



1. Project Data:		Date Posted : 09/21/2004	
PROJ ID: P076764		Appraisal	Actual
Project Name: Sac I (Montenegro)	Project Costs (US\$M)	15	16.9
Country: Serbia and Montenegro	Loan/Credit (US\$M)	15	16.9
Sector(s): Board: EP - Central government administration (35%), Compulsory pension and unemployment insurance (20%), Power (20%), General industry and trade sector (15%), Law and justice (10%)	Cofinancing (US\$M)		
L/C Number: C3705			
	Board Approval (FY)		3
Partners involved :	Closing Date	09/30/2003	01/31/2004
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The Credit was intended to support the Government of the Republic of Montenegro (GOM), the smaller constituent republic of the Federal Republic of Yugoslavia (FRY), in implementing a structural reform agenda with the main objectives of enhancing medium-term fiscal sustainability and improving the prospects for growth as a basis for sustained poverty reduction. The government's program supported by the operation worked to achieve these objectives through specific reforms in the areas of: (i) public expenditure management; (ii) pensions; (iii) the energy sector; (iv) labor markets; and (v) the business environment.

b. Components

1. Public Expenditure Management : 1.1 Satisfactory progress preparing and adopting secondary legislation to implement Law on the Budget System; 1.2 MOF used comprehensive medium-term macro/fiscal framework in formulating 2003 budget; 1.3 GOM approved policy paper on use of donor funds, including clearly established procedures for incorporating into the budget in-year receipt and use of donor funding; 1.4 GOM implemented satisfactory Treasury system and transferred to Treasury accounts of budget -financed ministries and agencies into single treasury account; 1.5 MOF adopted time-bound plan for extending Treasury services to operation of all social funds; 1.6 Debt management department in Treasury established, with staff hired and training organized; 1.7 MOF providing monthly summaries of budget execution to the Cabinet and public; 1.8 MOF established and staffed Internal Audit Department, which has established 2003 annual audit plan.

2. Pensions: 2.1 GOM enacted law on pensions and disability insurance; 2.1 Pension Fund (PF) revenues improved by GOM becoming current on contributions to PF starting July 1, 2002; 2.3 Draft 2003 budget proposes elimination of specified non-pension benefits from the PF.

3 Energy: 3.1 Actions taken to reduce electricity supply problems; 3.2 GOM submitted energy law to Parliament ; 3.3 GOM has established and maintained level of tariffs satisfactory to the Bank; 3.4 GOM has prepared strategy for KAP including time bound Action Program that addresses ownership and operating issues . Draft program has been shared with the Bank so that its comments can be taken into account before implementation; 3.5 Electric Power Industry (EPCG) has further increased collections/billings ratio such that accounts receivable do not increase by more than 15 percent of total revenues during previous 12 months; 3.6 EPCG reduced barter as a share of total collections to a maximum of 10 percent.

4. Labor Market : 4.1 GOM enacted law on labor, including provisions on severance pay, maternity leave, and special leave entitlements. 4.2 Ministry of Labor assessed active labor programs and is refining scheme from micro credits toward more cost-effective options.

5. Business Environment : 5.1 GOM adopted and begun to implement registration procedures for new enterprises, developed in accordance with the law on Business Organizations

In addition, the Borrower was required to maintain an appropriate medium-term macroeconomic framework.

c. Comments on Project Cost, Financing and Dates

While the project size at appraisal was US\$ 15 million, US\$16.9 million was expended due to exchange rate variations. The project closed 4 months later than envisioned due to a 4-month delay in the establishment of the Internal Auditing Department.

3. Achievement of Relevant Objectives:

Most relevant objectives were achieved:

1. Public Expenditure Management : All benchmarks were met, with the exception of the policy paper on use of donor funding. **2. Pensions** : All benchmarks were met except that the improvement in PF revenues was not sufficient for the GOM to become current on PF contributions starting July 1, 2002 (the government is now current). **3. Energy** : All benchmarks were met except for increased collections as a percent of billings, the share of barter as a percent of collections, and development of an Action Plan for KAP (sec. 5); **4. Labor Market** : All benchmarks were met except for the assessment of active labor programs; **5. Business Environment** : GOM adopted and began implementation of registration procedures for new enterprises.

4. Significant Outcomes/Impacts:

- The 2003 budget was prepared using a three-year macro-fiscal framework for 2003-05, and utilized integrated projections from all revenue sources and a comprehensive expenditure picture including extra-budgetary funds.
- Achievements in the areas of raising energy prices and adopting a new energy law exceeded project requirements

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Barter as a share of collections (including offsets) amounted to 20-30%, compared to 10% as specified in the project documents; also, the ratio of collections to billings did not meet the levels specified by the project
- A strategy for KAP, including an Action Program addressing ownership and operating issues, was not developed

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Substantial	Substantial	
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Unsatisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

8. Assessment Recommended? ☐ Yes ☒ No

9. Comments on Quality of ICR:

The ICR is unsatisfactory, as it provides inadequate information upon which to base evaluative judgments. It bases its ratings almost exclusively on the fulfillment of core conditions, whereas the credit's non-core conditions represent important and relevant aspects of the reforms supported by the credit. For example, the following are non-core conditions:

project requirement	information in ICR
MOF has made satisfactory progress in preparing and adopting secondary legislation to implement the Law on the Budget System	No information in the ICR
MOF has prepared and the GOM has approved a policy paper on the use of donor funds, including clearly established procedures for incorporating into the budget in-year receipt and use of donor funding	No information in the ICR
Debt management department in Treasury has been established, with staff hired and training being organized	No information in the ICR
Pension Fund revenues have been improved by the GOM becoming current on contributions to the Pension Fund starting July 1, 2002	No information in the ICR
Actions have been taken to reduce electricity supply problems	No information in the ICR
<ul style="list-style-type: none"> • The Electric Power Industry (EPCG) has further 	The ICR states that "progress has been more modest than

<p>increased the collections/billings ratio such that accounts receivable do not increase by more than 15 percent of total revenues during the previous 12 months.</p> <ul style="list-style-type: none"> • EPCG has reduced the share of barter in total barter in total collections to a maximum of 10 percent. 	<p>envisioned in the SAC," but does not provide specifics.</p>
<p>Ministry of Labor has assessed active labor programs and is refining the scheme from micro credits toward more cost-effective options</p>	<p>No information in the ICR</p>
<p>The Government has prepared a strategy for KAP including an time bound Action Program that addresses ownership and operating issues for the supply of bauxite and electricity. The draft program has been shared with the Bank so that its comments can be taken into account before implementation</p>	<p>ICR incorrectly states that "....the SAC did not focus on high voltage customers. By far the largest consumer of electricity in Montenegro is the aluminum company (KAP). It accounts for nearly half of total energy consumption in the republic, but it contributes only 30% of EPCG revenue....the Bank is following up on this issue in the proposed SAC 2...."</p>