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# IEG CASCR Review
Independent Evaluation Group

## 1. CAS Data

| | |
|---|---|
| **Country: Serbia** | |
| **CAS Year:** FY05 | **CAS Period**: FY05–FY07 |
| **CASCR Review Period:** FY05–FY07 | **Date of this review:** November 30, 2007 |

## 2. Executive Summary


i. As the CAS was a joint strategy between the Bank and IFC, this review of the CASCR covers the Bank-related aspects and is evaluated by IEG-WB; IFC-related aspects of the CASCR are reviewed by IEG-IFC, whose review is included as Attachment 1.

ii. The FY05 CAS sought to support the government's development priorities for FY05–FY07, defined by two pillars: European Integration and poverty reduction. The CAS program supported these objectives through programs aimed at: (A) creating a smaller, more sustainable, more efficient public sector; (B) creating a larger, more dynamic, private sector; and (C) reducing poverty levels and improving social protection and access to public services.

iii. IEG rates the overall outcome as *moderately satisfactory*. IEG concurs with the CASCR that progress toward objectives (B) and (C) has been satisfactory for the most part but rates progress toward the first objective as *moderately unsatisfactory* because of the limited fiscal consolidation and short-term improvement in the effectiveness and efficiency of the pension system.

iv. While IEG sees merit in the flexibility with which the lending program was maintained, it rates Bank performance as *moderately satisfactory* due to shortcomings in assessing political economy realities and gearing the program towards the key constraints for accession to the EU. A number of external developments, including better than expected privatization revenues, allowed Serbia to make progress in poverty reduction and private sector development while not forcefully addressing the fundamental structural issues faced by the public sector.

v. Looking forward, the CASCR identifies a number of lessons and IEG is in general agreement with these lessons while noting the importance of (i) the Bank being selective, strategic and explicit about the criteria on which the selectivity is based and how Bank's interventions fit into the overall aid program, especially in the case of countries looking for EU accession; and (ii) a CAS results framework that is simple and coherent and relies mostly on significant well-defined indicators that can be effectively monitored.


## 3. CASCR Summary

***Overview of CAS Relevance:***

1. Following the dissolution of the State of Union of Serbia and Montenegro in 2006, Serbia became the successor state to the Union and retained World Bank membership. The Country Assistance Strategy for Serbia was thus guided by the FY05–FY07 CAS. Indeed, the CAS had clearly identified a program for Serbia, which is the basis for this review.

2. The strategy and objectives of the CAS were realistic, building on the successful implementation of the FY02–FY04 Transitional Support Strategy (TSS), but only to a degree. In principle, the CAS was grounded in the government's priorities, as defined in the European Union Stabilization and Association

| CASCR Reviewed by: | Peer Reviewed by: | Group Manager |
|---|---|---|
| Claude Leroy-Themeze | Jaime Jaramillo-Vallejo | Ali Khadr,<br>Senior Manager, IEGCR |

Process (SAP) and the 2003 Development and Poverty Reduction Strategy Paper (DPRSP). However, the CAS program was not explicitly geared at supporting Serbia in addressing key economic constraints to EU accession, calling into question its relevance. In addition, governance, a critical cross-sector issue, was not addressed in the CAS. Also, the privatization program was presented as a whole, with little discussion of the strategy, methods, and the socio- economic objectives.

3. The proposed program was focused on the macroeconomic and transition reforms begun under the TSS (SAC1, PFSAC1, and PFSAC2). However, it overestimated government ownership and commitment to reforms and underestimated the realities of the political economy. The CAS lending program was delivered largely as planned during the first 18 months of implementation. However, program delivery stalled beginning in mid-2006, as a number of factors emerged: (i) an increasingly strong financial position of the government, backed in part on exceptional privatization revenues; (ii) the attention given by the government to the January 2007 legislative elections; and (iii) the difficulty in creating a governing coalition in the wake of the election.

4. Although the CAS was not one of the results-based pilots, it specified a rough results framework for Serbia and for Montenegro separately, which included outcomes and intermediate performance indicators. Although quite detailed, the results framework (Annex 8) had results chain gaps and some of the indicators were not well defined.

***Overview of CAS Implementation:***

5. The CAS planned for a gradual transition from IDA to IBRD lending beginning in FY06, which only materialized in 2007. Lending proposed under the base case was US$352 million (of which US$189 million was IDA). Total lending approved was US$360 million. However, the composition of the lending as approved differs significantly from what was planned under the CAS. The program was broadly delivered in line with the CAS during the first 18 months—except for the delay in preparing the Bor regional development project. As the circumstances mentioned above started to emerge in mid-2006, the delivery of the program became increasingly difficult. As a result, the second Programmatic DPL (PDPL2) to support public sector reforms for US$90 million, planned for FY07, was dropped. To compensate, in June 2007, the Bank approved additional financing for three active infrastructure projects: the FY06 Irrigation and Drainage Rehabilitation project increased by US$50 million (original loan: US$25 million), the FY04 Transport Rehabilitation project increased by US$50 million (original loan: US$55 million), and the FY04 Energy Efficiency project increased by US$28 million (original loan: US$21 million). In addition, the Bank increased the Bor Regional Development project from US$30 million to US$43 million.

6. Other changes in the lending program included dropping the Primary Health Care project (US$35 million) and replacing the Rural Business Environment (US$40 million) by a smaller Transition Agriculture project (US$16 million). Project quality was generally good, with all nine projects exiting the portfolio in the CAS period receiving a moderately satisfactory or better rating in the ICR Reviews. Currently only one project is at risk (Table 4).

7. The non-lending program was largely delivered as planned but at twice the projected cost. In addition, a large number of unplanned tasks were launched or delivered for an additional US$1.0 million. The unplanned tasks included ESW on decentralization and local service delivery, a Public Expenditure and Financial Accountability (PEFA) review, a fiduciary assessment update, and a policy impact analysis of increased renewable and low carbon energy use. Also unplanned were the technical assistance projects in the financial sector and in infrastructure. However, the core non-lending program was timely and well targeted in support of operations. All core reports were translated into Serbian and widely disseminated.

***Overview of Achievement by Objective:***

***Objective A: Create a smaller, more sustainable, more efficient public sector***

10. Fiscal Consolidation: The key target of the CAS was to reduce public expenditure from 48 percent of GDP in 2002 to 43 percent in 2007 or five percentage points.[1] Progress was made early in the CAS period, when the ratio decreased from 43.7 percent in 2002 to 40.7 percent in 2005. Led by wage increases, the ratio subsequently increased, however, to 42.3 percent in 2006 where it is budgeted to remain in 2007. The CAS objective to reduce the public sector wage bill as a share of GDP by 1 to 1.5 percent was not met. Public sector wages remained constant at 9.6 percent of GDP between 2003 and 2006, and are projected to increase to 10 percent in 2007. Finally, the CAS objective to reduce subsidies and transfers by 1.2 percentage point of GDP per annum was not met. While the overall level of subsidies and transfers declined from 20.3 percent in 2004 to 19.3 percent in 2005, there was no progress in 2006 and 2007.

11. Administrative Reform: The interim reforms introduced in 2005 for the civil service, decompressed wages from a low/high wage ratio of 1:5 in 2004 to 1:8 in 2005, against a CAS target of 1:6 for 2007. These reforms were based on a 2005-approved set of basic laws for public administration, combined with new management structures and a pay reform. According to the CASCR, some improvement was made in the areas targeted by the reform program, including building the foundation of a professional, merit-based civil service based on European standards, and the rationalization of administrative structures.

12. Pension Reform: While the CAS aimed at reducing the pension deficit as a share of GDP by increasing collections and reducing payments, the CASCR does not report on these three indicators. A new pension law was passed in October 2005 and enacted in January 2006, and the Bank expects it to gradually eliminate the deficit in the medium to long term. However, in the short term, the new law does include a one-time increase in the minimum pension. Furthermore, the 2006 civil-service wage increases extended to pensions as well. Also, the authorities have delayed the administrative changes intended to consolidate the pension system and improve collections. Accordingly, the FY05 Bank project supporting the reform is stalled. Overall, improvement in the effectiveness and efficiency of the pension system has been so far limited.

13. Health Insurance Reform: The CAS sought to improve the financial sustainability of healthcare through strengthening the Health Insurance Fund (HIF), by reducing drug prices paid by HIF and thus its deficit. The CASCR reports that the government succeeded in containing the increase in public health expenditures at about 5.5 percent of GDP over the CAS period, in part due to the new Health Insurance Law approved in 2005. The CASCR, however, does not provide data on other indicators of financial sustainability. In particular, it does not analyze whether the clearance of arrears in 2006 is transitory or results from a durable improvement of HIF financial sustainability.

14. IEG rates the outcome for Objective A as *moderately unsatisfactory.*

***Objective B: Create a larger, more dynamic, private sector***

15. Improved Business Climate: Serbia ranks as the fifth fastest reformer in the 2006 *Doing Business.* Entry time for new companies was reduced and the number of new limited-liability companies registered annually increased significantly. The introduction of a new civil procedure code halved the average duration of court cases involving contract enforcement. A growing share of new laws and decrees are subjected to regulatory impact assessments, an important move toward normal OECD practice. Improvements in the Labor Law increased labor market flexibility. More recently, the availability of credit information has increased.

16. Restructuring and Privatization of the Real and Financial Sectors: Over the CAS period, significant progress has been made in implementing the government privatization program. Since mid-2004, more than

[1] GDP data have been retrofitted therefore changing the whole GDP ratio series.

1,800 socially-owned enterprises (SOEs) have been sold in auctions. The 2004 Bankruptcy Law provides an effective instrument to handle the case of SOEs for which buyers can't be found. Approximately 60 large enterprises were sold without restructuring through tenders, many of them to international strategic investors. The mobile phone network was sold in 2006. Another 50 large SOEs were restructured and offered for sale, of which 25 were sold. The copper mining and processing complex, RTB Bor—one of the main loss-making industrial conglomerates and the largest recipient of state subsidies—was also offered for sale again in 2007. The government has divested most of its banking sector holdings and the banking sector is now predominantly privately owned, mostly by foreign banks. Credit growth has been extremely rapid, increasing from 20 percent of GDP in 2003 to over 80 percent in 2007.

17. Subsidies: Many of the largest and most difficult state-owned enterprises are still in public ownership. However, according to the CASCR, subsidies to loss-making state-owned enterprises were reduced from about 3 percent of GDP to just below 2 percent over the CAS period, which is slightly less than the CAS target of 1.8 percent.

18. Energy: The CAS sought to help Serbia restructure the energy sector so as to fulfill its obligations under the Athens Memorandum (Energy Community of South East Europe) and improve sector performance. Progress in this area was slow. A regulatory agency was established. Power-transmission services were separated out of the Electric Power Company of Serbia (EPS) into a new transmission company (EMS). EPS was separated into two entities for generation and distribution. Tariff adjustments helped the financial viability of the electricity company. However, the implementation of a financial management system for EPS has been extremely slow and is not yet in place. The CASCR does not report on energy performance indicators (i.e., staffing, illegal use of electricity, bill collections, etc.), thus not providing a firm basis to assess progress. Production has increased by about 10 percent since 2004 with outage declining by over half in the same period. Moreover, the cash flow of EPS is now positive, reflecting significant tariff increases, improvement in collections (up to 90 percent of billings from 75 percent in 2003), and a reduction of about 30 percent in the workforce.

19. Road Transportation: The CAS aimed at improving road transportation and safety, setting specific intermediate objectives, such as reducing the roughness of road segments and reducing the number of deaths per 10,000 vehicles. These objectives were supported by the Transport Rehabilitation project (FY04), which was scaled up and is reported to be making good progress. The approach of contracting out maintenance work, successfully piloted under the project, was recently extended to the remaining twenty-five regions of Serbia and is scheduled to begin in 2008. The CASCR, however, does not report on this CAS objectives per se.

20. Development of Effective Real Property Markets: The CAS intended to lower property market transactions costs through the establishment of an effective property registration and cadastre system. This objective was supported by the Real Estate Cadastre project (FY04). Significant progress has been made in making the registration of property easier, accelerating the growth in property transactions and the use of mortgages. The number of transactions in land and real estate increased and is likely to reach the 2010 end-of-project target in 2007. The number of transactions financed by a mortgage as a share of total transactions has increased, and registration times have fallen for land sales and for housing.

21. Trade Facilitation and Exports Financing: A Trade and Transport Facilitation project (FY02) supported substantial reductions in nontariff costs to trade and transport, and a reduction in corruption at border crossings. Clearance times and processing times at customs were substantially reduced. Surveys indicate a substantial decline in corruption at borders and the share of respondents feeling they received fair treatment and that requirements were transparent increased. The BEEPS also highlights significant improvements in perceptions by users about the extent of corruption at customs. In the area of trade development, the CAS aimed at helping Serbia improve export performance through the development of the Serbian Export Credit Agency (SMECA), as measured by an increase in export financing and an increase in insurance of political risk, import credit, and exporter performance. This objective was supported by the Export Financing Facilitation project (FY03). The CASCR does not report on progress made in this area.

22. Agricultural Competitiveness: The CAS sought to increase agricultural competitiveness through increased access to agricultural support services and increased alignment with European Union food-processing standards. It is too early to see evidence on the impact of the FY07 Transition Agriculture project.

23. The policy dialogue with the government on these reforms was based on the FY04 Economic Memorandum, in conjunction with the FY04 Investment Climate Assessment and the Note on progress in privatization. Improvement in the business climate was supported by SAC2. FY06 PDPL1 supported measures taken by the government to reduce subsidies to corporate loss-makers; to continue implementing the privatization program, to further strengthen bankruptcy procedures, and to undertake financial sector reforms. Policy lending was supplemented by technical-assistance projects that supported the work of the government privatization agency. The energy-sector reforms were supported through a combination of policy lending (SAC2 and PDPL1) and investment projects (Electric Power Emergency Reconstruction, Energy Community of South East Europe).

24. IEG rates the outcome for Objective B as *satisfactory*, although there is not a firm basis to assess progress in agriculture and electricity sectors.

***Objective C: Reduce poverty levels; improve social protection and access to public services***

26. The CAS objectives under this pillar were to support rural communities, improve transfers for social protection (coverage, targeting, reliability), and provide health and education for all (quality, access, financial sustainability). Poverty incidence fell from 14.6 percent of the population in 2004 to 8.8 percent in 2006, approaching the government's poverty target of 7 percent set for 2010 in its PRSP. Rural poverty also declined from 20 percent in 2004 to 14 percent in 2006—however, it still remains significantly higher than in urban areas.

27. Support Rural Communities: The CAS aimed at alleviating poverty in rural areas through supporting economic growth and employment. To this end, the Rural Business Environment project worked on boosting employment and improving access in rural communities.

28. Improve Labor Market Interventions: Given already high unemployment in Serbia and the correlation with poverty, one particular concern addressed in the CAS was to develop a more effective approach to mitigating the impact of restructuring and privatization. This sub-objective was supported by the FY03 Employment Promotion project. The project over achieved its output targets, contributing to the achievement of the desired outcomes. Three waves of tracer surveys of redundant workers confirm lower placement rates of non-participants than of any of the ALMPs implemented. Access, quality and utilization of employment services have also been improved in targeted districts.

29. Improve Social Protection: The policy dialogue with the government on social protection has been underpinned by the FY06 Social Assistance Note. A number of recommendations made by the Note were implemented under FY05 SAC2 with modest results. In particular, SAC2 supported the expansion (coverage and level of benefits) of Serbia's main social safety net program, the Material Support to Families (MOP) program. Survey data to monitor and evaluate the effectiveness of social protection programs remain deficient.

30. Improve Healthcare and Education Service Delivery: Serbia is on track to meet the Millennium Development Goals (MDGs) in health. Infant and maternal mortality is low and falling. Communicable disease prevalence is low. The FY03 Health project helped to contain costs, especially though the rationalization of hospital usage and improved efficiency. It also helped to improve service quality, with a higher number of visits to primary health care providers, as well as better service from physicians. Users surveyed indicated improved satisfaction with health services. Serbia is also on track to meet education MDGs. Primary school completion rates are over 95 percent and do not differ by gender. Improvement of education service delivery was supported by the FY02 Education Improvement project, which met all its objectives and targets. The government-funded Institute for Monitoring and Quality of Education was set up. National standards at the end of the compulsory education school cycles were established and sample-based assessments were conducted. Some of the key benefits of the project have already been mainstreamed into legislation.

31. IEG rates the outcome for Objective C as *satisfactory*.

| Achievement of CAS Objectives | | | |
|---|---|---|---|
| **Objectives** | **CASCR Rating** | **IEG Rating** | **Explanation / Comments** |
| A smaller, more sustainable and more efficient public sector | Moderately Satisfactory | Moderately Unsatisfactory | Gains made toward fiscal consolidation in 2004/05 were reversed in 2006/07 and little improvement is expected in the short term. Some progress was made in reforming public administration including a significant wage decompression. Progress was made in implementing the pension reform but in the short-run, the pension deficit did not improve as planned. Progress was made in reforming Health Insurance and in improving the financial sustainability of the HIF but CAS outcome targets were not met. |
| Create a larger, more dynamic, private sector | Satisfactory | Satisfactory | Significant improvement of the business climate on the laws as reported in the Doing Business indicators, and progress in implementing the government's privatization program, including privatization of state holdings in the banking sector. Banking sector now predominantly privately owned and extremely rapid credit growth. Decline of subsidies to loss-making SOEs. Significant reduction of non-tariff costs to trade and transport as well as corruption at border crossings. There is not a firm basis to assess progress in agriculture and electricity sectors. |
| Reduce poverty levels; improve social protection and access to public services | Satisfactory | Satisfactory | Poverty reduced and improved labor-market interventions, in particular, labor redeployment services. Modest results in improving social assistance programs, especially in the rural areas. Improved service delivery in the health and education sectors. |

***Comments on Bank Performance:***

32. The Bank's strategy and interventions were relevant in addressing Serbia's key development issues, including regional integration, but were not explicitly geared at supporting Serbia in addressing key economic constraints to EU accession. The strategy was not sufficiently realistic and flexible with regard to the political economy of the country, including reforms that probably were not feasible in that context. Therefore, while project management was satisfactory (see above project implementation records), the management of the Bank country assistance strategy was not entirely consistent with FY05 CAS. While the changes in the lending program may have been the best way to maintain the financial support while adjusting to changing country circumstances, there is no indication that the Bank explicitly refocused its strategy in response to the unfolding political developments, not even in the project appraisal documents for the three additional financing operations.

33. Donor coordination appears to have been good and the Bank appears to have closely aligned itself with a number of donor agencies to develop coherent assistance programs, including with the EU, the EBRD and the IEB.

34. There are no apparent safeguard or fiduciary issues.

## 4. Overall IEG Assessment

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|---|---|
| **Outcome:** | *Moderately Satisfactory* |
| **Bank Performance:** | *Moderately Satisfactory* |

35. The outcome rating reflects the difficulties in making progress in public sector reform, as well as those in moving forward on energy and agriculture. Moreover, the private sector reforms, while being in the legal books, are yet to be tested on the ground. Public-private partnerships remain an area of action. Indeed, after increasing sharply in 2003 and 2004, private sector investment has remained mostly stagnant as a share of GDP over the CAS period—at about 14.2 percent in 2005-07compared to 14.5 in 2003-04, and unemployment remains at extremely high levels of about 20 percent The Bank worked closely with both the government and key donors to move forward on the social areas and on some private sector development aspects. Developments on poverty reduction and service delivery are particularly encouraging and noteworthy.

36. Bank performance is thus rated as moderately satisfactory.

## 5. Assessment of CAS Completion Report

37. Given that the CAS was formulated for Serbia and Montenegro, the CASCR does a good job in presenting a coherent picture of the Serbia-specific country assistance program. However, given the importance of the country objective to move toward EU membership, and the central role of this objective in the government program, a more detailed and substantive report would have been useful in assessing Bank's contribution to this objective.

38. Implementation is discussed in detail both for Bank lending and non-lending assistance and weaknesses are noted candidly. This said, information for several performance indicators is not presented—particularly on pension and the HIF financial sustainability, and the choice made to recast the CAS results framework is confusing. Moreover, in some cases, there are gaps in the analysis, such as the one on public administration reform, a key area of focus under objective A. In addition, given that there was no CAS update or progress reports over the CAS period, a more thorough presentation of the rationale for the strategy changes would have been welcome, as well as a justification of why those changes were judged not to affect the CAS initial objectives.

39. Figuring out attribution was complicated by the absence of a clear picture of how the Bank's assistance contributed to the overall assistance package that Serbia received from all of its external partners. This was especially difficult considering that the Bank's assistance to Serbia represented only about five percent of total aid flows over the 2000-05 period, as compared with about 30 percent from EU agencies.

40. IEG agrees with the lessons gleaned by the CASCR. However, a sharper focus on poverty, investment and unemployment reduction would be an important component of future Bank assistance, including more detailed information about who the poor and the unemployed are and how to best address their needs so as to design and monitor better targeted programs.

## 6. Findings and Lessons

42. A detailed analysis of the political economy may be critical for designing an appropriate, effective, and flexible country assistance strategy, especially for DPLs. A balanced and flexible mix of instruments seems to have worked well in the support of private and financial sector reforms in the case of Serbia. This included well-coordinated and well-sequenced AAA work, technical assistance projects and programmatic DPLs.

43. When Bank's financial contribution to the overall country aid program is relatively small, the Bank could be more selective and strategic and the Bank should explicitly identify the criteria on which the selectivity is based, including clear comparative advantage.

44. The Bank's strategy could be more explicit about how Bank's interventions fit into the overall aid program, especially in the case of countries looking for EU accession.

45. The results framework should be simple and coherent, and rely mostly on significant well-defined indicators that can be effectively monitored.

## Annexes:



## Attachment:

## Annex 1: Planned and Actual Lending (FY05–FY07)

| | Planned FY | Approval FY | Planned Amount IDA | Planned Amount IBRD | Planned Amount Total | Approved Amount IDA | Approved Amount IBRD | Approved Amount Total |
|---|---|---|---|---|---|---|---|---|
| ***Programmed Projects*** | | | | | | | | |
| ***Base-Case Scenario*** | | | | | | | | |
| Structural Adjustment Credit 2 (SAC 2) | 2005 | 2005 | 45 | | **45** | 45 | 0 | **45** |
| Regional Energy | 2005 | 2005 | 7 | | **7** | 21 | 0 | **21** |
| Pensions -Consolidated Collection & Pension Administration Reform Project 1) | 2005 | 2005 | 25 | | **25** | 25 | 0 | **25** |
| Programmatic Private and Financial Development Policy Credit (PPFDPC-1) 1) | 2006 | 2006 | 41 | 14 | **55** | 55 | 0 | **55** |
| Irrigation and Drainage Rehabilitation | 2006 | 2006 | 25 | 0 | **25** | 25 | 0 | **25** |
| Bor Regional Development | 2006 | 2007 | 0 | 30 | **30** | 10 | 33 | **43** |
| Program Development Policy Loan 2 | 2007 | Dropped | 46 | 44 | **90** | | | |
| Primary Health 2) | 2007 | Dropped | 0 | 35 | **35** | | | |
| Rural Business Environment 3) | 2007 | Dropped | 0 | 40 | **40** | | | |
| **Total** | | | 189 | 163 | **352** | 181 | 33 | **214** |
| ***Non programmed projects*** | | | | | | | | |
| Energy Efficiency Additional Financing | | 2007 | | | | 10 | 18 | **28** |
| Transportation Rehabilitation Additional Financing | | 2007 | | | | | 50 | **50** |
| Irrigation and Drainage Additional Financing | | 2007 | | | | | 49 | **49** |
| Transitional Agriculture Reform | | 2007 | | | | 0 | 17 | **17** |
| **Total FY01-06** | | | 189 | 163 | **352** | 191 | 167 | **358** |

*Source:* Serbia and Montenegro CAS FY05, WB operations portal, and WB Business Warehouse as of Oct 19, 2007.
1) The project title has changed from the original in CAS
2) This Project is replaced by three additional financing projects in 2007.

## Annex Table 2: Planned Non-lending Services and Actual Deliveries, Serbia, FY05–07

| Original Project Title on CAS | Project ID | Proposed FY | Delivered FY | Estimated Cost (thousand US $) | Actual Cost (thousand US $) |
|---|---|---|---|---|---|
| **Pre-CAS** | | | | | |
| SaM Programmatic Poverty Work 1) | P088245 | 2005-2007 | 2006 | 200 | 322 |
| Serbia Private Sector Note-Progress in Serbia Privatization | P083900 | 2005 | 2005 | 90 | 85 |
| **Pre CAS Total** | | | | **290** | **407** |
| **Planned** | | | | | |
| SaM Debt Sustainability Analysis Update | P094336 | 2005 | 2006 | 30 | 19 |
| SaM PEIR Update (Integrated PFM) 1) | P094338 | 2006 | 2006 | 5 | 117 |
| Serbia FSAP | P094056 | 2005 | 2005 | 51 | 340 |
| Serbia Agriculture Competitiveness Study | P090939 | 2006 | 2006 | 50 | 275 |
| Serbia Social Protection 2) | P097010 | 2005 | 2006 | 75 | 112 |
| Serbia Labor Market Policy Note | P097018 | 2006 | 2006 | 80 | 131 |
| SaM Poverty Assessment Update 1) - Programmatic Poverty Update for Serbia | P101449 | 2007 | 2007 | 200 | 128 |
| **Planned Total** | | | | **491** | **1122** |
| **Non-Planned** | | | | | |
| Remittance to Serbia and Kosovo - ESW | P094283 | | On Going | | 83 |
| Integrated Public Financial Management - ESW | P096140 | | On Going | | 92 |
| Serbia Fiduciary Assessment Update (FAU) - ESW | P094496 | | 2006 | | 59 |
| Serbia Decentralization and Local Service Delivery Study - ESW | P101017 | | On Going | | 217 |
| Cash Mgmt & Debt Market Dev. in Serbia - TA | P094323 | | 2006 | | 116 |
| Report on observance of Standards and Codes (ROSC ACCT & AUDIT SERBIA) - ESW | P090351 | | On Going | | 148 |
| Insurance Sector Resolution MPTL - TA | P094386 | | Dropped | | 65 |
| Financial Sector FASP Serbia - TA | P089310 | | 2005 | | 22 |
| POST FSAP Serbia - TA | P098612 | | 2006 | | 56 |
| Harmonization. of the Actuarial Profession in Serbia - TA | P100661 | | On Going | | 94 |
| Road Financing Study - ESW | P099311 | | On Going | | 45 |
| Railroad - TA | P096599 | | 2006 | | 22 |
| Impact Analysis of Policies to Increase Renewables and Low Carbon Energy Use - ESW | P099075 | | On Going | | 218 |
| Environmental Dialogue SSD TA | P092970 | | 2005 | | 40 |
| **Non Planned Total** | | | | | **1019** |

*Source:* Serbia and Montenegro CAS FY05, World Bank Business Warehouse, IRIS, Imagebank, and Operations Portal as of Oct 19, 2007.

1) Planned in CAS for the Union of Serbia and Montenegro.

2) Planned ESW (i) SaM Youth in SEE and (ii) SaM Support for Roma Decade of Inclusion were done as part of the Serbia Social Protection Study.

**Annex Table 3: IEG Project Ratings, Exit FY05–07**

| Project ID | Project Name | Exit FY | Approval FY | IEG Outcome | IEG Sustainability |
|---|---|---|---|---|---|
| P074127 | FINANCIAL SECTOR DEV. TA | 2005 | 2001 | SATISFACTORY | HIGHLY LIKELY |
| P074145 | PRIVATE SECTOR DEV. TA | 2005 | 2001 | SATISFACTORY | HIGHLY LIKELY |
| P074868 | PFSAC 2 | 2005 | 2003 | SATISFACTORY | LIKELY |
| P078390 | SOSAC (SERBIA) | 2005 | 2003 | MODERATELY SATISFACTORY | LIKELY |
| P078457 | SAC 2 (SERBIA) | 2005 | 2005 | SATISFACTORY | LIKELY |
| P074136 | EMERGENCYELECTRIC POWER RECONSTRUCTION | 2005 | 2002 | MODERATELY SATISFACTORY | NOT RATED |
| P069374 | EMPLOYMENT PROMOTION LIL | 2007 | 2003 | MODERATELY SATISFACTORY | NOT RATED |
| P074090 | TRADE & TRANSPORT FACIL. IN SOUTH EAST EUROPE | 2007 | 2002 | SATISFACTORY | NOT RATED |

| Region | Total Evaluated ($M) | Total Evaluated (No) | Outcome % Sat ($) | Outcome % Sat (No) | Inst Dev Impact % Subst ($) |
|---|---|---|---|---|---|
| Serbia 1) | 228.3 | 8 | 100.0 | 100.0 | 79 |
| ECA | 5,572.2 | 143 | 92.1 | 84.9 | 76 |
| Overall Result | 39,230.5 | 646 | 87.1 | 80.8 | 63 |

*Source*: World Bank Business Warehouse Tables 4a. 5 and 4a.6 as of Oct 19, 2007.
1) Excluding Montenegro evaluation.

**Annex Table 4: Portfolio Status Indicators, Serbia & Comparator Countries, FY00–07**

| Country | Fiscal year | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|
| Serbia | # Proj | | 2 | 8 | 15 | 19 | 18 | 19 | 10 |
| | Net Comm Amt | | 0 | 130 | 272 | 372 | 270 | 293 | 398 |
| | # Proj At Risk | | 0 | 3 | 1 | 4 | 1 | 5 | 1 |
| | % At Risk | | 0 | 38 | 7 | 21 | 6 | 26 | 10 |
| | Comm At Risk | | 0 | 18 | 12 | 108 | 20 | 42 | 25 |
| | % Commit at Risk | | | 14 | 4 | 29 | 7 | 14 | 6 |
| SEE 1) | # Proj | 86 | 91 | 98 | 105 | 105 | 96 | 99 | 99 |
| | Net Comm Amt | 3,468 | 2,809 | 2,755 | 3,049 | 3,255 | 3,155 | 3,245 | 4,335 |
| | # Proj At Risk | 7 | 7 | 9 | 6 | 16 | 7 | 15 | 8 |
| | % At Risk | 8 | 8 | 9 | 6 | 15 | 7 | 15 | 8 |
| | Comm At Risk | 568 | 450 | 307 | 231 | 501 | 176 | 269 | 521 |
| | % Commit at Risk | 16 | 16 | 11 | 8 | 15 | 6 | 8 | 12 |
| ECA | # Proj | 293 | 291 | 286 | 288 | 285 | 276 | 294 | 286 |
| | Net Comm Amt | 20,002 | 15,869 | 15,720 | 14,800 | 14,383 | 15,675 | 16,295 | 16,473 |
| | # Proj At Risk | 53 | 36 | 56 | 22 | 50 | 24 | 28 | 26 |
| | % At Risk | 18 | 12 | 20 | 8 | 18 | 9 | 10 | 9 |
| | Comm At Risk | 5,926 | 2,491 | 3,333 | 1,247 | 2,508 | 1,413 | 1,178 | 1,648 |
| | % Commit at Risk | 30 | 16 | 21 | 8 | 17 | 9 | 7 | 10 |
| WB | # Proj | 1,505 | 1,457 | 1,428 | 1,395 | 1,346 | 1,332 | 1,345 | 1,347 |
| | Net Comm Amt | 116,164 | 106,641 | 102,601 | 94,772 | 92,554 | 93,212 | 92,889 | 97,791 |
| | # Proj At Risk | 231 | 184 | 272 | 218 | 228 | 224 | 188 | 224 |
| | % At Risk | 15 | 13 | 19 | 16 | 17 | 17 | 14 | 17 |
| | Comm At Risk | 18,863 | 12,539 | 17,385 | 14,141 | 14,742 | 12,553 | 10,850 | 15,176 |
| | % Commit at Risk | 16 | 12 | 17 | 15 | 16 | 13 | 12 | 16 |

*Source:* World Bank Business Warehouse as of Oct 19, 2007.
1) Includes Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania, Serbia, and Slovenia

**Annex Table 5: IBRD/IDA Net Disbursements and Charges, Serbia, FY01–07**

| Fiscal Year | Disb. Amt. | Repay Amt. | Net Amt. | Interest | Fees | Transfers |
|---|---|---|---|---|---|---|
| 2001 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 2002 | 69.6 | 0.0 | 69.6 | 14.3 | 0.0 | 55.3 |
| 2003 | 133.4 | 0.0 | 133.4 | 99.6 | 0.0 | 33.8 |
| 2004 | 45.2 | 0.0 | 45.2 | 97.6 | 0.4 | -52.8 |
| 2005 | 151.5 | 8.8 | 142.8 | 104.4 | 0.7 | 37.7 |
| 2006 | 91.5 | 33.5 | 58.0 | 101.0 | 0.5 | -43.5 |
| 2007 | 38.7 | 225.7 | -187.1 | 111.6 | 2.8 | -301.5 |
| Total | 529.9 | 268.0 | 261.9 | 528.5 | 4.4 | -271.0 |

*Source:* WB Loan Kiosk, Net Disbursements and Charges Report as of Oct 12, 2007.
IFC included.

**Annex Table 6: Total Net Disbursements of Official Development Assistance and Official Aid, Serbia, CY00–06, (*Current million US$*)**

| Donor | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 1) | 2000-05 Total | 2000-05 Average |
|---|---|---|---|---|---|---|---|---|---|
| ***Bilateral Donors - Total*** | **593** | **636** | **1926** | **873** | **605** | **851** | 133 | **5485** | **914** |
| ***Bilateral Donors - Top 12*** | **541** | **573** | **1840** | **814** | **510** | **749** | 96 | **5028** | **838** |
| United States | 108 | 210 | 495 | 210 | 181 | 181 | .. | 1386 | 231 |
| Germany | 99 | 78 | 531 | 117 | 87 | 68 | .. | 980 | 163 |
| United Kingdom | 28 | 17 | 460 | 14 | 10 | 93 | .. | 621 | 104 |
| France | 11 | 21 | 104 | 208 | 9 | 58 | .. | 410 | 68 |
| Austria | 28 | 23 | 87 | 19 | 26 | 35 | 55 | 217 | 36 |
| Greece | 56 | 42 | 5 | 59 | 12 | 49 | 36 | 224 | 37 |
| Switzerland | 29 | 34 | 24 | 58 | 56 | 48 | .. | 249 | 42 |
| Norway | 71 | 36 | 22 | 44 | 37 | 34 | .. | 244 | 41 |
| Netherlands | 71 | 52 | 62 | 26 | 23 | 11 | .. | 244 | 41 |
| Sweden | 34 | 35 | 24 | 35 | 39 | 35 | .. | 203 | 34 |
| Japan | 5 | 0 | 0 | 12 | 11 | 122 | .. | 150 | 25 |
| Spain | 1 | 24 | 24 | 14 | 19 | 16 | 6 | 99 | 16 |
| ***Multilateral Donors, Total*** | **540** | **669** | **3** | **444** | **565** | **281** | 343 | **2845** | **417** |
| EC | 471 | 615 | .. | 342 | 366 | 158 | 334 | 2285 | 390 |
| IDA 2) | .. | .. | .. | 95 | 170 | 93 | 39 | 397 | 119 |
| UN | 69 | 52 | 3 | 3 | 24 | 22 | 5 | 178 | 29 |
| EBRD | .. | 1 | 1 | 3 | 3 | 7 | 2 | 17 | 3 |
| Global Fund (GFATM) | .. | .. | .. | 1 | 1 | 2 | .. | 4 | 1 |
| WFP | 0 | 2 | 0 | .. | 0 | .. | .. | 1 | 0 |
| GEF | .. | .. | .. | .. | 0 | 0 | 1 | 1 | 0 |
| ***All Donors, Total*** | **1134** | **1306** | **1930** | **1318** | **1170** | **1132** | 476 | **7988** | **1331** |

*Source:* OECD DCA online database, table DCA 2a as of Oct 19, 2007.
1) Preliminary Data.
2) 2006 data from World Bank Loan Kiosk.

## Annex Table 7: Economic and Social Indicators, Serbia, FY 2002-2006

| | Serbia | | | | | Serbia | Bosnia & Her | Bulgaria | Croatia | Slovenia | Romania | Lower Middle Income |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Series Name | 2002 | 2003 | 2004 | 2005 | 2006 | Average 2002-2006 | | | | | | |
| **Growth** | | | | | | | | | | | | |
| GDP growth (annual %) | 4 | 2 | 8 | 6 | 6 | 5 | 5 | 6 | 5 | 4 | 6 | 8 |
| GDP per capita growth (annual %) | 4 | 3 | 9 | 7 | 6 | 6 | 5 | 6 | 5 | 4 | 7 | 7 |
| GNI per capita, Atlas method (current US$) | 1370 | 2190 | 3070 | 3490 | 3910 | 2806 | 2272 | 2894 | 6966 | 14710 | 3170 | 1575 |
| Agriculture, value added (% of GDP) | 16 | 14 | 14 | 13 | | 14 | 10 | 11 | 7 | 3 | 12 | 13 |
| Industry, value added (% of GDP) | 27 | 26 | 28 | 26 | | 27 | 25 | 31 | 30 | 35 | 36 | 42 |
| Services, etc., value added (% of GDP) | 57 | 59 | 58 | 62 | | 59 | 64 | 59 | 62 | 62 | 52 | 45 |
| **Macroeconomic Indicators** | | | | | | | | | | | | |
| Gross capital formation (% of GDP) | 17 | 23 | 32 | 22 | 21 | 23 | 20 | 25 | 30 | 26 | 22 | 33 |
| Gross fixed capital formation (% of GDP) | 12 | 16 | 18 | 17 | 18 | 16 | 20 | 22 | 27 | 24 | 22 | 31 |
| Inflation, consumer prices (annual %) | 19 | 10 | 11 | 16 | 12 | 14 | | 5 | 2 | 4 | 13 | |
| Official exchange rate (LCU per US$, period average) | 60 | 56 | 59 | 72 | 60 | 61 | 2 | 2 | 6 | 205 | 3 | |
| Gross national expenditure (% of GDP) | 120 | 121 | 126 | 121 | 121 | 122 | 147 | 112 | 109 | 100 | 109 | |
| **External Accounts** | | | | | | | | | | | | |
| Exports of goods and services (% of GDP) | 20 | 21 | 23 | 25 | 27 | 23 | 31 | 57 | 47 | 61 | 35 | 35 |
| Imports of goods and services (% of GDP) | 41 | 41 | 49 | 46 | 48 | 45 | 78 | 70 | 56 | 62 | 43 | 34 |
| Current account balance (% of GDP) | | | | | | | -18 | -8 | -7 | -1 | -6 | |
| External debt (% of GNI) [1] | 75 | 70 | 61 | 63 | | 67 | 52 | 65 | 85 | | 39 | 30 |
| Total debt service (% of GNI) [1] | 2 | 2 | 4 | 5 | | 3 | 3 | 11 | 15 | | 7 | 4 |
| **Fiscal Accounts ( % of GDP)** [2] | | | | | | | | | | | | |
| Revenue | 42.8 | 43.5 | 45.2 | 44.8 | 44.3 | 44.12 | | | | | | |
| Expenditure | 47.3 | 46.7 | 45.3 | 43.6 | 41.6 | 44.9 | | | | | | |
| Overall Balance (Cash Basis) | -4.5 | -3.2 | 0 | 1.2 | 2.6 | -0.78 | | | | | | |
| Gross Debt | 85.4 | 79.9 | 68.9 | 52.1 | 47.9 | 66.84 | | | | | | |
| **Social Indicators** | | | | | | | | | | | | |
| **Health** | | | | | | | | | | | | |
| Life expectancy at birth, total (years) | 73 | | | 73 | | 73 | 74 | 72 | 75 | 77 | 71 | 70 |
| Mortality rate, infant (per 1,000 live births) | | | | 12 | | 12 | 13 | 12 | 6 | 4 | 17 | 31 |
| Immunization, DPT (% of children ages 12-23 months) | 93 | 95 | 89 | 97 | 98 | 94 | 86 | 95 | 95 | 93 | 97 | 85 |
| Improved sanitation facilities (% of population with access) | | | 87 | | | 87 | 95 | 99 | 100 | | | 55 |
| Improved water source (% of population with access) | | | 93 | | | 93 | 97 | 99 | 100 | | 57 | 81 |
| **Education** [1) 3)] | | | | | | | | | | | | |
| School enrollment, preprimary (% gross) | 44 | | | | | | | 77 | 47 | 75 | 75 | 36 |
| School enrollment, primary (% gross) | 98 | | | | | | | 104 | 95 | 105 | 103 | 112 |
| School enrollment, secondary (% gross) | 89 | | | | | | | 100 | 88 | 105 | 85 | 71 |
| **Population** | | | | | | | | | | | | |
| Population, total (million) | 7.5 | 7.5 | 7.5 | 7.4 | 7.4 | 7.5 | 3.9 | 7.8 | 4.4 | 1.9 | 21.7 | 2235.8 |
| Population growth (annual %) | 0.0 | -0.3 | -0.2 | -0.3 | 0.0 | -0.2 | 0.0 | -0.5 | 0.0 | 0.1 | -0.5 | 0.9 |
| Urban population (% of total) [3] | 52 | 52 | 52 | 52 | 52 | 52.1 | 45 | 70 | 56 | 51 | 54 | 46 |

*Source:* World Bank World Development Indicators as of Oct 12, 2007 for all indicators excluding noted.
1) DDP&WDI: Serbia and Montenegro Data. Serbia representing about 90 percent of aggregated figure.
2) IMF: 2006 Article IV Consultation and Post-Program Monitoring Discussion - Staff Report, Serbia.
2005 Article IV Consultation, Serbia and Montenegro - 2001-2002 Revenue and Expenditure data for Serbia and Montenegro.
3) 2001 Serbia and Montenegro Data.

## Annex Table 8: Millennium Development Goals, Serbia and Montenegro

| Milennium Development Goals | 1990 | 1995 | 2000 | 2004 |
|---|---|---|---|---|
| **Goal 1: Eradicate extreme poverty and hunger** | | | | |
| Income share held by lowest 20% | | | | 8 |
| Malnutrition prevalence, weight for age (% of children under 5) | | 2 | 2 | |
| Poverty gap at $1 a day (PPP) (%) | | | | |
| Poverty headcount ratio at $1 a day (PPP) (% of population) | | | | |
| Poverty headcount ratio at national poverty line (% of population) | | | | |
| Prevalence of undernourishment (% of population) | | 5 | | 9 |
| **Goal 2: Achieve universal primary education** | | | | |
| Literacy rate, youth total (% of people ages 15-24) | 99 | | | 99 |
| Persistence to grade 5, total (% of cohort) | | | | |
| Primary completion rate, total (% of relevant age group) | | 70 | 97 | |
| School enrollment, primary (% net) | | | 96 | |
| **Goal 3: Promote gender equality and empower women** | | | | |
| Proportion of seats held by women in national parliament (%) | | | 5 | 8 |
| Ratio of girls to boys in primary and secondary education (%) | | | 102 | |
| Ratio of young literate females to males (% ages 15-24) | | | | |
| Share of women employed in the nonagricultural sector (% of total nonagricultural employment) | 38 | 40 | 44 | 45 |
| **Goal 4: Reduce child mortality** | | | | |
| Immunization, measles (% of children ages 12-23 months) | 82 | 86 | 89 | 96 |
| Mortality rate, infant (per 1,000 live births) | 24 | 17 | 14 | 12 |
| Mortality rate, under-5 (per 1,000) | 28 | 20 | 16 | 15 |
| **Goal 5: Improve maternal health** | | | | |
| Births attended by skilled health staff (% of total) | | | 99 | 92 |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | | | 11 | |
| **Goal 6: Combat HIV/AIDS, malaria, and other diseases** | | | | |
| Contraceptive prevalence (% of women ages 15-49) | | | 58 | |
| Incidence of tuberculosis (per 100,000 people) | 59 | 53 | 40 | 34 |
| Prevalence of HIV, female (% ages 15-24) | | | | |
| Prevalence of HIV, total (% of population ages 15-49) | | | | 0.2 |
| Tuberculosis cases detected under DOTS (%) | | | 27 | 31 |
| **Goal 7: Ensure environmental sustainability** | | | | |
| CO2 emissions (metric tons per capita) | 6 | 4 | 5 | 6 |
| Forest area (% of land area) | 25 | | 26 | 26 |
| GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent) | | | | |
| Improved sanitation facilities (% of population with access) | 87 | | | 87 |
| Improved water source (% of population with access) | 93 | | | 93 |
| Nationally protected areas (% of total land area) | | | | 4 |
| **Goal 8: Develop a global partnership for development** | | | | |
| Aid per capita (current US$) | | 9 | 139 | 145 |
| Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances) | | | | |
| Fixed line and mobile phone subscribers (per 1,000 people) | 160 | 191 | 456 | 917 |
| Internet users (per 1,000 people) | | 2 | 49 | 148 |
| Personal computers (per 1,000 people) | 12 | 14 | 29 | 48 |
| Total debt service (% of exports of goods, services and income) | | | | |
| Unemployment, youth female (% of female labor force ages 15-24) | | | | |
| Unemployment, youth male (% of male labor force ages 15-24) | | | | |
| Unemployment, youth total (% of total labor force ages 15-24) | | | | |
| **Other** | | | | |
| Fertility rate, total (births per woman) | 2 | 2 | 2 | 2 |
| GNI per capita, Atlas method (current US$) | | 1540 | 1250 | 2700 |
| GNI, Atlas method (current US$) (billions) | | 16 | 10 | 22 |
| Gross capital formation (% of GDP) | | 13 | 14 | 17 |
| Life expectancy at birth, total (years) | 72 | 72 | 72 | 73 |
| Literacy rate, adult total (% of people ages 15 and above) | | | | |
| Population, total (millions) | 11 | 11 | 8 | 8 |
| Trade (% of GDP) | | 44 | 76 | 75 |

*Source:* World Development Indicators database, Oct 25 2007.

Serbia representing about 90% of aggreated figure.

Estimate closest to date shown (+/-2 years).

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# IEG-IFC CASCR Review

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| 1. CAS DATA | |
|---|---|
| **Country:** Republic of Serbia | |
| **CAS Year:** FY05 | **CASCR Review Period:** November 2004 – September 2007 |
| **Date of This Review:** November 28, 2007 | |

## 2. ASSESSMENT OF THE CASCR'S COVERAGE OF IFC'S ACTIVITIES

The CASCR provides relatively detailed coverage of IFC's activities in Serbia over the CAS period and includes a discussion of IFC's contributions to development of the financial sector, a matrix of IFC CAS objectives and results, discussion of specific results of Advisory Service operations, and a list of IFC investment/advisory service activities approved during the period under review. The CASCR would have benefited from a discussion of (i) the appropriateness of IFC's areas of focus in Serbia in the light of experience; and (ii) the experience with some specific activities identified in the CAS such as technical assistance to Telekom Srbije or establishment of the Balkans Infrastructure Development Facility.[2]

## 3. IFC AREAS OF FOCUS DURING THE CAS PERIOD

The CASCR contains a matrix of IFC objectives and results over the CAS period. IFC planned to support Goal 2 of the CAS – Creating a Larger, More Dynamic Private Sector – by focusing on development of the financial sector; post-privatization support to selected enterprises; private sector participation in infrastructure; and private sector investments in selected sectors (the pharmaceutical, mechanical, and paper sectors). IFC would also continue its large donor-supported Advisory Services program focused on improving the business environment for SMEs; assisting domestic companies in meeting EU standards; development of domestic financial markets through institution building and the use of innovative financial products; and restructuring and privatization support.

## 4. RELEVANCE OF IFC AREAS OF FOCUS

The CASCR does not specifically discuss the appropriateness of IFC's areas of focus in Serbia in the light of experience. IEG-IFC's view is that IFC's focus on investments in the financial sector was appropriate given the Bank's large engagement in this sector and the significant restructuring and regulatory reform that occurred. The technical assistance activities identified in the CAS aimed at improving aspects of the business enabling environment continue to remain relevant in Serbia. As the FY05 CAS had distinguished objectives and activities for Serbia and Montenegro, the dissolution of the union had limited implications for the scope and focus of its activities.

| | |
|---|---|
| Reviewer: Victoria Viray-Mendoza | Linda Morra, Head, Macro Evaluation |
| Peer Reviewer: Asita De Silva | Amitava Banerjee. Manager |

[2] IFC commented as follows: "Please note also that we cannot discuss detailed specific project level results, e.g., Telekom Srbije, because of disclosure restrictions.. In addition, we believe there is enough information/analyses on AS activities in Serbia already provided in the final CASCR. On PEP-SEI, since it covers many countries in SE, the establishment/experience of PEP-SEI cannot be object of analyses of this CASCR covering only one country –Serbia".

## 5. IFC ACTIVITIES DURING THE CAS PERIOD

### A. Investment projects

A list of IFC investments over the CAS period is presented in Table 4 of the CASCR. Six projects in Serbia and two regional projects with activities in Serbia were approved for a total committed amount of US$264 million. Six of these projects were in financial markets, one was in rubber tire manufacturing, and one was a regional investment in retail marketing. Prior to the period under review, IFC had committed just 3 projects in Serbia for a total committed amount of $52 million. At the end of 2004, IFC also restructured several loans made in the 1980s to Udruzena Banka Vojvodjanska Banka, a large Yugoslav state-owned bank, apportioning them among four successor banks. To date, two of these banks have been privatized and are performing successfully; another remains state-owned and is in serious financial difficulties; and the fourth has been privatized but requires significant restructuring to become financially viable. The sector distribution of IFC activities was consistent with the priority placed on the financial sector in the FY05 CAS. However, no investments were realized in the three specific sectors identified as potential areas of investment: the pharmaceutical, mechanical, and paper sectors. In addition, no IFC investments in the infrastructure sectors were realized. The CASCR does not discuss some specific activities that were identified in the CAS such as establishing the Balkans Infrastructure Development Facility that was intended to help public sector entities in the region attract private investment, particularly in energy, transport and sanitation.

### B. Advisory Services

Nine advisory service projects were approved in Serbia during the CAS period[3]. No Project Completion Reports were done on these projects during the CAS period. The projects aimed at improving the business environment, supporting privatization, building firm awareness of international standards, and strengthening capacity in the banking sector. Key activities and results included: (i) Piloting the Alternate Dispute Resolution mechanism, through amending legislation, opening pilot centers, and training judges and mediators. Serbia was one of six countries in SE Europe in which IFC piloted development of the ADR mechanism. Currently eight court-annexed Mediation Centers are operating throughout Serbia and over 1700 mediations have been successfully completed, releasing some EUR 33 million back to contesting parties; (ii) preparation of a study on restructuring Serbia's oligopolistic state owned national air carrier, which has resulted in a government decision to privatize the airline; (iii) developing SME linkages in the scrap metal, paper, plastic and glass value-chains; (iv) promoting corporate governance through direct assistance to firms, development of a corporate governance manual; establishing corporate governance courses at the University of Belgrade, and developing a public awareness campaign; (v) working with specific companies to develop awareness of international standards; (vi) technical assistance in the banking sector to develop new products such as housing energy efficiency; and (vii) FIAS/MIGA provision of a large, multi-year institutional development program to the Ministry of Economy and Regional Development and the Serbian Investment and Export Promotion Agency to develop their investment promotion capacity. This project encountered serious implementation difficulties and has not shown any results to date. It has recently been restructured to strengthen local program management, restore relationships at senior government levels, and strengthen the strategic framework for program implementation.

[3] IEG-IFC identified four additional Advisory Services projects than listed in the CASCR. The IEG-IFC list of Advisory Services projects is provided in Annex Table I.

## 6. IFC'S CONTRIBUTION TO CAS OBJECTIVES

IFC made a positive contribution toward advancing several elements of Goal 2 of the CAS - Creating a Larger, More Dynamic Private Sector. In particular, IFC's investments in the financial sector helped demonstrate the improved environment in the sector following significant restructuring and regulatory reform. As indicated in the CASCR, through its investment operations, IFC contributed to this process of clean-up, rehabilitation and privatization in the banking sector, and added to the depth of the sector by helping introduce a range of new financial products including mortgage financing, consumer finance, energy efficiency financing and SME finance. Positive results were also seen in the leasing sector through both assistance in developing the legislative environment for leasing as well as an investment in a leasing company. IFC also played a useful role in helping improve several aspects of the business environment. In particular, the successful establishment of Alternate Dispute Resolution mechanisms to enforce commercial contracts has reduced the business risks associated with highly inefficient and expensive court procedures. IFC's successful assistance in advising the government to privatize the national air carrier is also expected to increase the likelihood of progress on other privatizations.

However, IFC was unable to realize several other objectives that it identified in the CAS. IFC was unable to develop investment projects in the real sectors that it had planned to focus on and just two of eight projects approved were in the real sectors. IFC had also identified working with the Government and the Bank to develop private sector financing of infrastructure projects through public private partnerships. To date, no investments in the infrastructure sectors have been made. It is apparent that policy uncertainties in some areas have frustrated some IFC activities. For example, an advisory service project that was expected to be followed by an investment project to help a rubber tire manufacturing company improve its waste disposal systems has been unable to realize its objectives due to delays in the implementation of an appropriate regulatory framework for the waste recycling sector. The CASCR would have benefited from a more in-depth discussion of the factors preventing greater progress in these areas.

## 7. LESSONS AND CHALLENGES FROM PAST EXPERIENCE

The CASCR identifies one lesson of experience that is expected to be incorporated in the forthcoming CAS: "Engagement across the World Bank Group, while strong, could be strengthened even further." IEG-IFC agrees with this. Efforts to ensure coordination of technical assistance work among IFC, MIGA and the Bank as exemplified in the privatization of Serbia's national air carrier and of the banking sector will continue to be important as more state-owned entities become privatized. The CASCR also notes that new investments by IFC and guarantees by MIGA are likely to become an increasingly central element of overall Bank Group engagement with Serbia. Moreover, as IFC seeks to expand investments beyond the financial sector into private provision of infrastructure services (roads and energy) as well as social services (health, education, private pensions), there is considerable scope to work closely with the Bank in the near future.

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# IEG-IFC
# CASCR Review

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**Table 1: IEG- IFC List of Serbia Technical Assistance Advisory Services**

| No | Project ID | Project Name | Status | Dept/Div - Name | Business Line | Start Date | Total Funding | Cumulative Expenses |
|---|---|---|---|---|---|---|---|---|
| 30 | 24684 | JAT Airways | Active | CASDR - Advisory Services | Infrastructure | 01-Feb-06 | 660,000 | $365,780 |
| 355 | 537423 | ADR PEP SE Service | Active | CSEBY - SEED-Belgrade | Business Enabling Environment - Dispute Resolution | 01-Jul-05 | 1,075,000 | $452,503 |
| 438 | 538913 | CTR Tigar | Completed | CESCT - Cleaner Technologies | Environment and Social Sustainability - Cleaner Technologies | 15-Mar-06 | 19,040 | $15,224 |
| 506 | 540244 | Corporate Governance Project in Serbia and Montenegro | Active | CSEBY - SEED-Belgrade | Value Addition to Firms - Corporate Governance | 12-Sep-05 | 838,323 | $440,303 |
| 586 | 543064 | International Technical Standards and Regulations Serbia | Active | CSEBY - SEED-Belgrade | Value Addition to Firms - Linkages | 01-Dec-05 | 857,576 | $262,663 |
| 591 | 543086 | Recycling PEP SE Serbia | Active | CSEBY - SEED-Belgrade | Value Addition to Firms - Linkages | 14-Dec-05 | 1,194,500 | $716,133 |
| 953 | 554825 | ProCredit Bank EE TA - Serbia | Active | CGFEN - Env. Sustainable Finance | Access To Finance - Sustainable Finance | 25-Apr-07 | 161,000 | $65,400 |
| 971 | 555366 | Serbia Sub-national Competitiveness | Active | CSEBY - SEED-Belgrade | Business Enabling Environment - BEE Diagnostic and M&E; BEE Policy, Regulation and Institutions; Sub-national BEE | 01-Jun-07 | 575,000 | $72,117 |
| 1008 | 558225 | Serbia Investment Promotion Program | Active | CICFI - Foreign Investment -IFC | Business Enabling Environment - BEE Policy, Regulation and Institutions | 01-Jan-06 | 5,620,000 | $1,572,513 |
| | | | | | | TOTAL | 11,000,439 | 3,962,636 |