The World Bank
(P149750)

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Report No: ICR00004634

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-84910)

ON A
SERIES OF DEVELOPMENT POLICY OPERATIONS

IN THE AMOUNT OF EUR 88.3 MILLION
(US$ 100 MILLION EQUIVALENT) for the period of FY15-FY16

and

IN THE AMOUNT OF EUR 89.8 MILLION
(US$ 100 MILLION EQUIVALENT) for the period of FY17-FY18

TO THE

THE REPUBLIC OF SERBIA

FOR A

FIRST and SECOND PROGRAMMATIC STATE-OWNED ENTERPRISES REFORM DEVELOPMENT POLICY LOANs

March 25, 2019

Finance, Competitiveness, and Innovation Global Practice (FCI GP)

Europe and Central Asia Region (ECA)

CURRENCY EQUIVALENTS

(Exchange Rate Effective September 1, 2016)

Currency Unit =	EURO
EURO 1 =	USD 1.115
US$ 1 =	SDR 1.405

FISCAL YEAR

January 1 - December 31

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ABBREVIATIONS AND ACRONYMS

ALMP	Active Labor Market Programs
CPF	Country Partnership Framework
CSP	Country Strategy Paper
DPL	Development Policy Loan
EC	European Commission
ECA	Europe and Central Asia
ELD	Environmental Liability Directive
EPS	Elektroprivreda Srbije (Serbia's national electric power utility)
EU	European Union
EUR	Euro
FDI	Foreign Direct Investments
FY	World Bank Fiscal Year
GDP	Gross Domestic Product
GoS	Government of Serbia
IFC	International Financial Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
KPIs	Key performance indicators
MoE	Ministry of Economy
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoLEVSA	Ministry of Labor, Employment, Veterans, and Social Affairs
NBS	National Bank of Serbia
NES	National Employment Service
NIS	Naftna Industrija Srbije (Oil Company)
PA	Privatization Agency
PDO	Program Development Objective
PEPU	Public Expenditure and Public Utilities
PE	Public Enterprises
REPARIS	Accounting Reform and Institutional Strengthening (REPARIS)
RoS	Republic of Serbia
RSD	Serbian Dinar
SOEs	State-Owned Enterprises
TA	Technical Assistance
US$	United States Dollar
WBG	World Bank Group

Serbia
Series of Programmatic State-Owned Enterprises Reform DPLs

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DATASHEET

A. BASIC INFORMATION

Program 1

Country	Serbia	Program Name:	First Programmatic State-Owned Enterprises Reform DPL
Program ID:	P127408	L/C/TF Number(s)	IBRD-84910
ICR Date:	03/31/2019	ICR Type:	Core ICR
Financing Instrument:	DPL	Borrower:	Republic of Serbia
Original Total Commitment	USD 100.00M	Disbursed Amount	USD 101.46M

Implementing Agencies:

Co-financiers and Other External Partners:

Program 2

Country	Serbia	Program Name:	Second Programmatic State-Owned Enterprises Reform DPL
Program ID:	P149750	L/C/TF Number(s)	IBRD-84910,IBRD-86540
ICR Date:	11/14/2018	ICR Type:	Core ICR
Financing Instrument:	DPL	Borrower	Republic of Serbia
Original Total Commitment	USD 100.00M	Disbursed Amount	USD 96.94M

Implementing Agencies: Ministry of Labor, Employment, Veterans and Social Affairs; Ministry of Economy

Cofinanciers and Other External Partners:

B. KEY DATES

First Programmatic State-Owned Enterprises Reform DPL P127408

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	04/11/2012	Effectiveness:		07/24/2015
Appraisal:	02/10/2015	Restructuring(s):		
Approval:	03/24/2015	Mid-term Review:	06/01/2016	

		Closing:	03/31/2016	03/31/2016

Second Programmatic State-Owned Enterprises Reform DPL P149750

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	11/03/2015	Effectiveness:		12/31/2017
Appraisal:	01/28/2016	Restructuring(s):		
Approval:	10/25/2016	Mid-term Review:	06/01/2016	
		Closing:	12/31/2017	12/31/2017

C. RATINGS SUMMARY

C.1 Performance Rating by ICR

Overall Program Rating

Outcomes	Satisfactory
Risk to Development Outcome	Moderate
Bank Performance	Satisfactory
Borrower Performance	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Overall Program Rating

Bank	Ratings	Borrower	Ratings
Quality at Entry	Highly Satisfactory	Government:	Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Not Applicable
Overall Bank Performance	Satisfactory	Overall Borrower Performance	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators

First Programmatic State-Owned Enterprises Reform DPL P127408

Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Moderately Satisfactory		

Second Programmatic State-Owned Enterprises Reform DPL P149750

Implementation Performance	Indicators	QAG Assessments (if any)	Rating
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status			

D. SECTOR AND THEME CODES

First Programmatic State-Owned Enterprises Reform DPL P127408

	Original	Actual
Major Sector		
Social Protection		
Social Protection	25	25
Industry, Trade, and Services		
Other Industry, Trade, and Services	75	75
Major Theme/Theme/Sub Theme		
Finance	12	12
Financial Stability	12	12
Financial Sector Integrity	6	6
Financial Sector oversight and policy/banking regulation&restructuring	6	6
Human Development and Gender	16	16
Labor Market Policy and Programs	16	16
Active Labor Market Programs	8	8
Labor Market Institutions	8	8
Private Sector Development	30	30
Business Enabling Environment	30	30
Investment and Business Climate	15	15
Regulation and Competition Policy	15	15
Public Sector Management	43	43
Public Administration	43	43
State-owned Enterprise Reform and Privatization	43	43

Second Programmatic State-Owned Enterprises Reform DPL P149750

	Original	Actual
Major Sector		
Public Administration		
Sub-National Government	100	100
Major Theme/Theme/Sub Theme		

Human Development and Gender	16	16
Labor Market Policy and Programs	16	16
Active Labor Market Programs	8	8
Public Sector Management	43	43
Public Administration	43	43
State-owned Enterprise Reform and Privatization	43	43

E. BANK STAFF

First Programmatic State-Owned Enterprises Reform DPL P127408

Positions	At ICR	At Approval
Vice President:	Ceyla Pazarbasioglu-Dutz	Laura Tuck
Country Director:	Linda Van Gelder	Ellen A. Goldstein
Practice Manager/Manager:	Mario Guadamillas	Paloma Anos Casero
Task Team Leader:	Javier Suarez	Javier Suarez, Dusko Vasiljevic
ICR Team Leaders:	Melissa Metz	
ICR Primary Author:	Artak Azizyan	

Second Programmatic State-Owned Enterprises Reform DPL P149750

Positions	At ICR	At Approval
Vice President:	Ceyla Pazarbasioglu-Dutz	Cyril E Muller
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ICR Team Leader:	Melissa Metz	
ICR Primary Author:	Artak Azizyan	

1.

F. RESULTS FRAMEWORK ANALYSIS

Program Development Objectives (from Program Document)

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

Revised Program Development Objectives (as approved by original approving authority)

The PDO of the second operation was the same as the first.

Indicator(s)

First Programmatic State-Owned Enterprises Reform DPL P127408

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years

The results framework was the same in the second operation as in the first, with slight adjustments detailed below.

Second Programmatic State-Owned Enterprises Reform DPL P149750

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1:	**Results Indicator A1: Reduction of direct and indirect support to companies in Privatization Agency Portfolio**			
Value quantitative or Qualitative	a. Annual direct subsidies and soft loans (million Euro): Baseline (average 2010-2012): 85 b. New tax obligations and social contributions arears: Baseline (average 2010-2012): 190 c. New arrears to public utilities: Baseline (average 2010-2012): 70	a. Less than 5 (DPL-1 target was less than 10) b. Less than 5 (DPL-1 target was less than 20) c. Less than 5 (DPL-1 target was less than 20)	N/A	a. Annual direct subsidies and soft loans (million Euro): 2015: 4; 2017: 20. b. New tax obligations and social contributions arrears: 2017: 10 c. New arrears to public utilities:2017: 10-15 million EUR
Date achieved	12/31/2012	12/31/2017		12/31/2017
Comments (incl. % achievement)	After overperforming in the first operation, the indicators for the second operation (2017) were strengthened. Even though the revised targets for 2017 weren't fully achieved, the overall situation was improved dramatically.			
Indicator 2:	**Results Indicator A2: Disposal and treatment of legacy hazardous waste generated by companies in the Privatization Agency portfolio**			
Value quantitative or Qualitative	Total volume of legacy hazardous that was disposed and/or treated (tons of waste) Baseline (2014): 0	Target (cumulative, 2015-2017): 1,500	N/A	Total volume of legacy hazardous that was disposed and/or treated (tons of waste, 2015 -2017): over 1,071 tons
Date achieved	12/31/2014	12/31/2017		12/31/2017

Comments (incl. % achievement)	The action was strengthened for the second DPL, and this indicator was added. Waste was treated/disposed at 12 companies. The government has provided evidence that 1,071 tons were treated/disposed at 1 company. Records from 11 companies were lost.			
Indicator 3:	**Results Indicator B1 - Audited financial statements prepared and published by public enterprises required to do so by the Law on PE and new Law on Accounting and Law on Auditing for all PE for which the founder is the Rep of Serbia**			
Value quantitative or Qualitative	N/A	all required	N/A	2016: all required public enterprises publish their audited financial statements
Date achieved	01/01/2016	12/31/2016		12/31/2016
Comments (incl. % achievement)	Prior actions helped ensure the quality of the audit and made it mandatory for all PEs for which the founder is Serbia to publish their financial statements.			
Indicator 4:	**Results Indicator B2: Reduction of direct subsidies and reduction of issuance of new guarantees for liquidity purposes for large SOEs**			
Value quantitative or Qualitative	a. Direct subsidies for recurrent expenditures (million Euro) - Baseline (average 2012-2014): 250 b. Annual guaranties for liquidity purposes (million Euro): Baseline (average 2012-2014): 265	a. Less than 150 (DPL1 target was less than 200) b. Annual guaranties for liquidity purposes (million Euro): 0 (DPL -1 target was less than 100 million)	N/A	a. Direct subsidies for recurrent expenditures: 2015: EUR 139 million; 2017: EUR 170 b. Annual guaranties for liquidity purposes (million Euro): 2017: 0
Date achieved	12/31/2012	12/31/2016		12/31/2016
Comments (incl. % achievement)	This was also one of the conditions for the IMF program.			
Indicator 5:	**Results Indicator C1: Number of redundant workers receiving compensation from the Transition Fund increases from approx. 5,700 (2014) to at least 25,000 (cumulative 2015 and 2016) (to be monitored by gender).**			

Value quantitative or Qualitative	2014: 5,700	At least 25,000 (cumulative 2015 and 2016) (DPL-1 target was 10,000 for 2015)	N/A	2015: 19,791 (of which 6,366 women) 2016: 5,587 (of which 1,737 women) 2017: 2,603 (of which 848 women)
Date achieved	12/31/2014	12/31/2017		12/31/2017
Comments (incl. % achievement)	All workers made redundant from SOEs in the Privatization Agency portfolio received financial compensation from the Transition Fund, with few exceptions that refused to accept financial compensation (12 individuals).			

Indicator 6:	**Results Indicator C2: At least 30 percent of workers made redundant from public enterprises during 2016 register with National Employment Service (NES) (to be monitored by gender).**			
Value quantitative or Qualitative	N/A	At least 30%	N/A	85% (4,758 out of 5,587) out of which 1,787 women
Date achieved	12/31/2014	12/31/2016		12/31/2016
Comments (incl. % achievement)	Reforms of the policies and rules, supported by the operations, significantly strengthene the NES services.			

Indicator 7:	**Results Indicator C3: Number of participants in public works**			
Value quantitative or Qualitative	2013: 2,882 (1,187 female and 1,695 male)	At least 7,000 in 2016 (DPL-1 target was at least 6,000 in 2015)		2016: 7,357 out of which 3,319 women
Date achieved	12/31/2013	12/31/2016		12/31/2016
Comments (incl. % achievement)	Prior actions helped to re-design the public works program and number of participants grew over time. There were 7,357 out of which 3,319 were women in 2016 and 9,382 out of which 4,042 were women in 2017.			

G. RATINGS OF PROJECT PERFORMANCE IN ISRs

First Programmatic State-Owned Enterprises Reform DPL P127408

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	03/23/2016	Moderately Satisfactory	Satisfactory	101.22

H. RESTRUCTURING (IF ANY)

Not applicable

1. PROJECT CONTEXT, DEVELOPMENT OBJECTIVES AND DESIGN

1. **The State-Owned Enterprise Reform Development Policy Loan (DPL) series to the Republic of Serbia was a series of two operations of US$100 million each, approved in February 2015 and September 2016.** The DPLs supported a key reform agenda in the Government's economic program: structural reforms of the state-owned enterprise (SOE) sector. The development objectives of the series were to: (a) reduce state participation and the level of direct and indirect support to the real sector; (b) enhance SOEs' performance, governance, and accountability; and (c) mitigate the short-term social and labor impacts of the SOE restructuring and disposition plans. The SOE sector had reached a critical stage with substantial negative fiscal and economic implications, and needed a clear path for an orderly restructuring.

1.1. Context at Appraisal

2. **As of 2012, when the preparation of this series began, Serbia's economy was facing challenges of low growth and productivity as well as substantial fiscal pressures that limited the government's policy options for responding to these challenges.** The global financial crisis had exposed structural weaknesses in Serbia's economic growth model and prompted the need for fiscal consolidation and the acceleration of the unfinished transition to market economy. Direct and indirect support to state-owned enterprises (SOEs) was a driving factor of the fiscal pressures.

3. **After strong growth in the early-mid 2000s, in 2012-14 Serbia's economy was struggling to grow and create jobs. Prior to the global financial crisis, in 2004-2008, Serbia had experienced strong GDP growth, averaging 6.2 percent per year.** This growth was driven mainly by domestic consumption and resulted in significant internal and external imbalances. In 2009, the economy contracted by 3.1 percent. After a short recovery, it fell back into the recession in 2012 and 2014 (as a result of drought and severe floods, respectively). As an outcome, real GDP in 2014 was 1.9 percent below its 2008 level. The employment rate as of end 2014 was only 40.4 percent, with unemployment at 16.8 percent. The unemployment rate reached 17.9 percent in 2015. Public debt doubled from 2009 to 2014, to reach over 70 percent of GDP in 2014 and 77 percent of GDP in 2015. Thus, there was a strong imperative to stimulate growth and job creation, but limited fiscal space with which to do so.

4. **The recessions exposed the prevalent role of public enterprises, and their poor performance and dependence on State support,** which were hampering economic growth and job creation. SOEs impacted the economy in multiple ways: straining public finances, keeping assets (resources, labor) tied up in unproductive uses, and creating an uneven playing field that hindered private sector investment.

5. **Overall, net losses of public-sector enterprises amounted to more than 3 percent of GDP in 2014, equivalent to EUR 1.2 billion.** To stay afloat, SOEs received significant direct budget subsidies and soft loans, as well as indirect support in various forms, including unpaid taxes and contributions, state loan guarantees, and arrears to other state entities and public utilities. The level of indirect state support to SOEs was even greater and growing over time: government guarantees to SOEs grew from less than 3 percent of GDP in 2008 to over 6 percent at end 2014 (approximately EUR 2.4 billion) and 7.3 percent of GDP in 2015. These indirect forms of support generated significant contingent liabilities for the state. In addition, as of late 2014, SOEs' accumulated arrears to state entities and public utilities were over 8 percent of GDP. Unpaid bills to public utilities had a major spillover effect.

6. **Beyond their fiscal impact, SOEs had a substantial impact on labor and other factors of production**. As of 2014, more than 250,000 people (about 15 percent of the formal Serbian workforce)

were employed by approximately 1,200 SOEs. SOEs also controlled key resources in Serbia's economy, such as mining, metal processing, petrochemical, manufacturing, railroads, airlines, post, roads, and public utilities.

7. **Serbia had gone through a privatization process prior to 2008 that addressed many of the best-performing SOEs, and afterward the underperforming ones remained.** In 2003-2008, over 2,700 enterprises were privatized. By 2012, privatization efforts came to a standstill. Many of the remaining SOEs were in difficulty and not attractive to private investors.[1] They were protected by the state, and opacity in actual and contingent liabilities meant that their financial statements were unreliable. The Privatization Law at the time established an open-ended moratorium on debt enforcement against those public enterprises in the Privatization Agency's portfolio that were in restructuring, thus protecting them from bankruptcy. This enabled underperforming companies to remain in business, maintaining staff on their payrolls while depending on state support and not using assets productively.

8. **As of 2011, Serbia's universe of SOEs comprised the following three groups:** (i) enterprises in the Privatization Agency's portfolio (approximatley 640 companies[2]); (ii) large SOEs (aprpoximatley 50 companies); and (iii) municipal enterprises (approximatley 645 companies). Specifically:

- *The Privatization Agency (PA) portfolio* included 359 small and medium enterprises (0-500 employees), 37 large enterprises, 122 municipal or non-commelrcial enterprises, and 124 enterprises with legal issues related to the separation of Kosovo[3]. Most enterprises in the PA portfolio (approximately 500 of the 642 as of 2011) were loss making and largely dependent on state support to continue their operations. Many of the large enterprises were in "restructuring", which postponed the resolution of large enterprises and those that were commercially unviable by shielding them from bankruptcy (enforced collection) procedures. (As of 2011, a total of 104 enterprises were in restructuring. This increased to 161 in 2014.)
- *Large SOEs* included more than 50 enterprises. Collectively, they employed over 100,000 people and included large utility companies (e.g. gas, electricity, transport, telecommunications) and enterprises operating in competitve industries (e.g., mining, pharmaceuticals, tourism). These companies generally suffered from poor operational performance and had particular weaknesses in corporate governance, including in the process of appointing boards, management by line ministries, and weak accounting and reporting practices.
- *Municipal enterprises* included those established by cities and municipalities. Out of 645 total enterprises, the most relevant group was public utility companies (PUCs). There were 348 PUCs, and they employed 55,000 of the total 70,000 workers employed by municipal enterprises. Municipal enterprises that were not PUCs included enterprises providing commercial activities (e.g. public transportation, management of parking and markets, and others) and enterprises providing public goods and non-revenue generating services (e.g. maintenance of public goods such as parks and streets, issuance of construction permits, and others).

9. **In this context, the government that came to power after the March 2014 elections committed to an important structural reform agenda that included SOE reform.** Economic pressures, an improvement in relations with Serbia's neighbors, and domestic reform momentum provided a new

[1] Technical Note "Overview of the Public Enterprise Sector in Serbia", 2012.
[2] Technical Note "Overview of the Public Enterprise Sector in Serbia", 2012.
[3] This includes companies based in Kosovo, and companies which were founded by former Yugoslav republics. These were beyond this series of operations.

opening for these reforms. The government adopted an ambitious fiscal consolidation and structural reform program to halt the rise of public debt and put it on a downward trajectory by 2017. The program was focused on the reduction of public sector wage bills and pension costs, along with a reduction of fiscal support to SOEs. It was supported by an IMF program and the Fiscal Strategy for 2016-2018, among other key documents.

10. **The new reform momentum brought new life to the dialogue between the World Bank and the Government of Serbia on SOEs, which had been ongoing since 2011[4].** During this time, the Bank had been nurturing the SOE reform agenda through dialogue informed by analytical work. The Bank was aware that addressing the fiscal and resource strain of the SOE sector was critical to economic growth and job creation, and at the same time that it was a very politcially sensitive reform area. The dialogue and analytics bore fruit with the government's reform momentum in 2014, which enabled the DPL series to move forward. The series supported a comprehensive reform program that included: (a) accelerating the restructuring and divestiture program for companies in the Privatization Agency (PA) portfolio and selected SOEs operating in the commercial sector;[5] (b) strengthening governance, regulatory and institutional framework, and monitoring and transparency arrangements for improved performance and accountability of state-owned enterprises; and (c) mitigating the social and labor market impact of the SOE reform program. Pillar A addressed mainly the PA portfolio, and the results of SOE resolution are presented in Table 1 below. Pillar B affected large public enterprises, mainly utilities, as it was targeted to all SOEs whose founder was the Republic of Serbia. Pillar C ensured adequate funding of the Transition Fund that paid severance packages to employees made redundant through resolution of SOEs, increasing the effectiveness of the National Employment Service (NES), and other measures.

11. **Each DPL included actions related to all three areas, and moved logically from legal reform through to implementation.** The first DPL introduced legal and other policy changes that enabled resolution of the PA portfolio including companies in restructuring and that improved the governance model for SOEs, and laid the groundwork for future actions on SOEs. The second DPL was more actions oriented aiming to move forward with resolving the enterprises in the PA portfolio, to implement the newly adopted legislation strengthening the governance, reporting and accountability of the Public Enterprises; and with strengthened capacities of the government to effectively address the social, labor, and environmental impact of the SOEs reform program (see table of prior actions in section 2.1). The operations focused on the framework for these actions and did not get involved in specific companies/transactions. The series fully corresponded to the Bank's Country Partnership Strategy for FY12-15 and Country Partnership Framework for FY16-20. The SOE reform agenda was consistent with WBG's assessment of country priorities set in the Government's Economic Program for 2015-2017 and Government of Serbia's Fiscal Strategy for 2016–18.

12. **T
he expected results of the DPL series were to:** (i) reduce the fiscal impact of SOEs, by reducing direct and

[4] In 2011-2014 WBG provided to the government technical notes for: Overview of the Public Enterprise Sector in Serbia (2012), Corporate Governance for State-Owned Enterprises Policy note (2012), Legal and Regulatory Assessment for Public Enterprise Restructuring Program (2013); Comments and Proposal of Key Performance Indicators in the Energy Sector in Serbia (2013); Note on Application of Certain Laws on Public Enterprises and State Owned Companies and Resulting Differences (2013); Comments to the Law on Privatization and Amendments to the Law on Bankruptcy (2014); Comments on Draft Law on Public Enterprises.

[5] This included, for instance, attempts to privatize Telekom, which failed as offers were not deemed adequate, and the national airline, for which a 49% stake was sold to Etihad and Etihad was given full management rights.

indirect support to the companies in the PA portfolio and by reducing direct subsidies and issuance of new guarantees for liquidity purposes to the large SOEs; (ii) improve governance of SOEs, including accountability and transparency; and (iii) and mitigate the social impact of resolving SOEs by increasing the number of redundant workers receiving compensation from the Transition Fund[6], registering with NES at least 30 percent of workers made redundant from public enterprises in 2016; increasing the number of participants in public works; and (iv) improving environmental management by properly disposing of hazardous waste generated by companies in the PA portfolio. Through these results, the series was expected to create modest fiscal savings through reduced direct subsidies; create larger savings on indirect subsidies and improved economic efficiency over the medium term; and free up unproductive assets for more productive use by the private sector and stimulate private sector investment. At the same time, the social impacts of redundancies were expected to be mitigated through: offering equitable and adequate financial compensation; reforming NES to proactively engage with and prepare an individual action plan for each registered redundant worker, including working directly with other employers and local employment councils, and adequately funding the Transition Fund. The series had an additional positive environmental impact by initiating disposal and treatment of the hazardous waste accumulated by companies in the PA portfolio.

13. **Overall, this series of operations supported reforms that were critical to putting Serbia's public finances back on track as well as to creating conditions for more sustainable, market-based growth and job creation.** The series supported the implementation of a series of reforms that were very sensitive politically and socially. It helped to unlock the privatization process and enable resolution of companies in the PA's portfolio (see Table 1) while improving governance of remaining SOEs, including large SOEs, and dealing effectively with redundant workers and some environmental consequences of SOEs' activity.

14. **The policy actions achieved the following results captured in the Results Framework:**

- Reduce the state's direct subsidies and soft loans to companies in the PA portfolio from EUR 85 million average in 2010-2012 to EUR 20 million in 2017, and further to 8 million in 2018;
- Reduce new tax obligations and social contributions arrears of the targeted public enterprises from EUR 190 million average in 2010-2012 to EUR 10 million in 2017;
- Reduce new arrears to public utilities for the companies in PA portfolio from EUR 70 million average in 2010-2012 to EUR 10-15 million in 2017;
- Reduce annual guaranties for liquidity purposes from EUR 265 million average in 2012-2014 to zero;
- Improve transparency of all public enterprises for which the founder is the Republic of Serbia by publishing their audited financial reports;
- Ensure that over hazardous waste at 12 companies was properly treated and disposed of ;
- Increase the number of redundant workers receiving compensation from the Transition Fund from approx. 5,700 in 2014 to 27,981, for 2015-2017, covering all workers made redundant from SOEs in the Privatization Agency portfolio (except for 12 who refused compensation);

[6] Transition Fund is a special fund created in 2002 to provide financial compensation to workers that become redundant in the process of privatization or restructuring of SOEs. It is administered by the Ministry of Labor, Employment, Veteran and Social Affairs. It was severely underfunded in 2012-2013.

- Greatly increase the percentage of workers made redundant that register with the National Employment Service (85 percent of workers made redundant), and
- improve the efficiency of public employment programs and more than double the number of participants in public works from 2,882 in 2013 to 7,357 in 2016.

Further, Serbia's Fiscal Strategy 2018-2020 and National Economic Reform Program 2018-2020 put in place prudent limitations that, in the event of a resolution of structural problems in the public sector, net lending to SOEs will not exceed 0.1 percent of GDP.

15. **Regarding resolution of the PA portfolio specifically,** since the end of May 2016, all companies in the PA portfolio operate under market conditions and no company has been protected from bankruptcy. No companies receive direct financial support from the budget of the Republic of Serbia except for one company (JP PEU Resavica, which is financed through the Ministry of Energy and Mining). Since the adoption of the New Privatization Law, public invitations have been launched for the sale of equity (210 public invitations), sale of assets (22), and strategic partnership (4).[7] The enterprises benefitted also from independent privatization advisors, hired by the Privatization Agency. Table 1 below shows the outcomes of resolving the PA portfolio since 2014. Of the total companies resolved, 127 had been in restructuring. Remaining 34[8] out of 161 companies in restructuring are still in privatization process..

Table 1: Resolution of Privatization Agency Portfolio, 2014-2018

	Number of Companies
Bankruptcy	312, including 98 that were in restructuring
Sold	55, including 7 that were in restructuring
Privatization procedure annulled[9]	140, including 22 that were in restructuring
Total (resolved)	**507, including 127 that were in restructuring**
In privatization	90, including 34 in restructuring
Total (resolved and in privatization)	**597***

*The total number of companies with status resolved and still in privatization is higher than the original number of companies in the PA portfolio, at the time the new Privatization Law was enacted. In the meantime, new initiative for privatization was launched for 12 companies, the SPA was canceled for 12 companies and they were returned to privatization portfolio and some companies were in different status over the time.

1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)

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

The Key Indicators were reduction of direct and indirect support to companies in Privatization Agency portfolio; preparation and publication of audited financial statements by all Public Enterprises for which the founder is the Republic of Serbia; reduction of direct subsidies and issuance of new guaranties for liquidity purposes for large SOEs; increase of the number of redundant workers receiving compensation from the Transition Fund; registration with NES workers made redundant from public enterprises; and increase of the number of participants in public works.

1.3 Revised PDO and Key Indicators, and Reasons/justification

17. **The PDOs remained the same throughout the series, but one indicator on disposal and treatment of legacy hazardous waste generated by companies in the Privatization Agency portfolio was added in the Second Operation.** The changes are summarised in the Data Sheet and section 1.5 below.

18. **Even though the operations set very ambitious targets, the results indicators for the second operation were strengthened and made more ambitious, as those set for the first operation, were achieved.** The targets for the indicator A1 were strengthened: the target for annual direct subsidies and loans was cut in half (from EUR 10 million to EUR 5 million); the target for new tax and social contribution arrears was reduced to 25 percent of its previous level (from 20 million to EUR 5 million); and the target for new arrears to public utilities was reduced to 25 percent of its previous level (from EUR 20 million to EUR 5 million). The target for the result indicator on annual guaranties for liquidity purposes was brought to zero from EUR 100 million.

1.4 Original Policy Areas Supported by the Program *(as approved)*

19. **The PDO was to be achieved through reforms in three pillars:**

- Pillar A: Accelerating the restructuring and divestiture program for the PA portfolio and selected SOEs operating in the commercial sector.
- Pillar B: Strengthening governance, regulatory and institutional framework, and monitoring and transparency arrangements for state-owned enterprises.
- Pillar C: Mitigating the social and labor market impact of the state-owned enterprises reform program

1.5 Revised Policy Areas (if applicable)

20. The policy areas were mainly maintained throughout the series. However, some prior actions were revised between the first and second operations:

- The first operation included a prior action to estimate volumes and costs of legacy hazardous waste at sites of the identified set of the companies in PA portfolio. In the second operation, this prior action was strengthened to include also initiating the process of the disposal and treatment of hazardous waste.
- There was another prior action on establishing audit committees in all Public Enterprises for which the founder is the Republic of Serbia and are subject to the Law on Public Enterprises. This was completed for almost all of the public enterprises at the Republic level, however, the original target

[7] Source: Ministry of Economy

[8] This includes some companies that were not targeted by the series, for instance, some based in Kosovo.

[9] The privatization procedure was annulled for different groups of companies for different reasons. For example, PA portfolio included several small water management companies which were merged with the national (state owned) water management companies. There were some veterinary ambulances, which in many cases were taken over by municipal governments. Municipal governments also took over some municipal utility companies that were in the PA portfolio. Additionally, there were couple of defense industry companies which state decided to retain.

couldn't be reached due to restructuring in some[10] of the public utilities and prior action was narrowed down to at least 20 Public Enterprises.

21. During project preparation, a prior action was proposed on measures removing disincentives for formal employment opportunities for low-paying part-time jobs; however, this was dropped after the concept review for DPL2. A report on the topic was prepared and showed that the policy area that was hypothesized to be a major disincentive for formal employment (minimum social security contribution) was not the main disincentive. Further analytical work was thus needed to make policy recommendations. The Authorities, in the Letter of Development Policy, committed to following up work led by an inter-ministerial working group created under the World Bank-financed project on Competitiveness and Jobs. As part of the Competitiveness and Jobs project, an analytical paper was produced analyzing the options for possible wage taxation reforms. The paper was discussed, among other instances, at a meeting of the Competitiveness and Jobs Inter-Ministerial Working Group.

1.6 Other significant changes

None.

[10] The Railroads company which in August 2015 was split in four separate legal entities for cargo, passenger transport, infrastructure maintenance and asset management; EPS electricity company was reorganized in July 2015 by replacing previous organization through 14 legal entities with a new structure of the parent company and two subsidiaries; Srbijagas also went through reorganization and unbundling of the company.

2. KEY FACTORS AFFECTING IMPLEMENTATION AND OUTCOMES

2.1 Program Performance

Operations	**Amount**	**Expected Release Date**	**Actual Release Date**	**Release**
DPL 1	*100,000,000.00*	*July 24, 2015*	*July 24, 2015*	*Select:* ***Regular***
DPL 2	*100,000,000.00*	*March 17, 2017*	*March 17, 2017*	*Select:* ***Regular***

DPL 2

List of prior actions from Legal Agreement/ Program Document

Pillar A: Accelerating the restructuring and divestiture program for the PA portfolio and selected SOEs operating in the commercial sector.

DPL1	*DPL2*	**Status**
Prior action #1: Enact a new Privatization Law, and amendments to the Bankruptcy Law and Privatization Agency Law to facilitate and accelerate the disposition of Privatization Agency portfolio.	*Prior action #1:* The Borrower has taken the following actions for at least ninety seven (97) PA Companies that were in the status of restructuring as of August 13, 2014: (a) through its Privatization Agency, Ministry of Economy, and Bankruptcy Supervision Agency: (i) established the privatization model and methods to be used for each PA Company to be privatized, and successfully privatized each such PA Company as evidenced by the finalized privatization contracts signed by the respective investors and the Borrower, or (ii) initiated formal bankruptcy proceedings with the relevant courts for those PA Companies that could not be privatized; through the relevant PA Companies, prepared pre-packaged reorganization plans that have been accepted by the PA Companies' respective creditors and have been sanctioned by the relevant courts.	All Completed
Prior action #2: Adopt Decisions on method, models, and measures for at least 140 PA companies to be resolved using the capital sale or asset sale model and for 19 micro PA companies; and Adopt the Action Plan for the 188 PA	*Prior action #2:* The Borrower, through its Privatization Agency, issued Public Announcements for at least twenty (20) public bids for PA Companies that were not in restructuring as of August 13, 2014.	All Completed

companies to be resolved through bankruptcy. *Prior action #3:* The borrower has launched the implementation of the new Privatization Law: (i) initiation of bankruptcy procedures, through letters from the Privatization Agency to the relevant commercial courts for 76 PA companies with no employees; (ii) public bid announced, under the equity or asset sale model, for at least two PA companies that were in restructuring as of August 13, 2014; (iii) Programs for asset sales delivered to the PA by at least eight PA companies, that were in restructuring as of August 13, 2014; (iv) Government adopts a decision on a strategic partnership for at least two PA companies.	*Prior action #3:* The Borrower, through its Ministry of Agriculture and Environmental Protection: (a) selected a subset of the PA Companies, and companies in bankruptcy for which the PA was serving as the bankruptcy administrator, that were determined to present environmental risks; (b) assessed the potential environmental damages and the estimated volume of hazardous waste for this subset of companies; and (c) Initiated the disposal and treatment of the related hazardous waste.	All Completed
Pillar B: *Strengthening governance, regulatory and institutional framework, and monitoring and transparency arrangements for state-owned enterprises.*		
Prior action #4: For the 24 Public Enterprises for which the Republic of Serbia is the founder, and subject to the Law on Public Enterprises: adopt new Statutes and Founding Acts and appoint the supervisory boards in at least 15 of them; and establish audit committees in line with new legal environment in at least 10.	*Prior action #4:* The Borrower adopted the Law on Public Enterprises to strengthen the regulatory framework for monitoring, and ensuring the accountability and transparency, of Public Enterprises, including for corporatized enterprises that are subject to the Law on Public Enterprises.	All Completed
Prior action #5: Public Oversight Board for Auditing in the Republic of Serbia has been established pursuant to the Law on Auditing, and is fully operational, conducting public oversight of the quality of performance and operations of the audit profession in Serbia, in line with the Law, by, inter alia, issuing opinions, making recommendations and proposing corrective measures.	*Prior action #5:* The Borrower, through the decisions of the supervisory boards of the respective Public Enterprises, established audit committees in at least twenty (20) Public Enterprises that are subject to the Law on Public Enterprises and of which the founder is the Republic of Serbia.	All Completed
Prior action #6: Establish quarterly business monitoring as provided for under Article 52 of the PE Law and		All Completed

Decree for Template on Quarterly Reporting on the fulfillment of annual plans of Public Enterprises and their subsidiaries (published in Official Gazette 36/13 and amended in Official Gazette 27/14).		
Pillar C: Mitigating the social and labor market impact of the state-owned enterprises reform program		
Prior action #7: Adopt the governmental decree confirming and detailing the options and amounts for the social programs to be paid out in 2015. Provide sufficient funding (at least RSD 16 billion) in Budget 2015 for financial assistance needed to mitigate the social impact of the disposition of companies in restructuring. *Prior action #8:* Include in the 2015 performance agreement of the National Employment Service (NES) a requirement for NES (i) to visit every company that plans to lay off more than 10 workers and inform workers about available NES services, programs, and benefits, register them with NES, and develop an individual action plan for each registered redundant worker; (ii) to contact at least 20 employers in the same and neighboring municipalities where the company resides to offer them NES services and inquire about job vacancies; and (iii) to consult with the local employment council about support for redundant workers	*Prior action #6:* The Borrower, through its Ministry of Labor, Employment, Veteran, and Social Affairs and its National Employment Service improved the design and targeting of the Public Works program by: (a) prioritizing applications from persons who are deemed redundant, unskilled, or hard-to-employ; (b) restricting the scope of public works to social and humanitarian activities as well as maintenance and refurbishment of public infrastructure and preservation of the environment; and (c) limiting the payment of remuneration to RSD 15,000 per person per month under a casual employment contract.	All Completed All Completed

2.1. Major Factors Affecting Implementation

Choice of SOE Universe

22. **During preparation of the operation, the counterpart and the Bank team agreed to focus it on** resolving the enterprises in the PA portfolio, and strenghtening governance of large SOEs. Project documents at the concpet and appraisal stages of DPL 1 show the Bank's consideration of the universe of SOEs and the need to

focus the operations on a priority sub-set of SOEs. The operatoins suppored a critical mass of action to unlock the SOE agenda and then provide opportunity for follow-up operations to address remaining areas. This ocurred in practice (see below).

23. **As of 2014, the Privatization Agency had 556 companies in its portfolio, employing 90,000 employees, out of which 161 companies were protected from enforced collection** (bankruptcy and these companies are referred to as "companies in restructuring"). Pillar A of the operation focused specifically on companies that were in restructuring and in this way supported the government in implementing the most challenging reforms related to the resolution of the PA portfolio. Starting with the companies in the PA portfolio, and then moving to Public Enterprises allowed for broad and meaningful action in the SOE sector.

24. **With the policy framework supported by the operations and commitment to reform, in 2014-18 period, out of 556 companies in the PA portfolio, 507 companies were resolved, out of which 127 had been in restructuring.** The companies were resolved by either privatizing them or initiating the bankruptcy process for the companies that could not be sold as they were – for instance, due to opacity in liabilities and unreliable financial statements as discussed above. Bankruptcy resolved the liabilities and freed up assets for purchase by private investors. The most significant privatizations were sale of Zelezara Steel Mill in Smeredovo in 2016 and sale of Galenika pharmaceutical company in 2017, strategic partnership for RTB Bor in 2018, and asset and equity sale of PKB Corporation in 2018.

25. **The work that the SOE DPL series did to resolve companies and thus untangle and reduce arrears was a necessary first step before addressing some of the largest, most problematic large SOEs (to whom many of the resolved SOEs had owed arrears)**Pillar B supported reforms for some large SOEs that were among the largest companies in Serbia, including public utilities and importantly the gas company JP Srbijagas, aiming at strengthening their governance, accountability, and performance to reduce their reliance on the State budget. These provided the ground for the smooth transition to another series of DPL operations on Public Expenditure and Public Utilities (PEPU). The first operation in this series was approved on December 14, 2016, and was the next logical step on SOE reform and tackled a smaller set of very problematic companies. PEPU aims to support the Government of Serbia's multi-year fiscal consolidation agenda and transformation of energy and transport sector public enterprises and state-owned companies. In 2016, the World Bank launched the Swiss-funded Serbia Technical Assistance Reform for Corporate Financial Reporting Project (STAR-CFR), which among others aims to further strengthening the governance and monitoring of SOEs, following up on the reforms supported by the DPL series. The SOE DPL series excluded municipal enterprises, given that central government had very little authority over those companies and municipalities in general.[11]

26. **The authorities shut down the Privatization Agency at the end of 2015, demonstrating their commitment to finalize the privatization process.** The bankruptcy unit of the PA was merged with Bankruptcy Supervision Agency, and privatization case workers were transferred to the Ministry of Economy to finalize the remaining privatizations and to monitor the earlier privatizations contracts.

Changes in Government and Bank Dialogue to Support Reform Momentum

27. **Since the first pre-identification mission in September 2011 until the Board approval of the second operation in September 2016 there were several changes in the Government**. There were three Prime Ministers, six Ministers of Economy (four different Ministers in 2014), three Ministers of Finance, and one Minister of Finance and Economy. The Ministries of Economy and Finance were merged in 2012-13 and

[11] These enterprises were spread among 160 municipalities and largely controlled by local governments. Although central government has some basic authority over them, it would have been very difficult within the framework of this series to take a systematic approach to them. This series focused on a very serious reform agenda that the central government had control over.

separated after that. There were frequent changes of the Privatization Agency director. However, the reforms supported by the series moved forward because they were highly relevant to the economy, had strong support at the level of the Prime Minister, and were supported by strong engagement from the Bank.

28. **The Bank team put forth very strong efforts to keep the operations and reform agenda on track.** As it was apparent that SOEs were the major issue for Serbia's economy, dialogue on the SOE reform agenda began in 2011 and a first pre-identification mission for this DPL series was held in September 2011. Over the following years, the Bank team had several years of extensive discussions with the authorities on the issues caused by SOEs and the most effective ways of tackling them having in mind the associated political, social, and environmental risks. When a political opening for reform came with the 2014 change in government, preparation of the DPLs moved forward. Throughout the preparation of both operations, a dialogue was maintained at the highest political levels (Prime Minister) and also at the technical levels (staff of the PA and others). The Bank team held intensive engagement 3-5 missions per year, and there was almost daily engagement between country-based Bank team members and line Ministries and agencies.

29. **Several technical notes and analytical works were provided to the Authorities to help formulate and advance the reforms**. In 2011-2014 WBG provided to the government technical notes for the following:

- Overview of the Public Enterprise Sector in Serbia (2012): This note identified and quantified the SOE universe and impact, and helped to detrmine the SOE universe that the operations would focus on.
- Corporate Governance for State-Owned Enterprises Policy note (2012): The note examines corporate governance framework and practices for SOEs, in light of the OECD Guidelines, and offers policy recommendations for improvement. It focuses on four key areas: (i) the legal and regulatory framework; (ii) Boards and Management: (iii) the State’s role as owner; (iv) transparency and disclosure.
- Legal and Regulatory Assessment for Public Enterprise Restructuring Program (2013): The note evaluates the Government Action Plan to divest enterprises and entities undergoing restructuring in the Privatization Agency through existing procedural mechanisms, and assesses potential legal, regulatory and resource constraints that may hinder or delay timely completion of the program.
- Comments and Proposal of Key Performance Indicators in the Energy Sector in Serbia (2013): The note, per Government’s request, provided set of Key Performance Indicators (KPIs) for the three largest energy companies in Serbia: EPS, EMS (Serbian national transmission system operator) and Serbia Gas. Based on this set of KPIs, it presented best practice benchmarks from similarly structured companies.
- Note on Application of Certain Laws on Public Enterprises and State Owned Companies and Resulting Differences (2013): The Note examines 16 laws that generally apply to public enterprises and state-owned enterprises, irrespective of the industrial sector they operate in and provide recommendations on changes to legal framework.
- Comments to the Law on Privatization and Amendments to the Law on Bankruptcy (2014): The comments and observations examine the two laws for potential shortcomings, contradictions, and risks providing insights to the authorities.
- Comments on Draft Law on Public Enterprises: The comments examine the law toward international good practices in public enterprise reform by making: (i) an overall assessment of the proposed law; (ii) overview of key issue regulated by law; and (iii) specific comments on certain other aspects and provisions of the drafted law.

30. **The CMU strongly supported the team with the Government and internally within the Bank, and a strong communications campaign including various media activities was implemented.** The campaign included interviews on tv and radio, with newspapers and business magazines, and blog posts. It also included active participation in various conferences and other events. Most notably, at the Annual Business Forum (“Serbian Davos”) both the Country Director and Country Manager gave keynote addresses or participated in panels strongly advocating for the SOE reforms. Finally, internally there were several management events where the Country Director and Country Manager discussed the key importance of the SOE reforms.

Adjustments in Results Targets

31. **The results framework of SOE DPL 1 had very ambitious targets.** The strong collaboration between the Bank team and the Government at both the technical and political levels made it possible to implement bold reforms that allowed these targets to be achieved. Once they were achieved, for SOE DPL 2 the team decided to revise the targets to make them even more ambitious; however, it was difficult to achieve these revised targets fully.

32. **Finally, as the series preceded an opportunity to make an additional positive environmental impact was identified and pursued.** It was apparent that some of the SOEs to be resolved had environmental risks, damages, and hazardous materials. In addition to requiring assessment of possible damages (DPL1), DPL2

required disposal and treatment of this waste to be initiated. Thus, through the series, the government entered into contracts for treatement and disposal of hazardous waste from 12 companies. At one company alone, 1,071 tons of waste was treated/disposed; however, records on the remaining nine companies were lost (see discussion in section 3.2).

2.2. Monitoring and Evaluation (M&E) Design, Implementation and Utilization

33. **M&E design.** The results frameworks of the DPLs were developed jointly with the authorities and in consultation with other stakeholders. It was a result of a very thorough assessment of the SOE sector and its shortcomings that created a burden for the State Budget. The issues were very complex, and the set of ambitious indicators were identified to monitor progress toward the DPLs. Once they were achieved through the first operation, the team decided to deepen the impact and set even more ambitious targets. The results indicators were directly linked to the reform pillars and data was to be collected by the Ministry of Economy, line ministries and other relevant agencies.

34. **M&E implementation**. During the implementation of the DPL series, the relevant ministries and agencies tracked the results that were relevant to their mandate and agenda – for instance, the PA (and later MoE) tracked progress in resolving the companies in restructuring, and MoF tracked the fiscal implications of SOEs. However, indicators in the results framework (RF) were not specifically tracked for this operation, and at the time of the ICR, the Bank team gathered data from the relevant counterparts.

35. **There were some issues for tracking results:** (i) the PA had tracked new arrears to public utilities for the companies in PA portfolio, but when the PA closed this indicator ceased to be tracked; (ii) the amount of direct subsidies to the large SOEs were not tracked specifically and had to be calculated by the World Bank team based on the information available in the State Budget; (iii) the methodology for counting subsidiaries of companies in the PA's portfolio was not consistent, so the numbers of companies in the PA's portfolio, resolved, and remaining do not add up; and (iv) it was not possible to corroborate the data on the volume of hazardous waste that was treated/disposed. The first three issues did not have a substantial impact on the Bank team's ability to quantify the results of the DPL series. The last issue presents difficulties reporting on the hazardous waste treatment/disposal indicator, as discussed in section 3.2.

36. **M&E utilization.** Individual ministries and agencies have used M&E data to support their mandates and day-to-day operations, as mentioned above. As of early 2019, all SOEs subject to the new law on Public Enterprises are submitting quarterly reports to the Ministry of Economy, which provide detailed information on financial and operational projections for the upcoming year, and on annual business plan execution.However, the process of monitoring data relevant to the DPO series overall is not well integrated across the ministries. Currently, the Government is in the process of establishing a Capital investment Committee that will include all line ministries and large SOEs, and the Ministry of Finance will act as a back office. It is expected to be functional by 2020. This will help the government to coordinate different priority investments in the public enterprises and set up appropriate monitoring arrangements for them. This will be in line with intentions of the DPL series and will improve M&E related to remaining SOEs.

2.3. Expected Next Phase/Follow-up Operation

37. **These series of operations laid the ground work for further Bank operations in the SOEs sector.** By unlocking the privatization process and strengthening the governance and accountability of the SOEs the series

succeeded in the most challenging reforms, helping to create conditions for a healthier and market-based environment for the SOEs. It also helped significantly reduce their over dependence from the state budget. In this environment, the Bank has been able to further develop the agenda for the SOE sector reform going forward, more effectively targeting specific groups of SOEs and tackling the challenges that the sector stillpresents to the Serbian economy.

38. **A programmatic series of two DPLs on Public Expenditure and Public Utilities has been implemented (Board dates of December 2016 and March 2018)**. The operations support the multi-year fiscal consolidation agenda and the transformation of SOEs in the energy and transport sectors. This includes some of the major and systematic SOEs in Serbia: Elektroprivreda Srbije (EPS, Serbian National Electric Power Utility performing electricity production and distribution), JP Srbijagas(Serbian gas company), Zeleznice Srbije (Serbian Railways), and Putevi Srbije (Public Enterprise Roads of Serbia). The series supports critical policy and institutional reforms within three pillars: (a) improve public expenditure management through strengthened public financial management and public administration reform; (b) improve the financial sustainability and efficiency of energy sector public enterprises; and (c) improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies. The SOE DPL series made addressing these large and systemic SOEs possible by: (i) demonstrating that the sensitive agenda of SOE reform can be tackled and can achieve substantial positive results, and (ii) resolving outstanding areas to these companies, especially Srbijagas, to enable further reform to proceed.

39. **In 2016, the World Bank launched the Swiss-funded Serbia Technical Assistance Reform for Corporate Financial Reporting Project (STAR-CFR)**, which aims to contribute to an enhanced investment climate in Serbia. This project follows up on some of the reforms supported by the SOE DPL series. Under this project, a specific component for the Institutional Strengthening and Monitoring of SOEs includes several activities: (a) assessing the legal framework and practices for financial performance monitoring by Ministry of Finance and the Ministry of the Economy; (b) developing a methodology and tools for reviewing the financial reports prepared by SOEs and a dashboard to input and analyze key financial performance indicators; (c) developing the capacity of staff responsible for monitoring financial reporting from SOEs to use the methodology, dashboard, and guidelines through training courses, study visit(s) to countries with a strong track record in monitoring SOEs, and/or other appropriate capacity-building activities; (d) developing the capacity of staff from the Ministry of Finance, the Ministry of the Economy, and other relevant authorities to analyze and use financial information from SOEs in fulfilling their functions; and (e) supporting training programs for accounting and governance personnel at SOEs. The project is under implementation and will be closed at the end of 2019.

The State-Owned Financial Institutions (SOFIs) **Strengthening Project (P156837) is a results-based investment loan currently in implementation**. This operation aims to improve the performance of Banka Postanska Stedionica AD Beograd and promote the reform of Development Finance Institutions and Other State-Owned Financial Institutions. It contributes to the government's reform program through executing a strategy for SOFIs that decreases fiscal costs, minimizes the potential for soft budget support to SOEs, improves the performance of those institutions that the government chose to retain, supports the divestiture of all others, and develops a strategy for development finance and further NPL resolution. SOFIs are a significant source of soft budget support to remaining SOEs, and their implicit state guarantees present a contingent fiscal liability in case they become undercapitalized. In 2012-2017, the government spent over EUR 800 million on SOFIs.[12]

[12] The State-Owned Financial Institutions Strengthening Project Appraisal Document (P156837)

3. ASSESSMENT OF OUTCOMES

3.1 The relevance of Objectives, Design, and Implementation

40. **The PDO-level objectives of the DPL series are fully consistent with current development priorities, and the DPLs remain important for achieving the development objectives of the country, described in Serbia's Fiscal Strategy and National Economic Reform Program, as well as the WBG CPF.** The operation contributes to two focus areas in the current CPF: economic governance and the role of the state, and private sector growth and economic inclusion.

Relevance of Objectives: High

41. **The objectives of the DPL series remain highly relevant today.** The objectives were identified through an extensive and thorough diagnostic work on the challenges caused by the SOE sector. Reducing state participation and level of direct and indirect support provided to the sector contribute to stabilizing debt accumulation and allow reallocation of resources to more efficient uses, including through private investment via privatization or purchase of assets of companies in bankruptcy. Disposal and treatment of hazardous waste generated by an identified set of companies in the PA portfolio mitigate environmental risks caused by resolving these public enterprises. Enhancing SOEs performance, governance and accountability contribute to lowering the demand for direct and indirect state support. Mitigating the short-term social and labor impacts of the SOEs restructuring and disposition plans ensures adequate financial protection of redundant workers, facilitates the transition into employment, and provides a temporary safety net to affected workers. These reforms contributed to the reduction of public debt, opening opportunities for private sector-led growth, and providing short-term financial support and longer-term employment search assistance affected workers.

42. **Further, evidence of the continued relevance of the objectives is that *Serbia's Fiscal Strategy 2018-2020* and *National Economic Reform Program for the period 2018-2020* have improved expenditure management at their core.** This includes the completion of privatization and a stop to issuing of guarantees for liquidity purposes for the remaining SOEs. These strategies put in place prudent limitations that, in the event of a resolution of structural problems in the public sector, net lending to SOEs will not exceed 0.1 percent of GDP. The series was also relevant to both the FY12-15 CPS and FY16-20 as described below.

Relevance of Design: High

43. **The design of the operations was developed logically around the PDO. The policy actions and results indicators were well-aligned with program objectives.** These policy areas were supported by Bank and IFC analytical and advisory works. The program reforms were supported by various technical assistance provided as described in footnote 3 and also the mid-term review of Serbia's Employment Strategy; IFC TA on insolvency and debt resolution; IFC TA on improving SOEs corporate governance practices; the Road to Europe: Program for Accounting Reform and Institutional Strengthening (REPARIS) program supporting financial reporting and audit reforms; follow up TA on corporate accounting and audit provided by CFRR. The operations' Poverty and Social Impact Assessment (PSIA) was frank about the social impact of the operations. The PSIA informed the pillar on social mitigation measures, including adequately funding the Transition Fund, improving the packages offered by the Transition Fund, and improving effectiveness and outreach of the National Employment Service, among others. A separate Competitiveness and Jobs project (approved in September 2015) includes a specific component on

strengthening the capacity of the National Employment Service and reforming the design of Active Labor Market Programs (ALMPs).

44. **The actions supported under the series are an integral part of the Government of Serbia's Fiscal Strategy for 2016–18, as well as the Program of the new Government of Republic of Serbia, approved in 2016.** The series is fully consistent with FY12-15 Country Partnership Strategy contributing to both of its pillars (Pillar 1: the "Strengthening competitiveness" and Pillar 2: "Improved Efficiency and Outcomes in Social Spending"), and to FY16-20 Country Partnership Framework contributing to both of its focus areas (Focus Area 1: the "Economic governance and the role of the state" and Focus Area 2: "Private sector growth and economic inclusion"). The programmatic design of the operations ensured the completeness of reforms to reach the targeted outcomes.

Relevance of implementation: High

45. **Implementation arrangements were customized to local conditions and were relevant.** The implementation effort was focused on making sure that the prior actions were completed and that they led to the expected outcomes. The Bank's dialogue and technical assistance were intense and near-continuous. The collaboration between the Bank team and the Government officials was very strong, including missions, dialogue, and technical notes as described in section 2.2 above.

3.2 Achievement of Program Development Objectives

46. The prior actions supported by two series of operations were ambitious and well targeted to achieve the outcomes that would drive to the PDO. The series supported a set of reforms that was key to unlocking economic growth in Serbia, but that was also politically and socially very sensitive. The SOE sector has critical importance for Serbia from the fiscal, economic, and social point of view. The program development objectives were achieved, although on some indicators the ambitious targets were not fully met. The targets were made more ambitious from the first to the second operation in order to further support the authorities' reform efforts. The policy actions supported by the operations helped to: reduce at least 4 times State's direct subsidies and soft loans to companies in PA portfolio (from EUR 85 million average in 2010-2012 to EUR 20 million in 2017 and EUR 8 million in 2018); reduce 19 times new tax obligations and social contributions arrears of the targeted public enterprises (from EUR 190 million average in 2010-2012 to EUR 10 million in 2017); reduce 7 times new arrears to public utilities for the companies in PA portfolio (from EUR 70 million average in 2010-2012 to EUR 10 million in 2017); all public enterprises for which the founder is the Republic of Serbia publishing their audited financial reports; reduce annual guaranties for liquidity purposes from EUR 265 million average in 2012-2014 to zero; increase the number of redundant workers receiving compensation from the Transition Fund from approx. 5,700 in 2014 to 25,378 cumulative 2015-2016 (of which 8,103 were women); 85 percent of workers made redundant from public enterprises during 2016 had registered with the National Employment Service (NES); increase number of participants in public works from 2,882 in 2013 (out of which 1,187 were women) to 7,357 in 2016 (out of which 3,319 were women). Achievements were recorded in tackling the environmental issues and social aspects for redundant workers.

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

47. The main development objective under this pillar was reducing state participation and levels of direct and indirect state support in the real sector. Under this objective the public enterprises in the PA portfolio were chosen as the target universe given that they had poor performance, generated substantial losses, and were protected from bankruptcy. Achievement of this objective was measured by the following two indicators.

A1. Reduction of direct and indirect support to companies in Privatization Agency portfolio.

48. The prior actions envisaged under the operations helped to unlock the privatization process by making changes in the legislation. The new Law on Privatization and amendments to the Bankruptcy Law was adopted. These changes eliminated moratorium prohibiting debt enforcement actions against entities in restructuring. Thus, it lifted their protection from bankruptcy. Further changes were introduced to the Privatization Law to facilitate the disposition of enterprises while introducing a timeline for completion of the process, it is also established new modalities of privatization, including asset sales and strategic partnership. It also introduced conditional write-off of debt towards state creditors accumulated up until end-2013, a measure aimed at making enterprises with a viable business more attractive to investors. Finally, the Bankruptcy Law and Privatization Agency Law were amended to ensure congruency with the new Privatization Law, notably with respect to Agency's role under bankruptcy procedures. All these changes allowed to move forward with resolving at least 97 out of 161 companies in Privatization Agency's portfolio that were in restructuring as of August 13, 2014 by: ether privatizing them by establishing the privatization model and methods for each company, or preparing pre-packaged reorganization plans accepted by all stakeholders, or initiated formal bankruptcy proceedings For the companies in Privatization Agency's portfolio that were not in restructuring as of August 13, 2014, Privatisation Agency issed Public announcements for at least 20 public bids. By these, the privatization process was unleashed that had been frozen since 2012 This contributed to significant cut of budgetary expenditures and achieving the result indicators.

Annual direct subsidies and soft loans

Expected Result A1a: Substantially Achieved. The target was to reduce the State's annual direct subsidies and soft loans to companies in Privatization Agency portfolio to less than EUR 10 million for 2015 and to less than EUR 5 million for 2017. The baseline (average 2010-2012) was EUR 85 million. The result for 2015 was EUR 4 million and for 2017 was EUR 20 million. It then was reduced again in 2018 to EUR 8 million.

Comment: The State's annual direct subsidies and soft loans to companies in Privatization Agency portfolio were dramatically reduced, although the 2017 target was not fully met. Due to the reforms supported by the first operation, the annual direct subsidies and soft loans provided to PA companies by the State went down to EUR 4 million in 2015. Since the target was more than met, it was made more ambitious for 2017. However, there were developments in 2017. Three petrochemical SOEs (Azotara (fertilizers), MSK (industrial acids), Petrohemija (basic plastics)) after some pause relaunched their production in 2017 and requested assistance for three years mainly to buy the gas that was raw material for their production. Thus, the indicator reached EUR 20 million in 2017 and went down to EUR 8 million in 2018. Currently, one of these companies (Azotara) has been pushed to the bankruptcy in 2018 and the MSK most likely will be pushed to bankruptcy, and discussions on privatization of Petrohemija are ongoing.

New tax obligations and social contributions arrears

Expected Result A1b: Partially Achieved. The target was to reduce companies' new tax obligations and social contributions arrears to less than EUR 20 million for 2016 and EUR 5 million for 2017. The baseline (average 2010-2012) was EUR 190 million. The data for 2016 is unavailable as of the ICR date. The result was EUR 10 million for 2017.

Comment: Companies' new tax obligations and social contributions arrears were reduced to about 5 percent of their baseline level, a major achievement. For the second operation, the team and Authorities agreed to put even ambitious target for 2017 reducing the indicator four times. Although 2017 arrears were at EUR 10 million, looking at subsets of companies in the PA portfolio shows strong progress. Only 43 out of 121 SOEs increased their arrears (by a total of EUR 10 million), remaining 35 companies reduced theirs (by EUR 15 million), and 43 companies kept the same level of their arrears.

New arrears to public utilities

Expected Result A1c: Partially Achieved. The target was to reduce new arrears to public utilities for the companies in Privatization Agency portfolio to less than 20 million euros for 2016 and 5 million euros for 2017. The baseline (average 2010-2012) was 70 million euros. The result for 2017 was around 10-15 million euros.

Comment: The data are available in aggregated level and because of the closure of the Privatization Agency, it is no longer monitored at the level of the companies in PA portfolio. This estimate is based on the data of 20 largest debtors published by EPS and Srbijagas and includes the largest debtors.

A2. Disposal and treatment of legacy hazardous waste generated by companies in the Privatization Agency portfolio.

Expected Result A2: Partially Achieved. The target was for the total volume of legacy hazardous waste from the subset of companies that was disposed of and/or treated to be 1,500 tons of waste for 2015-2017 cumulative. The baseline was 0 (none were treated). The result for 2015-2017 was more than 1,071 tons.

Comment: In addition to initial trigger of assessing potential environmental damages for 180 companies in Privatization Agency's portfolio, the prior action was strengthened for the second operation, and this result indicator was introduced. The Ministry of Agriculture and Environmental Protection was made responsible for the selection of subset of the companies that were identified to present environmental risks; for assessing the potential environmental damages and the estimated volume of hazardous materials for this subset of companies; and for initiating the disposal and treatment of this hazardous waste. The government entered into contracts for the treatment and disposal of hazardous waste of 12 companies.[13] The government allocated RSD 230 million for this work (approximately EUR 2 million). Progress treating and disposing of the hazardous waste was documented in reports for each of the companies, prepared jointly by the contractors that removed the waste and the Environmental Inspectorate. The reports were reviewed by a Working Group composed of representatives from the Ministry of Agriculture and Environment, and minutes of the Working Group meetings endorsed the reports. The World Bank team received the report and minutes for the treatment and disposal of waste at one company. They confirm that 953 tons of waste were permanently disposed of and a contract had been signed to remove an additional 118 tons by a contractor that specializes in treating that type of waste. For the remaining eleven companies, the Bank team did not receive the reports or minutes, as completion of work in several companies and final approval of the reports and minutes were pending. As of January 2016, the Ministry of Agriculture and Environment verbally informed the Bank team that 2,300 tons of waste was treated and/or disposed of, with more work still to be done. Subsequently, the Ministry of Agriculture and Environment was reformed (split into two ministries). Government counterparts have been unable to locate the reports or data on the eleven remaining companies. Thus, although there are indications that the indicator was exceeded, the lack of evidence has led to the "Partially Achieved" rating.

Pillar B: Strengthening governance, regulatory and institutional framework, and monitoring and transparency arrangements for SOEs

[13] The companies were: Prva iskra, Barič (where 1,071 tons were treated/disposed), EKO – gas MGS Šabac, Viskoza – Loznica, Koncern Petar Drapšin Mladenovac, HI Župa – Kruševac, IMT – Beograd, Zorka obojeni metali – Šabac, Zorka centar za istraživanja – Šabac, Utva aviokompanija – Pančevo, Minel transformatori – Ripanj, PD Livnica Topola- Topola, and IMT fabrika motokultivatora i motora – Knjaževac. Source: http://www.kombeg.org.rs/aktivnosti/c_tehno/Detaljnije.aspx?veza=16884

49. The main development objective under this pillar was improving performance and accountability of state-owned enterprises. Achievement of this objective was measured by the following two indicators.

B1. Audited financial statements prepared and published by public enterprises required to do so by the Law on Public Enterprises and new Law on Accounting and Law on Auditing for all Public Enterprises for which the founder is the Republic of Serbia.

Expected Result: Fully Achieved. The target was that all Public Enterprises for which the founder is the Republic of Serbia should publish their audited financial statements. This indicator had a baseline of 0 (none of the target enterprises were publishing them). The result for 2016 was that all the targeted enterprises publish their audited financial statements.

Comment: The prior actions on the Law on Public Enterprises and effective introduction of the new law on Accounting and Law on Auditing introduce international standards in financial reporting and audit, strengthen public oversight of the quality of audit profession in Serbia, help to assure the quality of the audit, and make mandatory for all Public Enterprises for which the founder is the Republic of Serbia publish their financial statements.

50. All of the published financial statements are available on the Business Registries Agency’s website: (http://pretraga3.apr.gov.rs/pretragaObveznikaFI/Home/Index/ValidPublicCasesSearch).

B2. Reduction of direct subsidies and reduction of issuance of new guarantees for liquidity purposes for large SOEs.

Direct subsidies for recurrent expenditures

Expected Result B2a: Partially Achieved. The target was to reduce direct subsidies to large SOEs for recurrent expenditures to less than EUR 200 million for 2015 and EUR 150 million for 2017. The baseline (average 2012-2014) was EUR 250 million. The result for 2015 was EUR 139 million euros and around EUR 170 million for 2017.

Comment: This target affects both the portfolio of companies at the Privatization Agency and also large SOEs that remain in the public sector. For the PA portfolio, resolving the companies eliminates the need for further direct or indirect support. For the SOEs outside of the PA portfolio, the Law on Public Enterprises and subsequent by-laws helped to strengthen governance and transparency by introducing international standards and practices. This helped to improve decision-making and governance of SOEs, thereby limiting increases in recurring direct and indirect State support. At the time when the initial target for the indicator was set, the baseline included subsidies to the Railroad company (approximately EUR 120 million annually), Resavica coal mining company (approximately EUR 20-30 million annually), and soft loans to companies from the PA portfolio (approximately EUR 100 million annually). It was originally anticipated that subsidies to Railroads and Resavica would remain broadly stable, but soft loans to PA companies would be mostly eliminated (which mostly is the case, as presented above for indicator A1). However, various changes in accounting were introduced after the target was set, making it difficult to extract the recurring amount precisely after 2015. Available data shows that recurring subsidies for Railroads were broadly stable throughout 2017, in the range of EUR 110-120 million, Resavica slightly increased from EUR 25 to EUR 35 million and was stable at that level, and soft loans to PA portfolio companies were sharply reduced, from a peak of approximately EUR 100 million in 2010 and 2011 to EUR 4 million in 2016 (and EUR 20 million in 2017 and EUR 8 million in 2018, driven by three petrochemical companies, as discussed above for indicator A1). These results for 2017 were at a level of EUR 165-175 million, close to the target.

Annual guarantees for liquidity purposes

Expected Result B2b: Fully Achieved. The target was for annual guaranties for liquidity purposes to be 0 by 2017. The baseline (average 2012-2014) was EUR 265 million. The result for 2017 was 0.

Comment: This indicator is 0 according to the Budget of the Republic of Serbia for 2017. This was also monitored by the IMF.

Pillar C: Mitigating the social and labor impact of the SOEs reform program

51. The development objectives under this pillar were to ensure adequate financial protection of redundant workers of non-private enterprises and facilitate transition into employment and provide employment opportunities for vulnerable redundant workers.

C1. Number of redundant workers receiving compensation from the Transition Fund increases.

Expected Result: Fully Achieved. The target was to increase the number of redundant workers receiving compensation from the Transition Fund to at least 10,000 for 2015 and 25,000 (cumulative 2015 and 2016) and monitored by gender. The baseline was approx. 5,700 in 2014. The result for 2015 was 19,791, of which 6,366 were women, and the cumulative number for 2015-2016 was 25,378, of which 8,103 were women.

Comment: The prior actions contributed directly to the achievement of this outcome. The authorities adopted the government decree that aims to offer equitable and adequate financial compensation. In the 2015 and 2016 budgets were allocated adequate financial resources to the Transition Fund. All workers made redundant from SOEs in the Privatization Agency portfolio received financial compensation from the Transition Fund with few exceptions[14] that refused to accept financial compensation. The number of redundant workers receiving compensation from the Transition Fund was even more than initially targeted. This mechanism sustained even after 2016 and 2,603 redundant workers, of which 848 were women, received compensation from the Transition Fund in 2017.

C2. At least 30 percent of workers made redundant from public enterprises during 2016 register with NES.

Expected Result: Exceeded. The target was that at least 30 percent of workers made redundant from public enterprises during 2016 had to be registered with the National Employment Service (NES), and this would be monitored by gender. (Note no baseline was established for this indicator.) The results for 2016 were 85 percent (4,758 out 5,587), out of which 1,787 were women.

Comment: Prior actions supported by the operations supported efforts to improve the NES services. The policies and rules were changed so that NES visits every company that plans to lay off more than 10 workers and informs about its serveries, also prepares an individual action plan for each registered redundant worker. In the same and neighboring municipalities where the company located NES visits at least 20 employers inquiring job vacancies. NES also consults with the local employment council for supporting redundant workers.

C3. Number of participants in public works increases.

Expected Result: Fully Achieved. The target was that the number of participants in public works increases from 2,882 in 2013 (1,187 female and 1,695 male) to at least 6,000 in 2015 and to at least 7,000 in 2016 and should be

[14] There were 12 workers from 3 small media companies who did not accept financial compensation in the hope that their companies will continue to operate despite a failed privatization process. They were offered various opportunities to revise their decision to not accept a package throughout the entire privatization process, however, they did not show interest to do so.

monitored by gender. The result for 2015 was 10,853, out of which 4,767 were women and was 7,357 for 2016, out of which 3,319 were women.

Comment: Prior actions helped to re-design the public works program to make it more targeted and efficient: paying a contractual fee below minimum wage to participants; limiting to less-than-full-time tasks that support communal activities like elderly care, maintenance of public infrastructure, and preservation of nature; prioritizing for beneficiaries deemed redundant, unskilled, or hard-to-employ; and limiting in duration to six months of the year per person. The number of participants in the public works program remained high even beyond the operations. In 2017, there were 9,382 out of which 4,042 were women.

52. Combining this with the reforms in C1 above, the employment services became more effective and reached the target population to help with redundancies created by resolving SOEs, at the same time as the public works program served its purpose as a temporary safety net or bridge to other employment options.

3.3 Justification of Overall Outcome Rating

Rating: Satisfactory

53. **The operations were highly relevant in achieving their objectives.** The series of operations supported key development objectives of the country, described in Serbia's Fiscal Strategy 2018-2020 and National Economic Reform Program for the period 2018-2020, and well-aligned with the WBG Country Partnership Framework FY16-FY20.

54. **The design of the operations targeted the policy reforms that were key for achieving project development objectives and a critical economic issue facing the country.** The operations unlocked the process of resolving SOEs that had been at a standstill since 2012 and was having substantial negative impacts on the economy, both through fiscal costs as well as keeping factors of production in unproductive uses. The analytical and advisory support provided by the Bank and IFC (see list of technical notes in paragraph 29) to identify the issues, including calculating the level of contingent liabilities and helping the authorities work through policy options, was extensive.

55. **The operations achieved the project development objectives and had a substantial impact on Serbia's economy. In Pillar A - reducing state participation and levels of direct and indirect state support in the real sector – the privatization process was unlocked**. The new Law on Privatization and amendments to the Bankruptcy Law eliminated moratorium prohibiting debt enforcement actions against entities in restructuring and established new modalities of privatization. This allowed the Privatization Agency to move forward with resolving at least 97 companies in its portfolio that were in restructuring as of August 13, 2014. They were either privatized or initiated formal bankruptcy procedures or were prepared pre-packaged reorganization plans. Out of 556 companies in the PA portfolio, 507 companies were resolved in 2014-18, out of which 127 had been in restructuring. As of October 24, 2018, the proceeds from the privatization of 55 companies amounted approximately EUR 105 million. The policy actions supported by the operations supported the development objective of reducing state participation and levels of direct and indirect state support in the real sector. The state's direct subsidies and soft loans to companies in the PA portfolio were reduced from EUR 85 million baseline to EUR 20 million in 2017 and EUR 8 million in 2018; new tax obligations and social contributions arrears of the targeted public enterprises were reduced from EUR 190 million baseline to EUR 10 million in 2017; PA companies' new arrears to public utilities were reduced from EUR 70 million baseline to EUR 10-15 million in 2017; and annual guaratnees for liquidity purposes were reduced from EUR 265 million baseline to zero. To deal with the environmental issues caused by companies in the PA portfolio, the disposal and treatment of their hazardous

waste was undertaken. Seeing that substantial progress had been made after the first operation, and with the aim of further supporting and motiviating the authorities' focus on implementing the prior actions of the second operation, the results targets for the second operation were strengthened. While some of these ambitious targets were not fully achieved (as described above), the expected development outcomes under this pillar were substantially achieved.

56. **In Pillar B - improving performance and accountability of state-owned enterprises – progress was made by introducing international standards in financial reporting and audit, strengthening public oversight of the quality of audit profession in Serbia, helping to assure the quality of the audit and make it mandatory for all Public Enterprises for which the founder is the Republic of Serbia to publish their audited financial statements**. This strengthened governance and transparency for the SOEs helped to improve their performance. As of the end of 2018, new Statutes and Founding Acts for all Public Enterprises and Supervisory boards are in place. Most of them established also Audit committees,but ther implementation needs strengthening. The Public Oversight Board is established and exercising its function. All entities subject to the new Law on Public Enterprises deliver quarterly reports with satisfactory quality and timelines. This contributed to lower the need for direct and indirect State support, bringing the amount of annual guaranties for liquidity purposes to zero from EUR 265 million average in 2012-2014. The expected results under this pillar were achieved.

57. **In Pillar C - ensuring adequate financial protection of redundant workers of non-private enterprises, facilitating transition into employment and providing employment opportunities for vulnerable redundant workers – redundant workers received adequate support**. The series supported a set of reforms that allowed to allocate appropriate financial resources to the Transition Fund to offer reasonable and decent financial compensation to redundant workers. The number of redundant workers receiving compensation from the Transition Fund increased from approx. 5,700 in 2014 to 25,378 in 2015-2016 cumulatively, out of which 8,103 were women. As a result, all redundant workers received financial compensation from the Transition Fund with few exceptions that refused to accept financial compensation (see explanation above). The operation helped adjust the policies and rules of the National Employment Service, and NES began to work proactively engaging with companies in advance preparing an individual action plan for each registered redundant worker. NES also was very active in inquiring job vacancies and consulted with the local employment council for supporting redundant workers. As a result, 85 percent (4,758 out of which 1,787 were women) of workers made redundant from public enterprises during 2016 had registered with the National Employment Service; number of participants in public works increased from 2,882 in 2013 out of which 1,187 were female to 7,357 in 2016 out of which 3,319 were female. The expected results under this pillar were achieved fully, even exceeded.

3.4 Overarching Themes, Other Outcomes and Impacts

Poverty Impacts, Gender Aspects, and Social Development

58. **While the reforms supported were necessary to put Serbia's economy on a better path to long-term growth and job creation, the PSIA concluded that the impact of job losses on households would be significant, and informed mitigation mechanisms.** Through the reforms supported by this DPL series, over 300 enterprises went bankrupt and over 27,000 people lost their jobs. The PSIA informed the strengthening of the mechamisms in Pillar C to mitigate the social impact. Further, the PSIA noted that "workers in the PA portfolio have already seen

the quality of their employment slip, and many appear focused on receiving a fair severance payment, and finding a temporary solution which can bridge them over to retirement."[15]

59. **Thus, to mitigate the social impact, Pillar C of the operations ensured that social safety nets worked for these individuals:** they received compensation from the Transition Fund, received more effective services from NES, and participated in more effective public works programs. All workers made redundant from SOEs in the Privatization Agency portfolio received financial compensation from the Transition Fund (with few exceptions that refused to accept financial compensation), and improvements were made to the packages available to workers through the Fund. The state budget allocated around EUR 200 million to the Transition Fund in 2015-2017, which allowed 27,981 people to receive financial compensation (Indicator C1). The Transition Fund had been significantly under-funded in 2012-13, and the prior actions ensured that it would be adequately funded. The prior actions ensured that the NES had adequate outreach to workers that would be laid off and to firms and municipalities about empmloyment opportunities and support, respectively. The prior actions also improved the design and targeting of the Public Works program.

60. **As PSIA outlined, even though both men and women were affected similarly by losing their jobs, they reacted differently**. The PSIA noted that women were able to overcome transition obstacles better than men, as women tend to be more proactive in seeking and engaging in small-scale activities and social work as a source of income than men do. For men, it was difficult to make this transition. Due to the cultural norms and traditions, men were seen in the society as a traditional breadwinner, and they were more affected psychologically by the fact of losing this role. Thus, the results framework monitored Pillar C by gender.

61. **With a broader perspective, a healthier SOE sector and more opportunities for private investment are expected to generate GDP growth that would provide more job opportunities and reduce poverty.** The Bank also supported the Government through its Competitiveness and Jobs Project to address both labor demand and supply side constraints to job creation.

(a) Institutional Change/Strengthening

62. **Strengthening of the institutions was at the core of these operations, particularly pillars B and C.** The operations supported the Government to strengthen the institutional structure of governance and oversight of SOEs. The legal and regulatory reforms supported by the operations strengthened governance and increased the accountability of the SOEs. This was done through introducing international standards in financial reporting and audit; strengthening a public oversight of the quality of audit profession in Serbia and making mandatory publishing the audited financial statements for all Public Enterprises for which the founder is the Republic of Serbia; strengthening mechanisms for public hiring, accountability, performance management, and dismissal of the General Managers; and establishing Audit Committees in the respective Public Enterprises. The reforms supported by the operations also improved the capacity and outreach of NES, redesigned the public works program, and improved the Ministry of Agriculture and Environmental Protection's ability to assess, dispose of, and treat hazardous waste generated by SOEs. The reforms also ensured that the Transition Fund was adequately funded and its packages were well designed to support workers and minimize distortions. This combination of technical assistance and operational support considerably enhance the capacity of NES to support redundant workers, improve the quality of their services and programs.

[15] Project Appraisal Document for DPL 1

3.5 Other Unintended Outcomes and Impacts (positive or negative, if any)

63. **The series allowed the Bank to earn the Government's trust and confidence as a partner in advising on and assisting with sensitive reforms.** The Bank's patience in maintaining the dialog with the main counterparts (MoF and MoE) that went through several political changes and reorganizations, complemented by detailed technical discussions supported with analytical work, helped to shape the trust toward the Bank as a reliable long-term partner for difficult issues, as can be seen in the Public Expenditure and Public Utilities series and the State-Owned Financial Institutions Strengthening Project.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

Not applicable

4. ASSESSMENT OF RISK TO DEVELOPMENT OUTCOME

Ratings: Moderate

64. **The operations were implemented in a highly risky environment.** The overall risk rating for the First operation was high and for the Second operation, it was substantial. The reform agenda supported by the operations required a broad consensus within the Government because political and social risks were high. The overall risk of backtracking was mitigated by successful implementation of the difficult reforms supported by the operations. The series of two operations enabled reforms to be enacted and their implementation to be supported – this was an implementation-focused DPL series. The positive results achieved through the reforms supported by this SOE DPL series has enabled the government to move forward with addressing other large SOEs including Zelezara Steel Mill, Galenika pharmaceutical company, RTB Bor, PKB Corporation, and Azotara (fertilizers)), which were sold, put into bankruptcy, or a strategic partnership was entered into. The government remains committed to continuing to clean up its SOE portfolio and deepen reforms in four larte, sensitive SOEs: Elektroprivreda Srbije (EPS), JP Srbijagas (Serbian gas company), Zeleznice Srbije (Serbian Railways), and Putevi Srbije (Public Enterprise Roads of Serbia).

65. **Unleashing the privatization process and strengthening the governance and accountability of the remaining SOEs helps to shift SOE governance and SOEs' fiscal impact onto a more predictable and manageable track**. The set of problematic SOEs at the Privatization Agency were either privatized and or bankruptcy process was initiated that significantly reduced the burden for the State budget. Bankrupt enterprises have been resolved and there is no risk of back-tracking. There is no indication that the government would be interested in re-nationalizing the companies privatized from the PA portfolio, many of which were small-medium.

66. **The overall risk of changes occurring that would be determinantal to the ultimate achievement of the PDO was mitigated by the way in which the operations supported reform implemelntation** through sequencing prior actions in DPL 1 and DPL 2. The risk is also mitigated by the follow-up IMF three years Program approved in 2015 supported fiscal consolidation and financial sector, competitiveness and growth, and resolution and reform of SOEs. It is also encouraging that Serbia's Fiscal Strategy 2018-2020 and National Economic Reform Program for the period 2018-2020 recognize the importance of SOE reform. They put in place prudent limitations that, in the event of a resolution of structural problems in the public sector, net lending to SOEs will not exceed 0.1 percent of GDP. Furthermore, the Public Expenditure and Public Utilities (PEPU) DPL series, Serbia Technical Assistance Reform for

Corporate Financial Reporting Project (STAR-CFR), and the SOFI operation, continue to build on several reforms supported by SOE DPL series and address major SOEs.

67. **However, the team notes that overall reform momentum to tackle SOEs in Serbia seems to be declining, and there are risks to the quality of implementaiton of the SOE governance reforms**. Although there is ongoing work in this area (PEPU, STAR-CFR, and SOFI), the SOE agenda is less prominent currently. Further, the SOE DPL series put in place legal and regulatory requirements that improve governance at remaining SOEs, and there is evidence that they are being followed – but there still remains a risk that they will not be fully impementled as envisioned. For instance, the real benefit of establishing supervisory boards and audit committees depends on how these boards/committees are run in practice. The STAR-CFR project follows up on a number of these issues.

5. ASSESSMENT OF BANK AND BORROWER PERFORMANCE

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

<u>Ratings: Highly Satisfactory</u>

68. **The operations addressed a key set of priorities that were strategically aligned** with the Government of Serbia's Fiscal Strategy for 2016–18, the Program of the new Government of Republic of Serbia, approved in 2016, and WBG FY12-15 Country Partnership Strategy. The strategic relevance of the operations was high, and the Bank's approach was appropriate. Even though almost all prior DPLs dealt with some reforms related to the SOE sector and recorded some improvements, they did not succeed in unblocking the privatization or bankruptcy process. This was the first DPL series focused purely on the SOE sector, and it had the main goal of unleashing the privatization process. In this regard, close collaboration with the International Monetary Fund (IMF) also contributed in succeeding with the DPLs. The IMF program was prepared at the same time as the DPL series and had a strong focus on resolution and reform of SOE sector; thus, the WB and IMF teams coordinated closely and reinforced each other's efforts. The collaboration was in the form of joint meetings during each other's missions with MoF and MoE, detailed briefings prior to the missions, informal consultations, and sharing of notes and exchanging of data.

69. **The Bank team identified and engaged with the authorities on a comprehensive set of reforms that would enable the government to achieve the development objective.** The prior actions include the most important elements necessary for the SOE reform agenda at the time the series was prepared. The sequence was appropriate to then enable additional reforms, such as the ones supported under the PEPU DPL series and the SOFI operation.

70. **The Bank team was able to remain engaged and keep the dialogue going during the three years from the first mission to Board approval of the first operation in the series, and through to the second operation.** The long time was due to changes in government and the politically sensitive nature of the operation. The Bank team: (i) produced strong technical work (described below); (ii) had commitment by the CMU to support the dialogue with the government and understanding that these important reforms will take time; and (iii) conducted strategic communications with the counterparts and broader stakeholders (unions, think-tanks and other external stakeholders[16] in presenting the issues with SOE sector and how the series of DPO planning to tackle those issues). It

[16] It was done in the form of interviews on tv and radio, with newspapers and business magazines, and blog posts. It also included active participation in various conferences and other events. Most notably, at the Annual Business Forum ("Serbian Davos") where

was also complemented by the team efforts to sustain the dialog with the main counterparts (MoF and MoE) that went through several changes of the leadership and reorganizations. With each new Minister team had to repetitively remain on the same message and keep convincing the importance of the reform for the Serbian economy strengthening the arguments with analytical work, even if the authorities' views sometimes differed at the outset of the dialogue. These efforts helped to shape the broader consensus for the reform agenda.

71. **Strong technical work underpinned the ongoing dialogue.** The WBG prepared and provided to the government number of technical notes and assessments listed in paragraph 29, in addition to the other TA listed in Relevance of Design section above. This helped the team building the trust and establishing strong cooperation with the main counterparts in the Serbian Government both at the political and the technical level. The analysis made by the team brought all the costs together and showed that budgetary cost of keeping nonperforming SOEs is much higher than direct funding provided to those public enterprises for staying afloat. These public enterprises had been accumulated huge arrears on utilities, taxes and social contribution. All that convinced the new Government that delaying in taking bold measures would just deepen the fiscal cost. Additionally, the Aide Memoires contained analyses on the situation with the SOE sector and indicate urgent reforms and actions needed. They contained clear messages directly related to the development of the Projects' policy and results framework

72. **The operations' PSIA (poverty and social impact analysis) was frank about the social impact of the operations** and directly informed the pillar on social mitigation measures, including adequately funding the Transition Fund, improving the packages offered by the Transition Fund, improving effectiveness and outreach of the National Employment Service, and improving effectiveenss of public works programs.

73. **The former Country Manager stated that the long preparation time is a testament to the Bank's commitment to the SOE agenda as this agenda was at the core of Serbia's economic situation and the country's ability to make progress in other areas related to the Bank's mission.** The patience showed during preparation allowed to build a broad consensus in the country and implement a set of reforms that were crucial to unleash the privatization process and created the entry point for large SOEs. The Bank team had continuous engagement with the authorities throughout.

(b) Quality of Supervision (including of M&E arrangements)

Ratings: Satisfactory

74. **The supervision was facilitated by a strong and near-continuous dialogue with the authorities. The Bank conducted 3-5 missions per year to monitor progress and identify issues in implementation.** The series also benefited from country-based core team member that was in almost daily contact with all stakeholders. The implementation status report (ISR) was submitted between the operations. Emerging problems in implementation were identified proactively and in cooperation with the authorities.

75. **The WB team supported the many reforms with analytical work and technical assistance.** As a result, several technical notes and analytical works were provided to the Authorities per their request, helping them in formulating the policy. The highly qualified staff supported by quality ASA engaged in a continuous dialogue with a range of partners providing support to the Government. The country team, at the Country Director and Country Manager level discussed the most difficult issues at the highest level of the Government when necessary.

(c) Justification of Rating for Overall Bank Performance

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both the Country Director and Country Manager were giving either key note addresses or participated in panels strongly advocating for the SOE reforms.

Ratings: Satisfactory

76. **As described above, there were no shortcomings in identification, preparation, or appraisal**. The DPO series focused on critical reforms and followed through in a difficult environment with high-quality technical work, close work with the authorities, and strong communications. The nature of the DPL series in two operations enabled the series to focus on the implementation of the reform agenda. The efforts bore fruit and opened up reform possibilities in other areas of SOEs.

5.2. Borrower Performance

(a) Government Performance

Ratings: Satisfactory

77. **The Government performance as the borrower and implementer of the series of the DPO operations was satisfactory.** The reform agenda supported by the operations required a broad consensus within the Government because of the high political and social pressure. However, the Government developed a coherent overall strategy that addressed key priorities and needs. The effectiveness of SOE sector recognized as critical from fiscal and economic point of view. Commendable achievements were recorded in tackling the environmental issues and social aspects for redundant workers.

78. **The Government maintained reform momentum through all the changes.** During the whole period of the preparation and implementation of the series there were several changes in the government and the Ministries of Economy, Finance, Privatization agency, the envisaged reforms in the SOE sector remained relevant for the economy and recognized as the priority for the Government. This also was possible because of the trust that was built between the Bank team and the authorities and maintained at the political and technical levels, which contributed to the continuity of the reform agenda.

79. **One shortcoming of the DPO series was on monitoring and evaluation.** Tracking some of the results indicators after the series was implemented proved difficult, because of changes in definitions, one indicator not being tracked anymore, and other issues. The implementing line ministries and agencies monitored all data under their responsibility, but this was not sufficient to enable smooth collection of the results data. However, this impacts only the ICR and not the quality of the outcomes achieved.

(b) Implementing Agency or Agencies Performance

Ratings:

Not applicable.

(c) Justification of Rating for Overall Borrower Performance

Ratings: Satisfactory

See write-up above.

6. LESSONS LEARNED (both project-specific and of wide general application)

80. **Bank teams should be ready to remain engaged for a longer time than originally expected if needed to achieve critical reforms.** This series of operations tackled a sensitive and critical reform agenda and took five years from the first identification mission (September 2011) until Board approval of the second operation (September 2016). The task team and former Country Manager observed that it was worthwhile to be patient and maintain the dialogue.

81. **Bank teams should be specific and action-oriented in identifying the prior actions.** The prior actions should drill into the critical actions that need to be taken to secure the intended results and ensure the follow-on engagement to maintain and deepen results. This means that prior actions may not all appear as legislation to adopt, but rather can also include actions to take (for instance – resolving at least 97 PA Companies that were in the status of restructuring, issuing Public Announcements for at least 20 public bids for PA Companies that were not in restructuring, initiating the disposal and treatment of the related hazardous waste, establishing audit committees in at least 20 Public Enterprises).

82. **Bank teams should maintain strong stakeholder communication efforts and detailed technical discussions complimented with establishing personal relationships which help to build trust and ownership for the sensitive reforms.** Frequent (3-4 times per year) missions, especially during the preparation and implementation of the first operation, monthly visits and high level meetings of the Country Director, country presence of one of the key team members, joint participation in forums, conferences, and workshops allow to be heavily engaged in discussions with all relevant stakeholders, communicating on how the reforms are expected to lead to the anticipated outcomes for the country, its economy, and people helped to build a broader consensus for bold reforms and in parallel develop personal relationships and trust. These bring to the Government's commitment and ownership toward envisaged reforms.

83. **The SOE DPL series can be seen as the first major step in a long program to systematically address SOE issues in Serbia.** The SOE agenda remains relevant in Sersbia. The SOE DPL series tackled priority reforms that were the first key steps in resolving the SOE sector, but there is more to be done. Of the three categories of SOEs (presented in section 1.1), the series helped directly resolve companies in the Privatization Agency portfolio, improved governance of large SOEs. It also opened opportunities for further resolution of large and sensitive SOEs, including:

- The Public Expenditure and Public Utilities DPL series, which aimed to (i) improve public expenditure management through strengthened public financial management and public administration reform; (ii) improve the financial sustainability and efficiency of energy sector public enterprises; and (iii) improve the financial sustainability and efficiency of transport sector public enterprises and state-owned companies.
- The State-Owned Financial Institution Strengthening Project, which addresses another segment of SOEs with a large fiscal impact (as stated above). The SOFI operation supports restructuring of the one SOFI with full government ownership that is considered to be a systemic financial institution (Banka Postanska Stedionica, BPS). The major focus of the government's state-owned bank reform agenda is on ensuring the viability and sustainability of BPS, which is a troubled bank that requires significant restructuring. The Development Fund and the Serbian Export Credit and Insurance Agency (AOFI) are non deposit-taking SOFIs with substantial weaknesses that need to be addressed. The SOFI operation supports implementing the reforms embedded in the Development Fund Conclusion and AOFI Conclusion; developing a strategy on Development Finance Institutions; implementing the government's strategy for State-Owned Banks; and (iv) improving the recovery of bad assets from SOFIs. This will address major issues in the SOFI setor.

Thus, the SOE reform agenda going forward will likely center on operations such as these to address a narrower set of SOE issues, including subsets of large SOEs. The reform agenda for municipally-owned SOEs, especially utilities, is another challenge for the future.

84. **There is opportunity for improving monitoring of SOEs by the Government.** The Ministry of Economy collects data on Public Enterprises, but there is not systematic use and reporting of this data to inform other areas and policies of government. For other types of SOEs (including companies where the state has minority stake), monitoring is less systematic and not centralized.

7. COMMENTS ON ISSUES RAISED BY BORROWER/IMPLEMENTING AGENCIES/PARTNERS

(a) Borrower/Implementing agencies

The Borrower stated that the ICR captured the main achievements of the reform program supported by the DPL series, and had no further comments on the draft ICR.

(b) Cofinanciers

Not Applicable

(c) Other partners and stakeholders *(e.g. NGOs/private sector/civil society)*

Not Applicable

ANNEX 1: BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Dusko Vasiljevic	Sr. Private Sector Specialist	GRCEW	Team Leader
Javier Suarez	Lead Economist	GFCEW	Team Leader (ADM responsible)
Kashmiar Hoshang Daruwalla	Consultant	GGOPA	Procurement Specialist
Aleksandar Crnomarkovic	Sr. FM Specialist	GGOEW	Financial Management Specialist
Benedicta T. Oliveros	Procurement Officer	GGOPC	Procurement Specialist (ADM responsible)
Cesar Cancho	Economist	GPVDR	Team Member
Ruxandra Costache	Senior Counsel	LEGLE	Team member
Aleksandar Crnomarkovic	Sr. FM Specialist	GGODR	Team Member
Kashmira Daruwalla	Sr Procurement Specialist	GGODR	Team Member
Maria Eugenia Davalos	Economist	GPVDR	Team Member
Jarett Decker	Sr. FM Specialist	ECCAT	Team Member
Nikola Ille	Sr Environment Specialist	GENDR	Team Member
Jose Janeiro	Sr Finance Officer	WFALA	Team Member
Marijana Jasarevic	Social Protection Specialist	GSPDR	Team Member
Johannes Koettl	Sr Economist	GSPDR	Team Member
Lisa Lui	Lead Counsel	LEGLE	Team Member
Matteo Morgandi	Economist	GSPDR	Team Member
Francesca de Nicola	Economist	GTCDR	Team Member
Lazar Sestovic	Sr Economist	GMFDR	Team Member
Ignacio Jauregui-Zabalaga	Sr Counsel	LEGLE	Team Member
Ashley Taylor	Sr Economist	GMFDR	Team Member
Trang Van Nguyen	Sr Economist	GPVDR	Team Member

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending	DPL1 -207.63 DPL2- 57.46	DPL1 - 1,129,875.78 DPL2 - 225,499.96
Total:	**265.09**	**1,355,375.74**
Supervision/ICR	DPL1 -5.35 DPL2 -1**0.35**	DPL1- 17,914.76 DPL2- 8**7,193.00**
Total:	**13.50**	**105,107.76**

ANNEX 2: BENEFICIARY SURVEY RESULTS

Not Applicable

ANNEX 3: STAKEHOLDER WORKSHOP REPORT AND RESULTS

Not Applicable

ANNEX 4: SUMMARY OF BORROWER'S ICR AND/OR COMMENTS ON DRAFT ICR

The Borrower's ICR consisted of data on resolution of companies in the Privatization Agency portfolio. That data is presented in this ICR.

The Borrower stated that the ICR captured the main achievements of the reform program supported by the DPL series, and had no further comments on the draft ICR.

ANNEX 5: COMMENTS OF COFINANCIERS AND OTHER PARTNERS/STAKEHOLDERS

Not Applicable (no financiers or other partners)

ANNEX 6: LIST OF SUPPORTING DOCUMENTS

- Program Document for Programmatic State-Owned Enterprises Reform Project (P127408)
- Program Document for the Second Programmatic State-Owned Enterprises Reform Project (P148750)
- ISR for First Programmatic State-Owned Enterprises Reform DPL (P127408)
- Technical Notes:
    - Overview of the Public Enterprise Sector in Serbia (2012)
    - Corporate Governance for State-Owned Enterprises Policy note (2012)
    - Legal and Regulatory Assessment for Public Enterprise Restructuring Program (2013)
    - Comments and Proposal of Key Performance Indicators in the Energy Sector in Serbia (2013)
    - Note on Application of Certain Laws on Public Enterprises and State Owned Companies and Resulting Differences (2013)
    - Comments to the Law on Privatization and Amendments to the Law on Bankruptcy (2014)
    - Comments on Draft Law on Public Enterprises
- Aide memoires from DPL series preparation missions in January 2012, June 2012, September 2012, December 2012, February 2013, April 2013, June 2013, September 2013, March 2014, May 2014, September 2014, December 2014, July 2015, and November 2015.
- Note from the Ministry of Economy on the results of privatizations 2014-2018 (Borrower's ICR)