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REPUBLIC
OF SERBIA

Synthesis Report

GETTING THE MOST OUT OF SERBIA'S CENTRAL ADMINISTRATION FOR IMPROVED PUBLIC SECTOR MANAGEMENT



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ABBREVIATIONS AND ACRONYMS

AJSRB	Administration for Joint Services of the Republic Bodies
DAS	Development Agency of Serbia
FZA	Free Zones Administration
GDP	Gross Domestic Product
IMF	International Monetary Fund
MESTD	Ministry of Education, Science, and Technological Development
MoE	Ministry of Economy
MoF	Ministry of Finance
MPALSG	Ministry of Public Administration and Local Self-Government
MTTT	Ministry of Trade, Tourism, and Telecommunications
NPPS	National Public Policy Secretariat
NTO	National Tourist Organization
OECD	Organization for Economic Cooperation and Development
NTO	National Tourist Organization
PAR	Public Administration Reform
SEIO	Serbian European Integration Office
SIGMA	Support for Improved Governance and Management
SME	Small and Medium Enterprise
UNDP	United Nations Development Programme



OVERVIEW

Introduction

Three important matters compete for the attention of Serbia's policy makers. Two of these are EU accession and fiscal consolidation. The third, public sector reform, is a critical driver of both. Serbia must align its public sector management with the principles of European administrative space: reliability, predictability and legal dependency, openness and transparency, promotion of participation of citizens and social entities in decision-making, accountability, and efficiency and effectiveness. At the same time, Serbia must address its persistent fiscal crises, which can to an extent be blamed on its expensive public administration.

Serbia can take advantage of the opportunity that these pressures present. First, the emerging ethos of an efficient public administration founded on the principles of the European administrative space provides increasing leverage for advancing difficult but necessary reform across the public sector. Official commitment to EU integration enhances this prospect. Second, the challenge of persistent fiscal crises, which large public expenditures contribute to, has generated renewed focus on measures to streamline employment and compensation of government employees. There is general agreement that difficult but important public sector reforms are inevitable.

The result has been dramatic. The approval of the Public Administration Reform (PAR) strategy in 2014 and an accompanying action plan in 2015 are important indications of renewed interest in reform. Subsequent actions, including passage of legislation to enhance monitoring and management of employment data, limit staffing numbers, and rationalize compensation have provided additional indications of the government's commitment to addressing public sector inefficiencies.

Serbia has been here before—with discouraging results—but this time is different. In the past, the emphasis was on establishing a legal framework for further development of the public administration system— focusing on the structure of the system. The new strategy calls for comprehensive changes in how functions are performed and management of finances and human resources, both important in addressing Serbia's persistent fiscal crises. Rather than across-the-board cuts based on a short-term focus on headcount reductions, the government is promoting an analysis-driven approach to present a clear picture of the organization of the central government and to identify where there is duplication of functions and a mismatch between support and core functions and how to improve service delivery.

The objective of this report is two-fold: first, to highlight the key structural deficiencies in the organization of the central administration that undermine efficient delivery of services while

increasing the wage bill, and, second, to propose short-, medium-, and long-term policy actions and recommendations as the basis for long-term structural transformation of the central government.

This synthesis report is based on four reports covering the organization of the center of government, core and non-core functions, misplaced functions, and missing functions related to EU accession. The government must identify areas of immediate strategic focus as it continues its efforts to streamline the public sector (Table 1). Some of these proposals will require additional legislation; some will require new funding. Some could be implemented in the short to medium term, whereas others will require a long-term strategy. In each case, sustained engagement and strong political leadership will be necessary to drive the key elements of these recommendations.



A complex array of bodies with varying levels of autonomy undermines oversight of organizational performance and increases operating costs.

Serbia's central administration has five types of organizations (government services, bodies within ministries, special organizations, public agencies, and public institutions). Different types of entities are often responsible for similar functions. Many enjoy a high level of autonomy, which encourages short-term opportunism. Autonomy also reduces the ability of ministries or parliament to hold such institutions accountable for their performance. Improvements are needed mainly in two areas. First, the legislative framework applicable to implementing bodies should be simplified, with fewer organizational types and clearer criteria identifying the appropriate level of autonomy and the most-effective way of ensuring accountability. Second, taking into account any mergers agreed to in the meantime, bodies should be more coherently allocated to the remaining organizational types based on new legislation, which may include changes in the autonomy and supervision of institutions.



Institutional fragmentation affects central administration operations, creating opportunities for unnecessary employment.

There are no standards for the organization of central administration structures. This can lead to the emergence of very small organizations in the central government. For instance, EU members with 1 million to 20 million inhabitants have an average of 13 ministries, whereas

Serbia, with a population of 7 million, has 16. The government needs to tighten, standardize, and enforce the organization of the various units that make up the system of its public administration if a sustainable approach to rightsizing and restructuring is to be achieved. To do this, the government must make some difficult choices regarding the number, types, mandates, and staffing of these institutions. Legislative changes will be required to accommodate proposals to streamline the organization of central administration institutions. The number, purposes, sizes, and types of agencies; criteria for establishing new agencies; and accountability arrangements and standards governing the use and number of temporary employees and support staff need to be addressed.



Serbian institutions appear to operate with high levels of support staff.

There is no EU benchmark for ratios of core to support staff, but many Serbian institutions appear to have many support staff. To control the effect of the large number on small agencies, an appropriate minimum size requirement for agencies could be set. It is also necessary to examine the deployment of support staff within institutions, given variations in size of support staff across all support functions. Operational considerations should guide the determination of an appropriate ratio of core to support staff. The appropriate central institution should undertake a detailed assessment of individual support functions. These assessments and establishment of a ratio of core to support staff could be a major source of savings.



The lack of a strict policy on span of control and weak enforcement of temporary employment limits undermine efforts to contain the wage bill.

There are many temporary employees in the public administration system. Of Serbia's 37,285 public employees (excluding the defense and security sectors), approximately 8,944 (24 percent) are temporary. This also significantly exceeds the legislated maximum of 10 percent, as set in the Law on Budget Systems and Law on Maximum Number of Employees. Enforcing the 10 percent cap with only a few, clearly defined exemptions would generate significant savings over time and help meet workforce reduction targets.

A related concern is the appropriate span of control. This is related to the number of employees reporting to a manager. The overall span of control in Serbia's public administration of approximately 1:5 is acceptable according to international standards, but large ratios in large institutions distort this figure; 67 of the 94 surveyed institutions have spans of control below 1:3. There are several reasons for the tight span-of-control ratios, including the tendency to establish single-issue units and the creation of additional management positions for remuneration and career planning purposes.



Although duplication is rare, better alignment of functions and proper use of support staff are potential opportunities for savings.

Duplicative functions occur when two or more institutions deliver the same function within the same functional classification. In Serbia functions are classified as policy, regulatory, inspection, services, and administrative. Overlapping functions occur when at least two institutions deliver the same function within different functional classifications. The organizational mapping exercise, supplemented by follow-up interviews and research, identified three duplicative and six overlapping functions across three sectors: economic, tourism, and civil service management. The government's role in supporting economic development is complex and is delivered through multiple ministries. Four economic sector functions were identified as potentially duplicative or overlapping. Duplication in the tourism sector should be eliminated. Three functions related to civil service management need to be assessed for potential duplication and synergy: maintenance of public employee registers, application of information and communications technology in the public sector, and monitoring human and minority rights.

Inconsistent and excessive use of support staff is common. Standardization of deployment of support staff could achieve significant wage savings and workforce reductions. Application of two simple criteria could achieve savings by streamlining administrative, technical, or financial support functions. Institutions with 10 or fewer employees should have no support staff, and maximum thresholds for administrative support should be calculated by developing a ratio for each institution type.

There is no standard location within institutions for administrative functions. There is a diverse range of job titles with inconsistent job rankings, and Rulebooks, detailing prescribed positions in each unit include obsolete positions (e.g. typist, telephonist). Similarly, savings could be realized through automation.

Technical support employees perform a wide range of tasks. The most-common job titles for these tasks are driver, coffee cook, cleaning lady, doorman, janitor, stoker, pressroom operator, and courier. Technical support jobs are mostly classified as civil service positions (58 percent), with the remainder falling under the Labor Code. The civil service positions are assigned to 11 different job categories, ranging from senior advisor to employee with limited skills.

There are also wide variations in overall staffing levels and differences in usage patterns between large institutions. Some ministries, such as the Ministry of Foreign Affairs employs 123 technical support staff, almost double the number in the remaining 13 surveyed ministries combined. There are also differences in technical support levels between institution types, from a high of 18 percent in the administrative districts to 0.3 percent in government services.

There is considerable potential to achieve wage bill savings and workforce reductions in technical support functions, with the majority of savings achievable in larger organizations. Potential organizations include the Ministry of Foreign Affairs (93 redundancies), Pension and Disability Insurance Fund (54 redundancies), and Hydro-Meteorology Bureau (27 redundancies). In terms of percentages, the highest level of cuts would apply to the administrative districts, where 42 of 229 positions (18 percent of total staff) would be declared redundant.

Two factors need to be explored when considering the optimum deployment of technical support staff across Serbia's public administration. First, the potential role of the Administration for Joint Services of the Republic Bodies (AJSRB) to expand coverage to agencies should be explored. Some services provided by support staff in agencies could be provided centrally by the AJSRB, thereby reducing the need for additional support staff. Second, the potential for outsourcing select technical support tasks should be assessed, especially where the practice already exists. Both measures could produce significant wage bill savings and workforce reductions.

Financial support positions cover a wide range of tasks, especially in the Ministry of Finance (MoF). These include budget formulation, budget execution, accounting, and cash management. Most institutions perform all these tasks in a similar manner, but there are differences in job titles and job descriptions between institutions; in addition, multiple tasks are clustered in small institutions. Job rankings and related salaries are also inconsistent. The financial support function employs 1,114 staff (3.7 percent of all staff), of which 983 are permanent and 125 temporary.



Serbia has the opportunity to prepare for accession to the European Union and bridge related gaps more efficiently than former candidates in the region.

Preparations for Serbia's accession to the European Union are underway in many areas, but detailed plans to address the gap between the current situation and what is needed to meet EU accession requirements have not been developed. Preparation of an institutional development plan to guide this process is important. Serbia has the opportunity to prepare for accession and bridge related gaps more efficiently than former candidates from Central and Eastern Europe. Drawing on lessons learned from earlier accession programs, Serbia can optimize and adapt existing institutions rather than develop parallel structures and unnecessarily expand the public sector.

The demands on Serbia in addressing missing functions related to EU accession may surpass those that countries that acceded earlier faced. Demands on countries seeking EU accession have arisen that extend beyond adoption of the Acquis. Expansion and reorganization should be considered to address missing functions. Expansion involves strengthening existing institutions; reorganization involves restructuring existing institutions to deliver new functions. The government's reorganization and rightsizing program, supported by functional reviews, is an ideal method of determining the optimal approach.



Success of proposed reforms will require political support, continued engagement of partners, alignment with the government program, and local ownership, but even then, success is not guaranteed.

There are four main factors influencing the success of functional reviews: the governance model, reform drivers, program design, and reform environment. Implementation starts with passage of a law or approval of a new organizational chart followed with institutionalization of reforms through all levels of the organization. Implementation needs to be considered in two phases: measures that have supported workforce reductions and will likely be achieved as planned by 2017 and more-complex cross-government and sector reforms that will be realized over the next decade.

Four factors that are critical to success should be considered as implementation of the functional reviews proceeds: political support from the highest levels of government to

support difficult reforms; the support of development partners; mainstreaming implementation inside regular government programs; and local ownership. Implementation occurs on the front lines, where services are provided to the public, and requires shared understanding of and commitment to implementation, from ministry senior management to field office staff, and a focus on service quality. The Ministry of Public Administration and Local Self-Government (MPALSG) is developing a change management strategy to assist ministries with planning and preparing for the changes ahead, but completing functional reviews is only one step in a much longer process. In summary, successful implementation of functional reviews can be claimed only when reforms have materially improved the economy, efficiency, and effectiveness with which ministries deliver services.

Summary of Policy Recommendations

Unless otherwise indicated, short term (ST) = < 1 year; medium term (MT) = 1-3 years; long term (LT) = >3 years. The lead institution(s) are marked in red.

Table 1. Optimizing Organization of Central Government

Recommendation	Time Frame	Responsibility
1. NUMBER AND SIZE OF INSTITUTIONS		
Develop benchmark prescribing minimum institution size, taking into account desired core-to-support staff ratio.	Short term	MPALSG, MoF
Tighten criteria and scrutiny of proposals to establish new institutions	Medium term	MPALSG, NPPS, MoF
Implement institutional merger process, based on benchmark for minimum size and permitting 50 percent reinvestment of savings into core functions	Long term	MPALSG, MoF
2. TYPES OF INSTITUTIONS		
Eliminate special organization institution type	Short term	MPALSG
Convert special organizations (NPPS, Legislative Secretariat) at center of government into government services	Short term	NPPS, Legislative Secretariat
Abolish “legal personality” of agencies and bring all agency staff under civil service law	Short term	MPALSG
Clarify status of public institutions as service delivery bodies	Medium term	MPALSG
3. SUPPORT STAFF LEVELS		
Initiate horizontal reviews, led by appropriate central institution, of each support function	Medium term	MPALSG, Central institutions
Establish minimum staffing benchmarks for each support function and overall maximum staffing benchmark for support functions informed by assessment of individual support functions	Medium term	MPALSG, Central institutions

Recommendation	Time Frame	Responsibility
Consolidate support functions for all central government institutions in General Secretariat.	Medium term	General Secretariat
Consider additional strategies for reducing support staff, including expanded use of AJSRB, outsourcing, and providing select support functions to agencies through parent ministry	Medium term	MPALSG, AJSRB
4. MINISTRY-AGENCY ACCOUNTABILITY		
Pilot simple performance framework in several implementing agencies	Short term	MPALSG, MoF, NPPS
Develop and implement plan to transfer policy functions from agencies to parent ministry	Medium term	MPALSG
Develop and implement plan to transfer implementation functions from parent ministry to appropriate agencies	Long term	MPALSG
Transfer organizations with ministry-related mandates reporting to government to relevant line ministries	Long term	General Secretariat
5. USE OF TEMPORARY EMPLOYEES		
Apply legal cap (10 maximum) for temporary employees, observing applicable exemptions	Short term	MPALSG, MoF
Require and monitor retrenchment plans prepared by institutions that exceed cap	Medium term	MPALSG, Treasury
Consider legal revisions to tighten exemptions from temporary employee cap	Long term	MPALSG, MoF
6. ORGANIZATIONAL AND STAFFING DATA		
Design and implement simple provisional register of institutions	Short term	MPALSG, MoF/Treasury, Human Resources Management
Ensure uniform presentation of organizational and staffing information and data on institutional websites	Medium term	MPALSG
Design master plan to ensure interoperability of databases containing organizational, personnel, and payroll information	Long term	MPALSG, Treasury
7. LEGAL FRAMEWORK		
Revise Law on Ministries to reflect structural changes (e.g., mergers) and revised mandates	Long term	MPALSG
Revise Rulebooks to reflect all changes	Long term	MPALSG
Consider drafting consolidated law covering organization of central government	Long term	MPALSG
8. ORGANIZATIONAL HIERARCHY		
Prescribe minimum 1:2 hierarchical ratio for organizational layers	Medium term	MPALSG
Establish maximum of five organizational layers by eliminating group layer	Medium term	MPALSG

Recommendation	Time Frame	Responsibility
Assist institutions in identifying top priorities to inform revised organizational structures	Medium term	MPALSG, MoF, NPPS
9. SPAN OF CONTROL		
Prescribe minimum 1:5 staffing span of control, with possible 1:4 variation for support staff	Medium term	MPALSG
Require state secretaries to lead at least two sectors or one sector and a subordinate body	Long term	MPALSG, NPPS
10. STRATEGIC COORDINATION WITHIN MINISTRIES		
Explore relocation of all ministry coordination units to ministerial secretariat	Medium term	MPALSG, NPPS
Establish strategic planning units in ministerial secretariats	Medium term	MPALSG, NPPS

Table 2. Identifying Duplicative and Overlapping Functions

Recommendation	Time Frame	Responsibility
1. ECONOMIC SECTOR		
Initiate and complete consultations to explore synergies and eliminate duplication related to investment and export promotion while expanding policy role of MoE and ensuring coordinated approach with respect to free zones	Short term / Medium term	MoE, Development Agency Serbia, Free Zones Administration
Initiate and complete consultations to explore synergies and eliminate duplication related to investment and export incentives	Short term / Medium term	MoE, Multiple partners
Initiate and complete consultations to explore synergies and eliminate duplication related to small and medium enterprises and entrepreneurship support while expanding policy role of MoE	Short term / Medium term	MoE, Multiple partners
Initiate and complete consultations to resolve duplication between Agency for Management of Disputes and Public Defender's office with respect to resolving disputes in privatization process while boosting capacity in Public Defender's office or assume full responsibility	Short term / Medium term	Public Defender's Office Agency for Management of Disputes
2. TOURISM SECTOR		
Initiate and complete consultations to resolve duplication between MTTT and NTO with respect to tourism marketing, with ministry assuming policy role and NTO conducting market research	Short term	MTTT, NTO
Initiate and complete consultations to resolve duplication between MTTT and NTO with respect to management of tourism information system, with ministry assuming policy role and NTO managing system	Short term / Medium term	MTTT, NTO

Recommendation	Time Frame	Responsibility
3. CIVIL SERVICE MANAGEMENT SECTOR		
Initiate and complete consultations to determine optimum approach for collecting, accessing, and disseminating personnel information through public employee register across different information technology systems, including sector systems (e.g., Unique Education Information System in MESTD)	Short term / Long term	MPALSG, Treasury, MESTD
Initiate and complete consultations to explore synergies and eliminate duplication related to application of information and communication technology in public sector, including linkages between e-government and information society initiatives, while clarifying policy and delivery roles of MPALSG and Administration for Joint Services of the Republic Bodies	Short term / Medium term	MPALSG, MTTT, AJSRB
Initiate and complete consultations to explore synergies and eliminate duplication between MPALSG and Government Office for Human Rights and Minorities with respect to monitoring protection of human and minority rights, taking into account different mandates of respective institutions	Short term / Medium term	MPALSG, Government Office for Human Rights and Minorities

Table 3. Streamlining Key Support Functions

Recommendation	Time Frame	Responsibility
1. APPLICABLE TO ALL SUPPORT FUNCTIONS		
Establish benchmarks, drawing on range of criteria (e.g., size, locations, workload, AJSRB support) for each support function to be applied to all institutions to establish maximum number of support staff	Short term	MPALSG
Standardize job descriptions and job titles for support functions and positions across public administration	Medium term	MPALSG
Harmonize job rankings for similar positions across public administration	Medium term	MPALSG
Modernize tasks and job duties under each support function by replacing obsolete references and reflecting effect of technology	Medium term	MPALSG
Wherever practical, place similar support functions in same location in all institutions	Medium term	MPALSG
Establish service quality standards for relevant support functions and tasks	Medium term	MPALSG
2. ADMINISTRATIVE SUPPORT FUNCTIONS		
Maximize number of institutions using AJSRB's registry office services	Medium term	MPALSG, AJSRB
Emphasize prospective effect of e-government and automation initiatives on administrative support	Medium term	MPALSG, AJSRB
In calculating thresholds for administrative services, differentiate between records management and secretarial cluster of tasks	Short term	MPALSG

Recommendation	Time Frame	Responsibility
3. TECHNICAL SUPPORT FUNCTIONS		
Assess opportunities for outsourcing technical support functions, including building maintenance, cleaning, transport, and filing and sorting	Medium term	MPALSG
Assess potential of AJSRB to expand provision of appropriate technical support functions	Medium term	MPALSG, AJSRB
Assess use of and need for technical support positions in administrative districts	Short term	MPALSG
Consider establishing dispatch center to provide all driver- and vehicle-related technical support	Medium term	MPALSG
Explore using Tax Administration's printing services year-round to serve other institutions	Short term	MPALSG, Tax Administration
Consider establishing regional centers to provide select technical support to local branches	Medium term	MPALSG
4. FINANCIAL SUPPORT FUNCTIONS		
Explore centralization and outsourcing opportunities for financial support function	Short term	MoF, MPALSG
Strengthen capacity of financial support staff, including introduction of job rotation schemes.	Short term / Medium term	MoF, MPALSG
Introduce internal certification system for select tasks.	Medium term	MoF, MPALSG
Replace cash box operations with electronic transfers	Short term	MoF

Table 4. Addressing Missing EU Acquis-Related Functions

Recommendation	Time Frame	Responsibility
1. INSTITUTIONAL DEVELOPMENT		
Develop institutional development plan to address missing functions	Short term	SEIO, MPALSG
Strengthen capacity to adapt Serbian laws to the Acquis by organizing temporary pool of lawyers	Short term	SEIO, MPALSG
Reform processes and upgrade information technology support where needed, particularly for Customs	Medium term / Long term	SEIO, relevant agencies
2. RESTRUCTURING INITIATIVES		
Consider separating environment function from Ministry of Agriculture and Environmental Protection	Medium term	Government
Consider merging Veterinary Service Directorate with Plant Protection Agency	Medium term	SEIO, MPALSG, relevant agencies
Consider merging state aid and competition institutions	Medium term	SEIO, MPALSG relevant agencies
Strengthen institutions responsible for overseeing national capital investment planning, particularly in Ministry of Finance	Medium term	SEIO, MPALSG, Ministry of Finance



CHAPTER 1. THE CHALLENGE: TACKLING INEFFICIENCY THROUGH PUBLIC SECTOR REFORM

Background

The Republic of Serbia is an upper-middle-income country of 7 million people with an income of US\$5,900 per capita. Serbia emerged from political realignment after the break-up of Yugoslavia in 1991 and the subsequent dissolution of the union with Montenegro in 2006, when each country became a sovereign state. Between 2001 and 2008, real gross domestic product (GDP) grew, on average, almost 6 percent per year, and poverty headcount declined from 14 percent in 2002 to 7 percent in 2007. At the same time, Serbian politics was characterized by weak and fragmented coalitions, and a lack of policy consensus hindered efforts to focus on critical economic and public sector reforms.

This became apparent after 2008, as Serbia faced major economic challenges. Early progress began to reverse, with economy entering into multiple recessions, and fiscal deficits averaging 5.3 percent of GDP between 2009 and 2015. As a result, public debt more than doubled from around 29 percent of GDP in 2008 to the peak level of 75.9 percent at the end of 2015. Unreformed public utilities, high public employment, inefficient human resources policies, and weak financial management exacerbated the fiscal challenges.

In 2014, the government adopted an ambitious fiscal consolidation and structural reform program supported by a three-year standby arrangement with the International Monetary Fund (IMF) which was successfully completed in early 2018. Program priorities included containing aggregate wages and pensions, cutting subsidies to state-owned enterprises, and improving tax administration. Wage and pension reforms in particular decreased public expenditures by 1.8 percentage points of GDP in the first program year alone. Looking at the longer term fiscal sustainability, the government moved to address structural problems in the

public sector by launching a restructuring and rightsizing process to create further opportunities for efficiency gains.

With reforms underway, signs of economic recovery emerged since 2016 with more positive outlook on horizon. The economy moved out of recession, growing by 0.8 percent in 2015 and 2.8 and 1.9 percent in 2016 and 2017, respectively. Although this positive trend was welcome, sustainable results will depend on continuing structural reforms, including public sector restructuring and rightsizing, to increase productivity and decrease public expenditures. Last year, Serbian budget was in surplus (of 1.2 percent of GDP) and is projected to remain close to balanced over the medium term. As a result, public debt started declining and stood at 62.5 percent of GDP at the end of 2017.

A significant overhaul of Serbia's public administration structures offers a promising option for reducing public sector spending. Yet Serbia's experience with PAR has been mixed. Serbia's initial PAR program (2004–08) focused on creating the legal basis for the public administration system and resulted in an emphasis on form rather than function. These and subsequent reforms, set out in PAR action plans, have produced a wide range of approved laws and regulations, but the intended establishment of a value-driven, citizen-oriented public administration focused on service quality has not fully materialized.

More recently, the government has attempted a different approach. Rather than focusing on financial allocations that require across-the-board cuts, efficient and effective allocation of human resources will be achieved by reforming the organizational structure of the central government. Governed by the 2014 PAR strategy, this ambitious restructuring program will, by implementing a series of functional reviews, achieve rightsizing.

This new focus on efficient, effective organization of central government is already bearing fruit—the rightsizing objectives are within reach. Serbia's central administration has extensive organizational rules, overhauled during the last decade with EU technical support. The focus of reforms should be on correcting practices that encouraged indiscriminate personnel spending in previous years not radical changes. The functional reviews have identified a wide range of opportunities to achieve further wage bill savings through restructuring while refocusing deployment of human resources to core activities.

These efforts are all significant. However, additional fundamental reforms are needed to support these early efforts and prevent the public administration system from reverting to excessive spending on wages. Recent efforts to establish legislation capping the number of public sector employees, requiring the registration of all public employees, and streamlining pay across the civil service all indicate greater government attention to public sector efficiency. Additional action is needed to support these initiatives.

This policy note responds to the government's request to provide technical assistance on undertaking functional reviews across the central administration. The World Bank has provided the technical assistance, with financing from the European Commission. In addition

to the horizontal **functional** review of the central administration, vertical reviews will be completed for the ministries of Agriculture and Environmental Protection; Education, Science, and Technological Development; Health; and Labor, Employment, Veteran, and Social Affairs.

To support the horizontal reviews, a broad range of documents (laws, by-laws, rule books, systematizations) were examined. This covered 94 institutions: 14 ministries, 29 subordinate bodies, 15 special organizations, nine government services, 16 public agencies, and 11 public institutions. **Identified** functions were then divided into core (delivering the institution’s mandate) and non-core (providing internal support, administrative) and assigned to five main classifications (table 5).

Table 5. Serbian Functional Review Classifications

Core Functions	Non-Core Functions
<ul style="list-style-type: none"> • Policy <ul style="list-style-type: none"> a. Policy-making, strategic planning, legal drafting b. Policy analysis, monitoring, evaluation • Regulatory • Inspection and quality control • Services 	<ul style="list-style-type: none"> • Administrative

Source: World Bank. 2016. Serbia: Horizontal Functional Review of Central Government: Preliminary Diagnostic. Washington, DC: World Bank

The functional assessment comprised six steps.

1. Identification of functions based on systematization acts
2. Verification of identified functions by the institution
3. Allocation of staff to identified functions
4. Standardization of identified functions
5. Allocation of identified functions to a functional classification
6. Analysis and recommendations

This note consolidates several reports that will be delivered to the government as part of the technical assistance. It aims to present key findings and proposals from the initial reviews and to apply lessons learned from functional reviews in other countries to the Serbian context. The note distills the various reports completed under the horizontal functional review of state administration. These reports include the following.

- Preliminary Diagnostic Report on the Horizontal Functional Review of State Administration
- Optimizing the Organization of the Central Government
- Identifying Duplicative and Overlapping Functions

- Assessing Select Non-Core Functions
- Missing Functions in the Context of EU Accession

The horizontal reviews do not propose specific cuts. They recommend a package of policy, legal, and administrative reforms that the government could use to reduce the workforce and improve efficiency and propose an ambitious administrative reform agenda to be implemented over the medium to long term involving significant legal, regulatory, procedural, and information technology changes. Implementation of the reforms will enable MPALSG and line ministries to modernize workforce planning and management.

In the short to medium term, the following factors will influence whether Serbia succeeds in strengthening the efficiency of the public sector.

- *Governance model:* Serbia falls within the continental European model, which relies on coalitions and is highly legalistic.
- *Reform drivers:* The Minister of Public Administration and Local Self-Government leads the reviews, and the Minister of Finance, who oversees implementation of the IMF program, supports them.
- *Program design:* The scope of the reviews (horizontal review of common functions, vertical reviews of select sectors and ministries) is ambitious but not overreaching.
- *Reform environment:* Given the government's high-profile commitment to the reform package that supports the IMF agreement there is potential for a continued focus on the reform as part of the Standby Arrangements with the IMF.



CHAPTER 2. OPTIMIZING THE ORGANIZATION OF THE CENTRAL GOVERNMENT

Serbia is not alone in encountering problems with the organization of its government. Internationally, many governments initiated ambitious programs to establish semi-autonomous and autonomous agencies during the 1990s and 2000s. Too often, these reforms resulted in multiplication of agencies, an overly complex organizational architecture, lack of accountability, and uncontrolled expenditures. Subsequently, the trend has reversed, and countries are **consolidating** agencies, returning functions to parent ministries, introducing cost controls, and reducing managerial autonomy within a simplified organizational typology (Box 1). Within the European Union, regulations for specific agencies may suggest or require higher degrees of autonomy, but such instances are limited, with the preferred option most often being a direct reporting relationship through the appropriate line ministry.

Organization of Central Government

The legal framework governing organization of the government includes several laws: Law on Public Services (1991), Law on Government (2005), Law on State Administration (2005), Law on Public Agencies (2006), and Law on Ministries (revised frequently). The Decree on Principles for Internal Organization and Systematization of Work Positions in Ministries, the Decree on Special Organizations and Government Services, and the Decree on the Classification of Work Positions and Criteria for Work Positions of Civil Servants govern ministry organization. Each institution's rulebook on internal organization and systematization sets out its organizational structure and mandates, reporting relationships, number of positions, job descriptions and classifications.

There are no standards undergirding the organization of central government structures. A new set of criteria on the organization of government and ministries needs to be introduced, standardized, and enforced if a sustainable approach to rightsizing and restructuring is to be achieved. To do this, the government has to make some difficult choices regarding the

number, types, mandates, and staffing of these institutions. Some options are prescribed according to law; others are political. In any case, as discussed in this chapter, Serbia's approach to the organization of government requires a major overhaul, in order to achieve its goal of fiscal consolidation.

Box 1. Rationalization of the Government in Lithuania: Concept of the Executive

After Lithuania acceded to the European Union, its public sector just like those of many other new members in Central Europe expanded. Pressure for reform emerged from the challenges of adapting to the effects of the economic crisis, and the need to consolidate the public sector became obvious. In Lithuania, there were no clear criteria regarding the establishment and status of public institutions and no criteria related to public administration, mandates and types of functions were not clearly established, and there was insufficient control over departments under the government. In 2009, the concept of the executive, which included the hierarchy of executive bodies, criteria for establishing institutions, principles of separation of policy-making from the functions of

implementation, transparency, accountability, rationality, and purposefulness, was adopted as a response. In practical terms, the concept prescribed allocation of many executive bodies under the government to the ministries, separating policy-making and implementation functions. There was a clear hierarchy of ministries and the bodies subordinate to them based on separation of functions. Criteria were determined for the establishment of public institutions and their functions (public services) and of state enterprises. Two years were allocated to implement this concept. Organizational streamlining was undertaken in line with the deadline, but provisions related to the public institutions and state property have not been completed.

Source: World Bank. 2016. Serbia: Horizontal Functional Review of Central Government: Preliminary Diagnostic. Washington, DC: World Bank

Support for Improved Governance and Management (SIGMA), a joint initiative of the Organization for Economic Cooperation and Development (OECD) and the European Union, has criticized Serbia's penchant for establishing highly autonomous agencies within a highly fragmented legal framework. There are conflicts and inconsistencies not only between the three umbrella laws governing the establishment of institutions, but also between these laws and special legislation passed to establish individual agencies. Not surprisingly, the lack of legal precision **results** in confusion and overlap regarding the mandates and functions of different agency types.

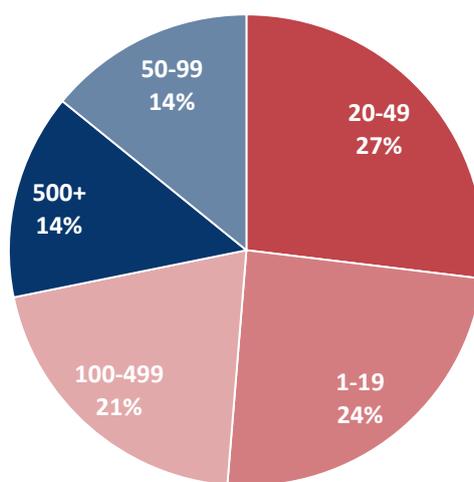
Significant legislative changes will be required to accommodate proposals to streamline the organization of central government institutions. Issues to be covered will include the number, purposes, sizes, and types of agencies; criteria for establishing new agencies; accountability arrangements; and standards governing the use and number of temporary employees and support staff. Ultimately, the government should consolidate the rules for

establishing organizations in a single law and strengthen efforts to apply those rules when contemplating establishment of a new organization.

Number and Size of Institutions

Serbia has more ministries and agencies than the EU average of countries with populations up to 20 million.¹ Only Denmark (17) and Croatia (20) have more than Serbia’s 16 ministries, well above the EU average of 13. There may be opportunities for streamlining.

Figure 1. Staffing Levels of Serbian Institutions



Source: World Bank. 2016. Serbia: Horizontal Functional Review of Central Government: Preliminary Diagnostic. Washington, DC: World Bank.

More problematic is the large number of agencies and the small size of many of them (Figure 1). Of the 78 surveyed agencies (security and defense sectors excluded), 69 percent had fewer than 100 employees, 51 percent fewer than 50 employees, and 19 percent fewer than 20 employees. The MPALSG should coordinate a detailed assessment to determine an appropriate set of mergers, focusing on small institutions and institutions with related mandates. To provide an incentive for mergers, the government could permit up to 50 percent of the savings to be reinvested in strengthening core capacity. Table 6 provides five examples from other countries where a single agency provides the services of multiple Serbian agencies.

The benefits of consolidation are related not just to savings, but also to creating more-coherent institutional framework for policy direction and delivery (Table 6). For example, a gradual consolidation of Serbia’s central government institutions, preceded by strengthening coordination, would improve prospects for shifting the central government’s role from one focused on procedural compliance to one focused on strategic policy coordination, policy

¹ The term “agency” is used in this report to describe all non-ministry government institutions, including subordinate bodies, special organizations, government services, public institutions, and public agencies.

analysis, and expanded performance monitoring. The European Commission encourages such a transformation.

Table 6. International Examples of Consolidated Agencies

Serbian Agencies	Comparator
General Secretariat National Public Policy Secretariat Legislation Secretariat Office of EU Integration Office for Relations with Civil Society Office for Media Relations	State Chancellery (Latvia)
Customs Administration Tax Administration Tobacco Administration Central Registry of Mandatory Social Insurance	HM Revenue & Customs (United Kingdom)
Occupational Health & Safety Directorate Environment Protection Agency Institute for Plant Protection Directorate of Veterinary Medicine	Agency for Food, Environmental & Occupational Health & Safety (France)
Environmental Protection Agency National Water Directorate Institute for Nature Conservation Forestry Administration National Radiation Protection & Nuclear Safety Agency Serbia Geological Institute	Environmental Board (Estonia)
Traffic Safety Agency Hazardous Cargo Transportation Directorate Accidents & Serious Incidents Research Centre Seaworthiness Directorate Directorate for Civil Aviation Railway Directorate	Federal Public Service for Mobility & Transport (Belgium)

Source: Selected government websites as of June 2016.

Types of Institutions

In principle, agencies are established to split policy functions from delivery functions. They may also be established to ensure policy and managerial autonomy from the parent ministry. For example, regulatory bodies often have considerable policy autonomy to ensure that the parent ministry cannot compromise their objectivity. In many countries, two to three types of agencies exist to provide service delivery, inspection, and regulatory functions. For example, the United Kingdom establishes semi-autonomous executive agencies and autonomous executive non-departmental bodies, and Germany creates direct federal agencies and indirect public agencies

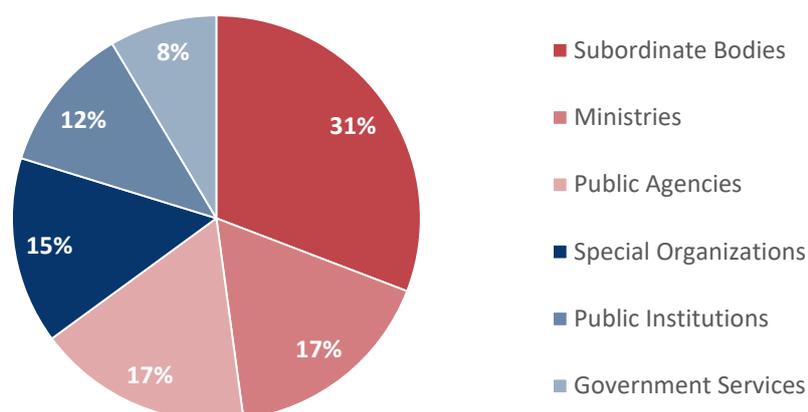
Serbia’s legal framework permits the establishment of six different types of institutions. These are funded from the budget and are not entitled to own-source revenue. Their ability to spend their own-source revenues independently was removed when the Budget System Law **was** amended in 2012. This has brought greater efficiency in the use of these funds through more-realistic planning and better oversight. Table 7 summarizes the institutional typology.

Table 7. Types of Serbian Government Institutions

Type	Characteristics
Ministry	<ul style="list-style-type: none"> • Governed by Constitution and Law on State Administration • Mandates set out in Law on Ministries • Led by a minister who serves as a member of the government • Employees regulated by Civil Servants Law
Subordinate body	<ul style="list-style-type: none"> • Governed by Law on State Administration • Semi-autonomous bodies reporting to a minister • Perform executive, inspection, and professional duties • Employees regulated by Civil Servants Law
Special organization	<ul style="list-style-type: none"> • Governed by Law on State Administration • Higher degree of autonomy than subordinate bodies • Formed to implement government policy • Report directly to the government • Employees regulated by Civil Servants Law
Government service	<ul style="list-style-type: none"> • Governed by Law on Government • Provide professional and technical support to government and state administration bodies • Can be established or dissolved according to government decree • Employees regulated by Civil Servants Law
Public institution	<ul style="list-style-type: none"> • Governed by outdated Law on Public Services • More autonomy; can establish own Rulebook • Provide services to citizens • Employees regulated according to Labor Code • Pay regulated according to government decree
Public agency	<ul style="list-style-type: none"> • Established under Law on Public Agencies • More autonomy (from ministry) to establish own Rulebook • May report to government or Parliament • Perform regulatory, development, and service delivery tasks that do not require permanent political supervision • Have legal personality and are governed by boards • Employees regulated according to Labor Code • Determine own remuneration

Source: World Bank. 2016. *Optimizing Organization of Central Administration*. Washington, DC: World Bank.

Figure 2. Number of Serbian Institutions According to Type



Source: World Bank. 2016. *Serbia: Horizontal Functional Review of Central Government: Preliminary Diagnostic*. Washington, DC: World Bank.

In practice, numerous problems limit the operational efficiency and effectiveness of Serbia's institutional framework (Table 8).

- a. **The autonomy of special organizations:** Special organizations have a high degree of independence from their parent ministries, which is unusual in comparative legal practice. The State Administration Law stipulates that legislation may, but is not required to designate a ministry to have oversight over a special organization. This allows special organizations to be accountable directly to the government without having a ministry control their operations.
- b. **Duplication of organizational forms:** Subordinate bodies and special organizations often have identical purposes—to implement government policy by performing professional and executive duties. The sole difference between the two is that subordinate bodies may have inspection oversight, whereas special organizations may not. This difference may not be sufficient to justify the existence of two organizational forms.
- c. **Lack of uniform criteria for legal (corporate) identity:** Some subordinate bodies and special organizations enjoy legal (corporate) identity, and others do not. This undermines the principle of simplicity and transparency in public administration. Having legal (corporate) identity allows these entities to bypass the budget system by opening their own accounts with commercial banks, which can limit the transparency of public finances.
- d. **Conflicting practices of various organizational forms:** Some entities do not have the appropriate organizational form. For instance, some special organizations are, by their nature, government services because they perform professional duties to meet the needs of the government or multiple other public institutions (e.g., Legislation Secretariat, Public Policy Secretariat). Other institutions have the relatively independent

status of public institutions or public agencies even though their core functions comprise duties of state administration.²

- e. **Lack of a clear naming system:** Many entities of the same organizational form have different names. For instance, in practice, government services may be called services, offices, or administrations. Bodies within ministries may be called administrations, inspectorates, directorates, or agencies. Special organizations may be called directorates, institutes, secretariats, centers, commissariats, or agencies. Public agencies may be formed as agencies, funds, directorates, or corporations. Public institutions may be established as institutes, organizations, bodies, institutions, registries, funds, or services. The names of some entities do not correspond to the statutory names of their organizational forms, which also creates confusion and limits transparency. For instance, the Joint Services Administration is a government service, not a subordinate body; the Environmental Protection Agency and the Agency for Amicable Settlement of Labor Disputes are special organizations, not public agencies; and the Environmental Protection Agency is part of the Ministry of Agriculture and Environmental Protection and not a public agency.
- f. **Inconsistent legal framework governing employees:** The lack of a clear legal framework to govern the status of employees of public agencies and public institutions is problematic. In addition to increasing the degree of autonomy in establishing their institutional structures and staffing arrangements, this may result in the proliferation of these types of entities. The Labor Law is the only law that governs the legal status of employees. Combined with limited central control over the number of employees, this allows public agencies and public institutions to independently determine the number of their staff and hire without competition. Until recently, there was no regulation of salaries in public agencies and public institutions, posing additional risks of proliferation of these entities and increases in the wage bill.
- g. **Misalignment between mandate and organizational form.** Based on mandate, some special organizations should have been established as government services (e.g., Legislative Secretariat, Secretariat for Public Policies), whereas several public agencies would have been better organized as subordinate bodies.

Serbia should consider addressing lack of consistency in agency types by simplifying the typology of agencies, consolidating the legal framework, clarifying criteria for establishing different types of agencies, and conducting a rigorous review before establishing any new

² For instance, institutes such as the Education Improvement Institute, Education Performance Measurement Institute, Sports and Sports Medicine Institute, and Nature Protection Institute, which are primarily tasked with performing professional duties of state administration rather than providing services to the public, are public institutions and not state administration bodies. Similarly, the National Housing Agency, Traffic Safety Agency, and National Agency for Regional Development are public agencies rather than state administration bodies.

autonomous agencies. Once the new organizational typology has been approved, institutions should be merged through a one-time amendment to the Law on Ministries. This would support the commitments set out in Serbia’s PAR strategy, which recommends defining a new typology of organizations, introducing stronger criteria for and control over the establishment of new bodies, and reviewing the appropriateness of assigning “legal personality” to organizations. Possible directions include the following.

- Eliminating the category of special organization
- Clarifying and tightening the criteria under which public institutions, reporting indirectly through a ministry, and public agencies, reporting to Parliament (modeled on EU guidance on national regulatory agencies), would be established
- Bringing public agencies under the government’s compensation system
- Removing the assignment of “legal personality” to autonomous agencies

Table 8. Functions Delivered by Different Types of Agencies

Type	Functions	Survey Results
Subordinate body	Default when other categories do not apply	Of 27 surveyed subordinate bodies ³ : <ul style="list-style-type: none"> • 9 are predominantly inspections; • 8 service delivery; • 7 regulatory, and • 7 policy
Special organization	Broad range of functional classifications covered	Of 14 special organizations: <ul style="list-style-type: none"> • 8 emphasize service delivery; • 5 policy, and • 1 regulatory
Public institution	Primarily service delivery organizations (e.g., for health and education)	Of 10 public institutions: <ul style="list-style-type: none"> • 8 emphasize service delivery, • 1 policy, and • 1 regulatory
Public agency	No clear distinction	Of 16 public agencies: <ul style="list-style-type: none"> • 8 emphasize service delivery, • 4 policy, • 3 regulatory, and • 2 inspection

³ Two subordinate bodies did not participate.

Ministry-Agency Accountability

There are two dimensions to the accountability relationship between a ministry and an agency. (Table 9): the policy and service delivery roles of ministries and agencies and the proliferation of agencies with ministry-related mandates reporting directly to the government.

Since the 1980s, the trend in Europe and internationally has been to separate policy from implementation functions. Ministries retain primacy for policy while delegating delivery responsibilities to agencies. Although it can be difficult to separate them precisely in practice (e.g., regulatory bodies often require capacity to deliver their mandate), the principle is widely observed.

In nine of the 14 surveyed ministries, staff allocated to implementation functions (inspection, services, regulation) exceeded the number assigned to policy functions. In some cases, the gap is enormous—80 percent of Ministry of Health staff are engaged in implementation functions, and 8 percent are in policy functions; in the Ministry of Trade, Tourism and Telecommunications (MTTT), the proportions are 74 percent implementation and 10 percent policy. The ministries with the highest proportion of staff in policy functions are Foreign Affairs (50 percent), Finance (39 percent), and Economy (38 percent).

Some agencies perform significant policy functions. Of the 78 surveyed agencies, 52 had a policy function. Of these, 15 claimed that 25 percent or more of their employees were engaged in policy work. In some instances, this may be because the agency is inappropriately detached from its parent ministry. In others, it might simply reflect the agency's mandate.

The government should consider a two-way transfer, with ministries devolving more of their delivery responsibilities to agencies while recovering their policy functions. In time, all ministries should develop robust policy formulation and agency supervision capacities.

Table 9. Placing Government Agencies Under Ministry Supervision

Agency	Possible Reassignment
Administration of Joint Services for Republican Bodies (981 positions)	MPALSG or Ministry of Finance
Government Air Service (29 positions)	Merge with Administration of Joint Services
Government Human Resources Management Service (35 positions)	MPALSG
Office of Human and Minority Rights (32 positions)	Absorbed by or reassigned to MPALSG, Ministry of Justice, or Ministry of Foreign Affairs

Source: World Bank. 2016. *Optimizing Organization of Central Administration*. Washington, DC: World Bank.

In Serbia, a large number of organizations report directly to the government. Typically, the oversight of such institutions is weak because the Prime Minister and the government must focus on performance of the government as a whole rather than performance of a wide range of disparate agencies. The government should explore shifting these agencies to ministries wherever practical. Table 9 presents four possible reassignments.

Support Staff Levels

There is no standard EU benchmark for ratios of core to support staff, but many Serbian institutions appear to operate with high levels of support staff. This may arise from the lack of an agreed-upon ratio, poor hiring discipline, nonautomated processes, or application of a minimum support staff level to Serbia’s many small institutions.

In ministries, there are wide variations in number of support staff (Table 10), ranging from 57 percent in MPALSG to 12 percent in the Ministry of Health. Two-thirds of institutions with fewer than 100 employees employ at least 50 percent support staff. Significant savings could be realized by setting standards for and streamlining deployment of support staff.

Table 10. Percentage of Support Staff According to Ministry

Ministry	Support Staff (%)
Public Administration and Local Self-Government	57
Youth and Sports	53
Justice	51
Labor, Employment, Veterans and Social Issues	51
Culture and Information	47
Mining and Energy	40
Economy	39
Foreign Affairs	38
Agriculture and Environmental Protection	29
Education, Science and Technological Development	23
Construction, Transport and Infrastructure	21
Finance	19
Trade, Tourism and Telecommunications	16
Health	12

Source: World Bank staff estimates based on survey data

There are a range of options to reduce the number and proportion of support staff.

- Expand use of the shared services bureau (AJSRB)

- Provide support services for agencies through the parent ministry
- Establish minimum size requirements for agencies as part of process to merge smaller agencies or agencies with related mandates

Streamlining central government institutions could result in savings; 42 percent of the positions in these institutions are support positions. If the proportion were reduced to 25 percent by establishing a merged organization or transferring all support responsibilities to the General Secretariat, at least 52 positions could be eliminated.⁴

To mitigate the effect of the minimum support staff requirement on small agencies, an appropriate minimum size requirement for agencies could be set. For example, if the minimum agency size were 40 staff members, and the core-to-support staff ratio were 4:1, then the allocation of staff would be 32 core and eight support, which would meet the minimum support staff requirement. Table 11 shows the distribution of staff in five support functions.

Table 11. Total Staff by Support Function

Support Function	Median (%)	High (%)	Low (%)
Financial Management	4.0	15.6	0.4
Procurement	1.0	3.4	0.0
Human Resources Management	1.7	8.7	0.0
Information Technology	1.2	12.2	0.0
Logistics	0.0	17.7	0.0

Determining an appropriate ratio of core to support staff is an important priority that should be guided by operational considerations. The appropriate central institution should make a detailed assessment of individual support functions with a view to determining key functions, minimum staffing requirements, and appropriate staffing levels, taking into account institutional size and mandate. Outsourcing options for support services such as catering and maintenance should also be explored. These assessments and the establishment of a core-to-support staff ratio could be a major source of savings.

Use of Temporary Employees

There are many temporary employees in public institutions. Of Serbia’s 37,285 employees (excluding the defense and security sectors), 8,944 (24 percent) were temporary. This is more

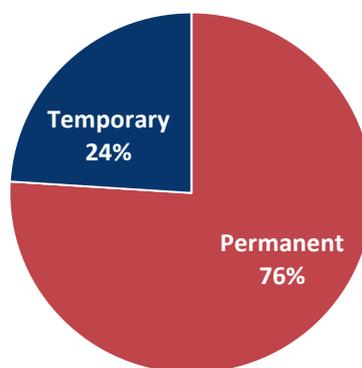
⁴ This calculation was based on data that five of the six central government organizations provided (excluding Legislative Secretariat). The potential savings would increase or decrease depending on the proportion of support staff in the Legislative Secretariat, but because none of the five central government organizations had less than 25 percent support staff, an increase is deemed more likely.

than double the EU average of 10 percent and is exceeded only by Slovenia, with 27 percent. This also significantly exceeds the Serbian maximum of 10 percent, as provided for in the Law on Budget Systems and Law on Maximum Number of Employees. The workforces of 20 Serbian institutions include at least 20 percent temporary employees. Distribution varies, with highs of 89 percent in the Hydro-Meteorological Service and 53 percent in the Directorate of Agricultural Land and the Education Assessment Institute. The Ministry of Culture and Information has the highest ministry use of temporary employees (37 percent).

The Law on Budget Systems allows for a commission-approved exemption to the limit on temporary employees. The Law on Maximum Number of Employees permits several exemptions under which an individual organization could exceed the cap.

The primary exemption applies to institutions with fewer than 100 staff, where a minimum entitlement of 10 temporary employees applies. Given that 54 ministries and agencies fall under this threshold, the MPALSG will need to work with the MoF to ensure that this minimum entitlement does not result in additional hiring of temporary employees. Other exemptions cover low-skilled, seasonal, public works, diplomatic, cultural, and social employees; training specialists; parliamentary support; EU accession; EU-funded jobs; and certain jobs in select sectors (defense, higher education, research). Unless MPALSG tightens controls on exemptions, the potential to routinely exceed the 10 percent maximum will persist.

Figure 3. Permanent vs. Temporary Employees in Serbia's Public Administration



Source: World Bank staff estimates based on survey data.

The government should aim to enforce the 10 percent cap, with only a few clearly defined exemptions. This will produce significant savings over time and contribute to workforce reduction targets. To make this transition, institutions exceeding the cap should be required to provide a retrenchment plan to the MPALSG, which would then monitor implementation and work with the MoF to consider the plans when determining budget allocations. Given that the Law on the Maximum Number of Employees expires in 2018, such measures should be initiated without undue delay.

Organizational and Staffing Data

In principle, comprehensive, accurate, timely, accessible data should be available on institutional mandates, responsibilities, and resources. In Serbia, such data are incomplete, fragmented, and held in several disconnected databases. The principal government-wide systems containing data on organizations and employees are the Treasury Payroll System and Employee Register, which the MoF administers, and the Government Human Resources Management Information System, which the Government Human Resources Management Service administers (to be transferred to the MPALSG). There are also autonomous systems in the defense and education sectors.

If not remedied, lack of reliable data will limit MPALSG's ability to oversee implementation of a rightsizing and restructuring program. Accordingly, MPALSG needs to establish a provisional, basic register of institutions while initiating a long-term project to consolidate and ensure interoperability of systems. MPALSG should also develop standards to ensure consistent presentation of organizational information by individual institutions. Finally, the discrepancies and gaps between institution rulebooks, human resources plans, and legally mandated employee surveys, particularly with respect to recording temporary employees, need to be rectified.

Organization within Institutions

Internationally, greater attention is being paid to policy implementation. Recognizing that well-crafted policies and laws do not guarantee results, reformers are increasingly shifting their focus to internal management and delivery mechanisms within ministries and agencies.

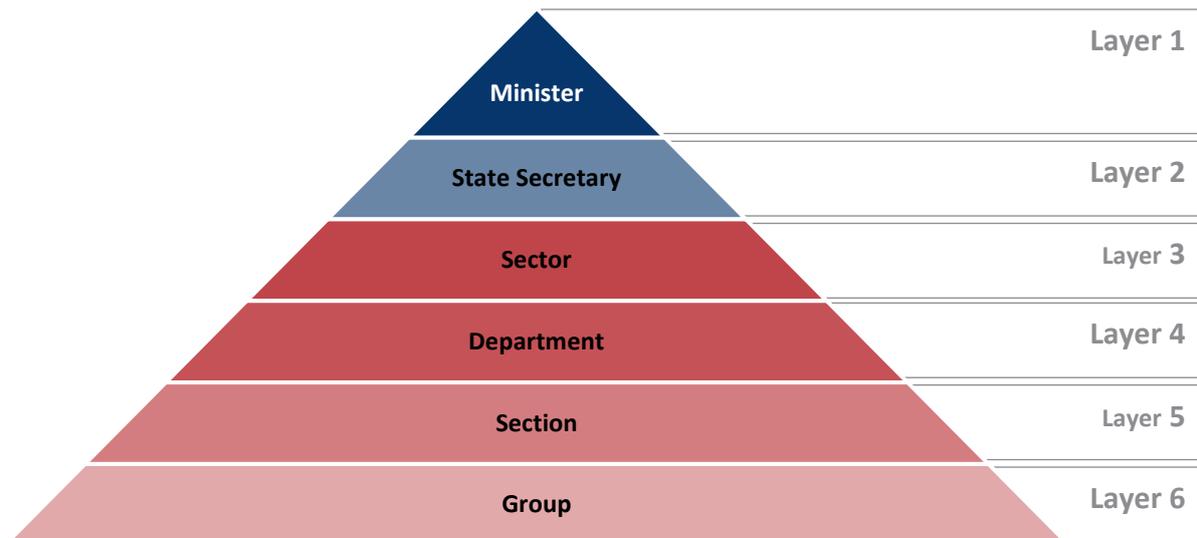
Organizational Hierarchy

The majority of public institutions use a hierarchical model, which usually has clearly defined organizational layers, from the minister or agency head down to support staff. EU and OECD countries have embraced flatter organizations with fewer layers. SIGMA guidance suggests a maximum of five layers; Serbia's regulations permit up to six (figure 4).

No minimum size is prescribed for sectors, but departments must have at least six staff members, five sections, and three groups. There are no restrictions on skipping levels; for example, sections and groups may report to a sector without any intervening level. Similarly, departments, sections, and even a one-person unit may report directly to the state secretary rather than to a sector. Often, this occurs in smaller organizations, resulting in more management positions. Imposition of mandatory layers with minimum size limits supplemented by the proposed merger program would mitigate this problem. It is also recommended that the group layer be eliminated.

Alignment of sector level with the top institutional medium-term priorities should be considered. Legally mandated but lower-priority responsibilities would be placed under the relevant sector. This should be taken into account when conducting a vertical functional review or, in the absence of such a review, a senior management review of strategic documents. The implications for each institution’s budget structure should also be considered. In principle, lower priorities should have larger budgets.

Figure 4. Organizational Layers



Span of Control

A related question is appropriate span of control, which relates to the number of organizations reporting to the superior level and the number of employees reporting to a manager. Having a single unit as the exclusive direct report to a higher level suggests duplication. At a minimum, two units should be required before a subordinate layer is warranted. Similarly, at least two sectors should report to a state secretary.

Policies on minimum numbers of employees per manager are mixed. There is no minimum for sectors, but the minimum is one manager for five employees for a department, one manager for four employees for a section, and one leader for two employees for a group. (Heads of groups are not considered management.)

The overall span of control in Serbia’s public administration of approximately 1:5 is acceptable according to international standards, but large ratios in large institutions distort this figure, and 67 of the 94 surveyed institutions have smaller ratios. None of the surveyed ministries reached the 1:5 ratio, with seven maintaining ratios below 1:3 and two below 1:2

(Mining and Energy, Economy). In all likelihood, the span-of-control ratios will contract further if, as proposed, the 10 percent cap on temporary employees is enforced.

There are several reasons for the narrow span of control, including the tendency to establish single-issue units and the creation of additional management positions for remuneration and career planning purposes. To reverse this trend, a minimum 1:5 ratio should be enforced at the sector, department, and section levels, with the group level eliminated. Exceptions should be approved based on an opinion from MPALSG. If the ratio were enforced, savings would be realized through reduction in the number of required managers (by more than 800 positions) and the consequent re-grading of numerous managerial into non-managerial positions.

Strategic Coordination within Ministries

Across the European Union, the practice is to strengthen strategic coordination at the center of the ministry. The General Secretary or Permanent Secretary traditionally performs this function under the minister or ministry secretary. In countries acceding to the European Union, this function typically includes coordination of strategy, policy, EU integration, legislative drafting, financial management, internal audit, human resources management, communications, and information technology.

Box 2. Coordination Function in Serbia's Central Administration

Internal planning & coordination:

Only four ministry secretaries play a significant role, often sharing responsibilities with cabinets.

EU integration:

All organizations lie outside the minister's or ministry secretary's direct control.

Legislative drafting:

Predominantly under the ministry secretary.

Media and communications:

Mostly report directly to the minister.

Resource management:

Under the ministry secretary; often located elsewhere in the ministry.

In Serbia, there is no consolidated, consistent ministry model (Box 2). The lack of formal, well-established strategic planning and policy development systems limits ministries' coordination capacity under any configuration. Even though ministry secretaries have been appointed for all ministries, their authority and capacity to provide strategic coordination through a ministerial secretariat is generally weak. In many ministries, the cabinet plays a significant role, whereas in others, sector units reporting to a state secretary provide coordinating functions. Box 2 shows the diversity of models of strategic coordination.

Serbia should consider strengthening the ministry secretary’s strategic coordination role (Table 12) by giving ministerial secretariats responsibility for strategic planning, policy coordination, public financial management, human resources management, legislative drafting, and possibly EU integration. This arrangement would be preferable to placing such units directly under the minister or having them report to a state secretary.

Table 12. Location of Horizontal Coordinating Functions in Ministries

Ministry	Internal Coordination	EU Integration	Legal Drafting	Media	Resources
Agriculture and Environmental Protection	SEC	OTH	OTH	CAB	SEC / OTH
Construction, Transport and Infrastructure	CAB / SEC	OTH	SEC	CAB	SEC
Culture and Information	CAB / SEC	OTH	SEC	CAB / SEC	SEC / OTH
Defense	SEC / CAB	OTH	SEC	OTH	OTH
Economy	CAB / SEC	OTH	SEC	CAB	SEC
Education, Science and Technology Development	SEC / CAB	OTH	OTH	CAB / SEC	OTH
Finance	CAB / SEC	OTH	OTH	CAB	SEC
Foreign Affairs	SEC	OTH	SEC	CAB / SEC	OTH
Health	CAB / SEC	OTH	SEC	CAB / SEC	SEC
Interior	CAB / SEC	OTH	SEC	CAB / SEC	SEC / OTH
Justice	SEC	OTH	OTH	CAB	SEC / OTH
Mining and Energy	CAB / SEC	OTH	SEC	CAB	SEC
Public Administration and Local Self-Government	OTH / SEC	OTH	SEC / OTH	CAB / SEC	SEC
Trade, Tourism and Telecommunications	CAB / SEC	OTH	OTH	CAB	SEC
Youth and Sports	CAB / OTH	OTH	SEC	CAB / SEC	SEC

Note:

CAB = Minister’s Cabinet

SEC = Ministry Secretary’s Secretariat;

OTH = Elsewhere in the Ministry.



CHAPTER 3: IDENTIFYING DUPLICATIVE AND OVERLAPPING FUNCTIONS

Duplicative functions occur when at least two institutions deliver the same function within the same functional classification (Table 13). Overlapping functions occur when at least two institutions deliver the same function within different functional classifications. Addressing duplicative functions typically requires consolidation of functions within one institution, and overlapping functions may be realigned and optimized to maximize synergy between organizations. Eliminating duplication achieves the fiscal objective of saving money and improving efficiency, and realigning overlapping functions achieves the policy objective of improving operational effectiveness.

Table 13. Attributes of Duplicative and Overlapping Functions

Attribute	Duplicative Functions	Overlapping Functions
Occurrence	Same function within same functional classification in at least two organizations	Same function within different functional classifications in at least two organizations
Remedial strategy	Consolidate function in single organization	Realign and optimize functions to maximize synergy between organizations
Primary objective	<i>Fiscal:</i> save money; improve efficiency	<i>Policy:</i> improve operational effectiveness

It is common to have duplication and overlap in the delivery of a similar function by two or more institutions. Decisions regarding the appropriate response to duplication and overlap often require in-depth study, taking into account policy, fiscal, and organizational objectives (Table 14).

Table 14. Duplicative and Overlapping Functions According to Sector

Sector	Function	Issue
Economic	Promotion of exports and investment	Overlapping
	Incentives for exports and investment	Overlapping
	Support for small and medium enterprises and entrepreneurship	Overlapping
	Legal disputes re privatization	Duplication
Tourism	Market research	Duplication
	Tourist information system	Duplication
Civil service management	Public employee register	Overlapping
	Information technology support	Overlapping
	E-government and information society	Overlapping
	Monitoring protection of human rights and minorities	Overlapping

Economic Sector

The government’s role in supporting economic development is complex and delivered through multiple ministries. Four economic sector functions were identified as potentially duplicative or overlapping.

Investment and Export Promotion

Investment and export promotion responsibilities were redefined with the passage of the 2015 Law on Investments, which established the new Development Agency of Serbia (DAS) under the Minister of Economy. Three organizations currently promote investment and exports.

- The MoE Division for Public-Private Partnerships and Investment Support and Development (four civil servants⁵) operates primarily as an administrative body but has responsibilities in all functional classifications.
- The DAS Direct Investment Department plays a primary role in promoting investment and exports for a number of industrial sectors, including automotive, machinery, electronics, information and communications technology, aerospace, chemicals, food, textiles, and wood. The DAS has responsibilities in all functional classifications except policy.
- The Free Zones Administration (FZA) promotes investment and exports for the Free Zones (three civil servants) in the service and administrative classifications.

⁵ The terms “civil servants” and “non-civil servants” are used throughout to indicate staffing numbers. These cover management and analyst positions but not administrative support.

Looking ahead, as DAS becomes more established, the MoE should focus more on its policy role. The DAS and the FZA need to strengthen coordination and reduce duplication of roles with respect to investment and export promotion in the Free Zones. Policy and implementation synergies need to be explored.

Investment and Export Incentives

Investment and export incentives are delivered through a wide range of programs and organizations.

- The MoE Division for Public-Private Partnerships and Investment Support and Development (four civil servants) has policy and implementation responsibilities, including setting standards for the centralized information system.
- The DAS is playing an emerging role in implementing incentive programs in support of economic and regional development for a wide range of industrial sectors and maintains the centralized information system.
- The Administration for Faster Response (seven civil servants), under the MoE, focuses on attracting foreign investment.
- The Serbian Export Credit and Insurance Agency (60 non-civil servants) provides financing to stimulate and expand exports of domestic companies.
- The Development Fund (21 non-civil servants function) under the MoE provides export and investment support through loans. Funding comes from the state budget.
- The Ministry of Agriculture and Environmental Protection administers agricultural subsidies through its Directorate of Agrarian Payments. The ministry's Department for Rural Development (19 civil servants) is responsible for rural development subsidies, and the Department for Agricultural Inspection (25 civil servants) controls the use of subsidies.
- The MTTT administers subsidies to promote tourism development (10 civil servants).
- The Office for Kosovo and Metohija administers subsidies to private companies in the province in support of economic development and infrastructure.
- The Office for Coordination of Municipalities of Presevo, Bujanovac, and Medveda provides subsidies to private companies and administers grants.

Table 15 shows the functional classifications that each of these organizations performs. The complexity of linkages between the incentive programs and the need for coordination require a more in-depth assessment involving the organizations and their stakeholders.

Table 15. Investment and Export Incentives: Functional Classification Summary

Organization	Policy 1	Policy 2	Regulatory	Inspection	Service	Administrative
Ministry of Economy	X	X	X	X	X	X
Development Agency for Serbia		X	X	X	X	X
Administration for Faster Response		X	X	X	X	X
Serbian Export Credit and Insurance Agency			X	X	X	X
Development Fund			X	X	X	X
Ministry of Agriculture and Environmental Protection	X	X	X	X	X	X
Ministry of Trade, Tourism and Telecommunications	X	X	X	X	X	X
Office for Kosovo and Metohija			X		X	
Office for Coordination of Municipalities of Presevo, Bujanovac, and Medveda			X		X	

Small and Medium Enterprise and Entrepreneurship Support

The MoE has policy responsibility for the development of handicrafts, small and medium enterprises (SMEs), and entrepreneurship.

- The MoE Department for Development of Small and Medium Enterprises and Entrepreneurship (17 staff) coordinates a wide variety of activities
- The Ministry of Education, Science and Technological Development Group for the National Innovation System within the Department for Technological Development, Technology Transfer and Innovation System (three civil servants) is responsible for technological entrepreneurship and technological knowledge transfer and for funding innovative projects.
- The Ministry of Labor, Employment, Veteran and Social Affairs section for Promotion and Development of Social Entrepreneurship, Vocational Rehabilitation and Employment of Persons with Disabilities (four civil servants) supports the development of social employment and social entrepreneurship.
- The MTTT Planning and Analysis section (five civil servants) monitors trends in and fosters development of SMEs and entrepreneurship in the tourism sector.
- The National Employment Service provides a range of support activities to advance self-employment and entrepreneurship through training, development, and incentives.

- The Development Fund Department for Loans and Guarantees (six non-civil servants) supports entrepreneurship by approving loans.

Table 16 shows the functional classifications of the services that each of these organizations performs. In this case, the MoE has overall policy responsibility, and the remaining organizations approach this function from a sectoral (e.g., tourism) or mandate-driven (e.g. promoting self-employment or social entrepreneurship) perspective. In principle, the MoE should focus on its policy development and coordination role, but this needs to be done in conjunction with an overall assessment of the delivery of SME and entrepreneurship support across all organizations, with a view to maximizing synergies and eliminating duplication.

Table 16. Small and Medium Enterprise and Entrepreneurship Support: Functional Classification Summary

Organization	Policy 1	Policy 2	Regulatory	Inspection	Service	Administration
Ministry of Economy	X	X	X	X	X	X
Ministry of Education, Science and Technological Development	X	X	X		X	X
Ministry of Labor, Employment, Veterans, and Social Affairs	X	X			X	
Ministry of Trade, Tourism, and Telecommunications	X	X	X	X	X	
National Employment Service			X	X	X	
Development Fund			X	X	X	

Management of Legal Disputes Privatization

Amendments to the Law on Privatization that took effect in February 2016 abolished the Privatization Agency and transferred its functions to the MoE. The amendments also established the Agency for the Management of Disputes in the Privatization Process (nine civil servants) to manage preexisting disputes. The Public Defender’s office is to manage disputes arising since the amendments came into force. This clear duplication raises questions about capacity, because the Public Defender’s office has not developed significant expertise in this area, and inefficiency, because two organizations are delivering the same function.

Tourism Sector

The Law on Ministries mandates that MTTT promote and develop tourism. The 1994 Law on Tourism established the National Tourism Organization (NTO) to perform similar functions and coordinate tourism activities at the provincial and local level. Both organizations are directly involved in tourism market research and managing the Tourism Information System. This is a direct duplication of efforts.

Tourism Market Research

Within the ministry, the Department for Tourism Section for Market Research and Development of Tourism Products (four civil servants) conducts research on tourism trends, activities, and products. Within the NTO Department for Management of Tourism Markets and Products, one position is responsible for market research. Essentially, both organizations draw on the same information from the same sources to deliver the same function. Ideally, the ministry would focus on its policy role while the NTO conducts research in support of delivery.

Tourist Information System

Legally, the ministry is responsible for developing the Tourist Information System, although no positions are allocated to this function. The NTO, which is also responsible for managing the information system, has allocated two civil servants for this purpose. The ministry should confine its role to policy development and regulation of information, and system management should be exclusively the responsibility of the NTO.

Civil Service Management Sector

Three functions related to civil service management need to be assessed for potential duplication and synergy: maintenance of public employee registers, application of information and communications technology in the public sector, and monitoring human and minority rights.

Maintenance of Public Employee Registers

The Law on Budget Systems requires the MoF Treasury Department to maintain a register of all public officials. In 2015, the Law on the Register of Employed, Elected, Appointed, Designated, and Engaged Persons in the Users of Public Funds transferred responsibility for the register of public employees to the MPALSG. Two civil servants maintain the register. At the same time, the Government Human Resource Management Service is required under the

Law on Civil Servants to maintain the central personnel registry for civil servants and other employees in the administration. Three civil servants maintain the registry. In addition, the Ministry of Education, Science and Technological Development maintains the Unique Education Information System, which collects a range of information on all employees in the education sector. This information links directly to the Treasury system. The overlap between the various employee registers is considerable—as much as two-thirds. Given the obvious inefficiencies and potential for a single system, the Directorate for E-Government should explore the optimum technical solution to collecting employee data, taking into account its different uses by different institutions.

Application of Information and Communications Technology in the Public Sector

The Group for Digital Agenda (three civil servants) within MTTT is responsible for policy and planning with respect to the information society and electronic communications. The MPALSG Directorate for E-Government (11 civil servants and support staff) oversees the planning and implementation of e-government strategy across all levels of the government.

The AJSRB provides shared services for the public administration. It is responsible for applying information technology in the public sector, including development of e-government and electronic services (11 civil servants and support staff). The potential synergies between e-government and the e-commerce should be explored. This would involve the Directorate for E-Government and the Group for Digital Agenda. The distinctions between the policy role of the Directorate for E-Government and the technical support role of the AJSRB should also be clarified to remove any duplication.

Monitoring Human and Minority Rights

Two organizations are directly involved: the MPALSG and the Government Office for Human Rights and Minorities. Within the MPALSG, the Department for Human and Minority Rights and Freedoms (three civil servants) organizes elections for the National Councils of National Minorities, maintains the Register of National Councils of National Minorities, monitors implementation of human and minority rights obligations, and produces reports on these matters to address EU accession and international obligations. Within the Government Office for Human Rights and Minorities, the Department for the Promotion and Protection of Human Rights and Department for National Minorities monitor compliance with national legislation and international commitments. In this instance, although there is duplication, the differing mandates and accountability relationships of the respective institutions need to be taken into account when examining potential duplication and synergies.



CHAPTER 4: STREAMLINING ADMINISTRATIVE, TECHNICAL, AND FINANCIAL SUPPORT FUNCTIONS

Inconsistent and often excessive use of support staff across the government is common. Standardization of support staff deployment across the public administration could achieve significant wage bill savings and workforce reductions. To assist with this, the deployment of administrative, technical, and financial support staff should be examined.

Two organizational factors that apply to multiple institutions must be taken into account. The delegation of services by a ministry or agency to the AJSRB will reduce or eliminate the staff requirements for support functions within that institution. Large, deconcentrated institutions need to be considered separately because they have unique characteristics and present significant opportunities for rightsizing. Such bodies are referred to as “network institutions.” In Serbia, eight network institutions account for 21,000 staff—more than two-thirds of the total staff identified in the cross-government survey of 114 institutions.⁶

Administrative Support

There are six main administrative functions across the central administration. Broadly, tasks 1 to 3 (Table 17) relate to records management, and tasks 4 to 6 can be classified as administrative. The AJSRB manages records (tasks 1 to 3) on behalf of numerous ministries and agencies. For example, 90 of the 114 surveyed institutions fully or partially use the AJSRB’s registry office services.

⁶ Network institutions include Geodetic Bureau, Ministry of Foreign Affairs, Tax Administration, Treasury Administration, Customs Administration, National Health Insurance Fund, Pension and Disability Insurance Fund, and National Employment Service.

Table 17. Administrative Support Functions

#	Core task
1	Keeping the register of cases, registry of incoming and outgoing mail
2	Receiving, sorting, and archiving documents
3	Scanning and copying documents
4	Writing meeting minutes and letters and typing and retyping documents
5	Answering the telephone, sending and receiving faxes and e-mails
6	Keeping records on purchases and consumption of office and other supplies, property records, records about presence at work and business travel preferences, and other simple records

Source: World Bank. 2016. *Functional Review of Selected Non-Core Functions*. Washington, DC: World Bank

There is no standard location within institutions for administrative functions. There is a diverse range of job titles, inconsistent job rankings apply, and rulebooks include obsolete positions (e.g., typist, telephonist). Moreover, there are wide variations in how individual institutions classify administrative support functions. For example, the Plant Protection Directorate, with 138 employees, has no employees formally classified as providing administrative services.

Table 18. Administrative Support Positions According to Institution Type

Institution Type	Institutions	Total Staff	Administrative Staff	
	(n)	(n)	(n)	(%)
Ministry	13	3,502	192	5.5
Network Institution	8	21,143	1,750	8.3
Subordinate Body	24	1,548	41	2.6
Special Organization	14	1,825	58	3.2
Government Services	7	1,111	10	0.9
Public Institution	9	521	28	5.4
Public Agency	12	597	68	11.4
Administrative District	27	229	118	51.5
TOTAL	114	30,476	2,265	7.4

Source: World Bank staff estimates based on survey data

Accordingly, all administrative support staff in organizations with 10 or fewer employees and all administrative staff above the thresholds are potentially redundant. Table 19 applies these criteria to the 114 surveyed institutions. Using this methodology, 78 positions in 24 institutions may be redundant in agencies with 10 or fewer employees. Approximately 590 positions in 39 institutions may be redundant according to the threshold staffing ratios. Overall, this methodology suggests that 668 administrative support staff may be targeted for

workforce reductions. Not surprisingly, the major reductions will occur in the large network institutions, most notably in the National Pension and Disability Insurance Fund (251 employees) and National Geodetic Authority (221 employees). Further savings can be achieved by requiring more institutions to use the AJSRB and examining the branch structures of network institutions.

Table 19. Potential Redundancies in Administrative Support Functions

Institution Type	Administrative Support Staff (n)	Total Staff (n)	Potential Cuts (n)
Ministry	192	3,502	42
Network Institution	1,750	21,143	472
Subordinate Body	41	1, 548	19
Special Organization	58	1,825	26
Government Service	10	1,111	2
Public Institution	28	521	9
Public Agency	68	597	21
Administrative District	118	229	77
TOTAL	2,265	30,476	668

Source: World Bank staff estimates based on survey data

Similarly, the potential savings to be realized through automation need to be fully assessed in terms of e-government and shared electronic resources. Beyond workforce reductions, it will be important to standardize job descriptions and job rankings for administrative support positions, delete obsolete positions from the rulebooks, and update job descriptions to reflect the use of modern technology. As the administrative support function is streamlined and modernized, the government will need to consider the pace of standardization, the degree of centralization through the AJSRB, and the scope and pace of e-government-related reforms.

Technical Support

Technical support positions cover a wide range of tasks:

- Collecting technical data on work related to maintenance of buildings
- Fire prevention measures
- Disinfection of buildings, pest and rodent control in buildings
- Repair of minor deficiencies in buildings and installations
- Heating of premises and maintenance of boilers
- Cleaning and maintaining hygiene in buildings, around buildings,

- Preparing and serving refreshments
- Distribution of documentation and materials
- Copying, sorting, and filing
- Operation of official vehicles, vehicle maintenance and servicing

The presence of these tasks across institutions varies depending on use of AJSRB and private sector providers.

Table 20. Prevalence of Technical Support Tasks Across Government

Task	Staff (%)	Institutions (%)	All Institutions (%)
1. Collecting technical data building maintenance	18	45	40
2. Fire prevention measures	20	33	29
3. Pest and rodent control of buildings	0	8	7
4. Minor repairs of buildings and installations	60	30	26
5. Heating and maintenance of boilers	4	12	11
6. Cleaning of buildings and property	140	23	20
7. Preparing and serving refreshments	36	25	22
8. Distribution of documents and materials	50	55	48
9. Copying, sorting, and filing materials	17	52	46
10. Operating, maintaining, and servicing vehicles	376	81	71

Source: World Bank staff estimates based on survey data

The most common job titles for these tasks are driver, coffee cook, cleaning lady, doorman, janitor, stoker, pressroom operator, and courier. The two jobs with the highest number of **positions** are drivers (359 positions) and cleaning ladies (140 positions). Such jobs may be combined (e.g., driver-janitor), and different titles may be used for similar positions. Quality standards (e.g., for cleaning jobs) are not widely used.

Technical support jobs are mostly classified as civil service positions (58 percent), with the remainder falling under the Labor Code. The civil service positions are assigned to 11 job categories, ranging from senior advisor to employee of the fifth category, that is, from one of the highest to lowest ranking in the scale of civil service jobs. Even similar jobs are ranked differently; for example, ministry drivers are ranked as employees of the fourth category, whereas one agency ranks its drivers as clerks, a much higher position. Within institutions, there is no consistency in the organizational location of technical support positions. They may be found at different organizational levels and in different organizational units.

With respect to overall staffing levels, there are also wide variations. There are also differences in usage patterns between large institutions. Approximately 4.4 percent of staff in the Pension and Disability Insurance Fund are classified as technical support, versus 0.8 percent in the Geodetic Bureau. Geographical dispersal may also play a role; the Ministry of Foreign Affairs employs 123 technical support staff, almost double the number in the remaining 13 surveyed ministries. There are also variations in technical support levels according to institution type, from a high of 18 percent in the administrative districts to 0.3 percent in government services. Finally, retention of registry offices by network institutions affects overall staffing levels; most other institutions use the AJSRB registry service. For example, the Tax Administration allocates 194 positions to the registry task, with 185 spread throughout the branch offices.

Similar to administrative services, there is considerable potential to achieve wage bill savings and workforce reductions in technical support. Using the same criteria as above, there is a potential reduction of 259 employees, including 30 employees in 21 institutions with 10 or fewer employees and 229 employees in 24 institutions by applying the maximum threshold.

The majority of savings will be realized in larger organizations. Potential areas include Ministry of Foreign Affairs (93 redundancies), Pension and Disability Insurance Fund (54 redundancies), and Hydro-Meteorology Bureau (27 redundancies). In terms of percentage, the highest level of cuts would apply to the administrative districts, where 42 of 229 positions (18 percent of total staff) would be declared redundant.

Otherwise, proposals similar to those identified for administrative support services apply. Standardized job descriptions and job titles with consistent rankings for civil service and non-civil service positions should be pursued, obsolete positions deleted from the rulebooks, and job descriptions updated to reflect the use of modern technology. In addition, assignment of service quality standards would improve cost efficiency. For instance, the following institution- or task-specific proposals could be considered.

- Establishing a dispatch center to provide all driver- and vehicle-related technical support
- Using the Tax Administration printing services year-round to serve other institutions
- Establishing regional centers to provide select technical support to local branches

Two factors will need to be explored when considering the optimum deployment of technical support staff across Serbia's public administration: the potential role of the AJSRB to expand their services, particularly to agencies, and the potential for outsourcing select technical support tasks, especially where the practice already exists. Both measures could produce significant wage bill savings and workforce reductions.

Financial Support

Financial support positions cover a wide range of tasks.

1. Drafting financial plans and budgets
2. Drafting reports and analyzing financial plans and budgets
3. Preparing annual financial statements
4. Settling accounting documents, issuing payment orders and outgoing invoices
5. Processing documents for calculation of salaries, fees, and other employee earnings
6. Calculating and paying contracts for temporary engagement, service contracts, solidarity assistance, and other employee earnings
7. Drafting tax returns and tax payments, contributions, and other duties
8. Processing documents, calculating and receiving cash, making cash payments
9. Keeping journals, general ledgers, analytics, auxiliary books and records

These institution-level tasks support core functions of the MoF and include coordination of budget formulation, budget execution, accounting, and cash management. Most institutions perform all these tasks, with more than 90 percent of institutions performing tasks 1 to 7, 52 percent performing task 8, and 88 percent performing task 9.⁷

The same tasks are performed in a similar manner in most institutions, although there are variations in job titles and job descriptions across institutions, including clustering of multiple tasks in small institutions. Job rankings and related salaries are also inconsistently applied. Although these practices do not preclude the tasks being completed, they raise management and career development challenges. The financial support function is mostly located in sectors (71 percent of responding institutions). Of the 13 responding ministries, eight are located in the Ministerial Secretariat and five in sectors.

The financial support function employs 1,114 staff (3.7 percent), of which 983 are permanent and 125 temporary; 702 financial support staff (63 percent) are employed in the network institutions. Ministries average 14 financial support employees. Smaller institutions tend to employ two to three financial support staff.

There are variations in ratios of financial support to total staff between institution types: 1:8 in the National Health Insurance Fund, 1:11 in the Tax Administration, 1:38 in the Geodetic Authority, and 1:43 in the Customs Administration. In ministries, the ratio is 1:80 in Construction, Transport and Infrastructure and 1:19 in Education, Science and Technological Development.

⁷ Task 8 involves cash box operations, which electronic transfers are increasingly replacing.

Applying the same formula used for administrative and technical support staff, the financial support workforce could be reduced by 349. Of these, 36 (mostly from administrative districts) are from institutions with 10 or fewer employees, and 313 potential redundancies derive from applying a maximum threshold ratio. The institution type with the most scope for reductions is again the administrative districts, where 31 of 46 financial support staff could be cut (13.5 percent of total workforce).

The major reductions would occur in network institutions (214 positions) and ministries (58 positions), with the remaining cuts (41 positions) spread across other institution types. Beyond workforce reductions, it will be important to standardize job descriptions and job rankings for financial support positions and update job descriptions to reflect the use of modern technology (e.g., replacing cash box operations with electronic transfers).



CHAPTER 5: ADDRESSING MISSING FUNCTIONS IN THE CONTEXT OF EU ACCESSION

Preparation for Serbia's accession to the European Union is under way. The government has committed to advancing accession negotiations significantly. On the EU side, expectations are clearly set in the Acquis and related membership conditions on political, economic, and institutional development. Nevertheless, as the 2015 Enlargement Strategy notes, although progress is being made on a range of preparatory activities, the reforms required for accession require time.

Developing a Cost-Effective Approach

Serbia has the opportunity to prepare for accession and cover related gaps more efficiently than former candidates from Central and Eastern Europe who developed parallel structures and expanded their public sectors more than necessary. Expansion of the administration is necessary, but Serbia can do more with the existing institutional infrastructure if it controls unnecessary creation of new institutions. The current public administration is fragmented and should be restructured through mergers of small organizations. The accession process provides an opportunity to do so.

The demands placed on Serbia in addressing Acquis-related missing functions may surpass those that countries that acceded earlier faced. Greater demands on countries seeking EU accession have arisen that extend beyond the adoption of the Acquis. For example, the European Commission *Guide to the Main Administrative Structures* recommends that the organization of basic state functions in areas such as tax and customs administration be addressed first, with Acquis requirements following. Enlargement policy now places greater emphasis on the fundamentals, such as rule of law, fundamental rights, strengthening democratic institutions and public administration, and economic development and competitiveness. The European Union has developed Acquis-related functions to perform core functions of the judiciary, tax administration, and social policy.

To address missing functions and avoid building parallel structures, two strategic choices should be considered: expansion or reorganization. The former involves strengthening existing institutions, and the latter involves restructuring existing institutions to deliver new functions.

Retraining and process redesign must accompany restructuring. For example, with appropriate training, veterinary inspectors can perform more-sophisticated inspections in the same time frame if unnecessary requirements are eliminated and inspections become more risk based rather than aimed at improving efficiency. Process improvement is also critical to improving efficiency of the judiciary, as outlined in chapter 23 of the Acquis.

The government's reorganization and rightsizing program, supported by functional reviews, provides an ideal vehicle for determining the optimal size of its public sector Through this program, the government can ensure that the twin agendas of EU accession and fiscal consolidation are implemented in a coherent manner. As noted above, a program of institutional mergers has been proposed that would be relevant to Acquis-related functions, for example, merging the Ministry of Agriculture and Environmental Protection's Veterinary Directorate with the Plant Protection Agency.

Administrative Capacity

Administrative capacity must be strengthened across the administration. As underscored in the SIGMA 2015 *Baseline Measurement Report*, improvements in structures and processes supporting the six principles of public administration must accompany efforts to address the missing Acquis-related functions. The resulting increases in administrative capacity will also support effective implementation of the government's rightsizing program.

Proposals on rightsizing the administration and eliminating duplicative and overlapping functions will contribute to balancing the EU accession and fiscal consolidation agendas. Significant reductions in the number of support staff, for example, can provide the necessary savings not only to achieve wage bill reductions, but also to staff missing Acquis-related functions.

Effective implementation of an integrated approach to address missing functions will require strengthening of Serbia's coordinating institutions, including those responsible for coordinating public administration reform, policy management, legal drafting, human resources management, accountability mechanisms, service quality and accessibility, public financial management, and public procurement. At a minimum, affected institutions include MPALSG, General Secretariat, National Public Policy Secretariat, Republic Secretariat for Legislation, Office of Media Relations, Human Resources Management Service, Serbian European Integration Office, MoF, Fiscal Council, and Public Procurement Office.

An immediate priority will be assembling sufficient legal expertise to assist with transposition of the Acquis. A possible approach could be to hire a temporary pool of lawyers. In the medium term, strengthening linkages between the policy, legal drafting, and fiscal processes, along with creating a better-integrated communications function, will be critical.

Enhanced skills and capacity in organizational development and human resources management are required to oversee the rightsizing program and to address the missing Acquis-related functions. Numerous proposals were made in the horizontal functional reviews covering institutional legal frameworks, institutional typology, organizational hierarchy, institutional mergers, use of temporary employees, deployment of support staff, span of control, and ministry and agency accountability.

A top priority will be making progress in public finance reform, including procurement. For example, for regional and structural policy, all institutions overseeing the planning and execution of public investment, such as the MoF Budget Department, need to be strengthened and the process better integrated. The current National Programme for the Adoption of the Acquis (NPAA) is not sufficiently developed to address capital investment. The capacity of the Fiscal Council could be improved to implement economic and monetary union, and the Public Procurement Office could be expanded.

The optimal institutional solution for financial control will also need to be carefully examined. This is not part of the NPAA. As suggested in the SIGMA progress note for 2015, there are indications that the Serbian government is building a parallel system of internal financial control between internal audit units and budget inspection. It will be important to review this sector once the new version of the NPAA is ready.

In sum, measures to strengthen administrative capacity need to be designed as part of a coherent package addressing EU accession and fiscal consolidation. Rightsizing to meet workforce reduction targets should be planned in association with measures to address missing Acquis-related functions. Implementation of the vertical functional review of the MoF must inform and fully reflect efforts to meet the requirements under principle 6 (public financial management) for public administration reform as set out in the *Baseline Measurement Report* produced by SIGMA and the European Commission.

Important Acquis-Related Functions

Statistics

The statistics function will need to be expanded. A 70 percent increase in staff would be warranted according to benchmarks of other countries.

Environment

The European Commission has identified the environment as one of the most-critical sectors with regard to the gap between the current situation and requirements of the Acquis. Europeanization in this area is in the initial stage, according to the 2015 European Commission assessment, which the NPAA, the post-screening documents, and interviews with experts in this field confirmed. Water and waste management pose major challenges because of the lower number of staff. The gap will not be easily addressed by restructuring existing institutions; important new functions will be needed—wastewater treatment and drinking water and waste management in particular. A capable implementing agency will be required to plan and implement these critical investments. Separation of the environment function from the Ministry of Agriculture and Environmental Protection should be considered.

Transportation

There will be significant expansionary pressures on transportation. The Transportation Sector of the Ministry of Construction, Transport, and Infrastructure does not have sufficient capacity to address the widest gaps already identified during the screening process.: providing access to roads for transport of goods and passengers; abolishing discriminatory charges on roads for foreign vehicles; harmonizing and implementing social, safety, and technical rules for road transport; developing safety and security requirements in the maritime sector; enacting safety and interoperability rules for rail transport; developing standards for the transport of dangerous goods; providing full market access to rail infrastructure; defining all obligations under the maritime Acquis; implementing conditions for access to inland waterways; and instituting EU regulations regarding licensing of air carriers.

Staffing levels may need to be increased by up to 20 percent to enable the ministry to perform these functions in accordance with the Acquis. Options for meeting these demands could include employing young, qualified professionals; grouping dispersed, disconnected transport organizational units; and simplifying the internal organization of the transport sector by merging smaller organizational units, but any increase in staffing would need to be approved on a case-by-case basis. Some associated entities, for example the Civil Aviation Administration, are already well staffed. Similarly, the established institutional infrastructure for free movement of goods may require only modest expansion.

Regional and Structural Policy

The institutional solution for managing EU structural funds will need to be carefully considered. In its progress report of 2011 and 2012, the European Commission discouraged the establishment of parallel systems, but the NPAA appears to confirm a common misunderstanding of former candidate countries from Central and Eastern Europe related to the national reference for the principal institutional framework in the regional and structural

policy chapter the framework for the management of pre-accession funds, and the national regional policy. The correct reference is the national development policy and institutions of national capital investment. To avoid creation of a parallel system, the focus should not be on sub-national actors and current pre-accession management structures, although some of its elements are clearly necessary, but on upgrading national capital expenditure planning and execution processes and capacity.

An overall institutional development plan for chapter 22 (of the Acquis) is being prepared.

A decision will need to be made concerning the optimal approach, especially with respect to implementing agencies. It is likely that a differentiated approach, involving the creation of new agencies in agriculture, transport, environment, human resource, and business support, would involve substantial staffing increases.⁸ An integrated approach would strengthen the agencies that deal with capital spending in corresponding areas.

Suggested Approach for Selected Chapters of the Acquis

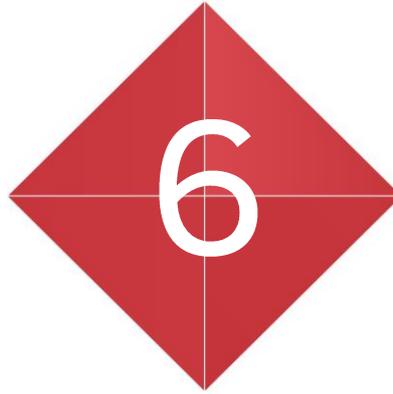
The assessment in table 21 indicates whether expansion or reorganization should be considered as the approach to addressing missing functions for select chapters. Table 21 shows a range of chapters and provides justification for the preferred approach.

Table 21. Suggested Approaches for Selected Chapters

Chapter	Approach	Justification
Environment	Expansion	New institutions needed for new functions, substantial workload, low staffing levels
Financial services	Expansion	Right institutional structure; new functions and limited staff
Statistics	Expansion	Well-developed plans, substantial future workload, limited staffing levels
Free movement of goods	Expansion	Right set of institutions combined with need for further substantial progress and modest staffing levels
Transport	Expansion	Many new functions; uneven staffing levels
Regional and structural policy	Reorganization	New functions are the opportunity to upgrade the system of capital expenditure planning rather than expanding regional policy institutions and pre-accession EU assistance management system.
Food safety, veterinary, and phytosanitary control	Reorganization	There are many new demanding functions, but they can be performed by discontinuing obsolete functions and organizing processes better.

⁸ For example, in Lithuania, which manages a set of differentiated agencies created for the purpose of EU assistance management, these agencies employ approximately 700 people. An additional 137 staff members are employed in the special EU assistance departments in the line ministries (intermediary bodies). A similar system and number of employees is the most-recent and -relevant benchmark in Croatia, but in Croatia, the choice of implementing agencies took their capacities into account.

Chapter	Approach	Justification
Internal financial control	Reorganization	Possibility of relying on existing national system of control by upgrading it, instead of creating a new system worth exploring.
Justice, freedom, and security	Reorganization	Despite lack of figures on staffing in NPAA, EU demands to increase capacity in risk management, investigation of complex financial crimes, and some other areas could be managed by redeploying available resources and within current structures.
Judiciary and fundamental rights	Reorganization	Judicial functional review that World Bank performed in 2014 indicates need to improve process and auxiliary functions, such as information technology and human resource management. Staffing is considered sufficient.



CHAPTER 6: IMPLEMENTING SERBIA'S FUNCTIONAL REVIEWS

Increasing Probability of Successful Implementation

There are four main factors influencing the success of functional reviews: governance model, reform drivers, program design, reform environment. Implementation does not end with passage of a law or approval of a new organizational chart but with institutionalization of reforms throughout all levels of the organization. Table 22 summarizes Serbia's implementing environment.

Table 22. Implementing Environment for Serbia's Functional Review Program

Characteristic	Serbian Context
Governance model	Continental European, relying on coalitions Legalistic; major changes require legislation
Reform drivers	Political commitment to downsize Fiscal targets in International Monetary Fund agreement Led by Minister of Public Administration and Local Self-Government with support from Minister of Finance
Program design	Cross-government in scope Horizontal review of common functions Vertical reviews of select sectors and ministries
Reform environment	Mixed Support Modest leverage Lengthy implementation time frames

Characteristics of Serbia's implementing environment will influence how the functional review program is implemented and the results it achieves over the near to medium term.

- a. **Governance model:** Serbia falls within the Continental European model—reliant on coalitions and highly legalistic. Typically, such systems require lengthy implementation periods owing to extensive legislative requirements and political bargaining between coalition parties. Fortunately, in Serbia’s case, the recently elected government coalition appears stable and should have sufficient time to implement many of the proposals before the next election.
- b. **Reform drivers:** The current functional review program is driven by fiscal considerations under the reform program with the IMF agreement. Accordingly, in addition to informing the remaining staff reductions, the reviews will be used to improve operational effectiveness in select sectors (finance, agriculture, environment, health, education, social protection). The Minister of Public Administration and Local Self-Government leads the reviews, and the Minister of Finance, who oversees implementation of the IMF program, supports them.
- c. **Program design:** The scope of the reviews (horizontal review of common functions; vertical reviews of select sectors and ministries) is ambitious but not over-reaching. Implementation of the sector and ministry reviews will occur over the medium term, after the IMF agreement expires.
- d. **Reform environment:** The above factors suggest that Serbia’s reform environment should be considered mixed. Although, far-reaching, “big bang,” Westminster-style reforms are enticing, they are generally inappropriate for continental European governments. Given the government’s high-profile commitment to the reform package that supports the IMF agreement, support of development partners will continue to exist in the near term, although there is significant risk that support could diminish once the IMF agreement expires. The crucial question remains the measures to be taken in the near term to ensure successful implementation over the medium to long term.

Implementation needs to be considered in two phases: measures that have supported the workforce reductions and will likely be achieved as planned by 2017 and more-complex cross-government and sector reforms that will be delivered over the next decade.

Critical Success Factors for Serbia’s Functional Reviews

Four critical success factors should be considered as implementation of the functional reviews proceeds: political support, leverage, mainstreaming, and local ownership. In implementing its functional reviews, Serbia will face many of the same formidable challenges that confronted its European neighbors and will need to find ways to avoid the implementation failures that characterized most of those efforts.

Political Support

Lack of sustained political support is the main cause of implementation failure of administrative reforms. This occurs in part because the near-term political benefits of administrative reforms are rarely obvious to the political actors. Moreover, the effect on political appointees of organizational changes can be contentious, particularly in coalition governments.

In Serbia, it will be important to frame these reforms so that they have political appeal and the support of the Prime Minister and Minister of Finance. For example, passing laws and regulations to restructure ministries will rarely be of interest to a Prime Minister. These measures must be communicated as the means to freeing funding that can then be devoted to the government's priorities.

For individual sector and ministry reforms, political support must also come from the responsible minister. Efforts must therefore be made to ensure that each minister understands and is eager to spearhead the respective sector and ministry reforms during the remainder of the government's mandate. If those ministers are not convinced of the review's value, implementation will suffer.

In other countries, communicating with and involving key stakeholders and opinion leaders has benefited implementation. Ministers generally want to be perceived as responding to stakeholders, so ongoing lobbying by key stakeholders can keep the proposed reforms on the political agenda.

Leverage

In many countries that have acceded to the European Union, external leverage played a key role in spurring the launch and putting in place the legal framework for PAR reforms. Typically, pressure to adopt reforms emanated from agreements with development partners, but external leverage tends to diminish over time as commitments are fulfilled and agreements expire. Ultimately, the desire to implement reforms must come from within, and for planning purposes, it would be prudent to assume that external pressure will play a less prominent role over the medium to long term. The current government may not face an election for another four years, allowing sufficient time to make progress on the reforms if internal momentum can be maintained.

Mainstreaming

Lengthy action plans comprising short-, medium-, and long-term measures typically accompany functional reviews, as is the case in Serbia. If the review proposals represent conditionalities of an external agreement, they are usually monitored through a distinct

process. Measures typically include items such as passage of a legal act, approval of a new organization chart, or divestment of a function.

It is critical that implementation be integrated with the government's core policy and financial planning processes. These processes include strategic planning, budget formulation, public investment planning, policy development, legislative planning, operational planning, workforce planning, performance management, risk management, priority monitoring, and budget execution. International experience underscores how reforms proposed through functional reviews must be mainstreamed with the government's core policy and financial planning processes; if these systems are not sufficiently advanced, additional effort may be required to strengthen them to ensure they are capable of effectively handling multiyear reforms.

Local Ownership

The time required to implement PAR programs is often underestimated. Implementation of comprehensive reforms that Westminster governments have undertaken, although rapidly designed and launched, have spanned 10 to 15 years. Reforms need to be adapted as experience is gained and demands evolve. Over time, the reforms will no longer be perceived as an interrelated, distinct package but simply as a process of continuous improvement to which, it is hoped, the minister and ministry remain committed. This raises the final critical success factor: local ownership.

As the functional reviews are completed, focus will naturally shift to organizational restructuring, legislative drafting, budget formulation, and monitoring progress. In parallel, efforts must be made to ensure that all employees understand why these changes are being pursued and their critical role in ensuring successful implementation.

Implementation occurs on the front lines, where services are provided to the public. From ministry senior management to field office staff, there must be a shared understanding of and commitment to implementation—that is, service quality. If the organizations to which they apply do not ultimately embrace the changes proposed in the functional reforms, the odds of realizing anticipated benefits diminish significantly.

MPALSG will be developing a change-management strategy to assist ministries with planning and preparing for the changes ahead. If this strategy is accepted, tailored to the ministry context, and acted upon, the likelihood of fostering local ownership increases significantly. The earlier that employees and stakeholders are involved in operational planning—how to translate policy and regulation into efficient, effective on-the-ground procedures—the greater the chance that the desired results will be achieved.

Completing the functional reviews is one step in a long process. Successful implementation of the functional reviews cannot be claimed when the reviews are endorsed, the proposed

laws passed, or the new organizational structures approved but only when the reforms have materially improved the economy, efficiency, and effectiveness with which ministries deliver their services to the Serbian people. The government should take into account three related areas that, although not directly related to the content of the reviews, will have a strong influence on their ultimate effect.

- *Political strategy*: ensuring that the government continues to consider the proposed reforms political priorities and that individual ministers strongly embrace them.
- *Mainstreaming strategy*: ensuring that the reforms are fully reflected in the government's core policy and financial planning processes; in parallel, strengthening the capacity of those systems to manage complex, multiyear commitments.

Change management strategy: ensuring that the management and workforces of implementing ministries understand, are engaged in, and eventually take ownership of the implementation process.

