

# International Assistance Programmes and the Reform of Vocational Education in the Western Balkans: Sources of Policy Failure

Will Bartlett

*London School of Economics and Political Science*

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## Abstract

Over the last twenty years, numerous international assistance programmes have aimed to provide support for reconstruction and assist the policy reform process in the Western Balkans. In this context, concerns have arisen that poor government policies and inadequate donor coordination have reduced the effectiveness of such assistance. The paper discusses the sources of policy success and policy failure of such international assistance programmes within a principal-agent framework that models the influence of misaligned objectives, differing incentive structures, asymmetric information and moral hazard facing the different actors in the institutional structure of assistance programmes. In this political economy approach the varying influences on multiple principals and agents are key determinants of the effectiveness of policy. The paper takes a sectoral view in examining assistance programmes in the vocational education sector, where large donor effort has been applied in the Western Balkans over the last decade to modernise and reform the education system. The specific focus is on secondary vocational education in Serbia. The paper identifies causes of policy failure in EU pre-accession assistance in this key policy area.

## Keywords

aid effectiveness; principal-agent theory; vocational education; Western Balkans

## 1. Introduction

Over the last twenty years, the countries of the Western Balkans have passed through a prolonged period of adjustment that has involved transition, state break up, military conflict, European pre-accession processes and most recently the heavy impact of the global financial crisis and the Eurozone's double dip recession. After a period of economic collapse in the

1990s that was even more severe than the current recession facing the peripheral countries of the EU, the region began an economic recovery in the 2000s following the fall of authoritarian regimes in Croatia and Serbia and the consolidation of democracy. Throughout this period, the region benefitted from large inflows of international assistance in the form of both bilateral and multilateral donor funds. Since 2003, following the Thessaloniki Declaration, which initiated the pre-accession process for the region, the EU has been the largest donor of international assistance through various grant aid programmes, the largest of which have been CARDS and, since 2007, IPA. The World Bank has also made a significant contribution in providing concessional development loans. Yet despite an enormous inflow of aid for reconstruction of war-damaged infrastructure, and technical assistance for pre-accession institutional change, the foundations for sustained economic development and growth were not established. Since 2008, the region has been subjected to renewed recession, which only worsened in 2012 after a short recovery. This has led to sharp increases in unemployment and especially youth unemployment. Unemployment, poverty and social exclusion have since increased to worryingly high levels (Bartlett and Uvalić 2013).

As several analysts have observed, the growth that took place during the 2000s was based on an unsustainable combination of inflows of foreign credits, foreign investment, foreign aid, and remittances from migrant workers to their families (Cocozza et al. 2011; Sanfey 2011). These financial inflows supported a consumer boom, based on a massive increase in imports, persistent trade and current account deficits, and rising levels of international debt. However, they failed to support the necessary investment in new high-value-added manufacturing industries that would have provided a solid basis for future self-sustained growth (Bartlett and Monastiriotis 2011). Economic competitiveness in the Western Balkans has lagged behind the average for the OECD, especially in relation to innovation and sophistication factors, and the EBRD BEEPS survey found large obstacles facing business in the development of labour force skills (Sanfey and Zeh 2012). The development of appropriate skills failed to match the pace of economic restructuring during transition (Bartlett 2007). Moreover, the PISA study of educational outcomes places the countries of the region significantly below the OECD average in scores in reading, mathematics and science (Sanfey and Zeh 2012).

All these factors point to the importance of improved performance of the education system at all levels, including secondary vocational education. This is an issue that is becoming more important in the Western Balkans due to the need to develop a new growth model that relies more on the development of the region's own resources, including human resources.<sup>1</sup> Future growth will rely on a well-educated workforce, and for this inclusive education is needed to make best use of available human resources (LSE Enterprise 2012). Improved links are needed between education and the business sector to provide in-work training to supplement the widespread reliance on theoretical education, while improved vocational education is needed to ensure the development of skills that are appropriate to the labour market (Arandarenko and Bartlett 2012).

International assistance programmes have begun to address these issues at various levels. In this paper I explore the nature and effectiveness of EU assistance for vocational education in the Western Balkans. Section 2 sets out a theoretical framework for the analysis of international assistance grounded in recent advances in institutional economics that focus on incentive structures facing principals and agents in the assistance chain. Section 3 reviews the nature and role of EU assistance to the Western Balkans. Section 4 analyses the effectiveness of EU international assistance programmes in the Western Balkans, focusing on the case of Serbia. Conclusions are presented in section 5.

## **2. Principals and Agents**

Recent research on the performance of aid programmes has focused on the role played by incentive structures facing the organisations involved in the assistance process (Martens 2002). The research approach draws on insights from principal-agent theory, which has been developed as a branch of institutional economics. This theory posits that in the context of delegation of responsibility and competence within a hierarchical organisation, effectiveness will be greater to the extent that the objectives of the principal and agent are aligned. Thus, for example in the case of investment banks, if the

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<sup>1</sup> The problems in education systems in transition countries throughout Eastern Europe have recently been highlighted in a World Bank report that has emphasized the need for reforms of education system that would give more autonomy to schools and switch financing systems and incentives from an input-based approach to a performance-based approach (Sondergaard and Murthi 2012).

owners of the bank (shareholders) hire managers on short term bonus contracts, the managers have incentives to maximise risky loan portfolios to a greater extent than would be justified by a concern to maximise shareholder value. This may lead to the over-extension and eventual collapse of the bank, as witnessed in many instances during the global financial crisis of 2008.

Similar perverse incentive effects may adversely affect the performance of international aid programmes. An aid programme can be envisaged as an organisational structure through which taxpayers in a rich country have the objective to provide assistance to citizens of a poor country, to maximise the altruistic component of their utility function. A government aid agency is delegated to perform this role. However, the employees of the agency may have rather different objectives, especially if their rewards and promotion prospects depend on the number of projects they manage to successfully sign off, rather than the effectiveness of the projects per se. Their promotion may depend on effectively ticking the boxes rather than monitoring performance outcomes. In this case, in which the taxpayer is the principal and the aid agency the agent, it is likely that poorly designed projects will be offered to the beneficiaries (Easterly 2006; Monkam 2012). Furthermore, the aid agency may contract a private consultancy company to deliver the assistance. In the case of profit maximising consultancy companies, the incentives they face will differ again from that of the aid agency. In this phase of the aid chain, the aid agency is acting as the principal and the consultancy company as the agent. If the aid agency is unable to monitor the actions of the consultancy company, the relationship between them is characterised by information asymmetry. In this case it may be difficult for the aid agency to draw up an efficient contract with the consultancy company, which may be able to skim off some super-normal profits from the aid agency budget.

A further extension of the aid chain is encountered within the recipient country where the consultancy company interacts with a domestic counterpart who is implementing the aid project. This counterpart may be a ministry of the government. It is acting as an agent of the domestic beneficiaries (the principal in this case) and its personnel operate under a set of incentives depending on the rules for reward and promotion within the ministry. As in the donor country, the efficient outcome of the assistance project may not be high on the list of priorities facing the ministry personnel, who may be political appointees with an interest in maximising the aid budget rather than promoting the utility of the ultimate beneficiaries – the users of the assistance project. Here the problem of moral hazard comes into play, as the Ministry may expend less effort in its own domestic reforms

than it would have done in the absence of the assistance project (Calmette and Kilkenny 2001; Araral 2009).<sup>2</sup> Beneficiary governments may overstate the needs of users in order to attract aid, and may divert such funds into other government projects that are designed to maximise votes, such as increasing welfare payments to the middle classes and war veterans rather than to the most needy, or increasing military spending. If accountability is low, the aid funds (or the domestic funds they replace) may be directed into the coffers of the political parties in control of the Ministry rather than into the aid project. Furthermore, in cases where there is decentralisation of competences and responsibilities to lower levels of government, resistance to central government reform policies from lower levels may also frustrate the intended aims of the assistance programme (Bartlett 2006; Deets 2006).

As the above account suggests, assistance programmes are often characterised by long principal-agent chains in which incentives are poorly aligned at the different stages through which the chain of principals and agents engage with one another. Further difficulties can arise if more than one donor agency is active in the recipient country. This gives rise to the problem of multiple principals and consequent difficulties of aid coordination. In such cases, recipient governments may pay lip service to the aims of the different donors, receive funding from all and ending up with a very confused and inconsistent policy mix whether between policy sectors or even within the same sector.

Perhaps most seriously, the chain of relationships that characterise the flows of assistance come up against an insuperable difficulty: the simultaneous and parallel existence of two sets of ultimate agents – the donor taxpayers and the recipient beneficiaries. Since the beneficiaries are not eligible to vote in the elections that appoint the donor country government, there is an inevitable “broken information feedback loop” that prevents the democratic electoral process from correcting large errors in aid allocations and performance over time (Martens 2002). The ultimate beneficiaries, in other words, have little voice in the decisions that are made in the design projects that are supposedly delivered for their benefit.

### **3. EU Pre-accession International Assistance in the Western Balkans**

The above account of the role of misaligned incentives, asymmetric information and moral hazard seems quite applicable to the case of EU

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<sup>2</sup> A similar argument in the context of a model of rent seeking has been made by Svensson (2000).

pre-accession assistance to the candidate and potential candidate countries of the Western Balkans.<sup>3</sup> In this case, the European Commission, acting on behalf of EU taxpayers, is engaged in the design of international assistance projects with the aim of preparing countries for their eventual accession to the EU. The project managers within the Commission are tasked to process a large budget through the complex management of considerable sums of money. Promotion depends upon effective disbursement of the funds available within the multi-annual financing framework (MIFF) that defines the assistance programme, in the case of the Western Balkans known as the Instrument for pre-Accession (IPA). International consultancy companies compete for the right to deliver these projects through a competitive tendering process. They are private organisations that seek to maximise their income or profit. A successful consultancy company typically establishes a project management unit in the beneficiary country and interacts with the local Ministry that is the administering agent. The ultimate beneficiaries (domestic principals) are the users of the project's services, who typically have very little influence on the decisions taken jointly by the consultancy company and the Ministry officials who administer the project. Thus, just as in the account presented in the previous section, a long chain of principals and agents characterises the process of delivering EU assistance to the Western Balkan countries. Many organisations are involved, each with differing objectives and facing differing sets of incentives. This is an institutional arrangement that, as has been shown above, is fertile ground for the ineffective delivery of assistance programmes.

In line with the aim to support the accession of the Western Balkan countries, the EU has increased its share of international assistance through successive assistance programmes for the region, with the objective to promote democratisation, create functioning market economies and align institutions to the *Aquis Communautaire*. The EU allocated €259 million to the Western Balkans over the period 2001–2006 through the CARDS assistance programme. From 2007–2013, a total budget of €11.5bn was allocated through the Instrument for Pre-Accession (IPA), of which €5.2 billion was allocated to the Western Balkans.<sup>4</sup> The IPA assistance was distributed roughly in accordance with population in each country, at around €25 per capita and was therefore largest in Serbia, where it averaged about €200m per year.<sup>5</sup>

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<sup>3</sup> Murrell (2002) has made a similar application of the principal-agent model to the case of the TACIS assistance programme in Russia.

<sup>4</sup> Most of the rest was allocated to Turkey.

<sup>5</sup> Larger per capita allocations may be made to smaller countries to ensure a critical minimum of support for institution building.

*Table 1.* IPA Multi-annual indicative financial framework (% GDP)

|                    | AL    | BH    | HR    | XK    | MK    | ME    | RS      | Total<br>(% GDP) | TOTAL<br>(€ m) |
|--------------------|-------|-------|-------|-------|-------|-------|---------|------------------|----------------|
| 2007               | 0.78% | 0.56% | 0.33% | 2.01% | 0.98% | 1.17% | 0.67%   | 0.59%            | 612.2          |
| 2008               | 0.84% | 0.59% | 0.31% | 4.80% | 1.04% | 1.06% | 0.58%   | 0.67%            | 774.0          |
| 2009               | 1.03% | 0.72% | 0.34% | 2.71% | 1.22% | 1.16% | 0.67%   | 0.69%            | 746.6          |
| 2010               | 1.19% | 0.84% | 0.34% | 1.60% | 1.30% | 1.08% | 0.71%   | 0.69%            | 754.8          |
| 2011               | 1.15% | 0.82% | 0.35% | 1.54% | 1.31% | 1.06% | 0.65%   | 0.68%            | 774.1          |
| Total<br>(2007-13) | 654.4 | 655.5 | 997.6 | 635.4 | 614.9 | 235.7 | 1,385.7 | 0.59%            | 5,179.2        |
| % of total         | 12.6% | 12.7% | 19.3% | 12.3% | 11.9% | 4.6%  | 26.8%   |                  | 100.0%         |

*Source: EC (2011) Instrument for Pre-Accession Assistance (IPA): Revised Multi-Annual Indicative Financial Framework for 2013, COM (2012) 581 final. AL: Albania, BH: Bosnia and Herzegovina, HR: Croatia, XK: Kosovo, MK: Macedonia, ME: Montenegro, RS: Serbia. GDP data are taken from Eurostat online database, with author's estimates for Albania and Kosovo in 2011.*

The IPA funding to the Western Balkans has accounted for between 0.6% and 0.7% of GDP of the whole region.<sup>6</sup> The largest beneficiaries have been Serbia, which has received about one quarter of the total amount, and Croatia, which has received about one fifth. In terms of domestic GDP, the greatest amounts have been allocated to the smaller countries, in line with the rule that a larger per capita allocation may be made to small countries to ensure a minimum necessary to support pre-accession reforms to institutions. Kosovo received an especially large allocation in 2007-09 in relation to its GDP, but this has since returned to more normal levels.

Over time, the EU has adopted increasingly stringent conditionality in relation to pre-accession assistance. Under the provisions of the Stabilisation and Association process, EU conditionality applies to all the stages that Western Balkan countries must pass through in their process of EU integration. Schimmelfennig and Sedelmeier (2004) argue that accession states will adopt EU rules (i.e. laws and institutions) only if the benefits of doing so exceed the costs. Therefore, by imposing conditions on progress with the accession process, the EU is able to manipulate the costs of non-compliance, and attempt to steer countries in the desired direction. Conditionality can be seen as a means to reduce the element of moral

<sup>6</sup> The GDP of the Western Balkans at €100 billion, is around 0.9% of the GDP of the EU-27.

hazard involved in the principal-agent relationship that characterises the assistance chain that links the aims of the European Commission to the performance and behaviour of the beneficiary governments.

Specific reform goals leading to adoption of the *Acquis Communautaire* are set out in the European Partnerships for each country. Progress is monitored through EU Delegation offices in each country, and enhanced through control over the disbursement of IPA assistance. This is a fairly blunt instrument, given the information asymmetries that are involved, but by breaking the accession process down into ever more discrete stages the EU has been able to sharpen its control over the process (Steunenberg and Dimitrova 2007). Thus tightening or loosening conditionality can control to some extent the speed of accession. The EU is able to punish governments that resist reforms through the instrument of conditionality, and by preventing governments who fail to meet the required conditions from passing through the next stage of the accession process. However, there is a danger that the ever-expanding framework of conditionality may weaken the eventual credibility of the strategy, and endanger its eventual success (Anastasakis 2008).

The ineffectiveness of this system of what Dimitrova (2002) has called “enlargement governance” as a system of transferring policy to the Western Balkans is apparent from the cases of Croatia and Macedonia, which have travelled furthest along the path of European integration. National programmes for the adoption of the *Acquis Communautaire* have involved transfer of EU legislation to the applicant states. Conditionality has been applied flexibly, sometimes tightening and sometimes loosening. However, the EU’s ‘transformative power’ is limited by the complexity of the actor constellations involved and by the domestic pressures that determine the eventual institutional outcomes (Grabbe 2001). This is an example of the information asymmetry that characterises the principal-agent relationship in the pre-accession assistance chain.

The effectiveness of EU policy transfer is furthermore limited by domestic factors such as administrative and cultural traditions, political leadership and domestic reform management (Eriksen 2007). Moreover, as Noutcheva (2009) argues, domestic actors have indulged in fake compliance, partial compliance or non-compliance with the EU’s conditions. Such responses can be readily seen in the creation of various new EU-model government agencies and institutions throughout the region. These often have an essentially self-referential basis, and little impact on the real needs of their prospective clients. This is a further example of the information



asymmetries that bedevil the principal-agent relationship in the assistance chain, as the donor principal (European Commission) is unable to effectively monitor the performance of the newly established institutions.

The IPA II programme, running from 2014–2020, is intended to overcome some of these problems by being more strategic and targeted than IPA I. It will tailor assistance to the needs and characteristics of each country, and strengthen the sector approach and long-term planning in place of a reliance on short-term project financing. Instead of simple per capita allocation of funds, IPA II will reward good performance based on absorption and achievement of strategic targets, using conditionality in a more systematic way, and country and sector levels (EC 2011: 5). An even greater change is that all Components of the IPA programme will be opened up to the potential candidate states, so that education projects and sector support will be available to these countries (whereas under IPA I only institution building and cross-border projects were funded). Total IPA II funding is planned at a level of €14 billion over a seven-year period, starting at €1,900 million in 2014 and rising by two per cent per year to reach €2,100 million by 2020. Funding will depend upon the production of agreed country strategy papers and specific sector strategies replacing project-by-project funding (EC 2011). All of this can be seen as an attempt to align actor objectives more closely to the aims of the EU principal, to reduce moral hazard and lessen information asymmetries. Whether it will be able to remove the inherent inefficiencies and perverse incentives in the pre-accession assistance chain remains to be seen. The experience of the IPA I programme, as outlined in one case study presented in the next section, suggests that such an improvement may be difficult to achieve.

#### **4. The Example of VET Reform: the Case of Serbia**

The IPA programme has supported the reform and modernisation of the VET system in several Western Balkan countries. Numerous international assistance projects have been funded in the field of VET, mostly, but not exclusively, through the EU assistance programmes (see Table 2).<sup>7</sup>

In this section I focus on the assistance provided by the EC to vocational education in Serbia, one of the largest beneficiaries from this source of

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<sup>7</sup> The EC assistance programmes have funded six out of the thirteen projects listed in the Table.

*Table 2.* Donor funded project in the field of vocational education (2007–2009).

| Recipient Country | Donor | Project  | Aims   | Grant Amount | Date signed |
|-------------------|-------|--|--|--------------|-------------|
| Albania           | AUT   | Economic School Project  | Modernization of economic education at 11 secondary vocational schools in Albania.                                     | €400,000     | 2009        |
| Albania           | EC    | Strengthening VET in Albania (IPA)                                 | Support for construction and rehabilitation of VET schools; provision of equipment; technical assistance               | €7,000,000   | 2008        |
| Albania           | GER   | Sustainable economic development through vocational education      | Durres university programme in Hotel Business, Banking and Construction.   | €1,000,000   |             |
| Albania           | GER   | VT in North Eastern Albania  | TC for improving vocational training in North East Albania.  | €1,800,000   | 2007        |
| Albania           | ITA   | Northern Albania: strengthening of education and training services |  | €1,005,000   | 2007        |
| BiH               | EC    | Supply of Equipment to VET Schools (IPA)                           | Equipment to VET schools as complementary activity to the project “VET System Reform III – Copenhagen Process in BiH”. | €1,300,000   | 2007        |
| BiH               | EC    | Support to Education Reform (IPA)                                  |  | €3,000,000   | 2008        |
| Kosovo            | EC    | Education and Employment (IPA)                                     | Sector-wide approach in education, VET capacity building & employment promotion  | €10,000,000  | 2008        |
| Macedonia         | AUT   | Tour Reg - Support to Tourism Schools                              | Support curriculum reform in Tourism Schools, teaching materials, teacher training and equipment.                      | €265,000     | 2007        |
| Macedonia         | NOR   | Youth Entrepreneurial Service III (project no.2070258)             | Support for innovation, job creation and entrepreneurial activities among youth.                                       | €210,000     | 2007        |

(Continued)

Table 2 (Cont.)

| Recipient Country | Donor | Project  | Aims   | Grant Amount | Date signed |
|-------------------|-------|--|--|--------------|-------------|
| Serbia            | EC    | Modernisation of the vocational education and training system in Serbia (IPA)                      | Infrastructure projects in accordance with EU rules and best practice  | €4,000,000   | 2007        |
| Serbia            | EC    | Systemic Development of Elementary, Practice-Based Adult Education in Serbia (Second Chance) (IPA) | Situation analysis of adult education in 15 regions; train trainers; plan the delivery of training in school; produce the specifications of school equipment | €4,500,000   | 2008        |
| Serbia            | EC    | Reform of Vocational Education in Serbia (IPA)   | Introduce five new educational profiles; further training of teachers.   | €3,000,000   | n/a         |

Source: Database of the Western Balkans Framework Coordination Platform. Note: AUT = Austria, EC = European Commission, GER = Germany, ITA = Italy, NOR = Norway

funding (see Table 2). The VET system in Serbia, as in other successor states of the former Yugoslavia, is structured around three-year and four-year courses of study in post-compulsory upper secondary education. While the four-year programme provides a 'matura' exam that leads to further study at universities, the three-year programmes mostly lead directly to the labour market. Over time, the three-year programmes have become less popular, as students have come to realise that they are likely to lead to unemployment rather than to finding a full-time job. According to the Labour Force Survey for 2012, a much larger proportion among the unemployed has secondary education as the highest education level than among the employed labour force (66.3% of the unemployed compared to just 56.9% of the employed) (SORS 2012). Although these data do not distinguish between graduates of gymnasias (grammar schools) and vocational schools, it is likely that an even higher proportion of the latter are unemployed. The reason is that the courses have not been updated as the economy has undergone profound restructuring. Graduates from such courses are poorly equipped with the knowledge that would enable them to step into a job, supposing that such jobs were readily available in a period of economic crisis and rapidly rising unemployment. Consequently, the option to take a four-year course of

study and carry on to university has become far more appealing to most students. According to one interviewee:

The three-year profiles, for example in bakery, often provide a route to a job, and can be very suitable to the right sort of student. However, vocational schools often fail to prepare students for the world of work. They don't teach students how to learn and to adapt. Employers don't want to employ graduates with skills in operating out-dated machinery that no longer exists.<sup>8</sup>

Not surprisingly, the unemployment rate of people with at most secondary education is far higher relative to their proportion in the labour force.

The reform policy for VET in Serbia was set out in a policy concept document published in 2004 (MES 2004). It planned 26 pilot projects in nine sectors designed to improve the relevance of the courses taught to the changing needs of employers, the changing structure of the economy and the new technologies that had been introduced following the privatisation of much of the former socially owned industrial sector. In line with the strategic orientation of the government, the EU's IPA assistance programme has funded four successive projects relating to VET reform, the first three of which are listed in Table 2 above. The fourth phase of funding began in 2009 with a project on "Modernisation of the VET system in Serbia" aimed at supporting the continuation of the VET reform process. The Ministry of Education administers the project with technical support from an international consultancy company. Some 157 secondary vocational schools from all over Serbia have been involved in the modernization and revision of 72 out of 327 educational pilot profiles (Maksimović and Bratić 2013). Early evaluations of the pilot show increased attendance and higher average marks for students taught with modernised curricula. However, as the pilot projects only cover about one fifth of all profiles taught in vocational schools and just 15% of students, the overall impact has inevitably been rather limited. According to the first national report on social inclusion and poverty reduction in Serbia,

Other occupations are taught according to an out-dated curriculum and old teaching methods, and take place in inadequate infrastructure. The involvement of employers in curriculum development and training provision is limited, and teachers do not have the necessary teaching competencies. Some occupations are no longer in demand on the labour market (GoRS, 2011:159).

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<sup>8</sup>) Interview with consultant active in VET reform (Belgrade: February 2013).

The project also aimed to strengthen institutional capacities by supporting the creation of a National VET Council, strengthen social partnerships, further improve the national qualifications framework, develop a quality assurance system and further develop continuing VET. The project has also supported school upgrading financed by the European Investment Bank and provided schools with new equipment. By the time the four phases of IPA assistance had been completed, about 10% of all profiles had been modernised.

A major obstacle to the effective implementation of the EU assistance programme for VET reform has been resistance to the reforms by domestic actors within the Serbian education system, including by the Ministry, the Education Council and the teachers themselves.<sup>9</sup> This is a typical consequence of the misalignment of objectives and incentives on the recipient side of the principal-agent assistance chain. In assuring a coherent response of the recipient to the donor assistance programme, objectives and incentives on the recipient side should be closely aligned between domestic actors. In the absence of such alignment, it is likely that various actors will disagree over the objectives and aims of reforms and seek to resist their implementation. In achieving such alignment it is often useful to have a 'champion' of the reforms within the administration. As one interviewee stated:

The problem is that no one is acting as a champion of education reform. At the same time there are powerful vested interests in not reforming the system.<sup>10</sup>

The Ministry of Education has in the past been lukewarm towards reform.

The ministry has little interest in improving vocational education. It is highly politicised and technical experts are replaced when a new party comes to power. In the past when it was controlled by [one party], the civil servants were forbidden from talking to 'foreigners' without the meetings being approved from the top and recorded.

However, since the change of government in 2012, the Ministry has become more willing to support reforms. By early 2013, the Ministry had established four sector skills councils in collaboration with the Chamber of Commerce, and pilot projects in 72 profiles out of a total of 327 profiles

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<sup>9</sup> The following account comes mainly from an interview carried out in Belgrade in February 2013 with a well-informed international consultant.

<sup>10</sup> Interview with consultant (Belgrade: February 2013).

across 12 occupational sectors were near completion (although it should be noted that these pilot projects were initiated under previous governments). There seems to be a growing recognition within the Ministry that the VET sector is over-regulated and that a more flexible approach to school autonomy, curriculum development and teaching methods would yield dividends.<sup>11</sup> Plans are also being developed to give more recognition to non-formal learning.

However, other sources of reform resistance seem to be entrenched within the system. An important source of reform resistance is the National Education Council, which seems to be quite satisfied with the *status quo*:

The Education Council has been resistant to reform on the grounds that there is no need for change as the system in Serbia is highly developed and world-leading. Reference is often made to Nikola Tesla as an example of Serbian expertise in technical matters.<sup>12</sup>

One of the most powerful obstacles to effective implementation of the reforms comes from teachers. Most teachers working in schools in Serbia have been trained in a traditional form of teaching based on prescribed curricula designed with little scope for adaptation to changing needs and circumstances. Moreover, teachers are often poorly informed about reform initiatives and therefore have little motivation to initiate the envisaged changes in working practices and teaching methods linked to EU assistance programmes (Radišić et al.: n.d.). This is reflected in the observation of one interviewee for this study:

Teachers mainly prefer to teach the established curricula even if this is out of date. For example, in one profile, the use of rotary dials is taught, even though these are hardly used any more. At school level, the teachers and parents vote school Directors into their position. Teachers tend to vote for a Director who is in favour of maintaining the established curricula.<sup>13</sup>

However, the resistance to reform is not universal and there are some examples of schools in which the reforms have been welcomed.

In some cases a strong reforming Director will be able to mobilise support. Schools therefore tend to divide into two types: one type in which no reform takes place and another type in which a dynamic director drives school reform.<sup>14</sup>

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<sup>11</sup> Interview at Ministry of Education (March 2013).

<sup>12</sup> Interview with consultant (Belgrade: February 2013).

<sup>13</sup> *Ibidem*.

<sup>14</sup> *Ibidem*.

A further source of reform resistance is the public employment service. The employment counsellors have an excessive caseload and are preoccupied with administrative issues, registering clients for health insurance, and lack funds for implementation of innovations in the field of active labour market policies or finding jobs for graduates of vocational schools (Mills 2010). These problems lie behind a lack of motivation among employment service staff to deal effectively with graduates from the school system, including those that have passed through the EU-assisted pilot projects in the vocational schools:

Local employment service offices are not interested in reforms. When I visited one employment office I was asked by the Director, ‘what is in this project for *me*?’ He was not interested in providing an improvement in labour market outcomes for the local population, but mainly interested in receiving a personal financial cut from the project funds.<sup>15</sup>

Furthermore, the EU programme management system has a set of objectives and incentives that are out of line with the effective implementation of reforms. The following quotation illustrates the problem of misalignment of the incentives facing the donor agency in relation to what the objectives of the donor principals might be (i.e. the EU taxpayers), and the gap between the donor objectives and those of the beneficiaries:

The role of the EU Delegation is mainly interested in ticking off the project reports and ensuring that the project is a success. The project is set up in such a way with limited objectives to maximise the chances that the project can be evaluated as a success [...]. The EU Delegation is aware of the project difficulties and the obstacles to reform, but makes little effort to do anything to influence the attitudes of the local beneficiaries. [...] There is little interest in preserving the continuity of the project and building on its achievements, despite the fact that the project is dealing directly with the futures of a large number, if not the majority, of young people in Serbia.<sup>16</sup>

Moreover there is little consultation with students, and students have few chances to choose their courses or switch between courses.

There ought to be a modularisation of courses, which would allow students to flexibly combine different modules in accordance with their own preferences and decisions. [The current revision of pilot profiles under the EU project has introduced modularisation]. The modules should be revised continually, rather than there being a more or less twenty-year cycle of revision to curricula content.<sup>17</sup>

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<sup>15</sup> *Ibidem.*

<sup>16</sup> *Ibidem.*

<sup>17</sup> *Ibidem.*

Even in the economically more advanced countries in the SEE region, the perceived level of corruption seems to be substantially higher than in the OECD countries (Sanfey and Zeh 2012). Serbia is in a middle position among this group of countries. Corruption is also a problem in the education sector. The following quotation highlights the problem of asymmetric information in the allocation of EU funds in the tendering process:

There is a high level of corruption in the system. A large loan from an international development bank for the education sector was mishandled by the tender committee, which channelled funds to favoured providers of services and equipment.<sup>18</sup>

A further obstacle to effective implementation of assistance projects in the field of VET has been incompatibilities between the aims of the central government and municipalities. Decentralisation of education has given competencies for school buildings maintenance and repair to local authorities, although the necessary funding and allocation of teaching posts remained a competence of the central government. While not strictly related to the assistance programme, this introduces further complexities into the mix of differentiated objectives and incentives facing actors within the VET system in Serbia.

## 5. Conclusions

This paper has set out the problems facing international assistance programmes posed by the nature of the institutional arrangements that are implicit in international donor-funded programmes. The long chains of principals and agents that intermediate between the altruistic desires of donor country taxpayers to improve the welfare of recipient country beneficiaries provides much scope for distortion of well-meaning objectives in the manner of ‘Chinese whispers.’ The paper has highlighted the concerns of recent developments in the institutional economics literature that has sought to apply the principal-agent framework of institutional economics to the case of international development assistance. The long chains of principals and agents that characterise the institutional setup, including donor ministries, donor agencies, local counterpart agencies, and recipient principals in the form of ministries that represent the interests of the ulti-

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<sup>18</sup> *Ibidem.*



mate beneficiaries of assistance programmes, provide many points at which the effectiveness of the international assistance may be reduced. The mechanisms of this process include misalignment between the objectives of different actors in the system and the incentive structures that they face, compounded by inherent problems of asymmetric information and moral hazard that enable actors to overstate their needs or their input of effort, and to strategically alter their behaviour to divert resources from the ultimate beneficiaries into other uses.

While all these problems are fairly well known in the development aid literature, this paper makes a first attempt to apply this analytical framework to the case of EU international assistance to the Western Balkans. The analysis has been applied to the case of pre-accession assistance for reform of the vocational education system in Serbia. The analysis has relied on qualitative case study material and documentary evidence. It has found multiple points at which principals and agents interact with misaligned objectives that reduce the effectiveness of the assistance programme. It also highlights the sources and nature of information asymmetries and behavioural responses to assistance programmes that fall under the general description of 'moral hazard'. Specifically, sources of reform resistance have been located in many institutions and actors within the domestic recipient's policy sphere, including policy actors, agencies and teaching staff. In addition, the EU appears to follow behavioural patterns common to many donor agencies identified in the literature in pursuing input-based goals and short-term success indicators.

In conclusion, it should be expected that some of these problems will be addressed through the forthcoming IPA II assistance programme, which has altered its scope to provide a more long-term orientation, a greater emphasis on sector funding rather than short-term project funding, and incorporates an element of conditionality that can be expected to provide some flexibility of response to recipient actor behaviour so as to reduce the influence of moral hazard. However, intractable problems of objective misalignment and information asymmetry will remain. As shown above, these factors are not always decisive, and many instances of successful introduction of reforms in individual vocational schools can be found. Effective implementation is just as likely, however, to depend on the motivation and attitudes of an individual school director and enthusiastic members of teaching staff as on the added value provided by the international assistance itself. Consequently, the actors involved in international assistance

programmes should develop a greater sensitivity to individual actors within the group of ‘end users’ of their assistance programmes, and rely less on the ability of formal institutions and systems to effectively implement assistance programmes across the board.

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