



First Programmatic State Owned Enterprises Reform DPL (P127408)

EUROPE AND CENTRAL ASIA | Serbia | Trade & Competitiveness Global Practice |
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Implementing Agencies: Ministry of Labor, Employment, Veteran and Social Affairs, Ministry of Economy

Key Dates

Key Project Dates

Bank Approval Date:24-Mar-2015

Effectiveness Date:24-Jul-2015

Planned Mid Term Review Date:01-Jun-2016

Actual Mid-Term Review Date:--

Original Closing Date:31-Mar-2016

Revised Closing Date:31-Mar-2016

Program Development Objectives

Program Development Objective (from Program Document)

The Program Development Objectives (PDOs) are to reduce state participation and level of direct and indirect support to the real sector, enhance SOE performance, governance and accountability, and mitigate the short term social and labor impacts of the SOEs restructuring and disposition plans.

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	--	● Moderately Satisfactory
Overall Implementation Progress (IP)	--	● Satisfactory
Overall Risk Rating	--	● Substantial

Implementation Status and Key Decisions

Pillar A – Accelerating the restructuring and divestiture program for Privatization Agency Portfolio and selected State Owned Enterprises operating in the commercial sector

The resolution of the Privatization Agency (PA) portfolio is moving broadly as planned. The key prior action in this pillar is the resolution of at least 100 out of 140 companies that were in restructuring as of August 13, 2014. At the time of the appraisal for the SOE DPL2 (end-Janueary 2016), 89 companies have been resolved, mostly through bankruptcies. In parallel with resolving the companies, the authorities are proceeding with offering financial assistance packages from the Transition Fund to redundant workers. About 12,000 workers from companies that were in restructuring had taken the packages and left the companies. There are about 35,000 workers left in these companies, of which the large majority (about 21,000) are in the 17 strategically important companies.

Demonstrating the commitment to completing the privatization process, the authorities have shut down the Privatization Agency (PA) at the end of 2015. Bankruptcy Unit of the PA, with about 80 of the staff, has been merged with the Agency for Licensing of Bankruptcy Administrators (ALSU) in October 2015. Of the remaining ~200 PA staff, part were moved to the Ministry of Economy in January 2016, to finalize the remaining privatizations and monitor the contracts for earlier privatizations. Although the decision to wind down the Agency is consistent with the finalization of the privatization process, this needs to be carefully managed. Bottlenecks have already been noted with managing bankruptcies, as the staff are under



intense pressure both by the increased case load and the need to adjust to new institutional arrangements.

Other two prior actions under this pillar (PA2: The Borrower has announced at least twenty (20) public bids for PA Companies that were not in restructuring as of August 13, 2014; PA3: The Borrower's Ministry of Agriculture and Environmental Protection has assessed the potential environmental damages for targeted PA Companies that were either in restructuring as of August 13, 2014 or companies for which the PA is the bankruptcy administrator and has prepared a report on the estimated volume of hazardous waste on site and initiated the disposal and treatment of hazardous waste) have been met at the time of the appraisal.

Pillar B - Strengthening governance regulatory and institutional framework, and monitoring and transparency arrangements

To further consolidate the improvements to PE corporate governance framework established with measures supported by SOE DPL2, the authorities have amended the legislative framework for public enterprises. New Public Enterprise Law was adopted in February 2016, further strengthening monitoring, accountability and transparency provisions, including for the corporatized enterprises.

Both SOE DPL2 prior actions under this pillar have been met at the time of appraisal.

Pillar C - Mitigate the social and labor market impact of SOE reforms

As part of policies supported by the first operation, the authorities allocated adequate financial resources to support redundant workers. At the time of the appraisal, about 19 thousand workers have taken the financial packages and left the companies from the PA portfolio. About RSD 12 billion, out of total budget of RSD 16 billion, have been spent for about 20 thousand workers. Hence, the authorities have significantly exceeded the operation's target of at least 10,000 redundant workers having access to the packages for 2015. The 2016 Budget includes an allocation of further RSD 6 billion for the Transition Fund (lower than the 2015 Budget, but this is because most of the severances have been completed in 2015).

With funding for redundancy packages secured and paying out of financial packages progressing well, focus for the second operation is shifting towards measures that could facilitate transition back into employment for redundant workers. During July and August of 2015 the government has adjusted the design of its public works program so that it can better serve as an additional safety net for vulnerable groups, including redundant workers. As a result of the reforms, participation in public works increased considerably during 2015. After the redesign of the program, an expected 10,000 registered unemployed will have participated in public works programs during 2015, which is a marked increase from 2014. However, very few of them are redundant SOE workers, yet this was to be expected; the public works program is meant to be an additional safety net for long-term unemployed who have not enjoyed employment opportunities for a long time. In the medium term, the share of participants having been laid off from SOEs is expected to increase.

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	● High	--	● High
Macroeconomic	● Substantial	--	● Substantial
Sector Strategies and Policies	● Low	--	● Low
Technical Design of Project or Program	● Low	--	● Low
Institutional Capacity for Implementation and Sustainability	● Substantial	--	● Substantial
Fiduciary	● Substantial	--	● Substantial
Environment and Social	● Moderate	--	● Substantial



Stakeholders	● Low	--	● Low
Other	--	--	--
Overall	● High	--	● Substantial

Results

Results Indicators

- Reduction of direct and indirect support to companies in the Privatization Agency portfolio - annual direct subsidies and soft loans (EUR mn) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	85.00	--	--	10.00
Date	31-Dec-2012	--	--	31-Dec-2016

Comments

Baseline is average of 2010-12

- Reduction of direct and indirect support to companies in the Privatization Agency portfolio - new tax obligations and social contributions arrears (EUR mn) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	190.00	--	--	20.00
Date	31-Dec-2012	--	--	31-Dec-2016

Comments

Baseline is average of 2010-12

- Reduction of direct and indirect support to companies in the Privatization Agency portfolio - new arrears to public utilities (EUR mn) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	70.00	--	--	20.00
Date	31-Dec-2012	--	--	31-Dec-2016

Comments

Baseline is average of 2010-12



► Disposal and treatment of legacy hazardous waste generated by companies in the Privatization Agency portfolio - total volume of legacy hazardous waste that was disposed and/or treated (Metric ton, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	--	1500.00
Date	31-Dec-2014	--	--	31-Dec-2016

Comments

End Target is cumulative for 2015-16

► Audited financial statements prepared and published by enterprises in accordance with provisions of Law on PE and new Laws on Accounting and Auditing, for PEs which the founder is the Republic of Serb (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	--	24.00
Date	31-Dec-2012	--	--	31-Dec-2016

► Reduction of direct subsidies and issuance of new guarantees for liquidity purposes for remaining large SOEs - direct subsidies (EUR mn) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	250.00	--	--	200.00
Date	31-Dec-2012	--	--	31-Dec-2016

Comments

Baseline is average of 2010-12

► Reduction of direct subsidies and issuance of new guarantees for liquidity purposes for remaining large SOEs - annual guarantees for liquidity purposes (EUR mn) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	265.00	--	--	0.00
Date	31-Dec-2014	--	--	31-Dec-2016

Comments

Baseline is average of 2012-14



► Number of redundant workers receiving compensation from the Transition Fund increases from approx. 5,700 (2014) to at least 25,000 (cumulative 2015 and 2016) (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	5700.00	--	20000.00	25000.00
Date	31-Dec-2014	--	31-Dec-2015	31-Dec-2016

Comments

End Target is cumulative for 2015-16

► At least 30 percent of workers made redundant from public enterprises during 2016 register with NES (Text, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	na	--	--	30
Date	--	--	--	--

► Number of participants in public works increases from 2,882 in 2013 to at least 7,000 in 2016 (Number, Custom)

	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	2882.00	--	--	7000.00
Date	31-Dec-2013	--	--	31-Dec-2016

Overall Comments

Result Indicator A1—Reduction of direct and indirect support to companies in the Privatization Agency portfolio:

1. Annual direct subsidies and soft loans (million Euro):
 1. Baseline (average 2010-2012): 85; Target (2016): less than 10



2. New tax obligations and social contributions arrears:
 1. Baseline (average 2010-2012): 190; Target (2016): less than 20
3. New arrears to public utilities:
 1. Baseline (average 2010-2012): 70; Target (2016): less than 20

Result Indicator A2—Disposal and treatment of legacy hazardous waste generated by companies in the Privatization Agency portfolio:

4. Total volume of legacy hazardous that was disposed and/or treated (tons of waste)
 1. Baseline (2014): 0; Target (cumulative, 2015 and 2016): 1,500

Result Indicator B1—Audited financial statements prepared and published by enterprises in accordance with provisions of Law on PE and new Laws on Accounting and Auditing for Public Enterprises for which the founder is the Republic of Serbia: Baseline (2012, none); Target (2016), all 24).

Result Indicator B2—Reduction of direct subsidies and issuance of new guarantees for liquidity purposes for remaining large SOEs:

5. Direct subsidies (million Euro)
 1. Baseline (average 2010-12): 250; Target (2016): less than 200
6. Annual guaranties for liquidity purposes (million Euro):
 1. Baseline (average 2012-2014): 265; Target (2016): 0

Result Indicator C1— Number of redundant workers receiving compensation from the Transition Fund increases from approx. 5,700 (2014) to at least 25,000 (cumulative 2015 and 2016) (to be monitored by gender).

Result Indicator C2— At least 30 percent of workers made redundant from public enterprises during 2016 register with NES (to be monitored by gender).

Result Indicator C3—Number of participants in public works increases from 2,882 in 2013 (1,187 female and 1,695 male) to at least 7,000 in 2016 (to be monitored by gender).

Data on Financial Performance

Disbursements (by loan)

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	Disbursed
P127408	IBRD-84910	Effective	USD	100.00	100.00	0.00	101.46	0.00	101%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P127408	IBRD-84910	Effective	24-Mar-2015	17-Apr-2015	24-Jul-2015	31-Mar-2016	31-Mar-2016

Tranches

Restructuring History

There has been no restructuring to date.

Related Operations

P149750-Second Programmatic State Owned Enterprises Reform DPL