

PROJECT INFORMATION DOCUMENT (PID) APPRAISAL STAGE

Report No.: PIDA12087

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|---|---|
| Project Name | Floods Emergency Recovery Project (P152018) |
| Region | EUROPE AND CENTRAL ASIA |
| Country | Serbia |
| Sector(s) | General energy sector (70%), General agriculture, fishing and forestry sector (20%), Flood protection (10%) |
| Theme(s) | Natural disaster management (100%) |
| Lending Instrument | Investment Project Financing |
| Project ID | P152018 |
| Borrower(s) | Ministry of Finance |
| Implementing Agency | EPS, Directorate of Water Management, Directorate of Agrarian Payments (DAP) |
| Environmental Category | B-Partial Assessment |
| Date PID Prepared/Updated | 03-Sep-2014 |
| Date PID Approved/Disclosed | 04-Sep-2014 |
| Estimated Date of Appraisal Completion | 05-Sep-2014 |
| Estimated Date of Board Approval | 03-Oct-2014 |
| Decision | |

I. Project Context

Country Context

A. Country Context

The Serbian economy remains weak and vulnerable to internal and external shocks. The economy has already been in recession twice since the start of the international economic crisis in 2008 and a net decrease in economic activity is expected again in 2014. Factors explaining the significant fluctuations in economic activity include adverse external factors (lower capital inflows and smaller demand for Serbian exports), natural disasters, and modest progress with reforms. In May 2014, the country suffered from severe floods which are estimated to impact economic growth by -0.9 percentage points, i.e. the Serbian economy will contract by 0.4 percent in 2014, rather than growing by 0.5 percent as projected before the floods.

The economic downturn had negative consequences on employment and poverty. In the third quarter of 2014, unemployment was over 20 percent and the youth unemployment is one of the highest in Europe at close to 50 percent. Poverty has increased significantly in recent years as well. Almost a quarter of the population (24.6 percent, measured by Statistics on Income and Living

Conditions, SILC) has an income below 60 percent of the median income as of 2013. This is the highest relative poverty rate among the group of EU new member states and candidate states. Real wages also dropped significantly and in 2013, they were 9 percent lower than in 2008.

The May 2014 floods disproportionately affected the poor and vulnerable. Approximately 51,800 jobs are being temporarily lost due to the interruption of productive activities and household incomes would decline proportionally. It is also estimated that 125,000 individuals have fallen below the poverty line, resulting in an increase of nearly 7 percent over last year's poverty headcount. Such negative impacts on livelihoods and employment was more acute in vulnerable groups and among the rural population (the rural poverty rate in Serbia is 9.4 percent and it is twice as high as the urban poverty rate). Overall, the human development index (HDI) is expected to decline in 2014 reversing approximately two years' worth of growth.

Serbia faces significant fiscal challenges which have been exacerbated by the recent natural disaster. The general government fiscal deficit and debt, as a share of GDP, were among the highest in the South East Europe (SEE) region. Between 2009 and 2013, fiscal deficit averaged 5.6 percent of GDP while public debt increased from 29 to 64 percent of GDP. The May 2014 floods will increase the government deficit by an additional 1.0 percent of GDP. Without fiscal consolidation measures, the fiscal deficit could exceed 8 percent of GDP by year end. Against this backdrop, the Government of Serbia remains committed to reducing fiscal risks. The first step is to adopt a supplementary budget in the fall of 2014. Discussions with the International Monetary Fund (IMF) are expected to be initiated shortly thereafter.

B. Situations of Urgent Need of Assistance

Unprecedented rainfall started in early/mid-May 2014 causing massive floods, resulting in the declaration of a national state of emergency in Serbia on May 15, 2014. The heavy rainfall, led to a rapid and substantial increase of water levels in eight of the main rivers in western, south-western, central and eastern Serbia. Flash floods destroyed houses, bridges and sections of roads, while rising water levels resulted in flooding in both urban and rural areas. The disaster resulted in 51 deaths, with approximately 32,000 people evacuated from their homes, and around 110,000 households cut off from electricity supply. Overall, the floods affected some 1.6 million people, or about one fifth of the total population living in 49 municipalities. Adverse weather conditions have continued since, causing further damage to harvest and energy infrastructure.

The Government of Serbia conducted a Recovery Needs Assessment (RNA) which revealed that the total value of the disaster effects are around EUR 1.7 billion, or over 4 percent of GDP. The RNA process was initiated on June 9 and completed by July 10, 2014 with the objective of estimating disaster effects. The European Union, the United Nations and the World Bank provided financial and expert support to conduct the assessment. The RNA focused on the 24 most affected municipalities and revealed that the total effects of the disaster amounts to EUR 1.525 billion (see Table 1). When all 49 municipalities affected by the floods are taken into account, the total value of disaster effects increases to EUR 1.7 billion, or over 4 percent of GDP. The most affected sector was mining/energy (32 percent of the total), followed by housing, agriculture and trade, each accounting for around 15 percent.

The energy sector was the hardest hit (losses and damages of EUR 488 million) and the power supply gap is expected to reach 15 percent of demand over the next winter season. Water

overflowing from the Kolubara River flooded the open pit mines Tamnava West and Veliki Crljeni. Water in the open pits is approximately 200 million cubic meters (m³) while maximum water depth is 60 meters. This situation is rather unprecedented from a global perspective. These two open pit mines account for about two thirds of the country's coal production and are the primary sources of fuel supply to the Nikola Tesla Thermal Power Plants (TPPs). These TPPs account for 40 percent of the total installed capacity in the country and are the backbone of the country's power system. Due to the lack of coal supplies, the electricity supply-demand gap between June 2014 and April 2015 is estimated to be about 3,700 GWh, or around 15 percent of demand. There were also significant damages to coal mining equipment and in the distribution network.

The agriculture sector was also drastically affected by the floods. Thirty nine percent of Serbia's farm households representing 28 percent of total arable land and 41 percent of total livestock are located in the flood affected municipalities. As per the RNA, estimated damages and losses amount to EUR 228 million. Loss in farmers' income from crops alone amounts to EUR 90.6 million while damage and loss to the livestock sector is estimated to be EUR 5.3 million. Some 12,000 ha of crop area was rendered useless for agricultural production in the coming months. Support to the sector will be needed over the next 3 to 5 years to bring it back to its pre-flood production levels.

Flood protection infrastructure was significantly damaged and the country is now more vulnerable to future floods. The RNA indicates that the cost of repairs to existing flood protection and drainage infrastructure is in the order of EUR 24 million. The largest share of damages occurred to infrastructure managed by Public Water Management Company (PwMC) Srbijavode and PwMC Beogradvode. Drainage infrastructure was also affected, including both collector canals and pump stations used to help discharge the excess water collected on lower land when it cannot flow by gravity to the recipient river. Without attention to these flood protection facilities, some areas are at significantly increased risk of flooding.

The Floods Emergency Recovery Project focuses on the priority sectors identified in the RNA including energy, agriculture, and flood protection. The needs in the housing sector, which was also one of the hardest hit, have been addressed by the government through other donor support mechanisms, notably from the EU and the UN. The project would: (i) help close the financing gap and ensure continued provision of electricity services; (ii) forestall a likely decline in direct support to farmers in affected areas at a time when the fiscal accounts are under severe stress; and (iii) help improve resilience to disasters by financing investments in critical flood prevention infrastructure. This initiative will be complemented by existing and planned regional activities on floods prevention and DRM including the Drina River Basin Management Project, the West Balkan Investment Framework Technical Assistance (TA), and the South East Europe and Caucasus Risk Insurance Facility Project.

Sectoral and institutional Context

The following paragraphs provide a sectoral and institutional context for the priority sectors proposed under the emergency operation:

Energy and Mining: The country is characterized by a high share of coal use (over 50 percent) in the total primary energy supply; lignite-fired thermal power plants account for over 70 percent of the electricity generation. Under normal weather conditions, domestic power generation covers demand. Serbia is well interconnected with the SEE electricity market through 22 high voltage lines

with 8 neighboring countries. Power demand is highly seasonal (i.e. higher consumption in winter months) and characterized by a large share of consumption by the residential sector (about 55 percent) due to the inefficient use of electricity for heating purposes. Prices for residential consumers are estimated to be 15 percent below cost recovery levels.

Agriculture: The agricultural sector has great economic, social, and political significance. Its share of GDP is currently 10 percent and it is characterized by low competitiveness. Exports are mainly primary products while imports are made of high-value processed products. However, increased access to EU and regional markets in recent years has created the conditions for Serbia to become a net exporter of food. In 2013, agri-food exports made 19 percent of total exports. Agriculture is also one of the biggest employers in rural areas and the main contributor to the rural population's food security. Most of the Serbian holdings are managed by self-employed farmers, who are at a significantly higher risk of poverty (38%, 2012) than the average employed person (15%).

Flood Protection: Flooding has been a persistent and pervasive problem, particularly over the last 15 years with several large flood events resulting in loss of life, severe damage to infrastructure, human settlements and adverse impacts on productive sectors. Key sector issues include: (i) inadequate flood protection and drainage infrastructure due to lack of maintenance and insufficient investments; (ii) institutional and management weaknesses; and (iii) lack of hydro-meteorological monitoring and analysis, preparedness and response initiatives. Against this backdrop, the Government prepared the Strategy for Emergency Management and Civil Protection (2011-2016), to guide efforts towards a comprehensive and effective system to reduce the risk and consequences of natural disasters. The Government has also embarked upon institutional reforms in the water sector, including the three PWMCs under the Directorate of Water.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to: (i) help restore power system capability to reliably meet domestic demand; (ii) protect livelihoods of farmers in flood affected areas; (iii) protect people and assets from floods; and (iv) improve the Borrower's capacity to respond effectively to disasters.

III. Project Description

Component Name

Component 1: Energy Sector Support

Comments (optional)

This component aims at help improve the available electricity supply over the 2014-2015 winter season and beyond through power imports, improve the reliability of the power system by carrying out urgent investments in the distribution system and energy efficient lighting program, and helping restore strategic energy assets through dewatering of the Tamnava West Open Pit Mine.

Component Name

Component 2: Agricultural Sector Support

Comments (optional)

Component 2 would support the ongoing Government's Farm Incentives Program in the 49 municipalities affected by the floods in order to protect livelihoods of farmers and offsetting their income losses.

Component Name

Component 3: Flood Protection

Comments (optional)

The objective of this component is to support urgent rehabilitation of the flood protection and drainage control infrastructure, and strengthen the technical capacity of the government agencies for improved flood prevention and management.

Component Name

Component 4: Contingent Emergency Response

Comments (optional)

This component provides a mechanism for emergency response in case of any new disaster. Government may request the Bank to re-allocate project funds to this component to partially cover emergency response and recovery costs. This component could also be used to channel additional funds should they become available as a result of the emergency.

IV. Financing (in USD Million)

| | | | |
|---|--------|-----------------------|---------------|
| Total Project Cost: | 300.00 | Total Bank Financing: | 300.00 |
| Financing Gap: | 0.00 | | |
| For Loans/Credits/Others | | | Amount |
| Borrower | | | 0.00 |
| International Bank for Reconstruction and Development | | | 300.00 |
| Total | | | 300.00 |

V. Implementation**Institutional and Implementation Arrangements**

The project will be implemented over three years with proposed closing date of December 31, 2017. Institutional arrangements and responsibilities of the different institutions are outlined below.

Overall Arrangements. The Office for Reconstruction will be responsible for overseeing the project implementation. Project management functions and day to day operations will be devoted to Elektroprivreda Srbije (EPS), Directorate for Agrarian Payments, and a Project Implementation Unit (PIU) to be established under the Directorate of Water Management.

Component 1: Energy Sector Support will be the responsibility of EPS. General management and support functions are assigned to its Head Office in Belgrade.

Component 2: Agriculture Sector Support will be the responsibility of the Directorate for Agrarian Payments under the Ministry of Agriculture and Environmental Protection with support from the PIU which will be established in the Directorate Of Water Management.

Component 3: Floods protection will be responsibility of the Directorate of Water Management. A PIU will be established, with a similar form and function to that which was previously utilized under the recently completed World Bank financed Irrigation and Drainage Rehabilitation Project (IDRP, P087964) which closed on March 31, 2013. During preparation of investments and implementation of works, the PIU will work in close coordination with the three PWMCs.

Component 4: Contingent Emergency Response component will be the responsibility of the Office of Reconstruction or any successor thereto.

VI. Safeguard Policies (including public consultation)

| Safeguard Policies Triggered by the Project | Yes | No |
|--|------------|-----------|
| Environmental Assessment OP/BP 4.01 | x | |
| Natural Habitats OP/BP 4.04 | | x |
| Forests OP/BP 4.36 | | x |
| Pest Management OP 4.09 | x | |
| Physical Cultural Resources OP/BP 4.11 | | x |
| Indigenous Peoples OP/BP 4.10 | | x |
| Involuntary Resettlement OP/BP 4.12 | x | |
| Safety of Dams OP/BP 4.37 | | x |
| Projects on International Waterways OP/BP 7.50 | x | |
| Projects in Disputed Areas OP/BP 7.60 | | x |

Comments (optional)

VII. Contact point

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