



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 01-Aug-2019 | Report No: PIDC27124



BASIC INFORMATION

A. Basic Project Data

Country Serbia	Project ID P164575	Project Name Public Sector Efficiency and Growth DPL (P164575)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Board Date Feb 21, 2020	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Serbia	Implementing Agency Ministry of Finance		

Proposed Development Objective(s)

The proposed Development Policy Operation supports the Government of Serbia's effort to implement a targeted set of reforms that will help to increase the efficiency of managing public resources as well as to create foundations for faster private sector-led growth.

Financing (in US\$, Millions)

SUMMARY

Total Financing	150.00
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DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

The proposed Development Policy Operation supports the Government of Serbia's effort to increase the efficiency of managing public resources and to strengthen the foundations for faster private sector led growth. The public sector remains large and inefficient – total public expenditures account for about 41 percent of GDP, employing nearly one-third of all formal workers in Serbia. At the same time, growth of the economy is meagre, averaging 2 percent per year over 2013-2018. Productivity of firms and their growth is held back by obstacles related to access to finance, difficulties in becoming part of global value chains, lack of business-friendly institutional and regulatory framework for firms.

Serbia's macroeconomic framework is adequate for this operation. Having in mind the prudence of the fiscal policy which will keep the fiscal deficit low and manageable, which will in turn lead to a continuous decrease in public sector debt as a share of GDP, and a good coordination with the monetary policy which keeps inflation low and external balances in check, the macroeconomic framework is adequate. In addition, Serbia has the ongoing arrangement with the IMF, on top of a previously successfully completed 3-year SBA. This operation faces substantial risks stemming from the areas of political and governance risks related to institutional capacities to carry reforms, but the political situation is such that it creates risks but offers also a unique opportunity for reforms.

Relationship to CPF

The proposed PSEG DPO is an important part of the World Bank Group's engagement in Serbia. The proposed DPO is envisaged in the current CPF and is closely linked to the pathways towards reducing poverty and boosting shared prosperity identified in the Systematic Country Diagnostic (SCD). The public sector efficiency pillar contributes to the SCD foundational priorities of ensuring fiscal sustainability and strengthening the institutional capacity. The growth pillar of this operation is directly related to three out of five SCD priorities with highest impact on twin goals (SOE reform; business climate reform; infrastructure). Drawing on the SCD, the Bank's FY15-FY20 Country Partnership Framework (CPF) focuses on two broad areas: i) Economic governance and the role of the state; ii) Private sector growth and economic inclusion, with the proposed DPO directly supporting the achievement of objectives along both focus areas.

C. Proposed Development Objective(s)

The proposed Development Policy Operation supports the Government of Serbia effort to implement targeted set of reforms that will help to increase the efficiency of managing public resources as well as to create foundations for faster private sector led growth.

Key Results

Reforms supported under the Pillar A of this operation (public investment management, recruitment in the public sector, public procurement, and SOEs management) would help the authorities to better manage public resources and benefit from efficiency gains in order to ensure sustainability of public finances. At the same time reforms supported under the Pillar B of this operation (in the field of leasing, international financial transactions and state aid control)



should ensure progress in financial sector diversification, promotion of internationalization of Serbian businesses, and better control of state aid. All these should help Serbia to increase private sector investment, and growth.

D. Concept Description

The Program Development Objective of the PSEG DPO - to support the Government of Serbia in their effort to create a more efficient public sector and to create foundations for faster growth determined two pillars of the operation: Pillar A: Public Sector Efficiency, and Pillar B: Growth Enhancing Reforms.

Pillar A envisages prior actions related to changes in the legal framework for the public investment management, public procurement, public administration and management of SOEs.

Pillar B envisages prior actions that would support expansion of the leasing market, easier access to foreign financing and international transactions, and better regulated state-aid.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

The proposed set of measures under the “Growth Enhancing Reforms” pillar should help reduce poverty through creation of more jobs in the private sector. First, measure to ease the access to finance through introduction of operational leasing should help SMEs, entrepreneurs and individual farmers to start or expand the business by cheaper financing of machinery and other assets. This should directly lead to opening of new jobs and increase in incomes. Second, changes of regulation governing international flow of capital and finances should allow for the increase in foreign investment to Serbia, and expansion of Serbian businesses abroad. Both developments should lead to creation of new jobs thus directly helping to reduce the poverty.

Environmental Impacts

While the thorough environmental impact assessment is still pending, the team finds that the proposed operation has either a neutral or a small positive impact on environment. The possible positive impact on environment might come from the improved legislative framework for the public investment management. This new legislative framework should stricter requirement on environment related safeguards. The second prior action which might bring considerable positive impact on environment relates to reform of the public procurement legislation, including the adoption of the guidance for the green procurement. With the forthcoming guidelines on green procurement, purchasers will be allowed to prioritize bids that are environment friendly (for instance that offer opportunities for recycling, allow for energy efficiency gains etc.).

CONTACT POINT

World Bank

Lazar Sestovic
Senior Economist



Borrower/Client/Recipient

Republic of Serbia

Implementing Agencies

Ministry of Finance
Vuk Delibasic
Advisor
vuk.delibasic@mfin.gov.rs

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Lazar Sestovic
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Approved By

Country Director:	Lada Strelkova	14-Aug-2019
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