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Report No.: 104182-YF

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EURO 69 MILLION
(US $75 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SERBIA

FOR A

MODERNIZATION AND OPTIMIZATION OF PUBLIC ADMINISTRATION PROGRAM

March 28, 2016

Governance Global Practice

Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 29, 2016)

RSD 113.44=US$ 1

US$ 1= €0.918

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AC	Anti-Corruption
ACA	Anti-Corruption Commission
ACG	Anti-Corruption Guidelines
ACS	Anti-Corruption Strategy
APML	Administration for the Prevention Money Laundering
BES	Budget Execution System
COA	Chart of Accounts
CTA	Consolidated Treasury Account
DfiD	U.K. Department for International Development
CAS	Country Assessment Strategy
CHU	Central Harmonization Unit
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
CTAS	Consolidated Treasury Account System
DBB	Direct Budget Beneficiaries
DLI	Disbursement Linked Indicator
ESSA	Environment and Social Safeguards Assessment
EU	European Union
F&C	Fraud and Corruption
FM	Financial Management
FMC	Financial Management and Control
FMIS	Financial Management Information System
GDP	Gross Domestic Product
GoS	Government of Serbia
GRS	Grievance Redress Service
HRM	Human Resources Management
IA	Internal Audit
IBB	Indirect Budget Beneficiary
ICT	Information and Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
INT	Institutional Integrity Vice-Presidency
IPSAS	International Public Sector Accounting Standards

M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MPALSG	Ministry of Public Administration and Local Self-Government
MTEF	Medium Term Expenditure Framework
NES	National Employment Service
OECD	Organization for Economic Cooperation and Development
PAP	Public Administration Principles
PAR	Public Administration Reform
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Program
PforR	Program-for-Results
PIFC	Public Internal Financial Control
PPDS	Public Procurement Development Strategy
PPL	Public Procurement Law
PPO	Public Procurement Office
PPS	Public Policy Secretariat
RC	Republic Commission
RINO	Registry of Settlements of Pecuniary Commitments (Rokovi Izmirenja Novcanih Obaveza)
SAI	State Audit Institution
SMS	Social Management System
SOE	State owned Enterprise
TA	Treasury Administration
TF	Trust Fund
TML	Treasury Main Ledger
TSA	Treasury Single Account
USAID	United States Agency for International Development
UZZPRO	Administration for Joint Services of the Republic Bodies (Uprava Za Zajednicke Poslove Repulickih Organa)
WB	World Bank

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REPUBLIC OF SERBIA

MODERNIZATION AND OPTIMIZATION OF PUBLIC ADMINISTRATION PROGRAM

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PAD DATA SHEET

SERBIA

Modernization and Optimization of Public Administration Program (P155172)

PROGRAM APPRAISAL DOCUMENT

Europe and Central Asia
Governance Global Practice

Report No. 104182-YF

Basic Information

Date: March 28, 2016	Sectors: Gen. public administration (100%)
Country Director: Ellen A. Goldstein	Themes: Human Resource Management; Public Financial Management; Procurement Management
Practice Manager/Senior Global Practice Director: Adrian Fozzard/ Deborah L. Wetzel	
Program ID: P155172	
Team Leaders: Raymond Muhula/Srdjan Svircev	

Program Implementation Period:	Start Date:	Sep. 1, 2016	End Date: October 30, 2019
Expected Financing Effectiveness Date:		Sep. 1, 2016	
Expected Financing Closing Date:		February 29, 2020	

Program Financing Data (US$ Million)

[X] Loan	[ ] Grant	[ ] Other
[ ] Credit		
Total Program Cost: 242	Total Bank Financing: 75	
Total Co-financing: -	Financing Gap: -	

Financing Source	Amount
BORROWER/RECIPIENT	167.0
IBRD	75.0
Total	242.0

[redacted]

Borrower: Republic of Serbia

Responsible Agency: Ministry of Finance

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[redacted]

Expected Disbursements (in USD Million)

Fiscal Year	2017	2018	2019	2020
Annual	29.75	20.00	20.25	5.00
Cumulative	29.75	49.75	70.00	75.00

[redacted]

Program Development Objective(s): *To improve efficiency in public sector employment and finances.*

Compliance

Policy

Does the program depart from the CAS in content or in other significant respects?	Yes	[ ]	No	[X]

[redacted]

Does the program require any waivers of Bank policies applicable to Program-for-Results operations?	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 program meet the Regional criteria for readiness for implementation?	Yes	[X]	No	[ ]

Overall Risk Rating: *HIGH*

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
Social Safeguards		Date of Effectiveness	Recurrent

The Borrower shall ensure that the Program is carried out in accordance with the ESSA, in a manner acceptable to the Bank. The Borrower shall not assign, amend, abrogate, or waive the ESSA, or any provisions thereof, without prior approval of the Bank.

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I. STRATEGIC CONTEXT

A. Country Context

1. **The Republic of Serbia is an upper middle income country with a Gross National Income per capita of US$ 5,820 and a population of approximately seven million.** Serbia emerged from political realignments that followed the breakup of the former Yugoslavia in 1991. A political union with Montenegro lasted until 2006 when each country became a sovereign state, following a referendum in favor of Montenegro's independence. During the final years of the union and the first few years of the new Serbian state (2001-2008), real Gross Domestic Product (GDP) averaged 5 percent annually and poverty headcount declined from 14 percent in 2002 to 7 percent in 2007. However, the establishment of an independent Serbian state marked the beginning of a period of political uncertainty characterized by weak and fragmented political coalitions. Lack of political consensus hindered efforts to focus on critical economic and public sector reforms.

2. **In recent years, Serbia has faced significant economic challenges.** Since 2008, economic growth has stalled, reversing the progress made in earlier years. Average real growth dropped to zero and fiscal deficits averaged 6 percent of GDP between 2009 and 2014. As a result, Serbia's public debt more than doubled from 34 percent of GDP in 2008 to 71 percent at the end of 2014. Subsidies and guarantees to public utilities, high levels of public sector employment, inefficient human resource management and weaknesses in financial management have all contributed to Serbia's fiscal challenges. With the economy in recession, the vulnerable poverty rate increased from 6 percent in 2008 to 9 percent in 2010, the latest year for which comparable data are available. Unemployment increased and by 2012 had reached a high of 24 percent.

3. **In 2014 the Government of Serbia adopted an ambitious fiscal consolidation and structural reform program.** The program is supported by a 36-month Standby Arrangement with the International Monetary Fund (IMF), approved in 2014. In the short term, the program focuses on the control of aggregate wage and pension expenditures, improvements in tax administration, and reductions in subsidies to state owned enterprises. The Government has also begun to address longer term structural problems in the administration of the public sector, focusing on public sector employment and restructuring to create opportunities for efficiency. As a result of these measures, total nominal government expenditures declined by 1.7 percent as a result of major savings from wage and pension reforms (down by 11.4 and 3.5percent, respectively) in 2014. The general government deficit over the first nine months of 2015 was 1.3 percent of full-year GDP, down from 3.9 percent in the same period of 2014. At the same time, the economy is starting to recover. Serbia moved out of recession in Q2 2015 with growth at 1 percent and is expected to grow by 2 percent in Q3.

4. **Although the Government remains committed to implementation of initiated reforms, there are significant risks to the macroeconomic framework.** These risks include: slower-than-expected economic recovery in the European Union (EU); adverse shocks to capital inflows, relating to the normalization of US interest rates or negative spillovers from other emerging economies; a deterioration of the financial situation of foreign parent banks, and implementation of the fiscal consolidation program. To mitigate these risks, the Government is working closely with the IMF and Bank to ensure that key fiscal reforms in public administration, SOEs and public utilities stay on track and generate the required fiscal savings.

B. Sectoral and Institutional Context

5. **The Government of Serbia has launched an ambitious program of public sector reforms that seek to enhance efficiency in the public sector.** The Government's overall framework for reforming public sector administration is set out in a (PAR Strategy adopted in 2014. Together with the Action Plan for the Implementation of the Public Sector Reform Strategy (2015-2017), adopted in 2015, the strategy sets out the immediate priorities of the Government of Serbia with respect to key reforms in the public administration. Both the PAR Strategy and Action Plan cover five major areas of reform: improvement of the organization and functioning of the public administration systems; strengthening of human resource management; improvement of public finance and public procurement management; increased transparency and enhancement of ethical standards and strengthening the Government's supervision capacities. The PAR Strategy complements and incorporates elements of other strategic planning instruments, notably the Procurement Strategy (2014), the Public Financial Management Reform Program (2015) and the Action Plan for Open Government Partnership (2014). The Bank's engagement supports these reforms in the core systems of human resource management, public financial management and public procurement. These reforms are addressed in turn below with a focus on human resource management, in many respects the most challenging part of the reform agenda.

6. **Serbia faces significant challenges in human resource management and related expenditure in the context of shrinking fiscal space.** Serbia's public sector wage bill increased from 9 percent of GDP in 2002 peaking at approximately 11 percent in 2008. Across-the-board staffing reductions and hiring freezes have helped contain the wage bill at an average of 11 percent of GDP from 2009 to 2014. In recent years, the Government has scaled down the formula tying wage adjustments to inflation; imposed a solidarity tax (in effect, a wage cut) on public employees earning more than 60,000 dinars and imposed a ceiling on individual public salaries. More recently, the Government imposed an additional across the board 10 percent pay cut (as of November 2014) and modified the budget law to suspend wage indexation altogether in years in which the share of general Government salaries (excluding severance pay) is expected to exceed 7 percent of GDP. The Government has also taken measures to reduce the number of staff, imposing a hiring freeze and a cap on replacements (for each 5 employees who leave, only 1 may be replaced) and sought to reduce overall Government operational costs by 5 percent each year for three successive years.

7. **In order to make further progress in containing the overall wage bill growth, the Government will need to undertake fundamental reforms in the human resource management system.** There is evidence of overstaffing in the health, judiciary, and police and to some extent, education sectors. There are also underlying problems in the structure of compensation. At present, the pay and grading system includes 2,200 job titles, 71 different elements of remuneration, 5 different base salaries, 900 different job coefficients, 19 laws and a plethora of by-laws that regulate salary levels. Compensation rates are above market levels in low skilled positions and below market levels for high level positions. The complex and arbitrary nature of the compensation system undermines staff morale and renders the system vulnerable to ad hoc pressure from public sector unions.

8. **Deficiencies in the human resource information systems have undermined the ability of the Government to control employment numbers.** Recent efforts by the Government have led to the establishment of the first comprehensive registry of public

employees since 2003. The current registry however, has several shortcomings. Data on the total number of employees is inaccurate because participation by individual ministries is voluntary. The lack of strong information systems at the sector level to monitor staffing and employment data has undermined the ability of the Government to control the wage-bill in various sectors: the Ministry of Education, for instance, does not have accurate data on the number of teachers. There is no mechanism to link the various systems operating at the sector level ministries with the large public administration payroll systems to monitor staff numbers, increase in staff compliment over time, and total employment cost. This makes it difficult for the Government to control staffing and wage bill management across the public sector. While the new Law on Registry of all Employees, Elected, Nominated and Appointed and Engaged Persons within Public Funds Beneficiaries is helpful, effective implementation requires a comprehensive Human Resource Management Information System both at the sector level and at the central level.

9. **The Government intends to revise the regulatory framework for public sector employment to enable further reforms**. The National Assembly has passed the Law on Ceilings on the Number of Employees; Law on Registry of all Employees, Elected, Nominated and Appointed and Engaged Persons within Public Funds Beneficiaries and the Law on Public Sector Employees Salary System. Together, these laws and their associated by-laws will strengthen the legal and policy framework for managing the wage-bill and employment practices across the public sector.

10. **The Government will restructure the pay and grading system based on a comprehensive job evaluation and grading exercise.** The new structure will cover all public service employees including those in education, health, social protection, culture, tourism, and sport (local Government, police, defense, and members of parliament, judiciary, and state agencies will have their own pay scheme). Under the proposal, all positions will be graded according to common criteria. Pay scales will be established for each grade, reflecting current market conditions and the Government's fiscal constraints. Once this process is completed, new regulations governing the new pay and grading will be issued and the new pay system will be implemented.

11. **Finally, the Government intends to rationalize staffing levels in a structured manner.** To begin this process, the Government is strengthening its registry of public employment by making it mandatory rather than voluntary and linking it to the payroll system to ensure that staff who are not recorded in the registry are not paid. At the same time, the Government will launch a targeted staff reduction program. This right-sizing program seeks to improve the organization of the public sector, assign competencies among tiers of Government and organize work processes within institutions. Ministries are expected to simplify administrative procedures, eliminate redundant tasks and eliminate or restructure departments with duplicate functions, thereby reducing the need for staff. To implement staffing reductions, the Government has begun undertaking specific reviews of staffing needs in particular sectors and agencies. Following consultations with stakeholders, a retrenchment plan will be prepared and submitted to the cabinet. This will then be implemented through a combination of attrition, reassignments and dismissals. The Government will offer severance payments to staff occupying positions that are found to be redundant. These positions will then be eliminated.

12. **While the Government has made progress in strengthening <u>public financial management</u>, the 2015 Public Expenditure and Financial Accountability (PEFA) assessment identified important weaknesses in the control framework and its coverage.**

The PEFA assessment period 2011-2013 was dominated by the aftermath of the global economic recession which affected macro-fiscal performances and posed particular challenges for public financial management. Notwithstanding these challenges, the PEFA assessment observed improvements in relation to the previous assessment in 2010 in the legislative framework for the budget process, budget classification, multi-year fiscal planning, procurement and external audit. The assessment also noted significant weaknesses in the composition of expenditure out-turn compared with originally approved budget, expenditure arrears, oversight of fiscal risk, predictability in the availability of funds, application of public sector accounting standards and legislative scrutiny of annual budget law and final accounts. Building on the PEFA Assessment, the Ministry of Finance (MOF) has prepared a Public Financial Management Reform Program, aligned with the broader Public Administration Reforms, which sets priority actions in the short, medium and long term.

13. **The immediate priority of the Government's PFM reforms is to strengthen expenditure control and prevent the accumulation of expenditure arrears.** Accumulation of expenditure arrears emerged as a significant problem during the economic crisis. In June 2013, the Financial Management Information System (FMIS) system reported arrears amounting to RSD 84,942 million (US$ 1,003 million) equivalent to six percent of total expenditures in that year. During 2013 the Government negotiated payment plans and conversion to public debt, reducing outstanding payment arrears to RSD 8.26 billion (about US$ 74 million). Action was also taken to curb accumulation of arrears, including a Law on Deadlines for Payments in Commercial Transactions which mandates a timetable for the payment of arrears and fines for Government officials who fail to pay on time. An electronic Registry of Settlements of Pecuniary Commitments (RINO) was established to monitor arrears. The RINO data indicates that payment arrears amounted to RSD 9 billion RSD (US$79 million) at the year-end 2015. However, RINO data should be interpreted with caution because the data submitted by budget beneficiaries is still not verified.

14. **Further reforms seek to address the systemic problems that have weakened expenditure controls and allow arrears to accumulate.** The Government intends to strengthen the MoF budget department, increasing its staff's ability to prepare realistic forward estimates of revenues and expenditures, monitor budget execution and improve cash planning. Budget entities will be required to submit quarterly reports on arrears and strengthen internal controls over contractual commitments to ensure comprehensive reporting. The MoF will also systematically roll out the FMIS to cover Indirect Budget Beneficiaries (IBB) who are responsible for the bulk of the stock of expenditure arrears. Courts will be integrated into the FMIS by January 1, 2016; prisons and cultural institutions by January 2017, and social welfare centers by January 2018. This will leave only education institutions outside the FMIS in the beginning of 2018. Integrating these institutions into the FMIS will take more time, due to their large number.

15. **The Public Procurement Law of 2013 and its amendment in 2015 have significantly strengthened the legal framework for <u>public procurement</u> in Serbia.** The PPL provides for the decentralization of procurement activity to budget entities whilst streamlining procedures, creating a single register of bidders and reducing the scope for the arbitrary rejection of bids. It ensures transparency in the public procurement processes and requires the publication of a wide range of procurement related information through a Public Procurement Portal. The PPL also sets out the competences of the two core agencies responsible for public procurement systems.

The PPO participates in the drafting of procurement regulations, manages the Public Procurement Portal, prepares reports on public procurements, and provides technical assistance to contracting authorities and bidders. The Republic Commission for the Protection of Rights in Public Procurement Procedures (RC) is an autonomous and independent body of the Republic of Serbia which provides for grievance redress and tackles fraud and corruption in public procurement. The Commission reports directly to Parliament.

16. **While a robust legal framework for public procurement is in place, capacity constraints have undermined implementation**. The PPO currently lacks the capacity to fully discharge its functions and RC lacks the capacity to handle appeals in a timely manner. Procurement is largely decentralized with about 4,900 registered contracting authorities, of which about 166 are central government entities. Contracting authorities are often unfamiliar with procurement procedures. This has caused delays – it now takes about 120 days to complete a procurement procedure – and has also led to the purchase of inferior goods and services, as tenders are inadequately specified and contracts are awarded solely on the basis of price.

17. **To address these problems, the Government's Procurement Reform Strategy of 2013 identifies priority reforms in three areas: capacity building; process improvements; and performance measurement**. The procurement capacity building program has sought to ensure that individual contracting authorities have adequately qualified procurement staff by implementing a large scale training and certification process for public procurement officers. The Government will extend its capacity building to encompass potential bidders in public procurement. Improvements in procurement processes seek to gradually expand the use of centralized public procurement at the central and local levels through framework contracts. This will lower costs through bulk purchasing. Special attention will be paid to minimizing the adverse impact of centralized procurement on small and medium-sized enterprises. PPO will prepare model tender dossiers and reach out to Contracting Authorities to bring more awareness. Finally, the Government intends to develop a systematic approach for measuring procurement performance to inform ongoing policy reforms and its operational support.

C. Country Partnership Framework and Rationale for Use of Instrument

18. **The proposed World Bank support to Serbia's Action Plan for the Implementation of Public Administration Reform is aligned with the key themes of the Country Partnership Framework (CPF) for the period FY2016-20.[1]** The CPF states that systemic constraints in public sector management have to be addressed as a prerequisite for successful implementation of the Government's broader reform agenda. The proposed Program is linked to the first of the CPF's two focus areas, namely: Economic Governance and the Role of the State, specifically, its objective 1b: *More Effective Public Administration & Service Delivery.*

19. **The Program advances the World Bank's twin goals**. Serbia's Bottom 40 rely heavily on social transfers. Improvements in the efficiency of government spending will create fiscal space for social benefits to the Bottom 40. Improvements in human resource management,

[1] World Bank Group (2015). Republic of Serbia: Country Partnership Framework, 2016-2020 (Report No. 100464-YF) discussed by the Executive Directors on June 23, 2015.

public expenditure management and public procurement will help public agencies better serve citizens including the poor.

20. **The Program is timely, building on the Government's strong reform momentum and broad support from the international community**. In January 2014, the 1st Intergovernmental Conference signaled the formal start of Serbia's EU accession negotiations. This has provided added impetus for reform, with the Government announcing the goal of fulfilling EU membership criteria by 2019. Negotiations opened in December 2015 with Chapter 32 on "Financial Control", addressing some of the public financial management issues supported by this Program. Public Administration Reforms also features prominently in the structural reforms supported by the IMF under its Stand-By Arrangement. The IMF successfully completed the third review in December 2015, stressing the need for the Government to implement the next phase of public sector rightsizing and reforms in public expenditure and human resource management. The Bank has earned the confidence of the Government and these development partners as a leader in managing both the analytical and operational aspects supporting these public sector reforms.

21. **The Program complements other Bank work currently underway and under preparation**. The Program is informed by recent Bank analysis, notably the Public Finance Review (PFR), the PEFA assessment and the Systematic Country Diagnostic (SCD). The SCD identified Governance as one of the key priority areas. The PFR made a strong case for reforming the wage and general HR management system in the public sector. The PEFA assessment on the other hand highlighted weaknesses related to commitment control and management of arrears. The Program complements the efficiency goals of the Public Expenditure and Utilities (PEPU) Development Policy Operation currently under preparation. The PEPU operation dedicates one of its three pillars to activities related to reforms of human resource management and financial management. It is expected that some of the policy related actions proposed by the DPO would be realized from the implementation of activities supported by this Program. The Program is expected to advance the longer term objectives of the Competitiveness and Jobs Project through its focus on improved human resource management and retraining of those public servants that leave the public sector.

22. **The Program also complements the Sector Budget Support operation currently under preparation by the EU**. The EU operation will support: an horizontal functional review of the public administration to improve allocation of human and financial resources; strengthening the policy making process in Government; establishment of modern HR management system for the civil service (amendment on Law on Civil Services and establishment of programs for career development in priority areas of work); strengthening program budgeting in selected ministries and improvements in financial control, internal audit and macro-economic forecasting; strengthening of the inspection supervision system to reduce administrative burden to citizens and businesses; and the development of national legal and institutional framework to ensure participation of public and Civil Society in law making. The EU operation is expected to become effective in early 2016.

23. **The selection of the Program for Results instrument reinforces the performance orientation of the Government's program.** The approach is intended to provide incentives for a joined-up approach in tackling the systemic institutional deficiencies that have traditionally undermined efficient use of public resources. The Program for Results instrument will facilitate a strategic focus on the specific results that the Government aims to achieve; strengthen the

Government's implementation systems without creating parallel systems and additional requirements; sharply focus on results that are measurable over a specific duration; and build a strong Government ownership for the reform agenda. The Program for Results is supported by a number of parallel Bank-executed operations which will provide advisory services, analytical support and capacity building to help the authorities implement reforms. These include: Right Sizing and Restructuring Technical Assistance financed by the EU; Public Procurement Technical Assistance financed by DfID; and the Public Investment Management Technical Assistance financed by the Russian Federation. The teams of technical assistance operations are integrated with the team supporting preparation and implementation of the Program for Results operation to ensure effective coordination.

II. PROGRAM DESCRIPTION

A. Government Program

24. **The Public Administration Reform (PAR) Strategy was launched in 2014 as the overarching roadmap for supporting public sector reform in Serbia**. The PAR Strategy is supported by the Action Plan for the Implementation of PAR Strategy (the "program") launched in 2015 and to be implemented until 2018. The overall objective of the 2014 PAR Strategy is to improve the ability of the public sector to deliver high quality services to citizens and business entities as well as significantly contribute to the economic stability and increase of the living standards.

25. **The Action Plan operationalizes the PAR Strategy and provides a framework for measuring and monitoring the results**. Its five main objectives (result areas) are aligned with the key areas of the PAR Strategy namely: Improvement of organizational and functional Public Administration subsystems; Introduction of harmonized public service system relying on merits and improvement of HR management; Enhancement of public finance and public procurement management; Increase in legal security and improvement of the business environment and the quality of public services provision; and an Increase in citizen participation, transparency; and Improvement in ethical standards in the performance of public administration activities.

26. **The Action Plan will be financed through a government expenditure framework covering US$ 242 million.** These activities range from broad based policy oriented interventions, including the passage of critical legislation to support capacity building, and investments strengthening of HR and financial management systems in public administration.

B. Program Development Objective and Key Results

27. **The Program Development Objective (PDO) is to improve efficiency in public sector employment and finances.** In this context, efficiency is the reduction in the cost of doing government business. This will be achieved by addressing systemic weaknesses in the allocation of employees and their remuneration, streamlining and rationalizing public procurement and strengthening controls over public expenditure.

28. **Progress towards the achievement of the objective will be measured using the following outcome indicators:**

> **PDO Indicator 1:** Share of public administration employees assigned to new pay grades as per the Law on Public Sector Employees Salary System (percentage);

PDO Indicator 2: Total number of public administration employees at or under annual ceiling prescribed by the Law on the Ceiling on Number of Employees (Yes/No);

PDO Indicator 3: Share of redundant public administration employees receiving redundancy payments pursuant to provisions of Law on Ceiling on the Number of Employees, Civil Servants Law and Labor Law (percentage);

PDO Indicator 4: Share of public procurement contracts, within the category of public authorities, over RSD 5 million in value, signed in a Fiscal Year of the Borrower, in 90 days or less, between the date of Issuance of Bidding Documents and signing of the Public Procurement Contract (percentage);

PDO Indicator 5: Value of Public Procurement Contracts awarded through Framework Agreements (RSD);

PDO Indicator 6: Percentage of commitments in budget execution system entered within the required deadline per the Law on Deadlines for Payments in Commercial Transactions.

C. Program Scope

29. **The proposed Modernization and Optimization of Public Administration Program (the "Program") supports the implementation of two out of the five objectives of the Action Plan for Implementation of Public Administration Strategy (Government's program).** These are respectively: establishment of a public service system based on merits and promotions of human resource management, and improvement of public finances and public procurement management. This selective approach is deliberate. The three key areas of the Program are not only the focus of the Government's Action Plan, but are also directly linked with the immediate concerns of the Government's fiscal consolidation agenda being supported by the IMF. The Program enhances synergy with operations financed by other development partners, notably the EU's Sector Budget Support. It also reflects the key areas where there has been sustained engagement by the Bank through operational and knowledge products.

30. **The Program will support implementation of the Action Plan in the period 2016 to 2018.** The Government expenditure program is estimated at US$242 million (69 percent). The World Bank's Program will provide financing of up to US$ 75 million (31 percent). Other development partners are providing parallel financing to support the Government's program. The largest of these is the European Union (EU), with a Sector Budget Support of EUR 80 million.

31. **Program expenditures have been estimated on the basis of the expenditure plans of the implementing institutions as presented in the Government of Serbia's three-year Fiscal Framework.** These institutions are: Ministry of Public Administration and Local Self-Government (MPALSG), Treasury Administration and PPO. Program expenditures include only the budget programs as reflected in the State Budget and those functions and activities that are directly related to the achievement of the Program's PDO and implementation of the Program activities. Program Expenditures include capital, operational and salary costs under these budget programs and severance costs related to the layoff of the public employees across the public sector. The Program is structured in three key result areas.

32. **Result Area 1: Improved Human Resource Management.** The Program will support the development of a system for managing staffing levels and monitoring the wage-bill. Key

activities include: establishment of a system of wages in the public administration; creation of a training program for managers in State Administration; preparation of a consolidated list of job positions in all parts of the public administration; creation of a training program for employees in human resources units in State Administration Bodies; development and management of the registry of employees in the public sector; implementation of ceilings on the maximum number of staff, selective downsizing and preparation and implementation of an affordable, market-based pay and grading system in the public administration; and preparation and adoption of bylaws for the enforcement of the Law on Public Sector Employees Salary System. The MPALSG will be the lead agency responsible for the implementation of Result Area 1.

33. **Result Area 2: Improved Financial Management.** The Program will support efforts to strengthen expenditure controls and supervision of the Government's financial management system. This will include expansion of the FMIS to include IBBs. The Program will support the Government's plans to: improve financial and budget information, commitment control and arrears; establish a centralized payroll system; and improve business process automation.   The Treasury Administration will be the lead agency responsible for implementation of Result Area 2.

34. **Result Area 3: Improved Procurement Management.** The Program will help strengthen the public procurement system. Key activities include: strengthening the technical capacity of officers involved in public procurement process within contracting authorities; preparation of procurement tools and manuals; development of a systematic approach to measure the performance of the public procurement system; development and implementation of Framework Agreements; preparation and determination of the Bill on Amendments to the Law on Public Procurement; improvement of the training level of certified public procurement officials; adoption of the value for money methodology and guidelines for implementation of the "Life cycle product cost" concept; and further developing the use of information and communication technology (ICT) (e-Government) to enhance efficiency in procurement. The PPO will be the lead agency responsible for implementation of Result Area 3.

Table 1: Program Financing

Source of Financing	**US$ million**	**%**
Government	167	69
IBRD	75	31
Other Development Partners	-	-
Total Program Financing	**242**	**100**

D. Disbursement Linked Indicators

35. **Eight DLIs will be monitored throughout the duration of the Program.** The DLIs will be used to measure the achievement of agreed targets and will be the basis for disbursement of Program funds. The DLIs will be monitored as part of the overall Program results monitoring arrangements by the PPS. The PPS is established under the Law on Ministries and reports to the Prime Minister. To ensure independence of the verification process, the PPS will seek the assistance of a third party, contracted to support the verification process on terms of reference acceptable to the Bank. Third party contracting will be financed by the State Budget.

E. Key Capacity Building and Systems Strengthening Activities

36. **Priority areas for capacity building and skills transfer have been identified in the Government's Action Plan.** These include the following: training of human resource officers across the Government on the requirements of the law on the maximum number of employees, new grading and pay system and the requirements of the new wage bill law; technical assistance and training to strengthen the capacity of IBB to operate in FMIS; technical assistance and contractual services to support the connection of IBBs to the FMIS; technical assistance and training to strengthen public administration reform and Program monitoring and evaluation; training and certification of Procurement Specialists and relevant public officials on the application of Framework Agreements; training of prosecutors and judges in public procurement law to equip them to handle procurement related irregularities; technical assistance and advisory services to support introduction of e-Procurement systems.

37. **Capacity building activities will be financed through parallel grants and technical assistance under the EU-financed Sector Budget Support**. ECA PFM TF-financed Bank-executed grants currently provide technical assistance in the areas of Wage Bill Management and Public Investment Management. The DfID-financed grant has been secured to provide technical assistance to procurement reforms. An EU TF for Rightsizing and Restructuring has been established to finance technical assistance for core public administration reforms, roll-out in priority sectors and to support change management. Complementing this support from the Bank, the EU has allocated approximately €10 million as part of its Sector Budget Support operation for technical assistance. A significant part of this funding will be used to support capacity building initiatives identified in the Government's PAR Strategy and Action Plan. Other development partners provide support to capacity building in the areas addressed by the Program, notably OECD SIGMA which is actively engaged in the development of the monitoring and evaluation capacity for the overall Public Administration Reforms. The World Bank works with the MPALSG to ensure coordination across the various development partners and capacity building initiatives.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

38. **The Program will adopt the institutional coordination arrangement of the PAR Strategy.** The PAR Strategy outlines four levels of management. The PAR Council, chaired by the Prime Minister, sets policy and coordinates public administration reforms. The Board of State Secretaries, comprising senior civil servants from all Ministries, supports the PAR Council. An Inter-Ministerial Working Group comprising representatives of ministries is tasked with technical and operational coordination of PAR implementation, including the development of strategies and Action Plans, adoption of reports on the implementation. Issues that cannot be resolved by the Working Group are submitted to the Board of State Secretaries.

39. **The MPALSG is the lead implementing agency.** The MPALSG oversees the day-to-day management of the Program, including the coordination of results monitoring and reporting in collaboration with other participating agencies. Additionally, the MPALSG, Treasury Administration and PPO are directly responsible for implementation of each of the result areas. The Public Policy Secretariat (PPS) will be responsible for coordinating data collection, verification of results and reporting on Program performance. Procurement and Financial

Management will be undertaken by individual agencies based on Serbian country systems. The SAI will be responsible for auditing the Program financing.

B. Results Monitoring and Evaluation

40. **The Monitoring and Evaluation (M&E) arrangements outlined in the PAR action plan are considered adequate and meet the requirements for monitoring the Program for Results operation**. The PAR matrix is result-oriented, using indicators that seek to measure progress against Public Administration Principles (PAP) of the European administrative space. This approach links the PAR Strategy to the process of Serbia's accession to the EU and helps reduce the time and cost of monitoring of the PAR. OECD SIGMA will prepare PAP indicators based on the data submitted by Serbia. The monitoring process is managed and coordinated by MPALSG with implementing ministries providing information within their area of responsibility.

41. **For the purposes of Program monitoring, the Government and World Bank have agreed on a Results Framework that comprises six Program Development Objectives and nine Intermediate Results Indicators**. The Results Framework defines the indicators and the institutional arrangements for data collection. All but two of the indicators – both Intermediate Results Indicators – are reported on annual basis. The Results Framework is aligned with the monitoring framework for PAR. MPALSG has the overall responsibility and coordinating role in M&E for the PAR and the Program. MPALSG and Bank implementation support missions will undertake periodic tests of implementing Ministries' M&E arrangements to verify that adequate systems are in place to generate the information needed for Program reporting.

42. **Eight DLIs will be used to measure the achievement of agreed targets and will be the basis for disbursement of Program funds**. The DLIs will be monitored as part of the overall Program results monitoring arrangements by the PPS. PPS is established under the Law on Ministries and reports to the Prime Minister. To ensure independence of the verification process, the PPS will contract a third party to support the verification process.

C. Disbursement Arrangements

43. **Disbursement of Program funds will be based on the achievement of annual targets for the eight Program DLIs and after validation by the PPS.** The DLIs have been selected to reflect specific areas of result that coincide with key Government priorities under the Action Plan for the Implementation of Public Administration Strategy and the broader goals of the fiscal consolidation program. The eight DLIs and Program disbursements are linked to the three results areas as follows: Improved Human Resource Management - US$51 million; Improved Financial Management – US$12 million; and Improved Procurement Management – US$12 million. The Program Validation Protocol includes the definition of the DLI, the date source and procedures for measurement of scalable indicators. MPALSG will present evidence of achievement of the DLI to the PPS by January 31 of each year for periods covering January 1-December 31 of the previous year. Validation of results will be based on the verification protocol shown in Table 1 below. All material regarding validation and verification will be presented to the World Bank by MPALSG. Disbursements will be made in line with the result of the validation using the designated protocols and the Program Financing Agreement.

TABLE 2: DISBURSEMENT-LINKED INDICATORS (DLIS) VERIFICATION PROTOCOL

DLI	Verification Protocol Procedure
DLI #1: Percentage of Public Administration Employee Positions assigned to pay grades as per the Law on Public Sector Employees Salary System.	Review by the PPS with third party on assignment of public administration employees' positions to new job grades using a consolidated list of public administration employees' positions to pay grades as per the Law on Public Sector Employees Salary System. **Calculation:** number of public administration employee positions assigned to job grades as per the new pay and grading structure/ number of new and consolidated public administration employee positions x100
DLI #2: Percentage of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System.	Sample-based survey (exact survey design to be determined) by the PPS with third party, of public administration employees' personal action notices (or relevant employment records) against the new pay grades
DLI#3: Total number of Public Administration Employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees	PPS with third party **Calculation:** comparison of the total number of employees as per payroll against number of staff as determined by the annual ceiling.
DLI#4: Percentage of Redundant Public Administration Employees receiving Redundancy Payments pursuant to provisions of Labor Law, Law on Ceiling on the Number of Employees, Civil Servants Law and Labor Law.	PPS with third party review of relevant documents of severance packages, list of eligible public administration employees per the Law on Ceiling on Number of Employees and count of public administration employees receiving redundancy payments **Calculation:** Number of Redundant Public Administration Employees receiving Redundancy Payments/Number of eligible Redundant Public Administration Employees receiving Redundancy Payments x100
DLI#5: Percentage of Public Procurement Contracts within the category of Public Authorities over RSD 5M in value, signed in a fiscal year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts.	PPS with third party on a sample-basis to verify functionality of the procurement tracking system Public Procurement Portal in respect of capturing duration of procurement **Calculation:** Number of Public Procurement Contracts within the category of Public Authorities over RSD 5M in value, signed in a fiscal year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts/ total number of public procurement contracts over 5M RSD in value signed in the fiscal year x100
DLI#6: Value of Public Contracts awarded through Framework Agreements (in RSD)	PPS with third party to estimate the total value of public procurement framework agreements in a given year
DLI#7: Number of IBB included in the FMIS.	Review by the PPS, with third party, of FMIS standard and customized reports and audit trails to verify the number of IBB integrated into the FMIS
DLI#8: Percentage of commitments in budget execution system entered within the required deadline per the Law on Deadlines for Payments in Commercial Transactions (%)	Review by the PPS, with third party, of reported data from FMIS on payments and reporting of commitments. **Calculation:** commitments in budget execution system entered within the required deadline/ all commitments in budget execution system x100

IV. ASSESSMENT SUMMARY

A. Technical

44. **The Program's focus on human resource management, public financial management and public procurement reflects the Government's priorities as laid out in its PAR Strategy and Action Plan.** The reforms are strategically linked to the Government's fiscal consolidation agenda, the accompanying Stand-by arrangement with the International Monetary Fund and the Government's preparations for EU accession. The Action Plan identifies specific, measurable results to be achieved for the PAR Strategy's objectives in each of its five priority areas and so provides the basis for results-based monitoring of the proposed Program (see additional details in Annex 4). Serbia's country-specific circumstances have been taken into account in the selection of Program activities. The sequencing chosen follows a "basics first" principle, supporting the authorities' efforts to put in place essential elements of its core management systems.

45. **The Program draws on recent analytical work by the Bank, OECD (SIGMA) and the Government**. This includes a Public Expenditure and Financial Accountability Assessment (PEFA) and a Public Finance Review, both completed in 2015. Additional analytical work has been undertaken in the context of the Bank-executed Wage Bill Management grant and the Strategic Country Diagnostic. SIGMA products, notably the work on 'Priorities" (May 2014) and "Assessment" (April 2014), have provided further insights into the challenges facing the Serbian public administration system and the directions for reform. Alongside the analytical work by development partners, MPALSG has prepared a significant body of analytical work that has helped identify the challenges and potential directions for public administration reform.

46. **The governance structure of the Program adopts the arrangements put in place for the PAR Strategy and facilitates collaboration among key stakeholders, connecting the political and the technical levels.** The PAR Council ensures that political leadership will play a role in setting strategic direction and coordination, energizing the reform momentum and linking the Program with activities under the PAR Action plan. The MPALSG is a new institution established in 2014. However, the Ministry is well placed as the key implementing agency, not only because of the relevance of its mandate to the Program, but also due to the strong leadership in the ministry in implementing the Action Plan. The Ministry and the World Bank have developed a close working relationship through ongoing technical assistance activities. The involvement of Collegium of State Secretaries provides an important link between the political and the technical stakeholders represented by the MPALSG and the Inter-ministerial Working Groups. The SAI will play an oversight role both in terms of performance audits and in ensuring that Program funds are used for the intended purposes.

47. **The Program Expenditure Framework is defined within the framework of the Government's budget.** The Program will finance the implementation of a subset of activities related to strengthening of human resource management, treasury functions and procurement. The Program expenditure required to achieve these objectives in the three year period is estimated at US$ 242 million. This covers the costs of core institutions implementing the Program: the MPALSG; Treasury Administration and the PPO. Program expenditures are limited to those units within these institutions that are directly responsible for implementation of the Program and the operational functions addressed by the Program. About 75 percent of Program expenditures comprise severance payments; Operational costs account for 10 percent;

Salaries account for 12 percent and capital expenditures account for 3 percent. The Program is already reflected in the Government's budget for FY16 and forward estimates for FY2017 and FY2018 included in the Fiscal Strategy.

48. **The Program has a robust plan for monitoring and evaluation that is based on M&E framework that Government uses to monitor and report on the implementation of the Action Plan**. While M&E capacity across Government is limited, working with SIGMA, the Government has made progress in strengthening capacity and developing an appropriate set of indicators. The lead Government agency for each result area will be responsible for collecting relevant data and reporting to the MPALSG through the PPS. The Secretariat will monitor and report on the progress of DLI directly to the World Bank. The Secretariat is a relatively new entity and is staffed by a small but dedicated team of professionals. During implementation, the Government has committed to strengthen implementing agencies' M&E capacity by hiring additional staff and training a core set of officials to undertake M&E related tasks. A third party will also assist the PPS in the verification of the DLIs.

49. **Economic analysis confirms that the Program will generate positive returns**. The expected net impact realized through the efficiency gains expected from the process of modernizing Serbia's public administration is valued at a range between US$8 million and US$15 million which is the sum of estimated net benefits arising from Program implementation. The analysis assumes an exchange rate of RSD 107 per USD, a 12 percent discount rate and a very short time horizon of four years, from 2016-2018.

B. Fiduciary

50. **The fiduciary assessment indicates that there are adequate arrangements in place to safeguard Program finances.** The Program will rely on country systems for budgeting, execution of the budget, accounting and financial reporting, procurement, internal controls, and flow of funds and external audit. The Program fiduciary assessment is presented in Annex 5.

51. **Program funds will be disbursed based on achieved DLIs.** There will be advances of the loan funds up to 25 percent of the loan amount. The Government will provide evidence of and document achievement of DLIs at year end of each year (2016-2018), and based on verification of the achieved DLIs by the Bank following the verification protocol, the advances will be converted to disbursements freeing up space to next advance up to 25 percent of the loan amount. Some DLIs achievement and disbursement will be scalable as per the level of achievement assessed by the Task Team based on the verification protocol. The Bank will verify that the level of disbursed funds based on achieved DLIs does not exceed the level of total Program expenditures incurred over the implementation period. In case that disbursed funds exceed the level of incurred program expenditures, the excess amount will need to be reimbursed to the Bank. Loan funds will be disbursed to a government account held at the National Bank of Serbia/Consolidated Treasury Account, and will be accounted for in the budget management information system as income.

52. **The financial management assessment undertaken during Program preparation verified that these systems are sufficient to use of Program funds reliably.** The assessment covered the Government's public financial management system for budget preparation, budget and execution and control over the use of funds. It then focused on the specific entities to which Program expenditures relate, namely MPALSG which accounts for about 75 percent of total program expenditures and the Treasury Administration which accounts for about 20 percent.

The PPO, the SAI, NES, PPS and Human Resource Management Service combined account for about 5 percent of total financing and so were not subject to separate assessments. Key findings of this assessment are:

- **Planning and budgeting** capacity in MPALSG, TA and other program implementing entities is adequate. However, the overall budget process does need to be strengthened given the frequency of supplemental budgets and poor compliance with the budget calendar.
- **Accounting systems** can track and report actual Program expenditures against a comprehensive organizational, functional, program, economic and source-of-funds classification. All of the Program implementing entities have sufficient capacity in accounting and financial reporting. The Program entities apply cash based International Public Sector Accounting Standards within the limits imposed by national by-laws and prepare quarterly reports on budget execution (except for the first quarter) that will be used as financial reports for monitoring Program expenditures. The SAI has confirmed that financial reporting is in line with the national accounting framework.
- **Information Systems** are managed by the Treasury Administration (TA) through a centralized transaction processing system which captures all transactions in a Treasury Main Ledger (TML). The system is assessed to be reliable.
- **Budget execution** remains within appropriations and all of the Program entities prepare budget execution plans each month for the coming quarter on rolling basis, based on which the TA determines their respective monthly payment quotas. The system does need to be strengthened control at the level of commitments in order to avoid accumulation of arrears and liquidity risks in relation to Program expenditures. v
- **Internal controls** provide a satisfactory control framework. While the implementation of financial management and control (FMC) as defined by PIFC is still in its early stages, there is long standing system of written internal controls and procedures within all implementing entities which are properly applied in practice. Internal audit units are functional in Program implementation entities. The Program will not directly rely on internal audit work in verifying the use of funds but will consult findings of internal audit when assessing fiduciary arrangements during implementation.
- **Financial statements** are prepared by implementing entities using their accounting records and auxiliary ledgers, after reconciling such information with the Treasury Main Ledger. Annual financial statements (final account) are compiled by the Treasury based on such inputs and data in the TML.
- **Audit** of the final account for the previous year is delivered by the SAI by the end of the year following the audited period. The SAI issued modified qualified opinion on the final account for 2014. The SAI audit of the final account will be considered as the audit of the Program. The Bank has agreed with the SAI that the audit report will include an explanatory note which will detail program expenditures specifically. The SAI is assessed to have sufficient capacity to produce reliable audit providing sufficient assurance about the use of program funds.

53. **The procurement assessment undertaken concluded that the procurement system is sufficient to ensure reliable use of Program funds but that the fiduciary risks are**

substantial. The Serbian Public Procurement Law (PPL) effective as of April 1, 2013, amended in August 2015 defines the procurement environment. The procurement system legislation, rules and procedures are clearly established and easily accessible to the public. Responsibility for conducting procurement is largely decentralized to budget holding entities. Bidding procedures are advertised through the Public Procurement Portal. The Law has the objectives of ensuring efficiency and effectiveness, competition and transparency and preventing corruption and other abuses in the public procurement process. Larger works and goods are procured on behalf of most entities by centralized government procurement body, the Administration for Joint Services of the Republic Bodies (UZZPRO). Framework Agreements, signed by UZZPRO, are used for procurement of common goods. Each of the Program implementing entities has an administrative and finance unit with one or more certified Procurement Officers who undertake procurement of services and minor procurement for goods and works. Modification of contracts are not common. Advance Payment Guarantees and Performance Guarantees are mandatory. The Republic Commission for Protection of Rights in Public Procurement Procedures, an autonomous and independent body, is responsible for protection of parties and grievance redress in public procurement.

54. **An assessment of the legal and institutional framework for anti-corruption concluded that the risk of corruption is high.** However, the institutional and legal framework for tackling corruption is progressively improving and existing Government commitment to address corruption is high. The World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Program for Results Financing will apply to the Program. If required, the Bank will have access to any information related to contracts under said Program (including those held by third parties/contractors) and the Bank would jointly with the government conduct a review to determine the existence or fraud and corruption within the Program. The Borrower's commitment to follow the Guidelines is included in the Minutes of Negotiations.

C. Environmental and Social Effects

55. **An Environment and Social Systems Assessment (ESSA) was carried in September 2015 in consultation with the MPALSG**. Formal consultations with key stakeholders on draft ESSA were held in November 2015. The assessment draws on interviews with key stakeholders supplemented with a desk review of the various laws and regulations. The final ESSA was disclosed March 9, 2016. Additionally, a covenant on carrying out the Program in accordance with the ESSA is included in the Loan Agreement (schedule 2, I.A.2). See Annex 6 for detailed summary of the assessment.

56. **The ESSA determined that the Program poses no major environmental risks but identified social risks related to potential retrenchment of the public sector employees.** The Program will support policy measures that seek to improve efficiency in human resources management. These measures are expected to include reductions in staffing numbers and retrenchment. The numbers of affected employees will be determined during program implementation. The Government has communicated on multiple occasions in media that cost reductions and staffing cuts in the public sector are necessary as a part of fiscal consolidation measures, arguing that these measures will create an enabling environment for investments and job creation in the long run.

57. **The ESSA concludes that adequate arrangements are in place to deal with the social impacts arising from the Program.** Serbia has a relatively well developed policy and legal

framework on labor relations and retrenchment, along with an institutional system which is generally adequate. The Ministry of Labor and NES have acquired solid experience and the skills needed to manage large retrenchment during the privatization of state owned enterprises, which occurred over the past fifteen years. The NES, as an implementer of the employment policy, has specific programs targeting support for retrenched workers, women and vulnerable groups.

58. **The Government has included specific measures to mitigate any adverse effects associated with retrenchment in the Action Plan.** The Bank will collaborate with the authorities during the implementation phase and will provide support necessary to implement the actions recommended by the ESSA. The Government has agreed to undertake the following measures related to mitigating social risks to affected people:

- Ensure that MPALSG has staff assigned to coordinate, monitor and report on the rightsizing process and its effects;
- Improve consultations with workers and unions;
- Ensure that the criteria for selection of those employees who will be categorized as redundant are based on the principles of transparency, non-discrimination, applied consistently and with employees having adequate appeals procedures;
- Employers in the public sector will prepare retrenchment plans;
- Work closely with NES to develop an action plan for supporting employees who have been separated, including training plans;
- Ensure documentation of the profiles of those retrenched in terms of age, education and disability profile.
- Prepare active employment measures for retrenched women;
- Monitor severance payment disbursement and status of retrenched workers.

59. **Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the World Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank 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 Bank's corporate GRS, please visit www.worldbank.org/grs. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

60. **Serbia's legal framework or the prohibition of discrimination and anti-discriminatory policy is aligned with the EU conventions and harmonised with the three key EU Directives.** These are: Council Directive 2000/43/EC implementing the principle of equal treatment between persons irrespective of racial or ethnic origin; Council Directive 2000/78/EC establishing a general framework for equal treatment in employment and occupation; as well as Directive 2006/54/EC on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation. Serbia has a Law on the Prohibition of Discrimination and has adopted the National Anti-

Discrimination Strategy. In 2015, the Action Plan for the implementation of this strategy, supporting measures in a number of sectors of society, was adopted.

61. **A National Strategy for Improving Gender Equality 2016-2020 is currently in preparation.** An official report on gender equality in Serbia (Men and Women in Serbia), published by the Statistical Office of the Republic of Serbia in 2014, recorded a number of discrepancies in male and female participation in the labour market: activity rate of women aged 25 to 54 years is 14 percent lower than the employment rate of men of the same age. The public administration system in Serbia has more women than men. However, women account for only five percent of the Serbian Government; less that 30 percent of Members of Parliament and around 25 percent of State Secretaries. At the Local Government level, women comprise only five percent of municipal presidents, and 29 percent of the membership of municipal councils and assemblies. This is in contrast to other segments of the public sector where women constitute the majority of employees: in education (72 percent), health and social work (80 percent), women represent a significant majority of employees. Women are likely to be the most affected by the proposed reduction in public sector employment.

62. **The Social Systems Assessment Program Action Plan proposes actions to reduce the burden of reforms on women.** This includes measures which reinforce protections of women in instances of retrenchment provided by the national legislation, such as protection of women on maternity leave, women headed households and mothers of children under the age of two. The criteria for selection of employees to be made redundant must be based on the principle of non-discrimination. The retrenchment plans and requests for redundancy (severance) payment will include segregated information according to gender in order monitor and identify possible adverse gender impacts. When identified, these impacts and remedial measures will be reviewed by the MPALSG and adjustments made in the retrenchment program where appropriate.

D. Risk Assessment

63. **Overall Program risk is rated as High after mitigation measures**. Country risk is rated as high. Continued uncertainty in the macro-economic environment or the emergence of external (and internal) shocks could affect the Government's commitment to Program objectives and Program performance. A number of the reforms are politically challenging, particularly those related to rightsizing and pay reform. Country risk is mitigated by the alignment of the Program with the Government's reform agenda and the Government's commitments with external partners, notably the IMF's Standby Facility and the EU accession process. Stakeholder risk has been rated substantial. Program implementation requires the collaboration of Government agencies and will require a strong coordination mechanism. Adequate coordination arrangements have been put in place, with leadership from the higher levels of Government. Technical risks are also rated medium. The Program supports ongoing Government activities that have been subject to adequate analysis and detailed planning. There is adequate capacity to support implementation of most activities across the Government, those areas requiring external expertise and capacity building have been identified in the Action Plan (see Technical Assessment). Fiduciary risk has been rated Substantial because the Program will rely on the Government system and there are deficiencies particularly in regards to commitment control. These deficiencies are addressed by actions to be taken under the Program. Social risk is rated Substantial because of the impact of retrenchment of public sector employees associated with human resources component of the Program. While there has been broad based support for reforms to date and no organized labor action, there is a risk that employees will oppose staffing

reductions through industrial action. The Government has engaged in a dialogue with the trade unions on how to implement reforms and address their concerns. Specific mitigation measures have been recommended following the ESSA and these have been adopted in the Government's Action Plan.

E. Program Action Plan

64. **The Program Action program lays out the actions required to deliver the Program Development Objective.** The proposed actions are reflect the findings of the technical, fiduciary and social systems assessment carried out in the course of preparation. These include actions in support of particular reforms including: strengthening the M&E capacity of the MPALSG to monitor Program implementation; capacity building in various ministries to be able to implement the requirements of the various policies related to pay and grading; and improving the capacity of the PPO and officials in Budget entities to implement new procedures. Others include action to strengthen the implementation of social management system to mitigate the impact of severance. A detailed Action Plan is presented in Annex 8.

ANNEX 1: DETAILED PROGRAM DESCRIPTION

I. PRODGRAM DEVELOPMENT OBJECTIVE

1. **The Program Development Objective is to improve efficiency in public sector employment and finances.** Achievement of this objective will be assessed on the basis of six PDO indicators:

> **PDO Indicator 1:** Share of public administration employees assigned to new pay grades as per the Law on Public Sector Employees Salary System (percent);
>
> **PDO Indicator 2:** Total number of public administration employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees (Yes/No);
>
> **PDO Indicator 3:** Share of redundant public administration employees receiving redundancy payments pursuant to provisions of, Law on Ceiling on the Number of Employees, Civil Servants Law and Labor Law (percent);
>
> **PDO Indicator 4:** Share of public procurement contracts within the category of public authorities over 5M RSD in value, signed in a Fiscal year of the Borrower, in 90 days or less, between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts (percent);
>
> **PDO Indicator 5:** Value of Public Procurement Contracts awarded through Framework Agreements (RSD);
>
> **PDO Indicator 6:** Percentage of commitments in budget execution system entered within the required deadline per the Law on Deadlines for Payments in Commercial Transactions (percent).

II. PROGRAM SCOPE

2. **The proposed Program for Results on Modernization and Optimization of Public Administration (the "Program") supports the implementation of two out of the five objectives of the Action Plan for Implementation of Public Administration Strategy (Government's "program").** These are: Objective 2 establishing a harmonized public service system on merits and improvement of HR management; and Objective 3 Improving public financial management and public procurement. This selective approach is deliberate. The Program focuses on the Government's on-going efforts to improve the management of its resources by reforming its system for management of human resources, finances and procurement. It addresses the immediate concerns of the Government's fiscal consolidation agenda. It complements operations financed by other development partners, notably the European Union. It concentrates on those reform priorities where there has been sustained engagement between the Government and World Bank through operational and knowledge products.

3. **The Program will support implementation of the Action Plan in the period 2016 to 2018 which encompasses a number of fundamental reforms.** The reforms supported by the Program in the area of human resource management include: implementation of legislative reforms that will simplify and standardize the pay and grading system; setting up of a comprehensive system for establishment control through a registry of personnel; implementation of a right-sizing program including severance of staff; and implementation of a comprehensive

job evaluation program. Reforms supported by the Program in the area of public expenditure management focus improvements in budget execution through the introduction of systematic commitment controls. Reforms supported by the Program in the area of public procurement include measures to reduce delays in the procurement process and expand the use of Framework Agreements. These measures are expected to increase efficiency by reducing the cost of Government operations.

4. **The Program Expenditure Framework estimates total Program costs at approximately $242 million for Government FY2016 through FY2018.** Program expenditures have been estimated on the basis of the expenditure plans of the implementing institutions as presented in the Government of Serbia's three-year Fiscal Framework defined in the annual budget for 2016 and the Fiscal Strategy 2016-2018. These institutions are: MPALSG (77.9 percent of program costs), Treasury Administration (19.6 percent) and PPO, PPS, Human Resource Management Service, SAI and NES (2.1 percent). Program expenditures include only the budget programs as reflected in the State Budget and those functions and activities that are directly related to the achievement of the Program PDO and implementation of the Program activities. Program Expenditures include capital, operational and salary costs under these budget programs and severance costs related to the layoff of the public employees across the public sector. The Program Expenditure Framework by result area is presented in Table 3.

TABLE 3: PROGRAM EXPENDITURE FRAMEWORK (US$ MILLION)

Result Area / Expenditure	2016 expenditure	2017 expenditure	2018 Expenditure	Total Expenditure
1: Human Resource Management	64,280,603	63,955,473	63,955,473	192,191,548
Capital cost	126,447	126,447	126,447	379,341
Operational cost	2,213,380	1,954,531	1,954,531	6,122,443
Salaries	1,458,750	1,392,468	1,392,468	4,243,686
Severance	60,482,026	60,482,026	60,482,026	181,446,079
2: Public Financial Management	16,061,081	16,071,608	16,071,608	48,204,297
Capital cost	2,203,029	2,203,029	2,203,029	6,609,087
Operational cost	6,010,430	6,015,485	6,015,485	18,041,400
Salaries	7,847,622	7,853,094	7,853,094	23,553,811
Severance	0	0	0	0
3: Public Procurement Management	413,423	407,418	407,418	1,228,260
Capital cost	33,841	33,841	33,841	101,523
Operational cost	122,303	118,055	118,055	358,414
Salaries	257,279	255,522	255,522	768,323
Severance	0	0	0	0
TOTAL	80,755,107	80,434,499	80,434,499	241,624,106
TOTAL without severance	26,314,125	25,897,981	25,897,981	78,110,087

III. PROGRAM ACTIVITIES

5. **Program activities are divided into three result areas.** These results areas are: Improved Human Resource Management; Improved Financial Management; and Improved Public Procurement Management. Under each results area the Bank and the Government have identified key activities that are required to deliver the Program Development Objective and Intermediate Results Indicators. The Government has prepared a Program Action Plan which

lays out dated milestones for specific activities and serves as a guide to Program implementation and Program implementation monitoring (see Annex 8).

6. **Result Area 1: Improved Human Resource Management.** The Program will support the Government's program to develop a system for managing its staff and monitoring the wage-bill. Key activities include: establishment of a transparent and fair systems of wages in public administration; preparation of a consolidated list of job positions in all parts of the public administration; creation a training program for employees in human resources units in State Administration Bodies; development and management of a registry of all employees in the public sector; implementation of ceilings on the maximum number of staff, selective downsizing and preparation; monitoring of implementation of the new wages system and measurement of financial effects; preparation and adoption of bylaws for enforcement of laws (regulations on compensations of costs and other income) and implementation of an affordable, market-based based pay and grading system in the public administration. Four DLIs have been selected to track the achievement of results in this Results Area.

Result Area 1 – Strategic Relevance of DLIs

DLI	Description	Strategic Relevance
Percentage of Public Administration Employee Positions assigned to pay grades as per the Law on Public Sector Employees Salary System (DLI1)	Public administration employee positions are positions in all ministries, public services, public agencies and local self-government (Art. 1 paragraph 3 of Law on Public Sector Employees Salary System) excluding police officers, the military, and state owned enterprises. 'Share' is defined as the percent of those positions that have been assigned to pay grades according to the new pay and grading structure.	These two DLIs support improvements in efficiency through a simpler and straightforward pay and grading structure that will contribute to a reduction in the wage bill (other things being equal). A chaotic system of wage coefficients, bonuses, and allowances has resulted in inequitable and arbitrary compensation across the public sector. The government is developing a new grading system based on job evaluations. A set of coefficients will determine the salaries of each of the new grades. These DLIs support the completion of the grading process and move to the next critical steps of actually placing government employees in the relevant grades and paying them according to those grades.
Percentage of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System (DLI2)	Public administration employees are staff with open-ended contracts in all ministries, public services, public agencies and local self-government (Art. 1 paragraph 3 of Law on Public Sector Employees Salary System) excluding police officers, the military, and state owned enterprises.	
Total number of Public Administration Employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees (DLI3)	'Total number of employees' are defined as number of open ended employees in ministries, public agencies and local-self-governments subject to the Law on Ceilings on the Number of Employees that receive remuneration as of June 30th of current year. Annual ceiling means prescribed number of government employees as defined in the Law on the Ceilings on the Number of Employees.	The government has recently passed the Law on Ceilings on the Number of Employees. The law requires the government to set a maximum number of staff allowed for each entity. This DLI will incentivize adherence to the established maximum staffing levels.
Percentage of Redundant Public Administration Employees receiving Redundancy Payments	Redundant public administration employees is defined as those occupying redundant positions; targeted downsizing is defined as dismissal (other than for cause) according to the	The DLI supports the government's need for efficiency in public sector employment and finances with dismissal of eligible employees and payment of severance and reduction in wage bill.

pursuant to provisions of Law on Ceilings on the Number of Employees, Civil Servants Law, and Labor Law. (DLI4)	provisions of the Civil Service Law and the Labor Code. Staff will be considered dismissed if he/she has accepted the severance package (rather than seeking employment elsewhere in the public sector) and the position has been abolished.	Excessive staffing in certain sectors and occupations inflate wage bill.

7. **Result Area 2: Improved Financial Management**. The Program will support measures to strengthen budget execution monitoring and control. This includes measures to expand the coverage of the FMIS to cover IBB, strengthen budget execution and avoid the accumulation of arrears through systematic commitment control and improvements in monitoring of budget execution. The Program will also support the expansion and technological upgrading of capacity for more efficient Treasury operations, establishment of a centralized payroll system and improvements in business process automation. Two Disbursements Linked Indicators have been selected to track the achievement of results associated with this Results Area.

Result Area 2 – Strategic Relevance of DLIs

DLI	Description	Strategic Relevance
Number of IBB included in the FMIS (DLI7)	The DLI measures the number of legislative bodies and public institutions founded by the Republic of Serbia and/or local governments and which obtain financing through the national budget that are connected to the FMIS and use the system for the entry and retrieval of financial data.	The DLI relates to improved efficiency in the public sector through improved coverage of the FMIS. Treasury is unable to effectively monitor and control expenditures of IBBs that are not integrated in the FMIS. The government intends to extend coverage of the FMIS to 526 IBBs by 2018.
Percentage of commitments in the BES entered within the required deadline according to the Law on Deadlines for Payments in Commercial Transactions (DLI8)	The DLI measures the share of executed payments in the FMIS (BES) for which commitments were entered into the system by respective beneficiaries in line with the RINO law and bylaws, no more than three days after the commitment has been assumed (contract signed, invoice received).	The DLI measures improvements in the coverage of expenditure commitment controls. This is expected to result in assumed commitments by budget beneficiaries being duly reported and posted against available cash allocations. Treasury will be able to track the value of outstanding commitments across the government for the purposes of cash planning. Budget entities will be prevented from assuming commitments when they have insufficient cash/budget allocations. This will enable the treasury and budget entities to prevent the accumulation of expenditure arrears and adopt more efficient cash management practices.

8. **Result Area 3: Improved Procurement Management:** The Program will support: training of offices involved in public procurement within contracting authorities; development and implementation of Framework Agreements for contracting authorities; preparation by PPO of procurement tools and manuals for contracting authorities and economic operators; development of a systematic approach to measure the performance of the public procurement system; preparation of a draft new Law on Public Procurement; introduction of higher level training for certified public procurement officials; and enhanced use of information and communication technology (ICT) (e-Government) to enhance efficiency in procurement.

Result Area 3 – DLI strategic relevance

DLI	Description	Strategic Relevance
Percentage of Public Procurement Contracts within the category of *public authorities* over 5,000,000 RSD in value, signed in a fiscal year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts. (DLI5)	This DLI measures the value of public procurement over RSD 5 million (approximately US$45,000) that takes 90 days or less to complete from the time bidding documents are issued to the time the contract is signed.	The DLIs measure operational efficiency and economy in public procurement with regard to time needed to complete procurement (operational efficiency) and the increased use of Framework Agreements (economy). The procurement process is currently encumbered by weak capacity and limited understanding of public procurement procedures. Delays are also caused by the slow appeals process which causes stoppages in the procurement process. Increased use of Framework Agreements will lead to reduced transaction costs and reduction in costs of procured goods and services. Capacity building and streamlining of procurement procedures is also expected to accelerate procurement processing times and improve procurement outcomes.
Value of public procurement contracts awarded through Framework Agreements (DLI6)	This DLI measures the prevalence of usage of Framework Agreements which allow for prior determination of pricing structures to be followed during the agreed period and thus reducing the opportunities for individual bids on the same item by different contracting authorities.	

IV. MONITORING AND EVALUATION

9. **The Monitoring and Evaluation (M&E) arrangements outlined in the PAR action plan are considered adequate and meet the requirements for monitoring the Program**. The PAR matrix is result-oriented, using indicators that seek to measure progress against the Public Administration Principles of the European administrative space. This approach links the PAR Strategy to the process of Serbia's accession to the EU. OECD SIGMA will prepare PAP indicators based on the data submitted by Serbia. Indicator ‘passports’ have been produced. These are similar in the format and content to the commonly used indicator reference sheets that define the indicator, sources of data, arrangements for data collection and management. The monitoring process is managed and coordinated by MPALSG. Implementing Ministries provide information to MPALSG in their area of responsibility. Implementing Ministries’ capacity in M&E is often weak, with poor data management and limited use of data in managerial and policy decision making. OECD SIGMA will provide technical assistance to support the overall PAR monitoring arrangements. Additional support to the M&E framework will be provided through the EU-financed RETF Rightsizing and Restructuring Technical Assistance.

10. **For the purposes of Program monitoring, the Government and World Bank have agreed on a Results Framework that comprises six Program Development Objectives and nine Intermediate Results Indicators.** The Results Framework defines the indicators, their unit of measurement, baselines, annual targets, data sources, the methodology for calculation of annual progress against the indicators, the frequency of data collection and the institutional responsibility for data collection and reporting. The Intermediate Results Indicators monitor progress in implementation of actions that are essential to the achievement of the PDOs. All but two of the indicators – both Intermediate Results Indicators – are reported on annual basis. MPALSG has the overall responsibility and coordinating role in M&E for the PAR and the Program. Implementing ministries will provide monitoring reports. MPALSG will undertake

quality control and follow-up as necessary. While indicators are reported on an annual basis, MPALSG and Bank implementation support missions will undertake periodic tests of implementing Ministries' M&E arrangements to verify that adequate systems are in place to generate the information needed for Program reporting.

11. **All of PDO indicators and two of the Intermediate Results Indicators have been designated as DLI.** The DLIs will be used to measure the achievement of agreed targets (Annex 2) and will be the basis for disbursing Program funds. Eight DLIs will be monitored throughout the duration of the Program. The use of DLIs as the basis for disbursement is intended to reinforce the emphasis that the Government is places on the achievement of Program results. The DLIs will be monitored as part of the overall Program results monitoring arrangements. In addition, DLIs will be subject to third party validation.

12. **The PPS will be responsible for verification of the DLIs.** The PPS will contract a third party to validate the results of the verification to ensure independence. Third parties will also be contracted at the Government's expense to undertake verification where this involves handling massive data loads and/or handling sensitive data, such as data from personnel files, and also to build necessary capacity in, for instance, quality of IT operated data handling. Validation and verification will follow on agreed protocols. MPALSG will present evidence of achievement of the DLI to the PPS by January 31 each year for periods covering January 1-December 31 of the previous year. Verification of results will be based on the verification protocol shown in table 3 below. All material regarding verification will be presented to the World Bank by MPALSG.

V. IMPLEMENTATION AND COORDINATION ARRANGEMENTS

13. **The PAR Strategy establishes the institutional framework for PAR implementation at a policy and operational level.** Effective coordination is critical to the successful implementation of strategy. The strategy entails functional reorganization across Government and the implementation of Government-wide changes in human resource, financial and procurement management systems. The PAR institutional framework comprises four key entities:

- **Public Administration Reform (PAR) Council** chaired by the Prime-Minister is responsible for overall strategic direction and coordination of public administration reforms.
- The **Collegium of State Secretaries** supports the PAR Council, proposing the PAR Council's agenda and following up on the implementation of PAR Council resolutions. The Board brings together the leading civil servants of all Ministries. The Board is chaired by the State Secretary of MPALSG and meets at least quarterly.
- An **Inter-Ministerial Working Group** is tasked with technical and operational coordination of PAR implementation. The Working Group comprises representatives from all ministries, chaired by the State Secretary of MPALSG, and meets at least once a month. Specific responsibilities of the Working Group include: development of strategies and Action Plans; review of projects and normative activities; defining the internal relations and coordination of public administration bodies; adopting reports on the implementation and evaluation of results achieved by the PAR Strategy; presenting decisions that cannot be resolved by the Working Group to the Board of State Secretaries.

- **The MPALSG** oversees and supports implementation of the PAR at an operational level. MPALSG is responsible for PAR monitoring and reporting. MPALSG is also responsible for the implementation of reforms in core human resource management functions.

14. **The MPALSG will coordinate the overall implementation of the Program.** Other institutions will manage the implementation of activities related to their mandates and competences. Thus, the MPALSG will be responsible for Result Area 1: Improved Human Resource Management); the Treasury Administration for Result Area 2: Improved Financial Management), and PPO for Result Area 3: Improved Procurement Management).

15. **The Program will also be supported by a range of other institutions that are independent of the MPALSG.** The PPS will be responsible for coordinating data collection, verification and reporting on Program performance. The SAI will be responsible for auditing of Program finances. The NES will be responsible for supporting separated employees to ensure availability of associated benefits and training, while the Human Resource Management Service (HRMS) will support the management of an internal job market supporting the placement of unassigned civil servants, ensure proper implementation of HR plans, and maintain the registry on civil servants and employees in public administration bodies. While all these supporting institutions are independent of the MPALSG, the Collegium of State Secretaries and the PAR Council chaired by the Prime Minister, provides adequate leverage to ensure compliance of these institutions with their responsibility to support Program implementation

VI. FIDUCIARY

16. **Program funds will be disbursed based on the achievement of DLIs.** There will be advances of the loan funds up to 25 percent of the loan amount. The Government will provide evidence of and document achievement of DLIs at year end of each year (2016-2018), and based on verification of the achieved DLIs by the Bank following the verification protocol, the advances will be converted to disbursements freeing up space to next advance up to 25 percent of the loan amount. Disbursements will be scalable depending on the level of achievement of each DLI as assessed by the Task Team based on the validation protocol. The Bank will verify that the level of disbursed funds based on achieved DLIs does not exceed the level of total Program expenditures incurred over the implementation period. In case that disbursed funds exceed the level of incurred program expenditures, the excess amount will need to be reimbursed to the Bank. Loan funds will be disbursed to a government account held at the National Bank of Serbia/Consolidated Treasury Account, and will be accounted for as income.

17. **The Bank will rely on existing country systems for implementation of the fiduciary aspects of the Program.** The financial management and procurement assessments undertaken during Program preparation verified that these systems are sufficient to use of Program funds reliably. The Program fiduciary assessment is presented in Annex 5.

18. **Responsibility for budget planning and execution is largely decentralized to Program implementing agencies**. Planning and budgeting capacity in MPALSG, TA and other program implementing entities is adequate. Accounting systems can track and report actual Program expenditures against a comprehensive organizational, functional, program, economic and source-of-funds classification. The SAI confirms that Program implementing entities' financial reporting is in line with the national accounting framework. Quarterly reports on budget execution (except for the first quarter) will be used as financial reports for monitoring Program

expenditures. All of the Program entities prepare budget execution plans each month for the coming quarter on rolling basis, based on which the TA determines their respective monthly payment quotas. Internal controls provide a satisfactory control framework and internal audit units are functional in Program implementation entities. The Program will not directly rely on internal audit work in verifying the use of funds but will consult findings of internal audit when assessing fiduciary arrangements during implementation. Program implementing entities prepare financial statements using their accounting records and auxiliary ledgers, after reconciling such information with the Treasury Main Ledger.

19. **Responsibility for conducting procurement is also largely decentralized.** Each of the Program implementing entities has an administrative and finance unit with one or more certified Procurement Officers who undertake procurement of services and minor procurement for goods and works. Larger works and goods are procured on behalf of most entities by centralized government procurement body, the UZZPRO. Framework Agreements, signed by UZZPRO, are used for procurement of common goods. Advance Payment Guarantees and Performance Guarantees are mandatory. The Republic Commission for Protection of Rights in Public Procurement Procedures, an autonomous and independent body, is responsible for protection of the parties and grievance redress in public procurement.

20. **The Program audit will be undertaken by the SAI.** As a part of financial and compliance audits, apart from accuracy of financial statements and compliance with laws and regulations, SAI will also examine the financial management and control systems, internal control systems and internal audit. The audit of the final account for the previous year is delivered by the SAI by the end of the year following the audited period. The SAI audit of the final account will be considered as the audit of the Program. The Bank has agreed with the SAI that the audit report will include an explanatory note which will detail program expenditures specifically. The SAI is assessed to have sufficient capacity to produce reliable audit providing sufficient assurance about the use of Program funds.

21. **The World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Program for Results Financing will apply to the Program.** If required, the Bank will have access to any information related to contracts under the Program (including those held by third parties/contractors) and the Bank will jointly with the government conduct a review to determine the existence or fraud and corruption within the Program. The Borrower's commitment to follow the Guidelines will be confirmed in the Minutes of Negotiation.

VII. ENVIRONMENTAL AND SOCIAL ASPECTS

22. **The Environmental and Social Systems Assessment highlights risks arising from the Government's retrenchment program supported by the Program.** PDO indicators 2 and 3 support the design and implementation of the Government of Serbia's rightsizing policies and retrenchment of personnel. MPALSG will be responsible for monitoring social impacts of the program and overseeing mitigation measures in conjunction with the Ministry of Health, and the Ministry of Labor, Employment, Veteran and Social Affairs. The ESSA identifies specific measures to be taken by the Program to mitigate any adverse effects associated with retrenchment (See Annex 6). These activities are reflected in the Program Action Plan:

- Ensure that MPALSG has staff assigned to coordinate, monitor and report on the rightsizing process and its effects;

- Improve consultations with workers and workers organizations;
- Ensure that the criteria for selection of those employees who will be chosen as redundant are based on the principle of transparency, non-discrimination, applied consistently and have adequate appeals procedures;
- Employers in the public sector will prepare retrenchment plans;
- Work closely with NES to develop an action plan for supporting employees who have been separated, including training plans;
- Ensure documentation of the profiles of those retrenched in terms of age, education, gender, and disability profile.
- Prepare active employment measures for retrenched women;
- Monitor severance payment disbursement and status of retrenched workers.

23. **The Program Action Plan proposes actions to reduce the burden of reforms on women.** This includes measures to reinforce protections of women in instances of retrenchment provided by the national legislation, such as protection of women on maternity leave, women headed households and mothers of children under the age of two. The criteria for selection of employees to be made redundant must be based on the principle of non-discrimination. The retrenchment plans and requests for redundancy (severance) payment will include segregated information according to gender in order monitor and identify possible adverse gender impacts. When identified, these impacts and remedial measures will be reviewed by the MPALSG and adjustments make in the retrenchment program where appropriate

24. **Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the World Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank 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 Bank's corporate GRS, please visit www.worldbank.org/grs. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

ANNEX 2: RESULTS FRAMEWORK

Program Development Objective (PDO): To improve efficiency in public sector employment and finances										
PDO Level Results Indicators	**DLI**	**Unit**	**Baseline**	**Target Values**			**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Remarks**[2]
				YR1	**YR2**	**YR3**				
PDO Indicator 1: Share of public administration employees assigned to new pay grades as per the Law on Public Sector Employees Salary System	☒	%	0	0	70	70	Annual	Sample-based survey (exact survey design to be determined) of public administration employees pay slips against the new pay grades	PPS	DLI#2
PDO Indicator 2: Total number of public administration employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees	☒	Yes/No	No	Yes	Yes	Yes	Annual	**Calculation:** Total number of employees as per payroll compared to Total number of staff as determined by the annual ceiling	PPS	DLI#3
PDO Indicator 3: Share of redundant public administration employees receiving redundancy payments pursuant to provisions of Law on Ceilings on the Number of Employees, Civil	☒	%	0	100	100	100	Annual	Review and count of relevant documents of severance packages for eligible public administration employees **Calculation:** public	PPS	DL#4

[2] If not stated otherwise, the DLIs are for all three years of implementation.

Program Development Objective (PDO): To improve efficiency in public sector employment and finances										
PDO Level Results Indicators	**DLI**	**Unit**	**Baseline**	**Target Values**			**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Remarks[2]**
				YR1	**YR2**	**YR3**				
Servants Law, and Labor Law								administration employees receiving redundancy payments/eligible public administration employees per Labor Law, Law on Ceilings on the Number of Employees, and Civil Servants Law		
PDO Indicator 4: Share of public procurement contracts within the category of public authorities over 5,000,000 RSD in value, signed in a Fiscal Year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts	☒	%	62	65	68	71	Annual	Public procurement portal. **Calculation:** public procurement contracts within the category of Public Authorities over RSD 5 million in value, signed in the fiscal year in a duration of 90 days or less between date of issuance of bidding documents and signing of the public procurement	PPS	DLI#5

Program Development Objective (PDO): To improve efficiency in public sector employment and finances											
PDO Level Results Indicators	**DLI**	**Unit**	**Baseline**	**Target Values**			**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Remarks**[2]
				YR1	**YR2**	**YR3**				
								contracts/ All procurement contracts over RSD 5 million in value signed in the fiscal year.		
PDO Indicator 5: Value of Public Procurement Contracts awarded through Framework Agreements (in RSD)	☒	RSD	26.6 billion	29.3 billion	32.2 billion	35.4 billion	Annual	Estimate of total value of public procurement framework agreements in a given year based on PPO's public procurement database.	PPS	DLI#6
PDO Indicator 6: Percentage of commitments in budget execution system entered within the required deadline per the Law on Deadlines for Payments in Commercial Transactions	☒	%	60	70	80	90	Annual	**Calculation:** Value of commitments entered in FMIS within deadline prescribed by legislation/ Value of total commitments entered in FMIS x 100	PPS	DLI#8
Result Area 1: Improved HRM										
Intermediate Results Indicator 1.1: At least 70% of public administration employee positions assigned to pay grades according to the Law on Public Sector	☐	Yes/No	No	Yes	Yes	Yes	Annual	**Calculation:** Number of public administration employee positions assigned to job grades / Total number of public	PPS	

Program Development Objective (PDO): To improve efficiency in public sector employment and finances										
PDO Level Results Indicators	**DLI**	**Unit**	**Baseline**	**Target Values**			**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Remarks[2]**
				YR1	**YR2**	**YR3**				
Employees Salary System								administration employee positions x 100		
Intermediate Results Indicator 1.2: Share of public administration employees assigned to new pay grades as per the Law on Public Sector Employees Salary System.	☐	%	0	0	60	70	Annual	**Calculation:** Division of assigned public administration employees by total number of public administration employees x 100.	MPALSG	
Intermediate Results Indicator 1.3: Employee Registry functional according to defined criteria in the Law on Registry of all Employees, Elected, Nominated and Appointed and Engaged Persons within Public Funds Beneficiaries	☐	Yes/No	No	No	No	Yes	Annual	Sample review of personal data, interview of individuals, and review of customized and routine reports and HR transaction documentation and audit trail	MPALSG	–
Intermediate Results Indicator 1.4: Share of public administration employees paid according to new pay grades as per the Law on Public Sector Employees Salary System.	☐	%	0	0	30	60	Biannual	**Calculation:** Number of re-graded public administration employees paid according to new grades / All public administration employees in payroll x 100	MPALSG	–

Program Development Objective (PDO): To improve efficiency in public sector employment and finances										
PDO Level Results Indicators	**DLI**	**Unit**	**Baseline**	**Target Values**			**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Remarks**[2]
				YR1	**YR2**	**YR3**				
Intermediate Results Indicator 1.5: Ministries with retrenchment plans, identifying redundant positions	☐	Number	0	5	10	17	Biannual	Review and count of retrenchment plans	MPALSG	–
Result Area 2: Improved FM										
Intermediate Results Indicator 2.1: IBB included in the FMIS	☐	Number	0	247	317	526	Annual	Review of FMIS reports	PPS	
Intermediate Results Indicator 2.2: Budget inspections conducted	☐	Number	25	35	45	50	Annual	Review of budget inspection reports	PPS	–
Result Area 3: Improved Procurement Management										
Intermediate Results Indicator 3.1: Public procurement contracts awarded through framework agreements for all contracting authorities	☐	Number	3,300	3,600	4,000	4,400	Annual	PPO's Annual Report/Collection through PPO's database of concluded contracts	PPO	–
Intermediate Results Indicator 3.2: Public procurement officers certified	☐	Number	1,810	2,000	2,200	2,400	Annual	PPOs Annual Report /Database of procurement officers certified	PPO	

ANNEX 3: DISBURSEMENT LINKED INDICATORS

TABLE 4: DISBURSEMENT-LINKED INDICATOR MATRIX

	Total Financing Allocated to DLI (€)	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI Achievement		
				2016	2017	2018
DLI1: Percentage of Public Administration Employee Positions assigned to pay grades as per the Law on Public Sector Employees Salary System.	11,040,000	16	0	-	70	–
DLI2: Percentage of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System.	11,040,000	16	0	0	80	90
DLI3: Total number of Public Administration Employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees	5,520,000	8	0	Per 2016 ceiling	Per 2017 ceiling	Per 2018 ceiling
DLI4: Percentage of Redundant Public Administration Employees receiving Redundancy Payments pursuant to provisions of Law on Ceilings on the Number of Employees, Civil Servants Law, and Labor Law.	13,627,500	19.75	0	100	100	100
DLI5: Percentage of Public Procurement Contracts within the category of *public authorities* over 5,000,000 RSD in value, signed in a Fiscal Year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts.	5,520,000	8	62	65	68	71
DLI6: Value of Public Procurement Contracts awarded through Framework Agreements (in RSD)	5,520,000	8	26.6 billion	29.3 billion	32.2 billion	35.4 billion
DLI7: Number of IBB included in the FMIS.	5,520,000	8	0	247	317	526
DLI8: Percentage of commitments in budget execution system entered within the required deadline	11,040,000	16	60	70	80	90

	Total Financing Allocated to DLI (€)	As % of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI Achievement		
				2016	2017	2018
per the Law on Deadlines for Payments in Commercial Transactions (%)						
Front end fees	**172,500**	**0.25**	**-**	**-**	**-**	
Total Financing Allocated	**69,000,000**					

TABLE 5: DLI VERIFICATION PROTOCOL

DLI	Definition	Scalable (Yes/No)	Draft Protocol to Evaluate Compliance of the DLI and Data/Result Verification		Remarks
			Data Source	Procedure	
DLI1: Percentage of Public Administration Employee Positions assigned to pay grades as per the Law on Public Sector Employees Salary System.	Public administration employees positions— positions in all ministries, public services, public agencies and local self-government (Art. 1 paragraph 3 of Law on Public Sector Employees Salary System) excluding police officers, the military, and state owned enterprises. Assigned to job grades according to the new pay and grading structure— assigned to the appropriate grade as determined by the job evaluation and re-grading process by the MPALSG	No	• Consolidated list of public administration employee positions • New pay and grading structure • Report with assignment of public administration employees positions to new pay grades	• Review by the PPS on assignment of public administration employee positions to new job grades using a consolidated list of public administration employee positions to pay grades according to the Law on Public Sector Employees Salary System. • **Calculation:** Number of public administration employee positions assigned to job grades according to the new pay and grading structure / number of new and consolidated public administration employee positions x 100	DLI for year 1 (70) Assessment date: June 30, 2017 **Intermediate Results Indicator 1.1**
DLI2: Percentage of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System.	Public Administration Employees—staff on open-ended contracts in in all ministries, public services, public agencies and local self-government (Art. 1 paragraph 3 of Law on Public Sector Employees Salary System) excluding police officers, the military, and state owned enterprises.	Yes	• Sample of public administration employees' personal action notice or other relevant employment record (per Law on Protection of Personal Data) • New pay grades (from the Law on Public Sector Wages) • Employee Registry	• Sample-based survey (exact survey design to be determined), by the PPS, of public administration employees' personal action notices against the new pay grades • **Calculation:** number public administration employees assigned to new pay grades according to the Law on Public Sector Employees Salary System/number of all public administration employees in the registry of public employees *100	DLI for year 2 (80%), and year 3 (90%). Assessment dates: December 31, 2017, and 2018 **PDO Indicator 1**
DLI3: Total number of Public Administration	Total number of employees—number of open ended employees in ministries or agencies and local	No	• Annual ceiling prescribing the total number of public	• Review by the PPS Calculation: Total number of employees according to payroll and/ registry	DLI for year 1 (Per 2016 ceiling), year 2 (Per 2017 ceiling),

DLI	Definition	Scalable (Yes/No)	Draft Protocol to Evaluate Compliance of the DLI and Data/Result Verification		Remarks
			Data Source	**Procedure**	
Employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees	government subject to the Law on Ceilings on the Number of Employees receiving remuneration as of September 1, of current year. Part-time employment will be converted to full-time equivalents. Annual ceiling—prescribed number of public administration employees as defined by the Law on Ceilings on the Number of Employees.		administration employees, consistent with the Law on Ceilings on the Number of Employees • Total number of employees as on the payroll	of employees compared to authorized number of staff as determined by the annual ceiling	and year 3 (Per 2018 ceiling) Assessment dates: December 31, 2016, 2017, and 2018 **PDO Indicator 2**
DLI4: Percentage of Redundant Public Administration Employees receiving Redundancy Payments pursuant to provisions of Law on Ceilings on the Number of Employees, Civil Servants Law, and Labor Law.	Redundant—employee will be considered redundant if s/he has accepted the severance package (rather than seeking employment elsewhere in public sector).	Not scalable for the first 99%; thereafter, scalable.	The Decree on the Ceiling on Maximum Number of Employees List of eligible employees List of employees receiving redundancy payment	PPS review of relevant documents of severance packages and count of public administration employees receiving redundancy payments **Calculation:** Number of redundant public administration employees receiving redundancy payments/Number of employees eligible for redundancy payments per the provisions of the Labor Law and Law on Ceilings on the Number of Employees *100	DLI for year 2 (100%) and year 3 (100%) Assessment dates: December 31, 2017 and 2018 **PDO Indicator 3**
DLI5: Percentage of Public Procurement Contracts within the category of *public authorities* over 5,000,000	Public procurement contracts—written agreements in which contracting authorities as purchaser agree to acquire goods, works, or services from a seller in exchange for payment and that specifies each party's obligations in relation to the transaction, for	Yes	PPO Portal on number of contracts over RSD 5 million in value awarded in a fiscal year and time between issuance of bidding documents and award of contract	• PPS review on a sample basis to verify functionality of the procurement tracking system public procurement portal in respect of capturing duration of procurement	DLI for year 1 (65 %); year 2 (68 %); and year 3 (71%) Assessment dates: December 31, 2016, 2017, and 2018

DLI	Definition	Scalable (Yes/No)	Draft Protocol to Evaluate Compliance of the DLI and Data/Result Verification		Remarks
			Data Source	**Procedure**	
RSD in value, signed in a Fiscal Year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts. (%)	example, business provisions, price, payment information, and other legal terms and conditions applicable to the transaction. Issuance of bidding documents—the bidding documents are posted on the public procurement portal. Tender or bidding documents are defined under article 61 of the PPL according to type of procedure and the subject of public procurement. Date of announcement of tender documentation on the public procurement portal will be the starting date for calculation of the duration of procedure. Award of contracts—the contracts are signed between the contracting authority and the selected economic operator. Notice on concluded public contract is announced on the public procurement portal, and it will be calculated as the ending date of duration of procedure.			• **Calculation:** Number of public procurement contracts within the category of Public Authorities over RSD 5 million in value, awarded in the fiscal year within a duration of 90 days or less between the date of issuance of bidding documents and the date of signing of the public procurement contracts / Total number of public procurements contracts within the category of Public Authorities in the fiscal year * 100	**PDO Indicator 4**
DLI6: Value of Public Procurement Contracts awarded through Framework Agreements (in RSD)	Framework Agreements—contractual arrangements with a supplier establishing pricing structures without necessarily fixing an actual price but rather a mechanism that will be applied for pricing particular requirements during the period of the Framework Agreement	Yes	PPO database (in portal) of quarterly reports submitted by contracting authorities on procurement contracts.	PPS to estimate the total value of public procurement Framework Agreements in a given year **Calculation:** PPO to provide data from its Annual Report.	DLI for year 1 (RSD 29.3 billion); year 2 (RSD 32.2 billion); and year 3 (RSD 35.4 billion) Assessment dates: December 31, 2016, 2017, and 2018

DLI	Definition	Scalable (Yes/No)	Draft Protocol to Evaluate Compliance of the DLI and Data/Result Verification		Remarks
			Data Source	Procedure	
					PDO Indicator 5
DLI7: Number of Indirect Budget Beneficiaries included in the FMIS.	IBBs—defined in the Republic of Serbia Law on Budget Systems as legislative bodies, public institutions founded by the Republic, and/or local governments and subordinate to their respective bodies and organizations of the republic and/or local governments in administrative and budgetary sense. Included in FMIS—integrated in BES operated through the FMIS via a module and direct access to the system by staff of the respective institutions to enter commitment, request for payments, and so on, to enable improved monitoring and control over budget execution by IBBs	Yes	• FMIS standard and customized reports • Audit trail of the FMIS • Register of beneficiaries of public funds	• PPS review of the list of IBBs • Review by the PPS of the FMIS standard and customized reports and audit trails to verify the number of IBBs integrated in the FMIS	DLI for year 1 (247); year 2 (317); and year 3 (526) Assessment dates: December 31, 2016, 2017, and 2018 **Intermediate Result Indicator 2.1**
DLI8: Percentage of commitments in budget execution system entered within the required deadline per the Law on Deadlines for Payments in Commercial Transactions (%)	Commitments—assumed liabilities by budget beneficiaries for which the funds are committed in the FMIS against respective beneficiary's budget appropriation. BES—as defined in rulebook on the system of budget execution, that is, a system operated by the TA through the FMIS application, which covers all budget expenditures incurred by entities included in the system.	Yes	FMIS standard and tailored reports Audit trail of the FMIS	Review by the PPS of reported data from the FMIS on payments and reporting of commitments Calculation: Amount (in RSD) of commitments in BES entered within the required deadline per the legislation on Deadlines for Payments in Commercial Transactions/ Total amount of commitments (in RSD) entered in BES during the review period *100.	DLI for year 1 (70%); DLI for year 2 (80%); DLI for year 3 (90%) Assessment dates: December 31, 2016, 2017, and 2018 **PDO Indicator 6**

DLI	Definition	Scalable (Yes/No)	Draft Protocol to Evaluate Compliance of the DLI and Data/Result Verification		Remarks
			Data Source	**Procedure**	
	RINO by-law (to Law on Deadlines of Payments in Commercial Transactions)—Rulebook on supervision of implementation of the RINO Law (October 2015) prescribes that budget beneficiaries are obliged to report commitments within three days after those have been assumed.				

TABLE 6: WORLD BANK DISBURSEMENT TABLE

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in EUR)	Disbursement Linked Result Scalability Formula (as applicable)
(1) DLI #1: Percentage of Public Administration Employee Positions assigned to pay grades as per the Law on Public Sector Employees Salary System.	DLR#1; from baseline 0 to at least 70% by 06/30/2017: EUR11,040,000	DLR#1: EUR11,040,000	Not scalable.
(2) DLI #2: Percentage of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System.	DLR#2: from baseline 0 to up to 90% by 12/31/2018: EUR11,040,000	DLR#2: EUR11,040,000	DLR#2: Scalable: EUR122,667 per each 1% of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System
(3) DLI#3: Total number of Public Administration Employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees	DLR#3.1: Total number of Public Administration Employees not to exceed the maximum prescribed by the Law on Ceilings on the Number of Employees for calendar year 2016: EUR1,840,000 DLR#3.2: Total number of Public Administration Employees not to exceed the maximum prescribed by the Law on Ceilings on the Number of Employees for calendar year 2017: EUR1,840,000 DLR#3.3: Total number of Public Administration Employees not to exceed the maximum prescribed by	DLR#3 EUR5,520,000	Not scalable.

Category (including Disbursement Linked Indicator as applicable)	**Disbursement Linked Result (as applicable)**	**Amount of the Loan Allocated (expressed in EUR)**	**Disbursement Linked Result Scalability Formula (as applicable)**
	the Law on Ceilings on the Number of Employees for calendar year 2018: EUR1,840,000		
(4) DLI#4: Percentage of Redundant Public Administration Employees receiving Redundancy Payments pursuant to provisions of Law on Ceilings on the Number of Employees, Civil Servants Law, and Labor Law.	DLR#4.1: 100% for calendar year 2017: EUR6,813,750 DLR#4.2: 100% for calendar year 2018: EUR6,813,750	DLR#4 EUR13,627,500	Not scalable for the first 99% in each calendar year 2017 and 2018 Scalable for the next 1% in each calendar year 2017 and 2018: Amount equal to EUR 136,275 / 1% of number of Redundant Public Administration Employees, on a per capita basis.
(5) DLI#5: Percentage of Public Procurement Contracts within the category of *public authorities* over 5,000,000 RSD in value, signed in a Fiscal Year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts.	DLR#5.1: from baseline 62% to 65% until 12/31/2016: EUR1,840,000 DLR#5.2: from baseline of result as of 12/31/2016 to 68% until 12/31/2017: EUR1,840,000 DLR#5.3: from baseline of result as of 12/31/2017 to 71% until 12/31/2018: EUR1,840,000	DLR#5: EUR5,520,000	DLR#5.1: Scalable: EUR613,333 per percentage point increase, up to and including 65%. DLR#5.2: Scalable: Amount per percentage point increase, up to and including 68%, equal to: (total percentage point increase) / (balance of EUR5,520,000 – amount paid under DLR# 5.1) DLR#5.3: Scalable: Amount per percentage point increase,

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in EUR)	Disbursement Linked Result Scalability Formula (as applicable)
			up to and including 71%, equal to: (total percentage point increase) / (balance of EUR5,520,000) – (amount paid under DLR#5.1 + amount paid under DLR#5.2)
(6) DLI#6: Value of Public Procurement Contracts awarded through Framework Agreements (in RSD)	DLR#6: from baseline RSD 26.6 billion up to RSD 96.9 billion until 12/31/2018	DLR#6: EUR5,520,000	DLR#6: Scalable. EUR78,521 per each 1 billion RSD.
(7) DLI#7: Number of Indirect Budget Beneficiaries included in the FMIS.	DLR#7: from baseline 0 up to 526 until 12/31/2018	DLR#7: EUR5,520,000	DLR#7: Scalable. EUR10,494 per each Indirect Budget Beneficiary.
(8) DLI#8: Percentage of commitments in budget execution system entered within the required deadline per the Law on Deadlines for Payments in Commercial Transactions (%)	DLR#8: from baseline [60%] up to 90% by 12/31/2018	DLR#8: EUR11,040,000	DLR#8: Scalable EUR368,000 per percentage point increase.
(9) Front-end Fee to be paid pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions	Not applicable	EUR172,500	Not applicable
TOTAL AMOUNT		69,000,000	

ANNEX 4: SUMMARY TECHNICAL ASSESSMENT

I. GOVERNMENT STRATEGY

1. **The Government of Serbia has a demonstrated a sustained commitment to public sector reform.** The implementation of the PAR Strateg adopted in 2004, together with two actions plans covering the periods 2004-2008 and 2009-2012, focused on setting up a legal framework for further development of the public administration system. The new PAR Strategy, adopted in 2014, extends the scope of the previous Strategy and sets a more comprehensive strategic framework for the PAR. An Action Plan was adopted in March 2015. This lays out the schedule for the implementation of the PAR Strategy in the period 2015–2017. The Action Plan sets results to be achieved in regards to the specific objectives contained in the 2014 PAR Strategy and provides a basis for results-based monitoring. Motivations for the reforms are threefold: first as a developmental agenda; second as a requirement of European Accession; and third, and most immediately, as means to address structural fiscal deficits.

2. **The goal of the PAR Strategy and Action Plan is "to ensure further enhancement of the public administration operations in line with the principles of European Administrative Space".**[3] The PAR Strategy seeks to develop a public administration system that will deliver "high quality services for citizens and businesses, and the public administration in Serbia that will significantly contribute to economic stability and improved living standard of citizens."[4] The Action Plan is structured around five key objectives:

> **Objective 1: Improving organizational and functional sub-systems of the Public Administration** - organizational and functional restructuring of authorities, organizations and other bodies discharging Public Administration operations, enhancement of decentralization and de-concentration of PA activities, improvement of strategic planning system and coordination of public policies as well as development of e-Government;
>
> **Objective 2: Establishing a harmonized public service system on merits and improvement of HR management** - setting an aligned system of employment and salaries for public administration employees and further development of human resource management system in the public administration;
>
> **Objective 3: Improving public financial management and public procurement** - improvement of budget planning and preparation process, strengthening of management and control of revenues and internal audit, but also the public procurement system;
>
> **Objective 4: Increasing legal security and improving business environment and quality of Public services** - improvement of regulatory processes and administrative procedures and reform of the inspection control;
>
> **Objective 5: Increasing citizen participation, transparency, promotion of ethical standards and responsibility in the performance of public administration** - enabling better conditions for participation of interested public in Public Administration activities,

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[3] These principles include: Reliability and Predictability and/or legal certainty; Openness and Transparency of the administrative system and promotion of the participation of citizens and social entities in the work of the PA; Accountability of PA bodies; and Efficiency and Effectiveness.

[4] Republic of Serbia (2014). PAR Strategy in the Republic of Serbia, Belgrade: MPALSG, p.10

strengthening ethical values among Public Administration employees and suppressing corruption.

3. **Governance and institutional capacity are among the most important constraints to economic growth in Serbia.** Systemic issues include: weak policy coordination and limited reform implementation capacity; inefficient decision making processes that slow implementation and undermine accountability; an overly complex organization of the central state administration, including overlapping and duplicative institutions and functions; the ineffective organization of service delivery structures, both in social services or in providing services to businesses and investors; weak human resource management systems, an opaque wage system; inefficient state owned enterprises; a burdensome and ineffective regulatory framework; and low levels of trust in institutions. Public sector reforms seek to address these systemic issues, transforming Serbia's public administration from a rule-based, rigid and inefficient system into a system that is agile, service-oriented and affordable.

4. **Public sector reform is a requirement for Serbia's accession to the European Union.** The PAR Strategy seeks to align the public administration with the principles of European Administrative Space: reliability, predictability and legal dependency; openness and transparency and promotion of the participation of citizens and social entities in the decision making processes; accountability; and efficiency and effectiveness. Negotiations with the EU opened in December 2015 with Chapter 32 (financial control). The accession process will address other Chapters that touch on key elements of the PAR agenda: 17 (budgetary framework); 5 (public procurement), 23 (external audit).

5. **Public sector reform has assumed particular urgency in the context of Serbia's economic crisis.** Serbia experienced significant fiscal challenges as a result of the global economic crisis. In an environment of structural deficits, high public debt and high spending on public sector wages, efficiency savings from public sector reform; reduction in the number of employees and improvements in public financial management and procurement systems are integral part of fiscal consolidation strategy.

6. **The Program focuses on three elements of the broader PAR Strategy that support these development, EU accession and fiscal consolidation goals.** These are: aligning the high number of public sector employees with service delivery requirements and rationalizing public sector wages; strengthening systems of financial control to deal with the issue of arrears; and strengthening procurement systems to improve efficiency and value for money. The three selected result areas of the Program for Results operation reflect the strategic priorities of the Government's program for public sector reform. The strategic relevance and technical viability of each of these results areas is assessed below.

II. TECHNICAL SOUNDNESS

7. **The activities covered by the Program are technically sound and relevant.** They have been selected to target specific areas of public management with potential for multiplier effects. They reflect the key areas that that have been highlighted by recent analytical work by the World Bank, the IMF and the EU among others as important areas for reform of the public sector. The World Bank's 2015 Strategic Country Diagnostic (SCD) pointed out that institutional weaknesses, inefficient human resources, and political interference were among the most important constraints to reform in Serbia. The PAR Action Plan was prepared by civil servants

supported by a team of experts from OECD SIGMA. The PAR Strategy and Action have specific objectives and indicators for measuring the achievement of results in each of the five areas. Each result area has a sequenced Action Plan of specific activities that will contribute to the achievement of the key results.

8. **The Program draws on the PAR Strategy and Action Plan in three Result Areas focusing on the binding constraints to efficiency in the public sector in the management of human resources, public finances and procurement**. The sector context, the rationale for the selection of each of the Result Areas, the problems to be addressed and the reforms supported by the Program are discussed below**.**

Result Area 1: Improved Human Resource Management

9. **Reduction of the public sector wage bill expenditures features prominently in the Government of Serbia's macro-economic program**. Serbia's wage bill at 12.6 percent of GDP, prior to a wage cut in 2014, was about two percentage points higher than the average of the EU28 (10.7 percent) and the new EU member states (10.3 percent) and considerably higher than in some immediate neighbors such as Bulgaria (8.5 percent) and Romania (7.8 percent). The 2014 wage cut reduced Serbia's wage bill by about one percent of GDP but the wage bill is still above the regional average.[5]

10. **Staffing levels are comparable to EU member states and neighbors, but there is evidence overstaffing in certain parts of the Serbian public sector - health, judiciary, and police and to some extent, education**. As of December 2014, the Serbian public sector employed 500,538 staff under permanent and fixed-term contracts. This is equivalent to about seven staff per thousand population; roughly the same as the average of the immediate neighbors (Bulgaria, Romania and Croatia) and slightly below the average of the EU 28 (7.2) and the new member states (7.3). A recent Government report[6] found 7,040 excess non-medical staff working in Government-financed health care institutions. In the education sector, the ratio of teaching staff per thousand population is ten percent higher than the average for the other European countries and the sharp decline in the school age population over the last two decades has resulted in classes with extremely low pupil: teacher ratios, particularly in rural areas. A 2009 study by the World Bank[7] found that consolidating under-enrolled classes by shifting students to other classes in the same school (and grade) could reduce staffing needs by ten percent. Consolidating under-enrolled classes by shifting students to other schools within the same municipality could reduce cost staffing needs by another 25 percent.

11. **The higher-than-average wage bill is largely the result of relatively high levels of compensation.** The average salary in the Serbian public sector is about 1.83 times Serbia's per-capita GDP. The equivalent figure for the EU 28 is 1.49; for the new member states, 1.37 and for the immediate neighbors 1.51. Aggregate data hides wide variation within the Serbian public

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[5] Sources: Serbia: MoF, Financial Plans of Social Security Organizations, MPALSG staff estimates and projections; other countries: Eurostat. See: MPALSG (2015). *A Modern State-Lower A Rational State: How Many, How and What For?* Belgrade: MPALSG (Working Paper).

[6] MPALSG (2015). *A Modern State-Lower A Rational State: How Many, How and What For?* Belgrade: MPALSG (Working Paper): MPALSG (Working Paper).

[7] World Bank. 2009. *Serbia: Doing More with Less*

sector. The pay and grading system includes 2,200 job titles, 71 different elements of remuneration, 5 different base salaries, 900 different job coefficients, 19 laws and a plethora of by-laws that regulate salary levels. Compensation rates are above market levels in low skilled positions and below market levels for high level positions (IPSOS, 2015). The complex and arbitrary nature of the compensation system undermines staff morale and renders the system vulnerable to pressure from public sector unions.

12. **The Result Area focuses on the Government's efforts to resolve these two problems: the alignment of staffing levels with the requirements for service delivery; and putting in place a fair, competitive and affordable remuneration system across the public sector.** The institutional context and Government reform proposals in each of these areas are reviewed in turn below.

Public Sector Employment

13. **Deficiencies in information systems have undermined the ability of the Government to control employment numbers and manage human resources.** Following the passage of the Law on Registry in 2014, the Government has created the first comprehensive registry of public employees since 2003. However, data on the total number of employees is still inaccurate because participation by individual ministries is voluntary and because their information systems are deficient: the Ministry of Education, for instance, does not have accurate data on the number of teachers. The Government is unable to link the various systems operating at the sector level ministries with the large public administration payroll systems to monitor staff numbers, increase in staff compliment over time and total employment cost. This makes it difficult for the Government to control staffing and wage bill management across the public sector.

14. **The acts of systematization setting out the number of positions permitted for each agency are not an effective means of controlling personnel numbers.** Acts of systematization are not immutable: they can be revised when new ministries are created or when the functions of existing ministries are expanded. A 2008 Governmental reorganization, for example, created many such opportunities, by expanding the number of ministries to 24 and reassigning the functions of five ministries which had been abolished. Moreover, acts of systematization are routinely ignored or revised following annual budget negotiations.

15. **Nor do the Personnel Plans submitted as part of the annual budget process actually control personnel numbers**. The Personnel Plan sets out the number of positions it would like to have funded (existing and new) along with the title, grade, and estimated salary for each position. In principle, the MOF evaluates each plan to see if it is justified given overall budget constraints and Government priorities. In practice, the Personnel Plans are not always contested. The Budget Law requires that a consolidated Personnel Plan be enacted within 30 days of the adoption of the annual budget and that its salary estimates correspond to the amount allocated in the budget. However, the Personnel Plan is often notional, the staffing profile is used only to calculate the wage bill of each budget user and do not reflect the actual numbers of staff receiving salaries. Ministries provide Treasury's payroll department with its payroll information and the payroll department makes transfers to staff whether or not their position is included in the Personnel Plan.

16. **As part of the PAR Strategy, the Government has adopted a number of measures aimed at controlling and rationalizing staffing numbers.** In August 2015, Parliament enacted a law requiring ceilings on the maximum number of public employees. This law applies to all

ministries and agencies (excluding the Ministries of Defense and Interior and the Judiciary) and is to remain in effect through 2018. Ceilings are to be adjusted annually based on the recommendations of the MPALSG and the MOF. The law also applies to local Governments where permanent ceilings are to be based on the population of each jurisdiction. The Government also to strengthen the registry of public employees by linking the registry to payroll. Once the link is in place, employees will not be paid unless they are registered. The Government hopes that, through this mechanism, it will not only obtain more accurate information on staffing levels but will also be able to identify ghost employees.

17. **The Government is undertaking functional reviews to help determine appropriate employment levels for key sectors.** The functional reviews seek to eliminate redundant functions, streamline organizations to focus on service delivery and align staffing levels with service delivery requirements. Preliminary data suggests that there are opportunities for substantial staff reductions in certain sectors and occupations. The functional reviews will be supported through a parallel EU-financed TF for Rightsizing

18. **Functional reviews will inform the preparation of retrenchment plans.** The Retrenchment Plan will lay out:

a) the rationale for determining the redundancy of employees;
b) the employment profile of the entity;
c) the criteria for selecting employees for retrenchment;
d) the number of redundant employees, their qualifications and job positions, age, and length of employment (years) covered by the employment insurance benefits, providing gender segregated information, number of persons with disabilities, by location and from ethnic minorities;
e) measures taken to find alternative employment such as transfer to other jobs, transfer to other employer, training, part-time work, but not less than 50% of the full time and other measures;
f) the resources needed to address the socio-economic status of the redundant employees;
g) the employment termination deadline.

19. **Staffing reductions will be implemented through a combination of attrition, reassignments and redundancy.** Redundancy will be subject to compensation as defined by Serbian legislation which provides for severance payments equal to one-third of monthly salary for each year of service. Redundancy will be offered only to staff in positions that are determined to be redundant. The positions that are vacated will be closed to avoid rehiring.

Public Sector Remuneration

20. **The current structure of wages is the product of ad hoc wage adjustments granted to particular sectors over the last fifteen years.** Equal work is not equally rewarded. Compensation in some sectors is above market rates, in other sectors below. A system of wage coefficients leaves the Government vulnerable to wage pressures from public sector unions.

21. **A civil service reform program in 2005 sought to rationalize the salary structure.** The reform eliminated salary anomalies within the civil service, so that similar positions in different ministries would have similar levels of compensation and adjusted overall salaries to better reflect private sector comparators. The reform required the reclassification of all civil service positions into what are now 13 grades (five managerial grades and eight executive

grades) each defined by a specific scope of responsibilities. The resulting pay law for civil servants (enacted in May 2006) increased civil service pay by an average of 41.2 percent, with increases in all but the lowest grades.

22. **However, the salary structure remains extremely complex with wide differentials across the public sector.** Serbia has two employment regimes: one for civil servants (covering most administrative, financial, and managerial positions) and one for public service employees, covering most front-line service providers (including teachers and health workers). Both civil servants and public service employees are paid on the basis of fixed wage scales. The regulations governing each group (and various subgroups within them) lay out coefficients for each position. These are then multiplied by a base salary figure, expressed in dinars and periodically adjusted by the Government, to determine the wage of each individual. At present, the pay and grading system includes 2,200 job titles, 71 different elements of remuneration, 5 different base salaries, 900 different job coefficients, 19 laws and a plethora of by-laws that regulate salary levels.[8] The resulting pay differentials across the public sector violate the principle of equal pay for equal work.

23. **There is also evidence of systematic overcompensation in some occupations and under-compensation in others**. A recent World-Bank-supported study provides an opportunity to compare public and private sector wages in Serbia. The study, drawing on the 2014 Labor Force Survey, found that 75 percent of employees in the state sector earn more than the median of all employed persons in Serbia, compared to only 46 percent of private sector employees.[9] However, public sector positions tend to be dominated by white collar occupations requiring more education and technical skills—and therefore commanding higher salaries--than those in the private sector. To control for this, the study compares public and private sector wages in specific occupations. The study shows that security guards, health care professionals, and chief executives in the public sector appear to be overcompensated. This is even after the ten percent cut in wages that went into effect in November 2014. Teachers are paid roughly the same in the private and public sectors. But other occupations—including science and engineering professionals and administrative managers – are underpaid in the public sector. Pay for ICT professionals is particularly uncompetitive at 25 percent less than counterparts in the private sector. As a result, the public sector as difficulties attracting and retaining staff with the critical skills.

24. **The Government is undertaking a comprehensive job evaluation and pay grading exercise covering all civil servants and public service employees including those in education, health, social protection, culture, tourism, and sports**. (Local Governments, police, defense, and members of parliament, judiciary, and state agencies will have their own pay scheme). Positions are evaluated based on the following criteria: scope of responsibility for resources, work organization, and staff management; extent of decision making authority;

[8] Data applies to the public service employees. SOEs are not included, they have their own bylaws which regulate salary structure.

[9] The state sector includes all public sector employees except those in state owned enterprises. The study also examines wages in a subset of public employees--those in the 'administration' sector--and found a similar result. Note that the relevant chart in the report appears to be mislabeled, as it reports that 46 percent of private sector employees earn more than the median wage of private sector employees. By definition, the figure should be 50 percent.

complexity of duties and requirements for creative thinking; requirements for knowledge, skills and experience; and extent, level, and purpose of contacts with people inside and outside the organization. Positions will then be grouped into 13 pay groups representing all the jobs level from senior management to basic support functions. A set of wage coefficients for each grade will then be devised, with appropriate differences between grades, to provide an incentive for staff to seek jobs at high grade levels as and when vacancies arise. As a final step prior to implementation, each ministry will amend its systematization act to reflect the new grades.

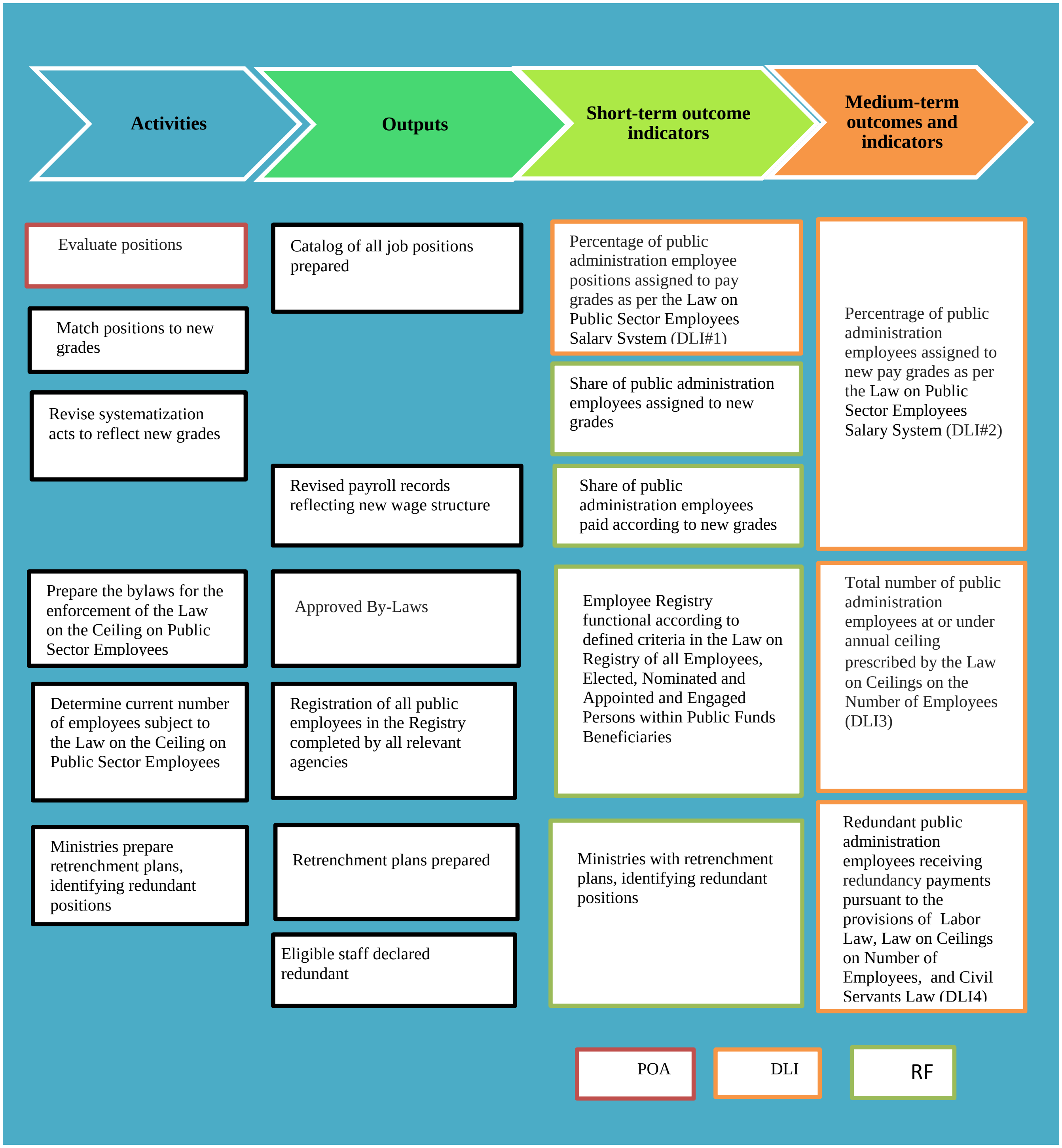
25. **The scope for changes in the salary structure will be constrained by an overall cap on the aggregate wage bill.** While it would be desirable to set coefficients and base salary on the basis of comparable private sector positions, private sector comparability is not be affordable in the current fiscal environment. Under the provisions of the draft law, coefficients will be set such that the aggregate wage bill does not increase. As a result, the new grading system is expected to result in wage reductions for some positions and wage increases for others. In implementing the new system, existing staff will be partially 'grandfathered'. Staff who are currently receiving a salary that is *higher* than their position would receive under the new pay and grading system will continue to receive their current salaries but will not receive any of the semi-annual increases. Staff who are currently receiving a salary that is lower than their position would receive pay rises over a number of years until reaching the new levels.

26. **To initiate the reform, Parliament approved the Law on Public Sector Employees Salary System in February 2016.** The Law sets out the principles of the grading system and the timetable for implementation of the reform. Under the terms of the Law, the grading exercise is to be completed for all affected Ministries within 90 days of the enactment of the Law. Coefficients for each grade are to be determined within six months of the enactment of the Law.

Program Results Chain

27. **DLI #1 and DLI #2 support the Government's efforts to restructure the remuneration system through the classification of employee positions under the new job catalogue and according to new pay grades**. In the first year of the program, funds would be disbursed against the substantial completion of the re-grading exercise. To allow for the possibility that grading may take longer than anticipated, DLI 1 provides for disbursement once 70 percent of public administration employee positions have been assigned to grades using the new pay and grading structure. Disbursements against DLI 2 are scalable relative to the proportion of public sector employees under the new job catalogue and grading system. Activities and outputs leading to the achievement of the DLIs and supported by the Program include: evaluation of positions and publication of the position catalog; matching of the positions to the grading structure; and revision of the payroll records so that staff can be paid according to the new grading structure.

Result Chain for Result Area 1: Improved Human Resource Management



28. **DLI# 3 and DLI# 4 support the Government's efforts to contain public sector employment and align staffing levels with the needs of service delivery.** DLI 3 will disburse if the total number of public administration employees is at or under annual ceiling prescribed by the Law on the Ceiling on Number of Employees. DLI 4 is scalable relative to the number of redundant public administration employees receiving redundancy payments in a given year. The

use of redundancy as the relevant indicator seeks to support efforts to ensure that those retrenched receive the benefit packages provided under the law. Activities and outputs leading to the achievement of the DLIs and supported by the Program include: finalization and approval of the bylaws implementing the Law on the Ceiling for Public Sector Employees; completion of the registration of public employees in the Registry; and preparation and implementation of retrenchment plans by the responsible Ministries.

Result Area 2: Improved Financial Management

29. **While the Government has made progress in strengthening public financial management, the 2015 PEFA assessment identified important weaknesses in the control framework and its coverage.** Table 7 presents a summary of the assessment performance scores. The assessment period 2011-2013 was dominated by the aftermath of the global economic recession which affected macro-fiscal performances and posed particular challenges for public financial management. Notwithstanding these challenges, the PEFA assessment observed improvements in relation to the previous assessment in 2010 in the legislative framework for the budget process, budget classification, multi-year fiscal planning, procurement and external audit. The assessment noted significant weaknesses in the composition of expenditure out-turn compared with originally approved budget, expenditure arrears, oversight of fiscal risk, and effectiveness of tax collection, predictability in the availability of funds, application of public sector accounting standards and legislative scrutiny of annual budget law and final accounts.

30. **Building on the PEFA Assessment, the MOF is in the process of preparing a Public Financial Management Reform Program (PFMRP).** The PFMRP is aligned with the broader PAR Strategy and sets priority actions in the short, medium and long term. Implementation of the PFMRP is led by the MOF with support from Serbia's international partners, including the IMF, the Bank and the EU. The Bank, in the context of the EU-financed TF Right Sizing and Restructuring Project, will support the preparation of a functional review of the MOF that will seek to align organizational structure with its mandate and the requirements of the PER strategy. Other Bank support includes an ECA PFM TF-financed grant for technical assistance on Public Investment Management and technical assistance in preparation to support further development of the FMIS.

31. **The Program is expected to addresses the immediate priorities of the Government's PFM reforms: strengthening expenditure control and preventing the accumulation of payment arrears.** Accumulation of expenditure arrears emerged as a significant problem during the economic crisis. In June 2013, the FMIS system reported arrears amounting to RSD 84,942 million (USD 1,003 million) equivalent to six percent of total expenditures in that year. During 2013 the Government negotiated payment plans and conversion RSD 8.26 billion of arrears into public debt.

Table 7: Summary of 2015 PEFA Assessment Ratings

A	B and B+	C and C+	D and D+

Budget credibility	Comprehensiveness and transparency	Policy based budgeting	Predictability in control in budget execution	Accounting reporting and review	External scrutiny and audit	Donor Practices
Aggregate expenditures out-turn compared to original approved budget	Classification of the Budget	Orderliness and participation in the annual budget process	Transparency of taxpayers obligations and liabilities	Timeliness and regularity of accounts reconciliation	Scope, nature, and follow-up of external audit	Predictability of direct budget support
Composition of expenditure out-turn compared to original approved budget	Comprehensiveness of information included in budget documentation	Multi-year perspective in fiscal planning, expenditure policy and budgeting	Effectiveness of measures for taxpayers registration and tax assessment	Availability of information on resources received by service delivery units	Legislative scrutiny of the annual budget law	Financial information provided by donors
Aggregate revenue out-turn compared to original approved budget	Extent of unreported Government operations		Effectiveness in collection of tax payments	Quality and timeliness of in-year budget controls	Legislative scrutiny of external audit reports	Proportion of aid that is managed by use of national procedures
Stock and monitoring of expenditure payment arrears	Transparency of inter-Governmental fiscal relations		Predictability in the availability of funds for commitment of expenditures	Quality and timeliness of annual financial statements		
	Oversight of aggregated fiscal risks from other public sector entities		Recording and management of cash balances, debt, and guarantees			
	Public access to key fiscal information		Effectiveness of payroll controls			
			Competition, value for money and controls in procurement			
			Effectiveness of internal controls for non-salary expenditures			
			Effectiveness of internal audit			

32. **The accumulation of arrears is a consequence of shortcomings in expenditure planning and cash management**. Forecasts of macroeconomic parameters used as the basis of the Budget and MTEF are often inaccurate, over-estimating GDP growth and therefore overestimating resource availability. In 2014, for example, actual budget revenues were 6.3 percent lower than originally planned. At the start of each quarter, budget entities provide Treasury with an estimate of the cash required to execute their budget in the upcoming period. The Treasury reconciles estimates with cash forecasts and establishes quotas for each budget entity. These are revised every month on rolling basis. Budget entities do not manage expenditures within these centrally mandated limits. Budget entities often enter into multi-annual commitments that exceed the limits set by the outer years of the MTEF. Within year,

budget entities generally respect the limits set by budget appropriations. But, there is insufficient monitoring and control over recording of commitments in the FMIS by budget beneficiaries. Entities may assume liability without recording it into the FMIS, thus leading to liabilities in excess of budget appropriations and accumulation of arrears.

33. **Expenditure control is hindered by the lack of effective commitment controls and incomplete institutional coverage of the FMIS.** Budget execution is controlled through a treasury single account using a centralized transaction processing system running on SAP platform. All direct budget beneficiaries enter payment requests directly in the FMIS. Treasury then executes the payment within the budget beneficiaries' payment quota. However, the system is cash based and budget entities can enter into commitments that are not processed in the system until payments fall due. Furthermore, IBBs, such as such as courts, prisons, and schools are not covered by the FMIS. Although the Treasury processes their payment requests, the absence of IBBs from FMIS means that execution of their budget is not monitored timely. Data on spending by IBBs becomes available only at the end of each year, when each IBB is required to submit the information to its respective direct budget beneficiary.

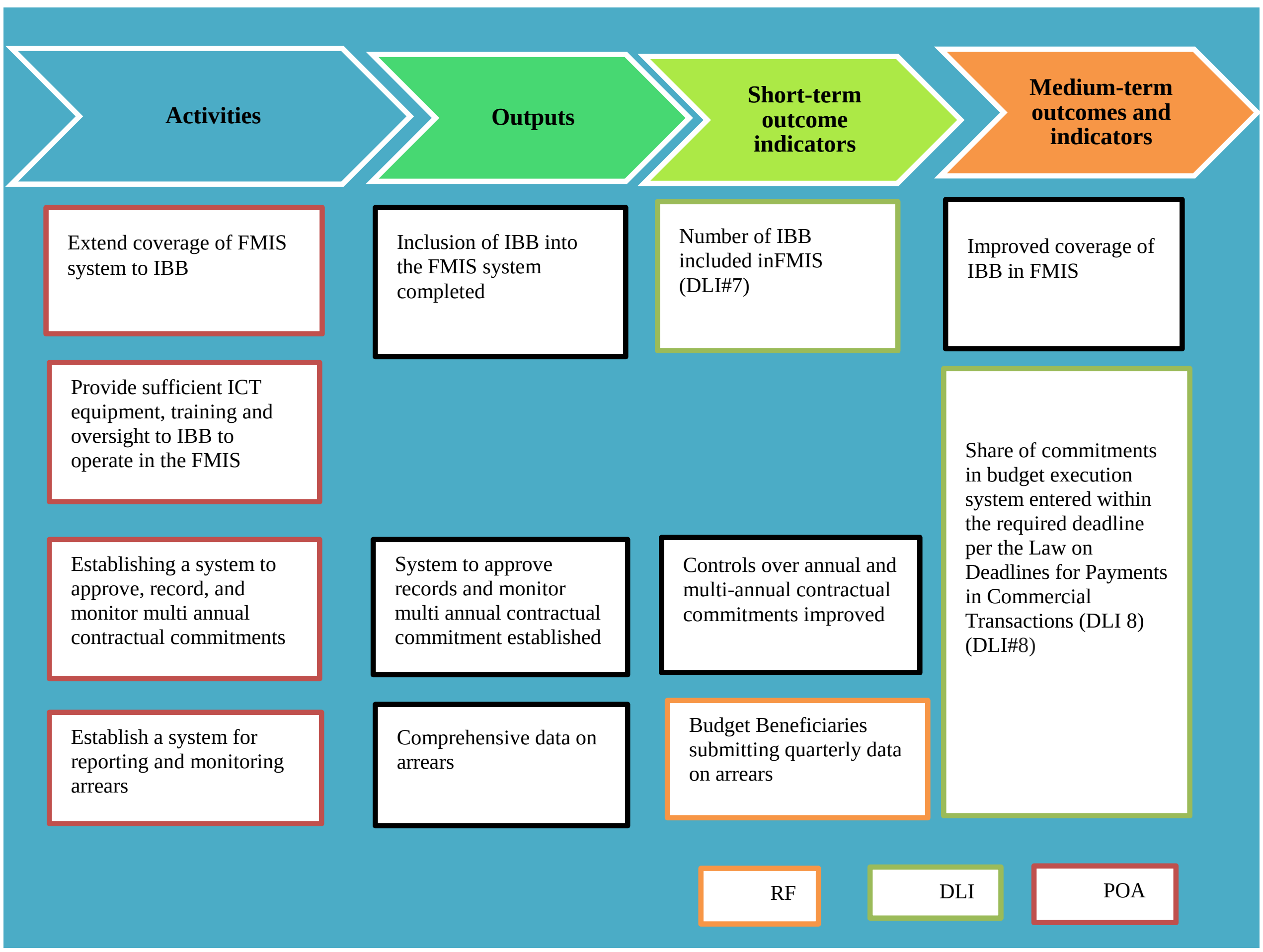
34. **The Government has strengthened controls by setting deadlines for the payment of arrears and improving reporting.** The 2013 Law on Deadlines for Payments in Commercial Transactions mandates a timetable for the payment of arrears and fines for debtors (including Government officials) who fail to pay arrears on time. The law originally applied only to arrears owed to commercial entities. More recently (July 2015), the law has been amended to apply to debts owed by public entities to other public entities. At the same time, the Government has taken steps to improve the quality of information on commitments. In 2013 it established an electronic Registry of Settlements of Pecuniary Commitments (RINO) that covered transactions between the public sector and the commercial sector. Beginning 2016 the system was expanded to cover transactions between public sector entities in line with amendments to the law on Deadlines for Payments in Commercial Transactions. Budget entities must now register commitments within three days *after* assuming the commitment. RINO data indicates that payment arrears amounted to RSD 9 billion RSD (USD79 million) at the year-end 2015. However, RINO data should be interpreted with caution because the data submitted by budget beneficiaries is still not verified.

35. **Further reforms seek to support improvements in expenditure planning, enforcement and strengthening of commitment controls and extension of the FMIS to indirect budget entities.** The Government intends strengthen the MoF Budget Department, increasing its staff's ability to prepare and coordinate the budget preparation, monitor budget execution and improve cash planning. Budget entities will be required to submit quarterly reports on arrears and strengthen internal controls over contractual commitments to ensure comprehensive reporting. The MoF will also systematically roll out the FMIS to IBB. Courts will be integrated into the FMIS by January 1, 2016; prisons and cultural institutions by January 2017, and social welfare centers by January 2018. This would leave only education institutions outside the FMIS by the beginning of 2018. Integrating these institutions into the FMIS will take more time, due to their large number.

Results Chain

36. **The Program supports these reforms through two DLIs, one supporting the extension of the FMIS to indirect budget entities the other supporting the implementation of systematic commitment reporting**. DLI 7 disburses against the number of IBB included in the FMIS, with targets based on the Government's planned extension of the system by sector. DLI 8 disburses against the share of commitments entered in FMIS within deadlines prescribed by legislation. The results chain includes activities and outputs related to measures taken by the MOF Budget Department to produce more realistic annual budgets, efforts by the Treasury to better assess the reliability of estimated cash needs by individual budget beneficiaries and to better allocate monthly quotas among them, as well as efforts to improve the commitment controls in place, quality of data on commitments and ability of budget entities and the MOF to enforce legislation governing the payment of arrears. This is expected to include the development of ex-ante controls of commitments by budget entities.

Result Chain for Result Area 2: Improved Financial Management



Result Area 3: Improved Procurement Management

37. **The Public Procurement Law of 2013 significantly strengthened the legal framework for public in Serbia bringing it into line with the EU acquis.** The PPL provides for the decentralization of procurement activity to budget entities whilst streamlining procedures,

creating a single register of bidders and reducing the scope for arbitrarily rejection of bids. It ensures transparency in the public procurement processes and requires the publication of a wide range of procurement related information through a Public Procurement Portal. The PPL regulates centralized public procurement and provides for framework agreements for the consolidation of purchases of commonly used items across Government. A 2015 amendment to the PPL further strengthened the legal framework by, amongst others, providing for the use of social criteria and consideration of life cycle costs as elements in the evaluation bids.

38. **The PPL also sets out the competences of the two core agencies responsible for public procurement systems: the PPO and the Commission for the Protection of Rights in Public Procurement Procedures (RC).** PPO oversees the implementation of the PPL, participates in the drafting of procurement regulations, manages the Public Procurement Portal, prepares reports on public procurements, and provides technical assistance to contracting authorities and bidders. The Republic Commission for the Protection of Rights in Public Procurement Procedures is an autonomous and independent body of the Republic of Serbia which provides for grievance redress and tackles fraud and corruption in public procurement. The Commission reports directly to Parliament.

39. **While a robust legal framework for public procurement is in place, capacity constraints have undermined implementation**. The PPO currently lacks adequate human and financial resources to discharge its duties. The RC lacks sufficient capacity to handle appeals in a timely manner. Procurement is largely decentralized with about 4,900 registered contracting authorities, of which about 166 are central government entities. Individual contracting authorities are insufficiently familiar with procurement procedures. This has caused delays – it now takes about 120 days to complete a procurement procedure – and has also led to the purchase of inferior goods and services, as tenders are inadequately specified and contracts are awarded solely on the basis of price.

40. **To address these problems, the Government is pursuing a threefold strategy: capacity building; process improvements through centralization; and systematic procurement performance measurement**. The Summary Fiduciary Assessment presented in Annex 5 provides further information on the legal and institutional framework for public procurement and its performance. The Government reform agenda is reviewed below.

41. **The procurement capacity building program has sought to ensure that individual contracting authorities have adequately qualified procurement staff by implementing a large scale training and certification process for public procurement officers.** The PPL requires every contracting authority whose estimated planned public procurement in a given year exceeds the limit set by the PPL (currently RSD 25 million/US$ 225,000) to provide for the post of a public procurement officer in its staffing profile. Between 2010 and 2013, a total of 1,810 public procurement officers at the central and local levels were certified. Further training and certification is required and to this end, the Government intends to expand the basic training and certification process. It also intends to introduce a higher level of certification for public procurement officers who would acquire more complex and broader knowledge, including EU procurement practices. Specialized training will also be provided, targeting specific areas such as energy or health, or specific issues that are of common interest such as procurement of insurance services and medicines. The Government also intends to establish a public procurement website for public procurement officers which will disseminate information on the practical application of the PPL and other regulations in the field of public procurement. It will a code of ethics in

public procurement. The Government will also support professional associations in public procurement in their efforts to increase professionalism and ethical standards in the field.

42. **The Government will extend its capacity building to encompass potential bidders in public procurement**. Training and workshops will be provided to potential bidders in order to encourage their participation in public procurement procedures and enable them to protect their rights. The need for such training is highest in small and medium-sized enterprises, which often lack sufficient knowledge and information, thus effectively missing on the opportunities for participation in public procurement procedures. This training will be provided in cooperation with the Serbian Chamber of Commerce and regional chambers of commerce.

43. **Improvements in procurement processes seek to gradually expand the use of centralized public procurement at the central and local levels**. This reform is intended to lower costs through bulk purchasing and maximize the use of scarce professional talent and experience, particularly in more complex procurement. The organization in charge of centralized public procurement for the purposes of national authorities and organizations is the UZZPRO. In addition, centralized procurements of certain medicines and medical supplies are conducted by the Republic Health Insurance Fund. Centralization will be implemented gradually in the coming years. Market research will be undertaken to address the risk that centralized procurement will favor large-scale suppliers, thereby restricting competition. Special attention will be paid to minimizing the adverse impact of centralized procurement on small and medium-sized enterprises. Centralized procurement will be used in those cases where there are clear advantages over decentralized procurement by budget entities. The centralized procurement bodies will be provided with adequate human resources, technical and IT capacities and office space to enable them to successfully conduct procurements on behalf of other contracting authorities.

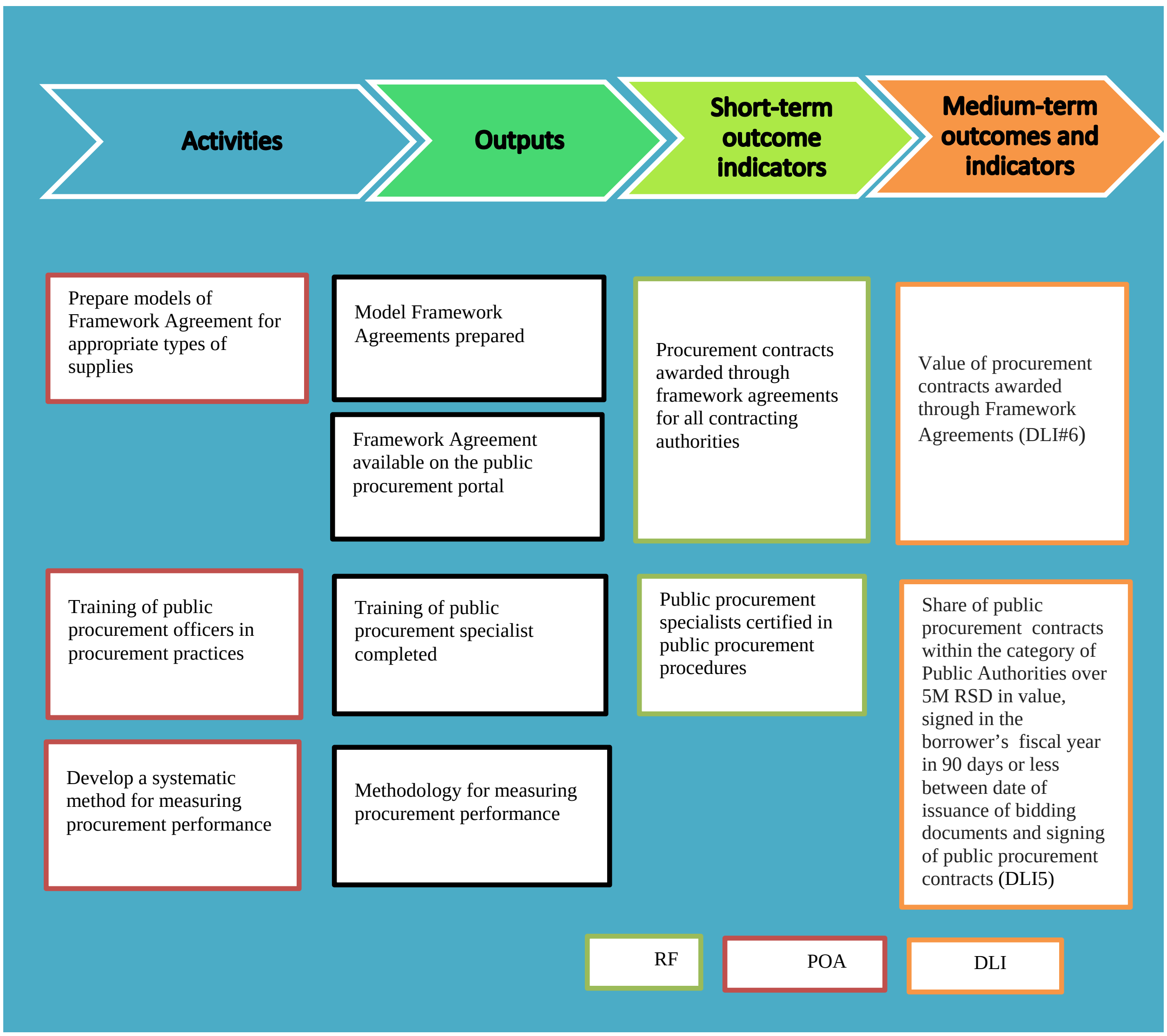
44. **In the course of strengthening centralized procurement, the Government intends to expand the use of framework agreements**. These are agreements with suppliers that set out the terms and conditions under which specific purchases can be made throughout the term of the agreement. In principle, framework agreements can increase the efficiency of public procurement by reducing the time and effort required to undertake repeated procurements every year. Although framework agreements are permitted by the 2013 public procurement law (the 2015 amendments make specific provisions for them) they are little used. According to the quarterly reports on contracts signed by contracting authorities, only 142 framework agreements were signed in the first year of the new procurement law. In order to promote use of framework agreements in the coming years, the PPO will prepare models of tender dossiers with models of framework agreements for the supplies for which the use of these instruments is most appropriate. The PPO will also reach out to Contracting Authorities to bring more awareness/benefits of the use of Framework Agreements.

45. **Finally, the Government intends to develop a systematic approach for measuring procurement performance.** This is critical for identifying problems in the procurement process and correcting them. The approach is expected to be based on a performance indicators manual that will be developed and electronic data furnished by the e-procurement portal. The results will be published in quarterly performance reports by the PPO.

Results Chain

46. **The Program supports progress in procurement reform through two DLIs.** DLI 5 supports improvements in the operational efficiency of procurement by providing for scalable disbursements in proportion to the share of public procurement over RSD five million in value awarded in the preceding financial year with duration of 90 days or less between issuance of bidding documents and award of contracts. DLI 6 supports improvements in operational efficiency and economy through the centralization of public procurement, providing for scalable disbursements in proportion to the value of procurement contracts awarded through framework agreements. This is intended to capture the combined impact of increasing staff capacity and streamlining procurement processes. Activities and outputs leading to the achievement of the DLIs and supported by the Program include: training and certification of procurement officials; development and application of a methodology for measuring procurement performance; preparation and publication of Model Framework Agreements and their application in procurement across Government.

Result Chain for Result Area 3: Improved Public Procurement



III. LESSONS FROM EXPERIENCE

47. **Program design has been informed by the Bank's experience in public sector reforms both in Serbia and elsewhere.** Experience has shown consistently that client leadership and broad participation in Program design is critical for ownership and commitment and builds capacity to support implementation.[10] MPALSG has taken a leadership role in the preparation of the Program, working closely with the implementing agencies for each of the Results Areas to define the Results Framework and supporting Action Plan. Experience has shown that public sector reforms tend to deliver results over the medium to long-term. Consequently, Bank support should be anchored in a long-term reform agenda and "problem solving engagement"[11] that offers some assurance of continuity in implementation. Previous rounds of public sector reform in Serbia have not been followed-up systematically after changes in Government. In this case, the prospects for continuity have been strengthened by embedding the Program in the Government's PAR Strategy which supports the Government's longer-term goal of EU accession. Experience has shown that public sector reform operations should be ambitious but realistic: fundamental changes in organizational culture cannot be delivered in the short term but incremental progress can be made by creating appropriate incentives and building institutional capacity to deliver, thus matching the design with the capacity of the borrower and implementing agency without "outpacing the client"[12]. The Program is focused on incremental improvements in key human resource, financial and procurement management systems that can be delivered within the Program period. The Program builds on on-going series Government program rather launching new directions in reform. Additional lessons from the design of this Program area outlined in Table 8 below.

TABLE 8: LESSONS APPLIED DURING PROGRAM DESIGN

Issue	Lesson Learned	Application in Program Design
Supporting design with rigorous analytics	Program areas to be supported should be driven by rigorous analysis to ensure proper basis for inclusion	Program design has been informed by diagnostic and analytical work developed by both the Government, the Bank, academics and other development partners. These include: Country Strategic Diagnostic; Country Partnership Strategy; Public Finance Review; OECD-SIGMA assessments, among others. The issues addressed have been prominently discussed in these analytical review, and raised as the most strategic areas of engagement in the short to medium term.
Establishing a selection criterion for inclusion	Design and Program Boundaries should be driven by specific criteria.	In order to sharpen the focus of the Program and appropriate target the incentive structures to the relevant program areas, the design developed a core set of checklist that covered the following elements: demonstration of Government commitment to reform in that areas; coverage of the same area by other development partners and opportunities for collaboration; availability of a strong analytical basis for inclusion; relevance to Government's reform program.

[10] Independent Evaluation Group (2008). Public Sector Reform: What Works and Why? Washington, DC. The World Bank.
[11] World Bank (2013), Program for Results Two Year Review: Concept Note, p.1. World Bank.
[12] World Bank (2013). Implementation Completion Report. Performance Results and Accountability Project (P092898). Washington DC: The World Bank, p. 36.

Issue	Lesson Learned	Application in Program Design
Ensuring Program ownership	The motivation for reform is always difficult to determine, especially in context with multiple stakeholders. It is important to understand the driving force behind the reform agenda and link it to a wider Government strategy beyond the key "champions". Consultation with key stakeholders at all levels is critical for building broad ownership.	The Program emerged from a continuing relationship the senior management of MPASLG and MoF in the context of ongoing technical assistance and policy dialogue. Discussions have focused on the Government's assessment of the critical areas for reform and those areas where there the Government believed it would be able to make progress in implementation. Discussions have encompassed a wide group of stakeholders including PAR Council , the Collegium of State Secretaries and senior officials from Ministries across government.
Focus on a few areas of impact and 'go big'	Selecting a few areas of emphasis allows for better targeting of results. The instrument allows for the design of a Program around an entire Government program. Yet, in public sector reform programs, the challenge often lies in the inbuilt resistance and inertia to change. Institutional transformation takes time, because it depends on changing the behavior of a large number of actors.	The Program on is designed to reflect this lesson. Rather than support an elaborate reform agenda described in the Action Plan, the Program is selective: focusing on a limited number of reforms that lie at the heart of state capacity: human resource management, financial management and procurement.

IV. PROGRAM EXPENDITURE FRAMEWORK

48. **Program expenditures have been estimated on the basis of the expenditure plans of the implementing institutions as presented in the Government of Serbia's three-year Fiscal Strategy.** The key implementing institutions are: MPALSG, Treasury Administration and PPO. The expenditure framework considers the relevant expenditures of other institutions relevant for Program implementation: NES; SAI; PPS; and Human Resources Management Service. Program expenditures include only the budget programs as reflected in the State Budget and those functions and activities that are directly related to the achievement of the Program's PDO and implementation of the Program activities. Program Expenditures include capital, operational and salary costs under these budget programs and severance costs related to the layoff of the public employees across the public sector. The Program Expenditure Framework by Result Area is presented in Table 9.

49. **Approximately 75 percent of Program expenditure is allocated to the severance costs of public sector employees.** Expenditures related to Result Area 1 implemented by the MPALSG amount to 79.5 percent of the total Program expenditures, with Result Area 2 implemented by the Treasury Administration amounting to 19.9 percent and Result Area 3 implementation by the PPO

just 0.6 percent of total Program expenditure. The structure of expenditure by type of expenditure is presented in Table 10. Operational cost estimated at the level of 10 percent of the total Program expenditure, comprise maintenance, material, travel expenses, contractual services. Capital costs amounting to 3 percent of total expenditures are mostly IT related. Salaries constitute approximately 12 percent of total Program expenditure. This includes the presentation of the specific projects/activities undertaken within the scope of the Program and associated expenditure (Table 12).

TABLE 9: PROGRAM EXPENDITURE FRAMEWORK (US$)

	2016	2017	2018	Total
1: Human Resource Management	64,280,603	63,955,473	63,955,473	192,191,549
Capital cost	126,447	126,447	126,447	379,341
Operational cost	2,213,380	1,954,531	1,954,531	6,122,443
Salaries	1,458,750	1,392,468	1,392,468	4,243,686
Severance	60,482,026	60,482,026	60,482,026	181,446,079
2: Public Financial Management	16,061,081	16,071,608	16,071,608	48,204,297
Capital cost	2,203,029	2,203,029	2,203,029	6,609,087
Operational cost	6,010,430	6,015,485	6,015,485	18,041,400
Salaries	7,847,622	7,853,094	7,853,094	23,553,811
Severance	0	0	0	0
3: Public Procurement Management	413,423	407,418	407,418	1,228,259
Capital cost	33,841	33,841	33,841	101,523
Operational cost	122,303	118,055	118,055	358,414
Salaries	257,279	255,522	255,522	768,323
Severance	0	0	0	0
TOTAL	80,755,107	80,434,499	80,434,499	241,624,105
TOTAL without severance	26,314,125	25,897,981	25,897,981	78,110,087

TABLE 10: STRUCTURE OF PROGRAM EXPENDITURE (PERCENT)

Expenditure	2016	2017	2018	TOTAL
Capital cost	2.93	2.94	2.94	2.93
Operational cost	10.34	10.06	10.06	10.15
Salaries	11.84	11.81	11.81	11.82
Severance	74.90	75.19	75.19	75.09

50. **IBRD financing covers approximately one third of the Program costs**. The remainder of the Program financing will be provided by the Government. The Government will receive parallel financing in support of its broader PAR Strategy which encompasses the reforms and actions supported by the Program. Parallel financing includes a EU €80 million Sector Budget Support currently under preparation and scheduled for approval in early 2016. Additional support may also be provided by other development partners including SIDA, Norway and GIZ. The structure of financing is presented in Table 11.

TABLE 11: STRUCTURE OF PROGRAM FINANCING

Source	US$	%
Government	166,624,106	69
IBRD	75,000,000	31
TOTAL	**241,624,106**	**100**

51. **The Government of Serbia public financial management system will be used to execute and report on Program expenditures.** The fiduciary assessment presented in Annex 5 concludes that these systems are adequate to ensure appropriate use of Program funds and safeguard Program assets. Fiduciary risk after mitigation measures is rated as substantial. The fiduciary assessment identifies the mitigation measures that will be undertaken under the Program. Table 11 overleaf presents the structure of Program expenditure by Result Area and Institution. Expenditures will be monitored at least at the 3rd level of economic classification and the process will encompass expenditures realized from other codes constituting the budgets of relevant institutions. The following budget codes will be monitored: 411 thru 416, 421 thru 426, 451, 462, 463, 482, 483, 485, 511, 512 and 515.

52. **Risks to the Program Expenditure Framework are considered modest, even if the macro-economic situation deteriorates**. The reforms supported by the Program figure prominently on the Government of Serbia's policy agenda. The Program is aligned with the key fiscal consolidation measures that the Government of Serbia has committed to undertake under the Stand-by Arrangement with the IMF and supports the longer-term agenda of EU accession. After an extended period of stagnation, the Serbian economy seems to be recovering. After recording a decline in GDP of 1.8 percent in 2014, real GDP projections for the current year remain between 0 and 0.5 percent increasing to 1.5 percent in 2016 and continuing modest growth thereafter. Fiscal performance has also improved over this period, with the fiscal deficit shrinking to 4.1 percent of GDP in 2015 – largely due improvements in revenues – down from 6.7 percent of GDP in 2014. Further improvements in macro-economic and fiscal performance depend, in part, on the successful implementation of the Program. Should economic performance deteriorate, the reforms supported by the Program will continue to be relevant to stabilization efforts.

TABLE 12: PROGRAM EXPENDITURE FRAMEWORK BY INSTITUTION (USD)

Result Area / Expenditure	2016	2017	2018	Total
1: Human Resource Management	**64,280,603**	**63,955,473**	**63,955,473**	**192,191,549**
MPALSG	62,945,711	62,662,418	62,662,418	188,270,546
Secretariat for Public Policy	20,364	19,406	19,406	59,176
Human Resources Management Service	47,812	46,653	46,653	141,119
National Employment Service	850,820	829,255	829,255	2,509,330
2: Public Financial Management	**16,061,081**	**16,071,608**	**16,071,608**	**48,204,297**
Treasury Administration	16,061,081	16,071,608	16,071,608	48,204,297
3: Public Procurement Management	**413,423**	**407,418**	**407,418**	**1,228,2659**
Public Procurement Office	413,423	407,418	407,418	1,228,260
TOTAL	**80,755,107**	**80,434,499**	**80,434,499**	**241,624,105**

V. PROGRAM INSTITUTIONAL AND COORDINATION ARRANGEMENTS

53. **The Program will use the institutional and coordination arrangements established for to support implementation of the PAR Strategy**. Table 13 provides an overview of these arrangements, comprising: the PAR Council chaired by the Prime-Minister responsible for overall strategic direction and coordination of public administration reforms; the Collegium of State Secretaries which brings together the leading civil servants of all Ministries and supports the PAR Council; and the MPALSG oversees and supports implementation of the PAR at an operational level. The Collegium of State Secretaries has proved to be a very effective mechanism for coordination of PAR activities in the line ministries, especially in the first phase of the optimization program when the Government identified units had to undertake rightsizing and the retrenchment of personnel in 2015. By its nature, the PAR Council has met less frequently: most of the critical implementation issues have been addressed by the State Secretaries. However, the PAR Council is expected to take a more active role in the reforms as the pace of implementation picks up in 2016. The most recent meeting of the PAR Council in December 2015 discussed several ongoing reforms in the public sector, including this PforR Program.

54. **The MPALSG is the key implementing agency for the Program.** The PPS will be responsible for coordinating other implementing agencies, including the collection and reporting of data, and their verification. The existing capacities in the MPALSG are sufficient for implementation of the Program. Further capacity development activities will be undertaken in monitoring and evaluation and in the management of the reform process. With support from the Serbia Rightsizing and Restructuring Project, managed by the World Bank and funded by the EU, the MPALSG will create a Change Management Support Unit which will work with the line ministries to facilitate implementation of the PAR Strategy and Action Plan and the Government Program for Optimization.

55. **Each of the Program Result Areas is implemented by a lead institution: the MPASLG, Treasury Administration and the PPO**. In order to ensure sufficient stakeholder support for the Program across these institutions, consultations have been held to discuss the broader framing of the Program, the Results Framework and DLIs. The Program will use of country systems and so no Program-specific implementation arrangements are required at the level of the implementing agencies. While there are capacity challenges in the institutions responsible for implementation, it is expected that ongoing Technical Assistance provided by partners will strengthen the ability of the various institutions to deliver their mandate, including on activities covered by this Program. The EU, for instance, has allocated EUR 10 million for targeted technical assistance to strengthen implementation of the PAR. The EU Program is expected to be effective in second half of 2016 (See Annex 10 for ongoing donor support).

TABLE 13: PAR STRATEGY INSTITUTIONAL AND COORDINATION ARRANGEMENTS

Level one: Ministry responsible for the public administration affairs will continue to perform operational duties and tasks and the coordination of the PAR process. To ensure a successful accomplishment of these tasks and ensure the sustainability of this process, it is necessary to ensure appropriate capacities, primarily by building capacities of internal organizational unit (Department) of the Ministry of Justice and State Administration (succeeded by the MPALSG under whose auspices are the PA activities involving the PA system, organization and work of the Ministry, special organizations, public agencies and public services, by including under the job classification, the organizational units that would be responsible for the coordination of activities related to the PAR Strategy. In addition to

this, the PA bodies must appoint a person who will be tasked with monitoring, reporting and evaluating the implementation of PAR Strategy.

Level Two: Inter-ministerial project group is tasked with performing the expert coordination and monitoring of PAR Strategy implementation. The duties of this Project Group primarily involve the professional coordination and drafting reports on the implementation of the PAR Strategy. This mechanism will ensure an active involvement of all the relevant state authorities in the process of the public administration reform. Specific tasks of the Inter-ministerial Project Group are: participation in creating the strategies and Action Plans in the PAR process; including of all projects and normative activities into the PAR Strategy (as part of the regular audits of this Strategy, that is, during the process of drafting the new PAR Strategy); recommendation of including certain activities in the Annual Plan of the Government (in cooperation with the Ministry responsible for the public administration affairs); aligning of other national strategic documents with the PAR Strategy (in cooperation with the General Secretariat of the Government); discussing of starting points and draft regulations whereby bodies and organizations and other authorities are incorporated within the PA system (before they are presented to PA bodies for providing their opinion); defining competencies in discharging of PA duties, defining the status of employees, including the internal relations and coordination of PA bodies and organizations; adopting reports on the implementation and evaluation of results achieved by the PAR Strategy (that is, by the appropriate Action Plan based on the findings of the organizational unit within the Ministry responsible for the public administration affairs); presenting decisions that could not be agreed about by the inter-ministerial Project Group, to the Collegium of State Secretaries for discussion and adoption; participating in the evaluation of the PAR Strategy implementation results (each member representing the scope of activities of their body). The members of the Inter-Ministerial Project Group will be the secretaries of the Ministries. The Inter-ministerial Project Group will meet regularly, once in a month, and/or more frequently, were required (at the proposal of the Ministry responsible for the public administration affairs).

Level Three: represents the Collegium of State Secretaries, as the first level of political coordination of the PAR process. The Board discusses the issues relevant for the PAR. This particularly refers to the issues about which no agreement is reached at the level of experts. Regular sessions of this body are predominantly convened to review the reports about the PAR Strategy implementation, and/or the Action Plan. The Collegium of State Secretaries proposes issues to be discussed at the sessions of the PAR Council. The members of the Collegium of State Secretaries will be the state secretaries of all Ministries, Deputy General Secretary of the Government; Deputy Director of SEIO, Deputy Director of the Legislation Secretariat. The Board will meet quarterly, and/or more often, where necessary (at the proposal of the Ministry responsible for the public administration affairs, and/or at the proposal of the Inter-ministerial Project Group). The Chair of the Board will be the State Secretary of the Ministry responsible for the public administration affairs. The Vice-Chair will be the State Secretary of the Ministry responsible for financial affairs (or alternatively, the Deputy General Secretary of the Government).

Level four: the PAR Council has been established by the Decision on forming the Council for the Public Administration Reform, as the central strategic body of the Government, responsible for the public administration reform, tasked with defining the proposals for the strategic development of PA in the Republic of Serbia, initiating and proposing the measures and actions related to the public administration reform to the Government, discussing and adopting Reports on achieved objectives in connection with the PAR, promoting and monitoring the progress of the PAR Strategy implementation, particularly from the perspective of the incorporation of the principles and objectives of the PAR into the sectorial development strategies and measures form the plans, and discussing and providing of preliminary opinion to the Government, about development strategies, draft laws and other legal documents related to the organization and work of the Government, PA bodies and in particular those proposing the incorporation of new state authorities, organizations, services or bodies of the Government.

In the former period this Council discussed the issues as provided by its delegated tasks, while in the future, from the date of the adoption of the PAR Strategy it is expected to take over the strategic role of coordinating and managing the reform processes within the public administration.

Source: Republic of Serbia (2014). Action Plan for the Implementation of Public Administration Reform Strategy. Belgrade: MPALSG, p.65.

VI. ECONOMIC ANALYSIS

56. **The expected net impact realized through expected efficiency gains from the process of modernizing Serbia's public administration is valued at a range between US$8 million and US$15 million**. This represents the sum of estimated net benefits arising from program implementation. The summary of the cost and benefits associated with each of the result areas of the Program are presented in the table below, while the corresponding subsections contain details on the methodology applied to generate these estimates. The analysis assumes an exchange rate of 107 RSD per USD and a 12 percent discount rate. It also assumes a time horizon of three years, from 2016-2018, consistent with the Program's time frame.

TABLE 14: SUMMARY ECONOMIC ANALYSIS (USD)

		2016	2017	2018	Total
Result area 1: Improved Human Resource Management	costs	61,213,026	79,203,026	79,203,026	219,619,078
	benefits (low)	42,349,286	84,275,078	125,781,613	252,405,977
	Benefits (high)	124,481,233	245,228,029	362,352,422	732,061,684
Result area 2: Improved Financial Management	costs	1,039,423	433,418	433,418	1,906,259
	benefits	58,572,285	58,572,285	58,572,285	194,158,788
Result area 3: Improved Procurement Management	costs	16,233,081	16,123,608	16,123,608	48,480,297
	benefits	68,523,332	54,018,659	45,315,855	167,857,846
	Total Costs	78,485,530	95,760,052	95,760,052	270,005,634
	Total Benefits (low)	200,613,482	230,317,389	260,987,185	691,918,056
	Total Benefits (high)	282,745,429	391,270,340	497,557,994	1,171,573,763
	NET BENEFITS (low)	90,959,373	101,105,970	133,909,701	325,975,043
	NET BENEFITS (high)	173,091,320	262,058,921	370,480,510	805,630,750
	Net Present Value (NPV) at 12% (low)				**7,656,086**
	Net Present Value (NPV) at 12% (high)				**15,033,992**

Result Area 1: Improved Human Resource Management

57. **The net present value under this results area is estimated to range between a net cost of US$1 million and a net benefit of US$5 million as a result of controlling staffing and reducing the wage bill**. The analysis assumes two policy scenarios: one where the wage bill is reduced by 1% and another where the wage bill is reduced by 3%. The net costs under this results area are expected to be US$220 million, whether the wage bill is reduced by 1% or 3%. This

TABLE 15: RESULT AREA 1, SCENARIO 1(USD) WAGE BILL REDUCES BY 1%

Costs	2016	2017	2018	Total
Severance payments of redundant staff (5,000 people per year)	60,482,026	60,482,026	60,482,026	181,446,078
IBRD interest @ 0.65%	110,500	110,500	110,500	331,500
Front-end and commitment fee @ 0.5%	255,000			255,000
Financing costs (0.65% interest + 0.5% fee)	365,500	110,500	110,500	586,500
Unemployment benefits ($300 x 12 months x 5,000 people)		18,000,000	18,000,000	36,000,000
Job training and job search ($100 x 5,000 people)		500,000	500,000	1,000,000
Costs Subtotal	**61,213,026**	**79,203,026**	**79,203,026**	**219,619,078**
Benefits	**2016**	**2017**	**2018**	**Total**
Wage bill reduction savings	42,349,286	84,275,078	125,781,613	252,405,977
General Government total wage bill (BAU)	4,234,928,551	4,234,928,551	4,234,928,551	
Annual wage bill reduction	1%	1%	1%	
General Government total wage bill (after reduction)	4,192,579,266	4,150,653,473	4,109,146,938	3,940,173,289
Benefits Subtotal	**42,349,286**	**84,275,078**	**125,781,613**	**252,405,977**
Net Benefits	-18,863,740	5,072,052	46,578,587	32,786,899
Contingency (10%)	-1,886,374	507,205	4,657,859	3,278,690
Inflation (2%)	-377,275	101,441	931,572	655,738
Net Benefits	**-16,600,092**	**4,463,406**	**40,989,156**	**28,852,471**
Net Present Value (NPV) at 12%				**-1,231,863**

TABLE 16: RESULT AREA 1, SCENARIO 2 (USD) WAGE BILL REDUCED BY 3 %

Costs	2016	2017	2018	Total
Severance payments of redundant staff (5,000 people per year)	60,482,026	60,482,026	60,482,026	181,446,078
IBRD interest @ 0.65%	110,500	110,500	110,500	331,500
Front-end and commitment fee @ 0.5%	255,000			255,000
Financing costs (0.65% interest + 0.5% fee)	365,500	110,500	110,500	586,500
Unemployment benefits ($300 x 12 months x 5,000 people)		18,000,000	18,000,000	36,000,000
Job training and job search ($100 x 5,000 people)		500,000	500,000	1,000,000
Costs Subtotal	**61,213,026**	**79,203,026**	**79,203,026**	**219,619,078**
Benefits	**2016**	**2017**	**2018**	**Total**
Wage bill reduction savings	124,481,233	245,228,029	362,352,422	732,061,684
General Government total wage bill (BAU)	4,149,374,439	4,149,374,439	4,149,374,439	
Annual wage bill reduction	3%	3%	3%	
General Government total wage bill (after reduction)	4,024,893,206	3,904,146,410	3,787,022,018	3,292,831,522
Benefits Subtotal	**124,481,233**	**245,228,029**	**362,352,422**	**732,061,684**
Net Benefits	63,268,207	166,025,003	283,149,396	512,442,606
Contingency (10%)	6,326,821	16,602,500	28,314,940	51,244,261
Inflation (2%)	1,265,364	3,320,500	5,662,988	10,248,852
Net Benefits	**55,676,022**	**146,102,003**	**249,171,468**	**450,949,493**
Net Present Value (NPV) at 12%				**5,260,694**

includes financial costs (interest payments, fees) as well as socio-economic costs (unemployment benefits and assistance in job training and job searching for retrenched staff). The opportunity cost of staff time spent on reforms was not counted separately because they program financing covers salaries of staff who will be working on these reforms full-time. As such, we assume that staff are not making a trade-off between their regular tasks and these reforms. The net benefits under this results area are expected to be US$252 million if the wage bill is reduced by 1% and US$732 million if the wage bill is reduced by 3%. This includes savings in the general Government wage bill. To estimate the size of the agreed reductions, we assume that the wage bill from 2016 to 2018 would remain at the 2015 end-of-year level. The 2015 wage bill is assumed to be 1% (or 3%) lower than the reported general Government wage bill from 2014 which is US$4.1 billion. Assuming that the wage bill decreases by 1% (or 3%) year-to-year in 2016-2018, the cumulative value of the reductions for the entire period will then range between US$252 million and US$732 million.

Result Area 2: Improved Financial Management

58. **The net present value under this results area is estimated to be US$4 million as a result of efficiency gains from the increased use of FMIS and savings from reducing Government expenditure arrears.** The net costs under this results area are estimated at US$48 million. This includes financial costs such as interests, fees, as well as foreign exchange premium for FMIS hardware and software to be purchased. The opportunity cost of staff time spent under the implementation of these reforms was not counted separately because they program financing covers salaries of staff who will be working on these reforms full-time. As such, we assume that staff are not making a trade-off between their regular tasks and these reforms. The net benefits under this result area are estimated to be US$168 million. This includes savings from higher operational efficiency. As more users enrol in FMIS, financial department staff (direct budget beneficiaries) are expected to spend less time liaising and coordinating with those currently not using FMIS in schools and prisons (IBB). Most of the gains under this result area – such as those coming from a reduction in arrears and increased efficiency in cash management through improved commitment controls – are not measurable in monetary terms since they do not bring any tangible benefit, but instead enhance reputation and financial credibility of the Government. Therefore, we quantify the benefits from extending FMIS coverage to include IBB as a proxy.

TABLE 17: ECONOMIC ANALYSIS RESULT AREA 2 (USD)

Costs	**2016**	**2017**	**2018**	**Total**
Staff time spent on FMIS training	7,847,622	7,853,094	7,853,094	23,553,810
Current repair and maintenance of FMIS equipment	8,213,459	8,218,514	8,218,514	24,650,487
Financing costs (0.65% interest + 0.5% fee)	86,000	26,000	26,000	138,000
Costs Subtotal	**16,233,081**	**16,123,608**	**16,123,608**	**48,480,297**
Benefits				
Arrears (total value of unsettled commitments)	90,654,206	54,392,523	32,635,514	
Annual arrears reduction (40% per year)	40%	40%	40%	
Expenditure arrears after reduction	54,392,523	32,635,514	19,581,308	
Savings from arrears reduction	36,261,682	21,757,009	13,054,206	71,072,897
Time savings of FM Staff (25% reduction)	32,261,650	32,261,650	32,261,650	96,784,949
No. of employees in financial departments (FTE)	19,400	19,400	19,400	
average gross annual wage of FD employees	6,652	6,652	6,652	
% reduction in time spent	25%	25%	25%	
Benefits Subtotal	**68,523,332**	**54,018,659**	**45,315,855**	**167,857,846**
Net Benefits	52,290,251	37,895,051	29,192,247	119,377,549
Contingency (10%)	5,229,025	3,789,505	2,919,225	11,937,755
Inflation (2%)	1,045,805	757,901	583,845	2,387,551
Net Benefits	**46,015,421**	**33,347,645**	**25,689,178**	**105,052,243**
Net Present Value (NPV) at 12%				**3,748,664**

59. **To estimate the magnitude of potential efficiency gains from extending FMIS to IBB, we estimate the number of staff working in financial departments**. Since the number of staff working in financial departments of IBB is not readily available, we estimate it by multiplying the total of 484,989[13] employees working in public sector institutions not covered by the FMIS by the 4 percent estimated share of employees working in financial departments taken from the database compiled through functional review of public administration institutions currently prepared by the WB. The estimate of average annual salary is performed using the data from the registry of public sector employees. The average annual gross salary of financial department staff is US$6,652. The assumed total reduction in working hours spent by financial department employees is 3percent which results in annual savings of approximately US$3.9 million.

60. **The benefits also include savings from reducing the Government expenditure arrears.** Arrears, as defined by the total value of unsettled commitments, are expected to be reduced by 40 percent each year. If these reductions are achieved, then the potential savings fare estimated at US$71 million.

Result Area 3: Improved Procurement Management

61. **The net present value under this results area is estimated to be US$4 million as a result of reduced prices of commonly procured goods using Framework Agreements and time savings for procurement staff, vendors and bidders.** The Program will support training of officers involved in the procurement process in order to increase the share of public administration procurement over 5 million RSD completed from 120 days to 90 days, which is equivalent to a 25 percent decrease. The net costs under this results area are estimated to be US$2 million. These include financial costs such as interests and fees. The opportunity cost of staff time spent under the implementation of these reforms was not counted separately because program financing covers salaries of staff who will be working on these reforms full-time. As such, we assume that staff are not making a trade-off between their regular tasks and these reforms. The benefits under this results area are estimated to be US$194 million. This is estimated through savings on reduced prices as a result of commonly procured goods through Framework Agreements, public sector procurement staff salaries, and vendor salaries.

62. **Using Framework Agreements to purchase common goods in bulk can lead to savings of at least US$28 million.** To estimate the savings from price reductions as a result of framework agreements, we looked at bulk order of drugs. Until recently Serbia had a system in which each hospital, primary health centre and pharmacy procured drugs individually. Rather than competing on price, suppliers competed on the amount of "rebates" they offered to the hospital or pharmacy, which were often a third of the purchase price. Once Framework Agreements were used to procure a third of the drugs used in the Serbian health care system, the prices achieved through this process were on average 27 percent lower than before.

63. **The analysis calculates the amount of salaries saved as a result of a 25% decrease in processing time of procurement that is categorized as large.** According to the PPO annual

[13] This number represents the difference between the total of 500,538 employees working in the public sector and an estimate of 15,549 employees working in institutions covered by the FMIS (based on the dataset from the horizontal functional analysis of the central Government compiled by the WB)

report in 2014 there was comparable number of large and small procurement transactions in public sector. There were 30,897 large procurement procedures and another 28,624 small ones initiated, out which 26,046 and 25,328 were successful within the large and small category, respectively. Assuming that procurement staff dedicates 80% of their time to procurement tasks, and that it takes three times as many working hours to process a large versus small procurement, it follows that procurement employees are spending 60% of their time processing large procurement. This translates into 15% working hours saved under this result area.

64. **The analysis uses proxies to estimate the number of public procurement staff and their salaries.** To determine the number of public procurement staff, the percentage of full time equivalent (FTE) staff working on procurement are calculated form a functional review of public administration institutions currently underway. Part of this review assesses the allocation of employees to different functions identified within the portfolio of institutions, which enables us to determine the share of employees working on public procurement related tasks (1.3 percent). The 1.3% coefficient was taken from the sample and multiplied by the total number of staff in the Serbian public sector (500,538), to get the total of 6,500 as a proxy. To determine the average annual salary, the analysis used the average of the salaries from the staff working in procurement ($6,305). This generates a result of approximately $24.6 million in savings from efficient procurements.

TABLE 18: ECONOMIC ANALYSIS RESULT AREA 3 (USD)

Cost	**2016**	**2017**	**2018**	**Total**
Procurement staff time	413,423	407,418	407,418	1,228,259
IBRD interest @ 0.65%	26,000	26,000	26,000	78,000
Front-end and commitment fee @ 0.5%	600,000			600,000
Costs Subtotal	**1,039,423**	**433,418**	**433,418**	**1,906,259**
Benefits	**2016**	**2017**	**2018**	**Total**
Savings reduced price procurements of pharmaceuticals using Framework Agreements (2014 actuals)	27,000,000	27,000,000	27,000,000	81,000,000
Time savings for vendors and bidders (15% reduction using minimum wage estimates)	27,572,285	27,572,285	27,572,285	82,716,854
Time savings for PP staff (15% reduction)	6,147,311	6,147,311	6,147,311	18,441,934
volume of large PP transactions	2,780,490,691	2,891,710,319	3,007,378,732	
assumed annual increase in volume	4%	4%	4%	
number of large PP transactions	28,472	28,472	28,472	
number of PP employees (FTE, estimate)	6,500	6,500	6,500	
average gross annual wage of PP employees	6,305	6,305	6,305	
% reduction in large procurement processing	15%	15%	15%	
Benefits Subtotal	**58,572,285**	**58,572,285**	**58,572,285**	**194,158,788**
Net Benefits	57,532,862	58,138,867	58,138,867	192,252,529
Contingency (10%)	5,753,286	5,813,887	5,813,887	17,381,060
Inflation (2%)	1,150,657	1,162,777	1,162,777	3,476,212
Net Benefits	**50,628,918**	**51,162,203**	**51,162,203**	**171,395,258**
Net Present Value (NPV) at 12%				**4,220,554**

65. **The estimated benefits can also be expressed in terms of the number of employees that could potentially be reduced as a result of achieving higher efficiency of public procurement processing under the program.** For example, a reduction in the total working hours by 15%, the estimated annual savings is US$6.1 million, which can pay the salaries of 975 staff per year. The benefits could also be expressed in terms of the number of additional

procurement transactions that could be handled. For example, a reduction in large procurement processing time by 25%, this translates to 6,500 full time procurement staff handling 4,271 more transactions per year.

66. **Savings on vendor staff salaries represent a potential benefit estimated at US$206 million.** If processing time is reduced by 25percent, this would also save salaries of vendors who would now be spending less time and labor preparing and submitting bids. To estimate this, the analysis assumes that there will be a minimum of 2 bidders per transaction and multiply this by the number of transactions (28,472). For vendor staff salaries, the analysis annualizes the minimum wage. All of these components are multiplied by 15 percent in order to quantify the value of the time saved on the vendor side as a result of more efficient procurement processes.

VII. EVALUATION OF TECHNICAL RISKS

67. **The technical risks to Program implementation are Substantial**. Three risks and their mitigation measures are highlighted here: coordination across Government; institutional capacity; and policy continuity. This section also addresses the risk of backtracking on the retrenchment of public employees after the Program period. Table 13 provides a summary of technical risks and mitigation measures. The Program risk matrix is presented in Annex 7.

68. **The principle risk arises from the need for close coordination and collaboration across the whole of Government for effective implementation of the Program.** All of the reforms under the Program tighten central controls over human resources, public finances and public procurement at the expense of budget entities. While these reforms will generate efficiency gains, the gains will come at the expense of agency level management discretion. Consequently, some management resistance to reforms should be anticipated. The large number of institutions involved in the implementation of these reforms is likely to pose a challenge whether or not there is management resistance. At the very least, there is a risk that the central agencies managing reforms – MPASLG, MoF Treasury and PDO – will not be able to follow-up on implementation and tackle implementation problems in a timely manner. The Government has put in place a structure for coordination of the PAR Strategy that allows issues to be addressed at a technical level in an Inter-Ministerial Working Group and then escalated to senior civil servants and ultimately to the political leadership. These arrangements should provide an adequate basis for coordination. Technical assistance provided by the EU in support of a parallel Sector Budget Support operation will provide help strengthen MPASLG capacity to manage its coordination function. Technical assistance provided under an EU-financed RETF under the Bank's Rightsizing and Restructuring Project will support the implementation of a communication strategy aimed at mobilizing support for the reforms both within and outside of Government.

69. **Limited capacity in the key implementing institutions also poses a substantial risk to Program implementation.** MPASLG is a new institution. Senior management has considerable experience in the implementation of complex public administration reforms but middle management and technical grades do not. Staff are already stretched managing routine functions and have limited time to dedicate to the monitoring and analytical demands of the Program, let alone the massive tasks of job evaluation and grading. The MOF and PPO are also stretched their existing managing routine functions. Implementation of the Program will not significantly change the workload for the MOF, though the Action Plan does require improvements in budget

preparation and monitoring. The Fiduciary Assessment has recommended increases in the staffing of the Budget Department, which is particularly stretched during peak times of the budget calendar. The proposed centralization of procurement under the Program through the use of Framework Contracts will significantly increase the PPO's work load. The Program also entails significant increases in workload for the policy units and administrative departments of Ministries across Government for the preparation of functional reviews, retrenchment plans, implementing of job evaluation and grading as well as improvements in budget preparation, budget monitoring and in procurement management. The Program will provide support to these functions across Government through training. Additional support will be provided through parallel technical assistance operations, which includes funding for advisory services across the reform agenda, contractual services to support labor intensive job classification and regarding and training programs. Technical assistance provided by the EU in support of a parallel Sector Budget Support operation will provide support for human resource management and financial management reforms across Government. The EU-financed RETF under the Bank's Rightsizing and Restructuring Project will support the implementation of functional reviews and rightsizing in key sectors. A DfID-financed technical assistance project will provide support to Public Procurement reforms.

70. **Changes in Government may lead to changes in policy priorities and commitment to the Program.** Elections will take place during Program implementation, possibly as early as 2016. Any change in Government poses the risk of changes in priorities. This is particularly true of politically challenging reforms such as those involving large scale retrenchment of public sector employees. The sequencing of important measures might be influenced by political calculation or activities simply dropped. This risk is mitigated by the commitments made to international institutions regarding the implementation of the Program as part of the broader PAR Strategy, notably commitments to the IMF under the Stand-by Arrangement through to 2018, and in the context of the longer-term process of accession to the EU.

71. **There is a risk that the Government may backtrack on efforts to right size the administration by rehiring large numbers of staff after the Program period.** This risk has materialized in other countries, undermining the rationale for the Bank intervention in civil service reform. Serbia's own experience over the last fifteen years demonstrates how Governments can lose control of staffing numbers and public employment can increase to unsustainable levels very quickly. It is not possible to entirely eliminate this risk. However, the Program has learned from the Bank's experience and includes a number of features that are intended to strengthen controls and hinder excessive growth of public employment in the future: first, the Law on the Maximum Number of Employees effectively caps the number of positions for each institution; second, staffing information will be consolidated in a single registry which is directly linked to payroll so as to facilitate monitoring and control; and third, the implementation of retrenchment plans will reflected in the registry through the closure of positions where staff are transferred or made redundant.

TABLE 19: SUMMARY OF TECHNICAL RISKS AND MITIGATION MEASURES

Issue	Description	Mitigation
Limited capacity for implementation	Weak implementation capacity may jeopardize progress towards the achievement results. Introduction of new activities to support achievement of results might require additional personnel with specific kinds of expertise in implementing agencies and across Government.	Bank support during implementation. Parallel Bank-executed technical assistance, complemented by support from EU, OECD SIGMA and the IMF. The Joint Government- Donor Working Group on Public Administration Reform convened by the Minister of MPALSG helps to coordinate support to reforms.
Weak coordination across the key implementing agencies and across the whole-of-Government	The Program requires the coordination of reforms across the implementing agencies, particularly as regards links between human resource management and procurement and measures taken to strengthen expenditure control. Reforms will then need to be rolled out to the whole of Government. This will require a high level of coordination and collaboration between the Ministries and central agencies implementing the Program.	The Program is encompassed in the coordination arrangements for the PAR Strategy. This provides adequate arrangements for coordination at an operational and a technical level, with a means of escalating issues to the PAR Council chaired by the Prime Minister if necessary.
Political commitment to reforms	Policy priorities and the level of commitment to the Program may change. This risk is particularly acute given that there will be elections in the Program period and because the Program entails politically challenging reforms, notably large-scale retrenchment of public employees.	The Government has entered into commitments regarding the implementation of the Program as part of the broader PAR Strategy, in the context of the IMF Stand-by Arrangement through to 2018, and the longer-term process of accession to the EU

ANNEX 5: SUMMARY PROGRAM FIDUCIARY ASSESSMENT

1. **The fiduciary assessment argues that Serbia's financial management and procurement systems are adequate to ensure appropriate use of Program funds and safeguard Program assets: fiduciary risk after mitigation measures is rated as substantial**. The fiduciary assessment examined Government-wide systems and the capacity of the three implementing entities that will be responsible for implementing most of Program activities and account for 99 percent of Program Expenditures: the MPALSG; Treasury Administration and the PPO. The summary fiduciary assessment addresses financial management, procurement and anti-corruption risks and risks mitigation measures in turn.

FINANCIAL MANAGEMENT

Planning and Budgeting

2. **Planning and budgeting capacity in Program implementing entities is assessed to be sufficient.** MPALSG, TA and other involved entities prepare financial and medium-term plans. Staff qualified and with substantial experience in budget preparation process are in charge of these tasks. They adhere to the provisions of the Budget System Law and prescribed budget calendar, sequence of steps and content of budget documentation. Program expenditures are included in financial plans of program implementing entities and the annual budget law for 2016, as well as in medium-term expenditure ceilings for 2017 and 2018.

3. **The BSL requires the preparation of three-year medium term expenditure framework (MTEF).** The MTEF is revised every year and included in a Fiscal Strategy Report. But the forecasts of macroeconomic parameters that are the basis for preparing the MTEF are often inaccurate, over-estimating GDP growth and overestimating resource availability. Moreover, MTEF projections for the outer years are not taken seriously by budget entities. According to the Government's PFM Strategy, the MTEF and projections for the two years following the budget year are not 'considered and observed.' Estimates and ceilings are not taken as the starting point in preparation of following years' budgets.

4. **The Budget System Law provides for an orderly budget process, though deadlines have not always been met and the capacity for budget analysis is limited.** While the submission of the budget proposal to the National Assembly has been timely in 2013 and 2014, submission of the budget proposal for 2015 was delayed and limited the time available for legislative review, though Budgets have consistently been adopted by the Parliament before the current year end. The MoF Budget Department has to negotiate with a large number of budget entities – 54 entities in 2014 – overwhelming the Department's limited capacity. MoF instructions for the preparation of the draft annual budget do not reflect the priority areas for financing indicated by the budget entities. Budget negotiations are also hampered by lack of a clear separation between costs of the existing and new policies in the budget requests. Government has introduced a new by-law (April 2015) to improve the assessment the impact of new policies but it is too early to assess its results. Further improvements in the budget processing will require strengthening the staffing and capacity of the MoF Budget Department.

5. **The Budget provides adequate detail on proposed expenditures and, at an aggregate level at least, is a reasonable guide to actual outturns.** The Rulebook on Standard Classification Framework and Chart of Accounts for the Budgetary System adopted in 2009 includes administrative, functional and economical classifications that are consistent with

Government Financial Statistics (GFS) 2001. Non-financial performance targets have been included in the Budget for the first time in 2015, following the transition to program budgeting format aimed at ensuring greater transparency and higher degree of accountability for results. Approved appropriations can be altered, but the rules are clear and limit individual changes of appropriations to 5 percent according the Budget System Law. Over the period 2011, 2012 and 2013 actual expenditure deviated more than 10 per cent of initially budgeted expenditures once, in 2011 when the actual expenditure was 12 percent less than the budgeted amount. This was largely due a Government re-organizational structure which hindered budget implementation.

6. **Program implementing entities have submitted their financial plans to the MOF timely and in line with the budget calendar over the past three years.** Their track record for timeliness in submission by the Government of the annual budget proposal and its approval by the National Assembly is overall solid. The Program implementing entities have included Program Expenditures in their financial plans and these have been reflected in the budget law for 2016 and medium-term expenditure ceilings for 2017 and 2018. This includes provision for severance payments, which accounts for around 80 percent of estimated Program cost.

Transparency

7. **The availability of budget and budget execution documentation to the public is assessed as partial overall.** Documentation that must be submitted to the National Assembly for review and approval of the annual Budget is specified in the Budget System Law. The principal documents, annual budget and year-end financial statements, are readily available to public. Non-financial performance targets have been included in the Budget for the first time in 2015, following the transition to program budgeting format aimed at ensuring greater transparency and higher degree of accountability for results. With the exception of monthly Public Finance Bulletin, which presents aggregate expenditure figures, availability of in-year budget execution reports to the public is partial. Monthly Public Finance Bulletin is published on the web site of the MoF, but other official in-year budget execution reports are only available upon request from the relevant institutions (MoF, Government and National Assembly). Implementing entities prepare quarterly budget execution reports which include Program expenditures. Although foreseen as a measure in the Anti-Corruption Strategy, Budget Inspection Annual Report is not yet published by the MoF. Financial statements are published as the proposal of the Law on the Final Account submitted by the Government to the NA for approval. All external audit reports are widely accessible through the web site of the SAI and are published without delay.

Accounting and Financial Reporting

8. **The accounting system has adequate capacity to track and report actual Program expenditures against a comprehensive budget classification system.** Budget control and monitoring are managed by the Treasury Administration (TA) through a centralized transaction processing system and captured in the Treasury Main Ledger (TML). TML, running on SAP platform, captures all revenue and expenditure transactions with relevant coding structures which follows the organizational, functional, program, economic and source-of-funds classification. The accounting arrangements facilitate detailed analysis. All the entities involved in the Program use the standard Government classifications and their transactions are captured in the TML. The TML system is assessed to be reliable. Budget beneficiaries, maintain additional accounting records and auxiliary ledgers which they reconcile with TML in the course of preparation of their budget execution reports. Accounting and financial reporting in the entities involved in the

Program is of acceptable level. These institutions employ qualified and experienced staff working accounting and financial reporting. There are written accounting policies and procedures which are applied in practice. They maintain the prescribed accounting records and submit the statutory in-year budget execution reports and annual financial statements.

9. **Government's accounting and financial reporting is performed on cash basis, which meets the Bank's requirements for Program financial reporting.** Under the Decree on Application of International Public Sector Accounting Standards (IPSAS), the officially prescribed accounting standards for Direct (DBBs) and Indirect Budget Beneficiaries (IBBs), users of funds of mandatory social insurance organizations, and budgetary funds of the Republic as of 2010 are the cash-based IPSAS. All Program implementing entities are subject to this regulation. By-laws issued by the MoF prescribe specific accounting policies and reporting templates and, consequently, IPSAS implementation continues to be indirect, applied within the limits imposed by the national framework.

10. **Program expenditures will be reported through quarterly reports on budget execution prepared by implementing entities.** All DBBs prepare and deliver budget execution reports to the Treasury within twenty days from the end the quarter (except for the first quarter) on the level of categories of expenditure in line with the Chart of Accounts (CoA). These budget execution reports will be considered as financial reports used for monitoring the Program expenditures. MoF produces reports on budget execution in the course of the budget year which are submitted to the Government and the National Assembly fifteen days after the end of the second and third quarters. No such report is generated for the first quarter. These reports are aggregated on the highest level of economic classification and thus comparable to aggregate figures contained in the annual budget. MPALSG and other assessed entities deliver prescribed reports in line with legislation with no exception and the reports are assessed to be reliable. In-year budget execution reports are prepared and submitted in one of the forms included also in the final account, namely Budget Execution Report (Form 5), which ensures consistency between in-year reports and the final account.

11. **Annual financial statements are prepared by the Treasury Administration (TA) and made available for audit in June within six months from the end of the relevant period.** Implementing entities prepare annual financial statements using their accounting records, auxiliary ledgers and reports from their respective indirect beneficiaries, after reconciling such information with the Treasury Main Ledger (TML), by the end of March in the following year. The Treasury consolidates and based on such inputs and data in the TML prepares the Government's annual financial statements (final account). Annual financial statements are submitted to the MoF who submits them for audit by the SAI in June. The deadline for submission is fixed in the BSL and is consistently observed, with a minor slippage of several days in 2013 and 2014. The format of the Final Account is comparable to that of the approved Budget and shows the budget allocation, executed budget figures and the differences between the two. The final account subject to the audit includes following financial statements: Balance Sheet, Revenue and Expenditure Statement, Statement of Capital Expenditures and Receipts, Cash Flow Statement, Budget Execution Report.

12. **The quality of financial statements is assessed to be adequate as it pertains to budget execution, revenues and expenditures, providing reliable information about Program expenditures**. Program expenditures are integral part of Government's annual financial statements (final account). Quality and reliability of Balance Sheet items is somewhat

questionable as cash basis accounting and information system impede maintaining quality financial information for accrual based financial items, however prevailing local regulation prescribes preparation of a Balance Sheet based on a chart of accounts aligned with that of the corporate sector. The Final Account of the Budget of the Republic received a qualified opinion from the SAI for FY 2013 as regards financial statements and the treatment of financial and non-financial assets in the Balance Sheet.

Treasury Management and Flow of Funds

13. **The Consolidated Treasury Account System (CTAS) has comprehensive coverage and functions efficiently, hence it will be relied upon for expenditure payments under the Program.** CTAS is the consolidated treasury single account of the Republic of Serbia and local Government treasuries for Serbian dinars (RSD). It is managed by the Treasury Administration. CTAS includes all relevant cash resources of the Government and captures cash flows related to Government revenue and expenditure. It is used for execution of payments between beneficiaries of budget funds, beneficiaries of Mandatory Social Security Insurance Organizations and other beneficiaries of public funds included in the CTAS, from one side, and entities not included in the CTAS, on the other side, accounting for interbank payments. All entities involved in the Program are operating within the RSD CTAS. Foreign currency funds have not yet been integrated within the CTA, so foreign currency transactions are consolidated in Treasury reports only in certain intervals. Integration of these funds within the CTA is one of the next steps in the Government's reform and it is expected to be implemented by 2016.

14. **Annual budget execution for direct budget beneficiaries (DBB), including Program implementing entities, is orderly.** The budget is executed through the Budget Execution System (BES), an FMIS application, which is managed by the Treasury Administration. As of 2015, BES covers the direct budget beneficiaries but not the IBB. Implementation of earlier plans to extend the coverage to IBB has been successively postponed. All the entities involved in the Program are categorized as DBBs and are subject to Treasury-administered controls integrated in the BES.

15. **Ex-ante commitment controls are exercised by the implementing entities and subsequently channeled through the TA in the commitment and payment approval stages.** The decision and responsibility (ex-ante controls) for assuming commitments rests with the management of individual budget beneficiaries, including Program implementing entities. Commitments created by Program implementing entities must conform to the appropriation approved for such purpose in the budget year. BES has rigorous application controls that prevent any payments that would exceed the determined quotas or overall annual budget appropriations. In practice, it is possible for the budget beneficiaries to assume commitments within the budget appropriation but not be able to execute them against the subsequently set lower monthly quotas. In such cases, the budget beneficiary may apply to the TA for a change of the quota. Legislation requires the TA to decide upon such request guided by a projection of budget revenue and income, budget execution of a budget beneficiary in the previous period and by the appraisal of financial planning performance. If the increase of the quota is not approved, this could potentially lead to payment arrears. While the accumulation of arrears is a significant problem in Serbia, the risk for the Program is assessed as low because the Program implementing entities have no reported arrears.

16. **Cash management practices exercised by the TA are sound.** Cash liquidity is managed by the TA. TA prepares a cash flow forecast for the fiscal year and updates it monthly on the basis of actual cash inflows and outflows. In practice, cash planning is on a month-to-month basis, where the DBB estimate monthly cash requirements through plans for budget execution and the TA approves their "quota", i.e. ceiling, by the 15th of the preceding month. Program implementing entities submit such quarterly plans for budget execution each month on rolling basis.

17. **Program funds will be disbursed based on the achievement of DLIs.** The Program provides for advances of the loan funds up to 25% of the loan amount. The Government will provide evidence and documentation on the achievement of DLIs at the end of each year. The Bank will determine Program funding in line with the validation protocols for each DLI, the advances will then be converted into disbursements freeing up space to next advance up to 25% of the loan amount. The DLIs achievement and disbursement will be scalable according to the level of achievement assessed by the task team based on the verification protocol. It will be monitored that the level of disbursed funds based on achieved DLIs does not exceed the level of total Program expenditures incurred over the implementation period. In the case that disbursed funds exceed the level of incurred Program expenditures, the excess amount will need to be reimbursed to the Bank. Loan funds will be disbursed to a government account held at the National Bank of Serbia or Consolidated Treasury Account, and will be accounted for in the budget management information system as income.

Internal Controls and Internal Audit

18. **Internal controls provide a satisfactory control framework for the Program.** There is long standing traditional system of written internal controls and procedures within all implementing entities. This system provides a sound framework and covers key controls, such as: authorized signatories for transactions and approvals; segregation of duties; accounting checks and controls; all operations cycles covered by appropriate internal acts. There are written internal acts and rulebooks which describe procedures and controls applied for all relevant cycles of transactions. The control system is complied with in practice and is assessed to be adequate.

19. **Implementation of Financial Management and Control (FMC) as defined by PIFC is still in its early stages.** There is a legal framework for a functional public internal financial control (PIFC) system including financial management and control (FMC) and internal audit (IA). However, recent assessments of public administration conclude that, despite extensive training on FMC concepts, the objectives and benefits of a fully operational FMC system are still poorly understood across the public sector. MoF will need to provide guidance on implementation of managerial accountability in practice to support the ongoing transition from input- to result-based management of resources. The FMC framework still lacks some of the requirements for a modernized sound system of public internal controls such as: setting of objectives; formalized risk assessment procedures; establishment of relevant and cost-effective internal controls to provide reasonable assurance; delegation of responsibilities and authority; documentation and audit trails.

20. **The assessment showed that key internal controls are instituted and applied within Program implementing entities.** These include: appropriate authorizations and approvals of all purchases, relevant documentation, transactions of payments; segregation of duties so that different persons are responsible for different phases of a transaction; reconciliations between

accounting records and TML; filing of original documentation to support all project transactions. In addition to the above, the Treasury Administration exercises the following controls for execution of the budget: no payments are processed if exceeding annual budget appropriations (hard control in the FMIS); no payments are processed if they exceed monthly payment quotas (hard control in the FMIS); only authorized personnel of users of public funds can access FMIS; only authorized signatories approve requests for payment; and appropriate supporting documentation for payments is required before authorization.

21. **Internal audit unit has been established and made functional in the Program implementing entities but requires substantial institutional, methodological and capacity development.** IA reports are considered an internal enactment of the respective institution and are not normally distributed outside of the institution, except to the SAI upon request. In the recent years, issues have been reported with respect to independence of internal auditors. It has likewise been noted that quality assurance of their work needs further attention. Implementation and follow up of recommendations of internal audit is limited and needs improvement. On a positive note, a substantial number of Internal Audit Departments (IADs) follow strategic/annual risk-based audit plan. Many of the practicing public sector internal auditors are trained and certified under a program designed and implemented by Central Harmonization Unit (CHU) of the MoF, involving in-class and practical on-the-job training. All Program implementing entities have established internal audit function, which is operational but in a need of further capacity strengthening. Internal audit units consist typically of several people and conduct audits in line with annual audit plans which they prepare. MPALSG and TA have only one employee in their internal audit departments. The Program will not rely on findings of internal audit as an instituted and agreed measure of confirming appropriate fiduciary arrangements for the program during implementation, but it will consult reports of internal audits for entities involved in the Program as an additional source of information.

Program Audit

22. **SAI audit of Government's annual financial statements (the final account) will be considered as the audit of the Program**. The Government's annual financial statements (final account) which are subject to financial and compliance audit by the SAI. The audit of the final account for the previous year is delivered by the SAI by the end of the year following the audited period. The SAI issued modified qualified opinion on the final account for 2013. Qualifications related the incomplete information on fixed assets and inability to verify asset valuation.

23. **SAI has seen significant development in recent years in terms of number of staff, organizational structure and audit methodology.** The mandate of the SAI is exhaustive, and its remit includes financial, compliance (regularity) and performance audits of all public entities, in accordance with national and international auditing standards. SAI performs its audits based on a risk-based Annual Audit Plan which has to be adopted by the end on the current year for the subsequent calendar year. SAI subscribes to the International Organization of Supreme Audit Institutions' (INTOSAI) International Standards of Supreme Audit Institutions (ISSAIs). The institution conducted its first performance audit in 2013, and the most recent development relates to establishing quality control department within the institution. Manuals for financial and compliance audits, performance audits and quality control were formally approved in April 2015. As a part of financial and compliance audits, apart from accuracy of financial statements and compliance with laws and regulations, SAI also examines the FMC systems (including internal control systems) and IA.

24. **SAI's capacity is assessed to be adequate and the audit of the final account will be considered as the audit of the Program**. Program expenditures are integral part of the final account and are audited annually within the audit of the Final Account. The World Bank has agreed with the SAI that the audit report will include an explanatory note which will detail program expenditures specifically. The SAI is assessed to have sufficient capacity to produce reliable audit providing sufficient assurance about the use of Program funds.

TABLE 20: SUMMARY OF KEY FIDUCIARY RISKS AND MITIGATION MEASURES

Primary Risks	Potential Impact on Program	Key Mitigation Measures
Planning and Budgeting		
Unreliable medium-term expenditure ceilings	Programs included in the expenditure framework not executed; risk to achievement of DLIs	Focus on key programs/program activities/projects as indicated in the expenditure framework, with relatively high certainty of being included in the budget over the implementation period and with realistic cost estimates available.
Inadequate budgetary allocation for Program activities by the Government	Programs included in the expenditure framework not executed; risk to achievement of DLIs	Funds safeguarded as the program design ensures achievement of DLIs is a prerequisite for funding Risk to implementation mitigated by focus on including vital programs and activities in expenditure framework
Accounting and Financial Reporting		
In-year reports with varying scope and level of aggregation	May restrict monitoring and determining amount of program related expenditures and affect disbursement and decision-making for sound Program implementation	Specify the frequency, scope and level of detail for reporting for the participating institutions
Poor quality annual financial statements	Poor quality Program annual financial statements could affect program monitoring and decision making	- Specify the frequency, scope and level of detail for reporting for the participating institutions - Reporting system entails reconciliation of implementing entities' accounting records and Treasury Main Ledger, constituting double layer reporting mechanism and system of controls - Annual financial statements audited by the SAI
Treasury Management and Funds Flow		
Delays in releasing, and insufficient Government funds	Insufficient funds available for Program implementation	- Commitment by the Government to ensure adequate funding and improvements of commitment control and cash management through technical part of the program
Internal Controls and Internal Audit		
Weaknesses in internal control systems and cases of accountability of funds	Risk of Program funds not being used for the intended purposes	Annual risk-based fiduciary reviews/supervision to be conducted on the Program in order to verify the use of funds for intended purposes External audit conducted by the SAI
Weak capacity of internal audit function in terms of staff numbers and skills and lack of functional independence	Inadequate internal audit coverage	- Annual risk-based fiduciary reviews/supervision to be conducted on the Program in order to verify the use of funds for intended purposes - External audit conducted by the SAI

Primary Risks	Potential Impact on Program	Key Mitigation Measures
Insufficient capacity of the budget inspection to cover all program expenditures	Risk of Program funds not being used for the intended purposes	- Annual risk-based fiduciary reviews/supervision to be conducted on the Program in order to verify the use of funds for intended purposes - External audit conducted by the SAI
External Audit and Oversight		
Lack of capacity by SAI for audit of all Program entities in terms of staff numbers and budget allocation	Affect timeliness and quality of Program audits	-Official letter to the SAI to agree on the SAI including additional explanatory note in the audit of the final account, which would detail program expenditures
High incidence of audit report qualifications	Indication of noncompliance with FM procedures and possible misuse of funds	Preparing action plans to address the identified issues and the Bank's follow up and monitoring of implementation of the actions

PUBLIC PROCUREMENT

25. **The regulatory framework public procurement is largely aligned with the EU *acquis* and provides all the elements required for a functional system**. The Serbian Public Procurement Law (PPL) effective as of April 1, 2013, amended in August 2015 defines the procurement environment. The procurement system legislation, rules and procedures are clearly established and easily accessible to the public. The PPL applies to procurement of goods, works and services purchased by state and local Government authorities, State Owned Enterprises (SOEs) and legal persons that use funds provided by the Government of Serbia or local self-Governments. PPL provides for increased transparency in public procurement processes, lays down comprehensive rules for procurement planning, simplifies the procedures for demonstrating compliance with mandatory bidding requirements, provides for the creation of a single register of bidders, reduces the scope for arbitrarily rejecting bids, imposes a duty to record and monitor the implementation of public procurement contracts, regulates centralized public procurement and provides for the possibility of entering into framework agreements. Advance Payment Guarantees and Performance Guarantees are mandatory.

26. **Under the PPL, a wide range of procurement information must be published on the Public Procurement Portal**. This includes: all announcements of public procurements, by all contracting authorities, information on contract amendments; requests for the protection of bidders' rights; quarterly reports by contracting authorities on contracts signed and procedures conducted; and the opinions of the PPO on the use of the negotiated procedure. Access to the content posted on the Portal and its downloading by bidders and other interested parties is provided free of charge. Use of the portal has increased dramatically since the 2013 PPL went into effect. In the first year of implementation, the number of daily visits to the portal grew by 5,000, a 600 percent increase. The number of public procurement procedures announced daily averaged 130- representing a 200 percent increase.

27. **Amendments to the PPL approved in August 2015 have further strengthened the legislative framework.** Entities which have total estimated annual procurements of over one billion dinars must publish, on their websites, an internal plan for preventing corruption in public procurement, as well as information about their internal procurement procedures, their annual procurement plans and all decisions on contract awards and cancelation of procurement

procedures. To improve the efficiency of public procurement, the amendments raise the threshold for application of the law, impose shorter deadlines for submission of bids and allows for self-certification by bidders. Additionally, the amendments introduce the use of social criteria and consideration of life cycle costs as elements in evaluating bids, as well as an option of using "technical" product markings to define technical specifications and as selection criteria. Finally, the amendments implement a number of changes to streamline the appeals process and the operation of the Commission for the Protection of Rights.

28. **The 2013 Public Procurement Law also sets out the competences of the two core agencies responsible for public procurement systems: the PPO and the Commission for the Protection of Rights in Public Procurement Procedures (RC).** PPO has a broad mandate. It oversees the implementation of the PPL, participates in the drafting of procurement regulations, manages the Public Procurement Portal, prepares reports on public procurements, and provides technical assistance to contracting authorities and bidders. The Republic Commission for the Protection of Rights in Public Procurement Procedures is an autonomous and independent body of the Republic of Serbia which provides for grievance redress and tackles fraud and corruption in public procurement. The Commission reports directly to Parliament.

29. **Responsibility for conducting procurement is largely decentralized to budget holding entities.** There are about 4,900 registered contracting authorities, of which about 166 are central government entities. All of the contracting authorities publish bidding processes through the Public Procurement Portal administered by PPO. However, individual contracting authorities have varying levels of capacity and many unfamiliar familiar with procurement procedures. This has caused delays – it now takes about 120 days to complete a procurement procedure – and has also led to the purchase of inferior goods and services, as tenders are inadequately specified and contracts are awarded solely on the basis of price. Procurement planning is not fully integrated with preparation of budgets or multi-annual budget programs at all levels of Government. Larger works and goods are procured on behalf of most entities by centralized government procurement body, the UZZPRO. Framework Agreements, signed by UZZPRO, are used for procurement of common goods.

30. **Each of the Program implementing entities has a unit with one or more certified Procurement Officers who undertake procurement**. The procurement capacity of each entity is briefly reviewed below:

- **MPALSG** has a Division for Administrative Matters, Human Resources and Public Procurement staffed with three professionals one of whom is a certified and experienced Procurement Officer. MPALSG conducts procurement procedures for services (total value for 2015 is approximately RSD 50 million or approximately US$ 450,000) and some minor procurement for goods (total value for 2015 is approximately RSD 4,000,000, or approximately US$ 36,000). Works and most of the goods are procured on behalf of the Ministry by the UZZPRO.

- **PPO** has a Department for Financial Affairs with one certified public procurement officer who conducts minor procurement for services. Procurement for maintenance of the Public Procurement Portal is conducted through negotiated procedure without invitation to bid, because the vendor has ownership of the source code in line with the copyright law. The approximate value of procurement is RSD 2,000,000 or approximately US$ 18,000.

- **Treasury** has a Department for Legal and Administrative Affairs with five permanent professionals and additional staff to assist on the temporary basis. Staff have acceptable level of experience in public procurement. Procurement is focused on IT services and equipment, software maintenance and equipment and includes some goods, minor works and modest range of services.

- **NES** has a Public Procurement Department with a total of six staff sufficiently experienced in public procurement. In 2014, the Project Implementation Sector was formed within the NES, consisting of two departments: Department for Implementation of IPA Funds and a General Project Department.

- **Government Human Resource Management Service** (SUK) has a Department for Legal, Financial and General Affairs responsible for procurement. Procurement operations conducted are considered minor.

- **SAI** has a Department for Legal and General Affairs responsible for procurement. Two professionals are certified public procurement officers with experience in public procurement. The most used types of procedures are open and low cost procurement procedures, negotiated procedures without invitation are rarely used. Procurement undertaken consists of standard goods, some IT equipment and software. Total estimated value of public procurement for 2015 is approximately 33,000,000 RSD (approximately 300,000 USD).

31. **Procurement under the Program will follow the Government procedures.** The procurement procedures to be conducted under the Program are relatively modest and consist of IT equipment, consultancy services and training. None of the planned procurement activities, based on their estimated values at the time, will require review and approval of the Operational Procurement Review.

Complaints Handling and Grievance Mechanism

32. **The Republic Commission for Protection of Rights in Public Procurement Procedures (RC) is responsible for the administrative procurement complaints system.** A complaint may be lodged against any phase of public procurement procedure, as well as against decisions on contract awards. Amongst other responsibilities, the RC: decides on requests for protection of rights and appeals filed against the conclusion of the contracting authority and the PPO; monitors and controls implementation of its decisions; annuls public procurement contracts; and imposes fines on contracting authorities and conducts minor offense proceedings in the first instance.

33. **The Commission issues decisions that are binding for all parties, without precluding subsequent access to an external higher authority.** Further appeals can be made to the Administrative Court. The process for submission and resolution of complaints is clearly set out in the PPL by Articles 148-155 and 157 and is publicly available on the website of the RC (http://www.kjn.gov.rs/sr/zastita_prava/zahtev-za-zastitu-prava.html). Fees charged in the procedures of complaints, as detailed in article 156 of the PPL, are believed to be reasonable and not to prohibit access by concerned parties.

34. **The RC annual reports indicate that the number of complaints submitted and resolved are increasing.** From the entry into force of the new legal framework in April 2013 until December 2013, RC received 1,696 cases and reached a decision on 1,609 of these cases

leading to the annulment of 296 public procurement procedures. During the first half of 2014, RC received 1,442 cases, made 1,282 decisions (958 for protection of rights and 80 upon appeals to conclusions of the contracting authorities), leading to annulment of the public procurement procedure in 244 cases. Comparing the January 1-June 30 periods for 2013 and 2014, there were 37.66% more cases received in the latter, and 41.58% more cases resolved.[14]

35. **The high number of appeals has overwhelmed RC's capacity and led to some delays in the handling of complaints but processing times are improving.** Article 158 of the PPL states that the RC shall decide upon request for protection of rights whose content is in accordance with Article 151 of the PPL within 20 days from receipt of the request, and not later than 30 days. The RC shall decide upon appeal to conclusions of the contracting authorities within eight days from the day of receiving the appeal. In the second half of 2013, the average period deciding upon a request for protection of rights was 23.61 days, and the average period for deciding an appeal to conclusions of the contracting authorities was 14 days. In the first half of 2014, the respective averages were 19.84 days and 13.19 days. Between April and December 2013, out of the 1,609 decisions, 341 were not made within the deadline specified by the PPL.[15] During the first half of 2014, out of the 1,282 decisions, 177 decisions were not made within the deadline specified by the PPL.[16]

Control of Corruption in Procurement

36. **The PPL lays out specific measures for prevention of corruption and conflict of interest in public procurement.** Each contracting authority is required to pass an internal act which regulates in detail the manner of planning of public procurement, conduct of the procedures, contract implementation and oversight of public procurement. The integrity of procedures is to be protected by excluding all persons who were involved in the preparation of a public procurement from eligibility as bidders and the duty of contracting authorities to reject bids in such cases. RC members cannot be involved in any capacity in procurement transactions or in the process leading to contract award decisions. The law establishes a duty to report corruption to the PPO, the Anti-Corruption Agency and the public prosecution office and provides protection to persons who report corruption. Bidders are required to confirm in writing that their bids are independent and report violation of competition to the Competition Commission. Entities are required to appoint a civil supervisor for all procurements which estimated value exceeds RSD 1 billion.

37. **PPO has prepared a Model Internal Plan for Anti-Corruption in Public Procurement for purchasing authorities whose total annual value of procurement is estimated at over 1 billion RSD.** A similar model that regulates the internal public procurement procedure within the purchasing authority in more detail has likewise been developed and made available. PPO's Rulebook on Contents of the Public Procurement Report and Manner of Maintaining Records on Public Procurement is in force.

[14] Report by the Republic Commission for the period January 1, 2014-June 30, 2014.
[15] Reports by the Republic Commission for the periods: April 1, 2013-June 30, 2013, and July 1, 2013-December 31, 2013.
[16] Report by the Republic Commission for the period January 1, 2014-June 30, 2014, page 288.

38. **The SAI plays an important role in the process of control following well-defined policies and procedures for the audit of public procurement**. In accordance with the PPL, contracting authorities are obliged to submit their procurement plans to the SAI together with changes made during implementation. In the process of an audit, the SAI reviews the type of the procedure and all related decisions, bids, evaluation report, decision of contract award and the contract itself. The physical inspection of contract outcomes is subject to audit. The audit report contains findings with recommendations and it is published. The most common audit findings relate to poorly prepared procurement plans, lack of experience in public procurement and unrealistic needs assessments. The SAI monitors implementation of its recommendations and can impose implementation of its recommendations by undertaking further legal steps.

39. **The PPO and the SAI can initiate misdemeanor proceedings when they learn in any way of a violation of the PPL.** Since the entry into force of the new Law on Misdemeanors in March 2014, the PPO initiated 35 misdemeanor procedures against contracting authorities. The RC is responsible for conducting first-instance proceedings. The PPL extends the deadline for misdemeanor cases in public procurement to three years from the date of commission of the infringement. The PPO and the RC can also initiate proceedings to annul public procurement contracts and the RC can pronounce fines.

GOVERNANCE AND ANTI-CORRUPTION ARRANGEMENTS

40. **Country's institutional and legislative framework in mitigation in fraud and corruption risks continues to gradually strengthen.** An assessment of the effectiveness of country systems for tackling corruption was undertaken as part of the Program's Technical Assessment. The assessment concludes that while level of corruption remains high, the institutional and legal framework for tackling corruption is progressively improving and existing Government commitment to addressing corruption is high.

41. **Serbia has an overarching Anti-Corruption Strategy (ACS) for the period 2013 – 2018.** The strategy and its action plan deal with prevention, institution building and training and contains a specific section dedicated to public finance addressing measures related to public revenues, expenditures, internal financial control, external audit and the safeguarding of EU financial interests. All the entities involved in the Program have adopted Integrity Plans and report on implementation through six-month and annual reports. The Anti-Corruption Agency reports to the National Assembly annually on implementation of the ACS. The EU Screening Report for Chapter 23: Judiciary and Fundamental Rights from 2013[17] concludes that the ACS and action plan provide an adequate framework for addressing the impediments to better transparency and accountability in the public service.

42. **Legal framework for anti-corruption activities is largely in place.** Serbia has signed and ratified all major international instruments against corruption, but recent assessments indicate that more needs to be done on aligning the national legislation in order to consistently apply them. Fraud and corruption-related offences are sanctionable under the Criminal Code and include, inter alia, passive bribery and active bribery, embezzlement, fraud, obtaining and

[17] European Commission (2013). "Screening Report Serbia- Chapter 23 – Judiciary and fundamental rights". Available on the web: http://ec.europa.eu/enlargement/pdf/key_documents/2014/140729-screening-report-chapter-23-serbia.pdf

using credit and other benefits under false pretenses, abuse of trust, money laundering, abuse of position by a responsible person, malfeasance in public procurement, abuse of authority in economy, forging of documents, forging an official document, abuse of office and trading in influence. The Law on Protection of Whistle-Blowers entered into force in June 2015 and some rules on whistle-blowers protection are included in the Law on Free Access to Information of Public Importance and the Law on Civil Servants. The Law on Civil Servants and the Code of Conduct for Civil Servants also contain measures to increase integrity in the public sector. The Law on Public Procurement contains a dedicated chapter on the prevention of corruption, requiring the purchasing authority to take corruption prevention measures in all stages of the procurement process and a duty to report corruption. Likewise, the Law addresses potential conflicts of interest in the procurement procedure.

43. **The institutional framework for anti-corruption is established and functioning.** Anti-corruption institutional framework includes, in addition the procurement institutions referred to above:

- **Anti-Corruption Agency** (ACA) is an independent, autonomous state authority, established by the Law on the Anti-Corruption Agency which came into force on January 1, 2010. ACA is accountable for its work to the National Assembly. ACA's preventive, oversight and supervisory responsbilities include: oversight of the National Anti-corruption Strategy and associated action plans; imposition of measure arising from violation of the ACA Law; resolution of conflicts of interest; issuing opinions and instructions for the implementation of the ACA Law and National Anti-Corruption Strategy and associated action plans.
- **Anti-Corruption Council (AC)** is an expert, advisory body of the Government, founded with a mission to oversee all aspects of anti-corruption activities, to propose measures to be taken in order to fight corruption effectively, to monitor their implementation, and to make proposals for adoption of regulations, programs and other acts and measures in this area. The Council was established under provisions of the Law on Government (article 26) in 2001. The Council consists of the President, vice-president and five members.
- **SAI**is required by Law to submit to the competent authority, without delay, any evidence relating to misdemeanors or criminal offences, and that body is required to inform the SAI of its decision. It has been noted that this additional duty potentially takes away resources from the audit work. From the Program perspective, this segment of the SAI mandate could be the critical resource in addressing possible instances of fraud and corruption involving Program funding.
- **Administration for the Prevention of Money Laundering (APML)** is the financial-intelligence unit of the Republic of Serbia. APML's powers and responsibilities are provided for in the Law on the Prevention of Money Laundering and Terrorist Financing. The obliged entities under the AML/CFT Law send to the APML reports on suspicious transactions. APML analyses these reports and share data upon request of another state authority, such as the Courts, Prosecutors' Office, Police, Security Information Agency, Privatization Agency, and Securities Commission.
- **Anti-Fraud Coordination Service (AFCOS)** is an independent national authority established by the MOF responsible for protecting the EU's financial interests from fraud. AFCOS coordinates the sharing of information between the national fraud-prevention

authorities and European Commission Anti-Fraud Office (OLAF). AFCOS is still not fully operational and is missing a comprehensive legal basis to determine its duties, competences and arrangements for cooperation with the European Commission and national authorities responsible for the prevention, detection, investigation and prosecution of corruption.

44. **Institutional responsibilities for investigating and prosecuting corruption are clear, but their capacities remain weak.** Specialized prosecution office for organized crimes also has jurisdiction over high-level corruption cases. Throughout Serbia, around forty prosecutors work on corruption cases. There is no similar degree of specialization at the level of the police or the courts. Inter-institutional cooperation is formalized in memoranda on cooperation between the competent institutions. The 2013 EU Screening Report on judiciary argues that inter-agency cooperation has improved in recent years but needs to be further developed, data bases should be better inter-connected "and a safe platform to exchange intelligence should be established".[18] In March 2014, Memorandum on Cooperation to regulate the manner of cooperation, coordination and data exchange in the field of anti-corruption was concluded between the SAI, PPO, and Republic Commission for Protection of Rights in Public Procurement Procedures, MOF, Ministry of Economy, Anti-Corruption Agency, Anti-Corruption Council and the Commission for Protection of Competition. It is too early to assess the results of the Memorandum.

Alignment with World Bank Anti-Corruption Guidelines (ACGs)

45. **Program implementation will be aligned with the ACG applicable to Program for Results operations.** The Government of Serbia has agreed to implement the Program in accordance with the ACG applicable to PforR operations dated February 1, 2012, and revised on July 10, 2015. These guidelines will be operationalized in the following ways under the Program:

a. **Sharing of information on fraud and corruption allegations:** Through the official exchange of letters, the SAI will confirm agreement to share with the World Bank any indications or allegations of Fraud and Corruption (as defined by the ACG) in connection with the Program from the public, Government representatives, its own investigation, or otherwise, together with the investigative and other actions that it proposes to take with respect thereto, every six months.

b. **Application of World Bank debarment and suspension lists of firms and individuals under the Program:** The MOF will share with the procuring entities the names of firms and individuals on the World Bank Group's debarment and suspension lists and will ensure that these firms and individuals are not allowed to bid for contracts or benefit from a contract under operation during the period of debarment or suspension. The MOF and PPO will check compliance and report to the World Bank every six months as part of the reporting requirement of the operation.

c. **Investigation of Fraud and Corruption Allegations:** All allegations of fraud and corruption will be investigated by the SAI and the prosecutor's office and those found to be credible will be prosecuted. The SAI will report to the World Bank every six months on the actions taken in any such investigations; and promptly, upon the completion of any

[18] European Commission (2013). "Screening Report Serbia- Chapter 23 – Judiciary and fundamental rights", p.29. Available on the web: http://ec.europa.eu/enlargement/pdf/key_documents/2014/140729-screening-report-chapter-23-serbia.pdf

such investigation, report to the Bank the findings thereof. The World Bank's Institutional Integrity Vice-Presidency (INT) may also jointly with the SAI, or on its own initiative, investigate any allegations or other indications of Fraud and Corruption (as defined in the ACG) in connection with the Program or any part of the Program. In all such cases the Program managers and SAI will collaborate with INT to acquire all records and documentation that INT may reasonably request from the operation regarding the use of the Program financing. If the borrower or the Bank determined that any person or entity has engaged in Fraud and Corruption (as defined in the ACG) in connection with the Program, the Borrow will take timely and appropriate actions , satisfactory to the World Bank, to remedy or otherwise address the situation to prevent its recurrence.

d. **Cooperation with representatives of the Bank:** the Borrow shall fully cooperate with representatives of the Bank in any inquiry conducted by the Bank into allegations or other indicators of Fraud and Corruption (as defined in the ACG) in connection with the Program, and shall take all appropriate measures to ensure the full cooperation of relevant persons and entities subject to the Borrower's jurisdiction in such inquiry.

46. **The Assessment concludes that the Fraud and Corruption risk will remain high.** Several fraud and corruption related cases have been filed by SAI in the recent past**.** In the course of 2014, on the basis of the audit of financial statements from 2013 for all sectors (i.e. central and local Government, public enterprises, extra-budgetary funds), SAI has filed 139 reports (111 for misdemeanor charges, 13 for economic crimes and 15 for criminal charges). Until March 2015 (latest available data), further 103 reports were filed (95 for misdemeanor charges, 6 for economic crimes and 2 for criminal charges). Additionally, starting from March 2014, when the new Law on Misdemeanor Offences entered into force, PPO has filed 26 requests for initiation of misdemeanor proceedings to the Republic Commission for Protection of Rights in Public Procurement Procedures. The Program Action Plan details important actions that would have to be undertaken by the implementing agencies to ensure that Program activities are not affected by Fraud and Corruption.

47. **The World Bank's Guidelines on Preventing and Combating Fraud and Corruption in Program for Results Financing would apply to the whole Program.** If requested, the Bank should be provided access to any information related to contracts under said Program (even if held by third parties/contractors) and the Bank should have the right to investigate any allegations of fraud and corruption within the Program. As part of its statutory mandate to audit Government finances, irrespective of source, the SAI will share, with the World Bank, information on allegations of fraud and corruption. The Borrower's commitment to follow the Guidelines is confirmed in the Minutes of Negotiations.

TABLE 21: FIDUCIARY RISKS AND ACTION PLAN

Primary Risks	Actions Required	Responsible	Due by
Planning and Budgeting			
Non-compliance with budget expenditure ceilings (medium-term and annual)	- Strengthening and capacity building of MoF Budget Department - Performance measures in the annual performance assessments to promote that these issues are reduced.	MOF, TA, PPO, MPALSG	Short term
Inadequate budgetary allocation for Program activities by the Government	Program design ensures achievement of DLIs is a prerequisite for funding	MOF	…
Diversion of allocated funds on non- Program activities by implementing entities or the Government (in-year amendments)	Program design ensures achievement of DLIs is a prerequisite for funding	MOF, TA, PPO, MPALSG	…
Transparency			
Key financial information about the Program is partly available or not available to the public	Building capacity in the MoF for improved budget transparency.	MOF	Short term
Accounting and Financial Reporting			
Poor quality financial statements and risk of noncompliance with IPSAS	Building capacity in the MoF for improved legislative framework on accounting.	MOF, TA	Short term
In-year reports with varying scope and level of aggregation	Specify the frequency, scope and level of detail for reporting for the participating institutions	MOF, TA	Short term
Treasury Management and Funds Flow			
Possibility for enforced collection procedure against the funds intended for Program implementation	Protection of Program funds (similar to how EU funds are protected against enforced collection)	MOF, TA	Short term
Diversion of allocated funds on non- Program activities by implementing entities or the Government	Adherence to prudent FM principles	MOF, TA, PPO, MPALSG	
Internal Controls and Internal Audit			
Weaknesses in internal control systems and cases of accountability of funds as per the reports of the Auditor General	-Annual risk-based fiduciary reviews to be conducted on the Program PMs in the APA. - Stronger follow-up by the Government on the annual FMC report produced by the CHU	MOF, TA, PPO, MPALSG	In accordance with PIFC Policy Paper (under development)
Bylaws and guidelines yet to be adopted and issued (managerial accountability, M&E tools for internal auditors, etc.)	MoF to fast-track issuance of Regulations which will include guidelines for managerial accountability and M&E tools for internal auditors	MOF	In accordance with PIFC Policy Paper (under development)

Weak capacity of internal audit function in terms of staff numbers and skills and lack of functional independence	Capacity building training	MOF, TA, PPO, MPALSG	In accordance with PIFC Policy Paper (under development)
Weak oversight and lack of appropriate management follow-up of internal audit recommendations	Stronger follow-up by the Government on the annual IA report produced by the CHU	MOF, TA, PPO, MPALSG	In accordance with PIFC Policy Paper (under development)
Weak social accountability structures including public participation and complaints handling and corruption reporting mechanisms	Participating entities to set up complaints / corruption reporting hot line	MOF, TA, PPO, MPALSG	
Insufficient capacity of the budget inspection to handle complaints related to use of Program funds	Facilitate alignment of budget inspection practice with EU PIFC requirements to make for more effective irregularity management tool	MOF	Short-tem
Procurement			
Lack of capacity for investigations of allegations on inappropriate practices in public procurement.	Training/specialization of prosecutors and judges in public procurement area and more efficient investigation and sanctioning of irregularities in public procurement by judiciary.	MOF, PPO, SAI	Intermediate term
Lack of capacity for procurement within contracting authorities.	Strengthening procurement capacities and performance of contracting authorities by knowledge dissemination and promotion of modern procurement tools such as framework agreements, electronic procurement, value-for-money etc.	PPO	Intermediate term
Lack of capacity within the PPO which leads insufficient support to the contracting authorities and other stakeholders of the public procurement system.	Strengthening and capacity-building of the PPO	MOF	Short term
Time for processing public procurement complaints by the first instance – the RC and the second instance – the Administrative Court.	The Government should endeavor to make the complaint handling mechanism more effective and efficient to ensure the rapid handling and resolution of complaints.	Government	Intermediate term
Transparency of public procurement complaints handling mechanism in the second instance.	Publication of decisions by the Administrative Court	Ministry of Justice, Administrative courts	Short Term
Transparency in public procurement contracts implementation	Development of a registry of concluded public procurement contracts	PPO	Short term
Audit and Oversight			
Lack of capacity by SAI for audit of all Program entities in terms of staff numbers and budget allocation	-Support SAI to obtain appropriate level of resources approved by the National Assembly to conduct Program audit	SAI	…

High incidence of audit report qualifications	-Incentivize resolution of audit queries as part of the Program PG performance measures.	…	…
Delays by Government in responding and resolving audit queries	-Incentivize resolution of audit queries as part of the Program PG performance measures.	…	…
Parliament does not approve the Final Account	- …	National Assembly	Short term

ANNEX 6: SUMMARY ENVIRONMENTAL AND SOCIAL ASSESSMENT

1. **The Program Environmental and Social Assessment undertaken in September 2015 in consultation with the MPALSG determined that the Program poses no major environmental risks but identified social risks related to potential retrenchment of the public sector employees**. Formal consultations with key stakeholders on draft ESSA were held in November 2015. This Annex focuses on the social risk assessment and mitigation measures.

CONTEXT AND OBJECTIVES

2. **The ESSA examines environmental and social management systems that are applicable to the program in order to assess their compliance with the Bank's Policy and Directive for Program for Results (2015) that applies to PforR financing.** It aims to ensure that the Program's environmental and social risks will be managed adequately and that the Program complies with the basic principles of sustainable development. Paragraph 8 of the Policy for PforR describes the core principles of environmental and social management that must be met in the ESSA. These core principles are as follows:

Environmental Management Systems

- Promote environmental and social sustainability in the program design, avoid, minimize or mitigate against adverse impacts, and promote informed decision making relating to a program's environmental and social effects.
- Avoid, minimize or mitigate adverse impacts resulting on natural habitats and physical and cultural resources resulting from the program.
- Protect public safety and the safety of workers against the potential risks associated with: (i) construction and/or operation of facilities or other business practices in the program, (ii) exposure to toxic chemicals, hazardous wastes and other dangerous goods under the program; (iii) reconstruction or rehabilitation of infrastructure in areas prone to natural hazards.

Social Management Systems

- Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving or at the minimum restoring, their livelihoods and living standards.
- Give due consideration to the cultural appropriateness of, and equitable access to, program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups.
- Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

3. **The ESSA evaluates the compatibility of the program's systems with the core principles on two basic levels:** the systems as defined by laws, regulations and procedures (the "system as defined"); and the institutional capacity of implementation entities under the program to effectively implement the system (the "system as it is applied in practice"). It identifies and analyzes the differences between the national systems and the core principles that apply to the program on the two levels indicated above. The preparation of the ESSA and the development of measures to strengthen the environmental and social management system has benefited from various inputs, information and consultation process, including:

- **Review:** the review focused on legislation and current labor regulations, relevant reports related to labor issues (e.g.: Employment and Social Reform Program; Statistical Office data), and on separate specific reports of other World Bank projects related to employment issues.
- **Initial consultation meetings:** to develop a better understanding of procedures, standards and approach for this project, meetings took place with the technical staff in the ministries and other Government agencies, including the MPALSG, the Ministry of Labor, Employment, Veteran and Social Affairs, the NES, the Socio-Economic Council, the Social Inclusion Unit, etc.
- **Formal consultations:** Consultations with key stakeholders were held in a form of series of small meeting in Belgrade in November 2015. The key stakeholders including MPALSG, Ministry of Labor and Ministry of Health agreed on the proposed Action Plan.

Program Risks

4. **The overall economic impact of the Program is expected to be positive.** There are, however, significant social impacts may result from the retrenchment of the public sector employees under the Improvement of Human Resources Management Component of the Program. Targeted workforce reductions including retirement, voluntary termination of employment and retrenchment of the public sector employees must comply with the applicable Labor Law, Law on the Maximum Number of Employees in the Public Sector, Civil Servants Law and applicable collective agreements for respective sectors.

5. **The right to work is a fundamental right defined and guaranteed by the Constitution of the Republic of Serbia, Article 60:** *Right to work shall be guaranteed in accordance with the law. Everyone shall have the right to choose his occupation freely. All work places shall be available to everyone under equal conditions. Everyone shall have the right to respect of his person at work, safe and healthy working conditions, necessary protection at work, limited working hours, daily and weekly interval for rest, paid annual holiday, fair remuneration for work done and legal protection in case of termination of working relations. No person may forgo these rights. Women, young and disabled persons shall be provided with special protection at work and special work conditions in accordance with the law.*

6. **Negative social impacts associated with potential retrenchment under the Program are expected to be limited to the period 2016 – 2018.** This is due to the effectiveness of the Law on the Ceiling on the Number of Employees in the Public Sector (until the end of calendar year 2018) and the Standby Agreement with the IMF in relation to the fiscal consolidation measures. It is likely that significant portion of the workforce reductions will be implemented though the natural attrition (retirement) and hiring freeze measures.

7. **Relevant labor legal acts and collective agreements include provisions on redundancy due to technological, economic or organizational changes.** The legal framework provides special protections for pregnant women, women on maternity leave, mothers of children under age of two years, persons with disabilities, and persons on disability leave (temporary absence for illness). The redundant workers have a right to redundancy (severance) payment, unemployment benefits, and access to health insurance. The labor legislation requires the employer to prepare a retrenchment plan and consult with relevant unions in regard to the proposed retrenchment plan.

8. **The nature of the Program does not suggest that specific vulnerable groups could be significantly affected under the Program but there are likely to be differential gender impacts**. The Law on Ceilings on the Number of Employees in the Public Sector gives a special consideration to persons with disabilities and persons with the knowledge of language of ethnic minorities. Serbia is not considered as a fragile state, or a post-conflict zone. It should be noted that in many sectors of the public administration and public services, women comprise the majority of the employees. This is especially the case in the education and health sectors. Therefore, potential reductions of the workforce may affect women in a higher degree.

9. **The Program is not expected to cause major environmental impacts**. There is a small chance that the change in organizational and functional structure of the departments and potential modernization of HR information system might lead to minor maintenance works in the offices such as walls plastering, relocation of the furniture, removal of partitions, provision of the basic IT equipment etc. Such operations are not expected to cause any notable or measurable negative impact from the environmental or health and safety standpoints. The Program does not require preparation of an extensive environmental systems assessment.

Social Systems Assessment

10. **Serbia has in place relatively well developed policy and legal framework on labor relations and retrenchment along with an institutional system which is generally adequate.** The national legal framework is generally in line with international standards. Serbia ratified the ILO Termination of Employment Convention No. 158. In general, the legal framework is consistent with principles of the IFC Performance Standards 2 – Labor and Working Conditions, sections on retrenchment. The identified gaps are related to monitoring the status of retrenched workers; and to the implementation of consultation. The existing labor legislation provides adequate protection of workers in instances when due to technological, economic or organizational changes a particular job becomes redundant or volume of work would be reduced.

11. **Labor legal acts provide for considering alternatives to termination of employment in all forms.** These include: hiring freeze, outsourcing of particular activities (example, in health), internal transfers and redeployment, and reduction in salaries. Some of these measures such as natural attrition through retirement, hiring freeze, and reduction in salaries have already been implemented in the public sector in 2014 and 2015 as a part of the package of measures to reduce Government spending and increase fiscal sustainability.

12. **Labor law requires that the employer prepare a retrenchment plan.** The respective union and NES are to provide their opinion on the proposed plan. Legal acts and specific collective agreements that apply to employees in the public sector, stipulate for selection criteria and principles when termination of employment occurs as a consequence of changes in program, organization or structure of work. The selection criteria are grounded on the non-discrimination principles, which are in line with good international practice. These provisions specifically protect employees from being retrenched due to a membership in a union, pregnancy, maternity leave, disability leave, child care leave, personal disability, national and social origin, and other personal characteristics. The collective agreements provide protection for mothers of children of age less than two years and single parent households with under-aged children.

13. **Laws and collective agreements provide provisions for redundancy payments and formulas for its calculation.** The redundancy payment is calculated on the basis of 30% of average salary prior to retrenchment, for every year of service with the employer. Employees are

also entitled to unemployment benefits, health care and pension insurance. While these legal provisions are in accordance with good practice, the experience of large retrenchments in the past, due to privatization of large state owned enterprises indicate that there is a reason for caution. These benefits are provided for a limited period of time. In an environment with high unemployment rate and lack of job supply, it would be unrealistic to assume that majority of retrenched people would find new employment easily.

14. The Labor Law and collective agreement require consultations with unions related to the retrenchment program. However, it seems that in practice consultations with workers are not systematically observed. The Law on Ceilings on the Number of Employees, which serves as an instrument for the rightsizing in the public sector, was adopted under an urgent parliamentary procedure and therefore, it was not a subject to public consultations. The unions and the Socio-Economic Council issued public statements to express their dissatisfaction with lack of consultation and their inputs. It should be noted that relevant laws do not contain specific requirements for monitoring and evaluation of retrenchment programs and status of retrenched employees.

15. There are no requirements for the employers to follow the situation of the retrenched workers or outcomes of assistance provided. Once the labor relations are terminated, the NES follow the status of workers who opt to register with them. In general, the legal framework for the protection of the retrenched workers is broadly in place, but its consistent implementation across the country needs to be ensured, notably in the areas of consultations with workers (unions), transparent retrenchment criteria and follow up monitoring and evaluation of the status of affected workers.

Social Systems Assessment Action Plan

16. The Program provides an opportunity to strengthen the procedures to identify and mitigate any adverse effects associated to retrenchment. The assessment has identified some gaps between the existing social management system and international good practice. The Program will support specific measures to enhance performance of the social management system related to retrenchment. These measures will be implemented on the basis of the following actions.

17. The MPALSG is in the process of establishing a Change Management Team staffed by both civil servants and consultants to coordinate, monitor and report on the rightsizing process and its effects on the number of employees. The staff will have relevant competences and experience (knowledge of human resources and labor relations procedures) to coordinate the rightsizing process with other public sector entities and to provide regular periodic reports on the status of actions from this Action Plan including the number of retrenched employees across sectors.

18. MPALSG will ensure that workers and unions were consulted during the elaboration of retrenchment plans. Each employer in the public sector will document how union representatives were consulted in relation to retrenchment and respective retrenchment plans. Each public entity as required by Labor Law submitting the request for redundancy payment to the MPALSG and the Ministry of Health will attach minutes from the consultations or written comments by the unions (workers' representatives) on the retrenchment plan. If requested, a sample of these reports would be submitted to the World Bank for review.

19. The criteria for selection of employees who will be made redundant will be based on principles of transparency and non-discrimination applied consistently and contain appeal procedure. The MPALSG will prepare guidelines on the need for inclusion of clear selection criteria in acts on the termination of employment and in the retrenchment plans. The criteria will be consistent with provisions from applicable national labor legislation and collective agreements, policies on social inclusion of Roma, and guidelines of other respective ministries. The criteria will reinforce protections of following categories of workers: pregnant women; women on maternity leave; single mothers; mothers of children under the age of two; employees on disability leave; and persons with disabilities. Every employer who will reduce its workforce will make the criteria for retrenchment publically available. The retrenchment criteria and the rationale will be included in the retrenchment plans and acts on termination of employment.

20. When Labor Law prescribes that the retrenchment plan must prepared the employers in the public sector will prepare retrenchment plans and document that requirements from the Labor Law, Civil Servants Law and applicable collective agreements were respected. The proposed draft retrenchment plan will be submitted to the relevant unions, and the NES for consultation. The period of advance notice and the length of consultation must follow the provisions from the Labor Law. The consultations will be documented in writing. The retrenchment plan will include the following:

a) Rationale for determining the redundancy of employees;
b) Total number of employees with the respective employer;
c) Number of redundant employees, their qualifications and job positions, age, and length of employment (years) covered by the employment insurance benefits;
d) Gender segregated information, number of persons with disabilities;
e) Selection criteria for determining redundant employees;
f) Measures for alternative employment such as: transfer to other jobs; transfer to other employer; training; part-time work, but not less than 50% of the full time and other measures;
g) Resources to address the socio-economic status of the redundant employees; and
h) Employment termination deadline.

21. The Government of Serbia will provide of support services to retrenched employees. The Ministry of Employment, Veterans and Social Affairs will include in the 2016, 2017 and 2018 performance agreement with the NES a requirement that:

a) NES representative visits every entity that will retrench more than 10 workers and inform workers about available NES services, programs, and benefits, register them with NES, and develop an individual action plan for each registered redundant worker; In instances when less than 10 workers will be retrenched, in collaboration with employers, NES will inform affected worker about available assistance programs, based on the model that has been applied with redundant workers;

b) NES will contact at least 20 employers in the same and neighboring municipalities where the public entity resides to offer them NES services and inquire about job vacancies; and

c) NES will consult with the local employment council about support for redundant workers.

22. MPALSG will ensure that appropriate measures are undertaken to ensure gender and social inclusion. The MPALSG and the Ministry of Health (Statutory Health Insurance Fund) will require that submitted retrenchment plans and requests for redundancy (severance) include disaggregated information according to gender (number of males/females), age (categories to be defined), education (categories to be defined), and persons with disabilities (number).The Ministry of Employment, Veterans and Social Affairs in collaboration with NES will prepare special measures for active employment for retrenched women, especially women over age of 50.

23. MPALSG will monitor severance payment disbursement and status of retrenched workers. The MPALSG and Ministry of Health will monitor and report annually on the number of workers who received the severance (redundancy) payment, as prescribed in the Law on Ceilings on the Number of Employees in the Public Sector. The Ministry of Employment, Veterans and Social Affairs in collaboration with NES will monitor and report annually on the status of retrenched workers in terms of: number of retrenched workers (number of male/female/persons with disability) who received active employment services from NES; and number of retrenched workers (number of male/female/persons with disability) who found new employment.

Institutions, roles, responsibilities and coordination

24. The MPALSG will have overall responsibility for implementation of the actions agreed under ESSA. Consistent with the Action Plan for Implementation of Public Administration Strategy, the MPALSG will also be responsible for coordinating the monitoring and reporting of the Program's result framework, including the DLIs and the Program Action Plan. The MPALSG will be responsible for transfers of payments for severance payments to other ministries and public sector entities who identified need for targeted staff reductions in accordance with the Law on Ceilings on the Number of Employees. It will also be responsible for preparing the program's financial reports, and monitoring and evaluation drawing if necessary, on financial reports from other ministries and agencies involved in the Program. In fulfilling these functions, the MPALSG will coordinate with: MOF as the reviewer in the process of establishing of the maximum number of employees in the public sector; and the NES will be responsible for delivering unemployment benefits, and active employment measures to the retrenched workers.

ANNEX 7: SYSTEMIC OPERATIONS RISK RATING TOOL (SORT)

SERBIA: Program on Modernization and Optimization of Public Administration

Risk Category	Rating (H,S,M,L)
Political and governance	High
Macroeconomic	High
Sector strategies and policies	Moderate
Technical design of project or Program	Moderate
Institutional capacity for implementation and sustainability	Moderate
Fiduciary	Substantial
Environmental and Social	Substantial
Stakeholders	Substantial
OVERALL	**High**

ANNEX 8: PROGRAM ACTION PLAN

Action Description	DLI*	Covenant*	Due Date	Responsible	Completion Measurement**
Fiduciary Assessment					
Increased involvement of the budget beneficiaries establishing its budgetary allocations and multi-year budget requirements.			December 31, 2017	MOF	Adherence to budget calendar and evidence of effective two-way process in budget preparation
Regular periodic reporting on comprehensive data on arrears.			December 31, 2016	Beneficiaries of public funds	Evidence of regular reports on arears
Improved medium-term planning and consideration of medium-term targets in preparation of respective annual budgets			December 31, 2016	Beneficiaries of public funds, MOF	Assessment of annual budgets and medium-term plans
Instituting ex-ante controls for contractual commitments			December 31, 2016	MOF, Beneficiaries of Public Funds	Instituted mechanism of controls over contractual commitments prior to assuming them
Improved control over multi-annual contractual commitments			December 31, 2016	MOF, Beneficiaries of Public Funds	Implementing a systematic approach to approve, record and monitor multi-annual contractual commitments
The Government to strengthen the complaint handling mechanism to improve its effectiveness efficiency in handling complaints.			December 31, 2016	PPO / RC	Reports of activities in the first six months of Program effectiveness
Social And Environmental Assessment					
MPALSG has staff assigned to coordinate, monitor and report on the rightsizing process and its effects.			July1, 2016	MPALSG	Two staff assigned with relevant competences and experience (knowledge of human resources and labor relations procedures)
Improve consultations with workers and unions			December 31, 2016 December 31, 2017 December 31 , 2018	Responsible public sector employer	Each public entity submitting the request for redundancy payment to the MPALSG to attach minutes from the consultations or written opinions by the unions (workers' representatives) on the retrenchment plan. If requested, a sample of these reports would be submitted to the World Bank for review.

Prepare a selection criteria The criteria for selection of employees who will be made redundant will be based on principles of: transparency, non-discrimination, applied consistently and contain appeal procedure. Where applicable, the criteria will be based on relevant provision from collective agreements.			June 30, 2016 January 30, 2017 January 30, 2018	Responsible public sector employer	Every employer who will reduce its workforce will make the criteria for retrenchment publically available. The retrenchment criteria and the rationale will be included in the retrenchment plans and acts on termination of employment.
Retrenchment plans prepared (in cases prescribed by the law)			June 30, 2016 June 30, 2017 June 30, 2018	Responsible public sector employer	The Retrenchment Plan will include the following: 1) rationale for determining the redundancy of employees; 2) total number of employees with the respective employer; 3) number of redundant employees, their qualifications and job positions, age, and length of employment (years) covered by the employment insurance benefits; gender segregated information, number of persons with disabilities. 4) selection criteria for determining redundant employees; 5) measures for alternative employment such as: transfer to other jobs; transfer to other employer; training; part-time work, but not less than 50% of the full time and other measures; 6) resources to address the socio-economic status of the redundant employees; 7) Employment termination deadline. The proposed draft retrenchment plan will be submitted to the relevant workers' representatives or union, and the NES for consultation (opinion). The period of advance notice and the length of consultation must follow the provisions from the Labor Law. The consultations will be documented in writing.
Transition assistance to retrenched employees			June 30, 2016 January 1, 2017	Ministry of Employment, Veterans and Social Affairs NES	The Ministry of Employment, Veterans and Social Affairs to include in the 2016, 2017, 2018 performance agreement with the NES a requirement that (i) NES representative visits every entity that will retrench more than 10 workers and inform workers about available NES services, programs, and benefits, register them

			January 1, 2017		with NES, and develop an individual action plan for each registered redundant worker. In instances where less than 10 workers will be retrenched, in collaboration with employer, NES will inform affected workers about available assistance programs, based on the model that has been applied for redundant workers; (ii) to contact at least 20 employers in the same and neighboring municipalities where the public entity resides to offer them NES services and inquire about job vacancies; and (iii) to consult with the local employment council about support for redundant workers.
Gender and social inclusion			December 31, 2016 December 31, 2017 December 31, 2018	MPALSG Ministry of Health Statutory Health Insurance Fund Ministry of Labor, Employment, Veteran and Social Affairs NES	Submitted retrenchment plans and requests for redundancy (severance payment) include segregated information according to gender (number of males/females), age (categories to be defined), education (categories to be defined) and persons with disabilities (number), and ethnic minority (number). Ministry of Labor and NES .will prepare special active employment measures for retrenched women, with emphasis on women over the age of 50
Monitor severance payment disbursement and status of retrenched workers			December 31, 2016 December 31, 2017 December 31, 2018	MPALSG Ministry of Health Statutory Health Insurance Fund	The MPALSG and Ministry of Health will monitor and report annually on the number of workers who received the severance payment, as prescribed in the Law on the Maximum Number of Employees in the Public Sector. Ministry of Labor, with support from NES will monitor and report annually on the status of retrenched workers in terms of: a) number of retrenched workers (number of male/female/ persons with disabilities) who received active employment services from NES; and b) number of retrenched workers (number of male/female/ persons with disabilities) who found new employment.

				Ministry of Labor, Employment, Veteran and Social Affairs NES	

ANNEX 9: IMPLEMENTATION SUPPORT PLAN

1. **The technical, fiduciary and social assessments undertaken during preparation of this Program all stress the need for continued support during implementation.** The Bank works closely with other development partners involved in supporting the Government in the implementation of the public sector reform agenda. Additionally, there are other ongoing Bank projects which provide support related to the reforms, notably: the EU-financed BETF and RETFs for Right-Sizing and Restructuring Technical Assistance; the Russian Federation-financed ECA PFM TFs for the Wage Reform and Public Investment Management Technical Assistance; DfID-financed support to Public Procurement Reform. Additionally, the Bank will continue policy dialogue with the Government on the integration of recommendations on PFM reform into the Government's Public Finance Management Reform Program 2015-2017).

2. **The Bank will work closely with the EU to support implementation of the Program Action Plan.** The EU is preparing a Sector Budget Support operation with EUR10 Million dedicated to Technical Assistance. The Bank's Program has been prepared in close consultation with EU counterparts to build synergies and ensure better harmonization of support to Government. Importantly, arrangements will be made to prepare a harmonized Action Plan so as not to burden the Government. Where possible, there will be joint missions with the EU and other development partners involved in supporting the Government's PAR Strategy Action Plan to ensure that the achievement of Program results builds on ongoing work supported by other partners.

3. **The Bank will support Program implementation with a diverse team of Bank specialists.** The lead and co-task team leaders are based in the region – the co-TTL in Serbia - and will be engaged with the Government as frequently as necessary during implementation. Other core team members – including Financial Management and Procurement Specialists - are also based in the country office. Both will cover review of fiduciary aspects of the Program. Such close engagement will be useful to anticipate implementation risks, support the Government in the technical aspects of the implementation and work jointly with development partners through the Donor Working Group on the PAR Strategy. Bank implementation support will focus on :

- ensuring the Program monitoring framework functions effectively and generates high quality data;
- following up on Program implementation to ensure that Program DLIs are met in a timely manner and the Government continues to adhere to the Action Plan;
- monitoring the impact of the retrenchment and the implementation of Social Action Plan;
- overseeing the validation process for DLIs and verification that the disbursement of loan funds is consistent is less than the value of Program expenditures;
- follow-up on the recommendations from the fiduciary assessment; and
- providing technical support to Government counterparts.

Main focus of Implementation Support

Time	***Focus***	**Skills Needed**	**Resource Estimate**	***Partner Role***
First twelve months	Support to implementing agencies to finalize Program plans and begin implementation, including ensuring adequate resource and M&E capacity	- Monitoring and Evaluation - Financial Management - Procurement - Human Resource Management - Social Safeguards Specialist	US$150,000	
12-48 months	Quarterly discussions with implementation agencies to review progress and plans for next cycle	- Monitoring and Evaluation - Financial Management - Procurement - Human Resource Management - Fiduciary - Social Safeguards Specialist	US$150,000	

Task Team Skills Mix Requirements for Implementation Support

Skills Needed	***No. Staff Weeks***	***No. Trips***	***Comments***
Task Team Leader	8	4	Region based
Task Team Leader	10	-	Country Office based
Monitoring and Evaluation Specialist	8	4	HQ Based
Financial Management Specialist	4	-	Country Office based
Procurement Specialist	4	-	Country Office based
Human Resource Management Specialist	4	2	HQ Based
Social Development Specialist	4	2	HQ based
Public Financial Management Specialist	4	2	HQ based

ANNEX 10: DONOR SUPPORT FOR PUBLIC SECTOR REFORM IN SERBIA

1. **Besides the IPA funds from EU, the main sources of international support to PAR sector are bilateral assistance from the USA, Switzerland, Sweden, and Norway.** These funds of bilateral donors have contributed to PAR sector through enhancing of sustainable local development, building program for budgeting and macroeconomic forecasting models, development of statistics, preparations for better programming and monitoring of EU assistance, reform of the financial sector, implementation of the PAR, and assistance to SAI.

2. Inter-institutional cooperation and coordination has been improved through establishment of the Sector Working Group (SWG) chaired by the MPALSG and the Serbian European Integration Office (SEIO). The purpose of the SWG meetings is to analyze sector priority goals, measures and operations supported by the EU funds and other international donors through a consultative and participatory process. The SWG includes representatives from the Government (representatives from the MOF, General Secretariat, PPS, Legislative Secretariat, etc.), representatives of the bilateral donors and EU Delegation.

TABLE 22: INTERNATIONAL DONOR'S SUPPORT TO PUBLIC ADMINISTRATION REFORMS

International Partner	Timeline	Type of intervention	Total Budget (EUR)
EU Delegation – IPA 2014	2016-2018	Support ongoing public administration reform efforts in order to establish an efficient, professional, accountable and fiscally responsible administration which provides high quality services to citizens and businesses	6,950,000
USAID Business Enabling Project	2011-2017	Technical Assistance to the Serbian Government in reforms of the public sector financial management and fiscal policy making in ways that are relevant for business growth and competitiveness	400,000 (15, 000.000 total value)
Swiss Development Cooperation Office	2014-2016	Support to the Implementation of the PAR Action Plan – Local Self- Government Reform	500,000
Norway	2015-2016	Capacity building of the MPALSG to be better equipped for changes in the public administration	116,400