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Report No: ICR00005012

IMPLEMENTATION COMPLETION AND RESULTS REPORT

(IBRD-86940 and IBRD-88310)

ON TWO

LOANS

IN THE AMOUNT OF EUR 182.6 MILLION AND EUR 160.6 MILLION

(US$ 200 MILLION and US$ 200 MILLION EQUIVALENT)

TO THE

REPUBLIC OF SERBIA

FOR THE

FIRST AND SECOND PUBLIC EXPENDITURE AND PUBLIC UTILITIES DEVELOPMENT POLICY LOANS

September 29, 2020

Macroeconomics, Trade And Investment Global Practice
Europe And Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 29, 2020)

Currency Unit =	EURO
EUR 0.85 =	US$1
US$ 0.71 =	SDR 1

FISCAL YEAR
January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

BIU	Budget Inspection Unit
CAPEX	Capital expenses
CMU	Country Management Unit
CPF	Country Partnership Framework
CRI	Central Registry of Invoices
CROSO	Central Registry of Mandatory Social Insurance
DPL	Development Policy Loan
DPO	Development Policy Objective
EBRD	European Bank for Reconstruction and Development
EPS	*Elektroprivreda Srbije*, Serbia's public electrical utility
ERP	Economic Reform Program
ESAP	Environmental and Social Action Plan
ESMAP	Energy Sector Management Assistance Program
EU	European Union
EVP	Energy Vulnerable Program
FCP	Fiscal Consolidation Plan
FY	Fiscal year
GDP	Gross domestic product
GP	Global Practice
HR	Human resources
HUPX	Hungarian Power Exchange
ICR	Implementation Completion Report
IEG	Independent Evaluation Group
IFI	International financial institution
IFRS	International Financial Reporting Standards
IM	Infrastructure management
IMF	International Monetary Fund
ISR	Implementation Status Report
IZS	Infrastructure of Serbian Railway
JSC	Joint stock company
MCTI	Ministry of Construction, Transportation and Infrastructure
MOF	Ministry of Finance
MPALSG	Ministry of Public Administration and Local Self-Government
NES	National Employment Service
PA	Prior action
PAR	Public Administrative Reform
PBMC	Performance-Based Maintenance Contracting
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PEPU-DPL	Public Expenditure and Public Utilities Development Policy Loan
PERS	Public Enterprise Roads of Serbia
PFM	Public Financial Management
PfoR	Program for Results
PIFC	Public Internal Financial Control
pp	Percentage points
PPP	Purchasing power parity
PSO	Public Service Obligation

RAS	Reimbursable Advisory Service
RI	Results indicator
SBA	Stand-By Arrangement
SLA	Service-level agreement
SOE	State-owned enterprise

Contents

DATA SHEET

BASIC INFORMATION

Program Series

Project ID	Short Name	Full Name
P155694	Public Exp. and Utilities DPL1	Serbia Public Expenditure and Public Utilities DPL 1
P161184	Public Exp. & Public Utilities DPL2	Serbia Second Public Expenditure and Public Utilities DPL

Series Details (USD)

Project ID	Approved Amount	Disbursed Amount
P155694	200,000,000.00	207,515,267.85
P161184	200,000,000.00	182,547,856.98
Total	**400,000,000.00**	**390,063,124.83**

	P155694	P161184
Policy-Based Guarantees	No	No
Ln/Cr/TF	IBRD-86940	IBRD-88310
Concept Review	18-Nov-2015	26-May-2017
Decision Review	24-Oct-2016	18-Jan-2018
Approval	18-Jan-2017	20-Mar-2018
Effectiveness	29-May-2017	10-Jul-2018
Original Closing	31-Mar-2018	30-Aug-2019
Actual Closing	31-Mar-2018	30-Aug-2019
Crisis or Post-Conflict	No	No
Regular Deferred Drawdown Option	No	No

Catastrophe Deferred Drawdown Option	No	No
Sub-National Lending	No	No
Special Development Policy Lending	No	No

Organizations

Series Project	Borrower	Implementing Agency
P155694	The Republic of Serbia	Ministry of Finance
P161184	The Republic of Serbia	Ministry of Finance

Program Development Objective (PDO)

Program Development Objective (PDO) (From last operation in the series)

This is the second in a series of two development policy loans to support the Government of Serbia's multiyear fiscal consolidation agenda and transformation of energy and transport sector public enterprises and state-owned companies. The series supports critical policy and institutional reforms within three pillars with the following development objectives: (A) Improve public expenditure management through strengthened public financial management and public administration reform; (B) Improve the financial sustainability and efficiency of energy sector public enterprises; and (C) Improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies

PROGRAM FINANCING DATA (USD)

World Bank Administered Financing

	Approved Amount	Actual Disbursed
P155694		
IBRD-86940	200,000,000	207,515,268
P161184		
IBRD-88310	200,000,000	182,547,857
Total	**400,000,000**	**390,063,125**

RATINGS SUMMARY

Program Performance

Overall Outcome	Relevance of Prior Actions	Achievement of Objectives (Efficacy)
Satisfactory	Satisfactory	Satisfactory

Bank Performance

Bank Performance
Satisfactory

ACCOUNTABILITY AND DECISION MAKING

At ICR:

Regional Vice President	Country Director	Director
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At Approval:

P155694

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P161184

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I. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES

1. **The Public Expenditure and Public Utilities Development Policy Loan programmatic series (PEPU-DPL series) to the Republic of Serbia consisted of two operations of US$200 million each, the first approved in January 2017, the second in March 2018.** The series supported the Government of Serbia's multiyear fiscal consolidation program, reforms in public administration, and transformation of energy and transport public enterprises and other state-owned companies. The policy measures were part of the government's reform program and supported progress toward strategic sector objectives as part of Serbia's European Union (EU) accession process. The DPL series had three objectives: (a) Improve management of public spending through more effective management of public finances and public administration reforms; (b) make public enterprises in the energy sector more financially sustainable and efficient; and (c) do the same for public enterprises and state-owned transport companies.

A. Context at Appraisal

Context

2. **In the aftermath of the 2008 global recession, Serbia's recovery lagged, imbalances worsened, and structural weaknesses were exposed.** Serbia's rapid GDP growth, averaging 6.2 percent during 2001-08, collapsed after 2008, averaging only 0.4 percent during 2009 to 2015. Government spending jumped from about 40 percent of GDP in 2005 to more than 45 percent in 2014, partially driven by the need to support public enterprises. The fiscal deficit doubled from 2.5 percent of GDP in 2008 to an average of five percent for 2009-15. Meanwhile, public debt doubled to 71 percent of GDP, and for 2007–14 the current account deficit averaged 10 percent of GDP. In a single year, from 2012 to 2013, the poverty rate (based on $5.50 in 2011 PPP) surged by three percentage points, from 23.1 to 26.3 percent, and, in 2015, it was still a high 25.3 percent. Serbia's 1,200 or so SOEs, dependent on state support and active in all sectors of the economy, employed about 15 percent of the workforce in 2014 while running up net losses of €1.2 billion, equal to three percent of GDP. Public guarantees to SOEs rose from less than three percent of GDP in 2008 to 7.2 percent at end-2015, generating significant contingent liabilities for the Government. Moreover, their cumulative arrears to other state entities and public utilities amounted to more than eight percent of GDP, which further depressed the financial performance of public utilities.

3. **Against this backdrop, the government committed to major structural reforms and an ambitious macroeconomic stabilization program.** Elected with a strong majority in March 2014, the Government adopted an ambitious fiscal consolidation and structural reform program to halt the rise of public debt. The program focused on reducing the public sector wage bill, pension costs, and fiscal support to SOEs; it was supported by an IMF SBA program and defined in the Fiscal Strategy for 2016–18. [1] In April 2016, the ruling party won early Parliamentary elections, and the government formed in August 2016 committed to transforming state administration, public finances, and the economy while pursuing EU accession.

[1] *https://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/FS%20za%202016%20EN.pdf.*

4. **Resolving fiscal pressures caused by inefficiencies in the public sector continued to be a government priority.** While recorded arrears dropped from one percent of GDP in 2009 to 0.1 percent in 2017, controlling future arrears accumulation and improved recording of arrears remained challenges. Containing the number of public employees and the size of the wage bill was a major concern. The Government's reforms had made possible the 2015–16 Programmatic State Owned Enterprises Reform DPL series (P127408, P149750), which tackled the first crucial steps in reforming the SOE sector, in particular the resolution of companies in the Privatization Agency portfolio and improved governance of some large SOEs and municipal enterprises. However, publicly guaranteed SOE debt was still a major fiscal risk, especially that of public utilities and particularly in the energy and transport sectors.

5. **The PEPU-DPL series supported policy and institutional changes consistent with the economic program set out in Serbia's Fiscal Strategy for 2016–18.** The government strategy focused on fiscal consolidation to ensure macroeconomic stability, improving financial sector stability and resilience, boosting competitiveness, and ensuring sustainable growth. Building on the positive 2015–16 fiscal performance, Pillar A of the PEPU-DPL supported reforms of public financial management (PFM) and public administration consistent with the fiscal consolidation agenda. Reforms supported by Pillars B and C were dedicated to improving financial sustainability and the efficiency of energy and transport SOEs, both to reduce direct and indirect government support and to further Serbia's transition to a competitive market economy, the foundation of sustainable growth, and help fulfil EU accession commitments.

6. **The PEPU-DPL contributed to World Bank Country Partnership Framework (CPF) FY16-20 Focus Area 1: Economic Governance and the Role of the State and its related objectives.** The CPF was approved in June 2015 with the goal of supporting Serbia in creating a competitive and inclusive economy and ultimately integration into the EU. The CPF[2] set two areas for support: Economic Governance and the Role of the State; and Private Sector Growth and Economic Inclusion. The DPL series contributed to achievement of four of the five objectives of the first focus area: (a) sustainable management of public spending; (b) a more effective public administration and improved service delivery; (c) more efficient and sustainable power SOEs; and (d) more efficient public transport companies.

7. **The DPL series was anchored in previous DPL operations in Serbia, other reform programs, and World Bank analyses.** The DPLs built on the 2015 Systematic Country Diagnostic and Public Expenditure and Financial Accountability (PEFA) Performance Report, and on recently completed technical assistance to public sector and energy and transport sectors. It also incorporated lessons from such recent projects as the Floods Emergency Recovery Loan. Finally, programs to mitigate possible adverse social impacts drew on lessons from earlier reforms to restructure Serbian SOEs (see Table A2 in Annex 6 for more details on analytic underpinnings).

8. **The series also drew on policy dialogue carried out for World Bank sector operations and complemented engagement by other international financial institutions (IFIs).** The series harmonized with the PfoR operation on Modernization and Optimization of Public Administration,[3] which complemented PEPU-DPL Pillar A key legislative and policy reforms; reforms in Pillars B and C built on previous reforms supported by the SOE Reform DPL series. The PEPU-DPL road sector reforms, the PfoR on Enhancing Infrastructure Efficiency and Sustainability, the Corridor X

[2] *https://www.worldbank.org/en/country/serbia/publication/building-for-future-serbia-country-partnership-framework-2016-2020.*
[3] See World Bank. 2016. *Serbia - Program on Modernization and Optimization of Public Administration (Report No. 104182-YF).* Washington, D.C.: World Bank Group. The Program was declared effective on December 16, 2016.

Highway Project, and the Road Rehabilitation and Safety Project reinforced each other; and the PEPU-DPL series paired well with the 2016-18 IMF Stand-By Arrangement (SBA) precautionary program.[4] Pillar B reforms for the energy sector complemented the 2015 EBRD credit-line extension to help EPS (*Elektroprivreda Srbije*, Serbia's public electrical utility) restructure its balance sheet. The EBRD loan program was also to improve EPS commercialization by raising corporate governance standards and improving energy efficiency.

Original Program Development Objective(s) (PDO) (as approved)

9. **The PEPU-DPL series supported the Government's multiyear fiscal consolidation agenda and transformation of energy and transport sector public enterprises and state-owned companies.** The series supported critical policy and institutional reforms to achieve three development objectives:
   - Improve public expenditure management through better management of public finances and public administration reforms.
   - Improve the financial sustainability and efficiency of public energy companies.
   - Improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies.

Original Policy Areas/Pillars Supported by the Program (as approved)

10. **The program was structured around three pillars which match the three Program Development Objectives (PDOs) set out above.**

B. Significant Changes During Implementation

Revised Program Development Objectives (PDOs)

11. **The PDOs were not changed.** Two Result Indicators (RIs) were however revised for the second operation (see Section II).

Revised Policy Areas/Pillars supported by the Program

12. **The policy areas were maintained throughout the series.** All PEPU-DPL1 indicative triggers were converted to Prior Actions (PAs) for PEPU-DPL2 with minimal changes to PAs #1 and #3 (see Section II).

Other Changes

None

[4] The program had three objectives: restoring health to public finances; increasing the stability and resilience of the financial sector; and carrying out comprehensive structural reforms to form a solid foundation for job creation and a return to sustained high growth.

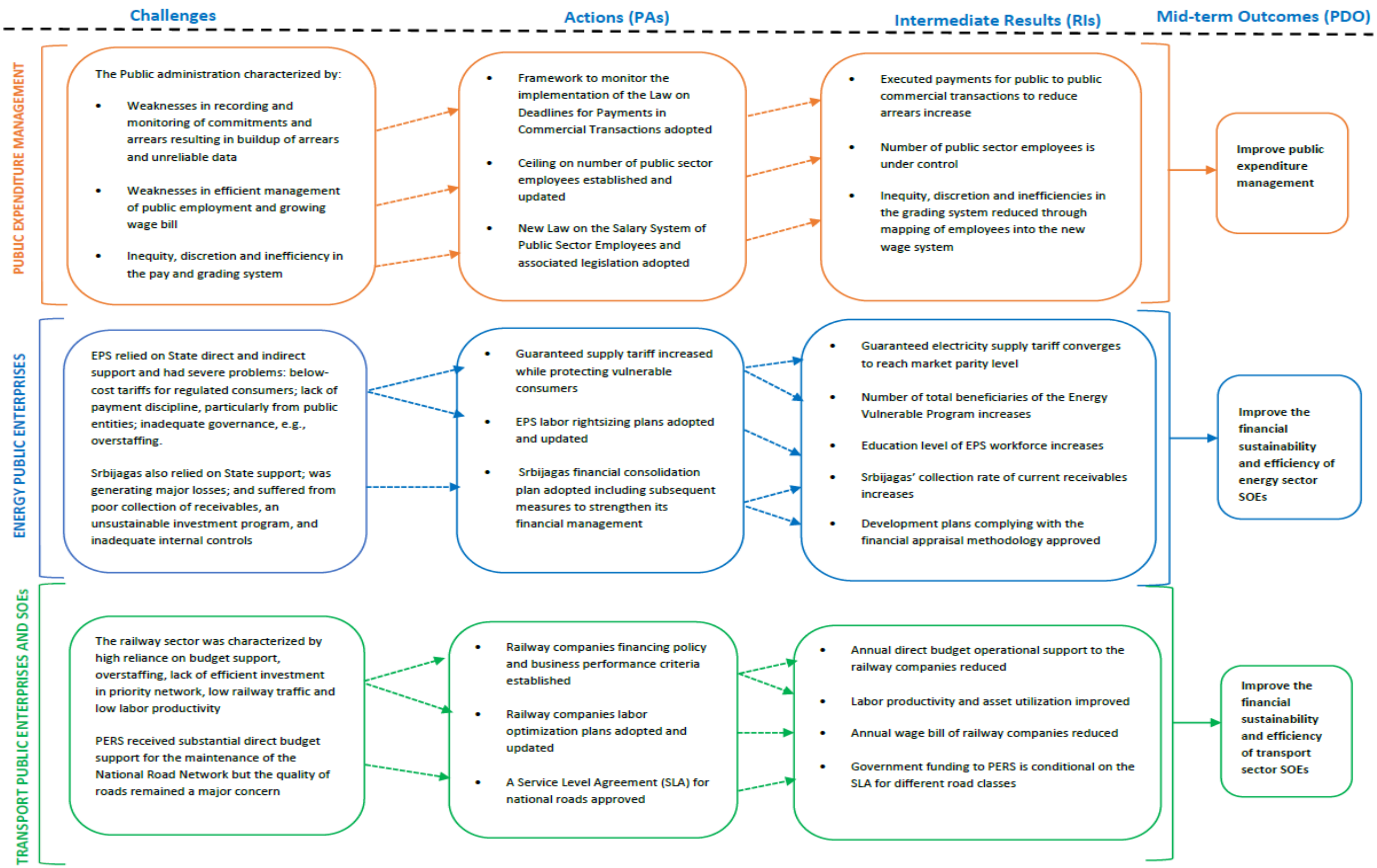
II. ASSESSMENT OF KEY PROGRAM DESIGN AND OUTCOMES

A. Relevance of Prior Actions

13. The PDOs of the PEPU-DPL series were highly relevant at appraisal (and remain so today). They aligned closely with objectives in the Government's 2016–18 Fiscal Strategy.[5] These objectives remain consistent with the country's strategy as highlighted in the Government Economic Reform Programme (ERP) for 2020–22. A Theory of Change derived from the original Results Framework and discussion in the Project Appraisal Documents starts with challenges related to Government priorities and programs and articulates the results chain, linking the Prior Actions (PAs)/triggers to intermediate results (as measured by the Results Indicators. RIs) and then to the PDOs (Figure 1).

[5] The Fiscal Strategy had three objectives. The PEPU-DPL series were aligned with the first two: (1) continuing with fiscal consolidation, maintaining macroeconomic stability, keeping debt from growing, and establishing the trend of its reduction; and (2) removing obstacles to economic growth and competitiveness by continuing with comprehensive structural reforms, especially with regard to public enterprises, and making the public sector more efficient. The third objective was to make the financial sector more stable and resilient by resolving the NPL problem.

Figure 1. Theory of Change



PILLAR A: PUBLIC EXPENDITURE MANAGEMENT: Improve public expenditure management through strengthened PFM and public administration reform

14. **PAs under Pillar A aimed at improving public expenditure management, firstly through strengthened PFM.** The comprehensive PFM Reform Program for 2016–20 adopted in late 2015 included measures to resolve arrears and prevent new accumulations.[6] Despite a reported decrease in arrears after the 2013 RINO law, the lack of a systematic mechanism for monitoring or control of arrears posed a threat to fiscal consolidation efforts. PA #1 for each of DPL1 and 2 were designed to strengthen PFM by improving recording and control of commitments and arrears.

15. **PA #1 for DPL1, which supported adoption of a framework for monitoring application of the RINO Law as amended in July 2015, was critical to capture and monitor commercial transactions between public entities.**[7] Public-to-public arrears were a sizable obstacle to the financial sustainability of certain public enterprises, such as Srbijagas (Serbia's public gas company) or EPS (*Elektroprivreda Srbije*, the public electrical utility). Given the preponderance of SOEs in Serbia, the amendment was a step forward in management of public spending; it more fully defined supervision arrangements and the communication of information between the Treasury, which collects information on payments, and the Budget Inspection Unit (BIU), the entity newly assigned authority for implementing the laws on the commercial transactions of public entities.

16. **PA #1 for DPL2, which was revised from the trigger, supported three actions that were crucial for monitoring and management of arrears because they strengthened government supervision capacity and budget discipline.**[8] These actions reinforced the BIU's authority in supervising budget inspection and enforcement; tightened the internal controls of budget users and improved discipline in registering commitments through the Public Internal Financial Control (PIFC) strategy; and ensured that accurate, complete and up-to-date information on budget commitments are available at the time when budget commitments are incurred through an Amendment of the Rulebook on the Budget Execution System.

17. **PAs under Pillar A also aimed at improving public expenditure management through public administration reform, in particular better management of public employment and the control of the wage bill.** The Government's Public Administration Reform (PAR) objectives included improving organizational and functional sub-systems of public administration and introducing a harmonized public service system relying on merit that improves management of employees. PAs #2 and #3 for each of DPL1 and 2 aimed to revise laws and policies related to public sector employment, reform the pay and grading system, and support structured rationalization of staffing levels. As previously discussed, these reforms were also complementary to the PfoR operation on Modernization and Optimization of Public Administration further demonstrating their importance.

[6] See *www.mfin.gov.rs/UserFiles/File/dokumenti/2016/Public%20Financial%20Management%20Reform%20Program%202016-2010%20EN.PDF* .
[7] The "Rulebook" for the method and procedure for monitoring the implementation of the revised Law was published in the Official Gazette, October 23, 2015.
[8] The trigger identified in DPL1 was *implementation of a central register of invoices for public-public transactions and enforcement of payment deadlines for said transactions*. It was revised to be consistent with the timing and priority of the PFM reform. The changes were intended to reinforce regulation and supervision in order to ensure recording and monitoring of commitments. The central registry of invoices was implemented later separately from these two operations.

18. **PA #2 on the Law on Ceiling on Public Sector Employees, including ceilings for individual government entities, was important to rationalize and control the number of public staff.** DPL1 supported adoption of the law and DPL2 the updating of institution-level limits for calendar year 2017. The Government therefore established a registry of public employees and enacted laws to make it effective.

19. **PA #3 on the Law on the Salary System of Public Sector Employees and associated legislation was important to remove inequities, managerial discretion, and inefficiencies in the pay and grading system.** The umbrella Law on Public Sector Employees Salary System[9] (PA #3 for DPL1) introduced a new public pay structure to control wage costs and to reduce opportunities for ad hoc and arbitrary compensation arrangements for public administration employees. This law led to streamlining of jobs and outlining of qualifications for all jobs in public administration. Then PA #3 for DPL2, which was revised from the trigger, supported the development and amendment of three subsidiary laws, which provided the legal basis for the new grade system. [10]

PILLAR B: ENERGY PUBLIC ENTERPRISES: Improve the financial sustainability and efficiency of energy sector public enterprises

20. **PAs for Pillar B were designed to improve the financial sustainability and efficiency of public energy enterprises.** EPS and Srbijagas, both very large public enterprises, were a priority for reform, especially because commercialization of electricity and gas public enterprises lagged behind commitments made in the course of aligning the sector with the EU Acquis Communautaire, despite the adoption of laws that allow for competitive energy markets.[11] The two companies were financially fragile, relying either on direct transfers from the government budget or on government-guaranteed loans. PA #4 and #5 aimed at improving the financial sustainability and efficiency of EPS, the electricity utility, while protecting the most vulnerable households from the effects of tariff increases. The intent of PA #6 was to improve the financial sustainability and efficiency of Srbijagas, the public gas company.

21. **PA #4, increasing electricity tariffs while protecting vulnerable consumers, and PA #5, supporting EPS labor cuts, were critical to achieve the targets set out in the EPS Fiscal Consolidation Plan (FCP) (2015–19) to help transform the company into a commercially and financially viable utility.** Annual increases in guaranteed supply tariffs (supported by PA #4 under DPL1 and 2) were crucial to increase EPS revenues for greater financial sustainability while the amendment to expand coverage under the Energy Vulnerable Customers Program was set to limit the impact on poor and vulnerable households and secure political support. The adoption (PA #5, DPL1) and implementation (PA #5, DPL2) of the labor optimization plan for EPS was critical to control labor costs (through a planned reduction of 5,000 employees between 2015 and 2019 via natural attrition and voluntary separation) and making EPS more competitive and more efficient.

22. **PA #6 on strengthening management of Srbijagas was critical to address its financial losses.** PA #6 for DPL1 was adoption of a Financial Consolidation Plan (FCP) for Srbijagas which required a sector strategy, raising revenues

[9] The law came into force on March 9, 2016. Official Gazette of the Republic of Serbia No. 18/2016.

[10] The initial Trigger #3 (see Table 1) was revised to reflect the more ambitious scope and more involved consultations process that DPL2 required for the wage system reform. The changes provided the legal basis for mapping public sector jobs to the new pay grades in the Law on Public Sector Employees Salary System.

[11] The 2014 Energy Law and secondary legislation lay the legal foundation for implementing the EU's Third Energy Package.

by improving collections, reducing debt, and addressing both the unprofitable investment plan and the inadequacies in corporate governance. DPL2 PA#6 supported implementation of the measures laid out in the FCP, among them a government decision enforcing payment discipline by, e.g., discontinuing gas supplies in case of nonpayment[12] and a thorough economic and financial assessment of the company's investment program to reduce uneconomic spending and debt via management adoption of an investment appraisal methodology. The program also supported appointment of an audit committee to enhance the quality of internal controls and internal and external audits (PA #6). Collecting more revenue, adopting an effective investment appraisal methodology, and design of long-term development plans consistent with that methodology were crucial to improve the financial viability, productivity, and efficiency of Srbijagas.

PILLAR C: TRANSPORT PUBLIC ENTERPRISES AND STATE-OWNED COMPANIES: Improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies

23. **PAs for Pillar C were directed to improve the financial and operational conditions of public rail and road companies, thereby reducing budget support and improving infrastructure productivity.** The 2015–16 Global Competitiveness Report ranked Serbia 114th of 144 countries on road quality and 90th of 104 countries on the quality of rail infrastructure. Railway labor productivity was low, mainly because of overstaffing, low traffic, and a lack of investment, while the public railways were one of the largest recipients of state budget support. Management of road assets was inefficient, with non-competitive maintenance contracts and a large rehabilitation backlog. PAs #7 and #8 were designed to improve the financial sustainability and efficiency of railway companies, and PA #9 (DPL2 only) was directed to enhancing the efficiency and performance of the Public Enterprise Roads of Serbia (PERS).

24. **PA #7 and PA #8 were critical to put public rail companies on a sound financial footing and improve their efficiency by increasing labor productivity while containing costs** The Government had committed to reform its railways as part of EU access negotiations. In 2015, the rail company was unbundled into three operating companies (passenger, freight, and infrastructure) and a transitional company. PA #7 in DPL1 and 2, in support of the government's Railway Reform Plan (2016–20), required a new framework for railway financing to improve targeting of direct budget support; adoption of new performance criteria; disclosure of financial statements; efficient debt management; and modernization of financial and accounting systems. PA #8 in DPL1 and 2 required putting in place a labor optimization plan for the unbundled railway companies, in line with the Railway Reform Plan, specifying medium-term targets, compensation packages, selection criteria, grievance mechanisms, and schedules for staff reductions.

25. **PA # 9 in DPL2 set a framework for a service-level agreement (SLA) for national roads between PERS, the public road company, and the Government, an action critical for road sector efficiency.** To improve economic productivity and road safety while containing spending, as part of Serbia's integration into the EU, the Government identified critical road infrastructure gaps. Through a combination of reforms and infrastructure investments, the Government mapped a clear direction for reform by introducing results-based financing of infrastructure. The innovative SLA aimed to increase the transparency and efficiency of public spending on roads

[12] To prevent accumulation of new debt and ensure an adequate revenue stream for Srbijagas, a 2016 decree declared that nonpayment of gas bills will lead to disconnection of the nonpaying customer.

through higher-quality investment, better management of routine tasks like road maintenance, and a higher minimum standard of operation.

Rating: Satisfactory

26. **All policy actions were relevant to the PDOs and Serbia's multi-year fiscal consolidation agenda and transformation of energy and transport sector public enterprises and state-owned companies.** Two (Indicative Triggers #1 and #3) of the nine triggers set under DPL1 were revised as Prior Actions under DPL2 to match the evolving pace and path of the government's reform program. Indicative Triggers #4 and #5 under DPL1 remained unchanged but the wording of their corresponding PAs under DPL2 was slightly revised (see Table 1).

Table 1: Policy and Results Matrix

Prior Actions		Results
Completed under DPO 1	**Completed under DPO 2**	(End of the calendar year unless otherwise specified)
PILLAR A: PUBLIC EXPENDITURE MANAGEMENT **Program Development Objective A: Improve public expenditure management through strengthened PFM and public administration reform**		
Prior Action #1. The Borrower, through its Ministry of Finance, adopted the framework for monitoring the implementation of the Law on Deadlines for Payments in Commercial Transactions, which has been revised to extend its coverage to include public-public transactions, including those of state-owned enterprises.	**Indicative Trigger #1:** The Borrower, through its Ministry of Finance (a) puts in place a central register of invoices for public-public transaction and (b) enforces payment deadlines for said transactions. **Prior Action #1**. The Borrower has: (a) issued the Decree on Work and Role of Budget Inspection, to strengthen the budget inspection supervision and enforcement function. (b) adopted the PIFC Strategy and its associated action plan, to provide a framework for planned future developments of financial management and control and internal audit functions; and (c) through its Ministry of Finance, amended the Rulebook on the Budget Execution System, in order to ensure that accurate, complete and up-to-date information on budget commitments are available at the time when budget commitments are incurred.	**Results Indicator A1 (original).** Increased percentage of invoices for public to public commercial transactions recorded in the central register: • Baseline (end-2015): 0 percent • Target (end-2018): 100 percent. **Results Indicator A1 (revised)**. Share of executed payments for public to public commercial transactions which were beforehand duly registered as commitments within deadlines prescribed by legislation: • Baseline (end-2015): 60 percent • Target (end-2018): at least 90 percent • *Actual value (end-2018): 95.8 percent* • *Actual value (end-2019): 95.4 percent* • *Assessment: fully achieved*
Prior Action #2. The Borrower: (a) adopted the Law on the Ceiling on Public Sector Employees setting the criteria of determining the maximum number of employees in the public sector, from 2015 to 2018, as well as the scope and limits for reducing their number in order to achieve the established said maximum; and (b) established, as required by said law, the first institution-level limits on the number of employees in the public sector.	**Indicative Trigger #2.** The Borrower has updated institution-level limits on employees in the public sector for calendar year 2017. **Prior Action #2.** No change.	**Results Indicator A2.** The number of employees in the public sector, as determined by the Law on the Ceiling on Public Sector Employees, does not exceed the total of institutional-level limits set under the Law and its decisions: • Baseline (end-2015): no • Target (end-2018): yes • *Actual value (end-2018): yes* • *Assessment: fully achieved*
Prior Action #3. The Borrower adopted the Law on the Salary System of Public Sector Employees to rationalize the public sector pay structure.	**Indicative Trigger #3.** The Borrower, through its government, maps all employees within the education, health and social protection sectors to the new grades set out in the Public Sector Job Catalogue. **Prior Action #3**. The Borrower has: (a) amended the Law on Public Sector Employees Salary System. (b) enacted the Law on Employees in Public Services; and (c) enacted the Law on Salaries of Employees in Bodies of Local Sub-Government Units and Provincial Authorities, all with the objective to provide the legal framework for the mapping of positions between the Public Sector Jobs Catalogue and the new pay grades set forth in the Law on Public Sector Employees Salary System.	**Results Indicator A3 (original).** Increased share of employees within the education, health and social protection sectors paid on the basis of their new grades set out in the Public Sector Job Catalogue: • Baseline (end-2015): zero • Target (end-2018): 60 percent. **Results Indicator A3 (revised)**. Increased share of positions within the education, health and social protection sectors mapped to new grades: • Baseline (end-2015): zero • Target (end-2018): 75 percent • *Actual value (end-2018): 0 percent* • *Assessment: not achieved (but on track and postponed for end-2020)*

Prior Actions		Results
Completed under DPO 1	**Completed under DPO 2**	(End of the calendar year unless otherwise specified)
PILLAR B: ENERGY PUBLIC ENTERPRISES **Program Development Objective B: Improve the financial sustainability and efficiency of energy sector public enterprises**		
Prior Action #4. The Borrower: (a) through its Council of the Energy Agency, approved a 3.8 percent increase of the electricity tariff for guaranteed supply; (b) amended the Energy Vulnerable Customers Program to increase coverage of targeted beneficiaries; and, (c) increased the budget for said program.	**Indicative Trigger #4.** The Borrower: (a) through the Council of the Energy Agency, approves an additional increase of the electricity tariff for guaranteed supply in 2017; and (b) takes measures, if necessary, to protect vulnerable households. **Prior Action #4**. The Borrower, through the Council of the Energy Agency, has approved an increase of the electricity tariff for guaranteed electricity supply in calendar year 2017 and continued to protect vulnerable households from such electricity tariff increase by increasing the number of beneficiaries of the Energy Vulnerable Customers Program in calendar year 2017 compared to calendar year 2016.	**Results Indicator B1**. Increased convergence of the guaranteed electricity supply tariff to reach market parity levels: • Baseline (end-2014): 64 percent • Target (end-2018): 80 percent • *Actual value (end-2018): 47.2 percent* • *Average value (2018): 58.6 percent* • *Actual value (end-2019): 77.3 percent* • *Assessment: not achieved* **Results Indicator B2.** Increased number of total beneficiaries of the Energy Vulnerable Program: • Baseline (2014 annual): 60,600 households; of which 27 percent female headed households • Target (2018 annual) (original): 90,000 households; of which 30 percent female headed households. • Target (2018 annual) (revised): 70,000 households; of which 30 percent female headed households • *Actual value (2018 annual): 76,604 of which 53 percent female headed households* • *Assessment: fully achieved (exceeded)*
Prior Action #5. The Borrower, through the Supervisory Board of *Elektroprivreda Srbije* (EPS): (a) adopted a labor optimization plan for 2016-2019 setting out the medium-term targets, process, compensation packages, selection criteria, grievance mechanisms and timeline for reductions in staffing; and (b) issued the first call for voluntary separations to implement the 2016 target for net staff reduction.	**Indicative Trigger #5.** The Borrower, through the Supervisory Board of EPS, implements the labor rightsizing in 2016 and 2017 in accordance with the EPS Labor Optimization Plan. **Prior Action #5.** The Borrower, through the Supervisory Board of Elektroprivreda Srbije (EPS) has: (a) updated the labor optimization plan for calendar year 2017, including annual targets, compensation packages, eligible categories, selection criteria, and grievance mechanisms for EPS; and (b) issued the second call for voluntary separations.	**Results Indicator B3 (original)**. Reduction in annual EPS wage bill relative to 2014: • Baseline (2015): zero • Target (2018): 10 percent. **Results Indicator B3 (revised)**. Increase in the share of the EPS workforce with education above secondary-level relative to 2015: • Baseline (2015): zero • Target (2018): 5 percent • *Actual value (2018): 3.4 percent* • *Actual value (2019): 4.2 percent* • *Assessment: partially achieved*
Prior Action #6. The Borrower adopted a financial consolidation plan for *Srbijagas* that defines measures to increase revenues and reduce costs.	**Indicative Trigger #6.** The Borrower, through Srbijagas, has strengthened Srbijagas' financial management through: (a) the adoption of the Government Conclusion, which defined the mechanisms to discontinue gas supplies to commercial consumers in arrears. (b) the approval by Srbijagas management of Decision, which adopted a company-specific appraisal methodology for investments; and	**Results Indicator B4.** Increase in *Srbijagas*' collection rate of current receivables: • Baseline (2015): 80 percent • Target (average 2016-2018): 87 percent • *Actual value (average 2016-2018): 92.3 percent* • *Actual value (2019): 91.8 percent* • *Assessment: fully achieved (exceeded)* **Results Indicator B5.** The approved *Srbijagas* 10-year development plan for the Gas Transport System Operator and 5-year development plan for the Distribution System

Prior Actions		Results
Completed under DPO 1	Completed under DPO 2	(End of the calendar year unless otherwise specified)
PILLAR B: ENERGY PUBLIC ENTERPRISES **Program Development Objective B: Improve the financial sustainability and efficiency of energy sector public enterprises**		
	(c) the approval by Srbijagas management of Decision, which established Srbijagas' audit committee as the body in charge of the oversight of Srbijagas' system of internal controls. **Prior Action #6**. No change.	Operator are in accordance with the adopted economic and financial appraisal methodology: • Baseline (2016): No • Target (2018): Yes • *Actual value (2018): No (10-year plan pending regulatory approval)* • *Assessment: Partially achieved (on track for 10-year plan)*

Prior Actions		Results
Completed under DPO 1	Completed under DPO 2	(End of the calendar year unless otherwise specified)
PILLAR C: TRANSPORT PUBLIC ENTERPRISES AND STATE-OWNED COMPANIES **Program Development Objective C: Improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies**		
Prior Action #7. The Borrower: (a) implemented a new framework for railways financing through conclusion of the track access contracts between the state-owned infrastructure rail company and the state-owned freight and passenger rail companies and approving a public service obligation agreement; and (b) adopted new performance criteria for the state-owned infrastructure, freight and passenger rail companies.	**Indicative Trigger #7.** The Borrower, through: (a) each Railways Company has settled its debt with EPS and issued a plan to restructure its commercial debt in a manner that places the company in a position to be financially viable and started its implementation. (b) each Railways Company made publicly available its Annual Financial Statements for calendar year 2016; and (c) through each Railways Operating Company has allocated resources for the upgrade of its financial and accounting system to allow an effective financial management of the company and application of International Financial Reporting Standards. **Prior Action #7**. No change.	**Results Indicator C1.** Level of annual direct budget operational support to the Railways Companies: • Baseline (2015): RSD 13.5 billion • Target (2018): RSD 11 billion • *Actual value (2018): RSD 11.29 billion* • *Actual value (2019): RSD 13.04 billion* • *Assessment: mostly achieved* **Results Indicator C2**. Improvements in labor productivity (measured by train kilometers per employee) and in asset utilization (measured by passengers per kilometer of track and ton per kilometer of track) relative to 2015: • Baseline (2015): zero • Target (2018): 15 percent (for both indicators) • *Actual value (2018; 2019):* *IZS: labor productivity: 119 percent; 80 percent* *Cargo (freight): asset utilization: 27 percent; 10 percent* *Voz (passenger): asset utilization: 3 percent; -15 percent* • *Assessment: mostly achieved (exceeded for IZS and Cargo; not achieved for Voz)*
Prior Action #8. The Borrower: (a) through the Decisions of the General Assemblies of the respective railway companies, adopted labor optimization plans for 2016-2020 setting out the medium-term targets, process, compensation packages, selection criteria, grievance mechanisms and timeline for reductions in staffing; and (b) through the management of the respective railways companies, initiated the 2016 target for staff reduction by communicating to the companies' respective employees the option for their	**Indicative Trigger #8.** The Borrower, through each Railway Company has: (a) updated its labor optimization plan for calendar year 2017, including the annual targets, eligibility criteria, compensation packages, and grievance mechanisms; and (b) achieved the targets for calendar year 2017 set forth in said labor optimization plan. **Prior Action #8.** No change.	**Results Indicator C3.** Reduction in annual wage bill of railways companies relative to 2015: • Baseline (2015): zero • Target (2018): 25 percent • *Actual value (2018): 23 percent (vs. 2016 baseline)* • *Actual value (2019): 25 percent (vs. 2016 baseline)* • *Assessment: fully achieved*

Prior Actions		Results
Completed under DPO 1	**Completed under DPO 2**	(End of the calendar year unless otherwise specified)
participation.		
	Indicative Trigger #9. The Borrower, through PERS, has prepared and approved a framework for a service-level agreement to be entered with MCTI, for purposes of: (a) defining the performance standards for different road classes, based on pavement conditions, operational standards, and safety. (b) requiring the Borrower, through MCTI to provide an agreed financing for roads to achieve the agreed performance standards; and (c) holding PERS accountable for agreed performance standards. **Prior Action #9**. No change.	**Results Indicator C4.** The government agrees with Roads of Serbia on performance levels for the different road classes with associated guaranteed funding levels committed: • Baseline (for 2016 budget): no • Target (for 2019 budget): yes • *Actual value (for 2019 budget): no* • *Assessment: not achieved (but on track and postponed for 2021 budget)*

B. Achievement of Objectives (Efficacy)

Results Indicators: Relevance, Measurability, and Appropriateness of Targets

27. **The Results Indicators were appropriate to assess achievement of program objectives and attributable to the PAs, with two partial exceptions.** Under Pillar B, linkage between RI B1 (convergence of the guaranteed supply tariff to market parity) and the PA (raising the guaranteed supply tariff) may be weaker in practice than expected.[13] Regulated electricity tariffs change occasionally while market prices on the Hungarian Power Exchange (HUPX) can be volatile, driven by global shocks (most recently, the COVID-19 pandemic[14]). If lack of convergence is driven by volatility in the HUPX price, it may not indicate a deterioration in EPS' financial situation.[15] Instead, the RI could have benchmarked the tariff increase against inflation or EPS' production cost. Also, under Pillar B, the linkage between RI B3 (more EPS employees with education above secondary) and the PDO (improve EPS financial sustainability) is imperfect in that more education does not equate to technical skills needed by EPS. However, an RI that measured the skills level of employees, providing a stronger link to the PDO, would not have readily available data.

28. **Two RIs were revised between DPL1 and DPL2 as a result of consultations with the Government during negotiation of DPL2, better alignment with reform priorities, or heightened relevance.**
    - **RI A1:** Revision from "Increased percentage of invoices for public to public commercial transactions recorded in the central register" to "share of executed payments for public to public commercial transactions which were beforehand duly registered as commitments within deadlines prescribed by legislation," to reflect the change in the PA.
    - **RI B3:** "Reduction in annual EPS wage bill relative to 2014" was revised to "increase in the share of the EPS workforce with education above secondary-level relative to 2015." During the negotiations of DPL2, the Government and the Bank agreed that the new RI was better aligned with the PDO of making public energy enterprises more efficient.

29. **With a few exceptions, the RIs were feasible and measurable, but unclear definitions of some indicators required extra effort during evaluation.**
    - Measuring RI B5 would have required reading Srbijagas' 10-year and 5-year plans and reviewing the financial appraisal methodology to ensure consistency. It also assumed that the plans would be easily accessible, which was not the case when the evaluation team requested the information from Srbijagas.
    - The evaluation team found it hard to understand how the share of positions (RI A3) mapped to the new salary grade should be assessed. The team also had to deduce whether railway labor productivity (RI C2) had to be calculated for each company or only for IZS, the infrastructure company.

30. **Targets were generally reasonable, but two targets were adjusted as part of DPL2 and a few were too ambitious to be achieved within the DPL time frame.** The target of RI B2 (beneficiaries of the Energy Vulnerable Program)

[13] The convergence indicator was adopted using the international benchmark reflected in EPS' tariff methodology, but this methodology may not well capture market price volatility.
[14] Between January and April, the price of one MWh in HUPX market has declined by more than half, from an average of €53 to €25.3.
[15] For instance, higher regulated tariffs could increase EPS revenues but not convergence if at the same time a shock disproportionately pushes up market prices.

was lowered to reflect a more realistic ambition. The target of RI A3 (mapping of education, health and social protection positions) was raised to reflect the more ambitious scope of reform, but despite good progress, this new target was missed because implementation took longer than expected. Full implementation of the Public Sector Employees Salary System consists first of mapping all public jobs to the new job catalogue and then mapping the jobs into pay groups and grades, which requires extensive negotiations between the Government, the unions, and other stakeholders as well as simulations of the budgetary implications. Two RIs—RI B5 (Srbijagas plans) and RI C5 (performance agreement with government)—turned out to be too ambitious within the DPL timeframe. The capacity of Srbijagas to draft two development plans or of the Ministry of Construction, Transportation and Infrastructure (MCTI) and PERS to agree speedily on an SLA may have been overestimated.

Achievement of Program Objectives

PDO A: Improve public expenditure management through strengthened PFM and public administration reform

31. RI A1: Executed payments for public-to-public commercial transactions – *fully achieved*. Control and monitoring of commitments and arrears for public-to-public transaction is greatly improved. The RI targeted an increase in the share of executed payments for public-to-public commercial transactions from 60 percent (2015) to at least 90 percent (2018). By end-2016, the RI jumped to 96.7 percent, followed by 95.8 percent in 2018 and 95.4 percent in 2019, according to Treasury Department data. However, the authorities reported that in Q4 of 2018, PERS and the Ministry of Justice had accumulated RSD 0.8 billion in domestic arrears (see IMF July 2019 Article IV report), creating the prospect of new accumulation of arrears.

32. RI A2: Number of employees in the public sector – *fully achieved*. The size of the public sector and the wage bill are still under control. Through rightsizing and optimization, the RI targeted bringing the number of public employees down by end-2018 to the entity limits set by the Law on the Ceiling on Public Sector Employees. The employee ceiling in 2018, according to a Government Decision, was 453,554. Two sources provided evidence that the RI was achieved: (a) the PfoR on public administration and the Ministry of Public Administration and Local Self-Government (MPALSG) provided evidence that in 2018 the number of employees in the Registry of employees was 409, 587, below the total limit; (b) at 400,147, the total number of employees in the Central Registry of Mandatory Social Insurance (CROSO) in 2018 was far below 453,554. While the wage bill was not directly targeted as RI, the PA reform helped to bring the wage bill down from 11 percent of GDP in 2014 to 9.0 percent in 2017. However, in 2019 several increases in wages for certain sectors expanded it to 9.5 percent. In addition, as envisaged in the annual budget law, there will be a further increase in the overall wage bill in 2020.

33. RI A3: Transition to the new wage system – *not achieved (but on track).* Full mapping has not been completed, but with completion of the first phase and despite some hesitations in progress, the process is generally on track. The goal of the Law on the Salary System of Public Sector Employees was to resolve inequities and prevent unpredictable discretion and inefficiency in pay and grading by rationalizing the public pay structure; it was expected that by end-2018, 75 percent of positions in health, education and social protection would be mapped to the new salary grades. The RI was not achieved but is on track; completion has been postponed to 2020–21. Transition to the new wage system is a two-phases process. The first has been completed: all public jobs have been mapped into the 1,500 positions (including sub positions) defined by job title, description of tasks, and qualification requirements in the Job Catalogue adopted in July 2017 and amended in December 2017 and May 2018. As the MPALSG informed the ICR team, in accordance with the Law on Employees in Public Services, education, health, social protection, and other services had to align their internal organization and systematization acts with the Job Catalogue by March 2018. The postponed second phase will consist of mapping positions from the new Catalogue with new salary grades. In 2018, MPALSG and line ministries prepared a preliminary mapping of the job posts into the matrix for all jobs defined by the Catalogue, which was the basis of 2018 consultations with stakeholders. In 2020, MPALSG and MOF are assessing the fiscal implications of the new wage system and fine-tuning the coefficients to ensure equal pay throughout public administration. Enactment of a Decree on coefficients is expected by end-2020.

Status summary of Pillar A RIs

PDO A: Improve public expenditure management through strengthened PFM and public administration reform					
Results Indicator	**Description**	**Baseline**	**Target value**	**Actual value**	**Assessment**
A1.	Share of executed payments for public to public commercial transactions which were beforehand duly registered as commitments within deadlines prescribed by legislation (percent)	60 percent (end-2015)	At least 90 percent (end-2018)	95,8 percent (end-2018)	Fully achieved
A2.	Number of employees in the public sector, as determined by the Law on the Ceiling on Public Sector Employees, does not exceed the total of institutional-level limits set under the Law and its decisions (number)	No (end-2015)	Yes (end-2018)	Yes (end-2018)	Fully achieved
A3.	Increased share of positions within the education, health and social protection sectors mapped to new grades (percent)	Zero (end-2015)	75 percent (end-2018)	Zero (end-2018)	Not achieved (but on track[16])

Source: MOF and MPALSG data

PDO B: Improve the financial sustainability and efficiency of energy sector public enterprises

34. **RI B1: Convergence of the guaranteed electricity supply tariff to reach market parity levels – *not achieved.*** EPS has gradually increased its tariffs for guaranteed supply to customers in the regulated market. Reform of the tariff was expected to increase convergence with HUPX market prices from 64 percent[17] at end-2014 to 80 percent at end-2018. As Table 2 shows, EPS tariffs rose progressively over the period, but the convergence targets were not met for two reasons:

- Tariffs did increase in 2015, 2016, and 2017, but the increases were modest because they were more politically sensitive than expected. In December 2019, EPS increased tariffs by a further 3.9 percent.
- Over the same period, market prices were highly volatile, jumping by more than 16 percent during 2016, then dropping by near 19 percent during 2017, surging more than 60 percent during 2018, only to fall by near 40 percent during 2019. Convergence between Serbia's regulated tariff and the HUPX reached 76 percent at end-2017 and hit 77 percent by end-2019, but at end-2018 it was just 47 percent, well short of the 80 percent target.

Another factor in EPS financial sustainability aside from tariff convergence is worth noting. EPS' collection rate has gone up to 99 percent on average during 2017-2019. Nevertheless, EPS' finances overall have recently deteriorated. Based on analysis of publicly available EPS financial statements, company financial performance began to weaken in 2018. After two years of improvement,[18] EPS net income showed losses of RSD 1.3 billion in 2018 partly because

[16] The first step of mapping positions in the new catalogue has been completed, as has mapping of positions to the new salaries but final mapping is postponed for end-2020.
[17] Calculations of the ICR team for the baseline found 67 percent Rather than the 64 percent in the PAD.
[18] EPS had net positive income of RSD 5.8 billion in 2016 and RSD 6.3 billion in 2017.

operating expenses grew faster than operating revenue. Net income for 2019 is expected to be negative (as reported to the ICR team).

Table 2: EPS Tariff Increases and Convergence Indicator[19]

Tariffs applied for regulated market (RSD/MWh)

	2014	2015	2016	2017	2018	2019
Jan						
Feb						
Mar						
Apr		3,188				
May			3,258	3,477		
Jun						3,492
Jul	3,195				3,529	
Aug		4.5%				
Sep						
Oct		3,417	3.8%	2.0%		
Nov			3,518	3,511		
Dec						3.9% 3,733
Year end (december)	3,195	3,417	3,518	3,511	3,529	3,733
Average - Year	3,195	3,281	3,333	3,487	3,529	3,517

Average electricity prices (€/MWh)

	2014	2015	2016	2017	2018	2019
EPS	27.22	27.17	27.06	28.77	29.84	29.84
HUPX	40.47	40.59	35.37	50.36	50.94	50.31
Convergence	**67.3%**	**66.9%**	**76.5%**	**57.1%**	**58.6%**	**59.3%**

Year end (December) electricity prices (€/MWh)

	2014	2015	2016	2017	2018	2019
EPS	28.09	28.43	29.52	30.20	30.73	31.75
HUPX	41.66	42.27	49.13	40.02	65.07	41.08
Convergence	**67.4%**	**67.3%**	**60.1%**	**75.5%**	**47.2%**	**77.3%**

Source: EPS and HUPX website data.
Note: Red percentages indicate tariff increases occurring at the beginning of related month

35. RI B2: Number of total beneficiaries of the Energy Vulnerable Program – *fully achieved (exceeded).* The Energy Vulnerable Program (EVP) was expanded and now covers more female-headed households. To protect those most vulnerable to a rise in electricity tariffs, an amendment to the EPS energy reform extended EVP coverage. The RI targeted an increase of the number of households benefiting from EVP from 60,600 in 2014, of which 25 percent were headed by women, to 70, 000 in 2018, of which 30 percent were headed by women. The RI exceeded the target. Between 2015 and 2018, another 16,000 households qualified for the EVP, bringing the total to 76,604, more than half of which, according to EPS data, were led by women.

36. RI B3: Share of the EPS workforce with education above secondary level – *partially achieved.* The EPS labor rightsizing program achieved significant results in terms of a more educated workforce. The optimization reform plan was expected to make the workforce more competitive by raising the average level of education and to contain costs by rightsizing the workforce. EPS almost reached the 2015–19 FCP target (of 5,000) by reducing the workforce by 4,255 from 31,784 in 2015 to 27,529 in 2019, thereby enhancing the company's financial sustainability. The share of employees educated beyond secondary increased by 3.43 percentage points (pp) between 2015 and 2018, short of the 5-pp target. With further labor cuts, the total increase reached 4.23 pp in 2019 (Table 3).

Table 3: **Distribution of EPS Workforce by Education, 2015–19, Percent**

	2015	2016	2017	2018	2019
Primary	5.64	5.24	4.65	4.35	3.93
Secondary	73.73	72.71	72.25	71.59	71.20
Tertiary	20.63	22.05	23.10	24.06	24.86
Increased share relative to 2015 (pp)		**1.42**	**2.47**	**3.43**	**4.23**

Source: Word Bank staff calculation based on data provided by EPS

[19] This tariff is aggregated for households and small companies in the regulated market and thus guaranteed low voltage electricity.

37. **RI B4: Srbijagas rate of collecting current receivables – *fully achieved (exceeded).*** The financial situation of Srbijagas is now considerably better, even though performance improvements slowed in 2018. Measures specified in the company FCP were expected to bring in more revenues via a higher collection rate, which would reduce the debt burden. According to data from Srbijagas management, in 2016–18 the average rate for collecting current receivables was 92.3 percent, above the 87 percent RI target, and in 2019 it was 92 percent. The financial situation has improved in general. With revenue growing faster than expenses, operating profit jumped from RSD 13.7 billion in 2015 to RSD 24.4 billion in 2017, and net profit from RSD 2 billion to RSD 16.7 billion. However, in 2018, as revenues slipped by two percent and operating expenses went up by 14 percent, net operating profit slowed to RSD 14.9 billion, and according to public financial statements, net profit as a whole reached only RSD 5.8 billion.

38. **RI B5: Development plans for the Srbijagas transport system and distribution system – *partially achieved.*** Of the two promised development plans, one was submitted for regulatory approval, and the other is being drafted. As part of modernizing the company by unbundling the transport and distribution system operators, the Srbijagas FCP set out that by end-2018 the Government would have approved a 10-year development plan for the transport system and a 5-year development plan for the distribution system, both consistent with the company investment appraisal methodology. Only the 10-year transport system development plan was drafted, approved by the company Supervisory Board, and submitted to the Energy Regulatory Agency for approval. The 5-year distribution system development plan is being drafted for submission to the Supervisory Board and is expected to be adopted in the near future. The capital spending component of the company's annual business plan as approved by the Government is in line with the new investment appraisal methodology.[20]

Status summary of Pillar B RIs

PDO B: Improve the financial sustainability and efficiency of energy sector public enterprises					
Results Indicator	**Description**	**Baseline**	**Target value**	**Actual value**	**Assessment**
B1.	Convergence of the guaranteed electricity supply tariff to reach market parity levels (percent)	64 percent (end-2014):	80 percent (end-2018)	58.6 percent (average for 2018)[21]	Not achieved
B2.	Number of total beneficiaries of the Energy Vulnerable Program (number of households)	60,600 of which 25 percent female headed (2014)	70, 000 of which 30 percent of female headed (2018)	76,604 of which 53 percent of female headed households (2018)	Fully achieved (exceeded)
B3.	Increase in the share of the EPS workforce with education above secondary-level relative to 2015 (percent)	Zero (2015)	5 percent (2018)	3.4 percent (2018)	Partially achieved
B4.	Increase in Srbijagas' collection rate of current receivables	80 percent (2015)	87 percent (average 2016-2018)	92.3 percent (average 2016-2018)	Fully achieved (exceeded)
B5.a.	The approved Srbijagas 10-year development plan for the Gas Transport System is in accordance with the adopted economic and financial appraisal methodology	No (2016)	Yes (2018)	No (2018)	Partially achieved (on track[22])
B5.b.	The approved Srbijagas 5-year development plan for the Distribution System Operator is in accordance with the adopted economic and financial appraisal methodology	No (2016)	Yes (2018)	No (2018)	Not achieved

[20] The ICR team did not have access to the plan, but company management assured the team that the plan was consistent as did the July 2019 IMF Article IV report. See page 24 of the report available at *https://www.imf.org/en/Publications/CR/Issues/2019/07/22/Republic-of-Serbia-Staff-Report-for-the-2019-Article-IV-Consultation-and-Second-Review-under-48511*.
[21] The end-year convergence level was 47.2 percent for 2018.
[22] The 10-year development plan for the gas Transportation System Operator is pending Regulator's approval.

PDO C: Improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies

39. RI C1: Annual direct budget operational support to railway companies – *mostly achieved*. Operational support to railways in the annual direct budget was held close to the target level in 2018 but surged in 2019 because of infrastructure rehabilitation. Until August 2015, the MCTI subsidized the integrated joint stock company (JSC) Serbian Railways. As part of the Serbian railway reform, the direct subsidy was replaced by two targeted instruments: the Public Service Obligation (PSO) Contract between MCTI and Serbia Voz (passengers) and the Infrastructure Management (IM) Contract between the MCTI and IZS (infrastructure management). The two contracts fundamentally changed the nature of the relationship between the railway companies and the MCTI. Through the contracts, the MCTI now "buys" railway passenger transport and railway infrastructure management services, which better target direct budget support to the railways. It was expected that the reforms would reduce direct budget operational support from RSD 13.5 billion in 2015 to RSD 11 billion in 2018; that goal was almost achieved. According to the Reform Plan 2016–20, Serbia Cargo (freight) is not expected to receive direct MCTI operational support. The total amount of direct operational support should be the total of PSO and IM contracts, but modest levels of budget support for Cargo have continued, and Cargo's business plans show some operational support.[23] Total budget support to railway companies in 2018 declined to RSD 11.6 billion (or RSD 11.29 billion, close to the 11 billion target, when JSC is excluded because it is not an operating company) (see Table 4). Nevertheless, it should be noted that in 2019 support surged back to the baseline level, especially for IZS, likely reflecting infrastructure rehabilitation across the network.

Table 4: Direct Operational Support to Railway Companies, 2016–19, RSD Thousands

Company	Adopted data source	2016	2017	2018	2019
IZS	IZS performance report (BP)	7,250,000	7,690,000	7,120,000	9,195,240
Cargo	Letter MCTI	798,361	478,502	574,877	120,869
Voz	Voz performance report (BP)	4,764,987	4,465,247	3,600,000	3,720,000
JSC	JSC performance report (BP)	275,330	428,336	313,500	313,500
Total		**13,088,678**	**13,062,085**	**11,608,377**	**13,349,609**
excl. JSC		**12,813,348**	**12,633,749**	**11,294,877**	**13,036,109**

Source: MCTI's letter and companies' business plans
Note: Total direct operational support includes all four companies – IZS (infrastructure), Serbia Cargo (freight), Serbia Voz (passengers), and JSC Serbian Railways. The first three are railway operational companies while JSC is an asset administrator so an alternative total excludes JSC.

40. RI C2: Labor productivity and asset utilization–*mostly achieved*. Labor productivity of the Infrastructure management company, IZS, has exceeded target; asset productivity of the freight rail company (Cargo) has exceeded target; and asset productivity of the passenger rail company (Voz) has fallen short of target, slowed by major network renovations. To increase efficiency, the railway reforms targeted improvements in labor productivity and asset utilization by 15 percent in 2018 compared to 2015. In 2016, one year after the reform, IZS labor productivity (train-km generated on the network per member of IZS staff) had jumped by 56 percent. In 2018, it stood at 119 percent against the 2015 baseline, far exceeding the 15 percent target. Productivity declined during 2019 (but it remained 80 percent above baseline) as a result of more staff but lower volume of operations because

[23] From MCTI's letter to the ICR team. The business plan 2018 (Annex 4, footnote **) states that the unused subsidy from 2016, amounting to RSD 122,834,923, may be used. At the same time, review of Cargo's performance report for 2016 shows a subsidy assessed at RSD 26,129,000.

the network was being rehabilitated (Table 5). In 2018 Cargo's asset productivity (tons transported per km of track) was 27 percent above that of 2015, well above the target of 15 percent. However, the productivity of Voz assets (passengers transported per km of track) in 2018 had increased by only three percent relative to 2015, against a target of 15 percent. The asset productivity of both companies declined in 2019, reflecting major disruptions in the network due to modernization and rehabilitation of the network (Table 6).[24] Asset utilization is likely to speed up when renovations are completed.

Table 5: IZS Labor Productivity

Element	Adopted values	2015	2016	2017	2018	2019
IZS Staff	MCTI letter	9,725	7,965	6,225	5,450	5,664
Train-km	Total - MCTI letter	12,599,516	16,101,128	15,913,700	15,472,959	13,209,024
Labour productivity		1,296	2,021	2,556	2,839	2,332
Labour productivity (multiple of 2015 value)		**1.00**	**1.56**	**1.97**	**2.19**	**1.80**

Source: MCTI data and World Bank staff calculation
Note: MCTI provided the number of IZS staff; that number differed slightly from the IZS performance report. Calculation of IZS labor productivity takes into account the volume of operations on its network, which is measured by the train-km generated by Serbia Cargo and Voz trains. Strictly speaking, the total number of train-km on the network should also include IZS-generated train-km for shunting, renewals, and other reasons. For practical reasons, this category is excluded from the analysis.

Table 6: Asset Utilization for Serbia Cargo (freight) and for Serbia Voz (passengers)

Element	Adopted values	2015	2016	2017	2018	2019
Cargo (t)	MCTI note	11,882,000	11,754,000	12,323,000	11,880,000	10,275,900
Voz (pass)	MCTI note	6258180	6091740	5638630	5062340	4189950
IZS(km of track)	Adjusted values	3,143	3,143	2,474	2,474	2,474
Cargo - asset productivity		3,780	3,740	4,981	4,802	4,154
Cargo productivity (multiple of 2015 value)		**1.00**	**0.99**	**1.32**	**1.27**	**1.10**
Voz - asset productivity		1,991	1,938	2,279	2,046	1,694
Voz productivity (multiple of 2015 value)		**1.00**	**0.97**	**1.14**	**1.03**	**0.85**

Source: MCTI data and World Bank staff calculation
Note: The numbers for passengers and tons of freights provided by the companies and those provided by MCTI were not very different. Adjusted network size is used, instead of total network size as reported by MCTI, to exclude lines where, by decision of the IZS Board, both freight and passenger services ceased after October 2016.

41. **RI C3: Annual wage bill of railway companies – *fully achieved.*** The labor rightsizing program considerably reduced the size of the workforce and the wage bill. The RI C3 targets a 2018 wage bill that is lower by 25 percent than in 2015. Rationalization of the workforce resulted in 6,336 fewer staff between 2015 and 2019, about a 37.8 percent

[24] In support of the comprehensive reform of the sector, and the need to renew its railway network, the Government has set up an investment program totalling over US$ 2 billion. The program includes infrastructure renewals, fleet modernization, development of intermodal facilities, and investments in support systems. The scale of passenger and freight operations on the network is in a state of temporary stagnation because of major renovations of the network. In 2016–18 an average of 39 percent of scheduled passenger service and 37 percent of scheduled freight trains were cancelled. There are severe speed restrictions across the network, with the biggest impact on the Main Lines (core network):

- Commercial speeds of 101–120km/h can be achieved only on 1.4 percent of the network.
- Maximum projected line speeds are achievable only on 27 percent of the Main Line network.
- Minimum-speed restrictions apply on 26 percent of the Main Line network. On average, minimum speed is about 41 percent of the maximum (design) speed.
- Only 48 percent of the network can carry the maximum axle load of 22.5 tons.

drop.[25] In the absence of data on the 2015 wage bill, the 2016 wage bill is used as the baseline.[26] The 2018 wage bill was 23 percent below that of 2016 (Table 7). Since the total number of staff in the railways in 2016 (13,760) was 18 percent less than in 2015 (16,759), the wage bill must have been much higher in 2015 than in 2016. Therefore, the percentage decrease in the total wage bill between 2015 and 2018 was likely above the 25 percent target since the number of staff shrank by 39 percent in the same period.

Table 7: Wage Bills for Railway Companies, 2016–19, RSD Thousands

Company	Adopted data source	2016	2017	2018	2019
IZS	Performance report (BP)	9,852,964	8,640,737	7,018,637	6,473,019
Cargo	Performance report (BP)	3,492,388	3,134,680	3,106,978	2,975,936
Voz	Performance report (BP)	2,941,105	2,573,267	2,365,860	2,673,089
JSC	Performance report (BP)	174,726	142,716	186,961	163,223
Total wage bill		**16,461,183**	**14,491,400**	**12,678,436**	**12,285,267**
Wage bill as multiple of the value in 2016		**1.00**	**0.88**	**0.77**	**0.75**

Source: Company performance reports.
Note: Information on the wage bill was collected from several sources, among them the MCTI letter to the World Bank, templates filled-in by the companies, and company performance reports. It was not possible to obtain audited company accounts. Information was checked against company business plans, which include Profit & Loss accounts for the prior period.

42. **RI C4: Service-level agreement between the MCTI and PERS (Roads of Serbia) – *not achieved (but on track)*.** The SLA is under preparation, delayed by technical and preparedness issues. As a result of the reform to increase the efficiency and performance of the road sector, the RI called for an SLA between the MCTI and PERS by 2018 to set specific levels of maintenance for different categories of roads. The SLA, a multiyear contract, will be central to the Government's public road policy. It will define the level of Government support for maintenance, rehabilitation, and upgrades of public roads. It will require MCTI and PERS to take a long-term view of the road asset and agree on targets to be delivered through the PERS business plan, which is based on future demand for services. The target specified that when formulating 2019 budget, the MCTI will commit to guaranteed funding as agreed for maintenance of different road classes. A pilot SLA is scheduled for completion by September 2020,[27] after which the SLA for 2021–24 will be prepared.[28]

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[25] The wage bill was reduced by two waves of voluntary and one wave of compulsory layoffs in 2016–18. They were accompanied by compensation to departing staff. The one-off compensation is excluded from calculation of the annual wage bill. Total staff for all related companies dropped from 16,759 in 2015 to 10,423 in 2019.
[26] Assessment of the RI was intended to use the 2015 wage bill as the baseline but that was not possible because of the structural changes in 2015. From January 1st to August 10th, the railway was an integrated company; after August 10th, it was unbundled into the four companies that became its successors.
[27] As evidenced in PERS operating plans for 2019 and 2020 and from ICR team discussions with the MCTI and PERS.
[28] In parallel and closely connected with the SLA, the government is working with PERS to define new methods of road network maintenance through Performance- Based Maintenance Contracting (PBMC), which is supported by the World Bank PforR on Enhancing Infrastructure Efficiency and Sustainability and the EBRD.

Status summary of Pillar C RIs

PDO C: Improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies					
Results Indicator	Description	Baseline	Target value	Actual value	Assessment
C1.	Level of annual direct budget operational support to the Railways Companies (billion RSD)	RSD 13.5 billion (2015)	RSD 11.00 billion (2018)	RSD 11.29 billion	Mostly achieved
C2.a.	Increase in labor productivity (train kms per employee) for IZS relative to 2015 (percent)	Zero (2015)	15 percent (2018)	119 percent (2018)	Fully achieved (exceeded)
C2.b.	Increased in asset utilization (tons per km of track) for Cargo relative to 2015 (percent)	Zero (2015)	15 percent (2018)	27 percent (2018)	Fully achieved (exceeded)
C2.c.	Increased in asset utilization (passengers per km of track) for Voz relative to 2015 (percent)	Zero (2015)	15 percent (2018)	3 percent (2018)	Not achieved
C3.	Reduction in annual wage bill of railways companies relative to 2015 (percent)	Zero (2015)	25 percent (2018)	23 percent (against 2016 baseline)	Fully achieved
C4.	The government agrees with Roads of Serbia on performance levels for the different road classes with associated guaranteed funding levels committed	No (for 2016 budget)	Yes (for 2019 budget)	No (for 2019 budget)	Not achieved (but on track)

Source: MCTI and Company performance reports data

Rating: Satisfactory

43. **With most RIs either reaching their targets on schedule or with some delay, the PEPU-DPL series achieved notable results that are fundamental for the efficiency and financial sustainability of the public administration and public utilities.** The assessment of achievement of program objectives draws from the achievement of results as measured by the RIs, but it is not mechanistically derived from the RIs. Of the 12 RIs, five met their targets fully, two mostly, two partially but with one on track and the other with a weaker link to the PDO, two not met but on track, and one not met but for an RI with weaker links to the PDO. More important to an overall assessment is the summaries of achievements by pillar.

- **Management of public spending.** Two RIs met their targets, while the third is on track, delayed by political considerations. The increase since 2016 in executed payments for public-to-public commercial transactions beyond 90 percent reflects better monitoring of commitments and arrears and thus better PFM. The labor optimization program has helped not only to keep the number of public employees below institution-level limits but also to contain the wage bill. While not fully completed, the transition to the new wage system is well-advanced. The preliminary mapping is an important step toward full completion of the transition expected by end-2020.
- **The energy sector.** Two RIs met their targets fully, two partially achieved targets with one on track and the other with a weakly-linked indicator, and a fifth not achieved but with an imperfect indicator. The increase since 2016 in collection of current receivables beyond 90 percent has improved Srbijagas finances considerably. To improve efficiency and company productivity over the medium term, a 10-year development plan for gas transport has been submitted for Government approval and the 5-year plan for gas distribution is being drafted. Although only broadly targeted to meet EPS' skills shortage, its labor optimization plan has helped raise the education level of the workforce, partly achieving the RI target in 2018 and almost meeting it fully in 2019. Though the convergence RI for electricity tariffs did not fully reflect the increase in tariffs for the regulated market, the higher tariffs in 2015–17 helped to improve company finances and the 2019 increase is expected to offset the negatives seen in 2018–19. The EVP successfully increased coverage of vulnerable households beyond the target, alleviating the potential social impact of the tariff increase.

- **The transport sector.** One RI achieved its target fully, two mostly, and the fourth did not but is on track. The successful unbundling of the railways parent company and subsequent reforms like workforce rightsizing helped reduce direct state budget support by 2018, which is now performance-based, and cut operating expenses, especially the wage bill. Productivity has increased beyond expectations for IZS and Cargo despite disruption by continuing renovation and modernization of the network. In roads, completion of the MCTI-PERS SLA could not be achieved in time for the 2019 budget. Nevertheless, progress is being achieved, and the government is fully committed to completing work on the SLA by the end of 2020.

C. Overall Outcome Rating and Justification

Rating: Satisfactory

44. **With the relevance of prior actions and efficacy rated satisfactory, the overall outcome is also rated satisfactory.** Although all RIs did not meet their targets in 2018, reforms supported by the PEPU-DPL series were relevant for the country reform program and for the PDOs and have already achieved substantial progress for Serbia. Labor optimization and some other reforms were socially and politically sensitive, affecting many vested interests, but strong government ownership facilitated their completion. The DPLs supported the process of strengthening PFM by, e.g., enhanced monitoring and management of arrears. The DPLs also helped to advance reforms in public administration, with benefits to public employment and the public sector wage bill. The reform program also reinforced the financial position and efficiency of energy and transport SOEs. Notable results in these areas were heightened collection of current receivables for EPS and Srbijagas; a rise in electricity tariffs, though not yet sufficient to cover the costs; successful labor optimization plans for EPS and the railway companies, cutting the wage bill; and improved productivity and reduced spending on operations and budget support to railway companies. The Government will benefit further when the remaining reforms supported by the PEDU- DPLs are fully in place, as well other reforms to consolidate the achievements (see Section V for the full discussion of reform sustainability).

III. OTHER OUTCOMES AND IMPACTS

A. Poverty, Gender and Social Impacts

45. **The PEPU-DPLs included a focus on mitigating measures to reduce the risk of adverse short-term distributional impacts.** Measures with potential adverse distributional impact were the workforce rightsizing in the public administration, EPS, and public railway companies; and higher electricity tariffs in the regulated market. Although still high, the poverty rate (at $5.50 a day, 2011 PPP) has continued to decline, from 26.3 percent in 2013 to 25.3 percent in 2015 and 20.3 percent in 2017. The World Bank estimated poverty rate for 2018 at 19.8 percent. The Poverty and Social Impact Assessment at appraisal found that public workers who might be affected by the labor rightsizing were not the most vulnerable groups in Serbia.

46. **The various labor optimization plans were designed to minimize adverse effects on affected workers.** Labor optimization in public administration was achieved mostly through natural attrition in the form of retirement and voluntary early retirement with benefit packages for workers close to retirement age. EPS and railway rightsizing plans were informed by the domestic policy and legal framework and international good practice. These plans also relied as much as possible on retirement and voluntary separations. In the case of involuntary separation, workers who were declared redundant received compensation packages above the minimum required by the Labor Law and had the right to receive unemployment benefits from the National Employment Service (NES), with health insurance and pension benefits while they were registered with NES. The retrenchment plans set out grievance mechanisms and clarified timelines and responsibilities for the processes. The NES put in place measures to support retrenched workers and its capacity and effectiveness were built up. NES considered this category of unemployed persons a priority group. Support included job search counseling, training for prequalification, psychosocial support, and opportunities to participate in public works. In 2017, 1,586 retrenched railway workers registered with NES and participated in its programs.

47. **Mitigating measures were adopted as part of the DPLs PAs to protect vulnerable households from high electricity tariffs.** Supported by the DPL, the Government expanded coverage of the energy bill discount program (the EVP) for certain categories of social assistance beneficiaries and low-income households, including rural elderly people. Between 2015 and 2018, 16,000 more households were added to the EVP.

48. **Some measures cushioned differentiated gender impact.** Female-headed households (close to a third of households in Serbia), including elderly women living alone, were more vulnerable to the energy price increases. The EVP, supported by the DPL, which protects vulnerable households through energy bill discounts, not only expanded the total number of households covered, but the share of female-headed households went up from 27 to 53 percent—23 pp higher than the target. With respect to rightsizing, about 80 percent of workers in EPS and railway companies are men. With support from the Energy Sector Management Assistance Program (ESMAP), the Bank designed a gender diversity program for EPS to increase the percentage of women in technical and middle management positions. The program included training and mentoring for female employees on leadership, communication, executive presence, and career planning. In 2018, 62 women were trained; 93 percent reported increased confidence and 98 percent considered the training very useful.

B. Environmental, Forests, and Natural Resource Aspects

49. **At appraisal time, the PEPU-DPL series anticipated environmental benefits from climate change mitigation and adaptation, but these benefits have yet to materialize.** The higher electricity tariffs (supported by PA #4) were expected to create incentives to use electricity more efficiently and indirectly to generate the financing needed to invest in clean energy. However, since tariffs remain lower than in neighboring countries, over 10 percent of electricity produced is used for household heating. Also, coal still accounts for more than 70 percent of electricity generation. In addition, according to the Fiscal Council analysis, significant efforts are still required for EPS thermal power production plants to meet all national environmental requirements.[29] More efficient railway operations, thanks to the track rehabilitation program, and higher-quality roads, thanks to the SLA agreement (which is expected to incorporate climate resilience provisions), are likely to result in more efficient fuel use and contribute to environmental sustainability. The expected benefits are likely to materialize in the medium term when the track rehabilitation is completed, and the SLA is fully effective. Whether the environmental criteria in the investment appraisal methodology adopted by Srbijagas management to ensure compliance with the national environmental laws have been effective can only be assessed when the 10-year and 5-year development plans are completed and made public.

C. Institutional Change/Strengthening

50. **The reform program supported challenging reforms and institutional changes.** The PEPU-DPLs supported adoption of a number of new laws and related regulations and amendments to other laws. Among them were procedures monitoring adherence to the revised Laws on Deadlines for Payments in Commercial Transactions (PA #1), Ceiling on Public Sector Employees and institution-level limits on number of employees (PA#2), and the Salary System of Public Sector Employees and related laws (PA #3). Energy and transport reforms also will help Serbia to progress in the transition to a well-functioning market economy and to fulfil its commitments for EU accession.

51. **The PEPU-DPLs reinforced several institutions through regulatory and legislative changes, complemented by support from related World Bank operations, and advisory and analytic activities.** The decree on the work and role of the MOF BIU validated its supervision and enforcement function. The PforR operation on Modernization and Optimization of Public Administration supported implementation of Pillar A legislative and policy reforms. The World Bank supported the MPASLG in developing the new catalogue of public job descriptions and the methodology for mapping positions to the new salary system, which the administration will complete autonomously. The World Bank provided TA for the new Srbijagas investment appraisal methodology, which the company is using for its annual business plan. World Bank TA also supported the EPS and railway labor optimization plans, and the Bank also created and conducted a program to build the capacity of female EPS employees. With World Bank support, EPS is also introducing risk assessment. For the railways, support in modernizing their financial and accounting systems contributed to more effective financial management and adherence to the International Financial Reporting Standards (IFRS). The PforR on Enhancing Infrastructure Efficiency and Sustainability complemented reforms in the road sector generally. The World Bank is also supporting MCTI's work on the SLA.

[29] *http://fiskalnisavet.rs/doc/eng/FC_Summary_EPS_Performance_analysis_and_recommendation_for_investments_increase.pdf.*

D. Other Unintended Outcomes and Impacts

52. None

IV. BANK PERFORMANCE

A. Design

53. **The PEPU-DPLs supported challenging reforms that were aligned with Serbia's priorities and the CPF and lessons identified as relevant by previous programs.** The results chain between the PAs and PDOs was generally well-defined. The DPLs did a good job of identifying possible social, gender, poverty, and environmental impacts and measures to ease them.

54. **Solid analysis informed the PEPU-DPLs.** Design of the DPL series and the PAs proposed were informed by World Bank analytical work and TA provided in close collaboration with other development partners. The analytic underpinnings (Table A2 in Annex 6) helped generate consensus among the World Bank, the Government, SOEs, and other stakeholders (who emphasized its importance during the ICR mission).

55. **The PEPU-DPL showed how close IFI coordination and joint messaging can help push forward difficult reforms.** The IMF and the EBRD both acknowledged the close collaboration with the World Bank (see Annex 3). The IMF Mission Chief during preparation and implementation of the PEPU-DPL series stated that this was the best example of collaboration he has been involved with in the last 20 years.

56. **A few shortcomings in design must be mentioned.** For a few of the policy actions, counterpart capacity was overestimated (in particular, the drafting of the two development plans for Srbijagas and the MCTI-PERS SLA). For a few, the political sensitivity required to carry out the reform as scheduled was not adequately calibrated (the transition to new salary grades, and the increase in electricity tariffs which was below required levels because of the high political sensitivity of a large increase). Last, the policy actions related to labor optimization (PA #2 DPL 1 and 2; PA #6 DPL 1 and 2; PA #8 DPL 1 and 2) would have benefited from better targeting, taking into consideration shortages and excesses of certain skills. The labor optimization, which was voluntary and directed to staff close to retirement, eased adoption of the reform program and helped keep public utilities financially sustainable. However, EPS for instance had not only too many administrative staff but also shortages in certain technical skills that the optimization plans did not address. As a consequence, EPS has increasingly relied on short-term contracts, in effect increasing the number of full-time workers (see IMF observations in Annex 6).

57. **Monitoring and evaluation could have been stronger.** As previously noted, the RIs for PAs #4 and P#5 were inadequately linked with the PDOs, and some RIs were not measurable. The ICR team not only struggled to get the data to assess the efficacy of the operations but also government did not own assessment of the results. The Bank could have made greater efforts to help instill in the authorities the practice of M&E, better integrated the results framework into program management, and better explained the importance of M&E as a tool for performance measurement rather than a bureaucratic requirement. Efforts to include results management in the policy dialogue would have been beneficial for both the Bank and the Government.

58. **The World Bank appropriately assessed the overall risk for both DPLs as substantial, though stakeholders and social risks were as determinant of the rating as the political and governance risks.** Several categories of risks, such as political and governance, stakeholders, and social, were rated substantial which supported the overall rating (see Table 8). However, the team considered the political and governance risk to be main overall risk. While

challenging reforms on rightsizing and financial consolidation in energy and rail required strong political will to implement, the rightsizing and the rise in electricity tariffs could also have generated strong opposition from stakeholders like unions and social unrest among the population as a whole if appropriate mitigation measures had not been in place.

59. **Measures were identified to cushion political, stakeholder, and social risks and therefore the overall risk.** Although early parliamentary elections in 2016, Presidential elections in 2017 including a Cabinet reshuffle slowed the reform process, political risks were eased by the Government's solid ownership of the program and its commitment to tackling DPL-supported reforms, which were anchored by its overarching strategic objective of EU accession, which calls for acceleration of structural reforms. Among measures for minimizing stakeholder and social risks were reinforcement of the EVP, Government communication programs to better inform the broader population on the need to adjust electricity tariffs, constant consultations on plans for labor rightsizing between the Government, SOE managers, and the unions affected, and introduction of a grievance redress mechanism. Also cushioning risk was the close coordination of the programs of the World Bank, the IMF, the EBRD, and the EU.

60. **The macroeconomic risk was rated substantial for DPL1 and appropriately downgraded to moderate for DPL2.** Substantial macrofiscal risks to the PDOs carried over despite the positive DPL1 economic and fiscal performance. External risks were related to Europe's general economic recovery and adverse shifts in global financial market sentiment; internal risks arose primarily from Serbia's still high public debt. A deterioration of the financial situation of foreign parent banks could have jeopardized credit recovery and undermined growth. A less supportive economic environment, particularly if linked to reductions in labor market opportunities and income growth, could have undermined such reforms as labor rightsizing. However, the reforms were directly supported by IFI programs like the IMF SBA, this PEPU-DPL series and related World Bank operations, as well as by the EU-monitored national economic reform program. The continuing improved economic environment and the efforts to minimize risks contributed to the easing of DPL2 macroeconomic risk to moderate.

61. **The institutional capacity risk also was appropriately rated substantial but was partially mitigated by TA and other support from the World Bank and other development partners.** Carrying out the reforms required considerable capacity in respective Serbian ministries and public utilities, which were simultaneously moving forward with often equally demanding reforms related to EU accession, the IMF SBA, and other World Bank operations. Extensive TA mobilized by the Government and supported by numerous development partners, while very effective in advancing some reforms, was not sufficient; other reforms were not fully implemented or had to be postponed.

Table 8: Summary of Risk Ratings from Program Documents

Category	Risk	Rating (H, S, M or L)-DPL1	Rating (H, S, M or L)-DPL2
1	Political and governance	S	S
2	Macroeconomic	S	M
3	Sector strategies and policies	M	M
4	Technical design of project or program	L	L
5	Institutional capacity for implementation and sustainability	S	S
6	Fiduciary	M	M
7	Environment and social	S	S
8	Stakeholders	S	S
9	Other	n/a	n/a
	Overall	**S**	**S**

B. Implementation

62. **The World Bank kept up a constant dialogue with counterparts.** Despite an unfavorable electoral cycle with early parliamentary elections in 2016, the Presidential elections in 2017 and a Cabinet reshuffle that slowed reforms, the CMU and the whole World Bank team remained continuously in dialogue with government and public utilities managers, whose committed ownership sustained the reform momentum.

63. **The Bank team made necessary adjustments to some reforms.** Some triggers or RI targets were revised to calibrate with the pace of progress in reform implementation (Table 1)**.**

64. **The Bank country team conducted regular supervision missions and provided support for getting the reforms done and coordinated with development partners.** World Bank staff with expertise in each area affected were field-based, and their substantial TA was a key to success for the program. As part of regular supervision missions, the Bank also coordinated well with the IMF and kept a regular dialogue with the EBRD and the EU.

65. **Although the Bank did not require Implementation Status Reports (ISRs) for this series, one supervisory shortcoming was that the actual measurement of results was difficult for the ICR team.** The PEPU-DPLs were approved almost exactly 12 months apart, and the second operation closed 12 months after it went into effect. Although there was no requirement for ISRs for these two operations, the Bank team should have monitored progress on the RIs and the borrower should have reported regularly to the Bank on program results progress.

Rating: Satisfactory

66. **The Bank performance is rated satisfactory because it was designed well and carried out effectively.** Notwithstanding the few shortcomings discussed earlier, the PEPU-DPLs were based on solid, relevant analysis. The risks were appropriately identified and the mitigating measures adequate. Coordination with development partners was more than satisfactory. The constant dialogue with the authorities, regular supervision missions, and TA coordinated with development partners were essential to carrying out the reforms.

V. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES

67. **Although the program outcomes are likely to be sustained, there are substantial risks.** The Government of Serbia has demonstrated its commitment to the difficult reforms, anchored by the EU accession process, but the fact that some reforms are not yet completed and others have been delayed raises questions about whether the results achieved so far are sustainable, especially since the COVID-19 lockdown has prevented the Government from being fully operational.

- **PFM:** Since March 2018 efforts to control and monitor public commitments and arrears have been reinforced by operations of the Central Registry of Invoices (CRI). In December 2019, the RINO law (on Payment Terms for Settlement of Financial Obligations in Commercial Transactions) was amended to endorse registration of electronic invoices in CRI. The Treasury Administration is developing software for a centralized platform for sending, receiving, managing and storing electronic invoices for which the public entities are debtors (the E-invoice or E-faktura). The platform will be integrated with the CRI to enable automatic routing of invoices where the debtor is a public entity. However, the BIU suffers from limited capacity to verify reported outstanding liabilities and arrears.
- **Public administration:** Progress in public administration helped to contain the wage bill. However, although the hiring freeze, which expired in December 2019, succeeded in controlling the number of public employees, a more flexible framework based on personnel plans is needed. Reforms of the public wage system now underway could be delayed by the negotiations with several stakeholders on the parameters of the salary payment matrix.
- **Public utilities**: Measures to improve the efficiency and operations of energy and railway SOEs have improved their financial position, but reforms to enhance management and corporate governance have been delayed. After being frozen for almost two years, electricity tariffs went up by 3.9 percent in December 2019, but that increase is not enough to fully cover operating expenses. Given the political sensitivity of tariff increases, and the unfavorable economic effects of the COVID-19 crisis, another tariff increase is not likely. The FCP has kept EPS receivable collection high, but transformation of EPS into a joint stock company has not yet been completed. While labor optimization plans were timely, EPS has increasingly relied on short-term contractors to increase the number of effective full-time workers. The focus now should be on improving employee qualifications and getting them the required skills. For Srbijagas, the delay in designing the 5-year development plan for the distribution system operator raises a major concern for the effective unbundling of the company. Reforms have gradually improved the financial position of the railway companies, which now require less government budgetary support. Efforts to strengthen corporate management and the continued state subsidy to Cargo remain concerns, as is institutional capacity to complete the MCTI-PERS SLA for the road sector.

68. **A major risk that cannot yet be assessed is the ongoing impact of the COVID-19 pandemic.** The pandemic has reduced economic activity generally, undercut government revenues while requiring substantial new expenditures, and generated high uncertainty. Many of the PEDU-DPL reforms will be more difficult to sustain in the face of the economic shock caused by the pandemic. In particular, public administration hiring and wages may face pressures, and the operational and financial condition of public utilities in energy and transport are likely to deteriorate.

VI. LESSONS AND NEXT PHASE

A. Lessons Learned

69. **As is well known from other DPOs, IFI coordination, a programmatic approach, and strong analytic underpinnings are key factors in the success of most DPO series.** IFI coordination for the PEDU-DPLs was instrumental and created synergy within the government. The PEDU-DPL reforms enhanced those supported by the IMF SBA, just as some SBA prior actions and structural benchmarks complemented DPL-supported reforms. The World Bank and the EBRD closely coordinated their work on restructuring the railway companies (see IMF and EBRD observations in Annex 3). A programmatic approach was appropriate because the supported reforms were complex and required recalibrating, constant dialogue, and continuous monitoring. Public support was secured because the initial reforms were successful, especially the sequencing over time of implementation of the labor optimization plans. Solid and clearly relevant analysis helped to build consensus among World Bank, Government, SOEs, and other IFIs on the main issues to tackle. The 2015 Public Expenditure and Financial Assessment report was critical to the PFM reforms because it highlighted the need to improve arrears monitoring, payment discipline, and ex ante commitment controls. Public utilities reforms were informed by solid TA analyses.

70. **Strong political will is decisive for advancing complex, politically sensitive reforms.** Reforms like the labor optimization for public administration and public utilities companies and raising the electricity tariffs were either socially and politically sensitive or they affected influential vested interests. In the past such reforms faced substantial resistance from stakeholders. Government ownership of the reform was critical. Key members of the government and the management of public utilities supported the reform efforts, which facilitated their adoption and realization. The government put in place an effective and constructive communication strategy to explain the benefits of the reforms to both the general population and stakeholders affected.

71. **Support for reform through technical assistance and complementary operations can be decisive.** When capacity for complex reforms is inadequate, TA is crucial to advance reforms. That proved to be true for reform of the railways, EPS, and public administration, for which the Bank and other development partners provided extensive TA. TA may also have helped to speed work on the SLA and Srbijagas development plans. The PfoR operation on Modernization and Optimization of Public Administration helped advance reforms supported by the DPL—the RIs for both operations mirrored each other.

72. **Efforts to minimize the adverse impact of the reforms on those suffering losses paid off.** Labor optimization plans were achieved mostly through natural attrition in the form of early retirement and voluntary departures based on advantageous benefit packages. Where separation was involuntary, public utility employees declared redundant received compensation packages above the minimum required by the Labor Law. The grievance mechanisms set out in the retrenchment plans gave workers a platform to express their concerns about unfair treatment. Expansion of the EVP eased the reform of electricity tariffs.

73. **Just as the 2015–16 SOE reform DPL series set the stage for tackling further SOE reform in this series, future operations should build on the PEPU-DPLs to ensure that the results achieved so far are sustainable.** Institutional reform often happens incrementally over lengthy periods, requiring extended support from a variety of instruments. For example, the PEDU-DPL hiring freeze succeeded in limiting the total number of public sector

employees; future DPLs could support a more flexible framework based on personnel plans. The operations, in coordination with EBRD, could also support needed efforts to strengthen corporate governance and management of railway companies, restructuring EPS into a joint stock company, or unbundling of Srbijagas.

B. Next Phase

74. **The PEPU-DPL series laid the foundation for further structural reforms and interventions in support of Serbia's integration into the EU.** The Bank is in dialogue with the Government about a possible new DPL that could support targeted reforms that make management of public resources more efficient and lay the foundation for faster private sector-led growth. However, the discussions are still very preliminary, and not yet at the stage of identifying specific prior actions. The COVID-19 pandemic's impact on the economy, government finances, and the priorities for reform will also need to be incorporated.

ANNEX 1. RESULTS FRAMEWORK

A. RESULTS INDICATORS

Pillar: PILLAR A: PUBLIC EXPENDITURE MANAGEMENT

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Share of executed payments for public to public commercial transactions which were beforehand duly registered as commitments within deadlines prescribed by legislation	Percentage	60.00 31-Dec-2015	90.00 31-Dec-2018	95.38 31-Dec-2018

Comments (achievements against targets):
Fully achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Number of employees in the public sector, as determined by the Law on the Ceiling on Public Sector Employees, does not exceed the total of institutional-level limits set under the Law and its decision	Yes/No	N 31-Dec-2015	Y 31-Dec-2018	Y 31-Dec-2018

Comments (achievements against targets):
Fully achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increased share of positions within the education, health and social protection sectors mapped to new grades	Percentage	0.00 31-Dec-2015	75.00 31-Dec-2018	0.00 31-Dec-2018

Comments (achievements against targets):
Not achieved (but on track and postponed for end-2020)

Pillar: PILLAR B: ENERGY PUBLIC ENTERPRISES

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increased convergence of the guaranteed electricity supply tariff to reach market parity levels	Percentage	64.00 31-Dec-2014	80.00 31-Dec-2018	47.20 31-Dec-2018

Comments (achievements against targets):

Not achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increased number of total beneficiaries of the Energy Vulnerable Program	Number	60600.00 31-Dec-2014	70000.00 31-Dec-2018	76604.00 31-Dec-2018
Of which share of female headed households	Percentage	27.00	30.00	53.00

Comments (achievements against targets):
Exceeded

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increase in the share of the EPS workforce with education above secondary-level relative to 2015	Percentage	0.00 31-Dec-2015	5.00 31-Dec-2018	3.43 31-Dec-2018

Comments (achievements against targets):
Partially achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion

Increase in Srbijagas' collection rate of current receivables	Percentage	80.00 31-Dec-2015	87.00 31-Dec-2018	92.30 31-Dec-2018

Comments (achievements against targets):
Fully achieved (exceeded)

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
The approved Srbijagas 10-year dvpt plan for the Gas Transp. Syst. and 5-year dvpt plan for the Distribut. Syst. Operators are in accordance with the adopted econ. and financial appraisal methodology	Yes/No	N 30-Dec-2016	Y 31-Dec-2018	N 31-Dec-2018

Comments (achievements against targets):
Partially achieved (on track for 10-year plan)

Pillar: PILLAR C: TRANSPORT PUBLIC ENTERPRISES AND STATE-OWNED COMPANIES

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Level of annual direct budget operational support to the	Number (Thousand)	13500000.00	11000000.00	11297877.00

Railways Companies		31-Dec-2015	31-Dec-2018	31-Dec-2018

Comments (achievements against targets):
Mostly achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Improvement in labor productivity (measured by train kilometers per employee for IZS) relative to 2015	Percentage	0.00 31-Dec-2015	15.00 31-Dec-2018	119.00 31-Dec-2018

Comments (achievements against targets):
Fully achieved (exceeded)

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Improvement in in asset utilization (measured by passengers per kilometer of track for SrbijaVoz) relative to 2015	Percentage	0.00 31-Dec-2015	15.00 31-Dec-2018	3.00 31-Dec-2018

Comments (achievements against targets):
Not achieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Improvement in asset utilization (measured by ton per kilometer of track for Cargo) relative to 2015	Percentage	0.00 31-Dec-2015	15.00 31-Dec-2018	27.00 31-Dec-2018

Comments (achievements against targets):
Fully achieved (exceeded)

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Reduction in annual wage bill of railways companies relative to 2015	Percentage	0.00 31-Dec-2015	25.00 31-Dec-2018	23.00 31-Dec-2018

Comments (achievements against targets):
Fully achieved (the 23 percent is relative to 2016). The unbundling of the railway companies happened in the middle of 2015, so there is no aggregate reliable data for 2015.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
The government agrees with Roads of Serbia on performance levels for the different road classes with associated	Yes/No	N 01-Jan-2016	Y 01-Jan-2019	N 01-Jan-2019

guaranteed funding levels committed				

Comments (achievements against targets):
Not achieved (but on track and postponed for 2021 budget)

ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

A. TASK TEAM MEMBERS

P155694

Ashley D. Taylor (Task Team Leader), Claudia Ines Vasquez Suarez (Task Team Leader), Benedicta T. Oliveros (Procurement Specialist), Jose C. Janeiro (Financial Management Specialist), Daniel P. Owen (Team Member), Luis M. Schwarz (Team Member), Lisa Lui (Counsel), Moustafa Baher El-Hefnawy (Team Member), (Team Member), Raymond Muhula (Team Member), Lazar Sestovic (Team Member), Ekaterina Vostroknutova (Team Member), Ruxandra Costache (Counsel), Katharina B. Gassner (Team Member), Trang Van Nguyen (Team Member), Aleksandar Crnomarkovic (Team Member), Svetlana Vukanovic (Team Member), Jelena Lukic (Social Specialist), Srdjan Svircev (Team Member), Cesar A. Cancho (Team Member)

P161184

Ekaterina Vostroknutova (Task Team Leader), Rakesh Tripathi (Task Team Leader), Benedicta T. Oliveros (Procurement Specialist), Jose C. Janeiro (Financial Management Specialist), Mismake D. Galatis (Team Member), Moustafa Baher El-Hefnawy (Team Member), Raymond Muhula (Team Member), Lazar Sestovic (Team Member), Claudia Ines Vasquez Suarez (Team Member), Katharina B. Gassner (Team Member), Nikola Ille (Environmental Specialist), Desanka Stanic (Team Member), Aleksandar Crnomarkovic (Team Member), Svetlana Vukanovic (Team Member), Jelena Lukic (Team Member), Srdjan Svircev (Team Member)

B. STAFF TIME AND COST

P155694

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		
FY16	51.538	234,174.34
FY17	34.623	166,765.54
FY18	0	0.00
Total	**86.16**	**400,939.88**
Supervision/ICR		
	0	0.00

FY16		
FY17	.125	122.34
FY18	1.640	4,215.21
Total	**1.77**	**4,337.55**

P161184

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		
FY16	51.538	234,174.34
FY17	45.420	228,979.14
FY18	36.122	261,256.07
FY19	2.072	9,537.10
Total	**135.15**	**733,946.65**
Supervision/ICR		
FY16	0	0.00
FY17	.125	122.34
FY18	1.640	4,215.21
FY19	2.650	22,981.40
FY20	5.858	42,169.37
Total	**10.27**	**69,488.32**

Note: this table is autogenerated and it replicated FY16 staff time and cost. For the second operation, staff time and cost should be 83.6 weeks and US$ 499, 772.31 respectively.

ANNEX 3. BORROWER, CO-FINANCIERS, AND OTHER DEVELOPMENT PARTNERS'/STAKEHOLDERS' COMMENTS

BORROWER

None

DEVELOPMENT PARTNERS

IMF Observations on the Programmatic Public Expenditure and Public Utilities Development Policy Loans to Serbia from the World Bank

1. **Context, development objective and macroeconomic framework of the DPLs.**
The context, development objectives, and reforms supported by this WB DPL series were appropriate and consistent with the goals of the government's economic program—restoring macroeconomic stability through fiscal consolidation and to ensuring higher and more sustainable growth. Specifically, public financial management and public administration reforms envisaged under the DPLs were important elements of the fiscal consolidation process. Measures to improve the financial position of energy and transport state-owned enterprises aimed to reduce direct and indirect government support to these sectors. Reforms of public administration and public enterprises aimed to increase efficiency and create conditions for higher growth.

2. **Complementarity of the WB and IMF programs**
The objectives of the WB DPLs were consistent with those of the IMF SBA program (restoring fiscal sustainability and ensuring macroeconomic stability; enhancing the resilience of the financial sector and implementing an ambitious structural and institutional reform agenda aimed at boosting medium-term growth). The reforms under the DPLs complemented and enhanced those supported by the SBA. The SBA focused on strengthening public financial management (for instance, by monitoring and reducing arrears, improving budgetary frameworks, enhancing public investment management, and modernizing tax administration). It also focused on public administration reform, with measures to improve public employment frameworks and public wage systems. The SBA also included measures to reduce fiscal costs from SOEs. Some of the prior actions and structural benchmarks of the SBA complemented reforms supported by DPLs. Examples include measures to strengthen the energy sector arrears framework; action plans for administrative restructuring in education sector and social services administration (based on World Bank functional reviews); implementation of a debt restructuring plan for Srbijagas (in consultation with the WB); EPS's closure of two inefficient power plants and preparation of a systematization plan with severance options for rightsizing; and secondary legislation needed to support implementation of the Law on Public Sector Employees Wage System.

3. **Contributing factors for adoption and program's implementation by the Government**
Some of the reforms (such as labor optimization plans of the public administration and for public utilities companies) were socially and politically sensitive, as they affected many vested interests. In this context, a key factor for the implementation of these reforms was strong government ownership. Key members of the government supported the reform efforts, facilitating adoption and implementation. The close collaboration and coordination between the WB and the IMF teams was also important to ensure proper implementation. The support of the EU to these reforms—including in the context of the EU accession process—was another contributing factor.

4. **Results of the DPLs (contributions of the WB DPLs by area of support if possible)**
The DPLs contributed to advance several macro-critical reforms. They supported the process of strengthening public financial management frameworks, including by enhanced monitoring and management of arrears. However, certain fiscal controls remain relatively weak, evidenced by recent accumulation of domestic

payment arrears. The DPLs also contributed to strengthening the financial position of public enterprises in energy and transport and improving their efficiency. Results in this area include: (i) improved receivable collection rates in EPS and Srbijagas; (ii) increased electricity tariffs; (iii) implementation of labor optimization plans in EPS and railways companies, which resulted in wage bill reductions; (iv) reduced operational expenditures. Some of the reforms in this area, however, encountered delays, and others—for instance, those related to corporate governance of these SOEs—are not yet completed. The DPLs contributed also to advance reforms in public administration, which helped to achieve a reduction in overall public employment and the public sector wage bill. However, this was achieved through simple headcount control and limits rather than well-planned resource optimization based on functional reviews and personnel plans. Finally, some reforms are yet to be implemented—for example, the public wage system reform has been delayed for many years now.

5. Sustainability of the reforms

The sustainability of the reforms is a challenge—some have faced delays and others are not yet complete. Efforts to strengthen public financial management have continued, albeit with delays in implementation of some reforms. These efforts have focused on public investment management, tax administration, and management of fiscal risks. Progress in public administration reform has been mixed. While the existing framework based on a hiring freeze has succeeded in controlling the overall number of public sector employees, a more flexible framework based on personnel plans is yet to be developed. The reform of the public wage system is also significantly delayed. Measures to improve the efficiency and operations of SOEs in energy and railways have helped improving their financial position but reforms to enhance management and corporate governance have faced implementation delays. After being frozen for over two years, electricity tariffs were increased by 3.9 percent in December 2019. EPS's receivable collection rates have remained high, but the transformation of the legal status into a joint stock company has not yet been completed. While optimization plans for EPS and railways were implemented timely, EPS has increasingly relied on short-term contracts, increasing the number of effective full-time workers. The railways reforms have gradually improved the financial position of companies, which now require less government budgetary support. Efforts to strengthen corporate governance and management continue, supported by the EBRD.

6. Lessons for future operations

Lessons can be learned from these DPL series for future operations in Serbia and in other countries. First, strong government ownership is critical to ensure prompt and full implementation of structural and institutional reforms. This is particularly the case of reforms that are socially or politically difficult or affect important vested interests. Another lesson is that close coordination between the IMF and the WB is an important factor for the success of ambitious structural reform programs. Support from other international institutions—for example, the EU—is also very helpful.

EBRD Observations on the Programmatic Public Expenditure and Public Utilities Development Policy Loans to Serbia from the World Bank

1. Context, development objective and macroeconomic framework of the DPLs.

The macroeconomic framework, the development objective and the reforms supported by the DPL were broadly appropriate. While the fiscal outcome has been significantly better than expected in 2016 (instead of a deficit the general government balance has been in surplus since 2017 and public debt declined to close to 50 per cent of GDP by 2019) due to several factors (including the maintenance of a one-off cut in public wages and pensions until 2019, cuts in public employment, lower than budgeted public investments as well as improved revenue collection), progress in structural reforms has been significantly slower (e.g. repeated postponement of a new wage scheme for public employees, delay in the corporatization and governance improvement in EPS, maintaining the nomination of acting managers at SOEs). FDI also has been much stronger than expected, more than covering a larger than expected current account deficit.

The DPL's main areas of support (Pillar A: Improve public expenditure management through strengthened public financial management and public administration reform; Pillar B: Improve the financial sustainability and efficiency of energy sector public enterprises; Pillar C: Improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies.) have been relevant and consistent.

2. Complementarity of the WB and EBRD programs

The EUR 200m restructuring loan, provided by EBRD in 2015, was complementary to WB DPL series. The EBRD loan and the DPL had similar targets set and each institution focused on a certain set of measures. Joint work in fact was necessary in order to define and later on implement certain measures. Although not all goals were achieved, thanks to efforts on both sides a number of measures were in fact implemented. One of the areas EBRD focused on was a corporate governance improvement program. The World Bank was part of this work, with regular coordination and opportunity to comment as well as tailor its work accordingly. As a result, both EBRD and World Bank were involved in assisting EPS to implement selected actions from the Corporate Governance Action Plan agreed with the company and the Government, and are also able to monitor this implementation. Going forward, more can be achieved through closer cooperation and joint effort.

3. Contributing factors for adoption and program's implementation by the Government

Labor optimization, done on a voluntary basis, might not be the best solution as it did not address rather worsened an already problematic situation. While there were shortages in certain technical skills, there was an excess in administrative staff. Hence any future programs should be better targeted, taking into considerations these excesses and shortages as well as the age structure etc. and they should be tailored to achieve intended results otherwise they may have unintended consequences. To the extent possible, they should be linked with an employee appraisal systems and succession planning arrangements, the introduction of which was recommended in the context of corporate governance improvement efforts.

4. Results of the DPLs (contributions of the WB DPLs by area of support if possible)

The purpose of the railway reform in Serbia was to improve the poor financial and operational performance of the railway sector, implement commercial arrangements for funding the railways, and to introduce competition into the market. EBRD joined forces with the WB in the process of restructuring of Zeleznice Srbije (ZS). The work included the overview of the contracts between subsidiaries and asset allocation, commercialisation of non-utilised assets, preparation of a plan for network rationalization, implementation of the labour restructuring programme, implementation of the new organisational structure for Serbian Railways.

Together with the WB, both institutions had a coordinated role (through specific conditionalities) in the preparation of a network statement, the formal introduction of the Public Service Obligation compensation mechanism to operate public services, the adoption of the Track Access Charges and opening access to other operators, as well as the implementation of a Performance Contract between the government and the infrastructure operator. Therefore, the reforms supported by the World Bank in the railways sector have achieved good results. More work is to be done to improve the corporate governance and commercialization of SOEs by entrenching market-based behavior (economic efficiency, including cost control and awareness, profit motive, etc). Opening the competitive segments to competition through private entry on a non-discriminatory access basis to drive efficiency through competition is also important. Key railway reform components should include the enhancement of the regulatory environment, restructuring of the incumbent operators and transparent funding to foster competition.

World Bank support was instrumental in preparation and implementation of Performance Based Maintenance Contracting although there are still several legal, financial, institutional and technical issues to be settled. The World Bank DPL supported the preparation of the "Reform of the Road Sector in the Republic of Serbia" document, adopted by the Government, but the implementation of the planned measures will be a lengthy process where strong coordination among IFIs will again be crucial.

5. Sustainability of the reforms

Unfortunately, larger and more ambitious reforms could not be carried out as the Government has not supported required legislative changes, especially in corporate governance of state-owned enterprises. Therefore, in order to achieve the intended results, another push for the reform of the legal framework at the Government level is needed, including a thorough benchmarking against international best practices. This in turn can help initiate reforms at the individual company level if they are supported at the level of the Government, as sometimes even the involvement of one or two ministries might not be enough.

The reform target in the IMF Policy Coordination Instrument programme of adopting a state ownership policy by the Government can help build the necessary buy-in for further legislative changes and reforms in SOE corporate governance. Nevertheless, cooperation and joint messages by IFIs are crucial in this respect.

6. Lessons for future operations

Stronger coordination among and joint messages of IFIs can help push along required reforms, provided that there is close cooperation and timely information sharing among institutions which can be standardized through regular (steering) group meetings (especially if there are multiple IFI projects are running in parallel on similar topics with the same stakeholders like in the case of EPS). Also, in activities that involve two or more IFIs, it would be necessary to discuss the key challenges and have a common vision for the way forward agreed among all participating IFIs before conveying these messages to the authorities. We would very much support further strengthening of this kind of cooperation.

Given the need for further SOE reform both at the policy / legislative framework (e.g. state ownership policy, Law on Public Enterprises) and the company level (e.g. conditionalities in EBRD projects with the EPS electricity company or Srbija Voz passenger railways), it would be important that the World Bank supports the reforms by including key reform targets (also those implemented by other IFIs) into its DPL programmes as conditionalities (similar to the IMF including them in the PCI programme) thus increasing the leverage to achieve them.

ANNEX 4. SECTORS AND THEMES

SECTORS AND THEMES

P155694

Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	**38**	**0.00**	**0.00**
Central Government (Central Agencies)	38	0	0
Energy and Extractives	**38**	**6.50**	**0.00**
Public Administration - Energy and Extractives	13	50	0
Other Energy and Extractives	25	0	0
Transportation	**24**	**0.00**	**0.00**
Railways	24	0	0

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)
Public Sector Management	**50**
Public Finance Management	13
Public Expenditure Management	13
Public Administration	50
Administrative and Civil Service Reform	25
State-owned Enterprise Reform and Privatization	25
Environment and Natural Resource Management	**38**
Climate change	13
Mitigation	6
Energy	38

Energy Policies & Reform	38

P161184

Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	**34**	**0.00**	**0.00**
Central Government (Central Agencies)	34	0	0
Energy and Extractives	**33**	**10.89**	**0.00**
Other Energy and Extractives	33	33	0
Transportation	**33**	**11.00**	**5.50**
Rural and Inter-Urban Roads	11	0	50
Railways	22	50	0

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)
Public Sector Management	**33**
Public Finance Management	22
Public Expenditure Management	22
Debt Management	11
Public Administration	33
Administrative and Civil Service Reform	33
Urban and Rural Development	**11**
Urban Development	11
Public Transport	11
Disaster Risk Management	11
Flood and Drought Risk Management	11
Environment and Natural Resource Management	**33**

Climate change	28
Mitigation	22
Adaptation	6
Energy	33
Energy Policies & Reform	33

ANNEX 5. SUPPORTING DOCUMENTS

1. EPS group financial reports, 2016-18
http://pretraga3.apr.gov.rs/pretragaObveznikaFI/FiDetails/?mbr=20053658&rnd=527C9A9D0547A228DE58749C84A5EC420AD8097E

2. Fiscal Council Analysis of EPS Performance, 2020
http://fiskalnisavet.rs/doc/eng/FC_Summary_EPS_Performance_analysis_and_recommendation_for_investments_increase.pdf

3. IM contract status report 2016, MCTI

4. IMF Press Release No. 15/67, 2015
https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr1567

5. IZS 2015 Performance report for period Aug 10 – Dec 31, MCTI

6. IZS Annual Business Plans 2016-20, *http://www.infrazs.rs*

7. IZS Business Plan Updates 2018, 2019, MCTI

8. IZS Financial Report 2017, *http://www.infrazs.rs*

9. JSC Serbian Railways Annual Business Plans 2016-20, *http://www.zeleznicesrbije.com*

10. MCTI – IZS Infrastructure Management Contract 2016, 2017, 2018, 2019, MCTI

11. MCTI Letter to the World Bank ICR team, 2020, MCTI

12. MOF Treasury department Letter to the World Bank ICR team, MOF

13. MPALSG Letter to the World Bank ICR team MPALSG

14. PERS Business Plan 2019, 2020, *https://www.putevi-srbije.rs*

15. Serbia - Country Partnership Framework for the period FY2016-20, 2015, World Bank

16. Serbia - First and Second State-Owned Enterprises Reform DPL ICR Review, 2020, Independent Evaluation Group

17. Serbia - First and Second State-Owned Enterprises Reform DPL ICR, 2019, World Bank

18. Serbia - Second State-Owned Enterprises Reform DPL PAD, World Bank

19. Serbia - Systematic Country Diagnostic, 2015, World Bank

20. Serbia Cargo Annual Business Plans 2016-20, *http://www.srbcargo.rs*

21. Serbia Cargo Financial Report 2015, *http://www.srbcargo.rs*

22. Serbia Economic Reform Programme for the period 2020-2022, 2020, *https://www.mfin.gov.rs/wp-content/uploads/2019/10/ERP-2020-2022-eng.pdf*

23. Serbia First and Second Public Expenditure and Public Utilities DPL Program Appraisal Documents, 2017-18, World Bank

24. Serbia Fiscal Strategy 2016-18, 2016 *https://www.mfin.gov.rs/UserFiles/File/dokumenti/2016/FS%20za%202016%20EN.pdf*

25. Serbia Voz Annual Auditor's Reports 2015-18, *http://srbvoz.rs*

26. Serbia Voz Annual Business Plans 2016-20, *http://srbvoz.rs*

27. Serbia Voz Annual Financial Reports 2015-16, *http://srbvoz.rs*

28. Serbia Voz Annual Performance Reports 2015-19, *http://srbvoz.rs*

29. Serbia-IMF Staff Report for the Article IV, 2019, IMF

30. Srbijagas financial reports, 2016-18 *http://pretraga3.apr.gov.rs/pretragaObveznikaFI/FiDetails/?mbr=20084600&rnd=59957B86CC5B9CA5DEECBC0DC561623F25E1FD4B*

ANNEX 6. ADDITIONAL INFORMATION

Table A1: Selected socio-economic indicators

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real Economy (in percent)										
Real GDP growth	0.7	2.0	-0.7	2.9	-1.6	1.8	3.3	2.0	4.4	4.2*
Unemployment rate (average, ILO def.)	19.2	23.0	23.9	22.1	19.2	17.7	15.3	14	12,7	10,4
GDP deflator	5.7	8.9	6.2	5.1	2.6	1.8	1.5	3.0	2.0	3.3
CPI (average)	6.1	11.1	7.3	7.7	2.1	1.4	1.1	3.1	2.0	2.2
Fiscal Accounts (as percent of GDP)										
Expenditures	43.7	42.2	45.1	42.5	45.2	42.8	41.9	40.4	40.9	42.3
of which personnel	11.2	11.1	11.6	11.2	11.0	9.7	9.2	9.0	9.2	9.5
Revenues	39.3	37.7	38.6	37.3	39.0	39.3	40.8	41.5	41.5	42.1
General Government Balance	-4.3	-4.5	-6.4	-5.1	-6.2	-3.5	-1.2	1.1	0.6	-0.2
Public and Publicly Guaranteed Debt	41.2	44.7	54.6	57.5	67.5	71.2	68.8	58.7	54.4	52.9
Balance of Payments (as percent of GDP)										
Current Account Balance	-6.5	-10.3	-10.9	-5.8	-5.6	-3.5	-2.9	-5.2	-4.8	-6.9
FDI, net	3.6	9.4	2.2	3.6	3.5	5.1	5.2	6.2	7.4	7.8
Exchange Rate (EUR, average)	103.0	102.0	113.1	113.1	117.3	120.7	123.1	121.3	118.3	117.9
Poverty (in percent)										
Upper middle-income poverty rate ($5.5 in 2011 PPP)			23.1	26.3	26.1	25.3	23.1	20.3		
National poverty rate			24.5	25.0	26.7	25.9	25.7	24.3		
Other memo items										
GDP nominal in EUR billion	31.5	35.4	33.7	36.4	35.5	35.7	36.7	39.2	42.9	45.9*

Source: Ministry of Finance (MoF); World Development Indicators; International Monetary Fund (IMF).
Notes: ILO = International Labour Organization; CPI = Consumer Price Index; FDI: Foreign Direct Investment.
* estimates.

Table A2. DPL Prior Actions and Analytical Underpinnings

Prior Actions	Analytical Underpinnings
PA#1 on Budget Inspection, PIFC Strategy, and budget execution	2015 PEFA report and World Bank Input to the Government' PFM Reform Program highlighted need to improve arrears monitoring, payment discipline and ex ante commitment controls.
PA#2 on the Law on Ceiling on Public Sector Employees and institution-level limits on employees PA#3 on the Law on the Salary System of Public Sector Employees and associated legislation	World Bank wage system TA and TA for preparation of the Modernization and Optimization of Public Administration PforR highlighted fragmentation of wage system and need for staffing limits and controls. Serbia Rightsizing and Restructuring Project, funded by the EU Commission, supports preparation of series of functional reviews aimed to identify options for optimization and rightsizing in the public sector.
PA#4 on guaranteed supply tariff increase while protecting vulnerable consumers PA#5 on EPS labor optimization plan	World Bank TA to EPS to support the preparation of the FCP (finalized) and updated in 2016 and 2017 outlined measures to support financial sustainability of company, including tariff rises and reductions in labor costs through rightsizing process. TA: Energy Affordability, Tariff Increase, and Protection of Vulnerable Populations in Serbia carried out quantitative analysis to assess the implementation of the ongoing Energy Vulnerable Customer program and highlighted the need for additional funding, implementation challenges and provided policy recommendations to address these.
PA#6 on strengthening financial management of the Srbijagas	Extensive TA to Srbijagas provided analysis to inform measures set out in the FCP. Specific issues analyzed included: (a) financial due diligence, (b) corporate governance, (c) market analysis, (d) options for debt restructuring, and (e) analysis of the distribution sector. In 2017, TA was implemented to assist Srbijagas in the development of an evaluation methodology for future investments and to assess its current CAPEX program at distribution and transmission level.
PA#7 on railway companies financing policy and business performance criteria PA#8 on railway companies labor optimization plans	The World Bank Accelerating Railway Reform in Serbia 2014 set out an action plan for sector and corporate governance reforms to improve sector efficiency; EU-funded consultancy in 2015 developed detailed recommendations for improvements in institutional and corporate performance of the rail sector. These were preceded by several TAs financed by the EU and the EBRD that provided a sound analytical framework to guide preparation of Public Service Obligation contracts for passenger transport, Multi-Annual Infrastructure Contracts, Track Access Charge regime and asset management plans.
PA#9 on a service level agreement (SLA) for national roads	Technical assistance in 2011 for the preparation of a Reform Action Plan for PERS under the Corridor X Highway project. The Action Plan specified the need for an SLA between the line ministry and the PERS.