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SERBIA

# Consolidated Collection and Pension Administration Reform Project and Delivery of Improved Local Services

**Report No. 124854**

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**Report No.: 124854**

**PROJECT PERFORMANCE ASSESSMENT REPORT**

**SERBIA**

**CONSOLIDATED COLLECTION & PENSION ADMINISTRATION REFORM  
PROJECT  
(IDA CREDIT NO.40710)**

**DELIVERY OF IMPROVED LOCAL SERVICES  
(IBRD LOAN NO 75100)**

**June 25, 2018**

*Human Development and Economic Management  
Independent Evaluation Group*

## Currency Equivalents (annual averages)

*Currency Unit = Serbian dinar (RSD)*

2008	\$1.00	RSD55.72
2009	\$1.00	RSD67.58
2010	\$1.00	RSD77.73
2011	\$1.00	RSD73.33
2012	\$1.00	RSD87.97
2013	\$1.00	RSD85.16
2014	\$1.00	RSD88.41
2015	\$1.00	RSD108.8

## Abbreviations

CPS	country partnership strategy	MOLEVSP	Ministry of Labour, Employment, Veterans, and Social Policy
CROSO	Central Registry of Compulsory Social Insurance	MPALSG	Ministry of Public Administration and Local Self-Government
CSO	civil society organization	NES	National Employment Services
CSW	Center for Social Work	OECD	Organisation for Economic Co-operation and Development
DILS	Delivery of Improved Local Services Project	PAD	project appraisal document
EU	European Union	PARP	Pension Administration Reform Project
FSU	Fiduciary Services Unit	PAYGO	pay-as-you-go
GDP	gross domestic product	PDO	project development objective
HIF	Health Insurance Fund	PHC	primary health care
ICR	Implementation Completion and Results Report	PIO	Republic Fund of Pension and Disability Insurance
ICT	information communication technology	PISA	Program for International Student Assessment
IEG	Independent Evaluation Group	PMU	project management unit
IEP	Individual Education Plan	PPB	Project Policy Board
IMF	International Monetary Fund	PPAR	Project Performance Assessment Report
ISC	intersectoral committees	PWDs	persons with disabilities
LSG	local self-government	SCD	Systematic Country Diagnostic
M&E	Monitoring and evaluation	SDR	Special Drawing Rights
MIS	management information systems	UCF	Unified Collection Report
MOESTD	Ministry of Education, Science, and Technological Development	UNICEF	United Nations Children's Fund
MOF	Ministry of Finance		
MOH	Ministry of Health		

*All dollar amounts are U.S. dollars unless otherwise indicated.*

## Fiscal Year

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## Principal Ratings

### Consolidated Collection and Pension Administration Reform Project

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Moderately satisfactory	Moderately satisfactory	Moderately satisfactory
Risk to development outcome	High	High	Moderate
Bank performance	Moderately satisfactory	Moderately satisfactory	Moderately satisfactory
Borrower performance	Moderately satisfactory	Moderately satisfactory	Moderately satisfactory

\* The Implementation Completion and Results (ICR) report is a self-evaluation by the responsible global practice. The ICR Review is an intermediate Independent Evaluation Group (IEG) product that seeks to independently validate the findings of the ICR.

### Delivery of Improved Local Services

	<i>ICR*</i>	<i>ICR Review*</i>	<i>PPAR</i>
Outcome	Moderately satisfactory	Moderately satisfactory	Moderately satisfactory
Risk to development outcome	Moderate	Moderate	Moderate
Bank performance	Moderately satisfactory	Moderately satisfactory	Moderately satisfactory
Borrower performance	Moderately satisfactory	Moderately satisfactory	Moderately satisfactory

\* The Implementation Completion and Results Report (ICR) is a self-evaluation by the responsible global practice. The ICR Review is an intermediate IEG product that seeks to independently validate the findings of the ICR.

## Key Staff Responsible

### Consolidated Collection and Pension Administration Reform Project

<i>Project</i>	<i>Appraisal</i>	<i>Completion</i>
Project Team Leader	Krtova Snjezana Plevko	Rajna Cemerska-Krtova
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### Delivery of Improved Local Services

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**IEG Mission: Improving World Bank Group development results through excellence in independent evaluation.**

### About This Report

The Independent Evaluation Group (IEG) assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the World Bank's self-evaluation process and to verify that the World Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEG annually assesses 20–25 percent of the World Bank's lending operations through fieldwork. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or World Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEG staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, interview World Bank staff and other donor agency staff both at headquarters and in local offices as appropriate, and apply other evaluative methods as needed.

Each PPAR is subject to technical peer review, internal IEG panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible World Bank country management unit. The PPAR is also sent to the borrower for review. IEG incorporates both World Bank and borrower comments as appropriate, and the borrowers' comments are attached to the document that is sent to the World Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

### About the IEG Rating System for Public Sector Evaluations

IEG's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEG evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEG website: <http://ieg.worldbankgroup.org>).

**Outcome:** The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current World Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, sector strategy papers, and operational policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared with alternatives. The efficiency dimension is not applied to development policy operations, which provide general budget support. *Possible ratings for outcome:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, highly unsatisfactory.

**Risk to Development Outcome:** The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for risk to development outcome:* high, significant, moderate, negligible to low, and not evaluable.

**Bank Performance:** The extent to which services provided by the World Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan or credit closing, toward the achievement of development outcomes). The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

**Borrower Performance:** The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible Ratings for borrower performance:* highly satisfactory, satisfactory, moderately satisfactory, moderately unsatisfactory, unsatisfactory, and highly unsatisfactory.

## Preface

This is the Project Performance Assessment Report for two projects implemented in Serbia.

The Consolidated Collection and Pension Administration Reform Project, P090418, was approved in May 2005 as a credit for special drawing rights 16.6 million (\$25 million equivalent). Government counterpart financing was planned for \$0.4 million. The credit closed on September 30, 2012, two years after the original completion date.

The Delivery of Improved Local Services Project, P096823 (DILS), was approved by the World Bank's Board of Executive Directors in March 2008 with an International Bank for Reconstruction and Development loan of €32.0 million (\$46.4 million equivalent). No government counterpart was envisaged. The project became effective in March 2009 and closed in March 2015, 27 months later than planned, with a total execution period from effectiveness of 72 months (six years).

This report serves an accountability purpose, evaluating the extent to which the operations achieved their intended outcomes, and to identify lessons that can be used to enhance similar operations supported by the World Bank.

This report was prepared by Antonio Giuffrida, lead evaluation officer; Dejana Razicilic, consultant; Hjalte Sederlof, consultant; and Anna Amato, consultant. The assessment is based on a review of all relevant World Bank documentation (that is, the project appraisal document, the Implementation Completion and Results Report and the Independent Evaluation Group (IEG) Implementation Completion and Results Report Review, World Bank Group country strategies, and relevant sector strategies), and the PPAR mission to Serbia undertaken by Antonio Giuffrida and Dejana Razicilic from March 6 to March 16, 2018, during which interviews were conducted with government officials and technical staff, beneficiaries, health service providers, relevant development partners, and other involved persons.

IEG gratefully acknowledges all those who made time for interviews and provided documents and information and expresses its gratitude to the World Bank office in Belgrade for the logistical and administrative support provided to the mission.

Following standard IEG procedures, a copy of the draft Project Performance Assessment Report was sent to the relevant government officials and agencies for their review and feedback. No comments were received.

## Summary

Following the dissolution of the former Yugoslavia and a series of regional wars, the Federation of the Republics of Serbia and Montenegro rejoined the World Bank in 2001. Serbia experienced solid growth during 2000–2008, followed by a series of severe recessions combined with rapidly rising unemployment and growing public debt over 2008–2014. To improve its growth prospects Serbia embarked on several structural reforms between 2014 and 2017. As a result, the general government budget turned from a deficit of 6.6 percent of gross domestic product (GDP) to a surplus of 1.2 percent, driven both by improved revenue collection and subdued current expenditure. Government debt, after peaking at 74.6 percent of GDP in 2015, fell to 61.5 percent of GDP in 2017. Growth fundamentals and prospects are now sound, and the underlying growth trend is vibrant.

Serbia is at a late stage of demographic transition, characterized by a total fertility rate well below the population replacement rate, and an aging and shrinking population. Demographic and population changes have clear implications for the delivery of health, education, and social assistance services, and for the sustainability of the pension system. In the meantime, Roma, having a much higher total fertility rate, are going to represent a growing percentage of the total Serbian population and the future workforce.

### Consolidated Collection and Pension Administration Reform Project

When the Consolidated Collection and Pension Administration Reform Project (PARP) was being prepared, pension expenditure had risen from about 11 percent of GDP in 2001 to almost 16 percent in 2004, generating a yearly deficit of 5.5 percent of GDP and representing a significant burden on Serbia's fiscal accounts.

Various parametric reforms had already been introduced to address the structural imbalances of the pension system stemming from the demographic situation and the volatile labor market. However, the financial position of the system was not expected to improve in the short run without additional reforms to improve compliance with contributions and reduce the administrative costs of the pensions funds.

#### *Objectives and Design*

The objectives of the PARP are to (i) develop the framework for the consolidation of collection of all social contributions and, if feasible, personal income taxes; and to (ii) improve the effectiveness and efficiency of the pension system through modernizing and streamlining the institutional capacity in the pension system; improved pension system administration; developing the capacity for policy identification and analysis; monitoring; and increased public understanding of the pension system.

The relevance of the objectives is rated **high** at approval, at project closure, and at the time of the Independent Evaluation Group mission for this assessment. The project objectives are highly relevant to the country's macroeconomic context, as the project addressed a major concern for Serbia's fiscal balance. The project also contributes to the objective of the government and the European Union of ensuring adequate and

sustainable pensions systems. The objectives were highly relevant to World Bank Group strategies with the Serbia both at approval and at completion. Finally, the complex links between labor force participation in the formal economy and the fiscal sustainability of the pension system are identified as a medium priority constraint to progress toward the twin goals in the 2015 Serbia Systematic Country Diagnostic.

The relevance of the design is rated **substantial**. The project results chain presents clear and direct links between project activities, outputs, intermediate outcomes, project development objectives, and the longer-term outcome of ensuring adequate and sustainable pensions for Serbian population. The first component financed the feasibility study to define the overall framework for consolidating the collection and reporting of all social contributions and the establishment of a unified central registry of social contributions to produce monthly individualized reporting on benefits and collections. The remaining components contribute to the second objective of increasing the effectiveness and efficiency of the pension system through the modernization and streamlining of administration of the pension funds, the improved capacity at the Ministry of Labor, Employment, Veteran and Social Policy for quantitative actuarial modeling of pension system analysis and policy development, and better knowledge of the pension system among the general population.

#### *Project Outcome*

The achievement of objective 1 is rated **substantial**. The objective was rated modest at the Implementation Completion and Results Report Review, as at that time, neither the contributions recording and collections system nor the central registry were yet operational. The central registry is now operational. It allows monthly individualized reporting and it is the central repository of all information needed by the three participating social insurance institutions, ending the need for each institution to collect, verify, and maintain its own database.

The achievement of objective 2 is rated **substantial**. The Serbia substantially improved the effectiveness and efficiency of the pension system as measured by the reduction in the ratio between the overall administrative costs and total pension expenditures, which contributed to a long-term reduction of total pension expenditure as a percentage of GDP. The project contributed through the successful introduction of a central registry (see objective 1) and the effective modernization and streamlining of pension system administration. However, the project was less successful in enhancing the capacity for policy identification and analysis.

Efficiency in the use of project resources is rated **modest**. The project achieved observable efficiency improvements, some of which are quantifiable. For example, the project contributed to reduce the operating expenses of the pension system and to increase pension contribution collection. Additional benefits, but more difficult to quantify, include the improved fiscal balance, better services to pensioners, and improved services to tax and social contributions payers. However, shortcomings in implementation had a negative impact on the overall efficiency of the project. The two-year extension of the closing date and the fact that the full functionality of the central registry was reached only in 2014 indicates reduced project efficiency.

Overall, the project outcome is rated **moderately satisfactory**.

#### *Project Risks and Bank and Borrower Performance*

Risk to development outcome is rated **moderate**. The risks to the improvements achieved in the collection of social contributions through the unified central registry are low to negligible. The risks to the improvement achieved in the effectiveness and efficiency of Serbian public pension are moderate. The fiscal outlook of the pension system is now positive thanks to additional parametric reforms (changes in contribution and benefit parameters and eligibility conditions) that have complemented the improvements achieved under the project.

Overall Bank performance is rated **moderately satisfactory**. Quality at entry is rated *moderately satisfactory*. The World Bank team had extensive experience on pension reform in transition countries and drew on prior experience in Serbia, where a series of development policy operations had already begun improving the performance and sustainability of the pension system. However, key features of the unified central registry were still open to debate when project implementation started, which reflects insufficient stakeholder analysis during project preparation. Quality of supervision is rated *moderately satisfactory*. The team could carry the policy dialogue—the difficulty of which should not be underrated—to satisfactory closure. Still, it was not able to accelerate decision making about the unified central registry.

Finally, borrower performance is rated **moderately satisfactory**. Government performance is rated *moderately satisfactory*, as initially it did not manage effectively the discussion between the agencies involved in decisions about the framework for the consolidation of social contributions. However, it showed strong commitment to achieve the objectives of the project even after completion. Implementing agency performance is rated *moderately satisfactory*. The project management unit showed adequate knowledge and understanding of disbursement policies and procedures regulating use of the loan, but it could have been more proactive in identifying and overcoming bottlenecks that caused a two-year delay in project implementation.

#### **Delivery of Improved Local Services Project**

The Delivery of Improved Local Services Project (DILS) aimed to improve the local delivery of health, education, and social assistance services within the framework Law on Local Self-Government (LSG) Financing, which was approved in July 2006 and was expected to expand the fiscal autonomy and responsibilities of municipalities.

The health sector was considering transforming the traditional line-item method to finance primary health care services into a capitation system with a performance-linked component. Similarly, per-student financing was to be adopted in the education sector. In the same period, the government was contemplating reform of the operation of the Disability Fund, which was the main vehicle to finance social services for people with disabilities. Improving the quality of health, education, and social assistance services was (and still is) a priority in Serbia. In health, the objective was to introduce a culture conducive to continuous quality improvements. The Law on the Fundamentals of the

Education System, adopted in 2009, emphasized the need for a more inclusive education model. A unified social welfare management information system (MIS) was expected to be designed and implemented to improve the management and administration of social assistance programs. Finally, the Serbia had joined the Decade of Roma Inclusion and was committed to reduce the gaps between Roma and the rest of society, including those related to access to health, education, and social assistance services.

### *Objectives and Design*

The objectives of the project are to “increase the capacity of institutional actors and beneficiaries to improve access to, and the efficiency, equity and quality of, local delivery of health, education and social protection services, in a decentralizing environment.” In the PPAR assessment, the objectives are organized around the three sectors involved: health, education, and social protection services. Within each sector, project achievements are assessed independently along the three dimensions of improved efficiency, quality, and access for vulnerable groups.

The relevance of the objectives is rated **high**. The pressure for fiscal consolidation that the government faced at the time of project appraisal makes the objective of improving the efficiency of health, education, and social assistance services highly relevant. Project objectives were well aligned to the recently approved Law of LSG Financing and to national sectoral strategies. The focus on vulnerable groups, such as Roma, contributed to the commitment made by the Serbia to close the gap between Roma and the rest of society. Project objectives were also relevant to the World Bank country strategy at the time of appraisal, as well as to subsequent country strategies. Finally, improved access, quality, and efficiency in the delivery of health, education, and social assistance services are identified as key to progress toward achieving the twin goals in Serbia Systematic Country Diagnostic.

The relevance of the design is rated **modest**. The design evolved into three separate projects, managed by three Project Administration Teams located in the three lead ministries (health, education, and social policies) and a Fiduciary Services Unit (FSU) established to centralize all procurement, financial management, and disbursement functions of the project. A Project Policy Board consisting of representatives from the ministries participating in the execution of the project and from local governments was established to foster intersectoral coordination. The sector-specific result chains are well supported by logical arguments and evidence. However, the overall project design is complex, and has some weaknesses. The large scope of the project—in term of sectors, dimensions, and beneficiaries involved—weakens the design as the efforts are diluted. As a result, the impact of the project in some areas was limited.

### *Project Outcome*

The overall achievement of objective 1—increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered *health services*, in a decentralized environment—is rated **substantial**. The project enhanced the capacity of the sector to improve efficiency through provider payment reforms in primary health care and through centralized

procurement of medicine. The project strengthened the capacity of primary health care institutions to deliver quality health services through the development and adoption of clinical guidelines and clinical pathways and voluntary accreditation. Project grants were effective in improving connectivity and the use of information technology at the primary care level. Finally, the project was successful in enhancing the capacity of the health system to improve accessibility to health services by Roma populations through the training and recruitment of health mediators.

The achievement of objective 2—increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered *education services*, in a decentralized environment—is rated **substantial**. The improvement in the capacity of the education sector to improve efficiency through financing reforms was modest as the per-student financing formulas were developed and piloted but not implemented. However, the project was successful in improving the capacity of schools to deliver better quality and more inclusive education services. Finally, the project enhanced the capacity of schools and municipalities to improve access to education to students with special needs and Roma children.

The achievement of objective 3—increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered *social assistance services*, in a decentralized environment—is rated **modest**. The new operation modality of the Disability Fund enhanced the transparency and the effectiveness of resources used to provide social assistance services to people with disabilities. However, the project did not deliver the enhanced MIS to improve the efficiency in the delivery of social assistance services.

Efficiency in the use of project resources is rated **modest**. The project selected potentially cost-effective interventions based on the international experience and the relevant academic literature has shown that the activities chosen can improve the use, quality, and efficiency of locally delivered health, education, and social protection services. However, only few benefits are quantifiable. For example, the centralized procurement of drugs supported by the project, contributed to a 27 percent reduction in drug prices, and to a €25 million per year reduction in pharmaceutical expenditure. In addition, shortcomings in the implementation have a negative impact on the overall efficiency of the project. Some activities were implemented only partially, thus the potential benefits did not materialize. Other activities were implemented with delays that reduced the benefits generated. Implementation delays resulted in 25 months of extensions that further diluted the improvements expected from the interventions.

Overall, the project outcome is rated **moderately satisfactory**.

#### *Project Risks and Bank and Borrower Performance*

Risk to development outcome is rated **moderate**. For most project outcomes, the risk they will not be maintained in the future is negligible to low. However, selected project outcomes, notably those related to improvements in access to services for vulnerable groups, are subject to moderate risks.

Overall Bank performance is rated **moderately satisfactory**. Quality at entry is rated *moderately satisfactory*. The World Bank supported the borrower in the preparation of the project with an experienced and extended team that brought international experience relevant to Serbia. However, it took about 20 months to move from concept review to approval and some shortcomings were identified in the capacity to monitor progress. Supervision is rated *moderately satisfactory*. The World Bank played an important convening role during project implementation, attempting to bridge barriers between state ministries and across levels of government. However, the World Bank team could have more proactively identified and rectified the critical risks and bottlenecks that affected project implementation.

Finally, borrower performance is rated **moderately satisfactory**. Government performance is rated *moderately satisfactory*. On one hand, the government provided weak overall policy coordination. On the other hand, middle-level management showed commitment to the reforms and strong ownership and support from certain reform-oriented high officials that championed specific themes and activities. Implementing agency performance is rated *moderately satisfactory*. The division of labor between the project's implementing agencies worked well. However, the Project Administration Teams were contracted as external consultants under the projects and were paid more than regular ministry staff. Additionally, the work of the implementing agencies was negatively affected by political changes that occurred during project implementation, as changes at the minister level led to changes at the Project Administration Teams in the three relevant ministries, as well as in the staff of the FSU.

## Lessons

Eight lessons that could help improve future World Bank operations are identified. The first lesson arises from both projects, followed by three lessons from PARP and four lessons from the DILS project.

- **Clarity around the overall vision and data architecture is needed for successful MIS investments.** Several steps are needed to build an MIS: analysis of the business processes, design of the data architecture, procurement of hardware and software, installation and testing, and training users. The likelihood of success in this process is improved if business processes and the underlying data architecture are well defined. This occurred in the development of the Central Registry of Compulsory Social Insurance (CROSO). Even if the first step (the definition of the overall framework) took a long time, it permitted finalizing of the MIS after project completion. In contrast, the vision of the social assistance MIS was not well defined, which contributed to the failure of the MIS investment.

### *Consolidated Collection and Pension Administration Reform Project*

- **A stakeholder analysis can be a useful tool to identify potential supporters and resistance when reforms involve several actors.** The reform of the social contribution collection and reporting system involved several parties. A stakeholder analysis of the participating institutions would have yielded crucial insights to identify potential reasons for support and resistance, the areas where



cooperation was natural, and where more attention was needed from high-level officials able to resolve institutional problems.

- **The tax administration can be usefully included in the administrative reform process.** Many countries have to consider the role of the tax administration in collections and compliance—should it be a lead agency, a participant, or a nonparticipant? Whatever the option chosen, it is important to involve the tax office early on, not only because of their mandated role as a tax collection agency, but also because they tend to have the strongest human and technical capacity, and legal instruments of enforcement at their disposal, and they often have the strongest political support. In Serbia, CROSO was chosen for the collections function, but with some difficulty because insufficient attention was paid to coordinating with the tax authority.
- **Rationalizing the social insurance system takes time.** In Serbian administrative reform, the country chose to rationalize the social insurance system information and contribution flows. Experience from other countries shows that this process may be slow, sometimes taking one to two years. Therefore, ample time should be reserved to do the work needed to alter budgets and to conduct strategic planning to accommodate institutional changes. The potentially most complex and time-consuming task will be to ensure all past service data are accurate and complete, and to modernize and automate the key benefit calculation and payment business processes.

#### *Delivery of Improved Local Services Project*

- **Multisector projects have the advantage of providing bridge financing that allows continuity and deepening of reforms policy, but this design feature may negatively affect other project ratings.** DILS was effective in providing bridge financing that allowed the World Bank to sustain sector support and policy dialogue in three sectors. However, the wide scope of the project weakened the capacity of the monitoring and evaluation framework to monitor the complex causal chains between activities, intermediate outcomes, and objectives. In addition, this design feature may negatively affect other aspects of project design.
- **Activities carried out by entities with a clear institutional status can be better sustained than those implemented by ad-hoc bodies.** DILS activities performed by permanent government institutions and bodies (such as the department of a ministry and permanent agencies such as the agencies for accreditation or Institute of Public Health) were better sustained after project completion than those undertaken by temporary entities such as ad-hoc committees created under the project. Another example is the Project Policy Board, which was expected to provide intersectoral coordination but met only sporadically.
- **The employment of contractual staff (consultants) in the project implementation unit does not build sustainable capacity in the ministries.** DILS established an FSU and three Project Administration Teams in each of the three leading ministries to manage the project. These were to last only for the duration of the project and were staffed contractors. The alternative is to involve regular staff in the administration of the project, who be retained in the ministry at

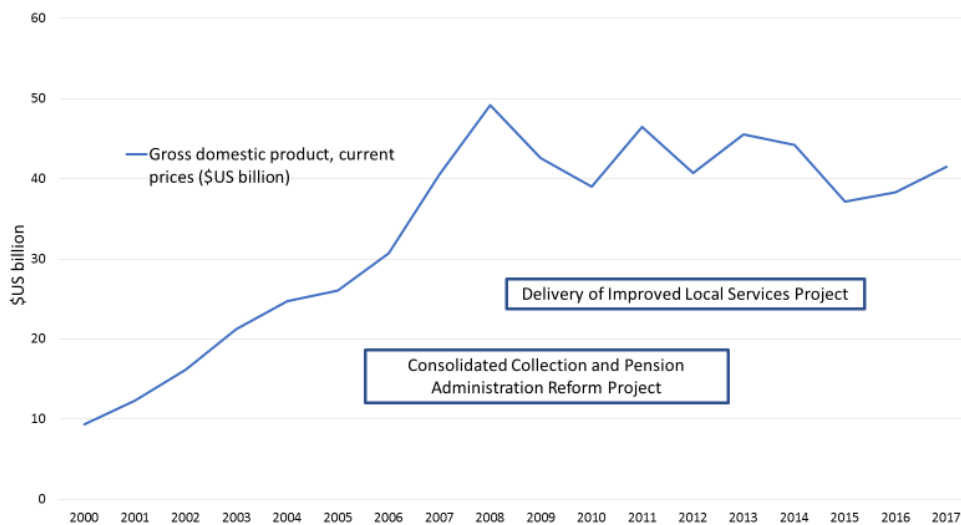
- the end of the project. The latter solution can both improve buy-in in the ministries and help strengthen the capacity of the participating ministries.
- **Projects that aim at strengthening locally delivered services should ensure alignment between local functions, capacities, and financing to succeed.** DILS showed that although the project could improve LSG capacity in service provision, it was not able to change the legal framework related to the competencies and financing of the LSGs. This misalignment explains the difficulties in implementing financing reform in the health and education sectors.

# 1. Background and Context

## The Political and Economic Context

1.1 Following the dissolution of the former Yugoslavia and a series of regional wars, the Federation of the Republics of Serbia and Montenegro rejoined the World Bank in 2001.<sup>1</sup> Montenegro declared independence after a referendum May 21, 2006, and the Serbia emerged. Serbia experienced solid growth during 2000–2008, followed by a series of severe recessions. Over 2008–2014 Serbia’s economy had been hit by three recessions combined with rapidly rising unemployment and growing public debt. To improve its growth prospects, Serbia embarked in 2014 on several structural reforms and deep fiscal consolidation. As a result, between 2014 and 2017, the general government budget went from a deficit of 6.6 percent of gross domestic product (GDP) to a surplus of 1.2 percent, driven both by improved revenue collection and subdued current expenditure. The growth of government debt has reversed: after peaking at 74.6 percent of GDP in 2015, it fell to 61.5 percent of GDP in 2017. Growth fundamentals and prospects are now sound, and the underlying growth trend remain vibrant, as shown in figure 1.1 (European Commission 2018, 42).

**Figure 1.1. Evolution of GDP and Timeline of the Projects**



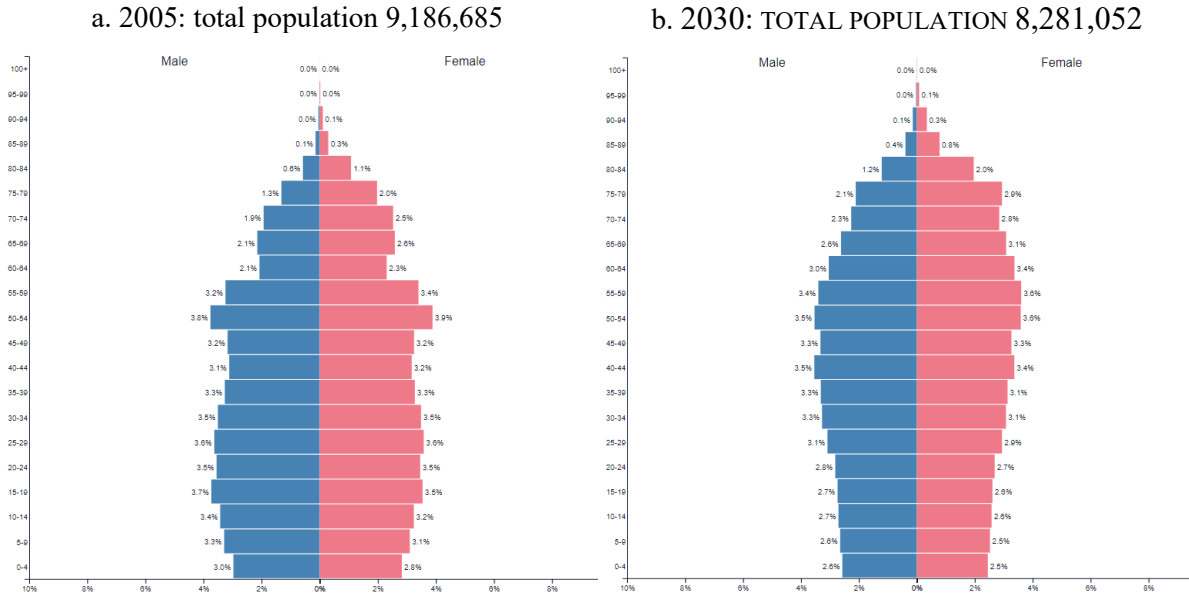
Note: GDP = gross domestic product.

## The Demographic Context

1.2 Serbia’s population is aging quickly, as the working-age population is projected to decline over time, directly affecting the sustainability of the pension system. The total fertility rate for Serbian population is 1.6 children per mother, well below replacement rate and one of lowest worldwide. Relative to 2005 (the year of Pension Administration Reform Project [PARP] approval), total population is projected to fall by 10 percent by 2030, but the working-age population, defined as age 15–64, is expected to shrink even more, by

14 percent, and students, defined as age 5–9, are expected to drop by a 24 percent (Figure 1.2).

**Figure 1.2. Serbia's Demographic Projection**



Source: <https://www.populationpyramid.net>.

1.3 In all systems, the living standard of pensioners depends on their ability to consume goods and services produced by workers. This is true both in a pay-as-you-go (PAYGO) system and in fully funded schemes.<sup>2</sup> In the latter, the transmission mechanism is more indirect but fundamentally the same: unless worker productivity rises, the output (which is divided between workers and retirees) will be less. Therefore, the pressure to provide decent pensions to the growing number of old people in Serbia would translate into higher fiscal pressure. Without more resources, longer lives require later retirement or smaller benefits. Therefore, to rebalance the declining working-age population, pensioners must reduce their aggregated demand for goods and services (adjust to a lower income) or expand the outputs they provide to the economy, or both. Demand can be reduced by increasing contributions—therefore reducing average worker consumption—or by reducing benefits. On the supply side, workers and pensioners can maintain consumption levels if output rises sufficiently to maintain average per capita consumption. Policy actions then involve measures that increase output per worker or increase the number of workers. Serbian government has undertaken a series of such measures through parametric adjustments to the pension scheme. Other actions may focus on importing labor, raising labor force participation rates, or raising skills to enhance worker productivity, both of new entrants and of the people already in the labor market.

1.4 The projected demographic changes will also affect health, education, and social assistance spending. Health needs increase with age, as well as social assistance spending related to long-term care, such as disability payments. Health spending will also increase as older individuals deal with more complex noncommunicable diseases. Education spending could shrink if schools are consolidated to match the falling number of children. However,

education spending may face upward pressure from the need to raise productivity and keep individuals highly skilled.

1.5 Roma children are a growing percentage of Serbian workforce, thus the need to increase investment in their human capital. The total fertility rate among the Roma population was 3.1 in 2014 (SORB and UNICEF 2014). Using the best available estimates of the Roma population (between 400,000 to 500,000), in the next 15–20 years new labor market entrants of Roma descent may represent 14–29 percent of total new labor market entrants in Serbia. Even using the official census estimates, which underestimate the Roma population,<sup>3</sup> Roma would still represent at least 5 percent of new labor market entrants. Thus, future economic growth and sustainability of the pensions system will depend increasingly on how Roma children will perform in Serbia labor market. Therefore, there is an economic argument to be made about investing more in Roma education and health services to enhance their productivity once they enter in the labor market.

1.6 Around the time the Delivery of Improved Local Services Project (DILS) was under preparation, Serbia joined international efforts to act for Roma inclusion. In 2005, 12 European countries and several international organizations, including the World Bank and the Serbia, launched the Decade of Roma Inclusion (Deshbersh le Romengo Anderyaripnasko, in Romani) with the objective of “closing the unacceptable gaps between Roma and the rest of society.”<sup>4</sup> The Roma Decade focused on education, employment, health, and housing, and committed governments to also consider the issues of poverty, discrimination, and gender mainstreaming (Brüggemann and Friedman 2017).

## **The Role of Local Government in the Delivery of Health, Education, and Social Protection Services**

1.7 DILS aimed to improve the local delivery of health, education, and social assistance services within a framework of increasing pressure for fiscal consolidation, and greater involvement of local governments in service delivery (**Error! Reference source not found.**).

1.8 During DILS preparation, the momentum for decentralization of service delivery in Serbia was accelerating across all sectors. The delivery of health, education, and social protection services was primarily a state responsibility. Local self-governments (LSGs) were responsible for financing some operating costs, such as heating and other utilities that altogether accounted for approximately 15 percent of total costs. LSGs are able, at their discretion, to provide additional services beyond those required by national legislation, but only larger LSGs and richer municipalities (the two aspects usually in parallel) had discretionary resources to provide additional services. Within this context, the framework Law on Local Self-Government Financing, approved by parliament in July 2006, was expected to expand the fiscal autonomy of LSGs and their capacity to determine the use of resources.

### ***Health Services***

1.9 Decision-making authority for the provision of primary health care (PHC), including the ability to appoint PHC directors, was transferred from the state to LSGs in January 2007. However, LSGs were facing important constraints in assuming these new functions: lack of financial resources; the structural, financial, and organizational weakness of PHC institutions; the conventional view that the central government should solve most of the problems; the limited skills and capacity in most LSGs; insufficient preliminary preparations for LSGs to take on the new responsibilities; and unclear distinctions between tasks and competencies at the central and LSGs levels (NALED 2016).

1.10 Financing reform was considered to align financing of PHC services to the increased role of LSGs.<sup>5</sup> Funding for PHC services was based on a line-item historic budget provided by the Health Insurance Fund (HIF), a payroll tax–financed social health insurance institution. The HIF was expected to begin implementing a new payment method for PHC institutions based on capitation with a performance-linked component in 2008.<sup>6</sup> The new payment method was expected to reduce the geographical discrepancies in the allocation of health funds and to provide incentives for PHC physicians to provide high-quality care that met the needs and demands of users, since those users could change doctors if their demands were not met. The country had also developed a nationwide framework for PHC medical information that was expected to improve standards and business processes.

1.11 The 2009 National Strategy on Quality of Healthcare had an objective to introduce an internal culture conducive to continuous quality improvement, which included setting up an accreditation system and an integrated information management system for health. To provide incentives for reaccreditation and the adoption of clinical guidelines and pathways, the HIF was planning to introduce additional reimbursements in its fee structure.

1.12 The barriers in accessing health services experienced by vulnerable groups, such as the Roma population, were important concerns. Barriers that Roma face relate to the lack of personal documents (identification and health records), health insurance, or a permanent household address. In addition, many Roma did not complete primary education, live in poverty, are marginalized, and face stigma and discrimination at many levels. The use of health mediators was found effective in facilitating the access of inhabitants of Roma settlements to health care services and other public services in the community (Open Society Institute 2005).

### ***Education Services***

1.13 At the time of DILS preparation, the financing of education was expected to change because of the Law of Self-Governments Financing, approved in July 2006. The main educational spending category (salaries for teachers and other staff) was set and paid for by the state. LSGs were responsible for financing the operating costs of primary and secondary schools. LSGs were entirely responsible for the financing and provision of preschool services. LSGs were expected to finance staff salaries using transfers from the state to LSGs using a per-student financing formula, and to expand their control over the local school networks.

1.14 The failure of the education system to equip youth with the skills and knowledge they need in the modern labor market was (and still is) a priority issue in Serbia. Young people who have just completed their education have not sufficiently developed key competencies, which affects their participation in society and the labor market. The implementation of the Law on Dual Education and the establishment of a single national qualifications framework are expected to help reduce this trend. Serbia's performance in the 2003 and 2006 Program for International Student Assessment (PISA)<sup>7</sup> was weak and statistically significantly below the international average. In 2003, Serbia performed between 32nd and the 34th place<sup>8</sup> out of the 40 countries on the mathematics scale, between the 33<sup>rd</sup> and 35th place on the problem-solving scale, and between the 35<sup>th</sup> and 37<sup>th</sup> place on the reading scale (OECD 2003). In 2006, Serbia performed between the 39<sup>th</sup> and the 44<sup>th</sup> place out of the 57 countries on the different science scales (OECD 2006). The 2003 PISA survey also asked principals about their perceptions of the learning environment. Even though the quality of the physical infrastructure and educational resources cannot guarantee educational success, principals in Serbia were likely to report that the low quality of the physical educational resources hinders instruction (OECD 2003, 27).

1.15 Fostering inclusive education was a priority of the Law on the Fundamentals of the Education System adopted in 2009.<sup>9</sup> Among the most important inclusive education measures was the introduction of local intersectoral committees (ISCs) and new procedures for the enrollment of students with special needs in primary education; the promotion of personalized teaching methodologies and formative pedagogical assessment, through the introduction of Individual Education Plans (IEPs; IEP1—adapted work program; IEP2—modified work program; and IEP3—enhanced and expanded program for talented children); renewal of the special education profession and introduction of inclusive education expert teams in schools; the transformation of the role of special schools; establishment of the Inclusion Network and dropout prevention programs in primary and secondary schools in 2013; and the prohibition of discrimination, segregation and all forms of separation that are not in the child's best interest.

1.16 The discrimination suffered by Roma children in Serbian education system, as well as their poor access to education and their poor achievements, have been well documented. According to the Multiple Indicator Cluster Surveys performed in Serbia in 2010, only 8 percent of children in Roma settlements aged 36–59 months attended organized early childhood education programs, compared with 44 percent in the general population. The literacy level of the population in Roma settlements is generally lower than the national sample (about 77 percent of Roma aged 15–24 years in Roma settlements are literate, versus over 99 percent in the general population) (SORB and UNICEF 2010).<sup>10</sup> At the same time, Roma children were overrepresented in special schools: approximately 30 percent of children enrolled in special schools in the 2007–2008 academic year were Roma (Open Society Fund 2010); and the share of Roma children enrolled in special schools was estimated at between 50 and 80 percent (World Bank 2004, 11). A major measure in this respect was the establishment of the position of pedagogical assistants (also known as Roma teaching assistants) in the Law on the Fundamentals of the Education System,<sup>11</sup> but more bylaws were needed to regulate their functions.

### ***Social Assistance Services***

1.17 Serbia, at the time of DILS preparation, had a fully developed social protection system (even though relatively generous mandatory programs like pensions crowd out resources for targeted social assistance), but administrative consolidation of social assistance programs was under consideration. The two main cash benefits programs in Serbia were the Family Allowance (*materijalno obezbeđenje porodice*) and the Child Allowance. But, although Family Allowance was delivered by the Centers for Social Work (CSW), decentralized agencies affiliated with the Ministry of Labour, Employment, Veteran, and Social Policy (MOLEVSP), the Child Allowance was delivered directly by LSGs. Under the overall, decentralization framework, LSGs were expected to assume greater responsibility in the delivery of these programs to enhance their responsiveness to local needs, even if the state budget was expected to continue financing them.

1.18 In that period, the country was modernizing the policy and legal framework around persons with disabilities (PWDs) and, consequentially, was planning to reform the way it finances the delivery of social assistance services to PWDs.<sup>12</sup> It was estimated that 500,000 people with various types of disabilities lived in Serbia at the time of project preparation. The MOLEVSP Disability Fund, with proceeds from Serbia's state

1.19 lottery, was the main channel to finance social services to PWDs. However, the fund provided little community-based support and social inclusion activities for PWDs and the rules regulating the allocation of funds were not considered transparent. The plan was to reform the operational rules of the fund to begin allocating resources through competitive and transparent processes, allowing the selection of the most effective interventions, increasing the share of funds executed by civil society organizations (CSOs)—including private and community-based service providers—and enhancing services to PWDs.

### **The Pension System**

1.20 When the Consolidated Collection and PARP was being prepared, pension expenditure had risen from about 11 percent of GDP in 2001 to almost 16 percent in 2004, generating a yearly deficit of 5.5 percent of GDP and representing a significant burden on Serbia's fiscal accounts.

1.21 Various parametric reforms had already been introduced in Serbia to address the structural imbalances of the pension system stemming from the deteriorating demographic situation and the volatile labor markets. The Law on Pension and Disability Insurance (Pensions Law) and the Law on Compulsory Social Insurance Contributions (Contributions Law) approved in 2003 and 2004, respectively, introduced major changes in the benefits and contribution rules: retirement age was increased for both genders, lifetime earnings became the basis for benefit assessment (instead of the last 10 years), the rate of benefit indexation was reduced, and the system of disability assessment was revised to curtail unjustified benefit uptake. In addition, a wage indexed minimum benefit was introduced.

1.22 However, the financial position of Serbian pension system was not expected to improve in the short run without added reforms improving the revenue side and reducing the



administrative costs. The parametric reform measures already introduced were going to affect future retirees. However, pension expenditures are determined by the stock of beneficiaries. Thus, it was estimated that the short-term pension deficit could not be solved without intervening on the revenue side. From this side, less than 60 percent of the labor force complied fully with contributions. The low level of full compliance with contributions was considered a critical factor that put at risk the sustainability of the pension funds.

1.23 To reduce underreporting and avoidance of pension contributions, the reporting model needed improvements. The ability to evade contributions was attributable to the outdated model of reporting, collecting and enforcing social security contributions as well as the segregation of the public pension system into three schemes, operated by three administrative organizations using different information and communication technology (ICT) platforms and operational procedures. The prompt reporting and recordkeeping of individualized and verified monthly contribution records was viewed as having significant potential to improve compliance and make enforcement more effective.

1.24 In addition, Serbian pension system consisted of three separate pension funds, which could be consolidated to reduce the overall administrative costs. The Employees' Fund was the largest pension fund. It collected contributions from about 1.5 million workers, paid benefits to 1.2 million beneficiaries, and ran a deficit of 5 percent of GDP. The Fund for the Self-Employed had 250,000 contributors and 44,000 beneficiaries. The Farmers' Fund had 217,000 beneficiaries, but relied heavily on transfers from the general budget, as contributions covered only 13 percent of its expenditures.

## **2. Consolidated Collection and Pension Administration Reform Project**

### **Project Development Objectives**

2.1 The project intended to contribute to the government's efforts to bring overall fiscal balance under control. The project development objective (PDO), as stated in the Development Credit Agreement and project appraisal document (PAD), is to "develop the framework for the consolidation of collection of all social contributions and, if feasible, personal income taxes, and to improve the effectiveness and efficiency of the Serbia pension system, through the modernization and streamlining of the institutional capacity in the pension system, improved pension system administration, developed capacity for policy identification and analysis, monitoring and increased public understanding of the pension system." The PDO remained unchanged throughout the life of the project. The PPAR assesses two separate PDOs<sup>13</sup>:

- PDO1: Develop a framework for the consolidation of collection of all social contributions and, if feasible, personal income taxes; and
- PDO2: Improve the effectiveness and efficiency of the Republic of Serbia pension system. The sentences following the word "through" are considered intermediate outcomes that contribute to this PDO:

- The modernization and streamlining of the institutional capacity in the pension system, and improved pension system administration;
- The improved development of capacity for policy identification, analysis, and monitoring;
- The increased public understanding of the pension system.

## Relevance of Objectives

2.2 The relevance of the objectives is rated **high**.

2.3 The project objectives are highly relevant to the country's macroeconomic context. The project addresses a major fiscal policy in Serbia—credible fiscal consolidation linked to sustainable growth and convergence with the European Union (EU). It is consistent with the goals of the EU Stabilization and Association Process, and Serbia's Poverty Reduction Strategy, notably in creating a smaller, more manageable and more efficient public sector; and in improving social protection and access to public services. At the time of project launch, the government was facing severe fiscal imbalances and public pension expenditures were a significant burden on the government's fiscal account, with total expenditures rising from about 11 percent of GDP in 2001 to almost 16 percent of GDP in 2004, and a deficit of 5.5 percent of GDP (World Bank 2005, 2).

2.4 An efficient public pension system was then, and continues to be, a contributing factor to achieving better overall fiscal balance, and pension reform therefore remains a government priority. Parametric changes limiting future pension expenditures already had been introduced prior to the project. Now the focus was on short-term measures with an early impact on the revenue side. Subsequent interventions were planned that addressed longer-term policy planning aspects to gradually achieve a more durable balance in the pension system.

2.5 Project objectives align with government and EU sector objectives of ensuring adequate and sustainable pensions systems. The two PDOs contribute to the long-term objective of an adequate and sustainable pension system by ensuring solidarity and fairness between and within generations, sound public finances and financial sustainability, and transparency, adapted to the needs and aspirations of women and men (European Commission 2015, 3; SIPRU 2017, 4).

2.6 The objectives were highly relevant to the World Bank Group's strategies for Serbia both at approval and at completion. The World Bank country assistance strategy for the Serbia for FY05–07 emphasized the importance of fiscal consolidation, linked to sustainable growth and convergence with the EU; and within this framework, the need to support a more effective and efficient public pension system as an important contributing factor to achieve a better fiscal balance (World Bank 2004). The PDO was also highly relevant to the country partnership strategy (CPS) for FY08–11 that emphasized the need to reduce pension spending that, representing over 75 percent of total social protection spending, was crowding out other social assistance spending (World Bank 2007). Finally, the project continued to align with the World Bank CPS for FY12–15, for which the major theme was the provision of continued support for Serbia's EU accession. One of the two pillars in the CPS addressed efficiency and outcomes of

social spending, including a continued focus on helping the government constrain imbalances in the pension system (the other focused on competitiveness in the economy; World Bank 2011).

2.7 The complex links between labor force participation in the formal economy and the fiscal sustainability of the pension system are identified as a medium priority constraint to progress toward the twin goals in Serbia Systematic Country Diagnostic (SCD). The SCD recognizes that the factors that hinder formal employment or cause underreporting of wages, have implications for the fiscal sustainability of the overall pension system. It therefore notes the need for further studies to identify fiscally viable ways of reducing the high minimum social security contributions that currently represent a strong disincentive to accepting formal work in Serbia, which in turn affects the collection of pension contributions, and thus the sustainability of the pension system (World Bank Group 2015c).

## PROJECT DESIGN

2.8 To achieve the objectives, the project provided \$25 million of International Development Agency financing under four components. Table 2.1 shows the planned and actual expenditures by component.

**Table 2.1. Financing by Component: Consolidated Collection and Pension Administration Reform Project**

<i>Components</i>	<i>Appraisal Estimate</i>			<i>Actual</i>		
	<i>IDA (\$, millions)</i>	<i>Percent of Total IDA</i>	<i>Gov. (\$, millions)</i>	<i>IDA (\$, millions)</i>	<i>Percent of Total IDA</i>	<i>Gov. (\$, millions)</i>
Component 1	9.8	39	0.4	11.4	45	0.1
Component 2	10.0	40	0	10.3	41	0
Component 3	1.7	7	0	1.1	4	0
Component 4	0.7	3	0	2.3	9	0
Physical contingencies	1.9	8	0	0	0	0
Price contingencies	1.0	4	0	0	0	0
<b>Total</b>	<b>25</b>	<b>100</b>	<b>0.4</b>	<b>25</b>	<b>100</b>	<b>0.1</b>

Sources: World Bank (2005) and World Bank (2013).

Note: Gov. = government; IDA = International Development Association.

2.9 **Component 1. Consolidation of Collection and Reporting.** This component supports the first project objective. The component had two parts: (i) an in-depth feasibility study to enable the government to identify the institutional framework for a new collection and reporting system, and to develop its detailed design and a procurement plan for subsequent implementation; and (ii) purchase of equipment and development of specialized software, and training of staff and contributors in complying with the new requirements.

**2.10 Component 2. Consolidation and Institutional Strengthening of the PAYGO Pension Funds.** This component supports the second PDO. This component financed the provision of technical assistance, training of staff, and purchase of equipment to support: (i) the consolidation and integration of processes for the three PAYGO pension funds; and (ii) the modernization of their business practices.

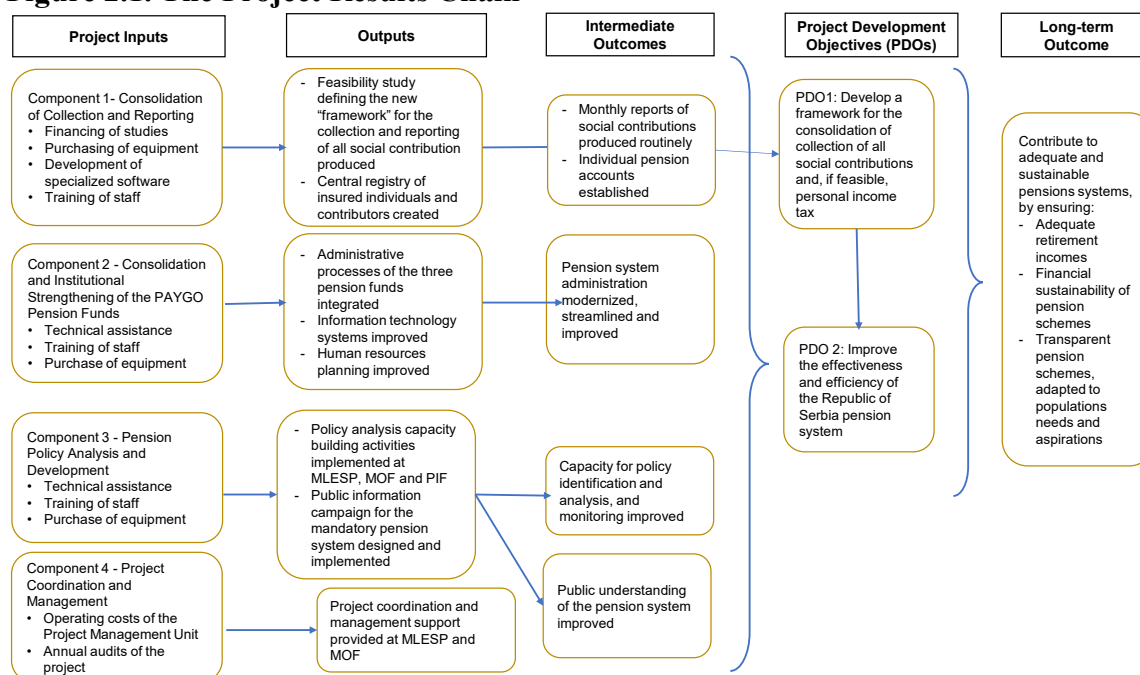
**2.11 Component 3. Pension Policy Analysis and Development.** This component supports the second PDO. This component had two subcomponents to finance the technical assistance, training of staff, and equipment to (i) strengthen capacity for policy analysis in MOLEVSP, the Ministry of Finance (MOF) and the consolidated Republic Fund of Pension and Disability Insurance (PIO), and design and implement a public information campaign for the new consolidated pension system; and (ii) support voluntary pension system development, including strengthening capacity in the National Bank of Serbia for exercising oversight of private pension providers, and the design and implementation of a public information campaign about the voluntary pension system.

**2.12 Component 4. Project Coordination and Management.** This component supports overall project coordination and management. The component financed the operating costs of the project management unit (PMU) and annual audits of the project. Project coordination and management was conducted by the MOLEVSP and MOF. Relevant line ministries and agencies were charged with preparing terms of reference for consultants and training, and specifications for the procurement of works and goods. The procurement and financial management functions were delegated to the PMU in the Serbia Agency for Deposit Insurance, Rehabilitation, Bankruptcy, and Liquidation.

#### **RELEVANCE OF DESIGN**

**2.13** The relevance of the design is rated **substantial**.

**2.14** The project results chain presented clear and direct linkages between project activities, outputs, intermediate outcomes, PDOs, and the longer-term outcome for Serbian pension system. Activities financed under component 1 were likely to generate outputs that would allow the project to achieve PDO1. Likewise, activities and outputs under component 1, as well as components 2 and 3, would allow the project to achieve PDO2. Both PDOs contribute to the longer-term outcomes of supporting a sustainable pension system that provided adequate pensions by promoting solidarity and fairness, and sound public finances and transparency (figure 2.1\_).

**Figure 2.1. The Project Results Chain**

Source: Independent Evaluation Group elaboration based on World Bank 2015.

2.15 The main outputs under PDO1 were the feasibility study defining the overall framework for consolidating the collection and reporting of all social contribution and the establishment of a unified Central Registry of Compulsory Social Insurance (CROSO). The purpose of CROSO is to act as a central repository of all information needed by Serbia's three compulsory social insurance institutions—PIO, the HIF, and the National Employment Service (NES). Insurance qualification time in services (Unified Registration Form) and earnings (Unified Collection Report) are required by all three social insurance institutions when determining eligibility and calculating social insurance benefits.<sup>14</sup> Since much of the data needed by the three institutions is the same, a central registry can eliminate the need for each institution to collect, verify, and maintain its own database, thereby improving efficiency, and reducing staffing and other costs. In addition, the new framework would aid compliance monitoring and controls by establishing insurance status and contribution liabilities (the contributions base). The unified central registry would also enhance consistency checks between contributions, expenditures (benefits and administrative costs), and entitlements.

2.16 The unified central registry was to be introduced in two phases, culminating in the production of monthly individualized reporting on benefits and collections to reduce transaction costs for users and improve compliance monitoring. The first stage was the design of the collections functions, consisting of database development, communications system requirements, reporting forms, and the related trainings. The second stage was to implement the central registry, putting in place the new administrative and operational procedures for social contribution collection and reporting. Finally, the central registry was to provide individual contribution records (accounts) that would have improved taxpayer awareness and the individual's oversight of contribution. It also would enable active workers to assess their

expected pension rights and, in turn, adjust their labor supply strategies considering their individual entitlements.

2.17 The improved effectiveness and efficiency of the pension system (PDO2) was to be achieved, first, by enhancing the pension system administration and modernizing and streamlining the pension system. This entailed the consolidation of three pension funds with regard to (i) their administrative, operational, and organizational aspects; (ii) ICT systems; and (iii) human resources administration, planning, and benefits. The modernization and streamlining of the three pension funds has strong and direct links with the improved effectiveness and efficiency of the overall pension system.

2.18 The improved development of capacity for pension system analysis and policy development was the second intermediate outcome toward PDO2. Capacity was to be strengthened in the PIO, MOLEVSP, and MOF by the introduction of analytical tools, such as pension modeling, and skills to analyze and forecast pension policy. The reasonable assumption in the underlying theory of change is that Serbian policymakers would become better equipped to identify and implement future pension reforms to enhance the adequacy and sustainability of the pension system.

2.19 The project's design recognized the importance of improving the understanding of the pension system among the general population to achieve a more effective and efficient pension system. Public outreach capacity was to be improved, including education campaigns and regular updates on the rights of participants in the public pension system. A population conscious of the benefits provided by the pension system would take informed and appropriate decisions regarding their jobs and careers, which would help the sustainability of the overall system.

2.20 Finally, the project provided technical assistance to build supervisory capacity in the central bank (National Bank of Serbia) for overseeing voluntary private pension schemes. Even though this activity lies outside the strict framework of the public pension system and the standard functions of a central bank, it was reasonable to assume that a better regulated and transparent market for private pensions would expand the options available to the population, thus contributing to PDO2.

2.21 Although project design was relevant to the project objectives and based on a clear results chain, the decision over where to house the unified registry would turn out to be contentious. The concerned agencies—the Pension Insurance Fund (PIO), the HIF, the NES, and the tax administration—all had a vested interest in ensuring that contribution payments could be collected, tracked, attributed to individuals, and cross-checked against returns and payments made to the other three institutions. At the same time, these agencies had to give up some of their earlier—actual or notional—control over the contribution recording and collection of their own revenue. This generated lengthy discussions to find a solution acceptable to all parties. Disputes would delay the project's effective start-up by about three years until it was decided to create CROSO, a new agency, independent from the existing stakeholders but servicing each of them.

2.22 Under the circumstances, the solution of an independent central agency may well have been the best choice. What may have been unexpected was the time that it took to settle the issue. The role of the tax administration remained ambiguous. Tax administrations often play a significant role in collections and compliance and can become significant players in shaping the success of an institutional and organizational reform of this scale. In Serbia, it seems that the tax authority may have been insufficiently involved in shaping the central registry and the unified administration of contributions records. This situation may have been shaped in part by a realization by the World Bank team that finding the necessary interinstitutional cooperation necessary to streamline operations with the tax administration might be difficult, and that the registry could not (and need not) wait for that situation to be resolved, especially considering that the project already had gotten off to a slow start.

2.23 The project monitoring and evaluation (M&E) framework was deficient in some respects. There were no indicators to monitor the consolidation of all other social contributions (such as health insurance) to reflect the broader objective of consolidating the collection of all social contributions, and potentially of income taxes. If the consolidation was limited to pension contributions, it might directly contribute to improving the effectiveness and efficiency of the pension system, thus it could be considered an intermediate outcome toward PDO2 rather than a separate PDO. In addition, the M&E framework did not include indicators to monitor the strengthening of the oversight capacity of the central bank toward the voluntary pension system.

## **Project Implementation**

2.24 The project was approved in May 2005 and was expected to be completed by September 2010, but instead ended two years later, on September 30, 2012, after two extensions of 12 months each.

2.25 Project activities were delayed by internal disagreements about the institutional framework for consolidating the collection of social contributions (component 1) and by political events. The political instability worsened existing internal disagreements about the responsibility for the collections function. A transitional, administrative government was in charge from January 2007 to July 2008. Once a new government was appointed, it set up a project steering committee, which appointed a new project director with ready access to decision-makers to speed implementation. In the meantime, however, other components of the project were able to go ahead, albeit more slowly than necessary and reflecting not only the registry debate, but more generally a slow in-country decision-making process as the political events in the country played out.

2.26 The institutional framework for consolidating the collection of all social contributions was adopted by the Pension Reform Council only at the end of 2007. The formation of a new more stable government, improved coordination among the beneficiary institutions, and intense and frequent dialogue of the World Bank team with the beneficiary institutions helped to push forward the decision of creating CROSO to service all stakeholders. This decision was crucial for moving component 1 forward, and led to accelerated commitment of project funds.

## *Safeguards Compliance*

2.27 The Consolidated Collection and PARP did not trigger any World Bank safeguard policy.

## *Fiduciary Compliance*

2.28 **Financial management** arrangements were satisfactory throughout project implementation. Acceptable software was used for project accounting and financial reporting. The quarterly Interim Financial Reports were sent on time to the World Bank and were always given positive assessments. The project's annual financial statements were also always submitted on time and always produced a "clean opinion."<sup>15</sup> No issues were identified in the use of the bank accounts designated for the project's proceeds. The World Bank supervision missions carried out throughout project implementation did not find any fiduciary issues and confirmed the adequacy of internal controls and project procedures.

2.29 **Procurement arrangements** are considered moderately satisfactory. The Deposit Insurance Agency carried out the procurement activities, although the MOF, MOLESP, and other stakeholders (tax administration, PIO, HIF, and NES) provided technical assistance and supervised project procurement processes. The Deposit Insurance Agency had limited knowledge of the World Bank's procurement procedures, but as the project progressed, it developed the skills needed to perform the required procurement functions. The project included a large ICT component that presented significant technical and procurement challenges. In this regard, the main success stories under the project were related to ICT components, such as the development and implementation of the ICT strategy for the modernization and streamlining Serbian pension system and the creation of the central registry.

2.30 According to the Regional Vice Presidency, the project complied with World Bank fiduciary policies.

## **Achievement of Objectives**

### **OBJECTIVE 1**

2.31 Objective 1 was to develop a framework for the consolidation of collection of all social contributions and, if feasible, personal income tax.

2.32 The achievement of objective 1 is rated **substantial**. Achievement of the objective was rated modest in the Implementation Completion and Results Report (ICR) Review, as at that time, neither the contributions recording and collections system nor the central registry were yet operational. CROSO is now operational, it allows monthly individualized reporting and it is the central repository of all information needed by the three participating social insurance institutions, ending the need for each institution to collect, verify, and maintain its own database.



### ***Outputs***

2.33 The first output under PDO1 was the feasibility study to define the institutional framework for the consolidated collection and reporting of all social contributions. The feasibility study was adopted by the Pension Reform Council only at the end of 2007. Therefore, the related intermediate outcome indicator was achieved, two and a half years after the project was approved by the Board (indicator 2.1, table B.1). As already noted, the delays in completing the feasibility study were not strictly technical, but primarily related to the weak government and project institutional arrangements that did not manage to mediate among the conflicting interests of the stakeholders involved in defining the institutional framework of the consolidated collection and reporting of all social contributions.

2.34 CROSO was established by law in July 2010<sup>16</sup> and links several bodies, including the tax administration, PIO, HIF, NES, the statistical office, the Ministry of Interior, Serbian Business Registration Agency, and the Ministry of Public Administration. Under the new framework, the registration of insured persons requires filing a single application in electronic form directly at the CROSO portal, which is valid for all compulsory social insurance organizations (PIO, NES, HIF). The unified application is filed by the employer or an authorized officer of a compulsory social insurance organization.

2.35 CROSO became fully operational only after the project ended, but it continues to operate as envisaged in the project. Three more years were spent to resolve all technical issues and to complete the data migration. CROSO became fully operational only in August 2013. The PPAR mission confirmed that it operates as envisaged in the law. CROSO consists of two registers. The first is for all insured persons with entitlement to future benefits under the social insurance system. It includes all need information between the insured persons and the entity or person responsible for payment of insurance contributions. Registration and changes to this information are provided through a Unified Registration Form application. A second service history register contains information about contributions declared and paid for each member and the working time associated with those contributions throughout the worker's entire career. Information is provided through a Unified Collection Report, an online monthly tax return operated by the tax administration where the payer declares social insurance contributions and personal income tax for each insured person independent of whether the insured person is registered to that payer via a Unified Registration Form.

### ***Intermediate Outcome***

2.36 The key intermediate outcome—regular monthly reporting on pension contributions paid on an individual basis introduced and individual pension accounts established—was achieved only after project completion. When the project ended (September 2012), CROSO was set up but not yet fully operational. Today, CROSO produces individualized reports on collections on a regular monthly basis (indicator 1.3, table B.1).

### ***Project Development Objective***

2.37 The consolidation of the collection functions and the establishment of the unified CROSO achieved the expected reduction in employers' reporting burden, measured by fewer

reporting forms required. The consolidation of collection contributed to decrease in employers' compliance reporting burden from 28 to 17 forms by the time the project ended. It was not possible to follow-up with the same quantitative indicators, but interviews conducted during the PPAR mission with CROSO and the institutions connected to the central registry (PIO, HIF, tax administration, and NES) confirmed the reduction in the paperwork generated by the Unified Registration Form online application that can now be submitted through its website (indicator 1.4, table B.1).

2.38 CROSO allows more frequent and properly processed reporting on social contributions, which provides information to establish insurance status and contributions liabilities, controls the flow and correctness of data on contributions, and speeds up transfers. The information with the tax administration also improved compliance monitoring. The rate of collection of pension contributions (measured by the ratio between the estimated total wage bill and the wages on which pension contributions are paid) improved during project implementation from 82.8 to 89.1 percent, which is slightly below the 89.9 target set by the program (indicator 1.10, table B.1).

2.39 Further refinements are necessary to resolve inconsistencies and data limitation of CROSO. For example, the service history register provides data only since March 2014 and only for salaried workers. Therefore, to obtain the complete service history, the CROSO history register needs to be merged with the PIO service history data (that covers all insured persons since 1970), and if gaps in this service history are identified, they need to be filled manually. As a result, the CROSO database of contributions and work history is not fully trusted and there are several examples of ongoing duplication of effort and work that cannot be eliminated (World Bank 2017b):

- The PIO requires employers to submit an annual summary report describing the effective working time, earnings, and paid social insurance contributions for each worker.
- Self-employed, independent professionals report service transactions to PIO eight days after the transaction using a different reporting format. The PIO does not submit these reports to CROSO.
- Each year, based on tax data, the tax administration issues resolutions to individual self-employed farmers, sole proprietors, independent professionals, and special categories of insured persons, showing the amount of social insurance contributions and personal income tax to be paid during the current year. The tax administration does not report these values to CROSO in the Unified Collection Report for payment of social insurance contributions.

## OBJECTIVE 2

2.40 Objective 2 was to improve the effectiveness and efficiency of the Republic of Serbia Pension System.

2.41 The achievement of objective 2 is rated **substantial**. Serbia substantially improved the effectiveness and efficiency of the pension system as measured by the reduction in the ratio between the overall administrative costs and total pension expenditures, which

contributed to a long-term reduction of total pension expenditure as a percentage of GDP. The project contributed through the successful introduction of a central registry (see objective 1) and, although the expected target was exceeded, there is less robust evidence on the effective modernization and streamlining of pension system administration. However, the project was less successful in enhancing the capacity for policy identification and analysis.

### *Intermediate Outcomes*

2.42 The project modernized and streamlined the administration of the pension system through the consolidation of the three pension funds. The consolidation was achieved in two phases. A first phase was completed in 2008, with the legal and administrative integration of the three pension funds, followed by financial consolidation in 2010. Actual consolidation of the funds into one single pension insurance fund was achieved in 2012, at which time a business strategy was prepared for the following three years, including a new integrated ICT system. Consolidation is ongoing, and the PIO is now developing its human resource strategy, as well as making further changes in business processes as CROSO ends the need for each institution to collect, verify, and maintain its own database. Experience in other countries shows that the process of rationalizing the social insurance system information and contribution flows will take time because of the significant number of institutions involved, because these institutions are managed by multiple ministries, and because of the time needed to alter budgets and strategic planning to accommodate the institutional changes needed (Indicators 1.2 and 2.2, table B.1).

2.43 The development of capacity for pension system analysis and policy development fell short of expectations. The project was to assist the government (the MOLEVSP and the PIO) in developing a capacity for pension system analysis to support policy development, especially to understand the longer-term implications of demographic, economic, and policy changes on the pension system. Key was the development of a quantitative actuarial model and training in its use (to update assumptions, consider the impact of regulatory changes, and run scenario analysis). A pension policy unit was set up and given appropriate resources. However, the authorities opted for developing an in-house modeling instrument, capable of undertaking short-term financial calculations, but inappropriate for longer-term analysis of either policy changes or the effects of external shocks (indicator 1.6 and 2.3, table B.1). The reluctance to explore alternative models may have been influenced by discussions with the World Bank team, where Serbian authorities have expressed concern over long-term projections done by the World Bank. Still, it is likely that the discussion with the World Bank will provide useful inputs into future pension policy considerations in Serbia. Finally, it is worth noting that the demand for policy analysis was low in the ministry during implementation of the project. This has changed and Serbia has started to routinely provide the EU information on the adequacy and sustainability of its pension system as part of its pre-accession commitments.<sup>17</sup> The increased demand for information has enhanced the capacity of MOLEVSP for pension system analysis and policy development.

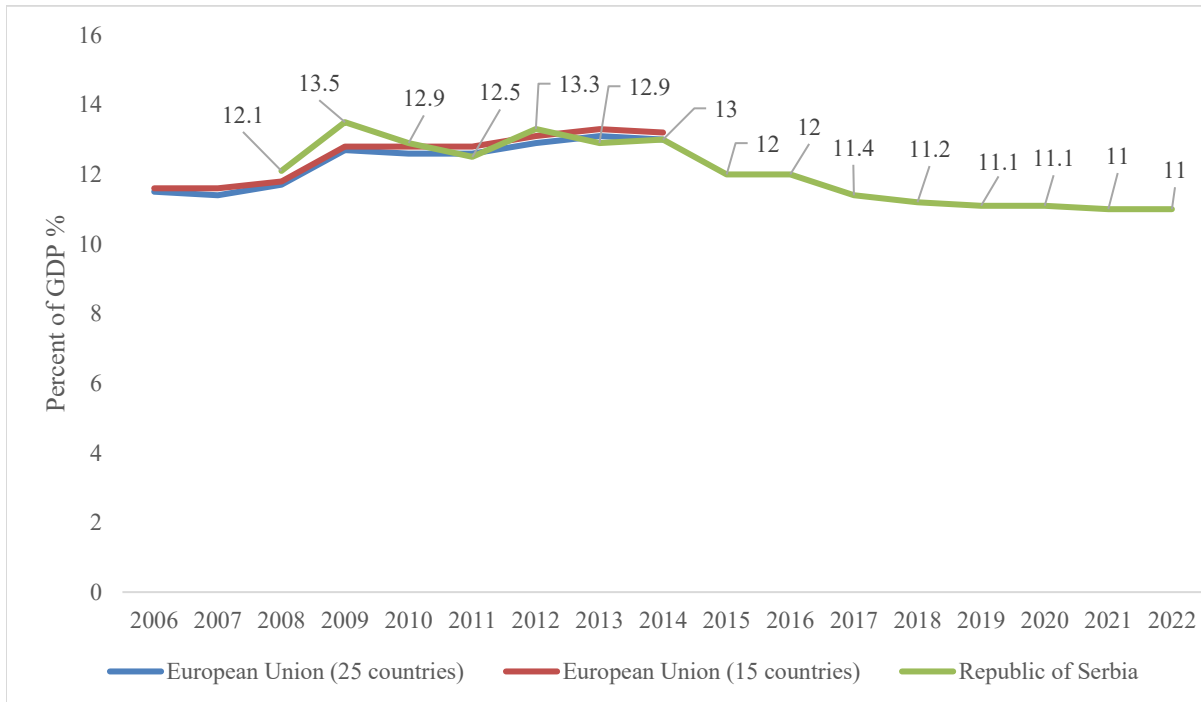
2.44 The knowledge of the pension system improved among the general population during project implementation as a result of the information campaign conducted in the year 2012. The information campaign also involved web publication of updated monthly data available to contributors (indicator 1.7 and 2.3, table B.1). A baseline survey conducted in 2008

estimated that only 15 percent of the population was informed about the key aspects of the pension system. The percentage of informed population increased to 56 percent of after the information campaign, well above the target of 45 percent (indicator 1.9, table B.1). However, no indicators showed outcomes for increased public awareness or behavior change as a result of public education campaigns or the provision of updated monthly data on participants' rights.

### ***Project Development Objective***

2.45 The key project outcome is the improved efficiency and effectiveness of the pension system measured by the ratio between administrative costs and total pension expenditures. Over the project implementation period, administrative costs as a percentage of total expenditures declined by 32 percent from an already modest 2.2 percent in 2005 to 1.5 percent in 2012, which was the target (indicator 1.1, table B.1). Progress continued after the project was completed and the ratio between PIO administrative expenses and total pension expenditures has been further reduced to reach 1.1 percent in 2014 and 0.96 percent in 2015 (World Bank 2017a, 8). The improved efficiency and effectiveness of the pension system administration has affected the number of annually resolved cases, per case officer, which increased from 1,560 in 2007 to 1,840 in 2011–2012 (indicator 1.5, table B.1).

2.46 Finally, the overall fiscal sustainability of Serbian pension system has improved. The long-term sustainability of the system was monitored in the project M&E framework by the indicator measuring the share of total pension expenditures to GDP. The indicator does not show any clear trend, also because of the large variation in GDP during the same period (Figure 2.2). However, total pension expenditures were above the target of 12 percent of GDP when the project ended in 2012. To cut pension spending, the government undertook more pension reforms in 2014.<sup>18</sup> Those reforms helped decrease pension spending to the target of 12 percent of GDP by 2016. IMF projections show that pension expenditure is expected to decrease further to reach 11 percent of GDP by 2022 (indicator 1.8, table B.1).

**Figure 2.2. Total Pension Expenditures as a Share of GDP (percent)**

Source: Eurostat <http://appsso.eurostat.ec.europa.eu> accessed on April 27, 2018, and IMF 2017, 44.

Note: figures after 2017 are projections

## Efficiency

2.47 Efficiency in the use of project resources is rated **modest**.

2.48 The project achieved observable efficiency improvements, some of which are quantifiable. The project contributed to a reduction of operating expenses as a percentage of total pension benefits provided from 4 percent to 1.5 percent. The pension contribution collection rate increased by 10 percent, due to the simplified registration process, improved collection efforts by the tax administration, and increased public awareness of the importance of reporting and prompt payment of contributions. Other benefits, more difficult to quantify, included improved fiscal balance, improved services to beneficiaries, and improved services to tax and contribution payers.

2.49 However, shortcomings in implementation had a negative effect on the overall efficiency of the project. The two-year extension of the closing date and the fact that the full functionality of the CROSO was reached only in 2014 indicate a reduced efficiency. In addition, the project suffered significant operational and administrative inefficiencies reflected in the increase in project operating costs from 3 percent of project financing, as estimated at appraisal, to 9 percent at completion.

## Ratings

### PROJECT OUTCOME

2.50 The overall outcome is rated **moderately satisfactory**. The project's relevance of objectives is rated **high**. Relevance of design is rated **substantial**. Efficacy of objective 1 is rated **substantial** and objective 2 is rated **substantial**. Efficiency is rated **modest**.

### RISK TO DEVELOPMENT OUTCOME

2.51 Risk to development outcome rating is rated **moderate**.

2.52 Serbian government has sustained its efforts to complete the framework to consolidate the collections of all social contributions since project closure. The government also continued to support CROSO, which became fully operational in August 2013. The World Bank has also provided additional support and identified opportunities for additional improvements (World Bank 2017b).

2.53 The government has kept its commitment to build an adequate and sustainable public pension system. It continues to strive for better fiscal balance and it is converging on the EU parameter of a sound public pension system. In addition to the support provided by the project, the government has undertaken other parametric reforms of pensions (such as changes in contribution and benefit parameters and eligibility conditions) that are already showing positive results (IMF 2017).

### BANK PERFORMANCE

2.54 Bank performance is rated **moderately satisfactory**.

2.55 Quality at entry is rated **moderately satisfactory**. The project was strategically relevant. It aimed at improving the balance between revenues and expenditures through increased revenue generation in the pension system and, through that, contributing to creating space for broader fiscal consolidation. Key areas of focus were to reduce the underreporting of contribution-liable income, rationalize the pension administration, and improve analytical capacity. To do that, the World Bank drew on prior experience in Serbia where a series of development policy loans had already begun the process of improving performance and sustainability in the pension system. The project built on these operations and collaborated closely with the government team to provide additional assistance through the PARP project.

2.56 However, the basic design features of the unified central registry were still open to debate when project implementation started, this was a shortcoming of the design. The experience indicates that rearranging responsibilities across revenue collection and spending agencies tends to be difficult, and more clarity should have been achieved prior to project start-up. This shortcoming also reflects insufficient stakeholder analysis during project preparation. As a result, the project experienced a slow start, was completed after two years of extension, and the unified central registry become fully operational only after project completion.

2.57 Quality of supervision is rated **moderately satisfactory**. The World Bank team had extensive experience on pension reform in transition countries. The team was able to carry the policy dialogue—the difficulty of which should not be underrated—to satisfactory closure with most of the institutions in place at project closing or likely to be put into place within a reasonable period.

2.58 Still, the World Bank was not able to mitigate some of the issues that arose during implementation. As mentioned in the section on Quality at Entry, the World Bank was not able to accelerate decision making about the unified central registry. Another shortcoming relates to capacity building for pension policy identification and analysis. The project delivered the training for long-term pension modeling to MOLEVSP and PIO staff. However, it would turn out to be insufficiently integrated into the regular pension policy planning activities of these institutions. This element had a negative effect on the sustainability of the capacity building activity.

### **BORROWER PERFORMANCE**

2.59 Borrower performance is rated **moderately satisfactory**.

2.60 Government performance is rated **moderately satisfactory**. The project initially had a weak management structure, which did not effectively manage the discussion between the agencies involved in deciding the framework for the consolidation of collection of all social contributions. As a result, the project made little progress during its first year of implementation. Government oversight of the project was weak during the long political crisis that followed Kosovo's unilateral declaration of independence in February 2007. Project performance improved after a new government was installed in July 2008. A project steering committee was set up, and a new project director with access to decision-makers was appointed.

2.61 The government showed commitment to the objectives of the project even after its completion. The government completed the technical aspects to operationalize the new framework for the consolidation of collection of all social contributions and the unified central registry three years after the project was completed. The government is committed to improving the effectiveness and efficiency of the pension system through reforms to improve both the revenue and expenditure sides. These reforms have contributed to the overall improved fiscal outlook of Serbian pension system.

2.62 Implementing agency performance is rated **moderately satisfactory**. The PMU showed adequate knowledge and understanding of disbursement policies and procedures regulating use of the loan. In general, the PMU was assessed as responsive and cooperative with the World Bank team. This resulted in no delays in financial management-related disbursements during the project implementation. The credit was 97.98 percent disbursed; the remaining undisbursed amount of SDR 335,454.08 was canceled on February 13, 2013.

2.63 That said, the implementing agency could have been more proactive to overcome the project's bottlenecks. Specifically, the implementing agency could have taken a more active role in the identification of the institutional framework for a new collection and reporting

system. The impasse created a two-year delay in project implementation. Therefore, not all activities, including CROSO's operationalization, could be achieved by the time the project ended.

## MONITORING AND EVALUATION

2.64 The M&E framework is rated **modest**.

2.65 **Design.** The results framework as presented in the PAD had 10 outcome indicators and four output indicators. Overall, the indicators were adequate for monitoring progress toward achieving the two objectives. However, some indicators lacked baseline measurements, or the baseline value appeared to be incorrectly measured. For example, the baseline values of the two indicators measuring the long-term pension sustainability and efficiency (the ratio of administrative costs/pension expenditures and the ratio of pension expenditures/GDP) were both incorrect and the targets were later revised (World Bank 2005, 25–28 and table B.1).

2.66 A few other indicators were not well defined. For example, the improvement in client service was to be measured by the number of cases each administrative employee resolved. Although the indicator was relevant to the project's objectives, the selected means of measuring it were not. The number of cases resolved bears little direct relationship to accessibility and quality of service, although it does relate to the overall PDO of improved efficiency. Moreover, monitoring requires an exact definition of what constitutes "a case" and when a case should be considered resolved.

2.67 **Implementation.** Progress toward achieving the PDO was regularly monitored and reported in Implementation Status Reports (ISRs). In a few cases, the intention to create quantitative indicators resulted in target values that were difficult to measure or interpret meaningfully (such as the progress in administrative consolidation). For instance, progress in consolidating the three pension funds was measured by percentage of completion (for example, 30 percent, 50 percent, 70 percent, 100 percent administrative consolidation). Such target values are not particularly meaningful and might have been better applied as procedural steps or regulatory milestones.

2.68 **Use.** The M&E framework was used to monitor project implementation and to populate the ISRs. The PPAR mission did not find any additional use of the indicators in the M&E framework.

## 3. Delivery of Improved Local Services Project

### Project Development Objectives

3.1 The objective of the DILS was to "increase the capacity of institutional actors and beneficiaries to improve access to, and the efficiency, equity and quality of, local delivery of health, education and social protection services, in a decentralizing environment." The loan agreement and the PAD present the same formulation of the objective that remained unchanged throughout the project.<sup>19</sup>



3.2 The PPAR considers the improvements obtained in the delivery of health, education, and social protection services as separate PDOs; and within each sector it assesses the improvement achieved in the capacity of institutional actors and beneficiaries, to improve the efficiency, quality, and access for vulnerable population groups of locally delivered services. Regarding equity, since the project aimed at improving access to health, education, and social assistance services for specific vulnerable population groups (such as the Roma) it is equivalent to improving equity, therefore the two dimensions (improving access and equity) are considered jointly in assessing the improved access for vulnerable population groups.<sup>20</sup> As a result, the PPAR assesses achievements in the delivery of three types of services (health, education, and social assistance) according to three specific dimensions (efficiency, quality, and access for vulnerable population groups):

- PDO1: Increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered *health services*, in a decentralized environment.
- PDO2: Increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered *education services*, in a decentralized environment.
- PDO3: Increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered *social assistance services*, in a decentralized environment.

#### RELEVANCE OF OBJECTIVES

3.3 The relevance of the objectives is rated **high**. Project objectives were relevant to the country situation, national strategies, and international commitments at the time of project appraisal, as well as to World Bank country strategies for Serbia. The objectives continue to be relevant currently since project closure and the IEG PPAR mission.

3.4 The pressure for fiscal consolidation that the government was facing at the time of project appraisal, makes project objectives highly relevant. Health and education spending in Serbia is comparable, as percentages of GDP, to the other European transition countries at similar levels of development. However, results in terms of life expectancy, mortality rates, quality of services, and education attainment, suggested that there were margins for improving efficiency, quality of services, and access, particularly for the most vulnerable population groups. Social assistance services, particularly those for PWDs, also had ample potential for improvements in efficiency, transparency in the allocation of resources, and overall effectiveness.

3.5 Project objectives were also relevant to the expected expanded role of LSGs in the delivery of health, education, and social assistance services. Project design was aligned to the institutional framework set up by the 2006 Law of Local Self-Government Financing that expanded the responsibilities of LSGs in the delivery of education, health, and social assistance services sectors, while state ministries moved toward a regulatory and quality assurance role. Therefore, the project aimed at strengthening the regulatory and oversight capacities of central government institutions; as well as the capacity of local institutions directly responsible for the delivery of health, education, and social protection services.

3.6 The objectives were well aligned with key national sectoral strategies and their expected evolution. The objective of improving the quality of health services was aligned to the 2009 National Strategy for Continuous Quality Improvement and Patient Safety that aimed to introduce an internal culture conducive to continuous quality improvement. The project's support to inclusive education was aligned to the priorities of the Law on the Fundamentals of the Education System adopted in 2009. Project activities to modernize social assistance complemented the MOLEVSP's Social Welfare Development Strategy that emphasized an expanded LSG role in the provision of social assistance.

3.7 The focus on improving Roma access to key social services contributed to the commitment made by the government to close the gap between Roma and the rest of society. Serbia was among the founders and the chair of the Decade of Roma Inclusion in the period from July 1, 2008, until the end of June 2009. Within the framework of the decade, in 2009, the Government of Serbia adopted the Strategy for the Improvement of Roma in the Republic of Serbia 2009–2015, which had the strategic goal to reduce the differences between the status of the Roma population and the other populations in Serbia.

3.8 Project objectives were relevant to the World Bank country strategy at the time of appraisal, as well as to later country strategies. When the project was prepared, the objectives of the DILS were well linked with the World Bank Group country assistance strategy for Serbia for FY05–07, which emphasized the objective of enhancing efficiency in the public sector and improving access to public services (World Bank 2004). At approval in 2008, the project remained highly relevant to the CPS for FY08–11 that renewed World Bank commitment to support improved health, education, and social assistance services (World Bank 2007). Finally, the project continued to align with the World Bank CPS for FY12–15, which continued to stress the need to strengthen sector reforms, to improve the efficiency of sector spending, and improve the quality of outcomes in health, education, and social assistance (World Bank 2011).

3.9 The objectives of the DILS—improve access, quality, and efficiency in the delivery of health, education, and social assistance services—are a priority for progress toward the twin goals in the Serbia SCD. Specifically, the SCD identified the need to expand access to, and the quality of, education for all, in particular for marginalized groups, such as Roma children, as medium priority constraints to achieve reduction in inequity and increase workforce productivity by improving skills. The improvement of access to health services for marginalized groups is identified as a priority to reduce disparities and improve the quality of care and health outcomes. Finally, the SCD assigned a medium priority to the improvement of the coverage, equity, efficiency, and fiscal sustainability of social assistance programs (World Bank Group 2015c).

3.10 The project objective, which covered three sectors and several dimensions, was surely ambitious, but provided continuity and sustainability to World Bank–supported health and education reforms. In health, DILS provided bridge financing between the First Serbia Health Project, implemented over 2003–2012, and the Second Serbia Health project that was approved in February 2014 and that tackled both efficiency and quality of health services. DILS also sustained World Bank support started under the Education Improvement Project (executed from 2002 to 2007) and the Inclusive Early Childhood Education and Care, approved in 2016, that supported education financing and quality improvements reforms.

## PROJECT DESIGN

3.11 Project activities are organized in five components aimed at improving the capacity of institutional actors (to state ministries, LSGs, and service providers) to improve the efficiency, quality, and access for vulnerable population groups of health, education, and social assistance services. The operation committed \$46.4 million of International Bank for Reconstruction and Development financing to activities organized under five components. Component 1 supported financing reforms in health and education. Component 2 grouped activities to improve access to health, education, and social assistance services to vulnerable population groups directed to state ministries. Component 3 consisted of initiatives to improve quality in the delivery of health and educational services. Component 4 encompassed capacity building activities directed to LSG and service providers. Component 5 provided overall support to project implementation. Table 3.1 shows the planned versus actual expenditures by component.

**Table 3.1. Financing by Component: Delivery of Improved Local Services Project**

<i>Components</i>	<i>Appraisal Estimate</i>			<i>Actual</i>		
	<i>IBRD (\$, millions)</i>	<i>Percent of Total IBRD</i>	<i>Gov. (\$, millions)</i>	<i>IBRD (\$, millions)</i>	<i>Percent of Total IBRD</i>	<i>Gov. (\$, millions)</i>
Component 1	6.5	14	0	7	15	0
Component 2	11.5	25	0	12.2	26	0
Component 3	7.2	16	0	7.4	16	0
Component 4	16.1	35	0	16.5	36	0
Component 5	2.9	6	0	3.2	7	0
Contingencies	2.1	5	0	0	0	0
Front-end fee	0.1	0	0	0	0	0
<b>Total</b>	<b>46.4</b>	<b>100</b>	<b>0</b>	<b>46.3</b>	<b>100</b>	<b>0</b>

Source: World Bank 2008a, 2015b.

Note: Gov. = government; IBRD = International Bank for Reconstruction and Development.

3.12 **Component 1. Making Fiscal Decentralization Work.** This component financed goods and technical assistance to develop mechanisms for financing reforms to improve efficiency in the local delivery of health and educational services:

- Develop new funds-follow-the-user formulas and financing framework so that funds are allocated to municipalities in a transparent, rational, and predictable way consistent with their new service delivery responsibilities.
- Provide training and capacity building for sector actors at the state, local, and service provider levels in applying the new financial framework.

3.13 **Component 2. Improving Outreach and Access through Development and Expansion of Innovations in Service Delivery.** This component supported investments in goods, technical assistance, training (including workshops and study tours), and grants to LSGs and service providers to identify new approaches and models to improve access to health, education, and social assistance services to vulnerable population groups:

- Grants to local providers (LSGs, PHC centers, schools, CSWs, and nongovernmental and community organizations) to develop outreach and inclusion services to excluded groups (such as Roma, internally displaced persons, and refugees).
- Technical assistance to review the operational structure of the Disability Fund.
- Training and technical assistance to LSGs and other local institutions to identify and implement alternative service delivery arrangements (such as small group homes and independent/supportive living units) to move people out of social welfare institutions.
- Technical assistance to develop informational material and mechanisms to inform citizens of their rights and to establish mechanisms to safeguard those rights.

**3.14 Component 3. Supporting a New Regulatory, Oversight, and Quality Assurance Role for state-level ministries.** This component financed investments in goods and special technical services, technical assistance, and grants to enhance the capacity of ministries to oversee the quality of health and educational service delivery:

- Training for state ministries to shift to a regulatory, oversight, and quality assurance role.
- Mechanisms to foster and ensure quality, such as the development of structures for accreditation, licensing, and accountability.
- Regulations and standards for local service delivery, including the specification of the new roles and responsibilities of municipal staff and service providers in the decentralized system.
- Accreditation, licensing, and regulatory standards, awarding grants to local service providers (PHC centers; schools; municipal units responsible for social services and CSWs) that undertake these activities (some of these grants were expected to finance minor civil works in PHC centers to improve quality of care).
- Studies and impact evaluation to assess the performance of decentralization in education, health, and social protection.

**3.15 Component 4. Improving Capacity of LSGs and other Local Public Institutions as Service Providers.** This component supported investments in goods (ICT hardware and software), technical assistance, training, and grants to schools, primary health centers, and municipal authorities to develop local capacity to manage, plan, and monitor local delivery of social service:

- Support capacity building tailored to LSGs and other local providers' needs through training programs.
- Grants for quality improvements in schools that would mainstream and extend their use focusing on issues, such as Roma inclusion, and healthy and safe environments for youth.
- Improve ICT to support policy making, planning, and budgeting of services, as well as the operation, management, and monitoring of the delivery of social services at every level of government.
- Support local programs to address environmental health issues per Article 13 of the Health Care law of Serbia. The focus of the subcomponent was to strengthen

information gathering and exchange for issues related to children as an especially vulnerable group.

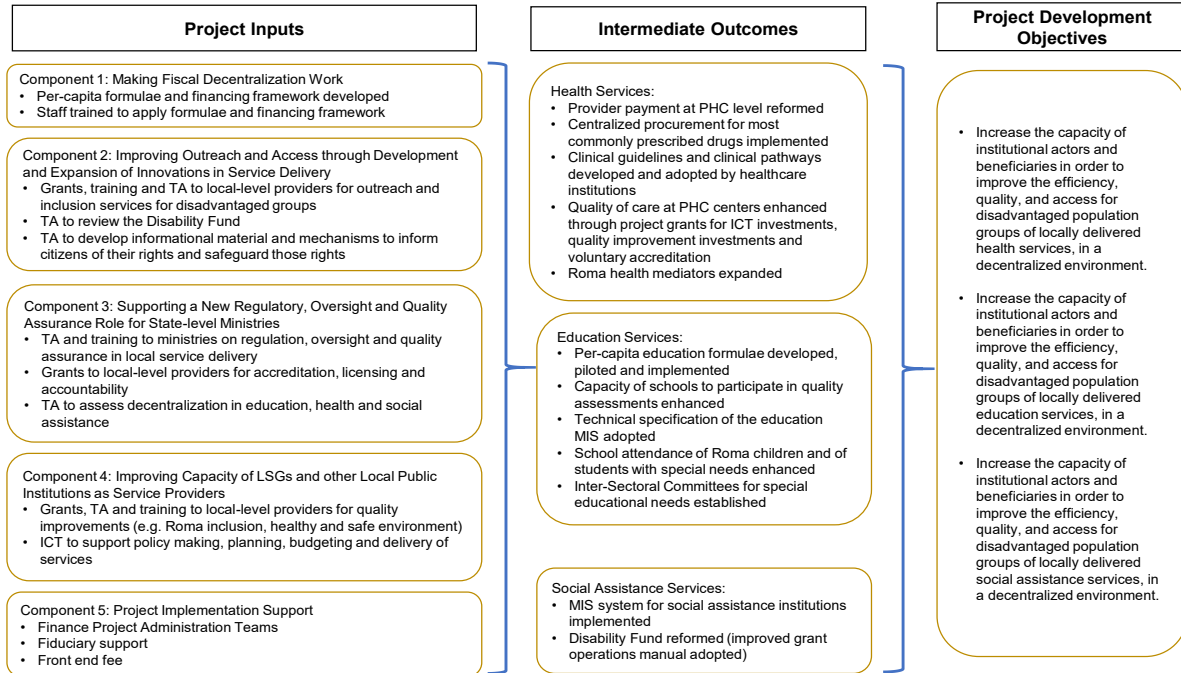
3.16 Component 5. Project Implementation Support. The component finances the Fiduciary Services Unit (FSU), the Project Administration Teams in ministries participating in the implementation of the project, as well as the project's front-end fee.

### **RELEVANCE OF DESIGN**

3.17 The relevance of the design is rated **modest**. The project had a wide scope, as it covered three sectors. Even if the sector-specific result chains are well supported by logical arguments and evidence, the overall project design is complex and presents some weaknesses.

3.18 The design of DILS developed in three, almost independent sectoral projects. The World Bank team, at the early stage of project preparation, explored an alternative design that envisaged stronger integration in the delivery of health, education, and social assistance services at the local level. However, the existing institutional interministerial and intersectoral coordination mechanisms were not considered adequate for an enhanced integration in the delivery of services (Figure 3.1). As a result, DILS design evolved into three separate projects, managed by three Project Administration Teams in the three ministries participating in the implementation of the project. A FSU was established to centralize all procurement, financial management, and disbursement functions for the project and provide implementation supports to the Project Administration Teams.

3.19 A Project Policy Board (PPB) made up of the three lead ministries (health, education, and social policies), the Ministry of Public Administration and LSGs (MPALSG), the MOF, and one representative of LSGs was established to foster intersectoral coordination at the state and LSG levels. The PPB was responsible to monitor project progress, and act as a forum to coordinate activities (particularly those of a cross-ministerial nature). The PPB was expected to meet at least twice a year with representatives of the World Bank to review, agree on, and if necessary, revise planned project activities during project implementation; regularly resolve disputes; and decide on necessary adjustments.

**Figure 3.1. The Project Results Chain**

Source: Independent Evaluation Group elaboration based on project appraisal document.

3.20 It is possible to identify the specific result chains bringing improvement in the capacity of institutional actors (to state ministries, LSGs, and service providers) to improve efficiency, quality, and access for vulnerable population groups of locally delivered health, education, and social assistance services. Most project activities are related to a specific dimension within a sector, but few activities contribute to more than one dimension within the same sector. For example, the improved management information systems (MIS) for health, education, and social assistance contributes to improving the capacity of institutional actors to improve both the efficiency and the quality of the services provided. The sector-specific result chains are presented in the following paragraphs.

3.21 The sector-specific result chains are well supported by logical arguments and evidence, but the scope of the project diluted efforts in several areas. The large scope of the project—covering three sectors (health, education, and social assistance) and several dimensions (efficiency, quality, and access for vulnerable groups) and beneficiaries (central government, LSGs, and service providers)—weakened the design. This effectively limited the impact of the project in some areas. For example, project support to improve the delivery of social assistance focused on enhancing the MIS and the delivery of services to PWDs.

### **Health Services**

3.22 The key intervention of DILS—to enhance the capacity of institutional actors to improve the efficiency of PHC services—was the implementation of provider payment reforms to overcome traditional input-based (line-item) financing mechanisms. At the time of DILS preparation, capitation was the payment method chosen to finance PHC facilities.<sup>21</sup>

The HIF was expected to start financing PHC centers in 2008 through block grants, based on the number of patients registered with each facility and adjusted by risk factors, such as age and sex. In parallel, a performance-based component was going to be introduced in the payments to individual PHC medical staff that would be directly linked to the number of patients registered and the number of services provided.

3.23 Serbia was expected to introduce provider payment reforms for PHC centers, in tandem with organizational reforms, as many transition countries had already done or tried to do. Each patient was registered with a PHC doctor, which was the primary point of contact with the health system. The decision-making capacity of the PHC center directors was to increase, to allow them to optimize the mix of inputs (including skill mix, equipment, drugs, and infrastructure) within the available budget, thus enhancing allocative efficiency.<sup>22</sup> The move toward capitation payment with a performance-related component and enhanced decision-making capacity at facility level followed the general trend of provider payment reforms for PHC services observed in most transition countries (Langenbrunner, Cashin, and O'Dougherty 2009).

3.24 Centralized procurement of medicine was to be introduced by DILS to enhance efficiency in the provision of health services. Serbia had a system where each health facility procured its own drugs, which generated wide price variation across facilities and opportunities for corruption (Lewis 2006; UNDOC 2013; UNDP 2015). A World Bank assessment of the pharmaceutical sector of the Western Balkan countries performed during the preparation of DILS calculated that potential savings due to generic procurement with open tenders can reach more than 80 percent for high-volume drugs. (Imasheva and Seiter 2008). The evidence derived from systematic reviews of the literature confirms that centralized procurement of drugs can achieve direct cost savings (Seidman and Atun 2017).

3.25 DILS strengthened quality assurance mechanisms in health fostering clinical guidelines and pathways for the most frequent diseases. Clinical guidelines are documents with the aim of guiding decisions and criteria on diagnosis, management, and treatment in specific areas of health care. Clinical pathways are tools used to improve quality in health care through the standardization of care processes based on evidence. A single clinical pathway may refer to multiple clinical guidelines on several topics in a well-specified context (Matthews 2005). It has been shown that clinical pathways enhance quality of care, reducing the variability in clinical practice and improving health outcomes (Rotter, Kinsman, James, and others 2012). Clinical pathways were to be developed according to the guidelines of the European Pathway Association.

3.26 The institutional capacity of PHC centers to deliver quality health services was to be strengthened through project grants for ICT investments, quality improvement investments, and voluntary accreditation. The logic of the intervention was straightforward. In general, the mechanism of project grants was chosen to provide to PHC centers the resources and the incentives to implement the specific activities that would have enhanced their capacity to deliver quality health services. Specifically, voluntary accreditation grants provided health care institutions with the resources to go through an external quality improvement process managed by the Agency for Accreditation of Health Care Institutions of Serbia.<sup>23</sup> The quality improvements investment grants were to be developed jointly by PHC institutions and LSGs

to identify and finance investments in infrastructure, equipment, and training to improve quality of care, including those identified through the accreditation process. In addition, ICT investment grants were provided to improve the use of information technologies and connectivity and to finance new hardware, software, and training for local service providers.

3.27 Finally, the project aimed at improving access to health services for the Roma population through recruiting and financing Roma health mediators. The intervention logic was straightforward and based on the positive experience already collected in Serbia and other European countries (Open Society Institute 2005). Health mediators at PHC centers, the first point of contact with the health system, would facilitate the access of inhabitants of Roma settlements to health care services and other public services in the community, track their health status, work to raise awareness of the need for vaccination of children and emphasize the importance of proper nutrition and hygiene habits.

### *Education Services*

3.28 Financing reforms were expected to enhance the capacity of institutional actors to improve the efficiency of locally delivered education services. As a direct consequence of the persistently low fertility rate, the number of pupils enrolled in primary schools declined by 24 percent between 1997 and 2003, and the number of teachers (full time equivalent) had declined only by half (13.7 percent). The number of children aged 5–9 was expected to shrink by another 24 percent between 2005 and 2030. The drop in the number of students created the opportunity for efficiency savings in the education sector, thus contributing to government fiscal consolidation efforts. In addition, the institutional framework at the time of DILS appraisal, was expected to enhance the roles of LSGs and schools in the use of education sector resources. As already experienced in several transition countries, the strategy pursued by the project was to substitute the historical input-based financing system (that was inflexible and preserved inefficiency) with per-student financing, where resources were allocated directly to the school based on the number of students (Coupé and Alonso 2016). In addition, compensating weights were envisaged in the per-student formula, to correct inequalities across municipalities. The new financing method would also create an incentive to consolidate the school network, as an attractive option to generate savings that could, at least partially, be reinvested in the remaining schools.

3.29 An improved education MIS was envisaged to strengthen the capacity of education institutions for resource management, planning and results monitoring, and ultimately to enhance evidence-based decision making. The MIS was expected to link all levels of the education system: individual schools, regional education administrations, and the federal Ministry of Education, Science, and Technological Development (MOESTD). By supporting daily business processes, the information needs of the schools, and producing data on institutions, the education MIS was envisaged as an effective tool to improve the planning, management, and accountability of human, physical, and financial resources in the education sector. DILS was to finance the conceptual design of the education MIS, and the European Investment Bank was expected to finance its development.

3.30 DILS enhanced the capacity of schools to improve the quality of education services provided through the support to schools' participation in international assessments of student



performance, such as PISA, Trends in International Mathematics and Science Study, and Teaching and Learning International Survey. DILS also provided technical assistance to conduct studies and research on students and school performance at the end of compulsory education (eighth grade). The logic of the intervention was that, through these activities, policymakers would get objective measurement of the quality of the national education system relative to international benchmarking, and improved understanding of the factors affecting education quality, which would support evidence-based decisions.

3.31 The design of DILS included the provision of school improvement grants to strengthen their institutional capacity to implement and improve the quality of inclusive education.<sup>24</sup> Inclusive education was a new paradigm being introduced by the Law on the Fundamentals of the Education System adopted in 2009, but teachers did not have the necessary skills and schools needed upgraded infrastructure to improve accessibility for children with disabilities and equipment for children with special needs. School improvement grants provided the opportunity for schools and their communities to design and implement school-based improvement projects.

3.32 DILS also provided grants to LSGs to support the design and implementation of local action plans for Roma education, which included the hiring of pedagogical assistants as a mechanism to foster Roma inclusion and attainment in the education system. These grants could also involve intersectoral cooperation with partner institutions (preschool and primary schools, Roma CSOs, social service providers, and others) in the provision of Roma outreach programs. Both grant schemes were expected to result in an increased number of children from vulnerable groups in regular schools.

3.33 DILS also supported the establishment and capacity building of ISCs, responsible for helping children with special educational needs to access the local education system.<sup>25</sup> ISCs were envisaged to improve cooperation between health, social, and education systems and local authorities in providing support to children with special educational needs to enter and stay in the education system. ISCs were expected to ensure inclusion of children in mainstream schools whenever possible, identify and recommend additional support to the child, monitor realization and implementation of these measures and inform parents about their child rights.

### ***Social Protection Services***

3.34 A unified Social Welfare MIS was to be designed and implemented under DILS to improve the capacity of institutional actors to improve the efficiency of social assistance services. The MIS was a first step toward the creation of a single registry for social protection. It was envisaged as a comprehensive database with the records of all social protection beneficiaries (approximately 700,000 individuals), with linkages between 256 CSWs and the MOLEVSP. The MIS would have the following modules: (i) basic records in the CSW; (ii) case management and record keeping; (iii) social assistance and benefits; (iv) custody cases for children and adults; (v) adoption cases; (vi) exercise of parental rights; and (g) participation in court proceedings. The MIS was expected to ensure reliability, quality, transparency, and availability of data and information exchanged between institutions. MIS use was expected to improve policy making, ensure a more efficient use of resources, and improve services. For

example, it was expected that when operational, the system would reduce the processing time between the entries of a case to its resolution from 60 to 30 days, as well as provide more efficient case management and record keeping.

3.35 Additionally, DILS aimed at improving the capacity of the Disability Fund and service providers to enhance access to, and quality of, local social services provided to PWDs. At the time of DILS design, LSGs were supposed to take on greater administrative responsibility for delivering social services to PWDs, and there was interest among policymakers to expand the role of CSOs and private providers in the provision of social services. Technical assistance was to be provided to review and reform the structure and operations of the Disability Fund. Training and added technical assistance was to be provided to LSGs to identify and implement alternative service delivery arrangements to move recipients of social welfare (such as elderly needing long-term care) from institutional settings to small group homes and independent/supportive living units. The envisaged reform aimed to allocate resources on a project basis, by increasing the share of funds distributed by competitive review of innovative proposals submitted by CSOs, including private and community-based service providers. In addition, a smooth transition toward project-based allocation mechanisms was planned to avoid leaving critical programs for PWDs without much-needed resources during the transition period.

## **Project Implementation**

### **SIGNIFICANT CHANGES IN THE PROJECT**

3.36 During implementation, the project went through four level 2 restructurings without producing changes in the PDO, or in the associated outcome indicators and targets. Therefore, like the ICR and ICR Review, the PPAR uses the standard evaluation methodology without a split rating.

3.37 The first level 2 restructuring was processed on June 26, 2012, to improve the project's M&E framework and to better align project activities with the implementation arrangements and outcomes. The restructuring included the design and implementation of communication campaigns among the project's activities. It added nonconsulting services as an expenditure category and PWDs to the list of groups named as beneficiaries of grants to develop outreach services. The project restructuring also simplified the disbursement schedule and reallocated uncommitted loan proceeds under other categories to facilitate their use.

3.38 The later three project restructurings extended the closing date for 27 months—from December 31, 2012, to March 31, 2015. On November 30, 2012, a second level 2 restructuring extended the closing date of the loan by one year to December 31, 2013. On October 30, 2013, a level 2 restructuring introduced an additional intermediate outcome indicator to monitor advances on the centralized procurement of pharmaceuticals and extended the closing date by nine more months, but only for activities implemented by the Ministry of Health (MOH). The last level 2 restructuring, processed on July 8, 2014, extended the closing date by six months more to complete the remaining health activities and use uncommitted loan funds to repair damages that resulted from flooding in May 2014.

## IMPLEMENTATION EXPERIENCE

3.39 Actions needed to start implementation were completed one year after project approval—a late start due to frequent changes at the ministerial level. The administrators of the FSU and the Project Administration Teams in the three ministries were appointed only at the beginning of 2009. Around the same time, the Designated Account was opened, and all institutional mechanisms for requesting grant proposals, including a revised grant manual, were completed. These delays led to project effectiveness on March 10, 2009, exactly one year after Board approval, and to a slow start of the project's execution. By June 2010, more than two years after approval, only 5 percent of loan resources had been disbursed.

3.40 The frequent changes in the political leadership produced frequent shifts in priorities that could not have been anticipated and that slowed project implementation. Several political transitions occurred during implementation: there were six governments, involving four ministers of health, three ministers of education, two ministers of labor and social protection, along with changes at the level of state secretaries and Assistant Ministers, who were the officials in charge of coordination of DILS activities in each line ministry. With the change of the government, policy priorities often changed causing delays or even discontinuation of certain activities. This was the case with the discontinuation in the decentralization reform that started in 2009 but which turned toward strong centralization after 2012 and affected the delivery and quality of local services. The same happened with the social protection unified information system, which was never rolled out after the development of the technical proposal, and with the per-student financing formula in education, which was not mainstreamed after the piloting. These frequent political changes sometimes resulted in radical changes of top and middle management in line ministries as well as local administration, resulting in considerable slowing of project implementation.

3.41 Strong ownership and the driving force of certain reform-oriented high officials proved to be pivotal for the success and sustainability of project results. The state secretary in the MOESTD was often referred to as a champion of inclusive education and the driving force of this reform. Likewise, strong ownership by the MOH state Secretary and one Assistant Minister provided necessary support to strengthen and mainstream the health mediator program and activities related to the quality of health services (accreditation, clinical pathways, and others) among other programs. The same applies to the Assistant Minister who led the reform of the Disability Fund. Conversely, once these individuals, who were change agents, were no longer at the forefront of the political stage, the institutional drive for the initiative weakened.

3.42 However, the government provided weak policy coordination. The PPB met only three times and did not function as planned. Involvement of the MPALSG was limited, with the consequence that the project was implemented as three separate projects at the national level with intersectoral cooperation provided on an ad-hoc basis and mostly at the level of the LSGs and other local agencies.

## **SAFEGUARDS COMPLIANCE**

3.43 The project was classified as an environmental category B. The Environmental Assessment (OP/BP4.01) and Physical Cultural Resources safeguards (OP/BP4.11) were triggered as some of the grant requests were expected to include minor rehabilitation works that could pose limited and temporary risks to the environment and physical cultural resources. A general Environmental Management Framework was prepared as the location of rehabilitation works was not known at appraisal. The framework required preparation of environmental management plans for each physical site to address the potential risks associated with air quality, noise, water quality, solid waste disposal, asbestos, toxic and hazardous wastes, and medical wastes, in addition to risks to cultural heritage. The Environmental Management Framework was duly disclosed on the websites of the MOESTD and the MOH.

3.44 No major issues surfaced with safeguard compliance during project execution. The World Bank implementation support team routinely included a Safeguard Specialist to review compliance, and capacity and institutional arrangements, and generally found these satisfactory. In addition, a qualified safeguards specialist was hired to advise the MOESTD, the MOH, and the implementing agencies of the rehabilitation works about the environmental screening process required. By the end of the project, the MOESTD environmental specialist was no longer available to provide the individual site supervision reports, thus the preparation of the final environmental compliance report for the educational rehabilitation work was substantially delayed and submitted by the MOESTD only after all activities had been concluded in December 2013. However, no issues with safeguard compliance were found in the MOH or MOESTD rehabilitation work performed under the project. According to the Regional Vice Presidency, the project complied with the World Bank safeguards policies.

## **FIDUCIARY COMPLIANCE**

3.45 The FSU, supported by the project administrative teams at MOESTD, MOH, and MOLEVSP, provided financial management and procurement functions. FSU consolidated the project procurement plans, managed project accounts, coordinated project audits, submitted the requests for disbursements, and transferred all required documentation to the World Bank. The financial management and procurement aspects of the projects were supervised routinely by World Bank staff. A more detailed assessment of project fiduciary compliance was carried out at the midterm review of the project.

3.46 Financial management of the project was rated marginally satisfactory, but it improved to satisfactory when some fiduciary issues that were detected at the MOESTD were resolved. Quarterly Interim Financial Reports were submitted to the World Bank within due dates and assessed positively. Transactions reviews and walk-through tests of internal controls were done and identified no irregularities. Audit reports were received promptly and auditors issued clean opinions on project financial statements. However, some fiduciary issues stood out toward the end of 2013, when it became clear that the MOESTD had accumulated large payment arrears. Most of the pending payments originated from services provided over the last two years under the previous administration. And the related payments were delayed because of the lost

institutional memory due to staff turnover and the general lack of trust that followed the change in the administration.

3.47 Procurement was usually rated satisfactory, but was sometimes rated only moderately satisfactory due to problems with the procurement of ICT systems at both the MOLEVSP and at the MOH. The MOLEVSP initially envisaged a single large ICT procurement process. However, when it was decided to restructure the procurement process into two contracts, communication problems between the FSU and the project administrative team at the MOLEVSP created significant delays. At the MOH, the procurement process for ICT goods and services was delayed as the lowest bid was presented by a consortium that included a state company, which was not in compliance with World Bank procurement rules. According to the Regional Vice Presidency, the project complied with World Bank fiduciary policies.

## **Achievement of Objectives**

### **OBJECTIVE 1**

3.48 Objective 1 was to increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered health services, in a decentralized environment.

3.49 The overall achievement of objective 1 is rated **substantial**. The project enhanced the capacity of the MOH and HIF to improve efficiency through provider payment reforms in PHC and through centralized procurement of medicines. DILS strengthened the capacity of PHC institutions to deliver quality health services through the development and adoption of clinical guidelines and clinical pathways and voluntary accreditation. Project grants provided improvements in ICT investments. The capacity of LSGs was strengthened by setting up local health councils—ISCs comprising LSGs, PHC centers, CSOs, and academic institutions. Finally, the project was successful in enhancing the capacity of the health system to improve accessibility to health services by Roma populations through the training and recruitment of health mediators.

### ***Improved Capacity to Enhance Efficiency of Health Services: Substantial***

3.50 The project completed the key output of reforming the payment method used at the PHC level. In addition to the provision of technical assistance to develop the technical aspect of the payment formula, the project provided extensive training to 500 LSG and PHC staff on the new payment method. Training was provided to the HIF to prepare for added provider payment reforms for inpatient services, such as activity reporting based on diagnosis-related groups.<sup>26</sup>

3.51 The key outcome indicator—PHC financing allocated according to capitation and output-based formula—was achieved. The Law on Salaries of Public Servants and corresponding bylaws adopted in October 2012 provide the legal framework to introduce capitation payment and performance-related payments (indicator 2.1, table B.2). An output-based (performance-based) component in PHC payment mechanisms was successfully introduced, but initially limited to only 2 percent of payments (indicator 1.1, table B.2). This

was considered too low to bring changes in behavior (WHO 2010) and it was later increased to 8 percent by 2015. More refinement of the formula is currently being considered by the HIF with technical support provided under the World Bank–financed Second Serbia Health project. However, the transformation of PHC financing into block grants based on capitation has not been introduced yet, primarily due to reservations on the part of the MOF rather than for technical capacity. Therefore, PHC managers have little flexibility or incentive to rationalize staffing and service provision or improve quality (World Bank 2015c, 79).

3.52 DILS also improved the capacity of the HIF to enhance efficiency in the provision of health services through centralized procurement of pharmaceuticals. With the technical assistance provided under the program, the HIF set up a centralized procurement mechanism based on framework agreements for the 50 most frequently dispensed medicines included in the HIF dispensary (indicator 2.14, table B.2). The centralized procurement system has been highly effective in reducing both variation and the average price paid by the government to procure drugs. It contributed to drug price reductions of 27 percent (on average), and to reducing HIF pharmaceutical expenditure by €25 million per year. The World Bank is providing additional support to further improve efficiency in the purchasing of pharmaceuticals and medical products through the Second Serbia Health project.

***Improved Capacity to Enhance Quality of Health Services: Substantial***

3.53 The project strengthened the capacity of state agencies responsible for quality in the health sector. Specifically, technical assistance supported the Commission for the Development and Implementation of Good Clinical Practice Guidelines to develop 31 clinical guidelines that were disseminated to health care professionals through more than 42 workshops. By the end of the project around 50 percent of PHC centers had adopted clinical guidelines (indicator, 2.7 in table B.2). Technical assistance was also provided to the Commission for Improvement of Quality and Patient Safety to develop indicators of health service quality. It also supported the work of various expert commissions aimed at improving quality in health, such as the Agency for Accreditation of Health Care Institutions. The Second Health Project is further sustaining the capacity of state agencies responsible for health care quality in Serbia to develop additional clinical guidelines and clinical pathways.

3.54 During project implementation, 81 PHC institutions were certified to deliver health services according to high-quality standards for patient care and clinical quality. Therefore, by the time the project closed, around 51 percent of PHC centers had completed the accreditation process (indicator, 2.6, table B.2). Since the project closed, 54 more health institutions had pursued the accreditation process, but some did not renew their accreditation. Overall, the percentage of PHC institutions with a valid three-year certificate of accreditation has declined slightly from 40 percent (recorded at project completion) to 35 percent, but still above the target of 25 percent set at appraisal (indicator 1.6, table B.2).

3.55 The project provided PHC centers with an improved MIS. Grants for informatization were provided to 158 PHC centers and 4 other health institutions. By the end of the project nearly 96 percent of Serbia's PHC centers had a fully operational health MIS. Therefore, the intermediate outcome indicator measuring the percentage of PHC centers with fully operational health MIS was achieved, as it surpassed the target of 85 percent (indicator 2.11,

table B.2). Further support to strengthen the health sector MIS is provided under the Second Health Project, which is planning to develop performance dashboards including quality benchmarks and balanced scorecards to enable managers to monitor performance and provide feedback to facilities.

3.56 Finally, the project also strengthened the capacity of LSGs to improve quality in health. At the local level, the project provided training and technical assistance to help set up local health councils, comprising LSGs, PHC centers, CSOs, and academic institutions. Over the course of the project 122 local health councils were established and trained out of 145 local government units.

***Improved Capacity to Enhance Access to Health Services for Vulnerable Population: Substantial***

3.57 The project delivered extensive training to health staff to improve their capacity to recognize the needs of vulnerable groups. Extensive training was provided to health professionals and associated workers in the 42 PHC centers participating in the project, and to staff from additional centers that had expressed interest. The training covered: (i) introduction to geriatrics; (ii) prevention of violence against the elderly; (iii) improving communication with the Roma population and sensitization of health professionals; (iv) implementation of the Special Healthcare Protocol to protect children from abuse and neglect; (v) youth-friendly health system; and (vi) partnership for health. In total about 2,000 health professionals were trained, reaching the target established at appraisal, thus achieving the related intermediate outcome indicator (number of medical staff and associates trained to recognize needs of vulnerable groups; indicator 2.5, table B.2). However, no additional training for PHC staff to recognize the needs of the vulnerable groups was delivered after the project closed.

3.58 Fifteen health mediators were recruited or trained under the program to work in PHC centers to support Roma populations accessing the health system. Thanks to DILS, the total number of these mediators increased to 75 in 2012, covering 47 percent of LSGs. The role of health mediators has been maintained since the end of the program and the number has expanded to 85 in 2018. The mediators facilitate the access of inhabitants of Roma settlements to health care services and other public services in the community, track their health status, work to raise awareness of the need for vaccination of children, and emphasize the importance of proper nutrition and hygiene habits. They provide health care institutions with a better understanding and insight into the situation of Roma settlements (WHO 2015).

3.59 The enhanced capacity to recognize the needs of vulnerable groups improved access to health services for the Roma population. A total of 30,018 Roma children received vaccinations through the health mediators supported by the project, exceeding the related outcome indicator (the target was 18,795 Roma children vaccinated through the mediators; indicator 1.5, table B.2). The health mediators continued with their outreach programs and by 2018 35,107 Roma children were immunized. Health mediators provided additional services to Roma populations, including processing 2,340 personal documents and health cards. They also facilitated medical examinations for 650 pregnant women and new mothers; 1,496 screening exams for women; 1,144 mammograms; and 58,961 health visits.

3.60 Interviews with Roma health mediators conducted through a focus group discussion during the PPAR mission identified opportunities for improving their role. The figure of the Roma health mediator was established by the MOH in 2008, and all mediators are now funded from the state budget, but they are hired under short-term renewable contracts. Thus, most mediators interviewed complained about the uncertainty deriving from the temporary contractual arrangements, but also about the low salary and the impossibility of receiving reimbursement for travel and communication expenses. The National Association of Health Mediators was established in 2016 to improve their status and quality of their work.

## **OBJECTIVE 2**

3.61 Objective 2 was to increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered *education services*, in a decentralized environment.

3.62 The achievement of objective 2 is rated **substantial**. The improvement in the capacity of MOESTD to improve efficiency through financing reforms was modest as the per-student financing formulas were developed and piloted but not implemented. DILS improved the capacity of schools to deliver quality, inclusive education and of state agencies to monitor quality of education. Finally, the project was very successful in enhancing the capacity of schools and LSGs to improve access to education to students with special needs and Roma children through grants for inclusive education.

### ***Improved Capacity to Enhance Efficiency of Educational Services: Modest***

3.63 With the technical assistance provided under the project the per-student financing formula was developed, which contained compensating weights to correct inequalities across municipalities. The reform was guided by the wide range of related international best practices. In late 2009, the Law on the Foundations of the Education system was enacted, creating the basis for per-student financing for primary and secondary education. Central and local formulas were developed with the support of international technical assistance provided under the program (Indicators 2.2 and 2.3, table B.2). Extensive training and workshops to staff at central and local levels were provided under the program. In the 2011/12 school year, the per-student formula was piloted in 16 LSGs across the country (10 percent of all municipalities). During the pilot, the allocation of funds continued on a traditional input basis, but each municipality received a shadow budget calculated as if the capitation formulas were in place. Full rollout of the per-pupil financing reform was expected to start the school year 2014/15, as stipulated by the law.

3.64 However, the per-student financing formulas were never implemented and the allocation of education funds continued on a traditional input basis. Therefore, even if the project achieved the related intermediate outcome indicators (improved allocation framework for equalization funds developed; central and local formulas developed), the related outcome indicator (central and local per capita funding formulas in the education sector piloted) was partially achieved. As the central and local per capita funding formulas in the education sector were piloted using a theoretical shadow budget, but no real piloting of the formulas took place (indicator 1.2, table B.2).



***Improved Capacity to Enhance Quality of Educational Services: Substantial***

3.65 The project supported the participation of Serbian schools in international student assessments such as Trends in International Mathematics and Science Study 2011, PISA 2012, and Teaching and Learning International Survey 2013. All schools have undergone an external evaluation of their performance, thus surpassing the target of 50 percent of schools (indicator 2.8, table B.2). A total of 23,387 individuals have undergone development training organized by the project (the target was 23,000 participants; indicator 2.9, table B.2). The program also provided crucial capacity building for the final exam at the end of primary education cycle (eighth grade) that was introduced in the school year 2010/11 to assess the achievements at the end of compulsory education; obtain the certificate of completed compulsory education; and select students for (upper) secondary education.

3.66 Project funds were used to develop the conceptual design of the improved education MIS, which was going to be funded by the European Investment Bank. Specifically, the technical assistance provided under the project (i) performed the system analysis; (ii) made the system design; and (iii) produced technical specifications for both software and hardware (the technical specifications for procurement of the improved education MIS). A draft Rulebook on Integrative Education Information System was also produced. Using the conceptual design developed during the project, the improved education MIS, called *Dositej*, was set up in 2016. It has data on institutions (schools and universities), details of all the employees of these institutions, information on the curriculum for primary and secondary schools, information on study programs for faculties, information on the structure of classes for primary and secondary schools and information on teachers who teach each class, as well as other vital information for making educational policy. However, more improvements are needed in the education MIS to link information on access (enrollment and completion rates), quality (repetition, dropout, learning outcomes), and finances at school level, which would allow tracking of performance and accountability for teachers and schools (World Bank 2015, p 59).

***Improved Capacity to Enhance Access to Educational Services for Vulnerable Population Groups: Substantial***

3.67 The project achieved the targets set in delivering grants to schools and LSGs to strengthen their capacity to improve access to education services for Roma and children with special needs. A total of 560 schools received grants for developing and testing inclusive education programs, violence prevention, and transformation of schools for education of students with developmental impediments, including very important support to strengthening inclusive education teams in schools under the activity Strengthening Schools for Inclusive Education. Fifty-six municipalities received grants for intersectoral activities developed in cooperation with more than 300 partner institutions aimed at developing local action plans to improve educational services for Roma children, including support through Roma teaching assistants (indicator 2.4, table B.2).

3.68 The outcome indicator measuring progress toward inclusion in education shows that schools receiving project grants made good progress in inclusion, though slightly below the target. The proportion of children from vulnerable groups (based on Organisation for

Economic Co-operation and Development [OECD] classification<sup>27</sup>) in the schools that received DILS grants increased from 3.2 percent in the 2008/09 academic year to 6.6 percent in 2012/13 academic year (indicator 1.3, table B.2). Even if the target of 7.5 percent was not attained, this demonstrates the positive impact of the grants, also considering that the control group achieved a much more modest improvement from 3.6 percent to 4.11 percent. MOESTD has stopped using the OECD classification after the end of the project. However, the percentage of children with IEP1 and IEP2 in primary schools, which provide an alternative indicator of inclusion in education, has increased from 1.2 percent in 2013/14<sup>28</sup> to 2.4 percent<sup>29</sup> in 2016. Thus, even if the two series of data are not comparable, there are indications that progress in inclusive education is continuing.

3.69 At the same time, there has been a slow decline in the number of students with development disabilities enrolled in special schools, which was the expected outcome of DILS activities aimed at fostering inclusive education. The 2016 the United Nations Children's Fund (UNICEF) research on the special schools indicates a decline in the number of students in special schools and special classes of regular schools from 5,758 in 2009/10 to 3,133 in 2016/17.<sup>30</sup> This slow decline is a positive change as it leaves sufficient time and leeway for all actors to adjust to the changes. The only problem is the dynamics of fluctuation between the two systems: according to the same UNICEF research a much larger number of children is passing from mainstream to special schools than the other way around (10:1). Another positive indicator is the considerable decrease in the percentage of children in special schools and special classes that are inappropriately classified as Roma students: from 30 percent of children enrolled in the academic year 2007/08 (Open Society Fund 2010) to 18 percent in academic year 2013/14 (Pavlović Babić 2017).

3.70 Technical assistance provided by the project contributed to additional achievements in inclusive education. It helped to update relevant regulatory frameworks, such as the Rulebook on the Assessment of Additional Educational, Health, and Social Support for Children and Pupils; the Rulebook on Detailed Instructions for Adoption, Monitoring, and Revision of IEP; and the Rulebook on the Protocol for Responding to Violence, Abuse, and Neglect. DILS also supported the Inclusion Network of 14 model schools and 80 experts. A 2013 amendment to the law took a step toward the institutionalization of the network by introducing the position of external adviser to schools. The project supported the establishment of 150 ISC and trained 608 ISC members tasked to ensure full enrollment of all children in the education system. The project achieved the related intermediate outcome indicator (number of ISCs trained; indicator 2.10, table B.2).

3.71 Pedagogical assistants were significantly strengthened by the project grants. The assistants were first introduced to support Roma children and later all children with special educational needs. The Social Inclusion and Poverty Reduction Unit showed that pedagogical assistants are a significant form of support for children, students, their families, teachers, and institutions in general, to increase the accessibility of education, prevent dropping out, boost equal quality education for all children, improve school success and attainment for children, as well as indicate the harmfulness of discrimination and segregation (SIPRU 2015). Today, there are 175 pedagogical assistants (in 75 LSGs throughout Serbia) engaged by primary schools and preschools. There is one assistant per school.

3.72 Interviews with pedagogical assistants conducted through a focus group discussion during the PPAR mission identified opportunities for improving their role. Their contractual status is still precarious: they are engaged on a temporary basis for the duration of the school year on school request and pending MOESTD approval. This instability affects motivation and causes high turnover. Remuneration for the assistants is inadequate as it is set at the official minimum wage. Another problem is that the profile of the pedagogical assistants is heterogeneous and, accordingly, their roles in inclusive education vary. There are no standards for their work, so there is no systemic support for their professional development. The National Association of Pedagogical Assistants (established in 2014) is struggling to improve their status and quality of their work.

3.73 To conclude, DILS had a considerable positive impact on the quality of inclusive education during and shortly after project implementation, particularly when the state secretary in the MOESTD championed the effort. However, the positive outcome has declined as the policy focus on inclusive education lost momentum after 2012 (Radó, Setényi, Petrovic, and others 2016). The extensive training provided under DILS was not sustained after the project end. Inclusive education is currently hindered by the reduction in the number of school associates that support students with special needs. The number of MOESTD staff dedicated to the initiative also has decreased. Interviews with education experts conducted during the PPAR mission suggest that good inclusive education practices continued in those schools that had the overall institutional and professional absorption capacity to apply the know-how gained under DILS, but also the capacity and resources to maintain the practice on their own.

### **OBJECTIVE 3**

3.74 Objective 3 was to increase the capacity of institutional actors and beneficiaries to improve the efficiency, quality, and access (for vulnerable population groups) of locally delivered social assistance services, in a decentralized environment

3.75 The achievement of objective 3 is rated **modest**. The project successfully enhanced the capacity of the Disability Fund and service providers to enhance social assistance services to PWDs. However, the project did not manage to improve the capacity of the MOLEVSP to improve the efficiency in the delivery of social assistance services through enhanced MIS.

3.76 The project successfully enhanced the capacity to deliver improved social assistance services to PWDs. A major achievement of the project was the restructuring of the Disability Fund. The fund switched to project-based allocation of resources, using competitive and transparent selection mechanisms based on the quality and relevance of the proposals submitted. Overall, the new modalities improved the transparency, efficiency, and effectiveness of social assistance services provided to PWDs. Based on an iterative process, a new Grant Operations Manual was developed to include clearly defined modalities, criteria, and procedures for project financing and to monitor fund usage.<sup>31</sup> As a result, all Disability Fund financing to PWDs is now allocated through an equitable, transparent, and evidence-based process, thus achieving the related outcome indicator (indicator 1.3, table B.2). During project implementation, the Disability Fund awarded 92 subproject grants to CSOs. All grant

projects were implemented by the PWD organization and CSOs. Most were carried out independently, but eight projects were implemented in partnership with local stakeholders (LSGs, CSWs, other public institutions at the local level), or other related civic associations.

3.77 However, the project was not successful in improving the capacity of the MOLEVSP in the delivery of social assistance services. The project provided the technical assistance necessary to develop the software and hardware specifications. It financed the procurement of equipment, software and hardware, and the training of 600 CSW staff, achieving the related intermediate outcome indicator (indicator 2.13, table B.2). The MIS was fully developed and tested, thus the related intermediate outcome indicator was achieved (indicator 2.12, table B.2). However, later revisions of the Social Assistance Law required adjustments in the MIS that were not implemented. As a result, the MIS was never fully operational and did not generate the expected improvement in the capacity of the MOLEVSP to enhance efficiency in the delivery of social assistance services.

## Efficiency

3.78 Efficiency in the use of project resources is rated **modest**.

3.79 The project selected potentially cost-effective interventions. Experience from other countries and the evidence available in the literature have shown that the activities chosen can improve the use, quality, and efficiency of locally delivered health, education, and social protection services. Some of them are quantifiable, for example, the centralized procurement of drugs supported by the project, contributed to reducing drug prices, on average, by 27 percent, and to reduce HIF pharmaceutical expenditure by €25 million per year. The operational rules of the Disability Fund have improved the effectiveness of social services to PWDs.

3.80 However, shortcomings in the implementation had a negative impact on the overall efficiency of the project. Some activities were implemented only partially, thus the potential benefits did not materialize. Other activities were implemented with delays that reduced the benefits generated. Implementation delays resulted in 25 months of extensions that further diluted the improvements expected from the interventions.

3.81 In education, financing reforms are still a priority. The need to even out the inequalities in spending between schools by replacing input-based budgeting with per-student financing remains. Therefore, the substantial investment made under the project was not good value for the money.

3.82 The expected efficiency and effectiveness improvements in the provision of social assistance services to be achieved through the improved MIS did not materialize. The MIS that should have centralized data management, reduced transaction and processing times, and improved linkages between the beneficiaries of cash benefits and the providers of social services was not fully operational. Thus, also in this case the DILS investments was not good value for the money.

## Ratings

### PROJECT OUTCOME

3.83 The overall outcome is rated **moderately satisfactory**. The project's relevance of objectives is rated **high**. Relevance of design is rated **modest**. Objectives 1 and 2 are rated **substantial**. However, the achievement of objective 3 is rated **modest**. Efficiency is also rated **modest**.

### RISK TO DEVELOPMENT OUTCOME

3.84 Risk to development outcome is rated **moderate**. For most project outcomes, the risk they will not be sustained is negligible to low. However, selected project outcomes, notably those related to improvements in access to services for vulnerable groups are subject to some risks, which are described in the next paragraphs.

3.85 The Government of Serbia, with support from the World Bank, has sustained the work that DILS initiated on health financing reforms, centralized procurement of medicine, and quality improvement. The World Bank-supported Second Health Program is now continuing to provide technical assistance to support refinements of the performance-based capitation payments introduced under DILS. In addition, the project is also supporting the introduction of provider payment reforms for hospital-based services through the phased implementation of a Diagnosis-Related Group, as well as continuing support for the use of clinical pathways and accreditation of health facilities.

3.86 However, the legal status of health mediators is still not regulated by relevant legislation, even if their number has increased over time. Recently, a discussion took place about whether the mediators should work under the MOLEVSP (rather than under the MOH), which could further weaken their status. This constitutes a risk for the improvement in access to health services for the Roma population achieved under the project.

3.87 DILS outcomes related to the improved access to education services for children with special needs and Roma are considered at low risk, even if government attention to inclusive education has somehow diminished. UNICEF, the EU, and the World Bank continue to support inclusive education in Serbia. The latter has approved in 2016 a project supporting Early Childhood Development, which is supporting inclusive education at the preschool level through: strengthening Roma CSOs as crucial partners at local level; regulating and strengthening the position of pedagogical assistants; and continuing grant support schemes to municipalities for developing outreach to vulnerable families and strengthening inclusive education.

3.88 Activities managed by entities with a clear institutional status were better sustained than those implemented by ad-hoc bodies. The ISC, formally responsible for defining and recommending additional support needed for children with special educational needs, based on the framework of the 2009 Law on Fundamentals of the Education System, proved to be more sustainable. On the other hand, activities carried out by instruments created during project implementation faced significant sustainability challenges after the projects was

completed. A strategy to improve the sustainability prospects was to try to institutionalize the instruments created under DILS. An example is the 2013 amendment of the Law on Fundamentals of the Education System that introduced the Inclusion Network as an external adviser to schools.

3.89 The PPAR mission recorded ongoing pressure to revert to previous rules governing the Disability Fund. The guidelines adopted by the fund to provide grants to CSOs to help PWDs are still formally followed. However, there is a risk that they might be abandoned to allow more discretionary use of the money by service providers. Finally, even if the planned MIS for social assistance was designed but not implemented under DILS, the PPAR mission documented that the government is still considering introducing an MIS to manage social assistance benefits, now called the Social Card, as part of the new e-government strategy.

## **BANK PERFORMANCE**

3.90 Bank performance is rated **moderately satisfactory**.

3.91 Quality at entry is rated **moderately satisfactory**. The World Bank supported the borrower in the preparation of the project with a large team that included experienced specialists from the three Global Practices involved—health, nutrition, and population; education; and social protection and labor—that brought international experience relevant to Serbia. The PPAR mission found evidence that the World Bank team provided all the needed assistance to prepare the project.

3.92 However, the design of the project was overly complex and despite the significant resources provided by the World Bank, it took about 20 months to move from concept review to approval. In addition, shortcomings were identified in the M&E framework (see the Monitoring and Evaluation section). For example, the World Bank conducted a baseline survey when the government considered shifting from line-item budgets to capitation to establish a baseline on health sector performance against which the impact of the reforms could be assessed in a follow-up survey (World Bank 2009). However, the project design did not include a follow-up survey to assess the impact of the health financing reform on health services use, quality, cost, and efficiency.

3.93 Supervision is rated **moderately satisfactory**. The World Bank played an important convening role during project implementation, trying to bridge barriers between state ministries and across levels of government. Interviews conducted with government representatives during the PPAR mission confirmed that knowledge and technical assistance support provided by the World Bank team was valuable and timely. The presence of World Bank sector specialists in the country assisted the communication flow with the national counterparts. The PPAR mission was also reminded of the hands-on support and guidance provided by the World Bank team on procurement and financial management procedures.

3.94 However, The World Bank team could have been more proactive in identifying and rectifying the critical risks and bottlenecks that affected project implementation. Various government actors expressed the opinion that some of the delays could have been avoided if the World Bank had exercised more pressure on the government for faster decision making.

## **BORROWER PERFORMANCE**

3.95 Borrower performance is rated **moderately satisfactory**.

3.96 Government performance is rated **moderately satisfactory**. Government performance is mixed. On the one hand, the government provided weak overall policy coordination. The high-level PPB, consisting of all government stakeholders (MOESTD, MOH, MOLESP, MOF, and MPALSG) was not fully functional and met only three times during the project and the involvement of MPALSG was limited. The PPAR mission confirmed the ICR findings of insufficient coordination among ministries, among departments within a ministry, between different tiers of government, and between government and civil sector representatives.

3.97 On the other hand, middle-level management (assistant minister level), showed commitment to the reforms. As already indicated, the project had strong ownership and support from certain reform-oriented high officials that championed specific themes and activities. These individuals were change agents, who represented the institutional drive for the reforms supported by the project.

3.98 Implementing agency performance is rated **moderately satisfactory**. The division of labor between the implementing agencies—FSU and Project Administration Teams embedded in the three implementing ministries—worked well. FSU oversaw the financial management and procurement aspects of the project. The three Project Administration Teams in the MOH, MOESDT, and MOLEVSP were responsible for supervising the implementation of specific project activities. The Project Administration Teams were perceived as ministry staff, which supported ownership and buy-in of the project activities. However, the Project Administration Teams were contracted as external consultants under the projects and were paid more than the regular ministry staff. The differences in pay created tension between the consultants and regular civil servants.

3.99 Additionally, the work of the implementing agencies was negatively affected by several political changes that occurred during project implementation, as changes at the minister level led to changes at the Project Administration Teams in the three relevant ministries, as well as in the staff of the FSU. These changes often resulted in delays because of the time needed by the new teams to become familiar with the activities of the project in their respective sectors, and often involved revisions of the operating manual and procurement plans for the project.

## **MONITORING AND EVALUATION**

3.100 The M&E framework is rated **modest**.

3.101 **M&E design.** The M&E framework was comprehensive but had some significant weaknesses. The data sources were primarily the administrative MIS of the individual ministries, LSGs, and service providers. Further, DILS project funds had been set aside for surveys of PHC center and social protection facility users, in the first and final years of the project, as part of the support for establishing performance monitoring and impact evaluation. Additionally, the project envisaged financial support for the line ministries to design and

implement impact evaluations of, first, the phased implementation of decentralization (particularly the rollout of new financing formulas and the assumption of key responsibilities for management of schools and PHCs) and, second, innovations in service delivery to vulnerable groups, particularly to PWDs. For example, the World Bank conducted a baseline survey when the government considered shifting from line-item budgets to capitation to establish a baseline on health sector performance against which the impact of the reforms could have been assessed in a follow-up survey (World Bank 2009).

3.102 Various shortcomings affected the design of the project M&E framework: lack of baseline and target values; several indicators reflected intermediate outcomes (outputs) rather than PDO outcomes; some indicators referred to more than one sector, but it was not clear which sector was responsible for reporting; some indicators were not fully aligned with the PDO; and inconsistencies in the specific wording of the indicators among the various documents (PAD and supplemental letter to the loan agreement; World Bank 2015b, 9). The M&E framework should have been revised to reflect the actual implementation in each sector and clearly identify indicators to measure efficiency, quality, access, and equity in respective sectors both at PDO and intermediate outcome level. Another important learning from the PPAR interviews was that the project seems to have applied the principle of defining outcomes based on “what could be measured at that time” instead of using theory of change logic and then identifying potential proxy indicators that might have given better insight on policy impact.

3.103 **M&E implementation.** Monitoring of DILS activities at state and local levels was planned to use the administrative MIS of the line participating ministries, LSGs, and service providers, which were expected to be improved during the project. Two evaluations were carried out, of the Trainings and Grant Programs for Inclusive Education and of the PHC grants. However, other planned evaluations were not conducted, such as the follow-up survey to assess the impact of the health financing reform on PHC services use, quality, cost, and efficiency.

3.104 The M&E framework was revised during project implementation. The first revision of the project indicators was done after the midterm review in 2011. The project restructuring in June 2012 revised the M&E to clarify processes and responsibilities for data collection and reporting. It was clarified which ministry was in charge for each indicator. Baseline and target values for the indicators in the M&E framework were also defined. Finally, at the project restructuring of October 30, 2013, an intermediate outcome indicator was added to monitor progress toward efficiency improvements through the setting up of a centralized procurement system for pharmaceuticals. The available national M&E system was not reliable, so the project invested a lot of resources in monitoring, collecting data, and analysis. For example, MOLESP used the project funds to hire consultants and CSOs to monitor the selection processes, provide advisory services, and evaluate program and financial implementation of the projects funded from the Disability Fund.

3.105 The World Bank and Project Implementation Unit teams reported during the PPAR mission that the collection of data was cumbersome and difficult. With the lack of dependable MIS in the education and social sectors, the data obtained from the ministries, government agencies, and national statistical office were not always directly comparable as



different methodologies were used. That is why the project opted to monitor a limited number of PDO indicators and intermediate outcome indicators. The necessary data was collected from the project beneficiaries. Even at the PPAR phase, time and considerable effort from various actors were required to collect relevant and comparable data. Some data could not be compared with the originally collected data because of the different methodology (for example, the coverage of children from vulnerable groups in primary education was based on an OECD classification that was no longer in use).

**M&E use.** Other than informing project performance, the use of M&E data was limited. The PPB did not perform the expected supervisory function; thus, it was left to the individual ministries to use the M&E to improve their activities. At the time of DILS, evidence-based policymaking was just being introduced in Serbia and was not a common or sound practice and reportedly varied from ministry to ministry. On the positive side, national policy impact assessments performed outside DILS (particularly in education and health) were used to steer reforms. Finally, results of the DILS monitoring were used not only to inform the designs of later World Bank projects in the education and health sector but for the designs of projects supported by other donors.

## 4. Lessons

4.1 Eight lessons that could help improve future World Bank operations are identified and presented below. The first lesson arises from both projects and is followed by three lessons from PARP and four lessons from the DILS.

4.2 Clarity around the overall vision and data architecture is needed for successful MIS investments. Several steps are needed to build an MIS: analysis of the business processes, design of the data architecture, procurement of hardware and software, installation and testing, and training users. The likelihood of success in this process is improved if business processes and the underlying data architecture are well defined. This occurred in the development of CROSO. Even if the first step (the definition of the overall framework) took a long time, it permitted finalizing of the MIS after project completion. In contrast, the vision of the social assistance MIS was not well defined, which contributed to the failure of the MIS investment.

### PARP

4.3 A stakeholder analysis can be a useful to identify potential supporters and resistance when reforms involve several actors. The reform of the social contribution collection and reporting system involved several parties. A stakeholder analysis of the participating institutions would have yielded crucial insights to identify potential reasons for support and resistance, the areas where cooperation was natural, and where more attention was needed from high-level officials able to resolve institutional problems.

4.4 The tax administration can be usefully included in the administrative reform process. Many countries have to consider the role of the tax administration in collections and compliance—should it be a lead agency, a participant, or a nonparticipant? Whatever the option chosen, it is important to involve the tax office early on, not only because of their

mandated role as a tax collection agency but also because they tend to have the strongest human and technical capacity, and legal instruments of enforcement at their disposal, and they often have the strongest political support. In Serbia, CROSO was chosen for the collections function, but with some difficulty because insufficient attention was paid to coordinating with the tax authority.

4.5 Rationalizing the social insurance system takes time. In Serbian administrative reform, the country chose to rationalize the social insurance system information and contribution flows. Experience from other countries shows that this process may be slow, sometimes taking one to two years. Therefore, ample time should be reserved to do the work needed to alter budgets and to conduct strategic planning to accommodate institutional changes. The potentially most complex and time-consuming task will be to ensure all past service data are accurate and complete, and to modernize and automate the key benefit calculation and payment business processes.

## **DILS**

4.6 Multisector projects have the advantage of providing bridge financing that allows continuity and deepening of reforms policy, but this design feature may negatively affect other project ratings. DILS was effective in providing bridge financing that allowed the World Bank to sustain sector support and policy dialogue in three sectors. However, the wide scope of the project weakened the capacity of the M&E framework to monitor the complex causal chains between activities, intermediate outcomes, and objectives. In addition, this design feature may negatively affect other aspects of project design.

4.7 Activities carried out by entities with a clear institutional status can be better sustained than those implemented by ad-hoc bodies. DILS activities performed by permanent government institutions and bodies (such as the department of a ministry and permanent agencies such as the agencies for accreditation or Institute of Public Health) were better sustained after project completion than those undertaken by temporary entities such as ad-hoc committees created under the project. Another example is the PPB, which was expected to provide intersectoral coordination but met only sporadically.

4.8 The employment of contractual staff (consultants) in the project implementation unit does not build sustainable capacity in the ministries. DILS established a FSU and three Project Administration Teams in each of the three leading ministries to manage the project. These units were to last only for the duration of the project and were staffed with contractors. The alternative is to involve regular staff in the administration of the project, who would remain in the ministry at the end of the project. The latter solution can both improve buy-in in the ministries and help strengthen the capacity of the participating ministries.

4.9 Projects that aim at strengthening locally delivered services should ensure alignment between local functions, capacities, and financing to succeed. DILS showed that although the project could improve LSG capacity in service provision, it was not able to change the legal framework related to the competencies and financing of the LSGs. This misalignment explains the difficulties in implementing financing reform in the health and education sectors.

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- <sup>1</sup> The two constituent republics functioned separately throughout the period of the federation, operating under separate economic policies, as well as using separate currencies.
- <sup>2</sup> In a PAYGO pension plan, the contributions paid by workers are shared between the retirees. This contrasts with fully funded pension plans where the individual contributions are saved in a fund and blocked until retirement.
- <sup>3</sup> Roma in Serbia amount to 147,604 (2.1 percent of the population) according to the 2011 census.
- <sup>4</sup> Founding international partner organizations of the initiative consisted of the World Bank, the Open Society Institute, the United Nations Development Programme, the Council of Europe (CoE), CoE's Development Bank, the Organization for Security and Co-operation in Europe, the United Nations Human Settlements Programme, the Office of the United Nations High Commissioner for Refugees, the United Nations Children's Fund, and the World Health Organization (WHO).
- <sup>5</sup> Additional health financing and organizational reforms promoted in Serbia during DILS preparation, but not related to PHC and LSGs included the introduction of prospective payment system based on Diagnosis-Related Groups to finance the provision of hospital-based care; the provision of lower-cost (community-based) long-term care; and a more extensive use of outpatient surgeries.
- <sup>6</sup> The implementation of capitation payments in PHC was also supported by the European Union with a €5 million project implemented over 2007–10.
- <sup>7</sup> PISA is a reliable metric of student ability to perform successfully in economies where knowledge and skills are needed.
- <sup>8</sup> Since PISA results are based on samples, it is not possible to report the exact rank order position, but the range of rank order positions within which the country mean lies with 95 percent likelihood.
- <sup>9</sup> Official Gazette of the Republic of Serbia, 12/72/2009/09.
- <sup>10</sup> Only Roma living in Roma settlements are covered by Serbia Multiple Indicator Cluster Surveys.
- <sup>11</sup> Pedagogical assistants contribute to the learning and social participation of Roma pupils and establish cooperation between school staff and Roma parents (Starcevic, Dimitrijevic, and Milovanovic 2016).
- <sup>12</sup> Within a few years Serbia had adopted The Law on Prohibition of Discrimination of Persons with Disability (April 2006), the 2006–2015 Strategy for Promoting Position of Persons with Disabilities (2017), and had ratified the United Nations Convention on the Rights of Persons with Disabilities (in July 2009).
- <sup>13</sup> The ICR and ICR Review arranged the PDOs in the same manner.
- <sup>14</sup> Specifically, the PIO needs information about the work history of the insured person to determine eligibility and calculate a pension. The NES uses the data on the status of insured persons (beginning and termination of insurance) for keeping records of the unemployed persons, as well as data on the total work engagement (years of service) of the insured person, data on the reason for termination of insurance and data on paid contributions, to determine eligibility and termination of the right to unemployment benefits. The HIF needs more current data, primarily confirmation of insurability and payment of insurance, to determine health rights.
- <sup>15</sup> Reflecting the unqualified opinion of the auditors that project financial statements were accurate, complete, and produced in accordance with Generally Accepted Accounting Principles.
- <sup>16</sup> The Law on the Central Registry of Compulsory Social Insurance was published in the Official Gazette No. 30/10 of May 7, 2010, and entered into force on the eighth day after the date of publication, on May 15, 2010.
- <sup>17</sup> Eurostat requires member states and accession countries to report on indicators defined by the European Commission in the field of pension: 11 primary indicators, 11 secondary indicators, and 5 context indicators grouped under the objectives of adequate, sustainable, and modernized pensions (SIPRU 2017, 5).
- <sup>18</sup> First, it raised the retirement age for women to 65, equalizing it with that of men (with a gradual transition between 2015 and 2032); introduced actuarial reductions of 0.34 percent of the benefit per month of early retirement for both men and women; and tightened extended service requirements. Second, it precluded any increases in pensions before the system reaches a pension expenditure level of 11 percent of GDP. Third, pension benefits were

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temporarily reduced—by 22 percent for pensions above RSD 25,000 per month and by 3 percent for those above RSD 40,000.

<sup>19</sup> The ICR review considered four distinct PDOs: improve access to, efficiency, equity, and quality of local delivered health, education, and social protection services, in a decentralized environment.

<sup>20</sup> It is worth noting that all indicators measuring access to health, education, and social protection services measure improvement refer to vulnerable population groups, such as Roma, students with special needs, and people with disabilities (Indicators 1.3, 1.4, 1.5, 2.4, 2.5, and 2.10 in table B.2).

<sup>21</sup> The new payment method chosen for hospital-based services was based on Diagnosis-Related Groups.

<sup>22</sup> In the efficiency measurement literature, the allocative efficiency of a production unit is defined as the ratio of cost efficiency to technical efficiency (Fried, Lovell, and Schmidt 2008).

<sup>23</sup> The agency was created in 2008 as an independent government agency with responsibility for quality improvement and patient safety in health care institutions of Serbia, under the oversight of the Ministry of Health. The 2005 Health Care Law provides the legal framework for the agency. Its role was further defined by the bylaw on Accreditation of Health Care Institutions and by the National Strategy for Continuous Quality Improvement and Patient Safety (both approved in 2009).

<sup>24</sup> School improvement grants were adopted in the World Bank–financed Education Improvement Project that was executed in Serbia from 2002 to 2007. They were assessed positively in empowering local communities to take responsibility for their schools (World Bank 2008).

<sup>25</sup> Previously, children with disabilities were entering the education system through the so-called categorization committees, which had been tasked with making a diagnosis and recommending a special educational program to “correct” the defect. *The Rulebook on Additional Educational, Medical and Social Support to Children and Pupils*, adopted on the basis of the 2009 Law on Fundamentals of the Education System, regulated the requirements for assessing the needs for additional educational, medical, or social support to children and pupils, and the composition and operation of the intersectoral committee responsible for the assessments.

<sup>26</sup> DILS support to capitation was complemented by the European Union that provided €5 million to finance the project Implementation of Capitation Payment in Primary Health Care in Serbia, that was implemented over 2007–2010 (Venekamp, Makarova, and McGreevy 2010).

<sup>27</sup> The OECD classification is as follows: Category A – children with disabilities; B – children with learning difficulties; C – children from socioeconomically vulnerable groups.

<sup>28</sup> Source: Statistical Office of the Republic of Serbia (SORB).

<sup>29</sup> Source: *Dositej* database.

<sup>30</sup> The last figure was provided by the MOESTD during the PPAR mission.

<sup>31</sup> The Grant Operations Manual was piloted through two projects: sign interpreting service and companion services for persons with disabilities. The sign interpreting service received worldwide recognition as one of the best projects for persons with disabilities.

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## Appendix A. Basic Data Sheet

### CONSOLIDATED COLLECTION & PENSION ADMINISTRATION REFORM PROJECT (CREDIT 4071-YF)

**Table A.1. Key Project Data (\$, millions)**

	<i>Appraisal Estimate</i>	<i>Actual or Current Estimate</i>	<i>Actual as % of Appraisal Estimate</i>
Total project costs	25.00	25.22	100.9
Loan amount	25.00	25.22	100.9

**Table A.2. Cumulative Disbursements Estimated and Actual**

	<i>FY05</i>	<i>FY06</i>	<i>FY07</i>	<i>FY08</i>	<i>FY09</i>	<i>FY10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>
Appraisal estimate (\$, millions)	0.30	2.64	6.93	15.96	25.00	25.00	25.00	25.00	25.00
Actual (\$, millions)	0.00	0.00	0.38	2.51	7.14	9.05	14.66	20.90	25.22
Actual as of appraisal	0	0	5.4	15.8	28.5	36.2	58.7	83.7	100.9

**Date of final disbursement: January 31, 2013**

**Table A.3. Key Project Dates**

	<i>Original</i>	<i>Actual</i>
Concept review	11/19/2004	11/19/2004
Negotiations	04/12/2005	04/12/2005
Board approval	05/31/2005	05/31/2005
Signing	06/22/2005	06/22/2005
Effectiveness	12/20/2005	12/20/2005
Closing date	09/30/2010	09/30/2012

**Table A.4. Task Team Members**

<i>Name</i>	<i>Title</i>	<i>Unit</i>
<b>LENDING AND SUPERVISION</b>		
Zoran Anusic	Senior Economist	ECSH3
Tanja Boskovic	Consultant	ECSPF
Joseph Paul Formoso	Senior Finance Officer	CTRLA
Carmen F. Laurente	Senior Program Assistant	ECSHD
Nadejda A. Mochinova	Resource Management Officer	AFTRM
Marina Petrovic	Consultant	ECSHD
Gennady Pilch	Senior Counsel	LEGOP
Snjezana Plevko	Senior Economist	CFPIR
Anita M. Schwarz	Lead Economist	ECSH3
Yingwei Wu	Senior Procurement Specialist	LCSPT
Ivana Aleksić	Human Development Specialist	ECSH2
Rajna Cemerska-Krtova	Operations Officer	ECSH3
Olav Rex Christensen	Senior Public Finance Specialist	HDNED
Aleksandar Crnomarkovic	Financial Management Specialist	ECSO3
Nikola Kerleta	Procurement Specialist	ECSO2
Plamen Stoyanov Kirov	Senior Procurement Specialist	LCSPT

**Table A.5. Staff Time Budget and Cost for World Bank**

<i>Stage or Year of Project Cycle</i>	<i>Staff Weeks (no.)</i>	<i>Finance, Including Travel and Consultant Costs (\$, thousands)</i>
<b>LENDING</b>		
FY04	N/A	0.00
FY05	40.44	136,059.38
FY06	27.75	70,250.95
<b>Subtotal</b>	<b>68.19</b>	<b>206,310.33</b>
<b>SUPERVISION AND IMPLEMENTATION COMPLETION AND RESULTS REPORT</b>		
FY07	12.86	50,316.86
FY08	27.91	76,380.95
FY09	31.93	98,722.48
FY10	29.69	102,991.06
FY11	43.96	133,347.39
FY12	32.79	90,946.24
FY13	7.77	40,023.12
<b>TOTAL</b>	<b>186.91</b>	<b>592,728.10</b>

**DELIVERY OF IMPROVED LOCAL SERVICES (LOAN 7510-YF)****Table A.1. Key Project Data (\$, millions)**

	<i>Appraisal Estimate</i>	<i>Actual or Current Estimate</i>	<i>Actual as % of Appraisal Estimate</i>
Total project costs	46.40	42.16	100
Loan amount	46.40	42.16	91
Cancellation			

**Table A.2. Cumulative Disbursements Estimated and Actual**

	<i>FY09</i>	<i>FY10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>	<i>FY14</i>	<i>FY15</i>	<i>FY16</i>
Appraisal estimate (\$, millions)	8.00	20.00	34.00	46.40	46.40	46.40	46.40	46.40
Actual (\$, millions)	0	2.74	8.96	20.32	26.57	35.43	40.26	42.16
Actual as % of appraisal	0	14	26	44	57	76	87	91
<b>Date of final disbursement: July 31, 2015</b>								

Source: Project Portal.

**Table A.3. Key Project Dates**

	<i>Original</i>	<i>Actual</i>
Concept review	07/21/2006	07/21/2006
Negotiations	12/18/2007	01/30/2008
Board approval	03/18/2008	03/18/2008
Signing	04/11/2008	04/11/2008
Effectiveness	03/10/2009	03/10/2009
Closing date	12/31/2012	03/31/2015

**Table A.4. Task Team Members**

<i>Name</i>	<i>Title</i>	<i>Unit</i>
<b>LENDING AND SUPERVISION</b>		
Ivana Aleksić	Human Development Specialist	ECSH2
Nicholay Chistyakov	Senior Finance Officer	CTRLN
Olav Rex Christensen	Senior Public Finance Specialist	HDNED
William R. Dillinger	Lead Public Sector Management	ECSP4
Dominic S. Haazen	Lead Health Policy Specialist	AFTHW
Nikola Kerleta	Procurement Specialist	ECSO2
Carmen F. Laurente	Senior Program Assistant	ECSHD
Tobias Linden	Lead Education Specialist	SASED
Imelda Mueller	Operations Analyst	ECSH2
Marina Petrovic	Consultant	ECSH3
Gennady Pilch	Senior Counsel	LEGOP
Dena Ringold	Lead Economist	AFTSW
Maria Laura Sanchez Puerta	Senior Economist	HDNSP
Pia Helene Schneider	Lead Evaluation Officer	IEGPS
Hermina Vuković Tasic	Program Assistant	ECCYU
Juan Diego Alonso	Senior Economist	LCSHE
Aleksandar Crnomarkovic	Sr Financial Management Specialist	ECSO3
Michele Gragnolati	Sector Leader	LCSHD
Ana Holt	Health Specialist	ECSH1
Marijana Jašarević	Operations Analyst	ECSH3
Ethan Yeh	Economist	ECSH1

**Table A.5. Staff Time Budget and Cost for World Bank**

<i>Stage or Year of Project Cycle</i>	<i>Staff Weeks (no.)</i>	<i>Finance, including Travel and Consultant Costs (\$, thousands)</i>
<b>LENDING</b>		
FY06	16.9	119.78
FY07	90.89	327.97
FY08	51.23	102.20
<b>Total</b>	<b>159.02</b>	<b>549.95</b>
<b>SUPERVISION AND IMPLEMENTATION COMPLETION AND RESULTS REPORT</b>		
<b>Total</b>	<b>347.56</b>	<b>1,094.89</b>



## Appendix B. Monitoring and Evaluation Frameworks

**Table B.1. Consolidated Collection and Pension Administration Reform Project: M&E Framework**

	Baseline value	Target value	End value at ICR	End value at PPAR
<b>(1) PDO indicators</b>				
<b>1.1. Effectiveness of administration improved measured by administrative costs/pension expenditures</b>				
Value quantitative or qualitative	2.2% [4%]	1.5% [2.5%]	1.5%	0.96%
Date achieved	2005	—	09/24/2012	2015
Comments at ICR (including % achievement): In 2012, borrower and World Bank teams, to improve international comparability and consistency of this indicator, agreed to revise the original 2005 baseline figure from 4% to 2.2% (in 2005), and the end target value from 2.5% to 1.5%				
Comments at PPAR (including % achievement): The ratio between PIO administrative expenses and total pension expenditures went down to 1.1 percent in 2014 and 0.96 percent in 2015 (World Bank 2017a, 8)				
<b>1.2. Progress in administrative consolidation of the three PIOs</b>				
Value quantitative or qualitative	0% administrative consolidation	100% administrative and financial consolidation	100% administrative and financial consolidation	Ongoing administrative consolidation of the three PIOs
Date achieved			01/23/2012	2018
Comments at ICR (including % achievement): In addition to the timely consolidation of the three PIOs, in January 2012, the military fund was also integrated into the consolidated pension fund, therefore this indicator is overachieved				
Comments at PPAR (including % achievement): PPAR mission				
<b>1.3. Regular monthly reporting on pension contributions paid on individual basis introduced and individual pension accounts established</b>				
Value quantitative or qualitative	No monthly reporting on individual basis; no individual accounts	Monthly reporting and individual accounts functioning	Monthly reporting and individual accounts postponed until full implementation of the CR IS	Monthly reporting and individual accounts functioning
Date achieved			09/24/2012	2018
Comments at ICR (including % achievement): Full accomplishment remains dependent on enactment of legislative changes to allow actual launch of the monthly individualized submission of contribution data and real-time system implementation				
Comments at PPAR (including % achievement): PPAR mission				
<b>1.4. Reduced reporting burden for employers, measured by fewer reporting forms required</b>				
Value quantitative or qualitative	28 types of forms submitted annually	17 types of forms submitted annually	17 types of forms submitted annually	—
Date achieved			09/24/2012	
Comments at ICR (including % achievement):				
Comments at PPAR (including % achievement): PPAR mission confirmed the reduction in the paperwork generated by the URF online application that can now be submitted through its website				
<b>1.5. Improved client service in the pension system measured by number of resolved cases per employee</b>				

Value quantitative or qualitative	220	220	320. 1,840 decisions a year per case officer working on individual cases	—
Date achieved			09/24/2012	
Comments at ICR (including % achievement): Teams agreed to introduce additional more precise indicator that measures annually resolved cases per case officers, which has increased from 1,560 in 2007 to 1,840 in 2011–2012.				
Comments at PPAR (including % achievement):				
<b>1.6. The MOLEVSP policy analysis capacities built; long- and short-term actuarial models of the pension system developed in MOLEVSP and the MOLEVSP, PIO, and MOF staff trained in using them</b>				
Value quantitative or qualitative	Long-term model developed, no short-term model; no capacity	Short-term actuarial models operational, regularly updated, and used	Long-term and short-term models operational, regularly updated, and used as a basis for policy developments	—
Date achieved				
Comments at ICR (including % achievement): In addition to the timely consolidation of the three PIOs, in January 2012, the military fund was also integrated into consolidated PDIF, therefore this indicator is overachieved				
Comments at PPAR (including % achievement):				
<b>1.7. Web publication containing updated monthly data available</b>				
Value quantitative or qualitative	Web publication not designed	Web publication established	Web publication established	—
Date achieved			09/24/2012	
Comments at ICR (including % achievement):				
Comments at PPAR (including % achievement):				
<b>1.8. Further pension reform measures to improve long-term sustainability, adequacy, and transparency of the pension system identified</b>				
Value quantitative or qualitative	Total pension expenditures to GDP ratio 15%	Total pension expenditures to GDP ratio 12%	Total pension expenditures to GDP ratio 13.3%	Total pension expenditures to GDP ratio 12% in 2016 and expected to decrease further to 11% by 2022.
Date achieved			09/24/2012	
Comments at ICR (including % achievement): According to 2011 GDP measuring methodology, net pension expenditures were 12.5%. Due to frequent GDP revisions, corresponding baseline in 2005 was at 11% (instead 15% in PAD), therefore teams agreed to adjust the indicator which is partially achieved.				
Comments at PPAR (including % achievement): Source: Eurostat <a href="http://appsso.eurostat.ec.europa.eu">http://appsso.eurostat.ec.europa.eu</a> accessed on April 27, 2018, and IMF 2017, 44				
<b>1.9. Increased public information on pension system due to the public better informed</b>				
Value quantitative or qualitative	15% of population confirms to be informed on pension system	The first baseline survey conducted in 2008 indicated that 45% of population is informed about the pension system	56% of the population confirms to be informed on pension system	—



Date achieved			09/24/2012	
Comments at ICR (including % achievement):				
Comments at PPAR (including % achievement):				
<b>1.10. Improvement in the rate of collection of pension contributions</b>				
Value quantitative or qualitative	N/A	Collection rate improved by 10% substituted by improved compliance rate p.p. in comparison to baseline total comparison rate is 89.9%	Compliance rate improved by 7.6%	—
Date achieved			09/24/2012	
Comments at ICR (including % achievement): Since baseline value was not set, teams agreed on compliance definition—ratio of covered to actual wage bill the reconstruct the baseline and recalculate current/past year values resulting in baseline 82.8%, and target value at 89.9%				
Comments at PPAR (including % achievement):				
<b>(2) Intermediate outcome indicators</b>				
<b>2.1. Feasibility study completed and the institutional framework for the new system identified</b>				
Value quantitative or qualitative	No decision on the institutional and organizational setting of the new reporting and recordkeeping system for individual contributions and PIT	New system fully implemented	Decisions reached concerning the design of the new reporting and recordkeeping system.	—
Date achieved				
Comments at ICR (including % achievement): Although feasibility study was adopted by the Pension Reform Council at the end of 2007, and new system identified, real-time system implementation depends on legislative changes to allow actual launch of monthly individualized submission of contribution data by taxpayers				
Comments at PPAR (including % achievement):				
<b>2.2. Pension administration processes streamlined and modernized</b>				
Value quantitative or qualitative	N/A	Administrative integration of PIOs completed; Reduced time for responding to clients' requests	Administrative integration completed as of January 2008; 78% of cases resolved within the legal requirement of 2 months	—
Date achieved				
Comments at ICR (including % achievement): Although baseline not set, it was integration of three segregated PIOs and improved client service (percentage of resolved clients' requests in two-month response time), set at 55% (2007). Until project closing actual value improved to 78%				
Comments at PPAR (including % achievement):				
<b>2.3. Actuarial models of the pension system developed and the MOLEVSP and PDI Fund staff trained in using them and developing options for further policy changes; public knowledge on PAYGO</b>				

Value quantitative or qualitative	Long-term model developed, no short-term model; no capacity	Short-term actuarial models operational, regularly updated, and used	5 staff members trained, 3 use models in their work	—
Date achieved			09/24/2012	
Comments at ICR (including % achievement):				
Comments at PPAR (including % achievement):				
<b>2.4. PMU staff trained in procurement, disbursement and accounting functions needed for successful implementation of the project PMU staff trained for monitoring and evaluation of the project</b>				
Value quantitative or qualitative			2 staff members trained	—
Date achieved			09/24/2012	
Comments at ICR (including % achievement): Given that the M&E functions have been performed by the Policy Unit at the MOELVSP, and that the PMU staff consisted of local consultants hired to perform the fiduciary functions, the limited training of these staff proved sufficient				
Comments at PPAR (including % achievement):				

Note: — = Not available; ICR = Implementation Completion and Results Report; IEG = Independent Evaluation Group; PDO = project development objective; PPAR = Project Performance Assessment Report.

**Table B.2. Delivery of Improved Local Services Project: M&E Framework**

	Baseline value	Target value	End value at ICR	End value at PPAR
<b>(1) PDO indicators</b>				
<b>1.1. Primary health care financing allocated according to capitation- and output-based formula (health, efficiency)</b>				
Value quantitative or qualitative	PHC providers paid only by salary	PHC providers paid according to output-based formula	PHC payment method includes an output-based component	PHC payment method continues to include an output-based component
Date achieved	06/2012	12/2013	03/2015	2018
Comments at ICR (including % achievement): output-based component was 8 percent of total payments in 2015				
Comments at PPAR (including % achievement): Information obtained during the PPAR mission				
<b>1.2. Central and local per capita funding formulas in the education sector piloted (education, efficiency)</b>				
Value quantitative or qualitative	Nonexistent	Piloting completed in 15 municipalities	Theoretical piloting started but actual piloting was not conducted in any of the municipalities	No advances in the use of per capita funding formulas in the education sector
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Not Achieved				
Comments at PPAR (including % achievement): source: Information obtained during the PPAR mission				
<b>1.3. Percent of children from vulnerable groups in project schools (vulnerable groups according to OECD classification: Category A – children with disabilities; B – children with learning difficulties; C – children from socioeconomically disadvantaged groups) (education, access for vulnerable groups)</b>				
Value quantitative or qualitative	3.2%–3.6%	7.5%	6.56%	—
Date achieved	06/2012	12/2013	03/2015	

Comments at ICR (including % achievement): Partially Achieved (the actual value achieved reached 8.44% in 2010/11; the final actual value achieved is in comparison with 4.11% for non-grant schools)				
Comments at PPAR (including % achievement): MOESTD has stopped using the OECD classification after the end of the project. The percentage of children with IEP1 and IEP2 in primary schools (an alternative indicator of inclusive education) has increased from 1.2 percent in 2013/14 to 2.4 percent in 2016				
<b>1.4. Percent of MOLEVSP financing allocated for Disabled Peoples Organizations (DOPs), allowing for equal access and improved transparency and based on results (social assistance, access for vulnerable groups)</b>				
Value quantitative or qualitative	20%	100%	100%	Continues at 100%
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement):				
Comments at PPAR (including % achievement): PPAR mission				
<b>1.5. Number of Roma children receiving vaccinations through the Roma health mediators (health, access for vulnerable groups)</b>				
Value quantitative or qualitative	0	18,795	30,018	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Exceeded				
Comments at PPAR (including % achievement):				
<b>1.6. Percent of primary health care centers receiving at least a three-year certificate of accreditation (health, quality)</b>				
Value quantitative or qualitative	0%	25%	40%	35%
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Exceeded				
Comments at PPAR (including % achievement): Data obtained during the PPAR mission				
<b>(2) Intermediate outcome indicators</b>				
<b>2.1. Legislative framework allows for capitation- and output-based formula (education and health, efficiency)</b>				
Value quantitative or qualitative	No legislative framework	Law passed and bylaw adopted to enable capitation	Law passed and bylaw adopted to enable capitation	The legal framework continues to enable capitation
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): achieved				
Comments at PPAR (including % achievement): Information obtained during the PPAR mission				
<b>2.2. Improved allocation framework for equalization funds developed (education and health, efficiency)</b>				
Value quantitative or qualitative	No clear methodology and criteria for equalization fund allocation	Framework with methodology and criteria for allocation of equalization funds developed	Framework with methodology and criteria for allocation of equalization funds developed	No advances in the equalization funds developed
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): achieved				
Comments at PPAR (including % achievement): Information obtained during the PPAR mission				
<b>2.3. Central and local formulas developed (education, efficiency)</b>				

Value quantitative or qualitative	Nonexistent	Formulas developed	Central formulas nearly completed, local formulas development initiated	No advances in the per capita funding formulas in the education sector
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Partially achieved				
Comments at PPAR (including % achievement): Information obtained during the PPAR mission				
<b>2.4. Number of educational institutions (schools and preschools) by type of grants (education, access for vulnerable groups)</b>				
Value quantitative or qualitative	0 EIs for schools without violence 0 EIs for inclusive education 0 EIs for inclusion of Roma children	37 EIs for schools without violence 330 EIs for inclusive education 196 EIs for inclusion of Roma children	560 schools o/w 37 EIs for schools without violence 330 EIs for inclusive education. 193 EIs for inclusion of Roma children	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): achieved				
Comments at PPAR (including % achievement):				
<b>2.5. Number of medical staff and associated trained to recognize needs of vulnerable groups (health, access for vulnerable groups)</b>				
Value quantitative or qualitative	0	2,000	2,000	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): achieved				
Comments at PPAR (including % achievement):				
<b>2.6. Percent of primary health care centers that have completed quality accreditation process (health, quality)</b>				
Value quantitative or qualitative	0%	50%	51%	85%
Date achieved	06/2012	12/2013	03/2015	2018
Comments at ICR (including % achievement): Achieved				
Comments at PPAR (including % achievement): Since the project closed, 54 more health institutions had pursued the accreditation process for 135 PHC centers. Thus, 135/158 = 85%				
<b>2.7. Number of PHC centers that have adopted clinical pathways (health, quality)</b>				
Value quantitative or qualitative	0%	50%	50%	85%
Date achieved	06/2012	12/2013	03/2015	2018
Comments at ICR (including % achievement): Achieved				
Comments at PPAR (including % achievement): as part of the accreditation process PHC adopt clinical pathways				
<b>2.8. Number of schools that have undergone a school performance external evaluation (education, quality)</b>				
Value quantitative or qualitative	0%	50%	100%	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Exceeded				
Comments at PPAR (including % achievement):				
<b>2.9. Number of training participants among education staff that have undergone development training organized by the project (education, quality)</b>				

Value quantitative or qualitative	0	23,000 participants (14,000 staff)	23,387 participants	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Achieved				
Comments at PPAR (including % achievement):				
<b>2.10. Number of Intersectoral Committees trained (education, access for vulnerable groups)</b>				
Value quantitative or qualitative	0	150	150	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Achieved				
Comments at PPAR (including % achievement):				
<b>2.11. Percent of PHC centers with fully operational Health MIS platform at the PHC level (health, quality)</b>				
Value quantitative or qualitative	0%	85%	96%	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Exceeded				
Comments at PPAR (including % achievement):				
<b>2.12. Central management information system (MIS) fully operational in all social protection institutions (social assistance, quality and efficiency)</b>				
Value quantitative or qualitative	Nonexistent	MIS established and introduced in all social protection institutions	MIS system developed and tested	MIS system not implemented
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Partially Achieved				
Comments at PPAR (including % achievement): Information obtained during the PPAR mission				
<b>2.13. Number of staff in social protection institutions trained and certified in the use of the centralized MIS (social assistance, quality and efficiency)</b>				
Value quantitative or qualitative	0	600 (2 to 3 persons in/across all locations in the country)	600 persons	—
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Achieved				
Comments at PPAR (including % achievement):				
<b>2.14. Centralized procurement of pharmaceuticals initiated (health, efficiency)</b>				
Value quantitative or qualitative	None	HIF awards framework agreements for at least 50 drugs from the B list	HIF awarded framework agreements for 50 most frequently dispensed drugs	HIF expands the use of framework agreements for the most frequently dispensed drugs
Date achieved	06/2012	12/2013	03/2015	
Comments at ICR (including % achievement): Achieved				
Comments at PPAR (including % achievement): The use of framework agreements contributed to reduced drug prices, on average, by 27 percent, and to reduce HIF pharmaceutical expenditure by €25 million per year				

Note: — = Not available; ICR = Implementation Completion and Results Report; IEG = Independent Evaluation Group; PDO = project development objective; PPAR = Project Performance Assessment Report.

## Appendix C. List of Persons Met

<i>Name</i>	<i>Designation</i>	<i>Institution</i>
Mr. Stephen Ndegwa	Country Manager	World Bank
Ms. Snjezana Plevko	Senior Economist, PARP task team leader	World Bank
Mr. Csaba Feher	Senior Economist IMF, PARP ICR author	IMF (former World Bank staff)
Mr. Truman G. Packard	Lead Economist, DILS task team leader	World Bank
Ms. Ana Holt	Senior Health Specialist DILS task team leader	World Bank
Mr. Michele Gragnolati	Practice Manager, HNP (DILS task team leader)	World Bank
Ms. Marijana Jašarević	Social Protection Specialist, former social protection and education component in DILS	World Bank
Mr. Saša Rikanović	Former DILS PCU Coordinator	World Bank
Mr. Simo Vuković	Current Second Serbia Health Project Financing Component Coordinator, former state secretary MOH during DILS	World Bank
Mr. Srdjan Svirčev	Senior Public Sector Specialist	World Bank
Ms. Ivana Aleksić	former World Bank staff and DILS CTL for education	World Bank (now British Council)
Mr. Nebojša Tomić	Director	CROSO
Ms. Dušica Šorgić,	Assistant Director	CROSO
Ms. Dragana Kalinović	Director	Pension Insurance Fund
Dr. Aleksandar Milošević	Assistant Director	Pension Insurance Fund
Ms. Sanja Radojević Škodrić	Director	Health Insurance Fund
Ms. Verica Cvetković	Assistant Director	Health Insurance Fund
Mr. Nemanja Jovčić	Assistant Director	Health Insurance Fund
Mr. Saša Dulić	Assistant Director	Tax Administration
Žanka Jovanović	Collection Department	Tax Administration
Goran Nikolić	Head at the ICT department	Tax Administration
Mihailo Jovanović	ICT department	Tax Administration
Miško Marković	Transformation department	Tax Administration
Žanka Jovanović	Audit Department	Tax Administration
Jasmina Todorović	Tax collection department	Tax Administration
Mr. Milan Đuretanić	Director of Development and ICT	National Employment Service
Ms. Snežana Kolaković Peurača	Head of the Department for the Insurance Rights in the Case of Unemployment	National Employment Service
Ms. Tanja Bajić	former DILS PCU Health	DILS-PMU
Ms. Borislava Maksimović	former DILS MOESTD PIU	DILS-PMU
Ms. Sanja Miloradović	former DILS MOESTD PIU	DILS-PMU
Mr. Mihajlo Babin	former DILS MOESTD PIU	DILS-PMU
Mr. Dušan Stojanović	Former DILS MOLESP PIU	DILS-PMU
Ms. Danijela Urošević	Assistant Minister	Ministry of Health
Ms. Vesna Knjeginjić	Assistant Minister	Ministry of Health
Mr. Dragan Djordjević	Health Mediators' Coordinator	Ministry of Health
Ms. Ana Marija Viček	State Secretary, pre-university education	Ministry of Education, Science, and Technological Development

<i>Name</i>	<i>Designation</i>	<i>Institution</i>
Ms. Gordana Cvetković	Head of Inclusive Education Unit	Ministry of Education, Science, and Technological Development
Mr. Bojan Komnenović	Ex per capita financing DILS component) currently Assistant at the Early Childhood Education and Development project	Ministry of Education, Science, and Technological Development
Ms. Vesna Nedeljković	Assistant Minister for Primary education, ex-director primary school Mihajlo Petrovic Alas (during DILS)	Ministry of Education, Science, and Technological Development
Mr. Vladimir Pešić	former Assistant Minister in Ministry of Labor, Employment, and Social Policy during DILS	Ministry of Trade, Tourism and Telecommunications
Ms. Mirjana Kecman	Former Head of Department in the MOLEVSP	Assistant Commissioner for Equality Protection
Ms. Tanja Tošić	Senior Associate	Agency for Accreditation of Health Care Institutions of Serbia
Ms. Marija Mitić	Senior Associate	Agency for Accreditation of Health Care Institutions of Serbia
Ms. Gordana Čaprić	Deputy Director	Institute for Education Quality and Evaluation
Ms. Olivera Todorović	Head of the Centre for Professional development	Institute for the Improvement of Education
Ms. Verica Jovanović	Acting Director	Institute for Public Health Batut
Ms. Milena Vasić	Head of Department for European Integrations, International Cooperation, and Project Management	Institute for Public Health Batut
Ms. Dragana Atanasijević	Public Health Specialist,	Institute for Public Health Batut
Mr. Ivan Ivanović	Head of ICT department	Institute for Public Health Batut
Ms. Mirjana Živković	Head of centre for analytics, planning, and organization of health care	Institute for Public Health Batut
Ms. Jasmina Tanasić	Head of the Department for Social Affairs, Secretary of the Health and Social Policy Committee	Standing Conference of Towns and Municipalities
Ms. Maja Knežević Romčević	Secretary of the Committee for Education, Culture, Sports, and Youth	Standing Conference of Towns and Municipalities
Ms. Ivana Maksić	Inclusion Coordinator	Standing Conference of Towns and Municipalities
Ms. Svetlana Vlahović	Vice president	National organization of persons with disabilities
Ms. Ivanka Jovanović	Executive Director	National organization of persons with disabilities
Mr. Božidar Nikolić	Teaching Assistant	Association of Teaching Assistants
Mr. Nenad Kostić	Teaching Assistant	Association of Teaching Assistants
Ms. Mersida Bislimi	Teaching Assistant	Association of Teaching Assistants
Ms. Seada Ajvazović	Teaching Assistant	Association of Teaching Assistants
Ms. Ceca Ilić	Teaching Assistant	Association of Teaching Assistants
Mr. Zoran Simonović	IT components user then and now	Primary Health Centre Savski Venac
Ms. Verica Milatović Jezdić	Clinical Pathway coordinator	Primary Health Centre Savski Venac
Ms. Manuela Ilić	School Principal of the DILS school grant recipient	Primary School Cirilo i Metodije Belgrade, Zvezdara
Ms. Radmila Kastratović	School Pedagogue of the DILS school grant recipient	Primary School Cirilo i Metodije Belgrade, Zvezdara

<i>Name</i>	<i>Designation</i>	<i>Institution</i>
Ms. Tanja Ranković	Education Specialist	UNICEF
Ms. Jelena Zajeganović-Jakovljević	Early Childhood Education and Development project Program Coordinator	UNICEF
Ms. Irena Radinović	Program Manager—Education	EU Delegation
Ms. Maja Vuckovic-Krčmar	Program Manager—Health	EU Delegation
Ms. Mirjana Maksimović	Program Manager—Social Inclusion	EU Delegation
Mr. Jovan Protic	ILO National Coordinator for Serbia	International Labour Office
Mr. Nikola Altiparmakov	Member of the Fiscal Council	Fiscal council of the Republic of Serbia