



## 1. Project Data

**Project ID**  
P155172

**Project Name**  
PforR on Modernization of Pub. Admin.

**Country**  
Serbia

**Practice Area(Lead)**  
Governance

**L/C/TF Number(s)**  
IBRD-86080

**Closing Date (Original)**  
29-Feb-2020

**Total Project Cost (USD)**  
63,501,153.30

**Bank Approval Date**  
20-Apr-2016

**Closing Date (Actual)**  
29-Feb-2020

	<b>IBRD/IDA (USD)</b>	<b>Grants (USD)</b>
Original Commitment	75,000,000.00	0.00
Revised Commitment	63,000,000.00	0.00
Actual	63,501,153.30	0.00

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## 2. Project Objectives and Components

### a. Objectives

The program development objective (PDO) of this Program-For-Results (PforR) on Modernization and Optimization of Public Administration (the "Program") is to improve efficiency in public sector employment and finances (Project Appraisal Document [PAD], p.7 and Financing Agreement, p. 5). This review assesses the stated objective as two sub-objectives, as follows: (i) to improve efficiency in public sector employment, and (ii) to improve efficiency in public sector finances.



**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Components**

The Program supported the implementation of two out of the five objectives of the Action Plan for Implementation of Public Administration Strategy (Government's program): establishment of a public service system based on merits and promotions of human resource management, and improvement of public finances and public procurement management (PAD, p.8). The Program encompassed three results areas (PAD, pp. 8-9 and pp. 20-24; Implementation Completion and Results Report [ICR], p. 8).

**Public Sector Employment**

**Results Area 1: Improved human resource management**

The Program supported the development of a system for managing staffing levels and monitoring the wage-bill. The system comprised the following key activities: establishment of a public administration wage system; creation of a Managers training program within the State Administration; preparation of a consolidated list of public administration job positions; creation of a training program for Human Resources employees within State Administration units; development and management of a registry of public sector employees; implementation of staff ceilings and selective downsizing; preparation and implementation of an affordable, public administration market-based pay and grading system; and preparation and adoption of bylaws for the enforcement of the Law on Public Sector Employees Salary System.

The three PDO results indicators were:

- PDO Indicator 1: Share of public administration employees assigned to new pay grades as per the Law on Public Sector Employees Salary System (percentage)
- PDO Indicator 2: Total number of public administration employees at or under the annual ceiling prescribed by the Law on the Ceiling on Number of Employees (Yes/No)\*
- PDO Indicator 3: Share of redundant public administration employees receiving redundancy payments pursuant to provisions of Law on Ceiling on the Number of Employees, Civil Servants Law and Labor Law (percentage)

\*Total number of employees with the respective employer. The law requires the government to set a maximum number of staff allowed for each entity.

**Public Sector Finances**

**Results Area 2: Improved financial management**

The Program supported: strengthening expenditure control and supervision of the Government's financial management system, including expansion of the Financial Management Information System (FMIS) to include Indirect Budget Beneficiaries (IBBs). In particular, the Program supported the Government in improving financial and budget information, commitment control and arrears; establishing a centralized payroll system; and improving business process automation.



IBBs are 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. IBBs include courts, prisons, schools, and social welfare centers (PAD, p. 39 and p. 55). Expenditure control over IBBs is hindered by the lack of effective commitment control and incomplete institutional coverage of the FMIS. IBBs are responsible for the bulk of the stock of expenditure arrears.

The PDO results indicator was:

- 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

### **Results Area 3: Improved procurement management**

The Program supported: (1) strengthening the technical capacity of officers involved in public procurement; (2) preparation of procurement tools and manuals; (3) development of a public procurement performance monitoring system; (4) development and implementation of Framework Agreements\*; (5) preparation of the Bill on Amendments to the Law on Public Procurement to enhance transparency and procedures; (6) improved training for certified public procurement officials\*\*; (7) adoption of the value for money methodology and guidelines for “Life cycle product cost” implementation; and, (8) increased use of information and communication technology (e-Government) to enhance efficiency in procurement.

The two PDO results indicator were:

- 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) (described below)

\* Framework Agreements are arrangements between one or more buyers and one or more suppliers that provide the terms governing contracts to be established for a certain period of time, in particular with regard to price and, where necessary, the quantity envisaged (ICR, p.11).

\*\* The training includes the expansion of basic training and the specialized training for a higher level of certification for public procurement officers who would acquire more complex and broader knowledge, including EU procurement practices.

#### **d. Comments on Project Cost, Financing, Borrower Contribution, and Dates**

**Program Cost:** At appraisal, the estimated cost of the Program was US\$ 242 million over three years. The actual cost was US\$ 197 million (ICR, Annex 3; data obtained from the interview with Task Team). The Program was financed by an IBRD loan of EUR 69 million (US\$ 75 million equivalent). The amount of EUR 11 million, which was allocated to Disbursement Linked Indicator (DLI) 2, was canceled, as the DLI 2



was not achieved. The actual disbursement amount was EUR 58 million (ICR, Annex 3) (US\$ 63.5 million due to exchange rate differences) (ICR, p.2).

**Borrower Contribution.** The borrower contribution estimated at appraisal was US\$ 167 million (PAD, p.9). The actual contribution was about US\$ 133.5 million (ICR, p.2 and data obtained from the interview with task team).

**Dates and Revisions:** The Program was approved by the Board on April 20, 2016 and became effective on December 1, 2016. The Program closed on February 29, 2020, as scheduled.

There was an amendment to the Loan Agreement to extend the date of achievement of DLI1 from June 30, 2017 to September 30, 2017 (the first extension), then December 29, 2017 (the second extension), to account for implementation delays in the Law on Public Sector Employees Salary System.

### 3. Relevance of Objectives

#### Rationale

The PDO was highly relevant to the country context and the Country Partnership Framework (CPF) FY16-20. The first of the CPF's two focus areas was Economic Governance and the Role of State and aimed at assisting in creating a more effective public administration and improving select public service delivery. The CPF highlighted that addressing the structural problems in public sector governance is a prerequisite for the implementation of the Government's program (CPF, Annex 1). Aligning staffing levels with the needs of service delivery was critical to improving efficiency in public finances and service delivery, in line with the CPF objective (ICR, para. 12). The PDO was consistent with Serbia's Public Administration Reform (PAR) Strategy (adopted in 2014) and Action Plan for the Implementation of the Public Sector Reform Strategy for 2015-17(adopted in 2015) and Action Plan for 2018-20. The PDO remained relevant to critical constraints and priority areas identified in the Systematic Country Diagnostic Update: strengthening government effectiveness, efficiency, and accountability (World Bank 2020, Section 5 and p.42).

#### Rating

High

### 4. Achievement of Objectives (Efficacy)

#### Objective 1

##### Objective

Improved efficiency in public sector employment

##### Rationale

Supporting a comprehensive job evaluation and pay grading exercise (i.e. evaluating positions and matching them to new grades), the development of a new job catalog, and the preparation and implementation of



retrenchment plans was expected to better control and reduce the number of public administration employees and enhance efficiency in public sector employment.

There was a substantial progress in enhancing efficiency in public sector employment. The Program supported the adaptation of the job catalog in 2017, while the catalog for state administration officials and local self-governments remained in draft form (168 positions at the time) (ICR, p.17). Following the adoption of the amendments to the Law on Public Sector Employees Salary System and the Law on Employees in Public Services in December 2017, at least 70 percent of public administration employee positions were assigned to pay grades according to the Law on Public Sector Employees Salary system (DLI 1/ IRI 1). improvements in efficiency through a simpler, more straightforward pay and grading structure that would contribute to a reduction in the wage bill The Program supported the preparation of by-laws for the enforcement of the Law on the Method of the Determination of the Maximum Number of Public Sector Employees, and focused on keeping the number of employees under the targeted ceilings, meeting the target of PDO Indicator 2 (DLI 3) for all three years (ICR, p.39). The Program also supported ministries in identifying redundant positions, prepare retrenchment plans and declare eligible staff redundant. 100 percent of employees received redundancy payments pursuant to the provisions of the Law on the Method of the Determination of the Maximum Number of Public Sector Employees, the Law on Civil Servants (1,362 people in 2017 and 654 people in 2018), meeting the target of PDO Indicator 3 (DLI 4).

These actions contributed to decreasing the overall number of employees in the public sector and reducing the overall wage bill. The wage bill as a percentage of GDP declined from 11.0 percent of GDP in 2014 to 9.2 percent in 2018, and then rose to 9.5 percent in 2019, relative to an average of 10.1 percent in seven small transition economies of Europe (ICR, para. 38). In terms of total government expenditures, the wage bill accounted for around 22.5 percent in 2019, a slight reduction from 22.8 percent in 2015 before the Program began. These efficiency gains were jointly achieved by the PforR and the DPLs that facilitated headcount controls.

One out of three PDO Indicators was not achieved due to implementation delays. Initial progress towards reforming the wage system was made, including the creation and adoption of a legal basis for managing the wage-bill and employment practices across the public sector. However, the implementation of relevant laws was continuously postponed by the Government and the transition of the wage system remained incomplete, falling short of achieving the target of two IRIs and PDO Indicator 1 (DLI 2) (ICR, paras. 35 and 37). DLI 2 was not fulfilled by the time the Program closed, and remains on the Government's agenda and the Government remains committed to completing the outstanding structural reforms to the wage system (ICR, para. 73).

It should be noted that the development of the improved registry of public employment was started but not completed during the implementation period of the Program due to a disagreement between the Ministry of Public Administration and Local Self-Government (MPALSG) and the Ministry of Finance, which slowed progress. For reporting data on DLI 3 and 4, the client relied on the existing registries in the central registry of compulsory social insurance and in the Treasury Administration (ICR, para. 39 and information from the interview with TTLs).

**Rating**  
Substantial



## Objective 2

### Objective

Improved efficiency in public sector finances

### Rationale

**Financial Management.** Extending the coverage of the FMIS to IBBs was expected to improve the monitoring and prevention of the accumulation of arrears and improvement in cash management. Complementary information and communications technology equipment, training and oversight were also provided to the IBBs to effectively operate in the FMIS. The establishment of a central register of invoices in the Treasury Administration was expected to help each vendor register their invoices upon issuance. The expansion and technological upgrading of capacity and the improvement in business process automation were expected to contribute to improving efficiency in public finances.

There was significant progress in enhancing efficiency in public finance. In 2016, no IBBs were covered by the FMIS. By the end of 2018, 529 IBBs had been included in the system, meeting the target and achieving DLI 7 (IRI 2.1) (ICR, p. 19 and p. 45). According to available data when the ICR was prepared, there were no new budgetary arrears, suggesting that interventions under the program helped to contain arrears.\* The share of commitments in the budget execution system entered within the required deadline rose from 60 percent in 2016 to 91.6 percent in 2018, slightly exceeding the target of 90 percent (PDO indicator 6/ DLI 8). Despite the progress measured by the PFM DLIs, which specifically focused on institutional capacity, a systematic approach to approve, record and monitor multi-annual contracts, to improve control over multi-annual contractual commitments (one Program Action Plan) was not in place at closure (ICR, paras. 46 and 51).

\*In June 2013, the Financial Management Information System (FMIS) system reported arrears amounting to RSD 84,942 million (US\$ 1,003 million) equivalent to six percent of total expenditures in that year (PAD, para. 13).

**Procurement Management.** Capacity development in good procurement practices for procurement officers was expected to help procurement staff complete their duties more effectively and efficiently. In addition, support for preparing and implementing models of Framework Agreements (a tool to reduce administrative burden by reducing the number of procedures a contracting authority must run) was expected to decrease the time and costs linked to carrying out a procurement.

Two procurement DLIs (DLIs 5 and 6) were overachieved, reflecting significant improvement in increasing efficiency in the procurement processes. The number of public procurement officers who were certified increased from 1,810 in 2016 to 4,727 in 2019, exceeding the target of 2,400 (IRI 3.2) (ICR, pp. 46-47). The share of public procurement contracts in the public authorities category, with a value of over 5 million RSD, signed in the borrower's fiscal year in 90 days or less from the time the bidding documents were issued to the signing of the contract rose from 62 percent in 2016 to 93.9 percent in 2020, exceeding the target of 71 percent (PDO Indicator 4/ DLI 5) (ICR, pp. 18-19 and p.40). Complemented by the support from the Good Governance and Investment Climate Reform (GGICR) Trust Fund by the UK, the FAs were made available on the public procurement portal, which increased their use. With strengthened procurement officers' capacity, the value of contracts awarded through FAs almost tripled from 26.6 billion RSD in 2016 to 75.2 billion RSD in 2018, far exceeding the target of 35.4 billion RSD (PDO indicator 5/ DLI 6) (ICR, p. 19 and p.



41). The overachievement of the procurement DLIs (5 and 6) was also attributed to the support provided through the GGICR Trust Fund, which supported creating a set of public procurement performance indicators and monitoring the performance of public procurement (ICR, para.44).

**Rating**  
High

## Rationale

## Overall Efficacy Rating

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## 5. Efficiency

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## Efficiency Rating

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a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome

Relevance of the PDO for the country context, government strategies and plans and the Bank strategy was High. Relevance of DLIs was rated as Substantial. Overall relevance is rated as Substantial. Given the PDO was mostly achieved with some shortcomings (falling short of achieving the target of two IRIs and PDO Indicator





1 (DLI 2)), overall efficacy is rated as Substantial. Taking these factors into account, the overall project outcome is rated Satisfactory.

**a. Outcome Rating**  
Satisfactory

## **7. Risk to Development Outcome**

Risks to the sustainability of the development outcome are substantial. While the Program's achievements in public procurement and financial management are expected to be sustained due to the continuous reforms (the adoption/implementation of the new Law) and substantial achievement of outcomes with the PDO indicators exceeding expected targets in most cases, there are substantial risks on public sector employment, especially on costs. Despite the government's commitment on completing the outstanding structural reforms to the wage system, there is concern over the government plan on annual wage increases in the public sector above the inflation rate, which could undermine some of the progress made in enhancing the costs of public sector employment. Efficiency gains in procurement are likely to be preserved and have been further reinforced by the new Public Procurement Law adopted in 2019 and in effect since mid-2020 (ICR, para. 104). PFM systems' improvements are likely to be sustained and the projects TTLs believe that system improvements have largely withstood the shocks that resulted from the COVID19 crisis without increased arrears. Efficiency gains in public sector employment remain at some risk as there is a pent-up demand for additional hiring in several sectors. The ICR states: "under the action plan for 2018-2020, the pace of reform on key aspects of the public wage system slowed" (ICR, paras. 25 and 104). The Public Sector Efficiency and the Green Growth DPL under preparation is designed to support managing employment numbers and will help to mitigate the risk of increased hiring and salary cost.

## **8. Assessment of Bank Performance**

**a. Quality-at-Entry**

The selection of instrument was strategic and appropriate, considering key features of PforR (e.g. government ownership, strong results orientation, and donor coordination). The government showed strong leadership and commitment to implement the PAR Strategy and Action Plans, the Bank team was able to align the Program with Serbia's strategic priorities. This Program was the country's first PforR. The PforR was an effective way to support the newly formed Government, that was keen on advancing reforms, to focus on structural reforms from a results-oriented perspective while complementing the fiscal consolidation efforts being led by the International Monetary Fund (IMF) and policy reform supported by the two DPLs under preparation at the time (closed in 2018 and 2019 respectively) (ICR, para. 90). This 'tripartite' engagement (the IMF Stand-by Arrangement, the PforR and Bank-supported DPLs) was designed to form the basis for a concerted approach to engage and support the Government to stabilize the fiscal situation and make progress on reforms that had failed to take off before.\*





The operation's "basics-first" approach to put essential elements in place built on experiences and lessons from the Bank's engagement in core institutional reforms. The Bank had a good track record of supporting public sector reforms in Serbia and had become a trusted partner in the implementations of such reforms. The technical foundations for the engagement had been laid by the numerous diagnostic and analytical pieces conducted by the Bank, including 2015 PEFA assessment and a 2010 report titled "Serbia Rightsizing the Government Wage Bill" (ICR paras. 14 and 92). In addition, the design of the project was supported by analytical work conducted by other development partners, such as the IMF and European Union (EU).

The team carried out the detailed assessments on technical issues and government programs (PAD, Section 4 and Annex 4). These quality assessments provided the basis for the design of the program scope, interventions types, and the program action plan (PAP).

The Bank team assessed the potential risks as high, including limited capacity for implementation, weak coordination, and political commitment to reforms, and proposed risk mitigation measures such as complementary support from Bank-administered trust funds, the EU, OECD, United Kingdom, Russian Federation and IMF, enhancing coordination through the Joint Government-Donor Working Group, and ensuring the government commitment regarding the implementation of the Program in the context of an IMF Stand-by Arrangement and the longer-term process of accession to the EU (PAD, pp. 71-73).

However, there were minor shortcomings in the risk assessment. The specific risk that the proposed reforms to the wage system could result in an increase in the wage bill in the short run was not factored into the design (ICR, p.93 and p. 103). During implementation, it impacted the Program's ability to achieve the PDO because the Government was reluctant to move forward with the reforms without a financial analysis that forecasted the expected impact of the new wage system. Political resistance to changes in wage policy was also underestimated.

\* The IMF Stand-by Arrangement for 2015-2018 included broad targets for reducing fiscal imbalances, including through reductions in the aggregate wage bill and for reducing arrears (ICR, para. 16). The First and Second Public Expenditure and Public Utilities Development Policy Loans (approved in 2017 and 2018) helped advance reforms, using the same results indicators (DPL ICR, para. 71).

## **Quality-at-Entry Rating**

Satisfactory

### **b. Quality of supervision**

The Bank team provided solid and constant support for the Government to facilitate activities and resolve issues that arose. As the Government had no prior experience with the PforR instrument, the Bank adopted a proactive approach to implementation support (ICR, para. 96). Because the PAD did not provide sufficient details on how exactly verification was to be conducted for each DLI, the Bank conducted several workshops and presentations on the instrument and the concept of verification. The Bank also played a critical role facilitating dialogue between the relevant institutions to agree on data collection and sharing processes that were required for the verification of the DLIs.

The Bank team built relationships with political appointees as well as technical staff to continue the implementation of key technical aspects of the reforms that relied less on political leadership (ICR, pp. 33-34).<sup>\*</sup> The DLI 2 moved slowly but the Bank managed to strike the right balance between encouraging the client to move forward with the reforms and ensuring that there was sufficient ownership of the process



especially with regards to sensitive discussions on the wage reform (ICR, para. 97). However, the Bank team noted an important area in which they could have done more during the mid-term reviews, which was adjustment in DLI 2 (PDO Indicator 1) and related IRIs. This review notes there was room to refine and adjust DLIs, considering risks related to political commitment and effective coordination on structural reforms on the new wage system and delays in the full implementation of the Law on Public Sector Employees Salary System.

\* Political leadership played a role in setting strategic direction and coordination, energizing the reform momentum and linking the Program with activities at the technical levels.

### **Quality of Supervision Rating**

Satisfactory

### **Overall Bank Performance Rating**

Satisfactory

## **9. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

The M&E design was mainly adequate, albeit with some shortcomings. The PforR used the Results Framework (RF), which was aligned with the monitoring framework for the PAR Strategy (PAD, p.11 and ICR, p.29). The PDO was clearly specified. The PAD presented the results framework and monitoring arrangements, with detailed indicators and target values, and identified the parties responsible for data collection (PAD Annex 2 and 3). The MPALSG had the overall responsibility for M&E for both the PAR Strategy and the Program, therefore it was practical and efficient to align the RF with the monitoring framework.

The relationship between the PDO, IRIs, DLIs and the PAP could have been clearer. The repetition of indicators on different levels in the RF created some confusion in terms of understanding the hierarchy of the indicators and also complicated the reporting process (ICR, para. 79). For example, the PDO indicators mostly duplicate the DLIs. Another issue was that the description of the achievement for PDO indicator 1, was the same as IRI 1.2. As mentioned above, this review notes that one of the PDO indicators was achieved without achieving the IRI. This review agrees that the achievement of the IRI should clearly contribute to the PDO targets, and ultimate achievement of the PDO. In addition, the results framework could have had a better line of sight to anticipated improved service delivery outcomes, even if expected to occur after project closing. IEG's PforR evaluation "An Early-Stage Assessment of the Process and Effects of a New Lending Instrument (IEG, 2016)" found that PDO indicators are mostly focused on outputs/early outcomes. Objectives that lead to clear results at the outcome level are rare, and the projects could benefit from pushing the envelope further in terms of concentrating on outcomes that are achievable during the program period.

### **b. M&E Implementation**

The M&E data of the Program were collected and analyzed systematically, albeit in some cases with delays, and indicators that were in the RF were measured and reported (one or two times a year) in Implementation



Status and Results Reports (ISRs) (ICR, para. 80). Despite some challenges in the initial stages of the implementation of the Program, the verification of DLI was institutionalized by establishing a common understanding, creating the Guidance Note on the Monitoring and Verification of Result, and documenting results in Annual Verification Reports. There could have been better collaboration between OECD, which is supporting capacity building for M&E for the overall PAR Strategy, and the Bank. The Government is aware of this, and working on a better system for coordinating donors supporting reforms (ICR, para. 48).

### **c. M&E Utilization**

Data on the performance of the Program and results, or lack thereof, were used to inform program management and decision-making processes. Importantly, the data were used to engage the Government on reforms that were not moving and as a result posed a risk to the achievement of the development outcome (ICR, para. 83).

### **M&E Quality Rating**

Substantial

## **10. Other Issues**

### **a. Safeguards**

The PAD rates the Environmental and Social risks as Substantial. The Environmental and Social Systems Assessment (ESSA) conducted at appraisal determined that the PforR did not pose any major environmental risks but identified social risks related to potential retrenchment of the public sector employees (PAD, Annex 6). Therefore, specific measures were included in the PAP to mitigate the adverse effects associated with retrenchment. The measures and actions in the PAP were all complied with (ICR, pp.30-31).

### **b. Fiduciary Compliance**

The PAD rates the Fiduciary risks as Substantial. The fiducial assessment indicated that there were adequate arrangements in place to safeguard Program finances, but pointed out some deficiencies particularly in regards to commitment control (PAD, pp. 16-18). Therefore, among other fiduciary-related actions, improved control over multi-annual contractual commitments and regular periodic reporting on comprehensive data on arrears were included as actions in the PAP. However, by the end of the Program, one of these actions —a systematic approach to reporting data on multi-annual contractual commitments — was determined to be a less critical element under the basics-first approach, and was not implemented. The other fiduciary-related actions included in the PAP were all achieved (ICR, paras. 46 and 87).



The financial management of program expenditures was consistently satisfactory throughout the Program (ICR, para. 88). Program expenditures detailed in the semi-annual program reports remained at sufficient levels to cover the DLIs under the Program. The State Audit Institution's 2019 audit of the final account of the Republic of Serbia and the separate audits of the Program implementing entities; the Ministry of Public Administration, Treasury Administration and the Public Procurement Administration returned clean opinions.

### c. Unintended impacts (Positive or Negative)

Gender. Although the Program's activities were gender neutral, it was recognized at the appraisal stage that women would be disproportionately affected by the rightsizing and reduction in public sector employment as they make up the majority of employees in the public sector. As predicted, by June 2019, 70 percent of the employees affected by the rightsizing were women. However, all the actions in the Social Systems Assessment Program Action Plan were implemented to reduce the burden of the reforms on women (ICR, para. 56). For example, measures that reinforce the protection of women in instances of retrenchment were provided for in the law, including the protection of women on maternity leave, female headed households, etc. Also, the criteria to select employees to be made redundant were based on principles of non-discrimination.

### d. Other

None.

## 11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Satisfactory	According to the Bank's rules, the combination of a substantial relevance and substantial efficacy rating can be Moderately Satisfactory if there is modest achievement of one of the PDOs. In this case, one PDO is rated substantial and the other is rated high, so the outcome rating is Satisfactory.
Bank Performance	Satisfactory	Satisfactory	---
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---



## 12. Lessons

The following are some of the key lessons from the ICR (pp.35-38) with some adjustment in language:

**Effective support can benefit from leveraging the World Bank/IMF relationship and harnessing different World Bank instruments.** The Bank and the IMF coordinated closely to push critical reforms forward, with the IMF primarily focusing on the wage bill, and the Bank focused on how efficiency could be strengthened at the disaggregate level. Given the complex nature of the reforms in Serbia— complexity of single spine pay systems and large-scale retrenchment of public employees —a concerted multi-faceted approach (using the PforR as well as Bank-administered trust funds and DPLs to incentivize reforms along with complementary support from other development partners) was warranted, and it greatly improved the prospects of achieving the development outcome under the PforR. Without the full package of distinct but related approaches, the PforR may not have achieved as much as it did in a relatively difficult reform context.

**Institutional capacity can be improved through the necessary cooperation in the monitoring and reporting of DLIs.** Despite the initial challenges, the need for inter-ministerial and institutional coordination improved the capacity of individual institutions to collect, collate and integrate data. Furthermore, the process helped to shine a light on specific aspects that needed to be addressed to strengthen existing databases and/or create new ones. The significant institutional improvements made with support from the Program as well as the technical assistance provided by development partners are likely to last beyond the Program.

**The client and the Bank should view mid-term reviews as an opportunity to make strategic adjustments to the program.** Mid-term reviews are an important step in the program cycle. They give both the Bank and the client a moment to step back and conduct an objective and holistic assessment of how the program is performing. If a program is experiencing challenges, it is an opportunity to troubleshoot and catalyze change. In this case, the Mid-Term Review was a missed opportunity to address implementation problems and make strategic adjustments to the program to fully achieve the PDO. Specifically, there were significant challenges and subsequent delays with the verification process for DLI 8, while this ultimately did not affect the achievement of the PDO. The mid-term review report mentions that the definition of some DLIs could have been refined, especially with regards to their targets and data collection requirements.

**Given the complexity of public wage system, it is important to address the fiscal costs explicitly when designing reforms.** This PforR did not explicitly address the fiscal costs of the reforms that were envisaged under the Program, and to some extent this impacted the implementation of the wage system reforms. In addition, the lack of data analytics and fiscal forecasts of the impact of the reforms made it difficult for the Government to make a clear decision about the full implementation of the reforms. This could have been avoided by ensuring that the fiscal impacts and costs were explicitly discussed, understood, and built into the Program.

The following is an additional lesson from this review:

**Results frameworks for core institutional reforms should provide a clear line of sight from operational support incentivized by DLIs through to IRI and PDO targets, and ultimately achievement of improved public services.** PDO targets should seek to reflect results at the outcome level, and go beyond the outputs incentivized by DLIs. The theory of change should provide an analytical basis to justify why particular interventions were selected and sequenced, and what impact in what timeframe they were expected to have on specific, longer-term fiscal consolidation and service delivery outcomes expected to occur, even if beyond the Program's closing.



### 13. Assessment Recommended?

Yes

Please explain

This Program was the country's first PforR lending instrument. The Program achieved significant results in improving efficiency in public sector employment and finances, while it highlighted challenges in implementation, notably the full implementation of the new wage system. Greater clarity is needed on why particular interventions were selected and sequenced, and what impact in what timeframe they had on specific, longer-term service delivery outcomes beyond the Program's closing. The assessment on the continuity of the reform and lessons from the ground would be useful for other countries which may be considering use of the PforR for core institutional reforms.

### 14. Comments on Quality of ICR

The ICR provides a good description of key achievements and effectively highlights the shortcomings, or areas that the Bank could do better, such as continuous delays in the full implementation of the new wage system, and assesses the extent of achieving outcomes in most cases. Annex 5: Lessons Learned from Moving To A Single Spine Public Sector Pay System, is particularly well researched and insightful, drawing on evaluations and analytical work by IEG and others. The ICR points out that this international experience should have been thoroughly considered from the beginning so that effective mitigation measures could be designed. The analysis should be helpful in planning a way forward for implementation of the Law on Public Sector Employees' Salary System.

The ICR should have selected the correct rating to determine the outcome rating, following the ICR Guidance for PforR Operations. The ICR could have discussed more effectively the linkages between the IRIs and outcomes (e.g. IRI 1.3 and DLIs 3 and 4 /PDO Indicators 2 and 3; IRI 2.2 on budget inspections) in assessing the relevance of the results framework and achievements of IRIs (e.g. IRI 3.2 on the number of public procurement officers certified). The ICR could have provided the information and assessment on the total actual expenditures of the Program.

#### a. Quality of ICR Rating

Substantial