



1. Operation Information

Operation ID P164575	Operation Name PSEGR DPL
Country Serbia	Practice Area (Lead) Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IBRD-92350	Closing Date (Original) 31-Dec-2022	Total Financing (USD) 93,082,931.20
Bank Approval Date 29-Apr-2021	Closing Date (Actual) 31-Dec-2022	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	93,082,931.20	0.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The Serbia Public Sector Efficiency and Green Recovery (PSEGR) Development Policy Loan (DPL) aimed at supporting efforts by the Government of Serbia (GoS) “to i) increase public sector efficiency and transparency, and ii) initiate a green recovery,” [Program Document (PD), p. 4].



For the purpose of this ICRR, the program development objectives (PDOs) of the operation against which outcomes will be assessed are taken to be the following:

- PDO1: Improve public sector efficiency and transparency;
- PDO2: Initiate a green recovery.

b. Pillars/Policy Areas

The operation was structured around two pillars encompassing the operation's objectives, namely to: (i) increase public sector efficiency and transparency, and (ii) initiate a green recovery (PD, p.17).

c. Comments on Program Cost, Financing and Dates

PSEGR consisted of an IBRD loan of EUR 82.6 million (US\$100 million equivalent). The amount disbursed was US\$93 million. The difference between the amount approved and disbursed was due to the exchange rate fluctuation between the USD and the Euro at the time.

The operation was approved on April 29, 2021, became effective on September 22, 2021, and closed as envisaged on December 31, 2022.

3. Relevance of Design

a. Relevance of Objectives

Serbia, a middle-income country, received official candidate status for membership in the European Union (EU) in 2012, aspires to join the EU and reach EU income levels (ICR pg. 5). Since receiving the official candidate status for EU membership, efforts have been directed towards aligning Serbia's legislation with the EU acquis and efforts have been made to improve living standards. GDP growth averaged 3.2 percent between 2015 and 2019, underpinned by a comprehensive fiscal consolidation program that brought down public debt from 70 percent of GDP in 2015 to 51.9 percent in 2019 (ICR pg. 4). However, these efforts were halted with the onset of the pandemic. In response to the COVID-19 pandemic, a large fiscal support package of 11.6 percent of GDP was adopted in 2020, (ICR, p.5). Although the effort was largely successful in that GDP growth rates reached 7.7 percent in 2021 (PD, p. 4), it also meant that earlier fiscal consolidation efforts were reversed, and the fiscal surplus of 1.1 percent in 2017 turned into a fiscal deficit of 8.1 percent in 2021. The exhaustion of fiscal buffers meant that a fiscal consolidation effort was necessary to make the economy more resilient to external shocks.

Prior to the pandemic, a diverse set of reforms identified and in progress were geared towards promoting faster growth. These included investments in the public and private sectors coupled with structural reforms in public administration governance, tax and subsidies policy, and the legislative and regulatory framework. These efforts were re-affirmed in 2020 when the new government declared an intention to accelerate reforms for EU accession and boosting resilience of the economy. Some of the priorities included efforts to sustain fiscal consolidation gains from 2014-19 by containing the public wage bill, increasing efficiency through further digitalization of government services, adopting better control and monitoring of the



use of public funds and increasing transparency, as well as resolving issues of poorly targeted social safety net spending that became more visible during the pandemic (ICR pg. 6).

Serbia signed the Sofia Declaration on the Green Agenda for the Western Balkans in 2020, which aligned the country with the EU Green Deal, as the government committed to improving energy efficiency, reducing emissions, reducing air pollution, increasing the share of renewables in its energy mix, minimizing waste, and transitioning to a circular economy. The operation's second objective, a transition to "green growth," was aligned with this direction. The carbon intensity of Serbia's GDP was almost three times as high as the EU countries' average, driven largely by its heavy reliance on lignite for thermal power generation which led to air pollution and was a hazard for public health. Moreover, increased air pollution was the top public health concern in Serbia, particularly during the winter months when the demand for heating was the highest. According to 2019 data reported by the World Health Organization, exposure to PM2.5 accounted for 3,585 premature deaths per year across 11 surveyed Serbian cities, including 1,796 in Belgrade. Serbia had one of the worst air quality levels in the region; approximately 2.5 million citizens were estimated to live in regions where the air contained at least one polluting substance in an amount deemed hazardous to human health.

Relevance to country development strategy

The objectives of the operation were relevant to the country situation and drew upon the government's Economic Reform Program (ERP) 2021-2023 as well as Serbia's Fiscal Strategy for 2021-23.

Serbia's reform agenda was set out in two flagship documents, the Fiscal Strategy and the ERP. The Fiscal Strategy was the central strategic document that the government updated annually and used as the primary guide for medium-term budgetary planning. The 2021-2023 Fiscal Strategy focused on preserving macroeconomic stability through a fast recovery from the pandemic, a reduced fiscal deficit to curb public debt, and implementation of structural reforms to improve the competitiveness of the private sector. The ERP was prepared annually and built on the Fiscal Strategy. The 2021-2023 ERP focused on a set of structural reforms related, *inter alia*, to the business environment, innovation, inclusion, and social protection. For this operation, the most important structural reforms aimed at improving the competitiveness of the Serbian economy and boosting private sector investment through improved access to finance and fostering a sustainable framework for environmental management. The Sofia Declaration was European Union's flagship initiative for environmentally sustainable growth to which member states and candidate countries alike were committed. Climate change related actions were anchored in the second National Communication on climate change prepared by the Ministry of Environmental Protection (MoEP) and submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in 2017.

Alignment with Country Partnership Framework and Development Strategy:

The operation was aligned with the CPF (2016-2020) and built on the analytical findings of the 2020 Systematic Country Diagnostic (SCD), the 2020 Country Economic Memorandum (CEM) and the Performance and Learning Review (PLR) (2019). The operation was aligned with the broad areas of the CPF (2016-2020) related to economic governance and the role of the state, private sector growth, and economic inclusion climate change and disaster risks. The PLR (2019) reiterated CPF priorities, while the SCD (2020), stressed environmental sustainability and climate action to mitigate the country's vulnerability and improve governance.

The operation also contributed to the CPF FY2022-26, high-level objectives of greener and more resilient growth and more inclusive service delivery.



b. Relevance of Prior Actions

Rationale

The operation had a total of 8 Prior Actions (PAs), of which five were related to PDO1 and three to PDO2.

Table 1: Prior Actions for Serbia Public Sector Efficiency and Green Recovery DPL (PSEGR)

<p>PDO1: Improve Public Sector Efficiency and Transparency</p> <p>PA1: The Borrower has established the Public Procurement Portal to promote transparency and efficiency in public procurement, as evidenced by the issuance of Rulebooks and Guidelines to regulate the implementation of the Public Procurement Portal, pursuant to the provisions of the Law on Public Procurement.</p> <p>PA2: The Borrower has introduced a new procedure for prioritizing and controlling recruitment in the public sector, as evidenced by the issuance of the Decree on the Procedure for Obtaining Approval for New Recruitment or Additional Temporary Employment with Budget Beneficiaries (Decree 05 No. 110-11166/2020-2), duly published in the Borrower’s Official Gazette No. 159 on December 30, 2020.</p> <p>PA3: The Borrower has mandated the establishment of the Social Card Registry for the consolidation of data on social protection beneficiaries, as evidenced by the enactment of the Law on Social Card, duly published in the Borrower’s Official Gazette No. 14, dated February 17, 2021.</p> <p>PA4: The Borrower has established an independent Commission for State Aid Control and has made it operational, as evidenced by: (i) the enactment of the Law on State Aid Control, duly published in the Borrower’s Official Gazette No. 73/2019 on October 11, 2019; and (ii) the adoption of the founding statute of the Commission for State Aid Control, duly published in Borrower’s Official Gazette No. 3 and 41, dated January 17, 2020 and March 24, 2020, respectively.</p> <p>PA5: The National Bank of Serbia has published, on a dedicated section of its website, all the bylaws, decisions, rulebooks, and summary of official opinions related to the implementation of the Law on Foreign Exchange Operations.</p>
<p>PDO2: Initiate a Green Recovery</p> <p>PA6: The Borrower has set the date of January 1, 2021, for the entry into force of regulations to limit sulfur content in heavy fuel oil, as evidenced by the approval of the Rulebook on Technical and Other Requirements for Liquid Fuels of Petroleum Origin, duly published in the Borrower’s Official Gazette No. 150/2020, dated December 14, 2020.</p> <p>PA7: The Borrower has adopted the National Plan for the Reduction of the Main Pollutant Emissions from Old Large Combustion Plants, duly published in the Borrower’s Official Gazette No. 10/2020, dated February 6, 2020.</p> <p>PA8: The Borrower has enacted the Law on Climate Change (published in the Borrower’s Official Gazette No. 26/2021 on March 23, 2021, and enters into force on March 31, 2021) which mandates the preparation and adoption of the Low-Carbon Development Strategy and its Action Plan and the Climate Change Adaptation Program, to establish systems to reduce GHG emissions and support climate adaptation in a cost-effective and economically viable manner.</p>

PDO1: Improve Public Sector Efficiency and Transparency



PA1 supported the establishment of a public procurement portal which was expected to optimize public spending by ensuring higher value for money spent on the public procurement of goods and services through greater competition among firms. PA1 was in line with the OECD/SIGMA report on implementing the EU directives on the selection of economic operators in public procurement procedures. The share of Serbia's public procurement market was rising and had reached 8.9 percent of GDP in 2021. As an applicant aspiring to become a member of the EU, Serbia was obliged to align its legislative and regulatory framework with that of the EU, and PA1 contributed to this goal by establishing a public procurement portal. Use of the portal was expected to contribute to reduced bureaucracy and administrative costs for both the public and private sectors, and enhanced competition among firms. The portal was the result of the Law on Public Procurement, which simplified administrative procedures and enabled a greater number of SMEs to take part in bidding, thus contributing to private sector development, and public sector efficiency and transparency. The results chain (outlined in the theory of change (ICR p. 11)) to the objective of improved public sector efficiency and transparency was clear. **Relevance of PA1: Satisfactory (S).**

PA2 supported the process for approval of new hiring in the public sector and a cap on new hiring as well as clear reassignment rules (PD, p. 20, footnotes 33 and 34). These actions were expected to improve public expenditure efficiency through better management of public sector employment, and control of the wage bill. Despite a successful reduction in Serbia's wage bill from 11 percent of GDP in 2014 to 9.5 percent in 2019 no effective mechanism for controlling and prioritizing the recruitment of new employees was instituted during that period, and the previously imposed hiring freeze was lifted on December 31, 2020. By imposing discipline in public employment spending, PA2 would contribute to public sector efficiency. **Relevance of PA2: Satisfactory (S).**

PA3: By establishing the Social Card Registry for the consolidation of data on social protection beneficiaries, PA3 sought to improve targeting of social assistance, reduce exclusion and inclusions errors, and ultimately strengthen the social safety net, while simultaneously increasing public spending efficiency. Serbia's social spending declined from 16.7 percent of GDP in 2014 to 14.4 percent of GDP in 2019. Nevertheless, inefficiencies and issues of rational and fair distribution remained, rooted in the lack of consolidated data on the socioeconomic status of existing and prospective beneficiaries. The 2021 Law on Social Card set the legal basis for the full implementation of the Social Card registry to allow easier social screening and faster and more appropriate government support to those in need, including those at risk of climate change-related disasters. The efficiency of social spending is expected to increase with the establishment of the registry supported by a detailed impact assessment on data protection requirements associated with the merging of databases that will allow state authorities to identify eligible individuals. Establishing a social card registry was relevant to the objective of improved public sector efficiency and transparency. **Relevance of PA3: Satisfactory (S).**

PA4 supported the establishment of an independent agency for state aid control, thus improving the provision and monitoring of state aid and enforcing robust state aid rules. According to Serbia's Ministry of Finance, state aid-to-GDP was about three times larger than in the EU (in 2018, it amounted to 1.9 percent of GDP, compared to 0.76 percent, on average in the EU). The 2019 CEM noted that most subsidies and tax incentives benefited SOEs, thus allowing for market distortions and inefficiency. At the same time, state aid control had been relatively weak. Although Serbia passed the Law on State Aid Control in 2010, which established an institutional and regulatory framework and a commission with the authority to approve state aid and order the recovery of aid granted unlawfully, four out of the five members of the commission were appointed by aid-granting ministries which limited the commission's independence. Through the new Law on State Control, PA4 made a contribution to the objective by envisaging an independent Commission for State Aid Control, authorizing



Parliament to appoint its President and Members, regulating the Commission's budget and staffing, and mandating the preparation of new by-laws. **Relevance of PA4: Satisfactory (S).**

PA5 supported improved transparency on the legal framework and practices for international financial and capital transactions. Serbia's Law on Foreign Exchange Operations defined most transactions. For transactions not explicitly regulated, existing provisions were used or interpreted by the National Bank of Serbia (NBS) as needed. In the past, there was ambiguity about foreign exchange operations as the opinions by the NBS were issued on a case-by-case basis and were not available to other entities facing similar issues. By publishing all the legislation, and summary of relevant official opinions previously issued to businesses, banks and individuals related to the Law on Foreign Exchange Operations, PA5 contributed to enhanced public sector transparency. **Relevance of PA5: Satisfactory (S).**

PDO2: Initiate a Green Recovery

PA6 supported a regulation that sought to limit the use of sulfur content in heavy fuel oil (HFO). HFO in Serbia had traditionally been rich in sulfur content (more than 3 percent), with its combustion resulting in elevated levels of sulfur dioxide (SO₂) emissions. This PA was therefore important in assisting Serbia in its efforts to reduce air pollution caused by burning HFOs with more than 1% of sulfur. The new Rulebook on liquid fuels (which entered into force on January 1, 2021, thus limiting the sulfur content of HFO to 1 percent, supported by this PA, is expected to contribute to cleaner HFOs overtime and a reduction in air pollution. The PA is a step in the right direction; however, enforcement and measurement are other important components for full implementation as highlighted in the PD (pg. 26). **Relevance of PA6: Satisfactory (S).**

PA7 supported the implementation of a directive that would contribute to Serbia's efforts to reduce air pollution caused by emissions of nitrogen oxide from Old Large Combustion Plants. Serbia faces a severe air pollution problem, with power plants contributing an estimated 20 to 40 percent of the country's air pollution. Serbia's environmental record was marred for long by its high dependence on lignite to fuel its economy, and given that lignite is rich in sulfur, Serbia is among the major emitters of SO₂ globally. The draft National Emissions Reduction Plan for Major Pollutants from Old Large Combustion Plants (NERP) was prepared in 2016 and adopted in 2020. Its adoption was an important step in regulating emissions of large combustion plants (LCPs) and hence contribute to the objective of a green recovery. The NERP was a mechanism envisaged by the LCP Directive of the European Union and incorporated into the Energy Community Treaty. The adoption of the NERP was expected to make a meaningful contribution to a substantial reduction in air pollution and therefore enabling a pattern of economic growth in line with the PDO's green recovery ambitions. **Relevance of PA7: Satisfactory (S).**

PA8 supported the legal framework for addressing climate change challenges through the enactment of the Law on Climate Change. The Law on Climate Change is a framework law that provides a basis for the preparation and adoption of the Low-Carbon Development Strategy and its Action Plan and the Climate Change Adaptation Program. The law was also an important framework for the establishment of a system for GHG emission reduction and adaptation to climate change, fulfilling the obligations of the UNFCCC and the Paris Agreement, as well as a basis for the revision and monitoring of the NDCs implementation as an obligation under the Paris Agreement (PD, pg. 28). The overarching goal, however, was to support Serbia's EU membership aspirations and the transposition of the EU *aquis* into national legislation. While PA8 by itself was insufficient to achieve the objective, it can be considered a satisfactory step towards the objective, if adequately implemented. **Relevance of PA8: Satisfactory (S).**



Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

Table 2: Results Indicators (RIs) by Objective and PAs; baseline and target values; status and achievement

Results Indicator (RI)	Associated PA(s)	RI relevance	Baseline (including units and date)	Target (including units and date)	Actual at target date	Actual as % to targeted change	RI achievement rating
PDO1: Improve Public Sector Efficiency and Transparency							
RI1a: Share of completed public procurement transactions in the public sector conducted using the Public Procurement Portal	PA1	S	0 percent (2019)	85 percent (2022)	98.7 percent (2022)	More than 100% of targeted change	High
RI1b: Average number of bids per public procurement procedure	PA1	MS	2.5 (2019)	2.8 (2022)	2.5 (2022)	0% of targeted change	Negligible
RI2: The share of new hiring in the public sector done under the new procedure, as set in the new Decree, and in light of keeping the expansion of new permanent staff to less than 1 percent	PA2	MS	0 percent (2020)	100 percent (2022)	100 percent (2022)	100% of targeted change	Substantial
RI3: Percentage of beneficiaries from various social	PA3	MS	0 percent (2020)	50 percent (2022)	100 percent (2022)	200% of targeted change	Substantial



protection registries whose information is verified and updated through the Social Card Registry							
RI4: Volume of state aid (as percent of GDP), excluding de minimis aid, recorded by the Commission for State Aid Control in a publicly available list of support schemes containing information on the amount of aid, grantor, legal basis, and main criteria for compatibility under the State Aid Control Law	PA4	S	0 percent (2020)	1 percent (2022)	3.5 percent (2022)	350% of targeted change	High
RI5: The number of requests for opinions related to the Foreign Exchange Operations Law	PA5	S	164 (2019)	130 (2021)	74 (2022)	230% of targeted change	High
PDO2: Initiate a Green Recovery							
RI6: Estimated national emissions of sulfur dioxide from the estimated use of heavy fuel oil with 3 percent sulfur content <i>Alternative indicator: Consumption of heavy fuel oil with</i>	PA6	MU	1,300 tonnes (2019) 61,899 tonnes (2020)	0 tonnes (2021) no target set	Not verified (no data) 25,727 tonnes (2021)	Not verified (no data) no target set	Modest



<i>more than 1 percent sulphur content for energy production</i>							
<p>RI7: Estimated emissions of nitrogen dioxide from large combustion plants (equal to or greater than 50 MW)</p> <p><i>Alternative indicator:</i></p> <p><i>Emissions of nitrogen dioxide from the energy sector (tonnes)</i></p>	PA7	MU	<p>48,241.56 tonnes/year (2020)</p> <p>73,397 tonnes</p>	<p>34,150.79 tonnes/year (2021)</p> <p>no target set</p>	<p>Not Verified</p> <p>68,438</p>	<p>Not Verified</p> <p>no target set</p>	Modest
<p>RI8: Number of new by-laws adopted for the implementation of the Law on Climate Change</p>	PA8	S	0 (2019)	6 (2022)	5 (2022)	83% of targeted change	Substantial

The operation consisted of 9 RIs. PA1 had 2 related RIs, while the other PAs each had one RI. Four RIs are rated Satisfactory, Three Moderately Satisfactory and Two Moderately Unsatisfactory. The overall outcome is Moderately Satisfactory.

RI1a sought to measure the share of public procurement transactions that was completed using the public procurement portal. The RI measured progress in PA1 toward the objective of strengthening public sector transparency in public procurement, using credible baseline data and target. **Relevance of RI1a: Satisfactory (S).**

RI1b also measured progress in public procurement, with a focus on the average number of bids. The decision to bid for a tender is influenced partially by the method of bidding (manual or electronic). Other factors such as price, cost, and the cost-quality ratio are not captured by the number of bids as measured



by RI2 (PD, p. 19). Therefore, RI1b fell short of measuring the full impact of PA1 on PDO1. **Relevance of RI1b: Moderately Satisfactory (MS).**

RI2 sought to measure the effect of the 2020 Decree on new recruitment in terms of the share of hiring that was done in accordance with the new procedures adopted. While RI2 sought to capture the expected impact of PA2 on PDO1, reference to “new permanent staff” did not specify the baseline and target adequately as it remains unclear from what point in time the staff hired is considered new. **Relevance of RI2: Moderately Satisfactory (MS).**

RI3 tracked the implementation of PA3 (implementation of a new Social Registry) using the share of beneficiaries whose data had been verified and updated through the Social Card Register. However, reference to “various social protection registries” left room for interpretation as to the exact target of this RI without a specific number of the exact registries that would be reviewed to gauge progress in the ‘implementation’ of the registry. **Relevance of RI3: Moderately Satisfactory (MS).**

RI4 integrated both aspects of PA4 in terms of measuring the effect of the setup and operationalization of the newly formed Commission for State Aid control. The indicator was measurable, and suitable for monitoring implementation of the PA. **Relevance of RI4: Satisfactory (S).**

RI5 directly, and credibly, measured the impact of PA5 (the publication, by the NBS, of all laws, by-laws and regulations pertaining to the Law on Foreign Exchange Operations, satisfying a long-standing request by the business community in Serbia and enhancing transparency and efficiency. Both baselines and target were clear and measurable. **Relevance of RI5: Satisfactory (S).**

RI6 was intended to measure the outcomes derived from the introduction of PA6, namely of a Rulebook that would assist the regulations-based reduction in sulfur dioxide. However, the baseline and target were not credible, since the calculation involved in the indicator relied on non-replicable modelling. At the time of ICR preparation, an alternative indicator, which was more relevant to measuring progress towards the objective was used. The alternative indicator was measurable and readily available on a government portal (see discussion in Section 5). **Relevance of RI6: Moderately Unsatisfactory (MU).**

RI7 attempted to measure the impact of PA7 and the adoption of the National Plan for the Reduction of the Main Pollutant Emissions from Old Large Combustion Plants. Nevertheless, the baseline and target relied on modelling estimates (like RI6), which could not be verified. Therefore, RI was not a credible measure of PA7’s contribution to PDO2. Just as in the case of RI6, an alternative indicator was used during the preparation of the ICR. **Relevance of RI7: Moderately Unsatisfactory (MU).**

RI8 directly measures progress made by the GoS in implementing legislation (the Climate Change Law) that would facilitate progress towards PDO2. Both baseline and target were clear and verifiable. **Relevance of RI8: Satisfactory (S).**



Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improve Public Sector Efficiency and Transparency (PAs 1-5, RIs 1-6).

Rationale

RI1a: The targeted percentage of public procurement transactions conducted using the public procurement portal had been exceeded by the target date, reaching 98.7 percent. As of July 2020, all new procurement procedures were being conducted through the online portal, with only a handful being completed under the former public procurement procedures, (3,399 contracts out of 251,949 in 2022). **Rating: High.**

RI1b: The average number of bids per public procurement procedure remained unchanged (2.5 bids) from the baseline to target date, registering no progress towards the target of 2.8 bids. **Rating: Negligible.**

RI2: Following the introduction of a new procedure for prioritizing and controlling recruitment in the public sector, the target set to make sure that all new hires will be subject to the new procedure was fully met by the target date. The share of public sector employment in total employment declined from 28.6 percent in 2019 to 27.1 percent in 2022, and the wage bill as percent of GDP increased only marginally from 9.5 to 9.8 percent. In 2022, Serbia also introduced a new fiscal rule which limits the public sector wage bill to 10 percent of GDP. In 2023, the deadline for the application of the Decree was extended further from December 31, 2023, to December 31, 2026. **Rating: Substantial.**

RI3: The social card registry became fully operational in March 2022 and by the time of project completion had exceeded the targeted number of registered beneficiaries, reaching 175,000 in total. The register is linked to other government registers for more accurate information on existing and potential beneficiaries, with the consolidated data on beneficiaries contributing to the ability to resolve some issues of spending inefficiencies. As of April 2022, 100 percent of social beneficiaries were included in the register (ICR pg. 14). **Rating: Substantial.**

RI4: The volume of state aid recorded in a publicly available database rose from 0 percent at baseline to 3.5 percent by the target date (2021), exceeding the set goal of 1 percent. High level of state aid provided and recorded was in part due to COVID-19 support, but also due to the increased capacities of the Commission for State Aid Control (ICR pg. 9). **Rating: High.**

RI5: Following the publication, by the NBS, of all laws pertaining to the Law on Foreign Exchange Operations, the number of requests for relevant opinions was almost halved (from 164 in 2019 to 81 in 2021 and 74 in 2022), exceeding the set target. **Rating: High.**



Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

Initiate a green recovery (PAs 6-8, RIs 6-8)

Rationale

RI6: RI6 was originally defined as “estimated national emissions of estimated use of heavy fuel oil with 3 percent sulfur content” and the target was set to 0 tons in 2022. At project end, it was not possible to assess the results as modelled results were not published and could not be verified. The ICR presented an alternative indicator “consumption of heavy fuel oil with more than 1 percent sulphur content for energy production”. While no target was set for this alternative indicator, the data show some progress, as consumption of heavy fuel oil with more than 1 percent sulphur content for energy production declined from 61,899 tonnes in 2020 to 25,727 tonnes in 2021, the latest data available. **Rating: Modest.**

RI7: RI7 was also defined as “estimated national emissions” of nitrogen oxide from large combustion plants. Like RI6, these were modelled estimates that were not published and verifiable. An alternative RI was presented at completion to measure emissions of nitrogen dioxide from the energy sector. Emissions of nitrogen dioxide declined from 73,397 tons in 2020 to 68,438 tons in 2021 (the latest data available). **Rating: Modest.**

RI8: The number of by-laws implemented at project completion was five, falling short of the target set of six. At the time of preparation of the ICR, the MoEP was in the process of adopting the rulebook enabling the operationalization of a national Monitoring Reporting and Verification System (MRV) IT platform as well as the GHG permitting system by end-2023. The MoEP also merged several bylaws out of the initial 12 bylaws indicatively foreseen at the time of the adoption of the Climate Change Law in order to streamline the preparation of secondary legislation (ICR pg. 16). **Rating: Substantial.**

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

As each of the two objectives is rated Moderately Satisfactory, the overall Efficacy rating is also Moderately Satisfactory.



Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

Relevance of PAs was Satisfactory, a Moderately Satisfactory rating for Efficacy yields an overall outcome rating of Moderately Satisfactory.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Political Risk: The operation has supported ambitious reforms on major policy areas, especially regarding state aid policy and the establishment of a new legal and regulatory framework to tackle air pollution and make climate change an integral part of the country's new model of economic development aligned with its EU ambitions. These require sustained political commitment on the part of the government and the willingness to challenge established ways of doing things in public administration. The government elected in 2020 has demonstrated such commitment, yet the reform efforts of this operation are subject to external political risk as well, as evidenced by the 2022 energy crisis and its implications for sustaining the green transition.

Technical Risk: some of the "green" policy reforms of the operation require a high level of institutional capacity to implement and sustain these reforms over time. WB TA in combination with further external support will be necessary to maintain momentum.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Analytical underpinnings: The rationale for each policy action was well documented based on prior analytical work by the World Bank, the European Union, the OECD, the World Health Organization, USAID, and the GoS. The project team also included TA work carried out during program implementation



(PD, Table 5, p. 30). The first pillar on public procurement and civil service recruitment was supported by two OECD/SIGMA reports published in 2018 on “Implementing the EU Directives on the Selection of Economic Operators in Public Procurement Procedures” and “Principles of Public Administration for EU Candidate Countries and Potential Candidates” as well as the same organization’s Monitoring Report for Serbia from 2019. The pillar was also supported by the European Commission’s Serbia Progress Report of 2020 on a new hiring procedure. Regarding the social card registry, state aid and the Foreign Exchange Law, the operation was supported by the World Bank’s 2019 report on Strengthening Social Protection for Disaster Response, the 2019 EC Progress Report, the 2019 Country Economic Memorandum for Serbia, and the 2019 USAID report on The Effects of Foreign Exchange Liberalization. The second pillar was supported by the WHO’s 2019 report *Health Impact of Ambient Air Pollution in Serbia: A Call to Action*, the 2020 report by the Center for Research on Energy and Clean Air *Ranking of the World’s Sulfur Dioxide Hotspots*, the World Bank’s 2020 Rapid Diagnostics on Air Pollution, the 2015 SCD for Serbia and its 2020 update as well as the Republic of Serbia’s 2017 Nationally Determined Contribution and the same year’s Second National Communication under the UNFCCC.

Quality-at-entry: RI1b, RI6 and RI7 were not carefully designed. Given that PDO2 entailed a total of three result indicators, two of which relied on modeling estimates that could be neither measured nor verified.

Risk identification and mitigation: the program document assessed the overall risk to the program as moderate, even though the operation began at a time of global uncertainty in the context of the then ongoing pandemic and associated macroeconomic risks. The operation considered the possibility of an economic slowdown in Serbia and its main trading partners, but the effects of such a slowdown, and the post-2022 crisis associated with the war in Ukraine, were mitigated by the actions included in this operation and the effects they were expected to have on long-term growth prospects and the improvement in the country’s regulatory environment. These risks were also mitigated by the actions of the government of Serbia, since COVID-19 related fiscal contraction was substantially lessened by extensive fiscal support in 2021.

Stakeholder consultation: the GoS engaged in extensive consultations prior to the operation with NGOs and representatives from academia. Prior to the onset of the pandemic such stakeholder consultations took place in person and in several locations in Belgrade and outside the capital, with government representatives presenting draft law proposals and obtaining feedback. Such consultations were quasi-formalized in the case of the public procurement law, with a summary report published following the adoption of the law and highlighting areas where the consultation process led to legislative amendments. According to the PAD, “more than 60 percent of new laws and amendments to the existing laws in 2020 were adopted with prior public consultations” (PAD, p. 32).

Coordination with development partners: the results chain incorporated extensive coordination with development partners, especially the IMF on state aid and a revamped wage bill for the public sector; the European Union with respect to both transparency and the initiation of a green model of economic development premised on analytical work by the OECD/SIGMA and the EU *acquis*, and USAID on foreign exchange liberalization. The Bank team also engaged in extensive dialogue with private sector associations with respect to the drafting of legislation on foreign exchange and the publication of opinions by the National Bank of Serbia, the American Chamber of Commerce (AmCham) in Serbia, the Serbia Chamber of Commerce, and the National Alliance for Local Economic Development (NALED).



Rating

Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring and coordination with partners: the Bank team maintained close dialogue with counterparts throughout the operation which helped to achieve substantial results. Furthermore, keeping the dialogue open helped the government to recognize implementation challenges, and resolve them more efficiently through technical assistance that was mobilized quickly. The TA was well targeted to the client's needs, with shared leverage and technical support efforts by the French Development Agency (*Agence Française de Développement*, AFD) in policy areas targeted under Objective 2. Close and regular coordination with development partners helped steer the reform process which was supported by co-financing and associated incentives to maintain the reform momentum by partners such as AFD.

Adaptation: when implementation delays emerged, especially with respect to actions on Objective 2, the Bank was able to quickly mobilize TA to remove bottlenecks.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

As both design and implementation are rated as Satisfactory, overall Bank Performance is rated Satisfactory.

Overall Bank Performance Rating

Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR did not include data on poverty and the anticipated social exclusion impact of the program. This may be due to the lack of reliable data, given that the latest poverty data for Serbia dated back to 2017. The ICR referred to the positive impact of the operation expected from benefits associated with the establishment of the



new Social Registry, mentioning that by July 2023, there were 106,838 cases of beneficiaries (ICR, page 17 being notified that they could exercise the right on a certain social benefit, such as child allowance.

b. Environmental

There is no data on the expected environmental impact of the program (ICR, p. 32). The ICR makes extensive reference to the positive impact that is associated with expectations stemming from actions related with Objective 2, especially the improved legislative, regulatory and institutional framework for environment protection and climate change. As a co-signatory of the 2015 Paris Agreement, Serbia has committed to a 33.3 percent decrease in greenhouse gas emissions by 2030 compared with 1990 levels.

c. Gender

The operation was not designed to have any specific gender effects.

d. Other

The operation led to a strengthening of the country's regulatory framework and institutional capacity in some policy areas. This is especially true regarding state aid because of the establishment of an independent Commission for State Aid Control. A new legal and institutional framework for climate change has been established in Serbia, and the number of full-time staff placed under the Climate Unit of the Ministry of Environment (MoEP) has benefitted from a two-fold increase.

10. Quality of ICR

Rationale

The ICR provides a compact summary of the context at appraisal and rationale for the operation, explains the evolution of the PDOs, and offers an extensive narrative approach for most, though not all, of the results. It discusses all prior actions and their relevance linked to a "theory of change" (results chain) through a Table devoted to that purpose. The ICR further includes comments by the GoS and the AFD, which co-financed the operation. ICR evidence is generally of high quality with relevance to PAs for both objectives. The results chain is divided into each of the two pillars of the operation. The efficacy section (Achievement of Objectives) is extensive and in line with ICR Guideline which is also true for the sections on other outcomes, Bank performance, and lessons. The section on risks associated with the operation could have been more detailed. Although not all results indicators are adequately discussed, the ICR adopts an approach of explaining and analyzing RI shortcomings, especially regarding RI6 and RI7 which were deemed inadequate. The lessons section is extensive and goes into some detail in identifying areas of improvement for future operations.



A section on the next phase of WB engagement outlines the link between the operation and a new programmatic Green Transition DPF series (P177410).

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Satisfactory	
Relevance of Results Indicators	---	Moderately Satisfactory	
Quality of ICR	---	Substantial	

12. Lessons

The ICR includes several lessons which this review acknowledges. One additional lesson is presented below:

1. Accurately assessing progress in development outcomes hinges on the ability to measure and validate result indicators against the PAs and the results chain. The design of operations should consider the availability of relevant data, including collection and reporting before incorporating into the design of an operation.

13. Project Performance Assessment Report (PPAR) Recommended?

No