Report Number: ICRR0023782

1. Project Data

Project ID	Project Name
P156837	SOFI Project
Country	**Practice Area(Lead)**
Serbia	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-88320	01-Aug-2022	44,186,784.80
Bank Approval Date	**Closing Date (Actual)**	
20-Mar-2018	30-Apr-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	50,000,000.00	0.00
Revised Commitment	50,000,000.00	0.00
Actual	44,186,784.80	0.00

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2. Project Objectives and Components

a. Objectives

According to the International Bank for Reconstruction and Development (IBRD) Loan Agreement (p.4) dated March 21, 2018 and the Project Appraisal Document (PAD, p. 10) the project development objective (PDO) was “to improve the performance of Banka Postanska Stedionica AD Beograd [BPS] and promote the reform of development finance Institutions and other state-owned financial institutions.” BPS was founded in 1921 as the Postal Savings Bank of the Kingdom of Yugoslavia. The bank has gradually evolved into a full-service commercial bank and operates as a Serbian state-owned bank with a large retail and corporate customer base.

For assessing the project's performance, the PDO is parsed as follows:

Objective 1: To improve the performance of Banka Postanska Stedionica AD Beograd,

Objective 2: To promote the reform of development finance institutions and other state-owned financial institutions.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

No

d. Components

The Ministry of Finance (MoF) was to implement the State-owned Financial Institutions Strengthening Project (SOFI). The project consisted of two components:

1. Support the Reform of State-Owned Financial Institutions. (Estimated Cost at Appraisal: EUR27.97 million; Revised Cost at the First Restructuring: EUR35.57 million; Revised Cost at the Second Restructuring: EUR36.07 million; Actual Cost at Closing: EUR36.07 million)

This results-based component was to support the implementation of two reform areas based on the achievement of the Disbursement Linked Indicators (DLIs) and Disbursement Linked Results (DLRs) in line with the government's state-owned financial institutions (SOFIs) reform program. The first reform area was the restructuring of BPS that involved the following: (i) reorientating BPS toward retail and micro and small business lending in line with a new business plan; (ii) exiting from the corporate lending business; (iii) decreasing BPS' operations with state-owned enterprises; and (iv) reducing stock of non-performing loans (NPLs). Second reform area was development finance and other state-owned financial institutions reform. This sub-component was to support the following: (i) implementation of the reforms embedded in the Conclusions of Government of Serbia (GoS) on the Development Fund (DF) and the Serbian Export Credit Agency (AOFI); (ii) devising a strategy on development finance institutions; (iii) implementation of the government's strategy for state-owned banks (SoBs); and (iv) improve the recovery of bad assets from SOFIs. This component was to reimburse Eligible Expenditure Programs, which included selected salaries for the Ministry of Finance and Ministry of Economy, based on the achievement of three DLIs in the above-mentioned reform areas. These were: DLI 1, Restructuring of BPS: DLI 2, Complete Reforms and Develop Strategy on Development Finance; and DLI 3, Implement NPL Resolution Strategy and State-Owned Banks Strategy. For details of the DLIs and the associated eleven DLRs, please see Efficacy section.

2. Strengthen Institutional Capacity. (Estimated Cost at Appraisal: EUR12.03 million; Revised Cost at the First Restructuring: EUR5.42 million; Revised Cost at the Second Restructuring: EUR3.92 million; Actual Cost at Closing: EUR3.23 million)

The activities within this component were to provide technical assistance (TA) and procure equipment in critical areas to support the reform objectives. The activities included: (a) procurement of a new core banking system, hardware and information technology systems (ITS) for BPS and provision of consultancy services to implement the BPS Conclusion of August 2016 and BPS business plan; and (b) provision of consultancy services to the MoF for carrying out their oversight function over SOFIs, implementing government's strategy on SoBs and developing and implementing strategies for NPL resolution and development finance. Lastly, this component was to provide support to the Central Fiduciary Unit (CFU) of the MoF to perform its fiduciary functions (financial management and procurement).

Revised Components: The components remained the same during the implementation. Some budget reallocations between the components were implemented at the first and the second restructurings. At the first restructuring, as a result of the borrower's decision to procure the new IT system and related services needed for the BPS using its own sources instead of project funds, total cost of Component 2 was reduced from EUR12.03 million to EUR5.43 million and Component 1 increased from EUR27.97 million to EUR34.57 million. At the second restructuring an amount of EUR 1.50 million were reallocated from Component 2 to Component 1 for implementation of additional technical assistance activities. However, these did not change the scope of components significantly.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost estimated at appraisal was EUR40.1 million (US$50 million equivalent). The actual cost at project closing was EUR39.30 million (update provided by the project team by an email dated: January 22, 2024). The ICR reports that the difference between the cost at appraisal and the cost at closing was accounted by the front-end fee for the IBRD loan.

Financing: The IBRD loan amount estimated at appraisal was EUR40.1 million (US$50 million equivalent). By the project closing, the total disbursement was EUR39.30 million. The project was financed through two types of financing mechanisms: (a) results-based financing in the form of disbursement-linked indicators/results (DLIs/DLRs), which were defined as results that trigger payments against Eligible Expenditure Programs; and (b) traditional input-based financing in the form of goods and services. This instrument was chosen because it had a track record of success in achieving results as part of ongoing reform programs and in strengthening and reforming institutions (PAD, p.12).

Borrower Contribution: The MoF (borrower) was to co-finance the installation of the ITS for BPS with a contribution of US$6 million. This did not materialize, because BPS decided to procure these services and goods directly using its own funds (see section on Restructurings below).

Dates: The project was approved on March 20, 2018, and became effective on August 22, 2018. The project's original closing was on August 1, 2022. However, the implementation period was extended twice for a total of nine months, first to December 31, 2022 than to April 30, 2023 at the second and the third restructurings, respectively. The project closed on April 30, 2023.

Restructurings:

The project had three Level 2 restructurings:

Restructuring No.1 (April 2020): This restructuring involved the reallocation of funds from Component 2 to Component 1. This was mainly as a result of the Borrower's decision to procure the new IT system and related services needed for the BPS using its own sources instead of project funds. Accordingly, total cost of Component 2 was reduced from EUR12.03 million to EUR5.43 million and Component 1 increased from EUR27.97 million to EUR34.57 million. In addition, the restructuring adjusted the wording of the DLR 3.3 to reflect the new proposal for strengthening state-owned banks corporate governance. Lastly, a new DLR 3.4 (i.e., the borrower has received at least EUR 140 million from SOFI's NPL sales) was added on "the resolution on state-owned NPLs to reflect the progress on this reform area, which exceeded initial expectations both for scope as well as timeline" (Restructuring Paper, Report No.: RES40988, p.8).

Restructuring No.2 (January 2022): This restructuring added a new DLR 3.5 (i.e., a tender for the sale of the third bucket of SOFI's NPLs based on the NPL Resolution Strategy, in an approximate amount of EUR 500 million, has been issued by the Borrower) on NPL resolution to reflect the progress made on this reform area. Secondly, project funds in an amount of EUR 1.50 million were reallocated from Component 2 to Component 1 because the entire allocation under the Component 2 was required for additional technical assistance activities. The restructuring paper notes that the rebalancing of allocations does not indicate that the technical assistance component was not successful in achieving its objectives, rather that they were achieved more economically than initially expected. Thirdly, the target for the PDO indicator related to the reduction in state-owned NPLs was revised down from USD1.20 billion to USD980.00 million, reflecting the additional reforms undertaken on NPL resolution. Lastly the restructuring extended the closing date from August 1, 2022 to December 31, 2022 to allow time for the completion of ongoing TA activities and for bridging the MoF's supervision of SOFIs and financial sector development to continue while the pipelined Serbia Capital Markets Loan was being prepared and waiting to become effective (ICR, p.15).

Restructuring No.3 (December 2022): The closing date of the project was extended from December 31, 2022 to April 30, 2023 to enable the completion of TA activities and achievement of the DLRs on final NPL tender and development finance strategy.

Reason for not to undertake a split assessment for the project outcome: The revision in the target for PDO indicator (reduction in state-owned NPL resolution) introduced at the second restructuring does not require a split assessment for the project outcome, since this revision resulted in a more ambitious target, that was a better measure for the progress of the reform process. Therefore, this review will not undertake a split assessment of the project outcome.

3. Relevance of Objectives

Rationale

The World Bank Strategy: The project objective is highly aligned with the World Bank strategy defined in the current Country Partnership Framework (CPF) FY22-26 for Serbia. In 2016, the state had a significant role in the financial sector and the financial performance of the SOFIs was poor and costly for the state with relatively high NPLs. In 2017, the GoS adopted a strategy aiming to reduce the role of the state in the financial sector. The government was to restructure the state-owned banking sector by reducing the number of SoBs with direct ownership to one (BPS) and improve the financial and operational performance of the other SOFIs to minimize fiscal risks. The SOFI project was designed to support the GoS in implementing the above said strategy. The objective of SOFI is well aligned with the Objective 1.1 of the CPF (Stronger Macro-fiscal Framework and Structural Reforms for Greener Growth) which refers to assistance in the creation of a more stable and accessible financial sector, as it aims to improve the performance of the BPS and promote the reform of other SOFIs.

Country Context: In 2006, GoS has adopted a conclusion on guideline for BPS's new business strategy which involved among other measures limiting lending to state-owned enterprises and exiting medium and larger corporate lending. With respect to the other SOFIs, GoS launched independent assessments for DF and AOFI which identified the operational weaknesses. Similar to the conclusion on BPS, another conclusion on DF and AOFI was adopted mandating these institutions to address the challenges identified, and a World Bank assistance was requested in line with the CPF. The authorities involved were ready and committed to continuing the reform process, which had been initiated before the appraisal of the project. In this context, the project objective was outcome-oriented and was rightly pitched for the development status and capacity in the country.

Previous Sector Experience: According to the PAD (p. 13), the World Bank had been supporting the SOFIs reform in Serbia for over a decade prior to the approval of the project utilizing both financial and knowledge products. A programmatic series of financial sector Development Program Loans (DPLs) from between 2005 and 2011 supported the reform of SoBs and insurance companies. However, this programmatic DPL series was a broad-based private and financial sector operation that covered a wide range of areas. In addition, the project significantly benefited from the prior and parallel International Monetary Fund and World Bank engagements that laid the foundation for the project's intervention such as the World Bank Deposit Insurance Strengthening Project (P146248) in 2014 and the NPL Loan and Asset Management Strategic Plan Resolution Strategy, the NPL Resolution Strategy, and the State-Owned Bank Strategy in 2017 (ICR, p.25). In this context, the outcomes expected from the project's intervention were consistent with the country's progress over time. The project aimed at carrying the groundwork established through the above-mentioned strategies to the next step and implementing those strategies and achieving targets set therein.

Overall, the project objective was highly aligned with the World Bank strategy; it was appropriately pitched to development level in the country; and the objective was consistent with progress over time as compared with earlier engagements. Based on these assessments, the relevance of objectives is rated High.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
To improve the performance of Banka Postanska Stedionica AD Beograd

Rationale
Theory of Change:

The government took reform steps to reduce both the role and the number of state-owned banks with direct ownership to one (BPS) while divesting from the other four banks. The major focus of the government's state-owned bank reform agenda was on ensuring the viability and sustainability of BPS (PAD, p. 7). To achieve the improvement of the performance of the BPS, the project was to support the reorientation of business strategy, reforming corporate governance and risk management practices, and operational restructuring. This was to be achieved through a results-based financing design with Disbursement Linked Indicators (DLIs) and a traditional technical assistance support in the form of the procurement of goods and services for the achievement of the DLIs and the objective.

The project's theory of change suggests that the improvement of the performance of BPS would be achieved through the following five activities linked to DLI 1:

DLI 1: Restructure Banka Postanska Stedionica AD Beograd (BPS)

1.1 Adoption of a business plan for the calendar years 2018-2020, consistent with the quantitative and qualitative requirements of the BPS Conclusion.

1.2 Execution of an agreement detailing the business model for joint operations between BPS and Serbian Post, Telegraph and Telecommunications Company (PTT).

1.3 The gross amount of BPS Performing Credit Exposures to medium and large private sector enterprises reduced by not less than 60% by December 31, 2020, compared to December 31, 2016; and the limit on BPS lending to state-owned enterprises (SOEs), as set forth in the BPS Conclusion, complied with by December 31, 2020.

1.4 Compliance by BPS with the prudential ratios set forth in Selected National Bank of Serbia Decisions, by December 31, 2020.

1.5 BPS gross NPLs were reduced by at least 50% by December 31, 2021, compared to December 31, 2016.

The TA activities to support the achievement of DLI 1 were the acquisition of a new core banking system for BPS and the provision of consultancy services to BPS for the implementation of its business plan.

Achievements under DLR 1: This DLR was fully achieved.

- BPS adopted a business plan for the calendar years 2018-2020 in February 2018. The agreement between BPS and Serbia Post was modified and reduced the service fee charged by PTT on BPS customer transaction at post offices from 0.70 to 0.50 percent resulting in cost savings in operations to BPS of approximately Serbian dinar (RSD) 420 million. The agreement between PTT and BPS was signed in October 2022.

- By December 2022, BPS's credit exposures to medium and large private sector enterprises were RSD 877.3 million. This amount was 78.3 percent lower than the baseline of RSD 4.05 billion in 2016. By September 30, 2022, the ratio of BPS's total gross exposure towards SOE sector to total deposits from SOE sector was 63 percent; it was below the 75 percent limit set by BPS Conclusion (update provided by the project team by an email dated: January 22, 2024)
- BPS achieved the prudential ratios (Capital adequacy ratio, liquidity, asset quality, earnings, profitability, etc.) by December 2020, which was verified by an independent consultant.
- By December 2022, the NPL ratio in BPS was 3.9 percent. This was aligned with the broader Serbian commercial banking sector, which had NPLs of 3.3 percent. In 2016 the NPL ratio in BPS was 23.32 percent of total gross loans.

Outputs:

Achievements as reported in the Results Framework:

- BPS is in compliance with the prudential ratios set forth in Selected National Bank of Serbia Decisions: This target was achieved. (See DLR 1 above).
- BPS in compliance with limit on lending to State Owned Enterprises: BPS compliance with limit on lending to State Owned Enterprises was defined in the government conclusion on BPS as gross exposure to public sector enterprises/ total deposits from the public sector should be less than 75 percent (PAD, p. 25). By September 2022, the ratio was 63 percent- DLI1 (update provided by the project team by an email dated: January 22, 2024).
- BPS Board of Directors adopted the strengthened risk management policies and implementing procedures, and compensation scheme in line with the approved 2018-2020 business plan. Target was achieved.
- BPS completed the installation of core banking system and associated software, hardware and services: Initially, BPS's core banking system would be procured through the SOFI Project. However, by December 2018, BPS stated it would acquire the core banking system through its own funding, contrary to project agreements. The core banking system was completed in 2021 through the merger of BPS and MTS Bank (ICR, p.18, footnote 8). At the time of the ICR preparation, BPS was in the process of transferring transactions through the new system.

Outcomes:

Achievements as reported in the Results Framework:

- BPS gross amount of performing credit exposures to medium and large private sector enterprises is reduced compared to end-2016: By December 2022, BPS's credit exposures to medium and large private sector enterprises were RSD877.3 million This amount was 78.3 percent lower than the baseline of RSD 4.05 billion in 2016. This development was in line with BPS's reorientation of its business strategy. The business has shifted to MSMEs and the retail sector (ICR, p.36). Target was achieved.
- BPS gross NPLs are reduced compared to end-2016: The ICR reports that BPS's NPLs (total gross loans) significantly decreased from 42 percent in December 2016 to 3.7 percent by September 2022, and they were in compliance with the National Bank of Serbia's regulatory prudential norms. The target was achieved.

Additional outcome achievements reported in the ICR:

- Improvement of corporate governance and risk management: The ICR (p.18) reports that the competence and independence of the Board members of BPS has improved following the reshuffling among the members of the supervisory board and the management board. Furthermore, public tenders for Board members were introduced. The TA component of the project contributed to improvement of the oversight capacity of the MoF. This enabled continuous oversight of BPS reforms with consistent communication and monitoring of monthly data. The ICR (P.24) reports that, as of July 2023, the close monitoring of BPS by the MoF continued.

Overall, the project's efficacy in achieving the first objective is rated High. The project achieved DLR 1 and all the targets of PDO level and intermediate level indicators associated with this objective. The SOFI Project's support of the reform areas resulted in a significant improvement in BPS' performance through the reorientation of business strategy, strengthening of corporate governance and risk management, and operational restructuring.

Rating
High

OBJECTIVE 2

Objective
To promote the reform of development finance institutions and other state-owned financial institutions

Rationale
To initiate reform on development finance, the government launched independent external assessments of the Development Fund (DF) and the Serbian Export Credit and Insurance Agency (AOFI). The assessments revealed significant weaknesses in the governance, credit risk assessment, internal audit, and IT functions of these two entities. Both institutions accumulated high NPLs in their portfolios and a large volume of financing of the SOEs. To address these challenges and reform the state-owned financial institutions, the project was to support the implementation of reforms (included in government Conclusions on DF and AOFI), preparation of a strategy on development finance institutions, implementation of the borrower's strategy on SoBs, and improvement of recovery of bad assets from state-owned financial institutions. This was to be achieved through a results-based financing design with two disbursement-linked indicators and with traditional TA in the form of the provision of goods and services to support the achievement of the DLI 2 and DLI 3, and the objective.

The project's theory of change suggests that the reform of development finance institutions and other state-owned financial institutions would be achieved through the following eight activities linked to the two DLIs listed below:

DLI 2: Complete Reforms and Develop Strategy on Development Finance

2.1 Completion of a diagnostic study for the DF and AOFI.

2.2 The supervisory boards of the DF and AOFI each adopted Decisions consistent with the quantitative and qualitative requirements of the DF Conclusion and AOFI Conclusion, respectively.

2.3 The Borrower adopted a strategy for DF.

DLI 3: Implement NPL Resolution Strategy and State-Owned Banks Strategy

3.1 A tender for the sale of SOFI's NPLs, in an approximate amount of EUR 145.60 million, issued by the Borrower.

3.2 A tender for the sale of the Prime Bucket of SOFI's NPLs based on the NPL Resolution Strategy, in an approximate amount of EUR 832.30 million, issued by the Borrower.

3.3 MoF adopted an Instruction, acceptable to the Bank, to request MoF's Financial Sector Department to provide advice to the Borrower's Minister of Finance on the selection of state-nominated members of the Board of Directors of state-owned banks.

3.4 The Borrower has received at least EUR 140.00 million from SOFI's NPL sales.

3.5 A tender for the sale of the third bucket of SOFI's NPLs based on the NPL Resolution Strategy, in an approximate amount of EUR 500.00 million, issued by the Borrower.

The TA activities supporting the achievement of DLI 2 and DLI 3 were the provision of consultancy services to the MoF to adequately exercise their oversight role of SOFIs, implement the GoS's strategy for SoBs, and develop and implement strategies for NPL resolution and development finance.

Achievements under the DLIs: All DLIs were achieved.

DLI 2: Complete Reforms and Develop Strategy on Development Finance

An independent party completed the diagnostic on DF and AOFI in June 2017. The supervisory boards of the DF and AOFI adopted the decisions in July 2019 consistent with the government conclusions. The MoF finalized a policy concept note in December 2021 proposing a series of reforms. The government adopted the Strategy for Development Finance in 2022.

DLI 3: Implement NPL Resolution Strategy and State-Owned Banks Strategy

The MoF tendered a pilot NPL portfolio with a face value of EUR240 million in 2018 and sold it in 2019 and tendered a second large portfolio of EUR1.82 billion in 2019 and sold it in 2021. In May 2020, the MoF adopted instructions on the selection of state-nominated members of the Board of Directors of SOBs. The implementation of this instruction occurred at BPS. An independent verification confirmed that the government received at least EUR143 million (above the EUR140 million requirement) in July 2020. The MoF tendered a third large portfolio of EUR300.7 million in December 2022; the deadline for bid submission was April 2023. As of June 2023, the Deposit Insurance Agency was in the process of bid evaluation (ICR, p.21-22).

Outputs:

Achievements as reported in the Results Framework:

- Adoption of updated NPL resolution strategy, which includes a strategy for state-owned NPLs with a separate action plan, per government conclusion: On December 27, 2018, the government approved the Program for resolution of non-performing loans for the period 2018-2020 together with a time bound Action Plan, which represents the continuation of the NPL Strategy adopted in 2015. It is now a program-type activity under the broader Fiscal Strategy. The NPL Program and the Action Plan are now available on the website of the MoF (additional info provided by the project team by an e-mail dated January 22, 2024).
- Tender issued for the sale of SOFIs' NPLs, in an approximate amount of EUR 145.6 million: Target was achieved. See DLI 3 above.
- Strategy for Development Finance was adopted by the government in 2022. The strategy aims to improve the institutional and legislative framework for development finance with a target to strengthen the position of the companies and entrepreneurs in the country. The strategy also addresses issues of reducing financing gap, improving access to external financing, and raising awareness about external financing. The Ministry of Economy will be leading and managing the processes for monitoring the implementation of the strategy (additional info provided by the project team by an e-mail dated January 22, 2024).
- Number of outreach sessions organized with business representatives as a two-way interaction: Three sessions were organized. Target was achieved.

Outcomes:

Achievements as reported in the Results Framework:

- Reduction in state-owned NPLs compared to end-2016: The state-owned NPLs decreased from US$3.97 billion to US$0.93 billion between 2016 and 2022 with the DLIs supporting three successful state-owned NLP tenders (update info provided by the project team by an e-mail dated January 22, 2024). The financial sector NPLs significantly decreased from 17 percent in 2016 to 3 percent in 2023. The SOFI Project supported the achievement of the NPL targets, adoption of an NPL Strategy, and tendering the NPL portfolio for sale (ICR, p.20). Target was achieved.

Additional outcome achievements reported in the ICR:

- Amongst the six SoBs that were operating in the Serbia as of June 2017, two of them (BPS and Srpska Banka AD) are still operational as of July 2023. The total financial assets of SoBs and SOFIs decreased from 18 percent in 2017 to around 11 percent in 2023 (ICR, p.19).

Overall, the project’s efficacy in achieving the second objective is rated High. The project achieved both DLR 2 and DLR 3 and the targets of the PDO level and intermediate level indicators associated with the achievement of this objective.

Rating
High

OVERALL EFFICACY

Rationale

The project's efficacy in improving the performance of Banka Postanska Stedionica AD Beograd was High as all the targets were achieved, and reform objectives were reached. The project's efficacy in promoting the reform of development finance institutions and other state-owned financial institutions was also High. Overall efficacy of the project in achieving the project objectives is rated High.

Overall Efficacy Rating

High

5. Efficiency

Economic and Financial Analysis: At appraisal and project closing, an economic or a financial analysis was not conducted. The PAD argues that by supporting the government in the implementation of its strategy related to state-owned banks, the project was to contribute to lower contingent fiscal liabilities and reduce risk on future fiscal expenditures related to these institutions. The project was also to generate revenues through the privatization of certain state-owned banks as well as through recovering state-owned NPLs. The reforms in the banking sector were to eliminate market distortions and expected to improve overall performance in the banking system and increase confidence in the overall financial system. According to PAD (p.16), at the time of the Project's approval in 2017, the government had spent over EUR 800 million on SOFIs for the past five years. The ICR argues that there have been more modest capital injections during the project implementation period for BPS and AOFI. From 2018 to 2023, BPS had 4 capital injections totaling approximately RSD11.6 billion (approx. Euro 98.8 million) whereas AOFI had a capital injection of approximately RSD3.6 billion (approx. Euro 30.6 million) in 2020 associated with the economic impacts related to COVID-19. By project closing, the financial sector NPLs have significantly decreased from 17 percent in 2016 to 3 percent in 2023 (ICR, p.20). More specifically, BPS's NPL (total gross loans) dropped from 19.9 percent in December 2017 to 3.7 percent in December 2022 (ICR, p.18, footnote 6). All activities procured were consulting services and were completed without any cost overruns, contributing to the efficiency of the project.

Operational and Administrative Efficiency: The implementation period was extended for a total of nine months to enable the achievement of the DLIs and completion of TA activities. By project closing, the project had disbursed around 97 percent of the project funds. The procurement of all services foreseen under both Components 1 and 2 were completed successfully. The commitment of the government to the reform process and close dialogue with the WB team contributed to the achievements of the project. In addition, the relatively simple project design with a smaller number of DLIs and activities associated with them and a TA component supporting the achievement of the DLIs facilitated the successful implementation of the project and the achievement of the project outcomes.

Although an economic and financial analysis was not conducted, achievements (decrease in capital injections, decrease in NPLs) reveal positive results for the state-owned banking sector. The project did not experience any operational or administrative inefficiencies during implementation. Overall Efficiency is rated as Substantial.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project objectives are highly relevant to the country context and aligned with the current World Bank strategy for Serbia. The project's efficacy in achieving the first objective (to improve the performance of Banka Postanska Stedionica AD Beograd) is rated High; the efficacy of the project in achieving the second objective (to promote the reform of development finance institutions and other state-owned financial institutions) is also rated High. Overall efficacy rating is High. Project's efficiency is rated Substantial. Based on these sub-ratings, the outcome of the project is rated Highly Satisfactory.

a. Outcome Rating

Highly Satisfactory

7. Risk to Development Outcome

The GoS is committed to continue with the reform its state-owned financial sector. The GoS's additional reform activities outside the scope of the SOFI Project demonstrate the government's commitment to pursue its reform agenda. This is evidenced by the sale of Komercijalna Bank, Jugobanka and Jumbes Banka - which have all been divested from government ownership (ICR, p. 26). Furthermore, the government's commitment and ownership to implement the challenging SoB/SOFI reforms was strong during recent turbulent financial markets—economic impacts of COVID-19 pandemic, Russia's invasion of Ukraine, higher inflation, higher energy prices, and interest rate hikes. The ICR mission interviews noted that the Government's continued renewal and adoption of the BPS conclusion is a key factor in maintaining the reform momentum for BPS (ICR, p.28). On the other hand, regarding reforms for DF and AOFI, although some progress could be observed in digitalization of services, the full implementation of the reforms on the improvement of governance and proper oversight of development finance institutions remains pending, which impede completion of reforming development finance institutions (ICR, p.28).

8. Assessment of Bank Performance

a. Quality-at-Entry

The project had high strategic relevance as it supported GoS's reform targets and implementation of reform strategies. The project design benefited from important prior and parallel International Monetary Fund (IMF) and World Bank engagements. Some of the major lessons learnt from these previous engagements that the project design benefited from were i) keeping the number of DLIs/DLRs limited as too many DLIs/DLRs could complicate project implementation and supervision ii) focusing on corporate governance improvements and iii) using results-based financing as an instrument for achieving institutional strengthening, as it focuses more on achieving and sustaining results rather than policy changes. Bank inputs and processes during entry were adequate. The risk assessment was accurate, and the mitigation measures were adequate. The World Bank had extensive policy dialogue with the various Serbian authorities on the reform agenda and their implementation at the preparation phase. The ICR (p.25) reports that "the country management units of both the IMF and the World Bank set the grounds for open collaboration between the institutions." Fiduciary aspects and associated arrangements were appropriate. Despite the highly political and technical nature of the project, the World Bank project team was able to prepare and appraise an outcome oriented and focused project.

Quality-at-Entry Rating

Highly Satisfactory

b. Quality of supervision

During project implementation, the project team's close dialogue with the Serbian authorities was critical in the identification of problems and introduction of solutions to achieve the project objectives. More specifically, prior to the first restructuring one of the DLRs (DLR 3.3), which was tied to a specific date was not achieved and was not likely to be achieved in in the short run. The restructuring became an urgent priority for freeing up available resources to respond to the COVID-19 pandemic and expected impact on the Serbian economy. In agreement with the Serbia authorities the restructuring was introduced. The restructuring included a revision to DLR 3.3 to reflect an agreed reprioritization within the state-owned bank corporate governance reforms. The supervision missions were held regularly and during COVID virtually. Particularly, during the early stages of project implementation, the project team met with the Serbian counterparts more frequently than the six-month ISR requirement to discuss the progress in reform implementation (ICR, p.29). The project had the same Task Team Leader from the project preparation through to the project closing. This also contributed to the continuity of the dialogue and steady progress in project implementation. The close collaboration with the IMF in assisting the Serbian authorities on the reform processes also positively affected project implementation. The Central Fiduciary Unit (CFU) implemented its fiduciary responsibilities successfully and the project did not experience any procurement or financial management issues.

Quality of Supervision Rating

Highly Satisfactory

Overall Bank Performance Rating

Highly Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

Theory of change was sound and causal pathways from inputs to outcomes were valid and direct. M&E design was relatively simple. The results framework included eleven indicators and three DLIs making implementation and monitoring responsibilities manageable. The indicators were sufficient to capture most of the results expected from the project's intervention. However, the results framework did not include any indicator to adequately monitor the achievement in capacity building at the Ministry of Finance; this was a weakness in the M&E design in fully capturing the project's impact expected through the implementation of the technical assistance activities under the second component. The M&E arrangements and relevant institutions were identified clearly. The Financial Sector Department of the Ministry of Finance (Ministry of Finance Unit on Financial Sector earlier) was responsible for results monitoring and evaluation. The CFU was to submit semi-annual progress reports prepared by the relevant department of the Ministry of Finance toward the achievement of the PDO, including the monitoring of the results framework and the DLIs/DLRs and an evaluation of financial management and procurement (PAD, p. 14).

b. M&E Implementation

Dedicated M&E personnel at the Financial Sector Department of the Ministry of Finance collected the M&E data and submitted them to the CFU for reporting. All relevant monitoring information was submitted to the World Bank according to the schedule. However, the shortcoming in the M&E design in capturing the project's impact on capacity building at the MoF was not addressed during project implementation.

c. M&E Utilization

M&E findings were regularly communicated to participating institutions and relevant stakeholders through CFU reports, supervision missions, and ISRs. These findings resulted in three project restructurings. The ICR (p. 26) reports that, when there were implementation issues or differing viewpoints between the GoS and the Bank team, the ISRs captured the discussions with frankness and candor. Accordingly, the project team in agreement with the Borrower initiated restructurings of the project which helped achievement of project results. The M&E data collected regarding the NPL resolutions contributed to introduction of DLRs and made project targets more ambitious.

While there was a weakness in the M&E design and implementation related to the capturing of the project's impact on capacity building at the MoF, the M&E system as designed and implemented was mostly sufficient to assess the achievement of the project objectives and test the links in the results chain; overall, the M&E quality is rated Substantial.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was environmental category C project. No environmental or social safeguard policy was triggered.

b. Fiduciary Compliance

Financial Management: The Central Fiduciary Unit (CFU) within the MoF was responsible for the fiduciary aspects of the project. The CFU had a well-functioning financial management system and was adequately staffed with three qualified personnel. Adequate internal controls and information system were in place. The ICR (p. 27) reports that there were no major issues identified by the financial management supervision undertaken during the implementation period. All audit reports until project closing were received according to the schedule, and the opinions of the auditors were unqualified (ICR, p.28). The final audit of the project is due by February 2024.

Procurement: At appraisal, the procurement risk rating was assessed as "high." since CFU was a new unit and SOFI was the first project that the unit was to manage. In addition, although the staff had procurement capacity, they were not familiar to the use of the World Bank's the Systematic Tracking of Exchanges in Procurement (STEP) system. Under Component 2, CFU received technical assistance support in financial management and procurement. After two years of implementation, the initial high procurement risk was revised down from high to moderate. The project procured services only under the TA component, since the BPS used its own funds to procure the ITS outside of the project. The procurement of the services was completed successfully in accordance with the relevant World Bank guidelines and policies.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Highly Satisfactory	Highly Satisfactory	
Bank Performance	Highly Satisfactory	Highly Satisfactory	
Quality of M&E	High	Substantial	Due to weaknesses in the M&E design and implementation in capturing the project's impact on capacity building.
Quality of ICR	---	Substantial	

12. Lessons

The following lessons are derived from the ICR (pp. 29 and 30):

The continuous ownership and commitment of the borrower/implementing agency and continuity in the World Bank's project team can be critical in achieving development outcomes and ensuring the sustainability of the reforms in the financial sector. In the case of the SOFI Project, starting from the appraisal, GoS showed strong commitment and determination to implement the SOFI reforms. Despite challenging conditions imposed by the COVID-19 pandemic and other external developments like Russia's invasion of Ukraine, higher inflation, higher energy prices, and interest rate hikes, the continuous commitment of the GoS to the reform process enabled the achievement of the project results. In addition, the project had the same Task Team leader from project preparation to project closing. This significantly contributed to staying on course and achieving the project objectives.

Collaboration with other donors particularly can improve and reinforce project implementation and the achievement of project results. During the implementation of the SOFI Project, the IMF Standby Arrangement (SBA) and Project Coordination Instrument (PCI) contained a clause that reinforced the importance of the IBRD SOFI loan results, elevating the importance of difficult reforms. The technical merits of the reforms covered under the SOFI Project that were embedded in and contingent on the IMF's SBA and its PCI proved to be a strong combination in ensuring the successful implementation of the project. The collaboration between the IMF and the World Bank teams was enhanced during the implementation with regular joint missions to Serbia and meeting with the Serbian authorities.

A relatively simple but focused project scope can significantly contribute to achieving reform objectives in the financial sector. The ICR reports that a broad set of financial sector topics, such as capital markets, insurance, and other subsectors, were potentially considered as part of the project design during project preparation. However, considering that the SOFI alone was already a complex sector for reform, instead of having a wide breadth covering many financial sector segments, the Project’s scope was simple and restricted to the SOFIs with a deep focus. This approach facilitated the achievement of project results.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a comprehensive overview of the project. The narrative is candid, accurate, and aligned with the PDO. It is mostly consistent with the Bank's guidance. The quality of evidence and analysis is well presented and aligned with the results reported in the report in the efficacy section. The report is focused on what occurred as a result of the project implementation. The narrative is evaluative and goes beyond the current M&E framework and reports additional achievements in the area of SoB sector and SOFIs as well as corporate governance and risk management of BPS.

However, the ICR has moderate shortcomings in certain sections. While the Context section could have been more concise, the narrative on the Bank Performance and M&E quality sections are brief and do not fully provide an evidence base to support the relevant ratings. There were some inconsistencies between the main text of the report and the Annex 3, regarding the achievement of the indicators. These were clarified through additional documents and information provided by the TTL.

Overall, the quality is rated Substantial with moderate shortcomings in internal consistency and evidence base.

a. Quality of ICR Rating

Substantial