IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-40710)

ON A
CREDIT
IN THE AMOUNT OF SDR 16.6 MILLION
(US$ 25.0 MILLION EQUIVALENT)

TO
SERBIA AND MONTENEGRO

FOR A
CONSOLIDATED COLLECTION AND PENSION ADMINISTRATION REFORM PROJECT

March 29, 2013

Human Development Sector Unit (ECSHD)
South East Europe Country Unit
Europe and Central Asia Region
CURRENCY EQUIVALENTS
(Exchange Rate Effective 3/22/2013)
Currency Unit = Serbian Dinar
1 RSD = US$ 0.01
US$ 1.00 = RSD 86.63
SDR 1.00 = US$ 1.50

FISCAL YEAR
January 1 - December 31

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRA</td>
<td>Bank Rehabilitation Agency</td>
</tr>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CR</td>
<td>Central Registry of Mandatory Social Insurance</td>
</tr>
<tr>
<td>CTRLA</td>
<td>Financial Management</td>
</tr>
<tr>
<td>ECA</td>
<td>Europe and Central Asia</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FMS</td>
<td>Financial Management System</td>
</tr>
<tr>
<td>FMR</td>
<td>Financial Monitoring Report</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GOS</td>
<td>Government of Serbia</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association</td>
</tr>
<tr>
<td>IFR</td>
<td>Quarterly Financial Reports</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance and Economy</td>
</tr>
<tr>
<td>MOH</td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>MLESP</td>
<td>Ministry of Labor and Social Policy</td>
</tr>
<tr>
<td>NES</td>
<td>National Employment Services</td>
</tr>
<tr>
<td>PAD</td>
<td>Project Appraisal Document</td>
</tr>
<tr>
<td>PEIR</td>
<td>Public Expenditure and Institutional Review</td>
</tr>
<tr>
<td>PFM</td>
<td>Public Financial Management</td>
</tr>
<tr>
<td>PMU</td>
<td>Project Management Unit</td>
</tr>
<tr>
<td>PIO</td>
<td>Pension Insurance Fund</td>
</tr>
<tr>
<td>PIOF</td>
<td>Pension Insurance Fund for Farmers</td>
</tr>
<tr>
<td>PIOF</td>
<td>Pension Insurance Fund for Self-Employed</td>
</tr>
<tr>
<td>PRO</td>
<td>Public Revenue Office</td>
</tr>
<tr>
<td>PROST</td>
<td>Pension Reform Options Simulation Toolkit</td>
</tr>
<tr>
<td>QER</td>
<td>Quality Enhancement Review</td>
</tr>
<tr>
<td>RFHI</td>
<td>Republic Fund of Health Insurance</td>
</tr>
<tr>
<td>RPD</td>
<td>Republic Pension and Disability Insurance Fund</td>
</tr>
<tr>
<td>RSD</td>
<td>Serbian Dinar</td>
</tr>
<tr>
<td>SAP</td>
<td>Stabilization and Association Process (SAP)</td>
</tr>
<tr>
<td>SPEAG</td>
<td>Social Protection Economic Assistance Grant</td>
</tr>
<tr>
<td>SAC</td>
<td>Structural Adjustment Credit</td>
</tr>
<tr>
<td>SOSAC</td>
<td>Social Sector Adjustment Credit</td>
</tr>
<tr>
<td>TA</td>
<td>Tax Administration</td>
</tr>
<tr>
<td>NBS</td>
<td>National Bank of Serbia</td>
</tr>
<tr>
<td>QER</td>
<td>Quality Enhancement Review</td>
</tr>
<tr>
<td>XDR</td>
<td>Special Drawing Rights</td>
</tr>
</tbody>
</table>

Vice President: Philippe H. Le Houerou
Country Director: Ellen Goldstein
Sector Manager: Andrew D. Mason
Project Team Leader: Rajna Cemerska
ICR Team Leader: Rajna Cemerska
ICR Primary Author: Csaba Feher
SERBIA
Serbia Consolidated Collection and Pension Administration Reform Project

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MAP  IBRD 34847R
A. Basic Information

Country: Serbia  
Project Name: Consolidated Collection & Pension Administration Reform Project (Serbia)

Project ID: P090418  
L/C/TF Number(s): IDA-40710

ICR Date: 03/27/2013  
ICR Type: Core ICR

Lending Instrument: SIL  
Borrower: SERBIA AND MONTENEGRO

Original Total Commitment: XDR 16.60M  
Disbursed Amount: XDR 16.26M

Revised Amount: XDR 16.26M

Environmental Category: C

Implementing Agencies:

Cofinanciers and Other External Partners:

B. Key Dates

<table>
<thead>
<tr>
<th>Process</th>
<th>Date</th>
<th>Process</th>
<th>Original Date</th>
<th>Revised / Actual Date(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>03/09/2005</td>
<td>Restructuring(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval</td>
<td>05/31/2005</td>
<td>Mid-term Review:</td>
<td></td>
<td>09/28/2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Closing:</td>
<td>09/30/2010</td>
<td>09/30/2012</td>
</tr>
</tbody>
</table>

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes: Moderately Satisfactory
Risk to Development Outcome: High
Bank Performance: Moderately Satisfactory
Borrower Performance: Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Ratings</th>
<th>Borrower</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality at Entry:</td>
<td>Moderately Satisfactory</td>
<td>Government:</td>
<td>Moderately Satisfactory</td>
</tr>
<tr>
<td>Quality of Supervision</td>
<td>Moderately Satisfactory</td>
<td>Implementing Agency/Agency:</td>
<td>Satisfactory</td>
</tr>
<tr>
<td>Overall Bank Performance:</td>
<td>Moderately Satisfactory</td>
<td><strong>Overall Borrower Performance:</strong></td>
<td>Moderately Satisfactory</td>
</tr>
</tbody>
</table>
C.3 Quality at Entry and Implementation Performance Indicators

| Potential Problem Project at any time (Yes/No): | None |
| Problem Project at any time (Yes/No): | Quality at Entry (QEA): None |
| DO rating before Closing/Inactive status: Moderately Satisfactory |

D. Sector and Theme Codes

| Sector Code (as % of total Bank financing) | Original | Actual |
| Banking | 3 | 3 |
| Central government administration | 21 | 21 |
| Compulsory pension and unemployment insurance | 76 | 76 |

| Theme Code (as % of total Bank financing) | Original | Actual |
| Administrative and civil service reform | 50 | 50 |
| Social risk mitigation | 50 | 50 |

E. Bank Staff

| Positions | At ICR | At Approval |
| Vice President: | Philippe H. Le Houerou | Shigeo Katsu |
| Country Director: | Ellen A. Goldstein | Orsalia Kalantzopoulos |
| Sector Manager: | Andrew D. Mason | Hermann A. von Gersdorff |
| Project Team Leader: | Rajna Cemerska-Krtova | Snjezana Plevko |
| ICR Team Leader: | Rajna Cemerska-Krtova |
| ICR Primary Author: | Csaba Feher |

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)
The development objective of the proposed project would be to improve the effectiveness and efficiency of the pension system through the modernization and streamlining of the institutional capacity in the pension system, improved pension system administration, developed capacity for policy identification, analysis and monitoring and increased public understanding of the system.

Revised Project Development Objectives (as approved by original approving authority)
PDOs were not revised.
(a) PDO Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 1 : Effectiveness of administration improved measured by administrative costs/pension expenditures.</td>
<td>4%</td>
<td>2.5%</td>
<td>n/a</td>
<td>1.5%</td>
</tr>
<tr>
<td>Date achieved</td>
<td>In 2012, Borrower and Bank teams, to improve international comparability and consistency of this indicator, agreed to actually revise the original 2005 baseline figure from 4% to 2.2% (in 2005), and the end target value from 2.5% to 1.5% ACHIEVED</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td>01/23/2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicator 2 : Progress in administrative consolidation of the three PIOs.</td>
<td>0% administrative consolidation</td>
<td>100% administrative and financial consolidation</td>
<td>n/a</td>
<td>100% administrative and financial consolidation</td>
</tr>
<tr>
<td>Date achieved</td>
<td>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</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td>01/23/2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicator 3 : Regular monthly reporting on pension contributions paid on individual basis introduced and individual pension accounts established</td>
<td>no monthly reporting on individual basis; no individual accounts</td>
<td>monthly reporting and individual accounts functioning</td>
<td>n/a</td>
<td>monthly reporting and individual accounts postponed until full implementation of the CRIS</td>
</tr>
<tr>
<td>Date achieved</td>
<td>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. PARTIALLY ACHIEVED</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td>09/24/2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicator 4 : Reduced employers' reporting burden, measured by fewer reporting forms required.</td>
<td>28 types of forms submitted annually</td>
<td>17 types of forms submitted annually</td>
<td>n/a</td>
<td>17</td>
</tr>
<tr>
<td>Date achieved</td>
<td>ACHIEVED</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments</td>
<td>09/24/2012</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Indicator 5:** Improved client service in the pension system measured by number of resolved cases per employee.

<table>
<thead>
<tr>
<th>Value quantitative or Qualitative</th>
<th>220</th>
<th>220</th>
<th>n/a</th>
</tr>
</thead>
</table>

Date achieved: 09/24/2012

Comments: Teams agreed to introduce additional more precise indicator which measures annually resolved cases per case officers which has increased from 1,560 in 2007 to 1,840 in 2011-2012.

**Achieved**

**Indicator 6:** The MLESP policy analysis capacities built; long- and short-term actuarial models of the pension system developed in MLESP and the MLESP, PIO and MOF staff trained in using them.

<table>
<thead>
<tr>
<th>Value quantitative or Qualitative</th>
<th>LT model developed, no ST model; no capacity</th>
<th>Short-term actuarial models operational, regularly updated and used</th>
<th>LT and ST models operational, regularly updated and used as a basis for policy developments</th>
</tr>
</thead>
</table>

Date achieved

Comments: ACHIEVED

**Indicator 7:** Web publication containing updated monthly data available.

<table>
<thead>
<tr>
<th>Value quantitative or Qualitative</th>
<th>web publication not designed</th>
<th>web publication established</th>
<th>Web publication established</th>
</tr>
</thead>
</table>

Date achieved: 09/24/2012

Comments: ACHIEVED

**Indicator 8:** Further pension reform measures to improve long-term sustainability, adequacy and transparency of the pension system identified.

<table>
<thead>
<tr>
<th>Value quantitative or Qualitative</th>
<th>Total pension expenditures to GDP ratio 15%</th>
<th>Total pension expenditures to GDP ratio 12%</th>
<th>Total pension expenditures to GDP ratio 12%</th>
</tr>
</thead>
</table>

Date achieved: 09/24/2012

Comments: 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 PDI which is
### Indicator 9:
Increased public information on pension system due to the public better informed.

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>15% of population confirms to be informed on pension system</th>
<th>the first baseline survey conducted in 2008 indicated that 45% of population is informed about the pension system</th>
<th>56% of the population confirms to be informed on pension system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date achieved</td>
<td></td>
<td></td>
<td>09/24/2012</td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td></td>
<td></td>
<td>ACHIEVED</td>
</tr>
</tbody>
</table>

### Indicator 10:
Improvement in the rate of collection of pension contributions.

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>n/a</th>
<th>Collection rate improved by 10% substituted by improved compliance rate p.p. in comparison to baseline total comparison rate is 89.9%</th>
<th>Compliance rate improved by 7.6%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date achieved</td>
<td></td>
<td></td>
<td>09/24/2012</td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td></td>
<td></td>
<td>ACHIEVED</td>
</tr>
</tbody>
</table>

Since baseline value was not set, teams agreed on compliance definition – ratio of covered to actual wage bill the reconstruct the baseline and re-calculate current/past year values resulting in baseline 82.8%, and target value at 89.9%.

### (b) Intermediate Outcome Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 1:</td>
<td>Feasibility study completed and the institutional framework for the new system identified.</td>
<td>No decision on the institutional and organizational setting of the new reporting and record-keeping system for individual contributions and PIT</td>
<td>New system fully implemented</td>
<td>Decisions reached concerning the design of the new reporting and record-keeping system.</td>
</tr>
<tr>
<td>Date achieved</td>
<td></td>
<td></td>
<td>n/a</td>
<td></td>
</tr>
<tr>
<td>Comments (incl. %)</td>
<td>Although Feasibility study was completed in 2008 and new system identified, real time system implementation depends on legislative changes to allow actual</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicator 2</td>
<td>Regular monthly reporting on pension contributions paid on individual basis introduced and individual pension accounts established.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>-------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value (quantitative or Qualitative)</td>
<td>Annual reporting by employers and no individual accounts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date achieved</td>
<td>09/24/2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td>Due to delay in the legal processes and need to increase public readiness and capacity for monthly individualized submission of contribution data, the actual launch of the new system is postponed for until end of 2013.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicator 3</th>
<th>Pension administration processes streamlined and modernized.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (quantitative or Qualitative)</td>
<td>n/a</td>
</tr>
<tr>
<td>Date achieved</td>
<td></td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td>Although baseline not set, it was integration of three segregated PIOs and improved client service (percentage of resolved clients' requests in 2 month response time), set at 55% (2007). Until project closing actual value improved to 78%.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicator 4</th>
<th>Actuarial models of the pension system developed and the MLSP, PDI Fund and PSA staff trained in using them and developing options for further policy changes Public knowledge on PAYGO pens.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (quantitative or Qualitative)</td>
<td>LT model developed, no ST model; no capacity</td>
</tr>
<tr>
<td>Date achieved</td>
<td>09/24/2012</td>
</tr>
<tr>
<td>Comments</td>
<td>ACHIEVED</td>
</tr>
</tbody>
</table>
**Indicator 5:** 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.

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>2 staff members trained</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date achieved</td>
<td>09/24/2012</td>
</tr>
<tr>
<td>Comments (incl. % achievement)</td>
<td>Given that the M&amp;E functions have been performed by the Policy Unit at the MoELSP, and that the PMU staff consisted of local consultants hired to perform the fiduciary functions, the limited training of these staff proved sufficient.</td>
</tr>
</tbody>
</table>

**G. Ratings of Project Performance in ISRs**

<table>
<thead>
<tr>
<th>No.</th>
<th>Date ISR Archived</th>
<th>DO</th>
<th>IP</th>
<th>Actual Disbursements (USD millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>06/28/2005</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>0.00</td>
</tr>
<tr>
<td>2</td>
<td>06/01/2006</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>0.00</td>
</tr>
<tr>
<td>3</td>
<td>10/09/2006</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>0.38</td>
</tr>
<tr>
<td>4</td>
<td>07/05/2007</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>0.38</td>
</tr>
<tr>
<td>5</td>
<td>01/31/2008</td>
<td>Unsatisfactory</td>
<td>Unsatisfactory</td>
<td>1.46</td>
</tr>
<tr>
<td>6</td>
<td>06/06/2008</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>2.27</td>
</tr>
<tr>
<td>7</td>
<td>05/01/2009</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>6.09</td>
</tr>
<tr>
<td>8</td>
<td>08/31/2009</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>7.58</td>
</tr>
<tr>
<td>9</td>
<td>04/26/2010</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>8.78</td>
</tr>
<tr>
<td>10</td>
<td>12/01/2010</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>11.03</td>
</tr>
<tr>
<td>11</td>
<td>07/10/2011</td>
<td>Moderately Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>14.66</td>
</tr>
<tr>
<td>12</td>
<td>03/03/2012</td>
<td>Moderately Satisfactory</td>
<td>Satisfactory</td>
<td>20.13</td>
</tr>
<tr>
<td>13</td>
<td>10/09/2012</td>
<td>Moderately Satisfactory</td>
<td>Moderately Unsatisfactory</td>
<td>23.31</td>
</tr>
</tbody>
</table>

**H. Restructuring (if any)**

Not Applicable
I. Disbursement Profile
1. Project Context and Development Objectives

The Consolidated Collection and Pension Reform Administration Project was approved on May 31, 2005 and became effective on June 22, 2005. The project had two twelve month extensions and closed on September 30, 2012.

In the early 2000’s, Serbia struggled with fiscal problems resulting in public debt reaching 60 percent of GDP and deficits as high as 10.7 percent (2004). The necessary fiscal consolidation could not be completed without reform of the public pension system: in 2004 – at the time of Project preparation – pension expenditures accounted for 16 percent of GDP\(^1\), an exceedingly high amount in comparison with other countries. The pension system could only generate contribution revenues sufficient to finance the outlays, resulting in a deficit equal to 5.5 percent of GDP.

In order to address the financial imbalances of the pension system, the Government introduced various expenditure side reforms: 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 in order to curtail unjustified benefit uptake. In addition, a wage indexed minimum benefit and a point system, which can contribute to the long-term sustainability of the system, were introduced. Since pension expenditures are determined by the stock of beneficiaries, while the reform measures mostly affected new retirees, it was clear that the pension system’s financial position could not be expected to improve in the short run: revenue side measures would also be necessary.

Under-reporting contribution liable income and informality in the labour market were widespread, with only 60 percent of the labour force paying pension contributions. 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 two administrative organizations using different IT platforms and operational procedures. The timely reporting and recordkeeping of individualized and verified monthly contribution records was viewed as having significant potential to improve compliance and make enforcement more effective.

In addition to the parametric reforms and improving the effectiveness of contribution collections, further institutional reforms were also viewed as necessary: the clarification of the respective roles of the Tax Administration and the pension funds with regard to collecting and processing contribution data (which also determines future pension entitlements); unification of the three pension funds and their two administrative organizations; improving the quality of service provided to both contributors and beneficiaries; and introducing modern reporting systems enabling informed decision-making by government ministries and affording contributors ready access to their individual contribution records.

\(^1\) The Borrower has noted that it believes that net pension spending that year was somewhat less than 11 percent.
Furthermore, in order to foster the development of sustainable pension policies and the safe operation of the nascent private pension industry, quantitative modeling capacities at the Ministry of Labour, Employment and Social Policy (MLESP) were called for, as well as assistance in developing an effective regulatory and institutional framework at the National Bank of Serbia (NBS) for licensing and supervising voluntary pension schemes.

Responding to the above issues and goals, the Project was designed to achieve the following Development Objectives (DOs):

- Improved effectiveness and efficiency of the pension system of the Republic of Serbia;
- Efficiency and effectiveness of the collection system and administration of individual accounts;
- Improvements to the pension system’s administrative efficiency
- Capacity for pension system analysis, policy development and public education built at MLES;
- Supervisory capacity built for the oversight of voluntary private pension schemes.

The design of the Project followed from the above objectives.

1.1 Context at Appraisal

Country and Sector Background
With the commencement of the 2001 economic program, Serbia embarked on a number of structural reforms aiming at macroeconomic stabilization, rapid transition to a market economy, the normalization of relations with foreign creditors, and integration with regional, EU and world markets. Although significant progress was achieved, enduring macroeconomic stability and sustainable economic growth required further adjustments. This was particularly true with respect to the growing deficit (which increased from 3.9 percent of GDP in 2000 to 10.7 percent by 2004) and the resurgence of inflationary pressures in 2004. Public debt reached 60 percent of GDP and public expenditures grew to 45 percent of GDP by 2004; therefore, Serbia needed to give priority to a credible fiscal consolidation.

The Serbian pension system, consisting of three separate pension schemes, was imposing a significant burden on the Government’s fiscal accounts, with total expenditures rising from 11.2 percent of GDP in 2001 to almost 16 percent of GDP in 2004 and a combined deficit of 5.5 percent of GDP. The main scheme, the Employees’ Fund, which collected contributions from about 1.5 million contributors and paid benefits to 1.2 million beneficiaries, was the largest of the three schemes. It was also the largest contributor to the pension system’s deficit, at 5 percent of GDP. The second largest scheme, the Fund for Self-Employed, had 250,000 contributors and 44,000 beneficiaries. The Farmers’ Fund had 217,000 beneficiaries, but covered only 13 percent of its expenditures from contributions, relying heavily on transfers from the general budget for its support. The benefit assessment and eligibility rules of all three schemes were reformed by the Law on Pension and Disability Insurance (Pensions Law) passed in 2003 and by the Law on Compulsory Social Insurance Contributions (Contributions Law) passed in 2004. The major changes in the Pensions Law were the following:

- increase in the retirement age to 63 for men and 58 for women with a minimum 20 years of service;
- increase in the minimum age at which people with long service histories (40 years for men and 35 years for women) can draw pensions;
- increase of the pension assessment period from the best 10 consecutive years to a career average;
- shift to a point system, whereby pension rights accrue in line with relative contribution performance;
- shift from indexation of pensions to average wage growth to indexation of pensions to a mixture of 50 percent inflation and 50 percent nominal wage growth;
- the criteria for determining disability were tightened, sharply reducing the number of new disabled; and
- a minimum pension was established at 20 percent of average wage.

The Contributions Law also increased the contribution rate for pensions to 22 percent (equally split between employer and employee) from the previous 20 percent. Additional contributions were established for occupations which earn early retirement or faster accrual of pension rights. Furthermore, a minimum contribution base was introduced, at 40 percent of average wage, while a contribution ceiling was also established, at five times the average wage.

The above reforms reduced the deficit forecast for 2010 of 10.3 percent to 6.4 percent of GDP. While 6.4 percent was significantly lower than the original projection, it was still high: a critical factor for both current and future deficits was the lack of full compliance. At the time of Project preparation, less than 60 percent of the labour force was contributing. With the lack of an individualized database, the information needed for enforcement efforts did not exist. Before the commencement of the Project, the Tax Administration collected pension contributions. While the Tax Administration had records on aggregate taxes and contributions collected from the employers, there was no information on the individual employees and their covered wages. This information was supposed to be provided by the employer to the respective pension fund once a year, however, significant delays in both submission and processing of the forms was observed. Even when the information was received in a timely fashion, the pension funds’ different registration and reporting systems stood in the way of cross-checking information and subsequent enforcement.

In addition to the pension funds, there were also health and employment funds, making a total of six institutions in Serbia requiring similar information, without any one of them possessing the financial and organizational strength or the legal mandate to do the record-keeping for all the other agencies. Consequently, the Government made a decision to consolidate the three pension funds both administratively and financially, and to introduce a consolidated contribution collection system, which could potentially be merged with income tax collection.

It was also recognized that analytical capacity would need to be built within the Government so that the medium and long-term impact of demographic, macroeconomic and policy changes on pension provision could be determined. In this respect, the development of a quantitative, actuarial model was crucial, as well as training in its use for government officials who could regularly update the model’s assumptions, code in the regulatory changes and run the necessary sensitivity and scenario analyses, as required by policymakers.

Serbia introduced privately managed, fully funded supplementary pension schemes in 2006 in order to foster self-reliance amongst the elderly and to further the development of the financial services industry. The new industry and its products required regulations and a supervisory agency capable of enforcing operating rules in order to protect members’ interests and the
industry’s development. The timing of the Project was appropriate to provide technical assistance to address both the modeling and the regulatory capacity building needs of the client.

**Rationale for Bank Involvement**
The World Bank was a leader in technical pensions systems advice among donors, with a history of previous engagements in Serbia (see box below) and a number of projects of a similar nature in other countries (Hungary, Croatia, Macedonia, Montenegro, etc.). The Government viewed the administrative modernization of the pension system as a crucial element of pension policy reforms, thus an opportunity presented itself for a timely and meaningful intervention through an investment Project, building on the improved policy environment. The Project was designed to strengthen the policy reforms developed under the World Bank’s preceding operations and to seize the opportunity of Government readiness to address the need for improved administrative capacity and modernization of the pension system. The Project supported the implementation of the pension reform undertaken by the Government, through improved collection performance, better services to pensioners and contributors, reduced administrative burden for businesses and individuals, higher transparency and integrity in the administration of the pension system and a more developed financial sector and capital markets.
Prior to the Project, the World Bank had already been providing assistance to the Government to improve the performance and sustainability of the pension system through several World Bank-financed adjustment lending operations.

*Structural Adjustment Credit (SAC I).* SAC I supported the Government in the pension policy area and helped in preparing the Pensions Law, which introduced parametric adjustments aimed at improved equity and sustainability. In addition, SAC I supported reforms aimed at improving the administrative efficiency of the existing system, including efforts to ensure that there was no deterioration in the timeliness of pension payments and in the transfer of health contributions for pensioners.

The *Social Protection Economic Assistance Grant (SPEAG)* was a combined adjustment and technical assistance operation which provided support to early social sector reforms. SPEAG supported the reform of the pension system by providing technical support for diagnostic work on PAYGO parametric reform options, as well as for initial design and legal work on the voluntary pension pillar. Work under SPEAG also assisted the Government in the preparation of analytical foundations for initial pension reform steps, as well as in the identification of voluntary pension system options, their evaluation and the preparation of the drafts of the new pension legislation.

*Social Sector Adjustment Credit (SOSAC).* SOSAC provided considerable support for pension reform efforts in Serbia. The Credit assisted the Government in the development of pension policy with an emphasis on: (i) identification and enactment of the parametric changes in the PAYGO pension system legislation; (ii) expansion of the contribution base, elimination of contribution exemptions, harmonization of the contribution rates and calculation bases across all categories of contributors (Contributions Law); (iii) creation of legal foundations for integration of the system of social contributions administration and database management (Contributions Law and sector-specific laws); (iv) reduction of pension arrears (Contributions Law); (v) design and development of the voluntary pension system legislation; and (vi) administrative efficiency improvements in the pension system by preparing and adopting a program for consolidation of the existing three PAYGO pension funds.

The Project built on these operations by providing further technical assistance, equipment and training needed to improve the administration of the pension system, initiating development of a sound administrative infrastructure for systemic reform in the future, and helping implement the new policy framework.

The Project was essential to the achievement of the objectives of the FY2005-2007 CAS period: its concept was consistent with the goals of the EU Stabilization and Association Process (SAP) and the PRSP, on which the Government’s reform program was built. These goals were:

(i) creating a smaller, more sustainable, and more efficient public sector;
(ii) creating a larger, more dynamic private sector; and
lowering poverty levels and improving social protection and access to public services. The Project was designed to contribute to all of these goals, via support to the Government’s strategy and main priorities underlined in the CAS.

1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)

The Project development objectives, as defined in the Project Appraisal Document (PAD), were 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 Republic of 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. Achievement of the above PDO was to be verified using the following indicators:

(i) effectiveness of administration improved, measured by the ratio of administrative/operating costs to pension benefit expenditures; (effectiveness and efficiency)
(ii) progress in administrative consolidation of the three PIOs; (effectiveness and efficiency)
(iii) regular (monthly) reporting of individual pension contributions paid and individual pension records established; (sustainability)
(iv) employers’ reporting burden reduced, as measured by fewer reporting forms required; (efficiency)
(v) improved client service in the pension system measured by the number of cases per administrative employee; (efficiency)
(vi) MoLSP policy analysis capacities built: long- and short-term actuarial models of the pension system developed in MoLSP and experts of MoLSP, PIO and MOF staff trained in using them; (sustainability)
(vii) web publication containing updated monthly data available to contributors; (sustainability)
(viii) further pension reform measures to improve the long-term sustainability, adequacy and transparency of the pension system identified; (sustainability)
(ix) increased public awareness of the pension system and its reform due to the public education campaigns; (sustainability and effectiveness)
(x) and improvement in the rate of collection of pension contributions (sustainability and efficiency)

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

There were no changes in the development objectives or the key indicators during Project implementation.

1.4 Main Beneficiaries

The three primary target groups of Project beneficiaries were individual contributors, employers and pensioners. The taxpayers - through improved compliance and recordkeeping - would enjoy the benefits of a more stable pension system, which would require no ad-hoc revenue or expenditure side adjustments in order to maintain its fiscal sustainability. They would also have
ready access to their contribution records, enabling them to compare payroll deductions to contributions recorded and to assess better their expected future pension benefit. Employers would face lighter reporting burdens, saving labour and operating expenses, while a more responsive, accurate and faster Pension Insurance Fund (PIO) would serve pensioners.

The main institutional beneficiary agencies were the public pension funds administering the Employees’ Fund, the Fund for the Self-Employed, and the Farmers’ Fund, the Department for Pensions and Disability Insurance of MLESP, the Ministry of Finance and the National Bank of Serbia. The unified Fund PIO would be able to serve better its core functions: recording accrued rights, assessing, maintaining and paying benefits, as well as controlling eligibility. MLESP better meet its analytical functions with regard to pension policy review and development and could also exercise more efficient oversight of a single PIO. MOF, as the agency responsible for short- medium and long-term fiscal policy and annual budgets, could rely on models of expected contribution revenues and benefit outlays and, consequently, formulate fiscal and pension policies which meet standards of sustainability, adequacy, equity and transparency. The National Bank of Serbia participated in the Project as the regulatory and supervisory agency of the emerging voluntary pension industry.

1.5 Original Components (as approved)

The Project had four components.

Component 1: Consolidation of Collection and Reporting (US$11.42 million).
This component financed system design, capacity building in the collecting institution, including
(a) database development,
(b) design of the new reporting form, its testing and implementation
(c) training of employers in using the new system,
(d) development of communication links with all data users and upgrade of their systems to enable flows and processing of the data.

The component was structured in two parts (A1 and A2), where part A1 was used to assist the Government in making critical decisions with respect to this component and for the preparation of the detailed design for part A2 of the component.

Part A1: Identification of Requirements and Systems. Part A1 financed an in-depth feasibility study that enabled the Government to make the decision on the frequency of individual reporting, the scope of reporting and implementation arrangements for the new system. Once the study was completed, a detailed design of the new system of collection and reporting and a detailed procurement plan for the implementation of part A2, acceptable to IDA was produced.

Part A2: Development and Implementation of the Central Registry and the new Collection and Reporting System. Part A2 was designed to support the development and implementation of the Central Registry and the new system of collection and reporting, as well as the strengthening of administrative and operational capacities for collection.

Component 2: Consolidation and Institutional Strengthening of the PAYGO Pension Funds (US$11.40 million). This component supported:
The new strategy was intended to refocus the unified pension fund’s activities on a narrower range of core functions to be carried out with substantially increased efficiency and security. The component was to finance the costs of staff retraining associated with the transition to a new set of core functions and potential severance payment.

Component 3: Pension Policy Analysis and Development (US$1.83 million). This component had two sub-components: Strengthening Capacity for Policy Analysis and Support to Voluntary Pension System Development.

Component 4: Project Coordination and Management (total US$0.73 million). Project coordination and management was conducted within the Serbian institutional framework. Line ministries and agencies were in charge of preparing the TORS for the employment of consultants and training and specifications for the procurement of works and goods under the Project. Procurement and financial management functions were delegated to the existing PMU in the Bank Rehabilitation Agency. This component financed incremental operating costs of the PMU, training, goods, software, and regular annual audits of the Project.

1.6 Revised Components

There were no revisions to the components of the Project

1.7 Other significant changes

In terms of design, scope, scale and implementation arrangements, there were no revisions during Project implementation. However, there were two significant changes: to the duration of the Project and to the indicators.

The Project was scheduled to close on September 30, 2010, but this date had to be extended twice: the closing date was first moved by 12 months and later by a further 12 months, to September 2012. The extensions became necessary because implementation of the Project started slowly – with a delay of almost two years due to political reasons (elections) and institutional uncertainties (as to the division of labour and responsibilities across beneficiary institutions). Furthermore, as the Project proceeded, the technical complexity of the contribution administration and central registry components became more apparent and required more time.

One of the monitoring indicators - caseload per administrative employees - was revised in 2012 based on agreement between the client and the World Bank team, due to the difficulty of monitoring the original indicator. The new indicator was total cases closed within the calendar year. No new baseline was established for this indicator.
1.8 Design

The design of the Project was appropriate. It supported the Government’s emerging policy reform which included modernizing the existing defined benefit pay-as-you-go public pension system and introducing voluntary private pension schemes. The Project was also intended to fit into the Government’s agenda of revenue administration reform and countering the widespread informality in the labor market.

The design of the Project was timely and contained appropriate components for supporting the Government’s policy reforms:

First, the registration of contributors – including changes in their employment status – had to be improved, since in the absence of registries capable of supporting compliance control, the fiscal room for policy reform could not be created. It was understood by the project preparation team that creating the necessary inter-institutional cooperation necessary to streamline the operations of the pension and health funds with those of the tax administration would be time-consuming, and that the registry could not wait for the emergence of such consensus. Thus, the project was designed to come up with the optimal unified registration and collection system model for the social security schemes and to start its implementation, focusing in particular on those objectives which could be achieved before a larger-scale agreement could be reached among the agencies concerned. It was recognized by the World Bank team that this process was not only crucial for the reform but was also an area where providing the necessary technical advice and financing for the necessary investments would make the difference between success and failure to realize this crucial precondition for broader sectoral and fiscal reform.

Second, the Project also supported the unification and modernization of the databases and business processes in the head offices of the Pension and Disability Insurance Fund in Belgrade and Novi Sad. There was no rationale for operating two funds, observing the same laws but administered through different information technology platforms. At the same time, both the unification and establishment of paperless administration of rights accrual and claims assessment required substantial technical expertise and financial resources which, at the time, were not available to the pension scheme administrator. Therefore, the Project design addressed the need for substantial pension system administration improvements in terms of claim processing time, operational security and speed, ability to exercise internal controls, and responses to clients.
2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

The Project was prepared in response to a request from the Government of Serbia. By this time (2004), many ECA countries had implemented pension reforms affecting both the structure of the pension system and the parameters of the existing pay-as-you-go social security scheme. These reforms brought to light administrative deficiencies and inefficiencies, which became particularly visible given the structural changes of the previous decade, the deteriorating demographic situation and volatile labour markets.

In the case of Serbia, the policy reforms implemented between 2003 and 2006 aimed at: (a) strengthening the link between career contribution performance, accrued rights and benefits earned through the introduction of a point system; and (b) the introduction of privately managed, defined contribution pension arrangements on a voluntary basis to augment state pensions. These objectives could only be met if the administrative framework of the pension system improved, and collection performance improved.

In terms of unifying contribution reporting and collection, the Project took a staggered approach both in term of process and of objectives. The Project aimed to establish a central registry of contributors and insurers in order to reduce discrepancies among agency-specific registries, improve the room for cross-checking data regarding changes in employment status and the reported contribution base, and to reduce the number of reports contributors had to file with public agencies. In a related but separate objective, the Project also sought to unify contribution reporting and collection so that monthly contribution payments could be reconciled with monthly, individualized records, contributions could be attributed consistently to individuals, time periods and types of insurance. As a consequence, a unified registry and a unified, monthly, individualized reporting and collection system were introduced. Individual contribution records (“accounts”) were expected, which would be intended to improve tax payer awareness, the individual’s oversight of contribution payments, enable active workers to assess their expected pension rights who, in turn, could adjust their labour supply strategies in light of their individual welfare prerogatives.

The Project was designed in a way so that the operational objectives, actual institutional arrangements and technical specifications of both the unified registry and the unified contribution reporting system would be developed within the Project (Component 1, Part A). Once the design of the new system, the institutional division of labour and the specifications were acceptable to the client, implementation (Component 1, Part B) could commence. This arrangement reflected the fact that ultimate responsibility laid with the Government for designing a system that would be sustainable in the long run. However, with hindsight it may be considered that the Project preparation team paid insufficient attention to the largest component, which entailed a major tax administration reform.

The strongest design features of this Project were its critical contribution to creating the enabling conditions for pension reform and the improved revenue generating capacities and sound
integration of IT and organizational elements. The team took into full account the risks related to political uncertainties and administrative capacity constraints and sought to mitigate them with an intensive dialogue and supervision schedule.

The Project underwent a Quality Enhancement Review (QER). The panel agreed that the Project was designed to address well the needs of the client and was aligned with the objectives of the Serbian pension reform to the extent that they had been developed at that time. The panel suggested that considerable flexibility and contingency planning be incorporated into the operation and also recommended that the Project incorporate a specific focus on helping the government to institute the system of standardized regular reporting on pension system trends within the capacity building component.

The Project Appraisal Document incorporated most of the above recommendations.

2.2 Implementation

Implementation started slowly. An initially weak Project management structure, slow decision making on the model to be used for the consolidated collection of all social contributions, internal power struggles among institutions competing to house the unified registry, coupled with a lack of clarity concerning the beneficiary agencies’ division of labour resulted in serious delays. Given that the first year of implementation saw little progress, the Project was downgraded to unsatisfactory. The Project also suffered from the consequences of the general elections, including the slow formation of a new Government. Once appointed, the new Government established a Steering Committee, which, in turn, appointed a new Project Director with ready access to decision-makers to speed implementation.

In summary, the political risks - which were foreseen in the PAD, but were beyond the team’s control - cost two years in delay, which was particularly problematic because of the time needed to design and implement the unified registry and record keeping systems. Eventually, implementation took new impetus in early 2008, partly as a result of the improved coordination among the beneficiary institutions and concerted efforts by the new Project management structure, and partly because of the World Bank team’s frequent visit and consultation. Formation of a new Government and the intense and frequent dialogue of the World Bank team with the beneficiary institutions led to the accelerated commitment of Project funds and, subsequently, to consistently higher ratings, ranging between marginally satisfactory and satisfactory.

One of the first major decisions reached in 2008 was the institutional location of the new unified registry. The concerned agencies – the unified pension insurance fund, the health insurance fund, the employment fund and tax office – 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 also had to give up some of their earlier – actual or notional – control over the contribution recording and collection of their own revenue. This generated a lengthy decision-making process to find a solution acceptable to all parties. The option finally approved was the creation of a new agency - the Central Registry - independent from all the existing stakeholders but servicing each of them. This decision was crucial for moving Component I forward.
In the meantime, the two remaining components – institutional unification of the segregated pension insurance funds and the modelling and regulatory capacity building – proceeded as originally planned. By 2009, the three pension insurance funds merged into a unified PIO; the pension scheme regulatory unit within the National Bank of Serbia was established and in receipt of technical assistance; and the Department for Pension Policy became operational in the MLESP.

Despite the progress achieved from 2008 on, by early 2011 it became obvious that meeting the PDOs would require additional time, so that the two years lost at the beginning of the Project’s implementation could be compensated for. Consequently, a one-year extension was granted with a revised completion date of September 30, 2011, followed by an additional extension of another one year. Eventually, the extensions could only partially make up for the delays at the start of the Project. Despite the delays, there was no need for any other form of Project restructuring, since its original objectives appeared both relevant and achievable.

During implementation, Implementation Status Reports (ISRs) were duly filed and reviewed and commented on by the World Bank’s management. The World Bank team followed the recommendations and devoted time and resources to Project supervision beyond the formal supervision missions.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

The PDO was defined in a way which made measuring its achievement straightforward. The key indicators were fully in line with the PDO and could be translated into appropriate and measurable indicators of progress. Progress towards achieving the PDO was regularly monitored and reported in ISRs. In a few cases, the intention to create quantitative indicators resulted in target values that were difficult to measure or interpret in a meaningful manner (such as the progress in administrative consolidation). While most indicators were appropriate, a few examples are given below of indicators that presented some difficulties:

*Progress in administrative consolidation of the three PIOs* was measured in terms of percentages of completion (e.g. “30 percent - 50 percent - 70 percent - 100 percent administrative consolidation”). While the indicator is important and appropriate, the target values expressed in percentages are mostly meaningless – it is impossible to determine what constitutes a 40 percent vs. a 60 percent consolidation. It would have been better to describe the stages of consolidation, the procedural steps and/or the regulatory milestones that had to be achieved in each year of implementation. Given that this objective was fully achieved, the choice of target values presents no problem - however, if success had been only partial, the monitored values would have provided no firm basis for evaluating the Project’s performance in this area.

*Improved client service* was originally supposed to be measured in terms of the number of cases resolved by each administrative employee. While the indicator was relevant to the Project’s stated objectives, the selected means of measuring it were not. First, the number of cases resolved by an employee is a measure of efficiency which bears little direct relationship to accessibility and quality of service, although it does relate to the overall PDO of improved efficiency. Second,
during a period of redesigning administrative processes, merging institutions and unifying contribution collections, the results may well be confounded by temporary procedural difficulties, additional controls and necessary procedural redundancies. Third, monitoring requires an exact definition of what constitutes ‘a case’ and when a case should be considered resolved. In recognition of some of the above difficulties, the target values were changed, in agreement with the client, and from 2012, total cases closed were monitored. Unfortunately, no baseline value was established for the revised indicator; it is therefore impossible to assess the extent of improvements in this regard.

**MLESP policy analysis capacities built, actuarial models developed, PIO, MLESP, MOF staff trained in their usage.** The instruments for measuring progress were two-fold: the existence and regular updating of long- and short-term actuarial models and capacity increased by certain percentages. Whereas in the first case the chosen instrument lent itself to easy verification, in the second case, it was unclear what was actually being measured, rendering the target values meaningless.

The target values for “web publication with monthly data” were appropriate for monitoring progress, although the outcome indicator itself was relatively poorly defined: it is unclear from the M&E table what data should be made available to whom on a monthly basis.

Progress towards the outcome “**further pension reform measures to improve long-term sustainability, adequacy and transparency of the pension system identified**” was supposed to be measured in terms of GDP-proportional pension expenditures. The baseline value of 15 percent of GDP was expected to reach 12 percent by 2009. Whereas the outcome indicator – reform measures identified – was entirely appropriate, the means of measuring progress were poorly chosen, for a variety of reasons. First, a reform option identified is not the same as a reform option implemented. Second, it is difficult to imagine a pension reform which would reduce pension expenditures by 20 percent within five years, especially if the low-hanging fruit – such as benefit indexation, assessment rules and retirement age – have already been addressed by reforms already legislated. Third, while pension expenditures – the nominator – follow a relatively stable trend, actual GDP growth can vary for a number of macroeconomic and measurement reasons, making the ratio of the two difficult to predict and problematic to use as a yardstick of Project performance.

**Implementation and utilization**

The indicators were regularly monitored and reported in the ICRs. Management comments and the messages conveyed by aide memoires also relied on the indicators, which reflected progress reliably.

The Project faced problems in the areas of the Central Registry and the unified contribution collection system – in these cases the slow progress was also duly reflected by the indicators.
2.4 Safeguard and Fiduciary Compliance

Financial Management
Rating: Satisfactory

Financial management arrangements were satisfactory throughout project implementation period. Acceptable software was used for project accounting and financial reporting. Quarterly financial reports (IFRs) were submitted timely to the World Bank and were assessed to be reliable. Annual financial statements were audited by eligible auditors from the World Bank list of approved auditors and the audit reports were submitted by due dates. The auditors issued clean opinion (no issues identified) in all audits of annual project financial statements. The World Bank supervision carried out with the frequency of twelve months throughout the project implementation confirmed that internal controls and procedures applied on the project were adequate. Designated account for the project was opened in a sound commercial bank and was operated with no issues.

The PIU demonstrated good knowledge and understanding of disbursement policies and procedures. Generally, they were followed. The PIU submitted the withdrawal applications on regular monthly basis, as required by the Disbursement letter. The PIU was using the advance available on the Designated Account efficiently, and for the purposes intended. The Direct payment method was used only when the advance was insufficient to finance the needs of the Project. On a few occasions, the PIU submitted applications for direct payments that were below the minimum size. However, because of the lack of alternative ways to finance their needs, such applications were accepted by the World Bank’s disbursement staff. The PIU was very responsive and cooperative. This resulted in no delays in financial management-related disbursements during the project implementation.

The Credit has been disbursed for 97.98 percent of the credit amount, while the remaining, undisbursed amount of SDR 335,454.08 was cancelled on February 13, 2013.

Procurement
Rating: Moderately Satisfactory

As per the project institutional arrangements, the Deposit Insurance Agency (DIA) was responsible for carrying out the procurement activities, while the Ministry of Finance and Economy, Ministry of Labor, Employment and Social Policy and other stakeholders (Tax Administration, Pension Fund, Health Insurance Fund, and National Employment Services Agency) provided technical assistance and supervised Project implementation. The DIA had limited knowledge of the World Bank’s procurement procedures, however along the project life they developed skills needed for successful implementation. During the life of the project several changes occurred in the management teams of the stakeholders resulting in a significant slowdown in implementation of the Project’s procurement activities such as: planning, selecting /awarding contracts, contract management, and communication between various stakeholders.

Procurement of IT equipment and development of the Registry software were challenging tasks, from both procurement and IT points of view. Given the complexity of the Project and the involvement of so many stakeholders, the IT component of the Project might be considered satisfactory. In this regard, major achievements under the Project were development of the IT Strategy for the Pension Fund and its adoption by the Pension Fund Board, which were followed
by procurement of IT equipment, relevant software development, significant reduction in the time needed to log cases, etc. Also appropriate training for all staff concerned was provided, which led to faster and more reliable services to final beneficiaries.

Successful creation of the Central Registry as the new institution equipped with IT equipment, newly developed software, training provided, etc., is the final success story of this Project.

2.5 Post-completion Operation/Next Phase

There is no dedicated follow-up operation planned by the World Bank. At the time of the Project closing and the follow up visit of the ICR team, the full real time implementation of the new Central Registry system was pending the adoption of technical amendments to legislation, which was originally planned to be amended in July 2012 but was delayed due to elections and subsequent transition of governments. Due to further potential delays in the legal processes and the need to build public awareness and readiness of the employers and other legal entities for the new collection and reporting system, it would be realistic to anticipate that the actual launch date may be further postponed.

At the same time, the Government has expressed its commitment to initiate, in early 2013, the necessary IT and administrative developments at the Tax Office which would be necessary to render the Central Registry operational and finally open the way for unified contribution reporting.

Also, it would be important – and a request to that effect was verbally presented by representatives of the Ministry of Finance at the time of the ICR mission - that the World Bank maintain its dialogue with the Government and establish channels of regular consultation (i.e. a working group) where the Government may seek technical and procedural advice concerning the unified reporting system and the role of the TA.

In terms of Component 3, in order to fully benefit from its accomplishments, the Government will need to consider how some of the outputs of these components, especially the pension modelling capacity at MLESP, could be enhanced and better incorporated into policymaking and utilized in improving the quality of pension-related legislation through regular impact analyses and liability assessment. According to the National Bank of Serbia, future assistance in establishing long-term exchange programs with Western European pension regulatory agencies would be an effective way of improving regulatory standards in Serbia.
3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

Rating: Satisfactory

The objectives of fiscal sustainability and administrative efficiency of a pension system are crucial in order to serve the long-term policy objectives of old age income adequacy and equity without jeopardizing prudent fiscal policy. In small, open economies, like Serbia, fiscal prudence is particularly important since the pool of public revenues, which can be turned to augmenting insufficient pension contributions, is limited. The Project aimed to assist in building quantitative analytical capacity at MLES to monitor, maintain and, if necessary, change pension policy and to assess the long-term effect of legal changes on the system's sustainability. These policy-related objectives were necessary, timely, well-designed in light of the political and institutional constraints described earlier, and served the country's priorities.

The most important contribution that the Project sought to make was the modernization of the registration process (maintaining an up-to-date joint database of individuals' labour market and insurance status), and the administration of contributions which was only achievable within the framework of a broader social contribution/personal income tax reform. This objective was only partially achieved and, while some problems – such as delays due to elections – were beyond the World Bank team's control, some others could have been mitigated through slightly different Project design. In this respect, three issues should be mentioned:

- It could have been expected that the institutional affiliation of the new central registry would become a contentious issue where the final decision may or may not be based on what was professionally and technologically the most efficient solution. During Project preparation an agreement should have been reached supporting a first best solution which could have been part of the documented and legally binding Project design;

- In spite of the Project’s title, this is an operation with a heavy tax administration angle. This was not duly recognized by the Project’s design. Consequently, the most important stakeholder that could make substantial contributions to the Project’s success – and against whose interests the Project stood little chance – was not sufficiently involved. Indeed, it could be argued that it is the tax authorities who should have been more substantially involved in accommodating the functions of both the central registry and unified administration of tax and contribution records. If this had been agreed upon during Project preparation, then the relevant components may have been completed successfully.

- The above issues are related to a more generic observation. During the Project cycle, careful consideration needs to be given to what decisions are left for the implementation phase and what issues should already be settled in the preparation phase. In this respect, the Project may have relied too heavily on the implementation phase.

Overall, the timing and design of the Project – including its objectives, components and size – were fully appropriate for the circumstances of Serbia: the time and resources allocated should have been sufficient to achieve all of the original objectives. It was the delays driven by political
causes and decisions that were left for the implementation phase that led to the partial achievement of the development objectives.

3.2 Achievement of Project Development Objectives

Rating: Moderately Satisfactory

The Project development objective of the operation was to improve the effectiveness and efficiency of the pension system. This overall objective was further detailed in section B of the PAD. The objectives were to:

(a) develop the framework for the consolidation of collection of all social contributions and, if feasible, personal income taxes
(b) modernize and streamline the institutional capacity in the pension system through
   a. improving the pension system administration
   b. developing capacity to policy identification and analysis
   c. increasing public awareness of the pension system.

In terms of the unified collection framework, the objective was partially achieved. The Central Registry has been established as a legal entity, management and staff have been recruited and provided with premises and equipment. The legal framework under which it should be operating was not yet ready at the time of the ICR mission: contradicting laws concerning the deadline for full operability and differences between PIO and the Health Insurance Fund regarding the treatment of changing employment status (and the possibility of multiple insurance records) need to be resolved before the Central Registry can fulfill its functions. During the ICR mission it also emerged that the software developed for the Central Registry may need to be revised in the future, in order to comply with the specifications of the unified contribution reporting system, still to be developed for/by the Public Revenue Office. It should be noted here that the functions of the Central Registry can only be serviced in full integration with the contribution recording and collection system: indeed, the main reason for a registry is to provide the basic information required for establishing insurance status and contribution liabilities, controlling the flow and correctness of data transferred and monies paid to the Treasury as regards contributions.

A unified collection system consists of a stream of data and a stream of financial transfers. Since contribution payments not only finance concurrent expenditures in a pay-as-you-go regime, but also establish future social security entitlements, it is crucial to match the data to the financial flows as frequently as possible (in an ideal case: as often as salaries are paid) and on an individual basis. In Serbia, the payment of contributions for pensions, health and unemployment benefits are already unified and happen on a monthly basis. What was missing – and what the Project sought to establish – was monthly, individualized reporting of the contribution base and the contributions paid so that any mismatch could be identified and acted upon without delay.

Although the Project development objective only refers to establishing the framework for a unified collection without clarifying what the term “framework” refers to, the monitoring indicators chosen imply that individual, social security accounts (meaning individualized monthly contribution records accessible to public agencies and individual contributors alike) would be operational by Project closing. The Project failed to achieve this deeper objective: the MOF and the Tax Office indicated that work on the necessary technological developments would commence in early 2013. Taking into consideration the time required for the development itself, testing, rolling out the affiliated software applications to employers, etc., it is reasonable to assume that the unified contribution reporting and collection system will not be ready before mid-2014.
In terms of the administrative unification of the social security pension schemes into a single PIO, the Project mostly achieved its objectives. The administrative standards, procedures and units have been merged, internal regulations and controls have been issued. Merging the databases of the predecessor funds is underway, although the merger of the data from the Novi Sad branch of pension insurance with that of the Belgrade branch led to technical difficulties and delays which only came to light very late in the Project - in 2012. The new case management system which relies on the unified and digitized databases has passed the test phase and is being gradually rolled out. The process, in this respect, is not yet ready however: the data from the predecessor funds is not yet incorporated into the electronic case management system, therefore the increase in administrative efficiency and client service quality can only be realized in full for people whose entire contribution history was accrued in the schemes managed by the Belgrade branch of PIO.

The capacity building component shows a mixed picture in terms of its achievements. The modeling and analytical capacity in MLEPS has been improved by the Project: a pension policy unit has been established, with premises and human resources allocated. The modeling instruments in use, however, were developed in-house and are relatively simple, excel-based spreadsheets. These are robust instruments for short-term financial calculations, but cannot be used for medium- or long-term analyses measuring sustainability in any way. Given that the Project’s objective was to have short and long-term actuarial models developed and operated by MELSP, this objective is only partially met. Further problems – although entirely outside of the World Bank team’s influence – are that (a) currently there is only one person employed to use the excel-based Projection spreadsheet and (b) there is little demand for the use of the Ministry’s analytical capacity. In this respect, it should be mentioned that the QER recommended establishing what analytical documents should be regularly prepared by the Government to monitor the pension system’s long-term financial situation - so that the newly created analytical and modeling capacity would have a functional justification even if there were no pension reform plans afoot. This recommendation seems not to have been taken up during the Project’s implementation.

Building regulatory capacity at the National Bank of Serbia to license, regulate and supervise privately managed voluntary pension scheme was a relatively small part of the Project, providing technical assistance with regard to international best practice in this area. Given the resources and the expertise at the NBH’s disposal, the Project’s impact was positive but marginal.

3.3 Efficiency

Direct efficiency gains were expected to emerge from two sources: the unified collection system and the unification/modernization of the pension funds. While a quantitative analysis of the direct benefits that accrued to the beneficiaries could not be undertaken, a more efficient administration of programs and the more effective application of benefits, as well as the framework for ensuring greater contributions compliance and program participation was expected and realized.

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2 The Borrower notes that the poor quality of data and turbulent economic, demographic and social environment in Serbia in the last twenty years anyway complicates the use of past data for medium- to long-term projections. Therefore, they find the forecasting horizon sufficient for their needs.

3 The Borrower notes that another employee is capable of using the model and, when needed can participate in the work.
Improvements in the social insurance administration strengthen the aggregate financial position of the PAYGO pension administration and improve client services, primarily through integration of the previously segregated systems. The development of a Central Registry of insured individuals, beneficiaries and contribution payers, based and updated on personified reporting and new and enhanced business processes is expected to result in an increase in collections and improved flow of funds. Benefits of the new administrative processes should be reflected in the health and employment administrations: a single registration point for the insured and an active database of contributions paid should provide these systems with an accurate on-line data on the status of the insured individual and eliminate the reporting responsibility from the employer or the employee.

Better and more transparent information flows, and more timely and accurate payment of pensions will ensure transparency and accountability and may also generate broader positive revenue effects in terms of personal income tax compliance through reduced incentives to remain in the informal sector. Furthermore, an introduction of central databases is likely to yield cost savings through the detection of the participation of ineligible beneficiaries and overlapping benefits.

Strengthening the capacity for policy analysis increases the efficiency of policymaking, while enhancing pension fund supervisory capacity results in a more transparent and safe operating environment for the funds and their members.

3.4 Justification of Overall Outcome Rating
Rating: Moderately Satisfactory

The Project was and remains highly relevant. Although it was an operation supporting the pension system, it also involved a payment contribution administration reform. It was the right time to initiate a major modernization effort in contribution administration, the operations of the state pension system and building pension policymaking and supervision capacity. These objectives were relevant, timely and responded to operational needs created by the pension systems financial instability and the Government’s policy reform program. Most of the risks identified in the PAD presented themselves, to some extent, during implementation and prevented the Project from achieving all objectives in a timely manner.

The overall outcome rating of Moderately Satisfactory is based on the following. The Central Registry has been established and is ready to become fully operational, but does not yet function as originally intended. Individualized contribution accounts are not yet established and the necessary developments at the public revenue office will only commence in the year following the Project’s closing. The unification and modernization of PIO operations and procedures is satisfactory as the intended technological/IT developments were realized, internal procedures and controls were introduced. Policymaking capacity has improved by developing a pension model, but the Government uses it only in a limited way in fiscal planning and the model itself has limited capacity to provide impact and sensitivity analyses. The objective of developing private pension supervision capacity has been fully achieved.
3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development
The Project was not intended to address poverty, gender or social development issues directly. However, the Project was crucial in creating the administrative and fiscal conditions for improvement of the effectiveness and fiscal sustainability of the social insurance scheme, which could, indirectly, have implications for old-age poverty.

(b) Institutional Change/Strengthening
The main objectives of the Project were institutional strengthening and modernization. These objectives have been mostly achieved, despite the partial success of Component 1: the agencies involved in revenue collection and recordkeeping have established a working relationship, clearly understand each other’s objectives and constraints, and have both the technical capacity and the communication channels in place to establish a system of monthly updated individual contribution records.

As a result of the Project, the PIO is now able to perform its core functions faster, more reliably and transparently than before the Project. The IT infrastructure and operational procedures have improved and allow for faster closing of certain cases and immediate access to historic data needed for benefit assessment. These improve trust in the system which is a crucial precondition for better compliance.

(c) Other Unintended Outcomes and Impacts (positive or negative)
One of the most important benefits of the Project is that it fostered an understanding of the need to cooperate and to integrate existing systems in order to increase collection efficiency, improve the quality of client service and inter-operability of databases. The Project, by forcing the client agencies to cooperate on implementation issues, helped to build better cooperation among agencies and an understanding of the goals and constraints under which these entities operate.

A positive, unintended and tangible outcome of the Project was that the pension fund of the armed services which was originally supposed to remain outside of the unified pension agency eventually joined the merger, making the unification even broader than planned.

4. Assessment of Risk to Development Outcome
Rating: High

With the exception of NBS’s supervisory capacity and the administrative unification of public pension insurance schemes and their administrative agencies, all other components face substantial risks.

The Central Registry is ready as an institution, but some of the basic concepts (how to treat new labour contracts if closure of the previous ones have not been confirmed) have not yet been settled, the legal framework stipulating the date when the registry should become operational is controversial and the IT solutions implemented may need to be revised in light of the intended IT
developments at the Tax Office. Without the unified record keeping and collection functions and the possibility to crosscheck tax and contribution returns, compliance and the revenue-side components of the system’s financial sustainability cannot be expected to improve.

The analytical capacity built at MLESP is vested in one full-time employee. The model developed in-house is only partially documented and will, therefore, present difficulties if and when it needs to be transferred. The Government makes infrequent use of the model beyond monitoring current expenditures and budgeting; the modelling activity is, therefore, not incorporated into long-term fiscal policy making or sustainability reporting. The situation may change if and when Serbia joins the European Union where Eurostat requires member states to report their ADL (accrued-to-date) pension liabilities regularly.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance
(a) Bank Performance in Ensuring Quality at Entry
Rating: Moderately Satisfactory

The Project was ambitious, seeking to introduce international best practice both in terms of the policies supported and the administrative developments sought. The strongest design features of this Project were its timeliness and its contribution to the integration of the pension system’s institutional, informatics and organizational elements. Both the preparation and, later, the implementation of the Project were characterized by intense dialogue and collaboration between the Government and the World Bank team.

Three key shortcomings were identified by the ICR team. First, the basic design features of the Central Registry and the unified collection and record keeping functions should have been part of the Project agreement, with due attention devoted to the division of labour among client agencies and the special role that the tax administration should play in similar Projects. The second, related issue is the insufficient stakeholder analyses and its consequences in the division of labour and responsibilities between agencies. Experience with similar Projects suggests that even a marginal re-arrangement of responsibilities, resources, goals and means across revenue collecting and spending agencies can lead to friction, which in turn can jeopardize the success of a Project. Tax departments, pension insurance agencies and health insurance funds are difficult to bring to a common understanding and it is difficult to convince any agency to give up part of its remit, especially in a highly politicized context where individual institutions may also be the extensions of political parties’ powers. It is therefore crucial that an entity (possibly a government plenipotentiary, deputy minister, etc.) is given formal powers to help foster institutional cooperation when natural instincts would dictate otherwise. Third, analytical capacity building should have been supported by a review of the domestic and international reporting requirements, which the analyses could feed into, so that it would become integrated into regular activities looking into systemic sustainability.
(b) Quality of Supervision

*Rating: Satisfactory*

Discussions with clients involved with the Project revealed a high level of professionalism on the World Bank team's side. The World Bank team was diligent in attending to emerging risks and maintained an intense dialogue with policymakers in order to overcome political, institutional or procedural obstacles. When needed, the World Bank team organized a joint retreat with government officials to ensure ongoing commitment and made every effort to accommodate the client’s emerging needs including extensions and the re-examination of priorities in the face of resource constraints.

The one area where supervision might have been improved was with the regular inclusion of a tax administration specialist, who may have been better understood and more effectively addressed technical tax administration issues.

(c) Justification of Rating for Overall Bank Performance

*Rating: Moderately Satisfactory*

The Project had certain design weaknesses, mostly related to the lack of specificity about the division of labour among social security and collection agencies and the omission of a detailed stakeholder analysis which could have indicated future difficulties. These weaknesses were by no means specific to this Project however, and could only be addressed through investing significantly more time into Project preparation which, in turn, could have jeopardized client support for the operation. Once the Project was approved, the World Bank team guided and supervised the Project with great attention and also managed to build strong rapport with policymakers and beneficiary institutions. Effective supervision could not counterbalance either the design problems or the substantial delays brought on by political factors.

5.2 Borrower Performance

(a) Government Performance

*Rating: Moderately Satisfactory*

The Project was prepared and implemented under three governments. Whereas each government supported the operation and had, from the outset, a precise understanding of the goals and means of the Project, the elections and their consequences on terms of ministerial and agency management caused serious delays.

(b) Implementing Agency or Agencies Performance

*Rating: Moderately Satisfactory*

In the subcomponents where little interagency cooperation was needed and strong Government commitment existed in favour of a sufficiently detailed solution – as in the case of merging the public pension schemes or capacity building at MLESP and NBS - the Project achieved its objectives. In components where progress depended on cooperation among a number of institutions, the implementation was initially slow. The Project coordination mechanism
considerably improved following the appointment of a Project Director. Limited interagency cooperation resulted in a situation where even the Central Registry’s functionality is contingent on future legislative clarifications and resolving procedural differences. At the outset, very limited experience with planning, design and implementation of major IT software and hardware systems in the World Bank operations, and related risk management capacities also contributed to slow procurement and disbursement.

(c) Justification of Rating for Overall Borrower Performance

Rating: Moderately Satisfactory

Overall, the borrower demonstrated commitment to the objectives and means of the Project. The covenants of the Development Credit Agreement, the procurement and financial management rules of the Project were adhered to. Government officials devoted sufficient time and attention to the Project, supervision visits and reviews but were often unable to reconcile conflicting institutional interests, formulate and enforce policy and technical decisions. Clear allocation of institutional responsibilities and elaboration of a clear and hierarchical division of labour was often lacking, leading to delays and insufficient inter-agency cooperation.

6. Lessons Learned

The Project provides a set of lessons for future operations, both in terms of design features and implementation arrangements.

In terms of design, it is important to understand the tax administration aspects of a pension administration reform involving collection related issues. Relevant tax administration expertise needs to be brought on board from the early phases of Project preparation and maintained throughout implementation. This has a bearing on the optimal skill mix and team composition on the World Bank’s side and may necessitate the formal involvement of sector units other than the one responsible for pension policy: the reform of a contribution collection and reporting is, in effect, a tax administration reform. It is equally important to involve the tax office early on, not only because of their mandated role, but they also tend to be the strongest institution in terms of human and technical capacity, legal instruments of enforcement at their disposal and political support. It is also important to ensure through design features and implementation arrangements that the tax administration is made interested in the success of the Project and the reform it supports.

Second, a stakeholder analysis of the participating institutions is crucial in order to identify potential reasons for support and resistance, the areas where cooperation is natural and where it needs more attention from high level officials in a position to resolve institutional problems.

Third, in the case of Projects with technically complex components where various approaches may exist, it is critical to agree with the client on the approach, institutional and broad technical solution to be pursued. If this stage is not completed or at least set on a more-or-less irreversible track during Project preparation, then the potentially lengthy processes of coalition building, comparative analyses, institutional interest reconciliation are moved into the implementation
phase. This may not only result in substantial delays, but may raise doubts about whether the World Bank truly knows exactly what the Project will support, beyond broad objectives.

Fourth, effective supervision, based on an understanding of the clients’ objectives and constraints is crucial and can help overcome and offset problems inherent in the design or country circumstances. The Project is an example of how to re-build commitment and accelerate implementation schedules when project execution threatens to stall.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

(b) Cofinanciers

n/a

(c) Other partners and stakeholders
(e.g. NGOs/private sector/civil society)
n/a
Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

<table>
<thead>
<tr>
<th>Components</th>
<th>Appraisal Estimate (USD millions)</th>
<th>Actual/Latest Estimate (USD millions)</th>
<th>Percentage of Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consolidation of Collection and Reporting Contingencies</td>
<td>9.83</td>
<td>11.36</td>
<td>116%</td>
</tr>
<tr>
<td>2. Consolidation and Institutional Strengthening of the PAYGO Pension Funds</td>
<td>9.95</td>
<td>10.29</td>
<td>103%</td>
</tr>
<tr>
<td>3. Pension Policy Analysis and Development</td>
<td>1.65</td>
<td>1.05</td>
<td>64%</td>
</tr>
<tr>
<td>4. Project Coordination and Management</td>
<td>0.65</td>
<td>2.28</td>
<td>351%</td>
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<tr>
<td><strong>Total Baseline Cost</strong></td>
<td><strong>22.08</strong></td>
<td><strong>24.98</strong></td>
<td><strong>113%</strong></td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td><strong>25.38</strong></td>
<td><strong>25.10</strong></td>
<td><strong>99%</strong></td>
</tr>
</tbody>
</table>

(b) Financing

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Appraisal Estimate (USD millions)</th>
<th>Actual/Latest Estimate (USD millions)</th>
<th>Percentage of Appraisal</th>
</tr>
</thead>
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<tr>
<td>Borrower</td>
<td>0.38</td>
<td>0.12</td>
<td>32%</td>
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<tr>
<td>International Development Association (IDA)</td>
<td>25.00</td>
<td>24.98</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total Project Cost</strong></td>
<td><strong>25.38</strong></td>
<td><strong>25.1</strong></td>
<td><strong>99%</strong></td>
</tr>
</tbody>
</table>
Annex 2. Outputs by Component

Component 1 – Consolidation of Collection and Reporting

Prior to the Project, the Tax Department, Fund PIO, the Employment Fund and the Health Fund collected wage and contribution information separately, collected revenues separately and also pursued their control and enforcement efforts independently of each other. One of the main objectives of the Project was to change this situation. Within the Project, an in-depth analysis of the collection and reporting process was produced which also provided the basis for a feasibility study discussing various design options. The decision of the Government and the subsequent laws promulgated by parliament to establish the Central Registry, to rationalize registration procedures, and to introduce electronic contribution returns were based on these Project deliverables.

The Project also financed software development and the drafting of procedural guidelines at the newly established Central Registry. Reviews of existing procedures and systems of the social insurance funds (pension, health, employment) and the Tax Office resulted in technical specifications for hardware, software and networking solutions, which ensure that past registration information accumulated at various agencies can be reconciled and future contribution returns can be simplified, with all agencies serviced by the same, single channel of data flow.

The component’s outputs were, inter alia, the following:

(a) A Feasibility Study, providing a detailed analysis of the Serbian social insurance system and a proposal for the institutional, procedural and technical solutions for the consolidated collection and reporting system. The Feasibility Study was adopted by the Pension Reform Council at the end of 2007;
(b) Technical assistance to the drafting of the Government Decree on the Establishment of the Central Registry (adopted in April, 2008) which defined the organisation and the functions of the Registry;
(c) Technical assistance to the drafting of the Law on Central Registry (enacted in May, 2010) and its implementation regulations, establishing the main procedural and technical details of submitting and processing data to/by the Central Registry;
(d) Following the appointment of the Project Director, newly hired staff received training in the internal procedures and technical skills necessary to operate the Central Registry;
(e) Technical assistance (consultant reports), defining the detailed technical and procedural specifications for the data management processes of the Registry.
(f) Consultant report defining the Registry’s strategy, transition plan, business processes, organisational structure, etc.
(g) Central Registry Information System, including the IT infrastructure to operate a unified database, ready to receive data migrated from social security institutions;
(h) A Unified Registration Form was developed enabling electronic registrations;
(i) In preparation for the establishment of the Central Registry, the Public Revenue Office procured IT equipment and software from Project funds, enabling the PRO to update its existing databases;
(j) Technical assistance provided to the PRO identifying technical specifications for a new collection system based on monthly, individualized reporting and for the data exchanges linking the PRO to the Central Registry;

(k) Development of a Taxpayers Registry System and introducing new tax identification numbers;

(l) Development of new tax returns on calculated and paid contributions for obligatory social insurance;

(m) Development of electronic tax return of the insurant through E-portal (local consultant March 2011 to June 2011).

**Component 2: Consolidation and Institutional Strengthening of the PAYGO Pension Funds**

The Fund PIO is responsible for the administration of the social insurance system in respect of the following insurable contingencies: old age/retirement, disability and survivorship. The system is based on the principles of mutuality, solidarity and contribution performance. In order to provide timely, accurate and reliable service to contributors, new retirees and the existing stock of pensioners, the IT systems and business processes needed revisions which, among others, had to take into consideration the modified division of labour and responsibilities between PIO and the Public Revenue Office.

In terms of outputs, the Project supported

(a) the preparation of an analysis of the three pension funds and an implementation plan for their consolidation, leading to the legal and administrative integration of the funds from January, 2008;

(b) the financial consolidation of the funds (completed in March 2010);

(c) the preparation and implementation of a transition plan, including the standardization of internal controls, and procedural manuals;

(d) the preparation of a Strategic Plan for the 2008-2011 period, based on workshops with the management of the unified pension fund;

(e) the development of a Customer Service Delivery Strategy and a Human Resource Strategy which were accepted in 2009 and implemented subsequently;

(f) The Board of the RPDI Fund adopted each of these strategies and implementation started in 2009.

(g) the preparation of a Business Strategy for the 2012-2014 period;

(h) a new IT Strategy for 2012-15 focusing on the development of a new Integrated IT System;

(i) the updating and completion of the main registry at the unified pension fund, inputting thus far missing registration data;

(j) the procurement of new hardware in order to upgrade the IT infrastructure from the previous mainframe-based solution to individual access to IT systems at each office;

(k) the creation of an electronic Document Management System (DMS)

(l) the procurement of servers and server software licenses, network security equipment and a development of secondary location back-up facility;

(m) numerous training sessions and series, The Customer Service Framework and Strategy of RPDI Fund was adopted by the Board;
(n) the production of information leaflets concerning social insurance and a web portal providing access to information in relation to insurance history;
(o) the establishment of Call Centre for receiving complaints and requests for information

**Component 3: Pension Policy Analysis and Development**

This component has mostly achieved its objectives. A pension policy department was created as a separate organizational unit, it was staffed and equipped. In terms of human resources, it grew from its original size of five employees in 2005 to 12 in 2008. From this peak – partly as a result of an overall rationalization within the public service and partly because of the difficulties public agencies face in retaining trained staff with marketable skills – the unit shrunk to its current size of three employees. A simple but robust, Excel-based pension model was developed on the basis of the training courses and study visits undertaken by the unit. The model is operational, but it is not capable of incorporating distributitional data or the factors behind the accrual of entitlements: instead, it projects future stocks and average benefits based on the dynamics of past stocks and averages. The model projects flows (revenues and expenditures), but does not measure balance sheet items, such as accrued liabilities. Thus, by the nature of the model, it is inappropriate for assessing the sustainability of the system or the fiscal and distribution impact of new legislation. The model, at the same time, is able to make reliable short-term estimates of pension expenditures on a no-policy-change basis. This is an encouraging step forward which makes budgeting more reliable than before the Project.

The MLESP improved its public outreach by creating a webpage with information concerning the pension system, its performance and reform. The Ministry - through the pension policy unit – also launched a public education and information campaign, publishing widely available, topical brochures concerning insured people's and employers rights, obligations and the procedures pursued by pension insurance.

The National Bank of Serbia as the regulator and supervisor of financial service providers accrued substantial experience in the area of both bank and non-bank financial institutions.

In the area of analytical and supervisory capacity building, the component supported the following.

(a) Participation of policymakers and technical experts at various training courses and conferences, including but not limited to two Pension Reform Options Simulation Toolkit (PROST) model training courses at the World Bank in Washington DC, the Core Course of Pension Reform (WB Institute, November 2005 and November 2007), a regional conference on the “role of regulatory institutions in fully funded pension insurance (II pillar) in the course of compliance with EU Directives,” and a Council of Europe training on setting up minimum standards in social security system - held in Switzerland in October 2010, etc.;
(b) procurement of IT equipment for the newly established unit for pension policy analysis;
(c) designing and conducting public opinion surveys to measure the level of public understanding of the pension system as a whole, the pension reform process and access to information; and.
(d) designing and implementing a public awareness campaign, aiming at informing the public about the compulsory and voluntary pension insurance.
Annex 3. Economic and Financial Analysis

(including assumptions in the analysis)

The objective of the Project was to improve compliance and contribution collection, to strengthen the management and administration of the public pension scheme and to build modeling and supervisory capacity at key institutions. As is often the case with social protection projects, economic and financial rates of return are not directly observable: in the absence of counterfactual information, it is not possible to exactly determine the extent to which improved revenue collection is attributable to the project vs. other institutional, macroeconomic or regulatory factors. However, indirect evidence suggests that the economic and financial impact of the Project has contributed to strengthening the sustainability of pension system financing.

Two sets of quantifiable changes could be observed during the lifetime of the Project: the reduction of operating expenses as a percentage of benefit outlays from 4 percent to 1.5 percent which is a major improvement compared to the previous situation, bringing operating expenses more in line with regional standards. Even more importantly, the collection rate increased by 10 percent, as a result of the simplified registration process, improved collection efforts by the tax administration and increased public awareness of the importance of reporting and paying contributions in a timely manner.

The economic and financial gains from the Project are expected to materialize over the medium-term in two ways: further improvements in coverage and compliance and, consequently, a reduction in the number of people reaching retirement without sufficient pension rights. However, reaping these gains would only be possible if the reform efforts are continued. The early signs are encouraging as the Ministry of Finance is committed to fully implementing the unified recordkeeping and collection system.
Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

<table>
<thead>
<tr>
<th>Names</th>
<th>Title</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Lending</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Zoran Anusic</td>
<td>Senior Economist</td>
<td>ECSH3</td>
</tr>
<tr>
<td>Tanja Boskovic</td>
<td>Consultant</td>
<td>ECSPF</td>
</tr>
<tr>
<td>Joseph Paul Formoso</td>
<td>Senior Finance Officer</td>
<td>CTRLA</td>
</tr>
<tr>
<td>Carmen F. Laurente</td>
<td>Senior Program Assistant</td>
<td>ECSHD</td>
</tr>
<tr>
<td>Nadejda A. Mochinova</td>
<td>Resource Management Officer</td>
<td>AFTRM</td>
</tr>
<tr>
<td>Marina Petrovic</td>
<td>Consultant</td>
<td>ECSHD</td>
</tr>
<tr>
<td>Gennady Pilch</td>
<td>Senior Counsel</td>
<td>LEGOP</td>
</tr>
<tr>
<td>Snjezana Plevko</td>
<td>Senior Economist</td>
<td>CFPIR</td>
</tr>
<tr>
<td>Anita M. Schwarz</td>
<td>Lead Economist</td>
<td>ECSH3</td>
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<tr>
<td>Yingwei Wu</td>
<td>Senior Procurement Specialist</td>
<td>LCSPT</td>
</tr>
<tr>
<td><strong>Supervision/ICR</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ivana Aleksic</td>
<td>Human Development Specialist</td>
<td>ECSH2</td>
</tr>
<tr>
<td>Zoran Anusic</td>
<td>Senior Economist</td>
<td>ECSH3</td>
</tr>
<tr>
<td>Tanja Boskovic</td>
<td>Consultant</td>
<td>ECSPF</td>
</tr>
<tr>
<td>Rajna Cemerska-Krtova</td>
<td>Operations Officer</td>
<td>ECSH3</td>
</tr>
<tr>
<td>Olav Rex Christensen</td>
<td>Senior Public Finance Specialist</td>
<td>HDNED</td>
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<tr>
<td>Aleksandar Crnomarkovic</td>
<td>Financial Management Specialist</td>
<td>ECSO3</td>
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<tr>
<td>Nikola Kerleta</td>
<td>Procurement Specialist</td>
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<tr>
<td>Plamen Stoyanov Kirov</td>
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<td>Carmen F. Laurente</td>
<td>Senior Program Assistant</td>
<td>ECSHD</td>
</tr>
<tr>
<td>Nadejda A. Mochinova</td>
<td>Resource Management Officer</td>
<td>AFTRM</td>
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<tr>
<td>Imelda Mueller</td>
<td>Operations Analyst</td>
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<td>Marina Petrovic</td>
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<td>Snjezana Plevko</td>
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<td>Ireneusz M. Smolewski</td>
<td>Senior Procurement Specialist</td>
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</tr>
<tr>
<td>Sreypov Tep</td>
<td>Program Assistant</td>
<td>ECSHD</td>
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<td>Anna L Wielogorska</td>
<td>Senior Procurement Specialist</td>
<td>EASR1</td>
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<tr>
<td>Hermina Vukovic Tasic</td>
<td>Program Assistant</td>
<td>ECCYU</td>
</tr>
<tr>
<td>Stage of Project Cycle</td>
<td>Staff Time and Cost (Bank Budget Only)</td>
<td></td>
</tr>
<tr>
<td>------------------------</td>
<td>---------------------------------------</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of staff weeks</td>
<td>USD Thousands (including travel and consultant costs)</td>
</tr>
<tr>
<td><strong>Lending</strong></td>
<td></td>
<td></td>
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<tr>
<td>FY04</td>
<td>N/A</td>
<td>00</td>
</tr>
<tr>
<td>FY05</td>
<td>40.44</td>
<td>136,059.38</td>
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<tr>
<td>FY06</td>
<td>27.75</td>
<td>70,250.95</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td>68.19</td>
<td>206,310.33</td>
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<tr>
<td><strong>Supervision/ICR</strong></td>
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<tr>
<td>FY07</td>
<td>12.86</td>
<td>50,316.86</td>
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<td>FY08</td>
<td>27.91</td>
<td>76,380.95</td>
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<td>FY09</td>
<td>31.93</td>
<td>98,722.48</td>
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<td>FY10</td>
<td>29.69</td>
<td>102,991.06</td>
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<tr>
<td>FY11</td>
<td>43.96</td>
<td>133,347.39</td>
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<tr>
<td>FY12</td>
<td>32.79</td>
<td>90,946.24</td>
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<tr>
<td>FY13</td>
<td>7.77</td>
<td>40,023.12</td>
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<tr>
<td><strong>Total:</strong></td>
<td>186.91</td>
<td>592,728.10</td>
</tr>
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</table>
Annex 5. Beneficiary Survey Results
(if any)
n/a

Annex 6. Stakeholder Workshop Report and Results
(if any)
n/a
Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

Summary of Borrower's ICR

The Project was designed to develop a framework for the consolidated collection of all compulsory social insurance contributions and, if possible, income tax.

Component 1: Consolidation of Collection and Reporting (estimated total US$11.42 million)

Subcomponent 1: Identification of Requirements and Systems Development and Implementation of the Central Registry and the new Collection and Reporting System

This subcomponent helped facilitate the proposed introduction of integrated individual monthly reporting of personal income tax and mandatory social insurance contributions; improved network, system, security, data, applications and other services needed to support business processes and functions; provided for standards and protocols for the exchange of data through unified data collection in monthly reports; and developed IT and communication infrastructure needed for the exchange of monthly data reported on contributions between social insurance institutions and the Tax Administration.

Subcomponent 2: Development, Implementation and Strengthening of Central Registry and New System of Collection and Reporting

This subcomponent helped develop transparent systems and procedures for contribution and tax assessment and public revenue collection; design systems and procedures for the enforcement of late, partial or non-payments; helped draft accounting regulations and procedures for proper management of contributions and tax revenues and auditing; developed an effective fiscal control strategy, through improved control, audit and investigation methods; prepared specific regulations on registration, identification, filing, accuracy and timing of payments; and ensured the confidentiality of data collected and the protection of privacy. Additionally, this subcomponent included procurement for the Central Registry and the Tax Administration, which is responsible for the collection system.

Component 2: Consolidation and Institutional Strengthening of the PAYGO Pension Funds (estimated total US$11.40 million)

Subcomponent 1: Integration Processes for the Three PAYGO Funds

This subcomponent focused on provision of technical assistance for integration of the pension funds, review and improvements in internal process documents based on revised norms and standards, internal communications, internal controls and fraud prevention, and improvements in calculating pensions and planning. The results achieved include: (i) administrative, operational, organizational, and technical integration of the three pension funds; (ii) analysis of internal and external business processes and their improvement; (iii) improvement of internal communications and collaboration; (iv) improvements in internal controls; (v) development of an automated legislation code and library that will provide everyone with the same set of guidelines, cross references, and explanation of use; (vi) development of strategy and business plans based on analysis of current business functions and business processes to support operational and technical consolidation of pension funds; and (vii) structuring and defining core business functions of the consolidated Pension Fund, and the establishment of a functional and optimized business
processes and procedures that eliminate duplicate and repetitive functions in collection and administration.

The basic goal of this component was achieved. Management of the RPDI Fund has maintained the momentum for change within the organization, and sustainability has therefore been achieved.

**Subcomponent 2: Technology/IT improvements (Equipment)**

This sub-component consisted of the following main elements: (i) development of consolidated and unified registry of insured individuals; (ii) consolidation of contributor registry; (iii) development of new enterprise resource planning system (ERP) including financial, accrual accounting and fund management system, office and document management system, workflow management system and management information system, contact and customer relationship management, human resource management, risk management, and information security management; (iv) development of improved application services to support determination, administration and provision of pension and disability insurance for all insured persons, processing of insurance application and eligibility, control of usage and termination of rights, maintaining individual accounts of insured individuals with wage history and paid contributions for pension insurance; and (v) development of new network, system, and data services to support core business functions.

Overall, with the help of PARIP, the RPDI Fund has an IT system comprising improved hardware, software, networks, and security. Business processes have been improved and standardization across all offices has been achieved in relation to business processes and improvement.

**Subcomponent 3: Human Resources Planning and Reform**

The redefined scope of the Pension Insurance Fund (PIO) functions with the consolidated pension fund having unified administration and provision of pension and disability insurance, unified insurance application and eligibility, unified usage and termination of rights and other consolidated functions required: (i) development and implementation of the new organizational structure of the merged Pension Fund with clear job descriptions; (ii) analysis and improvements of the internal regulations; (iii) definition and implementation of procedures for transparent and merit-based employment and staff appraisal with clear objectives and related performance targets for individuals, and provision of the guidelines on methods leading to the identification of staff needs and identifying mechanisms to ensure their professional development; (iv) analysis of future market and operational changes affecting the human resources; (v) development and implementation of the Performance Management Program to improve employee performance against agreed deliverables and pre-determined quality standards increasing functional capacity of pension administration through justified organization and staffing; (vi) improvement of human resource management through HR training activities and provision of continuous support to line departments and branch offices on matters relating to organizational structures, staff complementing, job design and evaluation, motivation and organizational culture, performance and reward management; and (vii) establishment of the human resource management and planning as a process whereby an individual’s work performance, career and development needs are managed in such a way that increases commitment, performance and accountability.

Since the integration of the three Funds, the RPDI Fund has continued making improvements in relation to its business performance and staff involvement. Business planning processes helped managers at the branch office level to become more aware of requirements and the targets to be met, while management at HQ monitors and ensures that performances are improved where
possible and overall improvement is achieved. RPDI Fund adopted the HR Strategy, however, implementation is happening in a piecemeal fashion, with some parts delivered while others are under active consideration and planned within the revised Strategy for 2012-14. The training provided was a crucial underlying foundation for improving capacity and thinking of management and staff at RPDI Fund. The training benefits are that employees with different levels of education, from different organisational units, from varying branches and cities, have had a chance to exchange their experiences. The training also demonstrates that the Fund invests in its employees, their education and facilitates gaining new modern skills and upgrading employee knowledge. Attending lectures influenced the optimistic attitude of the employees regarding the on-going work of the RPDI Fund and has enabled employees to become familiar with the new work approach, improved their attitude towards the customers/beneficiaries, boosted collegial relationships, and encouraged employees to begin to develop a different way of thinking that will contribute to improving the quality of service provided by the Fund to its beneficiaries.

Overall, the training provided helps RPDI Fund achieve its goal to: (i) improve capacity within the organisation; (ii) enhance the existing service; and (iii) provide the best possible service available to the citizens either directly at the counters /desk offices or over the Web Service.

**Subcomponent 4: Public Service Improvement**

This subcomponent involved limited technical assistance to develop and implement a strategy to improve the public service and client focus of RPDI Fund offices, including basic public information that was previously lacking, development of which was based on client surveys. Public Service improvement required: (i) identification of a clear vision, measurements, monitoring and evaluation; (ii) strengthening of a linkage between service improvement and efficiency, human resource policies and strategy, and management strategy; (iii) management and organizational capacity development through human resource management and planning; (iv) development of measures for public service productivity and performance measurement; and (v) improvement of public service quality.

Overall, customer service standards and human resource standards included in each Strategy have been recognised at RPDI Fund to be important, and established as norms both in terms of service delivery for customers and output of staff. Performance in relation to processing times has been improved since 2008 and continues to be managed to achieve further improvements. The New Strategy for 2012-14 highlights HR as an area for further improvement, while maintaining and improving customer service delivery standards. Extracts from the RPDI Fund 2012-14 Business Strategy shows the following:
- **1st Degree pensions applications (PDI) processed:**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>61%</td>
<td>66%</td>
<td>78%</td>
<td></td>
</tr>
</tbody>
</table>

In 2011, the cases / pension applications which were not resolved / processed until that moment were processed; these applications were submitted to the Fund in the period from 2000 to 2010 (from 8.000 cases/application, 350 remained unprocessed / unsolved, these will be processed until mid 2012.

- The number of unprocessed pensions applications / pending requests compared to 2010 has decreased or was reduced by 40.6 percent, with approximately the same number of applications;
- The number of unprocessed cases/2nd degree applications (appeals) compared to 2010 was reduced by 54.5 percent, with an increase in the number of claims/applications (appeals) by 0.9 percent. Average monthly inflow of application cases – appeals with pending decision, at the Fund in 2011 was 2.262.
- The percentage of claims processed within the legal timeframe of two months in 2008 averaged 55 percent and at the end of 2011 the times were as follows:

<table>
<thead>
<tr>
<th>Pension Type</th>
<th>Claims processed within the legal timeframe of 2 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Old Age</td>
<td>78%</td>
</tr>
<tr>
<td>Invalidity</td>
<td>87%</td>
</tr>
<tr>
<td>Family</td>
<td>81%</td>
</tr>
<tr>
<td>Overall</td>
<td>81%</td>
</tr>
</tbody>
</table>

**Component 3 Pension Policy Analysis and Development**

**Sub-component 1: Strengthening Capacity for Policy Analysis**

The MLESP Department for Pension and Disability Insurance is responsible for determining, conducting and supervising pension policy and the overall pension system. The Department carries out work related to pension legislation, pension policy, supervises delivery of benefits by the PAYGO pension fund, and also oversees all work related to bilateral pension insurance contracts. In addition, as of April 2006, when voluntary pension funds were first founded in Serbia, monitoring and implementation follow up of newly introduced pension schemes within voluntary pension system became part of the Department’s responsibility. In 2005, the overall situation related to the Department's human resources and technical capacity, including equipment and office space, were insufficient to ensure efficient fulfilment of the required work program. This sub-component provided funding for technical assistance, equipment and training.
Project Objective No. 1 - Creation of analytical tools, such as a pension model to analyse and forecast pension policy in the MLESP Department for Pension and Disability Insurance, (with participation of the RPDIF and MoF) and Project Objective No. 4 - Strengthening of the capacity of the existing staff in the Department

During the course of the Project, five PDI staff members were trained, of which three use developed models (long-term and short-term) in their work. The Project has funded a number of training courses to enable the PDI Sector to develop further policy measures and analytical capacity to ensure sustainability of the pension sector in the long run. The PDI Department staff also attended several conferences and workshops. A series of regional meetings were a further part of improving analytical tools and exchanging experiences.

Project Objective No. 2 - Establishment of a modelling and pension policy group (four additional employees) in the Department

Following the staffing initiated in late 2005, in January 2008, the PDI Department recruited three lawyers (Government contribution to the Project). However, in line with the Governmental Program of downsizing public services, the staffing level was reduced from 14 to 12 in mid-February 2010.

To further improve the capacity for overlooking bilateral pension insurance contracts, on April 1, 2008, the Institute for Social Insurance was founded. The establishment of the Institute resulted in raising compulsory pension insurance with a foreign element to a high level of quality and making it more complete. Within its scope of responsibility (implementation of bilateral social insurance contracts), the Institute has negotiated with foreign liaison agencies and prepared to implement general agreements with Croatia, Macedonia, Canada, Austria, Germany, Bosnia and Herzegovina, and Montenegro. The foundation and functioning of the Institute were executed with no particular support of the Project.

Project Objective No. 3 - Improvement of the Department's public outreach through creating a front office or a call centre and launching a pension reform web site

A web presentation, aiming to provide unified information on the pension system in Serbia, ongoing reforms and the Project, was created in July 2009. In addition, considering the multi-sectoral aspect of the pension system, an internet presentation within the public awareness campaign was created and launched in April 2011, aiming also to better synchronize existing information for public use (mainly RPDIF and NBS web presentations).

Project Objective No. 5 - Provision of adequate equipment and office space for the Department

Responding to the PDI Department, IT needed assessment and specification. The Project provided funding of IT equipment in 2007. Office space remained unchanged during the course of the Project implementation.

Project Objective No. 6 - Development and implementation of a broad pension reform education campaign with emphasis on mandatory pension pillars

Before designing and delivering a public information campaign, a detailed survey was prepared and carried out to ensure that the campaign enhanced public knowledge on the broad scope of the
reforms and helped the public understand the meaning of benefit changes. Results of the public opinion poll were presented to decision-makers in the Serbian Government, to professionals in key institutions (PDI Dept. of the MLESIP, Financial System Department and the Tax Administration of the Ministry of Finance, the NBS, Republic Fund for Pension and Disability Insurance and National Employment Services) in April 2009 and, finally, to the media in May 2009. The Campaign Strategy was approved and included:

- poster, two versions – designed, printed and distributed;
- TV (30 seconds and 10 seconds versions) and radio spot – broadcasted on 4 TV channels (259 times) and 392 times on selected radio channels;
- Key messages communicated through 3 advertisements in the daily press in May 2011;
- Internet presentation, launched in May 2011, followed by intensive on-line media activities to draw the attention of the younger population; and
- Brochure design and distribution in 2012.

A final survey was carried out in late-May 2012 (nationwide, representative sample), to measure the effects of the campaign, and demonstrated an improved level of knowledge (56% as compared to 45% in February 2009) on the compulsory and voluntary pension system in Serbia.

**Subcomponent 2: Support to Voluntary Pension System Development**

The Project supported strengthening supervision capacities of the National Bank of Serbia (NBS) with regard to the voluntary pension system, and the design and implementation of a public information campaign related to the voluntary pension system. The National Bank of the Republic of Serbia was assigned supervision of the voluntary pension funds, for which purposes a separate department within the Bank was created. This function was new not only for the NBS, but in Serbia in general, because such a type of investment/saving was entirely new. Therefore, implementation of this function was a challenging task in order to establish new regulation and new systems in the country, as well as to train people to perform this function. Currently there are 8 voluntary pension funds with 6 management companies.

**Project Objective No. 1 - Providing technical assistance for drafting by-laws, supplementary regulations and in-house training of sector staff**

To support the law implementation and further development of the voluntary pension system, a significant number of underlying (secondary) regulations were passed and amended. PDI Department in MLESIP was in charge of drafting two rule books, which were enacted in April 2006: (i) on withdrawing accumulated savings from the VPF before 534 years of age and (ii) on conditions and procedures for pension schemes organizing and functioning. A Working Group, consisting of the leading experts (there are very few in Serbia in the area of voluntary pensions,
which still constitutes a novelty for both professionals and general public) prepared several informative notes, as requested by the Project Director.

**Project Objective No. 2 – Providing assistance and costs of designing and conducting public information campaign for voluntary pension pillar Providing training of staff in the sector**

Results of the Public Opinion survey carried out in December 2008-February 2009, measuring the level of public knowledge and attitudes towards the mandatory pension system and its complementing solutions have further justified the need for carrying out a comprehensive public awareness campaign. The campaign, started in May 2010, was used to inform the public about the PDI system functioning, the objectives of PDI system reform, including the PARIP Project achievements, and to raise awareness of the entire population about the necessity to plan ahead for old age, voluntary pension funds’ scheme being one of options. The NBS sector for VPS supervision staff, in the same manner as the PDF Department staff were trained in communicating skills, and have also participated in creating public opinion survey questionnaire.

**Project Objective No. 3 - Providing training of staff in the sector and Project Objective No. 4 - Providing equipment and specialized software for voluntary pension insurance products**

A number of study visits (Germany, the Netherlands, Austria and UK) were carried out until May 2010, so that all 14 professional staff members participated. Consequently, NBS representatives were both included in the Public Opinion Survey questionnaire drafting, as well as in training courses related to improvement of communication skills. The capacity of the NBS Supervision of Voluntary Pension Funds Department was significantly improved.

**Critical Analysis Of The Activities Undertaken By The World Bank, And Technical Assistance**

The World Bank took an important role during preparation and implementation of PARIP. The WB provided assistance to the Ministry of Finance, initially as the lead Ministry and thereafter to the Ministry of Labor and Social Policy. Resultant meetings and discussions from WB missions in Belgrade were able to mutually resolve matters arising relatively quickly. During the project implementation, the World Bank provided technical support to the GoS, beneficiaries and PARIP team in achieving planned goals. Also, WB experts provided assistance via their experience and knowledge to Project beneficiaries and maintained daily communication, especially during critical situations. The Government is very satisfied with the WB team and the relationship between the team and the Government. The Government believes this cooperation was at an excellent level and helped in achieving the planned goals.

**Lessons Learned**

**Team effort and management support:**

Under PARIP, key institutions were required to interact to facilitate certain advancements, especially in the area of the creation of the Central Registry. This was problematic at times and perhaps management support at the institutional level may benefit from some technical assistance via (i) project management training specifically targeted at managing resources in the Project, consultants and contractors when assigned, (ii) exposure to experience in other countries though study visits abroad, and (iii) project sponsored workshops regularly with involvement of WB Mission from time to time.
**Stability for success:**
The continuity arising from a permanent PMU staff helped consistency throughout the duration of the Project. The initial change of lead agency away from the Ministry of Finance to the Ministry of Labor, Employment and Social Policy helped improve the focus and attention required to deliver a successful project. The PARIP Project or other similar projects should be based in the Ministry with direct responsibility to maximize effort, inputs and chances of achieving desired results.

**Consultants:**
In many respects the consultants contracted were successful, however, consideration towards their overall impact throughout a project should be considered. Changing consultants from year to year or task to task loses momentum that could be built up and maintained for the duration of the project if the situation was envisaged well from the outset. Sometimes a change in consultants is positive, but consistency within the Project from start to finish can be aided by having consistency in this area as well.

**Technology/Equipment:**
Over the course of the project, equipment has been procured for different key organizations implementing improvements via the PARIP Project. Equipment very often may meet a current need. However, in the context of a WB Project, like PARIP, it is suggested that before equipment is identified and procured, IT Strategies in the relevant institutions be in place to ensure: (i) consistency in procurement, (ii) the equipment procured is fully compatible with the organizational requirements for the longer-term, and (iii) additional equipment procured by the project should exceed normal annual procurement expectations by the relevant organization or be in accordance with the new strategy or project activities.

**International Travel Opportunities:**
Exposure of key individuals within institutions to other systems and solutions can be extremely valuable for the institution and the individual. Participant selection processes for external domestic workshops and international opportunities such as workshops, study visits, training or education should ensure that key officials directly involved in delivering relevant project outputs within institutions are included.

**Steering Committee:**
Active involvement of the Steering Committee with meetings three to four times a year should be a condition of all WB loans and not something that can be used or not as the case may be.
Свјетска банка
Господар Ју Брефор, директор

Булевар Краља Александра 6б
Београд

Поштовани господин Брефор,

Са задовољством смо анализирали Завршни извештај ПАНП проекта "Копненовине начела и реформе пензионске администрације у Србији", које је наше министарство у сарадњи са Министарством финансија спроводило у периоду 2005. до септембра 2012. године. Извештај је писан прецизно и као тако, вероватно је настало историјал проекта и његове развојне фазе, препреке и подузимања, као и могуће ризике док се спроводе резултати проекта. Опис песних прописа, које ћемо имати у наставку, све министарство сматра да је коректно образложено одавање пројекта и његове резултата. Када је још је познато, а што је у извештају наведено, пројекат се спроводио у резултати одликовања политичким условима са честом сменом Владе и министарства пројекта, као и директора институције, који су биле уклучене у проект, а што је у значајној мери упорио и одређено отежало рад на овом делу делевања пројекту. Управо због изненадних услова и амбиционално постављених циљева пројекта, ово министарство је задовољно постизнутим резултатима пројекта, а нарочито степеним неуслужбиним и повећаним здрављем као непосредним резултатом пројекта. Можемо проценим да

са сарадници, који су учествовали у овом проекту су стекли значајну неуслужбину, која ће им бити драгоцена у његов рад.

Када су у питању одређена прописа Извештаја, наводимо следеће:

На првој страни извештаја се наводити да су пензионске трендачи изнеђена 16% БДП у 2004. години. Према нашим подацима, узрочи трендачи за нето пензије у БДП у тај години су изнеђен око 11%, а укупни приходи пензија око 14% БДП-а што је значајна разлика у односу на наведене подаци.

На 18. страни извештаја наводимо да се постојеће средства за модернизацију могу погодно користити за патентне калкулације, али да нису погодна за средњорачиске и дугорачиске пројекте. Међутим, наводимо да у друге модели које се користе за пројекта пензионских трендачи имају у вису ограничуване чинећи да њихов капацитет нису квалитетним задацима посебно када су њихови аспекти у питању. На основу турбулентна критеријума у економији, демографији и социјалном окружењу у Србији у последњим годинама, која отежавају коришћење података из прометног и постизање потражених прописа за будући, одлучили смо за развој и употребу реформе модела. Велики део плана је неважан за дугорачиску пројекту, али довољан за цело поређење и проналазак нове награде пројекта, с обзиром да њене се сличне овог сукоба у Србији отежавају и обезбеђују све дугорачиске пројекате или проналазци. Развијена је основна верзија модела, који се и даље унапређује, и у то је и писање одговарајућег приручника.

Такође, на истој страни у извештају се наводи да је само позаборавили да су погрешно и остро нека послови и употребе модела и пројеката. Прецизиси се може навести да је други заслужан у великој мери огледању за употребу модела и по потреби учествује у раду.

Тај институт је упутио одређене потписи статистичких података и њихово релевантно актуално. Треба напоменути да ега група сарађника управо и формирања значајног ПАНП пројекту. Сматрали смо да је стварни рад за даље јачање капацитета министарства у зависности од кадрског плана министарства, који су приликом доношења интељова нових законових и других материјала, али нису упона завршених до завршених. На истој страни са разгледањем приповеда се да релевантно домесе одговарајући аналитички документи, али и у поређењу када се не предузимају информативне мере, као и влади плана нанесе улоге. Ово је једна важна чињеница за неуслугу ове институције.

Када су у питању процене зависни за Централни регистар обавежени социјални социјални осигурачи сматрали да је кључни резултат пројекта управо остварена све институције, нови колекционар и прописи за социјални осигурачи, али и у поступци исправаћа и уклонење кредит Светске банке. Иако је овај део пројекта истицања и јаркима, сматрали смо да је најстарији део или није и да ће
Borrower Comments on the Draft ICR
Translation of the letter from Ministry of Labor, Employment and Social Policy to Mr. Loup Brefort, World Bank Country Manager, Republic of Serbia

Republic of Serbia
MINISTRY OF LABOR,
EMPLOYMENT AND
SOCIAL POLICY
Number: official 33/2013-07
Date: March 28, 2013
Belgrade
22 – 26, Nemanjina Street

The World Bank
Mr. Loup Brefort, Country Manager

86, Blvd Kralja Aleksandra
Belgrade

Dear Mr Brefort,

We have analyzed with great pleasure the Implementation Completion and Results Report for the Consolidated Collection and Pension Administration Reform Project in Serbia (PARIP), that our Ministry in cooperation with the Ministry of Finance was implementing in the period from 2005 till September 2012. The Report was written accurately and as such, it fairly...
depicts the Project’s history and its phases of development, obstacles and concerns, as well as possible risks of further implementation of project results. Aside from some details, that we will state later on in the text, this Ministry feels that the development of the Project and its results were explained in a correct manner. As you already know, and this has also been stated in the Report, this Project was implemented in rather complex political conditions with frequent shifts in the Government and Project management, as well as managers of different institutions, that were involved in the Project, and this situation significantly slowed down and further complicated work on this complex Project. Due to the above mentioned conditions and ambitious Project targets, this Ministry is pleased with the achieved project results, especially when it comes to the experience and new knowledge and skills as an intermediate project results. It is our estimate that all the associates that participated in the Project have gained significant experience, that will be valuable in their future work and activities.

When it comes to certain details of the Report, we would like to state the following:

On the first page of the Report, it is stated that expenditure on pensions in 2004 was 16% GDP. According to our data, the share of costs for net pensions in GDP in the above mentioned year were somewhat less than 11%, and total expenditures of the Fund were around 14% GDP which is a significant difference compared to the state data.

On page 18 of the Report, it is stated that the existing modelling capacities can be used for short-term calculations, but that they are not reliable for mid-term or long-term forecasts. However, after considering other models used for forecasting of pension trends and having in mind the limiting facts that we do not have data of proper quality, especially when it comes to insurees, and also having in mind a very turbulent situation in economy, demography and social environment in Serbia in the last twenty years that complicate the use of data from the past and setting up of reliable assumptions for the future, we decided to develop and use a relatively simple, but reliable model that, aside from short-term calculations, provides the impact analysis of measures in the pension reform and forecasting of trends in the next 20 years. We think that it is a sufficient horizon for development of reliable forecasts, since the above mentioned complex circumstances in Serbia complicate and stultify any long-term forecasts and predictions. The basic version of the model was developed, and is still being improved, and an appropriate manual is also being developed at the moment.

Further, on the same page of the Report, it is mentioned that only one employee was engaged on activities of model use and forecasts. More precisely, it can be stated that another employee is, to a large extent, capable of using the model and, when needed, participate in work. That employee is also in charge of collecting statistical data and their regular update. It should also be mentioned that this group of employees was formed thanks to the PARIP project. We think that a good base was formed for further capacity strengthening in the Ministry depending on the staffing plan of the Ministry, since all measures were accompanied by wider analysis and recommendations during the adoption of amendments of different laws as well as other reform measures, which improved the previous practice. On the same page of the Report, adoption of appropriate analytical documents on a regular basis is also recommended, i.e. in the period when no reform measures are implemented, so that the Government can monitor financial situation in the longer term. This is a rather useful recommendation, so the Ministry will certainly have it in mind.

When it comes to estimates regarding the Central Registry of mandatory social insurance, we think that the key result of the Project is establishing of this institution, after numerous obstacles. We think that the Central Registry, when all its functions are fully implemented, will significantly contribute better collection of contributions for social insurance, and thus will fully
justify the credit that was received from the World Bank. Even though this is the most complex and the riskiest part of the Project, we feel that the hardest part is behind us and that the Government will take all the necessary steps so that the Central Registry can start operating as of January 1, 2014, at the latest. This is particularly true when it comes to harmonization of the current reform within the Tax Administration with jointly defined work activities in the Central Registry.

If we look at the Republic Pension and Disability Insurance Fund and part of the Project related to this institution, we think that the key project result was a demanding task of consolidation of different funds into one single fund. This consolidation was done without any delays in the functioning and activities of the Fund. Also, the Project has significantly improved the IT equipment of the Fund. This Ministry is fully aware of all the challenges and obstacles when it comes to further reform of pension administration, and we plan to continue this process regardless of the fact that the PARIP project is now completed, first and foremost, because the work of the Central Registry will demand full compatibility of work processes and compatibility of IT equipment.

Dear Mr Brefort, once again, we would like to express our great pleasure for our mutual work on the PARIP project and we would like to use this opportunity to thank your team, both previous and current, on their kindness, professional support and patience, all of this in the best interest of the completion of the PARIP project.

Sincerely,
STATE SECRETARY
Dragi Vidojevic

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

n/a
Annex 9. List of Supporting Documents

- Project Appraisal Document, dated May 2, 2005
- Development Credit Agreement, dated June 22, 2005
- Request for Extension of Closing Date, September 2011
- Request for Extension of Closing Date, 2010
- Request to Amend Development Credit Agreement
- Note on the Rationale for Extension
- Amendment to Development Credit Agreement, 2010
- Extension of Closing Date, 2010
- Extension of Closing Date, 2011
- Republic Fund for Pension and Disability Insurance Strategic Plan 2009 – 2011
- Republic Fund for Pension and Disability Insurance Strategic Plan 2012 – 2014
- Jean-Noel Martineau/Bearing Point: The National Pension System of Serbia – Preliminary Fiscal Analysis
- Deloitte: Technical Requirements for Central Register Information System Implementation and Commissioning Central Register of Serbia
- Deloitte: Systematization of working positions with relating responsibilities and obligations
- Deloitte: Architecture and Functional Requirements from Information System Central Register of Serbia
- Deloitte: Target Environment Report - Expertise for developing functionality and technical requirements for an independent Agency with responsibility for Central registry and reporting processes
- Vladimir Pajovic: Consolidation of the pension funds, registration and reporting systems for the social insurance and tax institutions - Current situation and consolidation potential
- ITG: Expertise for developing new business processes, functionality and technical requirements for an new integrated IT system for consolidated RPDI Fund - TRANSITION PLAN FOR TARGET ENVIROEMENT REPORT
- ITG: Expertise for developing new business processes, functionality and technical requirements for an new integrated IT system for consolidated RPDI Fund – FINAL REPORT
- Anon.UNIFIED REVENUE AGENCY MODERNIZATION PROGRAM - Project Background Note
- Supervision Mission Aide Memoires dated
  - May 2006
  - October 2006
  - June 2007
  - October 2007
  - December 2007
○ June 2008
○ December 2008
○ February 2009
○ March 2009
○ September 2009
○ February 2010
○ April 2010
○ July 2010
○ September 2010
○ February 2011
○ December 2011
○ February 2012
○ July 2012
○ Financial Reports 2006 – 2011

- Audit Reports 2006 – 2011
- QER Report, 2004
- Implementation Status Reports (ISRs) 1 through 12