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THE ROLE OF ECONOMIC PLANNING IN PUBLIC SECTOR: PRINCIPLES, EVIDENCE AND LESSONS FOR SERBIA IN THE CONTEXT OF EU INTEGRATION*

Uloga ekonomskog planiranja u javnom sektoru
– principi, praksa i poruke za Srbiju u kontekstu
evropskih integracija

Abstract

The aim of this paper is to provide an overview of the current situation in the area of policy planning in Serbia based on some basic principles in the field of national level economic planning and evidence-based policy making. Current abundance of individual strategies on national level adopted by the Government of Serbia is definitely a reflection of a strong need for development planning in order to deal with all reform challenges ahead which should be addressed with thoughtful policy agenda. There is a room for improvement in the following areas: (a) introduction of a systemic approach linking sector level strategies to the roof long-term development plan, (b) strengthening of the analytical support to planning, (c) linking phases of policy making to include monitoring and evaluation phase, (d) linking the annual cycle of planning and budgeting into a single process, with a harmonized methodology, which also covers planning of non-legislative activities such as public investment, and (e) legitimizing policy concept or concept document as a policy document that can be presented to the Government. The paper is structured as follows: first we try to depict main principles of government planning, we secondly present the role of evidence-based policy making, following by the overview of the current situation in terms of policy making in Serbia. Finally, in the concluding section, we propose the main axes of possible further improvement in the present setting and its alignment with best practices.

Key words: *development planning, evidence-based policy making, policy coordination, strategic documents*

Sažetak

Cilj ovog članka je da pruži pregled stanja u oblasti planiranja politika u Srbiji na bazi osnovnih principa u polju ekonomskog planiranja i utvrđivanja politika na osnovu činjenica. Postojeća situacija u kojoj postoji mnoštvo nacionalnih strategija usvojenih od strane Vlade Republike Srbije izvesno predstavlja rezultat snažne potrebe za razvojnim planiranjem u cilju sprovođenja svih reformskih izazova sa kojima se suočava Republika Srbija, a kojima treba pristupiti sa promišljenim setom javnih politika. Postoji prostor za unapređenje u sledećim oblastima: (a) postavljanje sistemskog pristupa kojim bi se povezale sektorske strategije sa jednim krovnim dugoročnim razvojnim planom, (b) unapređenje analitičke podrške planiranju politika, (c) povezivanje različitih faza donošenja javnih politika u smislu uključivanja faza praćenja i evaluacije, (d) povezivanje godišnjeg ciklusa planiranja i pripreme budžeta u jedinstven proces sa jedinstvenom metodologijom, koji uključuje i planiranje neregulatornih aktivnosti kao što su javne investicije, (e) zvanično uvođenje predloga politike ili koncepta kao dokumenta javne politike o kojem je moguće odlučivanje od strane Vlade. Članak je organizovan na sledeći način: najpre su opisani glavni principi planiranja od strane Vlade, zatim je objašnjena uloga izrade javnih politika zasnovanih na činjenicama, nakon čega sledi pregled tekućeg stanja u oblasti donošenja javnih politika u Srbiji. Na kraju, u poslednjem odeljku, date su preporuke za moguće unapređenje sadašnjeg stanja u skladu sa vodećim principima u ovoj oblasti.

Ključne reči: *razvojno planiranje, izrada javnih politika zasnovanih na činjenicama, koordinacija javnih politika, strateška dokumenta*

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The role of planning in organizations: Main elements and underlying principles

The role of planning is widely recognized as an important governance instrument in both corporate and public organizations around the world. In large corporations, planning and budgeting represent a main steering and management tool for continuous monitoring of performance, assessing the main internal and external challenges and opportunities, evaluating risks to achieve planned level of profit and output, as well as reacting accordingly to changes on the market by adjusting plan and its assumptions. Apart from being a management tool, plan also serves as an important communication and coordination tool in large systems as many dislocated internal actors need to align their activities to common goals. For that purpose, it is of crucial importance to continuously exchange information bottom-up and top-down along the planning process.

Planning is an ongoing process. It starts from evaluation of performance from previous period, following by setting or revising the goals that are already set up, formulation of the planning assumptions which result from data analysis of both external and internal factors relevant for the goals, and definition of plan of activities. The next phase consists of implementation and monitoring,

which leads to the new cycle of planning as one planning period ends and a new one starts (see Figure 1).

Planning in public sector is a main tool for articulating public policy. The fundamental aim of development plans until today has always been to ensure that economic growth and social development continue in a sustainable manner. In this respect, increasing competitiveness, rise in employment, human and regional development, strengthening social protection and solidarity, and increasing quality and efficiency of public service have usually been in central attention of all development plans. Hence, depending on the evolution of political economy mainstream, different importance, position and methods were associated with plan and planning across different periods of time and countries. While it was used in centrally-planned socialist economies to allocate all or majority of resources, it is also present and popular in free-market societies. Since the 1980s and rise of neoclassical liberal economic theories, the New Public Management approach has brought along a new order in which the private sector has had a more effective role in economy. Plan has changed scope and methods but remained an important tool in public management. Planning of aggregates and planning based on deterministic, heavy and detailed calculations have lost popularity. These were criticized for ignoring absorptive

Figure 1: Planning process flow



capacities, institutional constraints, spatial diversity, interpersonal and intersectoral distribution problems.

The concept of strategic planning saw a simultaneous rise in both academic and business world coupled with liberal views in economic thinking and greater reliance on market mechanism in distribution of wealth. Under the New Public Management approach, the public sector is expected to develop guiding strategies for the policies to be followed. The accent is more on the utilization of market mechanisms and planning becomes less deterministic and more indicative in the form of main targets. Though not initially linked to economic development, business management oriented research has developed theories and tools on strategic management that found applications in planning on the national level. A notable contribution is the work of *Michael Porter* [14] with the Porter's diamond – concept extending the notion of competitiveness of a firm to that of a nation. Meanwhile, economic geography and urban economics become in vogue after seminal contributions of *Krugman* [8].

Since the last global economic crisis, industrial policy is getting more attention by developed countries' policy makers [18], [1]. National level economic planning is gaining popularity accordingly. The globalization is however adding an additional level of complexity to planning and national-level industrial policy as individual countries are less sovereign to introduce autonomously some broad level measures which can have supranational consequences due to economic integration or these measures and measures of other countries' economic policies may appear to be on a collision course. Moreover, it gets much more difficult in the environment of globalized economy to base a plan on sound assumptions as global economy is much less predictable. Finally, there is much more need for coordination of national economic policies. An example of economic policy coordination is the so-called European semester – an annual cycle of economic policy coordination in the EU based on common targets set by the roof strategy Europe 2020.

The basic classification of plans according to time coverage includes long-term, medium-term and short-term plans. Usually, long-term plans are rather general and of a broader scope with less details serving as a vision and

basis for medium-term and short-term plans. Another distinction is made between centralized plans covering usually a national level and all sectors against more narrow level of coverage being regional, local or sector specific. Depending on shareholders' participation in preparation of a plan, it can be democratic i.e. participatory or non-participatory. According to powers of the plan, one can distinguish mandatory plan (for the public sector) and/or indicative plan (for the private sector) [20]. Additionally, plans could be classified as original policy documents where specific policy is outlined *versus* derived documents representing a set of policy decisions in a specific area or by specific nature. In the second case, plan is rather an informative document serving for policy coordination or monitoring and reporting.

Apart from successful examples of experiences of national development planning in countries like South Korea along last 40 years¹, national level economic planning was exercised and still represents an important source of evidence-based policy making in developed market economies in Western Europe such as the Netherlands, France or Norway. The Central Planning Bureau is an independent Dutch government agency founded in 1947 by Nobel laureate *Jan Tinbergen*, a pioneer of economic planning.

Evidence-based policy making

The process of policy making ('policy cycle') consists of five 'phases': policy planning (initiation), policy analysis and development (formulation) of public policy, preparation of public policy documents, decision making, and implementation, monitoring, evaluation and reporting. Coordination, consultations and data gathering are not separate phases, but rather processes that should be conducted during the whole of policy cycle. It includes

1 South Korea has been developing its economy into one of the most competitive economies in the world on basis of five-year national development plans for more than 30 years. After the Asian financial crisis in the mid-90s, it was decided to start drafting and implementing fiscal plans, instead of national development plans. These processes have been supported by extremely developed IT systems for integral planning and budgeting, making the check of spent money and its effectiveness transparent and in a real time mode. In South Korea, one ministry is responsible for planning and budgeting.

analysis of the existing situation; definition of the problem, its causes and consequences; setting objectives, results to be achieved and appropriate measures to achieve the results; identification of options; *ex-ante* impact assessment of identified options; decision making – selection of the preferred option; policy formulation and choice of policy instruments; implementation, monitoring, evaluation or *ex-post* impact assessment (using the results of monitoring), and reporting.

Good policy analysis is a critical precondition for effective policy making in the public administration [5]. When done well, policy analysis can have multiple beneficial effects, including: facilitating the adoption of more effective policies by identifying and systematically comparing potential solutions against specific clear goals (criteria based on country's specific circumstances), identifying the lowest-cost solutions and saving taxpayers' money, advancing public interest and preventing private interests from hijacking the process by thoroughly analyzing the problem and proposed solutions, and justifying the solutions based on explicit criteria and specified goals. This ensures that the decision making process is less vulnerable to corruption and more conducive to advancing public interest.

According to *Weimer and Vining* [19], functions of policy analysis include: (1) developing policy proposals to address public policy problems; (2) serving as focal points for coordinating policy analysis in specific program areas across government; (3) providing research for an oversight and evaluation of policies in program areas; and (4) supplying urgent and timely policy and evaluation information to decision makers.

Great efforts and resources are needed to introduce an effective evidence-based policy into the policy cycle. There are numerous challenges regarding the improvement of evidence-based policies in the public administration, including: (a) the presence of electoral cycles whereas priorities for analysis may, and usually do, change when the structure of a government changes; (b) irregular communication between governments and research institutes and think thanks; (c) absence of good preconditions and resources (time, human, financial and other resources) for analysis [13]. Despite that, there are

many ways of introducing different analysis tools into public administration, ensuring evidence-based policy making. One of the policy analysis tools specific to all EU countries, and many other countries across the world, is impact assessment. Impact assessment is a technique that should be used before an actual public policy measure is taken in order to explore the existing problems in a specific area, solutions, and the anticipated social, economic and/or environmental impacts of the possible solution set. The focus of the impact assessment might be a public policy or piece of legislation, forecasting potential impacts as part of the planning, design and approval of a public policy or legislation. An integral part of each impact assessment should be the assessment of fiscal impacts (impacts on the state budget) of analyzed public policy measures. Besides the *ex-ante* impact assessment, there is also *ex-post* impact assessment, focusing on the evaluation of real impacts achieved by the implementation of a public policy or legislation. Of course, in order to introduce impact assessment into the public administration, it is necessary to ensure both political and expert support and appropriate resources and capacity.

At the bare minimum, it is possible to use different external resources of data and information in order to ensure that decisions in the public sector are made on the basis of sound evidence and objective analysis (analysis produced by different think tanks and other non-governmental organizations, institutes and bureaus which are budgetary users, etc.).

Current setting in terms of policy planning in Serbia

This section presents an overview of planning practices in Serbian state administration, with an eye on the principles and purpose of planning from a development and management perspective developed in the previous section, as well as the role of analysis in decision making process linked with planning in public sector.

The history of planning by the Serbian government dates back to the former Federal Republic of Yugoslavia when the government was planning centrally performing overall distribution of income almost without market mechanism.

Starting from early 1952, centralized planning in SFR Yugoslavia was replaced by a more flexible system based on the planning which used only global targets [6, p. 10]. The administration of the Federal Republic of Yugoslavia relied on specialized institutes for economic planning that had an important position within the Government institutions on both federal level and individual state level administration. Special attention was given to the coordination of policies across federal republics on the one hand, and a central state level, on the other. Despite the fact that since the 1960s state planning in Yugoslavia was evidently undergoing crisis [6], the developed planning and analytical infrastructure is generally considered to have been a beneficial contribution to the decision making process. This infrastructure, which included economic modeling, served in particular as a reliable base of information about the economic flows. With dissolution of the federal state during the 1990s, many policy planning institutions and processes were debased. As a result, to this date analytical jobs and/or units are not systemically recognized within the Serbian public administration. This leads to a loss of the systemic link between policy decision making and analytical inputs from both within the public administration and from a network of public research institutes in social sciences. This reminiscent, and to a certain extent legislative, obstacle furthermore frustrates the development of both the government analytical capacity necessary for policy development and evaluation, and an institutionalized approach to cooperation between decision makers and science and academic institutions [7].

Existing policy planning mechanisms

The current structure and content of planning and strategic documents demonstrate a lack of a systemic approach. Policy planning documents can be considered as documents outlining specific public policies. In Serbia, a strategy is a typical document fulfilling this purpose. Policy planning on the other hand is executed through “derived” planning documents with the primary aim of providing an integrated information base on specific policy area or to serve for monitoring and reporting purpose. The latter is provided by a working plan such as Annual

Working Plan of the Government or National Programme of Adoption of the *Acquis Communautaire*.

As outlined by Lončar [9], from 2000 onwards, there have been several initiatives aiming at setting up a unique and coherent strategic planning framework in Serbia. Meanwhile, the absence of a unique system of planning documents – prepared and decided upon in a decentralized manner – as well as a single overarching development strategy (‘roof strategy’), each ministry has developed a multitude strategic planning documents without much consideration of whether their goals are aligned with the medium and long term goals of the state, or indeed with the strategic goals of other ministries [9]. This results in many instances of contradictory or mutually colluding goals. Moreover, no overarching long-term strategy, providing for a long-term vision of development of society and economy, as well as for reconciliation between main tradeoffs among naturally conflicting priorities, has been prepared, even though the Constitution of the Republic of Serbia includes a provision prescribing that the National Assembly adopts both a spatial² and development plan.

As a result of these divergent planning mechanisms, and a lack of the top-down approach in a form of an overarching strategic document, there are around 120 actually valid strategies that have been prepared by different public administration bodies and adopted by the Government of the Republic of Serbia. Only a third of these strategies are followed by the preparation of the action plan for its implementation and roughly a fifth of the strategies incorporate estimates of financial resources required for their implementation [15]. It is estimated that the implementation of these strategies, would cost approximately 45% of GDP.³ Moreover, there is no systemic procedure for monitoring and evaluation of the implementation of strategies and many of goals remain unrealistic and result in materialization in a form of regulations or other policy instruments. Indeed, findings from the largest survey of senior public sector

2 The spatial plan has been adopted in 2010 in the form of the Law on Spatial Plan of the Republic of Serbia, including planning period of 10 years (until 2020) [10].

3 Estimation made by the Public Policy Secretariat of the Republic of Serbia, 2014.

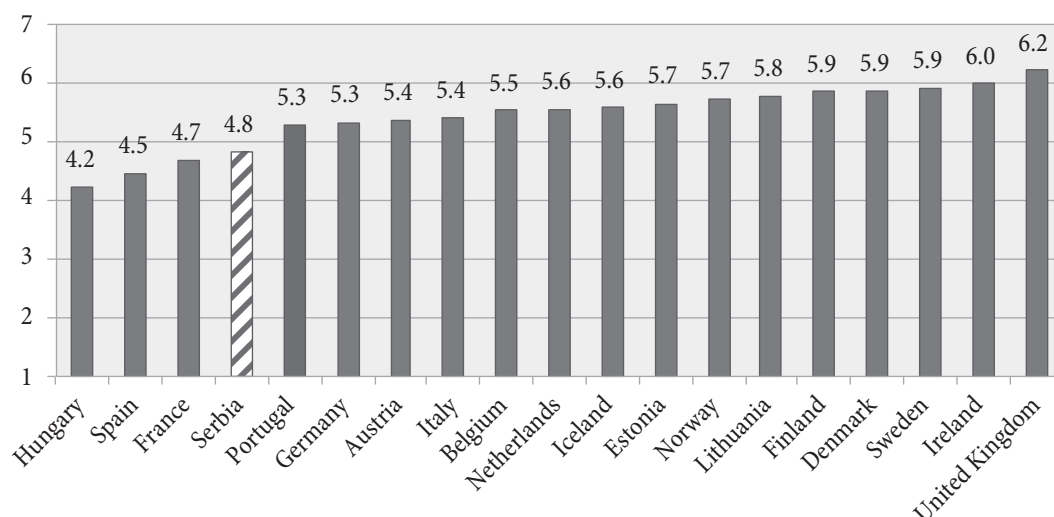
executives in Europe (COCOPS⁴) indicate that the actual extent to which strategic planning has been implemented (as a *management tool*) in Serbian central government administration is comparatively low: a finding strikingly at odds with the proliferate number of adopted strategies (see Figure 2).

Such outcomes are however understandable when one considers that in Serbia, both policy content and policy proposal documents (e.g. policy concepts or concept documents), are presented in the form of strategies. This practice can to a large extent be ascribed to legislative obstacles. As the Serbian Law on Government [3] prescribes that Government adopts regulations, rules of procedure, decisions, conclusions, budget memorandum and strategies, and no documents which one would classify as policy concept⁵ suitable for decision in an early stage of conceptualization of a specific policy. Because the adoption of such policy documents is an integral part of the policy making process, many have been presented in the form of a strategy leading to an overabundance of individual strategies, many of which do not meet a minimum form

and contents which a representative strategic document should include, the most important of which in this context are clearly defined and measurable goals and targets crucial for policy evaluation and monitoring.

Strategies in Serbia are therefore very often *de facto* often understood as policy concepts where a strategic vision and primary goals are designed, while the implementation of specific strategic goals are foreseen in accompanying action plans. However, there are no clear links between these documents and the decentralized systems for policy planning derived from them such as the Annual Government Working Plan and National Programme for the Adoption of the *Acquis Communautaire*. Both documents are primarily focused on legislative activities (drafting and adoption of different laws, strategies, action plans, programs, etc.) planned for a certain timeframe. While the National Programme for the Adoption of the *Acquis Communautaire* is monitored by the Serbian Office for European integration⁶, there is no built in process for reporting and monitoring related to the Annual Government Working Plan and significant overlaps exist.

Figure 2: Use of strategic planning by senior executives in European public administrations



Question: To what extent are the following instruments used in your organisation? Strategic/ Business Planning, 1 "Not at all", ... 7 "To a large extent"
Source: Authors' calculations on the integrated COCOPS database

4 The COCOPS survey, financed under the European Union's Seventh Framework Programme under grant agreement No. 266887 (Project COCOPS) financed under covers the responses of 9,300 senior level executives in European public administrations. The Serbian sample is based on a full census of central government executives, with 1,367 responses (for more information on COCOPS Serbia see [17] and the full COCOPS survey see [4]).

5 Policy concepts are also called: concept documents, white papers or green papers across different countries.

6 Realization rate for 2013, for example, was approximately about 50% [16].

Another challenge is that policy planning in the Republic of Serbia has not been linked to the processes of fiscal planning despite the fact that, according to the Law on Budget System [11], public administration bodies⁷ are obliged to switch from line budget preparation to creation of program budget since 2015. There is no central document outlining the mid-term plan of each institution which would serve as a catalytic point for linking policy contents designed in strategies into institution level activities in the specific period of time. Moreover, this type of document is usually used for managing the goals of specific organizational units. In addition, there are many challenges in the area of public investment in all phases including evaluation of economic effects, planning and monitoring of realization. This is furthermore reflected in low level of realization of contracted investments which are secured through funding from international development loans [2].

The last is reflected in the fact that calendars of the policy, fiscal and financial planning are not mutually coordinated.⁸ Also, different terminology provided in the methodologies for preparing of working plan and program budget makes it harder for the civil servants to provide all the inputs for both processes, making them complicated and time-consuming for the public administration.

The origin of policy content and the relevance of government analytical capacity

It can be expected that great majority of policy and planning initiatives in Serbia arise from a need to comply with market-based mechanisms, *Acquis Communautaire* and other EU rules and standards. Very often in countries at this stage of development, the World Bank acts as a kind of 'bank of knowledge' on development policy solutions, while initiatives related to macroeconomic and fiscal stability are primarily put forward by the International

Monetary Fund. In addition, some policy initiatives come also from different think tanks, trade unions, chambers of commerce and other non-governmental bodies, etc.

For instance, in addition to the challenges regarding strategic planning identified in the preceding, the planning framework is further complicated because planning initiatives are driven by procedures established by the European Commission (EC). Specifically, in the process of EU integration, the EC very often suggests drafting and adopting different plans, strategies and programmes aiming to assure consistent policy planning in a certain area. Namely, EC has recently requested that candidate countries maintain plans for social and economic reforms by, for example, drafting documents such as Economic Reform Programme including a list of structural reforms in designated policy areas (e.g. infrastructure, human capital) and Employment and Social Policy Reform Programme. For these documents, a monitoring and reporting process is foreseen with a special role for the European Commission. Such conditions are generally considered beneficial, not only to Serbia's harmonization efforts with the EU, but also to its internal development efforts. Considering the lack of monitoring, planning and coordination capacities however, such additional demands in practice sprain an already overstretched part of the state administration.

Hence, while the positive influence that international and non-governmental organizations exert on the policy development and implementation cannot be overstated, there is arguably a strong need to further enable the Serbian administration to address development challenges and specifics of the local economic and social issues, which include but are not limited to (1) high fiscal deficits, (2) the need to comply with EU *Acquis Communautaire* and strict standards in terms of state aid, competition and scope of intervention into free markets, (3) significant structural imbalances reflecting in low level of export to GDP (20%) and high level of trade deficit (15%) in pair with high unemployment rate even before the crisis (12%) as well as today (20%). Such intertwined and overarching challenges can only be addressed by leveraging all available administrative and political capacity, which in its turn can best be supported by

⁷ According the Law on Public Administration [12], public administration bodies include line ministries and their accompanied directorates, administrations and inspectorates, special organizations and Government services.

⁸ Public administration bodies are obliged to prepare inputs for the preparation of the budget first, and after that – inputs for the annual government working plan.

analytical, monitoring and evaluation units embedded within the state apparatus. Such units are potentially best placed to understand not only the local context, but also the constraints faced by state actors tasked with policy planning and implementation.

Conclusion and policy recommendations

Strategic planning can, similarly to private corporations, represent a powerful performance management tool within public administrations. Economic components of such plans also provide stable inputs for private sector business planning, and stimulate it to align itself with long term strategy of the state. Successful development and implementation of strategic plans however depend critically on the presence of solid support systems, in the form of monitoring, coordination, and analytical capacities. Moreover, for these support systems to be effective, they need to be anchored within an overarching strategic plan against which subordinate strategic plans are tested.

In Serbia, the dissolution of the federal government of former Yugoslavia during the 1990s has led to a loss of significant analytical and coordinating capacity, as well as links with research institutions and academia, an issue furthermore compounded by the contextual factors such as isolation and brain drain. At present, the rebuilding of these capacities is hampered by the legislative barriers such as the lack of analytical government positions.

On the demand side, the lack of a clear distinction between policy concepts and strategies has resulted in a proliferation of the latter, with policy concepts often being presented as strategies in order to be able to obtain the required legitimacy through adoption by the government. As these ersatz strategies are fed into strategic plans such as Annual Working Plan of the Government or National Programme of Adoption of the *Acquis Communautaire*, all the while lacking clear and measurable targets of proper strategies, the evaluation, monitoring and alignment of all the competing strategic plans become much harder.

One can therefore conclude that the current challenges in the implementation of strategic planning can to a certain extent be addressed through including policy concepts as separate instances of policy documents in the Serbian

Law on Government. This will both reduce the number of strategic goals to be implemented, and potentially increase their rate of implementation. Such efforts would also provide the necessary legitimacy to policy documents. Finally, the introduction of an overarching 'roof' strategy, would facilitate the standardization of typology of strategic planning, thereby reducing both coordination efforts and improve monitoring and evaluation.

Through simultaneously (1) increasing government analytical capacities, (2) clearly distinguishing strategies from policy concepts and (3) standardization of the typologies and methodologies *via* the introduction of an overarching strategy, Serbia will be able to further direct its strategic planning and monitoring efforts to address the complex challenges it faces today and in the foreseeable future.

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