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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

THE REPUBLIC OF SERBIA

FOR THE PERIOD FY22-FY26

April 28, 2022

Western Balkans Country Management Unit
Europe and Central Asia

The International Finance Corporation
Europe

The Multilateral Investment Guarantee Agency

The date of the last Performance and Learning Review for the Country Partnership Framework period FY16-FY20 was March 13, 2019.

CURRENCY EQUIVALENTS

Exchange Rate Effective April 16, 2021

Currency Unit – Serbian Dinar (RSD) 100.00 = US$ 1.020

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing	IFIs	International Financial Institutions
AFD	Agence Française de Développement	IMF	International Monetary Fund
ALMP	Active Labor Market Programs	IPF	Investment Project Financing
ASA	Advisory Services and Analytics	KfW	Kreditanstalt Für Wiederaufbau (German Development Bank)
CAD	Current Account Deficit	LIID	Local Infrastructure and Institutional Development
CBAM	Carbon Border Adjustment Mechanism	LSG	Local Self-Government
CEE	Central and Eastern Europe	MIGA	Multilateral Investment Guarantee Agency
CEM	Country Economic Memorandum	MPA	Multiphase Programmatic Approach
CMU	Country Management Unit	MoF	Ministry of Finance
COVID-19	Coronavirus Disease 2019	NBS	National Bank of Serbia
CPF	Country Partnership Framework	NCD	Non-communicable Diseases
DPL	Development Policy Lending	NES	National Employment Service
DRM	disaster risk management	NPLs	Nonperforming Loans
EBRD	European Bank for Reconstruction and Development	PCM	Private Sector Capital Mobilization
EC	European Commission	PEFA	Public Expenditures and Financial Accountability
ECA	Europe and Central Asia	PFM	Public Finance Management
EIB	European Investment Bank	PforR	Program for Results
EPS	*Elektroprivreda Srbije* (Electric Company of Serbia)	PIM	Public Investment Management
ESF	Environmental and Social Framework	PISA	Program for International Student Assessment
ESG	Environmental, social and governance	PLR	Performance and Learning Review
ESMF	Environmental and Social Management Framework	PPO	Public Procurement Office
EU	European Union	PPP	Purchasing Power Parity
FDI	Foreign Direct Investment	PPPs	Public-private Partnerships
GDI	Graduation Discussion Income	SCD	Systematic Country Diagnostic
GDP	Gross Domestic Product	SDG	Sustainable Development Goals
GoS	Government of Serbia	SECO	Swiss Economic Cooperation
GRID	Green, Resilient, Inclusive Development	SOE	State-Owned Enterprise
HCI	Human Capital Index	SORT	Standardized Operations Risk-rating Tool
HLOs	High Level Outcomes	TFs	Trust Funds
IBRD	International Bank for Reconstruction and Development	UN	United Nations
ICT	Information and Communications Technologies	WB	World Bank
IEG	Internal Evaluation Group	WBG	World Bank Group
IFC	International Finance Corporation	WBIF	Western Balkans Investment Framework

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I. INTRODUCTION

1. **This FY22-26 Country Partnership Framework (CPF) supports Serbia's robust recovery from the impacts of COVID-19 and fosters growth that will be sustainable across generations.**[1] The main challenges to accelerating Serbia's fiscally and environmentally sustainable growth have to do with improving the efficiency of government for better service delivery, integrating with other regional economies, and raising productivity and competitiveness. Spurring green and clean development across sectors and gradually transitioning to a low-carbon economy remain key for supporting the recovery from the impact of the global pandemic. Strengthening human capital, especially for the most disadvantaged groups, is also important for improving productivity and inclusion: poverty and inequality are still higher in Serbia than in comparator countries, and gender disparities constitute stubborn entry barriers to better economic opportunities for women.

2. **Addressing institutional shortcomings to foster greener, more resilient growth and inclusive service delivery is central to this CPF**. Serbia's GNI per capita (Atlas method) recently moved just above the IBRD Graduation Discussion Income (GDI).[2] However, as highlighted in the SCD Update, governance and institutional weaknesses remain the underlying constraints to progress across sectors. In line with the 2018 Capital Package policy commitments for countries above the GDI, the Serbia CPF focuses on supporting the Government of Serbia (GoS) across sectors to ensure that key institutions for economic and social development improve in line with Serbia's aspirations and income level, addressing shortcomings in delivering green, more resilient growth and inclusive service delivery. As such, the CPF is articulated around two Higher Level Outcomes (HLOs): 1) Growth that is greener and more resilient; and 2) Strengthened and more inclusive service delivery. The CPF selectively supports the GoS' two-year Action Plan 2020-2022,[3] which emphasizes the importance of implementing the green agenda, including for the EU accession process.

3. **The WBG's comparative advantage in upper middle-income countries like Serbia lies in its ability to combine financing with the support to innovative policies and high-impact projects**. Serbia continues to access external capital markets on reasonable terms, as the GoS has established a strong track record of prudent macroeconomic policies. This CPF will support activities that are *less* focused on direct financing of simple infrastructure projects (e.g., Corridor X, financed under the previous CPF); and more on endeavors requiring more complex interventions, even within infrastructure (e.g., Railway Sector Modernization Multiphase Programmatic Approach, MPA). It also supports institutional capacity building for better service delivery and innovative policies and institutional reforms for greener, more resilient growth – which have potential for learning that can be transmitted as global public goods from Serbia to other countries. IFC and MIGA will continue to focus on crowding in the private sector.

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[1] The Performance and Learning Review (PLR, Report No. 132007-YF) and Systematic Country Diagnostic (SCD) Update (Report No. 147543-YF) were finalized in February 2019 and April 2020 respectively. The previous CPF period officially ended in June 2020, but the Covid-19 pandemic delayed the preparation of the new CPF.
[2] The 2020 Serbia GNI per capita, used for the FY22 categorization relative to GDI, was US$7,400 versus the US$7,155 GDI level.
[3] This CPF was endorsed by the technical government *after* the presidential and parliamentary elections of April 3, 2022, which signaled continuity in the political and policy spheres.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1. Socio-political and Institutional Factors

4. **Serbia has made substantial gains in building institutions since emerging from the conflicts of the 1990s, but government effectiveness remains a challenge.** The first democratic governments elected in the early 2000s initiated the political and economic transition typical of other Eastern European countries a decade earlier. Significant progress was made on achieving a stable macroeconomic framework and substantial fiscal buffers, notably since 2015. However, as noted in the 2020 SCD Update, historical trends in governance indicators show that Serbia's improvement has stalled in certain dimensions, holding back development progress in other areas. Thus, the current level of government effectiveness in Serbia is below those observed in new EU Member States five years prior to their accession. Moreover, checks and balances are still below the average for other upper middle-income countries, and significantly below EU levels.

5. **Central and local self-government (LSG) policy coordination needs to be more effective in implementing sectoral strategies and allocating resources**. The alignment across sectors for policy implementation and monitoring of policy impacts remains weak. Resource allocation and management across sectors need further strengthening. The 145 LSGs have the potential to provide better services to citizens but have limited capacity and financial resources. Decades of underinvestment have left LSGs' infrastructure in a poor state, contributing to environmental degradation and vulnerabilities. The renewal, upgrade, and greening of ageing infrastructure and public service delivery, notably in the poorest LSGs – which needs to be fiscally sustainable – can redress spatial inequalities, provide access to markets, add to the stock of locally generated jobs and firms, and stimulate private investment.

6. **An early and robust response from the GoS to COVID-19 avoided an economic and health sector meltdown – although the vaccination rate remains low.** The first case of COVID-19 was registered on March 6, 2020. By end-April 2022, there have been two million registered cases with 16 thousand fatalities (0.8 percent). Decisive action to enforce movement restrictions and lockdowns in the early stage of the pandemic, a robust and well-timed fiscal stimulus deployed in 2020, and the implementation of an effective vaccination campaign (one of the fastest to get off the blocks in continental Europe) greatly reduced the impact of the COVID-19 pandemic on the economy and the labor market: in 2020 Serbia only experienced a mild recession. Despite the government's concerted good efforts, the vaccination rate has remained stubbornly low, at around 50 percent of the total adult population, and constitutes a potential vulnerability.

2.2. Growth Challenges and Recent Economic Developments

7. **Economic growth in the 3 years prior to COVID-19 averaged 3.6 percent in Serbia, an insufficient rate for bringing the country closer to average living standards in the EU**. However, in 2015, Serbia embarked on a comprehensive fiscal consolidation that turned deficits into surpluses as of 2017 and reduced public debt. Going forward, building on the hard-won macroeconomic stability, the new growth agenda for Serbia will require action on further boosting investment, mobilizing financing for growing firms, equipping workers with the right skill mix, raising productivity levels, and promoting competition and a better business environment. These key policy and institutional areas were identified in the 2019 Country Economic Memorandum (CEM) and 2020 SCD Update.

8. **Good governance, effective institutions and a more sustainable development path need to underpin Serbia's new growth model.** The 2020 SCD Update highlighted that good governance and efficient institutions are foundational drivers of Serbia's socio-economic development and that important gaps remain. More progress needs to be achieved on strengthening policy coordination, institutional capacity, and improving transparency and accountability to reduce patronage and corruption. These factors limit the ability of the private sector – notably of domestic private enterprises – to thrive and to contribute to productivity gains; and can potentially delay much needed reform to achieve inclusive service delivery. The COVID-19 pandemic, moreover, highlighted the need for new policies that create a more balanced, just, and sustainable economy and that promote clean and green development across sectors – while boosting the overall competitiveness of the economy.

9. **Robust and well-timed fiscal stimulus programs in 2020 and 2021 limited the recession in 2020 and assisted a swift recovery in 2021, albeit resulting in higher fiscal deficits (Table 1).** The stimulus program of around 11.6 percent of GDP at the outset of the pandemic in 2020, and another fiscal package of around 4.2 percent of GDP in 2021, helped to avoid a more severe recession in 2020 and propelled growth to 7.4 percent in 2021. However, the impact of the fiscal stimulus program came at considerable fiscal cost: the fiscal deficit reached 8 percent of GDP in 2020 before moderating to 4.1 percent of GDP in 2021. Further, while formal sector jobs were protected, the economy in 2020 lost 55,000 informal jobs, making a dent in livelihoods and adding to vulnerabilities. Compared with pre-COVID times, the unemployment rate has steadily declined to 11 percent in 2021.

10. **The current account deficit (CAD) narrowed during the pandemic, but external debt rose.** The CAD decreased from 6.9 percent of GDP in 2019 to 4.4 percent of GDP in 2021 on the back of improvements in the trade balance and secondary income. Export performance in 2021 was robust, as large exporters resumed operations. Serbia also benefited from a terms-of-trade improvement in 2021: export prices increased by 12.7 percent, while import prices grew 10 percent. The CAD remains fully financed by foreign direct investment (FDI), which accounted for 6.8 percent of annual GDP in 2021. External debt rose to 68.5 percent of GDP in 2021, compared with 61.4 percent of GDP in the year prior to the pandemic (2019). Both public and external debts remain sustainable under baseline scenarios and standard shocks. Serbia maintains access to external capital markets on reasonable terms as evidenced by three Eurobond issuances in 2021 (totaling EUR 2.7 billion with interest rates between 1.3-2.3 percent) although secondary market spreads increased in recent months.

11. **The financial sector remained resilient during the pandemic while the inflation rate picked up significantly.** Inflation started to increase since April 2021 and reached 9.1 percent (y/y) in March 2022, the highest level seen since 2013. The main driver of inflation in Serbia have been food prices (up 16.1 percent, y/y) driven by increased costs of inputs and a drought in 2021, and fuel and energy prices (up 18.3 and 4 percent, y/y), driven by developments on international markets including the spillovers of the war in Ukraine[4]. After a small appreciation in 2019, the Serbian dinar held steady in 2020 and 2021, with only a minor depreciation in late February 2022, primarily due to timely and sizeable interventions by the NBS in the foreign exchange market. Banks remained well-capitalized and liquid, having built buffers before the pandemic started. Non-performing loans (NPLs) declined to 3.6 percent in December 2021.

[4] As outlined in the WBG Roadmap Paper https://thedocs.worldbank.org/en/doc/bf544fb23105352f4aef132bd6f40cb8-0290032022/original/WBG-Response-to-Global-Impacts-of-the-War-in-Ukraine-A-Proposed-Roadmap.pdf

Table 1. Serbia Key Economic Indicators

	2019	2020	2021e	2022f	2023f	2024f	2025f
Real Economy							
Real GDP growth, percent	4.3	-0.9	7.4	3.2	2.7	2.8	3.3
Contributions (percentage points):							
Consumption	2.9	-0.9	5.7	4.0	3.4	3.1	3.0
Investment	4.0	-0.1	3.8	1.1	0.9	1.0	1.4
Net Exports	-2.6	0.1	-2.1	-1.8	-1.6	-1.4	-1.1
Exports	4.1	-2.3	10.3	3.3	3.0	3.1	3.5
Imports	6.7	-2.4	12.4	5.1	4.6	4.5	4.6
Unemployment rate (average, ILO def.)	11.2	9.7	11.0	..	..	..	..
GDP deflator, percent	2.4	2.4	6.1	4.9	4.2	3.2	3.2
CPI (eop), percent	1.9	1.3	7.9	6.0	4.5	3.7	3.5
Fiscal Accounts (as percent of GDP)							
Expenditure	42.2	49.0	47.4	46.3	46.0	45.3	45.1
Revenues	42.0	41.0	43.3	42.3	43.0	43.1	43.0
General Government Balance	-0.2	-8.0	-4.1	-4.1	-3.0	-2.2	-1.1
Public and Publicly Guaranteed Debt	52.8	57.8	57.1	58.2	58.9	56.8	56.4
Selected Monetary Accounts							
Base Money (change, in percent)	14.1	35.0	14.8	..	..	..	..
Credit to non-government sector (change, percent)	9.1	11.9	9.7	..	..	..	..
Interest (key policy interest rate)	2.3	1.0	1.0	..	..	..	..
Balance of Payments (as percent of GDP)							
Current Account Balance	-6.9	-4.1	-4.4	-6.4	-5.8	-5.1	-5.1
Exports G&S	51.0	48.2	54.4	55.1	55.3	55.8	56.4
Imports G&S	60.9	56.5	62.2	64.1	64.5	65.2	65.6
FDI, net	7.7	6.3	6.8	5.8	6.3	6.2	6.1
Gross Reserves (in EUR bill, eop)	13.4	13.5	16.5	..	..	..	..
In months of next year's imports	5.7	5.9	6.1	..	..	..	..
Terms of Trade	0.8	4.6	2.5	..	..	..	..
Exchange Rate (RSD/EUR, average)	117.9	117.6	117.6	..	..	..	..

Source: Staff estimates based on the NBS, MoF, IMF, and Statistics Office data.

12. **The ongoing war in Ukraine, which has resulted in a global supply shock, will affect the Serbian economy**. Primary transmission channels include trade of goods and services, FDI, financial sector stability and remittances. Although Serbia's combined total exports to Ukraine and Russia account for only 5 percent of the total, Serbia imports 93 percent of natural gas (vital for Serbia's industrial production) and about a third of its crude oil from Russia. The conflict may also have secondary impacts, including further increases in inflation though higher energy and food prices, which will disproportionately affect Serbia's poorest households. Pressure could also mount on the exchange rate, although the NBS has robust levels of reserves. Factoring in the overall impact of the conflict, growth projections in the outer years of this CPF may be revised downwards.

13. **The macroeconomic outlook is positive despite important downside risks.** The war in Ukraine already impacted growth projections for 2022-23 which were downgraded by 1.2 percent as well as other indicators, most importantly external balances. Economic growth is projected at around 2.5-3.5 percent annually in the medium term (2025). The fiscal deficit should decline to around 1 percent of GDP. The CAD should stabilize at around 5 percent of GDP and be financed by non-debt-

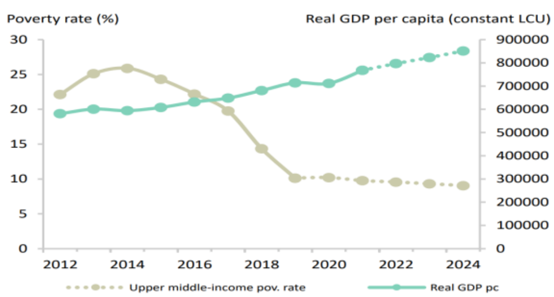
creating flows, mostly FDI. But there are risks. Inflationary pressure and less benign capital markets could have adverse effects given higher public, external and forex-denominated debt. New waves of COVID-19 could dampen economic growth and put additional strains on the labor market. Commitment to sensitive reforms, notably on green transition front, may waver, while a deterioration in the governance space could jeopardize the efficient use of resources and application of rules and regulations, also impacting on private sector and foreign investments.

2.3. Poverty and Shared Prosperity

14. **Although Serbia's progress in reducing poverty was sustained through the pandemic thanks to a robust fiscal stimulus, poverty reduction is expected to stagnate in 2022.** The incidence of poverty (US$5.5/day) fell from 25.1 percent in 2013 to 10.1 percent in 2019. Growth was pro-poor: an increase of 1 percent in GDP resulted in a 4 percent reduction in poverty incidence during 2013-2017. The income of the poorest 40 percent grew by an annualized average of 3.9 percent, against 1.5 percent for the whole population. Without the well-timed fiscal stimulus, poverty would have increased by more than 4 percentage points since the pandemic struck. However, the unfolding war in Ukraine, combined with raising inflation, will adversely impact household income growth in Serbia. Higher costs of food and rising energy prices, if passed onto household tariffs, will disproportionately hit the poor. Poverty in 2022 is projected at 9.6 percent, close to its 2021 level (Figure 1).

Figure 1. Poverty Incidence pre-COVID

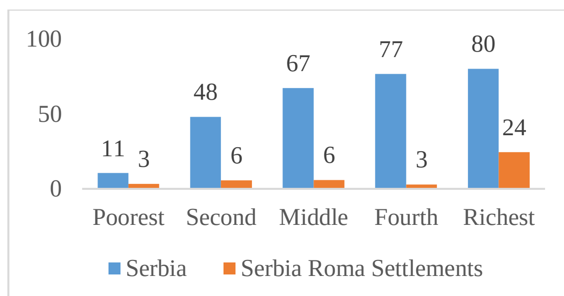
Poverty Rate (%) and per capita GDP, 2012-2022



Source: Staff estimates and projections based on SILC data.

Figure 2. Inequality of Opportunity

Share of Children Aged 36-59 Months Attending Early Childhood Education by Family Income Quintile (%)



Source: UNICEF *Serbia MICS 2019.*

15. **The share of Serbia's poor still exceeds the range of 0.1-9 percent for comparator countries in Central and Eastern Europe (CEE) and the Baltics.** A high vulnerability rate is another challenge to building of a prosperous society. The share of the population considered at risk of poverty and material deprivation (i.e., inability to afford basic housing, food, and durable goods) is higher in Serbia than in comparator EU countries. The poor in Serbia are more likely to have less education, live in rural areas, be unemployed or self-employed, or work in low-skilled jobs. The coverage of the poor and vulnerable with social assistance poverty-targeted programs is limited.

16. **Income inequality reflects unequal access to opportunities while gender gaps remain substantial.** The Gini coefficient fell from 38.3 to 33.3 between 2014-2020 but is high by EU standards. Spatial inequalities are stark: the share of households at risk of poverty range from 4.8 percent in Novi Beograd in Belgrade to 66.1 percent in Tutin in the region of Šumadija and Western Serbia. Lagging low-income regions have lower human development outcomes and poor quality of

infrastructure and municipal service delivery. Roma families are particularly disadvantaged: their children are less likely to receive early childhood education, have lower educational attainment, and fewer opportunities to earn a good income later in life (Figure 2). The employment rate among the Roma population is only half that of their non-Roma neighbors. Persisting gender gaps are a cost for the whole economy (Annex 4).

2.4. Development Agenda

17. **Key development challenges articulated in the 2020 SCD update include emerging priorities related to the green agenda**. Priorities for Serbia today include maintaining the hard-won macroeconomic stability, fostering competitive markets and the business environment; strengthening government effectiveness, efficiency, and accountability; boosting human capital; reducing labor market barriers; and dealing with spatial inequalities. *Emerging priorities* include fostering environmental sustainability and resilience, including to national disasters; strengthening climate resilience; and supporting the just transition to a low-carbon economy through the expansion of renewable sources and non-coal mining (Box 1).

Box 1. Selected Priorities in Serbia

- *Macroeconomic and financial sector stability*: Serbia's macro-financial stability is critical to increasing public investment and dealing with shocks (e.g., resurgence of COVID-19, slower than expected global recovery, uptick in NPLs as support measures are withdrawn, food and fuel price shocks, and climate change).
- *Competitive markets and the business environment*: Accelerated productivity growth can attract FDI into higher value-added activities. It can also create an enabling environment for domestic private investments by eliminating constraints faced by SMEs.
- *Government effectiveness, efficiency, and accountability* is critical to better service delivery and the transition to greener growth. It also has important links to managing the demographic change and EU accession. Digitization can increase efficiency, transparency and accountability.
- *Strengthening human capital:* Serbia faces constraints in education and training and low efficiency of health and social protection services. Poverty targeted programs, financial social assistance and child allowance can benefit from better targeting and increased flexibility.
- *Removing labor market barriers:* More than 45 percent of people aged 15 and above are not working or searching for a job. Many emigrate. Reducing further the high labor tax and contribution burden, strengthening job matching, and improving activation are key measure here.
- *Developing rural areas/lagging regions:* Enhancing agricultural productivity and competitiveness and promoting backward and forward linkages with non-farm activities is key for poverty reduction. Improving local transport and digital connectivity can boost access to markets and jobs.
- *Environmental sustainability:* High levels of pollution stem from energy (domestic heating), transport, industry, and agriculture. Better water quality and waste treatment can address health hazards. Institutional capacity across government is needed in these areas.
- *Climate resilience and low-carbon transition:* Transition toward higher energy efficiency and cleaner energy requires increasing renewable sources, non-coal mining and exploitation of new minerals.

18. **A key development challenge relates to the need of pursuing a more environmentally friendly agenda, focusing both on mitigation and adaptation**. Serbia's carbon dioxide emissions per

unit of GDP PPP are significantly higher than those in the EU.[5] Air pollution has become one of the top public health concerns: elevated levels of $PM_{2.5}$ are the main pollutant in Serbia, particularly during the winter months when the demand for heating is the highest. Key sources of air pollution include wintertime heating emissions, vehicle exhaust, industrial emissions, resuspended dust, and agricultural clearing fires. The lack of waste treatment and disposal infrastructure, moreover, generates serious environmental problems related to the pollution of air, soil and rivers.

19. **Accelerating the clean energy transition is a long-term endeavor that needs to be equitable and just**. Renewable energy sources, except for hydro, account for a small share of Serbia's electricity generation. Improvement in energy efficiency is also a key objective. Serbia's per capita energy consumption is among the highest in Europe, driven by low-cost lignite and low energy prices, which provide disincentives for energy savings. In addition, Serbia would do well to pursue a mining transition away from coal to such minerals as lithium and copper that are critical for clean energy value chains and potential new vectors of job creation, innovation and FDI. This transition, while key for EU accession, needs to be socially just and inclusive and requires the strengthening of institutions across levels of government and robust stakeholder engagement.

20. **Fostering stronger human capital and inclusion represent important additional challenges**. Despite high education attainments and almost universal coverage of basic health services, a child born in Serbia today can expect to reach only two thirds of the productivity levels she would have enjoyed if given access to full quality education and health.[6] An ageing population, weak learning outcomes and comparatively high mortality rates from non-communicable diseases call for a rethink of policies. Social assistance spending dropped, and its composition shifted away from means-tested programs. Today's spending on poverty targeted programs stands at less than one third of the average EU level. To improve living standards, Serbia needs to adjust human development services and improve equality of opportunities, notably for minorities and women.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

3.1 Government Program and Medium-Term Strategy

21. **The GoS articulated its program in the comprehensive Serbia Action Plan[7], which places renewed emphasis on fiscal and environmental sustainability.** The government elected in 2020 emphasized the importance of key policy areas including economic strengthening and entrepreneurship, efficient and responsible public institutions, environmental protection and green transformation, and human capacity building. Successive fiscal strategies since 2015 have established prudent management of public finances and resulted in robust fiscal buffers which allowed Serbia to respond adequately to the impacts of the COVID-19 pandemic. Recent policy developments, moreover, reflect Serbia's growing commitment to the green agenda and the transition to a low-carbon economy (Box 2).

[5] Serbia's GDP carbon intensity (0.38kg CO_2 per 2015 US$ PPP) is three times higher than the EU (0.15kg CO_2 per 2015 US$ PPP).
[6] Serbia's human capital index (HCI) was 0.76 in 2021, above the average in countries that are in the same income group.
[7] Action Plan for the Implementation of the Government`s Program for the Period 2020-2022 is an operational document with priorities and objectives to be achieved during the Government`s mandate. https://rsjp.gov.rs/en/news/action-plan-for-the-implementation-of-the-governments-program-for-the-period-2020-2022-adopted/. A new Government, following the presidential and parliamentary elections of April 3, 2022, should be in place by the summer of 2022.

Box 2. Serbia's Ambitious Green Agenda

Serbia has made ambitious climate change mitigation commitments. Serbia is a signatory to the Sofia Declaration on the Green Agenda for the Western Balkans. It signed the Paris Agreement on Climate Change in 2016 and ratified it in 2017. Serbia made legally binding commitments to adopting core EU energy legislation (as part of "acquis communautaire") and committed to working towards the 2050 target of a carbon-neutral continent together with the EU, by improving energy efficiency and increasing the share of renewable energy, with gradual phase-out of coal-fired electricity and heat generation. A draft Low-Carbon Development Strategy was prepared in 2020, setting an ambitious target to reduce greenhouse gas (GHG) emissions in 2030 by 33.3 percent compared to 1990 level (or 13.2 percent compared to 2010 level).

Serbia is developing a legal and regulatory framework for environmental sustainability. Several important laws and programs were approved, including the Sustainable Urban Development Strategy (June 2019, Action Plan adopted in April 2021), the Roadmap for the Circular Economy of Serbia (April 2020), the Law on Climate Change (March 2021) and the Nature Protection Program 2021-23 (May 2021). Moreover, work is ongoing to update the Nationally Determined Contribution to the Paris Agreement. The drafting of a National Energy and Climate Plan and a National Air Protection Plan is underway. This set of policies and programs aim to provide the legal and regulatory basis for switching to a greener, less carbon-intensive economy. Serbia raised €1 billion in its first green bond auction on September 17, 2021.

There is a strong commitment to improve energy efficiency. Serbia is making the energy transition citizen-centric by promoting rooftop solar panels, residential energy efficiency and sustainable heating. Replacing inefficient firewood and coal boilers will help reduce air pollution. Energy efficiency improvements will reduce domestic energy demand and rooftop solar plants will contribute to the diversification of the Serbian energy mix. The phase-out of coal-fired electricity and heat generation is under consideration and no firm timelines have been announced. However, commitment exists to the gradual phase-out of coal and the development of alternative mining products. Going green can boost jobs, innovation and competitiveness, through the development of value chains that can stimulate technological upgrades in SMEs.

22. **EU accession remains an important overarching goal**. Since 2014, Serbia has opened eighteen of the Acquis Communautaire's thirty-five chapters, two of which are provisionally closed.[8] The strength of EU accession as a driver of reform lost some intensity since 2015, mainly due to governance concerns and continuing weaknesses in the institutional and regulatory environment that prevent the deepening of important structural reforms. However, In October 2021, the EC announced that Serbia fulfilled key benchmarks for opening clusters three and four focusing on competitiveness and growth, and green agenda and sustainable connectivity. Increasing regulatory alignment with the EU remain key, notably in the context of the green transition considering the potential upcoming implementation of the Carbon Border Adjustment Mechanism (CBAM).

3.2 Proposed WBG Country Partnership Framework

3.2.1 Consultations on the FY22-26 CPF

23. **The consultative meetings on the CPF FY22-26 discussed the country's development strengths and challenges and identify priorities for WBG engagement**. The World Bank, IFC and MIGA representatives briefed participants on the structure of the proposed CPF in a series of online sessions. Feedback received complemented the findings of the 2020 Serbia Country Opinion Survey. Stakeholders in the consultations included public policy think tanks, donors and partners, energy and

[8] See: https://ec.europa.eu/neighbourhood-enlargement/countries/detailed-country-information/serbia_en.

environmental groups, health worker associations, trade unions, members of academia, and parliamentarians. Participants agreed that a robust recovery from the impacts of COVID-19 would require the consolidation and completion of lagging reforms, 'building back better', transitioning to a low-carbon and climate resilient economy and boosting human capital accumulation.

24. **Feedback of the consultation indicated that the WBG is focusing on the right priorities, within its mandate**. Besides the judiciary, WBG engagement was most valued in developing infrastructure, advancing the quality of education, promoting better environmental protection, improving health outcomes, help reform SOEs, supporting a more conducive business environment, strengthening pension and social protection and fostering innovation. Participants also highlighted several priorities going forward, notably: (i) aligning climate action activities with the EU's Green Agenda; (ii) building human capital and skills for the digital economy; (iii) improving transparency in government policy and actions, including greater clarity on property rights and urban/spatial planning; and (vi) defining better public private partnerships and promoting greater competition in service provision by the private sector. Several of these themes are picked up by this CPF.

3.2.2 Selected Lessons from the Completion and Learning Review (CLR)

25. **Broadly shared CPF objectives nurtured the building of partnerships with development partners (DPs), which supported key reforms and catalyzed financing.** Collaboration with the IMF was critical in helping push through reforms in sensitive areas, such as SOEs. The preparation and delivery of the Corridor X Highway operation–the largest project in the Bank portfolio in Serbia (now closed), co-financed with EIB and EBRD–was built around a clear understanding by all parties concerned of its strategic importance and withstood the challenge of severe floods. Analytical work enriched the wider transport sector development agenda contributing to mainstreaming climate resilience in road transport management, disclosing road accident data and publishing online the open database under GIS environment. *Going forward, this CPF will continue to anchor WBG engagement in clear objectives shared across DPs, such as the emerging green agenda*.

26. **Past WB support has been instrumental to achieving fiscal consolidation and macroeconomic stability, which allowed Serbia to enter the COVID era with substantial fiscal buffers.** This success underpinned further fiscal and debt consolidation, supported by Development Policy Lending (DPL), which resulted in a stable macroeconomic framework. Serbia turned previously large fiscal deficits into surpluses averaging 0.9 percent of GDP during 2017–2018. Public debt stabilized and declined to 52.8 percent of GDP at the end of 2019, down from the peak level of 71.2 percent of GDP in 2015. *Going forward, this CPF will take the partnership on the macroeconomic dialogue a step forward by supporting GoS efforts to align climate ambitions to the fiscal framework.*

27. **An adequate mix of WB instruments was critical to underpin reform efforts and achieve institutional transformation.** The previous CPF included DPLs, traditional investment loans, and several results-based financing operations in the form of investment loans and PforRs, as well as two RAS projects. The challenges encountered in the implementation of new and innovative operational approaches (including the first PforR in the ECA region at that time) point to the need to identify effective implementation mechanisms in the preparation phase of projects and ensure that the design of projects is uncomplicated. *The WB will remain flexible throughout this CPF cycle and will adjust its program and instruments to emerging priorities that recognize the country's development*

challenges and institutional capacity constraints.

28. **Effective coordination among the WBG institutions (World Bank, IFC and MIGA) has been a powerful driver of strong results**. In the electricity sector, the World Bank focused on the financial performance and the institutional quality of the Electric Company of Serbia (EPS). IFC's advisory and investment activities in renewable energy and energy efficiency had already contributed to greening Serbia's energy mix, reducing its over-dependence on highly polluting, outdated thermal plants and curbing its vulnerability to climate change. MIGA guarantees and IFC financing underpinned the Waste-to-Energy PPP Project in Belgrade, a sustainable waste-management complex aiming to help reduce pollution and mitigate climate change. *Going forward, under both HLOs, this CPF will continue to promote synergies across the WBG.*

29. **The main challenges included the slow implementation pace of transformational agendas and cumbersome procurement processes.** The sustainability and competitiveness of SOEs in the rail and road transport and energy sectors was strengthened, by rightsizing the companies, improving their financial resilience and refocusing operational priorities. But the timetable for the completion of these transformational agendas was overambitious and some of the reforms are still ongoing. In addition, while fiduciary aspects were mostly satisfactory, procurement processes for high-value contracts in health and IT took a long time and attracted complaints. There were also some irregularities that resulted in two cases of mis-procurement. *Going forward, this CPF will help the government to complete pending reforms, including enhancing corporate governance of SOEs and transforming EPS–the largest SOE and employer in the country–into a joint stock company,* and *support systematic market analyses for key procurement packages (see Annex 3).*

3.3 Overview of WBG Partnership Framework

30. **In light of Serbia's move above the GDI, this CPF builds on the institutional focus of the previous CPF where institutional strengthening needs to be consolidated or extended while moving into new areas.** Under the HLOs outlined in Table 2, this CPF continues to focus on the need to maintain hard-won macroeconomic stability and reforming the public sector (Objective 1.1); fostering the business environment, competitive markets and regional connectivity and integration (Objective 1.3); improving institutional capacity to implement and monitor reforms (Objective 2.1); and strengthening human development (Objective 2.2). At the same time, this CPF steps up the focus on the implementation of cross-cutting institutional strengthening and policy reforms for greener and more resilient growth both at the budgetary and fiscal levels (Objective 1.1); and through sectoral investments that are green and clean (Objective 1.2).[9] Similarly, it supports more directly efforts to build institutional capacities for delivering services at the LSG level (Objective 2.1). The HLOs are fully aligned with the Green, Resilient, Inclusive Development (GRID) framework and the Sustainable Development Goals (SDGs).

[9] The previous CPF supported significant policies and activities on climate change adaptation (in particular on DRM). This CPF continues its support to adaptation (e.g., Sava-Drina Corridors Integrated Development MPA) but expands considerably the range of activities and program on the climate change mitigation front (e.g., energy efficiency, coal phase-out).

Table 2. FY22-26 CPF: Higher-Level Outcomes

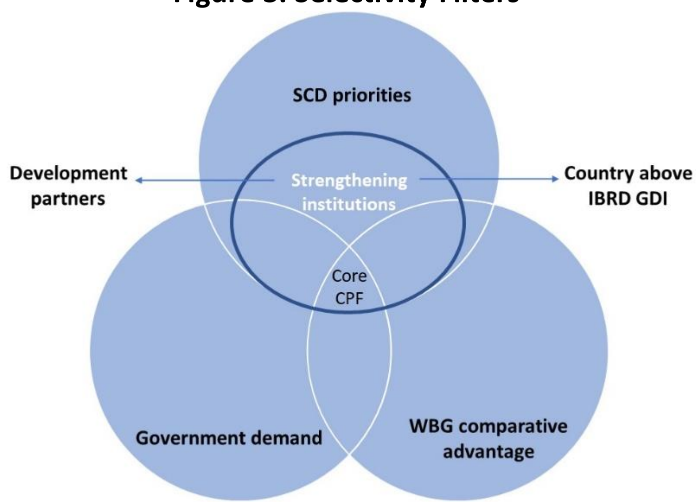
Higher Level Outcomes		
	HLO-1: Growth that is greener and more resilient {GRID: Green, Resilient}	**HLO-2: More inclusive service delivery {GRID: Inclusive}**
Indicators	• *Fiscal sustainability (debt to GDP ratio)* • *Decreasing CO_2 intensity* • *Increase in the share of power produced from renewables*	• *PISA scores (bottom 40%)* • *Survival to age 65, male and female (% of cohort)* • *Government effectiveness, accountability, efficiency*
CPF Objectives		
	Objective 1.1: Stronger macro-fiscal framework and structural reforms for greener growth	***Objective 2.1: Strengthened public finance management at central and local levels***
Indicators	• *Inclusion and use of green criteria in PIM* • *Implementation of the SOE ownership strategy* • *Number of corporate bond issuances by first-time issuers/majority women-owned firms*	• *Performance-based budgets linked to strategic documents* • *Selection of LSG investment projects in line with strategic/planning documents, with positive economic and social returns* • *Enhanced fiscal transparency (national and local levels)*
	Objective 1.2: Greener investments and (just) transition to a low-carbon and resilient economy	***Objective 2.2: Better access to quality health and education services for the disadvantaged***
Indicators	• *Average annual concentration level of $PM_{2.5}$* • *Energy savings from additional investment in energy efficiency in residential buildings* • *Use of sustainable agricultural practices* • *Mechanisms for labor redeployment and social protection available to workers affected by coal mine closing (Resavica)* • *Introduction of carbon pricing*	• *Percentage of women with access to preventive services/screening (with regional breakdown)* • *Access to pre-school education/kindergartens by bottom 40%* • *Access to local transportation services (in the poorest [half] of municipalities, with a gender breakdown)*
	Objective 1.3: Improved business environment and regional integration	
Indicators	• *Expenditure on R&D (% of GDP–overall and business enterprises)* • *Productivity increased in two major sectors (food and machinery)* • *Value of export to CEFTA countries*	
Alignment with SDGs	• *SDG 8 (Decent Work and Economic Growth), SDG 13 (Climate Action), SDG 6 (Clean Water and Sanitation), SDG 7(Affordable and Clean Energy), SDG 9 (Industry, Innovation, Infrastructure)*	• *SDG3 (Good Health and Well-being), SDG4 (Quality Education), SDG5 (Gender Equality), SDG10 (Reducing Inequality), SDG11 (Sustainable Cities and Communities), SDG16 (Peace, Justice, Strong Institutions)*
Alignment with SCD	• *Environmental sustainability; Climate resilience and low-carbon transition; Business environment, connectivity*	• *Government accountability; Spatial inequalities (LSGs); Skills and Human Capital; Labor market barriers/work disincentives;*
Alignment with GoS	• *Environmental protection and green transformation; Economic Strengthening; Integration into regional/global markets*	• *Efficient public administration; Human capital; Livelihoods and jobs*

3.3.1 Approach to Selectivity and Knowledge Gaps

31. **This CPF supports a selective WBG engagement with the aim of exerting a greater impact on sectoral and country outcomes.** The intersection of the government's actual and potential demand, the priorities identified in the SCD and the WBG comparative advantage determines the objectives and priorities identified in this CPF (Figure 3). This CPF also addresses the emerging priorities stemming from the impact of the global pandemic and the need for building back better, with greater emphasis on greener and more resilient growth. For a country above the GDI, this CPF will support GoS to address institutional shortcomings for faster economic and social development. Serbia continues to lag comparator countries in the CEE and the Baltics with respect to government effectiveness, governance indicators, levels of poverty and human development outcomes.

32. **Leveraging partnerships and the expected contribution to corporate priorities are additional selectivity criteria used to guide this CPF**. Given limited IBRD financing, WBG will favor programming with multiplier effects achievable through parallel and co-financing arrangements with other development partners to catalyze resources and scale for impact (e.g., Green Transition Programmatic Development Policy Operations, with the Agence Française de Développement (AFD) AFD and KfW Development Bank; and Local Infrastructure and Institutional Development Project, with AFD). A further filter is that lending and non-lending activities will be expected to contribute to at least one of the following corporate priorities: (i) benefit the poor and promote inclusion of marginalized populations; (ii) facilitate private sector investment; and (iii) build resilience to shocks and mitigate the effects of climate change, contributing to the public good agenda.

Figure 3. Selectivity Filters



33. **This CPF will further strengthen the knowledge base and address some of the remaining knowledge gaps.** Several knowledge gaps were filled in recent years, as articulated in the 2020 SCD Update. Others, such as drivers of rising out-of-pocket payments in health, were recently addressed in the Human Capital Review. Ongoing ASA will shed light on the remaining constraints in the business environment, notably on sector-specific licenses and permits, spatial/land-management and property. Ongoing work on taxation will contribute to clarifying reform options to address labor tax and improve the progressivity of fiscal policy. Planned ASA will also shed light on carbon pricing and the macro-sectoral impact of the CBAM. Knowledge gaps remain, most notably on the patterns and drivers of migration and mobility, partly due to a lack of data (no recent census).

3.3.2 One World Bank Group

34. **Effectively supporting Serbia's ambitious development agenda requires a One WBG Approach**. Engaging upstream through IBRD ASA and IFC advisory will help GoS put in place the appropriate sectoral policies and regulatory frameworks in critical sectors such as mining, energy, finance, and agriculture. IBRD and IFC will collaborate to foster a better business environment, including process simplification and digitalization, capital markets development, PPP regulations and practices, firm competitiveness and integration in global value chains; and to provide long-term development finance. MIGA will continue to explore opportunities to use political risk insurance guarantees in promoting cross-border investments in critical and emerging sectors. These efforts will aim to contribute to crowding in foreign private finance over the CPF cycle.

35. **IFC advisory and lending engagements aim to address Serbia's key development needs in three areas.** First, efforts will be made to spur private sector competitiveness through attracting FDI in higher value-added manufacturing, digitalization, value chain development, agri-finance, and capital market development. Second, the connectivity agenda will include trade facilitation, transport, and logistics. Third, climate work will focus on renewable energy/energy efficiency, waste-to-energy, climate-linked finance, improved environment, social and governance (ESG) standards and practices, and lithium/battery chains. These activities are fully synergetic with ongoing and pipeline World Bank projects.

36. **MIGA, in close collaboration with IBRD and IFC, will continue to support foreign private investors and cross-border commercial lenders in Serbia**. Particular attention will be paid to projects that promote Serbia's green and inclusive development agenda, including in renewable energy and sustainable infrastructure. MIGA will aim to mobilize the foreign private sector through its political risk insurance and credit enhancement products.

3.3.3 Higher Level Outcomes and Objectives Supported by the WBG Program

HLO-1: Growth that is Greener and More Resilient

Objective 1.1: Stronger macro-fiscal framework and structural reforms for greener growth

Key Issues	IBRD Lending (Ongoing and Pipeline)
• Low levels of economic growth prior to COVID-19 • Underdeveloped, shallow capital markets • High carbon intensity of the economy • Weak monitoring of green investments and budgetary spending	Public Sector Efficiency and Recovery DPL (O)
	Tax Administration Modernization Project (O)
	Green Transition Programmatic DPL Series (P)
	Capital Markets Development Project (P)
	MIGA Guarantees
	Capital optimization, Raiffeisen Banka a.d.
	Capital optimization, ProCredit
	Capital optimization, NLB Banka a.d., Beograd
	Capital optimization, Komercijalna Banka a.d., Beograd
	Guarantees in support of Erste Bank a.d.
	Key ASA and TA
	Strengthening Policies and Institutions for Green Transition (O)
	Strengthening Capacity for Fiscal Risk Monitoring and Management (O)
	Green Finance Diagnostic (O)
	Enhancing Public Investment Management Reforms (O)
	Western Balkans Poverty & Equity Program FY22-FY23 (O)
	Sustainable Long-Term Finance Facility (O)

37. **Serbia achieved macroeconomic stability and built buffers, which allowed for a robust response to COVID-19, but growth needs to become faster, greener and more resilient**. Under the previous CPF, a fiscal consolidation process turned deficits into surpluses as of 2017, while the foundations were laid for greener growth. The WBG supported this agenda with the Public Sector Efficiency and Green Recovery DPL, aiming to make Serbia more resilient to natural hazards and climate change. In the three years prior to the pandemic, however, economic growth was relatively low, averaging around 3.6 percent. In addition, the economy has continued to be highly carbon intensive. This CPF continues to support the fundamentals of growth and hard-won macroeconomic stability, with renewed emphasis on growth that is environmentally sustainable across generations.

38. **Environmentally sustainable, low-carbon, climate-resilient growth is becoming an essential part of Serbia's future prosperity path**. The Budget for 2021 set aside close to EUR 2.2 billion for energy efficiency, sustainable heating, district heating rehabilitation, mining, sewer network construction, wastewater treatment, and solid waste management. Pursuing clean and green developments across sectors can improve Serbia's regional and global competitiveness, upskill its workforce and boost living standards. Lack of action addressing climate change, conversely, could lead to a loss of competitiveness and trade, considering the expected implementation of the EU's CBAM in the near future and the increasing frequency of adverse weather events.

39. **The upcoming Green Transition Programmatic DPL Series (FY23-24) tackles important new areas for the green economy**. This first operation, under its Pillar 1, aims to better align public financial and fiscal management with the climate-change agenda. It supports the adoption of a methodology for tagging green budgetary expenditures; improvement of the fiscal risk management system and dedicated reporting on climate change related risks; and the introduction of additional climate-related criteria for the evaluation and prioritization of public investment projects. The overarching aim of the DPL series, which builds on the results achieved under the said Public Sector Efficiency and Green Recovery DPL, is to make Serbia more resilient to the negative impacts of climate change, strengthen environmental sustainability, and modernize its energy sector.

40. **Deepening and broadening capital markets can contribute to a stronger (and greener) financial sector.** Serbia's pension and mutual funds are small, and its capital markets and institutional investor base are underdeveloped. Commercial banks provide the bulk of low risk, short-term private sector financing, leaving domestic firms with limited options. Corporate markets suffer from both demand and supply challenges, a lack of companies willing to issue securities, and a shallow investor base resulting in a nearly non-existent corporate bond market. In response, the authorities drafted a comprehensive Capital Markets Development Strategy, which will be supported by the upcoming Capital Markets Development Project (FY23), in synergy with IFC, EBRD and the IMF. This project also supports climate-financing and capital market activities by women-led/managed firms.

41. **IFC will continue to support private sector developments throughout this CPF.** An ongoing program across the ECA region, funded by the Swiss State Secretariat for Economic Affairs (SECO), promotes the adoption of better environmental, social and governance (ESG) practices. In Serbia, the program will build capacity of local intermediaries to provide ESG training and enhance reporting practices in the financial sector. Specific activities include helping the Association of Serbian Banks to introduce sustainable finance guidelines and developing a training program on ESG integration for the financial sector; and supporting the Belgrade Stock Exchange to deliver climate disclosure

training, in collaboration with the UN Sustainable Stock Exchange initiative. These activities are coordinated with those to be supported by the mentioned Capital Markets Development Project, and the implementation of a new IFC/IBRD Joint Capital Market Program (JCAP) initiative for Serbia.

42. **MIGA guarantees are expected to contribute to improved access to finance for SMEs and in the climate finance space.** MIGA has provided its capital optimization product to three international banks operating in Serbia (NLB, ProCredit and RBI), against the risk of expropriation of mandatory reserves. The product reduces the regulatory risk-weighting applied to mandatory reserves at the consolidated level, freeing up capital for new lending. In the case of Procredit and RBI the freed-up capital is targeted at increasing climate finance activities. These operations were underwritten as part of MIGA's COVID-19 Response Program, aiming to mitigate the adverse impacts of the pandemic on private sector credit. Going forward, MIGA will work to deploy its capital optimization guarantees and political risk insurance products in support of further deepening of credit markets and green finance.

43. **ASA will continue to provide knowledge to underpin the shift to greener and more resilient growth.** The ongoing *Strengthening Policies and Institutions for Green Transition* identifies reforms to strengthen environmental protection institutions and policies on environmental taxation. The regional ASA on *Green Finance Diagnostics* informs policies to promote the green growth agenda, including the alignment of green finance with the EU Green Deal. The *Western Balkans Poverty and Equity* Program supports efforts to minimize negative distributional impacts of changes in the patterns of growth, building on behavioral economics. A comprehensive TA program supports GoS in several areas, including budget tagging, fiscal risk and public investment management.

Objective 1.2: Greener investments and (just) transition to a low-carbon and resilient economy

Key Issues	**IBRD Lending (Ongoing and Pipeline)**
• High levels of air pollution in Serbian cities • Poor solid waste management practice and low recycling rates • Continuing high dependency on fossil fuels • Complex transition to a just coal phase-out	Public Sector Efficiency and Green Recovery DPL (O)
	Enhancing Infrastructure Efficiency and Sustainability (O)
	Serbia Competitive Agricultural Project (O)
	Sava/Drina River Corridors Integrated Development MPA (O)
	Scaling Up Residential Clean Energy Project (O)
	Managing a Mining Sector Transition for Future Development (P)
	Green Transition Programmatic DPL Series (P)
	IFC IS and AS engagements
	Regional Green Growth Fund II (O, Investment Services)
	Windpark Cibuk/Dolovo (O, Investment Services)
	K-Wind Windfarm (O, Investment Services)
	IVICOM Wind Farm Project (O, Investment Services)
	Belgrade Waste-to-Energy SPV (O, Investment Services)
	E-Mobility Advisory (P, Advisory Services)
	Energy Efficiency/Green Building (P, Advisory Services)
	MIGA Guarantees
	Belgrade Waste-to-Energy, Beo Cista Energija d.o.o. Beograd
	Morava highway (Koridori Srbije Ltd.)
	Key ASA and TA
	Green Growth Reforms in Serbia (O)
	Priorities for Climate Ready Cities in Selected Western Balkan Countries (O)
	Green, Livable, and Resilient Cities in Serbia (O, TA)
	Facilitating Just Transition (O, TA*)*

44. **Residential heating is a major source of air pollution in Serbian cities, accounting for more than 50 percent of fine particulate matter ($PM_{2.5}$) emissions in winter months**. GoS has put in place programs to tackle climate change mitigation and scale up the adoption of sustainable heating solutions and distributed renewable energy in residential buildings, but these programs are small and fragmented. The Scaling Up Residential Clean Energy (FY22) builds on the ongoing Enhancing Infrastructure Efficiency and Sustainability Program in support of improvements in energy efficiency and safety by expanding the availability and affordability of energy efficiency and sustainable heating for households. It will provide financing investments in energy efficiency, sustainable heating, and rooftop solar in residential buildings, with a focus on inclusivity (e.g., lower-income households in single-family houses). The above-mentioned Green Transition Programmatic DPL series (FY23-24), under its Pillars 2, also supports the readiness of the power sector for the clean energy transition.

45. **Dealing with air pollution and poor waste management practices requires promoting green and clean development across sectors.** The ongoing Public Sector Efficiency and Green Recovery DPL supported better regulation of sulfur content in fuel and the reduction of pollutant emission from large old combustion plants. Waste management is also a challenge: most of Serbia's large cities discharge wastewaters directly into rivers; and there is no systematic collection, sorting and recycling of municipal waste with most of it being disposed of in landfills without pre-treatment. The upcoming Green Transition DPL series (FY23-24), under its Pillar 3, support a host of new policies including secondary legislation on the Monitoring Reporting and Verification of greenhouse gas (GHG) emissions, the adoption of a National Air Protection Program and of amendment to the Law on Waste Management along with a National Waste Management Program and related Action Plan.

46. **Serbia is heavily depended on lignite and can make a stronger commitment to the gradual phase-out of coal, which needs to be just and avoid exacerbating inequities**. Addressing unresolved legacy coal operations–starting with the loss-making Resavica mines, a significant burden for the budget–could become a 'proof of concept' to be scaled up to cover larger lignite mines. In the longer term, it would be desirable to prepare for a full transformation of the coal sector, leading to the removal of coal from the energy mix while taking advantage of Serbia's mineral reserves and the mining industry's experience to become a supplier of minerals essential for the low-carbon global economy (e.g., copper, lithium). The upcoming Managing a Mining Sector Transition for Future Development Project (FY23) will support this agenda with a marked focus on inclusivity. The Just Transition for All will underpin the gradual phasing out of fossil fuel production and include support mechanisms for local communities and the broader economic transformation of coal mining regions.

47. **With increasingly frequent droughts, wildfires and floods, Serbia will also need to become more resilient by addressing key vulnerabilities in agriculture, forestry and water.[10]** The previous CPF supported a host of activities on disaster risk management (DRM) and adaptation, including the National DRM Action Plan and National Flood Risk Management Plan. This CPF supports investments that increase resilience while reducing negative impacts on the environment and biodiversity, including green and hybrid infrastructure, climate-smart agriculture and nature-based solutions that conserve and unlock ecosystem services. The ongoing Serbian Competitive Agriculture Project promotes sustainable agricultural production (See Objective 1.3). The ongoing regional Sava-Drina River Corridors Integrated Development Program supports improving flood protection and enhancing transboundary water cooperation in the Sava and Drina corridors (See Objective 1.3).

[10] The floods of 2014 pushed 125,000 people into poverty and caused damages and losses equivalent to 4.8 percent of then GDP.

48. **IFC and MIGA will continue to facilitate private sector participation in infrastructure for better environmental sustainability and carbon neutrality.** IFC advised the City of Belgrade on its Waste-to-Energy Project, where IFC and MIGA provided €259.57 million in financing and guarantees, respectively. It helped mobilize finance for strategic private sector participation in Serbia in the wind power plants of Dolovo and Alibunar. Moving forward, IFC will leverage its previous experience and lessons learned to help ensure the success of Serbia's next rounds of renewable energy auctions, spurring private sector participation in the development of green energy infrastructure.

49. **IFC will also support complementary transaction advisory services and investments to facilitate private sector participation in the green development of environmental and social infrastructure.** Interventions will identify new opportunities for PPPs, at the national or municipal level, in waste management, waste-to-energy, and waste-water treatment. IFC upstream and investment activities in the municipal infrastructure space will aim to support urban infrastructure and services, including affordable housing, clean water and sanitation, as well as transport. IFC will also seek to support the implementation of e-mobility solutions at the national or sub-national level through the provision of financing packages aimed at promoting higher levels of sustainable consumption, through the acquisition of flexible-fuel, electric, or hybrid vehicles for urban transport.

50. **In October 2019, MIGA issued guarantees in the Waste-to-Energy project in Belgrade, in collaboration with the IFC**. The project involves the construction and operation of a new waste management facility in the city of Belgrade with electricity and heat generation components. Expected benefits from the project include: (i) closure of existing landfill, which has been reported to have hazardous environmental impacts; (ii) improved processing of municipal waste; and (iii) reduction of greenhouse gas emissions. MIGA guarantees have been issued for a tenor of 20 years, against the risk of transfer restrictions and inconvertibility, expropriation, breach of contract and war and civil disturbance.

51. **In March 2022, MIGA issued its first non-honoring of a sovereign financial obligation guarantee in Serbia in support of commercial financing for the Morava highway project.** The Project consists of a greenfield 112 km dual-carriageway tolled motorway with telecom infrastructure and flood prevention systems along the West Morava river, 200 km south of Belgrade. The Project is expected to improve road quality by reducing travel time and ensuring higher safety standards while also strengthening the resilience of the road network to climate change, especially flood-related risks.

52. **The ASA under this objective will underpin greener investments and a just transition to a low-carbon economy.** The *Green Growth Reforms in Serbia* will advise on policy reforms for a greener growth path. The ASA on *Priorities for Climate Ready Cities in Selected Western Balkan Countries* will develop an operational framework to prioritize green investments in selected cities. TA on Green, *Livable, and Resilient Cities in Serbia* will strengthen the capacity for more sustainable and inclusive urban development and support a deep dive on solid waste management in selected LSGs (see Objective 2.1). On mining, the *Serbia Facilitating Just Transition* will support GoS to design policy options for mitigating social and labor impacts and environmental reclamation of lands associated with the planned closure of Resavica underground hard-coal mines. In parallel, work is also being conducted on *Inclusive, Responsive Coal Transition in Serbia*, under the Climate Support Facility, to enhance the capacity of LSGs to plan and implement long-term strategies to shift away from coal mining and towards more stable, sustainable pathways for economic development.

Objective 1.3: Improved business environment and regional integration

Key Issues	IBRD Lending (Ongoing and Pipeline)
• Low levels of domestic investment mobilization • Underdeveloped agricultural value chains and competitiveness • High costs of conducting cross-border trade • Low level of market integration at the regional level	Accelerating Innovation and Growth Entrepreneurship (O)
	Real Estate Management Project (O)
	Serbia Competitive Agricultural Project (O)
	Serbia Railway Sector Modernization MPA (O, Phase 2 FY23)
	Western Balkans Trade and Transport Facilitation MPA (O)
	Sava/Drina River Corridors Integrated Development MPA (O)
	Second Competitiveness and Jobs (P, FY23)
	IFC IS and AS engagements
	IFC MSME lending
	Private Equity Funds focused on the innovation agenda
	Integrated ESG Standards Program (O, ESG Advisory)
	Advisory Services on Debt Resolution (O)
	W. Balkans Regional Investment Policy and Promotion AS (O)
	Western-Balkans Manufacturing Value Chains Project (O)
	Serbia Investment Climate/Digitalization
	Key ASA and TA
	Improving Business Environment (O)
	Advancing Innovation and Entrepreneurship (O)
	Digitalization for Business Environment (P)

53. **There is further scope for improving productivity and boosting competitiveness of the economy, to strengthen the fundamental drivers of growth (see also Objective 1.1)**. While Serbia has been successful in attracting FDI, domestic investment has stagnated. This CPF will support activities to spur the development of SMEs**,** focusing both on startups and established firms, improve investment promotion and policies, strengthen the regulatory and business environment, and promote research and innovation. The ongoing Serbia Accelerating Innovation and Growth Entrepreneurship Project (SAIGE) seeks to incentivize research reforms and innovative entrepreneurship. A planned successor to the Competitiveness and Jobs Project (FY23) could support policies to further enhance firm capabilities and facilitate SME integration into regional and global value chains, as well as measures to support better functioning labor markets (See Objective 2.2).

54. **As part of improving the business environment, efforts have been taken to improve the market for real estate**. Progress has been made on several fronts including the establishment of a Real Estate Cadastre. A well-functioning real estate market is important to supporting the development of SMEs, which use real estate as collateral, while the availability of real estate information considerably reduces transaction costs. The ongoing Real Estate Management Project supports an upgrade of Serbia’s real estate property management systems through: (i) improving valuation and property taxation; (ii) strengthening e-governance for enabling access to real estate information; and (iii) facilitating the institutional development of the Republic Geodetic Authority.

55. **The agribusiness sector has an untapped potential to drive productivity growth and market development**. The Government of Serbia has sought to maximize benefits linked to agribusiness value chains through the exploitation of both backward and forward linkages. The ongoing Competitive Agriculture Project aims to: (i) identify and support companies along value chains, though upstream activities; (ii) enhance competitiveness in the sector by spurring development and modernizing retail; (iii) support processing, sector transformation and innovation; and (iv) enable

cross-border transactions and digital tools to reduce costs and boost flows. This project also pilots an operational framework for a gender-sensitive and market-driven greening of agriculture to accelerate the sustainability transition of local agri-food production (Annex 3).

56. **Connectivity and regional integration can further boost competition, market development, and jobs**. The regional Western Balkans Trade and Transport Facilitation Program, Phase 1 of an MPA focusing on Albania, North Macedonia and Serbia, seeks to reduce the time it takes to trade across borders. The Sava-Drina Rivers Corridors Integrated Development Program MPA focuses on enhancing transboundary water cooperation in the Sava and Drina Rivers Corridors, improved navigation and boosting inter-modal port facilities along the Sava. The Railways Modernization Program MPA supports the upgrading of the institutional framework for the railway's modernization and will focus on both infrastructure improvements and commercial orientation of the rail companies. The Local Infrastructure and Institutional Development (LIID) Project (FY22, See Objective 2.1) will support highly selective green investments on local roads to enhance connectivity in lagging regions within Serbia.[11]

57. **IFC intends to contribute to developing competitive markets in Serbia.** It will do so through investment, advisory, and upstream activities in support of business competitiveness and access to diversified sources of financing for firms. Various portfolio and pipeline investments in the private equity and venture capital spaces will support Serbia's competitiveness and innovation agenda. IFC's Western-Balkans Manufacturing Value Chains Project supports the connection of Serbian companies with global and regional value chains. IFC will seek to make signaling investments in flagship agribusiness, manufacturing, and digital connectivity projects, as well as mining-related projects in connection with the possible development of lithium value-chain.

58. **The ASA under this objective support activities geared at improving the business environment and fostering competitiveness and market development.** The *Improving Business Environment* ASA supports simplification and greater predictability of the business environment. It will tackle the simplification and elimination of administrative procedures, support targeted TA to improve aspects of the business environment, and facilitate mechanisms to better plan and coordinate business environment reforms. Related TA on *Digitalization for Business Environment* will support digitalization of select government to business services. The SAIGE project is accompanied by TA activities funded by EU resources focusing on firm-level innovation and reforms in research.

HLO-2: More Inclusive Service Delivery

Objective 2.1: Strengthened public finance management at the central and local levels

Key Issues	IBRD Lending (Ongoing and Pipeline)
• Unfinished agenda in the reform of key SOEs • Inefficient public service delivery, notably at the local level • Remaining stark spatial	State-Owned Financial Institution Strengthening Project (O)
	Tax Administration Modernization Project (O)
	Public Sector Efficiency and Green Recovery DPL (O)
	Enabling Digital Governance Project (O)
	Serbia Local Infrastructure and Institutional Development (O)
	IFC IS and AS engagements

[11] Decarbonizing the transport sector will require reinvigorating rail and inland waterway services. More than 95% of inland freight in Serbia goes by road, while the shares of freight carried by rail and inland waterways has halved over the last decade. Rail passenger numbers have declined by 70 percent since 2000.

inequalities • Weak links between budgeting and (green) investment	Integrated ESG Standards Program (O, ESG Advisory)
	IFC AS on Investment Climate/Digitalization (O)
	Advisory Services on Digitalization (O)
	Belgrade Airport SPV (O, Investment Services)
	Key ASA and TA
	Support to Enhancing the Quality of Tax System (O)
	Transparency, Integrity, and Governance for Economic Results (O)
	Enhancing Public Investment Management Reforms (O)
	Green, Livable, and Resilient Cities in Serbia (O)
	Multi-Donor Trust Fund for Justice Sector Support (O)
	E-Mobility Pathways for Belgrade (O)

59. **Inclusive service delivery in Serbia requires deepening PFM reforms and strengthening the capacity of LSG**.[12] Accelerating the implementation of the PFM Reform Program 2021-2025, informed by the 2020 PEFA assessment, can result in better medium-term planning and budgeting and stronger fiscal risk management and fiscal accountability. At the local level, LSGs have acquired new responsibilities for service delivery. However, smaller LSGs face capacity and resource constraints, while in large LSGs ensuring adequate resource allocation and prioritization remains a challenge. Budget controls, transparency, and accountability need to be enhanced, as the credibility of budgets is low. Poor governance and performance of local utility enterprises consumes substantial portions of LSG budgets resulting in perennial need for subsidies from the central government.

60. **Strengthening the budget requires action on both expenditure and revenue sides.** GoS Strategy of Ownership and Management of SOEs for 2021-2027 envisages reforms to improve the oversight and corporate governance of SOEs. The ongoing State-Owned Financial Institutions (SOFI) Strengthening Project supported improvements in the performance of SOFIs and banking sector resilience through the resolution of high levels of NPLs. IFC supports the review of governance practices of selected SOEs and the development of guidelines on disclosure and board appointments. On the revenue side, the ongoing Tax Administration Modernization Project (TAMP) aims to enhance the effectiveness of tax collection and reduce transaction costs for taxpayers by expanding the use of electronic services and improving the transparency of tax administration operations.

61. **A strengthened PIM framework and better transparency and accountability in procurement can underpin the ambitions to make investment greener and more resilient.** GoS has committed to increasing spending on environment-related activities, while creating budget contingencies for disaster-related emergencies. The upcoming Green Transition Programmatic DPL series (FY23-24) supports GoS efforts to improve the climate tagging of budgetary expenditures; introduce comprehensive, transparent and quantified assessment of climate-related fiscal risks; and shift towards a climate-smart PIM framework. GoS also committed to operationalizing the e-Procurement Portal–supported by the ongoing Public Sector Efficiency and Green Recovery DPL, including the adoption of the new Public Procurement Law–and the roll-out of green criteria in public procurement.

62. **Human resources matter too for better service delivery: public sector recruitment and managerial selection and retention, in particular, need to improve**. The ongoing Public Sector Efficiency and Green Recovery DPL supported improved recruitment mechanisms in the public sector.

[12] While Objective 1.1. focuses on PFM at the macro-budgetary level, with emphasis on green expenditure, the PMF focus under Objective 2.2 is about better service delivery, with emphasis on the local level.

In particular, the regulatory framework in place since early 2021 enables greater flexibility for strengthening public sector capacity through recruitment, but efforts aimed at developing a durable system will be needed over the coming years. Especially with regard to climate and environmental functions, a significant strengthening of capacity as well as of policy coordination is needed to bring institutional effectiveness to the required levels.

63. **Government effectiveness and coordination could be boosted by implementing digitalization across several policy areas and institutions**. The ongoing Enabling Digital Governance Project (EDGE) supports the transformation of the Serbian public sector. It provides resources and TA to lay the foundations for the digitalization of public service delivery (including standards, procedures and digital infrastructure) to citizens and businesses, to reduce administrative burdens and increase the quality and efficiency of services. Crucially, this project includes a component on strengthening the capacity of citizens and business to reap the benefits of digitalization, building on the progress achieved so far and captured by the World Bank's 2020 GovTech Maturity Index.

64. **The quality and inclusiveness of services at the local level crucially depend on strengthening the capacity of LSGs, including the ability to develop robust investment plans**. Through the LIID Project (FY22), the WBG will support improved service delivery in transport with a view to strengthening the capacity of LSGs to contribute to environmental sustainability and stimulate local business environments. This will be done, *inter alia*, through strengthening public financial management of LSGs, promoting improved local planning and prioritization approaches, greater citizen engagement and participation, and strengthening systems for implementation and operations. Activities will support addressing challenges in lagging (rural) regions, to boost inclusivity, through planning and implementation of local capital expenditures to ensure good absorption capacity and efficient use of funds.

65. **IFC's ongoing advisory program supports digitalization of services to reduce administrative burden on businesses and improve the country's business climate**. IFC will help simplify regulations for a number of different types of licenses and permits impacting business operations. The project has so far helped develop a one-stop-shop (e-permitting platform) which will eventually help issue e-permits for 100 procedures. The improved procedures and digitalization of services will enable significant cost-savings for businesses in Serbia as well as boosting efficiency in service delivery.

66. **Several ASA support the strengthening of PFM systems.** Ongoing ASA on tax administration; fiscal risk monitoring; and transparency, integrity and governance of economic results, will underpin investments in the governance and PFM areas. On the quality of public spending, the *Serbia Human Capital Review* offered important insights on how to improve spending in the social sectors (See Objective 2.2). The ongoing ASA on *Green, Livable, and Resilient Cities* is helping the Government operationalize the Serbia Sustainable Urban Development Strategy until 2030–which also includes the strengthening of capacities of selected LSGs to better plan, prepare, and implement green investments (see also Objective 1.2). The *E-mobility Pathways* work supports the transition to electric mobility in Belgrade, paving the way to for similar engagements in other LSGs.

Objective 2.2: Better access to quality health and education services for the disadvantaged

Key Issues	IBRD Lending (Ongoing and Pipeline)
• Low level and poor quality of	Inclusive Early Childhood Education and Care Project (O)
	Second Serbia Health Project and AF (O)

spending in the social sectors • High prevalence of non-communicable diseases • Stagnant productivity, skill mismatch in the labor market • Inflexible social protection systems	Emergency Covid -19 Response Project (O)
	Tertiary Education Project (P)
	Second Competitiveness and Jobs Project (P)
	Key ASA and TA
	Early Childhood Education and Care Impact Evaluation (O)
	Serbia Human Capital Review (O)
	Western Balkan Pension Policy ASA (O)
	Strengthening Ag Sector Capacity for Evidence-Based Policy (O)
	Estimating the Economic Cost of Exclusion Based on Sexual Orientation and Gender Identity (O)
	Understanding and Addressing Barriers to Access to Justice for LGBTI people in the Western Balkans (O)

67. **Serbia has seen steady progress in human development outcomes but still lags aspirational peers**. The Inclusive Early Childhood Education Project aims to expand access to early childhood education and reform teaching methods and curricula.[13] Coverage of health insurance and basic health care is nearly universal, and the primary health care system is well-developed, but the system needs to be modernized to address raising non-communicable diseases (NCDs). Social protection programs reach less than 12 percent of the poor and are not flexible enough to respond to shocks, as evidenced during the pandemic. The pension system faces coverage and sustainability issues, considering an aging population. There are persistent inequalities in education, health and labor market outcomes across socioeconomic groups and regions.

68. **Besides early childhood education, tertiary education skills and lifelong learning opportunities are also key for supporting long-term economic growth**. Skills mismatches persist in the labor market, and inadequate access to skilled staff is a key obstacle for business, while access to lifelong learning opportunities is low. Education attainments for those aged 30-34 is only 33 percent, compared to the EU28 average of 41 percent. Moreover, while nearly 80 percent of secondary students expect to complete tertiary education, only 63 percent of disadvantaged students do so. The planned Tertiary Education Project (FY24) could focus on strengthening the institutional capacities of the tertiary education sector and introduce accountability and incentive mechanisms to improve inclusion and labor market relevance.

69. **The Serbian health system needs modernizing to converge with EU standards**. Serbia has high incidence of NCDs, with death rates from cancer significantly higher than the EU average and other Western Balkan countries. It also has low bed occupancy and high hospital length of stay compared to similar countries. Out-of-pocket expenditures are high, while there remains a significant gap in access to health services between different segments of the population (Roma being the most disadvantaged). The ongoing Second Serbia Health Project supports activities to enhance the response to NCDs; rely less on inpatient care and more on day hospitalization; and strengthening interventions to reduce pharmaceutical spending, especially for outpatient drugs and by the public.

70. **The economic impact of COVID-19 has been contained in Serbia, due to a well time fiscal stimulus program**. The ongoing Emergency COVID-19 Response Project has helped the country prevent, detect and respond to the threat posed by COVID-19 and strengthen national systems for

[13] The attendance rate for children aged 3-5.5 is 61%, compared to the EU 2030 goal of 96%. Equity of access remains a challenge: only 10.5 percent of children from the poorest quintile and 7 percent of children from the Roma population are enrolled.

public health preparedness. It was recently restructured to put a stronger focus on strengthening the public health system and preparedness for future shocks, while also mitigating the impact of COVID-19 on the health system. Specifically, the restructured project will support the upgrade of one laboratory within the Institute for Virology, Vaccines, and Sera to meet bio-safety level 3 standards and provide equipment and ambulances in larger quantities than originally planned.

71. **Active labor market programs (ALMPs) are underfunded and unable to support the transition to employment.** The labor market in Serbia underutilizes the full workforce to the detriment of young adults, women, and the Roma. Labor productivity has stagnated, but labor taxes are high. The National Employment Service (NES) lacks the flexibility to adapt its interventions to changes in demand. Priorities include boosting private sector job creation on the demand side; reducing barriers to work and improving worker skills on the supply side; and ensuring that labor market intermediation and institutions facilitate employer-employee matching. TA will continue to support the NES, while further avenues of support may be sought through a second-generation Competitiveness and Jobs Project (See also Objective 1.3).

72. **Innovative ASA support the activities under this objective**. *Early Childhood and Care Impact Evaluation* sheds light on improving teaching methods for solid foundational skills. *Strengthening Agriculture Sector Capacities for Evidence-Based Policy Making* focuses on required pension reforms in the agriculture sector and will be complemented by the *Western Balkan Pension Policy* ASA. Two studies–*Estimating the Economic Cost of Exclusion Based on Sexual Orientation and Gender Identit*y and *Understanding and Addressing Barriers to Access to Justice for LGBTI people in the Western Balkans*–support the generation of disaggregated data on sexual orientation and gender identity for the inclusion of LGBTI people in policymaking. The *Human Capital Review* sheds on the pattern of public spending in health, education and social protection to support further policy reform efforts.

3.4 Implementing the FY22-26 Country Partnership Framework

3.4.1 Financial envelope

73. **The FY22-26 CPF indicative lending program is expected to be around US$1 billion (Annex 9).** The anticipated financial envelope is comparable to historical trends, and the actual IBRD lending volumes over the course of the CPF will depend on country demand, composition, overall performance, and global economic and financial developments (affecting IBRD's financial capacity and demand by Serbia and other WB borrowers). IBRD lending will continue to utilize the broad range of instruments successfully implemented in the past, including DPOs, IPFs (with and without Performance-Based Conditions), PforRs, MPAs, and RAS (for support where lending and Bank ASA are less appropriate), depending on client demand and capacity to implement. The current portfolio has 14 projects ($969m) plus two regional projects ($125m).

74. **IFC investment volumes will depend on Serbia's ability to structure new PPPs and concessions, and will include direct private investments in the financial and manufacturing sectors**. IFC has developed a strong portfolio in Serbia through the implementation of investments in airport infrastructure, a waste-to-energy facility and wind farm development. Currently, IFC's active committed portfolio stands at US$301 million (US$204 outstanding), allocated across 4 industry segments and 9 active clients, mostly in infrastructure (US$184 million) as well as in financial markets (US$112 million). Agribusiness represents under 2 percent of IFC's committed portfolio (US$5

million). IFC has 4 active advisory services projects in the areas of trade and competitiveness, corporate governance, SME banking and investment climate in the manufacturing sector.

75. **As of April 13, 2022, MIGA guarantees stood at US$1,176 million, making Serbia's portfolio MIGA's second largest in the ECA Region**. MIGA has been active in the financial and infrastructure sectors, including in collaboration on a transaction with the IFC (Waste-to-Energy of Belgrade). Going forward, MIGA will continue to coordinate closely with the Bank and the IFC in search of new opportunities to facilitate cross-border investments in the strategic areas identified within this CPF.

3.4.2 Partnerships and Donor Coordination

76. **The WBG will continue to collaborate with other development partners during this CPF.** Close partnership with the IMF will continue under the new Policy Coordination Instrument Program approved in June 2021. Collaboration with the EU through the alignment of objectives and co-financing of operations in sectors such as innovation and entrepreneurship, business environment, and governance will continue during this CPF. On the green agenda, the World Bank, KFW and AFD will jointly support the upcoming Green Transition Programmatic DPO Series. The World Bank and AFD are also co-financing the LIID Project. Collaboration with key bilateral partners (EU – including through the Western Balkans Investment Framework, Switzerland, the Netherlands, UK and the United States) and multi-donor trust funds will enable innovative analytical and TA work, facilitate policy dialogue and finance projects in important areas, including urban, governance, and green growth. Collaboration with the EBRD and EIB will continue in areas such as energy reforms, and with UN agencies in human development sectors.

IV. MANAGING RISKS TO THE CPF PROGRAM

77. **The overall residual risk to achieving the proposed program objectives is assessed as Moderate.** Assessed using the WBG Systematic Operations Risk-Rating Tool (SORT), three risk categories warrant a Substantial rating (Table 3).

78. **Political and governance risks are substantial.** Despite political stability and continuity in the ruling coalition over the last CPF period, frequent elections (2016, 2017, 2020) resulted in ministerial reshuffles and slow government formations. The last Government served an abbreviated term of 18 months, between 2020 and April 2022. Following the parliamentary and presidential elections of April 3, 2022, there may be delays in key decisions during the first year of the CPF period, notably on politically sensitive reforms on the green agenda front. Political risks also relate to the country's external relations in the Western Balkans, which can affect the pace of EU accession, which may change as a result of the war in Ukraine. To mitigate these risks, the WBG will remain flexible and adjust the program and instruments to emerging priorities that recognize political developments, new challenges and institutional capacity constraints. The next Program and Learning Review (PLR), to be conducted at the mid-point of this CPF, will provide an opportunity to readjust the program should it deviate from its expected course.

79. **Engagement in new areas elevates the risks of sector strategies and policies.** This CPF ventures into new areas linked to the green agenda and LSGs, which are key for achieving lower carbon emissions, and building resilient institutions and livelihoods. A new set of interlocutors have the purview of these reforms in sensitive areas. In addition, some of the underpinning policies and

laws in these sectors have been approved only recently, requiring further steps and technical support for full implementation. To mitigate, the WBG will build on Serbia's history of success in implementing innovative reforms in areas where the status quo had long held (e.g., SOE reforms in the previous two CPFs) or from a very low sector knowledge base (e.g., science and innovation in the last ten years). Recent experience indicates that though Serbia eventually undertakes robust structural and policy reforms, the path can be contested, requiring constant reassessment of plans and vigilance.

80. **Environmental and social risks remain substantial**. A transition to a low-carbon future in a context of high dependence on coal may slow down because of the impact of the war in Ukraine, as Serbia may have to face disruption in the external supply of oil and gas. This agenda will also require the mitigation of possible negative impacts of policies associated with energy pricing or mine closures, underpinned by robust analytics on poverty impact analyses and energy pricing. On the natural disaster front, the strengthening of institutional capacity to manage disaster risks–supported under the previous CPF–is a key mitigating factor. Under this CPF, the robust implementation of the WB ESF and support to the client's capacity to fully implement ESMF in projects–expected to be boosted by the addition of social and environmental experts to the Central Fiduciary Unit–will mitigate environmental and social risks and contribute to improving the performance of the portfolio.

Table 3. Risks to the Serbia FY22-26 CPF Program

Risk Category	Rating
Political and Governance	S
Macroeconomic	M
Sector Strategies and Policies	S
Technical Design of Program	M
Institutional Capacity for Implementation and Sustainability	M
Fiduciary	M
Environment and Social	S
Stakeholders	M
Overall	**M**

Annex 1. Result Matrix - Serbia CPF Results Matrix (FY22-26)

High-Level Outcome 1 (HLO1). Growth that is greener and more resilient		
This HLO is about environmentally and fiscally sustainable growth, which will benefit future generations. Growth needs to be underpinned by an adequate macroeconomic framework. The economy needs to become greener and transition away from reliance on fossil fuels according to the just transition principles.		
High-Level Outcome Indicators	**Data Source**	**Current Value**
(i) Fiscal sustainability (debt to GDP ratio) (ii) Decreasing CO_2 intensity (iii) Increase in the share of power produced from renewables	(i) Public Debt Administration, Treasury Administration (ii) World Development Indicators (iii) Energy Agency of Serbia Annual report	**Baseline:** 57.1% public debt to GDP (end of 2021 estimate) **Baseline:** 368 grams CO_2 emissions per US$ PPP of GDP (2018) **Baseline:** 29% (2020)

High-Level Outcome Description

Rationale. Macroeconomic stability was achieved in Serbia after the fiscal crisis of 2013-15, and the negative impact from the COVID-19 pandemic was weathered without a major impact on fiscal sustainability. This CPF continues to support the fundamentals of growth and sustain macroeconomic stability to underpin greener and more resilient economic growth. Despite a significant decrease over the past decade, Serbia's carbon intensity of GDP remains almost three times as high as the EU, and significantly higher than in other coal reliant countries. The share of renewable energy remains low, competitive procurement of new generation capacity is expected to start from 2022 onwards.

WBG engagement. Achievement of fiscal sustainability was supported during the previous CPF. Serbia began to turn fiscal deficits into surpluses as of 2017. Good progress was made in reaching fiscal sustainability through a combination of improvements in tax administration and expenditure controls, allowing for a strong fiscal response to the COVID19 crisis. In the upcoming period, new challenges include achieving environmentally sustainable, low-carbon, climate-resilient growth, which is now an essential part of Serbia's future prosperity path. IFC has a significant engagement on improving waste management.

Lessons Learned, New knowledge, and Knowledge Gaps. Government's past effort to achieve fiscal sustainability have been tracked and analyzed, and regular monitoring continues. Expenditure composition has been re-balanced towards greater public investments, while greater progress on spending efficiency and fiscal transparency is still needed. One important knowledge gap that exists relates to carbon pricing and the macro-sectoral impact of the EU proposed Carbon Border Adjustment Mechanism (CBAM). This knowledge gap will be filled by work conducted under the Green Growth Reforms ASA in FY21-22.

CPF Objective 1.1: Stronger macro-fiscal framework and structural reforms for greener growth

Previous CPF: Objective 1a: Supporting sustainable public expenditure management; 1b: More effective public administration & select service delivery improvements; 1d: Productive SOE assets transferred to private ownership; 2b: Assist in the creation of a more stable and accessible financial sector

Intervention Logic

Rationale for the CPF Objective and WBG Engagement. Continuing good macroeconomic, fiscal and debt management practices, as well as deepening structural reforms and strengthening government effectiveness, remain important preconditions for Serbia's sustainable development. For sustaining growth, adequate assessment, monitoring and management of (climate-smart) fiscal risk is critical. Further reforms of SOE governance are needed. Deepening and broadening capital markets will contribute to a stronger financial sector. Tackling the green transformation has now become an urgent priority to sustain growth and progress on human capital and inclusion.

Lessons Learned and New Knowledge. The 2019 CEM highlighted the need for increasing public investments and reducing the dominance of SOEs in the economy. The Fiscal Risk Monitoring TA indicates that good risk management practices are still at an early stage in 2021. The assessment of Underlying Drivers of Policy Effectiveness helps to assess the feasibility of reform approaches. Knowledge gaps include an assessment of remaining SOE governance issues and remedies (e.g., regarding local public utilities at the LSG level); options around emission taxation, a public expenditure review focused on climate and environment; and assessing shifts in the labor market of the future.

WBG Ongoing and Planned Support. The upcoming DPO series on Green Transition aims to align fiscal management with the climate-change agenda, including management of (climate related) fiscal risks and the greening of the budget and public investments. The program will support the deepening of capital markets to provide a foundation for private sector growth while enabling enhanced public sector investments for greener growth (including through green bonds) in synergy with IFC and MIGA. IFC will support access to diversified sources of financing for firms through its JCAP initiative and Sustainable Finance operations with the financial sector. MIGA guarantees will support improved access to finance, including to SMEs and for climate finance operations.

Key Risks and Mitigation. Risks to maintaining adequate fiscal buffers include global economic shock including from conflicts, the vagaries of the COVID-19 global pandemic and surging climate change impacts. They also include excessive recurrent expenditures given incomplete wage reform and ad hoc wage increases; and the risk that increased public investments do not factor in climate resilience. Mitigation factors include robust growth projections, the GoS's commitment to maintaining fiscal discipline and ensuring implementation of activities tackling EPS reform support (largest SOE), revenue modernization; climate smart fiscal risk; and greening of public investment.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Objective Indicator 1: Green fiscal/PFM - *Inclusion of green criteria in public investment management (yes/no) and consistency with EU (or other credible international standards in terms of the criteria used)* **Baseline (2022):** no **Target (2026):** yes, consistent with standards **Source:** MOF/annual budgets + Decree on Capital Investments (amended) **Objective Indicator 2**: Structural reforms--Implementation of the SOE ownership strategy **Baseline (2021):** strategy adopted **Target (2026):** strategy fully implemented **Source**: Ministry of Economy **Objective Indicator 3:** Number of corporate bond issuances by first-time issuers/ Number of corporate bonds issued by majority women-owned firms **Baseline (2020):** 0 **Target (2025):** 10/1 **Source:** Ministry of Finance	**Progress Indicator 1.1:** Improved fiscal risk section of the fiscal strategy **Baseline (2020):** no discussion of climate related risks **Target (2024):** discussion of climate related risks established (2024-26 strategy) **Source**: MOF **Progress Indicator 1.2:** Phasing out of subsidies for the Resavica coal mines **Baseline (2020):** EUR44m **Target (2026):** 0 (except payments for closure/retraining) **Progress Indicator 1.3:** Staffing of key functions for the green agenda (within overall wage bill constraint) **Baseline (2020):** (i) MoEP 212; (ii) SEPA 61 (permanent staff) **Target (2026):** (i) MoEP 360; (ii) SEPA 126 **Source:** MoEP/SEPA/Treasury Administration **Progress Indicator 1.4:** Modernization of the tax administration **Baseline (2020):** Modernization strategy adopted **Target (2024)**: Implementation at least 75% complete **Source:** STA	**Ongoing Financing** Public Sector Efficiency and Green Recovery DPL Tax Administration Modernization IPF **Financing Pipeline** Green Transition Programmatic DPL Series (FY23-24), Capital Markets Development Project (FY23) **Ongoing ASA** Strengthening Policies and Institutions for Green Transition Strengthening Institutional Capacity for Fiscal Risk Monitoring and Management Green Finance Diagnostic Enhancing Public Investment Management Reforms Sustainable Long-Term Finance Facility Enhancing Public Investment Management Reforms Western Balkans Poverty & Equity Program FY22-FY23 **ASA Pipeline** **MIGA Guarantees:** Capital optimization, Raiffeisen Banka a.d. Capital optimization, ProCredit Capital optimization, NLB Banka a.d., Beograd Capital optimization, Komercijalna Banka a.d., Beograd Guarantees in support of Erste Bank a.d.

CPF Objective 1.2 Greener investments and (just) transition to a low-carbon and resilient economy
This is a new objective; the objective is aligned with regional as well as national level priorities (previous CPF emphasis on fiscal sustainability and the power sector -- Objective 1c: A more efficient and sustainable power utility)
Intervention Logic. **Rationale for the CPF Objective and WBG Engagement.** Objective 1.2 is a key new objective building on earlier achievements on the sustainability of the energy sector, focusing on mitigation measures. The energy sector will undergo a new round of reforms to reduce energy intensity and a further shift to renewable energy, beginning with rooftop solar energy. Efforts towards a just transition away from coal will be supported. As weather shocks have become more frequent, this objective also supports proactive risk management approaches, especially in agriculture, where sustainable agriculture is critical for food security and to sustain an important export base. **Lessons Learned and New Knowledge.** New knowledge includes an initial exploration of the institutional and stakeholder constellation for greener growth and on Facilitating a Just Transition and on Supporting Serbia's Green Transition. Knowledge gaps. Further knowledge will focus on policy reforms for a greener growth path; climate change-related shocks and stressors in selected cities; the capacity for more sustainable, inclusive, and resilient urban development; better SOE management in the energy sector (e.g., navigating the transition to a cleaner energy mix); a deep dive on solid waste management (LSG); and a green-focused public expenditure and institutional review. **WBG Ongoing and Planned Support.** Operations will tackle domestic heating, one of the main sources of air pollution; strengthen the readiness of the power sector for the clean energy transition; and foster the adoption of new secondary legislation on GHG emissions to implement the Climate Change Law. Efforts will also support the gradual phase-out of coal. IFC will support investments in Renewable Energy with a focus on access to finance for farmers. The program will focus on DRM in agriculture and water, focusing on investments to foster climate-smart agriculture and improving flood protection and enhancing transboundary water cooperation along the rivers Sava and Drina. MIGA guarantees will aim to support cross-border investments in the infrastructure and municipal finance space. **Key Risks and Mitigation.** Commitment to reforms in sensitive areas, such as the transition to a less carbon-intensive economy through coal phase out, may ebb and flow. In addition, the transition to a greener economy may present challenges in terms of energy price spikes, and the creation (or lack thereof) of green jobs. On the mitigation front, the WBG will remain flexible and adjust the program and instruments to emerging priorities that recognize political developments, new challenges and institutional capacity constraints.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Objective Indicator 4: Average annual concentration level of $PM_{2.5}$ **Baseline (2015):** 23.3 microgram / cubic meter **Target (2026):** 17.7 microgram / cubic meter **Source:** National Air Protection Program **Objective Indicator 5:** Projected lifetime energy savings stemming from additional investment in energy efficiency in residential buildings **Baseline (2021):** 0 **Target (2026):** 2 TWh **Source:** MME/Serbia Resilient Clean Energy and Energy Efficiency Scale-Up IPF	**Progress Indicator 1.5:** Competitively procured non-hydro renewable generation capacity (MW). **Baseline (2020):** 0 MW **Target (2026):** 600 MW **Source:** MME **Progress Indicator 1.6:** People and area protected from 1 in 100-year flood events in the Sava and Drina River Basins (of which female) **Baseline (2020)**: people: 0; area: 0ha **Target (2025):** number of people: 200,000 (of which female: 110,000); area protected by flood risk mitigation measures: 150,000ha **Source:** monitored under the Sava/Drina River	**Ongoing Financing** Public Sector Efficiency and Green Recovery DPL Serbia Competitive Agricultural Project Sava/Drina River Corridors Integrated Development MPA Enhancing Infrastructure Efficiency and Sustainability Railways Modernization MPA Scaling Up Residential Clean Energy Project IFC Regional Green Growth Fund II IFC Windfarm investments (Windpark Cibuk/Dolovo; K-Wind, Ivicom) IFC Belgrade Waste-to-Energy SPV **Financing Pipeline** Mining Sector Transition for Future Development

Objective Indicator 6: Use of sustainable agricultural practices to be measured in % as area under organic (full and conversion) farming and under agri-environment commitments as share of utilized agricultural area (UAA) **Baseline (2019):** 0.6% of the total utilized agricultural area (UAA) (corresponding to 21,266 ha) **Target (2026):** 2.8% (area: 100,000ha) **Source**: MAFWM **Objective Indicator 7:** Mechanisms for labor redeployment and social protection available to workers affected by coal mines closing in Resavica in place **Baseline (2020):** 0/no action started **Target (2026):** 2 mechanisms in place **Source:** NES **Objective Indicator 8**: Introduction of carbon pricing **Baseline (2021):** no **Target (2026):** yes **Source:** Official Gazette	Corridors Integrated Development MPA **Progress Indicator 1.7**: National freight rail market share (ton-km) **Baseline (2020):** 22.5% of the market **Target (2026):** 24.74% of the market **Source:** SORS (Statistics of Transport and Communications/Total transport of passengers and goods)	Green Transition Programmatic DPL Sava/Drina River Corridors Integrated Development MPA (Phase 2) IFC renewable energy infrastructure projects IFC climate-linked financial sector (FIG) investments **Ongoing ASA** Green Growth Reforms in Serbia Priorities for Climate Ready Cities Green, Livable, and Resilient Cities in Serbia Strengthening Agriculture Sector Capacities for Evidence Based Policy Planning (PHRD Grant) Facilitating Just Transition **ASA Pipeline** Leveraging Social Protection for an Inclusive Green Transition Managing a Just Transition for Mining Areas IFC E-Mobility IFC Energy efficiency/Green Buildings IFC Green-to-Green Advisory **MIGA Guarantees:** Belgrade Waste-to-Energy, Beo Cista Energija d.o.o. Beograd Morava highway (Koridori Srbije Ltd.)

Objective 1.3: Improved business environment and regional integration

Objectives from the previous CPF: 1e: Productive SOE assets transferred to private ownership; 2a: Contribute to priority business climate improvements; 2c: Support the development of more efficient land and property markets; 2d: Enhanced infrastructure networks

Intervention Logic

Rationale for the CPF Objective and WBG Engagement. This objective also supports the fundamentals of growth (with Objective 1.1). Serbia has attracted good levels of FDI, but domestic investment has stagnated. Further progress is needed to spur SME development, improve investment policies, the legal and regulatory environment, and strengthen research and innovation. Serbia needs to develop competitive markets to boost growth and (green) job creation: and strengthen productivity for sustainable wage increases. The agribusiness sector can be a driver of productivity growth and market development, building on better connectivity and regional integration.

Lessons Learned and New Knowledge. Knowledge was developed on the reliability of real estate registries and the distributional effects of personal income tax, on improving the business environment, and on advancing innovation and entrepreneurship. Knowledge gaps exist on: (i) Reform options to address labor tax and more broadly fiscal policy; (ii) Better understanding of remaining business environment issues—e.g., sector-specific licenses and permits, spatial/land-management and property; institutional capacity gaps; and identifying sustainable operating models; and (iii) Data on migration and mobility patterns and drivers are scant, partly due to no recent census.

WBG Ongoing and Planned Support. The program will support activities to spur SME development, incentivize research reforms and innovative entrepreneurship, and promote investment, exports and trade facilitation. Efforts will continue to improve the market for real estate and the functioning of the Real Estate Cadaster. The program will support the development of agribusiness value chains; and will help strengthen connectivity and closer regional economic integration and adaptation to climate change. IFC will support competitive markets, through activities in support of business competitiveness.

Key Risks and Mitigation. Key risks under this objective include the following: first, wage increases will outpace productivity gains thus reducing competitiveness; second, powerful vested interest and patronage network could oppose reforms geared at fostering competitive markets and a more even playing field–which may further deter domestic investment; finally, there may be insufficient prioritization of research and development spending, while policies to enhance innovation could stall. Important elements of the mitigation strategy include portfolio supervision along with the leverage that exists through existing partnerships with EU, EBRD, and other partners.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Objective Indicator 9: (i) Gross domestic expenditure on R&D as percent of GDP–overall; (ii) Gross domestic expenditure on R&D as percent of GDP–business enterprise sector **Baseline (2019):** (i) 0.89%; (ii) 0.35% **Target (2026):** (i) 1.1%, (ii) 0.5% **Source:** Eurostat **Objective Indicator 10**: Productivity increased in two major sectors of the economy: (i) Gross Value Added per Employee in Food for Future sector; (ii) Gross Value Added per Employee in Machinery and Production Processes for Future **Baseline (2019):** (i) EUR 17,352; (ii) EUR 12,819 **Target (2024)**: cumulative increases by (i) 22%, and (ii) 34% **Source.** Smart Specialization Strategy/SORS **Objective Indicator 11**: Total value (EUR billion) of exports to CEFTA countries **Baseline (2020):** EUR2.72bn **Target (2026):** EUR4.3bn **Source**: SORS	**Progress Indicator 1.7:** Regional trade/ Logistics Performance Index **Baseline (2018):** 2.84/5 **Target (2024):** 3.1/5 **Source:** LPI **Progress Indicator 1.8:** Reliable property and property rights registration system supports efficient real estate market **Baseline (2020):** 107,000 property transactions on the real estate market registered by the cadaster; (i) 63% of all registered properties allow disaggregation by gender (37% of these have female owners or co-owners) **Target (2026):** 120,000 transactions registered; (ii) 80% of all properties allow gender disaggregation, gradual increase in the share of women who are registered as owners or co-owners **Source:** Republican Geodetic Authority; REMP (ICR completion expected in 2024) **Progress Indicator 1.9:** The GDP share of the administrative burden on citizens and businesses **Baseline (2018)**: 3.11% **Target (2025)**: 2.75% **Source:** Public Administration Reform Strategy (2021-2030) monitoring	**Ongoing Financing** Real Estate Management Project Accelerating Innovation and Growth Entrepreneurship Enhancing Infrastructure Efficiency and Sustainability Serbia Railway Sector Modernization MPA Western Balkans Trade and Transport Facilitation MPA Sava/Drina River Corridors Integrated Development MPA **Financing Pipeline** Competitiveness and Jobs 2 Serbia Railway Sector Modernization MPA (Phase 2) Sava/Drina River Corridors Integrated Development MPA (Phase 2) **Ongoing ASA** Improving Business Environment Serbia Advancing Innovation and Entrepreneurship IFC Integrated ESG Standards IFC W. Balkans Regional Investment Policy and Promotion IFC Western Balkans Manufacturing Value Chains Project IFC Investment Climate/Digitalization **ASA Pipeline** Western Balkan Pension Policy ASA Digitalization for Business Environment IFC Asset-backed lending/Trade Credit Advisory JCAP Capital Markets Development Program

High-Level Outcome 2 (HLO2). More inclusive service delivery		
This HLO is about improving the effectiveness, accountability and efficiency of central and local governments and, in particular, their ability to manage well public finance for better service delivery. This HLO also speaks to the importance of inclusivity and addresses spatial, horizontal and vertical inequality.		
High-Level Outcome Indicators	**Data Source**	**Current Value**
(i) Improvement in PISA scores (among the bottom 40%) (ii) Survival to age 65, male and female (% of cohort) (iii) Government effectiveness, accountability, and efficiency	(i) PISA surveys (ii) WDI (iii) Bertelsmann Transformation Index	**Baseline:** Reading: 439 (458f, 422m), Math 448 (447f, 450m), Science 440 (442f, 437m) (2018) **Baseline:** 2019 -- 77.3% (m); 87.9% (f) **Baseline:** 2020 Index (steering capability= 6/10; rule of law = 5/10; anti-corruption policy = 6/10; resource efficiency = 6/10)

High-Level Outcome Description

Rationale. National and local-level institutions are critical to Serbia's growth and improving quality, access to, and inclusion in service delivery. Strengthening human capital is important for improving productivity and inclusion: poverty and inequality are still higher in Serbia than in comparator countries, the burden from non-communicable diseases is high, and gender disparities are stubborn entry barriers to better economic opportunities for women. Further progress is needed on these fronts to close significant gaps with aspirational peers (recent EU accession countries), and to manage the ongoing demographic transitions (aging society, increasing urbanization, migration).

WBG engagement. WBG engagement on service delivery has traditionally focused on the health and education sectors, and on selected interventions to improve transportation services (notably railways). Moving forward, this focus will be retained–with a renewed emphasis on tackling non-communicable diseases and improving early childhood education. However, a deeper engagement is planned to expand (green) investments at the local level through LSG to address spatial and vertical inequalities, initially focusing on transport with possible expansion in the future into the broader urban resilience agenda.

Lessons Learned, New Knowledge, and Knowledge Gaps. There has been little information on patterns of public spending in health, education and social protection, but a recent Human Capital Review provides a good basis to inform policies to achieve greater impacts, efficiency and effectiveness in social sector spending. Work is ongoing on pension system reforms, including in the agricultural sector, to guide reforms. Little systematic information exists on the levels of institutional capacity in LSG. In general, migration patterns are not well documented, as there is no recent census data, which makes data on the total number of residents and residents by municipality uncertain.

CPF Objective 2.1. ***Strengthened public finance management at central and local levels***

Previous CPF: Objective 1a: Supporting sustainable public expenditure management

Intervention Logic

Rationale for the CPF Objective. Inclusive service delivery requires further PFM reforms to better align resource allocation to strategic priorities. At the local level, LSGs have significant responsibilities for service delivery to citizens but face capacity and resource constraints. Decades of underinvestment in infrastructure requires robust (green) investment plans that prioritize the maintenance and rehabilitation of existing assets (with responsibilities distributed across central and local governments and public enterprises). Fiscal transparency has remained limited, hindering evidence-based policy debates and stakeholder engagement.

Lessons Learned and New Knowledge. Robust PFM knowledge was generated by the 2020 PEFA Assessment. Ongoing ASA will fill knowledge gaps, focusing on tax administration; fiscal risk monitoring; PIM; transparency; and integrity and governance of economic results. Ongoing analytical work will help GoS operationalize the Serbia Sustainable Urban Development Strategy 2030, including the strengthening of capacity of LSGs to better plan, prepare, and implement green investments, and transition to e-mobility pathways. Knowledge gaps include an analysis of the institutional strengths and weaknesses of different LSGs and of intergovernmental fiscal relations.

WBG Engagement. The program will focus on strengthening LSG capacity to deliver services effectively and efficiently. This agenda will first focus on local connectivity through transport services, but green investments will be potentially scaled-up in the future to address urban development challenges more broadly to improve the livability and sustainability of cities. At the national level, the program will support the implementation of the PFM Reform Program 2021-2025, informed by the 2020 PEFA assessment, deepening previous support on several fronts (e.g., tax administration, revenue management, procurement systems, PIM system, digitalization). **Key Risks and Mitigation.** This CPF ventures into new areas, such as the green transition and LSG. Reforms could be resisted, or capacity may not be sufficient to implement them. But Serbia has a history of success with reforms in areas where the status quo had long held (e.g., SOE reforms under previous CPFs) or from a very low sector knowledge base (e.g., science and innovation in the last ten years). Constant reassessment of plans under the projects supported by this CPF will mitigate the risk that implementation will be contested. The PLR will also provide a good vehicle for changing course should the program diverge from its expected course.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
Objective Indicator 12: The national budget is based on performance and linked to strategic documents, and includes analysis of medium-term estimates and results of the program budget **Baseline (2021):** of 81 public policy documents in force, 46, or 56.8%, include costing **Target (2026)**: all public policy documents include costing and at least 70% have a clear link to annual and medium-term budgets and results (program budgets) **Source**: PPS and MOF **Objective Indicator 13:** LSG capital projects are selected in line with strategic and planning **documents**, and completed capital investments registered positive social and economic impacts. **Baseline (2020):** No **Target (2025):** Yes, for at least 50% of a sample of at least 15 municipalities, of which at **least** half are disadvantaged **Source: LIID** **Objective Indicator 14:** Enhanced fiscal transparency (national and local levels) **Baseline (2020):** National level: no mid-year report published; LSG level: only some LSGs publish approved budgets and outturns online. **Target (2025):** National level: at least one mid-year report published; Local level: increase in the number of municipalities publishing approved budgets and outturn information online.	**Progress Indicator 2.4:** Level of implementation of the PFM reform program for 2021-25 **Baseline (2021):** 0% **Target (2026):** 70% **Source**: implementation reporting by the MOF **Progress Indicator 2.5:** (i) Credibility of sector-by-sector budget allocations and (ii) transfers to LSGs in line with Law on Financing of Local Self-Governments **Baseline (2019):** (i) expenditure composition outturn by function–25% variance (PEFA PI-2.1); (ii) non-earmarked transfers to LSGs 0.65% of GDP (PEFA PI 7) **Target (2025):** (i) expenditure variance by function declined to 15% or less; (ii) gap in non-earmarked funds closed or significantly narrowed. **Source:** Annual budgets and end-of-year reports **Progress Indicator 2.6:** (i) Number of digitalized services for citizens and businesses, (ii) Number of citizens and businesses accessing e-services disaggregated by, location, gender and size of businesses **Baseline (2021):** (i) tbc, (ii) 1,270,000 in November 2021 **Target (2025):** (i) 75 digitalized services, (ii) 2,500,000 **Source:** OiTeG reports and E-uprava website (www.euprava.gov.rs)	**Ongoing Financing** Enabling Digital Governance Project Public Sector Efficiency and Green Recovery DPL State-Owned Financial Institution Strengthening Project Tax Administration Modernization Project Local Infrastructure and Institutional Development Project IFC Belgrade Airport SPV **Ongoing ASA** Support to Enhancing the Quality of Tax System Transparency, Integrity, and Governance for Economic Results Green, Livable, and Resilient Cities in Serbia Multi-Donor Trust Fund for Justice Sector Support Enhancing Public Investment Management Reforms IFC Integrated ESG Standards IFC Investment Climate/Digitalization **ASA Pipeline** TBD

CPF Objective 2.2. ***Better access to quality health and education services for the disadvantaged***		
Previous CPF: Objective 1b: More effective public administration & select service delivery improvements; 1d: More efficient public transport companies; 2f: Assist in closing medium- and long-term skill gaps		
Intervention Logic **Rationale for the CPF Objective and WBG Engagement.** PISA test scores indicate scope for improvement in foundational skills through preschool and basic education. There are large disparities in learning outcomes between poorer and richer children and urban and rural areas. Access to tertiary education has become challenging for poorer students, while there remain disconnects between tertiary education and labor market. Access to health care is good at the primary level, but access to and uptake of preventive services for NCDs is insufficient. Social protection systems are inflexible and poorly targeted. The pension system is unsustainable given populating ageing. **Lessons Learned and New Knowledge.** Behavioral economics work offered important lessons to policy makers on raising the vaccination rate in the country. Ongoing work on early childhood education and care impact evaluation will offer lessons for further improving teaching methods required to impart solid foundational skills. The Human Capital Review has shed light on delivery challenges and the pattern of public spending in health, education and social protection, providing a solid analytical basis for raising efficiency and effectiveness of spending in the social sectors; and has closed an important knowledge gap on the drivers of out-of-pocket payments in the health sector. **WBG Ongoing and Planned Support.** The program will support better skills, starting with foundational ones in early childhood; and it will consider tertiary education skills and lifelong learning opportunities, which are key for long-term economic growth. On the health front, this CPF will support GoS in ongoing reforms and investments needed to address the rise in NCDs. A second-generation competitiveness and jobs engagement could support boosting private job creation on the demand side, while reducing barriers to work and improving worker skills on the supply side, and ensuring that labor market intermediation and institutions facilitate labor market matches. **Key Risks and Mitigation.** Serbia is characterized by a stubborn income inequality that reflects persistent gaps in access to opportunities. An important risk here concerns lack of attention on the part of policy makers to the need to address spatial inequalities though a marked focus on lagging low-income regions, and on groups that are usually disadvantaged (e.g., women, Roma families, sexual minorities). On the mitigation front, the program supported by this CPF is designed in such a way that disadvantaged areas and groups are prioritized in project interventions through the development objectives and result frameworks at project level.		
CPF Objective Indicators	**Supplementary Progress Indicators**	**WBG Program**
Objective Indicator 15: Percentage of women who underwent mammography at least once every two years between the age of 50 and 69 **Baseline (2019):** 30.1% **Target (2025):** 38% **Source:** 2019 Serbian National Health Survey; 2025 Serbian National Health Survey (planned) **Objective Indicator 16:** National preschool enrollment rates for children ages 3 to 5.5 years **Baseline (2020):** 63% **Target (2025):** 66% **Source:** MICS data **Objective Indicator 17:** Access to local transportation services (in the poorest [half] of municipalities, with a gender	**Progress Indicator 2.7:** Number of systematic check-up visits to primary health care center for women health services per 1000 of women aged 15 years and over **Baseline (2020):** 104.91 **Target (2025)**: 110 **Source:** Calculated based on data from Health Statistical Yearbook of the Republic of Serbia (issued annually by the Institute of Public Health of Serbia)	**Ongoing Financing** Second Serbia Health Project and AF Emergency Covid -19 Response Project Inclusive Early Childhood Education and Care Project **Financing Pipeline** Third Health Project Second Education Project Second Competitiveness and Jobs Project **Ongoing ASA** Serbia Human Capital Review Early Childhood Education and Care Impact Evaluation Western Balkan Pension Policy ASA Underlying Drivers of Policy Effectiveness–Health and Tertiary Education notes

breakdown) **Baseline (2020):** tbc **Target (2025):** Improvement by 10% and 10% or higher for women **Source:** Sors/Census pilot		Strengthening Ag Sector Capacity for Evidence-Based Policy Estimating the Economic Cost of Exclusion Based on Sexual Orientation and Gender Identity Understanding and Addressing Barriers to Access to Justice for LGBTI people in the Western Balkans **ASA Pipeline** Leveraging Social Protection for an Inclusive Green Transition

Annex 2. Completion and Learning Review of FY16-FY20 Country Partnership Framework

Date of the Country Partnership Framework for the Republic of Serbia for the period FY16-FY20: May 22, 2015 (Report No. 94687-YF).
Date of the Performance and Learning Review: February 13, 2019 (Report No. 132007-YF).
Period Covered by the Completion and Learning Review: from July 1, 2016 to June 30, 2020

I. INTRODUCTION

1. **This Completion and Learning Review (CLR) assesses the implementation of the World Bank Group (WBG) Country Partnership Framework (CPF) FY16–FY20 for Serbia**. The CPF period officially ended in June 2020, but the Covid-19 pandemic delayed the preparation of the new CPF. This CLR, therefore, covers the program until June 2020. A Performance and Learning Review (PLR) finalized in February 2019 confirmed the validity of CPF focus areas of Economic Governance and the Role of the State, and Private Sector Growth and Economic Inclusion.

2. **Serbia experienced a relative political stability during the CPF period.** Good progress was achieved on fiscal consolidation during 2014-2018, which resulted in the reduction of large fiscal deficits, the consolidation of public debt and an overarching stable macroeconomic framework. Economic growth averaged 3.1 percent during 2015-2019. The incidence of poverty, measured as income below the standardized US$5.5/day (2011 PPP), declined to around 17.4 percent in 2020 from 22.2 percent in 2016.

3. **On the COVID-19 front, an early response from the Government of Serbia averted an economic and health sector meltdown**. Decisive action to enforce movement restrictions and lockdowns in the early stage of the pandemic; the deployment of a robust and well-timed fiscal stimulus package corresponding to 13 percent of GDP; and the implementation of an effective vaccination campaign–one of the fastest to get off the blocks in continental Europe–greatly reduced the negative impact of the pandemic on the economy and the health of the Serbian population.

4. **The overall CPF program performance is rated *Satisfactory*.** This rating reflects the achievement of most of the CPF objectives: seven out of ten objectives were *achieved* while three were *mostly achieved* (Table 1). Both CPF focus areas were rated *Satisfactory*, with 13 out of 16 objective indicators *achieved*, two indicators *mostly achieved* and one indicator *not verifiable*. During the CPF period, the Independent Evaluation Group (IEG) reviewed eight projects which exited during the CPF period, rating seven as *Satisfactory* and one as *Moderately Satisfactory* on the overall project outcomes.

Table 1. CPF Objectives

Focus Area 1: Economic Governance and the Role of the State - Satisfactory	
1a: Sustainable public expenditure management	Achieved
1b: More effective public administration & service delivery improvements	Mostly Achieved
1c: A more efficient and sustainable power utility	Achieved
1d: More efficient public transport companies	Achieved
1e: Resolution of SOE assets in Privatization Agency Portfolio	Mostly Achieved
Focus Area 2: Private Sector Growth and Economic Inclusion - Satisfactory	
2a: Priority business climate improvements	Achieved
2b: More stable and more accessible financial sector	Mostly Achieved
2c: More efficient land and property markets	Achieved
2d: Enhanced transport infrastructure networks	Achieved
2e: More efficient employment facilitation	Achieved

5. **The performance of the WBG in designing and implementing the CPF is rated *Good***. The program was designed jointly by the World Bank, IFC, and the MIGA, building on the comparative advantages of each organization. The CPF design, including the selection of the focus areas, was well aligned with the country's successive Economic Reform Programs (ERPs) and Fiscal Strategies. The design of the CPF was selective with a focus on: (i) high impact areas with strong government reform commitments; (ii) carefully calibrated WBG comparative advantage vis-a-vis other partners (i.e., EU, EBRD, EIB and IMF); and (iii) sequencing WBG support in a strategic way. Sequencing, in line with the government's emphasis on front-loading fiscal consolidation and SOE reforms, materialized through two Development Policy Lending (DPL) programmatic series on SOE reform and public expenditure management delivered in the first two years of the CPF period.

6. **Program implementation was flexible, enabling the WBG to respond to country's emerging priorities as well as to increased needs arising from the global pandemic**. In FY20, the WBG responded flexibly and quickly to the economic crisis arising from the pandemic by allocating around US$146 million (or 15 percent of the portfolio) to crisis response through: (1) three project restructurings in the total amount of US$23 million; (2) a drawdown of US$23 million from the Disaster Risk Management CAT DDO operation (P157489); and (3) a new US$100 million operation (P173892) funded out of the Fast-Track COVID-19 Facility. During the CPF period, the total actual IBRD delivery reached US$1.6 billion, while the IFC's program reached US$904.1 million, of which US$596.4 million was in core mobilization and US$307.7 million was on IFC's own account.

II. PROGRESS TOWARDS CPF DEVELOPMENT OUTCOMES

FOCUS AREA 1: ECONOMIC GOVERNANCE AND THE ROLE OF THE STATE

7. **Focus Area 1 is rated *Satisfactory*: of the five objectives, four are rated as achieved and one as mostly achieved**. There was a great degree of synergy across the five objectives, which together contributed towards improving the sustainability of Serbia's fiscal position with good progress on further advancing privatization, reducing public subsidies and guarantees, and improving SOE governance. During the CPF period, Serbia greatly strengthened its macroeconomic sustainability, improving its credit rating to BB+.

Objective 1a: Sustainable Public Expenditure Management—Achieved

8. **The two main indicators focusing on the reduction of direct subsidies to SOEs and preventing new guarantees for liquidity purposes have been achieved**. As of 2019, direct subsidies to public enterprises were estimated at EUR246 million. None of the 2019 subsidies went to SOEs in the Privatization Agency (PA) portfolio, reducing direct subsidies to these SOEs by EUR73 million, as intended. The subsidies outside the PA portfolio increased somewhat because toll collections were channeled to the budget and then returned to the Road Authority as transfers. No new guarantees for liquidity purposes were issued in 2020. More sustainable public expenditure management contributed to macroeconomic stability and supported a more resilient growth.

9. **Series of DPL operations supported the achievement of Objective 1a.** Two State-Owned Enterprises Reform DPL operations supporting this objective also targeted accountability and transparency of SOEs. Substantial progress was made in strengthening SOE governance and mitigating the social impact of the SOE reform program. Subsequent DPLs supported this agenda as follows: (i) the Public Expenditure and Public Utilities series (P155694) tackled the efficiency and sustainability of energy and

transport sector public enterprises; and (ii) in the last year of the CPF, the Public Sector Efficiency and Green Recovery DPL (P164575) supported action to improve public finance management (PFM), while planting the seed of a green recovery to make Serbia more resilient to natural hazards and the negative impacts of climate change (this is being followed up in the upcoming new CPF for FY22-26[14]).

Objective 1b: More Effective Public Administration & Selected Service Delivery Improvements—Mostly Achieved

10. **The present evaluation relies on the supplementary as well as the main progress indicators.** In retrospect, the main indicators only partially reflected the scope of Objective 1b that addressed a wide range of legacy problems of the Serbian public administration that hamper its capacity for effective service delivery. No formal assessment using the Metcalfe Scale to evaluate policy making and coordination systems was undertaken,[15] making this indicator non verifiable. The second main indicator, the percentage of non-medical staff employed in public health facilities in Serbia, gradually declined reaching the target of 21 percent in 2020.

11. **Efforts to improve policy making and coordination delivered relevant results beyond the original narrow indicator**. A Reimbursable Advisory Services (RAS) helped develop a decision-making and implementation management dashboard system, which was introduced in 2017 as the main vehicle for coordinating and monitoring the implementation of the Government Programs. As documented in the IEG's ICRR for the PforR on Modernization of Public Administration (P155172), this operation successfully supported efforts to eradicate budget arrears, contain the wage bill and improve PFM. Moreover, the Enabling Digital Governance Project promoted the use of information technologies in public service delivery, which, among other things, made it possible for citizens to access the results of their polymerase chain reaction (PCR) tests and make vaccination appointments electronically during the pandemic.

12. **Similarly, the reduction in the percentage of non-medical staff in health facilities was complemented by wider results across sectors**. An extensive advisory and technical assistance (TA) program was delivered in the form of a horizontal functional review, covering the rationalization of the overall government architecture, and vertical functional reviews in four sectors–finance, education, agriculture, and social protection. The reviews fed into the preparation of action plans that were adopted by the Ministries of Health, Education, Agriculture and Environment (implementation is ongoing). The Justice sector started to implement the recommendations contained in the Serbia Judicial Functional Review, beginning with a freeze on posting vacancies until the rightsizing analysis is completed.

13. **The World Bank also contributed to improving Serbia's capacity to manage its increasingly frequent disasters**. This included prompt support for the country's recovery after the May 2014 floods, which caused damages and losses amounting to EUR1.7 billion. The Floods Emergency Recovery Project (FERP) (P157489) assisted in restoring the power system capability, protecting livelihoods of farmers in flood affected areas, and strengthening capacity to effectively respond to disasters. A National Disaster Risk Management (DRM) Action Plan, a roadmap for the systematic operationalization of the DRM program, was approved. The DRM DPL with Catastrophe-Deferred Drawdown Option (CAT DDO P157489)

[14] The new CPF for FY22-FY26 is expected to be delivered in May 2022. The preparation of the new CPF was postponed by one year due to the COVID-19 pandemic.

[15] The Policy Management and Implementation Tracking Assessment (P158187) assessed policy management and tracking systems in Serbia using the combination of the Metcalfe Coordination Scale and OECD/SIGMA policy management assessment tools, to verify the initial baseline, set in the CPF (a '2' rating on the Metcalfe Scale).

supported the country's efforts to build an institutional environment to manage the physical and fiscal impact of natural hazards and strengthen the associated legal landscape.

Objective 1c: More Efficient and Sustainable Power Utility—Achieved

14. **All three indicators under this objective have been fully achieved, in some cases with targets exceeded, contributing to building the economic recovery and sustainable fiscal stabilization.** Thus, Serbia's power utility (EPS) collection rates and reduction of losses from energy distribution have both exceeded targets, enhancing EPS's financial sustainability. The renewable energy generation target was surpassed fourfold, with nearly 400MW of wind capacity generated by 2019 and another 200MW currently under construction, improving the country's energy mix and reducing its reliance on coal. IFC invested in two Wind Power Plants (WPP): €19.1 million into the 42-megawatt (MW) Alibunar wind farm, and €107.7 million into the biggest wind farm in the region, 158-MW Čibuk 1, contributing to a reduction of 500,000 tons of CO_2 per year. Furthermore, IFC invested EUR76.6 million in the flagship Belgrade Waste-to-Energy (WtE) project and mobilized an additional EUR289.4 million, improving Serbia's waste management infrastructure, introducing 30MW of WtE electricity generation to more than 30,000 households, and further reducing CO_2 emissions by 500,000t.

15. **Good progress was also achieved on supplementary progress indicators**. First, the program contributed to stabilizing the financial situation of EPS. Dividends were paid to the government each year during 2015-2018; electricity tariffs were increased by 3.5 percent at the end of 2020; and the renewables fee, which had to be partially absorbed by EPS, was also increased. Second, steps were taken to transform EPS into a joint stock company. Since 2016, EPS together with the Ministry of Mining and Energy has identified and registered its ownership rights over assets and properties, a precondition for the company's equity value assessment. Third, the accumulation of SOEs' and budget institutions' payables/arrears to EPS from its largest 20 debtors has stopped.

16. **A considerable achievement not captured by indicators was the avoidance of an impending energy crisis at the beginning of the CPF**. The FERP provided urgent support in the aftermath of 2014 floods, helping to restore the power system's capability through power purchases. This, in turn, secured power availability and averted an impending energy crisis, improving the reliability of the distribution system and restoring strategic energy assets by dewatering the Tamnava West Field mine to bring it back into operation.

Objective 1d: More Efficient Public Transport Companies—Achieved

17. **The indicators under this objective were designed with multiple challenges facing the country's rail and road transport system in mind and building on the transport system reform efforts started in 2015.** Fully achieved indicators reflect a greater efficiency of public transport companies. Serbia Railways was restructured, and its cargo company has been operating with no subsidies since 2016. In addition, roads are increasingly being maintained through performance contracts, from zero kilometers in 2015 to 3000 kilometers in 2019. The achievement of supplemental indicators was also impressive. First, three autonomous railways infrastructure, freight and passenger companies were established and now function as independent companies. Second, the number of traffic units per staff increased in excess of the set target.

Objective 1e: Resolution of SOE Assets in Privatization Agency Portfolio—Mostly Achieved

18. **Alongside Objective 1a, this objective captured the reduction of resources allocated to SOEs by containing subsidies, limiting guarantees for new loans, and strengthening accountability and transparency in the operation of enterprises**. The main indicator related to the resolution of unproductive SOEs and state divestment from commercial SOEs under the PA, was achieved. The number of companies in the PA portfolio declined from 640 to 76 during 2013-2021: some 96 percent of the targeted reduction was achieved. A total of 564 companies, including some of the largest ones, were privatized through bankruptcies, asset, and equity sales. None of the largest and most problematic companies remain in the portfolio. The remaining portfolio includes several companies whose resolution is beyond the control of the Ministry of Economy (companies with assets located in Kosovo) and companies with uncertain legal status.

FOCUS AREA 2: PRIVATE SECTOR GROWTH AND ECONOMIC INCLUSION

19. **Focus Area 2 is rated *Satisfactory*: of the five objectives, four have been fully achieved and one mostly achieved**. The quality of the business environment greatly improved during the CPF period, bringing Serbia on par with other countries in the region. Modern real estate institutions are now in place, which has reduced transaction costs, strengthened property rights, and laid the basis for further progress in facilitating access to credit through collateral. Major improvements in road transportation have boosted internal connectivity and regional integration. Improvements in the financial sector included a drastic reduction in non-performing loans (NPLs) opening room for new credit allocations from the banking sector to enterprises. Institutional strengthening of the National Employment Service (NES) resulted in better matching in the labor market.

Objective 2a: Priority Business Climate Improvements—Achieved

20. **In the 2015 Doing Business Report[16], Serbia ranked 91st out of 189 economies,** much below FYR Macedonia (30), Montenegro (36), Bulgaria (38), and Romania (48.) The CPF emphasized three critical aspects of the business climate improvement: paying taxes, trading across borders, and resolving insolvency. Trading across borders was critical to promote exports and attract FDI.

21. **Of the four indicators under this objective, three were fully achieved, in some cases exceeding targets, while one was mostly achieved.** The overarching indicator of <u>improving Doing Business distance to frontier</u> surpassed the target. Indicators related to <u>trading across borders</u> and <u>paying taxes</u> were also above target values. <u>Improvements in resolving insolvency</u> fell just short of the CPF target, but advances were substantial, including amendments to the insolvency law and regulations, and trainings and awareness campaign for insolvency practitioners. A significant overhaul of the Law on Bankruptcy was achieved in 2017. The improvements in insolvency resulted in gains in jobs, resolution of stranded assets and NPLs reduction.

Objective 2b: More Stable and More Accessible Financial Sector—Mostly Achieved

22. **Immediately before the CPF period, NPLs were on the steady rise, peaking at 23 percent of total loans in 2014.** This contributed to dampening credit conditions and represented a systemic risk for the banking sector. Credit growth to the private sector was at an historically low negative 9 percent on an

[16] The DB discontinuation presented challenge for measuring Objective indicators 2a, 2b, and 2c as they draw from the DB Report. The WBG team made efforts to find alternative indicators against which the progress and performance would be assessed in the CLR. However, because the Government of Serbia relied on the metrics provided by the DB Report which were embedded in the country-based measurements upon establishment of the Government Task Force for improving Serbia's ranking in the DB in 2014, there were no alternative indicators which would allow tracking progress during the CPF period.

annual basis in 2013. Inadequate access to finance was a major constraint, especially for MSMEs. Difficulties in addressing insolvency was a major impediment to resolving the NPLs. Considering these challenges, in 2015 the Government of Serbia (with support from IMF, WBG [notably IFC] and EBRD) put in place a comprehensive NPL Resolution Strategy.

23. **Of the two indicators under this objective, one was achieved while the other is non verifiable**. The share of NPLs in total loans provided was reduced below target. Lending activity started recovering after 2015, aided by the accelerated economic recovery and low interest rate environment. The increased availability of enterprise financing coming from banks, however, cannot be verified, because the information on firm financing by banks is not readily available.[17] However, as the performance of the banking sector gradually improved, the rapid expansion of credit for firms began in 2018, reaching 8.4 percent year-on-year in 2019.

24. **The WBG strong collaboration with the IMF and the EBRD supported this agenda in a decisive way**. The mix of WBG lending and technical assistance activities (the State-Owned Financial Institutions (SOFI) Reform (P156837) and IFC's Debt Resolution projects) helped advance the NPL resolution agenda and achieve the reduction of NPLs, which exceeded expectations. The Deposit Insurance Strengthening Project (P146248) supported the Deposit Insurance Fund (DIF). The project: (i) recapitalized the DIF; and (ii) increased contributions to the DIF via premiums from member banks. From a baseline of zero on December 31, 2013, cumulative inflows into the DIF reached 2.2 percent of insured deposits by December 30, 2018, while the DIF balance was at EUR386 million. The project was the first World Bank operation that re-capitalized a depleted public insurance fund, and a novel way of responding to a crisis. MIGA's capital optimization instrument helped support the capital management of banks and allowed for the faster loan growth of the banking sector in Serbia.

Objective 2c: More Efficient Land and Property Markets—Achieved

25. **The CPF, through the Real Estate Management Project (P147050), supported efforts towards a more efficient property registration system.** Lack of clarity on land and property had traditionally been a major obstacle to investments and economic growth. However, during the CPF period, information on real estate was digitized and made available to the public. Enabling access to real estate information helped improve the business climate, attracting investors and reducing transaction costs. Progress was also made on property valuation, based on a modern regulatory framework adopted in 2016 and further refined in 2017, leading to improvements in tax collection.

26. **Both indicators under this objective were achieved**. Having introduced an electronic application system, Serbia moved to the 9th place globally in the Doing Business ranking on construction permits, thus exceeding target indicator value. The number of days needed to complete the registration of purchase/sale of property in the land administration system declined from 48 to 4 during 2015-2019. The efficiency of the cadaster system further improved with property transaction registration averaging 3.3 days for applications submitted by notary offices electronically and paper document summitted by citizens to local cadaster offices.

Objective 2d: Enhanced Transport Infrastructure Networks—Achieved

[17] The Enterprise Survey does provide data on the 'proportion of investments finance by banks' (19 percent in 2019), but this classification does not exactly correspond to the indicator.

27. **The CPF identified improved network connectivity as crucial to boosting exports and supported better regional connectivity through infrastructure development.** The main challenges in the transport sector included the poor quality of the road and rail networks, limited maintenance, and safety issues. In this context, Serbia prioritized development of the pan-European Corridor X, particularly its three segments: Belgrade-Budapest, Nis-Sofia, and Nis-Skopje. The World Bank lead the preparation of the entire Corridor X program for Xc (E-80) and Xd (E-75) segments and, together with EBRD and EIB, financed the construction of selected sections.

28. **Both indicators under this objective were achieved, with some values exceeding targets**. Completed E-75 and E-80 segments were opened to traffic in May and November 2019 respectively, with World Bank financed sections totaling 45.53 km in length, in line with the target. The length of roads rehabilitated with safety measures incorporated well surpassed the target. The World Bank Road Rehabilitation and Safety Project, together with EIB and EBRD, supported the first phase of Serbia's National Road Network Rehabilitation Program (NRNRP). A total of 416.5 km of roads were rehabilitated, of which 254.5 km benefited from World Bank supported safety measures, IEG rating efficiency gains as Substantial and safety gains as High**.**

Objective 2e: More Efficient Employment Facilitation—Achieved

29. **At the beginning of the CPF period Serbia displayed a high unemployment rate of nearly 20 percent, youth unemployment standing at a staggering 42 percent.** More effective active labor market policies were identified as key to reducing the friction between losing a job and finding a new one. High unemployment was partly the result of economic stagnation and ongoing privatization. The focus under this objective was to strengthen the National Employment Service (NES), the major public institution in charge of smoothing labor market frictions in Serbia.

30. **Both indicators under this objective were achieved.** NES improved the management of caseloads and reduced the regional variation across branch offices lowering the average number of active job seekers per case worker to 816 per year in 2020. NES Action Plan included systematic training and certification process for case workers: 88.7 percent of NES staff was certified as case worker by end-2020. There was also progress in terms of the overall number of registered unemployed who found formal jobs and in each tracked category of women, young adults, and Roma. Progress here was also due to the improvements in the conditions of the labor market during the CPF: between 2014 and 2020, the unemployment rate decreased from 19.2 to 9 percent.

31. **TA and project financing were crucial to improving the performance of NES**. TA financed a functional review of NES, which identified areas for improvement, such as the dispersion of caseloads across branch offices. The Competitiveness and Jobs Project supported the achievement of these results by linking disbursements to a series of performance related indicators and by providing TA to enhance the M&E system and the methodology for profiling the registered unemployed.

III. WORLD BANK GROUP PERFORMANCE

32. **The World Bank Group's overall performance is rated *Good***. The initial CPF objectives were relevant to Serbia's development goals; there was complementarity between IFC, MIGA, and IBRD instruments in achieving the CPF objectives; and the dialogue with the client and the portfolio were proactively managed during the CPF period, including midterm adjustments during the PLR and based on

the SCD Update. IEG rated the World Bank performance in the eight projects reviewed as Satisfactory (in seven projects) and Moderately Satisfactory (in one project).

Design and Relevance

33. **The CPF *focus areas* remained *highly relevant* to Serbia's development program and the country's progress toward EU accession.** The lessons from implementing the FY12-15 CPS informed the design of the FY16-20 CPF, as well as the design and implementation of lending operations, TA, and analytical products (Annex 8). The 2019 PLR identified further emerging lessons, and the continued relevance of the CPF design was validated during the 2020 SCD Update exercise. The CPF objectives aligned well with the Government's strategic vision, national development plans and reform programs articulated in successive Fiscal Strategies and Economic Reform Programs (ERP), including the latest Government's program (for the period 2020-2022).[18]

34. **The *flexibility* of the CPF and the program it supported cemented *ownership* and facilitated the *achievement of outcomes***. The WBG exercised flexibility in adjusting the program to new demands and changing circumstances. First, the PLR was used to make a few adjustments to the program by adding: (i) a focus on the agricultural sector, both as an area for analytical work and lending support; and (ii) an operation in the mining sector, building on longstanding WBG engagement on SOEs. Then, in FY20, the WB responded flexibly and quickly to the pandemic by allocating around US$146 million (or 15 percent of the portfolio) to address the negative impacts of COVID-19.

35. **The *sequencing* of the program was based on the *priorities of the Government of Serbia*.** Sequencing has been in line with the government's emphasis on front-loading the program to support fiscal consolidation and SOE reform. As such, at the beginning of the CPF period, the World Bank delivered four DPL operations in support of these ambitious goals, working in synergy with the IMF. Getting the fiscal position into place earlier on created space for later investments in areas of strong track record in program implementation. The achievement of substantial results in sensitive areas, including SOE governance, as documented above, strengthened the trust of the Government of Serbia in the WBG and allowed for a strong partnership to emerge, something that the next CPF for FY22-26 will continue to build on.

36. **The CPF results framework (RF) was *adequate*, but *some weaknesses* have been identified.** Most CPF objectives were supported by measurable and attributable quantitative indicators linked to project-level results. However, the indicators under Objective 1b did not adequately capture its essence (see para 10). The RF was also somewhat inflexible to capture the evolution of the program over time, notably vis-à-vis the changes made in response to COVID-19. Nevertheless, the PLR adjusted the RF by modifying or dropping several indicators that had proved unmeasurable or not well aligned with the interventions. A few indicators were either modified to adjust to the changed circumstances, including the revision of IFC's planned interventions, or dropped due to issues of data availability or attributability of the progress to the WBG's interventions.

Program Implementation

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[18] This program emphasized the importance of several policy areas including economic strengthening and entrepreneurship, efficient and responsible government, environmental protection and green transformation, human capacity building, and improved protection of people's health and the support to the health system in response to the Covid-19 pandemic.

37. **The CPF, with an indicative IBRD program envelope of US$1,595 million, delivered US$1,646 million, including two operations in FY21**. All planned IBRD lending operations were delivered, except one.[19] The program was front-loaded: four DPL operations in the total amount of US$570 million were delivered in the first two years of CPF implementation, focusing on reforming SOEs and rapid response in the aftermath of a natural disaster (DPL with CAT DDO (P157489). In the latter part of the CPF period, 11 investment operations worth US$594 million were delivered, aligned with specific CPF objectives: (i) three additional financing (AF) operations to ongoing lending operations (Corridor X Highway (P108005), Real Estate Management Project (P147050), and Health Project (P129539); total amount of US$93 million); (ii) two regional MPAs (Western Balkans Trade and Transport Facilitation (P162043), and Sava Drina Rivers Corridors Integrated Development Program (P168862); total amount of US$125 million); and (iii) three operations that responded to the Government's priorities (Enabling Digital Governance Project (P164824), Tax Administration Modernization Project (P163673), and Emergency Covid-19 Project (P173892); total amount of US$202 million).

38. **A flexible approach to the choice of instruments with a high degree of complementarity was key to supporting reforms and delivering results**. The CPF was implemented through a mix of instruments: DPL, traditional investment loans, and results-based financing operations in the form of investment loans and PforRs, a novelty in the Europe and Central Asia region at that time; as well as two reimbursable advisory services (RAS) projects, the first of this kind in the Western Balkans. These instruments displayed complementarity and synergies and were sequenced appropriately. Originally, the program relied on DPLs and IPFs to respond to policy reforms and critical reconstruction works. Over time, the program shifted from DPLs to IPFs, including several investment lending operations with results-based financing aspects in diverse sectors and two Programs for Results (PforRs). Overall, US$475 million worth results-based financing operations tackled issues in the areas of financial sector reform, competitiveness and jobs, public sector modernization, and transport.

39. **The current IBRD portfolio consists of 12 projects in the total amount of US$819m, plus two regional projects amounting to US$125m (see Table 2).** The average age of the projects in the portfolio is three years. During the CPF period, 18 projects were approved, three received additional financing, and 12 were closed. Of the 12 closed projects, four were DPLs covering two programmatic series, one was a standalone DPL, five were IPFs, and one was a PforR operation. The Serbia Innovation Project was implemented as an IPF but was financed entirely by the EU IPA.

40. **During the CPF period, the IFC's own account financing reached US$307.7 million across four industry segments and 10 projects (including US$30 million in a regional project) and was reinforced by additional mobilization of US$596.4 million.** The IFC's portfolio addressed development priorities of competitiveness, connectivity, and climate change while responding to the demand of the business community. The demand in the banking sector was lower than anticipated leading to a lower than planned exposure. IFC has actively supported the private sector through numerous investment and advisory engagements. The investment program was characterized by a strong impact in infrastructure with financing of the Concession of Belgrade Nikola Tesla Airport, the flagship Belgrade WtE Project and two WPPs (Dolovo and Alibunar), whilst also extending financing to financial institutions and manufacturing facilities over the observed CPF period. IFC's advisory programs provided much needed support for reforms and institutional capacity building in critical areas, including NPL resolution, business climate, trade facilitation, digitalization, customs reform, renewable energy and energy efficiency, and municipal services.

[19] The Second Competitiveness and Jobs was postponed to FY22, as the ongoing Competitiveness and Jobs Project was extended.

Table 2: Selected IBRD Portfolio Indicators

	FY16	FY17	FY18	FY19	FY20	FY21
Portfolio and disbursements						
Active Projects (#)	9	11	14	13	16	14
Commitments (US$ million)	1,347	1,635.9	2,235.6	1,809.8	1,824.4	995.5
Undisbursed (US$ million)	483	674.4	719.9	440	551	620.7
Disbursed in FY (US$ million)	237.2	180.1	350.7	325	99.2	81.2
Disbursement ratio (%, IPF)	30.6	16.4	27.9	33.4	21.5	10.4
Portfolio riskiness						
Actual Problem Project (#)	0	0	2	1	1	1
Project at Risk (%)	0.0	0.0	14.3	7.7	6.3	7.1
Commitment at Risk (%)	0.0	0.0	8.9	4.1	4.1	5.0
Proactivity Index (%)	100.0	n/a	n/a	100.0	100.0	n/a

41. **As of end-June 2020, MIGA's outstanding gross exposure in Serbia totaled US$798.3 million across six projects, five in the financial sector and one in the infrastructure sector.** In the financial sector, MIGA provided capital optimization guarantees for a total gross exposure of US$689.4 million to five international banks (Erste and RBI of Austria, Unicredit of Italy, NLB of Slovenia and ProCredit of Germany). MIGA's guarantees were intended to reduce the regulatory risk-weighting applied at the consolidated level to the mandatory reserves held by these banks with the Serbian central bank, freeing up capital for their subsidiaries in Serbia to enhance access to credit. In the infrastructure sector, MIGA provided political risk insurance guarantees for a total gross exposure of US$108.9 million to the equity investments in Beo Cista Energija d.o.o. Beograd, the WtE project in the city of Belgrade. The project was intended to support the closure and remediation of the largest, uncontrolled landfill still active in Europe, the construction of a new sanitary landfill, the elimination of groundwater pollution sources, and the usage of municipal waste and landfill gas as feedstock for a low-carbon renewable source for heat and electricity. This operation built on the prior engagement of the IBRD and IFC advisory in the country, was structured as a joint operation with the IFC, and represented one of the first large-scale, private-sector led PPP projects in the WtE sector in emerging markets.

42. **IBRD portfolio performance remained overall satisfactory, with good disbursements.** The number of IBRD projects in the country remained constant, but total commitments have increased substantially, notably when IBRD introduced the two successive DPL series with increasing commitment amounts. The disbursement ratio consistently exceeded 20 percent over the CPF period, with slightly lower disbursement rates in FY17 and FY21. High disbursement levels were in part due to disbursements for large contracts, mostly under the FERP (P152018) and Corridor X Highway (P108005), the largest projects in the portfolio.

43. **Proactive portfolio management contributed to satisfactory portfolio performance during the CPF period.** The World Bank conducted joint semi-annual portfolio reviews with the Government of Serbia, which focused primarily on program results to allow for close follow-up by the authorities and removal of bottlenecks. As of FY18, the Road Rehabilitation and Safety Project (P127876), the Serbia Health Project (P129539), the Competitiveness and Jobs Project (P152104) and the Enabling Digital Governance Project (P164824) were listed as projects at risk. First three projects were restructured to bring them back on track. Restructuring of the US$100 million Road Rehabilitation and Safety Project included a reduction in project scope resulting in cancellation of about US$13 million of the loan amount.

The last project entered problem status in May 2020 and efforts are ongoing to implement an action plan to improve its performance.

44. **Fiduciary aspects of the program were mostly satisfactory.** Over the CPF period, the WB prioritized the need for good-quality procurement and financial management mechanisms to overcome delays in fulfilling project effectiveness conditions related to establishment of project implementation units' (PIUs'), and ensure readiness for implementation for new projects, improve disbursement rates and build country capacity. However, for high-value contracts, specifically in health and IT, the procurement process took a relatively long time and some cases attracted complaints. There were also some irregularities in the procurement process. Due to that, the World Bank declared two contracts as mis-procurement. A market sounding and analysis for these kinds of procurements were identified as proactive steps to avoid similar issues in the future.

45. **The newly formed Central Fiduciary Unit (CFU) performed well**. Upon the initiative of the Minister of Finance and with the support of the World Bank, in 2017 Serbia established the CFU within the Ministry of Finance (MoF) to take over fiduciary functions for all the World Bank-supported projects and grants. At the time, the MoF viewed the CFU as more cost-effective solution than the commonly used approach of hiring a separate procurement specialist and financial management specialist for every Bank-financed project that often hindered the project effectiveness. At the end of the CPF period, the results are very positive, suggesting this is a good model for the country. Currently, the CFU is managing nine investment projects (two of them are regional projects) and one PHRD Grant. The performance of CFU staff is monitored by the Bank team to ensure adequate capacity for the implementation of Bank projects in accordance with the Bank's policies and procedures. The centralization of the fiduciary function resulted in substantial savings of approximately US$280,000 per year.

46. **Notable improvement was observed in country procurement reform**. The major procurement reform initiative was the enactment of the Public Procurement Law (PPL) and its implementation from July 1, 2020, followed by the introduction of an electronic procurement (e-GP) system. E-GP allowed for electronic submission of tenders, communication between all relevant stakeholders, opening tenders, publication of procurement notices and contract awards, contract monitoring, and filing requests for the protection of rights. While the PPL is fully harmonized with the relevant EU Directives, its full application needs to strengthen the understanding of the law and the capacities of Contracting Authorities.

47. **Environmental safeguards performance was satisfactory, and the program transitioned to Environmental and Social Framework (ESF) standards relatively smoothly.** Projects in the portfolio complied with the applicable safeguards policies. Operational Policy (OP) 4.12 on Involuntary Resettlement was triggered by two operations (Corridor X Highway Project and FERP), delaying project implementation. There were no major environmental non-compliances during the CPF period. Social safeguard performance was satisfactory. Training activities focused on the government's capacity to prepare quality environmental instruments and to supervise their implementation and reporting. The transition to ESF exposed the shortage of staff qualified to prepare ESF documentation. The capacity of the CFU is being expanded accordingly to include environment and social staff to support a range of World Bank projects.

48. **Robust ASA underpinned WGB engagement and the delivery of CPF objectives, while closing existing knowledge gaps.** The planned ASA program was fully delivered during the CPF period. Noteworthy pieces of analytic work included the Country Economic Memorandum: New Growth Agenda; Horizontal and Vertical Functional Reviews and Serbia Rightsizing and Restructuring TA (funded by EU

IPA); Public Expenditure and Financial Accountability; Serbia Public Finance Review; Serbia Public Sector Accounting Review; the first RAS on Results-Based Management; National Disaster Risk Management Program; and Strengthening the Social Protection System for Disaster Preparedness and Response.

49. **During the CPF, coordination and partnerships with development partners were greatly strengthened, and the WBG successfully crowded in resources from third parties.** Jointly, the World Bank and IMF helped the Government of Serbia achieve results that had been elusive in the past in advancing the dialogue and reforms on fiscal sustainability and SOEs.[20] The IMF led fiscal consolidation efforts, which were complemented by the reforms supported by the World Bank DPL series and PforR Program in support of structural benchmarks. A strong partnership also materialized with the EU and EU institutions, notably on public administration reforms (through the PforR (P155172), the preparation of which was financed through an EU trust fund) and innovation. Parallel financing also took place during the CPF, notably on Corridor X Highway Project (P108005), where the World Bank, EBRD and EIB contributed, respectively, US$ 375 million, US$ 150 million, and US$ 579 million (the total cost of the project was $1.5 billion). The IFC mobilized private sector funding for investments in alternative energy sources and infrastructure.

50. **The CPF and the PLR identified two areas of high risk to the program: political and governance, and environmental factors.** Over the CPF period, Serbia experienced several government reshuffles, which also resulted in changes at the lower levels of administration. Under these circumstances it was challenging to sustain commitments to complex and sensitive reforms over the long term (e.g., labor sector reform under Competitiveness and Jobs Project), build implementation capacity and manage complex programs requiring coordination across levels of government (e.g., public administration reform under the PforR program). Political and governance risk remained high throughout the CPF. On the environment front, the CPF anticipated environmental risk (from droughts, flooding, severe storms, earthquakes, and landslides), which did materialize during the implementation period.

51. **To mitigate the risks, parts of the CPF program were realigned to areas of strong traction or pursued through indirect support.** Following diminished traction on labor market reforms, the World Bank re-adjusted to support this agenda indirectly: the focus remained on activation of social assistance beneficiaries, through improvements in active labor market programs (ALMPs) and better functioning of NES. Similarly, on public sector wage system reforms, the World Bank built relationships with technical staff as well as political appointees to continue implementation of key technical aspects of reforms despite political changes. Leveraging the IMF-WBG relationship was also critical to maintaining strong engagement while mitigating political risk. The WBG also supported the mitigation of environmental and health risks with the CAT DDO instrument, which had three drawdowns in response to floods (2018-19) and COVID-19 (2020).

52. **The PLR downgraded the macroeconomic risk from High to Substantial, as macroeconomic performance steadily improved during CPF implementation.** The main fiscal risks stemmed from potential increases in public sector wages, subsidies to SOEs, and slowdown in the public wage system reforms. Progress was achieved in these areas while the implementation of the new IMF PCI program, approved in July 2018, provided additional security for the adequacy of the macro-economic framework.

IV. ALIGNMENT WITH CORPORATE GOALS

[20] As has been acknowledged by the IEG ICR Review of the PforR on Modernization of Public Administration (P155172).

53. **The CPF was fully aligned with the WBG's twin goals of eradicating poverty and improving shared prosperity**. Activities in support of labor intermediation were targeted at improving the services and work incentives for the unemployed, directly addressing the welfare of the bottom 40 percent. Similarly, the SOE DPL and Public Expenditure and Public Utilities DPL series supported measures to mitigate potential negative short-term social and labor impacts of SOE reforms. The DPL series ensured adequate financial protection of redundant workers through payments from special budget-financed Transition Funds and severance packages. Complementary labor market measures to facilitate the transition into employment and provide a temporary safety net for vulnerable redundant workers were designed with WB support and implemented by the National Employment Service. At the same time, coverage of the targeted energy bill discount program for vulnerable households was expanded. Work done on the social protection front supported the implementation of the Social Card Registry, enabling preparedness and disaster response for poor and vulnerable individuals and households. These WB operations and knowledge activities are believed to have contributed to the reduction of at-risk-of-poverty rate (living on income below 60 percent of the median income) by 4.2 percentage points from 2016 to 2020, to 21.7 percent, according to the Survey on Income and Living Conditions (SILC).

54. **The CPF also supported efforts towards greater economic inclusion of vulnerable groups, both through investments and ASA.** Analytical work supported microeconomic analyses on the distributional impact of reform that fed into internal strategic discussions and policy dialogue. For example, ASA work included analysis of key poverty trends, drivers, and impacts of Covid-19 in Serbia; and an assessment of the distributional impact of fiscal policies and energy use and reform (e.g., District Heating Tariff Study and Poverty and Social Impact Assessment). The analytical work on Inclusion of Vulnerable Groups such as Roma in Preschool Education helped identify barriers that Roma children face in accessing education. Findings of this study fed into the lending project for Inclusive Early Childhood Education and Care and helped the operationalization of a program of support to young children and families to promote early stimulation activities for Roma children aged 12 to 59 months.

55. **Citizen engagement (CE) has improved over the CPF period.** Serbia portfolio has reached and maintained 100 percent compliance with corporate CE requirements (all projects include CE oriented design and beneficiary feedback indicators) by means of guidance, support, monitoring and following up with task teams. CE gaps identified in the PLR had all been eliminated by FY20. A good example of a project with robust CE design is the Serbia Railway Sector Modernization Project (P170868) that uses a wide variety of CE mechanisms: participatory planning, focus group discussions, satisfaction surveys, consultations and a GRM.

56. **During the last years of the CPF, CE activities had to quickly adapt to the challenges of the COVID-19 pandemic.** The Enabling Digital Governance Project demonstrated potential for greater citizen engagement and participation through ICT tools like the Government e-Portal. Community-based CE initiatives of the Inclusive Early Childhood Education and Care Project had to be suspended. Resumed since October 2021, parenting fairs are enhancing the inclusion of children with special needs and promoting positive inclusive practices for vulnerable social groups and children not previously included in the preschool education system.

57. **The CPF program advanced the understanding of existing gender gaps in the economy and contributed to bridging them.** Following the 2016 Country Gender Assessment, the WBG introduced gender tagging to monitor the contribution of the WBG program to closing gender gaps. Four projects have carefully analyzed specific gender gaps and tailored their design and results indicators to address those gaps. Thus, the additional financing for the Real Estate Management Project introduced specific actions to improve women's access to productive inputs such as land, which was seen as one of the

constraints on women's economic opportunities. The project registered an increase in the share of properties registered to women that currently stands at 36.32 percent of the total. Other projects increased the visibility of financial support to women entrepreneurs, supported the Gender Sensitive Road Safety Plan, and addressed an important barrier to women's employment by expanding the supply and improving the quality of preschool education services.

V. LESSONS LEARNED

58. **<u>Lesson 1</u>: Widely shared CPF objectives nurtured collaboration with development partners, which supported key reforms and catalyzed financing.** Collaboration with the IMF was critical in helping push through reforms in sensitive areas, such as SOEs. The preparation and delivery of the Corridor X Highway (P108005)–the largest project in the Bank portfolio in Serbia (now closed), co-financed with EIB and EBRD–was built around a clear understanding by all parties concerned of its strategic importance and withstood the occurrence of severe floods. Analytical work enriched the wider transport sector development agenda contributing to mainstreaming climate resilience in road transport management, disclosing road accident data and publishing online the open database in the Geographic Information System (GIS) environment. Going forward, it is advisable to anchor engagement in clear shared goals, such as the emerging prioritization of the green growth agenda.

59. **<u>Lesson 2</u>: Complex transformational agendas require more than one CPF period.** One of the key objectives under the FY16-20 CPF was to improve the financial and operational efficiency of SOEs in the rail and road transport, and energy sectors. Despite important advances in rightsizing the companies, strengthening their financial resilience and operational priorities, these SOEs still lack a commercial market orientation, which requires the full implementation of corporate governance reforms.[21] At the same time, new challenges are emerging around the commitment to decarbonize the economy and phase out coal production by 2050. Energy and transport are critical to decarbonization agenda, and a strong institutional basis is needed. World Bank assistance to the government in this area is part of the new CPF FY22-26.

60. **<u>Lesson 3</u>: Efforts at building institutions succeed when they lead to significant improvements for beneficiaries.** Modernization of the real estate registration system is a case in point. Radical simplification of the process for end users—time required was reduced from 44 to 4 days, and the application can be completed either at one service point or online—has laid the foundation for transforming the Real Estate Cadaster into an executive, self-financed, and sustainable institution. A similar dynamic can be seen in road transport, where reduction of travel time and safety improvements are the foundation of the development of the Public Enterprise Roads of Serbia (PERS). This approach needs to be retained going forward.

61. **<u>Lesson 4</u>: Addressing emerging priority challenges helped maintain the relevance and credibility of the WBG.** Initial concerns under the CPF were fiscal balance, employment and rekindling economic growth. As gains were made in addressing these challenges, space opened up to work on e-government, green growth, decarbonization, taxation, public procurement, and spatial development. The initial gains in fiscal stability, growth and employment facilitated the management of the COVID-19 shock in Serbia, with one of the lowest GDP dips in Europe (1 percent) and a health recovery underway. At the same time, the support agenda has been morphing to adjust to emerging challenges in decarbonization and green

[21] E.g., the appointment of professional and independent boards of directors and transformation of EPS into a joint stock company.

growth. The ability to adapt the menu of priority challenges as the country situation and priorities change will continue to be a contributing factor to sustaining the relevance of the WBG engagement in Serbia.

62. **Lesson 5: An adequate mix of WBG instruments is critical to effective support of reform efforts and achieving institutional transformation.** The CPF included DPLs, traditional investment loans, and several results-based financing operations in the form of investment loans and PforRs, as well as two RAS projects—designed to complement the WBG's lending program. Without the full package of distinct but related instruments, the results-based operations may not have achieved as much as they did in a relatively challenging reform context. In addition, the challenges encountered in implementation of new and innovative operational approaches (the early set of results-based operations including the first PforR in the ECA region at that time) point to the need of effective implementation mechanisms identified in preparation phase, including on co-financing, and simpler project designs around key areas with solid potential for substantial reformatory actions. The WBG will need to remain flexibility throughout the CPF cycle and adjust its program and instruments to emerging priorities that recognize the country's development challenges and institutional capacity constraints.

63. **Lesson 6: Effective collaboration among the WBG institutions (Bank, IFC and MIGA) has been a powerful driver of strong results.** Comprehensive advances in the electricity sector were achieved through the synergy of WBG engagements. The World Bank focused on the financial performance and the institutional quality of the EPS. IFC's advisory and investment activities in renewable energy and energy efficiency have already contributed to greening Serbia's energy mix, reducing its over-dependence on highly polluting, outdated thermal plants and curbing its vulnerability to climate change. MIGA, meanwhile, provided a guarantees package and IFC financing package in support of a Waste-to-Energy PPP Project in Belgrade, a sustainable waste-management complex aiming to help reduce pollution and mitigate climate change. Under the upcoming CPF, strong collaboration across the WBG will continue to underpin the program.

CLR Annex 1: Status of Serbia FY16-20 CPF Results Matrix (Summary table)

Description	Status at CLR	Overall rating
Focus area 1: ECONOMIC GOVERNANCE AND THE ROLE OF THE STATE		
Objective 1a: Sustainable public expenditure management		Achieved
Indicator 1: Reduction of public expenditures through lower direct subsidies and guarantees to SOEs	Achieved	
Objective 1b: More effective public administration & select service delivery improvements		Mostly Achieved
Indicator 1: A plan to strengthen the policy-making and coordination system prepared by end 2016 and implemented by 2019	Not verifiable	
Indicator 2: Reduce percentage of non-medical staff employed in public health facilities in Serbia (by 15 percent)	Achieved	
Objective 1c: A more efficient and sustainable power utility		
Indicator 1: EPS corporate governance and financial sustainability achieved	Achieved	Achieved
Indicator 2: Increase Serbia's renewable energy generation capacity in wind by 100 MW	Achieved	
Objective 1d: More efficient public transport companies		
Indicator 1: Serbia Railways restructured and cargo company operating without subsidies	Achieved	Achieved
Indicator 2: Roads maintained under Performance based maintenance reaches 3000 kilometers	Achieved	
Objective 1e: Resolution of SOE assets in Privatization Agency Portfolio		
Indicator 1: Resolution of unproductive SOEs and state divestment from commercial SOEs under the Privatization Agency	Mostly Achieved	Mostly Achieved
Focus area 2: PRIVATE SECTOR GROWTH AND ECONOMIC INCLUSION		
Objective 2a: Priority business climate improvements		Achieved
Indicator 1: Improve Doing Business Distance to Frontier (DTF) DB2015: 62.57; Target DB2019: 72	Achieved	
Objective 2b: More stable and more accessible financial sector		
Indicator 1: Reduction of share of Non-Performing Loans (NPLs) in total loans provided	Achieved	Mostly Achieved
Indicator 2: Increased availability of enterprise financing coming from banks	Mostly Achieved	
Objective 2c: More efficient land and property markets		
Indicator 1: Improve Doing Business Distance to Frontier (DTF) for Construction Permits	Achieved	Achieved
Indicator 2: Efficiency of property registration system improved	Achieved	
Objective 2d: Enhanced transport infrastructure networks		
Indicator 1: Corridor X completed	Achieved	Achieved
Indicator 2: National roads rehabilitated	Achieved	
Objective 2e: More efficient employment facilitation		
Indicator 1: NES services enhanced	Achieved	Achieved

CLR Annex 2: Serbia FY16-20 CPF Results Matrix Evaluation

Objective	Indicator	Baseline/ target	Status at CLR	Lessons Learned and Suggestions for the New CPF	Bank Program instruments
Focus Area 1 ECONOMIC GOVERNANCE AND THE ROLE OF THE STATE					
Objective 1a: Sustainable public expenditure management **Overall Rating: Achieved**	**Indicator 1** Reduction of public expenditures through lower direct subsidies[22] and guarantees to SOEs Direct subsidies (million Euro): Annual guarantees for liquidity purposes (million Euro)	**Baseline: (average 2012-2013)**: 293 million EUR (out of which 73m for SOEs in the PA portfolio) **Target: (2019)**: 25% reduction (less than 220 million EUR) **Baseline (average 2012-2014):** 265 **Target (2019):** less than 50	**Achieved** 246 million euros (as of 2019). None of the 2019 subsidies went to SOEs in the PA portfolio. The subsidies to enterprises inside the PA portfolio were eliminated, dropping by EUR 73 million as intended. The subsidies outside the PA portfolio increased somewhat because toll collections, as part of the economic reforms, are now channeled to the budget and are returned to the Road Authority as transfers, (with no significant net transfer.) Source: 2019 State budget page #107, line 22.0 001 451 subsidies to PERS; Page #108 line 22.0 002 451 subsidies to Railways; Page #149 line 28.0 4003 451 subsidies to PE Resavica; no subsidies to Airport No new guarantees for liquidity purposes have been issued in 2019 and 2020. Source: : 2019 State budget Page #6-7 list of planned guarantees to SOEs does not include any guarantee for	Nurturing effective strategic partnerships contributes to achieving effective development outcomes and institutional gains. The partnerships with the IMF and with EU have been critical to the effectiveness of the WBG engagement and joint leverage helped pushed through reforms in sensitive areas. The World Bank and the IMF coordinated closely to advance reforms on fiscal management, public administration reform, SOEs, and the financial sector, which dealt with	**Completed:** First and Second Programmatic State-Owned Enterprises Reform Development Policy Loan Projects (P127408) FY15 (P149750) FY17 First and Second Public Expenditure and Public Utilities DPL (P155694) FY17 (P161184) FY18 PforR on Modernization and Optimization of Pub. Admin. (P155172) FY16 DRM CAT DDO (P157489) (FY17) Public Expenditure and Financial

[22] Indicator was revised at the PLR stage due to issues with comparability. Both baseline and target for the first part of this indicator (on subsidies) were adjusted to reflect the changes in reporting on subsidies in the budget. For clarification and final reporting purposes it is noted that this indicator now includes direct subsidies to: Railroads, PE Resavica, Airport and PE Roads of Serbia, plus soft loans and subsidies to SOEs from the PA portfolio.

			liquidity purposed (instead it is guarantees for capital investment). No guarantees can be issued unless they are included as planned guarantees in the Budget. 2020 State Budget Page #6-7 list of planned guarantees to SOEs for capital investments, no guarantees for liquidity purposed The Government committed not to issue guarantees for liquidity purposes to SOEs Source: IMF Country Reports No. 21/132, page #73; No. 21/8, page #47; No. 20/270, page #73; No. 19/369, page #44	thorny issues such as cumbersome civil service pay systems, large-scale retrenchment needs of public employees, and high NPLs. The EU also supported efforts at improving expenditure efficiency through trust funds for sector functional reviews. Without the full package of distinct but related approaches, the impressive results achieved may have not materialized.	Accountability Assessment (PEFA) Serbia Public Finance Review Serbia A&A ROSC update Programmatic Poverty Assessment Improving the Quality and Flow of Public Finance Data **Ongoing:** Public Sector Efficiency and Green Recovery DPL (P164575) (FY20)
	Supplemental Indicators: Allocation from the Budget for subsidies and soft loans to the SOEs in the former Privatization Agency portfolio	**Baseline (average 2013-14):** 72 million EUR **Target (2019):** less than 10 million EUR	The five supplementary program indicators were all achieved. They included the elimination of the subsidies and soft loans for the SOEs in the privatization portfolio. Source: Source: 2019 State budget Page #104 line 1508 621 and 2020 State Budget, Page #113 line 4002 621 2017: EUR 20 million 2018: EUR 9 million Source: ICR (P149750) FY18 Page #32.		
	Decrease in gross tax and contribution arrears by SOEs in the former Privatization Agency portfolio	**Baseline (2013):** 197 million EUR **Target (2019):** less than 25 million	The gross tax and contribution arrears by the SOEs in the former privatization agency decreased to less than EUR 25 million. [23] Source: Tax Administration website with the list of largest debtors in 2020 and 2019		

[23] 2015 changes to the Privatization law allowed state creditors to initiate bankruptcy of the SOEs in the Privatization Agency portfolio which were accumulating tax and contribution arrears. All SOEs with arrears went to bankruptcy. The PA had tracked unpaid tax and contributions for the companies in its' portfolio, but when the PA closed this indicator was no longer monitored. However, the Tax Administration started publishing annual list of companies with tax and contribution arrears. SOEs from the former PA portfolio in bankruptcy status do not show any new arrears.

	Freeze on public sector wage indexation in line with the agreement reached with IMF Freeze on public sector pension indexation in years in which pension spending is expected to exceed 11 percent of GDP Attrition and targeted reduction of public sector employees		The public sector wages were indexed in line with IMF agreements till October 2019 supplementary budget, when the available fiscal space was directed towards public wage increases (0.1 percent of GDP). Source: IMF Country Report No. 19/369 and IMF Country Report No. 20/270 December 2019 and August 2020, Page #25 Pension indexation in line with Swiss formula (2020). Pension growth linked to inflation and average wage growth. This led to countercyclical pension increases in 2020 and 2021. Source: IMF Article IV **Baseline:** approx. 5,700 (2014) **Target:** At least 25,000 (cumulative 2015 and 2016) (DPL-1 target was 10,000 for 2015) **Actual:** 19,791 (2015) Source: ICR (P149750) FY18 Page #3.		
Objective 1b: More effective public administration & select service delivery improvements	**Indicator 1:** A plan to strengthen the policy-making and coordination system prepared by end 2016 and implemented by 2020	**Baseline (2015)**: 2 **Target (2019)**: 4	**Not Verifiable** No formal assessment using the Metcalfe Scale to evaluate the target was undertaken[24]. The indicator on policy making and coordination captured only partially the achievements under the program	Effective partnership between the World Bank and the IMF proved key to advance reforms on public administration,	**Completed:** Wage bill management ECA PFM TF Right Sizing TA (IPA financed)

[24] The World Bank Policy Management and Implementation Tracking Assessment (P158187) assessed policy management and tracking systems in Serbia using the combination of the Metcalfe Coordination Scale and OECD/SIGMA policy management assessment tools, to verify the initial baseline, set in the CPF (a '2' rating on the Metcalfe Scale)

Overall Rating: Mostly Achieved	Metcalfe Scale rating improved		regarding a more effective public administration. The indicator narrowly focused on the contributions made under the Reimbursable Advisory Services (RAS) completed in 2019, which helped develop a result-based approach to policy making, and improve policy coordination, monitoring, and evaluation capacities at the center of the government	which dealt with thorny issues such as cumbersome civil service pay systems and large-scale retrenchment needs of public employees. The EU also supported efforts at improving expenditure efficiency through trust funds for rationalization of the overall government architecture and sector functional reviews. Without the full package of distinct but related approaches, the impressive results achieved may have not materialized.	PforR on Modernization and Optimization of Public Administration (P155172) (FY16) DRM CAT DDO (P157489) (FY17) Serbia Result Based Management RAS (P163203) (FY17) MDTF for Justice Sector Support TF on Disaster Risk Management Implementing Open Data Plan for Serbia **Ongoing:** Second Health Sector Project (P129539)(FY14) and Additional Financing (FY18) Enabling Digital Governance in Serbia (P164824) (FY19) Public Sector Efficiency and Green Recovery DPL (P164575) (FY20) Serbia Emergency Covid-19 Response (P173892) (FY20)
	Supplemental Indicators: Right Sizing (Organizational rationalization) plans for at least 4 sectors designed and implemented by (2019) Overall institutional architecture strengthened to manage EU Accession process		Efforts at improving service delivery were broader. 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 IPA, supported preparation of series of functional reviews aimed to identify options for optimization and rightsizing in the public sector A horizontal functional review (covering rationalization of the overall government architecture) and vertical functional reviews (in four sectors – finance, education, agriculture and social protection) were delivered. The reviews provided the basis for the Action Plans that were prepared and adopted by the Ministries of Health, Education, Agriculture and		

			Environment. Implementation of the Plans is on-going by the end of the CPF. The Justice sector has started to implement the recommendations contained in the Serbia Judicial Functional Review beginning with a freeze on filling vacant positions before the analysis on rightsizing is completed. The work on heath is further being supported by the Second Health sector project (FY14) and Additional Financing (FY18.) The progress made in improving the capacity of the health sector enable the COVID-19 response in Serbia, aided by a targeted operation Serbia Emergency Covid-19 Response		
	Indicator 2 Reduce percentage of non-medical staff employed in public health facilities in Serbia (by 15 percent)	**Baseline:** 30 percent of public sector health workers are not medically trained (estimate based on 2013 data) **Target**: 25 percent or less of public sector health workers are not medically trained	**Achieved** The functional review for the Serbia health sector identified priorities and targets for reducing non-medically trained staff. The size of the non-medical workforce in the public health care network has gradually declined reaching target of 20,8% of non-medical staff in 2019 and 21% in 2020. This indicator tracked the reduction in the non-medical staff as a sample measure of improvements in service delivery However, the efforts at improving service delivery were much broader. Source: Serbia Health Statistical Yearbook 2020, Page #63 and Serbia		

			Health Statistical Yearbook 2019, Page #63		
Objective 1c: A more efficient and sustainable power utility **Overall Rating: Achieved**	**Indicator 1:** EPS corporate governance and financial sustainability achieved Collection rates increase Distribution losses decrease	**Baseline (2014)**: 93% **Target (2019)**: 95% **Baseline (2014)**: 14% **Target (2019):** 12.1%	**Achieved** By end 2019, the EPS collection rate was 98.7%. Source: RAS EPS T5 Note "**Strategic Risks in EPS**" Page #90-91 Distribution losses have been steadily declining since 2015, resulting in losses of 11.7% in 2019 Operation supporting this objective and tracking status of the indicator: RAS 'Serbia EPS Results Based Management Project'	Effective coordination within the WBG institutions (Bank, IFC and MIGA) has been a powerful driver of strong results. A good example of effectively working together happened in the electricity sector. The Bank focused on the financial performance and the institutional quality of the EPS. IFC's advisory and investment activities in renewable energy and energy efficiency have already contributed to greening Serbia's energy mix, reducing its over-dependence on highly polluting, outdated thermal plants and curbing its vulnerability to climate change. At the same time IFC and MIGA through financing and a guarantees package, respectively,	**Completed:** First and Second Public Expenditure and Public Utilities DPL (P155694) FY17 (P161184) FY18 Serbia Energy Affordability TA Floods Emergency Recovery Loan (P157489) (FY15) RAS 'Serbia EPS Results Based Management Project' (P167033) FY18 Energy tariff reforms and impact on the poor and vulnerable Serbia Power System Study and RE integration assessment Serbia gas sector reform plan Serbia Natural Gas Sector Analysis Srbijagas investment appraisal methodology and CAPEX audit **Ongoing:** Enhancing Infrastructure Efficiency and Sustainability
	Supplemental Indicators: Legal transformation (roadmap for establishment of JSC) of the EPS into a JSC by June 2019 Debt/EBITDA ratio below 3 (2016-2019, average) No further accumulation of SOE and budgetary institutions payables/arrears to EPS		EPS financial situation has stabilized since 2015, and financial results were positive until 2017, with dividends paid to government each year 2015-2018 (the highest being RSD12.7bn in 2018). Despite negative net income in 2018 and 2019, the Bank assesses that EPS remains financially healthy regarding solvency and operating profitability. Electricity tariffs were increased by 3.5% at the end of 2020. The renewables fee, which had to be partially absorbed by EPS, was also increased. Steps have been taken towards the transformation of the legal status of a joint stock company. Since 2016, EPS together with the Ministry of Mining and Energy have been identifying and registering ownership rights over assets and properties, a		

			precondition for company's equity value assessment, and activity that EPS plans to complete by the 2022, in line with the agreements with the IMF under its new advisory arrangement. The valuation of equity and assets is planned to be finalized by early 2022 as a step to set the number and value of shares. Accumulation of SOE and budgetary institutions payables/arrears to EPS, from its largest 20 largest debtors has stopped, although its composition has changed. Overall, the amount of arrears by SOEs has stabilized and no further accumulation of arrears Debt/EBITDA ratio Source: RAS EPS T5 Note "**Strategic Risks in EPS**" Page #98 Arrears to EPS Source: ICRR YF First SOE Reform DPL(P127408) Page #7	supported a Waste-to-Energy PPP Project in Belgrade, a sustainable waste-management complex, to help reduce pollution and mitigate climate change. Complex transformational agendas require more than one CPF period to have an impact on citizens and society in a sustainable manner. FERP provided urgent support in the aftermath of 2014 floods, helping to restore the power system's capability through power purchases. One of the key objectives of the CPF was to improve the financial and operational efficiency of SOEs in energy sectors. Important advance was made in strengthening EPS' financial resilience and operational priorities. But EPS	PfR (FY18) IFC engagement on transport and utility sector PPPs
	Indicator 2: Increase Serbia's renewable energy generation capacity in wind by 100 MW	**Baseline (2015):** Wind energy: 0 MW **Target (2019)**: Wind energy: 100 MW	**Achieved** In September 2018, Serbia put in operation the biggest wind park in the region, Dolovo Čibuk 1 (158 MW). IFC provided EUR 107.7 million co-financing package for this wind park. Total wind generation capacity reached 398MW. Another 200MW of wind capacity are under construction, implying that the target has been surpassed by a wide margin. IFC is		

			one of the investors in new wind farms. Source: [Energy Community 2020 Implementation Report]()	still lacks a commercial market orientation, requiring the full implementation of corporate governance reforms. At the same time new challenges are coming on board around the commitment to decarbonize the economy and phase out coal production by 2050. Energy and transport are critical to green transition agenda and a strong institutional basis is needed.	
Objective 1d: More efficient public transport companies **Overall Rating: Achieved**	**Indicator 1:** Serbia Railways restructured and cargo company operating without subsidies – **Supplemental Indicator:** Establishment of autonomous infrastructure, freight, and passenger companies	**Baseline (2014)**: RSD 10.4 Billion **Target (2019)**: RSD 0	**Achieved** Serbia Railways restructured. Modest levels of budget support for Serbia Cargo have continued till 2019. These funds were used for severance packages for redundant workers during labor rightsizing program. Three autonomous infrastructure, freight and passenger companies have been established. The three companies established are functioning as independent companies (property divided, first balance of payments submitted).	Reforms in the transport sector were supported with a mix of WBG instruments which was critical to effectively support reform efforts and achieve institutional transformation. Instruments like PEPU DPL series, traditional investment loans like RRSP, and results-based financing operations in a form	**Completed:** First and Second Public Expenditure and Public Utilities DPL (P155694) FY17 (P161184) FY18 Mainstreaming Climate Resilience in Road Transport Management in Serbia (FY18) Road Rehabilitation and Safety Project (P127876) (FY13)

	Number of traffic units (passenger km + ton km) per staff	**Baseline (2013):** 206,500 **Target (2017)**: 290,000	Source: ICR (P155694 and P161184) Page #16 Serbia Cargo 2021 business plan and 2020 financial statement page #34, 85 Serbia Cargo business plan 2020 with 2019 financial statement Page #22 The number of traffic units (passenger km + ton km) per staff increased from 206,500 to 379,125 in 2017, exceeding the target of 290,000 Source: World Bank data and Serbia Railway Sector Modernization (P170868) PAD, page #10	of investment loans and PforRs, a novelty in the ECA region at that time, were effectively deployed. The design of these instruments paid attention to their complementarity. Without the full package of distinct but related approaches, the PforR and other results-based operations may not have achieved as much as they did in a relatively challenging reform context.	Corridor X Highway Project (P108005) (FY10) **Ongoing:** Enhancing Infrastructure Efficiency and Sustainability (P163760) (FY18) Western Balkans Trade and Transport Facilitation MPA (P162043) (FY19) Serbia Railway Sector Modernization (P170868) (FY21) IFC engagement on transport and utility sector PPPs, including in waste management advisory services for the Municipality of Belgrade IFC Integrated Environmental, Social and Corporate Governance Advisory CFRR regional EU-REPARIS4 program, and EQFINREP5 country project IFC investment in Belgrade Waste Management Project
	Indicator 2: Roads maintained under Performance based maintenance reaches 3000 kilometers of roads under performance-based maintenance **Supplemental Indicator:**	**Baseline (2015):** 0 km **Target (2019)**: 3000 km Milestone: Service Level Agreement signed	**Achieved** Contracts have been signed for all 3.000 km and implementation have started on April 1, 2018. Building on this achievement supported by the Road Rehabilitation and Safety Project (P127876) and Enhancing Infrastructure Efficiency and Sustainability (P163760)is aiming to further encourage the expansion of PBMC use to 8000 km. Source: ICR (P127876) Page #14, 37 and ICRR (P127876) Page #6 COVID-19 pandemic and its impact on toll collection has delayed the		

	Transform Roads of Serbia into autonomous agency with guaranteed budget and accountability for results	and in effect (2019)	signing of the Service Level Agreement between MCTI and PERS to achieve the transformation of Road Service into an autonomous agency with guaranteed budget and accountability for results. Signing of the SLA is expected by December 2022.		IFC Belgrade Airport PPP
Objective 1e: Resolution of SOE assets in Privatization Agency Portfolio **Overall Rating: Mostly Achieved**	**Indicator 1:** Resolution of unproductive SOEs and state divestment from commercial SOEs under the Privatization Agency **Supplemental Indicator**: Number of companies under PA portfolio resolved through asset and equity sales: 178 by end 2017	**Target**: Number of remaining companies in the PA portfolio by 2019: <50	**Mostly Achieved** In 2013 the number of companies in the privatization portfolio was 640. As of June 2021, 76 companies remained in the former PA portfolio. This implies that 96 percent of the targeted reduction was achieved. A total of 564 companies, including some of the largest ones, were privatized through bankruptcies, asset, and equity sales. None of the largest and most problematic companies remain in the portfolio. Most of them were resolved through bankruptcy since they were the least appealing to investors and their privatization had been unsuccessfully attempted for over a decade due to significant legacy issues, including complex liabilities. The remaining portfolio includes several companies whose resolution is beyond the control of the Ministry of Economy (companies with assets located in Kosovo and companies with uncertain legal status).	Addressing priority developing challenges and adjusting promptly to support emerging challenges helped maintain the relevance and credibility of the WBG in Serbia. Initial concerns under the CPF were with fiscal balance, employment and rekindling economic growth. As gains were made in addressing these challenges space opened to work on e-government, green growth, decarbonization, taxation, public procurement, and spatial development. The initial gains in fiscal stability, growth and	**Completed:** First and Second Programmatic State-Owned Enterprises Reform Development Policy Loan Projects (P127408) FY15 (P149750) FY17

			Source: IMF 2021 Article IV Country Report No. 21/132 Page #81	employment facilitated successful management of the COVID-19 shock	
Focus Area 2 PRIVATE SECTOR GROWTH AND ECONOMIC INCLUSION					
Objective 2a: Priority business climate improvements **Overall Rating: Achieved**	**Indicator 1:** Improve Doing Business Distance to Frontier (DTF) Special focus on: Trading across Borders DTF Paying taxes DTF Resolving insolvency **Supplemental Indicator**: Amendments to the insolvency law and regulations; trainings and awareness campaign for insolvency practitioners, courts and other stakeholders by end 2015	**Baseline** DB2015: 62.57; **Target** DB2019: 72 **Baseline** DB 2015 – 72.13; **Target** DB2019 – 85 **Baseline** DB2015 – 48.9; **Target** DB2019 - 64 **Baseline** DB2015 – 57.9 **Target** DB2019 – 74	**Achieved** According to DB2020 Serbia moved closer to the frontier, with a score of 75.7 and surpassing the target. Source: DB 2020 Of the three focused indicators, trading across borders and paying taxes were overachieved, as in both cases the improvements exceeded the targets. Trading across Borders DB2020: 96.6 DTF, while Paying taxes DB2020: 75.3 Source: DB 2020 Advances in resolving insolvency were substantial. Serbia in 2020 ranked 41 in resolving insolvency in the world, with a performance superior to that of peer countries in the region. The advances included amendments to the insolvency law and regulations; trainings and awareness campaign for insolvency practitioners, courts, and other stakeholders by the end of 2015. A significant overhaul of the Law on Bankruptcy was done in 2017 (including to incorporate the IMF advice). As a result of these and subsequent amendments in 2018, Serbian Law on Bankruptcy is one of the	Coordination within the WBG institutions (Bank and IFC) improved several aspects of the business environment. Effectively working together contributed to implementation of substantive changes in the regulatory environment in starting a business easier by reducing the signature certification fee and increasing the efficiency of the registry, reducing the time for business registration, registering property and dealing with construction permits. The World Bank focused on reforms in the land registration area, while the IFC's advisory and investment activities	**Completed:** Serbia Competitiveness and Jobs (P152104) (FY16) New Growth Agenda Country Economic Memorandum (CEM) TF funded CFFR Accounting and Auditing project **Ongoing:** Western Balkans Trade and Transport Facilitation MPA (P162043) (FY19) IFC Western Balkans Agribusiness Competitiveness Program IFC Western Balkans Debt Resolution and Business Exit Project IFC Integrated Environmental, Social and Corporate Governance Advisory IFC Serbia Improving Investment Climate ASA

			highest ranked in the last 2020 Doing Business ranking. The strength of insolvency framework was at the top of the scale with a mark of 15.5 out of 16. Serbia's low rate of asset recovery affected the 2020 DB ranking. The low rate of recovery reflects the weak economic status of the businesses entering insolvency (often public companies under privatization), a fact unrelated to the impact of the institutional improvement efforts undertaken, which were successful. Resolving insolvency DB2020: 67.0 DTF. 62 percent of the intended improvement was delivered.	focused on targeted investment climate reforms to ease investment entry, strengthen investor protections and facilitate investment retention and re-investments. IFC also supported digitalization and transformation from a paper-based system to an electronic system for licenses and permits.	
Objective 2b: More stable and more accessible financial sector **Overall Rating: Mostly Achieved**	**Indicator 1**: Reduction of share of Non-Performing Loans (NPLs) in total loans provided **Supplemental Indicators**: No state-owned banks with negative profitability	**Baseline (2014):** 22.5 percent **Target (2019)**: less than 18 percent	**Achieved** NPL ratio is 3.7% as of 2020Q4. The reduction of non-performing loans exceeded expectations and, as a result, it has spurred the performance of the banking sector. Lending activity started recovering after 2015, aided by the accelerated economic recovery and low interest rate environment Source: Article IV No SOBs with negative profitability as of end-2020. As of end 2020, only Banka Poštanksa Štedionica (PBS) and Srpska Banka are in the SOB portfolio. Komercijalna and Jubmes banka were privatized in		**Completed:** Deposit Insurance Strengthening Project (P146248) (FY14) Western Balkans Financial Sector TA **Ongoing:** State Owned Financial Institutions Reform Project (P149750) (FY18) CFRR regional EU-REPARIS6 program, and EQ-FINREP7 country project

	Deposit Insurance Fund replenished and balance sustained		2019 and 2020 respectively. State Owned Financial Institutions Reform Project (P149750) Source: NBS Financial Statements of SOBs DIF balance sustained. Deposit Insurance Strengthening Project (P146248) contributed to the recapitalization of the Deposit Insurance Fund (DIF) and increased contributions via premiums from member banks, both of which have led to continuous growth of the DIF. Cumulative inflows into DIF exceeded targets. By June 30, 2016, cumulative inflows into the DIF reached 2.5 percent of insured deposits. As of 31 December 2017, the DIF balance was EUR 392.25 million, equaling 3.4 percent of the insured deposits compared to the December 31, 2013 baseline. As of 31 December 2018, the DIF balance was EUR 386 million, equaling to 2.2 percent of the total insured deposits. Source: Deposit Insurance Agency 2018 audited financial statement, Page #23		DG Near Financial Sector Deepening in Western Balkans IFC Western Balkans Debt Resolution and Business Exit Program MIGA capital optimization guarantees IFC lending to Financial Intermediaries (SME lending, mortgage, and microfinance)
	Increased debt recovery rate through out of court workouts and insolvency Indicator: proceedings	**Baseline:** 29.2 % (2014) **Target:** 40% percent (2018)	Debt recovery rate through insolvency: 2020: 34.5 percent (DB 2020) Source: DB 2020		

	Indicator 2: Increased availability of enterprise financing coming from banks Percent of firm financing coming from banks **Supplemental Indicator:** Credit growth exceeds GDP growth from 2018	**Baseline** (2013): 15 percent **Target** (2019): 29 percent	**Mostly Achieved** The gains in reducing NPLs have contributed to a growth of credit to firms. Credit expanded rapidly after 2016, mostly for consumption. The expansion of credit for firms began in 2018, after the NPLs had come under control. Credit growth to firms was 9.5% yoy in 2018, 8.4% yoy in 2019 and 9.9% yoy in 2020, surpassing in all cases GDP growth. Most of the credit growth has been to MSMEs. Additional evidence: Domestic credit to private sector: 2013: 40.97 2019: 42.03 Source: WBG open data Domestic credit to non-government: 2018: 10.1, 2019: 9.5 (estimate), 2020: 12.0 **Source: Article IV**		
Objective 2c: More efficient land and property markets **Overall Rating: Achieved**	**Indicator 1:** Improve Doing Business Distance to Frontier (DTF) Construction Permits DTF **Supplemental Indicator**: System for electronic issuing of building permit established and applied	**Baseline** DB2015 – 29.14 **Target** DB2019 - 44	**Achieved** As of 2020 DB, DTF was 85.3. Serbia now ranks 9th in the world. The target has been overachieved. The Real Estate Management Project financed reform of construction permitting and establishment of one-stop-shop system for electronic issuing of construction permits. EUR 1.1 million project subcomponent provided technical assistance, software development, independent quality assurance and quality control of the design and development of the	Efforts at building institutions truly succeed when they lead to significant improvements for beneficiaries. Real Estate Registration Agency (Republic Geodetic Authority) was successfully transformed from a traditional, inefficient, and complex system to a modern, efficient, and easy to access	**Ongoing:** Real Estate Management Project (P147050) FY15 and Real Estate Management Project Additional Financing (P168640) FY20

			application software and supply of hardware and standard licenses. <u>Dealing with Construction Permits</u> **Actual**: (2020 rank): 9 <u>Score of dealing with construction permits (0-100)</u> **Actual** (2020): 85.3 Source: [DB2020]	system. The support was provided by the Real Estate Management Project. Procedures for the simplification of registering a property now allows registration to be conducted in one place and the time required was reduced from 44 to 4 days. Access to registration, information and issuances of certificates is provided through the internet. The bases have been set for transforming Real Estate Cadaster into an executive, self-financed, and sustainable institution.	
	Indicator 2: Efficiency of property registration system improved Average number of days to complete recording of purchase/sale of property in the land administration system **Supplemental Indicators:** Rules, procedures, methodologies and information on property registration widely and easily accessible and procedures operate for public to verify their information Valuers operating in accordance with valuation standards in compliance with international standards	**Baseline** 2015: 48 **Target** 2019: 4	**Achieved** Measured by the Objective Indicator the efficiency of cadaster system improved substantially with property transaction registration taking 3.3 days on average as of June 2021 for both applications submitted by notary offices via electronic cadaster and paper document summitted by citizens to local cadaster offices. Source: ISR REMP Serbia improved the efficiency of land and property markets and decreased the time required to complete the property registration. Information on real estate has been digitized and their quality has been significantly improved. Information related to rules, procedures, and services are widely available to the public. Valuers operate under a modern regulatory framework adopted in 2016 with national standards for valuation harmonized in 2017. Gains in property valuation, in turn, led to improvements in tax		**Ongoing:** Real Estate Management Project (P147050) FY15 and Real Estate Management Project Additional Financing (P168640) FY20

			collection and stronger fiscal accounts **Source:** Real Estate Management Project - P147050 - Sequence No : 12		
Objective 2d: Enhanced transport infrastructure networks **Overall Rating: Achieved**	**Indicator 1:** Corridor X completed **Supplemental Indicator**: Financing for all Corridor X lots secured by end 2015	**Target:** Kilometers to be completed by end 2019: 46	**Achieved** The Bank lead preparation of the entire Corridor X program for Xc (E-80) and Xd (E-75) branches, and together with the EBRD and the EIB financed construction of selected sections. Completed E-75 and E-80 branches were opened to traffic in May and November 2019 respectively, with the Bank financed sections totaling 45.53 km in length. The final length of E-80 was 8.3 km. The final length of E-75 financed by the project was 5.6 km + 6.0 km + 26.3 km = 37.9 km. The final completion date of Dimitrovgrad Bypass (on E-80) was two months later than September 30, 2019 Project closing date, and the remaining works were fully completed using government funds. All the WB financed sections, including Dimitrovgrad Bypass roadway, were open to traffic before the closing date (while the slope protection works were still ongoing); all the intended physical works were substantially achieved by the closing date. Source: ICR (P108005) Page #29, ICRR (P108005) Page #5	Clear and broadly shared CPF objectives facilitate building coalitions with development partners, mobilizing private sector financing and adjusting to unforeseen events. The synergies from these coordinated efforts can drive sector institutional reforms but must remain flexible and adjust to unforeseen challenges. The preparation of Corridor X Highway Project, a largest project in the Bank portfolio in Serbia, was built around a clear understanding all parties concerned of its strategic importance. The clear objectives facilitated the World Bank adjusting to unexpected challenges caused by	**Completed:** Mainstreaming Climate Resilience in Road Transport Management in Serbia (FY18) Public Expenditure and Public Utilities DPL Series (FY17 and FY18) Corridor Highway X project (P108005) (FY 10) Road Rehabilitation and Safety Project (P127876) (FY13) IFC advisory support and financing of PPPs Serbia Railways Asset Management Plan using Life Cycle Costs Proposed: IFC PPPs in municipal infrastructure and transport sectors Public Investment Management Energy tariffs reform and impact on the Bottom 40

	Indicator 2: National roads rehabilitated Kilometers to be rehabilitated with safety measures incorporated	**Target:** 121km (2019)	**Achieved** 416.5 km rehabilitated, of which the contribution from the World Bank extended to the national road sections with a total length of 254.5 km where safety measures were incorporated The Road Rehabilitation and Safety Project (P127876) (FY13, together with EIB and EBRD, supported first phase of Serbia's NRNRP. Source: ICR (P127876) Page #14 – 16, 35 - 37 and ICRR (P127876) Page #6	extreme weather events (floods). Analytical work enriched the wider transport sector development agenda contributing to mainstreaming climate resilience in road transport management, disclosing road accident data and publishing online the open database under GIS environment.	
Objective 2e: More efficient employment facilitation **Overall Rating: Achieved**	**Indicator 1:** NES services enhanced Number of active job seekers per case worker: Increased number of registered unemployed who found formal job Increased number of registered unemployed women who found formal job Increased number of registered unemployed youth (15-24) who found formal job:	**Baseline 2014:** 1,238 (registered unemployed) **Target 2019**: 800 (active job seekers) **Baseline:** 232,280 (2014) **Baseline: 122,491 (2014)** **Baseline:** Female: 19,100 (2014); Male: 22,498 (2014)	**Achieved** NES has been able to rationalize its caseloads, diminishing the regional variation across branch offices in terms of caseloads per worker. Overall, in 2020, each case worker served an average of 816 job seekers. NES adopted the Action plan to enhance the quality of employer services and case management and implemented a systematic training and certification process for its case workers three times per year. As a result of this process, 88.66% of NES staff has been certified as case worker by the end of 2020. In this way the quality of case management the NES provides to active job seekers was successfully enhanced over the past several years.	Success of efforts to build institutions is measured by significant improvements for their beneficiaries. National Employment Service enhanced the quality of services and case management leading, and overall improved its performance, which resulted in higher numbers of unemployed transitioning to formal jobs with support from the NES. A component of the Competitiveness	**Completed:** First and Second Programmatic State-Owned Enterprises Reform Development Policy Loan Projects (P127408) (FY15) (P149750) (FY17) Serbia Competitiveness and Jobs (P152104) (FY15) Western Balkans Jobs TA New Growth Agenda Country Economic Memorandum (CEM)

	Increased number of registered unemployed Roma who found formal job: **Supplemental Indicator:** Percentage of total NES staff that is operating as certified case worker	**Baseline**: Female: 633 (2014); Male: 959 (2014)	Progress towards improving the performance of the NES, due in part to the Bank's support, but also due to improved labor market conditions. The NES improved its performance across several areas. Between 2014 and 2020, favorable labor market conditions prevailed, with unemployment rates decreasing from 19.2% in 2015 to 9% in 2020. This evolution in labor market conditions has translated into a reduction in the total number of registered unemployed in NES, from 767,435 in 2014 to 509,179 in 2019. Given this reduction, the absolute value of registered unemployed has decreased from 232,280 in 2014 to 218,854 in 2020. However, in relative terms, these figures imply that NES was able to place 30% of its registered unemployed in formal jobs in 2014, while this indicator improved to 43% by 2020. Despite the reduction in registered unemployed, NES has been able to increase its offering of services, for example job search assistance to registered unemployed increased by 13% between 2017 and 2019 In 2020, 118,226 registered female unemployment cases transitioned into formal job. In 2019 132,708 women found formal jobs. In 2019 50,726 unemployed youth were registered with NES, of which	and Jobs Project and a TA supported the NES to enhance its performance.	

			39,043 transitioned to formal jobs (male 21,293 and 17,750 female). The number of Roma registered as unemployed has been increasing. In 2019 there were 29,266 registered unemployed Roma, up from 22,437 in 2015. Of these 5,377 transitioned to formal jobs in 2019, with 3,372 male and 2,005 females. Source: NES Monthly Statistical Bulletins, No. 220 and No. 208; NES Annual Reports for 2020 and 2019; additional data provided directly by NES		

CLR Annex 3: IBRD Lending program FY 16-20 Planned Versus Actual

ID	Operation	FY planned	FY actual	US$ m
Policy Support				
P149750	Second Programmatic State-Owned Enterprises Reform DPL	2016	2017	100
P155694	Public Expenditure and Public Utilities DPL 1	2016	2017	200
P120399	Public Expenditure and Public Utilities DPL 2	2017	2018	200
P157489	Disaster Risk Management DPL w CAT DDO	2019	2017	70
P164575	Public Sector Efficiency and Green Recovery DPL	2018	2021	100
Program Support				
P155172	Modernization and Optimization of Public Administration *(Program for Results)*	2016	2016	75
P163760	Enhancing Infrastructure Efficiency and Sustainability *(Program for Results)*	2018	2018	118.6
P152104	Competitiveness and Jobs *(IPF with results-based disbursement)*	2016	2016	100
P156837	State Owned Financial Institutions Reform *(IPF with results-based disbursement)*	2017	2018	50
Project Support				
P158413	Additional Financing for Corridor X Highway		2017	38.9
P157117	Inclusive Early Childhood Education and Care	2017	2017	50
P166025	Additional Financing for Second Health Sector Project		2018	31.1
P164824	Enabling Digital Governance		2019	52
P163673	Tax Administration Modernization		2019	50
	Additional Financing for Real Estate Management Project		2019	25
P162043	Trade and Transport Facilitation (*Regional, Serbia Loan amount)*		2019	40
P167634	Competitive Agriculture Project		2020	50
P170185	Accelerating Innovation and Growth Entrepreneurship (SAIGE)		2020	48
P168862	Sava Drina Rivers Corridors Integrated Development Program (*Regional, Serbia Loan amount)*		2021	85
P173892	Emergency Covid-19 Response Project		2020	100
P170868	Railways Sector Modernization Project		2021	62.5
P178493	Second Competitiveness and Jobs	2020	Forwarded to 2023	
P170004	Managing a Mining Sector Transition for Future Development		Forwarded to 2023	
		Total		**1646.1**

CLR Annex 4: IBRD Portfolio and Project Performance Ratings during CPF Period

Portfolio And Disbursements (FY15-FY21)

Fiscal year	FY16	FY17	FY18	FY19	FY20	FY21
Projects #	8	12	13	14	13	12
Net Comm Amt $m	1,247.0	1,705.9	1,805.6	1,879.8	903.0	819.1
Tot Disbursements $m	652.1	833.3	914.8	1,275.7	346.6	210.9
Tot Undisbursed Balance $m	483.1	744.4	789.6	478.1	539.0	599.5
Disbursements in FY $m	136.0	180.1	350.4	360.1	101.2	75.4
Disbursement Ratio	30.6	16.4	27.9	33.4	18.9	9.8
IBRD Disbursement in FY	136.0	180.1	350.4	360.1	101.2	75.4
Comm IP/DO	0.0	0.0	200.0	75.0	0.0	50.0
Flg Slow Disb	1	1	1	0	0	0
IBRD Cancelation in FY	0.0	0.0	0.0	24.4	0.0	0.0

Portfolio Riskiness (FY15-FY21)

Fiscal year	FY16	FY17	FY18	FY19	FY20	FY21
# Problem Projects	0	0	2	1	0	1
# Potential Problem Projects	0	0	0	0	0	0
# Projects At Risk	0	0	2	1	0	1
Commitments at Risk $m	0.0	0.0	200.0	75.0	0.0	50.0

IEG Ratings (FY15-FY21)

Fiscal year	FY16	FY18	FY20	FY21
# of Exits	2	3	4	1
Outcome % Satisfactory	100.0	100.0	100.0	100.0
ICR Quality % Sat	50.0	66.7	100.0	100.0
Net Disconnect	0.0	0.0	-25.0	0.0
Bank Performance at Entry % Sat	100.0	100.0	100.0	100.0
Bank Performance at Supervision % Sat	100.0	100.0	100.0	100.0
% Substantial or Better M&E Quality	100.0	66.7	75.0	100.0
Borrower Overall Performance % Sat	100.0	100.0		

CLR Annex 5: IBRD Advisory Services and Analytics

ID	Task Name	Global Themes	Completion FY
P158187	Policy Management and Implementation Tracking Assessment	Governance	2016
P143127	Serbia Inclusive Education	Education	2016
P151518	Serbia Public Finance Review	Macroeconomics, Trade and Investment	2016
P151243	Serbia Wage Bill Management	Governance	2017
P156302	Vertical Functional review of the Ministry of Finance	Governance	2017
P156303	Vertical Review-Ministry of Health	Health, Nutrition & Population	2017
P156304	Vertical Review- Ministry of Education	Education	2017
P156305	Vertical Review-Min. of Labor	Social Protection & Jobs	2017
P156327	Inclusion of Vulnerable Groups such as Roma in Preschool Education	Education	2017
P156615	Horizontal Functional Review	Governance	2017
P156616	Functional Review of the Ministry of Agriculture and Environmental Protection	Agriculture and Food	2017
P156935	Strengthening Public Investment Management in Serbia	Governance	2017
P157807	Serbia gas sector reform plan	Energy & Extractives	2017
P158014	Serbia energy affordability TA	Energy & Extractives	2017
P158908	Srbijagas JIT TA Due Diligence	Governance	2017
P159271	Serbia Natural Gas Sector Analysis	Energy & Extractives	2017
P155582	Capacity building on Disaster Risk Financing and Insurance for Serbia	Finance, Competitiveness and Innovation	2018
P161399	Improving the Quality and Flow of Public Finance Data	Governance	2018
P161916	Srbijagas investment appraisal methodology and CAPEX audit	Energy & Extractives	2018
P162822	Serbia Public Sector Accounting Review – BETF SECO	Governance	2018
P162823	Mainstreaming Climate Resilience in the Road Transport Management in Serbia	Transport	2018
P162942	Serbia Power System Study and RE integration assessment	Energy & Extractives	2018
P110249	MDTF for Justice Support in Serbia – Bank executed advisory services component	Governance	2019
P129414	Serbia – Government Debt and Risk Mgmt	Other	2019
P153881	Pilot Project on SME Reporting	Governance	2019
P155352	Serbia Research, Innovation and Technology Transfer Technical Assistance	Finance, Competitiveness and Innovation	2019
P158088	Strengthening Public Procurement in Serbia	Governance	2019
P158246	Investment and Export Promotion Reforms	Finance, Competitiveness and Innovation	2019
P162777	Implementing Open Data Plan	Digital Development	2019
P162824	Building Government Capacity for Result-based delivery	Other	2019

P163203	RAS Serbia Result Based Management	Macroeconomics, Trade and Investment	2019
P163884	Resilient Recovery	Urban, Resilience and Land	2019
P164281	Serbia SOE Reform: Inputs for Financial Consolidation and Restructuring of PE Resavica	Finance, Competitiveness and Innovation	2019
P164808	Serbia: Strengthening the Social Protection System for Disaster Preparedness and Response	Social Protection & Jobs	2019
P166915	Toward a TOD Approach for Belgrade	Urban, Resilience and Land	2019
P167775	Serbia – Mining Sector Diagnostic	Energy & Extractives	2019
P155470	Serbia Rightsizing and Restructuring	Governance	2020
P165611	Serbia Railways Asset Management Plan using Life Cycle Costs	Transport	2020
P167402	Serbia State-Owned Banks Reform	Finance, Competitiveness and Innovation	2020
P167618	Supporting implementation of Public Investment Management reforms in Serbia	Governance	2020
P169068	Serbia New Growth Agenda CEM	Macroeconomics, Trade and Investment	2020
P172606	Human Capital for Jobs and Growth	Education	2020
P154128	National Disaster Risk Management Program	Urban, Resilience and Land	2021
P169842	District Heating Tariff Study and Poverty and Social Impact Assessment	Energy & Extractives	2021

CLR Annex 6: Lessons from the Previous CLR and Emerging Lessons from the PLR of CPF FY16-20

		CPF FY16-20 Design and Application of Lessons
Lessons Learnt from the Previous CLR	Success of the WBG program was largely dependent on alignment with Government objectives and those of other key partners	• The CPF was aligned with the Government's Fiscal Strategy and Economic Reform Program, which placed the emphasis on fiscal consolidation and implementation of structural reforms. • The WBG program provided strong support on critical aspects of the fiscal consolidation, including SOE and public sector reforms (direct support to the implementation of the country's Public Administration Reform Strategy and its Action Plan for implementation). • Alignment of CPF strategic goals with the EU strategic engagement in the region allowed the World Bank and the EU to jointly finance government public administration reform programs, aligning the EU Sector Budget Support and World Bank result-based financing. • The CPF program selectivity was based on the WBG's comparative advantage vis-a-vis other partners, especially the EU, EBRD and EIB, both in terms of areas where each institution may have leverage and in terms of track record in program implementation.
PLR Emerging Lessons	Not relevant	
Lessons Learnt from the Previous CLR	Assist the government in getting growth back on track, as a key factor for enhancing opportunities for less well-off	• The Bank has been at the forefront of the dialogue on fiscal consolidation, reforms focused on economic growth and creating an enabling environment for investment and job creation. The long and consistent engagement over time has paid off, as government has undertaken critical reforms, which led to improved macroeconomic performance and employment. As this process progresses, continued attention needs to be devoted to creating opportunities for the bottom forty percent. • The project design was mindful of capacity constraints, and the Bank ensured project readiness, including having functioning implementation and operational arrangements in place at the time of project approval. • The Bank continuously provided formal and informal (hands-on) training to key counterparts (such as on project / contract management, procurement, and safeguards). • Strategic establishment of the Central Fiduciary Unit in the MoF and the expansion of its capacity with additional procurement and financial management staff added to readiness for implementation.
PLR Emerging Lessons	• Pay close attention to coordination and capacity constraints, as they often affect implementation • Government inter-agency coordination impacted preparation and implementation of programs • Insufficient capacity and/or high staff government turnover take toll on implementation pace • Capacity challenges are compounded when implementing complex programs or multiple activities with other development partners • Consider capacity constraints related to service providers (transport sector- provision of design and construction services due to limited competition and market constraints)	
Lessons Learnt from the Previous CLR	Flexibility and adaptability in the use of instruments is critical	• The CPF Program was supported with a mix of instruments. It was front-loaded with budget support operations to advance fiscal consolidation and SOE reform, thus creating space for later investments (IPFs, including several with results-based financing aspects) in diverse sectors. In case that budget support operations could not be used due to macro-fiscal performance, the CPF program would be able to adapt its instruments and increase use of the results-based financing. Additional Financing was used for well
PLR Emerging Lessons	Not relevant	

<table>
<tr><td></td><td></td><td>performing operations. A DPO with CAT DDO feature supported efforts to manage impacts from natural disasters.
• The World Bank demonstrated flexibility and responsiveness by restructuring three operations to deploy resources to support the sustaining business and jobs at the time of pandemic in FY20, and quickly preparing the Emergency Covid-19 operation to bolster Government’s health response.</td></tr>
<tr><td>Lessons Learnt from the Previous CLR</td><td>The WBG is well placed to provide high quality, timely, and relevant knowledge products, which can form a solid basis for lending operations</td><td rowspan="2">• In collaboration with the government, the World Bank produced key knowledge products such as the Horizontal and Vertical Functional Reviews and Serbia Rightsizing and Restructuring TA (funded by EU IPA), Serbia Public Finance Review, 2019 Country Economic Memorandum (CEM): New Growth Agenda and 2020 Public Expenditure and Financial Accountability (PEFA). These advisory and analytical products informed lending operations, including DPLs like Public Expenditure and Public Utilities series and the most recent Public Sector Efficiency and Green Recovery DPL.</td></tr>
<tr><td>PLR Emerging Lessons</td><td>Not relevant</td></tr>
<tr><td>Lessons Learnt from the Previous CLR</td><td>The next CPF should build on focused objectives and clear outcomes, monitored by observable indicators.</td><td rowspan="2">• The CPF design was based on previous design shortcomings, highlighting the importance of focusing on a small number of outcomes that can be effectively monitored. The CPF design reflected the streamlined approach by incorporating two focus areas and eleven objectives. The CPF design included several indicators to measure the progress by incorporating observable performance indicators, with available data and clear monitoring protocols. Additionally, the PLR introduced minor revisions to objectives and indicators, to reflect the implementation experience and changed circumstances.</td></tr>
<tr><td>PLR Emerging Lessons</td><td>Not relevant</td></tr>
<tr><td>Lessons Learnt from the Previous CLR</td><td>The partnership with the EU, in particular in the broad domain of economic governance, is essential as Serbia approaches the EU membership.

Joint financing initiatives in critical reform areas or joint sector budget support are potential instruments for stepping up joint engagement.</td><td rowspan="2">• The EU is the key interlocutor and the WBG continued the partnership with it in a wide range of areas during the CPF period. For the first time, the World Bank and the EU jointly financed the Government’s public sector reform program, by aligning the EU Sector Budget Support and the World Bank result-based financing. Another area where the EU was a key contributor to the Bank program was the Disaster Risk Management agenda.
• In the transport sector, the harmonization of procedures for co-financed activities between the Bank and EIB took long time to resolve, causing delays and transaction cost. Much effort had to be made to operationalize functional processes. Future joint engagements with other development partners need to provide for clear coordination mechanisms for project implementation.</td></tr>
<tr><td>PLR Emerging Lessons</td><td>• Projects with parallel implementation and co-financing options, have proven to be rather challenging to implement.</td></tr>
<tr><td>Lessons Learnt from the Previous CLR</td><td>The challenging macroeconomic environment and poor corporate and financial governance poses constraints to IFC investment activity.</td><td rowspan="2">• Combining the available financing and knowledge, the WBG supported innovative programs, like results-based financing (including the first PforR operation in the ECA region) to exploit opportunities for the design and implementation of PPPs, and creating conditions to enable private investment in transport, energy and other infrastructure. IFC operationalized these initiatives through IFC’s investments into two WPPs, Belgrade WtE project, and private concessionaire of Belgrade Airport Nikola Tesla.
• The potential for MFD will be further explored in the areas where the Government chooses to speed up the privatization process as well as in the areas where competitiveness could benefit from private sector initiatives such as in transport, agriculture, and energy sectors.</td></tr>
<tr><td>PLR Emerging Lessons</td><td>• The WBG remains one of the key partners in the development dialogue and should explore additional opportunities for leveraging MFD approach to increase private sector involvement and financing.</td></tr>
</table>

CLR Annex 7: Statement of IFC's Committed Portfolio

(As of June 30, 2020, in US$ millions)

Client	Product	First and Most Recent Commitment FY(s)	Committed Exposure
FIG Portfolio			
FIG: Financial Markets			
OBS MFI	*LN*	*FY18*	*12.2*
Unicredit Bank	*LN*	*FY05, FY12*	*3.6*
Total FIG: Financial Markets			*15.7*
FIG: Trade Finance			
Eurobank Serbia	*GT*	*FY11*	*12.1*
Total FIG: Trade Finance			*12.1*
Total FIG Portfolio			*27.8*

Client	Product	First and Most Recent Commitment FY(s)	Committed Exposure
MAS Portfolio			
MAS: Agribusiness & Forestry			
Vino Zupa	*LN*	*FY12*	*4.9*
Total MAS: Agribusiness & Forestry			*4.9*
Total MAS Portfolio			*27.8*

Client	Product	First and Most Recent Commitment FY(s)	Committed Exposure
INR Portfolio			
INR: Infrastructure			
SPV Vinca	*LN, RM*	*FY20*	*97.8*
Belgrade Airport SPV	*LN*	*FY19*	*87.2*
Vetroelektrane Balkana	*LN, RM*	*FY18*	*60.5*
Electrawinds-S	*LN, QL, RM*	*FY17, FY18*	*19.6*
IVICOM	*QL*	*FY14*	*3.4*
Total INR: Infrastructure			*268.5*
Total INR Portfolio			*268.5*

CLR Annex 8: MIGA's Guarantee Portfolio

(As of June 30, 2020)

Project name	Effective date	Expiration date	Investor	Sector	**Gross Exposure (in US Millions)**
Erste Bank a.d. Novi Sad Serbia	05/24/2013	05/23/2028	Erste Group Bank AG	Financial	**US$34.5**
Raiffeisen Banka a.d.	03/31/2015	03/30/2024	Raiffeisen Bank International AG	Financial	**US$203.4**
UniCredit Bank Serbia	12/29/2016	12/28/2026	UniCredit Spa	Financial	**US$341.9**
Beo Cista Energija d.o.o. Beograd	10/09/2019	10/08/2039	Suez Groupe S.A.S., I-Environment Investments LTD, Marguerite Waste Serbia S.a.r.l	Infrastructure	**US$108.9**
NLB Banka a.d., Beograd	06/30/2020	06/29/2027	Nova Ljubljanska Banka d.d., Ljubljana	Financial	**US$34.7**
ProCredit Mandatory Reserves	12/22/2020	12/21/2025	ProCredit Holding AG & Co. KGaA	Financial	**US$74.9**
Total					**US$798.3**

CLR Annex 9: IEG assessment of projects closed during the CPF period

Proj ID	Project	Lending Instrument	Closing FY	Outcome Rating	Bank Performance Rating
P126229	YF Innovation Serbia	TAL	FY16	S	S
P146248	Deposit Insurance Strengthening Project	IPF	FY18	S	S
P127408	YF Programmatic SOE Reform DPL	DPL	FY18	S	S
P108005	Corridor X Highway Project	IPF	FY20	S	MS
P152018	Floods Emergency Recovery Project	IPF	FY20	S	MS
P155172	PforR on Modernization of Pub. Admin.	P4R	FY20	S	S
P161184	Public Exp. & Public Utilities DPL	DPL	FY20	S	S
P127876	Road Rehabilitation and Safety Project	IPF	FY21	MS	MS

Annex 3: Financial Management, Procurement and Government Systems

The PFM system is sound and provides a reliable basis for implementation of the CPF. Deviations of actual expenditures and revenue are low to moderate. The annual budget is publicly available, comprehensive and incorporates international financing and project loans. Budget execution is sound and within approved allocations, with no delays or bottlenecks due to liquidity constraints. Internal audit and financial management and control, as well as external scrutiny performed by the State Audit Institution and the Parliament, increasingly contributed to a sound control environment and safeguard of public funds. A PFM Working Group and Steering Committee coordinate PFM reform, under the oversight of the Ministry of Finance. The new PFM Program for 2021-2025 was adopted in April 2021 and is under implementation.

The extent of use of PFM country systems will depend on the instrument and project design. Traditional IPF operations partially rely on the country systems for the areas of flow of funds, internal controls and, to the extent possible, staffing. Budgeting, financial reporting and external audit for such operations require separate arrangements to respond to fiduciary needs of transparent reporting and portfolio monitoring. Results-based IPF operations to go a step further in integrating the use of the government's budgeting and reporting, while PforR operations fully use country systems in all key PFM areas.

Serbia made significant progress towards a more transparent, efficient, and competitive public procurement system, in line with EU directives. Notable advances include the enactment of the Public Procurement Law (PPL) in December 2019. The PPL introduced a digital public procurement portal (e-GP), allowing for electronic submission of tenders, communication between all relevant stakeholders, opening of tenders, publication of procurement notices and contract awards, and filing of requests for the protection of rights. While the PPL is harmonized with the EU Directives, its full application depends on a full understanding of the law provisions and the capacities of Contracting Authorities (CAs). In addition, procurement processes for high-value contracts under WB projects needs strengthening to reduce turnover time and minimize complaints through market analyses and bidder's awareness activities, which should be in place before procurement processes are initiated.

The World Bank will continue to provide support to the Public Procurement Office (PPO) to further strengthen the public procurement system. The CPF program will support interventions in the following areas: (i) Design and implementation of countrywide strategic procurement, including support in the training of CAs; (ii) Assessment of the public procurement portal and further enhancements; (iii) Implementation support of green procurement guidelines that have been issued but yet to be fully applied by CAs, including environmentally friendly features and energy efficiency requirements in bidding documents and in bid evaluation; (iv) Professionalization and competency framework for procurement professionals; and, (v) Procurement data analytics, open contracting, and citizen engagements.

The Central Fiduciary Unit (CFU), set up at the initiative of MoF in 2017, played a key role in facilitating the implementation of WB portfolio. The CFU has fiduciary responsibilities for the implementation of most of World Bank projects and grants. Evidence shows that this model delivered results on shortening the time for both project preparation and implementation.

Annex 4. Addressing Gender Exclusion in Mining, Energy and Agriculture in Serbia

The Gender Equality Index for Serbia is 10 points lower than the EU average.[25] In agriculture, where women are key players, their role and contribution are largely overlooked due to the informal nature of production activities on small family farms. Lack of access to property can be an obstacle to developing a business and accessing finance: only 39.2 percent of property owners in Serbia are women. Discrimination in hiring, social norms about gender roles, and limited access to affordable care services constrain women's ability to work. These disparities and discrimination practices affect disproportionately Roma women and sexual minorities. Women in Serbia are exposed to various forms of gender-based violence (GBV): 17 percent of them have suffered intimate partner violence in their lifetime. The World Bank has carried out a GBV service providers mapping in Serbia and has provided training to project implementation units to address sexual harassment in the workplace.

Women are under-represented in the mining and energy sectors in Serbia. A World Bank gender diversity assessment of 14 companies in Serbia's energy and mining sectors indicated that women: (a) account for 21 percent of the total workforce; (b) represent only 17 percent of senior managers, and (c) account for only 16 percent of members of Boards of Directors. Roughly half of the companies surveyed have male-only senior management teams and have no women in their Boards of Directors. While women represent 21 percent of all middle managers across the surveyed companies, their participation in leadership declines with seniority level. However, strikingly, women have a higher level of education than men: about 30 percent women working in mining and energy have advanced university qualifications, compared to 13 percent of men. The upcoming World Bank Gender Diversity Assessment in Mining and Energy Sectors will produce a set of actionable recommendation for the public and private sectors to ensure that the right blend of supportive policies and frameworks are put in place to support the role of women.

In agriculture, Serbian women are well-positioned to lead the transition to sustainable food production. Women are already producing food through organic small-scale farming. But they continue to face barriers including: (a) access to land; (b) access to finance; (c) lack of relevant agricultural education; and (d) access to information about available support programs. In the last two decades, interest in local breeds, varieties, organic production, and wild plants has increased in Serbia, reflecting increasing market demand. But the specialized knowledge, investment requirements, and ability to manage transition risks linked to climate-smart agriculture are constraints that affect small-scale producers, especially women. The ongoing Competitive Agriculture Project pilots a support system to enable female producers to address market failures that prevent them from adopting or scaling-up profitable agri-environmental practices. The operational framework consists of gender-targeted technical and financial assistance to facilitate the adoption of climate-smart practices, technologies, and information.

[25] According to 2021 Gender Equality Index, a measurement tool that shows a distance of the EU and its Member States from achieving a gender-equal society. https://eurogender.eige.europa.eu/events/release-gender-equality-index-serbia-2021#resources

Annex 5. Selected Indicators of Bank Portfolio Performance and Management

(As of Date 04/26/2022)

Indicator	FY19	FY20	FY21	FY22
Portfolio Assessment				
Number of Projects Under Implementation[a]	14.0	13.0	12.0	14.0
Average Implementation Period (years)[b]	3.4	3.0	2.8	3.1
Percent of Problem Projects by Number[a, c]	7.1	0.0	8.3	14.3
Percent of Problem Projects by Amount[a, c]	4.0	0.0	6.1	15.5
Percent of Projects at Risk by Number[a, d]	7.1	0.0	8.3	14.3
Percent of Projects at Risk by Amount[a, d]	4.0	0.0	6.1	15.5
Disbursement Ratio (%)[e]	33.4	21.5	10.4	14.8
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by IEG by Number	43	8
Proj Eval by IEG by Amt (US$ millions)	2,739.8	1,401.3
% of IEG Projects Rated U or HU by Number	9.3	0.0
% of IEG Projects Rated U or HU by Amt	1.5	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
*** All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.**

Annex 6. Operations Portfolio (IBRD/IDA and Grants)

(As of Date 04/26/2022)

Closed IBRD/IDA Projects*	47
Total Disbursed (Active)	382.89
of which has been repaid*	17.85
Total Disbursed (Closed)	5,775.30
of which has been repaid	4,422.68
Total Disbursed (Active + Closed)	6,158.19
of which has been repaid	4,440.53
Total Undisbursed (Active)	582.20
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	582.2033741

Active Projects		Last PSR Supervision Rating			Original Amount in US$ Millions					Difference Between Expected and Actual Disbursements[a]	
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IBRD	IDA	Grants	Cancel.	Undisb.	Orig.	Frm Rev'd
P164824	Enabling Digital Governance Project	MU	MU	2019	50.0	0.0		0.0	43.3	9.2	0.0
P170185	Innovation and Growth Entrepreneurship	S	S	2020	48.0	0.0		0.0	40.1	2.9	0.0
P174251	Local Infrastructure and Instit. Dev. Project	#	#	2022	100.0	0.0		0.0	100.0	0.9	0.0
P164575	Public Sec. Efficiency Green Recovery DPL	#	#	2021	100.0	0.0		0.0	0.0	0.0	0.0
P147050	Real Estate Management Project	MS	MS	2015	66.9	0.0		0.0	15.8	-5.2	-32.1
P163760	Enhancing Infrastructure Sust. Program	MS	MS	2018	118.6	0.0		0.0	45.9	25.0	46.6
P176770	Scaling-Up Residential Clean Energy	#	#	2022	50.0	0.0			50.0	0.0	0.0
P167634	Serbia Competitive Agriculture Project	MS	MS	2020	50.0	0.0		0.0	34.6	-2.2	0.0
P173892	Serbia Emergency COVID-19 Project	MS	MU	2020	100.0	0.0		0.0	83.7	82.9	0.0
P129539	Serbia Health Project	S	MS	2014	71.1	0.0		0.0	19.0	-7.0	-14.4
P157117	Serbia Inclusive ECEC	MS	MS	2017	50.0	0.0		0.0	26.2	14.7	0.3
P170868	Serbia Railway Sector Modernization	S	S	2021	62.5	0.0		0.0	61.1	11.7	0.0
P156837	State Owned Financial Institutions Project	S	S	2018	50.0	0.0		0.0	15.8	18.8	16.8
P163673	Tax Administration Modernization Project	S	MS	2019	52.0	0.0		0.0	46.6	25.3	0.0
Overall Result					**969.1**	**0.0**		**0.0**	**587.6**	**582.2**	**177.2**

* Disbursement data is updated at the end of the first week of the month; a. intended disbursements to date minus actual disbursements to date as projected at appraisal

Annex 7. Statement of IFC's Held and Disbursed Portfolio

(As of 03/31/2022)

(In USD Millions)

		Committed						Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Participant		Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY19	BELGRADE AIRPORT	79.88	0.00	0.00	0.00	122.03		68.24	0.00	0.00	0.00	104.25
FY85	JUGOBANKA	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
FY20	SPV VINCA	80.15	0.00	0.00	10.00	38.83		58.19	0.00	0.00	2.12	28.19
FY18	VETROELEKTRANE B	44.58	0.00	0.00	1.22	15.54		44.58	0.00	0.00	1.22	15.54
FY87	VOJVODJANSKA	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00	0.00
Total Portfolio:		**204.61**	**0.00**	**0.00**	**11.22**	**176.40**		**171.01**	**0.00**	**0.00**	**3.34**	**147.98**

Annex 8. MIGA's Guarantee Portfolio

(as of April 13, 2022)

Project name	Effective date	Expiration date	Investor	Sector	Gross Exposure (in US Millions)
Erste Bank a.d. Novi Sad Serbia	05/24/2013	05/23/2028	Erste Group Bank AG	Financial	US$ 23.5
NLB Banka a.d., Beograd	06/30/2020	04/28/2022	Nova Ljubljanska Banka d.d., Ljubljana	Financial	US$ 33.5
Komercijalna Banka a.d., Beograd	11/30/2021	11/29/2028	Nova Ljubljanska Banka d.d., Ljubljana	Financial	US$ 234.6
ProCredit Mandatory Reserves	12/22/2020	12/21/2025	ProCredit Holding AG & Co. KGaA	Financial	US$ 51.4
Raiffeisen Banka a.d.	03/31/2021	03/30/2024	Raiffeisen Bank International AG	Financial	US$ 282.6
Beo Cista Energija d.o.o. Beograd ("Waste-to-Energy")	10/09/2019	10/08/2039	Suez Groupe S.A.S., I-Environment Investments LTD, Marguerite Waste Serbia S.a.r.l	Infrastructure	US$ 105.2.8
Koridori Srbije Ltd	03/15/2022	12/10/2034	JPMorgan Chase Bank, N.A.	Infrastructure	US$ 445.4
Total					**US$ 1,176.2**

Annex 9. Citizen Engagement

Serbia is a parliamentary democracy with competitive multiparty elections. The vibrancy of the civil society sector, including citizen engagements traditionally visible in the grassroots activist movements, has ebbed and flowed but it is going through a revival around the green agenda. Civil society has vocalized its support for a greener and more resilient economy throughout Serbia at regular intervals. In 2005, the independent institution of Ombudsman was established in Serbia, which is responsible for investigating and addressing complaints made by citizens against government institutions. The Right to Information (RTI) is protected by the Law on Free Access to Information of Public Importance, adopted in 2003. This law has been ranked as one of the strongest legislative frameworks for access to information in the world. However, amendments to this law introduced in November 2021 make restricting the right of access to information on government action for citizens possible.

While the Serbian WB portfolio has reached 100% compliance with corporate CE requirements (all projects have CE oriented design and include beneficiary feedback indicators), the implementation of CE mechanisms could be further strengthened, and their integration with country CE systems enhanced. CE mechanisms that are currently employed in operations primarily consist of grievance redress mechanisms, consultations and beneficiary feedback surveys. In 2020, a multi-stakeholder initiative on Transparency and Accountability was established with support from the World Bank. IFC has engaged with the business community on environmental, social and governance, and climate disclosures.[26]

The regional ECA CE Quality Index indicates that CE design has improved in the projects in terms of depth, frequency, openness to a range of feedback, and provision of multiple channels for providing feedback. However, many mechanisms still fall short of engaging beneficiaries throughout the project cycle. There is also a need to close feedback loop by integrating the input of beneficiaries into project design and activities and include vulnerable groups in the implementation of CE. Further, CE mechanisms in the portfolio typically operate in isolation from country CE systems and do not contribute to strengthening them. World Bank project can strengthen the provision of timely and accessible information to beneficiaries, for instance by integrating it with grievance redress mechanisms at the project level. Innovative CE approaches that rely on ICT tools, critical during COVID-19 times, should also be incorporated into flagship projects. As part of HLO-1, a stakeholder engagement platform for citizen engagement under the Clean Energy Project is already being planned, while intensified stakeholder engagement under HLO-2 is expected to guide the selection of green capital expenditures at the LSG level under the LIID Project. In the existing portfolio a key focus on ICT will be on increasing the level of satisfaction with the provision of selected e-services through the Government e-Portal under the Enabling Digital Governance Project, which aims to improve access, quality, and efficiency of selected administrative e-Government services. The Citizen Engagement Roadmap (see below) sets out the steps toward these objectives.

[26] https://www.ubs-asb.com/en/events/107-strategic-business-management-synergy-of-human-capital-and-sustainable-transformation-in-a-changing-environment.

Citizen Engagement Country Roadmap

MAINSTREAMING CITIZEN ENGAGEMENT IN CPF OBJECTIVES

Support Compliance, Quality and Implementation of CE in WB-financed Operations

6-STEP STRATEGY	10 CONCRETE ACTIONS
1. ENSURE COMPLIANCE WITH CORPORATE CITIZEN ENGAGEMENT REQUIREMENTS IN ALL IPFS	1. Ensure 100% compliance on CE corporate requirements 2. Support team and PIU capacity building to strengthen implementation of CE activities 3. Operate an accessible, impartial, and efficient GRM 4. Leverage opportunities provided by ESF (e.g., Stakeholder Engagement Plans) to strengthen and expand CE mechanisms in project design
2. INTENSIFY CITIZEN ENGAGEMENT TO ACHIEVE THE CPF OBJECTIVE OF MORE INCLUSIVE SERVICE DELIVER 1. Serbia Local Infrastructure and Institutional Development 2. Serbia Emergency COVID-19 Response Project 3. Serbia Railway Sector Modernization Project 4. Enabling Digital Governance in Serbia	5. Develop and implement structured and effective approaches to CE, incorporating innovative ICT tools (e.g., virtual public consultations; deliberative polling, participatory planning and monitoring, etc.)
3. STRENGTHEN THE QUALITY AND MONITORING OF CITIZEN ENGAGEMENT IN ALL IPFS	6. Improve PIU and task team reporting on CE, including reporting in ISRs and on GRM 7. Regularly measure beneficiary satisfaction with project activities 8. Consult with civil society organizations and proactively engage them in the implementation and monitoring of project activities
4. ENHANCE THE INCLUSIVENESS OF CE MECHANISMS	9. Ensure the inclusion of vulnerable groups in project design and in the implementation of CE mechanisms, focusing on women and youth
5. LEVERAGE CE IN WB OPERATIONS TO STRENGTHEN COUNTRY CE SYSTEMS	10. Avoid creating duplicative systems and support the strengthening of country CE systems through WB projects (e.g., integrating GRMs with the Ombudsman's Office and relying on the Access to Information Law)
6. BUILD ENGAGMENT AROUND OPERATIONAL PRIORITIES 1. Stakeholder Engagement Platform under the Western Balkans Green Growth 2. Serbia Residential Clean Energy and Energy Efficiency Scale-up Project (P176770)	11. Development of online platform allowing for feedback, monitoring and robust engagement of citizens on green growth issues

Annex 10. Indicative IBRD Lending Program

FY	Project	IBRD (US$ million)
FY22	Local Infrastructure and Institutional Development Project	100
	Serbia Scaling Up Residential Clean Energy Project	50
	Sub-total FY22	***150***
FY23	Catalyzing Long Term Finance Through Capital Markets	50
	First Green Transition Programmatic DPL	120
	Second Competitiveness and Jobs Project	75
	Railway Sector Modernization Phase 2	80
	Sub-total FY23	***325***
FY24	Managing a Mining Transition for Future Development MPA	70
	Tertiary Education Project	50
	Sava Drina River Corridor Project MPA Phase 2	50
	Second Green Transition Programmatic DPL	120
	Sub-total FY24	***290***
FY25	Railway Sector Modernization Phase 3	195
	Sub-total FY25	***195***
FY26	TBD	50
	Sub-total FY26	***0***
	Total	***1010***