PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

November, 25, 2015
Report No.: AB7801

Operation Name	Serbia Public Expenditure and Public Utilities DPL 1
Region	EUROPE AND CENTRAL ASIA
Country	Serbia
Sector	General energy sector (34%); General public administration sector (33%); General transportation sector (33%)
Operation ID	P155694
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF THE REPUBLIC OF SERBIA
Implementing Agency	MINISTRY OF FINANCE
Date PID Prepared	November 25, 2015
Estimated Date of Appraisal	*TBC*
Estimated Date of Board Approval	April 20, 2016
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

The proposed DPL is designed to support the high priority placed on fiscal and structural reforms by the Government of Serbia. These reforms aim to achieve fiscal sustainability while also creating an enabling environment for investment and job creation. As such, the DPL series is a central pillar of the World Bank Group Country Partnership Framework (CPF) FY16-FY20 Focus Area 1: Economic governance and the role of the state and its related objectives.

The global economic crisis exposed structural weaknesses in Serbia's economic growth model, and prompted the need for fiscal consolidation and the acceleration of the unfinished transition to market economy. The rapid growth experienced by Serbia during 2004–08 was driven mainly by domestic consumption and resulted in significant internal and external imbalances, which proved all but sustainable. The crisis unearthed remaining key structural weaknesses and obstacles that hamper sustainable economic development, including a pervasive influence of the state on the economy and unfavorable business environment with cumbersome administrative procedures. The crisis also resulted in a deterioration of living conditions in Serbia with poverty and unemployment rising notably. The sluggish economic performance since the onset of the global financial crisis was accompanied by a deterioration of Serbia's fiscal stance and a rapid increase of public debt, which doubled since 2009 to reach over 70 percent of GDP in 2014. Similarly, the stock of public guarantees, issued mainly to State-owned Enterprises, increased from less than 3 percent of GDP in 2008 to over 6 percent at end-2014.

The combination of economic pressures, an improvement in relations with Serbia's neighbors and domestic reform momentum, provide an important opportunity to accelerate reforms. The March 2014 elections resulted in the creation of a government with an absolute majority, giving Serbia a new opportunity to overcome the growing fragmentation that characterized the past and build a momentum for reform. The government has committed to focus on transforming the state administration, public finances and economy, along with pursuing the EU accession process.

The main goals of the Government's fiscal and structural reforms are to achieve fiscal sustainability while also creating an enabling environment for investment and job creation. The Government's fiscal consolidation and structural reform program for 2015-2017 is supported by a three year precautionary SBA program agreed with the IMF with which the proposed DPL is coordinated. Notwithstanding stronger-than-expected fiscal performance in 2015, there is a need to continue reforms to put public finances on a sustainable footing via, among others, tackling long-standing structural issues, in particular reducing ineffective direct state subsidies and guarantees for public utilities operating in energy and transport. A sustainable reduction of this spending in turn requires reforms to make them financially viable and effective to improve service delivery. There is also a need to improve further overall public expenditure management, including via reforms on the public wage bill and on cross-cutting PFM issues, on which the government has placed a high priority.

II. Proposed Objective(s)

The proposed DPL series aims to support the Government's multi-year fiscal consolidation agenda and transformation of the SOE sector. The proposed operation would support reforms in three key areas through actions with the following objectives: (A) Improve public expenditure management through public administration reform and strengthened public financial management; (B) Improve the financial viability and governance of energy SOEs; (C) Improve the efficiency and quality of service delivery of public transport companies;

III. Preliminary Description

The proposed DPL series would support institutional and policy reforms within the above pillars:

- Pillar A: Improve public expenditure management through public administration reform and strengthened public financial management including, for example, revisions to the legal framework for public sector wages and staffing levels and measures to support improvements in the control over arrears, and public investment management.
- Pillar B: Improve the financial viability and governance of energy SOEs through measures to move electricity tariffs towards regional market prices, while strengthening the protection of vulnerable households to such tariff increases; to support the rightsizing of staffing of Serbia's state electricity generation, distribution and supply utility, thereby improving the financial position of the company; to improve the financial viability of Serbia's state gas state-owned natural gas transmission, distributor, and supplier.
- Pillar C: Improve the efficiency and quality of service delivery of public transport companies to reduce their burden on the fiscal position through measures aimed at improving sector and corporate governance in railways and enhancing the efficiency and quality of services for roads.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The actions supported by the DPL are key fiscal and structural reform priorities, albeit there will be distributional impacts in the short run. Reducing poverty and boosting shared prosperity will require tackling the largely unfinished first-generation reform agenda toward a vibrant private sector and an efficient public sector, reinvigorating growth and creating broad-based income-generating employment opportunities for the people. While contributing to these goals, the reforms supported by the DPL are expected in the short run to result in (i) labor rightsizing in public utilities and in the public sector and (ii) higher electricity costs, including for poor and vulnerable consumers.

The Bank will undertake a Poverty and Social Impact Assessment (PSIA) to analyze the potential adverse impacts and the appropriateness of mitigation measures. The analysis is proposed to rely on a mix of qualitative and quantitative information including statistical data from the Households Budget Survey, the EU Statistics on Income and Living conditions, and Labor Force Survey. The analysis will also focus on the systems in place which are expected to help mitigate negative impacts. These will be assessed in the PSIA to evaluate their adequacy.

Environment Aspects

Overall the reform policies supported by the DPL series are not likely to have significant adverse effect on the environment, forests and natural resources. Potential channels of impact will be examined during project preparation along with country systems for reducing any potential adverse effects.

V. Tentative financing

Source:		($m.)
Borrower		0
International Bank for Reconstruction and Development		200
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	200

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