



<b>1. Project Data:</b>		<b>Date Posted :</b> 06/24/2003	
<b>PROJ ID:</b> P074586		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Serbia Structural Adjustment Credit	<b>Project Costs (US\$M)</b>	76.87	76.87
<b>Country:</b> Serbia and Montenegro	<b>Loan/Credit (US\$M)</b>	70	70
<b>Sector(s):</b> Board: SP - General public administration sector (50%), General energy sector (20%), Health insurance (10%), Health (10%), General industry and trade sector (10%)	<b>Cofinancing (US\$M)</b>	6.87	6.87
<b>L/C Number:</b> C3599			
	<b>Board Approval (FY)</b>		3
<b>Partners involved :</b> Government of Switzerland	<b>Closing Date</b>	08/31/2002	08/31/2002
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Elliott Hurwitz	Alice C. Galenson	Kyle Peters	OEDCR
<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The main objective was to enhance medium-term fiscal sustainability as a basis for sustained growth and poverty reduction through implementing specific reforms in : (1) public expenditure management; (2) the energy sector; (3) social protection and labor; and (4) the health care sector.			
<b>b. Components</b>			
The project had 4 components: (1) <b>Public expenditure management</b> , including institutional, legal, operational, and personnel reforms; (2) <b>Energy sector</b> reforms, including tariff increases; cost reduction; and initial policy, legal, and institutional reforms; (3) <b>Social sector and labor</b> reforms, focused on pensions, labor law, and social safety nets; (4) <b>Health sector</b> reforms, including measures to enhance efficiency and lay the groundwork for more extensive institutional, financial, and policy reform .			
<b>Related Credits</b> --The SAC complemented a Private and Financial Sector Adjustment Credit, which dealt with private sector development. Also, a new Social Sector Structural Adjustment Credit is being identified which will build on the SAC achievements and pursue additional reforms in the social sectors . The Bank coordinated closely with partner organizations, which provided technical assistance and other aid that contributed to SAC achievement .			
<b>c. Comments on Project Cost, Financing and Dates</b>			
A grant of US\$6.87 million (equivalent) was provided by the Government of Switzerland, channeled through the SAC, and administered by the Bank. The grant was extended by one month to allow transfer of counterpart funds, and it was closed on July 31, 2002.			
<b>3. Achievement of Relevant Objectives:</b>			
The SAC was successful at enhancing medium-term fiscal sustainability . From 2000 to 2002, real GDP growth, the fiscal deficit, external debt as a % of GDP, and inflation all performed at least as well as projected in the MOP . The current account deficit, however, was higher than envisioned . The reforms supported by the SAC contributed to disinflation by reducing the quasi-fiscal deficit by 3% of GDP as a result of energy sector reforms, as well as by lowering the budget deficit by around 1-1.5% of GDP (below what it would have been) as a result of SAC pension reforms.			
<b>Public Expenditure Management</b> --Implementation of the SAC provided the country with a more coherent and developed budgetary system, with budgets better grounded in a macroeconomic framework, and improved institutional support and better procedural guidelines . A new law on the budget was passed by Parliament which provided for: an improved medium-term budget framework; a reorganization of the Ministry of Finance and Economy, together with improved staffing, to achieve better budget execution; greater accountability based on better			

inspection/audit/procurement procedures; adoption of a new public procurement law .

**Energy**--Energy tariffs were increased three times from June, 2001, through June, 2002, with a total increase of around 140%, which reduced the quasi-fiscal deficit by 3% of GDP as noted. The state-owned electric utility took steps to increase its operating efficiency by reducing real wages of employees, reducing staffing, increasing technical efficiency, reducing receivables, and introducing an energy efficiency program .

**Social Protection and Labor** --The statutory retirement age was raised by 3 years, as was the minimum age at which pensions can be drawn; the indexation methodology was changed so that increases are more moderate; a new labor law improved labor mobility. Pilot reforms in the area of material assistance to families were undertaken, and the lessons drawn from these have begun to be implemented .

**Health**--The SAC built on health sector reforms initiated with technical assistance provided by other donors, especially the Department for International Assistance (DFID) and the European Agency for Reconstruction (EAR). Reforms included adoption of a more restricted list of medications that are publicly financed; introduction of co-payments for selected health services; development of a National Health Policy and Health Care Strategy; and presentation of Health Insurance Law to Parliament .

**4. Significant Outcomes/Impacts:**

- Inflation declined from 113.5% in 2000 to 14.2% in 2002
- The number of days with electricity outages was reduced from 56 in 2000/01 to 4 in 2001/02
- The change in pension indexation methodology reduced budget expenditures on pensions by more than 1% of GDP in 2002 (below what it would have been without the change)

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

- In the health area, although all initial actions called for in the SAC were completed, envisioned follow-through on health system reforms was slowed considerably by the resignation of the Minister of Health
- In the area of Budget Inspection and Audit, although dossiers assembled on 91 government officials appeared to merit investigation, the prosecutor and/or judiciary have not yet acted on them

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Institutional Dev .:</b>	Modest	Modest	
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR:</b>		Exemplary	

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

**7. Lessons of Broad Applicability:**

- Even for a successful reform program such as the SAC, the initial Institutional Development Impact may be modest because many of the actions will take time to bear fruit .
- In a country such as Serbia, where political attitudes are changing rapidly, the coherence and credibility of an adjustment operation are especially important . The fiscal and quasi-fiscal impact of the SAC was quite tangible and was essential for adjustment, while detailed sectoral reforms promise to provide future benefits .
- Effective ESW contributes importantly to a successful adjustment operation .

**8. Assessment Recommended?**  Yes  No

**9. Comments on Quality of ICR:**

The ICR is excellent. It is cogent and presents ample evidence to support the ratings . In particular, the assessment of macroeconomic achievement is outstanding . In a few cases, the evaluation would have been stronger if more context had been presented for some of the achievements noted, e .g., the percent increases in energy tariffs are presented, but no information on their absolute level or whether they cover O&M costs; incremental budgetary savings from pension reform are presented, but no information on how significant these were to improving the viability of the pension system (which is still running large deficits).