Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 17-Nov-2021| Report No: PIDC32785

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Serbia	P177410	Serbia Green Transition Programmatic Development Policy Loan (P177410)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
EUROPE AND CENTRAL ASIA	Apr 19, 2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Republic of Serbia	Ministry of Finance		

Proposed Development Objective(s)

The objective of the proposed programmatic Green Transition Development Policy Loan is to support the Government of Serbia's efforts to: 1) better align fiscal management with the climate-change agenda, 2) accelerate the clean energy transition, and 3) align with European standards on environment and climate action.

Financing (in US$, Millions)

SUMMARY

Total Financing	120.00

DETAILS

Total World Bank Group Financing	120.00
World Bank Lending	120.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

The recovery from the pandemic-induced recession has started, but the economy remains vulnerable to climate related shocks. After two years of solid growth, the Serbian economy contracted in 2020 by 0.9 percent as the COVID-19 pandemic took a toll. The recession could have been even more severe if not for the timely and sizeable government fiscal support package.[1] The economy is now on the path towards recovery, with growth accelerating to 7.6 percent in the first half of 2021. But the pandemic was one in a series of shocks that have affected Serbia in the past decade, several of them climate related. Serbia went through two recessions because of drought and floods in 2012 and 2014 respectively, and growth was again negatively affected by a drought in 2017. According to official statistics, extreme weather events in recent years have cost the country more than EUR 5 billion, with droughts and extreme temperatures accounting for 70 percent of the losses.

Serbia's economy remains carbon-intensive and has other adverse environmental effects. Serbia still lags peer countries in terms of overall environmental performance, and its carbon dioxide (CO_2) emissions per unit of GDP PPP are above the ones of other Western Balkan countries. Despite a significant decrease over the past decade, Serbia's carbon intensity of GDP remains almost three times as high as the EU's, but also significantly higher than other coal-reliant WB6 countries (e.g., North Macedonia and Montenegro) and comparable EU countries in the region (e.g., Bulgaria and Romania). Serbia's reliance on domestic lignite (about two thirds of the energy mix in power generation) is the main cause for the high carbon footprint and is also responsible for environmental threats—particularly the poor air quality. The effects on public health are enormous. With 175 deaths per 100,000 people in 2019, Serbia topped a list of death rates from pollution among European countries and placed 9th overall on the global list.

Serbia's macroeconomic framework is adequate for this operation. Serbia has implemented a prudent macroeconomic policy mix over the recent years including since the start of the COVID-19 pandemic. This led to a continued decline in public sector debt as a share of GDP prior to the pandemic, and a limited increase since. The COVID-19 crisis and the government's response have worsened fiscal balances, but the underlying macroeconomic policy framework remains adequate. The new arrangement with the IMF approved in June 2021 provides an additional anchor for macroeconomic policy.

Relationship to CPF

This operation is closely aligned with the World Bank's COVID-19 Crisis Response Approach Paper and the GRID Approach. The proposed programmatic DPL provides opportunities to contribute to sustainable growth and job creation by strengthening policies and institutions for rebuilding better, through thematic Pillars III and IV defined by the World Bank Group's COVID-19 crisis response approach and outlined in the Serbia Country Program Adjustment Responding to COVID-19. The proposed DPL is envisaged in the draft FY22-26 Country Partnership Framework (CPF). The program supported by this operation will contribute to sustainable growth and an economy that is more resilient to future shocks, along the lines of the GRID Approach to promote Green, Resilient and Inclusive Development.

[1] In 2020 the government announced the fiscal stimulus package of 12.8 percent of GDP, of which 11.6 percent of GDP was implemented. For 2021 the government announced the new fiscal package of 4.4 percent of GDP.

C. Proposed Development Objective(s)

The objective of the proposed programmatic Green Transition Development Policy Loan is to support the Government of Serbia's efforts to: 1) better align fiscal management with the climate-change agenda, 2) accelerate the clean energy transition, and 3) align with European standards on environment and climate action.

Key Results

The proposed operation supports reforms grouped into three pillars. The first pillar that comprises reforms aimed at: improving the budget planning process to tag climate related expenditures; improved fiscal risks management to take into account the potential impact on public finances caused by natural disasters, and making the public investment management system climate-smart. The second pillar supports the GoS's efforts to speed up a sustainable transformation of the energy sector, which includes efforts to improve residential energy efficiency, increase the share of renewable energy, accelerate energy market reforms according to the principles of the "Just Transition for All". Finally, under the third pillar, the operation aims to support the alignment of domestic legislation with European Union legislation to reduce GHGs emissions, improve waste management and enhance air quality.

D. Concept Description

The proposed programmatic Green Transition Development Policy Loan supports legal and policy reforms to make Serbia more resilient to the negative impacts of climate change, strengthen environmental sustainability, and modernize its energy sector organized under three pillars. The first pillar includes three prior actions: Prior Action #1 supports the government's effort to improve the climate tagging of budgetary expenditures, Prior Action #2 supports introduction of a comprehensive, transparent and quantified assessment of climate-related fiscal risks and Prior Action #3 supports the government to improve the PIM system by promoting the shift toward a climate-smart PIM framework. The second pillar envisages also three prior action: Prior Action #4 supports reform to facilitate investments in renewable energy; Prior Action #5 supports development of the regulatory and institutional framework for energy efficiency, and Prior Action #6 supports electricity market reforms. The reforms supported by the third pillar focus on three key areas of alignment with the environment related EU acquis where Serbia has initiated substantive action. Prior Action #7 supports reforms to enable GHG mitigation interventions in line with Serbia's ambition of joining the EU Emission Trading Scheme (ETS) and being aligned with the European Green Deal; Prior Action #8 provides support to the government to design the framework for alignment with the EU's Waste Framework Directive and an enabling environment for scaled-up investments in the sector; and Prior Action #9 supports reforms needed for alignment with the EU's Clean Policy Package and a program of possible investments and policies to improve air quality.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The program supported by this DPO is expected to lead to welfare improvements in the medium term through supporting a green, resilient economic recovery, though some of the actions are expected to have social and distributional impacts in the short term. The proposed set of measures under pillars I and III is expected to improve livelihoods by: increased budgetary expenditures on environment related activities; improving preparedness for natural disasters and by reducing air pollution and unmanaged solid waste. The only exception is PA#7 – on climate change – related to possible cost increases, caused by the requirement to obtain a GHG emission permit, monitoring and reporting of GHG emissions from installations, and accreditation and verification. If this cost is passed onto the consumers, it could have adverse poverty and social impacts.

The proposed set of measures under the Pillar II is expected to have mixed poverty and social impacts. While prior actions related to energy efficiency and renewable energy should create more jobs, including low-skill jobs, in the private sector and could help reduce poverty, reforms related to electricity market reform could have a negative social impact. On the other hand, the same prior action supports expansion of the benefits for energy-vulnerable consumers which will have positive poverty and social impacts.

Environmental, Forests, and Other Natural Resource Aspects

Given the overall green aim of the Project, all PAs are likely to have positive environmental impacts, to some extent, and no significant adverse impacts on environment, forests and natural resources are expected. Significant positive environmental effects are expected under the proposed prior actions in Pillar II (Accelerating the clean energy transition) and Pillar III (Aligning with the European Union on environment and climate action), by delivering reductions in GHG emissions, emissions of other air pollutants as well as reductions in insufficiently managed solid waste. More indirect but similarly positive environmental effects are expected under the proposed prior actions in Pillar I (Establishing a stable macro-fiscal framework for a green recovery and promote the climate-smart fiscal policy), delivering improved climate change related budget management.

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APPROVAL

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