Report Number: ICRR13681

IEG ICR Review

Independent Evaluation Group

1. Project Data:			Date Posted: 12/22/2011	
Country:	Serbia			
	Is this Review for a Programmatic Series?			○ Yes ● No
Series ID:				
First Project ID:	P102651		Appraisal	Actual
Project Name:	Private And Financial Sector Policy Based Guarantee	Project Costs (US$M):	400	400
L/C Number:		Loan/Credit (US$M):	400	400
Sector Board:	Financial and Private Sector Development	Cofinancing (US$M):		
Cofinanciers:		Board Approval Date:		02/10/2011
		Closing Date:	04/13/2017	04/13/2017
Sector(s):	Banking (50%); Central government administration (33%); General industry and trade sector (17%)			
Theme(s):	State enterprise/bank restructuring and privatization (67%); Regulation and competition policy (17%); Corporate governance (16%)			
Evaluator:	Panel Reviewer:	ICR Review Coordinator:	Group:	
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2. Project Objectives and Components:

a. Objectives:

Note: This ICR and ICR Review were prepared at this time as the operational phase (comprising policy reforms) of the project has ended. However, the Treasury phase will only terminate in 2017, when the guarantee has expired. During this time, the Treasury Department will monitor implementation of the guarantee; however, there will be no involvement from the Region.

The program document (PD) for Private and Financial Development Policy Loan (PFDPL) I (see Section IV, paragraph 59) cites the following objectives: "to enhance the business environment, continue strengthening fiscal discipline in the enterprise and energy sectors and build a more efficient and stable financial sector by putting in place a well- targeted set of key irreversible structural reform measures through the above three pillars".

The PD For PFDPL II maintains almost all of these objectives except for the third pillar, where it focusses on stability in the financial sector but does not mention efficiency, and, under which, enhancing crisis preparedness is an added objective. See the PD for PFDPL II, Section V, paragraph 77, with more detail in paragraph 78.

The PD for the PFSPBG presents the objectives (see paragraph 120) as" to improve the business environment, strengthen financial discipline in the non-private enterprise sector, and build a stable and more efficient financial sector",

The Loan Agreement for PFDPL I specifies the objectives as: (i) enhance the business enabling environment to encourage new private sector investments; (ii) strengthen financial discipline by enforcing hard budget constraints and continued reform of enterprise sector and public utilities; (iii) build a more efficient and stable financial sector through continued restructuring of state holdings in banking and insurance sectors, enhancing crisis preparedness, and encouraging development of the capital markets; and (iv) promote growth and achieve sustainable reductions in poverty. There is considerable overlap between these objectives and the ones specified in the PDs, except for the addition of a fourth pillar to address growth and poverty reduction as

additional objectives. The Loan Agreement for PFDPL II does not specify the project's objectives but refers to the Government's letter, which includes all of the above-stated objectives.

The mention of growth and poverty reduction in the PFDPL I Loan Agreement's version of the project's objectives is interpreted by this review as a general statement of desired outcomes rather than a specific objective, as neither targets nor monitoring programs for such objectives are specified in the project documents. Rather, it is a longer-term, CAS-type objective, but is included here to be consistent with the requirement that DPLs be implemented within a satisfactory macro-economic framework.

Therefore, this ICR Review takes the objectives as those stated in the PD for PFDPL I with the modifications introduced for PFDPL II.

b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?

No

c. Policy Areas:

Pillar I - Enhancing business environment
(i) Further simplification of business entry through the implementation of the single agency approach for business registration
(ii) Improving the legal framework for strengthening corporate governance and facilitating business entry and operations
(iii) Streamlining regulations of business operations and reducing business compliance costs
(iv) Improving the legal and institutional framework for competition
(v) Simplifying the process of obtaining construction permits
(vi) Improving effectiveness of contracts enforcement

Pillar II -- Strengthening Financial Discipline
(i) Reduction in direct and indirect subsidies to State-Owned Enterprises, but replaced in PFSPBG by "Improving Financial Discipline"
(ii) Privatization, restructuring, and bankruptcy of Socially-Owned Enterprises
(iii) Energy Sector Reform (not specified in PGSPBG)
(iv) State Audit Institution

Pillar III -- Building a more efficient and stable financial system
(i) Resolution of state-owned banks (SOBs) and the divestment of financial assets (non-performing loans and equities) and deposit insurance capitalization
(ii) Strengthening the insurance sector regulation and resolution regime
(iii) Enhancing prudential supervision of the banking sector (I)
(iv) Developing Capital Markets
(v) Strengthening crisis preparedness, including development of liquidity framework, capital adequacy assessment, bank resolution framework enhancement, and strengthening deposit insurance payout functions

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The Guarantee covers the principle amount of commercial bank borrowing of up to EUR 300 million, not exceeding the equivalent of US$400 million, with a six year bullet maturity on a non-accelerable basis. The loan proceeds were made available to Serbia upon the effectiveness of the Loan Guarantee Agreement with Societe General on February 28, 2011. The interest rate of the commercial loan offered by Societe Generale carries an interest rate equivalent to the Euro swap rate plus 100 basis points, and, in addition, a 50 basis points arrangement fee is included. Consistent with Bank policy, there is a front-end fee of 25 basis points on the face value of the guarantee exposure and a guarantee fee of 50 basis points per annum on the present value of the Bank's exposure from the transaction. The Guarantee was appraised in December 2010, approved by the Board on February 10, 2011, and became effective on April 15, 2011. The guarantee involves no immediate transfer of funds from the Bank, but sufficient funds (US$292 million) need to be provisioned from Bank assets to meet a call on the guarantee if required. The guarantee will close on April 13, 2017. Although the ICR has been issued based on the closing of the program, monitoring of the guarantee provisions by the Treasury Department continues to ensure adherence by the Government of Serbia, and ISRs record maintenance of the provisions, which has been satisfactory.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

The Objectives of PFDPLs and PFSPBG were highly relevant .

The objectives addressed major issues faced by the Serb economy in its transition to a well -functioning market economy. This involved further diminishing the role of state-owned enterprises and banks, reducing subsidies which had favored them and enabled them to compete, despite inefficiencies and at great cost to the economy, in national and world markets, and reducing the business costs of the private sector enterprises by removing state-imposed regulations and requirements that did not meet market needs . These were all fully consistent with priorities of the Serbia Country Partnership Strategy 2008-2011:"Dynamic Private Sector Led Growth to Ensure Incomes Converge with Europe". These reforms, along with the sought-for normalization of relations with creditors, were seen as essential for the broader objective of integration with regional, EU and world markets . Support for Serbian reforms extended by SIDA, DFID, and other agencies was also important . Finally, the added emphasis to banking sector and related reforms in the wake of the crisis as reflected in PFDPL II and PFSPBG were entirely appropriate to further insulate Serbia from the ill effects of the world financial crisis .

b. Relevance of Design:

The Design of PFDPL I and II and of the PFSPBG was highly relevant .

A back-loaded programmatic series of loans was a pragmatic way to support implementation of a wide -ranging reform program. The prior conditions of each loan addressed major reforms in a coherent and well -sequenced series of measures. The truncation of the series at two rather than three loans, and substituting a guarantee for PFDPL III was highly relevant in addressing the headroom limitation on lending to Serbia, in introducing Serbia to international financial markets as a qualified borrower, and in providing training and technical assistance to Serbia to upgrade its capacity to operate in international capital markets .

4. Achievement of Objectives (Efficacy):

All of the prior actions, enumerated by pillar below, were completed .

Pillar I - Enhancing business environment - substantial achievement

Government programs to date have focused on privatization of state and socially -owned enterprises and strengthening fiscal discipline, but future job creation will depend on the emergence and successful development of a dynamic private sector.

Reforms Supported by Prior Actions:

(i) Government of Serbia (GoS) adopted principles for consolidating business registration procedures related to issuance of tax, pension, and social security numbers,
(ii) GoS approved strategy for implementation of comprehensive regulatory reviews,
(iii)GoS approved new Competition Law and submitted it to Parliament for adoption .
(iv) GoS approved the draft Law on Business Entities, and submitted it to its Parliament
(v)GoS has completed a comprehensive review of regulations of business activities and approved the recommendations of that review - 192 out of 196 regulations recommended for abolition were abolished .
(vi) The Registry of Regional Development Measures and Incentives has been established within the Serbian Business Registers Agency

These prior actions were coherent and targeted key issues . They were well-focussed in addressing key objectives of the DPL series.

Performance indicators:

Seven of the nine performance indicators were fully achieved :

- time needed to register a business was reduced from 23 days to 5 days, meeting the target,
- a unique business identification number was introduced
- an enhanced legal framework for improved corporate governance was introduced
- the authority of the Commission for the Protection of Competition was enhanced

- priorities for regulatory reforms were established as were mechanisms for their implementation,
- the regulatory compliance costs of doing business were reduced (although the BEEPs indicator specified as a performance indicator was not available and an alternative indicator was used), and
- unnecessary regulations were eliminated.

Two performance indicators were not achieved. Although measures have been implemented which should increase the Doing Business Investor Protection Index (from 5.3 in 2007 to exceed the OECD average of 6.0 in 2010) and should decrease the time needed to obtain planning and construction permits (from 635 days in 2008 to the regional average of 425 days), the data do not yet show improvement. It is uncertain whether more time is needed for improvements to be reflected in the data, or whether the measures were ineffective and, therefore, whether a new approach needs to be devised.

Given the prior measures and the generally satisfactory performance in achieving targets, a rating of substantial achievement is appropriate for this pillar.

Pillar II -- Strengthening Financial Discipline -- modest achievement

Reforms supported as prior actions included

(i) GoS to offer for sale, or to initiate a search for a strategic partner for the core assets of the two largest recipients of state subsidies,
(ii) State Audit Institution (SAI) -- a prior action (bolded in the Policy Matrix) concerning the establishment and development of the State Audit Institution, under which the Budget of the Republic of Serbia has been enacted including a budget allocation for its SAI as a separate line item.
(iii) approval by GoS of new Law on State Aid and its submission to Parliament for adoption,
(iv) approval by GoS of new Bankruptcy Law and its submission to Parliament for adoption, and
(v) Sale of shares of socially owned enterprises in the Privatization Registry (PR) conducted in accordance with procedures established by the Ministry of Economy and Regional Development (MOERD)
(vi) The National Bank of Serbia has completed a diagnostic assessment of all banks operating in Serbia in accordance with the methodology adopted under the Second PFDPL and enforced recapitalization to a capital adequacy ratio of at least 12 percent.
(vii) Parliament has enacted amendments satisfactory to the Bank on the Law on Banks, Law on Bankruptcy and Liquidation of Banks and Insurance Companies, Law on Deposit Insurance and the Law on the Deposit Insurance Agency, and enacted the Law on Budget for 2011 which contains a provision satisfactory to the Bank on the State Guarantee to the Deposit Insurance Agency.

These prior actions were ambitious and wide ranging, but addressed important issues for which progress needed to be made. Their successful implementation was an important factor in maintaining a rating of "modest achievement" for this pillar.

Performance indicators

The record on achieving performance indicators is somewhat weaker for this pillar:

- Direct and indirect subsidies (to many of the state-owned enterprises) were not reduced, although with contraction of GDP and the global financial crisis, government was faced with a difficult political situation not foreseen at appraisal. Under PFSPBG this indicator was changed to establishment of a comprehensive record of state supported measures, including subsidies and grants, which has been done. Achieved
- Privatization, Restructuring and Bankruptcy of socially-owned enterprises: The private sector share in GDP increased to 60 percent, meeting the target, although private sector share in employment only increased to 56 percent, short of the target of 65 percent.. All of the PGSPBG targets for this objective were fully achieved: (i) an improved bankruptcy framework was achieved, leading to an increase in initiation of bankruptcy cases, higher recovery rates, and lower costs and shorter resolution times, (ii) the number of entities with accounts which have been blocked for over 3 years was reduced by 6,600 by the end of 2010, and (iii) the portfolio of companies in the PA restructuring, auctions, and tenders is reduced as bankruptcy procedures were undertaken, all of which were achieved. Taking these results together, this target was partly achieved.
- There has been no increase in private investment in power generation assets. While some initiatives are underway, there has been no increase to date. Not achieved,
- Full competition in petroleum products or Government commitment made to a date for full competition. (This indicator was unusual for its lack of specificity.) Government has introduced full competition except

for one particular type of fuel of lower quality which still enjoys a lower excise tax than any other fuel . GoS has committed to EC to resolve this issue by May, 2011. Achieved

- Power and gas tariffs were to have increased from covering about 89 percent of costs in 2006 to 100 percent of costs in 2010. While the target has not been achieved, information received subsequent to the ICR indicates progress with some tariff adjustments and an increased likelihood of achieving the target in the future with pricing decisions now vested in a regulator. Partly achieved.
- EPS (Serbia's national electric power utility) and Serbigas were to have improved financially and to be on a path to eliminating fiscal and quasi-fiscal deficits. The ICR provides Insufficient information, so in keeping with IEG methodology, this is judged "Not Achieved".
- EPS is operationally more efficient and has been restructured to facilitate private sector participation in the power sector. Achieved
- Establishment and development of the State Audit Institution, the target being that the state audit institution would reach sufficient capacity and be fully operational, and audits of Government accounts for 2007, 2008, and 2009 completed and submitted to Parliament. This objective is not addressed in the ICR, but is being pursued under the Public Expenditure DPL series and the targets are being achieved .

Achievement under pillar two is notably weaker than achievement under pillars 1 and 3. The energy sector, and, especially, failure to meet cost recovery targets is important in this consideration . The failure to reduce direct and indirect subsidies is also a substantial shortfall, though somewhat understandable in view of the global financial crisis and the desire not to reduce government deficits too quickly in these circumstances . Similarly, the failure to meet the privatization objective was related to the global financial crises . However, with 2 targets not met, 4 met, and two partially met, a rating of modest achievement under this pillar is appropriate .

Pillar III -- Building a more efficient and stable financial sector - high achievement

Reforms supported as prior actions included:

(i) approval by GoS of a strategy for banks and insurance companies with Republic of Serbia ownership, and
(ii) GoS transference of funds for initial capitalization of the Deposit Insurance Scheme (DIS)
(iii) launching of a diagnostic process, including approval of: (1) satisfactory methodology; and (ii) decision tree that takes into account capital, earnings and liquidity,
(iv) adoption of a liquidity framework, including: (i) approval of rules regulating lender of last resort function and other liquidity lending, and (ii) legal authority to permit GoS to guarantee Lender of Last Resort financing from NBS to solvent banks,
(v) approval by GoS of a strategy for banks with RoS ownership, including the decision on merger of RoS majority owned banks or other alternatives, and
(v) approval by GoS of Motor Third Party Liability Law and submission to Parliament for adoption .
(vi) Banks with Borrower majority ownership have been merged, privatized or restructured in accordance with the strategy adopted under PFDPL II -- The majority of Credy Bank was sold to Nova KBM from Slovenia, Postanska Stedionica and Privredna Banka Pancevo were legally merged, with restructuring planned for 2012.

These prior actions represented important steps forward in strengthening the banking sector and helping insulate Serbia from possible adverse affects from the world financial crisis .

Performance indicators

Twelve performance indicators were achieved:

- Capital Adequacy Ratio of the banking system was maintained at the level of at least 12 percent,
- Legal and implementation framework for crisis preparedness was fully operational and banking system resilience to shocks strengthened.
- Deposit insurance scheme that fulfilled the following conditions: (i) fast payout and (ii) availability of extra funding if needed
- Increased efficiency of the bank resolution system, with bridge bank resolution on a closed bank basis for systemic banks, and financial assistance in the form of grants, loans, or guarantees based on a least cost test performed by DIA and emergency funding arrangements for DIA
- Deposit insurance scheme has fast payout system and availability of extra funding, facilitated by payout software and payout procedures and implementation of the MOU with NBS .
- Banks with majority RoS ownership fully capitalized with a CAR of 12 percent.
- A new MTPL regime has been introduced to resolve existing legitimate claims .
- Resolution of failed insurers complies with EU insurer wind-up requirements.
- Decrease of the state share in the insurance sector from 67 percent in insurance premiums written in 2006 to 35 percent in 2010. While the target in insurance premiums written by the state was below 30 percent by 2010 (according to the PD), IEG takes the target as essentially met.

- Life and non-life insurance business lines are separated by 2011 -- Recorded in the ICR as partly achieved, but information received subsequent to the ICR confirms that amendments to the Law on Insurance requiring separation of life and non-life insurance by the end of 2011 have been enacted and is a provision of the current law. Some companies have already complied, others are in the process, and the National Bank of Serbia (the regulator) stated that there is no reason not to expect full compliance by year end .
- Adequate regulatory framework facilitates more rapid capital market development - target achieved with parliamentary passage of new securities law.

Two targets were partly achieved:

- The GoS' ownership stake in the banking sector and its holdings in financial assets was reduced from 24 percent to 15 percent by 2010. In the PD, the target was to go below 10 percent in 2010. Consolidation of RoS holdings in banking sector, Banks with majority RoS ownership reduced from 4 to 2 by 2010, which was achieved
- Dunav Insurance Company: The target outcome for PFDPL I was that preparation for the sale of an equity stake in Dunav to strategic investor has been initiated, but this was restated in the PD for PFSPBG as : Government approves and submits to Parliament amendments to the Law on Insurance converting Dunav's social ownership structure to state-owned, paving the way for privatization. This is recorded in the ICR as "not achieved", but information received subsequent to the ICR from the TTL confirmed that amendments were prepared and submitted to Parliament, but have not yet been adopted, possibly because a new Law on insurance is being prepared and the Ministry of Finance may fold these amendments into the new Law .

One target was not achieved:

Increased mobilization of capital by providing more options to investors and longer term funding for the GoS in local currency, A reference point/benchmark for issuance of municipal, corporate and infrastructure bonds was not provided, and no municipal bonds have been issued. Not Achieved.

With 11 targets achieved, 1 not achieved, and 2 partly achieved, the outcome rating for this pillar is high achievement, bolstered by the importance of the targets which were achieved, Notably, Serbia now has a fully functioning Bank resolution framework, which is unusual in the European context, but which should Serbia well as and when it faces future crises in the banking sector. Especially given the relative importance of the targets which were achieved, an achievement rating of "high" is appropriate for this pillar.

Overall, 17 of 27 performance targets were achieved in PFDPL 1 and 2, and 14 of eighteen in PFSPBG. However, the global financial crisis was largely responsible for 3 of these shortfalls, and with one pillar rated as high achievement, one substantial, and one modest, an overall rating of substantial achievement is warranted .

Macro Overview

Real GDP growth of 3.8 percent in 2008 gave way to a decline of 3.5 percent in 2009, before recovering to 1.0 percent in 2010 and a projected 2.0 percent in 2010. While fiscal revenue declined by about 2 percentage points of GDP from 2008 to 2010, expenditure remained constant, so that the deficit increased from 2.7 per cent of GDP to 4.6 percent during those years. Per Capita income in terms of US dollars shrank from $6,616 to $5,233.

Serbia has requested a Precautionary Stand-By Arrangement with the IMF and a Staff Report was issued in September, 2011, which notes that Serbia's foreign exchange reserves are comfortable, the banking sector has large liquidity and capital buffers, and the real exchange rate seems fairly valued . However, with global and regional growth slowing, there is concern that Serbia's recovery is likely to pause, and that with forthcoming elections, the fledgling fiscal responsibility framework is under stress . Even so, the main elements of Serbia's reform program remain appropriate.

5. Efficiency (not applicable to DPLs):

6. Outcome:

The objectives and design of these operations were highly relevant . They addressed important reforms needed to continue the transformation of the Serb economy. The choice of a guarantee was an innovative way to address the headroom issue, and the funding provided through the guarantee very valuable in its own right but

also as a way to improve Serbia's access to the international capital markets . The outcome rating of the first and third pillars confirms substantial and high achievement, respectively, in those areas . However, there were a number of shortcomings in the implementation of reforms under the second pillar, particularly in energy sector reform. Within that pillar, the objective of reducing direct and indirect subsidies was not met and was replaced by the objective of simply tallying these transfers . However, pressures on the government to maintain subsidies in the face of the world financial crisis are understandable, even if the change in policy might not have been desirable. Serbia's banking and financial systems were substantially strengthened by reforms supported by these operations.

This outcome rating is consistent with the ICR for PFDPL I and II which estimates that about 70 percent of the intended outcomes were achieved, and the ICR for the PFSPBS which estimated that 87.5 of the total number of outcomes were achieved, although the inconsistency between the two arises because the ICR for the PFSPBG does not look at outcome for the whole program, despite the PD's assertion that PFSPBG continues the same policy framework as contained in the PD for the PFDPLs.

a. Outcome Rating : Satisfactory

7. Rationale for Risk to Development Outcome Rating:

As the major reforms have already been introduced, the government's commitment to the reform program with a reasonable degree of support from the public, bolstered by the realization that such reforms strengthen the path the EU membership which remains a very popular objective, and support from the IMF and other donors such as SIDA and DFID, the risk to development outcome rating is moderate . Continuing support from the donor community and the Bank and IMF are also positive factors in reducing risk .

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The Bank's support for these reforms was carefully based on the lessons from other transition economies and previous private sector and financial sector operations . Careful attention was paid to sequencing and a measured approach to reform of the state-owned enterprises, with more rapid reforms when needed for the banking sector. In addition, for the guarantee financing mechanism, Bank staff went the extra mile in determining the availability and suitability of the guarantee as an appropriate financing mechanism and in response to Serbia's request as a way for the Bank to provide appropriate financial support to Serbia in the face of headroom constraints on the volume of IBRD lending available to Serbia .

Quality-at-Entry Rating : Highly Satisfactory

b. Quality of supervision:

Supervision was carefully coordinated with counterparts, with a good working relationship maintained through the Ministry of Economy in its role as coordinator of the reform program . The active participation on a continuing basis of locally based staff contributed to the quality of supervision and implementation . The Treasury Department is continuing to monitor implementation of the conditions for the Guarantee, to ensure that the Guarantee remains valid until its termination in 2017

Quality of Supervision Rating : Highly Satisfactory

Overall Bank Performance Rating : Highly Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

Government's ownership of the program is clear from the completion of all prior actions and most of the non-core benchmarks, and close cooperation with Bank staff. The government's request to replace PFDPL III with a guarantee showed a keen awareness of accessing support where it was available to appropriately finance its need and support its reform program.

Government Performance Rating : Satisfactory

b. Implementing Agency Performance:

Implementing agencies played an important role in these operations, from the Privatization Agency through banking sector institutions and others. These generally performed well, though the failure of some of the energy sector reforms, especially cost recovery, requires a rating of less than fully satisfactory. For example, the failure to achieve better progress on cost recovery was a specific shortfall in performance of the implementing agency.

Implementing Agency Performance Rating : Moderately Satisfactory

Overall Borrower Performance Rating : Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

M&E design focussed on the Ministry of Finance which was responsible for the overall implementation of the program. A number of agencies/Ministries were engaged in data collection and providing other information, including the Ministry of Economy and Regional Development, the Ministry of Justice, the Privatization Agency, the National Bank of Serbia, the Deposit Insurance Agency,and the Serbian Business Registers Agency. The policy matrix formed a coherent framework in which to organize information and assess progress. The monitoring indicators were generally realistic and appropriate, except for the BEEPs indicator for which no data was available for 2010 and so this achievement of this performance indicator could not be evaluated.

b. M&E Implementation:

Assessments of progress, and identification of needed changes, appear to have been appropriate. There are two major indications of this positive assessment. First,the program supported by PFSPDL II was modified to better equip Serbia to face the world financial crisis by enhancing the reform program for the banking sector. Second, the financing needs of Serbia were well identified leading to the replacement of PFSPDL III with a guarantee.

c. M&E Utilization:

As noted above, the strengthening of the reform program supported by PFSPDL II to place the banking and financial sector on a sounder footing in the face of the world financial crisis, and the replacement of PFSPDL III with a guarantee, indicates that M&E utilization was highly satisfactory. Had the ICRs provided more information on M&E utilization, this might have translated into an overall M&E quality rating of high.

M&E Quality Rating : Substantial

11. Other Issues

a. Safeguards:

There were no safeguards issues identified.

b. Fiduciary Compliance:

There have been no issues of fiduciary compliance. However, Treasury will continue to monitor the implementation of the indemnity agreement and ensure that Serbia maintains its obligations until the guarantee terminates in 2017.

c. Unintended Impacts (positive or negative):

There have been no unintended impacts.

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement/Comments
Outcome:	Highly Satisfactory	Satisfactory	See Section 6.
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance:	Highly Satisfactory	Highly Satisfactory	
Borrower Performance:	Highly Satisfactory	Satisfactory	See Section 9.
Quality of ICR:		Satisfactory	

NOTES:
- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

1. Some flexibility in implementing programmatic lending is important if the Bank is to be able to adjust programs to meet needs as they appear, this case, due to changing world market conditions. PFSPDL II, in this case, was productively modified to help Serbia pro-actively reform its banking and financial sectors to address problems that could have arisen from the world financial crisis. And moreso. the decision to proceed with a guarantee rather than PFSPDL III, as noted in the following point.
2. A guarantee instrument can be an important component of Bank assistance, especially for credit-worthy countries facing head-room constraints.
3. Good coordination remains an imperative. In this case, close coordination with the IMF and EU donors were key to insuring the resources needed for reform, as well as the incentive of EU membership.

14. Assessment Recommended? ● Yes ○ No

Why?

This series marks an important point in the transition of the Serb economy. The guarantee used to support the program in place of PFDPL III was innovative and appears to have been very productive, with important benefits,

but should not be assessed in isolation from PFDPL I and PFDPL II .

15. Comments on Quality of ICR:

The ICR provides a very good description of the PFSPBG operation but mistakenly evaluates implementation only for the time period for the PFSPBG rather than for the whole program (including PFDPL I and II), despite the assertion in the PD (paragraph 5) for the PFSPBG, note above, which confirms that the same policy matrix is valid. Further, the ICR also states that the energy sector has been excluded from this operation . While these are important shortcomings, the ICR merits a satisfactory rating because of its clear discussion of the material which is covered, and the availability of complementary material in the ICR for PFDPL I and II .

a.Quality of ICR Rating : Satisfactory