

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC53848

<b>Project Name</b>	Serbia - Public Sector Rightsizing and Restructuring
<b>Region</b>	EUROPE AND CENTRAL ASIA
<b>Country</b>	Serbia
<b>Sector(s)</b>	Central government administration (30%), General public administration sector (70%)
<b>Theme(s)</b>	Administrative and civil service reform (70%), Other public sector governance (30%)
<b>Lending Instrument</b>	Lending Instrument
<b>Project ID</b>	P158875
<b>Borrower Name</b>	Ministry of Finance
<b>Implementing Agency</b>	Ministry for Public Administration and Local Self-Government
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	28-Jan-2016
<b>Estimated Date of Approval</b>	12-Feb-2016
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

## **I. Introduction and Context**

### **Country Context**

After a difficult decade of conflicts and economic mismanagement in the 1990s, the Government embarked on a comprehensive economic reform program in 2001. Remarkable progress was achieved between 2001 and 2008. Real GDP growth averaged 5 percent per year. The high growth rate and social transfers contributed to significant reduction in the poverty headcount from 14 percent in 2002 to 6.6 percent in 2007. However, progress on economic growth, poverty reduction and shared prosperity has stalled since the 2008 global financial crisis. The poor have experienced a disproportionate decline in welfare due to employment and labor income losses. Average annual real GDP growth since the crisis dropped to around zero. The economy has been in recession twice (2009, 2012) and is likely to be in recession again in 2014. The poverty rate climbed to 9.2 percent in 2010, the latest year for which comparable data are available.

The Serbian public sector faces both structural and functional problems. The structural problems are related to the nature of the public administration system that has several layers, overlapping and unclear mandates and overstaffing. The results of the multiple layer of the public administration is visible in the number of employees. Structural weaknesses in wage and establishment control systems have resulted in a bloated public sector with more than 780,000 employees, 2,200 job titles, 71 different elements of remuneration, 16 different base salaries, 900 different job coefficients, 19 laws and a plethora of by-laws that regulate salary levels in 11,000 budget institutions. Human resource management systems and the pay structure fail to motivate and retain qualified, high-performing staff.

### **Sectoral and Institutional Context**

The European Commission has agreed to support the authorities in the design and implementation reforms that address structural weaknesses and enable progress in EU accession negotiations. The Commission has agreed to partner with the World Bank through the Instrument for Pre-Accession (IPA) 2014-2020 instrument to undertake functional reviews in priority sectors and assist the Government design and implement its reform strategy. The Commission provided preparatory assistance to assist the authorities define the scope of work for the proposed Bank-executed program. Several World Bank missions visited Belgrade to hold discussions about the activities to be executed by the World Bank and to define to the terms of reference.

The technical assistance work program described here will be supported by an IBRD results-based lending operation, expected to become effective in FY16. The lending operation would provide incentives for the Government to implement the recommendation proposed from the TA operation to meet its objective of reducing costs. In the outer years, the focus would shift from to improving service delivery standards.

### **Relationship to CAS/CPS/CPF**

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

## **II. Project Development Objective(s)**

### **Proposed Development Objective(s)**

The objective of the Trust Fund is to assist the Republic of Serbia in improving the organizational and functional structures of its public administration system in accordance with the Strategy for Public Administration Reform through:

- implemented rightsizing exercise in selected public administration sub systems,
- implemented change management and communication strategy.

### **Key Results**

The Recipient-executed activities, for which the MPALSG will be responsible, will support the Recipient's reforms and will also oversee EU visibility activities during the life of the project. This part of the Trust Fund will support the project throughout its duration by developing a comprehensive change management and communications strategy, a communication campaign for internal and external audiences, and organizing workshops and seminars with senior managers of the Recipient's public administration, and public employees. This component will support, inter alia: establishing a Change Management Support (CMS) team for the overall project, and task force teams of Government representatives for each.

The CMS team will be responsible for promoting a participatory and collaborative process, as well as genuine ownership of project outputs by the Recipient's authorities. Moreover, the CMS team will facilitate the alignment of the project with the PAR Strategy and Action plan, as well as with the Government Program for Optimization (rightsizing). The expected key results are:

1. The Change Management Support (CMS) team for the overall project is established at the MPALSG.
2. The CMS team, in close cooperation with the staff of the MPALSG, implements recommendations from Functional Reviews.
3. The CMS team contributes to preparation of the communication strategy for reform of the public sector. This should describe, in detail, how each of the proposed plans would be implemented, including the procedures for engaging various stakeholders.

### **III. Preliminary Description**

#### **Concept Description**

The EU is providing funds for the WB administered Trust Fund aimed to support second phase of the reforms which will focus on restructuring and right sizing of the public sector. The Trust Fund is divided into two components with interlinked activities: (i) functional reviews (Bank Executed); and (ii) support to implementation, accompanied with change management and communication (Recipient Executed).

Through the Bank Executed activities, the Bank will undertake a comprehensive functional review of the central administration, the Ministry of Finance and Ministry of Agriculture and Environmental Protection. Additionally, it would cover specific sector ministries e.g. Health, Education and Social Protection. It is intended to simplify administrative procedures, eliminate redundant tasks, and eliminate or restructure departments with duplicate functions, without compromising service delivery standards. It would also include changing the organizational structure, job definitions and staff levels to ensure that the organizational and functional structure determine the staffing needs in the public sector. The functional reviews will not necessarily be limited to staffing reduction, but also consider other expenditure items and the mode of service delivery.

The Recipient-executed activities, for which the MPALSG will be responsible, will support the Recipient's reforms and will also oversee EU visibility activities during the life of the project. This part of the Trust Fund will support the project throughout its duration by developing a comprehensive change management and communications strategy, a communication campaign for internal and external audiences, and organizing workshops and seminars with senior managers of the Recipients public administration, and public employees. This component will support, inter alia: establishing a Change Management Support (CMS) team for the overall project, and task force teams of Government representatives for each. Activities under the Recipient-executed activities are expected to commence 45 days from the date of the Grant Agreement and expected to last about 24

months.

The CMS team will be responsible for promoting a participatory and collaborative process, as well as genuine ownership of project outputs by the Recipient's authorities. Moreover, the CMS team will facilitate the alignment of the project with the Public Administration Reform Strategy (PAR Strategy) and Action plan, as well as with the Government Program for Optimization (rightsizing).

The CMS team will carry out, on behalf of the Recipient, the following activities:

- (i) Review of international best practices on communication and change management in public sector reform and rightsizing/downsizing.
- (ii) Development of a comprehensive change management and communications strategy in line with best practice.
- (iii) Implementing communication campaign in line with the strategy.
- (iv) Conducting workshops and seminars with senior management of the Recipient's public administration.
- (v) Conducting awareness raising workshops and other events to communicate planned support mechanisms for staff affected by right-sizing exercise.
- (vi) Provide technical support to public administration bodies in the implementation of the roadmaps (technical support in preparation/revision of relevant legislative pieces, preparation of additional analytical materials necessary for implementation of particular recommendations/ measures, provision of support for implementation of recommendations related to Human Resource Management (HRM) and Human Resource Development (HRD) aspects in particular PA subsystems, assessment of the success of targeted subsystems of the PA system in implementing the recommendations, etc.).
- (vii) Undertaking EU Visibility actions as needed, in collaboration with government counterparts.

#### IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

#### V. Financing (in USD Million)

Total Project Cost:	0.589133	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>

Borrower	0
Free-standing TFs for ECA CU4 Country Unit	0.589133

## VI. Contact point

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