technical assistance to the Ministry of Trade for Serbia's WTO membership in order to improve its competitiveness and decrease the trade deficit through integration into the global trading system. Switzerland will support the Serbian Ministry of Agriculture to improve quality standards /certification of its agricultural products, in order to increase its comparative advantage on the global market. Switzerland will support the Ministry of Education, Science and Technological Development in building capacities for a competitive high-tech sector.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• WTO accession is linked to external political conditions which the project by itself cannot overcome</li> <li>• The sole registration of GIs will not contribute to better sales of agricultural products. Respective value chains need to be developed in order for the products to reach the markets</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Ministries are committed towards further implementation of reforms</li> <li>• All stakeholders cooperate in the process of building a sustainable system to stimulate innovation economy and intellectual capital.</li> </ul>	<p><b>Outcome statement 2<sup>3</sup>:</b> <b>Serbian SMEs are supported to strengthen their ability to compete in domestic and international markets, and have a more significant impact on the economy, particularly in generating export revenues that can finance the country's consumption and growth.</b> (NAD 2014-2017)</p> <p><b>Field of observation 1:</b> a) All bilateral agreements are signed; b) Serbia becomes a WTO member. Baselines: a) In 2013, three bilateral agreements pending signature due to different issues with: USA (agriculture), Ukraine (political stance) and Brazil (agriculture) (source: Serbian Ministry of Trade); b) In 2013, Serbia is not yet a WTO member. Target values: a) All bilateral agreements signed by 2014 or 2015 (source: Serbian Ministry of Trade); b) By 2014 or 2015, Serbia becomes member of WTO (source: Serbian Ministry of Trade).</p> <p><b>Field of observation 2:</b> Number of GIs registered. Baseline: 33 GIs registered in Serbia in 2013 (source: Serbian Intellectual Property Office). Target value: By 2017, increased number of GIs registered (source: Serbian Ministry of Agriculture).</p> <p><b>Field of observation 3:</b> Establishment of Science Technological Park that links science and research to economy and commercialization. Baseline: In 2013, Serbia lacks a functioning Science Technology Park. Target value: By 2017, Serbia has a functioning Science Technological Park that contributes to increased exports of Serbian IT products and services.</p>

3 Strategic documents Outcome Statement 2: Needs Assessment of Serbia for International Assistance 2014-2017; The Trade Development Strategy of the Republic of Serbia 2009-2012; The Strategy of Scientific and Technological Development 2011-2015.

<b>Domain of intervention 2: Economic Development</b>		
<b>Overall objective: Enhanced competitiveness of the Serbian economy</b>		
<b>(1) Swiss portfolio outcomes</b>	<b>(2) Contribution of Swiss Programme</b>	<b>(3) Country development outcomes</b>
<p><b>Outcome statement 3:</b> <b>Improved business environment for SMEs.</b></p> <p><b>Field of observation 1:</b> Improved business enabling environment in six cities and ten smaller municipalities through simplification of selected administrative processes, respecting the principles of transparency and accountability.</p> <p>Baseline: In 2013, private sector costs of doing business in 11 cities and municipalities are EUR 40.8 million (source: SCTM and Optimus – Center for Good Governance).</p> <p>Target value: By 2014, 30% private sector cost savings for doing business in 16 cities and municipalities (source: SCTM and Optimus – Center for Good Governance).</p> <p><b>Field of observation 2:</b> Entrepreneurship support (training/continued education) in the high-tech sector, which results in increased investment and new jobs created.</p> <p>Baseline: a) By 2013, 500 entrepreneurs have received training or continued education (Source: Business Technical Incubator of Technological Faculties companies (BITF)); b) By 2013, 200 jobs created by supported entrepreneurs and/or jobs retained in the high-tech sector (source: BITF).</p> <p>Target values: a) By 2017, 1000 entrepreneurs in the high-tech sector have received training or continued education (source: Science Technological Park); b) By 2017, 400 new jobs created by supported entrepreneurs and/or jobs retained in the high-tech sector (source: Science Technological Park).</p>	<p><b>Link between (1) and (3):</b></p> <p>Switzerland supports a better business enabling environment in local communities in Serbia, which will attract more investment and thus contribute to an increased competitiveness of the economy. The supported cities are: Novi Pazar, Kraljevo, Leskovac, Loznica, Sombor and Gornji Milanovac; the supported municipalities are: Knjazevac, Kanjiza, Ivanjica, Bajina Basta, Vladicin Han, Becej, Kovin, Cuprija, Vlasotince, Tutin.</p> <p>Entrepreneurship is supported through knowledge based economic growth and increased investments are triggered through programmes specifically developed to promote the entrepreneurial skills needed to successfully create and develop a business and to survive in the local and global environment (i.e. How to start a business, Business plan, Marketing, Management, Sales, Intellectual Property protection, Mentoring of start-ups by successful entrepreneurs).</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Political changes</li> <li>• Resistance of local governments towards proposed changes</li> <li>• Insufficient absorption capacities at smaller municipalities</li> <li>• A new economic crisis, which would decrease demand for Serbian products and services</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Measures are carefully aligned with partners' specific needs and bring improvements to the laws, rules and administrative procedures that are decisive to companies' business activities, thereby advancing their growth prospects, competitiveness and their integration in the global economy</li> <li>• Willingness of local authorities for improvement</li> <li>• Regulatory reform at national level implemented in parallel</li> </ul>	<p><b>Outcome statement 3<sup>4</sup>:</b> <b>Supported local economic development, strengthened economic activity and promotion of building business-related infrastructure, linked to business services, to increase investment and the number of enterprises and accelerate their growth.</b> (NAD 2014-2017)</p> <p><b>Field of observation 1:</b> Global competitiveness.</p> <p>Baseline: In 2013, Serbia ranks 101 out of 148 countries (source: WEF Global Competitiveness Index 2013-2014).</p> <p>Target: By 2017, Serbia's ranking in the WEF Global Competitiveness Index improved (source: WEF Global Competitiveness Index 2017).</p> <p><b>Field of observation 2:</b> Investment and jobs in Serbian high-tech sector.</p> <p>Baseline: In 2013, limited investment in the Serbian high-tech sector (source: Serbian Investment and Export Promotion Agency and Serbian Information Communication Technology Cluster).</p> <p>Target values: a) By 2017, new high-tech production facilities created; b) By 2017, employment in high-tech sector increased (source: Science Technological Park).</p>

4 Strategic documents Outcome Statement 3: Needs Assessment of Serbia for International Assistance 2014-2017; The National Strategy for Economic Development of Serbia 2006-2012; The Regional Development Strategy 2007-2012; The Strategy of Scientific and Technological Development 2011-2015.

<b>Domain of intervention 2: Economic Development</b>		
<b>Overall objective: Enhanced competitiveness of the Serbian economy</b>		
<b>(1) Swiss portfolio outcomes</b>	<b>(2) Contribution of Swiss Programme</b>	<b>(3) Country development outcomes</b>
<p><b>Outcome statement 4:</b> <b>Strengthened macro-economic environment.</b></p> <p><b>Field of observation 1:</b> Key public finance management indicators following PEFA in the following areas: a) credibility of budget; b) comprehensiveness and transparency; c) policy-based budgeting; d) predictability and control in budget execution; e) accounting, recording and reporting; f) external scrutiny and audit. Baseline: PEFA 2010. Target value: Improvement on key PFM indicators (PEFA 2015/16).</p> <p><b>Field of observation 2:</b> Number and type of relevant measures for financial market regulation and supervision. Baseline: Need to improve transparency and consistency in financial sector regulation and broaden and deepen financial markets (source: IMF Art. IV consultations 2013). Target value: Contribute to reviving credit growth and maintaining financial sector stability (source: IMF Art. IV consultations 2013).</p>	<p><b>Link between (1) and (3):</b> Switzerland will contribute to improved macro-economic stability through support for planned reforms and policy dialogue with the respective key institutions (e.g. MoF, State Tax Administration, Treasury, Public Debt Administration, Fiscal Council). Support will focus on PFM capacities and strategic planning at the national level. Peer-to-peer exchanges among Europe and Central Asia (ECA) countries shall be fostered to strengthen good practices for managing public resources. Switzerland will furthermore contribute to a stronger and more diversified financial market by providing support for capital market development and financial system reforms promoting adequate regulation and supervision.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Severe economic situation hinders the implementation of reforms</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Positive attitude of the new government towards macroeconomic stability reforms</li> </ul>	<p><b>Outcome statement 4<sup>5</sup>:</b> <b>Improved transparency, efficiency and accountability in public finance management.</b> (NAD 2014-2017)</p> <p><b>Field of observation 1:</b> Macroeconomic stability. Baseline: In 2013, public debt is 62% of GDP (source: IMF Art. IV Consultations 2013). Target value: By 2017, public debt is stabilised and closer to ceiling according to national fiscal regulation (i.e. 45% of GDP) (source: IMF Art. IV Consultations 2017).</p> <p><b>Field of observation 2:</b> Financial sector stability. Baseline: a) High exposure to foreign currency debt and weak financial currency markets; b) Streamline regulation and harmonise supervision (source: IMF Art. IV Consultations 2013). Target value: Ensure a sound financial system (source: IMF Art. IV Consultations, IMF Financial System Sustainability Assessment).</p>
<b>(4) Lines of intervention (Swiss Programme)</b>		
<p><b>For outcome 1:</b></p> <ul style="list-style-type: none"> <li>• Private and public sector development in South, East, South-West and Central Serbia, contributing to job creation and income generation through support to sectors with highest potential for income and employment creation (wood, furniture, non-timber forest products, tourism and traditional products).</li> <li>• New interventions aimed at enhancement of youth employability, with equal access for women and men and aligned with private sector requirements; facilitation of their access to the labour market to prevent migration.</li> </ul> <p><b>For outcome 2:</b></p> <ul style="list-style-type: none"> <li>• Support to Serbia's WTO accession and thus access to global markets in order to increase export opportunities.</li> <li>• Protection of intellectual property rights/GIs in order to improve standardization and certification of agricultural products and in that way increase export of such products, simultaneously increasing incomes of the producers.</li> <li>• Export promotion of innovative products with the aim to improve the trade deficit, through improving capacities for exporting products with a high level of domestic value added labour.</li> </ul> <p><b>For outcome 3:</b></p> <ul style="list-style-type: none"> <li>• Improving the business enabling environment at local level to increase investment and create jobs at local level.</li> <li>• Entrepreneurship support in the high-tech sector through training or continued education, which results in increased investment and new jobs created and retained.</li> </ul> <p><b>For outcome 4:</b></p> <ul style="list-style-type: none"> <li>• Support strengthening of management of public resources at national level (tax policy, tax administration, internal audit, budget, treasury and public debt operations).</li> <li>• Contribute to fostering peer-to-peer cooperation in selected areas (budget, treasury, internal audit).</li> <li>• Support strengthening of financial sector regulation and supervision.</li> </ul>		
<b>(5) Resources, partnerships (Swiss Programme)</b>		
<p>Tentative financial commitment: CHF 16.7 million SDC and CHF 12 million SECO, the latter including regional programmes.</p> <p>Co-financing is provided in the following fields: a) Wood, furniture and non-timber forest products: local municipalities and the private sector; b) Export promotion of innovative products: Serbian Ministry of Science; c) Entrepreneurship support of the high tech sector: Serbian Ministry of Economy.</p> <p>Key partners are: Regional Development Agencies; National Employment Service; local municipalities; private sector companies; BITF; Serbian Investment and Export Promotion Agency (SIEPA) – or its successor in case of restructuring; Swiss Import Promotion Programme (SIPPO); Ministry of Trade; Ministry of Economy; Ministry of Agriculture; Ministry of Regional Economic Development; Ministry of Education, Science and Technological Development; Ministry of Finance; Swiss Intellectual Property Office (IGE); local consultancy companies; Serbian Chamber of Commerce; Standing Conference of Towns and Municipalities; Optimus – Center for Good Governance.</p>		

5 Strategic documents Outcome Statement 4: Needs Assessment of Serbia for International Assistance 2014-2017; Memorandum on Budget and Economic and Fiscal Policy 2011-2013; it includes the Strategy for Internal Financial Control in the Public Sector and the Public Debt Management Strategy; Tax Administration Development Strategy 2010-2014.

<b>Domain of intervention 3: Energy Efficiency and Renewable Energy</b>		
<b>Overall objective: Increased energy efficiency and use of renewable energy</b>		
<b>(1) Swiss portfolio outcomes</b>	<b>(2) Contribution of Swiss Programme</b>	<b>(3) Country development outcomes<sup>6</sup></b>
<p><b>Outcome statement 1:</b> <b>Introduction of improved energy-efficient and environmentally-sound technologies.</b></p> <p><b>Field of observation 1:</b> CO<sub>2</sub> emission reduction through more efficient use of energy. Baselines: (Sources: Statistics provided by Electric Power Company of Serbia (EPS) and CHP respectively at project inception). Target values: a) By 2016 or 2017 at the latest, reduction of ca. 175,000 t/a of CO<sub>2</sub> (TENT B) (source: EPS); b) By 2017, reduction of ca. 1,300 t/a of CO<sub>2</sub> (CHP) (source: CHP).</p> <p><b>Field of observation 2:</b> Reliability of TENT B. Baseline: The production plant is subject to brown/black-outs (according to AF-Consult Assessment, average of 33 outages per year over 7-year period prior to rehabilitation). Target value: By 2016, 30% decrease in number of trips for reparations (source: EPS).</p>	<p><b>Link between (1) and (3):</b> Switzerland will contribute to more secure, reliable and better quality energy supply by supporting Serbia's efforts to meet its energy targets and thus modernizing Serbia's energy sector and harmonizing it with EU requirements as well as by supporting Serbia's efforts to improve energy efficiency.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Slow implementation of newly adopted laws by the government and towns/ municipalities</li> <li>• Low buy-in by the government</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Positive attitude of the government towards implementing the new energy legislation</li> </ul>	<p><b>Outcome statement 1:</b> <b>Security, reliability and quality of energy supply are ensured with effective environmental protection.</b></p> <p><b>Field of observation 1:</b> Reduction of CO<sub>2</sub> emissions per GDP. Baseline: 1.27 kg CO<sub>2</sub>ek/€<sub>1,000</sub> in 2013 (source: National Energy Sector Development Strategy 2025 with projections by 2030). Target value: 1.17 kg CO<sub>2</sub>ek/€<sub>1,000</sub> in 2020 (source: Ministry of Energy, Development and Environmental Protection).</p> <p><b>Field of observation 2:</b> Performance and reliability of energy supply in Serbia. Baseline: Outages on an annual basis (source: EPS statistics). Target value: Increased performance and reliability of energy supply (source: EPS 2017).</p>
<p><b>Outcome statement 2:</b> <b>Increased production of heat and energy from renewable resources.</b></p> <p><b>Field of observation 1:</b> Replication effect of CHP run by biomass. Baseline: In 2011, no CHP runs on biomass in Serbia (source: Micro Enterprise Development Program (MEDEP)). Target values: a) By 2017, CHP is operational and feeds renewable energy resources into energy grid (source: MEDEP); b) By 2017, increased number of producers and installers of biomass-fuelled power plants in Serbia and in the region (source: MEDEP).</p>	<p><b>Link between (1) and (3):</b> Switzerland will contribute by supporting Serbia in its effort to meet its energy targets and thus modernizing Serbia's energy sector and harmonizing it with EU requirements as well as by supporting Serbia's effort to increase the use of renewable energies.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Slow implementation of newly adopted laws by the government and municipalities</li> <li>• Low buy-in by the government</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Positive attitude of the government towards implementing the new energy legislation</li> </ul>	<p><b>Outcome statement 2:</b> <b>Increased production of heat and energy from renewable resources.</b> (National Energy Sector Development Strategy 2025 with projections by 2030)</p> <p><b>Field of observation 1:</b> Percentage of renewable energy in the Serbian energy portfolio. Baseline: 21% (2009), of which 0 MW biomass (source: National Energy Sector Development Strategy 2025 with projections by 2030). Target value: 27% (2020), of which at least 100 MW biomass (source: MEDEP).</p>

6 Strategic documents: Energy Sector Development Strategy of the Republic of Serbia by 2025 with projections by 2030 (2013), Law on Rational use of Energy (2013), revised National Renewable Energy Action Plan (2014).

## Domain of intervention 3: Energy Efficiency and Renewable Energy

Overall objective: Increased energy efficiency and use of renewable energy

(1) Swiss portfolio outcomes	(2) Contribution of Swiss Programme	(3) Country development outcomes <sup>6</sup>
<p><b>Outcome statement 3:</b> Municipalities accelerate progress towards energy targets.</p> <p><b>Field of observation 1:</b> Energy consumption/capita. Baseline: Tbd after selection of municipalities (source: Energy Consumption Statistics to be provided by cities). Target value: Tbd after selection of municipalities.</p> <p><b>Field of observation 2:</b> Energy costs savings. Baseline: Tbd after selection of municipalities (source: Energy Statistics to be provided by cities). Target value: Tbd after selection of municipalities.</p> <p><b>Field of observation 3:</b> Capacity of supported municipalities in implementing sustainable energy action planning. Baseline: New Energy Law adopted in 2011 (source: MEDEP). Target value: By 2017, measures taken to implement Energy Law or other energy efficiency measures at municipal level (source: MEDEP and municipalities).</p>	<p><b>Link between (1) and (3):</b> Switzerland contributes to strengthening selected municipalities by a) supporting them in the elaboration and implementation of their sustainable energy action plans; b) by supporting them in implementing national energy requirements; c) by supporting them to increase their energy efficiency and use of renewable energy.</p> <p><b>Risks:</b></p> <ul style="list-style-type: none"> <li>• Slow implementation of newly adopted laws by government and municipalities</li> <li>• Low buy-in by government</li> </ul> <p><b>Assumptions:</b></p> <ul style="list-style-type: none"> <li>• Positive attitude of the government towards implementing the new energy legislation</li> </ul>	<p><b>Outcome statement 3:</b> Municipalities are accountable for improving energy efficiency and the use of renewable energy. (Law on rational use of Energy)</p> <p><b>Field of observation 1:</b> Total final inland energy consumption. Baseline: 8,411 Mtoe in 2008 (source: Energy Efficiency Plan 2010). Target value: 7,659 Mtoe by 2018 (equals an annual reduction of 1%) (source: MEDEP).</p> <p><b>Field of observation 2:</b> Energy intensity (energy consumption/GDP). Baseline: 0.464 toe//€<sub>1,000</sub> in 2010 (source: Energy Efficiency Plan 2010). Target value: 0.436 toe//€<sub>1,000</sub> by 2020 (source: MEDEP).</p> <p><b>Field of observation 3:</b> Implementation of the new Energy Law at municipal level. Baseline: New Energy Law adopted in 2011. Target value: The government takes measures to support the municipalities in the implementation of the new Energy Law (source: MEDEP).</p>
<p><b>(4) Lines of intervention (Swiss Programme)</b></p>		
<p><b>For outcome 1:</b></p> <ul style="list-style-type: none"> <li>• Implementation of CHP and TENT B programme.</li> </ul> <p><b>For outcome 2:</b></p> <ul style="list-style-type: none"> <li>• Implementation of CHP.</li> </ul> <p><b>For outcome 3:</b></p> <ul style="list-style-type: none"> <li>• Identification and implementation of new energy project(s) at sub-national level with a focus on integrated urban infrastructure activities in the energy sector.</li> </ul>		
<p><b>(5) Resources, partnerships (Swiss Programme)</b></p>		
<p>Tentative financial commitment: CHF 15 million SECO. Co-financing is provided under both existing projects (January 2014). Key existing partners are: The Ministry of Energy, Development and Environmental Protection, the City of Belgrade and EPS.</p>		

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### Editor:

Swiss Federal Department of Foreign Affairs FDFA  
**Swiss Agency for Development and Cooperation SDC**  
3003 Bern  
[www.sdc.admin.ch](http://www.sdc.admin.ch)

Federal Department of Economic Affairs, Education and Research EAER

### **State Secretariat for Economic Affairs SECO**

3003 Bern  
[www.seco-cooperation.admin.ch](http://www.seco-cooperation.admin.ch)

### **Swiss Cooperation Office Serbia**

Francuska 6, 11000 Belgrade, Serbia  
[belgrade@sdc.net](mailto:belgrade@sdc.net)  
[www.swiss-cooperation.admin.ch/serbia/](http://www.swiss-cooperation.admin.ch/serbia/)

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Tel.: +381 (0)11 23 222 01  
E-Mail: [info@publikum.rs](mailto:info@publikum.rs)

### Orders:

Information FDFA  
Tel.: +41 (0)31 322 44 12  
E-Mail: [info@eda.admin.ch](mailto:info@eda.admin.ch)

### Contacts:

Swiss Agency for Development and Cooperation SDC  
Western Balkans Division  
[info@eda.admin.ch](mailto:info@eda.admin.ch)

State Secretariat for Economic Affairs SECO  
Economic Cooperation and Development  
[info.cooperation@seco.admin.ch](mailto:info.cooperation@seco.admin.ch)

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