Republic of Serbia

Modernization and Optimization of Public Administration Program

Technical Assessment

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ABBREVIATIONS AND ACRONYMS

BSL	Budget System Law
DBB	Direct Budget Beneficiary
DP	Development Partner
DLI	Disbursement Linked Indicator
EU	European Union
FMIS	Financial Management Information System
FTE	Full-time Equivalent
GDP	Gross Domestic Product
GoS	Government of Serbia
HRM	Human Resources Management
IBB	Indirect Budget Beneficiary
ICT	Information and Communication Technology
IMF	International Monetary Fund
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
NPV	Net Present Value
OECD	Organisation for Economic Cooperation and Development
PAR	Public Administration Reform
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program-for-Results
PPL	Public Procurement Law
PPO	Public Procurement Office
RC	Republic Commission for the Protection of Rights in Public Procurement Procedures
RINO	Registry of Settlements of Pecuniary Commitments
SIGMA	Support for Improvement in Governance and Management
SOE	State-owned Enterprise
USAID	United States Agency for International Development

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REPUBLIC OF SERBIA

Modernization and Optimization of Public Administration Program

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I. PROGRAM DESCRIPTION

1. The proposed Modernization and Optimization of Public Administration (the 'Program') will support the efforts of the Government of Serbia (GoS) to improve efficiency in the public administration system. The Program will do this by focusing on key areas of the administrative system, with particular implications for public spending in personnel costs, financial commitments (including the management of arrears), and the purchase of goods and services. While the Program is strategically based on the Public Administration Reform (PAR) Strategy and the Action Plan for the Implementation of the PAR Strategy, it is also influenced by the Procurement Strategy (2014) and the Public Financial Management (PFM) Reform Strategy (2015). The main of objective of the Program is thus to improve efficiency in the management of employment and finances in the public sector as set out in the Action Plan for the Implementation of the PAR Strategy (the Government's program).

A. The Action Plan for Implementation of Public Administration Reform

2. The PAR Strategy was launched in 2014 as the overarching road map for supporting public sector reform. It was designed to succeed the PAR Strategy of 2004 whose Action Plans covered the periods 2004–2008 and 2009–2012. The overall objective of the 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 standard (GoS 2014). While the 2004 strategy focused on the legal framework of the public administration, the 2014 PAR Strategy is more broad-designed to expand reform of the public administration system covering broader functional objectives.

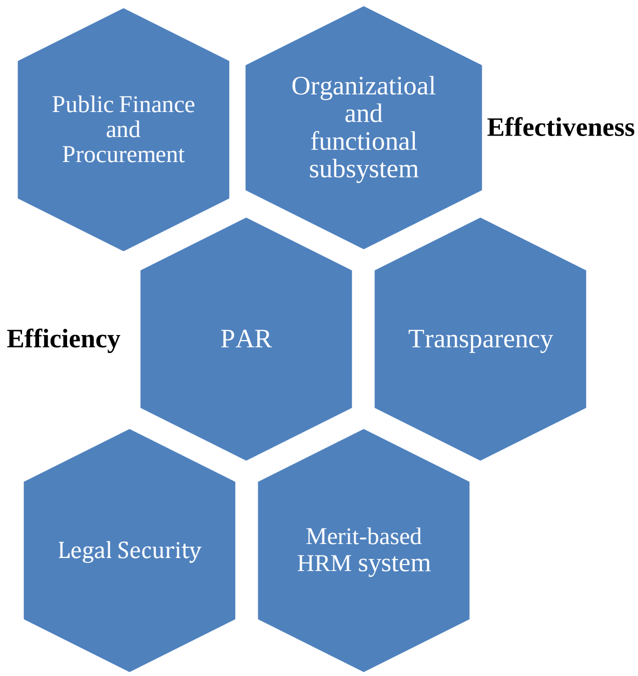
3. The Public Administration Strategy is supported by the Action Plan for the Implementation of the PAR Strategy (Action Plan) launched in 2015. The custodian of the Action Plan in the Ministry of Public Administration and Local Self-Government (MPALSG). However, specific areas of competence are implemented by relevant ministries. The Action Plan operationalizes the PAR Strategy and provides specific result areas and 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 (a) Improvement of organizational and functional Public Administration subsystems; (b) Introduction of a harmonized public service system relying on merits and improvement of Human Resources Management (HRM); (c) Enhancement of public finance and public procurement management; (d) Increase of legal security and improvement of the business environment and the quality of public services provision; and (e) Increase of citizen participation, transparency, improvement of ethical standards, and responsibilities in performance of public administration activities. The Action Plan is supported by other documents, notably the Procurement Strategy adopted in 2014 and the PFM Reform Program adopted in 2015. To improve citizen participation and transparency, the Government adopted the Action Plan for Open Government Partnership on December 25, 2014.

4. Arising from these broad themes in the PAR Strategy, the Action Plan has been distilled into five main areas of implementation:

- **Improving organizational and functional subsystems of public administration.** This component focuses on implementation of organizational and functional restructuring of public administration to improve efficiency. It also addresses improvement of decentralization of public administration; improvement in the management public policies, and the establishment of the legal and institutional framework for integrated strategic management. Finally, the component covers development of the institutional and legal framework for e-Government.

- **Establishing a harmonized public service system on merits and improvement of HR management.** This component addresses the development of a fair and transparent system for compensation in the public sector; improvement of HRM in the state administration; improvement of HRM in the broader public administration system; and professional development of employees.

Figure 1. Objectives of the Public Administration Strategy



- **Improving PFM and public procurement.** This component supports preparation of the Public Finance Reform Program and improvements in the budget planning and preparation process. It also covers improvements in financial management systems and controls as well as internal audit. Additional areas include functional improvement of budget inspection and public procurement. Among the key areas of focus in public procurement is the improvement of centralized public procurement systems and the law on public procurement.

- **Increasing of legal security and improving business environment and the quality of public services.** This component seeks to improve the Government legislative processes as a part of a wider system of managing Government policy. It will also support: improvement of administrative procedures in decisions regarding the rights, obligations, and interest of citizens and other entities; and the reform of inspection supervision to ensure protection of the public interest, reduce administration cost of inspection, and increase the legal security of subjects of inspection supervision. Finally, it will introduce and promote mechanisms to ensure the quality of service delivery through the establishment of quality management systems in the public administration.

- **Increasing of citizen participation, transparency, promotion of ethical standards, and responsibility in the performance of public administration.** This component will improve exchange of Government information, strengthen the integrity of employees in public administration and reduce corruption by strengthening of prevention mechanisms. The component will also support measures to strengthen external oversight of public bodies and the delivery of public services through the Ombudsman and State Audit Institution.

5. **Implementation of PAR Strategy began in 2014**. The Government has made some progress in various areas of the Reform Strategy, signaling a strong intention to continue on the reform path. The activities initiated and conducted in 2014 have been largely foundational—to provide the basis for the implementation of the major reform activities in the Action Plan during 2015–2017. As such, they have revolved around legal and policy development. For instance, to strengthen the integrity of public institutions, the National Assembly adopted the Law on Civil Servants in September 2014 and the Law on Protection of Whistle-Blowers was adopted in November 2014. Important steps have also been taken to strengthen HRM and public administration at the local level.

6. **A number of development partners are actively supporting the Government's program**. The European Union (EU) is preparing a Sector Budget Support operation that will cover some elements of the Government's program and is designed to be complimentary to this Program. The EU has worked with the Bank both in the timing of both operations and in aligning coverage of specific result areas. EU financing also includes a Technical Assistance (TA) component to support the implementation of activities. Other DPs are providing direct support to individual ministries, covering some elements of the Program. For instance, the Government of Norway is working closely with the Ministry of Interior to support internal reorganization and additional reforms. The United Nations Development Programme (UNDP) is also implementing a Technical Assistance Program in the MPALSG with financing from the Government of Norway. The United States Agency for International Development (USAID) has supported the Public Investment Management and Program Budgeting, and the German Agency for International Cooperation is developing a new program that would include a governance component. Finally, the International Monetary Fund (IMF) has an active 36-month Stand-By Arrangement with the GoS, covering the several aspects supported by the Program.

B. The Program on Modernization and Optimization of Public Administration

7. **The Program will support the key results in the three-year duration of the Action Plan (2016–2018).** The Program budget envelope is US$75 million. This constitutes about one-fourth of the overall budget, estimated at US$242 million, needed to implement the Government's program. The Program will support discrete elements of the expenditure framework for the Action Plan, implemented by threeinstitutions the Ministry of Public Administration and Local Self Government (MPALSG), Treasury Administration, and the Public Procurement Office (PPO). The Program boundaries are defined around two out of the five objectives of the Government's program. Focus is on objectives 2 and 3: establishing a

harmonized public service system on merits and improvement of HRM and improving public financial and public procurement management. Objectives 1, 4, and 5 are not included in the Program because the majority of these activities are covered in the ongoing work on functional review also undertaken by the Bank.The EU Sector Budget Support, currently under preparation, is also heavily invested in objectives 4 and 5.

8. This selective approach is deliberate. It is aimed at focusing on the specific areas of efficiency, linked to the immediate concerns of the Government's fiscal consolidation program. It is also designed to enhance synergy between this operation and others envisaged by other DPs, notably the EU. Finally, it also reflects the key areas where there has been sustained engagement by the Bank through operational and knowledge products.

9. The Program Development Objective (PDO) is to improve efficiency in public sector employment and finances. Progress toward 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 according to the Law on Public Sector Employees Salary System (percentage);

- **PDO Indicator 2.** Total number of public administration employees at or under the 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 Ceilings 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); and

- **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 (percentage).

C. Program Result Areas (Boundaries)

10. The Program boundaries are defined along these three key result areas.

11. Result Area 1: Improved Human Resource Management. Key outcomes under this result area are strengthened efficiency in management of pay and grading of public sector employees and strengthened efficiency in management of numbers of public sector employees. The Program will support the Government's program to develop a system for managing its staff and monitoring the wage bill. Key activities include 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; and implementation of an affordable, market-based pay and grading system in the public administration.

12. **Result Area 2: Improved Financial Management.** Key outcomes under this result area are enhanced institutional coverage of the Financial Management Information System (FMIS) and improved management of Government expenditure arrears. The Program will support the expenditure framework linked to the planning, management, and supervision of the financial and fiscal system of the Government. This will include the strengthening of budget execution and monitoring to ensure improved coverage of budget beneficiaries in the FMIS. It will support the Government's plans to improve financial and budget information, commitment control and arrears, and the overall monitoring and control of budget execution of Indirect Budget Beneficiaries (IBBs). The Program will support Treasury operations; expansion and technological upgrading of capacity for more efficient business; establishment of a centralized payroll system; and improvements in business process automation.

13. **Result Area 3: Improved Procurement Management.** Key outcomes under this result area are strengthened efficiency in procurement processes and strengthened economy in bulk procurement (Framework Agreement). The Program will support training of officers involved in the public procurement process; preparation of procurement tools and manuals; development of a systematic approach to measure the performance of the public procurement system; preparation and determination of the Bill on Amendments to the Law on Public Procurement; publication of juridical review against the Republic Commission for the Protection of Rights in Public Procurement Procedures (RC) decisions made by the Administrative Court (second instance in the review system); improvement of the training level of certified public procurement officials and 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.

D. Choice of Instrument

14. **The Program-for-Results (PforR) instrument reinforces the focus on results that is central to the Government's program.** All Program funds will be disbursed against the achievement of disbursement linked indicators (DLIs). This supports the Government's efforts to tackle difficult, yet feasible, areas of reform, with results orientation creating the enabling environment for sustaining the reform momentum currently under way. This is designed to enable the strengthening of country systems and to build a strong Government ownership for the reform agenda. Specifically, the PforR 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 efficiency and directly supporting the Government's own reform program; and finally, provide a direct focus on results that are measurable over a specific duration. While the PforR operation is expected to support only a select set of issues in the Government's program, strengthening these selected areas will have a multiplier effect on the implementation of the rest of the reform program by supporting upstream reforms that are critical for the realization of the development goals of the other segments of the program. This Program also complements the Sector Budget Support operation

currently under preparation by the EU and which is also expected to support a significant portion of the Government's program.

II. PROGRAM STRATEGIC RELEVANCE

A. Country Context

15. **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.

16. **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.

17. **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 1.7percent 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.

18. **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. Government Support for Public Sector Reform

19. **Serbia initiated the first round of public sector reform in 2004.** The strategy was designed to cover the period 2004–2008. These reforms were anchored in the PAR Strategy and accompanying Action Plan for the period 2009–2019. Nevertheless, the reform process in 2004–2013 focused on creating the legal basis for the public administration system and resulted in an emphasis on 'form' rather than 'function'. A number of laws and regulations were developed, but the implementation of these laws to generate a value-driven, citizen-oriented service delivery organization never fully materialized. These foundational elements, however, provided the basis for a more function-oriented public sector. Thus, the PforR has been strategically designed to support a new orientation across Government for the emergence of an affordable and effective public service.

20. **Previous Serbian Governments have attempted to reform organization performance and efficiency gains by focusing on financial allocations.** In the process, the organizational patterns within the public sector have tended to determine the level and nature of financing for the public sector, leaving the inefficiencies largely intact. The Government recognizes this challenge and is now launching a new approach to reform aimed at changing the organizational structure as the basis for sustainable and efficient allocation of human resources. An important problem with the implementation of public sector reform has been the weak coordination across key implementing entities as well as capacity shortages.

21. **The objective of the PAR is to "ensure further enhancement of the public administration operations in line with the principles of European Administrative Space, that is, to create the 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.**"[1] While there are no public sector requirements for accession, several chapters—such as chapter 16 and 29; (taxation and customs); chapter 17 (budgetary framework); chapter 5 (public procurement); and chapter 23 (external audit)—have recently been the focus of the Government's attention as part of the wider public sector reform agenda. The Program is designed to facilitate the Government's progress toward the achievement of these capacities, in line with the principles of the European Administrative Space. The European Commission Progress Report 2014 also emphasized that "strict implementation of the envisaged PAR is needed to streamline the bloated public sector and to tackle the unfounded salary differentials in the public administration."[2] PAR is seen as an essential foundation for its agenda for integration into the EU in line with the National Program for Adoption of EU Acquis (2013–2016).

[1] Government of Serbia. 2014. *Public Administration Reform Strategy*. Belgrade: MPALSG, p.10.
[2] European Commission. 2014. *Serbia Progress Report.* http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140108-serbia-progress-report_en.pdf.

Box 1: Principles of the European Administrative Space

- Reliability and predictability and/or legal dependency
- Openness and transparency of the administrative system and promotion of the participation of citizens and social entities in the decision-making processes
- Accountability
- Efficiency and effectiveness

Source: Republic of Serbia. 2014. "Public Administration Reform Strategy." Belgrade: MPALSG.

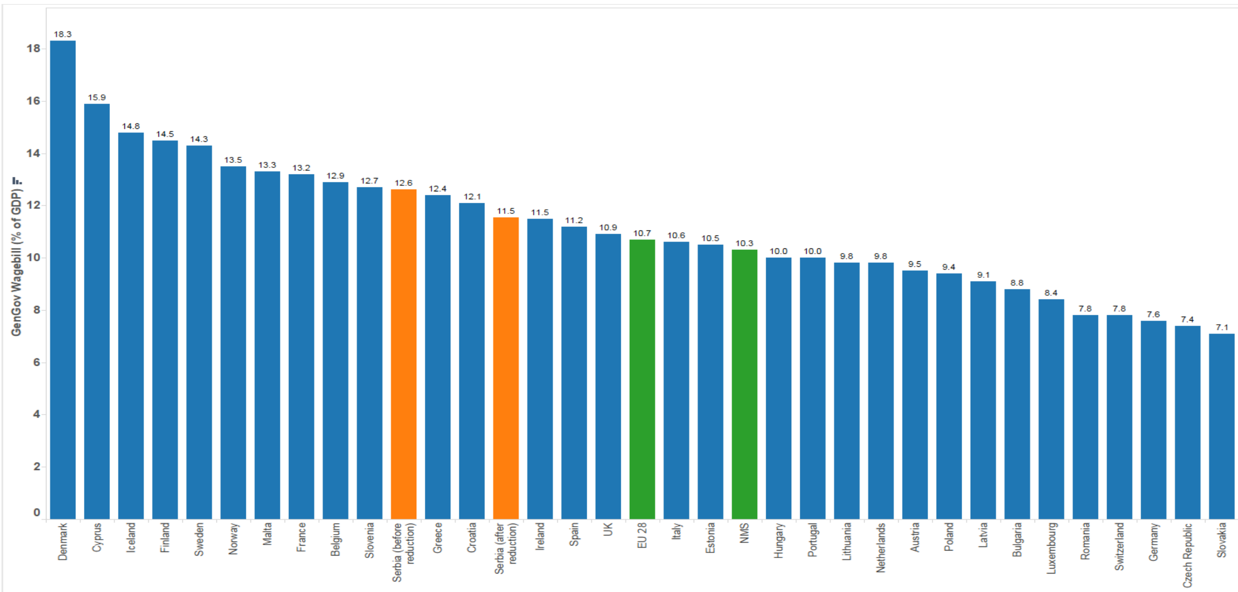
C. Human Resource Management

22. By European standards, the Serbian public sector wage bill is only slightly larger than average. Figure 34 compares the aggregate general Government wage bill in Serbia with the figures for other European countries. As shown, the figure for Serbia (at 12.6 percent of GDP, before a wage cut in 2014) was about 2 percentage points higher than the average of EU-28 (10.7 percent) and the new EU member states (10.3 percent). However, it is considerably higher than in some of the immediate neighbors such as Bulgaria (8.5 percent) and Romania (7.8 percent). The 2014 wage cut reduced Serbia's wage bill by about 1 percent of GDP, still leaving it above the regional averages.[3]

23. This is largely due to relatively high levels of compensation rather than overstaffing. While there is evidence of overstaffing in the health, judiciary, and police and to some extent, education sectors, the public service as a whole is not overstaffed when compared with other European countries. As of December 2014, the Serbian public sector employed 500,538 staff under permanent and fixed-term contracts. This was 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 EU- 28 (7.2) and the new member states (7.3). The average salary in the Serbian public sector is about 1.83 times Serbia's per capita GDP. The equivalent figure for EU-28 is 1.49; for the new member states, 1.37; and for the immediate neighbors, 1.51.

[3] *Sources:* Serbia: MoF, Financial Plans of Social Security Organizations, MPALSG staff estimates and projections; other countries: Eurostat. Cited in: MPALSG. 2015. *A Modern State - A Rational State: How Many, How and What For.* Belgrade: MPALSG.

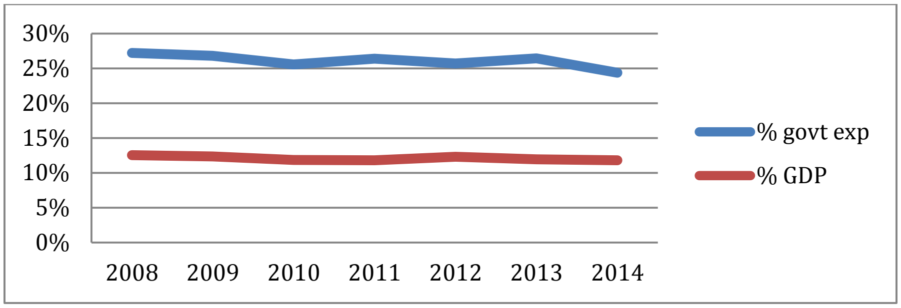
Figure 2: Government Wage Bill (Percentage of GDP)



Source: MPALSG. 2015. *A Modern State – A Rational State: How Many, How and What For.* MPALSG, Belgrade.

24. 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. This approach has succeeded in constraining the overall growth in wage bill. As shown in Figure 3, spending on wages has declined slightly as a percentage of consolidated Government expenditure—from 27 percent in 2008 to 24 percent in 2014. Wage spending has remained roughly constant as a percentage of GDP as Serbia's GDP declined over this period.

Figure 3. Serbia: Trends in Wage Bill



Source: World Bank. 2015. *Public Finance Review*. Washington DC: World Bank.

25. In principle, Serbia has a well-developed system for controlling staffing level: in practice, these controls are ineffective. Every central Government budget organization, at the time of its creation, is required to have an act of systematization setting out the number of positions the entity is permitted. However, acts of systematization are 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 5 ministries which had been abolished. Acts of systematization are also revised following annual budget negotiations. As result, it is the budget negotiations, rather than the acts of systematization, that act as the primary instrument of establishment control.

26. Each year, as part of the annual budget process, each central Government budget organization is required to fill out a personnel plan. The personnel plan sets out the number of positions the organization would like to have funded (both 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, this does not occur. It is reported that powerful ministries and powerful unions largely dictate any changes in the authorized staffing levels. The BSL requires that a consolidated personnel plan be enacted within thirty days of the adoption of the annual budget and that its salary estimates correspond to the amount allocated in the budget. The personnel plan, however, does not in fact dictate the number of staff on the Government's payroll. The figures used in budget negotiations are strictly notional; they are used only to calculate the wage bill of each budget user and do not reflect the actual numbers of staff receiving salaries. Instead, the MoF controls the execution of the wage bill by imposing aggregate ceilings on wages for each budget organization and sticking to them during budget execution. Most salary payments are paid directly to individual employees from the central Government treasury. Individual ministries provide the treasury's payroll department with the information required to determine the salary of each staff and the payroll department makes the corresponding transfer to the individual staff. Under this system, each ministry is free to instruct the payroll department to add staff to the payroll, whether the position is included in the personnel plan or not.

27. 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 is helpful, effective implementation requires a comprehensive HRMIS both at the sector level and at the central level.

28. Preliminary data suggest that there are opportunities for substantial staff reductions in certain sectors and occupations. A recent Government report[4] found 7,040 excess nonmedical staff working in Government-financed health care institutions. It also cited evidence of overstaffing in the ranks of the police, where the ratio of policemen per thousand population is one the highest in Europe. Similar evidence exists in the education sector, where the ratio of teaching staff per thousand population is 10 percent higher than the average for the other European countries for which data are available. In principle, there is potential for even further staff reductions in the education sector due to the sharp decline in the school-age population that Serbia has experienced over the last two decades. This has resulted in classes with extremely low pupil-teacher ratio, particularly in rural areas. A 2009 study by the Bank[5] found that consolidating under-enrolled classes by shifting students to other classes in the same school (and grade) could reduce staffing needs by 10 percent. Consolidating under-enrolled classes by shifting students to other schools within the same municipality could reduce the cost of staffing needs by another 25 percent.

29. There are significant problems with the structure of compensation. At present, Serbia has two employment regimes. This includes one for civil servants (covering most administrative, financial, and managerial positions) and one for public service employees, covering most frontline 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.

30. As part of a civil service reform in 2005, a major effort was made to rationalize civil service salaries. This was intended to eliminate salary anomalies within the civil service so that similar positions in different ministries would have similar levels of compensation and to adjust overall salaries to better reflect private sector comparators. The reform required the reclassification of all civil service positions into what are now 13 grades (5 managerial grades and 8 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.

[4] MPALSG. 2015. *A Modern State - A Rational State: How Many, How and What For.* Belgrade: MPALSG.
[5] World Bank. 2009. *Serbia: Doing More with Less.* Washington, DC: World Bank.

31. Wages for public service employees are also determined on the basis of coefficients, but less systematically. 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 bylaws that regulate salary levels.

Table 1: Public Sector Wages as Percentage of Private Sector Wages by Occupation

Occupation	Percent
Protective services workers	141
Health professionals	114
Chief executives, senior officials, and legislators	109
Drivers and mobile plant operators	102
Numerical and material recording clerks	101
Teaching professionals	99
Business and administration associate professionals	99
Customer services clerks	99
Other clerical support workers	98
Business and administration professionals	95
Legal, social, and cultural professionals	94
Health associate professionals	94
Legal, social, cultural, and related associate professionals	94
General and keyboard clerks	92
Personal service workers	91
Cleaners and helpers	91
Refuse workers and other elementary workers	89
Science and engineering professionals	85
Administrative and commercial managers	82
Information and communications technology professionals	74
Information and communications technicians	71

Source: IPSOS. Note that public sector wages reflect an impact of 10 percent cut in November 2014.

32. There is also evidence of systematic overcompensation in some occupations and under-compensation in others. A recent 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.[6] 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 survey demonstrates that some job categories - security guards, health care professionals, and chief executives in the public sectors - appear to be overcompensated. This is even after the 10 percent cut in wages that went into effect in November 2014. Teachers are paid roughly the same in the private and public sectors. However, other occupations—

[6] The state sector includes all public sector employees except those in SOEs. 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.

including science and engineering professionals, and administrative managers—are underpaid in the public sector. ICT professionals are particularly underpaid, earning 25 percent less than their counterparts in the private sector. Overall, this suggests that the Government is paying more than it needs to some groups of workers while failing to pay enough to attract and retain qualified staff in others.

33. Finally there serious shortcomings in human resource management practices. Ineffective formal protection from politically motivated transfers or dismissals, frequent political appointments, and nontransparent recruitment procedures for middle management positions or local level recruitment make for a civil service that is still far from a merit-based professional public administration.[7] Uneven application of the current legal frameworks leaves room for undue influence in the recruitment process. Staffing norms and rules are often inadequate or violated. According to the provisions of the Civil Servants Act, any new recruitment for an ordinary civil servant post has to be justified with regard to the Rulebook on Internal Organization and Systematization and the Annual Staffing Plan and be advertised, whether it is to be filled by internal or public competition.[8] However, selection procedures are not applied uniformly and managers still have great discretion when choosing candidates from lists drawn up by selection panels following competitions. For temporary contracts, positions can be allocated without internal or public competition; therefore, some positions are filled without competitive criteria.[9]

D. Public Financial Management

34. While the Government has made progress in strengthening public financial management, 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 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.

35. Serbia's current BSL provides a well-defined statutory basis for managing public expenditures. The BSL provides for a budget that is transparent, comprehensive in scope, and formulated within a timetable that allows the key actors to carry out their roles. The law

[7] European Commission. 2014. *Instrument for Pre-Accession Assistance (IPA II) Indicative Strategy Paper for Serbia (2014–2020)*. Brussels: European Commission.
[8] For more details on how internal and external recruitment opportunities are advertised, see the Civil Service Act, Articles 49-61.
[9] OECD. 2013. "Serbia Priorities Report 2013." *SIGMA Country Assessment Reports*, 2013/03, OECD Publishing. http://dx.doi.org/10.1787/5jz2rql40pbs-en.

regulates the entire budgetary process, including the planning, preparation, and approval stages of budget preparation as well as execution and reporting. In institutional terms, it applies to local Governments as well as public enterprises and some autonomous agencies. Budget preparation and monitoring is the responsibility of the Budget Department in the MoF. Global budgetary ceilings and their distribution to budget beneficiaries are made by the Budget Department of the MoF. Treasury is responsible for the execution of the budget. The disbursement of funds is centrally controlled through a treasury single account, in accordance with the BSL. At the start of each quarter, each budget beneficiary provides the Treasury with an estimate of the amount of cash it will need to execute its budget in the upcoming period. The Treasury then compares the sum of the estimates from all the budget beneficiaries against the amount of cash it expects to have on hand and establishes quotas for each budget beneficiary for the period. (Estimates are due by the 5th of each month. Quotas are determined by the 15th.) These quotas are revised every month on rolling basis.

Figure 4: Public Expenditures and Financial Accountability Assessment, 2015

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			

36. The BSL requires the preparation of a three-year medium-term expenditure framework (MTEF). The MTEF is revised every year and included in a Fiscal Strategy Report. However, the forecasts of macroeconomic parameters that are the basis for preparing the MTEF are often inaccurate, overestimating GDP growth and therefore overestimating resource availability. Moreover, MTEF projections for the outer years are not taken seriously by individual budget users. 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 the subsequent years' budget

37. The budget is not always based on realistic assumptions, with revenues falling well below targets. In 2014, for example, budget revenues were 6.3 percent below the amount budgeted for that year. When budget is based on unrealistic revenue projections, the amount of cash on hand in any given month often falls short of the amount needed to fully fund the initial budget requests of all budget beneficiaries. Treasury is forced to ration the available funding. It typically does so by cutting each budget beneficiary's request by an equal proportion. Unless a budget beneficiary is able to reduce its immediate expenditure obligations by an equal proportion, it is forced to run up arrears.

38. Arrears also arise from multiyear commitments that are not adequately covered in forward estimates. The BSL permits budget beneficiaries to enter into multiannual commitments or contracts but only up to the level of the medium-term ceilings specified in the Fiscal Strategy. This constraint is ineffective. This is partly because information on such commitments is not available. The Treasury does not keep records of such commitments but only of the portion to be paid in the current year. At the same time, multiyear contractual commitments are not registered in the FMIS or other systems at the time of their occurrence. However, it also reflects a willful disregard of the ceilings themselves. Because the ceilings are only provisional and are largely ignored in the course of preparing the annual budget, budget beneficiaries do not take them seriously. As a result, budget beneficiaries enter into multiyear commitments that cannot ultimately be paid.

39. 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 (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 (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.

40. The Government's difficulty in controlling spending is exacerbated by the limited coverage of the electronic budget execution system (FMIS). All budget beneficiaries enter their payments requests by accessing the FMIS. In the case of DBBs, the Treasury then executes the payment within the budget beneficiaries' payment quota. However, IBBs, such as such as courts, prisons, and schools, are not covered by the FMIS. Although the Treasury does process their payment requests, it is not able to check their requests against their annual budget appropriations or monthly quotas. 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 DBB.

E. Public Procurement

41. Public procurement in the Republic of Serbia is governed by the PPL of 2013. 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. Entities that have total estimated annual procurements of over RSD 1 billion 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.

42. The PPL regulates the procedures for awarding public contracts for the procurement of goods, works, and consultant services. Compared to its predecessor, the 2013 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.

43. Under the PPL, all announcements of public procurements, by all contracting authorities, must be published on the Public Procurement Portal, including small-value public procurements. The PPL requires the publication of other relevant information, including 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.

44. Recent (August 2015) amendments to the PPL have further improved the legislative framework for procurement in Serbia. Entities that have total estimated annual procurements of over RSD 1 billion 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 allow 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.

45. The 2013 PPL also sets out the competences of the two core agencies responsible for public procurement systems: the PPO and the Republic Commission for the Protection of Rights in Public Procurement Procedures (RC). The 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 ensures the protection of rights in public procurement procedures. It reports directly to the parliament. As part of its statutory powers, it decides on requests for the protection of rights in all public procurement procedures, oversees compliance with its decisions, annuls public procurement contracts, imposes fines on contracting authorities and responsible persons of contracting authorities, fines applicants in case of abuse of requests for the protection of rights, conducts infringement proceedings in the first instance, initiates procedures for annulment of public procurement contracts, and performs other duties provided by the PPL.

46. 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. Individual contracting authorities, for their part, are insufficiently familiar with procurement procedures. 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. It 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.

47. Procurement training also faces capacity constraints. The Regulation on the Method and Program of Vocational Training and Procedure for Taking the Professional Examination for Public Procurement Officers, which should have been adopted in accordance with the Public Procurement Law (PPL), has not yet been prepared. The process for certification of public procurement officers was suspended in March 2013.[10] Public procurement training, mainly for contracting authorities, is provided by the private sector and other organizations, such as the chambers of commerce, often with speakers from the PPO. Due to lack of capacity and understaffing, the PPO has also not been able to deliver professional training and certification programs, which means that public procurement officers are not certified, as the law requires. Also from the perspectives of contracting authorities and bidders, lack of professional skills may become an issue, in particular with regard to the proposed introduction of new working methods,

[10] OECD. 2014. *Public Administration Reform Assessment of Serbia*. Paris: OECD SIGMA.

such as greater centralized procurement, framework agreements, dynamic purchasing systems, and e-auctions.

III. TECHNICAL SOUNDNESS

A. Strengthening Public Sector Efficiency

48. 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. More importantly, the activities selected reflect the key areas that that have been highlighted by recent analytical work by the Bank, USAID, and the EU, among others, as important areas for reform of the public sector. For instance, the Bank's 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 Action Plan was prepared by civil servants supported by a team of experts from Support for Improvement in Governance and Management (SIGMA) at the OECD. The program has specific objectives and indicators for measuring the achievement of results in each of the five areas. Each result area has specific activities sequenced toward the key results. The Government acknowledges that some of the proposals in the Action Plan are forward looking and, as such, the Action Plan is expected to be revised in 2016 to accommodate emerging needs and take into account any lessons learned from implementation during the first year. Further, the Action Plan has also built-in subsectoral strategies.

49. The technical design of the Program has been influenced by the key binding constraints to efficiency in the public sector. At the individual result area level, Program activities also address the specific challenges in HRM, financial management, and management of procurement. The Program does this by investing in supporting the Government's program for improving staffing and wage-bill management; improving greater control over the management of expenditure and budget execution; and finally, by streamlining procurement processes through the introduction of framework agreements, not only to ensure economies of scale but also to improve delivery of goods and services to public sector users, as discussed below.

B. Key Result Areas Supported by the 'Program'

Result Area 1: Improved Human Resource Management

50. Recent Government efforts to control the aggregate wage bill, have not addressed the more fundamental problems in the HRM system. The hiring freeze and attrition replacement rules are not targeted and so do not focus on the remaining pockets of over employment. The wage freeze, similarly, fails to deal with underlying problems in the structure of compensation. To address these problems, the Government is pursuing a two-pronged strategy: first rationalizing staffing numbers and second restructuring the compensation regime.

51. Parliament has enacted a law limiting the maximum number of public employees in August 2015. This law applies to all organizations paid from public funds, including ministries and agencies of the central Government (excluding the Ministries of Defense and Interior and the Judiciary) and is to remain in effect through 2018. For 2015, the ceilings for central Government ministries and agencies are to go into effect by December 2015. Thereafter, the ceilings are to be adjusted annually based on the recommendations of the MoF. The law also applies to local Governments. In this case, the law sets out permanent ceilings based on the population of each jurisdiction. Thereafter, staff reductions must be made by June of the current year (except in the case of education, where the reductions must be made by September.)

52. The Government is making a systematic effort to bring staffing levels under control. It has already established a registry of public employees. The current registry, however, relies on individual ministries to report their staffing levels. It is therefore inaccurate. It is also ineffective as an enforcement mechanism. Because it is not linked to the payroll system, the treasury continues to make payments to individual employees, whether they are registered or not. To address this problem, the Government intends to link the employee registry to the payroll system. 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 ferret out ghost employees.

53. The Government is undertaking functional reviews in specific sectors to support the rightsizing of public employment over the longer term. These are aimed at simplifying administrative procedures, eliminating redundant tasks, and eliminating or restructuring departments with duplicate functions, thereby reducing the need for staff

54. Staffing reductions will be implemented through a combination of attrition, reassignments, and redundancy. Redundancy will be subject to compensation. As described in the Environmental and Social Systems Assessment, Serbian legislation sets the terms and procedures for such dismissals. These provide, among others, that staff who are dismissed due to retrenchment will be eligible for severance payments equal to one-third of their monthly salary for each year of service. As in any such program, there is some risk of adverse selection: that staff in key positions will be the first to take advantage of the severance offer. To avoid this situation, the program will be offered only to staff in positions that are determined to be redundant. There is also some risk that positions that are vacated under the Program will be filled again at some future date. To avoid this, the positions that are vacated will be abolished.

55. The second focus of reform is the pay and grading system. The current structure of wages is the product of ad hoc wage adjustments granted to particular sectors over the last 15 years. As a result, equal work is not equally rewarded. Compensation in some sectors may be too high; in other sectors, too low. The system of ad hoc wage adjustment in wage coefficients also renders the Government vulnerable to wage pressures from powerful unions.

56. To address this problem the Government is undertaking a comprehensive job evaluation and pay grading exercise. This will cover 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.) Under the proposal, jobs will be evaluated and assigned points-based factors such as (a) scope of responsibility for resources, work organization, and staff management; (b) extent of decision-making authority; (c) complexity of duties and requirements for creative thinking; (d) requirements for knowledge, skills, and experience; and (e) extent, level, and purpose of contacts with people inside and outside the organization (ranging from minor and infrequent contacts with the public to representation of ministerial views at international conferences). These jobs will then be grouped, according to their total points, into 60 grades representing all the job levels 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 before implementation, each ministry will amend its systematization act to reflect the new grades.

57. The new grading system is expected to result in wage reductions for some positions and wage increases for others. Achieving parity with private sector is not 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. In implementing the new system, existing staff will be partially 'grandfathered'. Under the new pay and grading system, staff who are currently receiving a salary that is higher than for their position will continue to receive their current salaries but will not receive any of the normal semiannual increases. Staff who are currently receiving a salary that is lower than their position would have to be 'grandfathered' for a period until reaching the new levels.

58. To initiate the reform, the MPALSG drafted the Law on Public Sector Employees Salary System. The law was approved by the parliament by in early2016.The law sets out the principle of the grading system and the timetable for implementation of pay reform.

59. 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.

60. 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 Ceilings on the 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.

61. The proposed measures are sufficient to support the establishment of a sound system of establishment control and staff remuneration. Under the proposed system, managers will no longer have unfettered discretion to hire above the established maximum number of employees. The problem of inequity in pay will be solved by classifying all positions into a limited number of grades, each of which will be linked to a wage coefficient.

Figure 5. Result Chain for Result Area 1: Improved Human Resource Management

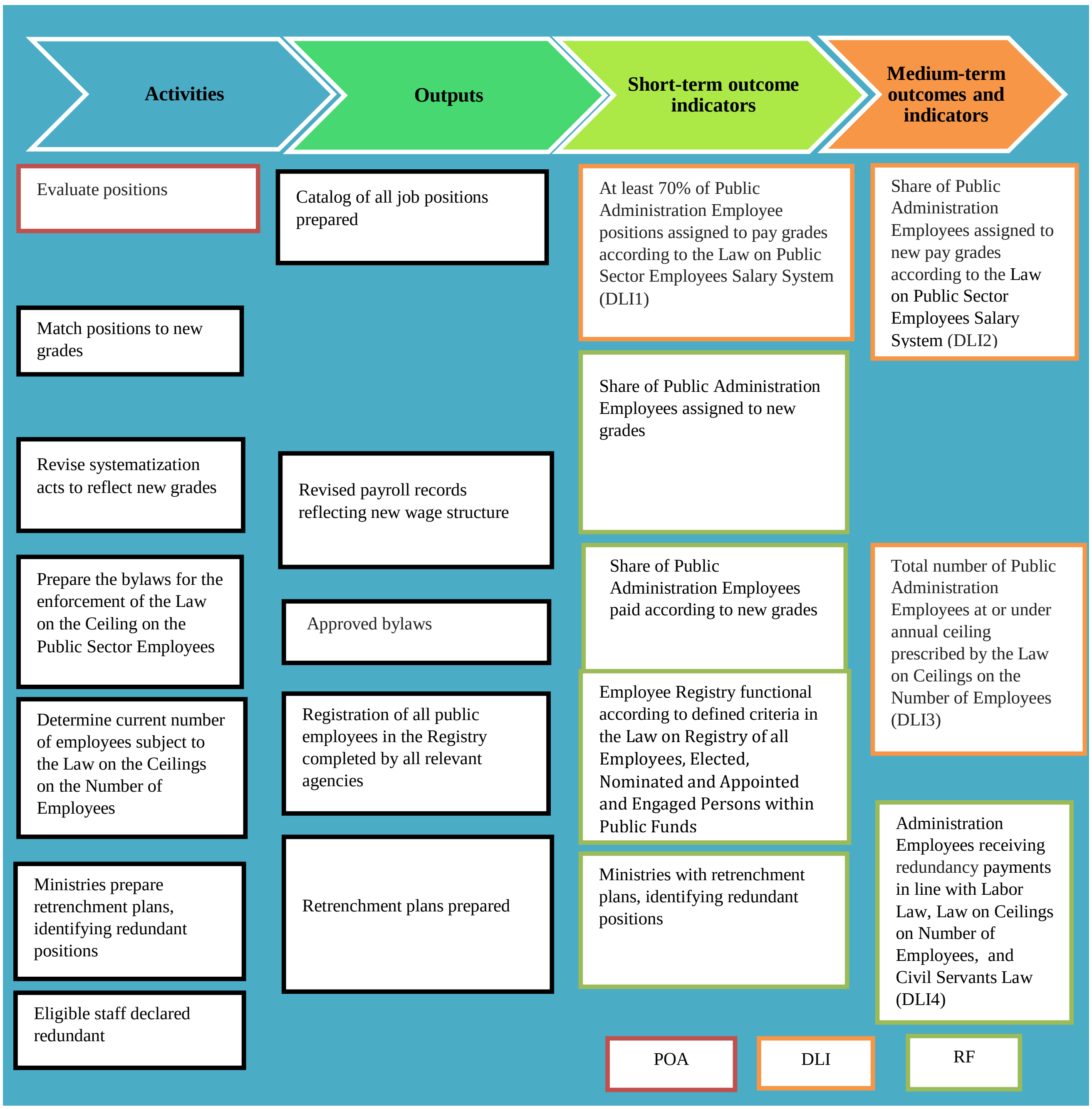


Table 2: Mapping of Reform Path 1 - Strategic and Technical Soundness of DLIs

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 grades as per the new pay and grading structure'	A chaotic system of wage coefficients, bonuses, and allowances has resulted in inequitable and arbitrary levels of compensation in the public sector. The Government is developing a new grading system based on job evaluations. It is also drafting a new law governing public sector wages and a set of coefficients that will determine the salaries of each of the new grades. This pair of DLIs is meant to ensure that the Government completes the grading process and moves 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(DLI#2)	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. 'Paid according to new pay and grading structure': Public Administration Employees monthly pay slip reflects assignment of their positions to the new pay and grading structure.	
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. 'Annual ceiling': Prescribed number of public sector employees as defined in the Law on Ceilings on the Number of Employees in the Public Sector.	The Government has recently passed the Law on Ceilings on the Number of Employees in the Public Sector. The law requires the setting of a maximum number allowed for each entity. This DLI will incentivize adherence to the established maximum.
Percentage of Redundant Public Administration Employees receiving Redundancy Payments pursuant to provisions of Labor Law, Law on Ceilings on the Number of Employees, and Civil Servants Law	A redundant public administration employee is defined as those occupying redundant positions; targeted downsizing is defined as dismissal (other than for cause) according to the 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.

Result Area 2: Improved Financial Management

62. Improving PFM is a Government priority and is one of five main objectives of the broader PAR Strategy. A more specific PFM Reform Program has been drafted and is expected to be finalized in early 2016. The program sets out a reform path and priority actions in the short, medium, and long term. It is largely consistent with the recent Bank diagnostic, namely the Public Expenditure and Financial Accountability (PEFA) and PFM Reform Program.

63. The immediate priority of the Government's PFM reforms is strengthen expenditure control and prevent the accumulation of expenditure arrears through improvements in expenditure planning and expenditure control. 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.

64. The Government will improve the quality of information on commitments. In 2012, it established an electronic Registry of Settlements of Pecuniary Commitments (RINO). The purpose of the application was to improve the availability of information on assumed commitments and compliance with statutory deadlines for payments. The initial version of RINO covered only transactions between the public sector and the commercial sector. In 2015, the system was expanded to cover transactions between one public sector entity and another, complementing the changes in coverage mandated by amendments to the law on Deadlines for Payments in Commercial Transactions.

65. The Government will tighten supervision of arrears. The Law on Deadlines for Payments in Commercial Transactions (2013) mandated a timetable for the payment of arrears. Under the law, debtors (including Government officials) can be fined for failing to pay arrears on time. In its initial form, the law applied only to arrears owed to commercial entities. Even so, it produced a dramatic reduction in arrears owed by public sector entities. More recently, the law has been amended to apply to debts owed by public entities to other public entities The Department of Budget Inspection of the MoF is now responsible for monitoring transactions between public entities and private entities as well as transactions among different entities of the public sector. The law stipulates that further regulatory acts will be passed to precisely define supervision over implementation and communication of information between the Treasury, which collects information on payments, and entities in charge of supervision.

66. The MoF will systematically roll out the Financial Management Information System (FMIS) to Indirect Budget Beneficiaries 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.

67. The Government also intends to strengthen the MoF's ability to assess the reliability of reported cash needs by users of public funds, with the view to ensuring adequacy of budget allotments and aggregate cash requirements. It will also require all budget users to submit quarterly reports on arrears and strengthen its system of controls over contractual commitments.

68. The proposed Program intends to support these reforms through two DLIs. The first is intended to support overall efforts to reduce arrears. This would capture efforts by the MoF Budget Department to produce more realistic annual budgets and 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 quality of data on commitments and enforce legislation governing the payment of arrears. A single DLI is proposed: Percentage of commitments in the Budget Execution System entered within the required deadline, per the legislation on Deadlines for Payments in Commercial Transactions. Funds would be disbursed against the achievement of specified targets over the three disbursement periods. The second DLI would support the inclusion of IBBs in the FMIS. Funds would be disbursed against the achievement of specific targets, measured in terms of the percentage of all IBBs included in the FMIS in each of the three disbursement periods.

69. The proposed measures are adequate to address the problem. In addition to creating the foundation for effective management of budget preparation and execution, they are also expected to improve ex ante controls of commitments by budget users. A combination of this and other measures on monitoring expenditures of budget beneficiaries will ensure that IBBs do not exceed annual appropriations. In the absence of controls, budget users tend to make commitments based on their annual budgetary allocations, running up arrears. The proposed Program also supports the inclusion of IBBs into the FMIS, thus strengthening the ability of the Treasury to monitor commitment and cash management**.** It will also indirectly strengthen the budget process, especially in terms of revenue forecasting and overall outturn.

Figure 6. Result Chain for Result Area 2: Improved Financial Management

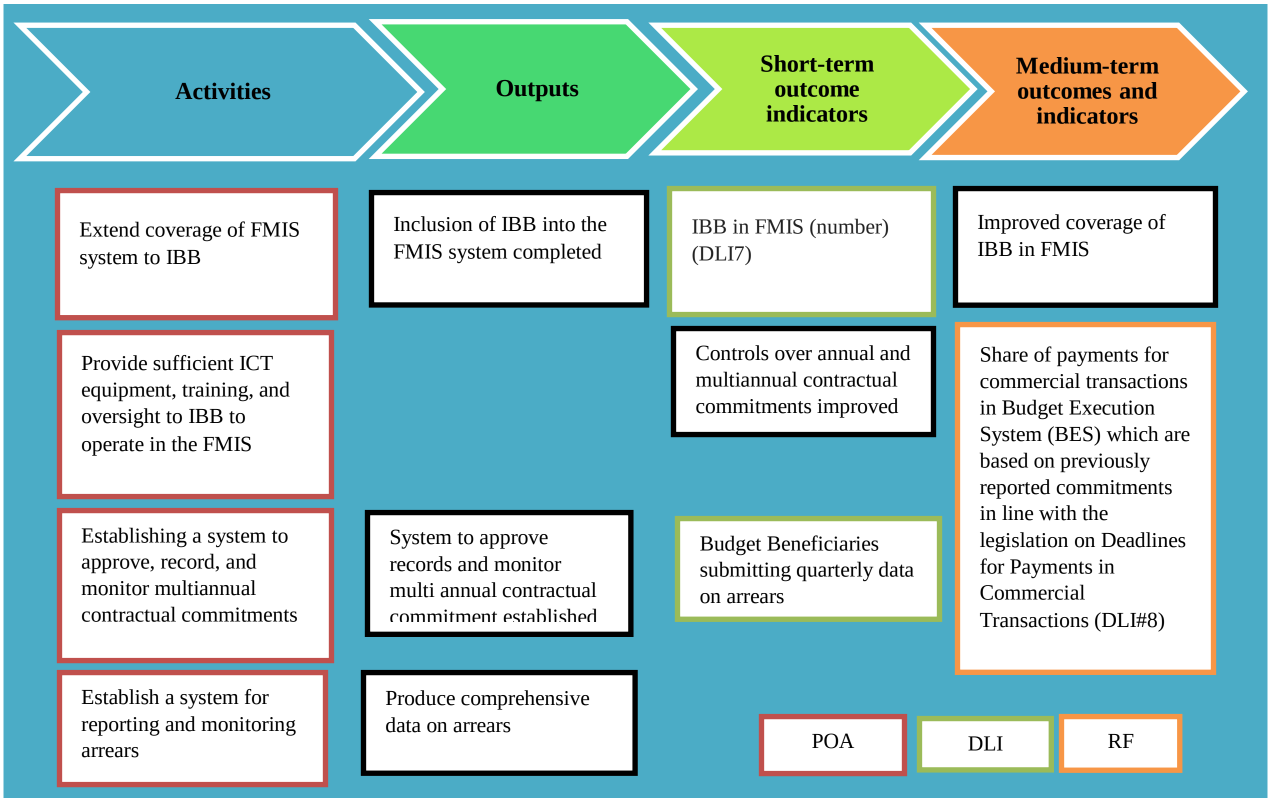


Table 3: Mapping of Reform Path 2 - Strategic and Technical Soundness of DLIs

DLI	Description	Strategic Relevance
IBBs included in the FMIS (DLI7)	The DLI measures the number of legislative bodies and public institutions founded by the Republic and/or local Governments and which obtain financing through the national budget that are connected to the FMIS and use the system entry and retrieval of financial data.	The Government is unable to control spending largely due to the limited coverage of IBBs by the FMIS. The Government intends to bring in approximately 1,078 IBBs by 2018. Including these budget beneficiaries would be an important first step toward addressing the problem of arrears that arise from inadequate commitment controls.
|Percentage of commitments in the BES entered within the required deadline according to the legislation 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).	

Result Area 3: Improved Procurement Management

70. 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 models 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.

71. Process improvements will focus on centralization of public procurement at the central and local levels where this can generate efficiency savings. 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 Administration for Joint Services Office of the Republic Bodies. In addition, centralized procurements of certain medicines and medical supplies are conducted by the Republic Health Insurance Fund. The selection of items that will be subject to centralized procurement will be preceded by market research, to minimize the risk that centralized procurement will favor large-scale suppliers, thus restricting competition. Special attention will be paid to minimize the adverse impact of centralized procurement on small and medium enterprises. Centralization will be applied in those cases where analysis proves its clear advantages over multiple individual public procurement. 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.

72. 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, they 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 PPL (the 2015 amendments make specific provisions for them) they are less 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. 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 the contracting authorities to bring more awareness/benefits of the use of Framework Agreements.

73. The Government will also expand training, including a large-scale training and certification process for public procurement officers in individual contracting authorities.

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 job classification act. Some progress has already been made on this front. Between 2010 and 2013, a total of 1,810 public procurement officers were certified at the central and local levels. However, further training and certification is required. 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, health, or specific issues that are of common interest such as procurement of insurance services, medicines, and so on. Complementing these efforts, the Government also intends to (a) 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; (b) issue a code of ethics in public procurement; and (c) support professional associations in public procurement in their efforts to increase professionalism and ethical standards in the field.

74. Training and workshops will be provided to potential bidders to encourage their participation in public procurement procedures and enable them to protect their rights. The need for such training is greatest in small and medium 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.

75. Finally, the Government intends to develop a systematic approach for measuring procurement performance. This is critical to identify 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. In addition, the PPO will also analyze technical solutions and options implemented or developed in EU member states in the area of e-procurement (e-tender, e-auction, e-dynamic procurement system, e-catalogues, and so on.) with an eye to introducing such reforms in Serbia in the future.

76. 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.

Figure 7. Result Chain for Result Area 3: Improved Public Procurement

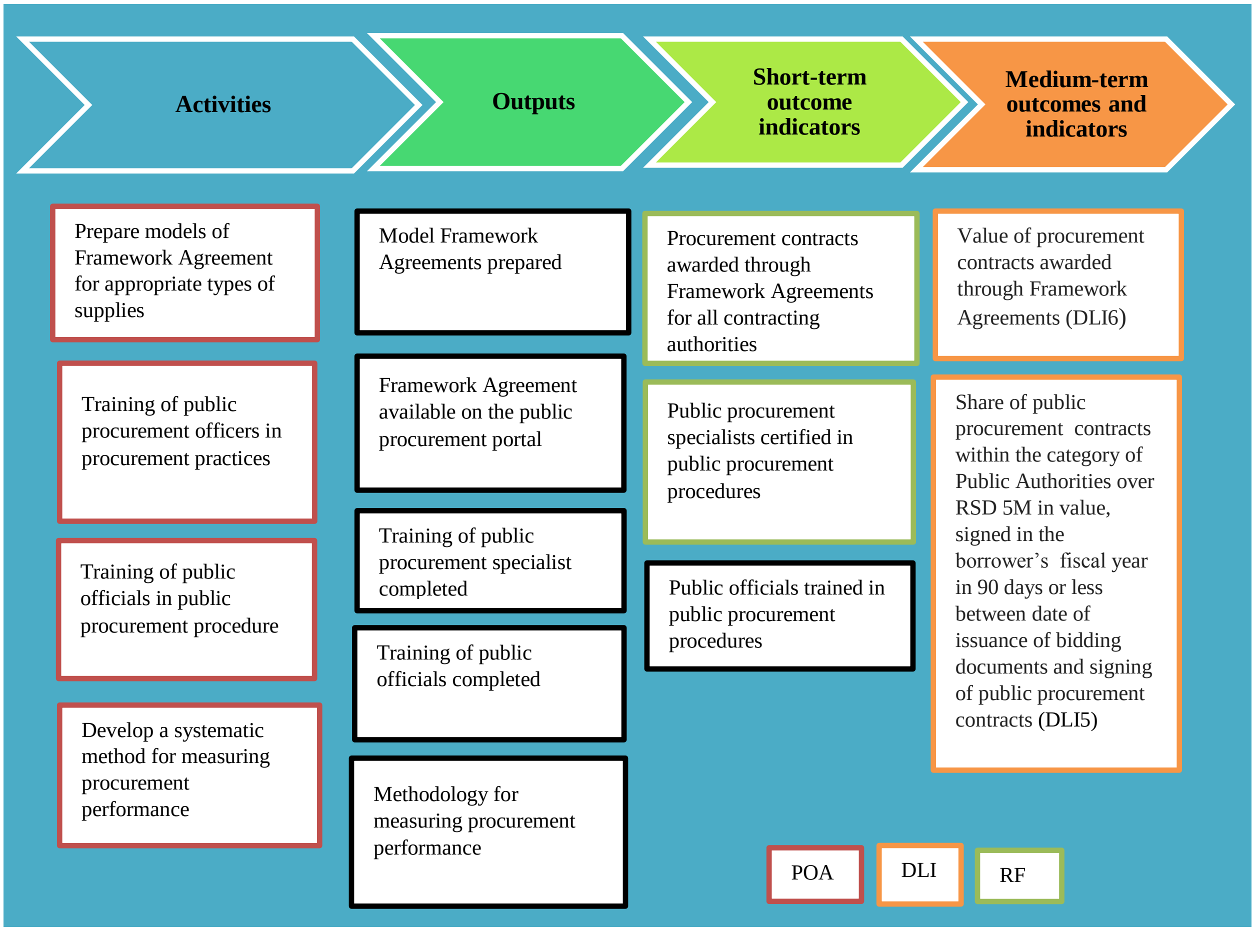


Table 4: Mapping of Reform Path 3 - Strategic and Technical Soundness of DLIs

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. (DLI#5)	This DLI measures the value of procurement above RSD 5 million (approximately US$45,000) that take more than 90 days to complete from the time bidding documents are issued to the time the contract is awarded and signed.	The DLI measures efficiency and economy in public sector finance, with regard to time needed to complete procurement (time efficiency) and the increased use of framework agreements (economy).
Value of public procurement contracts awarded through Framework Agreements (RSD) (DLI#6)	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.	

C. Lessons from Experience

77. **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.[11] 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"[12] 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"[13]. 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 5 below.

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

Table 5: 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.
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 Public Administration Reform 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. INSTITUTIONAL ARRANGEMENTS

78. **The Program is based on an Action Plan that has broad political support at the highest level of Government.** It is a product of a reform momentum that emerged out of the Prime Minister's efforts to reform the functioning of the Government. It also coincides with the implementation of an IMF Stand-By Arrangement, which obliges the Government to undertake

key fiscal consolidation measures covered by this Program. The Government's program was designed through a consultative and collaborative process reflecting the views of the technical staff in various ministries and the validation of several important stakeholders. In the past, important policy documents and programs have been designed but not implemented largely due to weak coordination and inertia. Through the PforR operation, the Bank—through the Global Governance Practice—will leverage its global knowledge in public sector reform to support the Government's reform agenda.

79. **The Program will use the institutional and coordination arrangements established to support implementation of the PAR Strategy**. Box 2 provides an overview of these arrangements, comprising: the Public Administration Reform 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 Ministry of Public Administration and Local Self Government (MPALSG) oversees and supports implementation of the PAR at an operational level.

80. **Arrangements for cross-government coordination are robust.** 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 Council has Rules of Procedure and draws membership from all strategic ministries involved in the PAR program, including the MPALSG. The most recent meeting of the PAR Council in December 2015 discussed several ongoing reforms in the public sector, including this PforR Program.

81. **The Ministry of Public Administration and Local Self Government is the key implementing agency for the Program**. The Public Policy Secretariat 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.

82. **Each of the Program Result Areas is implemented by a lead institution: the MPASLG, Treasury Administration and the Public Procurement Office**. 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 Disbursement Linked Indicators. 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).

83. **The Program is harmonized with a Sector Budget Support operation supported by the European Commission.** It will use the same monitoring structures, thereby reducing the opportunities for duplication of resources and multiple reporting on different indicators. The Program uses indicators that have already been defined by the Action Plan for the Implementation of PAR Strategy, providing the opportunity for greater synergy with the ongoing Government program. There will be no need to establish a parallel monitoring mechanism separate from the already established PAR reporting system. The financial incentives associated with the PforR instrument and with the Program are robust enough to support a greater focus on achieving the results. Finally, this Program is designed to coincide with the Government's ongoing program with the Fund. Key areas of this Program reflect the main thrust of the Government's arrangement with the Fund. As such, it is expected that the political support necessary for the support of the Fund program will accelerate the implementation of the activities covered under this Program.

Box 2: Implementation Arrangements for the Action Plan

Level One: The ministry responsible for public administration affairs will continue to perform operational duties and tasks and the coordination of the PAR process. For successful accomplishment of these tasks and sustainability of this process, it is necessary to ensure appropriate capacities, primarily by building capacities of the internal organizational unit (department) of the Ministry of Justice and State Administration under whose auspices are the public administration activities involving the public administration 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 public administration bodies must appoint a person who will be tasked with monitoring, reporting, and evaluating the implementation of the PAR Strategy.

Level Two: The Inter-ministerial Project Group is tasked with performing the expert coordination and monitoring of the PAR Strategy implementation. The duties of this Project Group primarily involve the professional coordination and drafting of reports on the implementation of the PAR Strategy. This mechanism will ensure active involvement of all the relevant state authorities in the process of the PAR. 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 for 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 public administration system (before they are presented to public administration bodies for providing their opinion); defining competencies in discharging of public administration duties, defining the status of employees, including the internal relations and coordination of public administration bodies and organizations; adopting of 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 of decisions that could not be agreed upon by the Inter-ministerial Project Group to the Collegium of State Secretaries for discussion and adoption; participation 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 a month and/or more frequently, when 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 to 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, the Deputy General Secretary of the Government, the Deputy Director of the Serbian European Integration Office, and the 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 PAR as the central strategic body of the Government, responsible for the PAR, tasked with defining the proposals for the strategic development of public administration in the Republic of Serbia; initiating and proposing the measures and actions related to the PAR 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 sectoral development strategies and measures form the plans; and discussing and providing preliminary opinion to the Government about development strategies, draft laws, and other legal documents related to the organization and work of the Government, public administration 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

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V. PROGRAM EXPENDITURE FRAMEWORK

84. **The Government has developed an Action Plan for the Implementation of the PAR Strategy with a strong commitment to fund it from its own resources.** It recognizes that financing the activities in the PAR will require significant funding. As such it has provided that funding for the PAR will be included in the budget of each financial year and reflected in the activities of each of the ministries as well as in the budget of the coordination ministry—the MPALSG. Nevertheless, in addition to the Bank funding, the Government has other sources of funding, notably the EU which is committing up to €80 million. There are other DPs who are financing stand-alone activities but which are nonetheless linked to the PAR broadly defined.

85. **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: Ministry of Public Administration and Local Self-Government, Treasury Administration and Public Procurement Office. The expenditure framework considers the relevant expenditures of other institutions relevant for Program implementation: National Employment Service; State Audit Institution; Secretariat for Public Policy; 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 for Results PDOs 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 6.

86. **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 Public Procurement Office just 0.6 percent of total Program expenditure. The structure of expenditure by type of expenditure is presented in Table 7. 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.

Table 6: 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 7: 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

Table 8: Structure of Program Financing

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

87. 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 European Union €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 8 above.

Table 9: 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**

88. Result Area 1 is allocated 79.5 percent of the total Program financing or US$192,191,548. The result area is entirely related to the activities of the MPALSG. The set of relevant activities will include the following: organizational and functional restructuring of the public administration; development and management of a registry of all employees in the public sector; training of civil servants in state administration on new policies for HRM; preparation and establishment of merit-based pay and grading system in the public administration; implementation of the legal regulations on the maximum number of employees; and development of the HRM system. A large portion of the funds allocated to this set of activities includes severance costs, which represent 94.4 percent of the total allocation. If the severance costs are excluded the allocation to Result Area 1 is US$10,745,469.

89. Result Area 2 is allocated US$48,204,297 or 19.9 percent of the total Program financing. The activities implemented by the Treasury Administration aimed at achieving the relevant DLIs and PDOs for Result Area 2 are the following: strengthening of budget execution and monitoring to ensure improved coverage of budget beneficiaries in the FMIS, improvement of financial and budget information, commitment control and arrears, and the overall monitoring and control of budget execution of IBBs; expansion and technological upgrading of capacity for more efficient business; and establishment of a centralized payroll system and improvements in business process automation.

90. Result Area 3 is allocated US$1,228,260 or 0.5 percent of the total Program financing. The activities implemented by the PPO aimed at achieving the relevant DLIs and PDOs for Result Area 3 are the following: training of officers involved in the procurement process both at the PPO, Appeals Board, and procuring entities; preparation of procurement tools and manuals; development of a systematic approach to measure the performance of the public procurement system; preparation and determination of the Bill on Amendments to the Law on Public Procurement; publication of juridical review against common property resources decisions made by the Administrative Court (second instance in the review system); improvement of the training level of officials and decision makers in public procurement procedures; adoption of the value-for-money methodology and guidelines for implementation of the 'Life cycle product cost' concept; and further development of the use of ICT (e-Government) to enhance efficiency in procurement.

91. **Program expenditures will be executed and accounted for using the GoS PFM system.** The amount of financing determined from the financial plans of the relevant institutions includes only the financing that is within the limits defined in accordance with the valid three-year Fiscal Framework. The Fiscal Framework is a part of the Fiscal Strategy of the Republic of Serbia for 2015. Expenditures will be appropriated through the Government's budget process and reflected in the state budget. All payments from the Program will be executed through the Treasury Administration's FMIS. Expenditures will be tracked through the budget programs and budget line items for each of the four institutions. There is a robust framework of automated controls over transactions in both the registration of the expenditure payment stages enabling efficient expenditure tracking. Coverage of the controls in the FMIS application includes revenues and expenditures, own source revenues/expenditures, and received grants/expenditures of DBBs as well as transfers from the Republican budget. Commitment controls that are in place on the level of the Treasury Administration effectively limit commitments to available budget appropriation and to actual cash availability. Program implementing agencies (the MPALSG, PPO, and Treasury Administration) do not have autonomy in budget execution regarding resource allocation within the budget year. Approved appropriations can be altered, but the rules are clear and limit individual changes of appropriations to 5 percent according to the BSL.

92. **The Budget Classification and Accounting Framework provides an adequate basis for programming and reporting on Program expenditures.** Serbia adopted the Rulebook on Standard Classification Framework and Chart of Accounts for the Budgetary System in 2009. This classification includes administrative, functional, and economical categories as well as definitions for each category that are consistent with Government Financial Statistics manual (GFS) 2001 and with the main functional classification of the Classifications of the Functions of Government (CoFoG). Government accounts, budget execution reports, and other budget execution data have a breakdown that corresponds to the documentation for the proposed and approved budget. Such a framework will enable effective monitoring of the expenditures under the Program. 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.

93. **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.

94. Risks to the Program Expenditure Framework are considered modest, even if the macro-economic situation deteriorates. The reforms supported by the Program feature 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.

VI. PROGRAM MONITORING AND EVALUATION

A. PAR Strategy and Action Plan M&E Framework

95. The PAR Strategy is supported by a results matrix including output and outcome indicators. The strategy uses OECD SIGMA and the European Commission indicators of public administration principles. This aligns the PAR with the process of Serbia's accession to the EU. Progress will be assessed by OECD SIGMA analysis based on the data provided by the Government of Serbia. The indicators include an 'Effectiveness of Government Ranking' which is a composite indicator consisting of several indicators produced by various institutions (for example, Gallup, Economist Intelligence Unit). 'Passports' have been produced for all of indicators used in the monitoring framework. These are similar in format and content to the commonly used indicator reference sheets.

96. Monitoring will be managed and coordinated by the MPALSG with other ministries and state administration bodies providing information within their jurisdiction and responsibilities. The PAR defines the responsible institutions (and individuals on behalf of those institutions) for monitoring and reporting according to results. The PAR Strategy states that following the collection and processing of data from the regular reports on performed activities and/or the continuing monitoring process, it would be necessary to prepare occasional assessments of the reforms. The first evaluation is scheduled to begin in mid-2017.

B. Program M&E Arrangements

97. 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. The Results Framework is aligned with the monitoring framework for PAR.

98. The Program M&E function will be assumed by the MPALSG, which has the overall responsibility and coordinating role in M&E for the PAR and the Program. Third-party verification and validations will be undertaken in cases where verification involves handling excessive data loads and/or handling sensitive data, for example, data from personnel files, and also to build necessary capacity in, for instance, quality of IT-operated data handling. 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.

99. The results framework lays out results chains, baselines and Program targets. Each result area defines the problem and provides a result chain—steps necessary to get to the desired outcomes. Each result chain in turn, has specific elements—mainly inputs and outputs and intermediate indicators, some of which are DLIs or actions outlined in the Action Plan. Baselines have been established based on available information from a variety of sources for example, Public Procurement Portal and the IMF article 4 assessment. The annual and end-of-program targets are set on the basis of: the political aspirations set out in the PAR; evaluation of past performance of the Bank's projects and those of other DPs; international comparisons of public sector modernization projects in other comparable settings; scope and funding of the project, that is, necessary price tagging of the DLIs institutional capacity for implementation of the PAR; and specific interventions needed under the PforR financing.

100. All indicators will be measured and reported annually. This is also the case for indicators that have achieved their targets as well as for indicators for which the target only has to be achieved at the end of the Program. Indicators are interlinked and continued measurement contributes to ensuring that the first year's indicators indeed contribute to achieve end-of-Program indicators. Furthermore, the end-of-Program indicator needs to be measured from the first year to ensure both the validity of the data source(s) and methodology, especially for verification protocols, and as a test of attribution.

C. Disbursement Linked Indicators

101. The Program includes eight DLIs, representing key milestones achieved in the implementation of the Program activities. The choice of a few DLIs is strategic and is based on lessons from other operations, including other non-PforR results-based lending operations. Rather than dealing with several DLIs with smaller amounts, the use of a limited number of DLIs helps focus attention on key objectives of the Program and provides strong incentives for the achievement of results. The use of a limited number of DLIs also improves efficiency in monitoring and reporting by reducing the data collection burden on Government officials.

102. The DLI verification protocol lays out the data and methods that will be used to determine the achievement of Program results and serve as a basis for disbursement. **Error! Reference source not found.** Table 10 shows the DLIs and the verification protocol. hese have been drawn up to ensure precision and accuracy in the verification and to avoid any room for interpretation. They are based on methods that have been shown to be valid and reliable and that make use of existing capacity in the Government sector and IT systems.

103. Consideration has also been given to achieving a reasonable level of budget predictability through sequencing of the DLIs. The more significant a DLI is for the achievement of the expected Program results over the implementation period of the operation, the higher the portion of the loan amount allocated to the DLI. Similarly, for a specific DLI requiring different results to be achieved over several periods, the more significant the result to be achieved during a given period, the higher the portion of the DLI allocation during that period. The DLIs are embedded in the project results framework (see annex 1) along the with results indicators that are not DLIs. M&E arrangements for the Government's reform program, the PAR as well as the Program are described and assessed below.

Table 10: Summary of Disbursement Linked Indicators and 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 Public Policy Secretariat 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 Public Policy Secretariat 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	Public Policy Secretariat 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, and Civil Servants Law.	Public Policy Secretariat 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 *100
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.	Public Policy Secretariat 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*100
DLI#6: Value of Public Contracts awarded through Framework Agreements (in RSD)	Public Policy Secretariat with third party to estimate the total value of public procurement framework agreements in a given year
DLI#7: Number of Indirect Budget Beneficiaries included in the FMIS.	Review by the Public Policy Secretariat, with third party, of FMIS standard and customized reports and audit trails to verify the number of Indirect Budget Beneficiaries integrated into the FMIS

DLI	Verification Protocol Procedure
DLI#8: Percentage of commitments in budget execution system entered within the required deadline per the legislation on Deadlines for Payments in Commercial Transactions (%)	Review by the Public Policy Secretariat, 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 *100

Table 11: DLI Verification Protocols

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 are positions in all ministries, public services, agencies, and local Government (Art. 1 paragraph 3 of the Public Sector Wage Bill LAw) excluding police officers, the military, and SOEs '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 employee positions to new pay grades	Review by the Public Policy Secretariat 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 according to 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 Public Policy Secretariat 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%), 2 (90%), and 3 (90%). Assessment dates: December 31, 2017, and 2018 **PDO Indicator 1**

DLI	Definition	Scalable (Yes/No)	Draft Protocol to Evaluate Compliance of the DLI and Data/Result Verification		Remarks
			Data source	Procedure	
DLI3: Total number of public administration employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees (Yes/No)	Total number of employees—number of open ended employees in ministries or agencies and local Government subject to the Law on Ceilings on the Number of Employees receiving remuneration as of June 30 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.	No	• Annual ceiling prescribing the total number of public administration employees consistent with the Law on Ceilings on the Number of Employees • Total number of employees as on the payroll	Review by the Public Policy Secretariat Calculation: Total number of employees according to payroll and /registry of employees compared to authorized number of staff as determined by the annual ceiling	DLI for year 1 (Per 2016 ceiling), 2 (Per 2017 ceiling), and 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 the provisions of Labor Law and Law on Ceilings on the Number of Employees and Civil Servants 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	Public Policy Secretariat 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	Public procurement contracts—written agreements in which contracting authorities as purchaser agree to acquire goods, works, or services from a seller in exchange for	Yes	PPO Portal on number of contracts over RSD 5 million in value awarded in a fiscal year and time	Public Policy Secretariat 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%), 2 (68 %), and 3 (71 %) Assessment dates: December 31, 2016;

DLI	Definition	Scalable (Yes/No)	Draft Protocol to Evaluate Compliance of the DLI and Data/Result Verification		Remarks
			Data source	Procedure	
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 (%)	payment and that specifies each party's obligations in relation to the transaction, for 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.		between issuance of bidding documents and award of contract	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	2017, and 2018 **PDO Indicator 4**
DLI6: Value of public procurement contracts awarded through Framework Agreements	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.	Public Policy Secretariat 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); 2 (RSD 32.2 billion); and 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	
(RSD)					**PDO Indicator 5**
DLI7: IBBs included in the FMIS (number)	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	Policy Secretariat review of the list of IBBs Review by the Policy Secretariat of FMIS standard and customized reports and audit trails to verify the number of IBBs integrated in the FMIS	DLI for year 1 (247), 2 (309), and 3 (526) Assessment dates: December 31, 2016, 2017, and 2018 **Intermediate Results Indicator 2.1**
DLI8: Percentage of commitments in BES entered within the required deadline, per the legislation 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. RINO by-law (to Law on Deadlines of Payments in Commercial	Yes	FMIS standard and tailored reports Audit trail of the FMIS	Review by the Public Policy Secretariat 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**	
	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 12: Program 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[14]**
				YR1	**YR2**	**YR3**				
PDO Indicator 1: Share of public administration employees assigned to new pay grades as per the Public Sector Law	☒	%	0	0	70	70	Annual	Sample-based survey (exact survey design to be determined) of public administration employee pay slips against the new pay grades	Public Policy Secretariat	DLI2
PDO Indicator 2: Total number of public administration employees at or under the annual ceiling prescribed by the Law on Ceilings on the Number of Employees in the public sector (Yes/No)	☒	Yes	No	Yes	Yes	Yes	Annual	Calculation: Total number of employees according to payroll compared to Total number of staff as determined by the annual ceiling	Public Policy Secretariat	DLI3
PDO Indicator 3: Share of redundant public administration employees receiving redundancy payments in line with the provisions of the Labor Law, Law on Ceilings on the Number of Employees, and Civil Servants Law	☒	%	100	100	100	100	Annual	Review and count of relevant documents of severance packages for eligible public administration employees Calculation: public administration employees receiving redundancy payments/eligible public administration	Public Policy Secretariat	DLI4

[14] 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**[14]
				YR1	**YR2**	**YR3**				
								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 RSD 5 million in value, signed in a fiscal year, in 90 days or less between the date of issuance of bidding documents and 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 contracts/ All procurement contracts over RSD 5 million in value signed in the fiscal year.	Public Policy Secretariat	DLI5
PDO Indicator 5: Value of public procurement contracts awarded through Framework Agreements	☒	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 public procurement database	Public Policy Secretariat	DLI6

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**[14]
				YR1	**YR2**	**YR3**				
PDO Indicator 6: commercial transactions in Budget Execution System (BES) which are based on previously reported commitments in line with the legislation on Deadlines for Payments in Commercial Transactions	☒	RSD	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	Public Policy Secretariat	DLI8
Result Area 1: Improved Human Resource Management										
Intermediate Results Indicator 1.1: At least 70% of public administration employee positions assigned to pay grades according to the Law on Public Sector Employees Salary System(Yes/No)	☒	Yes/No	No	Yes	Yes	Yes –	Annual	Calculation: Number of public administration employee positions assigned to job grades / Total number of public administration employee positions x 100	Public Policy Secretariat	DLI1 for year 1 only
Intermediate Results Indicator 1.2: Share of public administration employees assigned to new grades	☐	%	0	0	60	70	Annual	Calculation: Division of assigned public administration employees by total number of public administration employees x 100.	MPALSG	DLI for Year 2
Intermediate Results Indicator 1.3: Employee Registry	☐	Yes/No	No	No	No	Yes	Annual	Sample review of personal data, interview of	MPALSG	–

PDO Level Results Indicators	DLI	Unit	Baseline	Target Values			Frequency	Data Source/ Methodology	Responsibility for Data Collection	Remarks[14]
Program Development Objective (PDO): To improve efficiency in public sector employment and finances.										
				YR1	YR2	YR3				
functional according to defined criteria in the Law on Employee Registry								individuals, and review of customized and routine reports and HR transaction documentation and audit trail		
Intermediate Results Indicator 1.4: Share of public administration employee positions for which job re-grading completed	☐	%	NA	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	–
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 Financial Management										
Intermediate Results Indicator 2.1: IBBs included in the FMIS	☒	Number	0	247	317	526	Annual	Review of FMIS reports	Public Policy Secretariat	DLI7
Intermediate Results Indicator 2.2: Budget inspections conducted	☐	Number	25	35	45	50	Annual	Review of budget inspection reports	Public Policy Secretariat	–
Result Area 3: Improved Procurement Management										
Intermediate Results Indicator 3.1: Public procurement contracts	☐	Number	3,300	3,600	4,000	4,400	Annual	PPO's Annual Report/Collection through PPO database	PPO	–

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**[14]
				YR1	**YR2**	**YR3**				
awarded through Framework Agreements for all contracting authorities								of concluded contracts		
Intermediate Results Indicator 3.2: Public procurement officers certified	☐	Number	1,810	2,000	2,200	2,400	Annual	PPO's Annual Report/Database of procurement officers certified	PPO	–

VII. PROGRAM ECONOMIC VALUATION

138. **The role of institutional quality for growth and development is now well established.** Countries with weak institutions tend to perform poorly compared to those with better institutions. This is because growth and sustainable development are only assured where credible institutions exist and where the state functions to support and not undermine competitiveness. Strong institutions provide the necessary foundational basis for increasing growth opportunities in developing countries. Institutions create structures which organizations need to generate returns. Such institutions then steer enterprises toward creating more wealth—hence, development —and create a climate favorable to private investment.

139. **The PforR will generate economic benefits from efficiency savings through improvements in the management of human resources, public finances, and public procurement.** Improvements in these core management systems at the upstream level are expected to be reflected in the efficiency gains downstream in sector agencies. The Program complements ongoing lending operations in health, education, competitiveness, and infrastructure, addressing systemic operational deficiencies and thereby, improving efficiency and effectiveness of investments in these sectors.

140. **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 table 14 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 13: 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

Table 14: 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 15: 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**

141. **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 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

Table 16: 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 Financial Management 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**

142. **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 (indirect budget beneficiaries). 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 to indirect budget beneficiaries as a proxy.

143. **To estimate the magnitude of potential efficiency gains from extending FMIS to indirect budget beneficiaries, we estimate the number of staff working in financial departments**. Since the number of staff working in financial departments of indirect budget beneficiaries is not readily available, we estimate it by multiplying the total of 484,989[15] 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 3 percent which results in annual savings of approximately US$3.9 million.

144. **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

145. **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 RSD 5 million 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

[15] 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)

estimated through savings on reduced prices as a result of commonly procured goods through Framework Agreements, public sector procurement staff salaries, and vendor salaries.

Table 17: 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**

146. **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.

147. **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 Public Procurement Office annual 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.

148. **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.

149. **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.

150. **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.

VIII. EVALUATION OF TECHNICAL RISKS

151. **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. The Program risk matrix is presented in Annex 7. The Action Plan outlined in Table 18 outlines measures taken to mitigate some of these risks.

152. **The principal 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.

153. **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 Ministry of Finance and Public Procurement Office are also stretched their existing managing routine functions. Implementation of the Program will not significantly change the workload for the Ministry of Finance, 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.

154. **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.

155. **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 Ceilings on 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 18:Program Action Plan

Action Description	DLI*	Covenant*	Due Date	Responsible Party	Completion Measurement**
Fiduciary Assessment					
Increased involvement of the budget beneficiaries establishing the budgetary allocations and multiyear budget requirements			December 31, 2016	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 arrears
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 before assuming them
Improved control over multiannual contractual commitments			December 31, 2016	MoF; Beneficiaries of Public Funds	Implementing a systematic approach to approve, record, and monitor multiannual 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					
The MPALSG has staff assigned to coordinate, monitor, and report on the rightsizing process and its effects.			June 30, 2016	MPALSG	Two staff assigned with relevant competences and experience (knowledge of human resources and labor relations procedures)
Improve consultations with workers' unions			June 30, 2016; June 30, 2017; June 30, 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 will be submitted to the Bank for review.
Prepare selection criteria. The criteria for selection of employees who			January 30, 2016;	Responsible public sector employer	Every employer who will reduce their workforce will make the criteria for

will be made redundant will be based on principles of transparency, nondiscrimination, and will be applied consistently and will contain appeal procedures. Where applicable, the criteria will be based on relevant provision from collective agreements.			January 30, 2017; January 30, 2018		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 required by the law).			June 30, 2016; January 30, 2017; January 30, 2018	Responsible public sector employer	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; gender segregated information, and number of persons with disabilities (d) Selection criteria for determining redundant employees (e) Measures for alternative employment such as transfer to other jobs; transfer to other employers; training; part-time work, but not less than 50% of full time and other measures (f) Resources to address the socioeconomic status of the redundant employees (g) 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; January 1, 2017	Ministry of Employment, Veterans, and Social Affairs and the NES	The Ministry of Employment, Veterans, and Social Affairs to include in the 2016, 2017, 2018 performance agreement with the NES the following requirements: (a) The 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 the 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 employers, the NES will inform affected workers about available assistance programs, based on the model that has been applied for redundant workers. (b) The 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. (c) The NES will consult with the local employment council about support for redundant workers.
Gender and social inclusion			June 30, 2016; June 30, 2017; June 30, 2018	MPALSG; Ministry of Health, Statutory Health, Insurance Fund; Ministry of Labour, Employment, Veteran and Social Affairs; and the NES	Submitted retrenchment plans and requests for redundancy (severance payment), including segregated information according to gender (number of males/females), age (categories to be defined), education (categories to be defined), persons with disabilities (number), and ethnic minority (number). The Ministry of Labour and the 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; Ministry of Labour, Employment, Veteran and Social Affairs; and the NES	The MPALSG and the Ministry of Health will monitor and report annually on the number of workers who received the severance payment, as prescribed in the Law on Ceilings on the Number of Employees in the Public Sector. The Ministry of Labour, 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 the NES and (b) number of retrenched workers (number of male/female/persons with

					disabilities) who found new employment.