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Report No: **PAD1802**

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EURO 47.0 MILLION
(US\$ 50.0 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SERBIA

FOR AN

INCLUSIVE EARLY CHILDHOOD EDUCATION AND CARE (ECEC) PROJECT

January 30, 2017

Education Global Practice
EUROPE AND CENTRAL ASIA REGION

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CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2016)

Currency Unit = EUR
EUR 0.94 = US\$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

CFU	Central Fiduciary Unit
CG	Consultative Group
CPF	Country Partnership Framework
CQS	Selection based on Consultants Qualifications
DILS	Delivery of Improved Local Services
ECEC	Early Childhood Education and Care
EMIS	Education Management Information System
EMP	Environmental Management Plan
ESMF	Environmental and Social Management Framework
FBS	Fixed Budget Selection
FM	Financial Management
FSA	Family Social Assistance
GAC	Grant Approval Committee
GDP	Gross Domestic Product
GOM	Grant Operations Manual
GoS	Government of Serbia
GRS	Grievance Redress Service
IBRD	International Bank for Reconstruction and Development
IC	Individual Consultant Selection
IEP	Individual Education Plan
IPF	Investment Project Financing
ISC	Inter-Sectoral Commission
LCS	Least-Cost Selection
LSA	Local Self Administration
LSG	Local Self Government
MICS	Multiple Indicator Cluster Survey
MoCTI	Ministry of Constructions, Transport and Infrastructure
MoESTD	Ministry of Education, Science and Technological Development
MoF	Ministry of Finance
MoLEVSA	Ministry of Labor, Employment, Veterans and Social Affairs
MoPALSG	Ministry of Public Administration and Local Self-government
NDF	Novak Djokovic Foundation

NGO	Non-Governmental Organizations
OECD	Organization for Economic Co-operation and Development
OSF	Open Society Foundation
PAD	Project Appraisal Document
PDO	Project Development Objective
PMU	Project Management Unit
POM	Project Operations Manual
PPP	Preparatory Preschool Program
QBS	Quality-Based Selection
QCBS	Quality and Cost-Based Selection
REF	Roma Education Fund
RPF	Resettlement Policy Framework
RSD	Republic of Serbia Dinar
SCCPE	Social Care for Children and Preschool Education
SCD	Systematic Country Diagnostic
SDIS	Strategic Development Indicators
SIEF	Strategic Impact Evaluation Fund
SIPRU	Social Inclusion and Poverty Reduction Unit
SORS	Statistical Office of the Republic of Serbia
SSS	Single Source Selection
ToR	Terms of Reference
WBG	World Bank Group
WBIF	Western Balkans Investment Framework
WG	Working Group

Regional Vice President:	Cyril E. Muller
Country Director:	Ellen A. Goldstein
Senior Global Practice Director:	Amit Dar
Practice Manager:	Mario Cristian Aedo Inostroza
Task Team Leader:	Sophie Naudeau; Marijana Jasarevic

REPUBLIC OF SERBIA

Inclusive Early Childhood Education and Care (ECEC) Project

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PAD DATA SHEET

Republic of Serbia

Inclusive Early Childhood Education and Care (ECEC) Project (P157117)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

0000009252

Report No.: PAD1802

Basic Information					
Project ID P157117	EA Category B - Partial Assessment	Team Leader(s) Sophie Naudeau, Marijana Jasarevic			
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []				
	Financial Intermediaries []				
	Series of Projects []				
Project Implementation Start Date 22-Feb-2017	Project Implementation End Date 31-Aug-2022				
Expected Effectiveness Date 17-August-2017	Expected Closing Date 30-Dec-2022				
Joint IFC No					
Practice Manager/Manager Mario Cristian Aedo Inostroza	Senior Global Practice Director Amit Dar	Country Director Ellen A. Goldstein	Regional Vice President Cyril E Muller		
Borrower: Ministry of Finance					
Responsible Agency: Minister of Education, Science and Technological Development					
Contact: Telephone No.:	H. E. Mr. Mladen Sarcevic 381-112688-047	Title: Email:	Minister kabinet@mpn.gov.rs		
Project Financing Data(in USD Million)					
[X]	Loan	[]	IDA Grant	[]	Guarantee
[]	Credit	[]	Grant	[]	Other
Total Project Cost:	50.00		Total Bank Financing:	50.00	

Financing Gap:	0.00									
Financing Source										
										Amount
Borrower										0.00
International Bank for Reconstruction and Development										50.00
Total										50.00
Expected Disbursements (in USD Million)										
Fiscal Year	2017	2018	2019	2020	2021	2022	2023	0000	0000	0000
Annual	0.00	6.00	8.00	10.00	10.00	8.00	8.00	0.00	0.00	0.00
Cumulative	0.00	6.00	14.00	24.00	34.00	42.00	50.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Education										
Contributing Practice Areas										
Social Protection & Labor										
Proposed Development Objective(s)										
The PDO is to improve access to quality Early Childhood Education and Care (ECEC) services, in particular for children from socially disadvantaged backgrounds.										
Components										
Component Name								Cost (USD Millions)		
Expanding the supply of preschool spaces								34.00		
Strengthening the quality of preschool services								5.00		
Supporting young children and families								9.00		
Project management, technical assistance, and monitoring and evaluation								2.00		
Systematic Operations Risk- Rating Tool (SORT)										
Risk Category									Rating	
1. Political and Governance									Moderate	
2. Macroeconomic									Substantial	
3. Sector Strategies and Policies									Low	
4. Technical Design of Project or Program									Moderate	
5. Institutional Capacity for Implementation and Sustainability									Moderate	

6. Fiduciary	Substantial		
7. Environment and Social	Moderate		
8. Stakeholders	Moderate		
9. Other			
OVERALL	Moderate		
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]	
Does the project require any waivers of Bank policies?	Yes []	No [X]	
Have these been approved by Bank management?	Yes []	No []	
Is approval for any policy waiver sought from the Board?	Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11	X		
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Project Management Unit (PMU)	X		CONTINUOUS
Description of Covenant			
The Borrower shall establish and maintain throughout Project implementation, with composition, resources, terms of reference and functions acceptable to the Bank a Project Management Unit (PMU), within MoESTD, as further detailed in the Project Operations Manual.			
Name	Recurrent	Due Date	Frequency
Central Fiduciary Unit (CFU)	X		CONTINUOUS

Description of Covenant			
The Borrower shall establish and maintain throughout Project implementation, with composition, resources, terms of reference and functions acceptable to the Bank a Central Fiduciary Unit (CFU), within MoF, to be responsible for the procurement and financial management of the Project, and appoint a MoF staff to coordinate and oversee the CFU, as further detailed in the Project Operations Manual.			
Name	Recurrent	Due Date	Frequency
Working Group	X		CONTINUOUS
Description of Covenant			
The Borrower shall establish and maintain throughout Project implementation, with composition, resources, terms of reference and functions acceptable to the Bank a Working Group to be responsible for providing technical expertise and support to the Project Management Unit on day-to-day Project implementation activities, as further detailed in the Project Operations Manual.			
Name	Recurrent	Due Date	Frequency
Consultative Group	X		CONTINUOUS
Description of Covenant			
The Borrower shall establish and maintain throughout Project implementation, with composition, resources, terms of reference and functions acceptable to the Bank a Consultative Group to advise on ECED policy issues, programs and related grants and other actions at the local, regional, and national levels, and to contribute to events and information dissemination, as further detailed in the Project Operations Manual.			
Name	Recurrent	Due Date	Frequency
Grant Approval Committee (GAC)	X		CONTINUOUS
Description of Covenant			
The Borrower shall establish and maintain throughout Project implementation, with composition, resources, terms of reference and functions acceptable to the Bank a Grant Approval Committee to be responsible for evaluating and selecting grant proposals under Part 3.B of the Project, in accordance with the criteria set forth in the Grant Operations Manual (GOM).			
Name	Recurrent	Due Date	Frequency
Inter-sectoral teams	X		CONTINUOUS
Description of Covenant			
The Borrower shall establish and maintain throughout Project implementation, with composition, resources, terms of reference and functions acceptable to the Bank inter-sectoral teams, as further detailed in the Project Operations Manual.			
Name	Recurrent	Due Date	Frequency
Agreement between Borrower and local self-government	X		CONTINUOUS
Description of Covenant			
Prior to carrying out the works selected within an individual municipality, the Borrower shall enter into an agreement with the respective local self-government, with all terms and conditions required under the GOM, including specifically the obligation of the local self-government to maintain the new, renovated,			

repurposed and/or upgraded preschools, and to provide the necessary staffing and public utilities connections necessary for the functioning and maintenance of the said preschools.

Name	Recurrent	Due Date	Frequency
Grant eligibility criteria and procedures	X		CONTINUOUS

Description of Covenant

The Borrower shall provide grants to grant recipients in accordance with eligibility criteria and procedures acceptable to the Bank, as set forth in Grant Operations Manual, and shall extend each grant to the respective grant recipient under a grant agreement on terms and conditions approved by the Bank.

Name	Recurrent	Due Date	Frequency
Environmental, Social and Resettlement Frameworks (ESMF and RPF)	X		CONTINUOUS

Description of Covenant

The Borrower shall ensure that the Project is carried out in accordance with the respective terms of the Environmental and Social Management Framework (ESMF) and the Resettlement Policy Framework (RPF), and the policies, procedures and arrangements therein set forth are applied and implemented; and the ESMF and the RPF, or any provision thereof, shall not be amended, suspended, abrogated, terminated or waived or permitted to be amended, suspended, abrogated, terminated or waived, except with the prior written approval of the Bank.

Name	Recurrent	Due Date	Frequency
Resettlement Action Plan (RAP)	X		CONTINUOUS

Description of Covenant

Prior to the commencement of civil works, the Borrower shall: (a) submit to the Bank for its approval, in form and substance satisfactory to the Bank (i) any required Resettlement Action Plan (RAP), including the relevant social assessment, and (ii) any required Environmental Management Plan (EMP); (b) ensure that the provisions of the said RAP(s) and EMP(s) are adequately included in the contract(s) for works; and (c) ensure that the said RAP(s) is/are disclosed and, unless the Bank shall otherwise agree, all related, adequate compensation amounts are paid in full, all in accordance with the related RAP(s) and EMP(s), the RPF and the ESMF.

Name	Recurrent	Due Date	Frequency
Accounting software		17-Nov-2017	

Description of Covenant

No later than ninety (90) days from the date of effectiveness, the Borrower, through the CFU, shall have, under terms of reference and in a manner acceptable to the Bank installed and adapted appropriate accounting software for Project accounting, budgeting and reporting.

Name	Recurrent	Due Date	Frequency
Eligibility of Grant proceeds	X		CONTINUOUS

Description of Covenant

For grants financed under Component 3.2 of the Project, if, in the opinion of the Bank, the loan amounts advanced to the Borrower for grants were not used for the grants' intended purposes, the Borrower shall refund such advance (or portion of such advance as determined by the Bank) to the Bank promptly upon notice thereof by the Bank.

Conditions		
Source Of Fund	Name	Type
IBRD	Establishment of the Central Fiduciary Unit (CFU)	Effectiveness
Description of Condition		
The Borrower, through its Ministry of Finance, has formally established the Central Fiduciary Unit, with functions and staffing satisfactory to the Bank.		
Source Of Fund	Name	Type
IBRD	Establishment of Project Management Unit (PMU)	Effectiveness
Description of Condition		
The Borrower, through its MoESTD, has formally established the Project Management Unit, with functions and staffing satisfactory to the Bank.		
Source Of Fund	Name	Type
IBRD	Adoption of Project Operations Manual (POM)	Effectiveness
Description of Condition		
The Borrower, through the MoESTD, has adopted the Project Operations Manual to the satisfaction of the Bank.		
Source Of Fund	Name	Type
IBRD	Adoption of Grant Operations Manual (GOM)	Disbursement
Description of Condition		
The Borrower may withdraw an amount not to exceed one million Euros (EUR 1,000,000) [from the loan amount allocated for grants under Component 3.2] as an advance, provided that the Borrower, through the MoESTD, has adopted, to the satisfaction of the Bank, the GOM.		
Source Of Fund	Name	Type
IBRD	Advance of grant proceeds	Disbursement (<i>continuous</i>)
Description of Condition		
For grants financed under Component 3.2, the Borrower may withdraw an amount not to exceed five hundred thousand Euros (EUR 500,000), provided that the Borrower furnishes evidence that the recipients have used the advanced grant proceeds -- disbursed pursuant to the above Condition -- for eligible expenditures and in accordance with the respective grant agreements.		
Source Of Fund	Name	Type
IBRD	Subsidy reimbursement	Disbursement (<i>continuous</i>)
Description of Condition		
For subsidies under Component 3.3 of the Project, the Borrower may, annually, withdraw an amount equal to its reimbursement of the local self-governments' financing of their respective social assistance funds (as evidenced in the Borrower's national budget for the relevant fiscal year), but not in excess of [Euro amount equivalent to USD 1 million].		

Source Of Fund	Name	Type		
IBRD	Subsidy reimbursement	Disbursement (continuous)		
Description of Condition				
For subsidies under Component 3.3 of the Project, for the fourth year of implementation, should the unwithdrawn balance of this loan category be in excess of [Euro amount equivalent to USD 1 million], the Borrower may withdraw an amount equal to the Borrower's reimbursement of the local self-governments' financing of their social assistance funds for that fiscal year, up to the full unwithdrawn balance.				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Sophie Naudeau	Team Leader (ADM Responsible)	Program Leader	Team Leader	AFCF1
Marijana Jasarevic	Team Leader	Operations Analyst	Team Leader	GSP03
Benedicta T. Oliveros	Procurement Specialist (ADM Responsible)	Procurement Officer	Procurement Specialist	GGO03
Aleksandar Crnomarkovic	Financial Management Specialist	Senior Financial Management Specialist	FMS	GGO21
Bojana Naceva	Team Member	Senior Education Specialist	Sr. Education Specialist	GED03
Hermina Vukovic Tasic	Team Member	Program Assistant	Team Assistant	ECCYU
Ifeta Smajic	Safeguards Specialist	Jr Professional Officer	Social Specialist	GSU03
Katia Marina Herrera Sosa	Team Member	Senior Economist	Sr. Economist	GED03
Lisa Lui	Counsel	Lead Counsel	Lead Counsel	LEGLE
Lucy Katherine Bassett	Team Member	Social Protection Specialist	Social Protection Specialist	GSP04
Luis M. Schwarz	Team Member	Senior Finance Officer	Disbursement Officer	WFALN
Nikola Ille	Safeguards Specialist	Senior Environmental Specialist	Sr. Environment Specialist	GEN03
Patrick A. Biribonwa	Team Member	Program Assistant	Team Assistant	GED03
Pilar Elisa Gonzalez Rodriguez	Counsel	Senior Counsel	Sr. Counsel	LEGLE

Tigran Shmis	Team Member	Senior Education Specialist	Sr. Education Specialist	GED03	
Extended Team					
Name	Title	Office Phone		Location	
Jure Kotnik	Architect Consultant			Paris	
Zdenka Milivojevic	Education Consultant			Belgrade	
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Consultants (Will be disclosed in the Monthly Operational Summary)					
Consultants Required? Consultants will be required					

I. STRATEGIC CONTEXT

A. Country Context¹

1. **Serbia made considerable progress in terms of both growth and poverty reduction between 2001 and 2008, however, economic growth has stalled since then, and progress on poverty reduction and shared prosperity has reversed.** The pre-crisis growth averaged 5 percent annually and benefitted the bottom 40 percent of the population (B40). At the same time, poverty headcount declined from 14 percent in 2002 to 6.6 percent in 2007. Consumption, both private and public, contributed significantly to growth. This consumption-fueled growth, however, proved unsustainable. Serbia saw economic contractions in 2009, 2012, and in 2014. After the crisis, poverty peaked at 15.1 percent in 2010 but then declined to 14.5 percent in 2013. Relative poverty, or the fraction of population living below 60 percent of the median income, was estimated at 25.4 percent in 2015.

2. **Further, the working age population is projected to decline over time, as Serbia's society is aging; importantly, children from low-income and Roma households will represent a growing percentage of the future workforce.** Relative to 2013, the working age population (defined as age 15-64) is projected to fall by 8 percent by 2020, by 16 percent by 2030, and by 23 percent by 2040. Using best available estimates of the Roma population (between 400,000 and 800,000), new labor market entrants of Roma descent may represent between 14 and 29 percent of the total in the next 10-15 years.²

3. **In this context, maintaining a positive contribution to growth requires increasing capital accumulation and labor market participation (including for excluded groups), keeping workers in the labor force until retirement age and beyond; and boosting productivity** Despite recent improvements, unemployment remains high in Serbia and was estimated at 19 percent in the first quarter of 2016 for individuals of age 15 and over. Youth unemployment (at 44.2 percent) is among the highest in the region and persists despite relatively high levels of secondary educational attainment. While this symptom could be in part due to limited demand in a currently weak economy, one of the key supply-side explanatory factor lies in the large number of youth who are functionally illiterate and/or who lack critical “soft” (or socio-emotional / life) skills for the job market.

B. Sectoral and Institutional Context

4. **Participation in primary and secondary education in Serbia is high, but important socioeconomic disparities persist in both participation and attainment.** Serbia's enrollment rates in primary and secondary school are better than in other countries at similar income levels.

¹ Based on Serbia - Systematic Country Diagnostics, 2015.

² Taking the MICS5 and survey data as a basis and assuming that the current under-5 age cohort enters the labor market between the ages of 16 and 21. Even when using the official census estimates (which underestimate the Roma population), Roma would still represent at least 5 percent of new labor market entrants.

However, according to the MICS 2014³, secondary attendance is only about 70 percent among the poorest quintile and 20 percent among Roma, compared to 90 percent among the 2nd through 4th quintile, and 97 percent among the wealthiest. Primary and secondary enrollment rates are on average gender neutral, but the girls-to-boys ratio in secondary school net attendance is only 0.53 for Roma.

5. In contrast to the high access rates, the country's education system performs below international averages in terms of student achievement. The Program for International Student Assessment (PISA) results in 2003, 2006, 2009, and 2012 revealed that while there have been slight improvements in all subjects particularly in reading, Serbia still lags behind the Organization for Economic Co-operation and Development (OECD) by the equivalent of 1 year of schooling in mathematics. In fact, the portion of students considered functionally illiterate in Serbia is still very high (roughly 40 percent of students in math and about one third in reading). The results also highlight significant socioeconomic and geographic disparities in learning outcomes, especially according to school location, size, and parental education⁴.

6. Further, Roma students significantly lag behind their non-Roma peers in learning outcomes and overall development. Roma students are, on average, from more disadvantaged backgrounds and tend to do worse than non-Roma children and children from better-off families.⁵ In addition, Roma infants and young children face particular challenges in regards to their health and nutrition: (i) Infant mortality rates among Roma children are more than twice as high as the national average; (ii) the prevalence of under-nutrition is several times higher among Roma children than in the general population (around 10 percent of Roma children are underweight and around 19 percent are stunted), though the prevalence of obesity is lower at around 5 percent.^{6,7}

7. International evidence shows that poor learning outcomes in primary and secondary education are often rooted in the lack of early learning and overall development opportunities (including lack of adequate nutrition, health, nurturing and protection from stress) in the first few years of life. Globally, many young children from the most vulnerable households (i.e. the poorest and/or most marginalized) are not ready for primary school by the time they enter first grade and do not reach their full development potential in life, in part because they are not exposed to sufficient opportunities for early learning and development. For example, studies in five Latin American countries (Nicaragua, Ecuador, Colombia, Peru and Chile) recorded large cognitive differences between children in the poorest and richest segments of society. The bulk of these differences was apparent by age 3 years, often worsened by age 6, and remained largely unchanged after that.⁸ These early learning gaps can be aggravated by poor

³ Multiple indicator cluster analysis conducted by UNICEF in cooperation with the Statistical Office of the Republic of Serbia.

⁴ Students in urban areas perform much better than students in rural areas, and students who belong to the top (income) 20 percent perform the equivalent of 2 school years over students who belong to the bottom (income) 20 percent.

⁵ Sondergaard, L. and M. Murthi, Skills, Not Just Diplomas, Managing Education for Results, World Bank, 2012.

⁶ UNICEF, MICS5, 2014.

⁷ While non-Roma children are less likely to be stunted, some poor non-Roma children face the double burden of stunting and overweight, i.e. 14 percent of non-Roma children in the poorest quintile are stunted, and 16.4 percent are overweight.

⁸ Schady et al. 2014.

nutrition (especially in the first 1,000 days from pregnancy up to the child's second year) and by lack of nurturing and/or protection from stressful experiences in the home or community (e.g., neglect, violence, and lack of supportive discipline).

8. In turn, evidence shows that holistic and high-quality services in the early years of a child's life yield significant benefits in the short and longer terms. Many brain functions are particularly sensitive to change early in life and become less malleable over time. Accordingly, a number of early interventions (including nutrition, adequate health and nurturing, protection from stressors and early stimulation and learning opportunities) have been shown to have significant and long-lasting benefits, including through enhancing cognitive and socio-emotional skills, among others. As a result, high quality interventions in the early years have not only a high cost-benefit ratio but also a higher rate of return for each dollar invested (7 to 16 percent annually in the United States⁹) than interventions directed at older children in the primary, secondary, and tertiary education sub-sectors. For that reason, many countries invest public resources in various ECEC interventions as a way to enhance both efficiency and equity in their education system.

9. In Serbia, preschool institutions are an integral part of the education system and provide a platform for supporting the overall development of young children across the physical, cognitive, socio-emotional and linguistic areas. Three types of programs are delivered through preschool institutions for various age groups: (a) nurseries cater to children aged 6 months to 3 years; (b) kindergartens are for children aged 3 to 5.5 years; and (c) the compulsory 4-hours a day and 9-month-long Preparatory Preschool Program (PPP) is for all children ages 5.5 to 6.5 years, which is free of charge when provided by a public kindergarten or school (but does not include any meal). However, parents who wish to enroll their children in a full day PPP program and parents of children younger age 5.5 years have to pay a monthly fee. The work of ECEC institutions is regulated by several laws and by-laws and, while focused on early education as its main function, also covers child nourishment, health and social care and protection. While the quality of service provision varies widely across institutions, analysis of the PISA 2012 (controlling for socio-economic characteristics) suggests that attendance in ECEC programs predicts later performance in math, as children who attended a program for more than a year scored on average 14 points higher than other students.

10. However, in contrast to general education, access to ECEC is both low and extremely inequitable. Preschool in Serbia reaches only 52 percent of boys and 49 percent of girls ages 3 to 5.5 years. Even when focusing on children ages 4 and above, the enrollment rate in Serbia¹⁰ is quite low in comparison to the Europe 2020 target of 95 percent of children enrolled in preschool education. Most EU member states have enrollment rates between 85 and 100 percent, including Bulgaria (87 percent); the Czech Republic (86 percent); Slovenia (91 percent) and Latvia (93 percent).¹¹ Access is highly inequitable. More than 80 percent of wealthy children are enrolled in ECEC programs compared to less than 10 percent of children in the poorest quintile, and access

⁹ Heckman et al. 2009.

¹⁰ The preschool enrollment rate in Serbia is 58.3 percent for the 4 to 5.5 years age group and 97.9 percent for the mandatory PPP (5.5 to 6.5 years) – with a weighted average of 74.1 percent from 4 to 6.5 years.

¹¹ All Eurostat 2012 data (latest).

for Roma children is dismal (5 percent of boys and 7 percent of girls).¹² In this context, inclusive¹³ ECEC refers to the provision of ECEC services in a way that includes the most disadvantaged groups (i.e. poor children, children with disabilities, and children of Roma families). Increased access to preschool among these children (especially when on a full-time basis) would also promote increased opportunities for parents, particularly mothers, to participate more actively in the labor force.

11. These trends can be explained, at least in part, by the current financing of the ECEC sub-sector, which is lower than in EU countries and predominantly financed by local self-Governments (LSGs) and parents' contributions. Total expenditure for ECEC in Serbia for 2014 is estimated to be around 0.65 percent of GDP, with public expenditure amounting to 0.5 percent of GDP (compared to an average public expenditure of about 0.8 percent of GDP in EU countries) and the remaining 0.15 percent financed by private spending through parents' contributions. In practice, LSGs cover about 69 percent of total preschool expenses (including staff salaries, food and nutrition, and infrastructure-related expenses), parents contribute about 23 percent through monthly fees, and the Ministry of Education, Science and Technological Development (MoESTD) only finances 8 percent of the total, primarily to support the compulsory Preschool Preparatory Program (PPP) for children ages 5.5 to 6.5 years.¹⁴ This system perpetuates inequities since (i) LSGs differ widely in the resources that they have available for ECEC financing; and (ii) the fact that all parents are expected to pay the same fee irrespective of socioeconomic status automatically excludes the poorest.

12. Additional supply and demand-side factors account for the low and inequitable access to preschool education, particularly in the age group from 3 to 5.5 years and for the Roma population. These include: (i) insufficient and unevenly distributed infrastructure, with fewer preschools spaces in underdeveloped, low-income (including cities' peripheries), and rural areas and over-crowded preschools where they exist; (ii) a tendency for preschool institutions with long waiting lists to give priority to families with working parents and/or to have non-transparent admission criteria;¹⁵ (iii) parents' lack of understanding of the benefits of ECEC, especially when they can take care of the child at home (e.g. if they are not working) or through relatives, and/or their dissatisfaction with the quality, sensitivity (e.g. to the specific needs of individual children) and practical aspects (e.g. hours of operation) of the service provided; and (iv) other barriers such as language and lack of personal documents and proof of citizenship, even if not officially required for enrollment (especially for Roma and internally displaced families).

C. Higher Level Objectives to which the Project Contributes

13. The Government of Serbia and the World Bank have identified skills development and inclusion of vulnerable groups as strategic priorities for their next phase of cooperation, based

¹² Sources: UNICEF, Serbia MICS5 2014 and Serbia Roma Settlements 2014

¹³ Inclusive education sometimes refers only to the inclusion of children with disabilities. However, in the context of Serbia, inclusive education refers to the inclusion of poor children and Roma children as well.

¹⁴ Baucal et al., ECEC in Serbia: Situational Analysis and Recommendations, analytical work on the state of ECD in Serbia commissioned by the World Bank, February 2016, p. 52.

¹⁵ The bylaw on Conditions for Determining Priorities for Enrollment of Children in Preschool Institutions (2011) is not always applied in practice.

on a Systematic Country Diagnostic (SCD) and a Public Finance Review, and summarized in a Country Partnership Framework 2016 – 2020 (CPF) between the two partners. In particular, the SCD highlights the importance of building human capital to increase labor productivity and enhance social inclusion through closing education enrollment gaps for low-income and Roma students starting in pre-primary. As previously noted, quality ECEC programs play a critical role in laying the necessary foundation for skills development early on and for narrowing the equity gap in education access and performance.

14. This project also directly contributes to the goals outlined in the Strategy for the Development of Education in Serbia until 2020 (SED 2020) and to its related Action Plan. This strategy, which was adopted in 2012, defines mechanisms for assuring accessibility, quality, and equity in ECEC and sets clear priorities for: (i) increasing coverage; (ii) enhancing quality of the service delivery and educational outcomes in primary school and beyond; (iii) increasing efficiency; and (iv) attaining and maintaining relevance for the overall system. An Action Plan for the implementation of the SED 2020, adopted in 2015, further defines the main strategic activities, their objectives, the relevant stakeholders and the implementation timeframe. The project will directly support these priorities through its various components.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

15. The PDO is to improve access to quality Early Childhood Education and Care (ECEC) services, in particular for children from socially disadvantaged backgrounds.

16. As per the OECD definition, ECEC refers to all educational and care arrangements for children from birth to compulsory schooling, regardless of setting, funding, opening hours, or programme content.

B. Project Beneficiaries

17. The proposed project would directly benefit children age 0 to 6.5 years of age, particularly from disadvantaged backgrounds. The project will provide disadvantaged children with a critically needed head-start in terms of overall development, educational inclusion and educational attainment. Preschool teachers, parents and families would also be direct beneficiaries of the project. Approximately 17,000 new preschool places will be created for children ages 3 to 5.5 years under Component 1.¹⁶ Gender balance is already good in access to ECEC services in Serbia (the preschool enrolment rate is 52 percent for boys and 49 percent for girls), and both genders are expected to equally benefit from all the project's interventions. As a result of the activities under Component 2, all children ages 3 to 6.5 years enrolled in preschool (including the above-mentioned new entrants) or the mandatory PPP program in Serbia are also expected to benefit significantly from the project through better quality of service delivery, including improved (more child centered and developmentally appropriate) curriculum and teaching approaches and strategies. Finally, all children ages 0 to 6.5 years across Serbia are

¹⁶ Projection estimates based on current costs and enrollments suggest approximately 6,000 new places for 3 year olds and approximately 11,000 new places for 4 to 5.5 year olds.

expected to benefit from improved parenting and care at home thanks to the national media campaigns that will be rolled out as part of Component 3, and a subset of these children in at least 30 municipalities will also benefit directly from increased exposure to a range of relevant ECEC services (including opportunities for early stimulation, and learning and information for parents and caregivers about how to promote adequate health, nutrition, nurturing, and protection from stress - at home and through access to relevant services in the community).

18. Preschools teachers, primary school pedagogical staff, and parents of children ages 0 to 6.5 years are also expected to benefit directly from the project. Preschool teachers and primary school pedagogical staff will benefit through training and capacity building activities. Parents and families of all children receiving the above-mentioned services will also benefit, including through (i) additional information and support to engage in early stimulation (including play and positive interactions) at home; (ii) increased opportunities to access relevant services for their children, including preschool, health, and social protection; and (iii) increased opportunities to participate more actively in the labor force (especially for parents of children enrolled in full-time preschools).

C. PDO Level Results Indicators

19. The PDO indicators will focus on the three core aspects of the PDO, i.e. access, quality, and equity and will aim to measure the extent to which the overall population benefits, on the one hand, and the proportion of vulnerable children and families, on the other hand. They will include:

- 1) National preschool enrolment rates for children ages 3 to 5.5 years
 - ✓ Sub-indicator 1.1: National preschool enrollment rates for children ages 3 and 5.5 years within the eligible municipalities
- 2) Preschools that undergo external evaluation and rank 4 (on a scale of 1 to 4)
- 3) Children ages 12 to 59 months in the lowest quintile with whom an adult has engaged in early stimulation activities at home
 - ✓ Sub-indicator 3.1: Children ages 12 to 59 months in Roma families with whom an adult has engaged in early stimulation activities at home

III. PROJECT DESCRIPTION

A. Project Components

20. The project will focus on improving access to quality ECEC services, in particular for children from socially disadvantaged backgrounds (i.e., poor children, children with disabilities, and Roma children). Activities for children ages 3 to 5.5 years will focus on increasing access to quality preschools (i.e. child-centered and with age-appropriate learning opportunities) while also supporting their transition to the early grades of primary education (see Components 1 and 2). Activities for younger children, i.e. from birth onwards (in Component 3), will focus on empowering parents and families to support children's holistic development through increased knowledge about the importance of the early years (including adequate health and nutrition, early stimulation and learning opportunities, and nurturing and protection from stress) and about the

relevant services available in the community. Finally, Component 4 will focus on project management, technical assistance, and monitoring and evaluation.

Component 1: Expanding the supply of preschools spaces (approximately USD 34 million)

21. The objective of this component is to improve access to preschool services, particularly for disadvantaged children ages 3 to 5.5 years, by increasing the supply of spaces in high quality preschools.

22. This component will finance approximately 17,000 new preschool spaces in both urban and rural areas through a combination of new construction, extension of existing preschools, and repurposing or upgrading of other public buildings such as primary schools (or other buildings available in the municipality). Renovations and repurposing/upgrading will be prioritized in the first steps of project implementation to ensure fast increases in access, while new constructions will require more time. The refurbished and newly constructed environments will be conducive to child-centered education practices and will employ solutions that increase efficiency and flexibility. For all new and rehabilitated preschool institutions, the component will also finance furniture, teaching-learning materials, equipment, and playgrounds.¹⁷ If all new places are used for full-day preschool programs, national coverage would increase from 46 to 56 percent for children ages 3 to 4 years and from 59 to 76 percent for children ages 4 to 5.5 years. About 93 percent of children between 3 and 5.5 years old who attend preschool, do so on a full-time basis. Thus, it is expected that many of the new spaces created under the project will be used for full-day programs (which would also help promote increased labor force participation among parents, especially mothers). However, some of the new spaces may be used on a part-time basis in order to meet the specific needs of municipalities and families. Municipalities will be identified and prioritized based on a proposed index (Municipality Eligible Index—MEI). The index is based on two dimensions (estimated preschool needs and social and economic characteristics of the municipality).

23. In addition to all the new and upgraded preschools described above, this component would also finance up to five innovative centers to serve as model preschools for training and knowledge sharing purposes. This would be done either through new construction or through renovation of existing preschools that can demonstrate their potential to become such innovative centers. These preschool centers will be linked to teacher training institutions and will be used to share best practices in child-centered pedagogy (including as part of the roll-out of specific training activities under Component 2). They will be equipped as needed for optimal delivery of preschool services and for teacher training purposes.

24. Finally, this component will also include training for local architects and engineers to promote efficiency and child-centered pedagogy in construction and renovation designs.

¹⁷ These expenses are expected to account for 7 to 10 percent of the overall cost per new space created. Other preschools (beyond those built or renovated through the project) can benefit from the furniture, toys, materials, and playground aspects (after all preschools build or renovated through the project are served and if/when additional funds remain).

Component 2: Strengthening the quality of preschool services (approximately USD 5 million)

25. A growing body of research recognizes that early childhood education and care (ECEC) brings a wide range of benefits, but all these benefits are conditioned by “quality”. Expanding access to services without attention to quality will not deliver good outcomes for children or long-term productivity benefits for the society. This component would finance activities aiming to build the foundation of a quality preschool system that is characterized by a holistic approach to supporting children’s physical, emotional, cognitive development and wellbeing. This will include support for implementation of the new preschool curriculum, improvements in pre- and in-service training, and support for improving quality assurance and quality building mechanisms for preschool. A key outcome would be improved quality of service delivery in the classroom and of the preschool system, which would then be expected to translate into better development for children, including those from vulnerable backgrounds. This component consists of three sub-components.

26. **Sub-component 2.1: Supporting the implementation of the preschool curriculum.** This sub-component would contribute towards creating effective learning environments that successfully nurture children’s wellbeing and holistic development and thereby maximize their gains from preschool attendance, including in the new or upgraded preschools supported as part of Component 1 but also more broadly. Specifically, this sub-component would finance: (i) the development of a training program and training materials for teachers and other staff and the rollout of the new curriculum; (ii) the development of teaching-learning materials according to the new curriculum; and (iii) the strengthening of the Preschool Assistance Network (PAN), a group that will support the roll-out of the curriculum.

27. **Sub-component 2.2: Improving pre- and in-service teacher training.** This sub-component would contribute towards strengthening pre- and in-service teacher training for preschool. Specifically, this sub-component would finance: (i) technical assistance to evaluate, reform, and harmonize pre- and in-service preschool teacher training; (ii) technical assistance to assess and advise on preschool teacher career advancement; and (iii) identification and provision of trainings to increase the leadership and competences of preschool managerial staff.

28. **Sub- component 2.3: Improving the monitoring and evaluation of preschools to improve decision-making.** This component would enhance the education monitoring and information system (EMIS) for preschool. The prevailing role of the system would be to improve quality of preschool monitoring and evaluation at the institutional level as well as at the national level. Activities to be financed under this sub-component include: (i) enhancement of the EMIS for preschool; (ii) revision of system and instruments used for quality evaluation in preschool (self- and external evaluation) and improving capacity of preschool staff, administrators, and other decision-makers in evaluating quality of preschool services; and (iii) technical assistance to develop strategies to expand and regulate the provision of ECEC.

Component 3: Supporting young children and families (approximately USD 9 million)

29. This component focuses on outreach activities to encourage parents and caregivers to improve child stimulation and caregiving practices, and to stimulate demand for relevant services for

families with young children (from pregnancy to the time they transition to primary school), with a focus on the most vulnerable. While the first sub-component is national in scope, the second and third are targeted to vulnerable groups.

30. Parents and communities play a primary role in providing a strong foundation for children's development, but parents from vulnerable groups often feel disempowered to support their children. Serbian government strategic documents define a number of vulnerable groups of citizens that are under higher risk of social exclusion and poverty.¹⁸ In this project, the focus is on poor families, those with children with disabilities, and Roma families, as their access to certain services is limited in a way that can affect their current and future wellbeing. In addition, even less disadvantaged parents may not be fully aware of the importance of the early years and of the benefits of relevant activities during this period of life.

31. **Sub-component 3.1: Communication campaign.** A nationwide campaign would be used to raise awareness about the importance of the early years and seek to empower parents to play a key role in promoting their young children's development through: (i) early stimulation, play, positive interactions, and good health and nutrition practices at home; (ii) information about the range of services that are available in the community and that they may be eligible for in order to support the overall development of their children (including in the health, nutrition, early screening of disabilities, social protection, and early learning areas); and (iii) the importance of preschool attendance. Multiple communication channels would be used, including mass media, social media, and printed publications in places that families with young children frequent. The campaign would target not only mothers, but also fathers, grandparents, and other caretakers. A variety of successful role models at the local and national levels would be involved as charismatic advocates for this campaign.

32. **Sub-component 3.2: Outreach to vulnerable families.** This sub-component will provide grants to selected municipalities to improve coordination and cooperation among relevant actors in providing holistic and high-quality ECEC services (including in the health, nutrition, early screening of disabilities, and early stimulation and learning areas) to parents and children aged 0-6.5 years at the local level, with a focus on the most vulnerable. Grants will be awarded to at least 30 municipalities and the grant size (per municipality) would be up to \$50,000. It would be adjusted based on the scope of the proposed project, the types of activities proposed, and the estimated budget. There will be two phases of grant provision, and a rigorous and external technical audit will be included in the first phase (as part of Component 4) to inform further scale up in the second phase. A Grant Operation Manual (GOM) defines a core package of activities (and a menu of additional eligible activities) aimed at ensuring that the most vulnerable and economically disadvantaged families and their children have access to available services and new activities to support better parenting,¹⁹ among others.

33. **Sub-component 3.3: Subsidies to ensure free preschool participation among the most**

¹⁸ Government of Republic of Serbia, Second National Report on Social Inclusion and Poverty in the Republic of Serbia, Government of Republic of Serbia, the status of social exclusion and poverty trends in the period 2011-2014 and future priorities, 2014.

¹⁹ Depending on local circumstances and priorities, grants may provide support to local Roma NGOs, support the work of Roma pedagogical assistants and/or Roma health mediators.

vulnerable children ages 3 to 5.5 years. According to the Law on Preschool Education and the Law on Financial support to Families with Children, preschool fees are waived for children without parental care and for children with disabilities, and the financial loss incurred by preschool institutions is reimbursed by the Ministry of Labor, Employment, Veteran and Social Affairs (MoLEVSA) through the LSGs. These fees should also be waived for children from socio-economically deprived families, but currently this is under the financial responsibility of the LSGs, and in practice some LSGs are unable to cover this expense (especially considering that many preschools are already overcrowded with children whose families are able to pay). The Law on Financial support to Families with Children is currently being revised to explicitly mention that preschool fees should also be waived for FSA beneficiaries, and the new version is expected to be approved by January 2017.

34. This sub-component will support a subsidy (from the central level to the LSG) to ensure that the most deprived families²⁰ (irrespective of the parents' labor force participation) are given priority to enroll their children ages 3 to 5.5 years in preschool services free of charge. The subsidy would follow the same system already in place for children with disabilities and children without parental care, i.e. the MoLEVSA will reimburse preschool institutions (through the LSGs) for these fees. While the bulk of the expense will be financed directly by the Government, this project will co-finance a portion of the annual expense as follows: the project will reimburse up to one million USD per year once the Government reimburses the LSGs for the preschool fees that were waived for these children.

Component 4: Project management, technical assistance, and monitoring and evaluation (approximately USD 2 million)

35. This component will support the day-to-day management of the Inclusive ECEC Project implementation, the monitoring and evaluation of its objectives and outcomes, and technical assistance for other quality reforms in the education sector beyond ECEC (including to promote efficiency in other sub-sectors to allow for further expansion of ECEC).

36. **Sub-component 4.1: Project management and technical assistance.** This sub-component would support the operation of a Project Management Unit (PMU) reporting to a Project Director and responsible for all the day-to-day project implementation activities. It will also provide technical assistance to the MOESTD to ensure adequate transition from pre-school into primary education and for other quality reforms in the education sector, including promoting efficiency in other sub-sectors to allow for further expansion of ECEC. Finally, this sub-component will finance the expansion of the existing Management Information System (MIS) in the MoLEVSA, including additional modules to promote the efficient administration of the subsidies for free preschool participation supported by the project through Sub-component 3.3. World Bank financing would be provided for consultants employed as part of the PMU and Working Group, as well as for assistance and training to all project staff, project audits, office equipment and incremental operating costs.

²⁰ The primary targeting mechanism will be done through the Financial Social Assistance (FSA), whereby children whose families receive the FSA would be automatically eligible. Additional beneficiaries could be added as relevant.

37. **Sub-component 4.2: Monitoring and evaluation.** M&E are crucial elements of program implementation as they provide important feedback mechanisms for policy, effectiveness, and credibility of the programs. The Project would support the design and implementation of (i) tools and surveys to monitor the results framework of the Project (to collect data at regular intervals during project implementation and upon project completion); and (ii) a technical audit of selected aspects of the project, including the first phase of the grant program. World Bank financing would be provided for technical assistance; services and training of the MOESTD staff engaged in monitoring; and the design, implementation, and analysis of evaluation surveys.

B. Project Cost and Financing

38. This 5-year project will be financed through a US \$50 million IBRD credit (additional details are included in Table 2 and also in Annex 5). The loan uses an Investment Project Financing (IPF) lending instrument.

Table 2: Project Costs by Component

Project Components	Project cost (US\$ million)	IBRD Financing (US\$ million)	% Financing
Component 1: Expanding the supply of preschool spaces	34 million	34 million	100%
Component 2: Strengthening the quality of preschool services	5 million	5 million	100%
Component 3: Supporting young children and families	9 million	9 million	100%
Component 4: Project management, technical assistance, and monitoring and evaluation	2 million	2 million	100%
Total Costs Total Project Costs (Including Front-End Fees) Total Financing Required	50 million	50 million	100% ²¹

C. Lessons Learned and Reflected in the Project Design

39. Important lessons have been generated through projects implemented globally and in ECA (e.g. in Bulgaria through the Social Inclusion Project and Romania Social Inclusion Project). A recent impact evaluation²² of the Bulgaria project shows that removing kindergarten fees was the most cost-effective strategy to increase preschool participation among vulnerable groups, but that child development outcomes did not improve among Roma children (due to poor quality of service delivery). Lessons learned from this project show that i) inclusive quality education for children from vulnerable families and children with special needs yields improved school

²¹ While co-financing is not envisioned as part of the Project, the Government will significantly contribute to the objectives of the project through direct financing from (i) the central budget (e.g. for the subsidy supported by Sub-component 3.3) and from the budget of participating Municipalities (e.g. to increase the value of the grants under Sub-component 3.2 and to ensure the maintenance of staffing of all new preschool spaces under Component 1).

²² Huillery, E.; & Joost de Laat. *Information, Free Access, or Conditionality; Three Ways to Improve Kindergarten Participation of Roma in Bulgaria?* Draft Manuscript.

readiness; and ii) projects working with vulnerable and minority groups should have mediators from those groups to help promote services etc. Lessons drawn from the Romania project are that: i) coordination mechanisms need to be considered when multiple agencies are involved in project; and ii) capturing how activities ultimately contribute to social inclusion is essential in the design of social inclusion projects.

40. This Project also builds on lessons learned through the Serbia Delivery of Improved Local Services Project (DILS - 2009-2015), which was successfully implemented.²³ Key lessons learnt (and reflected in this project's design, especially under Sub-component 3.2) are that: a) cooperation with Roma NGOs is of critical importance at local level – however, the weakest link among local partners were Roma NGOs due to lack of human and financial resources (capacity building is therefore necessary and included as part of the grants financed through Sub-component 3.2.); b) pedagogical assistants are very helpful in breaking the barriers when it comes to discrimination and segregation and linkages among children who come from families with different socio-economic status and could therefore play an important role, where relevant, as part of Sub-component 3.2; and c) two years of implementation is too short for the grants to generate significant and sustainable impacts (grants under Sub-component 3.2 are expected to be implemented for longer periods of time).

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

41. The Project will be implemented over a period of five years. The key implementing agency of the Project will be the MoESTD. The MoESTD would be ultimately accountable for execution of project activities and the project implementation would rely on its existing structures, with the additional support of the Project Management Unit (PMU) that will be established under the project. Decisions will be made by the MoESTD in coordination with the PMU. Implementation arrangements place an emphasis on continually strengthening the MoESTD's capacity to promote long-term sustainability of the system. The Project implementation structure would consist of: (i) Project Management Unit; (ii) Centralized Fiduciary Unit (CFU); (iii) Working Group consisting of the MoESTD staff; (iv) Consultative Group led by MoESTD; and (v) Grant Approval Committee lead by MoESTD and in coordination with the PMU.

42. **Project Management Unit (PMU).** Day-to-day activities under the Project would be managed by a PMU housed in the MoESTD and headed by a Project Director. Key PMU functions include this Project Director and the following additional experts (which may be contracted as consultant or may be mobilized from the Ministry's existing staff): coordinators for each of the three components, a grant coordinator, and safeguards experts to provide assistance on environmental and social safeguards issues. The PMU may also include a few additional experts to support the education reforms needed to increase efficiency across sub-sectors and to support the expansion of ECEC. The PMU would report to the MoESTD and would be responsible for day-to-day project implementation, for preparing TORs, reviewing documents, overall project coordination, monitoring activities, safeguard, and reporting.

²³ Fifty-six municipalities received grants of 35,000 Euro (on average) distributed to local inter-sectoral teams.

43. **Central Fiduciary Unit (CFU).** In addition to the PMU, a CFU (responsible for procurement and financial management) will be housed under the MoF as per the agreement reached between the MoF and the MoESTD. This project will be the first (pilot) to operate under this new CFU. Three (3) consultants, i.e. CFU Director, Procurement Specialist, and Financial Management Specialist, will be financed from the project. The project's funds will only support the CFU-recruited consultants who specifically support this project, and future costs will be shared proportionally among other projects which will be managed by the CFU. The MoF will allocate office space, furniture and equipment for the 3 consultants and appoint a MoF staff to coordinate and oversee the CFU. Coordination structure and procedures between the CFU and the PMU are described in detail in the Project Operational Manual (POM).

44. **Working Group (WG).** This already-existing group includes experts from the MoESTD, including focal points for each of the project's components. This WG is headed by the MoESTD State Secretary and is responsible for providing technical expertise and support to the PMU in the day to day project implementation activities.

45. **Consultative Group (CG).** This already-existing group is headed by the MoESTD and includes representatives from other relevant ministries, institutions, and partners (e.g., members of academia, representatives of professional and civil society organizations, among others). The specific roles of the Consultative Group are the following: (i) to advise on inclusive ECEC policy issues more broadly and ensure close coordination and exchange of information across key sectors and stakeholders; (ii) to be a source of advice, information, knowledge, insight and experience on implementation of ECEC programs and related grants and other actions at the local and national levels; and (iii) to contribute to events and information dissemination.

46. **Grant Approval Committee (GAC)** consisting of representatives from MoESTD and actors from multiple sectors and different stakeholders at the national level (health, social care, country-wide Roma NGOs, etc.). The GAC that will be established and headed by the MoESTD and PMU will be responsible for evaluating and selecting grant proposals and will be guided by criteria described in the Grants Operational Manual, as approved by the World Bank.

47. **Inter-sectoral teams** at local level would be composed of representatives of LSGs, preschool institutions, primary schools, centers for social work, health centers, local branches of Red Cross, Inter-Sectoral Commission (ISC²⁴) local NGOs, representatives of local Roma structures (teaching assistants, Roma health mediators, Roma coordinators, where applicable) and parents or respective local associations of parents.

B. Results Monitoring and Evaluation

48. Two key aspects of monitoring and evaluation within the ECEC project would be established. First there would be a monitoring and evaluation system for all activities supported by the project at the State and local government levels. This would be done through regular data collection

²⁴ According to the Law on the Foundation of the Education System, the local Inter-Sectoral Commission determines additional educational, health and social welfare support for children with disabilities.

instruments employed by the line ministries and other agencies of government, such as Annual Statistical Questionnaire of Preschool Education (collected by the Republic Statistical Office), as well as administrative monitoring information systems, such as the education information system; the health information management system, social protection facility users and others. Second, the project would include financial support for the Ministry to design and implement (or contract-out) a sound technical audit of selected activities, including the first phase of the grant program, collection of data on the quality of ECEC service delivery, analyzing of evaluation surveys and other analyses as needed. Finally, the project would support further development of the ongoing establishment of the information and monitoring system (EMIS) for ECEC, as further described under Component 2.

C. Sustainability

49. The ECEC Project supports an agenda firmly grounded in the GoS policies and national strategies. The high level of government commitment to the project, and the use of country systems and processes are key factors that will contribute to the sustainability of the project. Moreover, the project is designed to build capacity of the State and LSG levels, which is critically important to the sustainability of the innovative ECEC approaches. In terms of institutional sustainability, the project design seeks to integrate key reforms and activities into core ECEC national and local institutions and budgets. For example, the design of cost- and energy-efficient buildings under Component one will significantly reduce energy bills for the foreseeable future, thus making it more affordable for LSGs' annual budget to sustain²⁵, and the quality reforms implemented under Component 2 will have significant and long-lasting impacts on the overall system. Under Component 3, the educational materials developed for parents do not require significant recurring costs to further disseminate and broadcast after the initial design, and development costs are absorbed by the project. The project will also aim to ensure the sustainability of the activities financed through the grants by building ownership among multiple stakeholders and by requiring co-financing by municipalities (either financial or in-kind, depending on poverty level). Finally, the changes made to the Law on Financial support to Families with Children will ensure the long-term sustainability of the subsidies co-financed under Sub-component 3.3.

D. Role of Partners

50. The proposed project is leveraging and benefiting from the experience of other partners who play a key role in the ECEC area in Serbia, including UNICEF, OSF, the Novak Djokovic Foundation (NDF),²⁶ the Roma Education Fund (REF), and others. For example: UNICEF is already supporting the MOESTD in the revisions and piloting of the ECEC curriculum, which – once adopted - will be scaled up through the project under Component 2, as well as the development of the PAN, and the revision of quality standards; the NDF has adopted innovative community-mobilization approaches, age-appropriate uses of existing/refurnished infrastructure,

²⁵ LSGs are expected to connect the utilities, pay the utility bills, and provide adequate staffing for all preschools newly constructed or renovated as part of this project, which will also promote sustainability beyond the lifetime of the project.

²⁶ A World Bank – Novak Djokovic Foundation (NDF) partnership focusing on ECEC in Serbia and beyond was launched in August 2015 in New York City.

and child-centered pedagogy, all of which informed the project design; OSF and REF were actively involved in outreach activities under an earlier education project supported by the Bank Delivery of Improved Local Service (DILS) project (P096823) among others, which will now be further developed and scaled up under Component 3 of this project. Throughout the project preparation (including site visits and workshops and focus groups financed under the Nordic Trust Funds), the team consulted closely with these various partners and also with a range of other key stakeholders involved in the above-mentioned Consultative Group.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

51. The overall project risk is rated as “moderate.” With the exception of the macro-economic and fiduciary risk categories, all others have been assessed as “moderate” or “low.”

52. The macro-economic risk was assessed as “substantial” due to continued uncertainty in the macro-economic environment and/or the emergence of external (and internal) shocks that could affect the Government’s commitment to project objectives and performance. Similarly, the fiduciary risk was assessed as “substantial” as this will be (i) the first Bank-financed project that relies on a Central Fiduciary Unit (CFU) for fiduciary implementation of a project; (ii) the MoESTD has limited experience implementing Bank-financed projects; (iii) implementation of a civil works will heavily depend on Local Self Governments (LSGs); and (iv) proper division of responsibility and close coordination of the various groups will be fundamental for timely project implementation.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

53. The economic analysis of the project is designed to address four key questions regarding the proposed investment: (a) the project's development impact in terms of benefits; (b) the rationale of public investment; (c) the value add of the Bank assistance; and (d) measurement of cost-benefit of the project components. The main benefits of the project are to improve the development for all children and to level the playing field for children from vulnerable groups. Like most education investments, the benefits will be fully materialize over time. There are two main reasons for public financing: equity considerations and economic returns. Households from the bottom quintiles will require state interventions to access good quality public preschool education, as they often do not have, and cannot afford, any other (private) alternative. Additionally, children with solid foundational skills will be able to acquire modern and higher-order skills that can make human capital more productive with public and private returns. The value added of the Bank lies in strong track-record of engagement in the education sector and has assisted the country through joint research, policy advice, and project financing in a broad range of key education issues. The World Bank has broad regional and global experience in supporting the expansion of quality preschool services. Finally, the Government of Serbia faces a tight fiscal climate and the Bank will provide the capital investment required to increase preschool access.

54. The international evidence points to significant economic returns – both public and private – generated by investments in Early Childhood Development. In particular, the benefit-to-cost ratio is 2.9, indicating that the preschool project is a good investment and is corroborated by the sensitivity analysis (Table 3). The estimates also suggest an Internal Rate of Return (IRR) that ranges between 9 and 13 percent depending on the assumptions. Finally, the project is also cost-effective when compared with other potential interventions such as enhancing school autonomy and accountability or decreasing class size (details of the analysis are shown in annex 5). The benefits and effectiveness of the project may be underestimated because the dissemination of information through the communication’s campaign to parents can increase engagement with children and complement preschool activities for increased learning.

Table 3: Sensitivity analysis (in USD millions)

	<i>NPV of net benefits (USD millions)</i>	<i>Benefit-to-cost ratio</i>
Baseline	172.9	2.9
High estimate (achievement and retention)	239.1	3.6
Discount rate 6%	102.8	2.2
Discount rate 3%	431.7	4.9

Source: WB staff calculations

B. Technical

55. The technical design of the Project is based on the comprehensive reform priorities of the Government, detailed in Education Strategy (2020) and its action plan, and directly informed by the World Bank’s technical experience and international best practices in promoting ECEC in the ECA region and globally.

56. The technical approaches proposed in each of the components are based on well documented international (including regional) evidence and experience, and also build on country-specific lessons learned through previous activities supported by the MOESTD and other key stakeholders. These include expansion of ECEC access with a focus on employing innovative construction and repurposing designs; building the foundation of a quality ECEC system that is characterized by a holistic approach in supporting children’s physical, emotional and cognitive development; and a focus on supporting young children’s development from birth onwards outside of the school system, particularly through empowering parents, especially the most vulnerable, to actively engage in their children’s development.

C. Financial Management

57. The Project will follow traditional financial management arrangements. A Centralized Fiduciary Unit (CFU), to be established in the Ministry of Finance, will be in charge of fiduciary responsibilities for the project, while a Project Management Unit (PMU) within the MoESTD will remain responsible for technical aspects of implementation. The Project Operations Manual (POM) will detail implementation arrangements, including the division of responsibilities between the CFU and PMU.

58. Component 1 will support the construction and/or rehabilitation of preschools. Designs and works will be executed at the municipal level, with support from the CFU and PMU. Payments will be made by the CFU from the Designated Account to contractors, upon confirmation by the municipal government and the PMU of satisfactory delivery of services.

59. Component 3 will finance grants to municipalities to improve the provision of ECEC services. The adoption of a Grant Operations Manual (GOM) detailing procedures for eligibility, evaluation, selection and implementation of grants (flow of funds, reporting back) is a disbursement condition for funds supporting this activity. The grants will be executed by respective municipalities. Funds will be disbursed by the CFU to selected municipalities in two tranches, 50 percent advance and 50 percent after verification by the PMU/CFU that the grant proceeds of the first tranche were used for intended purposes. Municipalities will provide financial reports in the agreed format to the PMU/CFU, covering one calendar semester or the report on total expenditures for the first tranche, if shorter than six months. The GOM will include the format of the financial reports, and list documentation needed to accompany the reports and means in which the PMU will supervise the use of grant proceeds through physical inspections and on-site visits.

60. Component 3 will also finance a subsidy for children of families that qualify for the Financial Social Assistance (FSA) to attend preschool education free of charge. Project financing will be up to EUR 1 million per year for a total of EUR 4 million. The subsidy would follow the same system already in place for children with disabilities and children without parental care. The funds will be disbursed in the form of advances to the Designated Account and will finance the assistance thereon. Subject to documenting eligible expenditures at the period end, the next "tranche" would be disbursed in the same way. Eligible expenditures will be based on the evidence of reimbursement of funds for social assistance to local governments, including appropriate supporting documentation.

61. Based on the above arrangements and project design, the overall financial management risk for the project is "substantial." In order for financial management arrangements for the project to be overall acceptable to the Bank, (i) the CFU will need to be established in sufficient capacity, (ii) the POM and GOM acceptable to the Bank will need to be prepared; and (iii) financial management information system/software will need to be installed within the CFU.

62. The annual audited project financial statements will be provided to the Bank within six months of the end of each fiscal year and also at the closing of the project. The audit will be conducted by a private audit firm acceptable to the Bank and in line with a ToR agreed with the Bank. The audit ToR will extend the scope in order to review and provide opinion on the applied procedures with regard to grants and level of their alignment with the GOM including verification of the adequacy of financial reports delivered by the grant beneficiaries in relation to the accompanying documentation (contracts, invoices).

63. The CFU will submit a full set of interim un-audited financial reports (IFRs) consolidated for all components and all sources of funding for each calendar quarter throughout the life of the project. The IFRs will include additional report breakdown of grants which will include information of all disbursed grant amounts, as well as supervision and verification procedures

conducted by the PMU/CFU for respective grants. Acceptable accounting software will be used for project accounting and reporting, including principal financial reports being quarterly IFRs and annual project financial statements.

64. Internal controls and procedures to be used by the project are described in the POM and GOM. This will minimize risk of an error, safeguard project's assets and ensure use of funds for intended purposes. Application of the controls and procedures will be verified by the Bank's supervision.

65. The Designated Account in foreign currency for administering the project funds will be opened in the National Bank of Serbia (NBS) and will be controlled by the PMU. The control environment in the NBS is considered to be acceptable. Statement of Expenditures (SOEs) based disbursement will be applied, with advances being the primary disbursement method, but direct payments and reimbursement also allowed.

66. The salaries of key consultants hired in the PMU and CFU before project's effectiveness are eligible for retroactive financing. It is important on the government's side to ensure that any expenditures eligible for retroactive financing is duly included in the 2017 budget of relevant institutions in order to ensure payments.

D. Procurement

67. A procurement capacity assessment of MoESTD was conducted by the Bank's procurement specialist in 2016. The procurement risk rating is assessed as "high" considering that (i) the project is the first to be managed under the CFU; (ii) key positions in CFU are still to be launched and qualified staff with satisfactory knowledge and experience in Bank-financed procedures should be selected for the CFU positions; (iii) close coordination is required from the MoESTD (as CFU main counterpart), CFU, PMU and local self-governments (LSGs); (iv) procurement of works will be done at the municipal level, under the guidance of the CFU, where procurement capacity varies from municipality to municipality; and (v) MoESTD has limited experience in implementing Bank-financed projects.

68. Procurement under the project would be carried out in accordance with World Bank "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014); and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) and the provisions stipulated in the Loan Agreement as well as those described in the POM and GOM. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, would also apply.

E. Social (including Safeguards)

69. *Social Safeguards.* The construction and rehabilitation activities aimed at improving coverage of ECEC services raise the potential for land acquisition or clearance of public land/property, thus

the Operational Policy for Involuntary Resettlement (OP 4.12) is applied.²⁷ To manage the potential risks of induced involuntary land acquisition and/or clearance, a Resettlement Policy Framework (RPF) was prepared and disclosed on November 4th, 2016. The RPF includes procedures for performing social screening of proposed construction sites to assess risks of project-induced displacement and/or land acquisition and proposes typical measures for avoiding and mitigating potential negative impacts. Specific construction/rehabilitation sites per eligible municipality have not yet been identified (the project will support this selection as further explained in Annex 2). At this point it is not anticipated that the project will cause economic or physical resettlement; but a Resettlement Policy Action Plan will be prepared if and when needed.

70. *Gender.* Serbia is close to having gender parity in terms of preschool enrollment. However, gender gaps remain in terms of parenting structures, with mothers typically spending more time and effort on childcare than fathers. The project is proposing to actively target fathers and other male family members in the interventions included in sub-components 3.1 and 3.2 to promote their awareness and engagement in ECEC, and will be monitoring the impact of these interventions during implementation (see Annex 1)

Citizen Engagement. As part of the project preparation, approximately 550 individuals from relevant constituencies across Serbia were consulted on a number of children enrollment policies and barriers. These extensive consultations were used to inform the project design. A participatory approach is also envisioned during implementation. Under Component 1, implementation procedures require a consultation process with relevant stakeholders, including parents, teachers, and health care providers at critical points during facility planning and design (see Annex 1). In addition, a central-level Grievance Redress Mechanism (GRM) under the responsibility of the MoESTD and managed by the PMU will be developed to allow people directly affected by civil works and/or potential land acquisition/clearance to provide feedback. Sub-component 3.2 will provide grants to municipalities to support early stimulation activities and other relevant services. These programs will be chosen in consultation with parents based on their needs and priorities for their children. During implementation, additional consultation will be held with the parents to assess if the programs are having the expected impacts on their children and whether improvements can be made to achieve better outcomes.

F. Environment (including Safeguards)

71. The project is classified as environmental category B. While the majority of the project activities are environmentally-neutral, some activities that are to be funded under Project Component 1 will include civil works on construction, reconstruction and adaptation of preschool facilities, and could have, if not properly managed, negative environmental impacts. In order to comply with the national regulation and World Bank policies, the Borrower contracted an independent environmental specialist, who prepared an Environmental and Social Management Framework (ESMF) document. The ESMF has been completed, reviewed and approved by the Bank before start of the public disclosure. The public consultation on Draft ESMF has been completed in Belgrade on November 4, 2016.

²⁷ The Borrower will not use Bank financing to either acquire land or pay for related compensation.

72. The ESMF document is prepared in order to identify adverse environmental and social impacts of future civil works related sub-projects that could be offset, reduced, mitigated or avoided with proposed mitigation measures. The ESMF document also provides the general policies, guidelines, codes of practice and procedures to be integrated into the implementation of all sub-projects considered for financing. The document serves as a “roadmap” and the main guiding document for the implementation team that will be preparing site-specific Environmental Mitigation and Monitoring Plans (EMPs), aiming to ensure effective protection of the environment, human health and broader community during the project implementation stage. The ESMF document includes a generic EMP and sample templates for monitoring environmental and social risks that will be applied, customized and further developed for each specific sub-project, and applied during the construction design stages. After approval, the finalized site-specific EMPs will become part of the relevant bidding documents for civil works execution during the project implementation phase. A comprehensive disclosure and consultation process will be undertaken for each of the site-specific EMPs produced for each sub-project site. The invitation for public consultations will be undertaken in line with the ESMF, Bank’s OP 4.01 and national legislation, where applicable. This will also include announcements in the local and/or national press.

73. The current environmental safeguards capacity at MoESTD is insufficient to ensure adequate level of environmental protection monitoring and reporting during the project implementation, since the experienced professionals that worked on related issues during the previous World Bank funded project are no longer available at the Ministry. A qualified and experienced environmental consultant will be hired in the PMU on a part-time basis to support the preparation of site-specific safeguards instruments, and to monitor and report on compliance with environmentally-related activities during the project implementation. Reporting on EMPs’ implementation and compliance monitoring will be undertaken at least twice per year, via regular progress reports from the PMU to the Bank. The Bank will provide relevant environmental safeguards training to the selected environmental consultant and relevant MoESTD staff, both as hands-on training and through more formal specialized training and education courses/sessions.

G. World Bank Grievance Redress

74. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

Annex 1: Results Framework and Monitoring

Republic of Serbia

Inclusive Early Childhood Education and Care Project (P157117)

Project Development Objectives

PDO Statement

The PDO is to improve access to quality Early Childhood Education and Care (ECEC) services, in particular for children from socially disadvantaged backgrounds.

These results are at | Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values										
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target	
National preschool enrollment rates for children ages 3 and 5.5 years (Percentage)	52.00	52.00	52.00	58.00	60.00	62.00						62.00
Preschool enrollment rates for children ages	19.00	19.00	19.00	21.00	23.00	25.00						25.00

3 and 5.5 years within the eligible municipalities (Percentage - Sub-Type: Breakdown)											
Preschools that undergo external evaluation and rank 4 (on a scale of 1 to 4) (Percentage)	44.00	44.00	44.00	50.00	50.00	55.00					55.00
Children ages 12 to 59 months in the lowest quintile with whom an adult has engaged in early stimulation activities at home (Percentage)	85.00	85.00	85.00	90.00	92.00	92.00					92.00
Children ages 12 to 59 months from Roma families with whom an adult has engaged in early stimulation activities at home (Percentage - Sub-Type: Supplemental)	68.00	68.00	68.00	70.00	72.00	75.00					75.00

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values										
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target	
Additional classrooms built or rehabilitated at the preschool level resulting from project interventions (Number)	0.00	0.00	100.00	340.00	630.00	779.00						779.00
Additional classrooms built at the preschool level resulting from project interventions (Number - Sub-Type: Breakdown)	0.00	0.00	0.00	60.00	150.00	193.00						193.00
Additional classrooms rehabilitated or re-purposed at the preschool level resulting from project interventions (Number - Sub-Type: Breakdown)	0.00	0.00	100.00	280.00	480.00	586.00						586.00

Preschool construction and rehabilitation projects preceded by a community stakeholder consultation (Percentage)	0.00	0.00	100.00	100.00	100.00	100.00						100.00
Additional qualified preschool teachers resulting from project interventions (Number)	0.00	0.00	1500.00	4500.00	8500.00	12000.00						12000.00
Primary school pedagogical staff trained in new preschool curriculum (Number)	0.00	0.00	350.00	700.00	1000.00	1300.00						1300.00
Pre-service training institutions that reformed their study programs based on the new preschool curriculum, and core competences required for	0.00	0.00	2.00	4.00	8.00	10.00						10.00

preschool teachers (Number)											
Preschools with self-evaluations completed using updated instrument. (Percentage)	0.00	0.00	0.00	30.00	30.00	50.00					50.00
Communication campaign developed and rolled out (Text)	No campaign		Firm recruited	Materials developed	Campaign rolled out	Campaign rolled out					Campaign rolled out nationally
Grants awarded to eligible municipalities (Number)	0.00	0.00	15.00	15.00	30.00	30.00					30.00
Male participants (among benefiting families) in grant activities (Percentage)	0.00	0.00	5.00	10.00	15.00	20.00					20.00
FSA beneficiary children ages 3 to 5.5 years enrolled in preschool free of charge (Number)	0.00	0.00	2000.00	4000.00	6000.00	8000.00					8000.00

Evaluation of first phase of grant program completed and lessons incorporated into the second phase of the program (Text)	No report			Evaluation of 15 grants	Incorporation of lessons into program							2nd round of grant program incorporates lessons from evaluation
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Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
National preschool enrollment rates for children ages 3 and 5.5 years	This indicator will be measured by the percentage of children ages 3 and 5.5 years who attend preschool institutions. Enrollments will be tracked for children between ages 3 and 4 years old, and for children between ages 4 and 5.5 years.	Annual	Project progress reports; SORS Annual Questionnaire	Statistical office, MoESTD
Preschool enrollment rates for children ages 3 and 5.5 years within the eligible municipalities	This indicator will be measured by the percentage of children ages 3 and 5.5 years who attend preschool institutions among the poorest eligible municipalities.	Annual	Project progress reports; SORS Annual Questionnaire	Statistical Office, MoESTD
Preschools that undergo external evaluation and rank 4 (on a scale of 1 to 4)	This indicator measures the percentage of all preschools that undergo the external evaluation and are ranked 4. A 4 ranking indicates that the preschool has met 75 percent of the overall standards and 100 percent of key quality standards, as defined by the current instrument.	Twice during project implementation	Project progress report with data from regular reports from the Institute for Education Quality and Standards.	MoESTD and IEQE
Children ages 12 to 59 months in the lowest quintile with whom an adult has engaged in early stimulation activities at home	This will be measured using the Support for Learning indicator from the MICS ECDI module. The indicator is defined as: a percentage of children ages 12-59 months with whom an adult has engaged in four or more activities to promote learning and school readiness in the last 3 days. Numerator is the number of children 12-59 months with whom an adult has engaged in four or more activities to promote learning and school readiness in the last 3 days and denominator is the total	Twice during project implementation	Project progress reports with information from MICS ECDI module	LSA, MoESTD

	number of children 12 and 59 months in the sample.			
Children ages 12 to 59 months from Roma families with whom an adult has engaged in early stimulation activities at home	This will be measured using the Support for Learning indicator from the MICS ECDI module. The indicator is defined as: a percentage of children from Roma families ages 12-59 months with whom an adult has engaged in four or more activities to promote learning and school readiness in the last 3 days. Numerator is the total number of children from Roma families ages 12-59 months with whom an adult has engaged in four or more activities to promote learning and school readiness in the last 3 days and denominator is the total number of Roma children ages 12 and 59 months in the sample. This indicator will be measured using a representative national sample.	Every other year	Project reports based on administration of MICS ECDI module	PMU; LSA; MoESTD

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Additional classrooms built or rehabilitated at the preschool level resulting from project interventions	This indicator will measure the total number of classrooms built, rehabilitated or re-purposed under the project.	Bi-annual	Project progress reports	LSA, MoESTD
Additional classrooms built at the preschool level resulting from project interventions	Additional classrooms as a result of new construction financed by the project.	Bi-annual	Project progress reports	LSA, MoESTD
Additional classrooms rehabilitated or re-purposed at the preschool level	This indicator measures the total number of rehabilitated or re-purposed preschool classrooms financed by the project.	Bi-annual	Project progress reports	LSA, MoESTD

resulting from project interventions				
Preschool construction and rehabilitation projects preceded by a community stakeholder consultation	This indicator will measure the percentage of preschool constructions/renovations/re-purposing projects that included a community stakeholder consultation at the on-set. The target is that all civil works are preceded by community consultations.	Bi-annual	Project progress reports	MoESTD
Additional qualified preschool teachers resulting from project interventions	This indicator is defined as the number of preschool teachers who receive training in the new preschool curriculum as part of the project interventions. Teachers will be considered qualified if they have participated in in-service training on the new preschool curriculum.	Bi-annual	Project progress reports based on data collected by teacher training providers	MoESTD
Primary school pedagogical staff trained in new preschool curriculum	This indicator will measure the total number of pedagogical staff in primary level schools who receive training on the new preschool curriculum.	Bi-annual	Project progress reports based on data from teacher training providers	MoESTD
Pre-service training institutions that reformed their study programs based on the new preschool curriculum, and core competences required for preschool teachers	This is defined as the number of pre-service training institutions (universities) that have revised their program. Programs will be considered revised if they incorporate the new preschool curriculum paradigms and core competencies required for preschool teachers, as defined by the MoESTD.	Bi-annual	Project progress reports	MoESTD
Preschools with self-evaluations completed using updated instrument.	This refers to the percentage of all preschools for which a self-evaluation is carried out. The numerator will be the number of preschool institutions that have undergone self-evaluation and the denominator is the total number of preschools.	Bi-annual	Project progress reports	MoESTD

Communication campaign developed and rolled out	This indicator will monitor whether communication campaign and/or outreach efforts have been developed and rolled out nationally.	Bi-annual	Project progress reports	MoESTD
Grants awarded to eligible municipalities	This is defined as the total number of municipalities defined as eligible in the grant manual that have been selected to receive a grant.	Bi-annual	Project progress reports	MoESTD
Male participants (among benefiting families) in grant activities	Percentage of men (among all family members) who participated in grant activities in eligible municipalities.	Bi-annual	Project progress reports	LSA, MoESTD
FSA beneficiary children ages 3 to 5.5 years enrolled in preschool free of charge	This indicator measures the total number of children enrolled in preschools free of charge due to FSA benefit.	Annual	Project progress reports with data from MoLEVSA	MoLEVSA
Evaluation of first phase of grant program completed and lessons incorporated into the second phase of the program	This indicator will be considered achieved when the evaluation of the first phase of the grant program is carried out and its lessons incorporated into the second phase of the grant program.	Twice during project implementation	Project progress reports	MoESTD

Annex 2: Detailed Project Description

Republic of Serbia

Inclusive Early Childhood Education and Care Project (P157117)

Component 1: Expanding the supply of preschool spaces (approximately USD 34 million)

1. **The objective of this project component is to improve access to preschool services for all children ages 3 to 5.5 years, with a focus on the most disadvantaged ones, by increasing the supply of spaces.** Approximately 17,000 new preschool spaces will be created in both urban and rural areas, equivalent to covering 56 and 76 percent of children aged 3 to 4 and 4 to 5.5 years, respectively.

2. **Expanding preschool capacity entails a combination of building new centers and repurposing (or upgrading) of existing infrastructure for preschool programs.** For all new and rehabilitated preschool institutions, the project will finance furniture, teaching-learning materials, equipment, and playgrounds. In addition, the project will finance capacity building of local architects and engineers for such innovative infrastructure. Training and knowledge sharing activities including development of innovative designs for these preschool institutions via mapping, analysis, and proposing readjustment of the existing physical infrastructure and regulatory environment.

3. **If all new places are used for full-day programs, the impact could be as high as an additional 17.7 percentage point increase in enrollment rates for the 4 to 5.5 years age group and an additional 10.1 percentage point increase in the 3 to 4 years age group (Table 1).** The overall effect on enrolment would be higher if some of these centers were to operate on a double-shift basis, i.e. offering half-day programs to two groups of children per day. These estimates, however, may overestimate the project’s effect as there is currently an overcrowding problem in existing preschools.

Table 1. Estimated number of places in preschool facilities created by the project

Age Range	Current enrollment	Proposed New spaces	Net Enrollment Estimates		
			(Assuming all schools run full day programs)	(Assuming half of the schools run full day programs)	(Assuming all schools run half day programs)
4 to 5.5	58.0%	11 000	72%	78%	84%
3 to 4	46%	6 000	52%	57%	62%

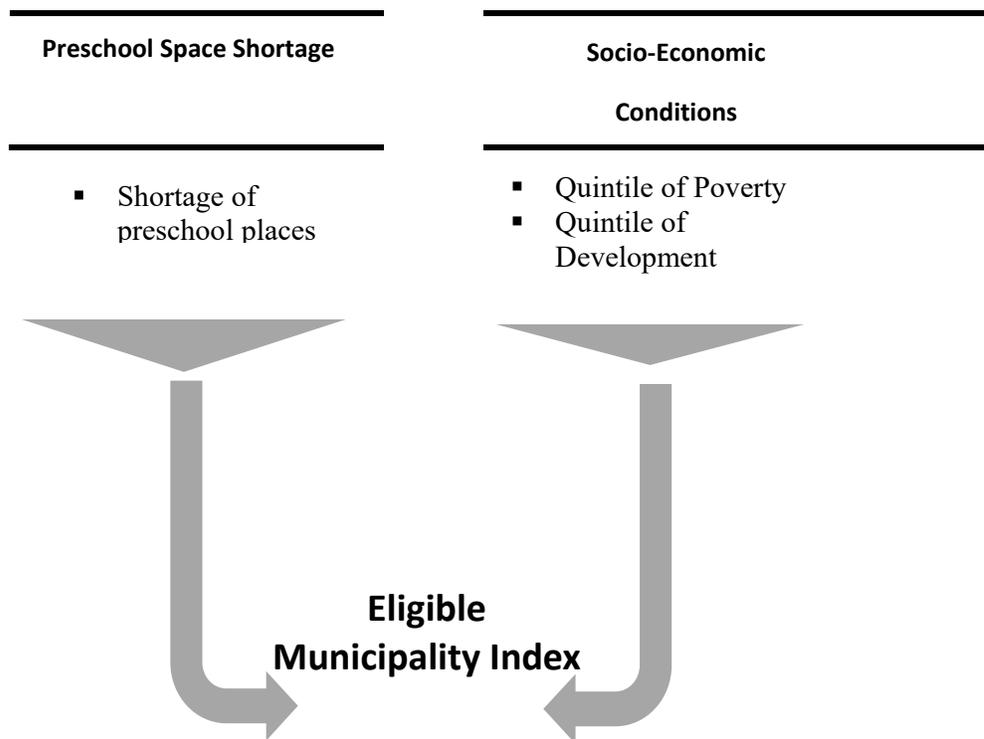
Source: Government of Serbia Estimates, 2016

Implementation includes three phases.

Phase One—Preliminary Site Identification

4. Municipalities will be identified and prioritized/ranked based on a proposed index (Municipality Eligible Index—MEI). The index is based on two dimensions (estimated preschool needs and social and economic characteristics of the municipality). See Figure 1. The EMI allows identifying and prioritizing the beneficiary municipalities for all project activities. The index includes the demand for preschool spaces based on the overall population trends of preschool age children and socio-economic conditions.

Figure 1. Eligibility Municipality Index (EMI)



Phase Two—Needs and Feasibility Assessment at Individual Sites

5. ***Analysis of infrastructure needs among the municipalities (in the order of their ranking based on the EMI, as shown in Table 2 below) will be conducted to confirm their inclusion in Component 1 and to prioritize and develop plans for reconstruction, repurposing, or new construction.*** Pre-selected municipalities will be consulted to confirm their interest and commitment to participate in the preschool service expansion project (including their commitment to: maintain the infrastructure, connect the relevant utilities, pay for the recurrent utility bills, and ensure adequate staffing of all new preschool classrooms). The final list of municipalities that will benefit from Component 1 will be included in the POM. Once the list of at least 30 municipalities is confirmed, an assessment will be carried out to validate municipalities’ proposals for new versus renovated preschool facilities (and retrofitted primary schools) and a final list of the specific construction and renovation sites will be produced

accordingly.

Phase Three—Implementation of Renovation and New Construction

6. **The renovation (or repurposing, or expansion) of existing buildings is expected to be the largest part of project activities under this component due to lower costs and the availability of unused or under-used infrastructure especially in rural areas.** Reconstruction will be prioritized in municipalities and facilities where technical documentation and plans for construction are complete and available. For other facilities, the project will support capacity building of local architects to document and develop plans for child-centered learning environments.

7. **New construction will be delivered through development of locally adaptable model preschool designs.** Preschools constructed under this model would share similar design characteristics, but would differ by their capacity (from 2 to 10 groups with an overall capacity between 50 and 240 children). The core architectural design that would be used for these new preschool facilities would be developed ex-ante as part of the project preparation and later customized by local architects. Local architects would be able to provide expert input and customize some elements of the building such as roofs, terraces, entrances, facades, and colors to adapt the project to the local conditions and make it individual. International practice shows that this model design approach can optimize cost, time, and performance.

8. **In addition to all the new and upgraded preschools described above, the project would also finance a few (three to five) innovative preschool centers in cities that host preschool pedagogical university departments to serve as model preschools for training purposes.** These preschool centers could be either constructed new (if needed) or renovated (i.e. for existing preschools that demonstrate their potential as “model preschools”) and would be used to share best practices in child-centered pedagogy (including as part of the roll-out of specific training activities under Component 2). They would be equipped as needed for the optimal delivery of preschool services and for teacher training.

9. **Finally, this component will deliver training and capacity building for local architects and engineers and other relevant staff.** Capacity-building activities will include seminars and discussions on 21st century learning as well as approaches to leveraging the learning environment as a third teacher. These activities will serve as an opportunity to analyze certain cases of renovation or repurposing and to improve the proposed designs with consultations from education staff, architects, and the community. This activity will support piloting and employing contemporary architecture as well as cost and energy efficient construction approaches.

10. **Indeed, preschool architecture could be furthered improved in Serbia both in terms of quality and approach to increase efficiency in the supply of preschool places.** The regulations that guide construction in Serbia date to the 1970s and are not aligned with contemporary practices and child-centered pedagogy. Current regulations increase space inefficiencies and do not always allow for flexibility in the use of internal spaces. Amenities (such as sanitary facilities and kitchen) are overly dispersed throughout the building. The connection between rooms is through corridors that take significant share of the building space. A relatively large gross amount of space must be allocated per child while the net amount is relatively low. This makes it more expensive to increase access and provide preschool services. A regulatory reform that favors innovative approaches to (energy-efficiency) building design

and use, building of local capacity, could help address the inefficiency constrains and would ensure that going forward preschool spaces are build more efficiently favoring a child-entered pedagogy.

Table 2: Ranking of municipalities²⁸

Municipality	Index Ranking	Score Preschool Needs (children 3 to 5.5)	Score Socioeconomic Profile	FSA (Children 3 to 5.5 years)	Roma (Children 0 to 14)	Total % Cumulative Roma	Region	Ranking #
Novi Pazar	0.720	0.648	0.8	473.5	233	0.5	4	1
Leskovac	0.457	0.261	0.8	263	2320	5.6	2	2
Novi Sad	0.447	1.000	0.2	495	1279	8.4	3	3
Tutin	0.437	0.191	1	158.5	23	8.4	4	4
Loznica	0.381	0.208	0.7	147.5	259	9.0	4	5
Kragujevac	0.372	0.462	0.3	284.5	436	9.9	4	6
Šabac	0.365	0.266	0.5	98.5	550	11.1	4	7
Doljevac	0.363	0.146	0.9	43.5	333	11.9	2	8
Prijepolje	0.357	0.142	0.9	5	77	12.0	4	9
Palilula	0.344	0.593	0.2	134.5	2146	16.7	1	10
Kraljevo	0.330	0.217	0.5	190	494	17.8	4	11
Sjenica	0.324	0.117	0.9	28.5	46	17.9	4	12
Zvezdara	0.322	0.519	0.2	120	526	19.0	1	13
Smederevo	0.320	0.256	0.4	138.5	863	20.9	2	14
Voždovac	0.317	0.501	0.2	51.5	323	21.6	1	15
Novi Beograd	0.317	0.501	0.2	131	1163	24.2	1	16
Zemun	0.317	0.501	0.2	119.5	1956	28.4	1	17
Aleksinac	0.313	0.123	0.8	191.5	585	29.7	2	18
Jagodina	0.303	0.184	0.5	149.5	180	30.1	4	19
Bujanovac	0.301	0.091	1	166		30.1	2	20
Cukarica	0.299	0.447	0.2	139.5	1091	32.5	1	21
Žitorađa	0.297	0.088	1	65.5	450	33.5	2	22
Grocka	0.292	0.428	0.2	30	236	34.0	1	23
Paracin	0.292	0.142	0.6	34	281	34.6	4	24
Merošina	0.287	0.083	1	43	271	35.2	2	25
Šid	0.287	0.118	0.7	61.5	67	35.3	3	26
Kruševac	0.284	0.202	0.4	342	811	37.1	4	27
Ub	0.283	0.115	0.7	52	378	37.9	4	28
Surcin	0.279	0.389	0.2	67.5	488	39.0	1	29
Vladicin Han	0.277	0.077	1	41	463	40.0	2	30
Palilula	0.276	0.254	0.3		891	41.9	2	31
Prokuplje	0.275	0.108	0.7	75.5	658	43.4	2	32
Lebane	0.275	0.076	1	81.5	383	44.2	2	33
Sremska								
Mitrovica	0.274	0.150	0.5	143.5	429	45.1	3	34
Kovin	0.270	0.121	0.6	102	528	46.3	3	35
Novi Becej	0.269	0.104	0.7	124.5	385	47.1	3	36

²⁸ Notes: The score on preschool needs ranges from 0 to 1. The closer a municipality is to 1, the higher the need for preschool spaces. The score on socioeconomic profile ranges from 0 to 1. The closer a municipality is to 1, the better off it is (lesser poverty and higher development). Regions: there are 4 regions in Serbia, labeled as follows: (1) Beogradski region; (2) Region Juzne i Istocne; (3) Region Vojvodine; (4) Region Sumadije i Zapadne.

Zrenjanin	0.268	0.239	0.3	181	1153	49.7	3	37
Vlasotince	0.267	0.079	0.9	76.5	205	50.1	2	38
Varvarin	0.267	0.089	0.8	13.5	30	50.2	4	39
Bogatic	0.266	0.088	0.8	53.5	153	50.5	4	40
Vranjska Banja	0.263	0.069	1		269	51.1	2	41
Sombor	0.261	0.171	0.4	269.5	263	51.7	3	42
Bojnik	0.257	0.066	1	112	553	52.9	2	43
Preševo	0.252	0.063	1	128		52.9	2	44
Cacak	0.251	0.211	0.3	49.5	134	53.2	4	45
Krupanj	0.251	0.070	0.9	21	32	53.2	4	46
Surdulica	0.249	0.069	0.9	38.5	753	54.9	2	47
Ivanjica	0.249	0.103	0.6	3.5	4	54.9	4	48
Odaci	0.249	0.088	0.7	47	295	55.5	3	49
Vladimirci	0.246	0.075	0.8	24.5	62	55.7	4	50
Smederevska Palanka	0.246	0.121	0.5	45.5	175	56.0	2	51
Ruma	0.243	0.148	0.4	137	414	57.0	3	52
Raška	0.242	0.074	0.8	26.5	67	57.1	4	53
Velika plana (old: Zabari)	0.242	0.098	0.6	69.5	115	57.3	2	54
Bela Palanka	0.242	0.065	0.9	62	405	58.2	2	55
Knjaevac	0.241	0.083	0.7	53	280	58.8	2	56
Babušnica	0.240	0.057	1	51.5	64	59.0	2	57
Bela Crkva	0.240	0.072	0.8	83	236	59.5	3	58
Titel	0.239	0.082	0.7	68.5	88	59.7	3	59
Kuršumlija	0.239	0.071	0.8	27.5	130	60.0	2	60
Ljubovija	0.238	0.071	0.8	8	54	60.1	4	61
Žabalj	0.236	0.092	0.6	118.5	420	61.0	3	62
Opovo	0.234	0.078	0.7	52	115	61.3	3	63
Mladenovac	0.234	0.182	0.3	49	349	62.0	1	64
Mionica	0.233	0.068	0.8	5	107	62.3	4	65
Žabari	0.233	0.068	0.8	9	25	62.3	2	66
Valjevo	0.230	0.176	0.3	68.5	336	63.0	4	67
Pancevo	0.229	0.263	0.2	132.5	682	64.5	3	68
Mali Zvornik	0.227	0.065	0.8	34.5	8	64.5	4	69
Rakovica	0.226	0.256	0.2	53.5	206	65.0	1	70
Topola	0.223	0.083	0.6	21.5	37	65.1	4	71
Medveda	0.222	0.050	1	24	49	65.2	2	72
Brus	0.221	0.061	0.8	33	29	65.2	4	73
Žitište	0.220	0.069	0.7	69	262	65.8	3	74
Zajecar	0.219	0.120	0.4	92.5	236	66.3	2	75
Priboj	0.219	0.060	0.8	4	9	66.4	4	76
Bajina Bašta	0.219	0.080	0.6	4	0	66.4	4	77
Secanj	0.219	0.060	0.8	75.5	210	66.8	3	78
Trstenik	0.218	0.080	0.6	18	93	67.0	4	79
Pirot	0.218	0.119	0.4	113	638	68.4	2	80
Blace	0.218	0.059	0.8	10	14	68.4	2	81
Obrenovac	0.217	0.236	0.2	26	467	69.5	1	82
Osecina	0.217	0.059	0.8	11	59	69.6	4	83
Nova Varoš	0.216	0.058	0.8	8	0	69.6	4	84
Bac	0.216	0.067	0.7	7.5	232	70.1	3	85
Žagubica	0.215	0.058	0.8	8	20	70.1	2	86
Knjic	0.214	0.066	0.7	13	0	70.1	4	87

Pantelej	0.214	0.230	0.2		134	70.4	2	88
Becej	0.214	0.076	0.6	199	293	71.1	3	89
Gadžin Han	0.214	0.051	0.9	7.5	85	71.3	2	90
Rekovac	0.213	0.051	0.9	3.5	12	71.3	4	91
Crveni Krst	0.213	0.091	0.5		726	72.9	2	92
Koceljeva	0.212	0.056	0.8	11.5	250	73.4	4	93
Trgovište	0.212	0.050	0.9	3	8	73.4	2	94
Petrovac	0.210	0.073	0.6	34.5	23	73.5	2	95
Svrljig	0.210	0.055	0.8	36	34	73.6	2	96
Gornji Milanovac	0.209	0.110	0.4	6	62	73.7	4	97
Kovacica	0.209	0.109	0.4	95	244	74.2	3	98
Srbobran	0.209	0.073	0.6	64.5	208	74.7	3	99
Subotica	0.209	0.218	0.2	309.5	1183	77.3	3	100
Batocina	0.206	0.060	0.7	8.5	22	77.3	4	101
Ražanj	0.205	0.053	0.8	9.5	48	77.4	2	102
Boljevac	0.205	0.060	0.7	12.5	78	77.6	2	103
Irig	0.204	0.070	0.6	34.5	47	77.7	3	104
Ljig	0.204	0.060	0.7	9.5	34	77.8	4	105
Lazarevac	0.204	0.208	0.2	75.5	236	78.3	1	106
Kikinda	0.204	0.104	0.4	167.5	639	79.7	3	107
Kula	0.202	0.102	0.4	85.5	109	79.9	3	108
Nova Crnja	0.202	0.051	0.8	49	352	80.7	3	109
Crna Trava	0.202	0.045	0.9	4.5	0	80.7	2	110
Backa Topola	0.200	0.080	0.5	80	31	80.7	3	111
Lucani	0.200	0.066	0.6	12.5	43	80.8	4	112
Indija	0.198	0.131	0.3	62	107	81.1	3	113
Alibunar	0.196	0.064	0.6	77	277	81.7	3	114
Malo Crnice	0.194	0.054	0.7	4.5	29	81.7	2	115
Vršac	0.194	0.125	0.3	155	461	82.7	3	116
Vranje	0.194	0.075	0.5	147	992	84.9	2	117
Kucevo	0.192	0.053	0.7	5.5	13	84.9	2	118
Mali Idoš	0.192	0.062	0.6	68	118	85.2	3	119
Majdanpek	0.192	0.061	0.6	42	1	85.2	2	120
Novi Kneževac	0.191	0.061	0.6	69	331	85.9	3	121
Dimitrovgrad	0.191	0.052	0.7	18.5	13	85.9	2	122
Golubac	0.190	0.052	0.7	5.5	15	86.0	2	123
Coka	0.189	0.051	0.7	31.5	115	86.2	3	124
Cicevac	0.187	0.059	0.6	7.5	49	86.3	4	125
Stara Pazova	0.186	0.172	0.2	84	271	86.9	3	126
Arilje	0.185	0.069	0.5	8	22	87.0	4	127
Cuprija	0.184	0.067	0.5	75	130	87.3	4	128
Aleksandrovac	0.184	0.067	0.5	8	26	87.3	4	129
Despotovac	0.181	0.066	0.5	23	61	87.4	4	130
Negotin	0.181	0.066	0.5	40.5	146	87.8	2	131
Sokobanja	0.180	0.065	0.5	5	62	87.9	2	132
Plandište	0.178	0.045	0.7	29.5	108	88.1	3	133
Beocin	0.177	0.078	0.4	69	506	89.2	3	134
Raca	0.176	0.062	0.5	10.5	8	89.3	4	135
Kosjeric	0.176	0.062	0.5	7.5	0	89.3	4	136
Vracar	0.175	0.154	0.2	36	90	89.5	1	137
Apatin	0.174	0.061	0.5	85.5	196	89.9	3	138
Kostolac	0.172	0.074	0.4		970	92.0	2	139

Vrnjacka Banja	0.172	0.074	0.4	17	111	92.2	4	140
Užice	0.171	0.146	0.2	11.5	19	92.3	4	141
Svilajnac	0.170	0.058	0.5	37.5	99	92.5	4	142
Požega	0.170	0.072	0.4	6.5	46	92.6	4	143
Požarevac	0.170	0.144	0.2	34	418	93.5	2	144
Temerin	0.168	0.094	0.3	10	25	93.6	3	145
Backa Palanka	0.168	0.141	0.2	58.5	337	94.3	3	146
Sopot	0.165	0.091	0.3	20.5	42	94.4	1	147
Barajevo	0.163	0.133	0.2	12.5	77	94.6	1	148
Kanjžia	0.163	0.066	0.4	72	204	95.0	3	149
Arandelovac	0.160	0.086	0.3	50.5	110	95.2	4	150
Niška Banja	0.160	0.064	0.4		160	95.6	2	151
Veliko Gradište	0.159	0.063	0.4	25.5	73	95.8	2	152
Bor	0.158	0.125	0.2	99.5	612	97.1	2	153
Cajetina	0.157	0.062	0.4	2.5	0	97.1	4	154
Vrbas	0.156	0.081	0.3	90.5	123	97.4	3	155
Kladovo	0.155	0.060	0.4	23	8	97.4	2	156
Lajkovac	0.150	0.075	0.3	32	263	97.9	4	157
Ada	0.150	0.056	0.4	18	90	98.1	3	158
Lapovo	0.147	0.054	0.4	2.5	21	98.2	4	159
Senta	0.145	0.070	0.3	77.5	198	98.6	3	160
Petrovaradin	0.143	0.103	0.2		7	98.6	3	161
Medijana	0.140	0.099	0.2		161	99.0	2	162
Backi Petrovac	0.137	0.063	0.3	10.5	35	99.1	3	163
Sremski Karlovci	0.132	0.058	0.3	16.5	7	99.1	3	164
Pecinci	0.128	0.041	0.4	38	270	99.7	3	165
Stari Grad	0.066	0.022	0.2	6	27	99.7	1	166
Savski Venac	0.000	0.000	0.2	3	64	99.9	1	167
*Bosilegrad			1	4.5	60	100.0	2	168

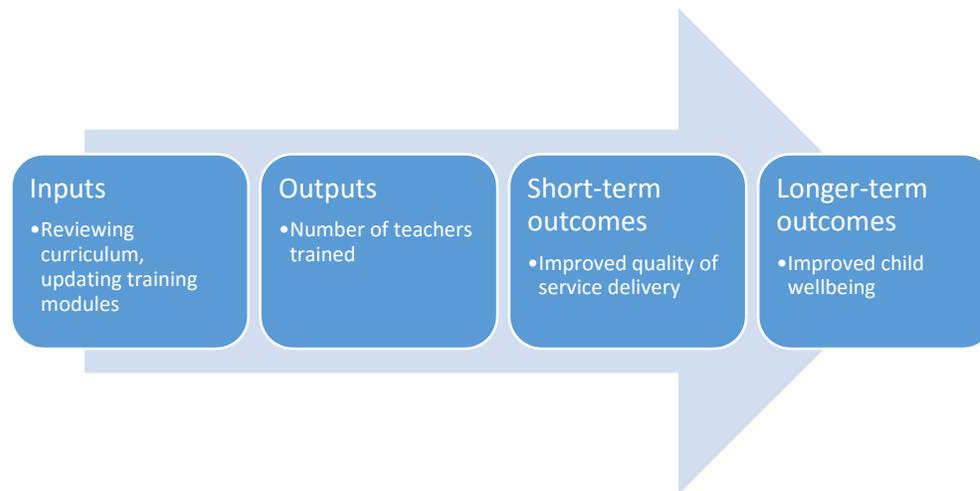
* The municipality of Bosilegrad did not have enrollment data available, which is why it is included last (and index could not be calculated for it).

Component 2: Strengthening the quality of preschool services (approximately USD 5 million)

14. This component would have three sub-components, all aimed at building the foundation of a quality preschool system characterized by a holistic approach in supporting children's physical, emotional and cognitive development. The sub-components are the following: (2.1) supporting quality implementation of the new curriculum; (2.2) improving pre- and in-service training and preschool teacher career path; and (2.3) improving monitoring and evaluation of quality of preschool. While children aged 3-6.5 will benefit from all three sub-components, younger children will also benefit from sub-components (2.2) and (2.3). A key outcome (to be measured as part of the project's results framework) would be improved quality of service delivery in the classroom, which would then be expected to translate into improved child wellbeing and development,²⁹ including those from vulnerable backgrounds (see results chain in Figure 2).

²⁹ Improved well-being of children will not be measured in the project's result framework due to (i) the timeframe needed to see significant and measurable changes (which goes beyond the length of the project) and (ii) the difficulties in attributing any change to the project given the universal nature of this sub-component and therefore the impossibility of having a robust counterfactual (i.e. all children will benefit, not just a sub-sample).

Figure 2: Results chain for Component 2



15. **Sub-component 2.1: Supporting the implementation of the preschool curriculum.** Increasingly, in EU countries, preschool curricula are moving from being narrowly defined to more flexible. This allows each preschool setting to develop a curriculum that takes account of the diversity and resources in the local environment, and the socio-cultural backgrounds of children and their parents.³⁰ The government of Serbia has developed a draft curriculum that fosters a holistic approach in promoting children’s cognitive and non-cognitive development thought play and social interactions. This is in line with the abovementioned EU suggested approach. The draft curriculum will be piloted and subsequently revised with technical and financial support from UNICEF. The process of the piloting and revisions is envisaged to be finalized by the time of the project effectiveness. The World Bank team will also be available to provide technical support and know-how in the process of curriculum piloting and revision.

16. This sub-component would play a key role in contributing to effectively *implementing* the new curriculum to successfully nurture children’s wellbeing and to maximize their gains from preschool attendance. Specifically, the sub-component would support the development of a training program for teachers and other staff on implementing the new curriculum, including training materials. In addition to preschool teachers, training would also be provided to relevant primary school staff as a way to support their understanding of new curriculum approaches and thereby strengthening transition from preschool to primary school. The sub-component would also support the development of teaching-learning materials (e.g. guidelines, manuals, etc.) based on the new curriculum.

17. The MoESTD, in cooperation with UNICEF and other partners (IIE, Instruments for Pre-accession Assistance (IPA), has begun to create a network of eminent pre-school practitioners, i.e. a Preschool Assistance Network (PAN), which would support the roll-out of the curriculum as well as monitoring of its implementation. This sub-component would support the development and strengthening of the PAN and would cover expenses related to the training activities provided by the PAN to preschool teachers.

18. **Sub-component 2.2: Improving pre- and in-service teacher training.** Recent

³⁰ Proposal for key principles of a Quality Framework for Early Childhood Education and Care, Report of the Working Group on Early Childhood Education and Care under the auspices of the European Commission, October 2014.

research³¹ provides evidence that better trained staff are more likely to provide high-quality pedagogy and learning environment, which in turn, fosters children’s development and better learning outcomes. In this sense, the professional competences of preschool staff are one of the most relevant indicators of quality. Preschool quality requires, in addition to competent staff, a competent system that sustains and contributes to the staff’s continuing professional and career development. Therefore, this sub-component would finance activities that contribute to strengthening pre- and in-service preschool teacher training.

19. Pre-service training for preschool teachers is currently fragmented and of varying quality. Such training takes place through two different types of studies (professional studies at 10 colleges, and academic ones at 6 faculties), which has resulted in inconsistencies among the study programs with respect of their types, duration and content, as well as quality. This issue was recognized in Serbia’s Strategy for the Education Development (SED) 2020 as one of the weaknesses of preschool. Therefore, this sub-component will support measures to align these pre-service programs and define competencies that the students need to acquire to become professional preschool teachers.

20. To date, there have been challenges in reforming pre-service teacher training due to the autonomy of the universities providing this training. However, the recent governmental initiative to reform the requirements for universities that offer pre-service teacher training could be a unique opportunity to improve pre-service training. Specifically, this sub-component would finance: (i) technical assistance to evaluate, reform, and harmonize pre-service training for preschool teachers.

21. Similarly, the system of in-service training is not well coordinated and often preschool centers end up having to select trainings that are not relevant to the teachers’ needs. To address this, the sub-component will provide technical assistance to evaluate, reform, and harmonize in-service preschool teacher training. Specifically, this will review the existing in-service training system, and support improvement in the substance and relevance of the training and assuring the quality of teacher training providers. In addition, the sub-component will provide technical assistance to assess and advise on preschool teacher career advancement, including the development of career advancement criteria and methodology.

22. Finally, the sub-component will support the identification of training needs, development of training courses, and provision of this training to increase leadership and competencies of managerial staff.

23. **Sub-component 2.3: Improving the monitoring and evaluation of preschools to improve decision-making.** A growing body of research recognizes that early childhood education and care (ECEC) brings a wide range of benefits, but all these benefits are conditioned by “quality.” Expanding access to services without attention to quality will not deliver good outcomes for children or long-term productivity benefits for the society.

24. This sub-component will finance activities to improve monitoring and evaluation of quality in preschool to improve decision-making, and, ultimately, children’s learning and wellbeing. The prevailing role of the system would be “quality building,” to cultivate the importance of continuous support and actions to improve preschool quality. Information

³¹Litjens, I. and Taguma, M. (2010) Literature overview for the 7th meeting of the OECD Network on Early Childhood Education and Care. OECD: Paris.

gathered through different monitoring and evaluation instruments— capturing both structural and process quality³²—would inform changes in curriculum, improvement in teacher training, and utilization of innovative approaches with children, parents, and communities.

25. First, this sub-component would enhance the education monitoring and information system (EMIS) for preschool, which is currently under development with support from UNICEF. The objective would be to have a functioning EMIS to ensure that the MoESTD has dependable access to reliable information on preschool, which will be used for monitoring of the sector quality indicators and evidence-based policy making. This sub-component would also support establishing linkages for data exchange between MoESTD, the Ministry of Labor, Employment, Veteran and Social Affairs, and the Ministry of Health to enable better information and quality of services for children and their families.

26. Second, the sub-component would support improvements in the system for quality evaluation in preschool services, for both self-evaluation and external evaluation. The goal is to have an approach to evaluate and strengthen quality that covers the whole preschool system and incorporates not only information from administrative data and classroom observations, but also the perspectives of teachers, parents, and perhaps even children. The most important aspect of improving the system for quality evaluation is how the information will be used to improve preschool services.

27. The sub-component will finance an assessment of the existing quality evaluation instruments and methodologies as well as the capacity (human resources and knowledge) of the central institutions involved in quality assurance (MoESTD and Institute for the Education Quality and Evaluation (IEQE)) and external evaluators. Based on this analysis, the sub-component will provide technical assistance to improve existing instruments to reflect the revised quality standards for preschool in Serbia, which are currently being developed with the support of UNICEF. Instruments could include classroom observation tools as well as surveys of teachers, parents, and children, among other things. Once the instruments are developed, piloted, and adopted, the sub-component would support training for external evaluators, preschool staff and administrators, and other decision-makers on the use of the instruments for external and self-evaluation of quality. Given the importance of using the data gathered on quality for “quality building,” the sub-component will also support the development of systematic follow-up measures to support quality improvement. The Project will build on the already tested follow-up measures to support quality improvement such as “Share” in primary education.

28. Third, the sub-component will finance technical assistance to develop strategies to expand and regulate the provision of ECEC. This would include (i) support to municipalities in assessing the current utilization (and proposing adjustments as needed) of the existing primary school and preschool infrastructure; and (ii) measures to ensure that diverse ECEC service providers comply with relevant quality standards.

Component 3: Supporting young children and families (approximately USD 9 million)

³² Process quality refers to the child’s day-to-day experiences in early childhood education and care settings and encompasses dynamic elements such as interactions with teachers, peers, and materials, the quality of daily routines, and the implementation of the curriculum. Structural elements, in contrast, include things like center infrastructure and materials, health and safety aspects, and characteristics of the group of children and teachers (group size, student/teacher ratio), and caregiver characteristics (teachers’ level of education, experience, salary, etc.).

29. This component will support four sub-components, all aiming to support young children's development both inside and outside of the school system, and particularly through raising awareness among parents and ensuring their active engagement in children's development. The component focuses on families with young children from birth to the time they transition to primary. While the first two sub-components are national in scope and can therefore reach all families, a special effort will be made to ensure that these services are relevant and accessible to the most vulnerable families. The third and fourth sub-components focus on children and families from vulnerable backgrounds, including children with disabilities, Roma families, and families from low socio-economic backgrounds.

30. **Sub-component 3.1: Communication campaign.** This nationwide campaign would be used to raise awareness about the importance of the early years and seek to empower parents to play a key role in promoting their young children's development through: (i) early stimulation, play, and positive interactions, good health and nutrition practices at home, (ii) information about the range of services that are available in the community and that they may be eligible for in order to support the overall development of their children (including in the health, nutrition, early screening of disabilities, social protection, and early learning areas); and the importance of preschool attendance. The campaign would build on the messages and materials that UNICEF is currently developing. There would also be communications materials informing parents from vulnerable groups about the availability of services for young children and their eligibility for these services.

31. UNICEF and other partners are currently conducting message testing. This sub-component would support any additional message testing needed, for example within different sub-populations of vulnerable groups to determine the best way to communicate information to convince and motivate parents to change their beliefs and practices. Then, the sub-component will finance the design and development of materials, including TV and radio spots, and translation into Roma, to the degree necessary depending on what UNICEF and other partners have produced. Multiple communication channels would be used to transmit the messages, including mass media (TV and radio), social media, and printed publications in places that families with young children frequent. Printed materials could include newspapers, brochures, flyers, billboards, posters, etc. Based on discussions with Roma NGOs, LSGs, the MoESTD team will determine the best places to place printed materials (e.g. post offices, banks, health centers, centers for social work, etc.) and how to ensure materials are placed accordingly. The sub-component could also finance distribution of these materials.

32. The campaign would target not only mothers, but also fathers, grandparents, and other caretakers. Some studies of parent-child relationships have suggested the importance of father-child relationships in the development of language and early academic skills.³³ Evidence also shows that parent education programs can improve fathers' parenting skills.³⁴

33. The MoESTD team will work to identify variety of successful role models at the local and national level to serve as charismatic advocates for this campaign. Ideally, there would be at least one nationally-recognized role model as well as role models from specific vulnerable groups (such as Roma).

³³ Pancsofar, Vernon-Feagans, and the Family Life Project investigators, forthcoming; Martin, Ryan, and Brooks-Gunn 2007.

³⁴ For example, Love et al. 2002.

34. **Sub-component 3.2: Outreach to vulnerable families.** This sub-component will provide grants to at least 30 municipalities to improve coordination and cooperation among relevant actors in providing holistic and high-quality ECEC services (including in the health, nutrition, early screening of disabilities, and early stimulation and learning areas) to parents and children aged 0-6.5 years at the local level, with a focus on the most vulnerable. Grants will need to address the key challenges that are hindering the wellbeing of children during the early years from vulnerable groups such as Roma, children with disabilities, and the poor. Grants will be awarded to at least 30 municipalities and the grant size (per municipality) would be up to \$50,000, based on the scope of the proposed project, the types of activities proposed, and the estimated budget. There will be two phases of grant provision, and a rigorous and external technical audit will be included in the first phase to inform further scale up in the second phase. Furthermore, phase two could draw on lessons learned from other evaluations, such as the Open Society Foundations evaluation of a parenting program in 15 municipalities (results expected end of 2018).

35. **Eligibility criteria.** All municipalities eligible under Component 1 would also be eligible under Sub-Component 3.2., also some flexibility will remain to include municipalities under Sub-component 3.2 even if they don't need additional preschool spaces and are therefore not included under Component 1. This list would include a specific provision for targeting areas of Belgrade (or other cities) that have pockets of poverty or large Roma settlements and have been systematically excluded from projects like the Delivery of Improved Local Services Project (DILS). To be eligible LSGs will be required to co-finance the grant. The grant manual will specify thresholds above which either in a specific percentage of the grant size, or, for poorer municipalities, through an in-kind contribution (space, human resources, etc.).

36. **Grant recipients.** LSGs will act as the grant applicant and will take the lead in the local municipal teams. Locally prioritized projects will be based on the collaboration between local government and non-government entities, stakeholders, and communities and will be prepared as a result of a participatory planning process. As a multi-sectoral program involving health, nutrition, early children education and child care, the approach will involve linking various local government departments and non-government entities to propose pro-poor measures and services for inclusive early childhood education and care. As envisaged by the MoESTD, different models of municipality-based teams, led by nominated representatives of LSGs, would be formed in accordance with the size of the municipality, its resources and specificities, level of development and existing operational structures. However, all municipal teams would have a common structure composed of representatives of LSGs, Preschool Institutions, primary schools, Centers for Social Work, health centers, local branches of Red Cross, local NGOs,³⁵ representatives of local Roma structures (teaching assistants, Roma Health mediators, Roma Coordinators, where applicable) and parents. The overall coordinating agency is the local municipal team, while given the nature of the project each local stakeholder (Local self-government, Preschool, Health center, Center for Social Work, RNGO, etc.) will be responsible for the activities within its own domain and area of intervention.

37. **Eligible activities to be financed under the grants.** After establishing a local inter-sectoral team, each municipality will need to: (a) do a mapping of local community needs and assets related to ECEC and the early years; (b) develop community-based ECEC intervention(s) that interact directly with families and/or children to address the identified

³⁵These NGOs would be local Roma NGOs with a track record of activities for Roma and including a majority of Roma within the local community.

needs of the most vulnerable populations; and (c) implement the designed intervention(s). These interventions may address and advocate for the needs of children from different age groups within the 0 to 6.5 age range. They would include a core package of activities (to be fully defined in the GOM) that all beneficiary municipalities would need to implement and a menu of additional options that municipalities may or may not choose to implement. Activities to be included in the core package or menu of additional options may include:

- i. Parenting education and support aimed to enhance knowledge, attitudes and practices for appropriate care and early stimulation, including through increased opportunities for play and positive interactions and discipline. This type of activity would focus on children from birth onwards and would need to include specific outreach activities for fathers and other male members of the community to progressively promote more gender balance in children's upbringing.
- ii. Support to parents of children who are enrolled in preschool services (especially for ages 3 to 5.5 and for the PPP age group of 5.5 to 6.5), including services to reduce demand-side barriers that prevent regular attendance such as transport, meals, adequate clothing and shoes, etc.
- iii. Support to parents of children ages 3 to 6.5 who are not currently enrolled in preschool services, including through (a) sensitization of parents about the importance of preschool participation for their children (and the mandatory nature of the PPP program); and (b) addressing other demand-side barriers mentioned under (ii) above.
- iv. Support to parents of children ages 0 to 6.5 who are eligible for other relevant services (including health, early screening for disabilities, and social protection schemes) but do not yet benefit from them due to lack of information, discrimination, and/or other reasons.
- v. Innovative coping strategies and support services for Roma families in particular – given their multifaceted needs and limited available resources.

38. **Sustainability of the local teams and projects' results.** This sub-component, through the local municipal teams, will directly contribute to the implementation of the MoESTD policies, including SED 2020 in terms of two actions indicated in its Action Plan (AP): a) an increase and greater equity in preschool coverage among children ages 3 to 5.5 years and b) the establishment of a local system of Social Care for Children and Preschool Education (SCCPE).³⁶ One option to ensure sustained financial support to innovative social services at the local level could be through the Rulebook on earmarked transfers³⁷ based on a successful 'harmonization of legislation of social care and preschool education with SDES' (action envisaged by the SED AP). Earmarked transfers from the central level aimed to support the development of innovative social services in underdeveloped LSGs and/or in LSGs where residential institutions are being transformed should be negotiated at both the national³⁸ and

³⁶ Within the Action Plan for SED 2020, this activity is described as follows: Assisting local self-governments in developing their own system of Social Care for Children and Preschool Education (SCCPE) and development of SCCPE in all local self-governments, aligned with the needs of local communities. Providing financial assistance to poorer local self-governments. Coordinated action of relevant ministries at the national and local levels.

³⁷ According to this Rulebook, which was adopted in March 2016, all 46 LSGs from the 4th group (level of development below 60 percent of the national average) should get earmarked transfers regardless of their secured participation in the financing of social services. All other municipalities need to secure participation in the financing of social protection – e.g. 36 LSGs from the 3rd group (level of development between 60 to 80 percent of the national average) need to secure participation in the financing of social protection in the amount of 10 percent for the current year.

³⁸ Including with MoESTD, the Ministry of Labour, Employment and Social Policy; the Ministry of Health; and the Ministry of Public Administration and Local Self-government.

local levels given that criteria for determining which services should be considered as innovative are still to be defined.

39. **Sub-component 3.3: Subsidies to ensure free preschool participation among the most vulnerable children ages 3 to 5.5 years.** According the Law on preschool education and the Law on Financial support to families with children, preschool fees are waived for children without parental care and for children with disabilities, and the financial loss incurred by preschool institutions is reimbursed by the MoLEVSA through the LSGs. These fees should also be waived for children from socio-economically deprived families, but currently this is under the financial responsibility of the LSGs, and in practice some LSGs are unable to cover this expense (especially considering that many preschools are already overcrowded with children whose families are able to pay).

40. This sub-component will support a subsidy (from the central level to the LSG) to ensure that the most deprived families (irrespective of the parents' labor force participation) are given priority to enroll their children ages 3 to 5.5 years in preschool services free of charge. The subsidy would follow the same system already in place for children with disabilities and children without parental care, i.e. the MoLESVSA will reimburse preschool institutions (through the LSGs) for these fees. While the bulk of the expense will be financed directly by the Government, this project will co-finance a portion of the annual expense as follows: the project will reimburse up to one million USD per year once the Government reimburses the LSGs for the preschool fees that were waived for these children.

41. There are two targeting programs to which the subsidy of preschool education could be tied: The Financial Social Assistance (FSA) and the Child Allowance (CA) program. The Financial Social Assistance is the most pro-poor and cost-effective program, with 74 percent of all benefits reaching the poorest quintile. This targeting performance is far better than the targeting of other social assistance programs in Serbia. The FSA covers 7 percent of the total population of children between 3 to 5.5 years of age. In contrast, the Child Allowance is a monthly cash allowance paid to families for the costs associated with child maintenance and care. It reaches about 22 percent of the total population of children between the ages of 3 to 5.5; and there is a small percentage of CA beneficiaries who are not really poor. The proposal is that families that qualify for the FSA (Table 3) should benefit from priority enrollment in preschool education free of charge.

42. The fiscal cost of the benefit (when linked to the FSA) would range from 1 to 4 million US dollars per year between 2018 and 2021 (since both supply of preschool spaces and awareness of the benefits of preschool participation among parents are expected to increase over time as a result of the project, the take-up rate for this subsidy is also expected to increase). This provides an opportunity in the first couple of years to find savings and fiscal space that could make this benefit fiscal neutral.

Table 3. Cost Estimates for tying the subsidy to those eligible for the FSA

	2018*	2019*	2020*	2021*
Take-up rate	20%	40%	60%	80%
Children between 3 to 4 years	860	1,692	2,496	3,273
Children between 4 to 5.5 years	1,317	2,593	3,830	5,028
Total number of children who would benefit	2,177	4,285	6,326	8,301

Total Costs (USD)	1,088,606	2,142,686	3,163,062	4,150,539
Possible co-financing (through DLI as part of ECEC Project)	1,000,000	1,000,000	1,000,000	1,000,000
Remaining balance	88,606	1,142,686	2,163,062	3,150,539

Component 4: Project management, technical assistance, and monitoring and evaluation (approximately USD 2 million)

43. This component will support the day-to-day management of the Inclusive ECEC Project implementation, the monitoring and evaluation of its objectives and outcomes, and technical assistance for other quality reforms in the education sector beyond ECEC (including to promote efficiency in other sub-sectors to allow for further expansion of ECEC).

44. **Sub-component 4.1: Project Management and Technical Assistance.** This sub-component would support (i) the operation of a Project Management Unit (PMU) reporting to a Project Director and responsible for all the day-to-day project implementation activities, as well as a Working Group responsible to provide support to the MOESTD on quality issues beyond the ECEC and (ii) the salary of three (3) CFU staff, i.e. Director, Procurement Specialist, and Financial Management Specialist. The Government of Serbia is committed to investing in quality education as top strategic priority area in its Manifesto for the period 2016-2020. To accomplish these objectives, the Government has sought support from the World Bank to advance its reforms to achieve better quality, transparency and efficiency of pre-university education. World Bank financing would be provided for consultants employed as part of the PMU and Working Group, as well as for assistance and training to all project staff, project audits, office equipment and incremental operating costs. Finally, this sub-component will finance the expansion of the existing Management Information System (MIS) in the MoLEVSA, including additional modules to promote the efficient administration of the subsidies for free preschool participation supported by the project through Sub-component 3.3.

45. **Sub-component 4.2: Monitoring and Evaluation.** M&E are crucial elements of program implementation as they provide important feedback mechanisms for policy, effectiveness, and credibility of the programs. The Project would support the design and implementation of (i) tools and surveys to monitor the results framework of the Project (i.e. to collect data at regular intervals during project implementation and upon project completion); and (ii) technical audit of selected aspects of the project, including the first phase of the grant program³⁹. World Bank financing would be provided for technical assistance; services and training of the MOESTD staff engaged in monitoring; and the design, implementation, and analysis of evaluation surveys.

³⁹ This technical audit would be an opportunity to assess the extent various disadvantaged groups (the poor, Roma, and children with disabilities) (i) demonstrate increased utilization of various services (in addition to preschool) and (ii) feel fully included in project-supported activities. This type of information will be captured through various methods, including focus groups and targeted interviews with key stakeholders.

Annex 3: Implementation Arrangements

Republic of Serbia

Inclusive Early Childhood Education and Care Project (P157117)

1. The Project will be implemented over a period of five years. The key implementing agency of the Project will be the MoESTD. The MoESTD would be ultimately accountable for execution of project activities and the project implementation would rely on its existing structures, with the additional support of the Project Management Unit (PMU) that will be established under the project. Decisions will be made by the MoESTD in coordination with the PMU. Implementation arrangements place an emphasis on continually strengthening the MoESTD's capacity to promote long-term sustainability of the system. The Project implementation structure would consist of: (i) Project Management Unit; (ii) Centralized Fiduciary Unit (CFU); (iii) Working Group consisting of the MoESTD staff; (iv) Consultative Group led by MoESTD; and (v) Grant Approval Committee lead by MoESTD and in coordination with the PMU.

2. **Project Management Unit (PMU).** Day-to-day activities under the Project would be managed by a PMU housed in the MoESTD and headed by a Project Director. Key PMU functions include this Project Director and the following additional experts (which may be contracted as consultant or may be mobilized from the Ministry's existing staff): coordinators for each of the three components, a grant coordinator, and safeguards experts to provide assistance on environmental and social safeguards issues. The PMU may also include a few additional experts to support the education reforms needed to increase efficiency across sub-sectors and to support the expansion of ECEC. The PMU would report to the MoESTD and would be responsible for day-to-day project implementation, for preparing TORs, reviewing documents, overall project coordination, monitoring activities, safeguard, and reporting.

3. **Central Fiduciary Unit (CFU).** In addition to the PMU, a CFU (responsible for procurement and financial management) will be housed under the MoF as per the agreement reached between the MoF and the MoESTD. This project will be the first (pilot) to operate under this new CFU. Three (3) consultants, i.e. CFU Director, Procurement Specialist, and Financial Management Specialist, will be financed from the project. The project's funds will only support the CFU-recruited consultants who specifically support this project, and future costs will be shared proportionally among other projects which will be managed by the CFU. The MoF will allocate office space, furniture and equipment for the 3 consultants and appoint a MoF staff to coordinate and oversee the CFU. Coordination structure and procedures between the CFU and the PMU are described in detail in the Project Operational Manual (POM).

4. **Working Group (WG).** This already-existing group includes experts from the MoESTD, including focal points for each of the project's components. This WG is headed by the MoESTD State Secretary and is responsible for providing technical expertise and support to the PMU in the day to day project implementation activities.

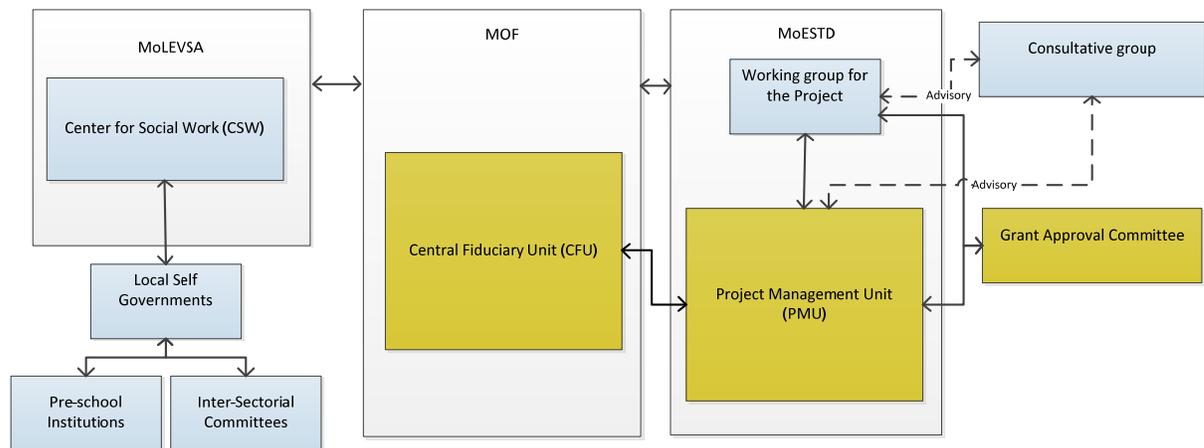
5. **Consultative Group (CG).** This already-existing group is headed by the MoESTD and includes representatives from other relevant ministries, institutions, and partners (i.e., members of academia and civil society organizations). The specific roles of the Consultative

Group are the following: (i) to advise on inclusive ECEC policy issues more broadly and ensure close coordination and exchange of information across key sectors and stakeholders; (ii) to be a source of advice, information, knowledge, insight and experience on implementation of ECEC programs and related grants and other actions at the local and national levels; and (iii) to contribute to events and information dissemination.

6. **Grant Approval Committee (GAC)** consisting of representatives from MoESTD and actors from multiple sectors and different stakeholders at the national level (health, social care, country-wide Roma NGOs, etc.). The GAC that will be established and headed by the MoESTD and PMU will be responsible for evaluating and selecting grant proposals and will be guided by criteria described in the Grants Operational Manual, as approved by the World Bank.

7. **Inter-sectoral teams** at local level would be composed of representatives of LSGs, preschool institutions, primary schools, centers for social work, health centers, local branches of Red Cross, Inter-Sectoral Commission (ISC⁴⁰) local NGOs,⁴¹ representatives of local Roma structures (teaching assistants, Roma health mediators, Roma coordinators, where applicable) and parents or respective local associations of parents.

Figure 1: Summary of implementation arrangements / organogram



Financial Management

Implementing Entity and Staffing

8. The project will follow traditional financial management arrangements with a Central Fiduciary Unit (CFU) within the Ministry of Finance in charge of fiduciary responsibilities. The CFU will also eventually undertake fiduciary responsibility for all upcoming projects supported by the World Bank and other international donors. Such arrangement is starting with this project, with the selection and appointment of a CFU director, one financial management specialist (FMS), and one procurement specialist; the need for additional consultants in the CFU will be reviewed and revised as additional projects are incorporated in

⁴⁰ According to the Law on the Foundation of the Education System, the local Inter-Sectoral Commission determines additional educational, health and social welfare support for children with disabilities.

⁴¹ These NGOs would be local Roma NGOs with a track record of activities for Roma and including a majority of Roma within the local community.

the CFU portfolio. The cost of CFU consultants will be shared across all the portfolio of activities supported by them.

Planning and Budgeting

9. The project's budget will be prepared by MoESTD in coordination with the CFU. There is sufficient capacity for planning and budgeting within the MoESTD in order to manage project funds in an optimal manner from aspects of funds allocation, liquidity and overall performance. Variances of actual versus budgeted figures should be monitored on a regular basis, appropriately analyzed, and corrective actions taken. The CFU will prepare in-year financial plans and cash forecast based on the project's budget, thus ensuring adequate liquidity management and withdrawal of funds. It will be ensured that the CFU's capacity is sufficient to fulfill these tasks.

Accounting System

10. Acceptable accounting software needs to be acquired and installed in the CFU within 90 days of effectiveness and will be used for project accounting and reporting. Accounting records should include appropriate analytics of expenditures per contracts and each specific payment.

11. The project will follow cash based accounting (cash based IPSAS), recording transactions when actual payment is done, rather than when they are incurred. Transactions should be accounted for within 8 days after incurring. There should be appropriate back up of accounting records on external drives, as well as appropriate security regulation with regard to access and editing rights of the financial information.

Internal controls

12. Procedures and controls to be applied on the project are detailed in the POM and GOM. Key internal controls to be applied for the project include:

- (i) appropriate authorizations and approvals of all purchases, relevant documentation, transactions of payments etc.;
- (ii) segregation of duties as different persons are responsible for different phases of a transaction;
- (iii) reconciliations between project accounting records and other relevant sources of information (Client Connection, bank account statements etc.) performed at least monthly by the Finance Management Officer; and
- (iv) original documentation supporting all project transactions properly filed.

13. Component 1 will finance the construction and/or rehabilitation of preschools. Designs and works will be executed at the municipal level, with support from the CFU and PMU. Payments will be made by the CFU from the Designated Account to contractors, upon confirmation by the municipal government and the PMU of satisfactory performance by contractors.

14. Component 3 will finance grants to municipalities to improve the provision of holistic ECEC services. The adoption of a Grant Operations Manual (GOM) detailing procedures for eligibility, evaluation, selection and implementation of grants (flow of funds, reporting back) is a disbursement condition for funds supporting this activity. Grants will be executed by

respective municipalities. Funds will be disbursed by the CFU to selected municipalities in two tranches, 50 percent advance and 50 percent upon verification by the PMU/CFU that grant proceeds of the first tranche were used for intended purposes. Municipalities will provide financial reports in the agreed format to the PMU/CFU covering one calendar semester or the report on total expenditures for the first tranche, if shorter than six months. The GOM will include the format of the financial reports, documentation needed to accompany the reports, and means in which the PMU will supervise the use of grant proceeds through on-site visits.

15. Component 3 will also finance a subsidy for children of families that qualify for the Financial Social Assistance (FSA) to attend preschool free of charge. Project financing will be up to EUR 1 million per year for a total of EUR 4 million. The subsidy would follow the same system already in place for children with disabilities and children without parental care. Funds will be disbursed in the form of advances to the Designated Account. Subject to documenting eligible expenditures at the period end, the next "tranche" would be disbursed in the same way. Documentation will include records of attendance of children from vulnerable groups in respective preschool institutions. The institutions will deliver the appropriate records to responsible local self-governments, which will forward the information to the MoLEVSA. MoLEVSA will perform additional checks and reconcile the attendance information with the register. The existing procedures with regard to financial social assistance in the MoLEVSA are assessed to be adequate. The additional checks and reconciliations of the data delivered by the MoLEVSA are appropriate and applied in practice. The POM will provide any supplemental actions to be applied in order to ensure that data is accurate and reliable. Such measures will include supplemental supporting documentation, signed attendance sheets, and random on-site verification by the PMU.

Contract management

16. Contract implementation will be monitored in the software, and checks and controls of the total contract amount and payments which are due will be checked before each payment under contracts. Respective technical staff and financial department will review and approve invoices and accompanying documentation against contracts provisions for ceilings, dynamics of payments and quality of deliverables.

Financial Reporting

17. Interim un-audited financial reports (IFRs) which will include financial information relating to the whole project will be prepared for each quarter and will be due 45 days after the end of each quarter. IFRs will be prepared in line with cash based IPSAS. The format of the IFRs will be agreed between the GoS and Bank and attached to the minutes of negotiation. The reporting currency will be EUR. The IFRs will include additional report breakdown of grants which will include information of all disbursed grant amounts, as well as supervision and verification procedures conducted by the PMU/CFU for them. IFRs are intended to comprise the following reports (subject to any modifications agreed with the implementing entity between the date of the report and negotiations):

- (i) Cash Receipts and Payments, including comparison of budgeted versus actual amounts;
- (ii) Uses of Funds by Activity;
- (iii) Designated Accounts statement;
- (iv) Breakdown of grants to municipalities

- (v) Accounting policies and explanatory notes.

External audit

18. The annual audit of the project financial statements will be conducted by a private audit firm acceptable to the Bank. The audit report will be submitted to the Bank no later than six months after the end of the audited period. The audit’s ToR will extend the scope in order to review and provide opinion on the applied procedures with regard to grants and level of their alignment with the GOM, including verification of the adequacy of financial reports delivered by the grant beneficiaries in relation to the accompanying documentation (contracts, invoices). In addition, the audit will review compliance with procedures laid out in the POM in relation to the social assistance subsidies, with regards to the adequacy of the LSG’s supporting documentation evidencing the subsidies. The audit of project financial statements will be funded by the project. The audited project financial statements will be posted by the client on the MoESTD website within 2 weeks upon the audit report being accepted by the World Bank.

Action plan

19. The implementation of the following actions have been agreed with the GoS in order for financial management arrangements to be acceptable.

Table 1. Financial Management Mitigation Actions

Action	Deadline	Responsible
Project Operations Manual (POM) and Grant Operations Manual (GOM) prepared describing controls and procedures for the project	Draft POM ready by negotiations Final POM is an effectiveness condition Final GOM is a disbursement condition for the grants (sub-component 3.2)	MoESTD
PMU with key functions staffed established	Effectiveness conditions	MoESTD
CFU with key functions staffed established	Effectiveness condition	MoF
Acceptable financial management software for project accounting and financial reporting acquired and installed	90 days after effectiveness (dated covenant)	MoF

Financial management covenants

20. The financial management covenants for the project will be as follows:

- (i) CFU to maintain an adequate financial management system.
- (ii) CFU to prepare interim un-audited financial reports (IFRs) for each calendar quarter and deliver to the Bank no later than 45 days after the end of the reporting quarter.
- (iii) Annual project financial statements audited by a private audit firm acceptable to the Bank and such audit to be delivered to the Bank not later than six months after the end of the audited period.

Funds Flow and Disbursement Arrangements

21. Project funds will flow from: (i) the Bank - either as an advance, via a Designated Account to be opened in the NBS, which will be replenished under transaction based disbursement method, and managed as described below in the section on disbursement arrangements, or (ii) by direct payment on the basis of direct payment withdrawal applications and other disbursement letter envisaged in the disbursement letter.

22. The PMU and the CFU will be administering the Designated Account in the following manner: (i) The CFU will prepare withdrawal applications for replenishment of the Designated Account which ought to be signed by the MoESTD senior officials designated as authorized signatories for the account, (ii) payments from the Designated Account are executed by the means of payment orders. After all the procedures with respect to flow of documents, verifications and authorizations described in internal controls section are applied, including confirmation by the technical staff in the PMU that service rendered/goods delivered are of acceptable quality and in line with respective contracts, payment order signed by the MoESTD authorized signatories is submitted by the CFU to the NBS. In the case of Direct Payment the application form for such method payment is submitted to the Bank with the same authorized signatories as described above. Grants to municipalities will flow based on advance, while the following tranches will be disbursed based on verification by the PMU and CFU on the use of previous tranches for intended purposes. Such verification will include (i) review of quarterly financial reports prepared by municipalities and delivered to the CFU, and (ii) on site visits performed by the PMU and any external consultants.

23. The annual preschool subsidy of up to EUR 1 million per year starting in 2018 for a total of EUR\$ 4 million will be disbursed in the form of advances to the Designated Account and will finance the assistance thereon. Subject to documenting eligible expenditures at the period end, the next "tranche" would be disbursed in the same way. As listed in paragraph 14, documentation will include records of attendance of children from vulnerable groups in respective preschool institutions. SOEs will be used for reimbursing these subsidies.

24. The Ceiling for the Designated Account will be defined in the disbursement letter, as well as thresholds for minimum withdrawal application amount and direct payment threshold. Documentation requirements for replenishment would follow standard Bank procedures as described in Disbursement Handbook.⁴² Monthly bank statements of the Designated Account, which have been reconciled, would accompany all replenishment requests. The Bank agreed with the GoS to retroactively finance some of the project's activities including but not limited to key consultants at the CFU and PMU.

25. The salaries of key consultants hired in the PMU and CFU before project's effectiveness are eligible for retroactive financing. It is important on the government's side to ensure that any expenditures eligible for retroactive financing is duly included in the 2017 budget of relevant institutions in order to ensure payments.

Procurement

26. Procurement for the project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants" dated January 2011 (revised July 2014); and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by

⁴² <http://siteresources.worldbank.org/LOANS/Resources/Disbursement09.pdf>

World Bank Borrowers” dated January 2011 (revised 2014); and the provisions stipulated in the Loan Agreement and the POM and GOM. The World Bank Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants dated October 15, 2006 and revised on January 2011, would also apply.

Procurement arrangements and capacity assessment

27. Considering the complexity of the project and the weak procurement and management capacity at the MoESTD, the risk rating is assessed as “high.” The procurement method and prior review thresholds applicable to the project will be based on the ECA Regional Maximum Procurement Thresholds, effective January 2, 2014 (revised February 10, 2015).

Table 2. Procurement Thresholds

PROCUREMENT METHOD THRESHOLDS	PRIOR REVIEW THRESHOLDS
ICB: \geq EUR 900,000 (Goods); \geq EUR 4.5M (Works)	All
NCB: $<$ EUR 900,000 (Goods); $<$ EUR 4.5M (Works)	First contract for Goods; First contract for Works, if any
Shopping (SH): $<$ EUR 90,000	First contract for Goods; First contract for Works, if any
QCBS: \geq EUR 265,000	\geq EUR 450,000
CQS: $<$ EUR 265,000	First contract
Single Source Selection – none, in accordance with paras. 3.8-3.11 of the Consultant Guidelines	\geq EUR 2,000
Direct Contracting – none, in accordance with paras. 3.7 & 3.8 of the Procurement Guidelines	\geq EUR45,000

28. All TORs are subject to prior review irrespective of prior/post review status.

29. A detailed Project Operational Manual (POM) and Grants Operational Manual (GOM) is being prepared. The manuals will include procurement and selection methods to be used in the project along with their step-by-step explanation as well as the standard and sample documents to be used for each method, and service standards, responsibilities and accountability of PMU and CFU staff and management for carrying out the activities.

30. **Risk Mitigation:** The following measures were agreed to mitigate the risks and maintain the implementing team’s capacity.

Table 3. Procurement Mitigation Actions

Risk	Mitigation
Delay in project implementation due to challenges in setting up the CFU and PMU and in selecting qualified consultants.	<ul style="list-style-type: none"> • Retroacting financing of key consultant positions in the CFU and PMU so that selection can be launched before or immediately after negotiations. These key consultants will complete/revise the procurement plan and prepare the draft bidding documents and TORs for the initial packages.

Risk	Mitigation
<p>Limited procurement capacity of the CFU and lack of knowledge of Bank's procurement and consultant guidelines may delay selection/bidding process and contract management</p>	<ul style="list-style-type: none"> • All TORs for consulting services are subject to the Bank's prior review. • The selection process for the 3 CFU positions are subject to the Bank's prior review. • Training will be provided to the procurement specialist especially in regard to the use of System Tracking of Exchanges in Procurement (STEP). • Additional procurement and FM training will be provided to the staff. • Post review of contracts. • CFU staff, especially the procurement expert, will attend procurement training organized by the Bank. • CFU will be provided with full set of the relevant, most recent Bank procurement documents, including but not limited to standard and sample bidding documents, proposal formats, evaluation report documents, etc.
<p>Unsatisfactory quality of technical designs/ToRs may lead to delays in contract implementation and to contract amendments</p>	<ul style="list-style-type: none"> • All TORs are subject to the Bank's prior review. • Bank team will provide MoESTD with sample TORs as needed. • Preparation of draft technical specifications/terms of reference before project effectiveness, at least for the contracts for which the selection process is to take place in the first 12 months of the project implementation; • Technical assistance of Bank technical experts in the review of the TOR/TS and designs.
<p>The public officials/technical staff who will be involved in project procurement through tender committees may not be familiar with the applicable procurement procedures, slowing down the procurement process</p>	<ul style="list-style-type: none"> • POM and GOM will detail service standards, responsibilities and accountability of CFU staff, PMU staff, and technical staff management for carrying out the activities. • The order for appointment of evaluation committees will specify the timeframe by which the evaluation committee should complete evaluation and recommendation of award.

Risk	Mitigation
<p>Insufficient technical capacity within MoESTD to coordinate and supervise activities may cause contract supervision delays related to implementation and poor quality of goods, works and services.</p>	<ul style="list-style-type: none"> • A coordinator for each component will be financed under the project. • Adequate consulting services and technical assistance, training, knowledge exchange will be financed by the project to supplement the existing capacity. • Bank staff will provide intensive and close supervision.

Procurement Plan

31. The Borrower, at appraisal, prepared a draft procurement plan for the first 18 months of project implementation (see Table 4), which provides the relevant activities to be procured and forms the basis for procurement methods. It does not yet include the Bank's review requirements and thresholds as these will be determined based on the costs. The procurement plan will be further reviewed and agreed between the Borrower and the Bank during negotiations. The Procurement Plan will then be updated on a regular basis as needed, in agreement with the Bank, to reflect the actual project implementation needs.

Table 4. Procurement Plan

Reference No.	Description of Activity
Component 1 - Expanding the supply of preschool services (approximately \$34M)	
1a	Renovation, Repurposing and Expansion of Buildings for Preschools
1b	Technical documentation for model kindergardens in form factors 4 to 10 groups
1c	Construction or renovation of Innovative ECEC Centers
1d	Design Services and Author Supervision
1e	Construction Supervision Services
1f	Furniture and Equipment for Preschools (including toys and playgrounds)
1g	Training for local architects and engineers
Component 2 - Ensuring the quality of preschool Services (approximately \$5M)	
Sub-component 2.1: Supporting the implementation of the preschool curriculum	
2.1a	TA to Evaluate & reform/harmonize the system and curriculum framework for initial education of ECEC teachers
2.1b	Teacher training
Sub-component 2.2: Improving pre- and in-service teacher training	
2.2.a	TA to improve the content & forms of teacher professional development
2.2.b	Harmonization of current legislation on preschool education
Sub-component 2.3: Improving the monitoring and evaluation of preschools to improve decision-making	
2.3.a	EMIS + Module for MoLEVSA MIS for Subsidies
2.3.b	TA Development of in-service training program for implementation of the new curriculum and the development of teaching-learning materials (e.g. guidelines, manuals, etc.) based on the new curriculum
2.3.c	TA assessment of the existing quality evaluation instruments and methodology and their improvement
2.3.d	TA to develop strategies to expand and regulate the provision of ECEC
Component 3 - Supporting young children and families (approximately \$9M)	
Sub-component 3.1: Communication campaign	
3.1a	Preparation of communication strategy
3.1b	TV Broadcast over licensed TV stations
3.1c	Radio Broadcast over licensed radio stations
Sub-component 3.2: Outreach to vulnerable families	
3.2a	Grants to at least 30 municipalities
Sub-component 3.3: Subsidies to ensure free preschool participation among the most vulnerable children	
3.3a	Annual reimbursement of up to \$1M
Component 4: Project management, technical assistance, and monitoring and evaluation (approximately \$2M)	
Sub-component 4.1: Project management and technical assistance	
4.1a	Project Director
4.1b	Coordinator of Component 1
4.1c	Coordinator of Component 2
4.1d	Coordinator of Component 3
4.1e	Grant Coordinator
4.1f	Safeguard Specialist
4.1g	CFU Director
4.1h	CFU Procurement Specialist
4.1i	CFU Financial Management Specialist
4.1j	Audit Services
4.1k	PMU Office Equipment and Furniture
4.1l	Operating Expenses
Sub-component 4.2: Monitoring and evaluation	
4.2a	Monitoring & Evaluation Specialist
4.2b	Baseline Survey
4.2.c	Technical audit of various activities under the project
4.2d	Technical evaluation of the first phase of the grant program
4.2e	Staff Training

Procurement of Goods, Works and Non-Consulting Services

32. The following methods may be used for procurement of goods, works and non-consulting services as agreed in the procurement plan: International Competitive Bidding (ICB), National Competitive Bidding (NCB), Shopping (S), and Direct Contracting (DC).

33. Procurement of Works. Civil works include new construction and rehabilitation of pre-schools. Procurement will be conducted for the most part at the municipal level using NCB as defined in the applicable Guidelines. There is no prequalification anticipated under the project. Works may be packaged into lots depending on the availability of designs, location of schools, and procurement capacity of municipalities involved. In such a case, procurement will be conducted by the CFU. At a minimum, the CFU procurement specialist will be a member of the Evaluation Committee (EC) who will ensure that bid evaluation procedures are observed and bid evaluation report prepared and signed by the EC members.

34. Procurement of Goods. Goods to be procured include furniture, equipment and toys for the schools, among others.

Selection of Consultants

35. The following methods may be used for the selection of consultants: Quality and Cost-Based Selection (QCBS), Quality-Based Selection (QBS), Least-Cost Selection (LCS), Fixed Budget Selection (FBS), Selection based on Consultants Qualifications (CQS), Individual Consultant Selection (IC), and Single Source Selection (SSS). The World Bank's Standard Request for Proposals will be used. All Terms of Reference, irrespective of prior/post review status, are subject to Bank's review and no objection.

36. A variety of consulting services are required (e.g. communication campaign, which is anticipated to be launched under QCBS). Other technical assistance activities required are: analysis of and regulatory changes to encourage expansion of preschool services including reforms, analysis and adjustment of Serbia's ECEC system to improve its economic and organizational efficiency, improve the content and forms of teacher professional development, and harmonization of the current legislation that regulates preschool education

Post-review Percentages and Frequency

37. Contracts not subject to Bank's prior review would be subject to post review by the Bank's procurement specialist. Post review of contracts will be carried out once per year. At a minimum, one out of five contracts will be randomly selected for post review.

General Procurement Notice

38. The General Procurement Notice (GPN) for the Project will be published in the UN Development Business after loan negotiations.

Environmental and Social (including safeguards)

39. Preschool enrollment in Serbia is low reaching only 52 percent of boys and 49 percent of girls. Access is also highly inequitable. More than 80 percent of wealthy children are enrolled in ECEC programs compared to less than 10 percent of children in the poorest quintile, and

access for Roma children is dismal (5 percent of boys and 7 percent of girls).⁴³ Consultation with Roma parents reveal that: (i) Roma do not enroll their children in preschools due to the distance of the settlement where families live and lack of organized transportation; and (ii) there is a lack of financial resources to cover ECEC costs. The project's social impacts are expected to be positive as the project will promote increased access to ECED, particularly for disadvantaged children including Roma children, through both supply and demand-side interventions.

40. *Social Safeguards.* The construction and rehabilitation activities aimed at improving coverage of ECEC services raise the potential for land acquisition or clearance of public land/property for project related use, thus the Operational Policy for Involuntary Resettlement (OP 4.12) is applied.⁴⁴ To manage the potential risks of induced involuntary land acquisition and/or land/property clearance of existing use, a Resettlement Policy Framework (RPF) was prepared and disclosed on November 4th, 2016. The RPF includes procedures for performing social screening of proposed construction sites to assess risks of project-induced displacement and/or land acquisition and proposes typical measures for avoiding and mitigating potential negative impacts. Specific construction/rehabilitation sites have not yet been identified but it is not anticipated that the project will cause economic or physical resettlement; a Resettlement Policy Action Plan will be prepared if and when needed. Facilities proposed for rehabilitation/reconstruction will need to have appropriate construction & use permits. Screening procedures for site/facility eligibility will be described in the POM. The safeguards focal point in the PMU will be trained on screening procedures to ensure consistency of risk assessment across sites.

41. *Gender.* Serbia is close to having gender parity in terms of preschool enrollment so no gender-targeted intervention to promote enrollment is foreseen under the project. However, gender gaps remain in terms of parenting structures, with mothers typically spending more time and effort on childcare than fathers. The project is proposing to actively target fathers and other male family members in the interventions included in sub-components 3.1 and 3.2 to promote their awareness and engagement in ECEC, and will be monitoring the impact of these interventions during implementation.

42. *Citizen Engagement.* As part of the project preparation, approximately 550 individuals from relevant constituencies, such as Local Self Governments, regional school administrations, health care centers, preschool head teachers, Roma health mediator, parents, NGOs, etc. across Serbia were consulted on a number of children enrollment policies and barriers. These extensive consultations were used to inform the project design.

43. A participatory approach is also envisioned during implementation. Under Component 1, implementation procedures require a consultation process with relevant stakeholders, including parents, teachers, and health care providers at critical points during facility planning and design. The PMU is expected to monitor these consultations, ensuring that all civil works are preceded by a community stakeholder consultation process; an indicator to monitor this engagement has been included in the project's Results Framework. In addition, a central-level Grievance Redress Mechanism (GRM) under the responsibility of the MoESTD and managed by the PMU will be developed to allow people directly affected by civil works and/or potential land acquisition/clearance to provide feedback. The PMU will be responsible for

⁴³ Sources: UNICEF, Serbia MICS5 2014 and Serbia Roma Settlements 2014

⁴⁴ The Borrower will not use Bank financing to either acquire land or pay for related compensation.

receiving, assessing and responding to project-related suggestions/grievances and for keeping a central grievance log. The MoESTD, through the PMU, will also coordinate and supervise feedback pertaining to other agencies –including the municipality or contractor.

44. Sub-component 3.2 will provide grants to municipalities to support early stimulation activities and other relevant services among children belonging to these groups. The community-based programs will be chosen in consultation with parents based on their needs and priorities for their children. During implementation, additional consultation will be held with the parents to assess if the programs are having the expected impacts on their children and whether improvements can be made to achieve better outcomes.

45. *Environmental Safeguards.* The project is classified as environmental category B. While the majority of the project activities are environmentally-neutral, some activities that are to be funded under Project Component 1 will include civil works on construction, reconstruction and adaptation of preschool facilities, and could have, if not properly managed, negative environmental impacts. In order to comply with the national regulation and World Bank policies, the Borrower contracted an independent environmental specialist, who prepared an Environmental and Social Management Framework (ESMF) document. The ESMF has been completed, reviewed and approved by the Bank before start of the public disclosure. The public consultation on Draft ESMF has been completed in Belgrade on November 4, 2016.

46. The ESMF document is prepared in order to identify adverse environmental and social impacts of future civil works related sub-projects that could be offset, reduced, mitigated or avoided with proposed mitigation measures. The ESMF document also provides the general policies, guidelines, codes of practice and procedures to be integrated into the implementation of all sub-projects considered for financing. The document serves as a “roadmap” and the main guiding document for the implementation team that will be preparing site-specific Environmental Mitigation and Monitoring Plans (EMPs), aiming to ensure effective protection of the environment, human health and broader community during the project implementation stage. The ESMF document includes a generic EMP and sample templates for monitoring environmental and social risks that will be applied, customized and further developed for each specific sub-project, and applied during the construction design stages. After approval, the finalized site-specific EMPs will become part of the relevant bidding documents for civil works execution during the project implementation phase. A comprehensive disclosure and consultation process will be undertaken for each of the site-specific EMPs produced for each sub-project site. The invitation for public consultations will be undertaken in line with the ESMF, Bank’s OP 4.01 and national legislation, where applicable. This will also include announcements in the local and/or national press.

47. The current environmental safeguards capacity at MoESTD is insufficient to ensure adequate level of environmental protection monitoring and reporting during the project implementation, since the experienced professionals that worked on related issues during the previous World Bank funded project are no longer available at the Ministry. A qualified and experienced environmental consultant will be hired in the PMU on a part-time basis to support the preparation of site-specific safeguards instruments, and to monitor and report on compliance with environmentally-related activities during the project implementation. Reporting on EMPs’ implementation and compliance monitoring will be undertaken at least twice per year, via regular progress reports from the PMU to the Bank. The Bank will provide relevant environmental safeguards training to the selected environmental consultant, both as

hands-on training and through more formal specialized training and education courses/sessions.

Monitoring & Evaluation

48. Two key aspects of monitoring and evaluation within the ECEC project will be established. First there will be a monitoring and evaluation system for all activities supported by the project at the State and local government levels. This will be done through regular data collection instruments employed by the line ministries and other agencies of government, such as Annual Statistical Questionnaire of Preschool Education (collected by the Republic Statistical Office), as well as administrative monitoring information systems, such as the education information system; the health information management system, social protection facility users and others. Second, the project would include financial support for the Ministry to design and implement (or contract-out) a sound technical audit of selected activities, including the first phase of the grant program, collection of data on the quality of ECEC service delivery, analyzing of evaluation surveys and other analyses as needed. Finally, the project would support further development of the ongoing establishment of the information and monitoring system (EMIS) for ECEC, as further described under Component 2.

Role of the Partners (if Applicable)

49. The proposed project is leveraging and benefiting from the experience of other partners who play a key role in the ECEC area in Serbia, including UNICEF, OSF, the Novak Djokovic Foundation (NDF),⁴⁵ the Roma Education Fund (REF), and others. For example: UNICEF is already supporting the MOESTD in the revisions and piloting of the ECEC curriculum, which – when adopted - will then be scaled up through the project under Component 2, as well as the development of PAN, and the revision of quality standards; the NDF has adopted innovative community-mobilization approaches, age-appropriate uses of existing/refurnished infrastructure, and child-centered pedagogy, all of which informed the project design; OSF and REF were actively involved in outreach activities under the DILS project, among others, which will now be further developed and scaled up under Component 3 of this project. Throughout the project preparation (including site visits), the team consulted closely with these various partners and also with a range of other key stakeholders involved in the above-mentioned Consultative Group.

⁴⁵ A World Bank – Novak Djokovic Foundation (NDF) partnership focusing on ECEC in Serbia and beyond was launched in August 2015 in New York City.

Annex 4: Implementation Support Plan

Republic of Serbia

Inclusive Early Childhood Education and Care Project (P157117)

Strategy and Approach for Implementation Support

1. **Implementation Strategy.** Project implementation will include on-going dialogue with the MoESTD and regular technical and fiduciary oversight of project. Regular dialogue will facilitate early identification of problems and obstacles, and enable the Bank to provide closer and timely support to counterparts to address those problems. Formal implementation support visits will take place at least twice per year, aimed at reviewing implementation progress, identifying and agreeing on necessary adjustments, and updating Bank's supervision documentation.

Implementation Support Plan

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>	<i>Partner Role</i>
<i>First 12 months</i>	Technical Review: All components Fiduciary Oversight: Financial Management Procurement Safeguards Oversight: Environmental performance and socially responsible performance	Sr. Education Specialist Operations analyst Architect/engineer Financial Management Specialist Procurement Specialist Safeguards Specialists Technical Specialist	<i>150,000</i>	<i>N/A</i>
<i>12-48 months</i>	Technical Review: All components Fiduciary Oversight: Financial Management Procurement Safeguards Oversight: Environmental Performance	Sr. Education Specialist Operations analyst Architect/engineer Financial Management Specialist Procurement Specialist Safeguards Specialist		

Skills Mix Required (Yearly)

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
<i>Education specialist (TTL)</i>	<i>8</i>	<i>2</i>	
<i>Social protection specialist</i>	<i>12</i>	<i>0</i>	<i>Staff based in the field</i>
<i>Education Economist</i>	<i>4</i>	<i>1</i>	
<i>Environmental Safeguards specialist</i>	<i>3</i>	<i>0</i>	<i>Staff based in the field</i>
<i>Social Safeguard specialist</i>	<i>3</i>	<i>1</i>	
<i>Financial Management Specialist</i>	<i>3</i>	<i>0</i>	<i>Staff based in the field</i>
<i>Procurement Specialist</i>	<i>4</i>	<i>1</i>	
<i>Architect/engineer</i>	<i>4</i>	<i>2</i>	

<i>Technical experts (1-2)</i>	2	2	<i>Needs and frequency to be identified yearly</i>
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2. Project implementation support and supervision will cover technical, fiduciary, and safeguard aspects of implementation. The technical team will be led by an education expert, who will work jointly with a social protection specialist, and be complemented by technical experts on a need-basis. At least one technical team member of the team will be based in the country, in addition to a Financial Management Specialist, and an Environmental Specialist, enabling support to be provided on an on-going basis. Additionally, two formal implementation support visits will take place every year, where additional experts will join the team to both provide technical assistance to the Borrower as well as comply with the Bank's due diligence requirements.

3. Financial management. FM supervision will be carried out by a Bank expert and consist of: (i) reviewing the project's interim un-audited financial reports for each calendar quarter, as well as the project's annual audited financial statements and auditor's management letter; and (ii) performing on-site supervisions, and reviewing the project's financial management and disbursement arrangements to ensure compliance with the Bank's minimum requirements. The on-site supervision will include monitoring of agreed actions, review of FM arrangements and transactions' review.

4. Procurement. Procurement supervision will be carried out in situ by a Bank expert at least once per year in order to: (i) verify the procurement procedures followed for the project, and identify noncompliance with the agreed provisions of the legal agreement and applicable Guidelines; (ii) check that the procurement arrangements agreed with the Borrower are still in place; (iii) report contract management issues as may have been identified by the executing agency; (iv) check that technical compliance and physical completion for the contracts in the selected sample have been carried out; (v) note fraud and corruption red flags and report any evidence of fraud and corruption; (vi) identify mitigating measures or remedies to correct procurement deficiencies and recommend them to the Borrower and its executing agency. The findings in the Post Review Report will be the basis of the project procurement rating to be entered in the Procurement Risk Assessment and Monitoring System (PRAMS).

5. Safeguards. The Bank's team will include a social specialist and an environmental specialist, who will provide guidance to the Borrower on the application of the Bank's safeguard policies as well as supervise their implementation to ensure full compliance with Bank requirements. The team's environmental specialist will be based in the country enabling him/her to also regularly visit project sites. The social scientist would participate in at least one implementation support visit per year, and would engage with project beneficiaries to also ensure that grievances are being properly addressed and that activities are reaching targeted groups.

Annex 5: Economic and Financial Analysis

Republic of Serbia

Inclusive Early Childhood Education and Care Project (P157117)

Introduction

1. The Project aims to expand access to quality Early Childhood Education and Care (ECEC) services, in particular for children from socially disadvantaged backgrounds. The proposed project focuses on various aspects of Early Childhood Education and Care (ECEC) services through expanding the supply of preschool spaces (Component 1); ensuring their quality (Component 2); and stimulating demand for these services (Component 3). This annex presents the rationale for public investment and World Bank involvement in this project, followed by a cost-effectiveness and cost-benefit and financial sustainability analysis that justify the investment.

Rationale for investing in Early Childhood Education and Care (ECEC)

2. ECEC lays the foundation for lifelong learning. Early interventions generate positive benefits which extend beyond childhood and affect labor productivity. The benefits of ECEC interventions include enhanced school readiness; improved cognitive and socio-emotional skills; increased school enrolment for other female siblings; improved physical and mental health; lower repetition and drop-out rates in early grades; improved overall educational outcomes; and increased engagement of mothers in the workforce.

3. In addition to the inherent benefits of ECEC, strong investment is needed in pre-primary education in the context of Serbia's demographics. Serbia faces one of the fastest population declines (due to aging and low birth rates), roughly 17 percent between 2015 and 2050⁴⁶ (translating into more than 1.5 million people). Similar to the existing trend in many European and Balkan countries, this decline will significantly reduce the future working-age population. With fewer workers generating incomes in the future, actions are needed today to increase the quality of the human capital and wage premiums.

4. Investing in ECEC services also promotes social inclusion.⁴⁷ Roma children who attend preschool programs exhibit better cognitive outcomes and are also more likely to complete secondary school than peers from the same communities and with similar backgrounds who have not attended. They are also much less likely to be (incorrectly) enrolled into special-needs primary schools designed for children with learning disabilities. This is important because individuals from vulnerable groups will form about 30 percent of the new labor market entrants, as they display different fertility patterns from higher-income families.

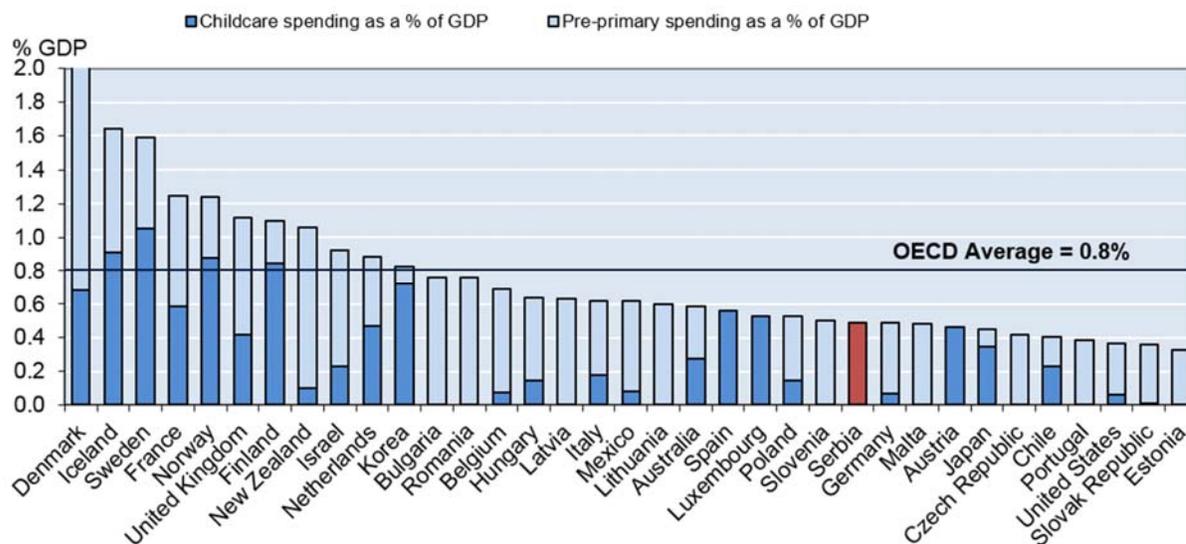
Rationale for public investment

⁴⁶ This decline is mostly attributed to a low birth rate and emigration; United Nations Population Division, World Population Prospects, the 2015 Revision.

⁴⁷ These benefits are noted in the 2011 Roma Survey.

5. In Serbia, preschool education is mainly financed by local self-governments (LSGs) and remain underfunded. Public expenditure on preschool education amounted to 0.65 percent of GDP (in 2014), compared to the OECD average of 0.8 percent of GDP (in 2011). This expenditure includes public financial support such as cash, in-kind contributions, and the tax system.

Figure 1: Public expenditure on ECEC services, percent of GDP



Source: OECD (2011); Estimate for Serbia derived from 2014 in *ECEC in Serbia: Situational Analysis and Recommendations*

6. The current financing approach by local governments is regressive. LSGs finance early childhood programs in Serbia using total costs of preschool education per child⁴⁸ that vary widely across regions. LSGs finance 80 percent of the total cost per child, while parents finance the rest 20 percent. Thus, not all municipalities are able to provide preschool services, and children from vulnerable groups, are not able to finance it as the copayment places an unfair burden on low-income families.

Rationale for World Bank involvement

7. The World Bank has been actively engaged in supporting projects in the Republic of Serbia since the year 2000, acquiring extensive knowledge of the country’s specific challenges and opportunities. The World Bank has broad regional and global experience in supporting governments with expanding preschool services and addressing issues of equity, efficiency, infrastructure, and other challenges in the preprimary education subsector. The proposed project will leverage the Bank’s robust financial, operational, and analytical models. These models include a field-tested mix of monitoring and evaluation procedures, regulatory and financial safeguards, as well as overarching transparency mechanisms in these processes. In particular, the Bank’s safeguards include high standards for fiduciary oversight.

⁴⁸ *Early Childhood Education and Care in Serbia: Situational Analysis and Recommendations* identifies total costs per child as economic price per child; UNICEF *Investing In Early Childhood Education in Serbia* uses the term Total Costs of Preschool Education (TCPE) per child.

8. The Government of Serbia faces a tight fiscal climate, which has led to extensive public administration reforms intended to improve public sector efficiency and generate cost savings. The need for education reforms, however, remains at the forefront of the policy agenda given the need to improve the labor market outcomes of Serbian graduates to compete in the global economy. Despite these challenges, the government remains committed to education reforms, particularly at the preprimary level. The tight fiscal climate and the need for education reforms prompts the need to leverage investment financing for the government to meet its commitment in preprimary education. The Ministry of Finance has committed to financing the recurrent expenditure resulting from capital investments in preprimary education.

Returns to ECEC

9. International evidence points to significant economic returns – both public and private – generated by investments in ECEC. Research-based evidence points not only to a high return on investment from high-quality early childhood interventions per dollar invested, but also to a higher rate of return compared to interventions directed at older children and adults (Figure 6).⁴⁹ ECEC is one of the most cost-efficient investments in human capital, and its benefits are generated both in the short- and long-term.

10. Since 2000, evaluations of many ECEC interventions have been performed globally. ECEC interventions in Bangladesh showed that children who received center-based preschool education outperformed peers in the control group by 58 percent on standardized tests.⁵⁰ In Colombia, children who received a comprehensive community-based ECD intervention were 100 percent more likely to be enrolled in third grade, indicating lower dropout and repetition rates for program children than for those in the control group.⁵¹ In Argentina, one year of preschool was estimated to increase the average third-grade test score in mathematics and Spanish by 8 percent.⁵² More recently, high-quality ECEC interventions in Jamaica improved children's cognitive development, and boosted the earnings of those with developmental delays by 25 percent.⁵³

⁴⁹ Carneiro P.M., and Heckman, J.J. (2003), Human Capital Policy, IZA Discussion. Paper No. 821.

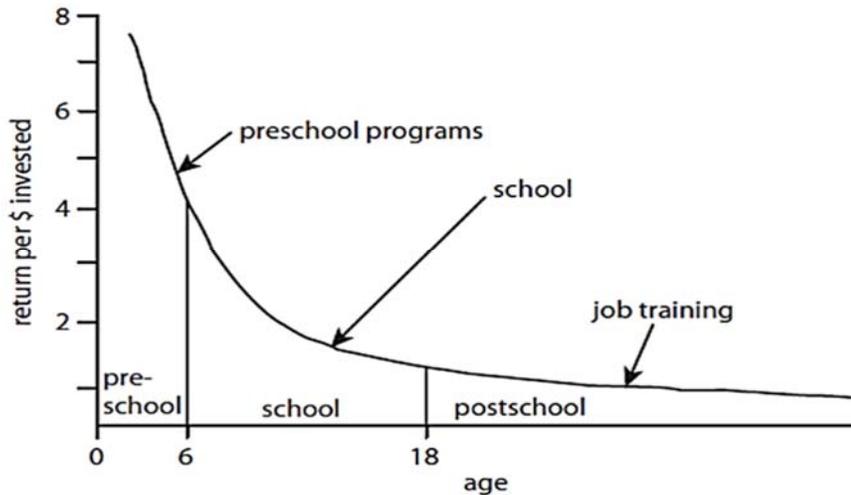
⁵⁰ Aboud, F.E. (2006), Evaluation of an Early Childhood Preschool Program in Rural Bangladesh

⁵¹ World Bank (2011), Investing in Young Children

⁵² Berlinski S., Galiani S., and Gertler P. (2006), The Effect of Pre-Primary Education on Primary School Performance

⁵³ Heckman J.J., and Gertler P. (2014), Labor Market Returns to Early Childhood Stimulation

Figure 2: Rates of return to human development investments across all ages



Source: Cameiro and Heckman 2003

11. Results for countries participating in the 2012 Program for International Student Assessment (PISA) show that students who attended preschool programs for more than one year, outperformed peers who had not attended such programs, after accounting for socio-economic factors. This finding applies to all but seven participating countries with available data.⁵⁴ Among OECD countries, students who attended pre-primary programs for more than one year averaged 31 score points higher in mathematics than peers who did not attend pre-primary programs at all, after accounting for socio-economic factors. This difference is equivalent to roughly three-quarters of one year of schooling. In Serbia, the difference is 14 score points. Roughly 51 percent of 15-year-old students who participated in PISA 2012 from Serbia had more than one-year of preschool education.

I. Cost-Effectiveness Analysis

Main principles guiding the analysis

12. This section presents a cost-effectiveness analysis of class size, preschool enrolment, and school autonomy (in curriculum and in the use of resources). The scores in PISA 2012 mathematics serve as the measures of effectiveness. The effectiveness measures for the different alternatives were obtained by running regressions on student achievement, controlling for age, gender, index of socio-economic conditions, index of school socio-economic conditions (to control for peer-effects), class size, student-teacher ratio, teacher practices, school autonomy (both in curriculum and resources), and whether the student attended preschool education or not. The table below presents the cost-effectiveness ratios. These are calculated by dividing the effectiveness – which is measured by PISA points in math and reading sections respectively – by the cost per student as measured in euros. From these results, preschool attendance is the most efficient intervention (and statistically significant).

⁵⁴OECD (2013), PISA 2012 Results: Excellence Through Equity: Giving Every Student the Chance to Succeed (Volume II), PISA, OECD Publishing.

Table 1: Cost effectiveness ratios using PISA math scores

Variable	Effectiveness (PISA points)	Cost per student (EUR)	Cost/Effectiveness ratio
Class-size	Not significant	Not applicable	Not applicable
Preschool attendance	4.9	135	27.7
Autonomy (curriculum or resources)	Not significant		Not applicable

13. The analysis performed likely underrepresents the effect that ECEC has as preschool quality may improve as a result of the new curriculum and teacher training. Furthered, there is an understated effect of ECEC in this analysis because PISA is being administered when students are 15 years old. Empirical evidence suggests that students who attend preschool education tend to benefit during their formative early childhood experience and later on when they enroll in primary and secondary school.

II. Cost-Benefit Analysis

Main principles guiding the analysis

14. This section presents a cost-benefit analysis of the proposed interventions.

15. **Costs.** Total project financing during the implementation period amount to USD 50.00 million. Discounting the cost stream at a rate of 5.0 percent – which is the discount rate used by the World Bank and IMF – yields a discounted present value of USD 93.1 million. This cost stream includes the cost of project development – new spaces for students as well as retrofitted spaces for students – and recurrent costs – economic costs of ECEC programs.

16. **Benefits.** The project, is expected to improve academic achievement and student retention to those students who benefit from attending the new preschool places. Also, all children will benefit from enhanced quality programs and improved parenting practices. This will eventually generate translate in economic public and private benefits (which are not taken into consideration in this analysis).

17. **Assumptions** The analysis performed relies on assumptions (Table 2) that are basis for measuring improved academic achievement and an increase in student retention in the later stages of the education lifecycle.

Table 2. Assumptions for Serbia ECEC Cost-Benefit analysis

BENEFITS	
1. Earnings	
Net average salaries and wages/month (2016)	RSD 44,432
Net average salaries and wages/month (2016)	USD 413.5
2. Labor Market	
Number of years to labor market entry (cohort starts preschool at 3 years old)	17 years
Number of years to labor market entry (cohort starts preschool at 4 years old)	16 years
Years of labor market participation	25 years
Return of one additional year of schooling	10.5 percent
COSTS	
1. Cost of Project Development	

Cost of new spaces per student (2016)	USD 4,000
Cost of retrofitted spaces per student (2016)	USD 1,200
2. Operational Cost	
Cost of new spaces per student (2016)	USD 54
EXCHANGE RATE RSD to USD	USD 0.0092

Sources: [DEVINFO](#); Staneva, A., Arabsheibani, R., and Murphy, P. "Returns to education in four transition countries: quantile regression approach." IZA Discussion Papers (2010); Baucal et. al. ECEC in Serbia: Situational Analysis and Recommendations.

ECEC Project's expected net benefit

18. Table 3 summarizes the net present value (NPV) of total quantifiable benefits and costs associated with the project.⁵⁵ The costs in Table 3 include maintenance and miscellaneous expenses in the operational cost estimate. The sustainability costs are provided in a separate section in this annex.

19. The proposed project aims to provide 17,000 combined spaces for 3-4 year olds and 4-5.5 year olds. It is estimated that the beneficiaries in these age groups would experience an increase in earnings later in life as a result of the benefits associated with preschool interventions.

20. The analysis calculates the cost stream over a time span of 15 years. The benefit stream begins when students from ECEC participate in the labor market, beginning in the year 2034. The resulting analysis discounts the cash flow generated by these costs and benefits in the timeframes considered.

21. The baseline scenario in Table 3 below presents an NPV of USD 172.90 million, and a benefit-to-cost ratio of 2.9⁵⁶. The estimates also suggest an Internal Rate of Return (IRR) that ranges between 9 and 13 percent depending on the assumptions—that vary based on difference in retention rates for primary, secondary, and higher education.

Table 3: Serbia ECEC Project: Summary of Costs and Benefits (USD)

Benefits	
Increase in annual earnings from improved academic achievement and higher retention ⁵⁷	1,685,306,331
Total Benefits	1,685,306,331
<i>Present Value of total benefits</i>	<i>265,996,585</i>
Costs	
Project Development	34,400,000
Operational Costs	105,272,469

⁵⁵ The analysis is conducted using economic prices and it does not include taxes.

⁵⁶ By end of FY 2016 there were 15 active projects in the Europe and Central Asia region of the World Bank Education Global Practice. The cost-benefit analyses conducted in these projects provide a good opportunity to benchmark the benefit to cost estimates for the Serbia ECEC project. Out of the 15 education investment projects, 5 conducted cost-benefit analysis for the education interventions. The Serbia ECEC benefit to cost ratio estimates are consistent with other project estimates. The benefit to cost ratios ranged between 4.4 for investments in secondary education in Romania to 1.9 for investments in the modernization of primary and secondary schools in Belarus. Only one of the projects showed a benefit to cost ratio of just over 10 for higher education investment in Uzbekistan.

⁵⁷ Higher retention in primary, secondary, and tertiary education.

Total Costs	139,672,469
Present Value of total costs	93,095,796
NPV of net benefits	172,900,788
Benefit to cost ratio	2.9

Source: WB staff calculations.

Sensitivity Analysis

22. The sensitivity analysis (Table 4) performed confirms that the project is a worthwhile investment in early childhood development in Serbia. The sensitivity analysis calculates the present value of net benefits and the benefit-to-cost ratio of the proposed ECEC Project under the following scenarios: (i) higher-than-anticipated academic achievement and student retention; and discount rates of (ii) 6 percent; and (iii) 3 percent.

Table 4: Sensitivity analysis (in USD millions)

	<i>NPV of net benefits (USD millions)</i>	<i>Benefit-to-cost ratio</i>
Baseline	172.9	2.9
High estimate (achievement and retention)	239.1	3.6
Discount rate 6%	102.8	2.2
Discount rate 3%	431.7	4.9

Source: WB staff calculations.

Financial Sustainability

23. The GoS, through its Strategy for the Development of Education in Serbia to 2020 (SED 2020), has demonstrated its commitment to increasing investment in ECEC programs. The government recognizes the importance of preschool and is committed to increasing enrolment. As noted, the preschool project significantly contributes to increasing preschool enrolment by 2020.

24. Table 5 below outlines the required government financing for the duration of the project to ensure sustainability during implementation, and to realize its commitment to increase investment in preschool. During the period 2017-2021, the estimated project financing for recurrent (non-capital) costs is USD 5.0 million in nominal terms. The required co-financing amount for these costs is USD 44.5 million for the same period.

25. Recurrent (non-capital) costs include salaries for hiring additional teaching and non-teaching staff, as well as operational costs. The operational costs include the cost of providing food to students, utilities, various services, materials, and maintenance costs.

Table 5: Financial Sustainability of ECEC Project Interventions

Recurrent [non-capital] costs for full-time students	USD (millions)				
	2017	2018	2019	2020	2021
Teaching Staff (FTE): Annual salary increase needed	0.81	1.61	2.88	4.49	5.70
Non-teaching Staff (FTE): Annual salary increase needed	0.60	1.20	2.14	3.34	4.24
Annual (miscellaneous) operating costs	1.17	2.34	4.19	6.52	8.28

Total Recurrent [non-capital] costs for full-time students	2.57	5.14	9.21	14.36	18.22
less: ECD Project Financing	1.00	1.00	1.00	1.00	1.00
Government of Serbia Co-financing Required for recurrent costs	1.57	4.14	8.21	13.36	17.22

Source: WB staff calculations;

Baucal et. al. ECEC in Serbia: Situational Analysis and Recommendations.