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Report No: PAD5107

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR69.3 MILLION
(US\$75 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SERBIA

FOR AN

IMPROVING PUBLIC FINANCIAL MANAGEMENT FOR THE GREEN TRANSITION
OPERATION

February 15, 2023

Governance Global Practice
Europe and Central Asia Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective January 31, 2023)

Currency Unit = Serbian Dinar (RSD)

US\$ = 118 RSD

US\$ = EUR 0.9228

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

AFD	French Development Agency (<i>Agence Française de Développement</i>)
AJARB	Administration for Joint Services of the Republic Bodies
ASA	Advisory Services and Analytics
BES	Budget Execution System
BD	Budget Department
BSL	Budget System Law
CA	Contracting Authority
CBAM	Carbon Border Adjustment Mechanism
CCDR	Country Climate and Development Report
CCL	Climate Change Law
CE	Citizen Engagement
CEM	Country Economic Memorandum
CFU	Central Fiduciary Unit
CIC	Capital Investment Commission
CPF	Country Partnership Framework
CSO	Civil Society Organization
DA	Designated Account
DICEI	Department for International Cooperation and European Integration
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
DPO	Development Policy Operation
EC	European Commission
ECA	Europe and Central Asia
EF	Expenditure Framework
EIB	European Investment Bank
ENPV	Expected Net Present Value
ERP	Economic Reform Program
ESCP	Environmental and Social Commitment Plan
ESG	Environmental, Social, and Governance
ESMS	Environmental and Social Management System
ESSA	Environmental and Social Systems Assessment
ETS	Emissions Trading Scheme
EU	European Union
FDI	Foreign Direct Investment
FRMD	Fiscal Risk Monitoring Department
FSA	Fiduciary Systems Assessment
GBT	Green Budget Tagging
GDP	Gross Domestic Product



GHG	Greenhouse Gas
GIZ	German Agency for International Cooperation (<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i>)
GoS	Government of Serbia
GER SC	Green Expenditure Reforms Steering Committee
GRID	Green, Resilient, and Inclusive Development
GRS	Grievance Redress Service
HLO	High-Level Outcome
ICR	Implementation Completion and Results Report
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IMWG	Inter-Ministerial Working Group
IPA	Instrument for Pre-Accession
ISIB	Information System for Budget Execution
IPF	Investment Project Financing
IVA	Independent Verification Agency
KPI	Key Performance Indicator
LCDS	Low Carbon Development Strategy
LIID	Local Infrastructure and Institutional Development
LSG	Local Self-Government
LULUCF	Land Use, Land-Use Changes and Forestry
M&E	Monitoring and evaluation
MEFA	Ministry of Europe and Foreign Affairs (France)
MoAFWM	Ministry of Agriculture, Forestry, and Water Management
MoCTI	Ministry of Construction, Transport, and Infrastructure
MoE	Ministry of Economy
MoEP	Ministry of Environmental Protection
MoF	Ministry of Finance
MoH	Ministry of Health
MoME	Ministry of Mining and Energy
MPI	Ministry for Public Investment
MRV	Monitoring, Reporting and Verification (of Greenhouse Gas emissions)
NAP	National Adaptation Program
NAPA	National Academy of Public Administration
NCCPA	National Climate Change Adaptation Plan
NDC	Nationally Determined Contribution
OCU	Operation Coordination Unit
OIM	Operation Implementation Manual
PDO	Program Development Objective
PEF	Program Expenditure Framework



PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFM RP	Public Financial Management Reform Program
PforR	Program for Results
PIM	Public Investment Management
PIMIS	Public Investment Management Information System
PIMOCU	Public Investment Management Oversight and Coordination Unit
PPD	Public Policy Document
PPL	Public Procurement Law
PPO	Public Procurement Office
PPS	Public Policy Secretariat
RA	Results Area
RINO	Payment Terms for Settlement of Financial Obligations in Commercial Transactions
RISE	Resilience, Inclusion, Sustainability, and Efficiency
RPD	Republic Property Directorate
RSD	Serbian Dinar
SAI	State Audit Institution
SC	Steering Committee
SCD	Systematic Country Diagnostic
SEP	Stakeholders Engagement Plan
SEPA	Serbian Environmental Protection Agency
SOE	State-Owned Enterprise
SORT	Systematic Operations Risk-Rating Tool
TA	Technical Assistance
ToR	Terms of Reference
UNDP	United Nations Development Program
UNFCCC	United Nations Framework Convention on Climate Change
VFM	Value for Money
WB	World Bank
WBIF	Western Balkan Investment Framework
WBG	World Bank Group



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**DATASHEET****BASIC INFORMATION**

Country(ies)	Project Name		
Serbia	Improving public financial management for the green transition		
Project ID	Financing Instrument	Does this operation have an IPF component?	Environmental and Social Risk Classification (IPF Component)
P175655	Program-for-Results Financing	Yes	Low

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach (MPA)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Contingent Emergency Response Component (CERC)	<input type="checkbox"/> Fragile within a non-fragile Country
<input type="checkbox"/> Small State(s)	<input type="checkbox"/> Conflict
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	<input type="checkbox"/> Responding to Natural or Man-made Disaster
<input type="checkbox"/> Hands-on Enhanced Implementation Support (HEIS)	
Expected Project Approval Date	Expected Closing Date
09-Mar-2023	31-Mar-2027

World Bank/IFC Collaboration

No

Proposed Program Development Objective(s)

The Program Development Objective is to improve core PFM functions and institutional capabilities needed for Serbia's fiscal resilience and green transition.

Organizations

Borrower : Republic of Serbia

Implementing Agency : Ministry of Finance



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COST & FINANCING

SUMMARY

Government program Cost	2,170.04
Total Operation Cost	360.92
Total Program Cost	354.24
IPF Component	6.50
Other Costs	0.18
Total Financing	360.92
Financing Gap	0.00

Financing (USD Millions)

Counterpart Funding	282.67
Borrower/Recipient	282.67
International Bank for Reconstruction and Development (IBRD)	75.00
Cofinancing - Other Sources (IFIs, Bilaterals, Foundations)	3.15
FRANCE: Govt. of [MOFA and AFD (C2D)]	3.15

Expected Disbursements (USD Millions)

Fiscal Year	2023	2024	2025	2026	2027
Absolute	18.00	8.00	15.00	16.00	18.00
Cumul	18.00	26.00	41.00	57.00	75.00



ative

INSTITUTIONAL DATA

Practice Area (Lead)

Governance

Contributing Practice Areas

Environment, Natural Resources & the Blue Economy,
Macroeconomics, Trade and Investment

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	● Moderate
2. Macroeconomic	● Moderate
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Moderate
6. Fiduciary	● Moderate
7. Environment and Social	● Low
8. Stakeholders	● Moderate
9. Other	
10. Overall	● Moderate

COMPLIANCE

Policy

Does the program depart from the CPF in content or in other significant respects?

☐ Yes ☒ No

Does the program require any waivers of Bank policies?

☐ Yes ☒ No



Legal Operational Policies

	Triggered
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
Assessment and Management of Environmental and Social Risks and Impacts	Relevant
Stakeholder Engagement and Information Disclosure	Relevant
Labor and Working Conditions	Relevant
Resource Efficiency and Pollution Prevention and Management	Not Currently Relevant
Community Health and Safety	Not Currently Relevant
Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
Cultural Heritage	Not Currently Relevant
Financial Intermediaries	Not Currently Relevant

NOTE: For further information regarding the World Bank's due diligence assessment of the Project's potential environmental and social risks and impacts, please refer to the Project's Appraisal Environmental and Social Review Summary (ESRS).

Legal Covenants

Sections and Description

Schedule 2, Section I(A)(2)(c): The Borrower, through the MoF's OCU, shall contract, no later than sixty (60) days as of the Effective Date, a part-time social and citizen engagement specialist.

Sections and Description



Schedule 2, Section I(C)(1): The Borrower shall, not later than four (4) months after the Effective Date of the contract, and thereafter maintain at all times during the implementation of the Program, a contractor as an independent Verification Agent under terms of reference acceptable to the World Bank.

Conditions

Type Disbursement	Financing source IBRD/IDA	Description Schedule 2, Section (IV)(B)(1)(c): No withdrawal shall be made for Categories (1) through (9) unless and until the Borrower has developed and adopted, to the satisfaction of the World Bank, the OIM, including the Verification Protocol.
Type Disbursement	Financing source IBRD/IDA	Description Schedule 2, Section (IV)(B)(1)(c): No withdrawal shall be made for Categories (1) through (9) unless until the Borrower has established a Steering Committee with composition, resources, terms of reference and functions acceptable to the World Bank, as set forth in the Legal Agreement and the OIM.



I. STRATEGIC CONTEXT

1. **The proposed Operation¹ will help further strengthen Serbia's key institutions to improve its resistance to shocks and foster greener and more resilient development.** Serbia has undertaken important public finance management (PFM) and institutional reforms over the past two decades. However, the historical and cumulative health, regional, and climate crises the country is facing highlight the need for further reforms to strengthen the resilience and sustainability of Serbia's public finances and to develop institutional capabilities for pursuing the country's green transition. The Operation will help Serbia make these next reform steps in a feasible and results-oriented manner in two results areas (RAs): (a) strengthen fiscal resilience, transparency, and spending effectiveness and (b) green the expenditure cycle and monitor greenhouse gas (GHG) emissions for Serbia's green transition.

A. Country Context

2. **Serbia is an upper-middle-income country with a per capita income of US\$ 9,215 in 2021.** Following significant fiscal adjustments in 2014/15, the country's economy and household incomes expanded, and the fiscal environment improved significantly until 2019, when Serbia achieved a positive primary fiscal balance of 1.8 percent of gross domestic product (GDP) (negative 0.2 percent overall). In 2020, the economy contracted by 0.9 percent due to COVID-19, followed by a strong rebound in 2021, with growth accelerating to 7.5 percent. Growth is estimated to have declined to 2.5 per cent in 2022 and is forecast to slow to 2.3 per cent for 2023 in the wake of successive external shocks, necessary fiscal consolidation, and tightening of monetary policy to reduce inflation. Summer drought conditions in 2022 reduced domestic food production, contributing to the deceleration.

3. **Serbia's economy and the labor market were relatively resilient during the COVID-19 pandemic, supported by large-scale fiscal stimulus in 2020 and 2021, but have faced challenges related to problems in Serbia's domestic energy sector as well as external shocks.** Due to a significant increase in spending on pandemic-related goods and services, transfers to households, and subsidies provided as part of a stimulus package to mitigate pandemic impacts, the fiscal deficit reached 8 percent of GDP in 2020² and 4.1 percent in 2021. Public debt reached 57.1 percent of GDP by December 2021 but eased to 56.8 percent by the end of 2022 and is expected to remain at a similar level in 2023. From early to mid-2020, the unemployment rate continued to fall to a low of 7.9 percent but then increased to 11 per cent in 2021, before gradually declining again in 2022 to 9 per cent. The poverty rate, based on the US\$5.50 per day poverty line,³ is estimated to have remained mostly stable in 2020 due to significant government interventions (at 17.3 percent of the population in 2019; 17.4 percent in 2020) but remains at a relatively high level. Key new challenges include higher import costs for energy, including oil, natural gas, and electricity. Large-scale imports of power started in early 2022 due to problems in Serbia's power sector, and particularly in the production of lignite-based power which accounts for 68 per cent of the total.

4. **Serbia's fiscal situation improved in the first part of 2022, but further progress on public sector efficiency remains important to achieve a sustainable fiscal balance.** Revenue overperformed in nominal terms in the first nine months of 2022. While expenditures have generally remained restrained, the scale of state support for state-owned

¹ The Operation consists of two components: (i) a Program component (also referred to as Program-for-Results) (EUR66.3 million or USD71.8 million), and (ii) a IPF component (also referred to as the Project) (EUR3 million or USD3.2 million). The combination of both is referred to as the Operation.

² Compared to a pre-crisis projection of 0.5 percent.

³ This poverty line is most relevant for middle-income countries (in 2011 purchasing power parity US\$).



enterprises (SOEs) in the energy sector is growing. The 2022 summer drought caused significant costs and damages to the agriculture and food sector, and further pressure to support energy SOEs is expected. Pressure to increase public sector wages and social transfers in a context of elevated inflation (15 percent annualized rate as of November 2022) could additionally increase expenditures.⁴ Public sector debt is so far projected to remain below 60 percent of GDP for the coming years. However, the yield on Serbia's bonds with a 10-year maturity increased from a low of 2.264 percent in July 2021 to a high of 8.16 percent in October 2022 (without a change in credit ratings), before declining somewhat again in early 2023. The Government plans to bring public expenditures from 47 percent of GDP in 2022 down to around 43 percent from 2024 onward and in late 2022 adopted new fiscal rules for the deficit ceiling, the wage bill, and spending on pensions.⁵

5. Protecting the environment reducing pollution and addressing climate change (adaptation and mitigation) have also become major national challenges. The state of the environment directly affects the quality of life of Serbian citizens and the country's attractiveness for foreign direct investment (FDI). Very high sulfur dioxide (SO₂) emissions pose a direct threat to citizens' health during winter months in many areas.⁶ Untreated wastewater and non-sanitary landfills are still widespread around the country. Serbia's economy is four times more energy intensive per unit of output than the EU-27 average.⁷ Its dominant energy source is lignite, a low-grade coal that is the leading factor in the country's high carbon emissions and degraded air quality. At the same time, climate change impacts threaten Serbia's natural resources and ecosystems through floods and droughts (see Systematic Country Diagnostic [SCD] Update 2020, Report No. 147543-YF).⁸ Serbia experienced devastating floods in 2014. Areas of the country that have been hit by more frequent droughts and severe weather have also experienced more land degradation, which affects agricultural productivity and increases the risk of other natural disasters, such as landslides. Moreover, land degradation appears to be concentrated in regions with already high levels of poverty and vulnerability.⁹ Between 2015 and 2020, Serbia suffered losses estimated at EUR1.8 billion according to the 2022 Nationally Determined Contribution (NDC) document.

6. The World Bank's Green, Resilient, and Inclusive Development (GRID) diagnostic, shows Serbia lagging behind the European Union (EU) peers on environmental indicators (see table 1). The analysis, which applies a set of standard indicators to allow cross-country comparison of Resilience, Inclusion, Sustainability, and Efficiency (RISE), reveals notable gaps in performance regarding air quality, carbon emissions, solid waste management, and efficient water use.

7. Demands by Serbian citizens and Serbia's preparation for accession to the EU are prompting growing Government of Serbia (GoS) attention to green reforms and addressing GHG emissions. Citizens are increasingly attentive to pollution and climate change impacts (see the summary of GRID assessment findings in table 1 as well as figure 6 below). Negotiations for Serbia's accession to the EU started in 2014. Since the introduction of the new

⁴ In 2022, wages continued to rise, increasing by 13.9 percent in nominal terms over the first nine months of the year. Unlike in previous years, private sector wages were the main driver of the overall increase in wages, increasing by 17.1 percent over the same period. For the 2023 budget, most public sector wages were increased at a rate of 12.5 percent.

⁵ The deficit ceiling for the overall balance will be at zero if debt is above 60 percent of GDP, at 0.5 percent of GDP for debt between 55 and 60 percent of GDP, and at 1.5 percent of GDP for debt between 45 and 55 percent of GDP. The ceiling on the overall wage bill will be set at 10 percent of GDP, while the new fiscal rule related to spending on pensions introduces an adjustment formula which would keep the total spending on this category between 10 and 11 percent of GDP.

⁶ SO₂ emissions are especially high in Serbia and across the Western Balkans. In 2018 and 2019, emissions from main coal power plants in Serbia far exceeded limits set by the National Emissions Reduction Plan (NERP), required by the Energy Community Treaty.

⁷ Eurostat data.

⁸ Floods in 2014 pushed 125,000 people into poverty and caused damages and caused losses equivalent to 4.8 percent of then GDP. In 2022, drought conditions negatively affected production especially of corn and wheat in Serbia's main northern production region (Vojvodina), and also reduced the output of Serbia's main hydropower station.

⁹ World Bank (2022) *Supporting Serbia's Transition to Greener and More Resilient Growth*.



methodology in negotiations with the EU in 2020, Serbia has opened two negotiation clusters. By the end of 2022, 22 out of 35 negotiation chapters had been opened in total, including Chapter 27 on environment and climate change and Chapter 15 on energy which were opened in late 2021. The Green Agenda and sustainable connectivity cluster is at the heart of the Green Agenda for the Western Balkans and closely linked to Serbia's Economic Reform Program (ERP) and the Commission's Economic and Investment Plan.¹⁰ Economically, Serbia is already well integrated with EU member states which are its main export markets and sources of FDI. Given the close trade relationship, Serbia will also be directly affected by the EU's new Carbon Border Adjustment Mechanism (CBAM). The 2022 European Commission (EC) Report¹¹ on Serbia concluded that institutional strengthening is needed in enforcing environmental regulations and implementing climate change strategies and plans.

Table 1: GRID Diagnostic – Key Findings

The World Bank's *Green, Resilient, and Inclusive Development* (GRID) diagnostic, which is based on the *Resilience, Inclusion, Sustainability, and Efficiency* (RISE) framework, shows Serbia's performance in terms of a number of key indicators, compared to the EU mean. Serbia lags in air quality, access to water services, access, GHG emissions intensity, and resource efficiency.

Indicator Name	Serbia	EU Mean
<i>Resilience Indicators</i>		
Natural disaster risk to assets (% of GDP)	1.4	0.3
Population exposure from disasters (% of total population exposed)	0.3	3.5
Population exposure from dry rainfall shocks (% of total population exposed)	20.1	13.0
<i>Inclusion Indicators</i>		
People using safely managed sanitation (% of total population)	18.4	87.4
People using safely managed drinking water (% of total population)	75.0	97.5
Human Capital Index (from 0 to 1)	0.68	0.70
<i>Sustainability Indicators</i>		
Total renewable water resources per capita (m ³ per capita)	18,451	7,571
Biodiversity and Habitat Index (from 0 to 100)	42.8	47.2
PM _{2.5} % of population exposed above World Health Organization guidelines (15µg/m ³)	98.6	55.5
Mortality rate attributable to air pollution (per 100,000)	62.5	23.8
Solid waste generation (tons) per capita	0.33	0.47
Landfill disposal (% share of total waste generation)	95	33
Share of renewable energy (as % of total gross final energy consumption)*	26.4	21.8
Share of coal in electricity generation (% of electricity generated)	68.2	13.2
GHG emissions per capita (metric tons per capita)	9.2	8.5
<i>Efficiency Indicators</i>		
Productivity of water use (US\$ per m ³ water withdrawals)	5.9	131.4

Source: *Supporting Serbia's Transition to Greener and more Resilient Growth*, World Bank (2022) and *Eurostat 2021.

Note: Red-colored cells show areas where Serbia's performance lags behind the EU mean, green-colored cells indicate areas where it records stronger than average performance, and grey cells show similar performance to the EU.

8. To advance its response to the climate and environmental challenge, the GoS has signed the 2020 Sofia Declaration on the Green Agenda for the Western Balkans and an Action Plan in 2021, in addition to its negotiations with the EU about Chapter 27 on Environment and Climate Change.¹² The GoS aims to better assess and adapt to

¹⁰ The EC 2022 Report on Serbia, p. 8.

¹¹ https://neighbourhood-enlargement.ec.europa.eu/serbia-report-2022_en.

¹² For more information about the Green Agenda for the Western Balkans and Action Plan, see the Regional Cooperation Council website at <https://www.rcc.int/greenagenda>



growing climate change risks, to strengthen the country's resilience, and to accelerate its green transition. The Government has adopted a Green Agenda comprising five RAs: (a) climate, energy, and transport; (b) circular economy; (c) depollution; (d) sustainable agriculture; and (e) biodiversity – as well as cross-cutting implementation mechanisms (see figure 3). Implementing the Green Agenda will require substantial public investments over the coming years across most areas highlighted as problematic by the GRID diagnostic.

9. **Initially, the Green Agenda has focused on legislation and strategies.** An umbrella Climate Change Law (CCL) was adopted in early 2021, followed by the adoption of policy documents on a Circular Economy Program, a National Waste Management Program and Action Plan, and a National Air Protection Program. The CCL mandates the preparation and adoption of a Low Carbon Development Strategy (LCDS) and a National Adaptation Program (NAP), and preparation of bylaws and systems to be prepared for monitoring GHG. Moreover, the Sofia Declaration commits Serbia to align with the EU's carbon neutrality target by 2050. Serbia also submitted revised NDCs in August 2022 which target a reduction of GHG emissions by 33.3 percent by 2030 compared to 1990.¹³ The NDC and the more ambitious carbon neutrality goal by 2050 are not yet costed or fully reflected across relevant sector plans.

10. **Beyond legislation, effective and accountable institutions are crucial for Serbia to strengthen its resilience to shocks and risks, address infrastructure gaps, offer its citizens a healthier environment, and prepare for EU accession.** According to the findings of the 2019 Country Economic Memorandum and the 2020 SCD Update, improving governance and the functioning of institutions is critical to accelerate sustained growth, strengthen inclusiveness, and progress on the Green Agenda. While Serbia has a large public sector in terms of overall fiscal size, the footprint of SOEs, and public sector employment, the level of efficacy of Serbia's institutions remains below that of aspirational peers.¹⁴ As diagnosed by the 2021 Public Expenditure and Financial Accountability (PEFA) assessment, core budget and public investment institutions have made progress, but important gaps remain, and these foundations are important to enable effective action across a range of policy areas. Furthermore, Serbia's public finance and investment management is climate blind and does not yet consider the growing climate risks, neither the physical nor the transition risks.

11. **A number of key documents reinforce the need for effective policy implementation mechanisms for Serbia's Green Agenda as well as for other policy areas.** As Serbia's ERP (2022-2024) notes, "The lack of institutional infrastructure and administrative capacities at the national and local level for the implementation of the adopted legal solutions and intensification of the green transition process is also evident."¹⁵ Similar challenges are echoed in fiscal strategies as well as the recent Green Growth Advisory Services and Analytics (ASA), the 2021 PEFA assessment, and the public investment management (PIM) stock-take.

B. Sectoral (or Multi-Sectoral) and Institutional Context

12. **The Government has committed to scaling up public investments and has adopted several new strategies, programs, and laws that facilitate green policy actions and increased spending on the Green Agenda, but as indicated above the mechanisms to ensure the quality of capital spending remain incomplete.** According to the Fiscal Strategy 2022–2024, public investments are expected to increase to 6.9 percent in 2023 and 2024 (from a level of 5.3 percent in 2020). Given the size of the public sector and the substantial scaling-up of capital spending, the quality of PFM, PIM and

¹³ For Serbia to meet its 2050 carbon neutrality goal, GHG cuts after 2030 will go further than what is stated in the last NDC revision, which targeted a 13.2 percent reduction in GHG emissions by 2030 compared to the 2010 baseline.

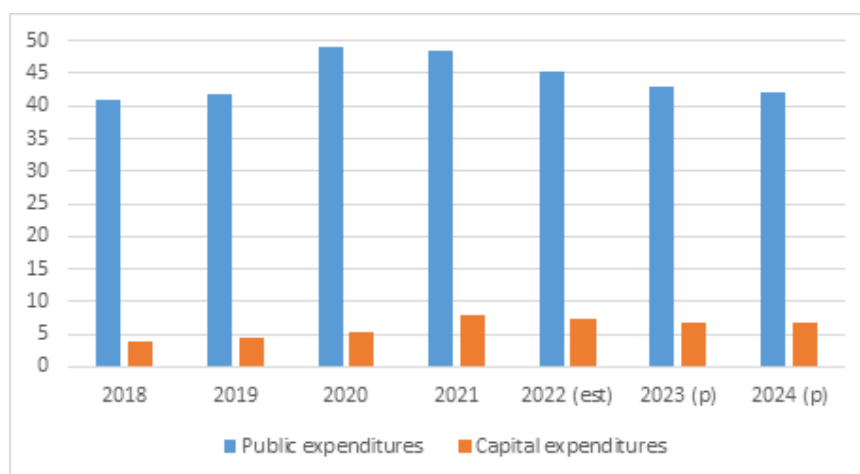
¹⁴ Based on Worldwide Governance Indicators (WGI) data, comparing Serbia's level of state effectiveness to other small economies in Eastern Europe. Serbia's governance effectiveness ratings are comparable to other middle-income countries, but lag ECA averages.

¹⁵ Serbia, Ministry of Finance. 2022. Serbia's Economic Reform Program (2022-24).



public procurement matters for Serbia's overall shared growth and green transition prospects – considering the public investment efficiency gap of 33 percent estimated by the 2016 International Monetary Fund (IMF) PIMA report.

Figure 1: Total and Capital Expenditures as a Percentage of GDP, 2018-2024



Source: Ministry of Finance (MoF)

13. **Meeting green transition challenges requires effective policy planning, mobilizing, and effectively deploying significant public and private sector funding, which has started.** Funding will be needed for depollution efforts, enhancing resilience of existing public infrastructure and agriculture, as well as to enable lower carbon development through energy efficiency and a shift to non-emitting power sources. In 2021, Serbia issued its first Green Bonds in the amount of EUR1 billion.¹⁶ In preparation, the GoS adopted a Green Bond Framework in accordance with the standards of the International Capital Markets Association (ICMA Principles), making it the first Balkan country to publicly declare a commitment to promote environmental, social, and governance awareness and projects in the field of climate change mitigation and environmental protection. Serbia also stands to benefit from the EU's Green Deal and the Economic and Investment Plan for the Western Balkans, to support its climate and environmental agenda, with a need to prepare relevant investment plans and proposals.¹⁷ To access the potential funding and deploy it effectively, further PFM improvements as well as clarity about priority investments to reduce pollution and mitigate and adapt to climate change are essential. As noted in the 2021 PEFA assessment, PFM reforms have progressed, while further efforts are needed to turn public expenditure management into a more effective tool for translating broad policy commitments into action. Public sector efficiency and integrity also require continued attention to ensure that scarce resources are deployed effectively toward achieving policy goals.

14. **While funding allocations for green investments have increased, these are not yet underpinned by commensurate selection criteria, preparation and implementation capacities, and transparency.** In 2022, funding for green and climate change policies was increased significantly (by 50 percent compared to 2021). However, selection criteria and capacities to prepare and manage the implementation of scaled-up funding are still nascent.¹⁸ Furthermore, there is a need to integrate green and climate action into various sectors and develop action plans and institutional capacities for implementation. As the 2022 EC Report notes, "Serbia needs to considerably strengthen its administrative

¹⁶ With an expected spending horizon of seven years, as well as the option to count financing retrospectively from years before the issuance.

¹⁷ In addition, new opportunities for private investments have opened up by the new Law on Renewable Energy.

¹⁸ See also the European Commission's 2022 assessment report. https://neighbourhood-enlargement.ec.europa.eu/serbia-report-2022_en.



and technical capacity at all levels and further increase investments towards green energy transition.”¹⁹

15. **To successfully implement the Green Agenda, it will be critical to strengthen institutional capacities, including in public expenditure management, across the budget cycle.** Specifically, the GoS will need to: (a) improve inter-institutional coordination and the capacity of key institutions, including clarifying the role of the MoF in implementing the Green Agenda and expanding the capacity of the Ministry of Environmental Protection (MoEP); (b) strengthen the monitoring and management of fiscal risks, especially regarding growing climate change impacts; (c) strengthen the connection between planning, budgeting, and performance management; (d) further enhance public investment²⁰ and public procurement management, including increasing the integration and utilization of green criteria; (e) improve monitoring practices and operationalize a Monitoring, Reporting, and Verification (MRV) system for GHG emissions; and (vi) enhance fiscal transparency. Apart from MoF and MoEP, key ministries for making progress on the realization of the Green Agenda include the Ministry of Mining and Energy (MoME), the Ministry of Agriculture, Forestry, and Water Management (MoAFWM), the Ministry of Construction, Transport, and Infrastructure (MoCTI), and the newly created Ministry for Public Investments (MPI).

16. **Across these different aspects, improving existing PFM systems (with ongoing further digitalization), selected foundational aspects, introducing green criteria, and building up knowledge and experience with the use of such criteria are key next steps.** Cross-ministerial collaboration, particularly between the MoF and MoEP, has started. As the 2021 PIM system stock-take indicated, there are still important gaps in making the pre-implementation stage of PIM fully functional and to ensure that proposed public investments are consistently reviewed by the MoF before allocating funding. Policy and budget (or financial) departments as well as relevant technical units of sector ministries with key Green Agenda responsibilities will need to learn and experience how green criteria can be applied across planning, budgeting, capital budgeting and public procurement stages of the expenditure cycle, while some have experimented with *ad hoc* criteria in the past, for example, related to externally funded projects. Furthermore, there is as yet no experience with operating a MRV system, by the Serbian Environmental Protection Agency (SEPA) and MoEP, both of which require additional staff and capacities.²¹ On the positive side, a general understanding of the importance of the Green Agenda and the recognition that this is not limited to MoEP have already grown over the period of preparing the PforR in line with the overall increasing policy attention outlined above.

17. **Strengthening of public expenditure management is needed in the following areas: (a) links between planning documents (public policy documents) and budgets, (b) ensuring good selection and preparation of public investments, (c) effective management of public assets, and (d) fiscal risk management and transparency.** As noted in the 2021 PEFA assessment, key achievements and strengths include a rule-based and timely budget formulation process, reliability and controls in budget execution, well-performing Single Treasury Account, accuracy of financial information presented in line with relevant budget classifications, and acceptable debt management and external audit. Remaining key weaknesses include a still weak link between planning and budgeting and gaps in fiscal risk management, PIM, performance management, and fiscal transparency. Recent reform steps include a new public investment decree that was adopted in 2019 and a new Public Procurement Law (PPL) which came into effect in mid-2020. Furthermore, in 2018, Serbia adopted a new Law on the Planning System of the Republic of Serbia, which, among others, aims to better link policy and budget planning to promote a rational use of resources. The Public Policy Secretariat (PPS) is spearheading the implementation of the law. The study on Serbia’s asset registry (overseen by the Republic Property Directorate (RPD)) in

¹⁹ https://ec.europa.eu/commission/presscorner/detail/en/country_22_6089.

²⁰ The current threshold for applying all pre-approval requirements of the Decree on Capital Projects Management are projects larger than EUR5 million in size.

²¹ Workload analysis carried out by SAFEGE in 2022.



the context of the World Bank technical assistance (TA) on *Capacity Building for Disaster Risk Financing and Insurance* indicates that for many assets there is a lack of clarity about ownership between entities as well as levels of government. Moreover, there is a need to ensure that asset lists are complete and appropriately valued. These shortfalls hinder Serbia's ability toward making public infrastructure more resilient to potential impacts of climate change/natural disasters. A clear and costed plan for the valuation of public assets is critical to achieve progress.

18. **Furthermore, while gender disaggregation of data is foreseen in principle in Serbia's budget legislation, this is not yet effectively used in presenting and analyzing program budget information.** According to Article 4 of Serbia's Budget System Law (BSL) as well the 2021 Law on Gender Equality, Article 5, one of the goals of allocative efficiency is to promote gender equality. So far, this provision is not yet significantly used to provide information on expenditures and performance indicators in a gender disaggregated way. The number of institutions required to include some gender information in their budgets has increased in recent years to 51 for 2023, but actual performance information is not consistently and accessibly reported on. The availability of such information on resources and results is critical to ensure that support for gender equality is well targeted and effective and to enable policy learning about effective approaches.

19. **For the monitoring of GHG emissions, the 2021 CCL creates a legal obligation to adopt relevant bylaws by March 2023, which will then in turn require an effective implementation process over several years.**²⁰ A system of reporting GHG emissions at specific industrial installations is needed, along with a protocol for verifying the level of GHG emissions. This typically covers installations (including SOEs and private companies), such as power generation, oil refineries, coking (steelworks), metals refining, cement and ceramics, glass, pulp, and paper. An MRV system governing the obligations for these physical installations is a pre-requisite for setting up an emissions trading scheme (ETS) that can regulate carbon emissions by limiting emissions to a pre-approved cap. About 160-200 installations are estimated to exist and require monitoring of GHG emissions. They are estimated to account for 58-62 percent of Serbia's total GHG emissions or about 46m tons (based on 2019 data). Establishing new MRV systems and processes requires significant institutional and stakeholder engagement capabilities that are in the process of being prepared.²¹

20. **France has been one of the leading countries on key reforms needed particularly for introducing green criteria into public expenditure management and establishing assessments of carbon footprints.** Through the French Development Agency (*Agence Française de Développement*, AFD), France will provide parallel funding for the reforms being pursued by the GoS.

C. Relationship to the CPS/CPF and Rationale for Use of Instrument

21. **The proposed Operation is aligned with and supports the focus areas and objectives of the Country Partnership Framework (CPF) 2022–2026 (Report No. 166496-YF).**²² It provides support across High-Level Outcomes (HLOs) 1 and 2, specifically objectives 1.1 (structural reforms for greener growth), 1.2 (green investments and just transition), and 2.1 (strengthened public finance management at central and local levels). Improved performance on key PFM indicators has a direct impact on the optimal use of budget funds. In addition, enhanced fiscal transparency will increase trust in institutions. The Operation's objective of improving the quality of key PFM functions and institutions to support green growth will directly contribute to the wider objectives of the CPF.

22. **The Operation will build on existing TA support to the GoS and on a substantial body of recent analytic work.** This includes support related to strengthening PIM (P175373), including the completion of a stock-take report in 2021,

²² FY22-FY26 Serbia Country Partnership Framework, discussed by the Board of Executive Directors on May 26, 2022.



TA for strengthening fiscal risk monitoring and management (P173419), improving corporate financial reporting (P154862), and strengthening transparency (P172257) as well as the PEFA assessment carried out in 2021 (P174512).²³ On the environmental side, important recent analytic work includes the Western Balkans Green Growth analysis, a report on Strengthening Policies and Institutions for the Green Transition (P177295), a report on Green Growth in Serbia (P176413) and a Policy Note on Underlying Drivers of Policy Effectiveness – Mapping Institutions and Stakeholders for Environment and Climate Change (P170527), which included two rounds of a public opinion survey regarding citizen views on environment and climate policy actions.

Box 1: Analytical Underpinnings of the Program-for-Results

I. Analytics on PFM foundations and fiscal management

2021 National level PEFA (P174512)

This was the 4th national-level PEFA conducted for Serbia. Key achievements and strengths include a rule-based and timely budget formulation process, reliability and controls in budget execution, well-performing Single Treasury Account, accuracy of financial information presented in line with relevant budget classifications, debt management, and external audit. Weaknesses include a still weak link between planning and budgeting, fiscal risk management, PIM, performance management, and fiscal transparency. The PEFA assessment provided recommendations for the 2021-2025 PFM Reform Program (PFM RP).

PIM stock-take: Key findings (P175373)²⁴

The 2019 Decree on Capital Projects Management is an initial but important step toward creating a more unified and coherent PIM framework in Serbia. Commendable areas of progress are as follows: all public investments²⁵ are subject to the said decree requirements on monitoring of projects during implementation and there are new procedures for resolving issues for projects in distress. Development of a PIM Information System (PIMIS) has started. In line with the decree, a new PIM Oversight and Coordination Unit (PIMOCU) has been established in the MoF and a Republic Capital Investment Commission (CIC) has been established as the cabinet-level decision-making body. In terms of next reform steps, the stock-take outlines a need for a more consistent application of rules and criteria set out in the decree, streamlining and strengthening of project pre-screening, and stronger authority of the relevant unit in the MoF (PIMOCU) to pursue a rationalization of projects when needed. The stock-take also recommends broadening the scope of the said decree.

Climate change considerations for PIM at the national and subnational levels (April 2022) (part of P172569)

The assessment outlined a series of steps to achieve an effective climate focus in Serbia's public investment portfolio: (a) expanding the coverage of the Decree on Capital Projects Management; (b) adopting key strategic documents concerning mitigation (LCDS) and adaptation (National Climate Change Action Plan); (c) using strategic guidance for screening projects from across sectors for their mitigation and adaptation potential, for example, regarding energy efficiency (transport, buildings), to become more resilient to climate change impacts such as heat/drought/fires, storms, and floods, including rehabilitation expenditures for existing infrastructure; (d) assessing costs and benefits across the public investment portfolio in terms of expected mitigation and adaptation impacts relative to costs; and (e) developing guidance on ex-post assessments.

IMF/PIMA (2016)

In 2016, the IMF estimated a 33 percent efficiency gap for public investment in Serbia and that a significant part of this gap could be closed through improvements in PIM.²⁶

Study on Serbia's public asset registry as part of the Capacity Building for Disaster Risk Financing and Insurance TA (P155582)

Key findings from the report were the following: (a) the register of public assets (managed by the RPD) is still in a development phase, and therefore the list of public assets is not complete and reliable; (b) valuation of public assets is either nonexistent or unreliable; and (c) identifying institutions which have ownership over assets is an issue in some cases. There is lack of clarity whether ownership is with

²³ This was the fourth national PEFA assessment to be carried out for Serbia, allowing for comparison of progress over time.

²⁴ The Assessment is part of ongoing grant-funded TA support for strengthening PIM in Serbia.

²⁵ Projects – with the exception of public private partnerships (PPPs).

²⁶ IMF (2016): Serbia: Public Investment Management Assessment.



the central government, local government, or SOEs.²⁷ The lack of a reliable asset registry hinders Serbia's path toward making public infrastructure more resilient to potential impacts of climate change/natural disasters.

II. *Analytics on institutional foundations/implementation mechanisms for the Green Agenda*

Supporting Serbia's Transition to Greener and More Resilient Growth - Policy and Institutional Reforms (P177295)

Serbia needs to increase the resilience of its growth by being prepared to address multiple threats, including those related to climate change and environmental degradation. It is essential for the Government to reduce the country's dependence on the use of heavily polluting lignite, improve energy efficiency, and reduce environmental degradation risks by promoting clean and green development across sectors. Institutional frameworks need to be further strengthened to support the government in delivering on Serbia's green reforms. In particular, gaps related to policy coordination and institutional capacities need to be addressed and transparency and accountability improved. Furthermore, the Green Agenda, LCDS and related public policy documents (PPDs) all require significant (public) investments for which capacities to prepare and implement must be strengthened and Serbia will need to set up a robust MRV framework for GHG emissions as one initial step towards preparing for the introduction of the EU's CBAM from 2023 onwards.

Mapping Institutions and Stakeholders for Environment and Climate Change (2021) (P170527)

The report identified four sets of key challenges and dynamics: (a) limited but growing interest and awareness among most stakeholders, with significant expansion of citizen interest since 2020; (b) a very nascent institutional framework and capacities, including both challenges with coordination across sectors and capacity shortages within sectors; (c) a nascent legal and policy framework, including a number of policies and legal acts that had been drafted but not adopted for several years (with positive momentum since 2021); and (d) challenges of mobilizing sufficient public and private sector funding for environmental and climate-related investments.

A regional **Country Climate and Development Report (CCDR) for the Western Balkans will be carried out in FY23-24 (P179205)**. This will include a discussion of institutional foundations, including PFM and SOE governance in particular. Findings from the CCDR will help to inform implementation of the PforR from Year 2 (2024) onwards.

III. *Lessons learned from the previous Governance PforR in Serbia*

Implementation Completion and Results Report (ICR) for the Modernization and Optimization of Public Administration (P155172)

PFM and procurement focused reforms under the PforR progressed well, with targets met or exceeded, while disbursement-linked indicators (DLIs) related to Human Resource Management were partially met. A key lesson learned was that achievement of disbursement-linked results (DLRs) and DLIs should be supported by directly related TA. This PforR was supported by TA from the EU, but not sufficiently closely linked to the achievement of results.

23. The PforR complements the Green Transition Development Policy Operation (DPO) series (P177410). The DPO series targets legal and regulatory changes to set the green transition in motion, while the PforR provides incentives and support to implement these legal reforms and to reduce implementation delays (table 2).²⁸ Furthermore, the PforR addresses selected complementary areas not covered by the DPO, notably the policy and planning stage (which provides the strategic framework for identifying and prioritizing public investments), further improving public sector budgeting to enhance public sector efficiency and enable a results focus and broadening the use of green public procurement which is an additional lever for the green transition (see also figure 3.2 in annex 3). The PforR will support the preparation of actions on the indicative triggers for the second operation in the DPO series, expected to be prepared for adoption by late 2023 or early 2024. Regarding reform impacts, the PforR enables a shared monitoring of results over a four-year time horizon. The PforR also includes an Investment Project Financing (IPF) component which will provide direct hand-holding support to achieve the agreed results across the two RAs. Including such an IPF component builds on the lesson learned

²⁷ The issue of which institution holds or should hold which assets was also raised by MoCTI during project preparation discussions.

²⁸ A recent report by National Alliance for Local Economic Development (NALED) notes that implementation delays following the adoption of legal provisions are a frequent challenge.



from the previous PforR on Modernization and Optimization of Public Administration (P155172) to ensure adequate support directly related to achieving the DLRs.²⁹

Table 2: Complementarity between the DPO and the PforR Operation

Element of the Public Expenditure and Reporting Cycle	Leading and Other Key Institutions	DPO/PforR inclusion
Planning - PPDs	PPS and selected line ministries	<i>DPO – not covered</i> <i>PforR DLI 1 – improving costing and incentivizing greening of PPDs</i>
Public investment preparation and management	MoF/PIMOCU and selected line ministries	<i>DPO – PA 3 – amendments to the PIM decree</i> <i>PforR/DLIs 3 and 4 – implementation of foundational PIM strengthening and effective use of green criteria</i>
Budgeting – transparency and green criteria	MoF/Budget Department (BD) and line ministries	<i>DPO – PA 1 – amendments to the BSL</i> <i>PforR/DLIs 2 and 6 – implementing green budget tagging and strengthening transparency</i>
Budgeting – public sector efficiency	MOF/BD and line ministries	<i>DPO – Not covered</i> <i>PforR DLI 6 - results focus on expenditure management, including public sector efficiency</i>
Public Procurement	Public Procurement Office (PPO) and line ministries	<i>DPO – not covered</i> <i>PforR/DLI 5 – green public procurement roll-out</i>
Improving Fiscal Risk Reporting	MOF/Fiscal Risk Monitoring Department (FRMD)	<i>DPO – PA 2 – adoption of fiscal risk monitoring methodologies</i> <i>PforR/DLI 7 – implementing fiscal risk reporting cycles and informing fiscal decision-making</i>
Reporting of GHG emissions	MoEP and SEPA	<i>DPO – PA 8 – adoption of bylaws on GHG emissions monitoring</i> <i>PforR/DLI 8 – supporting the effective establishment of an MRV system</i>

24. **A PforR with an IPF component is the best instrument to engage with and support current opportunities for change.** Following legal and regulatory changes supported by the programmatic DPO, there will be a need for a multi-year continuous implementation engagement which the PforR provides. This will help embed new institutional arrangements and processes and make them effective through a step-by-step approach as outlined through the DLRs and intermediate steps. The IPF component complements the incentives set through the DLIs by enabling direct TA support and engagement where this is most needed as domestic institutional capabilities are being developed.

25. **In addition to the close complementarity with the Programmatic DPO, the PforR also has synergies with a number of other ongoing/pipeline World Bank operations.** These include the Local Infrastructure and Institutional Development (LIID) (P174251) supporting PFM, PIM and green projects at subnational levels, support for improving State-Owned Financial Institutions (P156837), Tax Administration Modernization (P163673), and Enabling Digital Governance (P164824). Relevant operations that cover sectors with Green Agenda elements include Railway Sector Modernization (P170868); and follow up projects such as Railway Modernization Phase 2 (P179703), Serbia Competitive Agriculture (SCAP) (P167634), and the Scaling Up Residential Clean Energy Project (SURCE) (P176770). Furthermore, the PforR

²⁹ See ICR Report No. 00005231.



complements the World Bank's engagement on disaster risk management and specifically on flood protection in Serbia, which includes climate-change related flood risks (Sava and Drina Rivers Corridors Integrated Development Program – P168862).³⁰ The PforR provides cross-cutting policy, planning and budgeting engagement with relevant institutions and in this way will contribute to strengthening and sustaining the impacts of these operations.

26. The proposed PforR is fully aligned with pillar 4 of the World Bank Groups's Global Crisis Response Framework³¹: 'Strengthening Policies, Institutions, and Investments for Rebuilding Better'. It specifically addresses climate smart policies and incentives, resilient reconstruction, PFM, and institutional strengthening and capacity building – supporting the strengthening of cross-cutting foundations as well as promoting institutions to enable effective policy action on environment and climate change. The PforR will contribute to enabling Serbia's transition away from high energy intensity and use of fossil energy. This will include supporting Serbia's efforts at pursuing an effective LCDS and to achieve its NDC commitments (reduction in GHG emissions by 13.2 percent compared to 2010 and 33.3 percent compared to 1990 levels) by 2030.

II. PROGRAM DESCRIPTION

A. Government Program³²

27. The government program is set out in its PFM RP for 2021-2025 and the GoS's Green Agenda for 2021-2030 (figure 3). The PFM RP outlines six objectives or areas for further strengthening: (a) improved capacities for budget planning and public investment management and fiscal risk monitoring; (b) efficient collection and management of budget funds; (c) improvement of budget discipline and more transparent use of public funds; (d) improved application of the public financial control system in the public sector; (e) improved public accounting with the application of international public sector accounting standards; and (f) strengthening of external scrutiny of public funds. The PFM RP is a subset of Serbia's broader Public Administration Reform Strategy for 2021-2030. The Green Agenda comprises five substantive areas (a) decarbonization including climate, energy, mobility; (b) circular economy; (c) depollution; (d) sustainable agriculture and food production; and (e) biodiversity. The Green Agenda also includes governance improvements and mainstreaming of green considerations across public sector actions to achieve implementation ('implementation mechanisms'). Furthermore, both the Green Agenda and the PFM RP directly support Serbia's strategic policy goal of acceding to the EU and contribute to the fulfillment of commitments in different negotiation clusters/chapters as well as aligning with the EU policies of twin transition (digital and green transition).

28. The Green Agenda is being supported by a body of national-level strategies with green and climate change objectives which will be the basis for defining relevant green criteria for various stages of the expenditure cycle. These include the NDCs, National Waste Management Program, the National Air Protection Program, and those under preparation such as LCDS and the NAP, an environmental protection strategy which is under development, as an important umbrella document for environmental protection and the overall Green Agenda policy. These documents are the basis for designing criteria and methodologies that will identify/classify what constitutes 'green and climate-relevant'

³⁰ This is a regional project, as the Drina forms the north-south border between Serbia and Bosnia and Herzegovina, and the Sava the east-west border.

³¹ World Bank. 2022. *Navigating Multiple Crises, Staying the Course on Long-term Development: The World Bank Group's Response to the Crises Affecting Developing Countries*. Washington, DC: World Bank.

³² The term "government program" is used here in a generic manner as used in IBRD Programs for Results. See also: World Bank (2022), [Bank Policy - Program for Results Financing](#).



policies, investments and expenditures, and performance indicators. This will ensure that change is being driven consistently across the public finance cycle.

29. **As overall public investment allocations have expanded from around EUR 720 million in 2017 to over EUR 2 billion in recent years, there is an opportunity to ensure that green and climate criteria are adequately considered.**

Due to Serbia's difficult transition over the past 20 years, the country still has a substantial overall infrastructure backlog compared to aspirational peer countries.³³ Given the Government's commitment to the Green Agenda and the scaling up of capital expenditures, there is an important window of opportunity to formalize and strengthen the use of green criteria in public investments (and procurement) on the one hand, and to enhance good costing and preparation of green public investments on the other hand to ensure that funds are well used to meet environmental and climate objectives in cost-effective ways. Meanwhile, fiscal risk management needs to account for exogenous shocks as well as allow for a sustained level of public investments to make Serbia's public infrastructure more climate resilient.

30. **The required scale of investments to pursue Serbia's green transition is estimated at least at EUR8 billion by 2030³⁴ or EUR1 billion annually, relative to overall public investment expenditures of EUR2.3 billion in 2020.** So far,

Serbia has specifically initiated the following: constructing wastewater treatment plants³⁵ and related infrastructure, making energy efficiency improvements (EUR288 million by 2024), and preparing and supporting the expansion of renewable energy (funded through the MoME). A key aspect will be to prioritize public investments that specifically address the most pressing pollution issues, such as wastewater treatment, better solid waste management, and addressing air pollution and GHG emissions, as well as to provide incentives within the public and private sectors to pursue green(er) options and solutions from buildings and transport to reducing waste.³⁶

31. **Particular areas in need of capacity strengthening are project planning and execution as well as post-completion asset management.** As part of the World Bank's engagement on disaster risk management in Serbia, the existing systems for asset management, including mapping and valuation aspects, have been assessed as weak and incomplete (see box 1). Accordingly, the PforR includes a focus on strengthening key aspects of post-completion asset management.

B. Theory of Change

32. **The PforR supports addressing selected critical gaps and weaknesses in current PFM and PIM systems and building on these strengthened foundations to support the development of effective implementation mechanisms for the Green Agenda.** To enhance fiscal resilience and public spending efficiency, the authorities need to address the limited costing of strategies and plans, weak performance monitoring linked to public expenditures (strengthening program budgeting in place since 2015), further progress on PIM reforms and monitoring fiscal risks, and improving of fiscal transparency. Building on these reforms of existing PFM systems, the Operation will support the operationalization of

³³ The average infrastructure development in Serbia is about 30 percent lower than the EU average, according to the Infrastructure Gap Index developed by the IMF (the weighted sum of railway density, motorway density, installed capacity for power generation, phone lines and cellular subscriptions, air transport passengers, and internet subscriptions). IMF, Public Infrastructures in Western Balkans, Opportunities and Challenges, 2018.

³⁴ Costs are likely to be even higher if all areas of the Green Agenda are fully considered.

³⁵ For wastewater improvements, planned investments amount to EUR4 billion in the next five years to build 7,000 kilometers of sewage network and more than 250 wastewater treatment plants (including EUR3.2 billion in Chinese investments for Clean Serbia) covering 65 municipalities; EUR50 million through a partnership with German *Kreditanstalt für Wiederaufbau* (3 municipalities: Jagodina, Pirot, Kikinda); and EUR85 million to clean two lakes near Kragujevac and Cacak (with budget funds and Hungarian loans).

³⁶ Based on the PIM Decree, the MoF publishes each year by September the discount rate for capital projects. Different fiscal discount rate and social discount rate are published, 4 and 7 percent for 2021, respectively.



the Green Agenda by: (a) anchoring green expenditures in (sector) planning documents, (b) tagging and tracking green expenditures, (c) introducing and supporting the utilization of green criteria for public investments and public procurement, and (d) establishing effective monitoring systems for emissions. Change will be incentivized through the agreed set of DLIs, with the DLRs targeting step-by-step progress over the Operation's four-year period, complemented by targeted TA through the IPF component (calibrated to complement support provided by other partners or by the World Bank with other resources). These policy actions are expected to ultimately result in effective and visible public sector contributions to greener and more resilient economic growth in Serbia and bring the country closer to the EU accession.

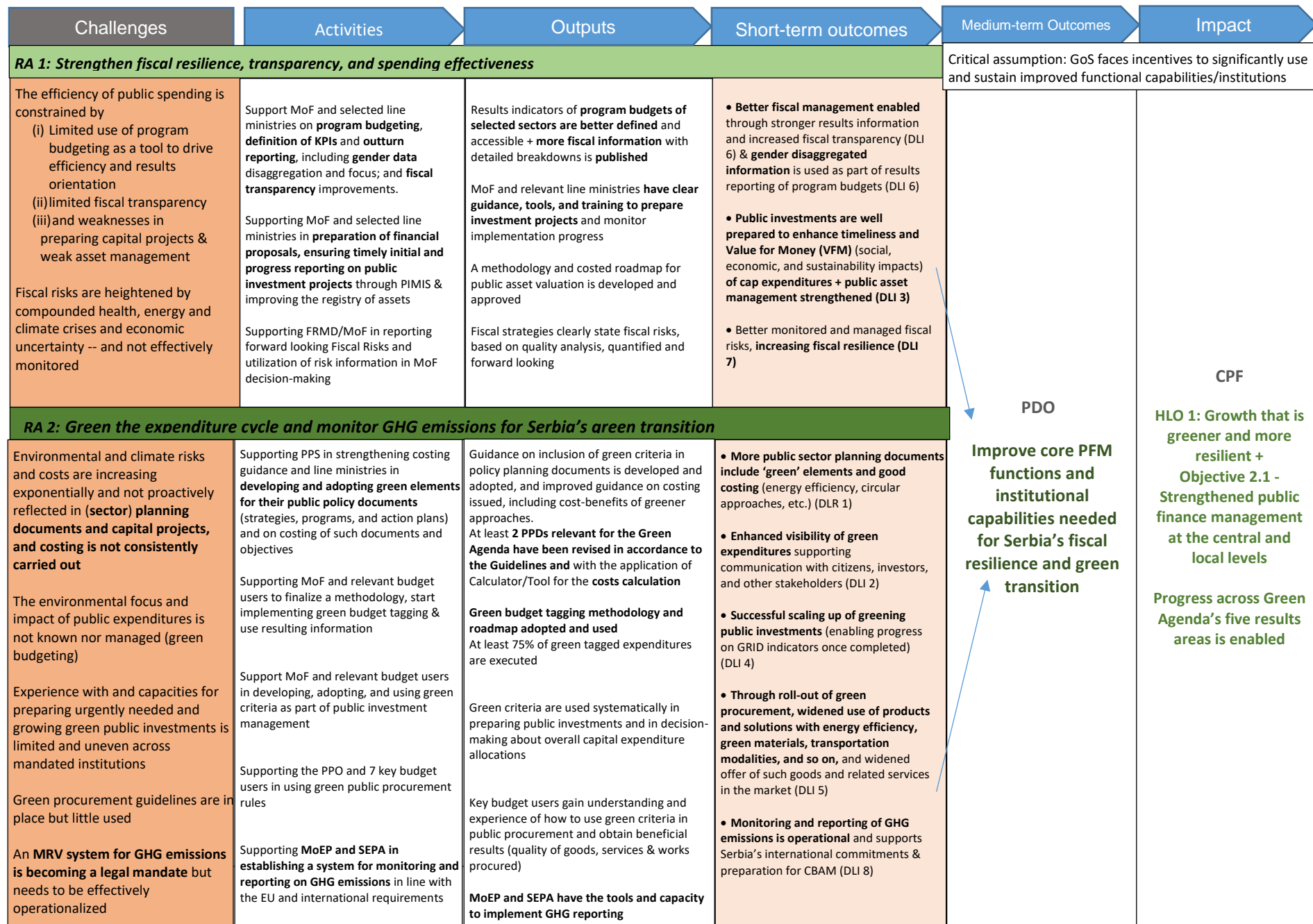
33. Furthermore, within the PforR, there are important inter-linkages among the different functional changes being supported across the expenditure cycle. Enhanced fiscal transparency helps to make program information as well as capital expenditure allocation decisions more accessible. Introducing improved costing and green criteria at the policy planning stage (DLI 1) will enhance the ability to plan, prepare, and select public investments (DLIs 3 and 4) as well as to provide more meaningful information on the efficiency of expenditures in program budget outturn reports (DLI 6) including a focus on public sector efficiency and on potential differences in allocations and/or results by gender. Program management and implementation arrangements will encourage joint institutional learning about 'what works' for defining and using green criteria and foundational good practices across elements of the budget cycle.

34. Progress in moving from rules and methodologies to actually using these in practice is a key focus of this PforR and will build up to incentivizing functional change in a step-by-step approach – in a context of growing wider incentives and needs of the GoS to build and use such institutional capabilities. The DLRs and intermediate results steps (see annex 1) target the achievement of specific functional improvements over the span of three to four years. Many of these are mutually supportive across the Results Framework. TA to be provided under the IPF component will enable dedicated support and training. It will also be used to ensure adequate coordination with support being provided by other partners. The broader context that will incentivize good use of the functional changes includes demands from domestic stakeholder groups, international commitments, close economic links with the EU and EU accession, and opportunities for tapping into the growing market for sovereign Green Bonds.

35. Figure 2 reflects the overall Theory of Change. It captures the challenges, interventions, and expected outcomes. The outcomes jointly contribute to the Program Development Objective (PDO) and ultimately the HLO.



Figure 2: Theory of Change





C. PforR Program Scope

36. **Program boundaries.** This Operation supports the implementation of key elements of both the Green Agenda and the PFM RP, with the objective of improving core PFM functions and institutional capabilities needed for the Borrower's fiscal resilience and green transition. The Program scope and boundaries are presented in figure 4 and table 3. While the PFM RP has a duration of 2021-2025, it is part of the longer-term Public Administration Reform strategy (2021-2030), and support through 2026 will be important to ensure sustainability of reforms achieved during the period to 2025.³⁷ A planned update of the PFM RP will encompass, among other topics, green PFM. The Green Agenda has a time horizon of 2021-2030, with PforR support covering critical years for establishing credible progress in implementing policy actions. In particular, the PforR supports the following:

Results Area 1 (RA 1): Strengthen fiscal resilience, transparency, and spending effectiveness

37. **RA 1 supports objectives 1 and 3 of the PFM RP and aims to enhance fiscal resilience, transparency, and spending effectiveness.** It will further strengthen the foundations of interlinked elements of planning and budgeting which are critical for making the introduction of 'green' criteria meaningful and effective. This includes enhancing program budgeting, fiscal transparency, PIM, and fiscal risk management - as further progress across each of these areas is critical for (a) strengthening spending efficiency and resilience to shocks and (b) for developing solid foundations to implement Serbia's Green Agenda (figure 3 – bottom).

38. Specifically, the RA seeks to: (a) prepare the MoF and direct budget beneficiaries to (i) strengthen programmatic budgeting; (ii) define key performance indicators (KPIs) (iii) conduct outturn reporting; (iv) conduct gender disaggregation efforts; and (v) use gender-disaggregated data; (b) support the MoF and direct budget beneficiaries to (i) prepare public investment proposals; (ii) prepare timely progress reports on public investment projects through PIMIS; and (iii) support the RPD and the Government to develop and adopt a plan for asset valuations to improve the asset registry; and (c) enhance the MoF's capacity to monitor and report fiscal risks and use risk data in its decision-making processes.

Results Area 2 (RA 2): Green the expenditure cycle and monitor GHG emissions for Serbia's green transition

39. **RA 2 supports a set of interconnected public sector reforms that are key parts of the implementation mechanisms of the Green Agenda and includes specific support for two pillars of the Green Agenda** (figure 3 – middle and top). RA 2 targets introducing green criteria into all elements of the planning and budgeting cycle in Serbia, as a key pillar of developing institutional capabilities for implementing the Green Agenda. An additional aspect is the establishment of an MRV system to monitor and report on GHG emissions, which is a key commitment of Serbia's ratification of the Paris Agreement.

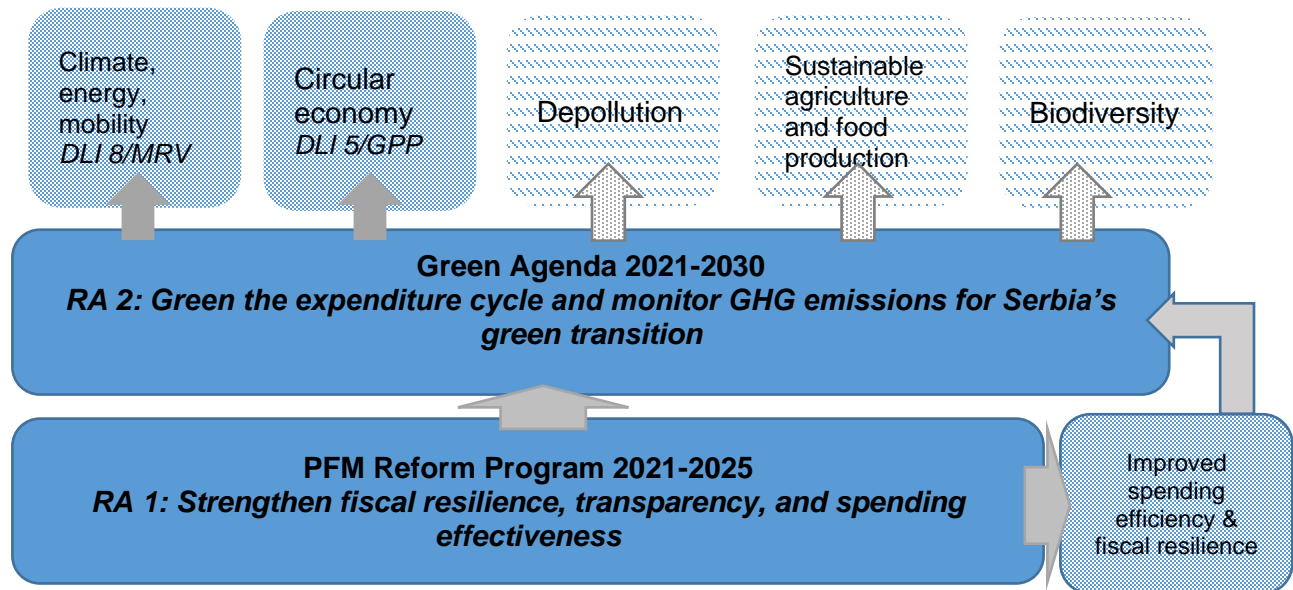
40. Specifically, the results are seeking to: (a) improve the PPS's capacity to provide guidance and support to direct budget beneficiaries in: (i) strengthening the costing of PPDs; and (ii) introducing green aspects into PPDs; (b) support the MoF and other ministries and institutions represented in the Inter-Ministerial Working Group (IMWG) to (i) finalize a Green Budget Tagging (GBT) methodology; (ii) conduct GBT; and (iii) use information collected through GBT in their decision-making processes; (c) support the MoF and other ministries and institutions represented in the IMWG to develop and use green and climate-sensitive criteria as part of their PIM activities; (d) facilitate the selected institutions'

³⁷ The PFM RP itself will be extended after 2026, while the follow-up five-year PFM strategy will be developed, as has happened for the previous transition from the PFM RP 2016-2020 to the new PFM RP for 2021-2025 which was adopted in mid-2021.



implementation of the Guidelines on Green Public Procurement; and (e) facilitate MoEP's and SEPA's implementation of a GHG MRV in line with European Union and international standards. For the Green Agenda, this Operation focuses primarily on the implementation mechanisms that enable specific investments for the five substantive areas (as shown in figure 3 at the top); these are increasingly receiving investments from other development partners and World Bank operations.

Figure 3: Government Programs³⁸ and Program-for-Results – RAs



³⁸ As noted in footnote 32, the term 'government program' is used in a generic way as per the World Bank's guidance on PforRs.



Table 3: Alignment of Government Programs³⁹ and PforR Support

	Government programs	Improving PFM for the Green Transition Program	Rationale/Considerations for Inclusion in the PforR
Objective	<p><i>PFM RP</i>: Establishment of a PFM system in line with EU accession process requirements and alignment with international standards, as reflected in the achievement of a sustainable budget with a stable ratio of public debt to GDP, through better financial management and control, audit process, and integration of budget planning with Government priorities and policy objectives.</p> <p><i>Green Agenda</i>: Commitment to implement actions across five pillars – (a) climate, energy, and mobility; (b) circular economy; (c) depollution; (d) sustainable agriculture and food production; and (e) biodiversity supported by coordinated, sustainable and efficient implementation mechanisms.</p>	<p>The PDO is to improve core PFM functions and institutional capabilities needed for Serbia's fiscal resilience and green transition.</p>	<p>(i) Expenditure management needs to improve further in selected areas as a basis for effective 'greening' of expenditure management.</p> <p>(ii) Introducing green criteria across the expenditure cycle is a key element of the implementation mechanisms for the Green Agenda.</p> <p>(iii) Other key institutional aspects are selectively supported at an early stage (MRV system establishment).</p>
Activities	<p><u>PFM RP (specific objectives)</u>:</p> <ol style="list-style-type: none"> <i>Improved capacities for budget planning and public investment management</i> Efficient collection and management of budget funds <i>Improvement of budget discipline and more transparent use of public funds</i> <p><u>Green Agenda</u>: <i>Implementation mechanism for the Green Agenda</i>: To achieve the Green Agenda Objectives, in a coordinated, sustainable, and efficient manner: improve cross-sector governance and support mainstreaming of green and low carbon transition, including through public administration reform, PFM,</p>	<p>RA 1: Strengthen fiscal resilience, transparency, and spending effectiveness</p> <p>This RA is linked with strategic objectives 1 and 3 of the Government program as follows:</p> <ul style="list-style-type: none"> DLI 6: Improved fiscal transparency and program-based budgeting, including gender disaggregation DLI 7: Implementing effective fiscal risk monitoring and reporting DLI 3: Improving management of public investment and assets <p>RA 2: Green the expenditure cycle and monitor GHG emissions for Serbia's green transition</p> <p>Results under RA 2 jointly support the establishment and development of effective implementation mechanisms for the Green Agenda,</p>	<p>The Program selectively supports further strengthening of those aspects of the PFM RP that have been identified as lagging by the last PEFA assessment, and which are most critical to enable effective introduction and use of green criteria.</p> <p>Mainstreaming green elements supports the public sector's role in Serbia's decarbonization and depollution effort, and good costing is</p>

³⁹ As noted in footnotes 32 and 38, the term 'government program' is used in a generic way as per the World Bank's guidance on PforRs.



	Government programs	Improving PFM for the Green Transition Program	Rationale/Considerations for Inclusion in the PforR
	<p>ERP and mobilization of own resources.</p> <ul style="list-style-type: none"> Climate action and energy roadmap Circular economy roadmap Governance of the Green Agenda 	<p>as follows:</p> <ul style="list-style-type: none"> DLI 1: Green and climate aspects are integrated into PPDs and the links between PPDs and budgets are strengthened DLI 2: Implementing GBT DLI 4: Increasing the share of green and climate responsive public investments <p>In addition to supporting cross-cutting implementation mechanisms, two specific aspects of the Green Agenda are targeted for support:</p> <ul style="list-style-type: none"> DLI 8: Climate, energy, mobility → Developing the GHG MRV and implementing it for the reporting of relevant emitters/operators DLI 5: Circular economy → broadened use of green public procurement 	<p>an essential element.</p> <p>GBT makes efforts at implementing green expenditures visible and trackable.</p> <p>Public investments are a critical part of public sector action on the Green Agenda and to address and cope with climate change.</p> <p>Establishing the MRV system generates reliable evidence about sources and volume of GHG emissions – as a foundation for emission reduction efforts.</p> <p>Increasing the use of green public procurement can have multiple beneficial impacts: (a) reducing the carbon and waste footprint of the public sector; and (b) creating/expanding the market for greener products and works.</p>
Geographic scope	National	National	
Implementation period	<p><u>PFM RP</u>: 2021-2025 (development of a follow up reform plan for after 2026)</p> <p><u>Green Agenda</u>: 2021-2030</p>	2022–2026	
Cost (US\$)	<p>Medium Term (2022–2026):</p> <p>US\$67 million to implement the PFM RP</p> <p>> US\$2 billion to implement the Green Agenda⁴⁰</p>	<p>US\$354 million (EUR328 million) within Program boundary</p> <p>US\$72 million (approximately EUR66 million) – PforR contribution</p>	

⁴⁰ More detailed costing of the Green Agenda is expected to be developed in 2023. According to a paper by the Fiscal Council (2018), Serbia needs to spend at least 1.2-1.4 percent of GDP (or EUR500 million) on environmental protection annually; EUR100 million needs to be invested through SOE Electro-Power of Serbia (with potential partial budget funding). Additional public expenditures are needed to support decarbonization (complementing and enabling private sector investments), and for climate adaptation (resilience of infrastructure and of agriculture to climate change).

**Table 4: Overview of the Program Financing**

Source	Amount (EUR, millions)	Percentage of Total
Government	262	80
IBRD - PforR	66	20
Total within PforR boundaries	328	100

41. **The Operation also includes a small IPF component to provide targeted TA for capacity building and knowledge transfer that will facilitate achievement of the intended results.** The IPF component (the Project), in the amount of EUR 3 million equivalent (4.3 percent of the total amount of the Operation⁴⁰), will support (a) the provision of technical assistance, Training and Operating Costs to the MOF, PPS, MoEP, RPD, and PPO for the Operation's management, implementation, monitoring and evaluation, including the costs for the Verification Agent; (b) preparation of Training manuals and materials; (c) targeted capacity building activities to enable the implementation of activities; (d) procurement of 2 software: software to enhance the GHG MRV IT solution, and the Calculator; (e) change management and behavioral change interventions; (f) communication, outreach, and awareness-raising activities; and (g) identification of lessons learned and best practices in other countries that may be relevant for Serbia.

42. **Global PforR experience, including lessons from a previous PforR in Serbia, has highlighted that providing a small amount of focused TA can significantly enhance specific reform design and progress towards results.** Using an IPF modality to deliver high-quality TA inputs is especially valuable and important given that the Operation targets the novel challenge of developing institutional capabilities needed to enable a green transition. It ensures that the Government can benefit from international expertise and experience in a tailored manner (further enhanced by the involvement of AFD). Given the value placed on the close collaboration through an IPF component, including the quality assurance being provided, the Government has opted for this division of resources for the Operation. Details of the IPF component are provided in annex 8.

43. **Standard measures are included in the Operation to address any potential risk of duplication between the activities financed under the PforR and the IPF component.** TA expenditures are separate contracts paid from a Designated Account (DA) and are therefore not included in the Expenditure Framework (EF). Measures to ensure clear delineation include: (i) ex-ante no-objection on key TA activities in accordance with IPF policies and guidelines, and (ii) ex-post the development of terms of references (ToRs) for the external auditors, which, in addition to conducting the financial audit, will be required to issue an opinion on whether there was an overlap in activities financed by the Program and by the IPF component.

44. **AFD will provide a blend of joint and parallel financing.** AFD is jointly co-financing EUR3 million for the IPF component. France is a leading country in GBT and associated green and climate-smart public management, and as an EU member state, it will also bring expertise in alignment with the EU *Acquis* and policies. AFD's involvement will hence add peer learning opportunities, which is especially relevant in the context of Serbia's accession process. France will provide parallel financing for the Program component. This will contribute to achieving longer-term impacts as set out in the Theory of Change – that is, that improved institutions are utilized to manage relevant expenditures better – in terms of costing, results orientation, and well-prepared capital investments.



D. Program Development Objective(s) (PDO) and PDO Level Results Indicators

45. **The PDO is to improve core PFM functions and institutional capabilities needed for Serbia's fiscal resilience and green transition.**⁴¹ The Program will support the following core PFM functions (a) budgeting and, in particular, strengthening linkages between planning documents and budgets and fiscal transparency, (b) public investment and asset management, and (c) fiscal risk management. These core PFM functions will be strengthened (RA 1) and green criteria and considerations will be introduced across the expenditure cycle; in addition, institutional capacity to implement an MRV system for GHGs will be developed (RA 2). Jointly, these improvements in institutional capabilities will enable better fiscal resilience and the implementation of Serbia's green transition, as set out in the Green Agenda.

46. PDO-level indicators are presented in table 5.

Table 5: PDO-level indicators

Indicator	DLI	Baseline	Target
RA 1: Strengthening fiscal resilience, transparency, and spending effectiveness			
Fiscal transparency and program-based budgeting, including gender disaggregation, are improved.	6	Information on fiscal outturns and on performance indicators is published with long delays and does not effectively inform the annual budget preparation. Disaggregation of data by gender (of allocation and results) remains little used.	Fiscal outturn information and program budget KPIs (including a focus on public sector efficiency and including disaggregation by gender) are published at least once within 12 months of budget adoption and analysis of costs and results achieved informs future annual budgets.
The management of public investments and public assets is improved.	3	Proposed public investment projects are not systematically reviewed in terms of readiness and (financial) realism	The MoF issues an opinion on financial and implementation aspects on all projects ⁴² submitted for selection and recommends a List of Priority Projects based on criteria prescribed by the GoS and final selection is largely based on the recommendations given
Fiscal risk monitoring and reporting is effective.	7	Fiscal risk methodologies have been adopted, but not yet fully used - no fiscal risk reports are produced and considered in budget formulation and associated decision making	The annual budget documentation states forward looking fiscal risks ⁴³ and adjustments to be made in case risks materialize
RA 2: Green the expenditure cycle and monitor GHG emissions for Serbia's green transition			
The share of green and climate responsive public investments in total capital expenditures is increased.	4	The share of green public investments is not systematically monitored or reported on	By 2026, the share of green and climate-responsive capital expenditures reaches at least 25 percent of total capital expenditures
An MRV system for GHG emissions is operational and in use.	8	Legal requirements adopted, regulations expected to be adopted shortly, but no actual system in place.	MoEP produces a national GHG inventory covering institutions and emitting installations

⁴¹ Other institutional capabilities initially include the establishment and operationalization of an MRV system, as well as cross-cutting efforts at strengthening awareness of and attention to green and climate aspects in public management.

⁴² "All capital projects" refers to those above EUR5 million, consistent with the threshold set in the Decree on Capital Projects Management.

⁴³ Fiscal risks covered by the methodology adopted in October 2021 include fiscal risks from natural disasters, SOEs, international litigation and local self-governments (LSGs).



E. Disbursement-Linked Indicators and Verification Protocols

47. **Table 6 reflects the DLIs under each of the proposed RAs and the amounts allocated to each, based on indicative annual milestones.** The DLIs are selected to incentivize further strengthening of the most relevant aspects of PFM along the public expenditure cycle, and on this foundation to initiate the systematic inclusion of green considerations, including climate mitigation and adaptation, into public expenditure management. This in turn is a key element of developing institutional mechanisms for implementing Serbia's Green Agenda.

Table 6: Overview of DLIs and Allocations (in EUR millions)

DLI	Description	World Bank	World Bank loan %
RA 1: Strengthening fiscal resilience, transparency, and spending effectiveness		24	34.9
6	Improved fiscal transparency and program-based budgeting, including gender disaggregation	9	
3	Improving management of public investments and assets	7	
7	Implementing effective fiscal risk monitoring and reporting	8	
RA 2: Green the expenditure cycle and monitor GHG emissions for Serbia's green transition		42.1	60.8
1	Green and climate aspects are integrated into Public Policy Documents and the links between plans and budgets are strengthened	6.1	
2	Implementing Green Budget Tagging	8	
4	Increasing the share of green and climate-responsive public investments	10	
5	Broadened use of green public procurement	8	
8	Developing the GHG MRV and implementing it for the reporting of relevant emitters/operators	10	
Total funding allocated to DLIs		66.1	

48. **DLI verification.** Results achieved under DLIs 2 through 8 will be verified by the PPS, building on that institution's experience as the verification agent for the previous PforR (P155172). The PPS has demonstrated that it can play this role effectively and with sufficient independence.⁴⁴ Based on the lessons learned from the previous PforR, support for the verification processes will be provided under the IPF component. For DLI 1, the GoS will contract a verification agent.⁴⁵ The Program's results will be consolidated and submitted by the MoF based on the results reported by each lead institution for the respective DLIs. The World Bank will also monitor achievement of the indicative DLI targets during implementation support missions, and for disbursement purposes. The World Bank will make the final decision on whether DLIs have been achieved, as provided for in the World Bank Policy on Program-for-Results Financing. A summarized verification protocol for each DLI is presented in annex 2. The verification protocol will also be part of the Operation Implementation Manual (OIM).

⁴⁴ PPS thoroughly reviewed and presented evidence for the previous PforR, including setting out issues for clarification, uncertainty, and so on.

⁴⁵ In line with the guidance to keep verification protocols robust but simple; this arrangement is being used in a Tax PforR in Tajikistan.



III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

49. **The institutions involved in the Program and their roles are described in the following paragraphs.**

50. **The MoF will oversee overall implementation of the Operation.** The MoF, through the Department for International Cooperation and European Integration (DICEI), will be the primary implementing agency and will coordinate implementation of the Program and the IPF component with other stakeholder institutions. DICEI is also well placed to coordinate TA support for the PFM agenda, as it is already involved in similar support provided by various development partners.

51. **A dedicated Steering Committee (SC) will be established for the Operation which will provide strategic guidance for the implementation of the Program and the Project and monitor ministries and agencies' implementation of activities.** The SC will also coordinate with other working groups related to PFM reforms and the Green Agenda. It will serve to intensify inter-ministerial coordination on the implementation mechanisms for the Green Agenda to build a closer connection between core institutions (MoF, PPS, PPO, MoEP) and relevant line ministries, and ensure consistency in the green criteria used across planning, budgeting, capital projects management and procurement elements of the public expenditure cycle. The SC will meet every half year (and more frequently if needed) to discuss and analyze progress toward achieving the DLIs and with implementing the IPF component and provide advice on how to resolve bottlenecks and accelerate implementation. The establishment of the SC is a disbursement condition.

52. The SC will be chaired by the Minister of Finance (or his or her delegate, such as the MoF State Secretary) and will include representatives of MoF, MoEP, MoCTI, PPS, PPO, MoME, MPI, MoAFWM and RPD. Other institutions will be invited to join to relevant discussions (that is the Ministry of Human and Minority Rights to discussions about citizen engagement and the National Academy of Public Administration (NAPA) to discussions about training of civil servants on new methodologies and procedures). The World Bank and AFD will be observers. The SC will also endorse progress reports and guide and ensure adequate engagement with non-government stakeholders, including civil society organizations and the private sector.

53. **Under the auspices and guidance of the SC, a technical working group will be established for the implementation of the Operation.** The main objectives of the technical working group will be to facilitate ongoing implementation, inter-institutional coordination and lessons learning on substantial as well as procedural issues. For some TA activities, institutions may decide to develop joint ToRs, especially where this would enhance coherence in the advice being provided.

54. **An Operation Coordination Unit (OCU) within DICEI has been assigned with responsibilities related to the day-to-day management of the Operation, to be complemented and supported by the existing Central Fiduciary Unit (CFU) also based in MoF.** The OCU will also serve as a secretariat for SC and the technical working group in terms of preparing meetings and issues for discussion. As needed, OCU will be strengthened by hiring of external experts under the IPF component. CFU is an existing entity in the MoF, providing support for all IBRD IPF operations, and well experienced with World Bank fiduciary and procurement requirements.

55. **DICEI will regularly communicate with the World Bank about the progress of the Operation – including the Program and the IPF components – and raise any issues requiring attention.** Specifically, OCU will be responsible for:



(a) day-to-day implementation, reporting and monitoring of Program implementation together with institutions involved; (b) preparing reports on DLRs – based on information collected from the participating institutions/departments responsible for specific DLRs - and initiating verification processes (by PPS for DLIs 2 to 8, and by a separate independent verification agency (IVA) to be contracted for DLI 1); (c) report on implementation progress of the IPF component as part of progress reports; and (d) ensuring that all Program activities are in accordance with the provisions of the Loan Agreement and the OIM (covering both Program and IPF aspects), together with other institutions/departments involved in the implementation.

56. **CFU will be responsible for:** (a) monitoring the programmatic budget items included in the Program Expenditure Framework (PEF) and delivering budget execution reports related to the PEF; and (b) all fiduciary and procurement tasks related to implementing the IPF component. Specifically, for the IPF component, CFU will manage DAs to be established and will coordinate financial audits. It will regularly report to DICEI on its activities and will flag any issues that may require attention from DICEI or SC.

57. **Financial audits.** For the IPF component, CFU will initiate financial audits for the IPF component along the same lines done for other IPF operations, that is, hire an external auditor to conduct the audits. For the Program component, State Audit Institution (SAI) will undertake the required audits.

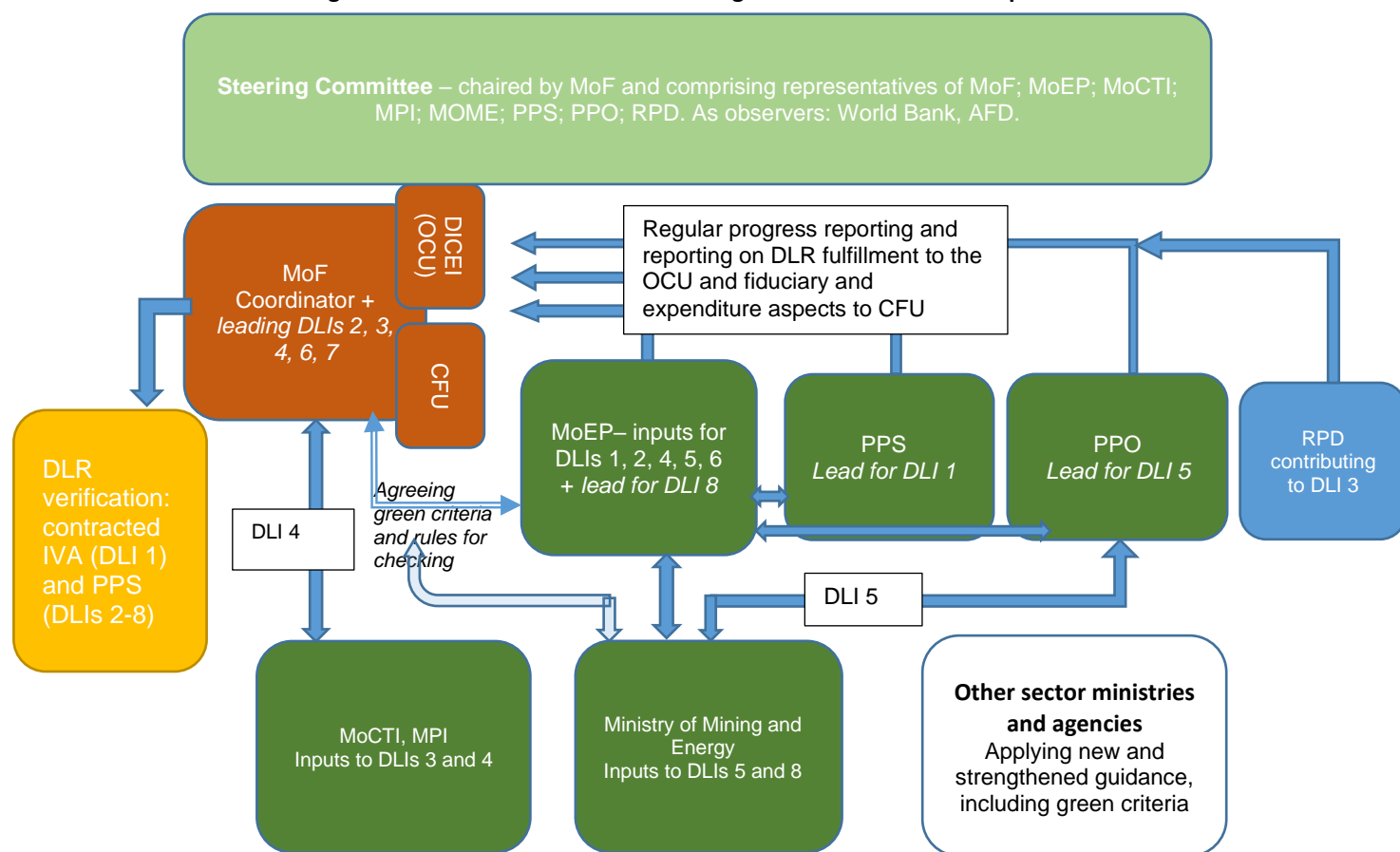
58. **Core institutions for implementation will be responsible for the achievement of specific DLRs as well as for the implementation of relevant parts of the IPF component.** These include the PPS, MoF's Budget Department, MoF's FRMD, PPO, RPD, and MoEP. These institutions will monitor progress on results and their achievement and collect evidence about the status of DLRs, which they will then deliver to DICEI. The list of DLIs/DLRs and responsible institutions are detailed in annex 3. The implementation of activities that are part of the IPF component will be managed by the same institutions that are responsible for respective DLRs, with fiduciary and procurement support from CFU. Specifically, respective institutions will develop ToRs for required external advisors and manage and use the TA provided. This includes a responsibility to consider how best to achieve sustainability of the TA inputs received.

59. **For DLIs 2 to 8, PPS will verify the achievement of specific DLIs and provide a formal report with its conclusions, and a contracted IVA will do the same for DLI 1.** The verification process will also build on the experience already gathered through the implementation of the previous PforR on Public Sector Modernization and relevant recommendations as set out in the Implementation Completion and Results Report (ICR) for that operation.⁴⁶ The verification protocol for the Program component is set out in annex 2. Further details on the interpretation of terms and of quantities (particularly the enumerators and denominators for achievements expressed in percentages) will be defined in the OIM.

⁴⁶ World Bank. 2020. *Implementation Completion and Results Report – Serbia - Modernization and Optimization of Public Administration Project*. World Bank, Washington, DC.



Figure 4: Institutions Involved in the Program and their Roles in Implementation



60. **An OIM will be prepared.** The manual will cover both the Program and the IPF component. It will describe in detail the interpretation of terms used in the DLRs, as well as the processes and procedures to be followed and the roles of institutions involved in implementing the program, including the tasks to be performed by SC and PPS (for DLIs 2 to 8) and IVA for DLI 1. For the IPF component, it will describe how funds are to be allocated and utilized, including the roles of implementing institutions, DICEI, and CFU. The adoption of the OIM is a disbursement condition.

B. Results Monitoring and Evaluation

61. **Results of the proposed PforR have been selected to focus on step-by-step progress to implement key policy and reform commitments.** This is fully aligned with the overall rationale of the Program to incentivize and support the actual implementation of existing commitments and policy intentions.

62. **Monitoring and evaluation (M&E) of results will be an integral part of the Operation.** Each institution involved in the achievement of a specific DLI will monitor progress and results for its respective area and report to the MoF for overall M&E and reporting. OCU will collect all reports on results achieved from responsible institutions. OCU will review progress and results reports submitted by the institutions responsible for specific DLIs and will aggregate them as regular biyearly monitoring reports to the World Bank. When specific DLRs have been achieved, OCU will collect reports and supporting evidence and will share these with PPS for DLIs 2 to 8 and IVA for DLI 1. The respective verification agents will



follow up with individual institutions as needed to verify DLR achievement as set out in the verification protocol. OCU (with appropriate support) will review the verification reports submitted by PPS and IVA in terms of responsiveness to agreed reporting formats and timeliness, as set out in the OIM. As the overall objective of the Program is to support successive system improvements and institutional enhancement, there should be continuous reports on achieved improvement steps until the end of the Program.

63. For the IPF component, M&E and reporting will focus on the delivery of outputs and how they support the achievement of results (DLRs/DLIs), as part of progress reports. This segment of M&E will include a gender data breakdown wherever applicable (for example, the share of female staff reached through training and outreach to the private sector for DLI 5). Furthermore, M&E reports on the TA will reflect on potential overlap⁴⁷ or gaps in the support provided under each RA covered by the Program (for example, to evaluate if training efforts need to go into greater depth or cover more institutions or staff). This will enable decision makers to decide on potential adjustments during implementation.

64. Progress on gender equality, citizen engagement, and climate co-benefits/GHG emission reductions will be reported on in dedicated sections of the monitoring reports at least on an annual basis.

C. Disbursement Arrangements

65. The Program disbursements will be made based on achieved and verified DLRs. Disbursement will be made for achieved DLRs in the amounts attributed to each DLR per table 6.

66. Achievement of DLRs will be verified and confirmed by PPS for DLIs 2 to 8, and by a contracted IVA for DLI 1. The main verification protocols are described in annex 2 and will be further detailed in the OIM as may be needed. The institutions responsible for the supervision and achievement of specific DLIs/DLRs will be producing progress data and reporting them to OCU within MoF. OCU will aggregate and prepare the data to be submitted for verification.

67. Funds for the Program will flow either as reimbursement or at the start of implementation as an advance of up to 25 percent of the Loan to enable rapid initial action. The advance will serve to rapidly initiate the substantial reform activities across DLIs (especially DLIs 1, 2, 3, 4, 5, and 8), and to enable Serbia to respond to potential fiscal risks (as targeted under DLI 7). The Government has planned to receive the advance as part of the funding of its 2023 budget plan and its effort to accelerate progress on the Green Agenda. The funds will flow to the Government's foreign currency account at the National Bank of Serbia, which will make them part of the state budget, and the Government indicates it as the receiving account. Funds for the IPF component will flow to a separate DA opened within the National Bank of Serbia. For payments in Serbian Dinars (RSD) related to the IPF component, funds will be converted from the foreign currency account (performed by MoF on quarterly basis or sooner if needed) to each Record Account (opened at the Serbian Treasury Administration) of the respective implementing institutions (MoF, MoEP, PPS, PPO and RPD).⁴⁸ Each institution will be responsible for contracts signing, approving deliverables and services, payment and monitoring of their own IPF expenditures and will ensure timely submission of respective bank statements and relevant documentation to CFU for final checking and preparation of required reports.

⁴⁷ For example, in case other development partners start providing assistance in a certain area.

⁴⁸ If changes in allocations under the IPF component are warranted, these will be proposed to and adopted by the SC for the Operation. Each implementing institutions will operate two record accounts in RSD (one for IBRD and one for AFD allocations).



D. Capacity Building

68. **The Program combines (financial) reform incentives with key elements of TA consisting of capacity building and knowledge transfer to enable the Government to achieve sustainable change, and to have timely access to emerging regional and global experience.** To this end, the IPF component will assist with the implementation of the Program through: (a) the provision of technical assistance, Training and Operating Costs to the MOF, PPS, MoEP, RPD, and PPO for the Operation's management, implementation, monitoring and evaluation, including the costs for the Verification Agent; (b) preparation of Training manuals and materials; (c) targeted capacity building activities to enable the implementation of activities; (d) procurement of 2 softwares: software to enhance the GHG MRV IT solution, and the Calculator (for public policy plans); (e) change management and behavioral change interventions; (f) communication, outreach, and awareness-raising activities; and (g) identification of lessons learned and best practices in other countries that may be relevant for Serbia. Across these modalities, the TA support aims to: (a) establish and embed new and improved management practices related to program budgeting, fiscal transparency and risk management, and public investment and asset management covered by the Program; and (b) incorporate green criteria, including climate adaptation and mitigation, into planning, PIM, and public procurement frameworks. The Operation targets change management and involves stakeholders within and outside the Government to support constituencies for reforms.

69. **Mainstreaming the green and climate agenda in public investments requires building capacity across government institutions.** Currently, there is a strong need for capacity development in Serbia, especially for RA 2, as the country is at an early stage of its green transition. With the Green Agenda, green and climate change aspects are gradually entering the core work of government ministries and agencies. As part of its policy coordination role, PPS will be ensuring that climate and green elements are incorporated into a wider range of PPDs. These nascent capacities need to be supported by a deliberate program of capacity building under the Operation in order to achieve results. As this touches on various government systems and processes, from planning, budgeting, and investment, to public procurement, the support is expected to reach staff from all relevant ministries through guidance and training developed by the core institutions involved in the Operation.

70. **To ensure capacity building support offered as a part of the Operation is sustainable, Serbia's NAPA and other relevant institutions will be included whenever possible for activities under the IPF component.** This will build on the already existing collaboration with NAPA to support PIM reforms and other relevant topics.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

Strategic Relevance

71. **The Program supports the GoS' strategy of further improving planning, PFM, and PIM systems to enable the post-pandemic recovery, prepare well for current and future risks and shocks, and embark on Serbia's green transition.** It aims to enable the Government to move toward well-targeted and efficient use of public funds to ensure fiscal sustainability, and that public resources contribute to achieving more sustainable, greener, and more climate-sensitive growth. The Program is anchored in two main strategic documents: Serbia's Green Agenda and the PFM RP 2021–2025, which is embedded in the wider Public Administration Reform Strategy for 2021–2030. Furthermore, the Operation also aligns with Serbia's ERP (2022–2024), highlighting PFM and the green transition as priority reforms areas.



72. Serbia made good initial progress on fiscal resilience and public sector efficiency in 2015-2020; in the context of current growing risks, a renewed focus on fiscal resilience is supported by the Program. In the past, wage bill costs were brought under control, and credibility in public sector finances and in procurement efficiency improved.⁴⁹ In the current context of increased risks, this Operation supports a new round of efforts focused on fiscal risk monitoring and management (DLI 7), good practices in public sector planning (DLI 1), the management of public investments and public assets (DLI 3) and strengthening of the focus on the link between spending and results (DLI 6) to enhance efficiency. Apart from the direct benefit to fiscal resilience, these improvements are also critical for enabling progress on environmental resilience by creating and preserving fiscal space and further improving foundations in expenditure management to make the adoption and use of green criteria effective.

73. Serbia is at an early stage of its green transition and needs to make rapid progress to support future sustainable growth and environmental resilience in the context of growing risks, as well as the EU accession. Serbia faces intersecting challenges of an energy crisis, low energy efficiency, substantial risks of drought and floods, and growing citizen concerns about pollution and climate change, and forthcoming new environmental requirements in the EU countries that are Serbia's main export markets (CBAM). In this context, Serbia's systems for public sector planning and managing public finances and investments need to be geared toward meeting these emerging challenges and contributing more effectively to the economy's resilience (in line with emerging international efforts - see box 2). The Green Transition DPO and this PforR jointly support Serbia on its path toward accelerating green and resilient growth and to moving toward successful EU accession.

Box 2: Strengthening the Role of Ministries of Finance in Driving Climate Action

Finance ministries hold significant levers for accelerating climate action which are not being fully utilized to drive sustainable, inclusive, and resilient growth. Strengthening the role of finance ministries in climate-related policymaking will require substantial changes to governance and in-house functions. Doing so will require further steps by ministries of finance to mainstream climate action into their organizational strategies and core policy areas, including through the budget process, tax system, and financial system. Finance ministries will need to redefine their mandates and build the necessary leadership, coordination, staffing and analytical capabilities through far-sighted organizational reforms.

Source: Coalition of Finance Ministers for Climate Action (2022)

74. RA 1 supports Serbia in strengthening fiscal resilience, transparency, and spending effectiveness. This is critical to achieve effectiveness, efficiency, and resilience in public sector management across policy areas as well as to enhance Serbia's ability to manage new challenges related to the Green Agenda and climate change.

75. RA 2 supports greening the expenditure cycle and monitoring GHG emissions for Serbia's green transition. Specifically, it supports the introduction and utilization of green criteria in public sector planning, budgeting, public investments, and procurements and operationalization of an MRV system for GHG emissions operational. These institutional capabilities are critical parts of establishing implementation mechanisms for Serbia's Green Agenda. RA 2 aims at improving the capacity of PPS, MOoF, PPO, MoEP, and other key ministries to ensure they can take effective policy action on Serbia's Green Agenda, monitor, and report on progress, and encourage other line ministries to contribute.

⁴⁹ With support from DPOs (Serbia Second Public Expenditure and Public Utilities DPL (P161184) and Public Sector Efficiency and Green Recovery DPL (P164575)) and the PforR on Modernization and Optimization of Public Administration (P155172).



Technical Soundness

76. **The Program builds on the Government's track record of tackling PFM reforms, its commitment to the Green Agenda, and the substantial policy dialogue and engagement between the World Bank team and relevant institutions over several years.** The previous PforR (Modernization and Optimization of Public Administration, P155172) included an RA on PFM and public procurement, with a strong achievement of results (two DLIs were achieved and two DLIs were exceeded). This has been followed by an intensive policy dialogue and trust funds-supported TA targeting PIM and fiscal risk management in recent years as well as the completion of a PEFA assessment in 2021 that guided the development of the current PFM RP.

77. **The policy dialogue and TA for the Green Agenda have progressed significantly over the past three years.** This has included engagement with the MoEP, MoF, and other key ministries. The environmental and climate change challenges that are an additional burden to Serbia's growth have been well-documented in the World Bank's recent report 'Supporting Serbia's Transition to Greener and more Resilient Growth' report (under P176413), which is expected to inform the GoS's policy development over the coming years. Other donors have also started to intensify their engagement, including AFD.

78. **The policy actions supported by this Program have been assessed for their feasibility and readiness.** The selection of policy actions has been guided by: (a) the GoS's policy commitments and incentives; (b) shared understanding of next steps as developed through ASA/TA support; and (c) close complementarity with the DPO (P177410).

79. **The Operation supports gender inclusiveness and citizen engagement.** Public surveys show that citizens are increasingly concerned about, and demand public action to address, pollution and the impacts of climate change.⁵⁰ This concern unites citizens across rural and urban areas as well as age groups. The Operation supports the enhancement of citizen consultations for public policies, fiscal transparency, and dialogue on the implementation of the Green Agenda to create a stronger dialogue between the Government and citizens on what is already being done and what upcoming spending priorities are. The Program also supports gender inclusiveness through DLRs 6.2 and 6.3, building on the GoS' existing commitment to identifying gender-specific public expenditures and performance indicators.

Results Area 1: Strengthening fiscal resilience, transparency, and spending effectiveness

80. **In this RA, the aim is to further strengthen the foundations of interlinked elements of planning, budgeting (including performance and fiscal risk management and PIM), and fiscal transparency.** Making these changes will strengthen Serbia's ability to cope with current and future fiscal risks and shocks and prepare appropriate actions. Moreover, further progress across these areas is critical for developing solid foundations for the implementation of Serbia's Green Agenda as well as for other policy domains.

81. **A key element for enhancing public sector efficiency is to leverage the performance and results focus on budgeting and enhancing fiscal transparency.** While Serbia introduced program-based budgeting since 2015 and bi-annual program performance reports (from line ministries to MoF) since 2017, semi-annual and annual performance reports are not yet a significant factor in future resource allocation decisions and are not published.⁵¹ Fiscal transparency

⁵⁰ IPSOS surveys, Balkan Barometer surveys, <https://www.rcc.int/balkanbarometer/home>.

⁵¹ See the 2020 PEFA assessment - PI 8. The report assessed PI 8.2 (performance achieved) and PI 8.4 (performance evaluated) as 'D', while



has remained comparatively weak in Serbia as identified in the latest PEFA report and improvements are needed especially with regard to within-year reporting on budget execution in a disaggregated way, consistent with the budget classifications (economic, functional, and program based). Strengthening the performance feedback loop can play an important role in strengthening public sector efficiency if performance reports are reviewed, discussed, and considered in new budget cycles, including gender-specific performance where relevant. Beyond supporting an overall focus on efficiency and performance across policy areas, good utilization of program budgeting can also enable greater progress on the Green Agenda through a clear definition of results and tracking what is achieved relative to resources dedicated. This is a joint effort to be made by the MOF's BD on the one hand, and relevant sector ministries and institutions on the other. Furthermore, making outturn reports publicly accessible will enable a wider range of stakeholders to access and use performance information and to propose policy adjustments that can enhance effectiveness and efficiency.

82. Fiscal risk management has seen initial progress in terms of establishing a system, institutional responsibilities, and methodologies (with the World Bank engagement). The RA includes support for the step-by-step application of methodologies to establish effective reporting cycles on fiscal risks including those that are climate related as well as others. The GoS has initiated a welcome expansion of capital expenditures in recent years, making a further strengthening of PIM a timely priority to effectively tackle infrastructure and digital gaps through a well prioritized and well-prepared set of projects and even more so if resources become more constrained for some time. The focus is on ensuring that existing PIM regulations are coherently implemented, feasibility studies are systematically carried out, and there is effective MoF monitoring during implementation to enable timely identification of and reaction to problems.

Results Area 2: Green the expenditure cycle and monitor GHG emissions for Serbia's green transition

83. RA 2 supports a set of inter-connected public sector reforms that are key parts of the implementation mechanisms of the Green Agenda. Enabling implementation starts at the planning stage, especially introducing 'green criteria' (see the Theory of Change section) into planning documents and strengthening life-cycle costing. While greener approaches often carry some additional costs up front, they typically have lower lifetime costs, for example due to reduced waste or increased efficiency in resource usage (energy, water, and so on). Planning documents provide important guidance for the prioritization of other actions, including the selection and preparation of public investments. A second element of RA 2 is to support the implementation of GBT. The Program will help complete initial cycles of GBT, introduced as a legal requirement in December 2022 (supported by the DPO), and will focus on establishing a methodology in 2023 and adoption for the 2025 budget cycle starting in early 2024. This effort will build on Serbia's emerging experience with implementing Green Bonds and identifying relevant expenditures. Tagging also provides the foundation allowing green and climate requirements to inform budget negotiations and execution monitoring.

84. A further cornerstone for implementing the Green Agenda is the application for green criteria in PIM. This is key for realizing Green Agenda commitments by prioritizing environmental projects (for example, wastewater treatment plants) as public investments are ramped up, but also to introducing green design in public infrastructure (for example, to increase energy efficiency across public buildings), as well as to enhancing a focus on resilience to climate-induced stresses and disasters (that is, climate adaptation) in prioritizing capital expenditures. The green criteria will be targeted at informing project selection by highlighting green and climate relevant proposals and improving project design by requiring assessments of climate risks and options for enhancing resilience.

85. A further important PFM lever is the roll out of green criteria in public procurement. Guidelines on Green Public

performance planning and resource allocation were assessed as 'A'. The lack of publication was noted as a contributing factor for the low performance on PI 8.2.



Procurement were published on the PPO's website in 2019, following the adoption of a new PPL. However, as is the case in many other countries, their use remains limited to date. DLI 5 will incentivize and support the actual utilization of Guidelines on Green Public Procurement by budget users to expand the range of applications and will support tracking of the use of green criteria in procurement by PPO.

86. One important element of Serbia's Green Agenda commitments is the MRV of GHGs. Serbia is expected to initiate GHG monitoring and reporting under the Paris Agreement⁵² as well as to manage the effects of the EU CBAM (being phased in from 2023) with its own carbon regulations. The 2021 CCL has created the broad legal framework, and the adoption of specific MRV rulebooks is expected by March 2023.⁵³ Support through the PforR targets the process of establishing the systems for installation-level reporting including outreach and communication to operators with a view to completing a first full MRV cycle by 2026.⁵⁴

Corporate Commitments

87. Citizen engagement. Citizen engagement will be most directly supported under DLIs 1, 2 and 8 (improving policy planning, implementing GBT and establishing an MRV system), with DLI 6 playing an enabling role by enhancing transparency.⁵⁵ Citizen interest in environmental and climate change issues has increased significantly in recent years in Serbia, with numerous environmental protests taking place since 2020. The Program will support the PPS, MoF and MoEP in enhancing their engagement with citizens on introducing green elements into policy planning documents, green expenditures and on the monitoring and reporting of GHG emissions. Citizens and civil society organizations' representatives will be invited to provide feedback online and at regular fora to be held at least bi-annually. As part of the IPF component, MoF will be supported to develop a green focus as well as to provide more gender disaggregated information in its citizen budget presentation and consultations. MoEP will be supported in stakeholder and citizen engagement regarding implementation mechanisms for the Green Agenda. Enhanced fiscal transparency and citizen engagement will also help the GoS improve its ratings on the Open Budget Index.⁵⁶

88. Gender. The Operation addresses gender aspects in several ways. One is that building on Serbia's existing commitment to gender-sensitive budgeting (BSL Articles 4, 28 as well as the 2021 Law on Gender Equality⁵⁷, Article 5), DLRs 6.1-3 incentivize program budgets and performance reports to include gender related targets and performance reporting. Suitable direct budget users (ministries) that have significant gender dimensions in their policy domains are the Ministry of Labor and Social Protection and the Ministry of Health (MoH). The option of performance reporting with a gender breakdown will also be explored for the MoME (regarding subsidies to households), or MoCTI (notably regarding the use of rail and other public transport). Second, through the IPF component and associated support⁵⁸, the Operation will assist PPS to strengthen the reflection of gender in PPDs. A third gender aspect included in the design is that reporting

⁵² As a non-Annex I Party to the United Nations Framework Convention on Climate Change, Serbia has no explicit commitments on the reductions of GHG emissions but is expected to integrate climate change into national planning processes and provide relevant information regarding emissions and removals of GHGs. This is done through the process of setting Nationally Determined Contributions (NDCs).

⁵³ As required by the CCL.

⁵⁴ The MRV system will cover monitoring and reporting of GHG emissions from stationary installations (not from land use, land use changes, and forestry).

⁵⁵ Improving fiscal transparency has long been identified as an important gap for overall policy engagement of citizens in Serbia, for example, by the OGP compact for 2018-2020 as well as by participants of the World Bank-supported Joint Initiative on Transparency.

<https://www.worldbank.org/en/country/serbia/brief/transparency-and-accountability-initiative-in-serbia>.

⁵⁶ The latest rating for participatory budgeting is 2/100, below the performance of regional peers.

⁵⁷ Official Gazette of the Republic of Serbia No. 52/2021.

⁵⁸ AFD will provide additional support to this effort through its support for UN Women for the Western Balkans.

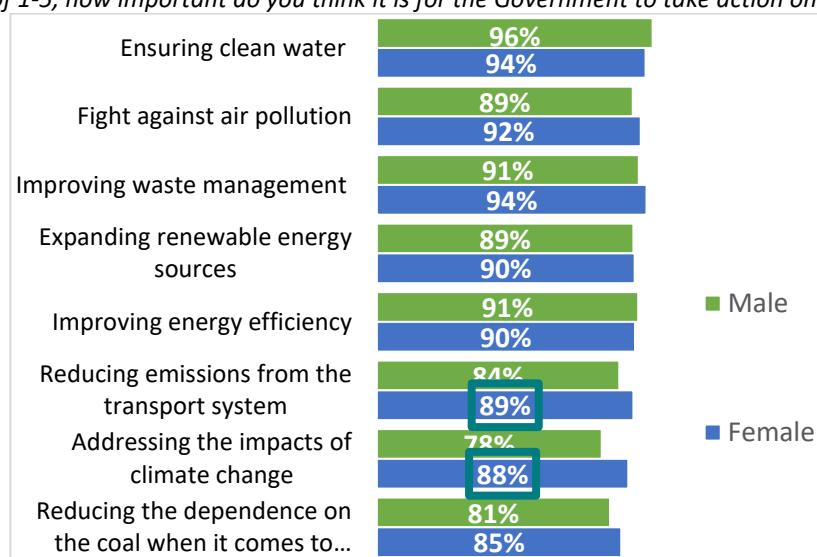


on the implementation of the IPF component will systematically include breakdowns by gender (participants in training, peer learning, and so on) across activities. Furthermore, as reflected in figure 5, women consider policy action on the impacts of climate change as especially important.

89. **Climate co-benefits:** Climate co-benefits of the Operation are substantial, resulting from the following DLIs – DLI 1, 2, 4, 5, and 8 which constitute RA 2.⁵⁹ Achieving the results defined in these DLIs will significantly enhance Serbia’s public sector focus and action on climate change across the planning, budgeting, public investment planning, and procurement cycle. DLI 8 directly targets and supports MRV of GHG emissions. The preliminary estimate of climate co-benefits is 60 percent.

Figure 5. Citizen Views Regarding the Importance of Policy Action on Environmental and Climate Aspects

On a range of 1-5, how important do you think it is for the Government to take action on the following?



Source: Commissioned survey (IPSOS), March 2022.

Note: % of respondents expressing high or very high importance (4 + 5).

Program Expenditure Framework

90. **The EF is formulated in line with the Program boundaries of PFM reforms and the green transition.** Expenditures included in the EF relate to the expenditures of Program implementing agencies which are key for reforms covered by the Program and for achieving Program results: MoF, PPS, PPO, MoEP, SEPA, RPD and MoCTI. Program support is expected to strengthen the link from allocated amounts to reform results achieved as well as the efficiency and effectiveness of such expenditures. The amounts of expenditures included in the EF are sourced from the Law on Budget 2023. For the years 2024-2026, a conservative scenario was selected which retains the 2023 spending levels throughout implementation. Given global and regional macroeconomic uncertainty, this minimizes the risk of over-estimating resource allocations of the identified expenditure categories. Accordingly, deviations from these estimates are likely to be upwards towards increasing expenditures.

⁵⁹ The specific share will be assessed by the World Bank’s Climate Change Group; preliminarily, climate co-benefits would be 50 percent (that is, half of the DLIs).



91. **Strengthening PFM and managing the green transition are among the GoS' strategic objectives and priorities, which are supported by the Program expenditures.** Strategic relevance of the Program scope is embedded in the Government's PFM RP 2021-2025, as a subset of broader Public Administration Reform Strategy 2021-2030, and Serbia Green Agenda 2021-2030. Maintaining stability of public finances is included as one of the priorities in the Government's Work Program. The importance of the Green Agenda is increasingly recognized by the Government as a high priority and is also an important element of Serbia's EU accession process. Monitoring the effectiveness and efficiency of programs dedicated to implementing the Green Agenda will therefore be critical for the GoS' strategic reforms, including for achieving results defined in the Program.

92. **For the EF, budget programs (per program classification/structure) of implementing agencies which reflect program reform areas and contribute to achieving program results were selected to be included.** Within the selected budget programs, certain categories of expenditures (per economic classification) critical for implementing those programs and achieving results, are included. Furthermore, Program expenditures included in the EF focus on recurrent expenditures of implementing agencies. The rationale for such approach is that the reforms and results defined by the Program's boundaries and scope pertain to establishing and implementing legislative, methodological, and operational frameworks for strengthened PFM and enabling Serbia's green transition (precisely defined in the Program's DLIs). Reforms are highly dependent on human capital and mostly supported and ensured by recurrent expenditures. The EF is linked to selected programs of implementing agencies (listed in their respective parts of program budget) – that is, their staff costs, contractual services, and a budget category of 'specialized services', all supporting the achievement of Program results and strengthening of target institutions.⁶⁰ In addition, the EF includes the MoEP subsidies which are granted to public and private institutions for activities which directly support the goals of the green transition.

93. **Multiple institutions are central to reforms covered by program boundaries and therefore make part of the EF.** MoF's budget program on management and supervision of fiscal and financial system supports strengthening capacity and implementing key reforms related to budget preparation, including GBT, as well as monitoring of fiscal risks. MoCTI has the largest capital budget and most major capital investments are in its portfolio, therefore expenditures related to financing staff and contractual services which support implementation of major infrastructure projects are closely linked to activities related to improving public investment management (including greening). PPS plays a central role in strengthening and coordinating preparation and implementation of PPDs, their costing and links to the budget allocations. Expenditures of PPO included in the EF will contribute to coordinating and monitoring advancements of green procurement. RPD is mandated with keeping records and managing of public property and is thus included in the EF as the main contributor to activities related to improving public asset management. MoEP and SEPA salaries and contractual services are critical for delivering the Green Agenda.

94. **Program expenditures also include other types of recurrent spending that targets Green Agenda and results of which DLI 6 seeks to improve in terms of efficiency and results orientation.** Those expenditures include MoEP's and SEPA's salaries under selected budget programs, as well as contractual services and 'specialized services' such as maintenance of national parks and natural habitats, preservation of environment, and nature and science. Furthermore, subsidies under MoEP's budget are also a part of the EF, as they relate to incentives for preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of ecologically acceptable cars. Those MoEP's subsidies are available both to public institutions and private entities and related to DLIs 5 and 8. The

⁶⁰ The Republic of Serbia's budget presents salaries (staff costs) allocations and other costs per budget programs of a respective budget beneficiary, which allows for the Program to include in the EF only the salaries of staff working on budget programs related to the defined Program results - given that that staff cost is key to achieving the Program's objectives.



procedures within MoEP regarding eligibility criteria, approving and monitoring of those subsidies are well established; they are robust and complied with in practice. Their legal framework is defined in relevant bylaws⁶¹ and further detailed in accompanying guidelines and templates. The process for awarding MoEP's subsidies is competitive and based on public calls for applications. Furthermore, DLI 6 incentivizes improvements in the definition of KPIs and reporting of progress achieved related to allocations (efficiency KPIs), as well as the continuous strengthening of how green and climate-sensitive results are defined, and how corresponding results are tracked and reported. Finally, DLR 6.4 specifically targets the development and publication of program budget outturn reports for at least two direct budget beneficiaries regarding their environmental and climate performance.

95. **Program expenditures amount to EUR327 million over the period of four years (2023-2026), out of which the World Bank financing amounts to about EUR66.3 million (USD71.8 million)⁶² for the PforR portion (plus EUR3 million or USD3.2 million for the IPF component).** This is accompanied by a blend of parallel financing and joint co-financing of the AFD in the same amounts (with the IPF component being joint co-financed). The World Bank financing is estimated to register disbursement of EUR18 million in 2023 and have a trajectory of gradual increase to EUR20 million disbursement in 2026 (slightly lower disbursements are expected for 2024 as DLRs corresponding to the advance as well as additional DLRs have to be met).

96. **The high-level and medium-term policy commitment, reliable budget formulation and the nature of recurrent expenditures ensure financial sustainability of the Program expenditures.** The budget formulation process of the central Government is adequate, rule based, and complied with. The medium-term expenditure framework for 2023-2025 set out in the Fiscal Strategy for 2023-2025 includes projections of sufficient amounts of Program expenditures. Ongoing implementation of strategic documents related to PFM and Serbia's Green transition, including the ERP, provides another layer of guarantee of sustainability of the Program expenditures (and a likely expansion over the coming four years for the Green Agenda). Recurrent expenditures included in the Program EF are vital for fulfilling the legal mandate of implementing agencies related to the Program results, and therefore the risk of insufficient funds allocated is low even if risks of fiscal challenges were to materialize for some time.

⁶¹ Decree on conditions for allocation, criteria, use and monitoring of funds from the Green Fund (Official Gazette of the Republic of Serbia No. 25/18); Rulebook on conditions for allocation and use of funds from the Green Fund (Official Gazette of the Republic of Serbia No. 31/18); Decree on subsidized purchase of electric and hybrid cars (Official Gazette of the Republic of Serbia No. 53/21).

⁶² As the loan amount is in US Dollar, the Euro equivalent is based on the exchange rate prevailing at negotiations.



Table 7: Program Expenditure Framework (in EUR)⁶³

Institution	Budget program (program number)	Type of Expenditure (economic classification line- item number)	DLI Supported	2023 Budget	2024 Projection	2025 Projection	2026 Projection	Total
MoF	Management and supervision of fiscal and financial system (2301)	Salaries (411)	DLI 2, DLI 3, DLI 4, DLI 6, DLI7	6,769,243	6,769,243	6,769,243	6,769,243	27,076,972
		Contractual services (423)	DLI 2, DLI 3, DLI 4, DLI 6, DLI7	20,320,043	20,320,043	20,320,043	20,320,043	81,280,172
MoCTI	Implementation of infrastructure projects (0702)	Salaries (411)	DLI 3, DLI 4, DLI 5	146,783	146,783	146,783	146,783	587,132
		Contractual services (423)	DLI 3, DLI 4, DLI 5	10,129,277	10,129,277	10,129,277	10,129,277	40,517,108
PPS	Development of Public Policy System (0610)	Salaries (411)	DLI 1	750,443	750,443	750,443	750,443	3,001,772
		Contractual services (423)	DLI 1	304,962	304,962	304,962	304,962	1,219,848
PPO	Development of procurement system and protection of right in procurement processes (0612)	Salaries (411)	DLI 5	453,226	453,226	453,226	453,226	1,812,904
		Contractual services (423)	DLI 5	138,187	138,187	138,187	138,187	552,748
RPD	Records, Management and Ownership of Property (0605)	Salaries (411)	DLI 3	1,351,277	1,351,277	1,351,277	1,351,277	5,405,108
MoEP	Management of Environmental Protection (0404)	Salaries (411)	DLI 5, DLI 8	2,860,706	2,860,706	2,860,706	2,860,706	11,442,824
		Contractual services (423)	DLI 5, DLI 8	1,514,043	1,514,043	1,514,043	1,514,043	6,056,172
		Subsidies to private companies (454)	DLI 5, DLI 8	2,553,191	2,553,191	2,553,191	2,553,191	10,212,764
	Protection of Nature and Climate Change (0405)	Salaries (411)	DLI 5, DLI 8	391,949	391,949	391,949	391,949	1,567,796
		Subsidies to public institutions (451)	DLI 5, DLI 8	3,106,383	3,106,383	3,106,383	3,106,383	12,425,532
	Green Agenda (0407)	Specialized services (424)	DLI 5, DLI 8	127,660	127,660	127,660	127,660	510,640
		Subsidies to private companies (454)	DLI 5, DLI 8	29,762,962	29,762,962	29,762,962	29,762,962	119,051,848
SEPA	Management of Environmental Protection (0404)	Salaries (411)	DLI 5, DLI 8	748,766	748,766	748,766	748,766	2,995,064
		Contractual services (423)	DLI 5, DLI 8	536,664	536,664	536,664	536,664	2,146,656
Total				81,965,765	81,965,765	81,965,765	81,965,765	327,863,060

Note: The figures are based on the 2023 Law on Budget, and the World Bank team projections for 2024-2026.

⁶³ Costs for the expenditures in the IPF portion are not part of the budget lines covered by the EF. They mostly concern additional expenditures for training, knowledge exchanges, and so on.



97. **Overall central government budget execution is reliable.** Deviation in expenditures between budget execution and originally planned budget is low, except in 2020 which is considered to be a one-off year, in which there was an unplanned increased level of expenditures (approved through supplementary budget) to counter the impact of the pandemic. Implementing agencies manage their budgets, which are executed through a Single Treasury Account administered by the Treasury Administration under MoF. Liquidity planning and cash management by the Treasury Administration are adequate, and there are no delays in payments of commitments to budget users, including the program implementing agencies. Budgetary controls are reliable and budgets are executed within approved allocations, which secures availability of funds across budget users.

Table 8: Budgetary Central Government Total Budget and Actual Expenditure (RSD, millions)

	2017	2018	2019	2020	2021
Budget	1,161,983	1,206,848	1,269,091	1,318,419	1,709,392
Actual	1,146,978	1,214,344	1,314,963	1,709,392	1,765,982
Percentage Deviation	-1.29%	0.62%	3.61%	29%	3.2%

Economic Justification

98. **The activities envisaged under the Program are expected to generate significant financial benefits and increase economic welfare of Serbian citizens.** The set of quantifiable benefits includes output growth resulting from making the Serbian economy more climate change resilient through strengthening green and climate component of its public policies and specifically the investment portfolio. Another significant source of US Dollar-expressed economic benefits that will accrue to the whole society will also be achieved through stronger focus on green and climate agenda of public expenditure particularly, through enabling materialization of climate and environmental projects related externalities that contribute to public health such as increased quality of water, reduced air pollution, and improved waste management.

99. **Investment costs for the Program follow the disbursement schedule implied by the distribution of funds across the DLIs assuming their timely and successful implementation.** Distribution of total Program expenditure is assumed to follow the one implied by the allocation to each of the DLI (see annex 2). In total, EUR 81.9 million is expected to be spent in each of the four years of the Program implementation. Besides investment costs, the main cost category expected to be borne by Serbia is the time that employees from different ministries and public institutions will be required to dedicate themselves to the successful implementation of the Operation. Their involvement in the Operation implementation is estimated through their gross monthly salary (assumed to be EUR 700) growing gradually over the implementation period.

100. **According to a 2020 socio-economic study carried out by the United Nations Development Programme (UNDP) under the auspices of the Global Environment Facility, cumulative output expected to be forgone by the Republic of Serbia in the period from 2020 to 2040 will equal EUR 58.1 billion,** if average global temperature increases will be kept within the limits set by the Paris Agreement (that is, 2 °C) and if no action is taken to address climate change effects.⁶⁴ The medium-term joint effect of achievements made under the Program is assumed to shift the Serbian economy toward

⁶⁴ See: https://www.klimatskepromene.rs/wp-content/uploads/2020/04/cir_screen-06-04-2020_DRAFT_-Study-on-the-Socio-economic-Aspects-of-Climate-Change-on-the-Republic-of-Serbia_UNDP.pdf.



a more sustainable path through planning, budgeting, expenditure management and procurement which is more sensitive to environmental and climate change objectives. The trajectory of the effects in percentage terms is such that the Program implementation is expected to provide for 1 percent of reduction in output losses in Year 4 and grow gradually to 4 percent reduced output losses at the end of the investment horizon of 10 years (that is, by 2032). The benefits to the society accruing in the form of additional output will thus range from EUR27 million in 2026 to EUR132.8 million in 2032.⁶⁵

101. **The Program is expected to enable development of effective implementation mechanisms for public investments which address the green and climate (mitigation and adaptation) agenda.** Dollar benefits of this mechanisms will materialize through planning, assessment, budgeting, and implementation of public investment projects which contribute more to climate change adaptation and mitigation as well as to the broader environmental agenda. These benefits are estimated through incremental externalities which will materialize in addition to the already accruing financial and economic agenda. These typically include social benefits which contribute to public health such as increased quality of water, reduced air pollution and improved waste management.

102. **In addition to the quantifiable benefits (see annex 3 for details), several benefits have not been quantified in this analysis, mainly due to a lack of data and a reliable framework in which their dollar value can be supported by sufficient evidence and argument.** Most of these benefits were, however, to an extent implicitly included in the calculation of the benefits discussed above. One example is the results expected under the DLI 5 on broadening the use of green public procurement where procedures will be put in place to guide budgetary users to select services and materials based on their environmental impact. Furthermore, introduction of GBT through DLI 2 will enable tracking of green and climate-related expenditures and identification and monitoring of the implementation of relevant climate and environmental policy documents. Further, activities linked to DLI 7 will help Government improve its capacity to monitor, report, and, if necessary, take actions on fiscal risks including those related to climate change. Benefits associated with this DLI can be perceived as those enabling the materialization of the ones that were quantified as it will enable Government to prioritize and streamline public investments to the areas where it can achieve the most risk exposure reduction. Finally, DLI 8 requires implementation of an MRV system for tracking Serbia's GHG emission which is instrumental for keeping the country on track for its obligations as a non-Annex I party to the United Nations Framework Convention on Climate Change (UNFCCC).

B. Fiduciary

103. **The financial management and procurement capacity of the implementing agencies is adequate. The World Bank conducted the assessment through analysis of available documents and working sessions with the key stakeholders.** The Fiduciary Systems Assessment (FSA) considers whether the Borrower's fiduciary systems provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. It covers the Borrower's institutional arrangements, financial management and procurement systems, and governance systems. The findings of the FSA concluded that the overall fiduciary systems provide a reasonable assurance that the Program funds will be used for the intended purposes. The institutions covered by the EF - MoF, MoEP, MoCTI, RPD, SEPA, PPS, and PPO - have reasonable financial management and procurement capacity considering that the PEF mainly covers salaries and related costs and

⁶⁵ The assumed effect of Program implementation is derived from the distribution of DLIs over the implementation period. The mismatch in timing between achieving results under different DLIs and their contribution to reduction in output forgone is due to assumed lag between inception of public expenditure through planning and budgeting and the time results are delivered and become effective.



does not anticipate high-value or complex procurement.⁶⁶

104. **As outlined in the technical assessment, the GoS adopted the second PFM RP for 2021-2025 as the key PPD in the PFM area.** The PFM RP includes the general objective to achieve a sustainable budget with a stable ratio of public debt to GDP through better financial management and control, auditing and integration of budget planning with government policies, and six specific objectives⁶⁷ and related measures and activities designed to achieve them. The Program contains a very detailed action plan with costing. The Program eligible expenditures entirely relate to the PFM RP and the Green Agenda.

105. **The PPL in effect since July 1, 2020, is a major step towards a more transparent, efficient, and competitive public procurement system.** The PPL has fully harmonized with the EU Directives, more specifically, public procurement announcements and contract awarding procedures. One of the most important features of the PPL is the application of the digital public procurement portal which provides for electronic submission of tenders, electronic communication between all relevant stakeholders, opening of tenders, publication of procurement notices and contract awards, and filing of request for protection of rights. The Serbian Government has committed to continuing the reform of the public procurement system by adopting the new 2019-2023 Public Procurement Development Program and Action Plan.⁶⁸

106. **The key actor in Serbia's public procurement system is PPO, a stand-alone organization, directly accountable to the Government to which it reports on a yearly basis.** The PPO performs professional activities in the field of public procurement, monitors the implementation of public procurement regulations, participates in drafting laws and other regulations in the field of public procurement and enacts bylaws in the field of public procurement, manages the public procurement portal, records data on public procurement procedures and public procurement contracts, cooperates with domestic and foreign institutions and experts in the field of public procurement in order to improve the public procurement system, provides professional assistance to contracting authorities and bidders, and contributes to creating conditions for economical, efficient and transparent use of public funds in the public procurement procedure.

107. **The Program audit will be undertaken by the SAI.** The SAI audits the annual law on final account every year and this audit will be considered as the audit of the Program. The Law on the Final Account includes information on the budget execution of all institutions included in the budgetary central government, including those involved in the Program. The audit of the annual law on final account comprises financial and compliance audit, and apart from accuracy of financial statements and compliance with laws and regulations, during the audit SAI also examines the financial management and control systems, internal control systems and internal audit. The audit is conducted in line with International Standards for Supreme Audit Institutions (ISSAI). The audit of the final account is delivered by SAI by the end of the year following the audited period. SAI is assessed to have sufficient capacity to produce reliable audits providing sufficient assurance about the use of Program funds.

108. **The fiduciary risk is assessed to be moderate after mitigation measures.** The overall Borrower's fiduciary framework is assessed to be adequate to provide reasonable assurance that the Program financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and

⁶⁶ Procurement exclusion. It is foreseen that all individual contracts under this Program will be below the Operations Procurement Review Committee thresholds, namely: (a) works estimated to cost US\$115 million equivalent or more per contract, (b) goods estimated to cost US\$75 million equivalent or more per contract, (c) non-consulting services - US\$75 million equivalent or more per contract, and (d) consulting services - US\$30 million equivalent or more per contract.

⁶⁷ See table 2 (specific objectives of the PFM RP).

⁶⁸ Serbia, Public Procurement Office. 2018. *The 2019-2023 Public Procurement Development Program and Action Plan*. Belgrade: Public Procurement Office.



accountability. Key risks and mitigation measures are detailed in the FSA (annex 4).

109. **The agencies involved will execute the activities in accordance with the World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing', dated February 1, 2012, and revised July 10, 2015.** They will: (a) share information with the World Bank regarding all allegations of fraud and corruption in connection with the Program, investigate all credible allegations received, report to the World Bank on actions taken, and cooperate in any inquiry that may be conducted by the World Bank into allegations or other indications of fraud and corruption in connection with the Program; and (b) monitor and abide by the World Bank's list of debarred/suspended firms. The main agencies which will be significant for this process will include: the Prosecutors Office, the Agency for Prevention of Corruption, the Anti-corruption Council, and PPO.

110. **CFU has adequate financial management and procurement capacity.** The CFU currently serves as the fiduciary agent for nine World Bank-funded projects with prospects of further increasing that number. Additional staff are planned to be hired in the CFU in the forthcoming period to adequately respond to the needs of the increasing portfolio. The financial statements for the IPF component will be (a) audited by independent auditors on ToR acceptable to the World Bank, and (b) due within six months of the end of each fiscal year. CFU shall prepare and furnish to the World Bank not later than 45 days after the end of each calendar semester, interim un-audited financial reports for the Program covering the semester, in form and substance satisfactory to the World Bank. To strengthen the existing financial management and procurement arrangements, an action plan has been agreed with CFU.

A. Environmental and Social

111. The overall objective of Program-financed activities is to make the PFM system in Serbia more efficient, inclusive, and green. The Program will not fund any activities involving high or substantial environmental or social risks, such as extensive land expropriation, relocation of large numbers of people, heavy pollution, significant transformation of the natural environment, or activities that pose a threat to the health and safety of workers and communities. The Program will not create an additional environmental footprint as it supports neither construction of new infrastructure nor the extraction of natural resources. It does not include any kind of construction/rehabilitation works nor any activities that may lead to heavy emissions or generation and discharge of large volumes of waste. The Program is expected to have many positive environmental and social effects in the areas of government accountability, transparency, inclusiveness, and green growth.

112. The main environmental benefits will arise under the RA 2 focusing on the integration of green and climate policy objectives into policy planning documents, mainstreaming of green public procurement and GBT, and support for the set-up of a fully functional GHG MRV system. Furthermore, the expenditure framework envisages the provision of subsidies to public and private and specialized services related to incentives for preservation of nature, recycling of materials and waste management, and purchase of ecologically acceptable cars. Current environmental legislation and procedures are appropriate for this type of subsidy. Proper information of the public is available through public calls with transparent awarding criteria and publishing of preliminary and final lists with explanatory notes, all of which are published at the MoEP's web site.

113. Overall, there are no direct nor indirect adverse environmental risks and impacts, but rather beneficial ones. The procedures around environmental subsidies could be managed by adhering to the national legislation, especially given that Serbia is seeking EU accession and its environmental regulations, to some extent, are aligned with the EU procedures. **Given the abovementioned factors, the overall environmental risk is assessed as Low.**



114. **The Operation is expected to create a range of social benefits.** Improved green and GBT, and improved transparency in financial reporting will have a positive impact on the visibility of green expenditures, which, combined with an adequate engagement strategy will facilitate communication with citizens, investors, and other stakeholders. The main social risks associated with the Program are related to Environmental and Social Systems Assessment (ESSA) Core Principle 1 which promotes informed decision-making relating to a Program's environmental and social effects and Core Principle 5 with special regard to vulnerable and disadvantaged groups' access to stakeholder engagement activities. Vulnerable and disadvantaged groups may not be adequately targeted, the model of engagement may not be aligned with their needs, and they may risk exclusion from the dialogue on PFM reform and green budgeting. Low capacities for tailored outreach efforts, and for presenting sufficient information in a broadly understandable manner as well as a lack of functional grievance redress systems at the national and local levels are assessed as key barriers to effective stakeholder engagement. The implementation of the Program activities may impose an additional workload on the public administration staff causing potential workplace burnout. This is particularly relevant for those ministries and implementing agencies that are currently understaffed. This potentially adverse impact on workers may be mitigated through the implementation of standard national procedures relevant to workers and the provision of TA to be provided through the IPF component. **Considering the nature of the Program, the complexity of the intersectoral coordination process, possible risks and existing capacities in social risk management, the overall social risk of the Program is assessed as Moderate.**

115. The majority of institutions involved MoF, MoEP, MoCTI, and PPS, have experience with the implementation of the World Bank operations. These include the LIID (P174251) supporting PFM, PIM and green projects at the subnational levels, support for improving State-Owned Financial Institutions (P156837), Tax Administration Modernization (P163673), and Enabling Digital Governance (P164824). Relevant operations that cover sectors with Green Agenda elements include Railway Sector Modernization (P170868) and the follow-up project: Railway Modernization Phase 2 (P179703).

116. **The ESSA identified a set of actions to be included in the Program Action Plan and ESCP.** The PforR implementation arrangements will require that the MoF (with advice from MoEP where needed), assigns or hires qualified part-time social and citizen engagement specialist, and in case needed a (part-time) environmental specialist, responsible for the creation of adequate stakeholder/citizen engagement strategy and monitoring and reporting on the implementation of the Program Action Plan. To guarantee timely and precise stakeholder identification, and meaningful consultation throughout the Program implementation, it is recommended to develop the Program's Stakeholder Engagement Plan (SEP). The SEP will facilitate adequate targeting of stakeholders and the inclusion of vulnerable groups in a consultative process. Furthermore, the SEP will integrate the elements of the communication plan so that invitations to public consultations on a green budget are attractive, stimulating, and adapted to the needs of different target groups. For all program-related concerns to be timely and adequately collected, managed, and addressed, a central grievance mechanism (GM) is to be established within the coordination unit. This will complement the existing GMs of participating government institutions, which will be required to report concerns related to the operational activities to the coordination unit to keep and manage a central grievance registry. These recommendations are also reflected in the OIM, providing detailed guidance for implementation. The existing communication formats and channels should be upgraded to (a) disclose relevant information in a timely and user-friendly manner; (b) accommodate the needs of vulnerable groups, such as visually impaired persons; and (c) collect beneficiary feedback on green PFM. A supplementary measure includes training on the main Principles of Citizen Engagement in PFM for the MoF and coordination unit staff to be organized by the World Bank. The status of citizen/stakeholder engagement activities and the inclusion of vulnerable groups in consultation processes will be reported to the World Bank. The draft ESSA has been disclosed in English and



Serbian on the external website of the World Bank and the MoF, and public comments have been solicited during January 2023.

Grievance Redress Service

117. Communities and individuals who believe that they are adversely affected as a result of a World Bank supported Operation, as defined by the applicable policy and procedures, may submit complaints to the existing grievance redress mechanism or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address operation-related concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the World Bank's attention, and after World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank's Accountability Mechanism, please visit <https://accountability.worldbank.org>.

V. RISK

118. The overall risk rating for the achievement of the PDO after mitigation measures is Moderate. The ASA on Underlying Drivers of Policy Effectiveness that has been carried out in FY 2020-2022 for various policy domains – among these environment and climate change and including two rounds of public opinion surveys, also contributes to informing the risk assessment and mitigation measures.

119. All residual risks are assessed as Moderate. Political and governance risks are moderate as elections have passed, and political commitment to the Green Agenda and the supported PFM reforms is significant. Risks related to sector strategies and policies are assessed as moderate, as both the Green Agenda and the PFM RP, and several other strategic and planning documents in this area provide clear reform agendas. Further operationalization of the Green Agenda and an update of the PFM RP are planned for 2023 and are expected to result in approaches closely in line with this Program, such as more explicitly integrating green aspects into the approach to PFM reforms and highlighting the role of using the budget cycle as part of the implementation mechanism of the Green Agenda.

120. Macroeconomic risks are assessed as Moderate. If downside risks to growth materialize to a significant extent, then emergency measures could (a) hinder efforts at strengthening PFM foundations and (b) reduce green public investments; and (c) weaken efforts at creating effective institutional implementation mechanisms for the Green Agenda. A key mitigation measure is the support being provided to improve fiscal risk management, the focus on public sector efficiency linked to improved planning, costing, and performance management (also building on earlier support provided), as well as flexibility built into the Program, such that the PDO can be reached even if initial progress were to be delayed by some time. Furthermore, during later years, economic growth is expected to be steady. Additionally, the Government agreed on a new arrangement with the IMF, which helps with the successful mitigation of macroeconomic risk.

121. Residual risk related to the technical design risk of the Program is assessed as Moderate, despite some



complexity. The main source of risk is that the Program involves a number of institutions and requires inter-ministerial coordination on policy areas (environment and climate change) that are shifting from being more marginal to becoming central policy issues. At the same time, there is experience with the PforR instrument and the reforms being supported build on existing systems rather than creating new ones. Furthermore, key mitigation measures include the Program's support for enhanced inter-ministerial coordination and for effective policy preparation and implementation of key programs within ministries; as well as having a limited number of DLIs and DLRs. Risk due to institutional capacity for implementation and sustainability is assessed as Moderate, and improving institutional capacity is directly targeted by the Program.

122. Fiduciary and stakeholder risks are assessed as Moderate and Environment & Social risk is assessed as Low . The horizontal span of the Program activities causes some complexities in implementation, reporting, procurement, and accountability. Furthermore, IPF activities are expected to be predominantly dedicated to TA activities which carry limited fiduciary risk. Stakeholder risks are also considered Moderate. The Operation foresees continuous stakeholder engagement, including support for engagement between citizens, the private sector, and the GoS on the reforms being addressed. The overall environment and social risk rating is assessed as Low. Moreover, the overall environmental outcomes resulting from the proposed Program are expected to be positive (for example, greening of public procurement, GBT, establishment of a system for monitoring and reporting of GHG emissions).



ANNEX 1. RESULTS FRAMEWORK MATRIX

Results Framework

COUNTRY: Serbia

Improving public financial management for the green transition

Program Development Objective(s)

Program Development Objective is to improve core PFM functions and institutional capabilities needed for Serbia's fiscal resilience and green transition.

Program Development Objective Indicators by Objectives/Outcomes

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Improve core PFM functions for fiscal resilience							
Improved fiscal transparency and program-based budgeting, including gender disaggregation	DLI 6	Information on fiscal outturns and on performance indicators is published with long delays and does not effectively inform the annual budget preparation Disaggregation by gender of allocation and results remains little used.	At least three Line Ministries include KPIs in their program budgets (as per the adopted 2024 Budget Law) on expenditure efficiency, and environmental, and gender specific aspects of performance.	The MoF has submitted to the National Assembly a budget proposal for 2025 which includes (i) the budget execution data for the current and previous year (in the same format/classifications as the annual budget); and (ii) includes relevant information targeting gender equity.	(i) The MoF produces annual performance outturn reports, which includes Green Agenda projects and subsidies. (ii) The MoF (a) publishes the annual performance outturn reports on its website; and (b) includes a summary of the report's Green Agenda projects and subsidies in the Citizen Budget.	At least two Line Ministries relevant for the Green Agenda that have (i) produced, consulted on with stakeholders, and published program budget performance reports; and (ii) included in such reports an analysis of their environmental and climate performance (green tagged expenditures and KPIs).	Fiscal outturn information and program budget KPIs for at least three large budget users (including a focus on public sector efficiency and including disaggregation by gender) are published at least once within 12 months of budget adoption and analysis of costs and results achieved informs future annual budgets.



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Improving management of public investments and assets	DLI 3	Proposed public investment projects are not systematically reviewed in terms of readiness and (financial) realism.	30% of ongoing national level capital investment projects under the Decree for Capital Projects Management have submitted project implementation plans and all progress reports for year 1 through the PIMIS.	(i) RPD proposes an amendment to the Decree on the Registration of Immovable Property in Public Ownership with an amended methodology for valuing public assets. (ii) The Government (a) adopts the amended Decree containing the revised methodology; and (b) publishes the amended Decree in the Official Gazette; (iii) RPD (a) publishes the amended Decree on its website; and (b) develops a roadmap for the amended methodology's implementation (with specific timelines and costing).	At least 40 percent of feasibility studies (for non-construction projects) submitted during year 2 and 3 have been reviewed by the MoF.	(i) MoF (a) issues opinion on financial and implementation aspects of all capital projects submitted for selection during 2026; and (b) recommends a List of Priority Projects based on criteria prescribed by the Borrower. (ii) The Borrower, selects at 80 percent or more of the projects to be funded based on the MoF's recommendations.	MoF issues an opinion on financial and implementation aspects on all projects submitted for selection and recommends a List of Priority Projects based on criteria prescribed by the GoS and final section is largely based on the recommendations given.
Implementing effective fiscal risk monitoring and reporting	DLI 7	Methodologies for monitoring fiscal risks have been adopted, but not yet fully used.	In-year and annual fiscal risk reports are being produced in line with adopted methodologies.	The Government adopts and publishes in the Official Gazette the Fiscal Strategy for 2025-2027 with a fiscal risk section that includes quantified and forward looking key fiscal risks	The Government (i) includes in the fiscal risk section of the 2026-2028 Fiscal Strategy, a dedicated natural disaster risks subsection (including climate-induced natural	The Government publishes the 2027-2029 Fiscal Strategy and the adopted annual budget for 2027 (i) setting out quantified forward looking fiscal risks; and (ii) with the narrative	The Government publishes the 2027-2029 Fiscal Strategy and the adopted annual budget for 2027 (i) setting out quantified forward looking fiscal risks; and (ii) with the narrative



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
				for the period covered.	disasters, such as floods) with historical and forward-looking analysis and quantified estimates; and (ii) publishes it on the Official Gazette and on its website.	part of the annual budget specifying fiscal adjustments to be made in case that said fiscal risks materialize (such as the use of contingency funds, budget re-allocations).	part of the annual budget specifying fiscal adjustments to be made in case that said fiscal risks materialize (such as the use of contingency funds, budget re-allocations).
Improve institutional capabilities needed for Serbia's green transition							
The share of green and climate responsive public investments in total capital expenditures is increased	DLI 4	The share of green public investments is not systematically monitored or reported on, and cannot be adequately assessed in the absence of a methodology and criteria (that is for considering capital projects partially or completely as green (including climate mitigation) or as enhancing climate resilience.	Criteria for pre-screening, appraisal, review of appraisal and selection of projects according to environmental/climate relevance are adopted – as required by the amended Decree on capital projects	At least 70 percent of the line ministries are trained for the implementation of the criteria as per IRI 4.1	At least 40 percent of the Capital Projects that the Government selects for financing in the 2026 Budget Law which (i) are subject to the Decree on Capital Projects Management for the pre-implementation stage; and (ii) comply with said Decree's new methodologies for the selection of projects according to environmental/climate relevance.	Percentage of budget allocated to green and climate-responsive expenditures for Capital Projects (target: 25 percent) subject to the Decree on Capital Project Management, as determined by (i) a review of the public investment portfolio (subject to said Decree) for 2027 Budget Law, and (ii) an assessment of the share based on the criteria developed and approved.	Green and climate-responsive capital expenditures reach 25 percent of all capital expenditures subject to the Decree on Capital Projects, as determined by (i) a review of the entire public investment portfolio for 2027, and (ii) an assessment of the share based on the criteria developed and approved
An MRV system for GHG emissions is operational and in use	DLI 8	MRV system designed but not yet operational; final regulatory steps will be completed by March 2023 as required by the	The by-laws on the MRV of national emissions and installation-level emissions are adopted and MoEP and SEPA are	SEPA publishes an annual report, including a national GHG inventory, covering at least five of the seven	At least 50 percent of GHG Emission Permits issued by MOEP relative to the number of applications submitted	At least 75 percent of GHG Emission Permit holders submit verified emissions reports to	An MRV system for GHG is operational and in use.



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
		2021 Climate Change Law.	staffed adequately to implement them.	gases included in the NDC, according to the Climate Change Law and relevant by-laws	by operators in 2025.	MoEP and SEPA in 2026.	



Intermediate Results Indicator by Results Areas

Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Green the expenditure cycle and monitor GHG emissions for Serbia’s green transition							
Green and climate aspects are integrated into Public Policy Documents and the links between PPDs and budgets are strengthened	DLI 1	Green and climate aspects/considerations are limited to policy plans of the MoEP.	The PPS (i) develops and approves Guidelines on Inclusion of Green Aspects into PPDs; and (ii) publishes said Guidelines on its website.	The Manual on Costing has been amended by including green and climate aspects and a calculator/Tool (software solution or upgrading and digitalization of current costing table) for the cost calculation has been developed	At least 50% of the Public Policy Documents adopted during the course of 2025 were prepared applying the Guidelines on Inclusion of Green Aspects into PPDs and the planning system costing methodology.	Ex-post analysis to be done of at least 2 PPDs of Ministries central for the Green Agenda and their impacts, to review how to further improve green planning	Over at least the last 12 months, all newly approved PPDs and PPD updates relevant for the Green Agenda are developed in accordance to the Guidelines and with the application of Calculator/Tool for costs calculations.
Green budget tagging is implemented	DLI 2	No Green Budget Tagging in place based on a consistent methodology. Some preliminary identification of green expenditures was done for the 2022 budget.	(i) The MoF introduces, by the end of 2023, a mandatory GBT methodology and implementation plan (“Roadmap”). (ii) The Inter-Ministerial Working Group endorses the Roadmap. (iii) The MoF publishes the GBT methodology on its website, and includes it in the budget instructions for the preparation of the 2025 budget.	The adopted GBT methodology is (i) used to prepare the 2025 annual budget (adopted by December 2024) and (ii) reflected by green tags in the 2025 Budget Law.	At least 75 percent of green tagged expenditures [recurrent and capital] are executed by the end of 2025	The MoF (i) upgrades the GBT methodology to include Brown Expenditures; (ii) publishes on its website the upgraded GBT methodology; and (iii) includes the upgraded GBT methodology in the instructions for the 2028 budget preparation.	Green budget tagging is established in Serbia and has been used for two consecutive budget cycles (2025 and 2026)



Indicator Name	DLI	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Broadened use of green public procurement	DLI 5	7 procurements across the national Government of Serbia applied green public procurement guidelines in 2021 (<3 percent of all tenders).	By the end of 2023 (i) at least 6 percent of procurement tenders across the 7 selected Institutions are consistent with Guidelines on Green Public Procurement; and (ii) the Institutions reported, through the PPO and MoF, to the World Bank on the share of green to total procurement values.	By the end of 2024 (i) 8 percent of procurement tenders across the Institutions consistent with Guidelines on Green Public Procurement; and (ii) the Institutions reported, through the PPO and MoF, to the World Bank on the share of green to total procurement values.	By the end of 2025 (i) 12 percent of procurement tenders across the Institutions consistent with Guidelines on Green Public Procurement; and (ii) the Institutions reported, through the PPO and MoF, to the Bank on the share of green to total procurement values.	By the end of 2026 (i) 15 percent of procurement tenders across the Institutions consistent with Guidelines on Green Public Procurement; and (ii) the Institutions reported, through the PPO and MoF, to the Bank on the share of green to total procurement values.	Across the 7 selected institutions, at least 15 percent of tenders in procurement process and contract implementation use green criteria as defined in the applicable guidelines (and report on percent of volume)



Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Improved fiscal transparency and program-based budgeting, including gender disaggregation	Application of performance-based budgeting and management (including gender disaggregated information) is strengthened and fiscal transparency is improved -- which will also support greater use of performance information	Annually	MoF/BD and Treasury Administration	Review of published information Minutes of public consultations, inputs received and responses	MOF/BD will report to DICEI
Improving management of public investments and assets	Public investment and asset management is improved due to enhanced review of appropriate feasibility studies, improved selection and reporting procedures, and by clear guidance for the valuation of public assets.	Reporting on progress every 6 months as part of overall operation reporting; full progress measurement annually.	MoF data and information; for asset management: RPD	For DLR 3.1: presentation of the methodology and its adoption For DLR 3.2: data on opinions issued, the list of proposed priority projects submitted to the national investment committee, and the list of capital projects included in the 2027 budget.	For DLR 3.1: RPD For DLR 3.2: MoF
Implementing effective fiscal risk monitoring and reporting	Fiscal Risk Monitoring is carried out as required in the BSL; Law on Ministries;	Reporting of overall progress	Fiscal risk monitoring reports	Review of relevant documents and comparison with	MoF -- FRMD or successor department



	and the adopted methodologies for fiscal risk monitoring. The monitoring is carried out using the methodologies by MoF/FRMD and informs the overall fiscal strategy as developed by the MoF's Macro-Fiscal Department.	(including progress on preparing reports and links in Fiscal Strategies) to be covered in bi-annual reports Annual review of results achieved	Fiscal Strategy and annual budget for 2027	checklist of minimum criteria to be fulfilled (set out in detail in the OIM)	
The share of green and climate responsive public investments in total capital expenditures is increased	Share of total public investments (of those subject to the Decree on Capital Projects Management) that are considered green or climate responsive based on the methodology to be adopted by the end of Year 1.	To be monitored on an annual basis.	Annual budgets as adopted and budget execution reports (final accounts). MoF/PIMOCU	Budget data analysis and rating of green or climate responsiveness based on agreed screening criteria.	MoF/DICEI in collaboration with MoF/PIMOCU and relevant sector ministries involved in preparing capital projects relevant for the Green Agenda.
An MRV system for GHG emissions is operational and in use	The indicator tracks the actual establishment and functioning of the MRV system for GHG emissions in Serbia that has been legally prescribed, and the	Reporting will be annual, within 3 months following	Relevant documentation provided by the MoEP and SEPA	Review of progress against a checklist; emissions reports as submitted to the UNFCCC.	MoEP and SEPA



	use of the system to produce reports on Serbia's GHG emissions to the UNFCCC.	the end of the calendar year. Six monthly progress reporting for the operation will reflect the ongoing progress being made towards achieving annual targets and flag any challenges.			
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Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Green and climate aspects are integrated into PPDs and the links between PPDs and budgets are strengthened	Mainstreaming of sector programs and action plans that include green and climate aspects and calculate costs/benefits	Annual review of sector plans	PPS - Unified Information System of sector planning documents	Review of sector plans submitted to PPS by line ministries	PPS
GBT is implemented	Introducing GBT for budget preparation and execution stages, based on a nationally adopted methodology that is broadly in line with emerging international and regional practice for GBT. Planned green expenditures are also tracked during implementation and deviations stay within the range of other budget deviations for the given fiscal year. In the final year, the tagging methodology will be expanded to include brown expenditures in addition to (positive) green expenditures.	Regular progress reporting on efforts towards preparing or meeting the IRI and the DLRs should be provided bi-annually. Achievement of the results to be reported on when due, including appropriate time lags for internal reporting, preparation of dedicated	Budgets and final accounts Assessment report confirming consistency of tagged expenditure with the methodology. For DLR 2.2, assessment of the expanded methodology for consistency with regional (ECA) good practices.	Review of annual budgets (adopted), in year execution reports (once published) and final accounts. For DLR 2.2 -- review of the methodology to be developed.	MoF/BD and Treasury Administration. Reporting through DICEI/OCU.



		reports for the PforR, and verification.			
Broadened use of green public procurement	The share of public procurement tenders of the selected 7 institutions (by number of tenders) that utilize green public procurement criteria as set out in the 2019 Guidelines on Green Public Procurement (and any subsequent updates). The share in total public procurement volume of the institutions will be reported on but not count directly towards DLR fulfillment. Should the volume lag by more than 40 percent relative to the share of tenders, actions to address this lag will be discussed and agreed with the client.	Annually, with intermediate monitoring at 6 months intervals.	Public Procurement Office - e-procurement database.	Reporting by line ministries to PPO/e-procurement database. Details will be documented in the OIM.	PPO from the selected line ministries and institutions (MoEP, SEPA, MoH, MoCTI, MoAFWM, MoE, AJARB)



ANNEX 2. DISBURSEMENT LINKED INDICATORS, DISBURSEMENT ARRANGEMENTS AND VERIFICATION PROTOCOLS

Disbursement Linked Indicators Matrix

DLI 1	Green and climate aspects are integrated into Public Policy Documents and the links between PPDs and budgets are strengthened			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	6.13	8.20
Period	Value	Allocated Amount (EUR)		Formula
Baseline	Inclusion of green and climate criteria in PPDs: so far, only MoEP strategies are explicitly green and for the energy sector, the Law on Energy introduces an obligation to prepare an Integrated National Energy and Climate Plan, pursuant to the obligations from the Agreement on Energy Community; there are no specific guidelines for line ministries on including green aspects in their PPDs. Inclusion of quality costing in public policy documents: inclusion of costing information in PPDs should be further strengthened and the quality of costing information improved.			
end of CY2023	DLR 1.1: The PPS (i) develops and approves Guidelines on Inclusion of Green Aspects into Public Policy Documents; and (ii) publishes said Guidelines on its website.	3.63		when completed



end of CY2024	no DLR		0.00	monitoring and reporting of progress
end of CY2025	DLR 1.2.: Percentage of the PPDs adopted in 2025 that were prepared applying the Guidelines on Inclusion of Green Aspects into PPDs and the planning system cost calculating methodology.		2.50	scalable - each 10 percentage points achieved = EUR500k
end of CY2026	no DLR for year 4		0.00	monitoring and reporting only
DLI 2	Implementing Green Budget Tagging			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Intermediate Outcome	No	Text	8.00	11.60
Period	Value		Allocated Amount (EUR)	Formula
Baseline	No GBT in place based on a consistent methodology. Some preliminary identification of green expenditures was done for the 2022 budget.			
end of CY2023	DLR 2.1: (i) The MoF introduces, by the end of 2023, a mandatory GBT methodology and implementation plan ("Roadmap"). (ii) The Inter-Ministerial Working Group endorses the Roadmap. (iii) The MoF publishes the GBT methodology on its website, and includes it in the budget instructions for the preparation of the 2025 budget.		2.50	when completed
end of CY2024	DLR 2.2: The adopted GBT methodology is (i) used to prepare the 2025 annual budget (adopted by		2.50	when completed



	December 2024) and (ii) reflected by green tags in the 2025 Budget Law.			
end of CY2025	no DLR		0.00	progress monitoring
end of CY2026	DLR 2.3: MoF (i) upgrades the GBT methodology to include Brown Expenditures; (ii) publishes on its website the upgraded GBT methodology; and (iii) includes the upgraded GBT methodology in the instructions for the 2028 budget preparation.		3.00	when completed
DLI 3	Improving management of public investments and assets			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	7.00	10.20
Period	Value		Allocated Amount (EUR)	Formula
Baseline	Proposed public investment projects are not systematically reviewed in terms of readiness and (financial) realism.			
end of CY2023	no DLR		0.00	no disbursement - progress monitoring only
end of CY2024	DLR 3.1: (i) RPD through MoF, proposes an amendment to the Decree on the Registration of Immovable Property in Public Ownership introducing a methodology for valuing public assets. (ii) The Government (a) adopts the amended Decree containing the introduced methodology; and (b) publishes the amended Decree in the Official Gazette. (iii) RPD (a)		3.00	when completed



	publishes the amended Decree on its website; and (b) develops a roadmap for the amended methodology's implementation (with specific timelines and costing).			
end of CY2025	no DLR		0.00	no disbursement - progress monitoring only
end of CY2026	DLR 3.2: (i) MoF (a) issues opinion on financial and implementation aspects of all capital projects submitted for selection during 2026; and (b) recommends a List of Priority Projects based on criteria prescribed by the Borrower. (ii) The Borrower, selects at 80 percent or more of the projects to be funded based on the MoF's recommendations.		4.00	Scalable – every 5 pp. above 65% adherence to priority list = EUR 1.333 million
DLI 4	Increasing the share of green and climate-responsive public investments			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Outcome	Yes	Text	10.00	14.00
Period	Value		Allocated Amount (EUR)	Formula
Baseline	No explicit green criteria and use of criteria for evaluation and prioritization of public investments; some initial experience by MoCTI and PIMO/MPI and identification of projects for Green Bonds			
end of CY2023	no DLR for 2023		0.00	no disbursement - progress monitoring only



end of CY2024	no DLR for 2024		0.00	no disbursement - monitoring only
end of CY2025	DLR 4.1: Percentage of Capital Projects that the Government selects for financing in the 2026 Budget Law which (i) are subject to the Decree on Capital Projects Management for the pre-implementation stage; and (ii) comply with said Decree's new methodologies for the selection of projects according to environmental/climate relevance.		4.00	scalable - every 10 percentage point of compliance = EUR1 million
end of CY2026	DLR 4.2: Percentage of budget allocated to green and climate-responsive expenditures for Capital Projects subject to the Decree on Capital Projects Management, as determined by (i) a review of the public investment portfolio (subject to said Decree) for 2027 Budget Law, and (ii) an assessment of the share based on the criteria set forth under the applicable legal and regulatory framework, as identified under the OIM.		6.00	scalable -- for every 5 percentage points of total capital expenditures = EUR1.2 million
DLI 5	Broadened use of green public procurement			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Outcome	Yes	Text	8.00	11.20
Period	Value		Allocated Amount (EUR)	Formula
Baseline	7 procurements across the national Government of Serbia applied green public procurement guidelines in 2021 (<3 percent of all tenders).			



end of CY2023	DLR 5.1: By the end of 2023 (i) percentage of procurement tenders across the Institutions consistent with Guidelines on Green Public Procurement; and (ii) the Institutions reported, through the PPO and MoF, to the World Bank on the share of green to total procurement values.	4.00	scalable -- every 1.1 percentage point increase over the 2021 baseline of 2.7% = EUR1.33 million	
end of CY2024	no DLR	0.00	progress reporting only	
end of CY2025	DLR 5.2: By the end of 2025 (i) percentage of procurement tenders across the Institutions consistent with Guidelines on Green Public Procurement; and (ii) the Institutions reported, through the PPO and MoF, to the World Bank on the share of green to total procurement values.	4.00	scalable – every 1.5 percentage point increase above 6% = EUR1 million	
end of CY2026	no DLR for year 4	0.00	progress reporting only	
DLI 6	Improved fiscal transparency and program-based budgeting, including gender disaggregation			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Intermediate Outcome	Yes	Text	9.00	13.10
Period	Value		Allocated Amount (EUR)	Formula
Baseline	Information on fiscal outturns and on performance indicators is published with long delays and does not effectively inform the annual budget preparation, limiting (i) fiscal transparency and (ii) the links between policy objectives and budgeting. Serbia rated as D in 2021 PEFA assessment on PI-9, two key types of documents missing: (i) In-year			



	budget execution reports and (ii) annual budget execution reports. Furthermore, gender disaggregation of data in analyzing program budget information is currently not effectively used.		
end of CY2023	DLR 6.1: At least three Line Ministries include KPIs in their program budgets (as per the adopted 2024 Budget Law) on expenditure efficiency, and environmental, and gender specific aspects of performance.	2.50	when achieved
end of CY2024	DLR 6.2: The MoF has submitted to the National Assembly a budget proposal for 2025 which includes (i) the budget execution data for the current and previous year (in the same format/classifications as the annual budget); and (ii) includes relevant information targeting gender equity.	2.50	when achieved
end of CY2025	DLR 6.3: (i) The MoF produces annual performance outturn reports, which includes Green Agenda projects and subsidies. (ii) The MoF (a) publishes the annual performance outturn reports on its website; and (b) includes a summary of the report's Green Agenda projects and subsidies in the Citizen Budget	2.00	when achieved
end of CY2026	DLR 6.4: The number of Line Ministries relevant for the Green Agenda that have (i) produced, consulted on with stakeholders, and published program budget performance reports; and (ii)	2.00	scalable - EUR1 million per Line Ministry including analysis of their environmental and climate performance



	included in such reports an analysis of their environmental and climate performance (green tagged expenditures and KPIs).			
DLI 7	Implementing effective fiscal risk monitoring and reporting			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Intermediate Outcome	No	Text	8.00	11.60
Period	Value		Allocated Amount (EUR)	Formula
Baseline	No fiscal risk reports are produced and considered in budget formulation and associated decision making			
end of CY2023	no DLR for year one		0.00	progress monitoring only
end of CY2024	DLR 7.1: The Government adopts and publishes in the Official Gazette the Fiscal Strategy for 2025-2027 with a fiscal risk section that includes quantified and forward looking key fiscal risks for the period covered.		4.00	when achieved
end of CY2025	DLR 7.2: The Government (i) includes in the fiscal risk section of the 2026-2028 Fiscal Strategy, a dedicated natural disaster risks subsection (including climate-induced natural disasters, such as floods) with historical and forward-looking analysis and quantified estimates; and (ii) publishes it in the Official Gazette and on its website.		2.00	when achieved



end of CY2026	DLR 7.3: The Government publishes the 2027-2029 Fiscal Strategy and the adopted annual budget for 2027 (i) setting out quantified forward looking fiscal risks; and (ii) with the narrative part of the annual budget specifying fiscal adjustments to be made in case that said fiscal risks materialize (such as the use of contingency funds, budget re-allocations).		2.00	when achieved
DLI 8	Developing the GHG MRV and implementing it for the reporting of relevant emitters/operators			
Type of DLI	Scalability	Unit of Measure	Total Allocated Amount (EUR)	As % of Total Financing Amount
Outcome	Yes	Text	10.00	14.50
Period	Value		Allocated Amount (EUR)	Formula
Baseline	MRV system will become a legal requirement, but not yet implemented.			
end of CY2023	no DLR for year 1		0.00	progress reporting only
end of CY2024	DLR 8.1: SEPA publishes an annual report, including a national GHG inventory, covering at least five of the seven gases included in the NDC, according to the CCL and relevant by-laws.		4.00	when achieved
end of CY2025	DLR 8.2: Percentage of GHG Emission Permits issued by MoEP relative to the number of applications submitted by operators in 2025.		3.00	scalable - EUR600,000 per 10 percentage points achieved
end of CY2026	DLR 8.3: Percentage of GHG Emission Permit holders that submit verified emissions reports to		3.00	scalable -- EUR1 million per 25 percent achieved



	MoEP and SEPA in 2026.		
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Verification Protocol Table: Disbursement Linked Indicators

DLI 1	Green and climate aspects are integrated into PPDs and the links between PPDs and budgets are strengthened
Description	PPS advises on PPDs and monitors their quality, including cost information and performance indicators and ensuring that cross-cutting policy priorities such as environment and climate change are included. This is an important basis for subsequent steps in the expenditure cycle and prioritizing expenditures in annual budgets.
Data source/ Agency	PPS
Verification Entity	IVA to be contracted
Procedure	<p>Verification: For DLR 1.1: Guidelines on inclusion of green aspects into PPDs are prepared and approved by PPS and published on its web site. The adoption of those Guidelines has been conditioned by the amendments to the “Regulation on the Methodology of Public Policies Management, Analysis of the Effects of Public Policies and Regulations, and the Content of Individual Public Policy Documents”, and in line with the Law on Strategic Environmental Impact Assessment. For DLR 1.2: Confirmation of the number of PPDs adopted during the course of 2025 that were adopted pursuant to the PPS’s Guidelines, presentation of a list of those applying green Guidelines and the planning system cost calculation methodology, analysis of compliance against a checklist of minimum quality criteria that will be set out in the Operation Implementation Manual and calculation of the percentage of newly adopted PPDs meeting both requirements. Assessment of the indicator will be completed by the contracted IVA.</p> <p>Disbursement: For DLR 1.1: Upon verification of the publication of Guidelines on the PPS’s web-site. For DLR 1.2: Upon verification of report providing evidence of the share of PPDs that used the Guidelines developed in year 1 and the planning system cost calculation methodology. The target is 50 percent. Disbursements to follow a scaling approach (EUR500,000 for every 10 percent points of PPDs meeting the criteria - up to EUR2.5 million for 50 percent compliance or higher).</p>
DLI 2	Implementing GBT
Description	GBT is expected to be legally introduced in 2023. This DLI aims at incentivizing initial application of green tagging in a meaningful way across budget cycles.



Data source/ Agency	MOF/budget and treasury departments
Verification Entity	PPS
Procedure	<p>Verification:</p> <p>DLR 2.1: Introduction by MoF of a mandatory GBT, reflected in the Budget Instruction for the preparation of the 2025 Budget, its publication on the MoF's website, and endorsement of a Roadmap for its implementation by the Inter-Ministerial Working Group.</p> <p>DLR 2.2: The adopted GBT methodology has been used to prepare the 2025 annual budget, which is reflected by green tags in the Budget Law for 2025.</p> <p>DLR 2.3: The GBT methodology upgraded to include also brown expenditures (meeting at least minimal criteria of regional good practices (aspirational peers/ECA countries that are EU MSs) introduced by MoF, published on its web-site, and included in the Budget Instruction for the 2028 budget preparation.</p> <p>Disbursement:</p> <p>For DLR 2.1: Upon verification by PPS of the document that officializes the adoption of the methodology and its inclusion in the Budget Instruction for the preparation of the 2025 Budget and publication on the MoF's web-site, and that the roadmap is endorsed by the Inter-Ministerial Working Group.</p> <p>For DLR 2.2: upon verification by PPS of use of green budget tags in the adopted 2025 budget law, checking at least 20 percent of expenditures tagged as green for consistency with the methodology</p> <p>For DLR 2.3: Upon verification by PPS of adjustments to the methodology against the DLR 2.3 defined criteria. Review of the methodology to be done against criteria to be set out in the OIM based on regional good practices (aspirational peers/ECA countries that are EU MSs).</p>
DLI 3	Improving management of public investments and assets
Description	PIM is enhanced by improving the use of the regulatory framework, reporting, and use of control points and a clear roadmap with costing for improving public asset management is in place.
Data source/ Agency	For DLR 3.1: RPD, for DLR 3.2: MoF
Verification Entity	PPS
Procedure	Verification



	<p>DLR 3.1: A methodology for valuing public assets has been introduced through an amendment to the “Decree on the Registration of Immovable Property in Public Ownership”, adopted by the GoS (at the proposal of RPD, through MoF) and published in the Official Gazette and on the landing page of the RPD’s web-site; a roadmap for its implementation developed by the RPD (with specific timelines and costing) endorsed by the SC.</p> <p>DLR 3.2: Check that MoF issued opinions on financial and implementation aspects for all projects during Year 4 and comparison of the Draft List of Priority Projects submitted by MoF to the GoS’s Capital Investments Commission with the List of Projects selected for financing (included in the 2027 budget).</p> <p>Disbursement:</p> <p>For DLR 3.1: Upon verification by PPS of the introduction of the methodology for valuing property in public ownership through the amendments to the “Decree on the Registration of Immovable Property in Public Ownership” and its publication in the Official Gazette and on the landing page of the RPD’s web-site; a roadmap for its implementation developed by RPD (with specific timelines and costing) endorsed by the SC.</p> <p>For DLR 3.2:</p> <p>Upon review by PPS (i) that MoF issued an opinion on financial and implementation aspects for all projects selected for financing during year 4 and (ii) comparison of the List of Priority Projects based on prioritization criteria developed by the GoS and projects newly selected for financing (as reflected in the 2027 Budget Law) -- establishing what share of selected projects was included in the List of Priority Projects.</p> <p>The target is 80 percent.</p> <p>For every 5 percentage points above 65 percent adherence to priority list = EUR 1.333m, up to EUR4m. If 70 percent of all new projects meet the criteria - EUR1.33 million released; 75 percent - EUR 2.66 million released; 80 percent or more - full amount to be released.</p>
DLI 4	Increasing the share of green and climate-responsive public investments
Description	Share of total public investments (subject to the Decree on Capital Projects Management) that are considered green or climate responsive based on the methodology to be adopted by the end of Year 1.
Data source/ Agency	MoF - responsible for overseeing compliance with this aspect of the Decree on Capital Projects Management
Verification Entity	PPS
Procedure	Verification:



	<p>DLR 4.1: Confirmation of percentage of compliance with the new methodologies for the selection of projects according to environmental/climate relevance at pre-implementation stage of capital projects subject to the Decree selected by the GoS for financing in the 2026 Budget Law.</p> <p>Review of projects recorded as applying green/climate criteria appropriately in line with approved methodologies, as identified under the OIM.</p> <p>DLR 4.2: Review of the entire public investment portfolio in the 2027 Budget Law, and assessment of the percentage of budget allocated to green and climate-responsive expenditures for Capital Projects subject to the Decree on Capital Projects Management as a percentage of total capital expenditures subject to the Decree based on the environmental/climate relevance criteria set forth under the applicable legal and regulatory framework, as identified under the OIM.</p> <p>Disbursement:</p> <p>For DLR 4.1: Report on the review of compliance with the new methodologies for the selection of capital projects according to environmental/climate relevance at pre-implementation stage, for all Capital Projects subject to the Decree selected by the GoS for financing in the 2026 Budget Law.</p> <p>Target is 40 percent.</p> <p>For every 10 percentage points of projects in compliance EUR1 million disbursed, up to EUR4 million .</p> <p>For DLR 4.2: Report on the assessment of the share of green and climate-responsive capital expenditures subject to the Decree as a percentage of total capital expenditures subject to the Decree (based on the application of environmental/climate relevance criteria, set forth under the applicable legal and regulatory framework, as identified under the OIM, in line with new methodologies, of the public investment portfolio for 2027).</p> <p>Target is 25 percent.</p> <p>For every 5 percentage points of green and climate-responsive capital expenditures as a percentage of total capital expenditures EUR1.2 million disbursed, up to EUR6 million.</p>
DLI 5	Broadened use of green public procurement
Description	Share of public procurement tenders that utilize green public procurement criteria as set out in the 2019 Guidelines on Green Public Procurement published on the PPO's website (and potential subsequent updates); and share of value to be reported (not linked to disbursement).
Data source/ Agency	PPO, drawing on data submitted by procuring entities (aggregated by direct budget beneficiaries) through the e-procurement portal as well as tender and contract documents for in-depth sample to check appropriate application of Guidelines on Green Public Procurement.



Verification Entity	PPS
Procedure	<p>DLR 5.1: Verification of: i) percentage of procurement tenders across the Institutions covered (MoEP, SEPA, MoH, MoCTI, MoAFWM, MoE, and AJARB) consistent with the Guidelines on Green Public Procurement (ii) that the Institutions covered also reported, through PPO and MoF, to the World Bank on the share of green to total procurement values.</p> <p>DLR 5.2: Verification of: i) percentage of procurement tenders across the Institutions covered (MoEP, SEPA, MoH, MoCTI, MoAFWM, MoE, and AJARB) consistent with the Guidelines on Green Public Procurement; and ii) that the Institutions covered also reported, through the PPO and MoF, to the World Bank on the share of green to total procurement values. (Should the share of green tenders differ significantly from the percentage value of green tenders during Program implementation, appropriate actions will be discussed with counterparts to reduce the gap)</p> <p>Disbursement:</p> <p>For DLR 5.1: Upon verification by PPS of documentation (e-procurement portal and review of tender documents and contracts) confirming: i) the percentage of procurement tenders across the Institutions covered (MoEP, SEPA, MoH, MoCTI, MoAFWM, MoE, and AJARB) consistent with the Guidelines on Green Public Procurement and ii) the Institutions covered also reported on the share of green to total procurement values through the PPO and MoF, to the Bank.</p> <p>In depth review of at least 1 percent of tenders regarding appropriate use of the guidelines.</p> <p>For every 1.1 percentage point increase (over the 2021 baseline of 2.7 percent) EUR1.33 million disbursed, up to EUR4 million.</p> <p>For DLR 5.2: Upon verification by PPS of documentation confirming: i) the percentage of procurement tenders across the Institutions covered (MoEP, SEPA, MoH, MoCTI, MoAFWM, MoE, and AJARB) consistent with the Guidelines on Green Public Procurement, and ii) the Institutions covered also reported on the share of green to total procurement values, through the PPO and MoF, to the Bank.</p> <p>In depth review of at least 5 percent of tenders regarding appropriate use of the guidelines.</p> <p>For every 1.5 percentage point increase (above 6 percent of tenders) EUR1 million disbursed, up to EUR4 million.</p>
DLI 6	Improved fiscal transparency and program-based budgeting, including gender disaggregation
Description	Application of program-based budgeting and management and fiscal transparency are improved
Data source/ Agency	MoF and MoEP (for DLRs 6.3 and 6.4)
Verification Entity	PPS



Procedure

Verification:

DLR 6.1: Program budgets of at least three line ministries include KPIs on expenditure efficiency, on environmental and gender specific aspects of performance, in their program budgets for 2024 (as per adopted 2024 Budget Law).

DLR 6.2: Budget proposal for 2025 submitted by the MoF to the National Assembly includes data on budget execution for the current and previous year (in the same format/classifications as the annual budget) and relevant information targeting gender equity.

DLR 6.3: A performance outturn report is produced, which includes Green Agenda subsidies, by MoF, semi-annually and annually; the annual performance outturn report is published on the website of the National Assembly, as part of the documentation of the Law on Final Accounts, and a summary on Green Agenda projects and subsidies is reflected in the Citizen Budget.

DLR 6.4: Program budget performance reports for at least two line ministries relevant for the Green Agenda that include analysis of their environmental and climate performance (green tagged expenditures and KPIs) have been produced, consulted on with stakeholders, and published.

Disbursement:

For DLR 6.1: Upon verification by PPS of the MoF's report from at least three line ministries, including at least one social ministry and at least one of the key ministries for Green Agenda implementation, include KPIs on expenditure efficiency, on environmental and gender specific aspects of performance, in their program budgets for 2024 (as per adopted 2024 Budget Law).

For DLR 6.2: Upon verification by PPS that the budget proposal for 2025 includes: (i) the data on budget execution for the current and previous year (in the same format/classifications as the annual budget) and (ii) relevant information targeting gender equity. For the current fiscal year, information should at a minimum include data for the first 6 months.

For DLR 6.3: Upon verification by PPS that a performance outturn report, which includes Green Agenda subsidies is produced by MoF semi-annually and annually, and the annual performance outturn report is published on the website of the National Assembly, as part of the documentation of the Law on Final Accounts, and a summary on Green Agenda projects and subsidies is reflected in the Citizen Budget.

For DLR 6.4: Upon verification by PPS that MoF's program budget performance reports for at least two line ministries relevant for the Green Agenda: (i) include analysis of their environmental and climate performance (green tagged expenditures and KPIs), (ii) are consulted on with stakeholders.

Per line ministry including analysis of their environmental and climate performance, EUR1 million is disbursed. Further details be set out in the OIM as needed.



DLI 7	Implementing effective fiscal risk monitoring and reporting
Description	Methodologies for fiscal risk management have been developed and approved in 2021. The aim of the DLI is to incentivize (i) actual utilization of the methodologies (ii) reporting on climate risks in particular (DLR 7.2), and (iii) the use of findings for fiscal decision-making.
Data source/ Agency	MoF/FRMD and MoF/Macro-Fiscal Department
Verification Entity	PPS
Procedure	<p>Verification:</p> <p>DLR 7.1: The Fiscal Risk section of the Fiscal Strategy for 2025-27 covers quantified forward-looking fiscal risks and the risks highlighted are based on the fiscal risk reports produced.</p> <p>DLR 7.2: GoS adopts the Fiscal Risk Strategy with a special focus on fiscal risks related to natural disasters - including climate-induced natural disasters (such as floods).</p> <p>DLR 7.3: GoS adopts the Fiscal Strategy and the annual budget for 2027. These documents set out quantified forward looking fiscal risks, and the narrative part of the annual budget sets out what fiscal measures will be taken (such as the use of contingency funds, budget re-allocations, additional borrowing) in case that risks materialize.</p> <p>Disbursement:</p> <p>For DLR 7.1: The Fiscal Strategy for 2025-27 including a Fiscal Risk section covering quantified forward-looking fiscal risks is adopted by the GoS, and published in the Official Gazette. The risks highlighted are based on the fiscal risk reports produced.</p> <p>For DLR 7.2: Updated Fiscal Risk Strategy (DLR 7.1) with a special focus on fiscal risks related to natural disasters - including climate-induced natural disasters (such as flood), with historical and forward-looking analysis and quantified estimates, is adopted by the GoS, and published in the Official Gazette and on the MoF's web-site landing page.</p> <p>For DLR 7.3: The published documents - Fiscal Risk Strategy for 2027-29 and the 2027 annual budget - are confirmed to meet the defined criteria.</p>
DLI 8	Developing the GHG MRV and implementing it for the reporting of relevant emitters/operators
Description	An MRV system is in the process of being established by law and regulation, the DLI incentivizes the operationalization of the system (in combination with TA support as part of the IPF component).



Data source/ Agency	MoEP/SEPA
Verification Entity	PPS
Procedure	<p>Verification:</p> <p>DLR 8.1: An annual report, an integral part of the Report on the State of the Environment, including National GHG inventory, covering at least five of seven gases included in the NDC, according to the Climate Change Law and relevant by-laws, is prepared by SEPA, and published in the Official Gazette and on the landing page of the SEPA's web-site.</p> <p>DLR 8.2: Percentage of GHG Emission Permits issued by MoEP relative to the number of applications submitted by operators in a calendar year (review of the database of applications received and issued permits).</p> <p>DLR 8.3: Percentage of GHG Emission Permits holders that submitted verified emissions reports to MoEP and SEPA in a calendar year (review of the database of verified reports on GHG emissions).</p> <p>Disbursement:</p> <p>For DLR 8.1:</p> <p>Annual report, an integral part of the Report on the State of the Environment, including National GHG inventory, based on the national GHG covering at least five of seven gases included in the NDC, according to the Climate Change Law and relevant by-laws, is prepared by SEPA, and published in the Official Gazette and on the landing page of the SEPA's web-site.</p> <p>For DLR 8.2: Upon verification by PPS of the percentage of GHG Emission Permits issued by MoEP relative to the number of applications submitted by the operators (review of the database of applications received and issued permits).</p> <p>Target is 50 percent - EUR600,000 per 10 percent points achieved.</p> <p>For DLR 8.3: Upon verification by PPS of the percentage of GHG Emission Permits holders that submitted verified emissions reports to MoEP and SEPA in a calendar year.</p> <p>Target is 75 percent; EUR1 million per 25 percentage points achieved.</p>



ANNEX 3. (SUMMARY) TECHNICAL ASSESSMENT

Strategic Relevance

123. **The Program supports the GoS's strategy of further improving planning, PFM, and PIM systems to enable the post-pandemic recovery; preparing well for current and future risks and shocks; and embarking on Serbia's green transition.** It aims to enable the Government to move toward well-targeted and efficient use of public funds to ensure fiscal sustainability, and that public resources contribute achieving more sustainable, greener and more climate-sensitive growth. The Program is anchored in two main strategic documents: Serbia's Green Agenda and the PFM RP 2021–2025, which is embedded in the wider Public Administration Reform Strategy for 2021–2030. Furthermore, the Operation also aligns with Serbia's Economic Reform Program (2023–2025), highlighting PFM and the green transition as priority reforms areas.

124. **Serbia made good initial progress on fiscal resilience and public sector efficiency in 2015-20; in the context of current growing risks, a renewed focus on fiscal resilience is supported by the Program.** In the past, wage bill costs were brought under control, and credibility in public sector finances and in procurement efficiency improved (with support from DPOs (Serbia Second Public Expenditure and Public Utilities DPL (P161184) and Public Sector Efficiency and Green Recovery (P164575)) and the PforR on Public Sector Modernization and Optimization of Public Administration (P155172)). In the current context of increased risks, this Operation supports a new round of efforts focused on fiscal risk monitoring and management (DLI 7), good practices in public sector planning (DLI 1), improved management of public investments and assets (DLI 3) and strengthening of the focus on the link between spending and results (DLI 6). Apart from the direct benefit to fiscal resilience, these improvements are also critical for enabling progress on environmental resilience by creating and preserving fiscal space and further improving foundations in expenditure management to make the adoption and use of green criteria effective.

125. **Serbia is at an early stage of its green transition and needs to make rapid progress to support future growth and resilience considering its carbon-intensive economy and vulnerability to extreme weather events.** The country faces the intersecting challenges of an energy crisis, low energy efficiency, substantial risks of drought and floods, and growing citizen concerns about pollution and climate change as well as forthcoming new environmental requirements in EU countries that are Serbia's main export markets (CBAM). In this context, Serbia's systems for public sector planning and for managing public finances and investments need to be geared toward meeting new challenges and contributing more effectively to the economy's resilience.

126. **The PforR is closely linked with the Serbia Green Transition DPO (P177410) and will support measures in several areas, ranging from policy adoption to implementation.** To achieve progress, Serbia will need to adopt new policies as well as to ensure their implementation. The DPO is geared toward supporting Serbia's policy efforts across three reform pillars: (1) macro-fiscal and PFM reforms, (2) energy sector reforms, and (3) environmental reforms. The PforR aims to support the achievement of implementation targets and results for Pillars 1 and 3.⁶⁹ Implementation delays and gaps are frequent challenges for new policy areas and can weaken or delay the achievement of results from policy reforms. Hence, dedicated operational engagement is an important instrument

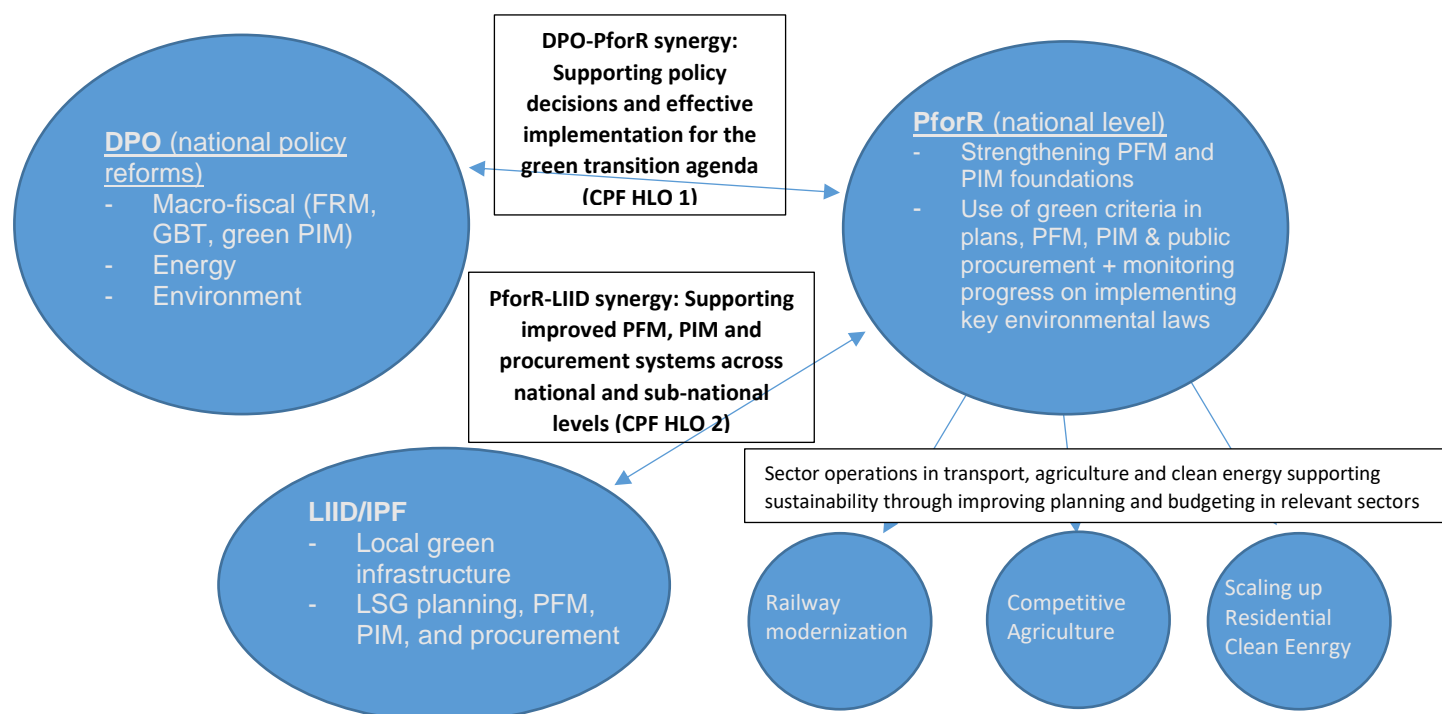
⁶⁹ The implementation of Pillar 2 reforms is supported through existing dedicated IPF support and TA.



to address this challenge.

127. **The PforR also has synergies with efforts at strengthening PFM and PIM at the subnational level in support of developing and implementing more local green projects.** The PFM/PIM component is part of the LIID IPF (P174251) to be implemented between 2023 and 2026. It targets support for small-scale green public investments at the local level throughout Serbia, combined with support to strengthen subnational planning, budgeting, and PIM capabilities. There is also an opportunity to connect on training local officials on green public procurement (using LIID funds, building on the national level experience that is supported by the PforR).

Figure 3.1: Complementarity between the DPO, PforR, LIID IPF, and Selected Sector Operations



128. **In addition to the close complementarity with the programmatic DPO and LIID, the PforR also has synergies with a number of other ongoing/pipeline World Bank operations.** Operations that cover sectors with Green Agenda elements include Railway Sector Modernization (P170868; follow-up project: Railway Modernization Phase 2, P179703), Serbia Competitive Agriculture (SCAP) (P167634), and the Scaling Up Residential Clean Energy Project (SURCE) (P176770). Furthermore, the PforR complements the WBG's engagement on disaster risk management and specifically on flood protection in Serbia, which includes climate-change-related flood risks (Sava and Drina Rivers Corridors Integrated Development Program – P168862).⁷⁰ The PforR provides cross-cutting policy, planning and budgeting engagement with relevant institutions and in this way will contribute to strengthening and sustaining impacts of these operations. Figure 3.1 reflects the various synergies.

⁷⁰ This is a regional project, as the Drina forms the north-south border between Serbia and Bosnia and Herzegovina, and the Sava the east-west border. The Drina flows into the Sava, and then the Sava merges in Belgrade into the Danube.



129. **Through its focus on encouraging better planning, budgeting, project selection and preparation, and procurement, the Operation will enable strengthened cross-government coordination and whole-of-government implementation progress for Serbia's Green Agenda.** The specific public sector systems targeted by the Operation leverage progress across government functions. The results incentivized and supported under Results Area 2 will encourage the inclusion of green criteria in planning, budgeting, project proposals and procurement of all national institutions.

Technical soundness across RAs

130. **The PforR has two RAs:** the first targets strengthening fiscal resilience and spending efficiency and further advancing foundational reforms to planning and PFM systems, and the second targets the adoption and utilization of green criteria across planning, budgeting, public investments and procurement, and effective results monitoring and reporting for GHGs. The combination of these elements will make a significant contribution to enhancing Serbia's resilience and policy effectiveness overall and to mainstreaming green and climate considerations into Serbia's public sector actions.

RA 1: Strengthening fiscal resilience, transparency, and spending effectiveness

131. **In this RA, the aim is to further strengthen the foundations of interlinked elements of planning, budgeting (including performance and fiscal risk management and PIM), and fiscal transparency.** Making these changes will strengthen Serbia's ability to cope with current and future fiscal risks and shocks and prepare appropriate actions. Moreover, further progress across these areas is critical for developing solid foundations for the implementation of Serbia's Green Agenda as well as for other policy domains.

132. **As diagnosed by the 2020 PEFA assessment, Serbia has progressed on PFM reforms, but it also still has important gaps that need to be addressed to strengthen fiscal resilience and to continue improving public sector efficiency.** Notable gaps include the need to strengthen links between planning and budgeting, strengthening a performance and results focus and fiscal transparency, and ensuring good preparation and selection of public investments. Progressing on these dimensions will help Serbia achieve greater resilience and effectiveness in how public resources are being used.

133. **RA 1 supports objectives 1 and 3 of the PFM RP and aims to enhance fiscal resilience, transparency, and spending effectiveness.** It will further strengthen the foundations of interlinked elements of planning and budgeting which are critical for making the introduction of 'green' criteria meaningful and effective. This includes enhancing program-based budgeting, fiscal transparency, public investment management, and fiscal risk management - as further progress across each of these areas is critical for (a) strengthening spending efficiency and resilience to shocks and (b) for developing solid foundations to implement Serbia's Green Agenda (figure 3 – bottom). RA 1 includes:

- (a) Improved fiscal transparency and program-based budgeting, including gender disaggregation, are improved (DLI 6);
- (b) Improved management of public investments and assets (DLI 3); and
- (c) Implementing effective fiscal risk monitoring and reporting (DLI 7).

134. **Expected results are the following:** the overall expected results are improved public sector efficiency and



greater fiscal resilience to shocks. Specifically, the following three results are expected: (a) Better fiscal management enabled through stronger results information and increased fiscal transparency and gender disaggregated information is used as part of results reporting of program budgets (DLI 6); (b) public investments are well prepared to enhance timeliness and VFM (social, economic, and sustainability impacts) of capital expenditures and public asset management strengthened (DLI 3); and (c) better monitored and managed fiscal risks, increasing fiscal resilience (DLI 7).

RA 2: Green the expenditure cycle and monitor GHG emissions for Serbia's green transition

135. RA 2 supports a set of interconnected public sector reforms that are key parts of the implementation mechanisms of the Green Agenda and includes specific support for two pillars of the Green Agenda (figure 3 – middle and top). This is in line with current international and regional efforts at leveraging public expenditure systems to address the urgent challenges of climate change (mitigation and adaptation) and regain environmental sustainability. This includes introducing green criteria into the planning, budgeting, public investment preparation, and public procurement parts of the expenditure cycle, as well as effective monitoring of GHG emissions from installations. Successful support in these areas will enable the GoS to achieve tangible initial progress on its Green Agenda during a critical time period in the context of accelerating environmental and climate risks, and the ambition to move to net zero by 2050. Specifically, RA 2 includes:

- (a) Green aspects are integrated into Public Policy Documents and the links between PPDs and budgets are strengthened (DLI 1);
- (b) Implementing GBT (DLI 2);
- (c) Increased share of green and climate-responsive public investments (DLI 4);
- (d) Broadened use of green public procurement (DLI 5);
- (e) An MRV system for GHG emissions is operational and in use (DLI 8).

136. The DLIs/DLRs under RA 2 DLIs 1, 2, 4, 5, and 8 target incentivizing the use of green criteria across public sector planning, budgeting, public investment selection, and public procurement, as well as incentivizing the establishment and use of an effective monitoring system for GHG emissions from installations. These areas of public sector decision-making and action mutually reinforce each other. Notably, the introduction of green criteria in public sector planning (DLI 1) forms the basis that replicates use of such criteria in budgeting (DLI 2) and in public investment preparation and selection (DLI 4). In turn, incentivizing the use of green criteria in public procurement (DLI 5) supports the realization of green goals set out in plans and budgets, as well as directly leading to greening the public sector's footprint and enhancing market opportunities for companies that offer greener products and solutions.

137. DLI 1: Introducing green elements across a wider range of sector engagements and indicating systematically how they help to progress on the Green Agenda will be critical to guide subsequent decisions on budget allocations and prioritization of public investments. PPS will guide line ministries (Direct Budget Beneficiaries) in their efforts when developing new PPDs. It will also develop guidance on how to appropriately cost the green aspects of PPDs, taking life-cycle costs into account.

138. DLI 2: Building on the experience of other countries, Serbia will introduce criteria to be used in GBT to better identify what funds are being allocated and executed to pursue the various elements of the Green Agenda (including climate change mitigation and adaptation). Initial support to develop a methodology started in 2022. Support linked to the PforR is planned to start in early 2023 with initial grant financing from AFD, to enable the



finalization and adoption of a credible GBT methodology by late 2023. This will enable first use for the 2025 budget cycle – preparation for which will begin from early 2024. In 2025 and 2026, the focus will be on continuous use in annual budget cycles, tracking of execution of the 2025 budget, and enhancing the methodology to include tagging of brown expenditures. The inclusion of brown tags into the tagging methodology as required under DLI 2 in Year 4 is a methodological upgrade. The tagging of brown expenditures reinforces the environmental integrity of the GBT system by identifying public expenditures that potentially negate the benefits of green expenditures. The TA to be provided will also focus on the potential inclusion of tax measures (see box 3.1).

Box 3: Tagging Brown Expenditures and Tax Measures

GBT is the practice of identifying, measuring and monitoring public expenditures that are relevant to certain environmental objectives.⁷¹ The practice of tagging can be extended to fiscal policies, where the environmental impact of expenditures is assessed rather than just their environmental relevance, making this a more comprehensive approach. This would also mean that expenditures with a negative environmental impact would need to be highlighted differently from those with a positive environmental impact. The following are examples:

Brown budget items. Government subsidies for the production and consumption of fossil fuels is an example of expenditures that keep fossil fuels artificially more competitive relative to renewable energy and energy efficiency investments, thereby disincentivizing the latter. For such 'brown' spending, an appropriate negative identification or tag would be assigned to distinguish them from expenditures with a positive environmental impact. This basis of tagging reflects the reality that the Government is channeling resources in opposing directions with respect to its environmental and climate objectives. Identifying 'brown' budget items is therefore crucial to improve the coherence of fiscal policies with green objectives in the long run.

Assessment of tax measures. A large number of investments needed for the green transition lie beyond the scope of traditional public spending. Investing in energy efficiency measures in residential buildings, using water-efficient irrigation equipment in farming or switching to cleaner motor vehicles are ultimately decisions by firms and households. Tax measures can influence these decisions, by introducing higher fees and charges for polluting fuels and technologies but could also do the opposite if *tax expenditures* are designed in a way that energy-intensive industries are exempt from certain taxes.

139. **DLI 4.** This DLI targets the development and adoption of criteria for assessing the 'greenness' of proposed public investment operations at the pre-implementation stage and on this basis, an increase in the share of green public investments. As of 2022, MoCTI as well as PIMO/the new MoPI have used some green criteria in a more informal way. Green and climate-sensitive criteria will be linked to the selected approach to GBT to facilitate consistency and clarity for line ministries and other interested stakeholders. Enhanced attention through clear criteria and a review process by PIMOCU and within MoCTI together with wider incentives discussed under the Theory of Change is expected to lead to an increase in overall green/climate-sensitive public investments over the years covered by the Program.

140. **DLI 5.** The Serbian Government has committed to continuing the reform of the public procurement system by adopting the new Public Procurement Development Strategy 2019-2023 with a specific emphasis on green procurement.⁷² Green public procurement in Serbia is already recognized as one of the vital pillars toward shifting

⁷¹ Different methodologies for budget tagging have been in use (World Bank. 2021. "Climate Change Budget Tagging: Review of International Practices") and vary depending on the specific environmental dimension that is identified (for example, climate change adaptation, mitigation, circular economy, water conservation), different areas of the public sector (for example, central administration, local government, transfers to SOEs), and use of different approaches to tagging (for example, binary markers, weights, and scores).

⁷² With the adoption of the Green Agenda and further commitment to implement its actions through the Regional Action Plan adopted in Brdo, Slovenia, in October 2021, Serbia has started embracing "a process whereby public authorities seek to procure goods, services and works with a reduced environmental impact throughout their life cycle when compared to goods, services and works with the same primary function that would otherwise be procured."



the economy towards carbon neutrality and further fostering innovation. The support to green public procurement has been recognized as specific objective 4 in the Programme for development of the Circular Economy 2022-2024, adopted by GoS in 2022. Although Guidelines on Green Public Procurement were published on the PPO's website in 2019, utilization has been limited similar to the experience of other countries at the early stages of such reforms.⁷³ Accordingly, the World Bank has agreed with the Serbian Government on supporting the actual roll-out of green criteria in procurement. One of the objectives of this program is to enhance the implementation of green procurement on a significantly larger scale for selected relevant institutions. The main institutions responsible and involved in this program to implement green procurement are: PPO, MoEP, SEPA, MoME (setting rules on energy efficiency standards), MoCTI; MoH; MoAFWM, AJARB), and the MoE.

141. DLI 5 has been agreed to achieve the required green procurement implementation over the program period. A crucial challenge will be the implementation of green public procurement from the market perspective. The criterion for weighing green and quality offers should not affect the competition but encourage bidders. For successful implementation of green procurement under this program, PPO will be supported by TA as part of the IPF component. This TA will help PPO in (a) training and handholding support for line ministries, (b) training and communication outreach to suppliers, (c) support for monitoring and analysis (opportunities, bottlenecks), (d) support for lesson learning from experience in other countries, and (e) any other related tasks for smooth implementation.

142. DLIs 8 provides incentives for the effective implementation of the GHG monitoring system that is foreseen in recently adopted legislation, strategies, and programs (the 2021 CCL and related by-laws, as well as tNDCs). This support will reduce the expected delays and potential longer-term gaps in moving from having legal provisions, strategies, or plans in place to actually functioning monitoring and reporting systems. Having such systems in place in a timely way is in turn expected to incentivize efforts at reducing GHG emissions and can enable raising of additional funds through carbon credits.

143. Furthermore, DLI 6 (DLRs 6.3 and 6.4) will incentivize and support an enhanced focus on green and climate-relevant KPIs in program budgeting and performance (outturn) reports and DLR 7.2 supports the development of a section on climate and environmental risks for fiscal strategies. This is expected to contribute to developing a strong results focus for existing programs related to the Green Agenda (programs for building renovation under MoME and programs to fund the protection of nature and subsidies to companies to incentivize the adoption of green technologies) and to better monitoring of spending efficiency and effectiveness of these programs and other programs expected to be developed as green expenditures grow. DLR 7.2 will support the Government in explicitly monitoring climate and environmental risks and taking these into account in its fiscal projections.

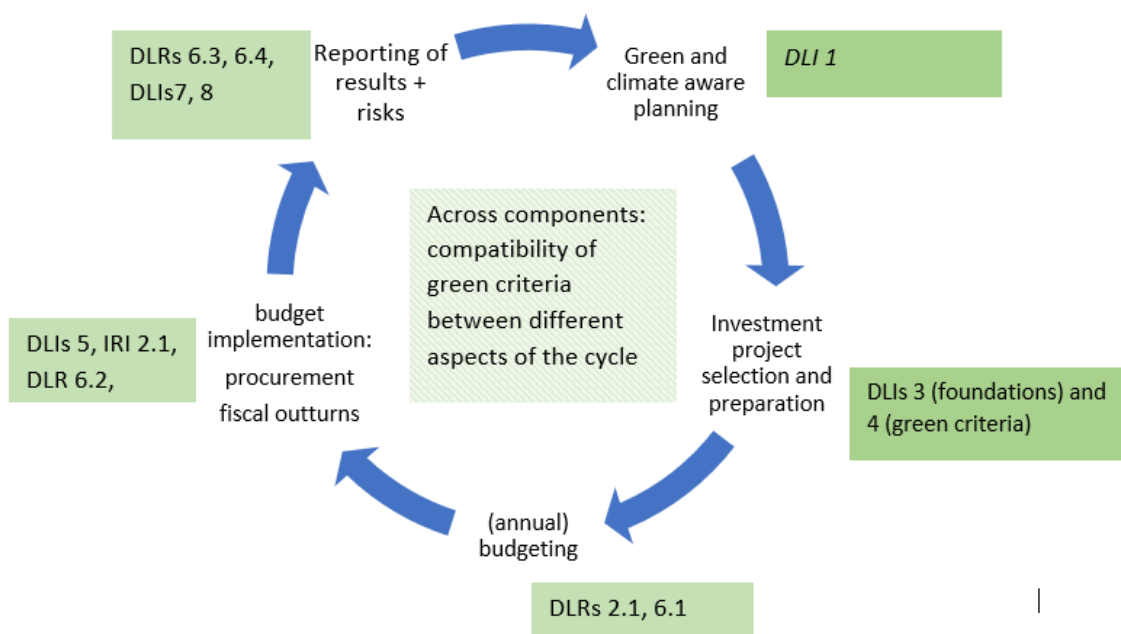
144. Expected results under RA 2 are the following: more institutions have PPDs with 'green' elements and proper costing (energy efficiency, circular approaches, and so on) (DLI 1); enhanced visibility of green expenditures supporting communication with citizens, investors, and other stakeholders (DLI 2); successful scaling up of greening public investments (enabling progress on GRID indicators once completed) (DLI 4); through roll-out of green procurement, widened use of products and solutions with energy efficiency, green materials, transportation modalities, and so on and widened offer of such goods and related services in the market (DLI 5); and monitoring and reporting of GHG emissions is operational and supports Serbia's international commitments and preparation for CBAM (DLI 8).

⁷³ As of 2021, only 7 procurements were formally marked as green in the e-procurement portal, indicating the need for roll-out support.



145. Each of the selected DLIs and DLRs has been carefully vetted and discussed in depth to ensure relevance, good sequencing of steps, and expected readiness. Each DLR is part of an implementation and results chain that has been assessed to be feasible and appropriately sequenced to enable an overall change process.

Figure 3.2: RA 2 – Link between DLIs and DLRs



Source: World Bank Team drawing on the IMF's Climate PIMA Framework

Expenditure Framework

146. **The EF is formulated in line with the Program boundaries of fiscal and the green transition.** Strengthening PFM and managing the green transition are among the GoS's strategic objectives and priorities, which are supported by the Program expenditures. Expenditures included in the EF relate to the expenditures of Program implementing agencies which are key for reforms covered by the Program and for achieving Program results: MOF, PPS, PPO, MoEP, SEPA, RPD, and MoCTI. Program support is expected to strengthen the link from allocated amounts to reform results achieved as well as the efficiency and effectiveness of such expenditures. The amounts of expenditures included in the EF are sourced from the Law on Budget 2023. For 2024-2026, a conservative scenario was selected which retains the 2023 spending levels throughout implementation. Given global and regional macroeconomic uncertainty, this minimizes the risk of overestimating resource allocations of the identified expenditure categories. Accordingly, deviations from these estimates are likely to be upward, toward increasing expenditures.

147. **As described in the main section, for the EF, budget programs (as per program classification/structure) of**



implementing agencies assessed to reflect program reforms and to contribute to achieving program results were selected to be included. Within the selected budget programs, certain categories of expenditures (as per economic classification) critical for implementation those programs and achieving results are included. Furthermore, Program expenditures included in the EF focus on recurrent expenditures of implementing agencies. The rationale for this approach is that the reforms and results defined by the Program's boundaries and scope pertain to establishing and implementing legislative, methodological and operational frameworks for strengthened PFM and enabling Serbia's green transition (precisely defined in the Program's DLIs). Hence, the Program is helping to establish new or enhance existing Program relevant systems and processes and ensuring compliance. As such reforms are highly dependent on human capital and mostly supported and ensured by recurrent expenditures, the EF is linked to selected programs of implementing agencies (listed in their respective parts of program budget) that is, their staff costs, contractual services, and a budget category of 'specialized services', all supporting the achievement of Program results and strengthening of target institutions.⁷⁴

148. The EF includes MoEP's subsidies which are granted to public and private institutions for activities that directly support the goals of the green transition, results of which DLI 6 seeks to improve in terms of efficiency and results orientation of spending. These subsidies relate to incentives for preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of ecologically acceptable cars. They are available to public institutions and private entities.⁷⁵ The process for awarding MoEP's subsidies is competitive and based on public calls for applications. DLI 6 overall incentivizes improvements in the definition of KPIs and reporting of progress achieved related to allocations (efficiency KPIs), as well as the continuous strengthening of how green and climate-sensitive results are defined and how corresponding results are tracked and reported. DLR 6.3 focuses on establishing an impact report of these subsidies in terms of gains in environmental and energy efficiency objectives. Finally, DLR 6.4 specifically targets the development and publication of program budget outturn reports for at least two direct budget beneficiaries regarding their environmental and climate performance, which these program expenditures are seeking to reduce.

149. Program expenditures amount to EUR327 million over the period of four years (2023-2026), out of which the World Bank financing amounts to about EUR66.3 million (USD 71.8 million)⁷⁶ for the PforR portion (plus EUR 3 million [USD 3.2 million] for the IPF component). This is accompanied by a blend of parallel and joint co-financing of the AFD in the same amounts.⁷⁷ World Bank financing is estimated to register disbursement of EUR18 million in 2023 and have a trajectory of gradual increase to EUR20 million disbursement in 2026 (slightly lower disbursements are expected for 2024 as DLRs corresponding to the advance as well as additional DLRs have to be met).

150. Generally reliable budget formulation as well as Government's priorities and the nature of recurrent

⁷⁴ The Republic of Serbia's budget presents salaries (staff costs), allocations, and other costs per budget programs of a respective budget beneficiary, which allows for the Program to include in the EF only the salaries of staff working on budget programs related to the defined Program results given that that staff cost is key to achieving the Program's objectives.

⁷⁵ The procedures within MoEP regarding eligibility criteria and approving and monitoring of those subsidies are well established; they are robust and complied with in practice. Their legal framework is defined in relevant bylaws and further detailed in accompanying guidelines and templates. Decree on Conditions for Allocation, Criteria, Use and Monitoring of Funds From the Green Fund (Official Gazette of the Republic of Serbia No. 25/18); Rulebook on Conditions for Allocation and Use of Funds From The Green Fund (Official Gazette of the Republic of Serbia No. 31/18); Decree on Subsidized Purchase of Electric and Hybrid Cars (Official Gazette of the Republic of Serbia No. 53/21).

⁷⁶ As the loan amount is in US Dollar, the Euro equivalent is based on the exchange rate at the time of negotiations.

⁷⁷ Joint co-financing of the IPF component and parallel financing of the Program component.



expenditures ensure financial sustainability of the Program expenditures. The budget formulation process of the central Government is adequate, rule-based and complied with. The medium-term expenditure framework for 2023-2025 set out in the Fiscal Strategy for 2023-2025 includes projections of sufficient amounts of Program expenditures. Ongoing implementation of strategic documents related to PFM and Serbia's green transition provides another layer of guarantee of sustainability of the Program expenditures (and a likely expansion over the coming four years for the Green Agenda). Recurrent expenditures included in the Program EF are vital for fulfilling the legal mandate of implementing agencies related to the Program results, and therefore the risk of insufficient funds allocated is low even if risks of fiscal challenges were to materialize for some time.

151. Execution of the budget allocated to the programs included in the EF compared to planned figures mostly registered low to moderate deviations, with a few exceptions (table 3.1). Deviation in most cases in 2019 and 2020 remained below 20 percent. The MoEP's Green Agenda program was introduced in 2021, therefore it does not have a previous performance track record. Given the increasing importance and emphasis on this agenda, it is assessed to be reliable in terms of expected future execution rates. Salary expenditures are executed at a level of 95-99 percent across included institutions, and contractual services were executed at an average rate of 75 percent. As contractual services partly relate to contracting to prepare public investments, efforts under the PforR and the IPF component are expected to contribute to improving these execution rates in target ministries. MoEP's Green Agenda program was only introduced in 2021; therefore, these categories do not have a previous performance track record. Given the increasing importance and emphasis on green and climate-related policy action, expenditure allocations have started to increase and are expected to increase further.

152. Various dynamics could affect the Program expenditures both upwards and downwards – with the former being more likely as long as the macro-fiscal situation remains broadly stable. If downward macroeconomic risks, as described below in the Risk section, were to materialize in full, this would put pressure on overall public expenditures for some time. Within the EF of this Program, changes are most likely with regards to contractual services if the fiscal situation were to deteriorate significantly. Conversely, if the macroeconomic context remains broadly stable, expenditures included in the Program's EF are likely to increase. In particular, there is a pressure to expand the staffing of MoEP and SEPA for new activities, notably to establish the MRV system and to oversee and implement other areas of the Green Agenda. MoF, MoME and other target ministries are also in need of additional staff and expertise on the energy transition and climate change as implementation action on the Green Agenda is scaled up; the same trend is likely to also increase the use of relevant contractual services to support the preparation of capital projects and a scaling-up of subsidies to incentivize energy efficiency and other green measures. Furthermore, public sector salaries are likely to see upward adjustments over the coming four years as wages are increased in response to inflation as well as labor market pressures.⁷⁸ As a mitigating measure, the enhanced fiscal transparency and the improvements in program budgeting/performance orientation supported by the Program are expected to enhance the timely visibility of changes in expenditures and to support efforts to enhance public sector efficiency.

⁷⁸ In a context of relatively strong growth in recent years, public sector salaries have become comparatively less competitive (with variation across areas of specialization and level). Generally, current salary expenditures for the budget beneficiaries included have been limited due to earlier efficiency efforts aimed at containing wage bill growth which significantly restricted public sector hiring especially in 2015-2020.



Table 8: Program Expenditure Past Execution Rates 2019-2021

Institution	Budget program (program number)	Type of expenditure ⁷⁹	DLI supported	% Execution in 2019	% Execution in 2020	% Execution in 2021
MoF	Management and supervision of fiscal and financial system (2301)	Salaries (411)	DLI 2, DLI 3, DLI 4, DLI 6, DLI7	98	99	99
		Contractual services (423)	DLI 2, DLI 3, DLI 4, DLI 6, DLI7	100	61	76
MoCTI	Implementation of infrastructure projects (0702)	Salaries (411)	DLI 3, DLI 4, DLI 5	96	98	103
		Contractual services (423)	DLI 3, DLI 4, DLI 5	89	98	41
PPS	Development of Public Policy System (0610)	Salaries (411)	DLI 1	99	99	100
		Contractual services (423)	DLI 1	113	100	101
PPO	Development of procurement system and protection of right in procurement processes (0612)	Salaries (411)	DLI 5	100	99	101
		Contractual services (423)	DLI 5	94	85	74
RPD	Records, Management and Ownership of Property (0605)	Salaries (411)	DLI 3			98
MoEP	Management of Environmental Protection (0404)	Salaries (411)	DLI 5, DLI 8	96	98	100
		Contractual services (423)	DLI 5, DLI 8	42	38	87
		Subsidies to private companies (454)	DLI 5, DLI 8			110
	Protection of Nature and Climate Change (0405)	Salaries (411)	DLI 5, DLI 8	99	95	100
		Subsidies to public institutions (451)	DLI 5, DLI 8	99	96	100
	Green Agenda (0407)	Specialized services (424)	DLI 5, DLI 8	n.a.	n.a.	79
		Subsidies to private companies (454)	DLI 5, DLI 8	n.a.	n.a	n.a.
SEPA	Management of Environmental Protection (0404)	Salaries (411)	DLI 5, DLI 8	98	99	99
		Contractual services (423)	DLI 5, DLI 8	100	85	97
Average execution rate				94	89	92

⁷⁹ Economic classification line-item number.



Results Chain and Logic for DLI Selection

153. **The results incentivized and supported through RA 1 are selected based careful diagnostics of current PFM and PIM weaknesses and in-depth engagement with counterparts.** The 2020 PEFA assessment and the Stock-take of PIM systems have provided strong analytic foundations notably for DLIs 1, 3 and 6, combined with ongoing TA for strengthening public investment and fiscal risk management (informing DLI 7). The IPF component will provide an opportunity for greater bundling and synergizing across these TA strands and to ensure that support is sufficiently long term to achieve sustainable change, in synergy with the DLI-based incentives.

154. **Strengthening fiscal resilience and addressing shortcomings and strengthening institutional foundations through RA 1 is also a critical input into achieving meaningful progress in RA 2.** Introducing green and climate sensitivity criteria into planning, budgeting, and PIM will benefit from addressing current limitations in the design and implementation of systems.

155. **The changes supported through RA 2 are critical for Serbia to develop an institutional foundation for progressing on its green transition and coping with the impacts of climate change.** The DLIs and the IPF support target interlocking elements of these foundations across planning, budgeting, procurement, monitoring, reporting, and upstream elements of risk management.

Program Results Framework and M&E

156. **Results of the proposed PforR have been selected to focus on step-by-step progress to implement key policy and reform commitments.** This is fully aligned with the overall rationale of the Program to support the actual implementation of existing commitments and policy intentions.

157. **The two intersecting GoS' programs which the PforR supports each have an M&E process and framework, with further work expected during the initial stage of Program implementation.** Progress on the PFM RP is reported on annually in line with the Law on the Planning System. The progress achieved and remaining gaps are then shared with a wider range of stakeholders, including a discussion with civil society and development partners in the form of online consultations and as well within the PFM Policy Dialogue, before adoption of an implementation report by the GoS.⁸⁰ For the Green Agenda, the Action Plan adopted in 2021 outlines a monitoring framework that will be applied across the Western Balkans, with Statistical Offices and the SEPA being the primary institutions involved in carrying out M&E.⁸¹ There is as yet no specific monitoring, reporting, and evaluation of progress on the implementing mechanisms, but this is expected to be further defined during Year 1 of the Program implementation. Furthermore, some important aspects in that regard are covered in reports related to the EU accession negotiations, related to the chapters of the *Acquis Communautaire* that related to different parts of the Green Agenda (notably Chapter 27, as well as Chapter 14 and 15 on Transport and Energy, and Chapter 11 on Agriculture).

158. The results targeted through the PforR will help monitor continuous progress on the selected areas of PFM

⁸⁰ In the context of the EU accession process, the PFM reforms relate to several clusters and chapters: 1. Fundamentals (PFM, chapters 5 Public Procurement and 32 Financial Control), cluster 3 Competitiveness and Inclusive Growth (16 Taxation, 17 Economic and Monetary Policy, 29 Customs Union); and cluster 4 - Resources, Agriculture and Cohesion (33 Financial and Budgetary Provisions).

⁸¹ Regional Cooperation Council. 2021. *Action Plan for the Implementation of the Sofia Declaration on the Green Agenda for the Western Balkans 2021-2030*. Regional Cooperation Council, Sarajevo.



reforms on creating effective implementation mechanisms for the Green Agenda. M&E reports to be developed will also offer policy levers to the Government in terms of dedicating resources and targeting public investments. The M&E of the Program should capture progress and verify the DLRs, as well as the additional indicators in the results matrix (annex 1). To the extent possible, reports should also collect additional and/or unexpected contribution towards the PDOs, as well as any other positive or negative spillover effects.

159. M&E of results will be an integral part of the Operation. Each institution involved in the achievement of a specific DLI will monitor progress and results for its respective area and report to MoF for overall M&E and reporting purposes. OCU will collect all reports on results achieved from responsible institutions. OCU will review progress and results reports submitted by the institutions responsible for specific DLIs and will aggregate them as regular biyearly monitoring reports to the World Bank. When specific DLRs have been achieved, the OCU will collect reports and supporting evidence and will share these with the PPS for DLIs 2-8 and the IVA for DLI 1. The respective verification agents will follow up with individual institutions as needed to verify DLR achievement as set out in the verification protocol. OCU (with appropriate support) will review the verification reports submitted by PPS and IVA in terms of responsiveness to agreed reporting formats and timeliness, as set out in the OIM. As the overall objective of the Program is to support successive system improvements and institutional enhancement, there should be continuous reports on achieved improvement steps until the end of the Program.

160. For the IPF component, M&E and reporting will focus on the delivery of outputs and how they support the achievement of related results (DLRs/DLIs). This segment of the M&E will include a gender breakdown wherever applicable (for example, share of female staff reached through training and outreach). Furthermore, M&E reports on the TA to be provided will reflect on potential overlaps⁸² or gaps (such as training efforts needing to go in greater depth or to cover more institutions or staff) in support being provided for the RAs covered by the Program. This will enable decision-making on potential adjustments during implementation.

161. Progress on the three aspects of (a) gender, (b) citizen engagement, and (c) climate co-benefits/GHG emission reductions – will be reported on in dedicated sections of the monitoring reports at least on an annual basis.

Program Governance Structure and Institutional Arrangements

162. The Program will be implemented by the following institutions: MoF, MoEP, PPS, PPO and RPD leading specific DLIs or DLRs, in coordination with other line ministries for selected aspects. MoF will coordinate implementation on behalf of the Government, in close collaboration with the specific departments involved from each of the ministries and other institutions. Within MoF, DICEI will coordinate the implementation of the Operation, including monitoring and reporting. The DICEI's role as the OCU will be supported by CFU, which is also located in MoF. DICEI will collect information from all the participating institutions, will initiate results verification, and will report to the World Bank on a half-yearly basis. To enable this coordination and reporting role, consultants will be hired to supplement existing capacities as needed (in line with lessons learned from the previous public sector focused PforR).

163. A dedicated SC will be established for the Operation and to guide the implementation of the Program and the IPF component and to intensify inter-ministerial coordination on the implementation mechanisms for

⁸² For example in case other development partners start providing assistance in a certain area.



the Green Agenda. The SC will liaise with Government working groups dedicated to PFM reforms and implementation mechanisms for the Green Agenda. As described in the main section, SC will meet at least half yearly (and more frequently if needed) to discuss and analyze progress toward achieving DLRs and DLIs and provide advice on how to resolve bottlenecks and accelerate implementation. SC will also adopt progress reports and guide and ensure adequate stakeholder and citizen engagement.

164. **As part of its strategic guidance role, SC will closely liaise with the Inter-ministerial working group (IMWG) for PFM and achievement of the Green Agenda goals.** The IMWG leads the development of green criteria for GBT as well as for capital projects. The relationship between SC and IMWG will be described further in the OIM. SC will also engage with other working groups established by the Government as needed and when relevant for the results of this Program.

Table 3.2: DLIs and Lead Institutions

DLI #	Description	Lead Institution	Other key institutions
RA 1: Strengthen fiscal resilience, transparency, and spending effectiveness			
6	Improved fiscal transparency and program-based budgeting, including gender disaggregation	MoF/ BD	Selected line ministries (planning and budgeting depts)
3	Improved management of public investments and assets	MoF/PIMOCU RPD for public asset management	Selected line ministries (planning and budgeting depts)
7	Implementing effective fiscal risk monitoring and reporting	MoF/ RFMD	MoF/Macro-fiscal dept (fiscal strategy)
RA 2: Green the expenditure cycle and monitor GHG emissions for Serbia's green transition			
1	Green aspects integrated into PPDs and links between PPDs and budgets strengthened	PPS	Selected line ministries (planning and budgeting depts)
2	Implementing GBT	MoF/BD	Selected line ministries (planning and budgeting depts)
4	Increased share of green and climate responsive public investments	MoF/PIMOCU	Selected line ministries (planning and budgeting depts)
5	Broadened use of green public procurement	PPO	Selected line ministries/procurement units and tender committees
8	An MRV system for GHG emissions is operational and in use	MoEP	SEPA; MoME

165. **For RA 1, MoF will be the main implementing institution.** Within MoF, the BD and the FRMD will be implementing specific actions to achieve the agreed results for DLIs 6 and 7. Within FRMD, PIMOCU will be in charge of DLI 3 targeting foundational improvements in PIM. DLR 3.1 will furthermore involve RPD to improve public asset management.

166. **For RA 2, implementation will be led by MOF, PPS, PPO, and MOEP, with involvement of SEPA in DLI 8.** Specifically, PPS will lead on DLI 1, MoF on DLI 2 and 4, PPO on DLI 5, and MoEP with SEPA on DLI 8. Additional institutions to be involved include the line ministries and agencies expected to implement and utilize green criteria across the planning and expenditure cycle.

167. **For the IPF component, the lead institution for each respective DLI will coordinate implementation, with support from DICEI and CFU as needed.**

- For DLI 1, the lead institution is PPS.



- For DLI 2, 3, 4, 6, and 7 the lead institution is MoF (and RPD for DLI 3 on public asset management).
- For DLI 5, the lead institution is PPO.
- For DLI 8, the lead institution is MoEP.

Economic Justification of the Program

168. **Serbia's Fiscal Council has outlined that investments in environmental protection are both a social and a fiscal priority for the country.**⁸³ As the Fiscal Council highlights in its analysis, there are positive economic multiplier effects from environment-focused public investments. Given Serbia's high level of pollution, potential social and health benefits are also substantial. Beyond their direct importance, the latter also have indirect economic benefits (*via* reduced health care costs and loss of active labor market participation and possibly also reducing Serbia's significant population loss due to out-migration).

169. **Government financing of the Program is assessed to be sufficient and sustainable, although with some issues in identifying budget line items which contribute to the Program implementation.** As presented in the EF, total Program expenditures amount to EUR328 million over the implementation period 2023-2026. This exceeds by a big margin the World Bank financing of the Program which amounts to EUR68.5 million and is assessed as sufficient for implementing reform actions captured by the Program.

170. **While strengthening country systems for PFM and green transition is expected to result in benefits which far exceed the cost of reform, qualitative analysis may be more appropriate for the economic evaluation as it may be challenging to quantify the impact in all areas.** Weaknesses in areas that the Program is targeting were assessed by diagnostic work (such as PEFA 2020) to contribute to inefficient and sub-optimal use of funds. The PFM assessment reports conclude that improvements in those areas would result in cost savings and positive economic impact.

171. **Enhanced management of public investments is vital to the public sector's contribution to growth.** There are recent improvements to the legislative and institutional framework for management of public investments/capital projects instituted through the Decree on Management of Capital Projects adopted in 2019. Nevertheless, the last decade was characterized by the selection of often technically unprepared capital projects which were not always embedded in the country's strategic priorities. In addition, there were implementation delays of capital projects due to poor technical preparedness and economic impact of such projects was not measured in an adequate manner. Given the significant increase in capital expenditures in 2021 and 2022 to over 5 percent of GDP, there is an increased need to maximize economic benefits of capital projects.

172. **Positive economic and social impact of the use of public funds is highly dependent on strengthening strategic and performance-based allocation of limited resources.** Allocating resources in line with strategic priorities contributes to maximizing the impact of public spending for an efficient public sector and economic growth. There are over 200 strategies (national, sector, and to lower extent institutional) which provide an overall framework for the reform actions and strategic objectives. However, in a number of cases, strategies are not costed and the linkage between strategic documents and composition and priorities of the annual budget and

⁸³ Serbia, Fiscal Council. 2020. *Investments in Environmental Protection: a social and fiscal priority*. Fiscal Council, Belgrade.



medium-term estimates is not always obvious. Often, a part of funds is used for ad hoc priorities with short term effect, instead of strategically using the funds for positive long-term impact. Similarly, limitations in program budgeting and performance management prevent appropriate evaluation of achieved results of specific programs, projects, and activities, and thus deprives future planning of resources of this input information for decision-making with regard to prioritizing budget allocations.

173. Effective fiscal risk management will reduce the risk of unplanned budget expenditures when fiscal risks materialize and thus result in cost savings or better optimized use of funds. An FRMD was established within the MoF in 2019 and fiscal risk monitoring and management function is gradually developing. Prior to that there was no fiscal risk management function and significant budget outflows occurred on several instances when fiscal risks materialized. The overall control over public finances in Serbia has proven challenging as the fiscal position was affected by the materialization of fiscal risks, such as bailouts of SOEs, the bankruptcy of several commercial banks, the disaster risks from floods, and court cases against the Government. Serbia aims to develop a systematic and centralized approach to identifying risk and assessing the range and magnitude of risks to which it could be exposed.

174. The World Bank's involvement in the Program implementation will add value by ensuring that Program expenditures lead to achievement of targeted results. As mentioned above, measurement of performance and achieved results is quite basic within public sector entities, which creates uncertainty that spent funds achieve their objectives. Formulating DLIs as clear results to be achieved by reform action and associated budgets strengthens the link between inputs and measuring results. In addition, TA will be provided as part of the IPF component included in this PforR for the areas where it is needed. Further improving the PIM framework on the one hand, and enhanced attention to performance management and reviewing performance relative to spending as part of the annual budget cycle, on the other hand, are expected to foster a greater focus on VFM. The rolling out of green public procurement is expected to have positive spillover effects on life-cycle costs for many public investments as in many cases greener solutions will be associated with lower energy costs over time.

Economic Justification

175. Economic analysis of the Operation considers benefits and costs associated with changes in economic welfare arising from its implementation. The reforms proposed under the Operation are expected to generate significant economic benefits, predominantly in the form of enabling output growth due to improved climate resilience and social benefits materialized from more climate-effective public investments. The process of quantifying these benefits depends on the availability and reliability of data. This analysis provides estimates of benefits and costs using data obtained from the publications made available through websites of the MoF, the World Bank, the UNDP and the Statistical Office of the Republic of Serbia.

176. The Program is designed to support development of Serbian PFM structures to improve service delivery and enable green growth. It is split into two RAs of which RA 1 corresponds to the upstream aspect of PFM including (a) improving performance-based budgeting and management as well as fiscal transparency by enabling regular publication of in-year budget execution reports as well as special reports focused particularly on green and climate tagged expenditures (DLI 6), (b) improving the preparation and implementation readiness of public investments through expanding the scope and implementation of current PIM regulation, particularly assessing and reviewing of feasibility studies for large investment projects and improving public asset management (DLI 3); and (c) implementing effective fiscal risk monitoring and reporting (DLI 7).

177. RA 2 focuses on (a) mainstreaming integration of green and climate aspects into PPDs (DLI 1), (b)



implementing GBT by introducing a mechanism based on a well-defined methodology into the existing budget classification to track relevant expenditure and link it to achievement of specific green and climate policy objectives (DLI 2), (c) increasing the share of green and climate-focused investments (DLI 4), (d) mainstreaming green public procurement (DLI 5), and (e) implementing an MRV system for GHG emissions (DLI 8).

178. The activities envisaged under the Operation are expected to generate significant financial benefits and increase economic welfare of Serbian citizens. The set of quantifiable benefits includes output growth resulting from making the Serbian economy more climate change resilient through strengthening the green and climate component of its public policies and specifically the investment portfolio. Another significant source of dollar-expressed economic benefits that will accrue to the whole society will also be achieved through stronger focus on green and climate agenda of public expenditure. Particularly, this will be realized through enabling materialization of climate and environmental projects that contribute to public health, such as increased quality of water, reduced air pollution and improved waste management. This is especially important in light of the increased interest and engagement of citizens reflected through a recent survey showing that more than 90 percent consider environmental issues to be of either high or very high importance. Implementation of the Operation will enable them to influence and have full insight into the green and climate actions taken to address their concerns. This will happen through the introduction of GBT and enhanced fiscal transparency whereas focused reports will be published regularly.

179. Besides investment costs, the main cost category expected to be borne by the GoS is the time that employees from different ministries and public institutions⁸⁴ are required to put in to ensure successful implementation of the Operation. Their involvement in Operation implementation is estimated through their gross monthly salary (assumed to be EUR 700) multiplied by the assumed hours they will put in to ensure that Operation's objectives are met. As the effort put in is expected to grow gradually toward the end of the Operation, the estimate of these costs ranges from EUR70,000 in 2023 to EUR210,000 in 2026. Investment costs follow the disbursement schedule implied by the distribution of funds across the DLIs, assuming their timely and successful implementation. The distribution of total Program expenditure is assumed to follow the one implied by the money allocation to each of the DLIs (see annex 2 above). It is expected that (at least) EUR81.9 million will be spent in each of the four years of Program implementation.

180. Details of the estimation of quantified economic benefits are provided in the following paragraphs.

a) Reduction of output forgone due to low climate resilience

181. According to a recent socio-economic study carried out by UNDP under the auspices of Global Environment Facility⁸⁵, cumulative output expected to be forgone by the Republic of Serbia in the period from 2020 to 2040 will equal EUR58.1 billion assuming that the temperature rise will be kept within the limits set by the Paris Agreement (that is, 2°C)⁸⁶ and that no action is taken to address climate change effects. Most of these losses will originate from the drop in agricultural production (EUR12.05 billion), forestry damage (EUR10.7 billion), and losses from reduced power generation (EUR8.6 billion).

182. The medium-term joint effect of achievements made under the Operation is assumed to shift the Serbian

⁸⁴ Mainly MoF and administrations within its scope (e.g., Treasury and Public Debt) as well as PPS, but also all other budget users.

⁸⁵ Available at https://www.klimatskepromene.rs/wp-content/uploads/2020/04/cir_screen-_06-04-2020_DRAFT_-Study-on-the-Socio-economic-Aspects-of-Climate-Change-on-the-Republic-of-Serbia_UNDP.pdf

⁸⁶ This scenario refers to the IPCC RCP 4.5



economy toward a more sustainable path through planning, budgeting, expenditure management, and procurement which is more sensitive to environmental and climate change objectives. The trajectory of the effects in percentage terms is such that Operation implementation is expected to provide for 1 per cent reduction in output losses in Year 4⁸⁷ and grow gradually to 4 per cent at the end of the considered investment horizon of 10 years (that is, year 2032). The benefits to the society accruing in the form of additional output will thus range from EUR27 million in 2026 to EUR132.8 in 2032.

b) Additional economic welfare created through greener and more climate-focused public investments

183. Enhanced management of public investments is vital to the public sector's contribution to growth. There are recent improvements to the legislative and institutional framework for management of public investments/capital projects instituted through the Decree on Management of Capital Projects adopted in 2019. Nevertheless, the last decade was characterized by the selection of often technically unprepared capital projects which were not always embedded in the country's strategic priorities. In addition, there were implementation delays of capital projects due to poor technical preparedness, and the economic impact of such projects was not measured in an adequate manner. Given the significant increase in capital expenditures in 2021 and 2022 to and over 5 percent of GDP, respectively, there is an increased need to maximize economic benefits of capital projects.

184. The Operation is expected to enable development of effective implementation mechanisms to support the green and climate agenda. Dollar benefits of these mechanisms will materialize through planning, assessment, budgeting, and implementation of public investment projects which contribute more to climate change adaptation and mitigation as well as to the broader environmental agenda. These benefits are estimated through incremental externalities which will materialize in addition to the already accruing financial and economic agenda. These typically include social benefits which contribute to public health, such as increased quality of water, reduced air pollution, and improved waste management.

185. Capital expenditure reported⁸⁸ at the end of 2021 was EUR4.25 billion of which the assumed share of large and medium-size projects that will be affected by the program is 60 percent which is EUR2.55 billion.⁸⁹ To avoid double counting, the economic analysis disregards the financial benefits accruing from implementation of public investments since they will be reflected in the output gains described above. Instead, it focuses only on the nonfinancial externalities contributing indirectly to the increased social welfare of Serbian citizens. Contribution of the Operation to the increase of these externalities through the optimized mix of public investments is estimated as a percentage change in the economic benefits realized through implementation of public investments accruing under the business-as-usual scenario. In the absence of detailed sectoral breakdown of public investment portfolio and the values of the corresponding benefit-cost ratios, these benefits are valued at 20 percent of the total capital budget for medium and large-scale investment projects. Assuming that the Program will increase these benefits by a magnitude in the range of 1 percent in the third year of the program to 4 percent by 2032 the range of benefits expected to be realized will go from EUR6.7 million to EUR52.9 million.

⁸⁷ The mismatch in timing between achieving results under different DLIs and output growth is because of an assumed lag between inception of public expenditure through planning and budgeting and the time it actually delivers the envisaged results.

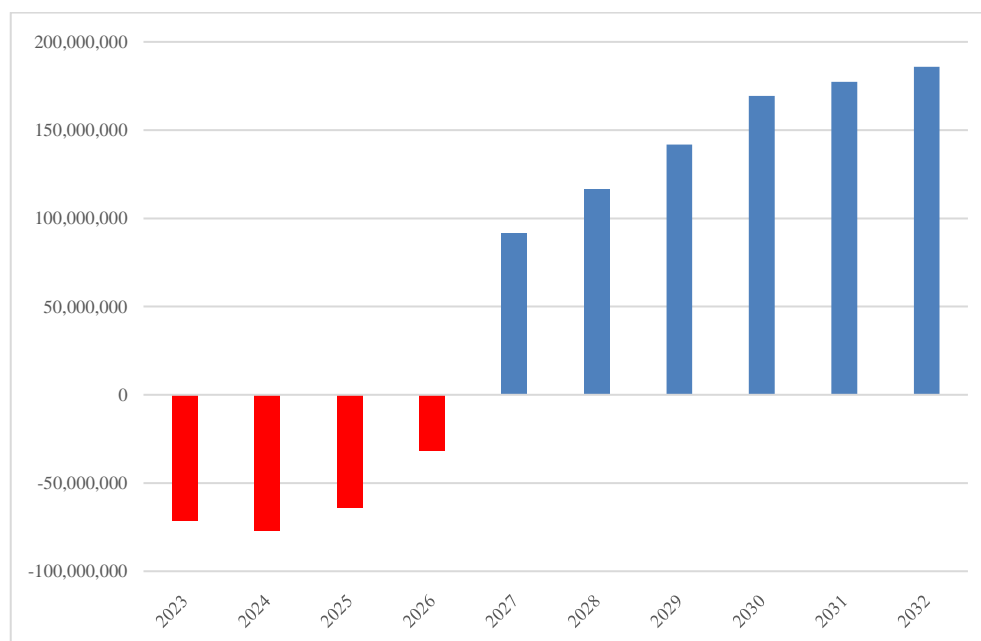
⁸⁸ Data available at: <https://www.mfin.gov.rs/en/activities/bulletin-public-finances-december-2021-2>

⁸⁹ The remaining portion of capex is assumed to belong to small purchases and generally items that are classified as capex but do not qualify to be considered as part of investment projects that will be scrutinized through the enhanced green and climate-sensitive pipeline (for example, maintenance).



186. Based on the above input for calculation of economic performance indicators, the economic net present value (ENPV) of the Program is EUR330.9 million at the 7 percent discount rate⁹⁰. The economic internal rate of return (EIRR) is significantly higher than the discount rate at 27.5 percent. Finally, the benefits-cost ratio is positive at 2.19, meaning that the present value of economic benefits outweighs the present value of economic costs by that magnitude. Benefits and costs are estimated for the period from Year one of program implementation (that is, 2023) until 2032, spanning a 10-year investment horizon, including five years of project implementation. All performance indicators point to positive economic value expected from Program implementation. Figure 3.3 shows net economic benefits over the entire investment horizon considered.

Figure 3.3. Net Economic Benefits from the Operation (in EUR)



187. In addition to the described quantified benefits, several benefits have not been quantified in this analysis, mainly due to a lack of data and a reliable framework in which expressing their dollar value can be supported by sufficient evidence and argument. Most of these benefits were, however, to an extent implicitly included in the calculation of the benefits discussed above. One example is the results expected under the DLI 5 on greening public procurement, where procedures will be put in place to guide budgetary users to select services and materials based on their environmental impact. Part of the expected benefits under DLI 5 are accounted for in the greener public investment portfolio; moreover, green public procurement is also expected to contribute to a long-term boost of the demand for green products in the general market and stimulate green supply approach beyond the public sector.

188. Other not explicitly quantified benefits include those related to the introduction of GBT, more efficient overall allocation of budgetary funds, monitoring of fiscal risks and implementation of the MRV system. Introduction of GBT through DLI 2 will enable tracking of green and climate related expenditure and identification

⁹⁰ 7 percent is the social (economic) discount rate recommended by MoF – instruction available at:

<https://www.mfin.gov.rs/sr/dokumenti2-1/preporuena-fiskalna-i-drutvena-diskontna-stop-a-i-preporuena-duina-referentnog-perioda-1>



and monitoring of implementation relevant climate and environmental policy documents. Introduction of GBT will not only contribute to transparency but also signal increased focus on achieving environmental goals which could contribute to attracting grants and financing under favorable conditions from the donor community and IFIs. Also, performance-based allocation of resources in line with strategic priorities contributes to maximizing the impact of public spending for an efficient public sector and economic growth. There are over 200 strategies (national, sector, and, to a lower extent, institutional) which provide an overall framework for the reform actions and strategic objectives. Through DLI 1, the Program will provide for more effective fund allocation through ensuring that strategies are costed and that there is a linkage between strategic documents and composition and priorities of the annual budget and medium-term estimates.

189. Further, activities linked to DLI 7 will help the GoS improve its capacity to monitor and report on fiscal risks including those related to climate change. Benefits associated with this DLI will be to enable the Government to prioritize and streamline the allocation of public funds to the areas where it can achieve the most risk exposure reduction at the lowest fiscal cost. Finally, DLI 8 requires implementation of an MRV system for tracking Serbia's GHG emission which is instrumental for keeping the country on track for its obligations as a non-Annex I party to the UNFCCC.⁹¹ An operational MRV is also important in light of the EU CBAM⁹² that will start being phased in from 2023. Under CBAM, the EU importers will have to pay for the carbon used in production of the goods they are importing if they are not able to show that the producer of the goods has already paid (or has been taxed for) the carbon price. In practice, this means that Serbia risks making its exports highly uncompetitive if it does not start taxing GHG emission, and an MRV system is a necessary prerequisite for doing so.

190. Sensitivity analysis of the Program's economic performance indicators was carried out by altering assumptions behind estimation of the key costs and benefits. Table 3.3 shows the assumed baseline values of input parameters which determine economic costs and benefits and consequently the value of the ENPV.

Table 3.3. Baseline Values of Key Cost and Benefit Input Parameters

EA Input	Key Parameter	Baseline Value
Cost inputs		
Investment value	Program cost	EUR327,863,060
Staff time expense for project implementation	Number of staff involved in project implementation	Starting from 100 and reaching 300 in year 3 with 10% of time
Revenue inputs		
Reduction in climate change induced output losses	Potential output losses over the 2020-2040 period	EUR58.1 billion
Incremental economic welfare created through greener and climate focused PFM/PIM	Share of economic benefits in public investments	20.0 percent

191. The ENPV is the most sensitive to the changes in the assumption driving the estimate of benefits coming from the increase in economic output as a result of increased climate resilience. Altering the value of the

⁹¹ Under the process of setting the NDCs, Serbia is under obligation to integrate climate change into its national planning processes and provide relevant information regarding emissions and removals of GHGs.

⁹² "....the CBAM system will work as follows: EU importers will buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules. Conversely, once a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer. The CBAM will help reduce the risk of carbon leakage by encouraging producers in the non-EU countries to green their production processes." Available at https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661



estimated output losses over the 2020-2040 period in the business-as-usual scenario by 10 percent, changes the ENPV value by 14 percent in the same direction. The economic welfare created through greener and climate focused public expenditure has weaker effect on the KPI value 10 percent shift in the assumed current share of economic benefits within public investments, induces a change of 4.6 percent in the net present value. On the cost side, investment size is the dominant input variable. If increased by 10 percent to EUR360.6 million, the ENPV would decrease by 8.6 percent, with other variables kept constant. The breakeven for the total investment (that is, investment that brings the value of ENPV to zero) stands at EUR718.7 million which would be 119 percent higher than the originally envisaged value.

Table 3.4. Sensitivity Assessment of ENPV Performance Indicator

% change in input value of	10.00	5.00	0.00%	-5.00%	-10.00%
Cost inputs (%)					
Investment value	-8.58	-4.29	0.00%	4.29%	8.58%
Staff time expense for project implementation	-0.02	-0.01	0.00%	0.01%	0.02%
Revenue inputs (%)					
Reduction in climate change induced output losses	14.0	7.0	0.0%	-7.0%	-14.0%
Incremental economic welfare created through greener and climate focused PFM/PIM	4.6	2.3	0.0%	-2.3%	-4.6%

Climate Change Mitigation, Adaptation, Co-benefits, and GHG Reduction

192. **Climate risks and climate co-benefits of the Operation.** The proposed Operation yields important climate co-benefits. Climate change has been a contributing factor to a slowdown in Serbia's economic growth. Increasingly severe drought since 2000 has caused over EUR3.5 billion in damage and losses, while the devastating floods of 2014 resulted in EUR1.5 billion in damage and losses. Areas of the country that suffered from more frequent and severe droughts and weather variability have also experienced significant land degradation, increasing the risk of other natural disasters such as landslides. Meanwhile, there is increasing citizen concern over deteriorating environmental conditions especially in air quality, poor waste management, and water quality. Serbia's high energy intensity and continued reliance of lignite – a highly carbon-intensive fuel needs to start shifting to enable greener growth. Besides contributing to local pollution and climate change, high carbon intensity exposes the country to the risk of carbon border adjustments by its main trading partner, the EU. These factors, along with the country's candidature for EU membership, have pushed the climate and environmental agenda to the forefront.

193. The Operation will address climate-related risks and generate positive climate co-benefits through the following proposed activities:

- DLI 1 improves the link between planning and budgeting, as evidenced by PPDs with proper cost information. This will involve PPS, MOF, and MoEP. Specifically, the DLI leverages the improved linkage to integrate green (including climate) aspects into the costed PPDs. Green aspects/considerations are



informed by PPDs including the LCDS, the updated NDCs, the National Climate and Energy Plan, National Air Protection Plan, and the National Waste Management Plan. These are among the guiding policies formulated under the Green Agenda for the Western Balkans.

- DLI 2 implements GBT to inform resource allocation decisions and budget execution, under the oversight of the MoF and technical input of the MoEP. This is supported by the development of tagging methodology that supports green and climate policy needs, training of line ministries, and other technical support for implementation. The integrity of budget tagging will be subject to internal and external audits once it is established.⁹³ GBT is expected to better align sector workplans and expenditures with climate policy and facilitate resource flows to climate mitigation and adaptation.
- DLI 4 supports the mainstreaming of green and climate-responsive public investment selection. Green and climate considerations are incorporated into strategic assessments of public investments from the identification, review, and selection stages of the PIM, with a target share of new public investment reviews expected to comply with the requirements. This will scale up public spending on critical climate and green needs, particularly in energy, and waste and wastewater management. Climate risk tagging at the asset registries is also included and will provide a climate lens to asset management and enhance the climate resilience of infrastructure.
- DLI 5 supports the mainstreaming of green and climate criteria into public procurement by the PPO, by recognizing goods, services, and works with a reduced environmental impact throughout their life cycle. This not only greens the public sector footprint, but government spending as share of the economy is sizeable enough that green public procurement will play a role in the shift to a carbon-neutral economy.
- DLI 8 implements an MRV system for GHG emissions under the responsibility of the MoEP. The Law on Climate Change sets out the scope and coverage of the MRV system for major GHG emitters, with at least half of installations covered under the law being subject to MRV requirements before the end of the Program. The MRV system is instrumental for keeping the country on track for realizing commitments under its second NDCs and Serbia's LCDS.

⁹³ It is expected that after the first year of application, in 2025, the application of GBT will be subject to internal and external audits in line with regular procedures (and based on the specifics as outlined in the GBT methodology to be adopted).



ANNEX 4. (SUMMARY) FIDUCIARY SYSTEMS ASSESSMENT

195. The World Bank conducted the assessment through analysis of available documents and working sessions with the key stakeholders. The FSA considers whether the Program's fiduciary systems provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. It covers the Program's institutional arrangements, financial management and procurement systems, and governance systems. The findings of the FSA concluded that the overall fiduciary systems provide a reasonable assurance that the Program funds will be used for the intended purposes. The FSA was done with a mix of field and virtual meetings.

Public Fiduciary Systems

196. In June 2022, GoS adopted a new PFM RP for the 2021-2025 period as the key strategic document in the area of PFM. The program includes five specific objectives and a number of measures designed to achieve its objectives. It contains a very detailed action plan with performance measures. Climate change is not covered in any of the measures and activities in the new PFM RP. It is intended that the PFM RP updates include the climate change elements. The Program eligible expenditures entirely relate to the PFM RP.

197. Responsibility for budget planning and execution is largely decentralized to Program implementing agencies. Planning and budgeting capacity in MoF, RPD, MoCTI, SEPA, MOEP, PPO and PPS is adequate. Accounting systems can track and report actual Program expenditures against a comprehensive organizational, functional, program, economic and source-of-funds classification. Through annual audit of the Law on Final Account and stand-alone audits of institutions (on rotation principle certain number of institutions each year), the SAI confirms that final accounts of central government and individual institutions, including Program implementing entities', are in line with the national accounting framework. Quarterly reports on budget execution prepared by institutions involved in the Program in line with local legislation⁹⁴, will be used as financial reports for monitoring Program expenditures. The Program entities prepare budget execution plans each month for the coming quarter on a rolling basis, based on which the Treasury Administration determines their respective monthly payment quotas. Internal controls provide a satisfactory control framework and internal audit units are functional in Program implementation entities. The Program will not directly rely on internal audit work in verifying the use of funds but will be informed by findings of internal audit when assessing fiduciary arrangements during implementation. Program implementing entities prepare financial statements using their accounting records and auxiliary ledgers, after reconciling such information with the Treasury Main Ledger.

198. Budgets are reliable, deviations are monitored, and the budget is presented according to all relevant budget classifications, broadly in line with GFS 2014. In-year budget reports are not prepared in comparable format to the annual budget and annual reports. Budget documentation is comprehensive and includes the key elements. The Budget preparation calendar is embedded in legislation and adhered to. SAI is independent and conducts its audits in line with the annual audit plan and international standards. All audit reports are published shortly after completion. Procedures and practices for the Parliament's review of the annual budget are

⁹⁴ Decree on Budget Accounting (Official Gazette of the Republic of Serbia No. 27/2020); Rulebook on Manner of Preparation, Compiling and Delivery of Financial Statements of Users of Budget Funds, Organizations of Mandatory Social Insurance and Budget Funds (Official Gazette 17/2022)



appropriately established, and the review of the Government's financial statements (final account) has improved. However, very often, the Parliament does not have sufficient time to assess the budget and, at times, the budget documentation submitted to the Parliament is not comprehensive. Most strategies and policy documents are costed; however, the links with the annual budget are not obvious. Program-based budgeting practices are still underdeveloped.

199. The regulatory and operational framework for the functioning of financial management and controls is largely in place. Nevertheless, the effective functioning of internal controls in practice is lagging behind in terms of, for example, managerial accountability and delegation of decision making, reporting on irregularities, and reporting and management of arrears.⁹⁵ Implementing the recently introduced legislative framework for PIM in the coming years could lead to improved selection and implementation of capital investments and increase their positive impact on the community and optimize the use of resources.

200. Quality of accounting and reporting information could significantly improve by applying accrual data. While there is no material concern about the accuracy of expenditures and revenues, preparation of the Government's Balance Sheet without actual accrual standards being applied undermines the quality of the reported information of the financial position. For example, the data on non-financial assets and arrears are not reliable. In-year budget execution reports are not published, while annual financial reports are published with delays.

201. Adoption of the PPL in December 2019 and its implementation effective July 1, 2020, is a major step towards a more transparent, efficient, and competitive public procurement system. The PPL has been fully harmonized with the EU Directives, more specifically, public procurement announcements and contract awarding procedures. One of the most important features of the PPL is the application of the digital public procurement portal (Article XV) which provides for electronic submission of tenders, electronic communication between all relevant stakeholders, opening of tenders, publication of procurement notices and contract awards, and filing of request for protection of rights. The Serbian Government has committed to continuing the reform of the public procurement system by adapting the new 2019-2023 Public Procurement Development Program and Action Plan and the PFM RP 2021-2025.⁹⁶

202. The key actor in Serbia's public procurement system is PPO. PPO is a stand-alone organization, accountable directly to the Government⁹⁷ to which it reports on a yearly basis. PPO performs professional activities in the field of public procurement; monitors the implementation of public procurement regulations; participates in drafting laws and other regulations in the field of public procurement and enacts bylaws in the field of public procurement; manages the public procurement portal; records data on public procurement procedures and public procurement contracts; cooperates with domestic and foreign institutions and experts in the field of public procurement in order to improve the public procurement system; provides professional assistance to contracting authorities and bidders; and contributes to creating conditions for economical, efficient and transparent use of public funds in the public procurement procedure. The regulations on state administration shall apply to the work and organization of PPO, unless otherwise determined by PPL.

⁹⁵ OECD. 2021. *Monitoring Report. The Principles of Public Administration. Serbia. November 2021.* OECD, Paris.

⁹⁶ Serbia, Public Procurement Office. 2018. *The 2019-2023 Public Procurement Development Programme and Action Plan.* Public Procurement Office, Belgrade.

⁹⁷ OECD. 2014. *Serbia assessment report 2014.* OECD, Paris.



203. **The procurement capacity of the implementing agencies is adequate.** The implementing agencies are the MoF, MoEP, MoCTI, SEPA, PPS, PPO, and RPD, which have reasonable procurement capacity considering the PEF. The program expenditures mainly cover salaries and related costs, not anticipating high value or complex procurement.

204. **The Program audit will be undertaken by the SAI.** SAI audits the annual law on final account, every year, and this audit will be considered as the audit of the Program. Law on final account includes budget execution of all institutions included in the budgetary central government, including those involved in the program. The audit of the law on final account comprises financial and compliance audit, and apart from accuracy of financial statements and compliance with laws and regulations, during the audit SAI also examines the financial management and control systems, internal control systems and internal audit. The audit is conducted in line with International Standards for Supreme Audit Institutions (ISSAI). The audit of the final account is delivered by the SAI by the end of the year following the audited period. SAI is assessed to have sufficient capacity to produce reliable audits providing sufficient assurance about the use of Program funds.

205. **The risk for the area is assessed to be Moderate after mitigation measures.** The overall Program's fiduciary framework is assessed to be adequate to provide reasonable assurance that the Program financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.

206. **The Program implementation requires a substantial level of follow-up and coordination.** The role of MoF's DICEI as a coordinating entity (OCU), as well as other institutions in charge of the implementation are crucial for the successful implementation of the Program. This will entail the monitoring of the DLIs' achievement and annual external audit report⁹⁸ submission to the World Bank (not later than six months at the end of each fiscal year), as well as coordination guided by the Steering Committee on the auditor's findings and application of recommendations and resolution of findings and irregularities. The World Bank will conduct an annual review of budget performance.

207. **Procurement exclusion.** It is foreseen that all individual contracts under this Program will be below the Operations Procurement Review Committee thresholds, namely: (a) works estimated to cost US\$115 million equivalent or more per contract, (b) goods estimated to cost US\$75 million equivalent or more per contract, (c) non-consulting services - US\$75 million equivalent or more per contract, and (d) consulting services US\$30 million equivalent or more per contract.

208. **For the envisaged ITA/PF component of the loan, procurement will be carried out in accordance with the World Bank's 'Procurement Regulations for IPF Borrowers: Procurement in Investment Project Financing for Goods, Works, Non-Consulting and Consulting Services',** dated November 2020. For the TA component, the main responsibility for the fiduciary arrangements will be with CFU, under MoF. CFU has adequate procurement capacity following Bank Procurement Regulations. CFU is currently implementing nine World Bank-funded projects with prospects of further increasing that number. The CFU will maintain the financial management system acceptable to the World Bank. The project's financial statements including Statement of Expenditures (SoE) and DA Statements will be audited by independent auditors on ToR acceptable to the Bank. The annual audited financial statements will be provided to the World Bank within six months of the end of each fiscal year. CFU shall

⁹⁸ To be produced by SAI or commissioned to a qualified auditor.



prepare and furnish to the World Bank not later than 45) days after the end of each calendar semester, interim un-audited financial reports for the project covering the semester, in form and substance satisfactory to the Bank.

208. **To strengthen the existing financial management arrangements, an action plan has been agreed with CFU for the implementation of the IPF component.** The current capacity of CFU should be strengthened in terms of hiring additional financial management and procurement staff. CFU will need to have an acceptable software and project operational manual with sections related to the financial management. The existing software is adequate; however, as the existing license has expired by the end of calendar year 2022, an alternative solution needs to be identified or the existing license extended. Similarly, while the CFU has a very good capacity and understanding of the World Bank procurement regulations or guidelines it has still limited capacity for the PPL and its implementation. Therefore, the CFU's capacity for procurement using the national procurement system should be enhanced substantially.

209. **The World Bank's Guidelines on Preventing and Combating Fraud and Corruption in PforR Financing will apply to the Program.** If required, the World Bank will have access to any information related to contracts under the Program (including those held by third parties/contractors) and the Government and the World Bank will jointly conduct a review to determine the existence or fraud and corruption within the Program. The main agencies which will be significant for this process will include: the Prosecutors Office, the Agency for Prevention of Corruption, the Anti-corruption Council, and PPO.

210. **The implementing agencies will execute the activities in accordance with the World Bank's 'Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing', dated February 1, 2012, and revised July 10, 2015.** The implementation agencies will: (a) share information with the World Bank regarding all allegations of fraud and corruption in connection with the Program, investigate all credible allegations received, report to the World Bank on actions taken, and cooperate in any inquiry that may be conducted by the World Bank into allegations or other indications of fraud and corruption in connection with the Program; and (b) monitor and abide by the World Bank's list of debarred/suspended firms.



ANNEX 5. SUMMARY ENVIRONMENTAL AND SOCIAL SYSTEMS ASSESSMENT

211. The World Bank prepared this ESSA in collaboration with the GoS as part of the preparation of proposed Program financing. Through this PforR, the World Bank intends to support the implementation of improving Serbia's PFM for the green transition.

212. The ESSA examines applicable environmental and social management systems (ESMSs) to assess their compliance with the [World Bank Policy Program-For-Results Financing](#). It aims to ensure that the Program's environmental and social risks will be managed adequately and that the Program complies with the basic principles of sustainable development. Paragraph 9 of the [World Bank Policy Program-For-Results Financing](#) describes the core principles of environmental and social management that may be considered as relevant or applicable in the ESSA. These core principles are as follows:

- Promote environmental and social sustainability in the PforR Program design; avoid, minimize, or mitigate adverse impacts; and promote informed decision-making relating to the PforR Program's environmental and social impacts.
- Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the PforR.
- Protect public safety and worker safety against the potential risks associated with: (a) construction and/or operations of facilities or other operational practices under the PforR; (b) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the PforR; and (c) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.
- Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards.
- Give due consideration to the cultural appropriateness of, and equitable access to, PforR Program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups.
- Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

213. The ESSA evaluates the compatibility of the GoS's systems with the core principles at two basic levels: (a) the systems as defined by laws, regulations, and procedures (the 'system as defined'), and (b) the institutional capacity of implementation entities under the Program to effectively implement the system (the 'system as it is applied in practice'). It identifies and analyses the differences between the national systems and the core principles that apply to the Program at the two levels indicated above.

Approach for the ESSA

214. The preparation of the ESSA and the development of measures to strengthen the ESMS have benefited from various desk-based reviews and consultative processes, with main project stakeholders.



215. The desk-based review focused on the national legislation and other relevant regulations and policies in the areas of social and environmental risk management, information disclosure, stakeholder and citizen engagement, equal opportunity and nondiscrimination, and environment, with a special focus on identified environmental and social aspects relevant to the Program. These also included review of publicly available reports and relevant World Bank studies addressing access for vulnerable and disadvantaged groups to services supported, stakeholder engagement practices and existing GRM in implementing agencies.

216. The World Bank team carried out initial stakeholder consultation meetings in the period from October to November 2022, to develop a better understanding of implementation practices, procedures, standards, and the approach for the Environmental and Social Systems Assessment (ESSA) program. These meetings were held with various stakeholders including technical staff from MoF, MoEP, PPS, other government agencies, and representatives of CSOs (Belgrade Open School, Koalicija 27, CEP, Transparency International Serbia, and Renewables and Environmental Regulatory Institute [RERI]). These initial stakeholder consultation meetings informed key ESSA findings, contributed to formulating the ESSA Program Action Plan, and informed the design of the Operation in terms of identifying topics and avenues for engagement.

217. **In a second step, the draft ESSA was disclosed on the World Bank's website on January 10, 2023, and on the MoF's website on January 16, 2023 (in English and Serbian).** A consultation meeting was held on January 19, 2023, and interested parties could submit their comments on the draft document online until January 23, 2023. During the meeting, the World Bank team presented the main findings and the proposed ESSA Action Plan. Numerous questions were posed regarding the design of the Program and the implementation plan of the IPF and PforR components, as well as the World Bank's standards in the areas of environmental protection, social dialogue, and grievance mechanism. Participants emphasized that one of the key challenges is how to motivate citizens, and especially vulnerable groups, to engage on reforms of PFM, taking into account the administrative character of these reform processes. MoF announced its plans for a training on PFM reform for interested CSOs in February 2023 – as part of the preparation for updating the PFM RP in 2023, which will newly include issue of greening public expenditure management.

218. **Overall, the following recommendations have been considered: vulnerable groups should be included in discussions on public finance reform and green public investments;** current ways of engagement, including information disclosure practices, can be further adapted to meet the needs of different groups of citizens (for example, adapting existing platforms to blind and visually impaired persons); CSOs and/or vulnerable segments of the population potentially interested in such reforms should be contacted pro-actively, and the World Bank should facilitate the exchange of experience and best practices for the involvement of vulnerable and disadvantaged groups in topics related to the reform of public finances and green investments.

Program Description

219. **The GoS and the World Bank are engaged in the preparation and development of the Operation with the aim of supporting the GoS to improve the current PFM and PIM systems towards well-targeted and efficient use of public funds to ensure public resources contribute to Serbia's green transition.** This Operation supports addressing selected critical gaps and weaknesses in current PFM and PIM systems to achieve key desired outcomes: (a) improved fiscal resilience, transparency, and spending effectiveness and (b) Greening Serbia's expenditure cycle and developing its GHG MRV.



Program Environmental and Social Effects

220. **The overall objective of Program-financed activities is to make the PFM system in Serbia more efficient, inclusive, and green oriented.** The Program will not fund any activities involving high or substantial environmental or social risks such as extensive land expropriation, relocation of large numbers of people, heavy pollution, significant transformation of the natural environment, or activities that pose a threat to the health and safety of workers and communities. The Program is expected to have many positive environmental and social effects in the areas of government accountability, transparency, inclusiveness, and green growth.

221. **The EF envisages the provision of subsidies to public and private and specialised services to incentivize preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of environment-friendly cars.** Current environmental legislation and procedures are sufficient for regulating the described activities. However, there are risks related to the adequacy of consultation and disclosure process and the potential of excluding vulnerable and disadvantaged groups from the Program benefits. These risks may be easily mitigated by ensuring that public calls have transparent awarding criteria and preliminary and final lists of I would subsidy beneficiaries are published with explanatory notes and disclosed at the MoEP's web site. Furthermore, activities related to waste management, although aimed at recycling and other improvements, may cause harm to human and environmental health if undertaken improperly. Adequacy of the national regulatory framework and the accumulated national experience suggest that this risk is insignificant.. Based on the environmental and social risk analysis below, the environmental risk is estimated to be low and social is moderate. **Overall, the Program's environmental and social risk is Moderate.**

Main Environmental Effects of the Operation

222. **The Operation is overall very beneficial from climate and environmental perspectives.** Achieving the results defined through DLIs will significantly enhance Serbia's public sector focus and action on climate change across the planning, budgeting, public investment planning, and procurement cycle. DLI 8 directly targets and supports the MRV of GHG emissions. Other DLIs will help with improving other climate aspects, namely: (a) improving links for integration of green and climate aspects into the costed strategies and policies; (b) implementing GBT to inform resource allocation decisions and budget execution, with support by the development of tagging methodology that supports green and climate policy needs, training of line ministries, and other technical support for implementation; and (c) mainstreaming of green and climate criteria into public procurement by recognizing goods, services, and works with a reduced environmental impact throughout their life cycle. The integration of green criteria of projects is expected to trigger the implementation of environmental best practices which will lead to best utilization of resources, such as energy, water and waste management, adaptation to climate change, and so on.

223. **The Operation also includes recurrent spending that targets Green Agenda through subsidies under MoEP's budget related to incentives for preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of ecologically acceptable cars.** There are established procedures within MoEP regarding to eligibility criteria, approving, and monitoring of subsidies. The procedures are robust and complied with in practice. The procedures related to subsidies are regulated in relevant bylaws⁹⁹

⁹⁹ Decree on Conditions for Allocation, Criteria, Use and Monitoring of Funds from the Green Fund (Official Gazette of the Republic of



and further accompanying guidance and templates. The process is competitive and based on public calls for applications. In 2021/2022 within the framework of its Green Agenda Programme, MoEP disbursed subsidies for reuse of waste, for the activity of illegal waste disposal prevention and remediation, for protection of soil as natural resources, and for protection of spatial diversity – afforestation.

224. The Program will not create an additional environmental footprint as it supports neither construction of new infrastructure nor the extraction of natural resources. It does not include any activities that may lead to heavy emissions or to generation and discharge of large volumes of waste. Serbia is an EU accession country and its environmental regulations, to some extent, are aligned with the EU. Considering all above mentioned the overall environmental risk is assessed as Low.

Main Social Effects of the Operation

225. Program activities are targeted at enhancing fiscal transparency as well as green and gender budget tagging and if combined with adequate support in public outreach and citizen engagement on budgets will provide the opportunity for citizens and investors to gain improved insight into the green budget policy and actions being implemented. These actions will form the base for improved dialogue between the Government and citizens. The main social risks associated with the Program are related to ESSA Core Principle 1, which promotes informed decision-making with regard to the Program's environmental and social effects and Core Principle 5 with special regard to vulnerable and disadvantaged groups' coverage by stakeholder engagement activities. Vulnerable and disadvantaged groups may not be adequately targeted, the model of engagement may not be aligned with their needs, and they may be excluded from the dialogue on PFM reform and green budgeting. The vulnerable and disadvantaged groups may include persons from rural or high mountainous regions, internally displaced persons, people with disabilities and special needs, Roma, women, and LGBT population, ethnic/linguistic/religious minorities, those without internet/device connections, and the poor, especially those persons or families who have lower education levels, nutrition, and health outcomes. The low capacity for creating customised information campaigns to reach different segments of the population and presenting sufficient information in an accessible manner as well as a lack of functional grievance systems (at the national and local levels) are assessed as key barriers to effective stakeholder engagement.

226. Furthermore, the implementation of the Program activities will impose an additional workload on the public administration staff causing potential workplace burnout. This is particularly relevant for those ministries and implementing agencies that are currently understaffed. This labour-related risk is manageable through the application of standard national procedures relevant to occupational and community health and safety and provision of TA through the IPF component. The Program will not finance any activities that will require acquisition or conversion of land or the restriction of access to resources. Considering the nature of the Program, the complexity of intersectoral coordination process, possible risks, and existing capacities in social risk management, the overall social risk of the Program is assessed as Moderate.

Environmental and Social Systems Assessment

Environmental Systems Assessment

Serbia No. 25/18); Rulebook on Conditions for Allocation and Use of Funds from the Green Fund (Official Gazette of the Republic of Serbia No. 31/18); Decree on Subsidized Purchase of Electric and Hybrid Cars (Official Gazette of the Republic of Serbia No. 53/21).



227. **Serbia's environmental management system is aligned with core European and international norms**, such as the sustainable use of natural resources, protection of biodiversity and habitats supporting it, equitable access to ecosystem services, prevention of deforestation and desertification, curtailing of environmental pollution from toxic substances and plastics, mitigating climate change and adapting to its impacts, and embracing digitalization and advanced technologies for low-emission green development. Serbia is a signatory to most international and regional environmental treaties, including the Aarhus Convention on Access to Information and Public Participation in Decision-Making.

228. **When it comes to the subsidies under MoEP's budget related to incentives for preservation of nature and protected natural sites, recycling of materials and waste management, and purchase of ecologically acceptable cars, current environmental legislation and procedures are appropriate for this type of operation.** Moreover, given the size and type of disbursed funds (more than 98 percent), MoEP has sufficient capacity to implement this project component. MoEP inspects, supervises, and controls waste reuse and quantities and issues verification documents for the purpose of subsidies. The application forms include sufficient information with regards to environmental screening, monitoring, supervision, ownership, size and type of legal entities, inspection, supervision and exclusion criteria (on the ground of noncompliance with environmental regulations) to adequately award and monitor the disbursement of the subsidies. Proper information is made available to the public through public calls with transparent awarding criteria and publishing of preliminary and final lists with explanatory notes, all of which are published on the MoEP's website. Occupational health and safety risks related to workers handling waste in recycling procedures are governed by the Law on Occupational Health and Safety.

Social Systems Assessment

229. **Serbia passed numerous laws, strategies, and guidelines, which prescribe access to information and the mandatory implementation of consultations at all stages of the preparation of regulations and public documents.** While the national legislation may be considered adequate, there are two important gaps. The identified gaps relate to ESSA Core Principle 1 with special regard to promoting informed decision-making relating to a Program environmental and social effect and Core Principle 5 with special regard to vulnerable and disadvantaged groups' access to and inclusion in the Program activities.

230. **After comparing the current practice of the MoF and MoEP in disclosing information, engaging stakeholders, and including vulnerable groups, with ESSA international good practice and Core Principles 1 and 5, the following can be concluded:** (a) the current system should improve the targeting of citizens and/or CSOs, particularly vulnerable groups; (b) engagement formats should be adapted to different categories of possible stakeholders; (c) published information should be sufficiently transparent, regularly updated, timely disclosed, and comprehensive; (d) information should be easily accessible and presented in a user-friendly manner; (e) functional GRM and other engagement mechanisms to ensure two-way communication should be established; (f) a scoping concept note should be developed to show the link, connection, and/or complementarity between various governmental platforms that focus on mapping services and measuring satisfaction; (g) monitoring indicators on the effect of planned PFM reform on a vulnerable population, women, and people with disability should be developed; (h) the system should ensure regular monitoring and reporting on stakeholder engagement activities; and (i) for improved accountability and public trust, all efforts invested in stakeholder engagement and improved transparency and accountability should be promoted through various channels.



231. **To further strengthen the existing capacities for effective consultations with interested parties, and to strengthen the inclusion of vulnerable citizens, it is necessary to develop SEP and hire experts for social issues/CE on a need basis.** The capacity of implementing agencies to manage social risks varies depending on their previous exposure to the programs supported by the World Bank and other donor-related programs. Most commonly, the responsibilities for social considerations in project preparation and management are not specified, and the entities do not have any in-house social capacity. Consequently, in most cases, organizational capacities to effectively manage citizen engagement, and to ensure the inclusion of vulnerable groups in the consultative process, are limited.

232. **Following the EU rules and procedures, the MoF's DICEI demonstrated good capacity for coordinating inter-ministerial and intersectoral groups of stakeholders for the PFR RP 2016-2020.** Its strategy of including CSOs in dialogue on the planning, implementation, and monitoring of the budget reform program through the e-platform National Convent (*Nacionalni Konvent*) proved to be efficient, and examples of good practice may be applied to this Operation. MoEP, as a key implementation partner, has limited experience in social risk management due to various assignments related to Environmental Impact Assessments, though improvements are required in targeting and inclusion of vulnerable and disadvantaged groups.

233. Perceived limitations related to social performance are: (a) lack of staff, to sufficiently cover the activities of the Program in a timely and quality manner; and (b) lack of expertise to manage the social dimensions of the Operation.

ESSA Program Action Plan

234. **These environmental and social systems assessments identified gaps between the existing ESMS and international good practice,** which the GoS will fill by supporting specific measures to enhance the performance of the ESMS related to social inclusion. These measures will be implemented through the actions as summarized in the Program Action Plan (see annex 6).

235. **Communities and individuals who believe that they are adversely affected as a result of a World Bank supported Operation, as defined by the applicable policy and procedures, may submit complaints to the existing program grievance redress mechanism or the World Bank's GRS.** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



ANNEX 6. PROGRAM ACTION PLAN

Action Description	Source	DLI#	Responsibility	Timing		Completion Measurement
Public Investment Management Information Systems (PIMIS) is operational	Technical	DLI 3	MoF/FRMD	Due Date	29 December, 2023	According to information available to the MoF, PIMIS is set up and ready for production (after the ITE Office resolves some technical issues). Entry of project data by the project implementation entities is expected to begin and be followed by data processing by PIMOCU. Consequently, creating a report for the Commission's next session is also expected.
New financial management information system (SPIRI) is operational	Fiduciary Systems		Treasury Administration/MoF	Due Date	30 December, 2024	SPIRI is in place and is being used. It integrates functions of budget planning, preparation, execution, payments, accounting and reporting for all budget beneficiaries included in the budget execution system and/or consolidated treasury account.
New PFM PR Action Plan adopted, including green aspects	Technical		MoF	Due Date	29 December, 2023	New PFM RP is developed and adopted, formalizing green PFM reforms as part of the overall PFM RP agenda.
Development of an implementation roadmap for the Green Agenda, including costing and a results framework covering progress with establishing implementation mechanisms is developed and adopted.	Technical		MoEP	Due Date	28 December, 2023	An implementation roadmap (or equivalent document) has been adopted; the document includes a results framework; progress on implementation mechanisms is part of the RF.
Upgrade existing communication formats and channels to:	Environmental and Social Systems		MoF	Other	No later than 10 months after the effective	Existing CE platforms contain dedicated sections on green investments and are technically equipped for accommodating



a) disclose relevant info. in a timely and user-friendly manner b) accommodate the needs of vulnerable groups (for instance, visually impaired) c) collect beneficiary feedback on green investments					date	the needs of vulnerable groups.
TA under the IPF should be used to provide additional training on SE/CE and communication including with vulnerable groups in particular for DLI 2, 6 and 8	Environmental and Social Systems		MoF	Other	During program implementation	Training reports
Sufficient staff or consultancy support are available to MoEP and SEPA for the start-up and implementation phases of the MRV system.	Technical	DLI 8	MoF and MoEP	Other	continuous over the lifetime of the operation and in line with expected progress on the MRV system	Reporting on staff and consultants dedicated to making the MRV system for GHG emission monitoring operational (start up/setting up phase and subsequent steady state operational phase).
Appoint, on a part time basis, qualified social and CE specialists, and if needed environmental specialist, to strengthen capacities of MoF and MoEP	Environmental and Social Systems		MoF	Other	No later than 60 days after the Loan Agreement Effective Date	Signed part time contracts
Establish Program level GRM and instruct participating government institutions to report concerns related to the	Environmental and Social Systems		MoF	Other	Operationalize GRM no later than 30 days after the Effectiveness date of the Loan	Operation Implementation Manual includes the provisions in GRM. Grievance contact person assigned, the information on the presence of the GRM and how to submit GRM published on MoF official website.



Program activities to PCU who will keep and manage a central grievance log.						
Adopt and implement Stakeholder Engagement Plan (SEP) with elements of communication plan to clearly define the main stakeholders and adapt engagement communication channels and methods to specific needs of each stakeholder group.	Environmental and Social Systems		MOF	Other	Prepare the document no later than 30 days after the Effective Date and implement throughout the Program	The main provisions of SEP integrated in the OIM



ANNEX 7. IMPLEMENTATION SUPPORT PLAN

235. **The implementation support plan is focused on addressing initial bottlenecks, and to address opportunities and challenges that may arise during implementation.** The World Bank's semiannual reviews will cover technical and nontechnical aspects of the Program implementation, including progress towards Program results, fiduciary, and social aspects. The task team will also maintain regular dialogue with the MoF and other institutions involved on all relevant operational, technical, and policy aspects, with special attention to any implementation delays or bottlenecks. This will be done through biannual supervision and implementation support missions and ongoing support through staff based in the Serbia country office. Furthermore, implementation support will seek to support connecting Serbia with the World Bank's evolving global knowledge on developing institutions to address environment and climate change challenges.

236. The World Bank's implementation support will consist the following:

- Support for ensuring effectiveness, advise on, and quality check the OIM
- Provision of technical advice and implementation support geared to the attainment of the PDOs, DLIs and intermediate results indicators
- Linking of Serbia with relevant regional and international experience and lesson learning events on issues supported through the PforR
- Capacity-building activities to strengthen the implementation capacity, covering the technical, fiduciary, and environmental and social dimensions
- Ongoing monitoring of implementation progress, including regularly reviewing key outcome and intermediate indicators, and identification of bottlenecks
- Review and verification of DLI progress following agreed protocols
- Monitoring of risks and identification of corresponding mitigation measures
- Close coordination with other development partners to leverage resources, ensure coordination of efforts, promote consistency across relevant strategies and plans being advised on by different partners, and avoid duplication.

Focus of Implementation Support

Time	Focus	Skills Needed	Resources Estimate	Trips	Partner Role
First 12 months	Support the establishment of the Program implementation arrangements	Operational, ENB, GOV	4-6 weeks	2 international trips	Establishing support for AFD's contribution
	Support and overview the implementation of TA under the IPF Component	ENB, GOV, operational, procurement	6 weeks	No additional trips required	Support TA
	Monitoring progress of achieving DLRs for Year 1	Operational	4 weeks	1 international trip	Contributing to policy engagement related to targeted results
12-48 months	Continued regular implementation support,	ENB, GOV, change management and	12 weeks per year across	4 international trips per 12-	Contributing 1-2 members to



	including monitoring of progress on DLRs/DLIs	operational	the different skills/practices	month period	supervision mission
	Fiduciary support	FM and procurement	2 weeks per 12 months period	Regional travel	
	Environmental and social	Environmental and social specialists	2 weeks per year	Country based	
	Citizen engagement	Social/CE specialist + GOV team	2-3 weeks per year	Country based/ regional travel	



ANNEX 8. INVESTMENT PROJECT FINANCING COMPONENT

237. **The IPF component will (a) fund TA to enable capacity strengthening and knowledge transfer, and (b) it will provide project management support to MoF and other counterparts – both based on lessons learned from the previous PforR targeting institutional reforms (P155172).** Direct handholding support is important to enable the achievement of results and to address bottlenecks where needed. Project management support is important as implementing the PforR and fulfilling MRV requirements is time intensive and can be difficult to accomplish for existing counterpart staff without additional support that can be contracted.

238. **The Project consists of, *inter alia*, the following activities to assist with implementation of the Program:**

- (a) provision of technical assistance, Training and Operating Costs to the MOF, PPS, MoEP, RPD, and PPO for the Operation's management, implementation, monitoring and evaluation, including the costs for the Verification Agent;
- (b) preparation of Training manuals and materials;
- (c) targeted capacity building activities to enable the implementation of activities;
- (d) procurement of 2 software: software to enhance the GHG MRV IT solution, and the Calculator;
- (e) change management and behavioral change interventions;
- (f) communication, outreach, and awareness-raising activities; and
- (g) identification of lessons learned and best practices in other countries that may be relevant for Serbia.

239. **TA will finance the external advisory needs of the client which are expenditures outside of the EF.** The TA needs identified for the IPF component consider what TA is currently programmed to be provided by other development partners; and in several areas builds on ongoing TA provided by the World Bank teams based on Trust Funds. As additional TA needs tend to be identified during implementation, the IPF component also foresees a moderate unallocated amount of EUR 150,000.

240. **AFD will provide co-financing for the IPF component in the amount of EUR 3 million.**

241. **As mentioned in para 63, reporting on the IPF component will include a gender breakdown for all relevant TA activities.** This will include, as relevant, the number/share of female participants in trainings, outreach, and citizen engagement; and where appropriate will also cover the share of women involved in providing TA support. For DLI 5, it will be explored whether outreach to businesses on green public procurement can include gender aspects will be explored. Finally, to increase the impact of the Operation, a small allocation is being made to build on the MRV outcome of the Program to support GHG projections as one of the ways to use the MRV system once it is established.

Institutional and Implementation Arrangements

242. **Each implementing institution will prepare its ToRs, with coordination, monitoring and reporting by/through OCU. OCU will monitor TA needs and coordination with other development partner support for RA 1 and PFM related aspects of RA 2.** The CFU will provide procurement support, following standard IPF rules. The World Bank will review and provide no-objections to final ToRs and to the final selection of service providers. Where possible and sensible, delivery of training to civil servants will involve NAPA (as the main provider or as a



co-recipient of training materials and so on) to enable a wider reach/coverage of relevant public sector staff with the development of training materials and pilot training fundable from the IPF component, and subsequent broader roll out to be covered by regular budget funds.

**Table 8.1: The IPF Component – TA Support
(with Additional Support Provided by AFD in the Same Amounts)**

Reform area	TA Needs to Achieve Results and Not Covered by TA Provided by Others	TA Provided by Others	Tentative Allocation (EUR)
Mainstreaming green aspects into PPDs (strategies, programs, and action plans) and enhancing costing (to consider different up front versus life-time costs between 'business as usual' and greener approaches)	<ul style="list-style-type: none"> Supporting PPS in updating existing and development / preparation of new methodologies, conducting training for the PPS staff, strengthening PPS project preparation and implementation capacities, peer learning from other countries, training for the line ministries on costing (usage of calculator) and developing new green Guidelines for inclusion of green aspects in PPDs (with inputs from MoEP). Support for the development of technical specifications for the Calculator and its development Support for the update of the Costing Manual Support in advising policy proponents (ministries) on developing their PPDs using Guidelines and developing appropriate costing Advice on good international practices for developing guidelines and inclusion of green aspects in PPDs Supporting making links between just-in-time analytics and policy documents (for example, climate vulnerability analysis, sectoral marginal abatement cost curves, strategic environmental assessments) Support for stronger integration of gender aspects into PPDs (development of the checklist for PPDs for integration of gender aspect - with complementary funding from AFD <i>via</i> UN Women) 	PFR and Agenda 2030 project implemented by the German Agency for International Cooperation (<i>Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ</i>), funded by German and Swiss development aid – also support for costing	200,000
Knowledge sharing and peer learning on GBT	<ul style="list-style-type: none"> Advisory support for the IMWG on GBT Training for ministries on the use of the GBT methodology to be adopted Peer learning from other countries Support for help desk/communication/change management for budget users Initial advisory support on possible tagging of tax measures 	IMF TA report (GBT methodology development)	300,000



Enhancing core processes in PIM	<ul style="list-style-type: none"> • Technical support to MoF on the implementation of the pre-appraisal and GAP stage from the perspective of the amendments of the Decree on Capital Projects Management • Technical support to the MoF on reviewing the feasibility studies • Technical support to the MoF on project monitoring and reporting to the CIC from the perspective of the amendments of the Decree • Technical support to the MoF for developing opinions on financial and implementation aspects of projects submitted for selection • Training on methodological and procedural manuals covering key aspects of PIM and asset management processes for selected sector(s) 	Existing World Bank/TF PIM TA; IMF support; the EU	250,000
Developing public asset management	<ul style="list-style-type: none"> • Advice on approaches to public asset valuation and support tagging of climate risks in asset registries (building on work already supported through World Bank projects on disaster risk management) 		150,000
Developing green and climate-responsive public investments	<ul style="list-style-type: none"> • TA for developing criteria for selection of projects according to environmental/climate relevance at pre-implementation stage of capital projects (including support to develop amendments to the rulebooks and forms associated with the Decree on Capital Projects Management) • TA for analysis in terms of compliance with green and climate criteria and for macroeconomic indicators related to the share of green and climate-responsive capital expenditures • Support for the implementation of climate co-benefits calculation of significant projects • Support for stakeholder engagement, peer learning, and communications • Support for the participation in training courses offered by France on green and climate aspects of PIM (funded separately) • Green PIM training for the GoS officials developed in collaboration with NAPA 	Existing WB/TF PIM TA	300,000
Using green public procurement	<ul style="list-style-type: none"> • Training and advisory support for line ministries to encourage uptake of green public procurement • Supporting the identification and design of priority product groups for green public procurement • Assessment of market readiness • Support to PPO and MoEP to coordinate and encourage uptake of green public procurement (pilot tendering; integration of GPP throughout the procurement cycle; peer learning from other countries) • Training and communication outreach to suppliers • Support to PPO in M&E (measurement of process, outputs, and outcomes) and analysis (opportunities, bottlenecks) 	USAID and EU (IPA III) providing support for general public procurement improvements	300,000
Enhancing fiscal transparency and program-based budgeting, including gender disaggregation	<ul style="list-style-type: none"> • TA activities to strengthen institutional capacity for performance management (design of indicators, M&E, and so on) at large budget users and MoF • Support to establish internal structure for performance monitoring and management • Support performance analysis (cross-cutting) • Support to the performance analysis for subsidies and tax expenditures on green energy 	<p>EU project (program budgeting in new ministries 2020-2022) potential new GIZ support</p> <p>Potential IMF support</p>	400,000



	<ul style="list-style-type: none"> Capacity building and training in performance based budgeting Building on the joint transparency initiative, the IPF component will support public outreach and receiving feedback from citizens; this will help the GoS improve its ratings on the Open Budget Index (latest rating for participatory budgeting is 2/100, below the performance of regional peers). 	Existing World Bank support for the joint transparency initiative through June 2023	
Fiscal risk monitoring	<ul style="list-style-type: none"> Support for stakeholder engagement, peer learning (from other countries), and communications Support to MoF in data collection and establishing fiscal risk models and tools concerning climate change and natural disasters Support to MoF in data collection and improving fiscal risk models and tools concerning SOEs and LSGs Support to MoF in the overall improvement of the fiscal risk methodologies (best corporate and international practices integrated in the current legal framework concerning public finances) 	<p>Existing World Bank TA until April 2023 (TF) – likely to be extended to 2024</p> <p>IMF support for training</p>	100,000
Capacity development and stakeholder engagement for GHG monitoring and verification	<ul style="list-style-type: none"> Stakeholder consultations/awareness raising Training on assessment of monitoring plans and verification reports; tools and capability for GHG analysis to support climate policy formulation and review. Upgrade of the software for the MRV system (building on an existing system financed by European Investment Bank (EIB)) to be assessed further by AFD mission Support for how to measure NF3 gases (not currently measured) 	<p>UNPD: Establishing Transparency Framework for the Paris Agenda (closing) Green Serbia Agenda forthcoming (IPA funded) – this will include developing an IT solution for monitoring and reporting for ETS operators by mid-2023</p> <p>Requested GEF/UNDP funding for the inventory EIB providing system development support; need for upgrade</p>	450,000
Project management support (across DLIs)	Consultants to support MoF DICEI and other lead institutions (MoEP, PPS) on project management, M&E and reporting		300,000
Cross cutting support for enhanced stakeholder engagement	Supporting GoS efforts at enhanced stakeholder outreach related to RAs 1 and 2	To be coordinated with other development partners supporting PFM and Green Agenda reforms	100,000
Unallocated	To be allocated as initial allocations are absorbed ¹⁰⁰		150,000
Total	World Bank contributions		3,000,000

¹⁰⁰ Flexibility will help to prioritize support for achieving those results that are least supported from other sources – which will evolve over the lifetime of the Program.