Document of
The World Bank

Report No: 55274

CLUSTERED PROJECT PERFORMANCE ASSESSMENT REPORT

FYR OF MACEDONIA

PUBLIC SECTOR MANAGEMENT ADJUSTMENT CREDIT
(CREDIT NO. 3628 MK)

PUBLIC SECTOR MANAGEMENT ADJUSTMENT LOAN 2
(LOAN NO. 4734 MK)

SLOVAK REPUBLIC

PUBLIC FINANCE MANAGEMENT PROJECT
(LOAN NO. 7178 SK)

June 29, 2010

Country Evaluation and Regional Relations (IEGCR)
Independent Evaluation Group (World Bank)

Currency Equivalents (annual averages)

Currency Unit = Macedonian denar		*Slovakian crown*	
2002	US$1.00	$64.3	45.3
2003	US$1.00	$54.3	36.8
2004	US$1.00	$49.4	32.3
2005	US$1.00	$49.3	31.0
2006	US$1.00	$48.8	29.7
2007	US$1.00	$44.7	24.7

Source: IMF

Fiscal Year

Government: FYR of Macedonia and Slovak calendar year

Abbreviations and Acronyms

FYR of Macedonia:

ACS	Agency for Civil Servants
NBM	National Bank of the Republic of Macedonia
CAS	Country Assistance Strategy
CFO	Chief financial officer
CM	Cabinet of Ministers
CPECS	Central Payroll and Employment Control System
CRCS	Central Registry of Civil Servants
DFID	Department for International Development (UK)
EU	European Union
FA	Framework Agreement
FESAL	Financial and Enterprise Sector
HIF	Health Insurance Fund
IAS	International Accounting Standards
ICR	Implementation Completion Report
IDA	International Development Association
IFAC	International Federation of Agency Accountants
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
I-PRSP	Interim Poverty Reduction Strategy Paper
MIGA	Multilateral Investment Guarantee Agency
MIS	Management Information System
MLSP	Ministry of Labor and Social Policies
MoH	Ministry of Health
MoJ	Ministry of Justice
OECD	Organization for Economic Cooperation and Development

PDF	Pension and Disability Insurance Fund
PEIR	Public Expenditure and Institutional Review
PERTAP	Pension Reform Technical Assistance Program
PETS	Public Expenditure Tracking Survey
PHC	Primary health care
PIT	Personal income tax
PRO	Public Revenue Office
SAO	State Audit Office
SIDA	Swedish International Development Association
SRTAP	Social Reform Technical Assistance Project
SSAC	Social Section Adjustment Credit
SSP	Social Support Project
TSA	Treasury Single Account
USAID	United States Agency for International Development
VAT	Value-added tax

Slovak Republic

CAS	Country Assistance Strategy
DLMA	Debt and Liquidity Management Agency
DPR	Development Policy Review
EU	European Union
FIAS	Foreign Investment Advisory Service
FPI	Financial Policy Institute
GDP	Gross Domestic Product
IFC	International Finance Corporation
MOF	Ministry of Finance
NBS	National Bank of Slovakia
OECD	Organization for Economic Co-operation and Development
PAD	Project Appraisal Document
PDO	Project Development Objective
PFMR	Public Finance Management Reform
PHARE	Poland and Hungary Assistance for Restructuring the Economies (EU Program)
PPF	Project Preparation Facility
M&E	Monitoring and Evaluation
MTBF	Medium-Term Budget Framework

Director-General, Independent Evaluation	:	Mr. Vinod Thomas
Director, Independent Evaluation Group (World Bank)	:	Ms. Cheryl W. Gray
Senior Manager, IEGCR	:	Mr. Ali M. Khadr
Task Manager		Ismail Arslan

Contents

Tables

Figures

Principal Ratings

A. MACEDONIA

PUBLIC SECTOR MANAGEMENT ADJUSTMENT CREDIT (CREDIT NO. 3628 MK)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Moderately Satisfactory	Moderately Unsatisfactory
Institutional Development Impact**	Substantial	Modest	———
Risk to Development Outcome/	———	———	Moderate
Sustainability***	Likely	Likely	———
Bank Performance	Satisfactory	Satisfactory	Moderately Satisfactory
Borrower Performance	Satisfactory	Unsatisfactory	Unsatisfactory

PUBLIC SECTOR MANAGEMENT ADJUSTMENT LOAN 2 (LOAN NO. 4734 MK)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Moderately Satisfactory
Institutional Development Impact**	Substantial	Substantial	———
Risk to Development Outcome/	———	———	Substantial
Sustainability***	Highly Likely	Likely	———
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Satisfactory	Satisfactory	Satisfactory

B. SLOVAL REPUBLIC

PUBLIC FINANCE MANAGEMENT PROJECT (LOAN NO. 7178 SK)

	*ICR**	*ICR Review**	*PPAR*
Outcome	Satisfactory	Satisfactory	Satisfactory
Institutional Development Impact**	———	———	———
Risk to Development Outcome/	Low or Negligible	Moderate	Low or Negligible
Sustainability***	———		———
Bank Performance	Satisfactory	Satisfactory	Satisfactory
Borrower Performance	Highly Satisfactory	Satisfactory	Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible Bank department. The ICR Review is an intermediate IEGWB product that seeks to independently verify the findings of the ICR.
**As of July 1, 2006, Institutional Development Impact is assessed as part of the Outcome rating.
***As of July 1, 2006, Sustainability has been replaced by Risk to Development Outcome. As the scales are different, the ratings are not directly comparable.

Key Staff Responsible

A. MACEDONIA

PUBLIC SECTOR MANAGEMENT ADJUSTMENT CREDIT (CREDIT NO. 36280 MK)

Project	*Task Manager/Leader*	*Division Chief/ Sector Director*	*Country Director*
Appraisal	William Dillinger	Helga W. Muller	Orsalia Kalantzopoulos
Completion	William Dillinger	Cheryl W. Gray*	Orsalia Kalantzopoulos

PUBLIC SECTOR MANAGEMENT ADJUSTMENT LOAN 2 (LOAN NO. 4734 MK)

Project	*Task Manager/Leader*	*Sector Manager*	*Country Director*
Appraisal	William Dillinger	Helga W. Muller	Christian Poortman
Completion	William Dillinger	Helga W. Muller	Orsalia Kalantzopoulos

B. SLOVAKIA REPUBLIC

PUBLIC FINANCE MANAGEMENT PROJECT (LOAN NO. 7178-SK)

Project	*Task Manager/Leader*	*Sector Manager*	*Country Director*
Appraisal	Sandra Bloemenkamp	Helga W. Muller	Roger W. Grawe
Completion	Roland N. Clarke	Ronald E. Myers	Suman Mehra

*Cheryl Gray, the present IEGWB Director, was recused from this evaluation given her involvement with the Macedonia Public Sector Management Credit in her past work.

IEG Mission: Improving development results through excellence in evaluation

About this Report

The Independent Evaluation Group assesses the programs and activities of the World Bank for two purposes: first, to ensure the integrity of the Bank's self-evaluation process and to verify that the Bank's work is producing the expected results, and second, to help develop improved directions, policies, and procedures through the dissemination of lessons drawn from experience. As part of this work, IEGWB annually assesses some 25 percent of the Bank's lending operations through field work. In selecting operations for assessment, preference is given to those that are innovative, large, or complex; those that are relevant to upcoming studies or country evaluations; those for which Executive Directors or Bank management have requested assessments; and those that are likely to generate important lessons.

To prepare a Project Performance Assessment Report (PPAR), IEGWB staff examine project files and other documents, visit the borrowing country to discuss the operation with the government, and other in-country stakeholders, and interview Bank staff and other donor agency staff both at headquarters and in local offices as appropriate.

Each PPAR is subject to internal IEGWB peer review, panel review, and management approval. Once cleared internally, the PPAR is commented on by the responsible Bank department. The PPAR is also sent to the Borrower for review. IEGWB incorporates both Bank and Borrower's comments as appropriate. The Borrower's comments are attached to the document that is sent to the Bank's Board of Executive Directors. After an assessment report has been sent to the Board, it is disclosed to the public.

About the IEGWB Rating System

IEGWB's use of multiple evaluation methods offers both rigor and a necessary level of flexibility to adapt to lending instrument, project design, or sectoral approach. IEGWB evaluators all apply the same basic method to arrive at their project ratings. Following is the definition and rating scale used for each evaluation criterion (additional information is available on the IEGWB website: http://worldbank.org/ieg).

Outcome: The extent to which the operation's major relevant objectives were achieved, or are expected to be achieved, efficiently. The rating has three dimensions: relevance, efficacy, and efficiency. *Relevance* includes relevance of objectives and relevance of design. Relevance of objectives is the extent to which the project's objectives are consistent with the country's current development priorities and with current Bank country and sectoral assistance strategies and corporate goals (expressed in Poverty Reduction Strategy Papers, Country Assistance Strategies, Sector Strategy Papers, Operational Policies). Relevance of design is the extent to which the project's design is consistent with the stated objectives. *Efficacy* is the extent to which the project's objectives were achieved, or are expected to be achieved, taking into account their relative importance. *Efficiency* is the extent to which the project achieved, or is expected to achieve, a return higher than the opportunity cost of capital and benefits at least cost compared to alternatives. The efficiency dimension generally is not applied to adjustment operations. *Possible ratings for Outcome:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Risk to Development Outcome: The risk, at the time of evaluation, that development outcomes (or expected outcomes) will not be maintained (or realized). *Possible ratings for Risk to Development Outcome:* High Significant, Moderate, Negligible to Low, Not Evaluable.

Bank Performance: The extent to which services provided by the Bank ensured quality at entry of the operation and supported effective implementation through appropriate supervision (including ensuring adequate transition arrangements for regular operation of supported activities after loan/credit closing) toward the achievement of development outcomes. The rating has two dimensions: quality at entry and quality of supervision. *Possible ratings for Bank Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory.

Borrower Performance: The extent to which the borrower (including the government and implementing agency or agencies) ensured quality of preparation and implementation, and complied with covenants and agreements, toward the achievement of development outcomes. The rating has two dimensions: government performance and implementing agency(ies) performance. *Possible ratings for Borrower Performance:* Highly Satisfactory, Satisfactory, Moderately Satisfactory, Moderately Unsatisfactory, Unsatisfactory, Highly Unsatisfactory

Preface

This is a clustered Project Performance Assessment Report (PPAR) on two projects in the Former Yugoslav Republic of Macedonia (FYR of Macedonia) and a project in the Slovak Republic. These are:

- The Public Sector Management Adjustment Credit (Loan No: 3628) of the FYR of Macedonia was for $15.0 million on standard International Development Association (IDA) terms with a maturity of 35 years and a grace period of 10 years. It was cofinanced with the Dutch government, which provided a grant of $3.78 million for technical assistance. Although the credit was approved by the World Bank Board in April 2002, it became effective only in May 2003, 14 months later. This was because there was a deterioration of the macroeconomic situation during the 2002 election campaign. The project was closed in June 2004.

- The Public Sector Management Adjustment Loan (Loan No: 4734 MK) of the FYR of Macedonia was an adjustment loan for $30 million with two tranches, including a floating back-loaded second tranche. It was a single currency loan at the Bank's standard LIBOR-based interest rate, with a five-year grace period and 17-year maturity. The World Bank Board approved the loan in May 2004; the closing date was in June 2005.

- The Public Finance Management Project (Loan No: 7178 SK) of the Slovak Republic was a single tranche technical assistance loan for only $5 million, as finance was not a problem for the country. Even less was disbursed, because the European Union program known as Poland and Hungary Assistance for Restructuring the Economies (PHARE) made funds available, with initial support provided by the United States Agency for International Development (USAID). World Bank Board approval was in June 2003, and the closing date was in January 2007.

This report is called a clustered PPAR because it compares project performance across countries. All three projects were principally associated with public sector and public financial management reform and cover government budgetary policy, processes and related institutions. The central theme of the report is public sector management and reform in transition economies.

This PPAR is based on all relevant Bank and International Monetary Fund (IMF) documents and interviews of Bank and IMF Staff. A mission visited the FYR of Macedonia in June–July 2009 and the Slovak Republic in August 2009 to discuss the preparation, design, and performance of the projects with the officials in the two countries who implemented the projects, representatives of civil society, and the Bank country office in FYR of Macedonia as well as Bank staff who worked in the former Bank office in the Slovak Republic. This evaluation employed a set of common questions that relate to the preparation, design, and outcomes of these projects in two different country settings. The focus is on their institutional impacts, risks to development outcomes, and World Bank and borrower performances.

Following standard Independent Evaluation Group (IEG) procedures, copies of the draft PPAR were addressed to the respective country authorities for their review. No comments were received from the Slovakian authorities. Owing to a misunderstanding, the package was not sent to the authorities in FYR Macedonia. This is now being rectified, and any comments received from them will be reflected in the electronic version of the PPAR that is disclosed in IEG's website (www.worldbank.org/IEG).

This evaluation's approach was to examine each operation separately and then to bring the analysis together, comparing and contrasting the three operations, following which a set of lessons from the three projects in the two countries were gleaned. Accordingly, this PPAR is divided into three chapters. Chapter 1 focuses on the two public sector management operations in the FYR of Macedonia. Chapter 2 focuses on the public finance management loan in the Slovak Republic. Chapter 3 provides an assessment of comparative performance and outcomes of the three projects with a synthesis of conclusions and lessons. There are seven appendixes supporting the three chapters.

Thanks are due to all those who were interviewed in the course of preparing this report in the two countries and in the World Bank, and the IMF staff associated with the three projects. Lists of persons interviewed are provided in an appendix.

This report was prepared by Sarath Rajapatirana (consultant) with Ismail Arslan as task manager. Corky de Asis and Aimée Niane provided research and administrative support.

Summary

1. This clustered Project Performance Assessment Report (PPAR) examines the comparative performance of three projects in two countries. They are the Public Sector Management Adjustment Credit (PSMAC) (2002) for $15 million and the Public Sector Management Adjustment Loan (PSMAL) (2004) for $30 million to the former Yugoslav Republic (FYR) of Macedonia and the Public Finance Management Project (PFMP) (2003) for $5 million to the Slovak Republic. The report derives lessons for operations in similar contexts and evaluates overall outcomes, risks to development outcome, and Bank and borrower performances. At the same time, it must be recognized at the outset that differences in the nature and coverage of the operations (two development policy operations versus a small technical assistance project), as well as in the country political and economic backdrop, make the comparison a less-than-fair one in many respects.

Common elements among the three projects at entry

2. The two countries have some common elements in their political make-up, yielding a common theme of public resource management. Both countries were in the East European bloc and were parts of larger countries, that is, Yugoslavia and Czechoslovakia. After 1990, they began the process of transitioning to market economies. The Slovak Republic had less of a distance to travel on the route to become a market economy than FYR Macedonia, given its more advanced initial economic conditions.

3. FYR Macedonia had to create a modern public sector, where the role of the government had to be redefined to accommodate a private sector-led market economy. Its two public sector management operations were in the vanguard of that effort. They supported a strong reform agenda to modernize the public sector so that it could make good decisions within a well-defined macroeconomic and fiscal framework, deliver public services efficiently, and address issues related to social protection, such as health, pensions, and unemployment benefits.

4. In the Slovak Republic, public finance reforms (in a broad sense, a subset of public sector reforms) were necessary for entry into the European Union (EU) and for the country to join the European Exchange Rate Mechanism (ERM II). Its public finance management agenda was to strengthen institutional capacity to use public resources more effectively, efficiently, and transparently. The PFMP was to help the government improve its budgetary and financial management in particular, the budget process within an overall medium-term budgetary framework; strengthen macroeconomic analysis; and establish debt and liquidity management capacity. The Slovak Republic did not require funds as much as it did technical assistance.

Differences among the three projects and specific outcomes

5. The differences with respect to coverage, macroeconomic and political contexts, degree of preparation, design, and supervision between FYR Macedonian operations and the Slovak Republic project accounted for their different outcomes. The PFMP had better overall outcome than either PSMAC or PSMAL, although the PSMAL had a better

outcome than the PSMAC. The ratings with respect to other aspects—risks to development outcome, Bank and borrower performance—are more nuanced. Public Expenditure and Financial Accountability (PEFA) and Country Policy and Institutional Assessment (CPIA) indicators for the three years (2000, 2003, and 2006) point, in general, to better outcomes for the PFMP than for the PSMAC and PSMAL. Thus, four overall indicators for the two countries show that, with respect to quality of budget and financial management, efficiency of revenue mobilization, public sector management on average and overall CPIA indicators were consistently higher for the Slovak Republic than for FYR Macedonia during the 2000–06 period.

Overall Outcomes

- PSMAC (2002) is rated as *moderately unsatisfactory*. Although the project achieved some progress with respect to the reform of the budget process and institutions and arguably initiated steps that overtime improved budget comprehensiveness and transparency, it failed to achieve important objectives within the period of the credit. Even within the central thrust of the reform agenda, the budget reforms did not lead to a significant change in the budgetary process. It failed to put ceilings on expenditures that thwarted strategic preparation and implementation processes. Many issues were carried forward into the PSMAL.
- PSMAL (2004) is rated as *moderately satisfactory*. PSMAL had a better focus and better-defined objectives than the PSMAC. PSMAL addressed central budget-related issues, including procurement and audit. This operation more directly addressed social protection with its positive impact on health insurance and social assistance.
- The PFMP (2003) is rated as *satisfactory*. It served the purpose for which it was designed and was implemented well. The loan amount that was proposed was small because finance was not a problem. It was a well-designed, implemented, and disbursed loan. It was different from the other two loans in that it addressed public finance-related issues with a narrow focus, especially given the country's more advanced stage of development and of market orientation; it was not only better focused on the issues than the two FYR Macedonian adjustment operations but was also results-based.

Lessons derived from the three projects

It is challenging to derive lessons from project experiences in countries at different stages of development. Even so, the first three lessons below are of general applicability. The next three lessons, to some extent, also reflect the degree of development and progress towards a market-oriented economy.

- Although differences dominated similarities in the three projects, the one common factor that had a determining influence on outcomes was the extent of government commitment to the projects.
- Sound analytical work was necessary but not sufficient for project success. All three projects were based on sound analytical work and they matched government strategy. In the case of the PFMP there was a hand-in-glove match between

analytical work and government strategy, as the government adopted the full recommendations of the Development Policy Review.

- Concentrating on core elements was a factor contributing to success. Compared with the PFMP, the other two projects overreached in their ambitions to achieve rather wide development policy goals. In the main, introducing elements that were outside the purview of the budget, such as health and pension reform, affected the efficacy of these two operations and prevented them from fully realizing their goals.
- Better-crafted and results-based projects help monitor progress and allow corrective action to be taken, contributing to project success. PFMP was better crafted than PSMAC and PSMAL. Its results-based framework helped monitor progress well and take corrective action as problems arose.
- Grounding projects in country strategy is a factor contributing to success. Compared to PSMAC and PSMAL, PFMP was better grounded in country strategy. There was an economy-wide approach supporting the project that extended to project monitoring and supervision. Such an approach received greater attention and support from the highest echelons of the politicians in power, who were elected on a basis of their commitment to a reform strategy.
- Finally, when the different elements of a project fit together well, the project has a greater probability of success. The different elements of the PFMP fit each other better with one another than those of either the PSMAC or the PSMAL and were not as widely dispersed as the two FYR Macedonia operations.

Vinod Thomas
Director General, Evaluation

1. Former Yugoslav Republic of Macedonia and the Slovak Republic: Comparative Project Performance Assessment

1.1 This clustered Project Performance Assessment Report (PPAR) examines the comparative performance of three projects: the Public Sector Management Adjustment Credit (PSMAC) (2002) and Public Sector Management Adjustment Loan (PSMAL) (2004) of the FYR of Macedonia and the Public Finance Management Project (PFMP) (2003) of the Slovak Republic. Given the coverage of the project, the main theme of the report is public sector management and related public financial management. The report gleans lessons for similar contexts and evaluates overall outcomes, risk to development outcome, and Bank and borrower performances. At the same time, it is important to recognize at the outset that differences in the nature and coverage of the operations (two development policy operations versus a small technical assistance project), as well as in the country political and economic backdrop, make for a less-than-fair comparison in many respects.

COUNTRY CONTEXT

1.2 The public sector management adjustment operations of the FYR of Macedonia and the public finance management project of the Slovak Republic have some core elements in common. However, it is more the different country and sector contrasts than common elements that makes analysis of the experiences in this clustered PPAR worthwhile and contains important lessons for such projects in the future.

1.3 The two countries have some common elements in their political make-up, yielding a common theme of public resource management. Both countries were in the East European bloc and were parts of larger countries—Yugoslavia and Czechoslovakia. They had somewhat different political orientations. The FYR of Macedonia, as a part of the former Socialist Federal Republic of Yugoslavia, sought to simulate a competitive economy through administered prices in the 1960s and 1970s in an attempt to practice market socialism. Czechoslovakia, in contrast, was a relatively liberal industrial economy within the former Eastern European bloc in that it gave greater autonomy to its public enterprises. After 1990, both countries engaged in the process of transitioning to market economies. Even though by that time FYR Macedonia was in some respects (e.g. small-scale privatization and price liberalization) more advanced than the Slovak Republic, the latter managed to make faster progress.

SECTOR CONTEXT

1.4 Both countries were motivated to undertake public sector management and public finance reforms as precursors to joining the European Union (EU). The Slovak Republic joined the EU in 2004 and met the Maastricht criteria and joined the European Exchange Rate Mechanism (ERM II) at the beginning of 2009. It graduated from the World Bank at the end of 2008. The FYR of Macedonia, however, has yet to become a member of the EU. It was accepted as an accession candidate in December 2005 and continues to borrow from the World Bank.

1.5 The FYR of Macedonia had to create a modern public sector to address the many challenges faced by the East European block as former centrally planned economies; the role of the government had to be redefined to accommodate a private sector-led market economy. Thus there was a need for a strong reform agenda to modernize the public sector so that it could make sound decisions within a well-defined macroeconomic and fiscal framework, deliver services to the public efficiently, and address issues related to social protection, such as health, pensions, and unemployment benefits. The two operations were in the vanguard of that effort for FYR of Macedonia.

1.6 In the case of the Slovak Republic, public finance reforms (in a broad sense, as a subset of public sector reforms) were necessary for entry into EU and to join the ERM II. Its public finance management reform agenda was to strengthen the Slovak Republic's institutional capacity to use public resources more effectively, efficiently, and transparently. This was in line with government priorities, which were motivated by the desire to join ERM II after becoming a member of the EU. The project sought to assist the government to improve budgetary and financial management of its operations, in particular improving the budget process within an overall medium-term budgetary framework, strengthening macroeconomic analysis, and establishing debt and liquidity management capacity. The Slovak Republic did not require funds as much as it did technical assistance. The PFMP helped the country identify and define the technical assistance needed to address the development policy objectives (DPO) of the project.

PROJECT CONTEXT

1.7 The Macedonia operations were both Development Policy Operations: the PSMAC (2002) and the PSMAL (2004) in the amount of $15 million and $30 million, respectively. The Slovak Republic's PFMP (2003) was an investment loan that supported technical assistance for $5 million; the total project funds used were even less than this amount because EU-PHARE funds were available to support changes necessary to attain EU membership. As development policy loans, the two public sector management operations had tranches, but the PFMP, as an investment loan, did not. Even though all of the project amounts were relatively small compared to the regional average at the time, they laid the basis for future support in an important ways, giving the countries and the Bank experience to use in implementing future projects, particularly in the case of the FYR of Macedonia. The Slovak Republic, however, graduated from the Bank at the end of 2008 and has been pursuing a reform agenda via its membership in the EU and the ERM II.

1.8 There are several differences between the two types of projects that influenced their outcomes.

- *Coverage*: The FYR of Macedonia operations—both the PSMAC (2002) and the PSMAL (2004) —had wider objectives and covered different aspects of public sector reforms. PSMAC objectives ranged from central budget formulation and implementation to public sector activities beyond the central budget in such areas as health, and pension fund and civil service reforms. PSMAL addressed these activities plus audit and procurement. The Slovak project had a narrower focus. It concentrated on public finance policy formulation, institutional development, and fiscal analysis and forecasts. Given the nature of their respective coverage, the two Macedonian projects were larger and more complex than the Slovak project.

- *Phased versus a Single Operation*: Both types of projects had institutional development at their core, but the FYR of Macedonia projects went beyond a single operation to a pair of phased programmatic operations. PSMAL was, in a sense, a continuation of PSMAC. The PFMP was a single operation with no continuation visualized. In fact, nearly all its objectives were achieved before the project closed, with the exception of the full adoption of program budgeting. In contrast, PSMAC left a considerable unfinished agenda when it closed. Although the PSMAL did better, it also left a few elements unfinished that were picked up by a Programmatic Development Policy Loan (2005). The PFMP, a single operation with a narrower focus, faced less of an implementation challenge.

- *Political Contexts*: The PSMAC was undertaken during a turbulent political and economic context—the aftermath of the Kosovo crisis in 1999 and an internal ethnic crisis in 2001. There was less turbulence during the implementation of the PSMAL. Although the operations were crafted to take account of political factors, the turbulence that materialized did affect implementation, particularly in the case of the PSMAC. In the case of the PFMP, there was relatively little or no political or economic turbulence. The PFMP had a better chance of achieving its development objectives than either the PSMAC or the PSMAL, and it achieved greater efficacy.

- *Design and Preparation:* Differences in project design also had their impact on outcomes. The PFMP was a finely-crafted, results-based project. In addition, it was designed to fit the political cycle, which increased its chances of success. In comparison, the FYR of Macedonia operations had neither a well-crafted design nor apparent cognizance of the importance of political factors for the success of the project.

- *Macroeconomic Environments*: The PSMAC experienced delays, as a result both of exogenous factors and of the country not being able to meet the macroeconomic stability criterion required for a development policy operation. PSMAL had a better environment for implementation because it was begun after the delayed implementation of the PSMAC. PFMP did not experience such adverse conditions. It could and did start on time and was completed on schedule. So external circumstances came to play a larger role in the outcome in the PSMAC than in the PSMAL and the PFMP.

- *Supervision*: There was a difference in supervision. The PSMAC had less supervision than the PSMAL given the external factors. The latter had more supervision by the Bank than the PFMP, which was almost completely carried out by the Slovak authorities. As mentioned above, the Slovak Republic was more committed to the success of the project, given that entry into the EU was imminent for it (2004). The Slovak Republic joined ERM II in early 2009, meeting Maastricht criteria, and graduated from the World Bank in the same year. The PFMP was almost wholly supervised and monitored by the government. This results-based project had clear indicators of progress that could be easily monitored and supervised.

- *Dominance of Technical Assistance:* Although all three projects had significant technical assistance components, the PFMP was wholly based on technical assistance. In addition, Dutch trust funds supported the two FYR of Macedonia projects, and EU-PHARE funds supported the Slovak project. The Slovak Republic was less in need of resource transfer than the FYR of Macedonia, as the latter faced a bigger challenge in terms of financing its deficit. In addition, the technical assistance that was directed at the Slovak Republic was better targeted and had a more flexible approach. Also, better project preparation under the PFMP and PSMAL was reflected in an ability to use technical assistance better. Moreover, in the case of the PFMP, a more flexible approach to the use of technical assistance funds helped in making important mid-project corrections. Dutch funds supported a project implementation unit for the PSMAC and PSMAL. After initial problems that were associated largely with the PSMAC, technical assistance support worked well for the FYR of Macedonia.

1.9 The three projects in the two countries also had certain similarities that are worth noting:

- *Reform of the Public Sector and Public Finance*: All three projects addressed a crucial area of reform within the public sector for the transition to a market economy. The core program under all three projects related to budgetary reform. As indicated above, the FYR of Macedonia had more obstacles to overcome than the Slovak Republic to achieve public sector reform. In terms of institutional development, the Slovak Republic was more advanced. Thus the two FYR of Macedonia projects intrinsically posed more of a challenge than the Slovak project, irrespective of the sector in which they were implemented.

- *Common Period*: All three projects were undertaken during the 2002–07 period, when World Bank thinking was undergoing changes in light of the experience from earlier development policy operations. The DPO instrument proved to have short lifespan to achieve long-term goals. Moreover, supporting institutional reforms on a large scale was new to the Bank. The planned reform was on a wider scale in the FYR of Macedonia than in the Slovak Republic. The adjustment instrument was less suited to institutional change in general, given that institutional change takes time.

- *Prior Analytical Work*: Both countries had had good analyses prior to the projects, which helped in all three cases. The projects were based on Country Assistance Strategies, Development Policy Reviews (DPRs), Country Financial Accountability Assessment (CFAAs), Country Procurement Assessment Reviews (CPARs), and Pubic Expenditure and Institutional Reviews (PEIRs). All three projects also had good quality at entry as determined by the Quality Assurance Group. The PFMP had a relatively higher rating, as it was an exceptionally well-prepared project. Moreover, it was a new style, results-based project, with clear input and output indicators and a well-defined schedule.

- *Cofinancing Arrangements*: All three projects had cofinancing arrangements. The PFMP had some elements that were changed within its overall components. It was initially supported by EU-PHARE funds and USAID. In contrast, neither the PSMAC nor the PSMAL had any changes in elements overall or within any component. The PSMAC and PSMAL were supported by a Dutch trust fund. The changing elements of foreign support during project implementation may have contributed to the better outcome of the PFMP, because it was flexibly used and permitted midcourse corrections.

1.10 Given the above, differences dominated the similarities among the three projects and accounted for the different outcomes. The PFMP had a more satisfactory overall outcome than the PSMAC and the PSMAL, whereas the last had a better overall outcome than the PSMAC. The ratings with respect to other aspects, risks to development outcome and Bank and borrower performance, are more nuanced. Public Expenditure and Financial Accountability (PEFA) and Country Policy and Institutional Assessment (CPIA) indicators for the three years (2000, 2003, and 2006) show, in general, better outcomes for the PFMP than the PSMAC and PSMAL. Thus, four overall indicators for the two countries show that, with respect to quality of budget and financial management, efficiency of revenue mobilization, public sector management on average, and overall CPIA indicators were consistently higher for the Slovak Republic than for FYR of Macedonia during the 2000–06 period.

1.11 The Slovak Republic started with better initial conditions, and it showed strong performance in all categories and scored the highest possible in efficiency in resource mobilization; it also had a near-perfect score in the overall CPIA rating. The FYR of Macedonia demonstrated some progress but less than the Slovak Republic, indicating the extent of the remaining agenda.

1.12 Overall outcomes for the three projects are summarized as follows:

1.13 *FYR of Macedonia Public Sector Management Credit (2002):* This is rated as *moderately unsatisfactory*. Although the PSMAC achieved some progress with respect to reforming the budget process and associated institutions, it failed to achieve important objectives within the period of the credit. For example, even within the central thrust of the reform agenda, the budget reforms did not lead to a significant change in the budgetary process. Ceilings should have been put on expenditures, which would have led to a more strategic preparation and implementation process. But it did not. Many of these areas were pushed into the PSMAL. There was better implementation in the areas of government budget management, such as the separation of functions between the Treasury and the Public Revenue Office (PRO). The very limited progress in the reform of the health sector, pension funds and civil service detracted from potential gains.

1.14 *FYR of Macedonia Public Sector Management Adjustment Loan (2004):* This is rated as *moderately satisfactory*. The PSMAL had a better focus and more well-defined objectives. Like the PSMAC, the main thrust was to increase the efficiency of the state by strengthening fiscal discipline with elements relating to budget formulation and execution, civil service reform, and social service expenditure management. The PSMAL addressed central budget-related issues including procurement and audits, which received an overall weight of 70 percent. Issues related to the social sector received 30 percent. This operation had a more direct connection to poverty reduction, as it dealt with health insurance and social assistance in greater detail.

1.15 *Slovak Public Finance Management Loan (PFMP) (2003):* This is rated as *satisfactory*. It served the purpose for which it was designed and was implemented very well. The PFMP was a technical assistance loan. The amount proposed was only $5 Million because finance was not a problem. Even less was disbursed, given that funds were made available by PHARE and initial support was provided by USAID. By all accounts it was a well-designed, implemented, and disbursed loan. It was different from the other two loans and addressed public finance-related issues with a narrow focus; the small amount was better focused on the issues than the FYR of Macedonia operations and was a results-based operation. It made an important contribution to the institutional development of public finance and put different aspects of the issue on a permanent footing. However, it did not lead to the adoption of multiyear budgeting framework as planned—hence the less than *highly satisfactory* rating.

LESSONS DERIVED FROM THE THREE PROJECTS

1.16 It is challenging to derive lessons from project experiences in countries at different stages of development. Even so, the first three lessons below are of general applicability. The next three lessons, to some extent, also reflect the degree of development and progress towards a market-oriented economy.

1.17 *The extent of government commitment was the most important factor determining outcomes.* Although differences were more pronounced than similarities in the three projects, the one common factor that determined outcome was the extent of government commitment to the projects. There was less commitment associated with the PSMAC compared with the other two operations, given the exceptional circumstances associated with this operation. The fact that a similar conclusion is reached in many other projects Bank-wide should not detract from the importance of this finding.

1.18 *Sound analytical work was necessary but not sufficient to assure success in the project implementation.* All three projects were based on sound analytical work and they matched government strategy. In the case of PFMP there was a hand-in-glove match, because the government adopted the full recommendations of the DPR in its policy formulation. Such analytical work is based on widely-available sources such as the 2004 Public Finance Handbook.

1.19 *Concentrating on core elements was a factor contributing to success.* Both the PSMAC and the PSMAL may have overreached in their ambitions to achieve their rather wide and deep development policy goals. In the main, introducing elements that were not directly connected with the budget (but that nevertheless have an impact on the budget), such as health and pension reform, affected the efficacy of the project. It was clear that aspects of the projects that lay outside the purview of the Ministry of Finance received less attention than those lying within the purview of the Ministry. In addition, those elements outside the Ministry of Finance met with greater resistance from interest groups. Vested interests were stronger outside the Ministry of Finance, including at higher levels in other relevant ministries.

1.20 *Better-crafted and results-based projects help monitor progress* and allow corrective action to be taken when there are problems that threaten successful project implementation. Compared to the PSMAC and the PSMAL, the PFMP was better-crafted. Its results-based framework helped monitor progress and take corrective action as problems arose, and the PFMP also accommodated changes better than the other two operations. In addition, its expressly-designed performance indicators created a common commitment by all parties involved to make the project work.

1.21 *Grounding projects in country strategy is also a factor in the success of a project.* Compared to the PSMAC and the PSMAL, the PFMP was better grounded in country strategy. There was an economy-wide approach supporting the project that extended to project monitoring and supervision. Such an approach receives greater attention and support in the highest political echelons given that the latter are elected on the basis of their commitment to a given strategy. In all three cases, the guiding principle was transition to a market economy, with sound public sector and financial management as a prerequisite for a successful transition.

1.22 *Finally, when the different elements of a project fit together well, the project has greater probability of success.* The various elements of the PFMP fit each other better than those of either the PSMAC or the PSMAL and were not as widely dispersed as the two FYR of Macedonia operations. In sum, the PFMP clearly had a more integrated approach than the two FYR of Macedonia operations.

2. FYR of Macedonia Public Sector Management Operations: Country, Sector, and Project Context and World Bank Support

Introduction

2.1 This chapter provides the context for the two public sector management reform operations in the FYR of Macedonia. The projects were the Public Sector Management Adjustment Credit (PSMAC) of 2002 and the Public Sector Management Loan (PSMAL) of 2004. The central theme of the two adjustment operations was to support public sector management reforms.

2.2 The PSMAL was a successor to the PSMAC. It picked up many parts of the public sector management agenda that were either partially implemented or not implemented at all by the PSMAC. Without the PSMAL, the PSMAC would have significantly less to claim in terms of bringing about public sector reforms. The PSMAC established limited groundwork in terms of legal frameworks and institutional changes needed to improve public sector management. A third operation, which marked the first of a new three Development Policy Loan series, was approved by the Board in 2005, which addressed the remaining agenda in public sector management arising from the two earlier operations.

Economic and Political Developments 1991–2006

2.3 **Country context**. From independence in 1991 through 1995, the FYR of Macedonia experienced a severe decline in economic activity. By 1995, gross domestic product (GDP) had contracted by 20 percent, with registered unemployment well over 30 percent. A sharp reduction in the tax base accompanied unsustainable levels of social spending. With the government unable to control its fiscal position, fiscal deficits increased steadily to 11 percent of GDP in 1993, with much of the gap financed by accumulating domestic and foreign payment arrears. Inflation reached 1,700 percent in 1992.

2.4 In 1994–95, the government launched a comprehensive reform program comprising an IMF stabilization plan, initial structural reforms in the enterprise and financial sectors, and price and trade liberalization. This stabilization effort, along with the partial recovery in trade that was a result of the reopening of less-costly transshipment routes, contributed to improved economic performance. By 1996, output began to recover, and the fiscal gap narrowed and inflation declined to single digits. In 1999–2000, budget surpluses were achieved with negligible inflation and the current account deficit (including official transfers) shrank to 3.1 percent of GDP. However, a huge agenda was left relating to public sector reform; it included reducing the size of the state, increasing its efficiency in the delivery of services, and undertaking policy reform to support these goals.

2.5 The 1999 Kosovo crisis (in the neighboring former Yugoslavia with war between the Serbs and Albanians) revealed the fragility of the fiscal adjustment achieved in the mid-1990s. The ensuing influx of refugees exerted enormous pressure on government expenditures. As spending in 1999 quickly outstripped original budget allocations, the government could not make offsetting cuts. Instead, tax collection efforts were greatly strengthened, with higher revenues and foreign grants keeping the deficit under control.

2.6 Prior to the Kosovo crisis, the FYR of Macedonia appeared on the verge of reaping the rewards of years of sustained stabilization efforts. The economy had begun to grow, and the fiscal accounts of the general government registered a substantial surplus for the first time in 2000, owing largely to foreign grants received to help the country mitigate the impact of the 1999 Kosovo crisis. Although real GDP remained approximately 10 percent below its level of a decade before, 2000 was the fifth successive year of positive growth. With macro-stabilization achieved and structural reforms progressing steadily, it was expected that improvements in the quality of fiscal adjustment would continue.

2.7 The 2001 security crisis (a domestic conflict between ethnic Macedonians and ethnic Albanians) led to a sharp decline of 4.5 percent of GDP; a significant increase in government expenditure (security-related expenditures reached 10.4 percent of GDP); overall expenditures exceeded the 2001 budget estimates by over 9 percent; and a higher deficit of over 6.0 percent of GDP was recorded.

2.8 In August 2001, the Ohrid agreement that led to the end of hostilities in the ethnic conflict was signed. However, investment activity fell and export growth remained weak. By 2002, the current account deficit rose to 8.5 percent and international reserves fell. The new reform-minded government that came into power in late 2002 negotiated an IMF Stand-by Arrangement in April 2003. Sharp budget cuts were made to reduce the fiscal deficit from 5.6 percent of GDP to 0.1 percent, and the current account deficit improved, only to worsen in 2004 because of a rise in imports. The exchange rate–based stabilization and falling international reserves had forced the National Bank of Macedonia to tighten monetary policy, which led to mild deflation. Consequently, the recovery of the economy since the 2001 crisis was slow, with a real GDP growth rate of 3 percent in 2003 and 2004. With adjustments to the monetary and fiscal policy framework, economic growth rose to 5 percent in 2005.

2.9 Despite the progress in achieving macroeconomic stabilization and sustained GDP growth, the overall supply response of the economy remained weak. Unemployment continued to remain above 30 percent. About 23 percent of the population lived below the national poverty line in 2002, a five-fold increase since independence, although the distribution of consumption was egalitarian by regional standards: less than 7 percent of the population lived in absolute poverty as measured by international standards.

2.10 Thus, the macroeconomic situation was not favorable at the time that the two projects were implemented. Unemployment had risen to 32 percent in 2002 and increased further to around 37 percent in 2003. Business confidence surveys done in 2003 revealed serious obstacles to private sector activity. These obstacles included the large presence of the state in the economy; heavy regulation, particularly in the labor market; an inefficient and opaque court system; and policy unpredictability. In this context, public sector reform ranked high on the government's agenda. The government faced an opportunity to implement reforms in public sector management that would be crucial to maintaining macroeconomic stability and improving the delivery of services that directly affect the poor. The government's agenda for public sector reform comprised six elements, four of which were already under implementation with support from the PSMAC. These elements mapped directly into the PSMAL and became its principal components.

2.11 **Sector context and overall relevance of the operations**. There was a need for a strong reform agenda to modernize the public sector so that it could make good decisions within a well-defined macroeconomic and fiscal framework, deliver services to the public efficiently, and address issues related to social protection such as health, pension and unemployment benefits. PSMAC and PSMAL were in the vanguard of that effort for FYR of Macedonia. The main sector context was public sector management reform, whereas issues relating to health, pension fund reform, and civil service reforms were secondary. Their inclusion in the project could be justified on the following grounds:.(a) these sectors could contribute to a rising fiscal deficit; (b) Bank strategy used public sector management reform to "piggy back" the other secondary sector reforms; and (c) civil service reforms were more focused on linking efforts to rewards and decompressing the wage structure rather than reducing the wage bill per se.

2.12 Under the PSMAC, the government attempted to change the financial relationship between public health institutions and the global budget in each fiscal year, rather than reimburse them based on arbitrary input costs (wage bill, utilities, or related costs). This would allow institutions to have discretion in allocation spending on items and also would provide incentives for them to cut down costs. The PSMAC also supported improving planning and control of the Health Insurance Fund (HIF) and related it to the overall budgetary process.

2.13 Both the PSMAC and PSMAL were grounded in good analytical work, in particular the 2000 PEIR, which had identified a wide agenda of reform for public sector management. The PSMAL also had the benefit of a CFAA and a CPAR. It also benefited from the experience with PSMAC, as some of its design changes were motivated by the need to address issues that had come up in the implementation of the earlier project.

2.14 The PEIR in particular provided a detailed analysis and identified the needed reforms, institutional changes, and procedures to assist the country attain its development objectives. It provided a sound analysis of the issues relating to public expenditure and institutions, as well as guidance in building the necessary capacity at the central government level to implement the reforms. It also provided guidance to strengthen and sustain fiscal discipline within a strong accountability and transparency framework.

2.15 **Public Sector Management agenda**. The public sector management agenda that the PSMAC and PSMAL supported was in accordance with the priority areas of the government with respect to efficiency of the public sector. It was a sine qua non for supporting private sector development, in meeting the unemployment problem through growth by better macroeconomic management, and improving service delivery.

2.16 Of course, much of the weight of the PSMAC was on improving the efficiency of the state. It concentrated on budget formulation and execution (74 percent), compulsory pension and unemployment insurance (13 percent), and health (13 percent), all in accordance with the country's national development strategy and addressing an immediate need to deal with high unemployment and increasing poverty. The PSMAL had a similar agenda and weight for public sector management, of which 70 percent was on budget formulation and execution; two new areas related to public finance management—procurement and audits. It gave 30 percent of its weight to social expenditure management and civil service reforms.

Public Sector Management Credit (PSMAC)

PROJECT CONTEXT

Preparation, Objectives, and Design

2.17 The World Bank Group's 2000 PEIR had concluded that the existing public administration in FYR of Macedonia faced significant, institutional obstacles in creating an affordable, modern public sector that would be able to support the development of a robust private sector and deliver efficient, quality services. The government accepted the diagnosis and included the following three components and the subcomponents of the PSMAC:

2.18 **Budget Management and Components:** Under this component, the credit aimed to do three things: (1) improve strategic prioritization by assisting the Ministry of Finance to formulate the budget within an explicit macroeconomic framework; (2) strengthen fiscal discipline and transparency by replacing the existing fragmented tax collection and government payment system with a single treasury account and a modernized system of tax collection, while improving the quality of management data; and (3) reduce unnecessary expenditures by divesting noncore activities. To ensure that these reforms would be sustained, the project also supported the restaffing and reorganization of certain units of the Ministry of Finance (Treasury, Budget, and Internal Audit department), the State Audit Office (SAO), the General Secretariat, and the PRO.

2.19 **Social Sector Reforms**: This component focused on budget management issues in specific sectors. In the health sector, it sought to create institutional capacity in the HIF to help it better control public health expenditure. Goals included improvements in budget planning and control (for example, new guidelines for the presentation of the HIF budget and the adoption of a new HIF general ledger) and a shift in the system for funding public hospitals from one based on fixed allocations of inputs to one based on performance. In the social protection sector, the PSMAC supported longer-term measures to improve the targeting of unemployment benefits and social assistance and to ensure the fiscal sustainability of the pension system.

2.20 **Civil Service Management Reforms**: This component aimed to establish the legal framework for a professional, politically neutral, merit-based civil service. It sought to do this by creating an agency for civil servants; requiring the Parliamentary enactment of the Law on Civil Servants to be *satisfactory* to IDA; restructuring public employment to better match jobs with skill requirements; and restructuring the system of remuneration to enhance the competitiveness of salaries.

2.21 The PSMAC was for SDR 12.1 million ($15.0 million) on standard IDA terms, with a maturity of 35 years, including a grace period of 10 years. In addition, the Dutch government provided a grant of $3.77 million for technical assistance. The total project cost was $18.77 million. The IDA credit was a single tranche structural adjustment operation in support of the FYR of Macedonia government's medium-term reform strategy. IDA terms were extended on an exceptional basis, given the crisis the country faced in 2001.

2.22 PSMAC was prepared in 2001 and presented to the Bank's Board in April 2002. Coming as it did in the wake of civil conflict between the ethnic Macedonians and the ethnic Albanian population in Macedonia, the credit did not receive full attention and perhaps not even the commitment of the government, which had to deal with the aftermath of the conflict. The Implementation Completion Report (ICR) states, "While the Credit's Letter of Development Policy set out an ambitious agenda, its conditions for Board presentation were relatively modest. Once the credit had been approved, the government was then distracted by upcoming elections, which it subsequently lost." That newly elected government was more reform minded.

2.23 The credit was a single tranche adjustment operation. Although the credit was approved by the Bank's board on April, 9, 2002, it became effective only 14 months later. This was because of the deterioration of the macroeconomic situation resulting *inter alia* from the 2002 election campaign. It is noteworthy that the appraisal of the credit took place in September 2001, after the ethnic crisis in July 2001. Despite this, a single tranche operation was designed, probably because the preparation team had confidence that the arrangements for ethnic harmony created by the Ohrid agreement would hold. The agreement did hold due to the government's commitment and to the leadership of the minority ethnic Albanians, but the macroeconomic consequences of the crisis were not foreseen. Consequently, the credit could not be made effective until May 2003, when an IMF Stand-by Arrangement was put in place with the new government.

2.24 The PSMAC fully supported the medium-term strategy of the government, which was to focus on two broad areas: general budget management, including health and social protection funds, and civil service management. Public sector reform was fundamental to the country because the country was transforming itself from a centrally planned economy (somewhat less than the other former Soviet bloc countries, given its past attempt to pursue market socialism since the 1960s). Although the government was committed to reform and the PSMAC was an important plank in doing that, many events intervened to delay and reduce the extent of the reform that the country could undertake during the implementation of the PSMAC.

2.25 The PSMAC was one element in the Transitional Support Strategy (TSS) endorsed by the Board of Executive Directors in September 2001, which provided a framework for rapid intervention in the post-crisis period. As part of the TSS, a $15 million Emergency Recovery Assistance Credit (ERAC) was approved by the Board in December 2001. Two follow-up operations were planned in the area of public sector management reforms for fiscal 2003 and 2004. They were to be International Bank for Reconstruction and Development loans. Thus, the PSMAC has to be viewed as the first stage of a sequence that began with public sector reform, with the PSMAL as follow-up.

2.26 A third loan, the Programmatic Development Policy Loan (PDPL), was approved by the Board in October 2005; it addressed issues relating to the investment climate and further refinement of governance and efficiency of the public sector.[1] This third loan was seen as further strengthening economic development and preparation for accession to the European Union (EU), a long-term goal of the three operations all along.

2.27 The PSMAC focused on the first generation of institutional/public sector reforms and on areas where reforms were needed to achieve fiscal stability and strengthen resource management. Although the 2001 security crisis had constrained the government's efforts to implement its reform strategy, the macroeconomic, fiscal, and political challenges arising from the 2001 security crisis intensified the need to implement these reforms. A framework agreement (FA), which encompassed constitutional changes toward increased representation of ethnic Albanians, was signed by the main political parties representing ethnic Macedonians and Albanians in August 2001, and constitutional amendments were approved in November 2001. The FA set out the terms and conditions under which the security crisis ended. It included resolutions that impinged on the overall fiscal framework as well as on public sector management.

2.28 The PSMAC counterpart team was led by the Minister of Finance, who oversaw implementation. IDA assisted the government by providing an implementation plan. However, some components of the credit were not adequately phased in. This led to delays in implementation. It is likely that those delays led to delays in acquiring benefits. The areas in which there were considerable delays in implementation related to the HIF and to reducing costs and targeting coverage, as well as to the establishment of a second pillar for pensions and wage compression that was needed to relate efforts and responsibility to rewards, particularly in the upper echelons of the civil service, rather than a fiscal problem related to the wage bill.

2.29 In the 20-month period between Board approval and project closing, five supervision missions were undertaken (one combined with the preparation of the PSMAL) after the September 2002 elections. Although five supervision missions were undertaken, only two formal project supervision reports (PSRs) were prepared in 2002 and 2003. The first report was written before the credit became effective. The second PSR it was done only a month after the project was made effective. A new government, which was elected in March 2003 and more committed to reform, had come into power. It had signed a Stand-by Arrangement with the IMF that constituted compliance with the PSMAC

[1] Letter from the Minister of Finance, Republic of Macedonia to Ms. Sandra Bolemenkamp, November 9, 2005

condition of a *satisfactory* macroeconomic framework. The relative success of the PSMAL compared to the PSMAC owes much to that new government.

2.30 Many factors made the implementation of the project difficult. Some of them were outside the control of the government or the implementing agency. Economic setbacks such as the decline in GDP by 4.5 percent in 2001 and the very slow GDP growth of 0.9 percent in 2003 also limited the freedom of the existing government to implement the project. The government that came into power in 2003 had a mandate to undertake reforms that facilitated the implementation process. Some factors within the government's control did not help with implementation because of the preference in certain quarters for more opaque methods of resources allocation. Thus, the failure to reform the health sector reflects the influence of vested interests that would not have benefited from the reforms. However, there was better implementation in the area of government financial management, such as the separation of the Treasury and PRO functions.

2.31 This PPAR finds that the credit could have had a more limited scope and should have confined itself to the core government budgetary control and allocation aspects and tackled the reforms later. This judgment is made on the basis that the Bank could have foreseen that fundamental reforms outside the central budget such as those attempted in the credit would not get the government's full attention. Government commitment was directed toward budget management. The ICR states that "in retrospect, the Bank may have been too optimistic in judging the government's commitment to reform in the health sector." The ICR notes that the government provided misleading documents to show compliance in the health sector.

2.32 With respect to pension reform, there were substantial problems. Problems arose with respect to the transition costs and the type of domestic assets that the pension agency could hold, among other technical difficulties. The ICR also notes that "essential preconditions for a successful second pillar were not in place and would not be for some time." It points out that the second pillar has remained a key element in restoring the actuarial soundness of the pension system and that the laws and organizations put in place by the PSMAC would be put to good use at a future date.

2.33 There was some backsliding by the FYR of Macedonia when it raised public sector wages. The Bank was not ready to sign the credit because it considered this move problematic; *inter alia*, it was unclear that a satisfactory macroeconomic situation was attainable. However, it did sign when an IMF Stand-by Arrangement was negotiated, thus avoiding a standoff situation. The Bank decided to go ahead with its original conditions to avoid jeopardizing relations with the country; it believed that some of the backsliding could be handled with the PSMAL, which was in the pipeline. This raised the issue of a political economy judgment, because reforms are more often possible when they are episodic and opportunistic than when they are part of a well-planned operation that attempts to take into account every contingency. This PPAR finds that the Bank acted correctly in the circumstances and was able to work well with the new reform-minded government.

2.34 The above problems do not detract from some of the achievements of the PSMAC—that did put in place laws, organizations, and agencies that could work to realize the objects of the credit: modernize and streamline government organizations that oversee decision making with respect to sound fiscal policies; improve resource allocation processes; and secure financial accountability. However, the objectives sought by the credit were not fully realized..

Ratings

Outcomes and Assessment

2.35 The PSMAC was a significant step and the first in the series of three operations to improve public sector management. It was designed to help the government take control and allocate public resources in line with the country's priorities and improve service delivery in the key social sectors. Its main outcomes have to be judged in terms of the principal components that dealt with improved budget management, reform of the health sector, improvement of the delivery of social services, and reform of the civil service. Undoubtedly, these were crucial elements in the first generation of reforms associated with the transition of a planned economy to a more market driven one. The objectives of the credit and its components were not changed during the course of implementation, even though the credit was delayed.

2.36 The most important contribution of PSMAC was that it laid the legal basis for building key institutions and strengthening accountability, transparency, and efficiency in the use of public services. It was more successful in areas relating to budget management than in its other components.

2.37 The ICR indicates that the aims of the PSMAC were fairly modest in relation to the reforms identified in the PEIR. However, it was not a modest operation in relation to the conditions prevailing in the country at the time. Consequently, this PPAR finds that the PSMAC may have overreached in not adequately taking into account the capacity of the government to undertake wide-ranging reform.

2.38 A simple counting of the main objectives, reforms to realize these objectives, and their subcomponents would find three components (counting public service reforms) and eleven subcomponents. However, each objective did not have equal weight. The principal weight (in percentage terms) was concentrated on central government administration and related budget management (74), compulsory pension and unemployment insurance (13), and health (13). Another detraction was that each component had a different level of ease or difficulty and the components obtained unequal government commitment. Most of the objectives of central government-related budget management did well. After the late 2002 elections, the new government was especially committed to this task. However, the pension and unemployment insurance components did not advance because of the difficult nature of their reforms. This difficulty had two principal elements. First, these were in the periphery of the Ministry of Finance. Second, there were some elements of resistance in the two sectors to smoothing implementation. Although there was a clear need to tackle the problems in health and pension funds, these could have been taken up later, once the principal focus of the credit (to improve central budget management) was achieved or was well on the way to being achieved.

2.39 In this sense, the aims of the credit were not "fairly modest," contrary to what the ICR states. In addition, given that the PSMAL was planned as a second stage, the reform of the health sector and the second pillar pension could have been taken up by the PSMAL. These two issues had to be addressed, because together they constituted a large drain on the budget. However, getting central budget management in place would have given a better focus to the credit and limited the overreach that it seemed to have made on a wide and difficult reform effort.

2.40 Civil service reform also proved to be a difficult area. Here again, vested interests played a role, particularly with respect to the much-needed decompression of the salary structure. In addition, the government needed to stay within the budget envelope of the IMF Staff Monitoring Program, which had constrained it from undertaking the salary decompression planned in the 2003 budget. Instead, that decompression had to be pushed to 2004, at which point more watered-down reforms than those that were visualized at appraisal were undertaken. It is now well documented in most public reform programs that civil service reforms prove to be the most difficult. The FYR of Macedonia was not an exception in this respect.

2.41 Thus, although there was a modicum of budget management improvement, there were large lapses in other components, such as pension and unemployment insurance, health, and civil service reforms as discussed in detail below. The credit fell significantly short of its objectives but relevance was high. Accordingly, overall outcome of PSMAC is rated as *moderately unsatisfactory*.

Outcomes by Objectives and Components

Budget Management

2.42 **Development of Budget Management Institutions**: The legal basis for this subcomponent had been created earlier with the Law on Budget and Financial Management, and the Rules of Procedures for the Operation had also been adopted earlier. On that basis, the Ministry of Finance, including the General Secretariat, had to be restructured, the procedure changed, and staffing increased, all of which were supposed to allow the Ministry and its agencies to consider policy trade-offs within a given macroeconomic framework. As a condition of Board presentation, the Minister of Finance was required to approve the implementation plan for reform and commit the government to increase staffing in key agencies, including the budget department, Treasury, Internal Audit, SAO, and the Public Administration Reform (PAR) unit. There was progress in some key elements, such as putting in place key institutional units, but there were also a few shortfalls. For instance, (a) the implementation of this new plan was delayed and the role of the General Secretariat in defining criteria for the selection of new policy initiatives was superseded by the Ministry of Finance in preparing the 2004 budget; (b) the SAO did not focus on budget priorities until after 2004, when the credit was closed; and (c) most of the planned improvements in budget management were undertaken only with the PSMAL. Efficacy for this subcomponent is rated as *substantial*.

2.43 **Strengthening Control of the Wage Bill**: As a condition of Board presentation, the Ministry of Finance was required to create and put into operation a database to track employment and salaries, linking individual salary payments to a registry of public employees by budget user. The wage bills in public agencies had routinely exceeded budgeted amounts and carried a high potential for expenditure expansion, and there had been no adequate mechanism to monitor wages and employment in the public sector. Under the PSMAC, significant progress was achieved in this area, as indicated by the CFAA. This subcomponent is rated as *substantial.*

2.44 **Development of Treasury Functions**: Under the PSMAC, there was an improvement in budget execution when the former bureau of payments (ZPP) was dismantled. The single Treasury account established in the Ministry of Finance provided the payment services for the public sector. A process was set up under PSMAC to create a centralized system of tracking transactions and registering payments, validating them, and authorizing payment to be made by the National Bank of the Republic of Macedonia (NBM). During the implementation of PSMAC, some 16 of 34 districts were brought into the system. But many transactions remained outside the system, and not all the agencies and public enterprises used the single Treasury account at the NBM. Thus, the Treasury's expenditure controls remained weak. Efficacy for this subcomponent is rated as *substantial.*

2.45 **Development of the External Audit Function:** The SAO was established in 1997, but it had not been used adequately and remained understaffed. As a result, its audit coverage was limited. SAO audits were spread thin; a more risk-based strategic approach to auditing, with better trained staff, was required for it to be effective. Despite an amendment to the State Audit Law increasing SAO's independence, there was little progress under PSMAC, given the size of the task and the limited resources available to the SAO. Consequently, the issue was moved to the PSMAL when legislation was passed to focus on entities that posed higher fiduciary risks. Efficacy for this component is rated *modest.*

2.46 **Strengthening Tax Collection**: The law establishing authority of the PRO for revenue collection was passed earlier. The PRO, Ministry of Health, and Ministry of Labor and Social Policies (MLSP) were to assume ZPP functions based on an agreed plan and the PRO was to develop a performance monitoring system for value-added tax (VAT) and non-VAT collections. The PRO had established a sound tax collection system, and revenue collection risk was minimized through the procedures for registering, reporting, and transferring receipts to the NBM with no cash collected. However, there was still a problem of tax arrears with firms that were undergoing bankruptcy proceedings (from which some taxes remained due) and firms that had VAT arrears. Although some procedural improvements made under the PSMAC were successful, tax collection remained weak. Because the institutions and processes were in place while collection remained weak, efficacy for this subcomponent is rated as *substantial.*

2.47 **Modernization of the Budget Process**: PSMAC-related budget reforms were expected to modernize the budget process to create a system in which budget decisions would be made on the basis of well-defined policy trade-offs within a sound macroeconomic process. When the project was appraised, only a weak condition was required to be an "IDA-acceptable budget" in 2002. The government at the time did not incorporate the recommended improvements for the 2003 budget that were prepared in

2002. No user ceilings were set, expenditure guidelines were ignored, and many budget users exceeded the approved budget allocations. It was only in 2004, with the implementation of the PSMAL, that ceilings were set and hard budget constraints were introduced. Efficacy for this component is rated as *negligible*.

2.48 **Implementation of Fiscal Impact Assessments**: Although the PSMAC had required the government to adopt a methodology to estimate the cost for all policy proposals (laws, regulations, and resolutions), such a process, in which all proposals that had a fiscal impact were to be submitted to the Ministry of Finance, were in place at the end of 2001. Although such a methodology was accepted as a condition for Board presentation, follow-through was less-than-satisfactory. When the methodology was adopted in a few cases, it did not provide accurate estimates of policy costs and hence had no influence on policy. Efficacy for this component is rated as *negligible*.

2.49 **Divestment of Non-Core Activities:** The PSMAC required the government to approve a divestment plan for these activities, but because few candidates emerged through its extensive functional analysis, it was applied to minor areas such as catering activities. So although the condition was met in legal terms, it did not serve the purpose of reducing government expenditures and activities. Efficacy for this component is rated as *negligible*.

Budget Management in the Health Sector

2.50 **Introduction of Perspective Global Budget Contracts for Health Institutions:** Regarding the goal of improving budget management in the health sector, the PSMAC required the government to change the financial relationship between the HIF and public individual health institutions; this meant that the government would work toward a global budget at the beginning of each fiscal year rather than reimburse institutions based on arbitrary costs (for example, wage bills and utilities, among other costs). This move was meant to help these institutions be discrete in allocating their expenses and remain eligible to receive modest bonuses as inducement to improve their own performance. As a condition of Board presentation, the government was to develop these contracts with all health institutions. The Letter of Development Policy had stated that the HIF had completed the process of contracting with health insurance institutions with performance indicators for each public hospital included in the contracts. However, in fact, HIF had not approved such contracts. In addition, the language in the Macedonian version of the by-law was different from the version submitted to the Bank, thereby leading the Bank to an erroneous conclusion. Consequently, efficacy for this component is rated as *negligible*.

2.51 **Budget Planning and Control:** PSMAC aimed to improve planning and control in the HIF and to integrate the review and presentation of the HIF budget into the government's budget process. This goal arose from the large expenditure needs of the sector and the government's need to contain health sector costs. Toward this end, the HIF was to prepare guidelines for the 2002 budget that were *satisfactory* to the Minister of Finance, as well as a new general ledger *satisfactory* to the Ministry of Finance and IDA. It turned out that the HIF had not taken steps to ensure that actual expenditures were in line with the budget. Consequently, efficacy for this component is rated as *negligible*.

Budgeting and Policy Reform in Social Protection

2.52 **Introduction of Second Pension Pillar:** PSMAC had suggested the creation of a second pillar for pensions, given that the existing system was not actuarially sound. The second pillar was to be mandatory for new hires and voluntary for existing workers with a defined contribution–based, privately managed system. By Board presentation, the second pillar was to have been presented to Parliament. This was done, and the Law of Mandatory Funded Pension Insurance was passed in April 2002 and a Pension Supervisory Agency was established later. However, in practice, there was a need to address transition costs and identify suitable investment strategies and what domestic assets were eligible to be held by the Pension and Disability Fund. Consequently, action on the second pillar was put off and taken up in the PSMAL. Efficacy for this component is rated as *modest.*

2.53 **Employment Assistance Program:** The MLSP prepared a multiyear action plan to rationalize the unemployment registration system, improve financial management and internal control, streamline benefit delivery, and establish a set of performance monitoring indicators. By Board presentation, substantial progress was to have been made on its implementation. Although some progress was made, its impact has been negligible. Employment Bureau staff were largely preoccupied with the administration of health insurance coupons to the registered unemployed. Efficacy for this component is also rated as *modest* because the effort was made but results did not materialize.

Civil Service Reforms

2.54 **Establishment of a Legal Framework** for a professional, politically neutral, and merit-based civil service and the creation of an arm's-length organization, the Agency for Civil Servants (ACS). The law provided the basis to create a professional, politically neutral, meritocratic civil service, and the government undertook two sets of actions: the creation of ACS, which reported to the Parliament to oversee the implementation of the law, and a new points system for determining salaries, which was to make systematic distinctions between position and structure remuneration (particularly at higher levels of the civil service) to enhance the competitiveness of salaries. Subsidiary legislation was put in place to spell out, among other things, the criteria, standards, and procedures for the employment and selection of civil servants, as well as procedures and criteria for evaluating the performance of individual civil servants. Enactment of the Law on Civil Servants was a core condition of Board presentation.

2.55 Despite the law and the creation of the ACS, sectoral ministries and other public institutions were able to bypass the recruitment provisions of the Civil Service law, hiring staff for civil service positions without competitive exams or review by the ACS. Moreover, the new wage structure was not implemented. Salary decompression was originally scheduled to occur in 2002. Because of fiscal consequences, however, the date was postponed until 2003 and then further postponed during budget negotiations with the IMF. The component was taken up in the PSMAL. Efficacy for this component is rated as *negligible.*

Relevance

2.56 The National Development Strategy for the FYR Macedonia indicated the country's commitment to completing the transition to a market economy encouraged by the prospect of joining the EU early in the decade begun in 2000. The Bank Group's TSS for 2001-2002 outlined a program of support for the three priority areas: promoting private sector growth and job creation, enhancing the efficiency of the state, and alleviating poverty and developing human capital. The country was to build on first-generation programs aimed at strengthening front-line social services: basic health care, primary education, social assistance, and labor services. While expanding these programs, reforms were to focus on deepening the restructuring of the public pension and health systems, launching private pension schemes, improving the targeting of the poor and adapting education systems to the market economy. PSMAC had the largest weight, nearly two-thirds, on enhancing the efficiency of the state and a third on social sector assistance.

2.57 The PSMAC had high relevance, as it was closely related to other documents such as the TSS for 2001-2002. Both documents emphasized increasing the capacity of the state to deliver core services and rationalizing public expenditures and reforming the civil service. These involved the basic reform of some existing institutions, creating new agencies, and passing enabling legislation. In other words, the reforms were intended to transform an economy that had earlier practiced market socialism (under the former Yugoslavian economy) to a more price-determined market, which required good control of public expenditures and their allocation within a sound macroeconomic framework. The budget management reforms supported both the macroeconomic management challenges as well as the delivery of more efficient public services.

2.58 The 2000 PEIR in particular provided a detailed analysis and identified the reforms, institutional change, and procedures needed to help the country attain its development objectives. It provided a sound analysis of the issues relating to public expenditure and institutions and provided guidance in building the necessary capacity at the central government level to implement the reforms and strengthen and sustain fiscal discipline within a strong accountability and transparency framework. It also provided guidance to implement strategic prioritization within a fiscal plan; improve efficiency in program and service delivery; and create a meritocratic, performance-based civil service capable of supporting the reform strategy.

Risk to Development Outcome

2.59 The risk to development outcome is rated as moderate.

2.60 The project was undertaken at a time of political and economic uncertainty as described in the sections above. Because the FYR of Macedonia as a part of the Socialist Federal Republic of Yugoslavia was a former centrally planned economy (even though it attempted to simulate market prices in it planning framework), it had to make strong and far-reaching institutional reforms to move to a more market-driven economy.

2.61 Those components in the direct purview of the Ministry of Finance were easier to achieve because of the central nature of the reform endeavor. Others, such as health, pension, and civil service reform, were more difficult to achieve, particularly in a short time period. However, once the enabling legislation, such as that associated with the budget, was passed and implemented, components could and did have an important effect on the economy. For that reason, the sustainability of many of the principal components is likely.

2.62 The first PSR identified the risks to successful implementation from political pressure. These risks did materialize, leading to the delay and only partial fulfillment of the plan. Also, it is noted in the PSR that the medium-term nature of the reform effort could lead to a loss of commitment by the government. This is a frequent dilemma of adjustment loans, which have a short-term focus whereas the reform agenda, especially involving institutional change, need a longer time span, creating a time-consistency problem. In addition, the IMF Staff-Monitored program had assessed the implementation of the stabilization program as *satisfactory* during its first three months, but this went off track because of the government's compensation of depositors in a pyramid scheme and an increase in public sector wages.

2.63 The main justification for the credit was, in fact, to develop institutions that could put the public sector on an improved path to delivering services and maintaining fiscal stability. The extent to which these institutions were reformed and, in the case of some, created, helped reduce the risk to the development outcome. Although not all objectives in this regard were achieved before the project was closed, the project was not intended to be implemented over a long period. Thus, only limited areas of institutional reform were achieved during the project, but these were crucial for providing the basis for future reform. It is now well known in adjustment operations in specific circumstances and in general that institutional development takes time. Perhaps a one tranche operation like the PSMAC was not the ideal instrument to achieve this. However, a quick disbursing adjustment loan could have been deemed necessary, as the economy remained depressed following external shocks and the domestic ethnic conflict that led to the Bank extending IDA terms.

2.64 There was some institutional change, but there was still a significant unfinished agenda for institutional change. These institutional changes were led by the development of budget institutions and the changing of the nature of management to operate within a macroeconomic framework. Although the relevant laws and agencies were created, not all budget formulations followed this path in the initial years. The other significant institutional change that had an impact over time related to development of Treasury functions that led to a single integrated account, establishment of the SAO, and strengthening of tax collection. There were short-term problems, such as the understaffing of the SAO, continued extra-budgetary expenditures, and limited divestments of non-core activities. Nevertheless, compared to the pre-reform situation, there was some significant progress, and over time the agencies became more effective and institutions had a good pay-off.

2.65 In the health and social protection areas, too, enabling legislation was passed and contracts signed, but planning and budgeting remained weak in the short term. However, an improved system had been put in place that strengthened management in these sectors. A fundamental institutional change was made in the civil service reform, again beginning with relevant legislation but with short-term implementation of the new provisions being delayed.

Bank Performance

2.66 The Bank's performance is rated as *moderately satisfactory* in this PPAR, in contrast to the ICR review's rating of *satisfactory*. This evaluation takes into account the fact that the quality at entry was deemed *moderately satisfactory*. This PPAR rates quality at entry as satisfactory, given that the credit addressed a well-defined objective of enhancing the efficiency of the state. In addition, the credit was largely based on the 2000 PEIR, which had been thoroughly discussed with the government, and its implementation risks were similarly addressed. The PSMAC was the first stage in what appeared to be a three-stage program to improve the efficiency of the state. The fact that some of its components were not achieved before the project was closed cannot be attributed to any deficiency in quality at entry but rather to the unanticipated political shocks and negative macroeconomic shocks following the ethnic disturbances. However, it seems to have been somewhat ambitious to have so many components, each of which had challenging subcomponents that did not have sufficient commitment from the government. Similarly, the Bank may have been overambitious in design—some elements would have been harder to achieve in the best of circumstances because they are innately difficult because of entrenched interest. Some of the problems that arose were more from the side of the country and the government. The country was going through a number of transitions other than its economy, including transitions to a new set of political arrangements following the ethnic crisis. Fourteen months passed before the new government settled in. Fortunately, it was more reform-minded and had won the election on the platform of reducing government corruption and delivering better public services, among other issues.

2.67 The ICR notes that the project's ambitions were suitably modest. However, this report disagrees because of the number of issues the project attempted to handle, its many subcomponents, and the changing circumstances in the country. If not for the IMF Stand-by Arrangement negotiated by the new government, the project would have been postponed even longer, until a macroeconomic framework acceptable to the Bank came into being.

2.68 Consequently, this PPAR finds that the credit could have been more limited in scope, confined itself to core government budgetary control and allocation aspects, and tackled health and civil service reforms later. This judgment is made on the basis that the Bank could have foreseen that the government would be more preoccupied with the implementation of the FA and that fundamental reforms outside the central budget such as those attempted in the credit would not get its full attention. Supervision of the project is considered inadequate as there were only two formal supervision reports.

Borrower Performance

2.69 The project was prepared and was to be implemented in a difficult political and economic climate. The ethnic conflict and its aftermath distracted the government from paying full attention to public sector reform which, in the judgment of this PPAR, was complex given the poor initial conditions of the existing institutional, organizational, and staffing arrangements. In addition, there was no complete agreement within the government about the different components of the credit and the extent of reform and institutional change that it was prepared to undertake, given the circumstances. The ICR notes that there was conflict between the Ministry of Finance (which was in charge of budget and treasury reforms) and the Ministry of Justice (in charge of civil service reforms); there was likely less commitment from the Ministry of Health for both political and technical reasons. As this PPAR noted above, the extent of commitment varied by the type of component and the ministry or agency that was charged with the responsibility of implementing different reforms. Commitment by the Ministry of Finance was the strongest and by the Health Ministry the weakest. The latter would have been more difficult, given the chaotic nature of the health system and the problematic payment regime for services and pricing of pharmaceuticals, all of which were challenging areas. The government at the time presented a Letter of Development Policy agreeing to all the components and subcomponents that the credit aimed to achieve. However, within a very short time, the government's commitment to reform waned and many of the components, particularly those outside the immediate purview of the Ministry of Finance, were not pursued adequately.

2.70 As noted above, the reform of the budget institutions proceeded better than the others. The areas for which the Ministry of Finance was responsible were able to go ahead with the reform agenda. But both the Ministry of Justice (civil service reform) and the Ministry of Health (health reforms, particularly the functioning of the HIF) seemed less committed and were dealing with more difficult areas, perhaps with less fiscal capacity than the Ministry of Finance. That ministry was also the main interlocutor for work with the Bank. It is instructive that there was progress in these two areas only after the PSMAL attached conditions to them.

2.71 The Dutch Trust Fund (DTF) provided around $3.8 million in technical assistance. A specially established Project Implementation Unit (PIU) was responsible for managing the PSMAC's Dutch funds. This unit lost its staff after six months, which created a problem for project implementation. Consultations with the Dutch authorities helped resurrect the unit. With this DTF help, the PIU performed very well.

2.72 Given the shortcomings noted in both government commitment and in implementation, this report rates borrower performance as *unsatisfactory*. This compares with the ICR rating of *moderately satisfactory* and concurs with the IEG rating in the ICR review of *unsatisfactory*. The PPAR rating takes into account how these sectors performed beyond the closing date with more available data.

Public Sector Management Adjustment Loan (PSMAL)

2.73 The follow-up to the PSMAC, the PSMAL, became effective in 2004. It was held up at the start, because of the delay in PSMAC implementation. The government could not meet the conditions of the PSMAC. Although the World Bank Board approved the credit in April 2002, it became effective only in May 2003. The delay was caused by the deterioration of the macroeconomic situation. The credit was made effective following the Standby Arrangement signed with the IMF, which covered the period May 2003 to June 2004.

2.74 The PSMAC and PSMAL were closely related. They addressed the priorities of the government in a given period (2001–06) and were sequenced to carry out the reforms starting with PSMAC. They were also both based on similar and closely related analytical work with the theme of improving public sector management in the FYR of Macedonia.

2.75 Preparation of the PSMAL began after the new government took office in March 2003. The loan design benefitted from the analytical work done under the CFAA, the CPAR, and the PEIR; these were also the basis for the PSMAC. The Stand-by Arrangement put in place a strong macroeconomic framework with specific targets for public revenues and expenditure, fiscal deficits, and related domestic credit and foreign borrowing targets.[2]

2.76 The PSMAL was an adjustment loan for $30 million (double that of the PSMAC) with two tranches, with $10 million to be disbursed with the first tranche and $20 million disbursed when the second tranche conditions were met. It was a single currency loan at the Bank's standard LIBOR-based interest rate, with a 5-year grace period and 17-year maturity. Board approval was in May 2004 and the closing date in June 2005. The project had a 70 percent concentration in central government administration and 30 percent in health, public expenditure, financial management and procurement, administrative and civil service reforms, health system performance, and improving labor markets. The PSMAL was the second in a series of three adjustment loans (the PSMAC was the first and a PDPL, approved by the Bank Board in late October 2005, was the third); this operation aimed at higher economic growth and greater job creation through the improvement of the investment climate and governance and efficiency of the public sector.

2.77 The main thrust of the PSMAL was improving public sector management in the FYR of Macedonia. The loan pursued six objectives or major areas of reform:

2.78 **Budget formulation**: To increase the usefulness of the budget as a policy instrument and to ensure that the government would be capable of formulating a budget within macroeconomic constraints. As PSMAC had noted, the budget process of the FYR of Macedonia had traditionally been based on unrealistic revenue projections and an ad hoc and opaque process of negotiation among major budget users. The challenge was to ensure that budgets were prepared on the basis of realistic macroeconomic parameters and that fixed spending ceilings were imposed on individual budget users early in the budget process.

2.79 **Budget Execution**: To strengthen Treasury control over spending commitments and extra budgetary funds. Reforms in treasury operations undertaken in the PSMAC were not fully implemented. Hence there was the need to strengthen controls over expenditure commitments and consolidate extra-budgetary funds (EBFs) under a single account in the Treasury. This was what was attempted in the PSMAC, but EBFs persisted.

[2] IMF Staff Report for the 2006 Article IV consultation notes, "World Bank and IMF engagement in FYR Macedonia in recent years has been marked by a spirit of collaboration and cooperation between the two institutions and with the Government" (page 530).

2.80 **Audit**: To establish an internal audit department in the Ministry of Finance and units in other key government agencies and strengthen the SAO's ability to focus on high risk entities. The new government had promised to bring down corruption. The operation was initiated by the PSMAL (not found in the PSMAC) and began by strengthening the internal audit unit in the Ministry of Finance and establishing new internal audit units in agencies that posed major fiduciary risks. Legislation governing the SAO had to be revised so it would focus on high-risk government agencies. The SAO was required to publicize its findings and report on the government's efforts to correct them. Problems in financial mismanagement were widespread in the health sector, particularly in the HIF. It was necessary to tighten internal HIF controls.

2.81 **Procurement:** To support the enactment of a new procurement law and the creation of a specialized procurement bureau in the Ministry of Finance. The new law sought to reduce political interference in contract awards. This was initiated by the PSMAL and not found in the PSMAC. A new public procurement bureau was to be established and staffed in the Ministry of Finance to monitor the law's implementation. Data on all recent government procurements, as well as the findings of the Public Procurement Complaints Committee, were published monthly. The government was to shift its system for procuring government-subsidized pharmaceuticals to one based on international competitive bidding.

2.82 **Civil Service Reform**: To create a mechanism to enforce civil service hiring requirements and introduce a uniform, decompressed salary structure for civil servants. The government was also to address more fundamental causes of public service failure and weakness in macroeconomic management. At that time, many senior positions were filled by underqualified and unmotivated staff. Although an adequate civil service law had been enacted during PSMAC, it was not enforced. The new government introduced a payroll-based mechanism to ensure that civil service regulations were enforced. Salaries for higher-level civil servants were to be decompressed, consistent with overall macroeconomic constraints.

2.83 **Social Sector Expenditure Management**: To improve social sector expenditure management by undertaking specific reforms aimed at reducing the costs and increasing the effectiveness of spending on hospital care, pensions, and social assistance. To strengthen incentives for the efficient operation of public hospitals, the legislation governing the financial relationship between the HIF and individual hospitals was to be revised. It was also intended to streamline the procedure for issuing insurance cards to the registered unemployed and to investigate more cost-effective means of financing health insurance for this segment of the population. With respect to pensions, it had to improve the collection performance and financial management in the Pension and Disability Fund (PDF) and revise its accounting, budgeting, and internal control procedures to comply with international standards. It was also to revise legislation to remove impediments to the tracking and enforcement of individual contributions. Through linked donor support, the operation supported technical assistance and policy studies aimed at improving the administration and targeting of health insurance subsidies, pension contributions, social assistance, and child allowances.[3]

IMPLEMENTATION

2.84 The loan had 31 conditions. Sixteen of them were to be met at effectiveness, when $10 million was to be disbursed, constituting the first tranche (see Box 1). The other 15 conditions were to be met before the closing of the project, in which $20 million was to be disbursed for the second tranche disbursement. In the implementation, the first tranche was disbursed in August 2004 and the second tranche in June 2005. The project was closed on schedule on June 14, 2005. Compared with the PSMAC, the PSMAL was more specific in nature because some of the institutional and legal areas were included in the first operation. All 31 conditions were met before the closing date.

2.85 Implementation was smoother for the PSMAL than for the PSMAC for several reasons. First, the new government that came into power in 2003 was committed to reforms; it had won the election on a platform of reducing corruption and increasing the efficiency of the state. Second, there was a more favorable political background for the second operation, as the disruption from the ethnic crisis was settling down. Third, the new government had its commitment to reform enhanced by a Stand-By Arrangement with the IMF in which fiscal policy was tightly programmed and monitored. Thus, expenditure and revenue issues were tied to a monitored foreign assistance agreement, strengthening the government's ability to implement the reforms. Fourth, the Bank and the IMF worked closely, as noted below.[4] The provisions of the PSMAL were included within the Stand-By Arrangement targets. Fifth, both the Bank and the borrower had learned from the earlier loan. Sixth, the PSMAL had Ministry of Finance leadership, with good leaders in different departments and agencies. There was little or no rivalry between ministries, as there had been in the earlier operation. Finally, the prospect of accession to EU had gathered momentum with peace restored and the changes in law and the institutions made in accordance with EU requirements.

2.86 Unlike the earlier operation, there were no delays caused by the absence of a *satisfactory* macroeconomic framework. That meant that there was no delay in declaring the effectiveness of the operation, despite the 14-month hiatus caused by the unsustainable fiscal situation in 2002.

2.87 The Ministry of Finance provided advocacy within the government and strong technical inputs to the major components with one or two exceptions, such as the HIF, which was not within its purview. In these areas, there was closer supervision and more effort by the Bank. Also, the implementation of PSMAL was centralized and not diffused. A separate PIU had been in place since the start of PSMAC within the Ministry of Finance

[3] The ICR did not include social sector management as a development objective, but the program document presented and discussed at the Board includes it as an element in the government agenda for public sector reform. It is the sixth element in that agenda. This PPAR treats it as an objective because health insurance and pension reform were important objectives identified in the PSMAC, and PSMAL continued that reform (see p. 2 of the ICR and p. 27 of the program document presented to the Board on May 13, 2004).

[4] International Monetary Fund, FYR of Macedonia Staff Report for the 2006 Article IV Consultation, p. 53.

to administer the DTF. This expertise contributed significantly to the successful implementation of PSMAL.

2.88 The PSMAL had a better focus and well-defined objectives. Like the PSMAC, the main thrust was to increase the efficiency of the state by strengthening fiscal discipline with elements relating to budget formulation and execution, civil service reform, and social service expenditure management. As with the PSMAC, greater weight was on central budget-related issues, including procurement and audit. Issues related to the social sector received less than a third of the weight. This operation had a more direct connection to poverty reduction, as it dealt with health insurance and social assistance in greater detail.

WORLD BANK SUPPORT AND GOVERNMENT PRIORITIES

2.89 The National Development Strategy for Macedonia reaffirmed the country's commitment to completing the transition to a market economy and acceding to the EU within the coming decade. The Bank's TSS for 2001-2002 outlined a program of support for the three priority areas outlined in the national strategy:

2.90 *Promoting private sector growth and job creation.* Reforms were to focus on improving post-privatization corporate governance, enhancing the business environment, strengthening judicial and regulatory systems, attracting foreign investment, and increasing financial sector discipline and competitiveness. Growth was to be the main vehicle for employment generation, facilitated by an employment strategy aimed at eliminating remaining labor market rigidities, thus reducing the cost of labor and providing active labor market services.

2.91 *Enhancing the efficiency of the state.* Priority was on rationalizing public expenditures, restructuring state institutions, reforming civil service policies, and redefining the scope of state intervention in the economy. The capacity of the state to deliver core services effectively was to be strengthened, while its dominant role in areas such as infrastructure provision was to be reduced.

2.92 *Alleviating poverty and developing human capital.* The country was to build on first-generation programs aimed at strengthening front-line social services: basic health care, primary education, social assistance, and labor services. While expanding these programs, reforms were to focus on deepening the restructuring of the public pension and health systems, launching private pension schemes, improving the targeting of the poor, and adapting education systems to the market economy.

2.93 The PSMAC addressed the priority area of enhancing the efficiency of the state consistent with national strategy. These same priorities were carried over to the 2003 CAS for the 2004–06 period in which PSMAL (2004) was negotiated and became effective.

RATINGS

Overview

2.94 The PSMAL had a better focus than the PSMAC and better-defined objectives. Like the PSMAC, the main thrust of the PSMAL was to increase the government efficiency by strengthening fiscal discipline, with elements relating to budget formulation and execution, civil service reform, and social service expenditure management. Also as with the PSMAC, greater weight was on central budget-related issues, including procurement and audit, which received 70 percent of the weight. Issues related to the social sector received 30 percent. This operation had a more direct connection to poverty reduction, as it dealt with health insurance and social assistance in greater detail. As discussed in detail below, there were important shortcomings in efficacy in the health and pension sectors, but relevance was high. Accordingly, the overall outcome is rated by this report as *moderately satisfactory.*

Outcomes by Objectives and Components

2.95 The outcomes of the six key objectives/components are summarized below:

2.96 **Budget formulation**: Some 70 percent of budget users adhered to these ceilings. Of the remaining 30 percent, over time, some 70 percent had their budgets reduced to conform to the ceilings. This was implemented in 2004 and 2005. Monitoring indicators show that budget discipline had continued to improve. The IMF Stand-by Arrangement and the exchange rate based stabilization required strict fiscal discipline with a projected 0.6 percent fiscal deficit that was projected from 2006. Unlike in the past, the PSMAL was able to support budget formulation within a well defined envelope where the Ministry of Finance determined a sustainable ceiling for total expenditure and fixed ceilings for all first line budget users. PSMAL helped to initiate budget reforms with the 2004 budget cycle to lead to hard budget ceilings (the PSMAC requirement had a soft condition of IDA-acceptable budget). This component is rated highly satisfactory.

2.97 **Budget Execution**: The government consolidated budgetary transactions in a single Treasury account. Some 16 designated first-line budget entities provided coded information to a centralized database at the NBM. This information allowed the Treasury to track payments and monitor and validate requests for payments as well as implement commitment controls for high-value contracts that had to be approved by the Minister of Finance. It led to better control of expenditure on a multiyear basis. In the past, control of commitments was weak, leading to a significant proportion of expenditure commitments with EBFs. Consequently, EBF exposure to weak private banks was reduced and over the longer term the government could use EBF deposits for liquidity management. Efficacy for this component is rated as *substantial.*

2.98 **Audit**: The Law on Internal Audits, the legal framework for internal audit, was strengthened and was consistent with the EU Public Internal Financial Control System (PIFCS). An internal audit oversight unit was established at the Ministry of Finance and extended to other first-line budget users, including the HIF and a few others. Legislation governing the SAO was revised to permit it to focus on high-risk government agencies.

The SAO publicized its findings and reported on the government's efforts to correct them on the Internet. Financial controls including those in the HIF and health sector were tightened. Efficacy for this component is rated as *substantial*, as full financial control was not achieved by the closing of the project.

2.99 **Procurement:** A new law on public procurement was enacted (as a condition of the second tranche disbursement); it addressed the flaws in the existing legislation that had allowed accelerated procedures to circumvent transparent procedures and had given an advantage to favored bidders. A new Public Procurement Bureau was established and staffed in the Ministry of Finance to monitor the law's implementation. This was done as a condition of the second tranche disbursement, as the Public Procurement Bureau had become fully functional. Data on all new government procurements, as well as the findings of the Public Procurement Complaints Committee, were published monthly and this information was posted on the Internet. The government shifted its system for procuring government-subsidized pharmaceuticals to one based on international competitive bidding. This component is rated as satisfactory.

2.100 **Civil Service Reform:** A new organic budget law was passed to ensure that no new employee could be registered on the government pay roll without a review by the Civil Service Agency CSA to ensure that the position was authorized, and complied with the Law on Civil Servants (a first tranche condition for PSMAL) or the enactment of legislation to make this procedure permanent (second tranche condition). Also the "hold harmless provision" that had protected existing civil servants from having their salaries adjusted was replaced by an agreement to adjust salaries with overall salary decompression. It was begun in April 2004 and was completed on schedule (*satisfactory* progress on this score was a condition for second tranche release). Efficacy for this component is rated as *substantial.*

Social Sector Expenditure Management

2.101 **Hospital Care:** *Pharmaceutical procurement.* To help achieve this objective, pharmaceutical procurement was to be done through international competitive bidding as a condition for first tranche disbursement. Second tranche conditions required contracts with winning bidders to be signed, which was done by HIF. Although there were some initial problems, there was success in that costs of pharmaceuticals were reduced after competition was introduced to the system.

2.102 **Hospital Contracting:** the financial relationship between HIF and individual health care institutions was to be based on prospective annual budgets. Seventeen contracts were signed before Board presentation and as a second tranche condition, HIF analyzed performance under the contracts and suggested revising contracts.

2.103 **HIF Systems Audit and Action Plan**: A time-bound action plan was adopted to establish an appropriate policy base for an overall reform of the country's health care system. It imposed a fixed budget ceiling for health care institutions, established financial and service performance indicators for the institutions, and strengthened internal and external audits. Elements of this action plan were included as conditions of tranche release for PDPL because not all desired actions could be adopted.

2.104 Overall, efficacy for the health care component is rated as *modest.*

2.105 **Pension Reform**: Parliament amended the Pension and Disability Insurance Law and related legislation as a condition for first tranche disbursement. PDF developed regulations governing reporting requirements for the second trance disbursement. These actions addressed many problems that had arisen with the establishment of a second pillar under the PSMAC. However, the pension system has been recording increasing deficits throughout.[5] Efficacy for this component is rated as *modest.*

Relevance

2.106 The PSMAL was highly relevant. It addressed issues that were identified in the 2000 PEIR, the CAS for fiscal 2004–06, the CFAA, and the CPAR and formulated solutions that were developed in the work related to these documents. Moreover, because the PSMAL was the second stage of the program under implementation, it was able to carry through parts of the agenda remaining from the earlier project. In addition, the experience with the PSMAC was helpful in the design of the PSMAL.

2.107 The PSMAL supported the three pillars of the CAS: efficient and transparent management of public resources, promoting the creation of jobs through sustainable private sector driven growth, and promoting social cohesion through building human capital and protecting the most vulnerable. The CAS had envisaged a series of multisector development policy loans supported by specific investment operations. PSMAL emphasized procurement and audit, two new issues that were included in the loan to address these deficiencies in the PSMAC.

Risk to Development Outcome

2.108 The risk to development outcome is rated as moderate. The project had several features that ensured that the risks of not realizing the benefits of the project were moderate. Because this was the second stage of the reform program, the Ministry of Finance and other implementing agencies had more knowledge and experience about the different aspects of what the project aimed to achieve. Lessons from implementing the PSMAC also led to a more focused project design, which meant that it had less overreach than the earlier project. Moreover, in the design of the project, the tranche disbursements were back-loaded, creating time-phased incentives for the borrower to undertake the policy reforms and institutional changes. Thus, the PSMAL had better sequenced actions. In addition, the requirements to proceed were more concrete—for instance, in the reform matrix, key legislation required "parliamentary enactment" rather than "submission to Parliament."

2.109 Macroeconomic risks were also moderated because of the 2003 IMF Stand-by Arrangement, which put the macroeconomic program into a well-defined and monitored framework. This provided expenditure and revenue envelopes to ensure that the macroeconomic situation would remain stable during the three-year period of the Agreement. Another feature that ensured moderate risk was that many of the past

[5] IMF: Staff Report for the 2008 Article IV Consultation. FYR of Macedonia, November 18, 2008, p. 13.

spending agencies, such as the HIF, were now audited and payments were made from a single account. Wage decompression, which would raise the wages of some civil servants, remained within the expenditure envelope.

2.110 However, risk to development outcome was *not* negligible because some of the areas that the loan addressed were inherently difficult to tackle for political economy reasons. Entrenched interests in the health sector could create problems for smooth implementation. Similarly, civil service reform was fraught with risks, as those benefiting from the existing and compressed wage structure would resist change. This was the likely case with the implementation of the second pillar for the PDF. Under the PSMAC, this component had proved to be difficult to implement, but the attempt made with the PSMAL was better-focused and addressed the issue of transition costs and investment criteria.

2.111 Political risks within the country remained low, given that the civil strife of 2001 was largely resolved through the Ohrid Agreement. The risk from neighboring countries, which created a huge fiscal shock in the late 1990s, had been addressed through an internationally binding agreement.

Bank Performance

2.112 The Quality Assurance Group panel that reviewed the PSMAL rated it as satisfactory. However, this PPAR suggests that the project should have assessed the likely distributional and poverty impact of the operation. Further, the panel noted that the political economy risks and potential adverse social impact of the financing arrangements could have been spelled out. The project document indicated that the poverty incidence in the FYR of Macedonia was moderate, with only 7.5 percent of the population with per capita consumption below the international standard (less than $2 per day) and data from the Household Budget Survey also showing moderate poverty. The project noted that the political and implementation risk had declined because of the peace accord, the reduction in violence in neighboring countries, and the new government being more committed to reforms. This PPAR finds that, especially at the time the project went to the Board, it would have been difficult to give the likely poverty impact in quantifiable terms, although it seems clear that the direction of change was positive. Poverty could be reduced and political risks limited by better targeting of the benefits.

2.113 Overall Bank performance is rated by this report as *satisfactory*. The ICR review finds the main elements of the PSMAL *satisfactory*, and budget formulation and execution are found to constitute a substantial achievement. This PPAR agrees with that assessment. Other components of the outputs, with respect to procurement and civil service reform, are rated as moderately *satisfactory*. This PPAR agrees with that assessment as well.

2.114 Some of the components with respect to reform of social sector management proved to be more difficult because of the difficult nature of tackling these sectors (with questionable procurement practices in health insurance and pharmaceutical products and pension reform). A couple of elements in the social sector, such as the financial control of health care institutions, were reformed under the PDPL later.

2.115 Bank performance is rated as *satisfactory.* Identification, preparation, and appraisal were very good, based on strong analytical work that delved deeply into the former system. The PEIR, CFAA, and CPA all contributed to this good result. The project design, conditionality and tranching were sound. The project was very tightly designed. In the end, all the conditions were met because the government was highly committed to reform, and a supportive cabinet was led by the Minister of Finance. There were some disagreements within the government on civil service reform, a second pillar for the pension, and reforms in health, they were nevertheless carried through because of the government's commitment to the goals. It is also recognized that the team that prepared the project was strong and that the design itself was geared toward addressing the issues identified in the analytical work. The Bank saw the opportunity to carry through reforms in what are generally acknowledged as difficult areas (for example, civil service reform, procurement, and heath). The experience with the PSMAC was also instructive, helping the Bank team make good choices as to what particular areas were to be addressed and how to design the various components.

2.116 Project conditionality was tightly geared to the different stages and aspects of the loan, whether it was passing the necessary legislation, creating new institutions (for example, the Civil Service Agency), or designing delivery programs. Given that it was an adjustment loan, special consideration had to be given to the macroeconomic situation. The Bank staff coordinated well with the IMF in certain aspects of the reform, such as the second pension pillar, decompression of salaries, and monitoring financial transactions with the NMB acting as the government's bank. Under the PSMAC, there was some disagreement about the decompression of salaries that had to wait until 2004, as the IMF Stand-by Agreement could not accommodate an increase in expenditure associated with civil service reform. In retrospect, it turned out to also be a strategically good decision, as an agreement had to be reached with a majority of the civil servants who could not agree to have their salaries reduced. An implementation period of two years to smoothen the adjustment helped.

Supervision

2.117 Supervision was more intensive under the PSMAL than under the PSMAC. There were only two formal project supervision reports (PSRs) under the earlier operation. Under the PSMAL, there were five ISRs. The subject areas for supervision were more intensive, such as the drafting of the new procurement law, which required line-by-line advice from the team's procurement specialist. Similarly, there was close supervision of the pharmaceutical procurement process. This was because the support to the HIF required intensive supervision, given the difficult nature of the subject matter, with vested interests supporting the status quo and some key changes being made in the management of the HIF.

Borrower Performance

2.118 This PPAR also rates borrower as well as implementing agency performance as *satisfactory*. Led by the Ministry of Finance, the borrower provided strong counterpart support for the identification and preparation of the major budget reforms. The counterpart team had the larger responsibility of actually implementing the six-component program.

Of course, support from all parts of the government was not equal or even. This was to be expected because these areas have strong vested interests. A Minister of Finance who is committed to reform can help achieve a wide extent of reforms as the main interlocutor with the Bank, as was the case under the PSMAL.

2.119 The contrast between borrower performance under the PSMAC and the PSMAL was significant. PSMAC was implemented at a difficult time and dealt with issues that were being confronted for the first time, as in other transition economies. Support for different issues within the reform program was uneven. One example that is cited in both the ICR and the ICR Review is the health sector, where HIS regulations were not carried out as agreed and the version of the regulations presented to the Bank was different from what was written for the Parliament. Also, the implementation environment for was different, with the aftermath of the ethnic crisis still fresh in the minds of the policy makers, an impending election, and poor macroeconomic conditions that did not help the government undertake strong reforms. There was a hiatus in supervision for 14 months when the credit was effective. In addition, there were discontinuities in staff (for example, HIF) who were responsible for implementing some components in these sectors. There was also a lack of familiarity with international competitive bidding and strong opposition from vested interests, such as local pharmaceutical distributors, who opposed increased competition.

3. Slovak Republic: Public Finance Management Project: Country, Sector, and Project Context

3.1 This chapter analyses the Public Finance Management Project (PFMP) of the Slovak Republic. The project was a self-standing technical assistance project. The central theme of the Slovak operation was public finance management with a narrower focus than the Macedonian operations. One aim of the operation was to facilitate the country's entry into the EU. The Slovak Republic did become an EU member in 2004 and graduated from the World Bank in 2008 and joined the ERM II in the same year.

Country Context

3.2 The 1998 parliamentary elections brought into power a broad-based coalition that was more disposed toward stronger relations with the EU, the Organization for Economic Co-operation and Development, and international institutions. It systematically addressed governance issues and issues related to minority rights, the latter of which was a concern that had held up earlier accession to the EU. The government implemented an ambitious program of reforms with much success and won a second term in 2002.

3.3 However, the transition to a market economy has been fraught with difficulties of both a political and economic nature. The government recognized the challenges of building a modern market economy, reorienting the role of the state, creating modern institutions, and improving administrative capacity to handle the transition Consequently, the Slovak Republic opted for a speedy transition to market economy starting with public sector reforms supported by the World Bank and EU (Poland and Hungary Assistance for Restructuring the Economies [PHARE]). There was also popular support for some economic measures taken to improve the functioning of the markets that had reduced benefits to different groups in the past. A referendum in 2004 to limit the term of the government was defeated. This gave some leeway to undertake further reforms and to remain in power until 2006.

3.4 The country's resolve to join the EU as a full member was a dominant factor in providing an incentive for reform. The country joined the EU in 2004, joined the Euro Zone at the beginning of 2009, and graduated from the Bank at the end of 2008. Both economic and political factors contributed to that success. The public sector reforms that the government had been undertaking since 1999 and their acceleration since 2002, supported by the PFMP contributed to this success. The ICR review noted that the "government's success in designing and implementing a comprehensive reform program depended fundamentally on its capacity to strengthen the institutional framework in which these policies were conceived, decided upon and executed."

3.5 The years in which the project was implemented saw robust GDP growth that averaged 5.6 percent during the years 2003-06. Inflation was low, as were the fiscal deficits that stayed below 4 percent on average and were on a downward trend until 2004. Meanwhile, structural reforms undertaken since 1999 had enhanced the flexibility of labor and product markets.[6] Exports grew at double digits, but the external current account deficit still doubled to 7.25 percent of GDP. As early as 1998, the government had stabilized the economy following pressures on the koruna. The currency was devalued in 1999; by 2000, inflation was reduced to single digits through sound monetary policy.

3.6 The challenge for the country moving forward was to be able to meet Maastricht criteria by fulfilling the exchange rate stability criterion, the inflation criterion, and the fiscal deficit criterion (keep the deficit below 3 percent of GDP). Although all these criteria were connected, the fiscal deficit was fundamental because it not only influenced the rate of inflation but also the exchange rate. Consequently, creating an institutional framework to reach fiscal stability was crucial for macroeconomic stability in general and for entry into the Euro Zone in particular. In this respect, the PFMP helped to create an institutional structure to lead to fiscal probity and stability in the long run.

3.7 By 1999, the government had initiated changes in the legal and regulatory systems that were to become the foundation for the PFMP. The government that came into power (2003-06) was committed to public sector reform in general and to public finance management reforms in particular. The Bank provided initial technical assistance on public finance management to the Ministry of Finance in the form of a number of policy notes on extrabudgetary funds, fiscal decentralization, and public debt management. In addition, the Bank provided background papers for the Workshop on Budgeting and Expenditure Management in the Slovak Republic and an important body of analytical work during this time. These included a Country Public Procurement Assessment (fiscal 2000), a CFAA in fiscal 2001), and a Development Policy Review (DPR in fiscal 2003. The Bank's motivation was to help the Slovak Republic achieve its goal of speedy entry into the EU and graduation from the World Bank. These two goals were consistent and mutually supportive. Also, the financial commitment was very small: the Bank's contribution was less than $4.5 million. The country needed not financial support but expertise to establish a financial system that would sustain good policies over a long period. Much of this goal was achieved.

3.8 The benefits gained by the Slovak Republic from past prudent macroeconomic management and structural reforms were vulnerable to compromise by losses resulting from possible changes in foreign interest rates and exchange rates. The challenge to meet the conditions of EU membership had provided a strong impetus for much-needed policy action. The government's success in designing and implementing a comprehensive reform program depended fundamentally on its capacity to strengthen the institutional framework in which those policies were to be conceived, decided on, and executed. Within this institutional framework, public finance management structures would be the key.

SECTOR CONTEXT

3.9 In 1999, the government had requested the World Bank's support for a diagnostic survey and initial formulation of an action program to undertake an anticorruption program. In this context, reforming public finance management was identified as one of the top priorities. The 2001 CAS noted that to strengthen governance and institutions,

[6] IMF, Slovak Republic 2005 Article IV Consultation-Staff Report.

Bank financial support would be provided for technical assistance and information technology for public finance management. In addition, a DPR undertaken in fiscal 2003 noted that the fiscal situation was unsustainable. It concluded that, in the area of public expenditure management, giving institutional authority to a multiyear fiscal framework would be among the most important challenges. This was to ensure that program budgeting was well understood and fully adopted. The DPR's recommendations were adopted by the government's Economic Council as part of its policy framework. However, the overriding concern of the Slovak authorities was improving public finance in general and fiscal policy and related institutions in particular to meet the Maastricht criteria.

3.10 The principal sector context for PFMP was the need to strengthen governance and institutions to support the objective of fiscal policy and institutions that analyze and implement fiscal policy, including public debt and liquidity. Public finance management received high priority as a result. The PFMP supported the budgetary process by linking strategic policy making to the formulation of programs. The Ministry of Finance was strengthened and two important institutions were created: the Fiscal Policy Institute and the Debt and Liabilities Management Agency (DLMA).

Public Finance Management Agenda

3.11 The public finance management agenda was to strengthen the Slovak Republic's institutional capacity to use public resources more effectively, efficiently, and transparently, in line with government priorities. The project was to help the government improve budgetary and financial management of its operations, in particular in:

- Improving the budget process by supporting the effective implementation of program budgeting within an overall medium-term framework and eventually moving on to fully fledged multiannual budgeting

- Strengthening the macroeconomic analysis and forecasting capacity of the Ministry and tightening its links to other elements of the public finance system

- Supporting the establishment of a professional debt management capacity and completing the institutional set up of the new Treasury system together with the provision of training in both these areas

- Providing technical expertise to ensure the effective coordination of the overall reform effort.

3.12 The government adopted a strategy paper underscoring public finance reforms. It resolved to undertake fundamental institutional changes. The PSMP was an important part of its strategy to remedy weak or nonexistent public finance institutions. The government linked the project to the political cycle and resolved to have clear results before the next election. It was also prepared to borrow for technical assistance. Thus, the main thrust of the PFMP was institutional reform aimed at financial management. This was to lead to budget preparation within a well-defined macroeconomic framework supported by institutions created by the project such as the Financial Policy Institute (FPI) and the DLMA.

PROJECT CONTEXT

3.13 The Slovak PFMP was a carefully designed project with inputs and outputs carefully identified; each element was tracked with performance indicators. In addition, both intermediate and final outputs were identified in advance so monitoring and evaluation was well defined. There was also a data collection strategy and critical assumptions that had to be satisfied to ensure the project's success. Reports were generated with respect to each component.

3.14 The project's **objectives** were as follows:

3.15 ***Improve the budget process*** to help the government improve allocative and operational efficiency of public expenditures by (i) establishing a framework to link policy decisions to budgeting and make strategic policy choices through the prioritization of programs within an available resource envelope at both sectoral and national levels; (ii) increasing the predictability of funding so that ministries could plan ahead and programs could be sustained; (iii) providing line ministries and other budget chapters with increased autonomy and greater incentives for efficient and effective use of funds; (iv) generating a seamless budget process in which the regular evaluation of outcomes and results would feed into future budgetary choices; (v) creating capacity in the Ministry of Finance for regular expenditure reviews; and (vi) analyzing and preparing a policy menu for appropriate alternative financing arrangements to support a more decentralized system of public service delivery.

3.16 ***Strengthen macroeconomic capacity in the Ministry of Finance*** to help establish the FPI as the core of macro-analysis in the Ministry and the government as a whole. This required major technical and organizational improvements, including: (i) developing close institutional links between the FPI and the Tax Policy and Budget Sections of the Ministry, as well as with the State Treasury and the National Bank of Slovakia (NBS) for macroeconomic forecasting; (ii) assigning a central role to the macroeconomic forecasts of the FPI as the sole basis for establishing the resource envelope for the budget process; and (iii) improving the quality of the FPI's medium-term macroeconomic and fiscal forecasts, as well as the economic reports accompanying the budget, by improving the technical quality of the models used and publishing its methodology to allow for public debate and scrutiny.

3.17 **Support debt management and treasury** by assisting the government in (i) developing an institutional structure with the roles and accountability of the Ministry of Finance and the DLMA clearly defined, with an appropriate distinction between the formulation of the debt management strategy by the Ministry and the execution of that strategy by an operationally independent agency; (ii) ensuring the efficient, transparent, and professional management of public debt and financial assets with an appropriate balance between risks and costs; (iii) further developing the domestic debt market and its overall legal framework; (iv) identifying implicit and explicit contingent liabilities and establishing a system to monitor these; (v) providing an assessment of the quality of public accounting and designing a roadmap for the transition to an accrual accounting system; and (vi) facilitating the introduction and improvement of the new treasury system.

3.18 **Provide support in program coordination and project management** by financing technical assistance to help the senior management of the Ministry of Finance deal with organizational and institutional aspects of implementing the reform program and address the management of change appropriately. This component was to also provide inputs and advice to (i) design effective institutional arrangements to link policy making at the highest levels to a reflection of choices in the budget; (ii) design a monitoring and evaluation system for the project; and (iii) introduce effective project implementation arrangements to ensure that the project could provide timely and flexible support for the reform program.

3.19 These objectives were related to well-defined key indicators that focused on effective mechanisms for linking strategic and sectoral policy making to the budget process. The objectives were not revised during project implementation, and they were to improve political accountability and the effectiveness of the use of public resources.

Preparation, Design, and Implementation

3.20 Preparation: The PSMP was an important part of the government's strategy to remedy weak or nonexistent public finance institutions. The government linked the project to the political cycle and resolved to have clear results before the next election. It was also prepared to borrow for technical assistance.

3.21 Implementation: A steering committee responsible for public finance reform, chaired by and including the State Secretary of the Ministry of Finance, oversaw the Treasury project. Several directors of key departments within the Ministry, the State Treasury, and the DLMA together coordinated the overall Public Finance Management Reform (PFMR). In addition, a senior advisor to the Minister of Finance with extensive experience on public sector reform provided intellectual leadership and linked project implementation to wider policy reform issues. The Steering Committee was responsible for overall policy within public finance reform and strategic coordination of those reform efforts and oversaw a number of separate, technically focused committees. These included a legislative review group to coordinate and package future legal changes required to give effect to the institutional reforms.

3.22 In addition, a project coordination group that dealt with project-related matters was formed. It was chaired by the State Secretary. A project coordinator and his team were responsible for day-to-day project implementation and administration. Finally, the coordination group was responsible for ensuring that project resources were used in a flexible and effective way in response to evolving needs.

3.23 One area that received much attention was procurement. It was a challenging area because most of the loan was for financing technical assistance and training. Additional procurement expertise was provided, given that the Slovak authorities had little or no acquaintance with World Bank procurement procedures.

3.24 The project was implemented by the Ministry of Finance, with six key ministries participating. A launch workshop was conducted at the start, in December 2003. A follow-up workshop was also conducted after two years of implementation by the Ministry and the World Bank, and early results were discussed in September 2005. Overall implementation was strategically coordinated and carried out by the Steering Committee. Moreover, the project coordinating group at the Ministry prepared monthly monitoring and evaluation reports for the Steering Committee. Progress was evaluated in relation to the key performance indicators in the Project Assessment Document (PAD) (see Table 1). In sum, it was a well-organized effort with committed leadership and good technical support.

Ratings

Relevance

3.25 In 1999, the government had requested Bank support for a diagnostic survey and initial formulation of an action program as a part of its anticorruption drive. The 2001 CAS emphasized the need to strengthen governance and institutions and identified reforming public finance management as a high priority. The initial plan was to provide financial support for technical assistance and information technology for finance management. A number of activities provided technical assistance on public finance management. These included a number of discrete analytical pieces. It began with policy notes on extra budgetary funds, fiscal decentralization, and public debt management, as well as a set of working papers for a workshop on budgeting and public expenditure management in the Slovak Republic. In the same vein, a CPAR in fiscal 2001, a CFAA in the same year, and a DPR in fiscal 2003 were undertaken. The last item noted the non-sustainability of the fiscal situation and recommended that among the most important challenges was creating an institutional authority for a multiyear budgeting framework as a basis for budgeting and ensuring that program budgeting was well understood and fully adopted by the authorities. The government's Economic Council adopted the DPR as a part of its policy framework.

3.26 The guiding principle for the development objectives was to achieve them in order to meet the Maastricht criteria. There was a strong impetus to enter the EU, join the ERM, and become a full member. Toward those ends, important fiscal measures and institutional structures were necessary, including substantial fiscal consolidation. A number of analytical pieces done by the Bank helped define both the objectives and the strategies to achieve them.

Outcomes and Assessment

Overview

3.27 The PFMP served the purpose for which it was designed and was implemented very well. Although the original plan wan as to provide investment loan and not a Development Policy Loan. It became clear at the outset that the best choice was to provide technical assistance. Thus, the PFMP was a technical assistance loan. The loan amount that was proposed was just $5 million because funds were also made available by the EU (PHARE) and initial support was provided by the United States Agency for International Development (USAID). By all accounts it was a well-designed, implemented, and disbursed loan. It was different from many other loans, given that the amount was small and very well focused on the issues at hand and that the PFMP was a results-based operation. It made an important contribution to the institutional development of public finance and put the different aspects of the issue on a permanent footing. The country needed the expertise of the Bank to reform public finances in a short time. It would have been difficult for the country to have done this on its own in that time frame. As discussed in detail below, efficacy for the components was substantial. Together with high relevance, the outcome is rated *satisfactory.*

Outcomes by Objectives and Components

3.28 The outcomes of the four major objectives and their components are presented below.

Component 1: Improving the Budget Process

3.29 This component was intended to improve the quality of budgeting by linking strategic policy making to the formulation of programs while building analytical capacity and monitoring and evaluation capability into the budget chapters. The component relied on large international consultancy services to conduct ongoing technical assistance and training for the Ministry of Finance and the other six key ministries. This was to be achieved within three years—the life of the project. There was a built-in time inconsistency problem, given that changing budget processes through training and technical assistance would take time. Despite that, the component achieved a substantial part of the goal. Its efficacy is rated as *substantial.*

3.30 The partial implementation of a medium-term budget framework (MTBF) fell short of the project reaching a rating of highly satisfactory. However, it succeeded in linking annual budgets to an MTBF with indicative ceilings beyond the annual budget, which proved to be effective in limiting firms, sectors, and ministries from exceeding ceilings, as in the past, by providing a strong incentive to stay within the ceiling. The ceilings achieved their purpose of providing greater financial and budgetary discipline to the budget. They worked as a rolling three-year program and were accepted by the line ministries and helped to contain excess expenditures.

3.31 This component also led to the deepening and expansion of program budgeting. Although technical assistance was provided by other donors before the project, it helped increase the transparency of expenditures, deepen strategic planning within the six ministries, and ensure better accounting for expenditures that had been in place on a programmatic basis since 2006. It enabled the ministries to evaluate their performance on a real time basis.

3.32 Despite these benefits and progress, program budgeting continued to be somewhat of a mechanical exercise. It needed greater recognition to link strategic decisions on the policy and political front to the preparation of the budgets. The Ministry of Finance was yet to receive full support from the political masters to forge a closer strategic link between policy decisions and the budget process. In addition, although the state budget was covered by programs, there was limited institutional capacity to evaluate program performance outside the Ministry. The indicators used to measure performance were more process than outcome driven. The government was aware of these problems and sought support from the EU to create a system of monitoring and evaluation for all public spending.

Table 1. Key Performance Indicators for Component 1

INDICATORS	PERFORMANCE
1. **Strategic sectoral policies** elaborated in six budget chapters	1. **Five of the pilot ministries prepared strategic documents** that included program objectives and measurable indicators of performance. The links to the MTBF and the quality of the performance measures need to be improved over time.
2 **Multi-annual budget** of the central government prepared and evaluated on the basis of result oriented indicators	2. **A multiyear budget framework** was approved for the years 2005-07 and 2006-2008, with ceilings for the second and third years that were formally only indicative, but that in practice acted as an anchor for new budget requests. The budget documentation includes performance-information, but the capacity to use it effectively for budget decisions is still being developed.
3. **Budget process functional analysis** leading into budget procedure changes for the medium-term budget framework	3. **Functional analysis of the budget process** was conducted and the recommendations submitted to the Ministry of Finance. Significant changes were made to place annual budget preparation within a multiyear context.
4. **Annual budget** prepared according to a pre-approved time schedule	4. Preparation of **annual budgets** for years 2005, 2006, and 2007 was performed according to the agreed time schedule.
5. **Variation reduction** between budgeted and actual expenditures of budget chapters	5. **Variance** between budgeted and actual expenditures of budget chapters has declined since 2002, though the strong economic performance has made it possible to add new spending within the year.
6. Options for **fiscal decentralization** prepared	6. **Fiscal decentralization options** were prepared externally to the project.

Source: ICR, 2007.

Component 2: Strengthening the Macroeconomic Capacity of the Ministry of Finance

3.33 The principal aim of this component was to improve the capacity of the FPI to prepare a sound analysis and forecast of fiscal estimates and outcomes so as to improve annual and multiyear budgeting. The project provided high-quality technical assistance to develop modeling tools and analytical expertise and strengthened the FPI as a key institution on fiscal policy formulation and analysis. This was a very successful component and its efficacy is rated *high.*

Table 2. Key Performance Indicators for Component 2

INDICATORS	PERFORMANCE
1. Improved quality of macroeconomic and fiscal forecasts of the FPI and improvement of economic reporting linked to long-term budget sustainability	1. Improved quality was achieved by construction and application of a new macroeconomic model. The new FPI reduced the difference between forecasted and actual macroeconomic indicators from 170 percent in 2004 to only 17 percent in 2006. Revenue forecasts were assessed as realistic by the expert commission and differed from the actual by only 4 percent in 2006.
2. Macroeconomic forecasts of the FPI play a central role in the budget process and are a basis for setting source frameworks of the budget	2. The original forecasting system of the FPI that relied on external forecasts was replaced with one using the FPI's own forecasts and was reviewed by a group of forecasting experts. Macroeconomic forecasts are validated by expert commissions, which have depoliticized the setting of the aggregate resource envelope.
3. Close institutional cooperation developed between FPI, tax and budget sections of the Ministry of Finance, the State Treasury and NBS in macroeconomic forecasting	3. A routine system of work communication on both formal and informal levels was achieved. Integrated information systems, and more importantly, changes to the institutional framework have solidified the relationships.
4. Macroeconomic model methodology published	4. Construction of an econometric model was achieved, and the methodology for the macroeconomic model was published on the Internet on the Ministry of Finance Web site.

Source: ICR, 2007.

3.1 The FPI contributed greatly to improving the macroeconomic capacity of the Ministry of Finance with its analytical contribution and highly improved accuracy of its forecasts. This permitted the Ministry to have a better focus on all components and allowed ministries and agencies to agree on a single framework and judge their estimates in relation to the forecasts. The models used were created by international experts, which increased confidence in the budgeting process and also increased transparency. The extent of the success is evident in that the variances of the forecasts improved tenfold. Moreover, the FPI's work was reviewed carefully by two independent committees of officials, academics, and private sector personnel. The high-profile competence of the committee members made it difficult for politicians to challenge revenue and expenditure projections and hence the FPI's analysis. Thus the analysis was protected from political interference. These forecasts became highly accepted, given the rigor that was applied to the exercise and also the open and transparent manner in which it was done. All the projections were published on the Internet, which was a unique case of high transparency for any country, especially for one from Eastern Europe.

Component 3: Debt Management and Treasury

3.2 This component aimed to provide assistance to the DLMA to function independently of the Ministry of Finance and to provide advice to the Ministry on managing its debt and liquidity in an operationally efficient way, and to minimize the costs of funding operations. The Treasury functions were to be improved by integrating the main elements of the State Treasury into the public financial system. This part of the component was coordinated with an EU-PHARE funded project that provided training, mainly through an international advisor. Efficacy for this component is rated as *high*.

Table 3. Key Performance Indicators for Component 3

INDICATORS	PERFORMANCE
1. Debt management policies were implemented at the "front-, middle- and back-office" levels in compliance with the "best practice"	1. Split of competencies between the Ministry of Finance, DLMA, and the State Treasury on the "front-, middle- and back-office" level was implemented, consistent with good practice models in the Organization for Economic Co-operation and Development. This enabled implementation of standard procedures and policies in debt management.
2. A legal and institutional structure between the Ministry of Finance and DLMA was established, to provide DLMA with operational independence in the future	2. The approved regulatory framework for the DLMA provides for its operational independence. It acts on behalf of the Ministry of Finance to implement the government's debt management strategy. Autonomy has generally been respected, and the DLMA has contributed substantial financial savings. In 2005, gross debt fell to 6.8 percent of GDP. Savings in bank fees and margins totaled about 10 million Euros in 2005-06.
3. Improved communication with investors and other market participants, with the objective of making domestic debt financing more simple	3. New communication activities between the DLMA and market participants were developed. In particular: (i) regular, usually quarterly, work meetings with important investors; (ii) presentations at investments forums; and (iii) commissioning and regular update of information on the DLMA's Web site.
4. The Treasury is well integrated in the public finance system and the clients are capable of using the system effectively	4. Main elements of the State Treasury integration into the public financial system were implemented in 2004. The Treasury is fully operational, executing transactions for all State budget users. Information technology solutions were successfully installed, and users of the system undertook extensive training to prepare them to use the system.
5. Clearly articulated debt strategy document prepared by the Ministry of Finance and DLMA	5. Under the coordination of the project's advisor on the reform of debt management, a strategy document was prepared in cooperation with the DLMA and the Ministry of Finance, which was subsequently approved by the government.

Source: ICR 2007.

3.3 The success of the component with respect to DLMA functions can be gauged by the reduction in borrowing costs mainly through the rational integration of the many borrowing operations that had existed before, where each ministry had a different account with commercial banks. The DLMA rationalized the operations, coordinated them, and was able to lower borrowing costs as a single entity, converting different state debts and guarantees into government bonds that were marketed at competitive rates. In addition to the improvement in debt and liquidity management, there was institutional reform that allowed for independent decision making by the DLMA and that improved the relationship between the Ministry of Health and the DLMA. The DLMA also forged good working relationships with local investors and domestic debt markets that helped reduce funding costs.

3.4 With respect to the Treasury function, the component showed good progress in linking all revenue and expenditure units with the central government and with regional entities of a similar function, through the creation of a single information system and continuous training to the staff of the joint treasury operation. Since 2006, the Treasury supported program budgeting and initiated accounting reforms that were later supported by the EU.

Component 4: Reform Coordination and Project Management

3.5 This component aimed to facilitate the implementation of the other three components and supported change management across institutions. It had a feature that one component was especially geared to the implementation of the other components. Efficacy for this component is rated as *substantial.*

3.6 This component made an important contribution to the implementation of the other components by breaking the implementation challenge down into two areas, each supported by an advisor. One advisor provided technical leadership and coordination with the political leadership associated with the project, and the other provided operational support for the project with respect to the procurement of consultants and monitoring of performance, among other tasks. A high-level committee provided overall guidance and direction to the project, but substantive coordination was done through budget officials of the six pilot ministries. A functional review of the Ministry of Finance, done in connection with the project, led to a significant downsizing and reorganization of the Ministry. It created a good precedent for other reforms both within and outside the ministry.

3.7 All other components were completed within the closing date of the project. The one remaining aspect relates to the implementation of program budgeting, which would have been a long process in any case. Hence, there would be time inconsistency with a three-year project and the change in culture that would lead to successful adoption of program budgeting. It is also noted that coordination, with respect to the program budgeting, would have been more effective with political-level support that could have linked ministry strategies to budgeting.

3.8 Some Revision of Components: As a result of the availability of PHARE funding and responding to some project developments, some elements within the components were revised. With respect to the *improvement of the budget formulation process*, the Steering Committee established an information technology support subcomponent for the project that was later transferred to individual EU-financed projects. There was also a consolidation of some of the consultancy tasks. With respect to *the improvement of the macroeconomic analytical and forecasting capacity of the Ministry of Finance*, there was a similar consolidation of methodology of forecasting tax revenues and training and study tours. With respect to *debt management and the state treasury*, the consultancy of the advisor was reduced by some 18 months and some originally planned activities were integrated into the subcomponent of the advisor on public debt market structures development. Similar consolidations were done with respect to other consultancies, such as the development of a system of permanent training for clients and the management of the State Treasury and the DLMA. With respect to the coordination of reform and project management, after the contract of the local advisor expired, the functions of procurement and financial management were split among other specialists. It is noteworthy that these realignments were made in a pragmatic way and were a kind of course correction that helped better focus the project and link project management to the different elements within each component. No development policy objective (DPO) was changed, but some of its elements were realigned to get better results.

Table 4. Key Performance Indicators of Component 4

INDICATORS	PERFORMANCE
1. The Steering Committee is the principal place for creation of the PFMR policy philosophy, and the legislative group coordinates the legal aspects of these reforms effectively	1. Competencies of the Steering Committee of the PFMR were extended beyond the framework of the project (financed by the loan from the World Bank) as the Steering Committee became the principal place for coordination and integration of all projects in the PFMR. The legislative group was created in case there was a need to coordinate legal aspects of the reform in the area of public finance management. Though project coordination and guidance were very good overall, greater engagement with policy makers in key line ministries would have potentially strengthened the implementation of program budgeting.
2. The Ministry of Finance is reorganized in compliance with the recommendations of a "functional analysis" and is the main bearer of public finance reforms	2. Recommendations from a "functional analysis" including proposals for organizational changes were implemented by the Ministry of Finance. The Ministry was thereafter equipped to become the champion for public finance reforms, coordinating technical assistance with line ministries.
3. Effective authority delegated to the Coordination Unit for project implementation	3. In compliance with the legislation, competence rules, and other internal regulations of the Ministry of Finance, a management model was created that functionally split the professional aspects of the project (within the competence of the Steering Committee) from organizational aspects, which were the responsibility of the Project Coordination Unit.
4. Project is implemented on time	4. The project was implemented on a three-year time schedule. Partial changes and adjustments in deadlines – mostly procurement of consultancy services – were subject to consultations with users or decisions of the PFMR Project Steering Committee.

Source: ICR 2007.

Risk to Development Outcome

3.9 This is rated as negligible to low.

3.10 This outcome is rated as low for a number of reasons. This operation anticipated the importance of taking into account the politics of reform and planned for it in its design. It planned to have specific advisors to handle change management and to bring in the political aspect of the reform. The high-level committees and steering groups had political leadership within the Ministry of Finance, with the pilot ministries "buying into" the reform agenda. The Slovak PSMP planned to specifically incorporate the political elements in the various committees charged with the responsibility of supervising the reform program. There was also an attempt to change the culture within the Ministry to accept and advocate reform.

3.11 There was also the risk associated with the institutional change sought by the PFI, DLMA, and the Treasury with respect to recruiting and retaining high-quality staff and those capable of taking over the work of some of the foreign consultants working in these agencies. There was less of a risk in the PFI given that the set of skills needed in the PFI were less marketable outside the public sector than those needed in the DLMA, where staff skills were directly substitutable with the private sector. This issue was handled through the reform and reorganization of the Ministry of Finance and downsizing and using better skill sets. Although there was significant staff turnover, especially in the DLMA, there was sufficient incentive for good quality staff to remain as their salary structure was revised to take into consideration their specialized and marketable skills. Improved organization and higher rewards also led to limited loss of staff in the Treasury. Only time could tell whether the strategy to retain good staff was going to succeed. This challenge is not confined to the Slovak Republic and is found in most former Soviet Union (FSU) countries, though it is possibly less so in the Slovak Republic, given that its public service had better working conditions than other comparable states.

3.12 The other risk was the limited political demand for better M&E capacity to ensure the MTBF in program budgeting. Although the ICR had contended that there would be less pressure to improve M&E with high growth and high government revenue, the incentive to join the EU later led to the adoption of improved M&E work supported by the EU.

Bank Performance

3.13 Bank performance is rated as *satisfactory*. This rating is justified on the grounds that there was good design and supervision support. An aspect that was not anticipated sufficiently was the possible loss of good expertise in the DLMA and the Treasury, which had to complete with the private sector to recruit and retain staff with appropriate and highly marketable skills. Nevertheless, its impact was not significant.

3.14 The project had highly *satisfactory* quality at entry, given that it was a well-designed and thoughtfully crafted project with well-defined components, each supporting the others. In fact, by designing a specific component to carry out implementation of the other three components, the project broke new ground, ensuring that it would be implemented properly. Moreover, the results-based framework helped give greater specificity to the project aims while also allowing the various committees established to judge progress at each stage. The quality at entry was found to be highly satisfactory by the Quality Assurance Group. No doubt the careful and highly focused preparation led to this evaluation. The project was based on a results framework analysis with well-defined project development objectives (PDOs) and related project performance indicators. These comprised three levels: a group of PDO indicators, intermediate outcome indicators, and key outcome indicators.

3.15 The quality of supervision was *satisfactory*. Supervision was carried out under the initiative of the Ministry of Finance leadership and a high-level committee. At the early stages, a Bank staff member participated in the implementation committee, but later implementation was mostly done through local commitment and expertise. It helped to have performance indicators at each stage to judge progress and to introduce midcourse corrections. The Bank responded responsibly and flexibly to changes that the government introduced in response to different issues that arose during implementation. This included changing the number and terms of references of consultants and bundling different aspects of the components to get better outcomes.

Borrower Performance

3.16 This aspect is rated as *satisfactory.* The borrower was highly motivated and committed to the project, given its interest in joining the EU by satisfying the Maastricht criteria. The PFMP fitted this imperative well. The commitment to succeed also arose from the realization that the Slovak Republic had much to catch up on to meet the eligibility requirements of the EU, even though it had less to catch up on than other FSU countries such as the FYR of Macedonia.

3.17 Within the project there was ongoing cooperation as well as well-integrated activities led by the Ministry of Finance. The high quality of Ministry leadership and commitment helped secure success despite the significant changes sought by the PFMP with respect to the design and character of the institutions, their ability to change the preparation and implementation of budgetary processes, and the work of specialized agencies such as the PFI, DLMA, and the Treasury.

3.18 Implementation also was satisfactory. The project was able to secure high-quality expertise and to use it well. When there were occasions to adapt the project to new demands, such as the additional source of finance available through EU-PHARE funding, this was achieved seamlessly. The Ministry of Finance and the high-level committee took the initiative to replace consultants who failed to meet expectations. Similarly, when information technology aspects became increasingly important to the success of the project, the leadership (the Ministry of Finance) secured EU support. One aspect where better success could have been achieved was the link between policy planning and budgeting and consequently, the early adoption of program budgeting. Nevertheless, there was success, even though it was to come after the closing date. The leadership was also not averse to insisting on its own methods for procurement when it was felt that it was easier and more secure in the context of the country than the Bank's.

3.19 The fact that the project largely achieved its development objectives in time and brought about a culture change in budget preparation and in M&E speaks well for the commitment of the borrower to the project and its resolve to adapt to whatever policy measures and institutional changes were needed to achieve success. There were a few areas in which it could have done even better, such as adopting program budgeting earlier or improving M&E earlier, but these aspects were to be addressed after its membership in the EU.

Appendix 1: Boxes on FYR of Macedonia: PSMAL and PSMAC Key Issues and Tranche Conditions

Box 1. FYR of Macedonia: Public Sector Management Adjustment Credit: Key Issues and Tranche Conditions (Single Tranche Operation)

Macroeconomic Conditions	
Macroeconomic situation:	• *Satisfactory* macroeconomic framework to be in place by Board presentation.
Budget Reforms	
Develop modern institutions for budget management through adequate staffing and reorganization	• As a condition of Board presentation, the Minister of Finance was required to approve the implementation of the Ministry's plan for restructuring and adequate staffing while the government was required to endorse a shift in the mandate and restructuring of the General Secretariat. The condition was met.
Strengthen fiscal discipline through financial management and control standards within a strong accountability/transparency framework	• *Strengthening control of the wage bill:* As a condition of Board presentation, the MOF was to create and put into operation a database on employment and salaries, linking individual salary payments to a registry of public employees by budget user. • *Development of the external audit function* As a condition of Board presentation, amendments to the Audit Law of 1997 that created the SAO were required to insure its independence and clarify its reporting requirements. • *Strengthening tax collection* By Board presentation, the PRO, MLSP, and MOH were to successfully assume ZPP functions based on an agreed action plan and PRO was to be developed for both VAT and non-VAT collections.
Implement strategic prioritization by setting policy priorities within a fiscal plan and focusing the government's activities	• *Implementation of fiscal impact assessment* Conditionality required that the government adopt a methodology of costing all policy proposals (laws, regulations and resolutions). • *Divestment of non-core activities.* PSMAC required the government to approve a divestment plan for noncore activities.
Budget Management Reforms in the Health Sector	• *Strengthen fiscal discipline through financial management and control standards within a strong accountability/transparency framework:* As condition of Board presentation, the Health Insurance Fund was to develop agreed budget plans for all health institutions for 2002.

	• *Budget Planning and Control:* Health Insurance Fund was to adopt new guidelines for the presentation of its 2002 budget and a new general ledger *satisfactory* to the Ministry of Finance and IDA.
Budgeting and Policy Reforms in the Social Sector	• *Introduction of a Second Pensions Pillar:* By Board presentation, a law authorizing the creation of a second pillar was to be presented to Parliament. The new pension pillar was mandatory for new hires and voluntary for existing workers. It was defined-contribution based and privately managed. • *Employment Assistance Program:* Ministry of Labor and Social Programs had prepared a multiyear plan to rationalize the unemployment registration system, improve financial management and internal control, and streamline benefits and had established a set of performance monitoring indicators. By Board presentation, substantial progress was to be made with the plan and its implementation.
Civil Service Management Reforms	• *Improving the legal framework for professional civil service:* A regulatory framework for a professional, politically neutral, merit-based civil service had been put in place with an arm's length organization, ACSs. A core condition for Board presentation was the further refinement of the existing law, procedures, criteria and standards in the civil service. (But the date of reform of the new decompressed wage structure was postponed due to negotiations with the IMF). • *New compressed wage structure was to be implemented:* Given the unstable macroeconomic situation that prevailed in 2002 the new wage structure was postponed until 2003 and then until 2004 given that the Stand-by program with the IMF had strict expenditure controls. This was taken up with the PSMAL.

Source: Project Appraisal Document on a Proposed Public Sector Management Adjustment Credit 2002.

Box 2. PSMAL Key Issues and Tranche Conditions

Board Conditions	**Second Tranche Conditions**
Budget Formulation and Execution	
MOF Budget Directorate to adopt sustainable aggregate spending ceilings for 2004 budget and impose fixed ceilings on all first line budget entities.	
Budget Ceilings to be reflected in the final 2004 budget submitted to Parliament.	
All transactions by budgetary entities to be conducted through a single treasury account.	MOF in cooperation with HIF to transfer HIF accounts to MOF single treasury account.
Government to submit legislation imposing commitment controls on high value contracts.	
Procurement regulations to require ex ante MOF approval before contracts are legally valid.	
Audit	
Systematization Act creating MOF internal audit unit and staffing to be approved by MOF.	MOF internal audit unit to be fully staffed.
Systematization Act creating internal audit unit in HIF approved by HIF Board.	Systematization act creating internal audit units in at least two other first line budget users approved by respective ministry.
Government to submit to Parliament revision the SAO enabling act: (a) permitting SAO to focus on high risk budget entities and EBFs; and (b) requiring SAO to publish audit results and periodic reports on weaknesses in financial management, and the government's progress in taking corrective actions.	SAO to publish audit results and periodic reports on cases reported to the anticorruption commission, on systemic weaknesses in financial management, and the government's progress in taking corrective actions.
Procurement	
Parliament to enact a new Law on Public Procurement which is *satisfactory* to the Bank and in line with international standards and best practice.	
	Government to adopt comprehensive implementing regulations under the Law on Public Procurement, acceptable to the Bank and in line with international standards and best practice.
	Government to promulgate and require use of standard procurement documents and standard forms of contract, acceptable to the Bank.

Board Conditions	Second Tranche Conditions
	MOF to begin and continue publishing on the MOF website the Register of Performed Public Procurement and findings of Public Procurement Complaints Committee.
	A state administrative body for public procurement, without a status of a separate legal entity, has been established within the Ministry of Finance and is fully operational with staff, resources, and terms of reference *satisfactory* to the Bank.
Civil Service	
Government to authorize a payroll-based mechanism for enforcing civil service hiring requirements in 2004 Annual Budget Law.	Government to submit to Parliament an amendment to *Organic Budget Law* establishing a payroll-based enforcement mechanism.
Government to repeal "hold-harmless" provision from civil service law, so as to reduce net costs of salary decompression.	
Parliament to approve CS Law amendments consistent with the scale and timing of CS wage decompression as agreed with the Bank.	
Satisfactory implementation of the Wage Decompression Action Plan.	Borrower has achieved *satisfactory* progress in the implementation of the wage decompression time-bound action plan agreed with the Bank.
Health and Social Protection	
	HIF financial control systems audit has been completed and accepted by the borrower's government and an action plan based on audit recommendations has been approved by the government.
Pharmaceutical Bureau to revise rule book on abridged procedure for issue of pharmaceutical marketing authorizations in order to eliminate inappropriate requirements for local testing and expert opinions for drugs already tested, evaluated and licensed in reference countries.	Pursuant to the Memorandum of Understanding, the borrower has adopted new practices for procurement of pharmaceuticals, except pharmaceuticals from the list agreed with the Bank, and new supply contracts sufficient to meet the requirements of the HIF and healthcare institutions for pharmaceuticals for at least a year have been concluded by HIF.
	The HIF is to adopt a *satisfactory*[1] bylaw outlining terms and conditions of HIF contracting with private pharmacies, with the agreement of the MOH, and publish the bylaw in the Official Gazette.
HIF to adopt *satisfactory* bylaws on hospital contracts and sign contracts with at least 17 health providers.	HIF to have collected contract monitoring data from contracted hospitals covering the first six months of

Board Conditions	**Second Tranche Conditions**
	2004, analyzed the data, and provided feedback to hospitals where performance deviates materially[2] from contract.
Amendments of the *Pension and Disability Insurance Law, Law on Records from the Labor Area* and *the Law on Personal Records of the Insured* approved by Parliament and relevant by-laws enacted to enable the introduction of the new system of mandatory monthly reporting on pension contributions paid for each employee individually.	Regulations governing new reporting requirement enacted and the reporting forms for individual pension contribution reporting developed.

Source: Project Appraisal Document on a Proposed Public Sector Management Adjustment Loan 2004.
Note: HIF = Health Insurance Fund; MOH = Ministry of Health; SAO = State Audit Office.

[1] *Satisfactory* is defined as the following: (i) contracting with any willing dispenser; (ii) definition of adequate reimbursement mechanisms to ensure cost-containment and access.

[2] For 2004, "materially" is proposed to mean: greater than +/- 5% for financial performance indicators and greater than +/-
10% for volume and other non-financial performance indicators.

Appendix 2: Economic Indicators

FYR of Macedonia, 2000-2007

Series Name	2000	2001	2002	2003	2004	2005	2006	2007
GDP growth (annual %)	4.55	(4.53)	0.85	2.82	4.08	4.11	3.95	4.98
GDP per capita growth (annual %)	4.15	(4.84)	0.57	2.58	3.88	3.94	3.82	4.95
GNI, PPP (current international $) (Millions)	11,710.65	11,670.81	12,066.37	12,534.10	13,803.21	15,282.23	16,914.66	18,441.89
GNI per capita, Atlas method (current US$)	1,840.00	1,720.00	1,720.00	1,980.00	2,440.00	2,810.00	3,100.00	3,470.00
Inflation, consumer prices (annual %)	6.61	5.20	2.31	1.10	0.81	0.28	3.27	3.55
Agriculture, value added (% of GDP)	12.04	11.76	12.37	13.35	13.19	12.78	12.72	11.96
Industry, value added (% of GDP)	33.71	32.14	30.17	30.68	29.16	29.65	29.48	29.53
Services, etc., value added (% of GDP)	54.25	56.10	57.46	55.97	57.65	57.58	57.80	58.51
Gross fixed capital formation (% of GDP)	16.22	14.85	16.58	16.74	17.83	17.05	18.17	19.76
Gross savings (% of GDP)	22.54	14.18	12.35	17.58	14.94	19.60	22.12	20.96
Official exchange rate (LCU per US$, period average)	65.90	68.04	64.35	54.32	49.41	49.28	48.80	44.73
Exports of goods and services (% of GDP)	48.63	42.69	38.03	37.88	40.25	44.71	48.14	54.91
Imports of goods and services (% of GDP)	63.52	56.61	58.16	54.83	60.48	61.96	66.76	74.62
Current account balance (% of GDP)	(2.02)	(7.09)	(9.44)	(3.22)	(7.73)	(1.40)	(0.37)	..
Total debt service (% of GNI)	3.93	5.75	6.37	5.35	4.60	4.45	8.81	8.89
External debt stocks (% of GNI)	41.71	43.63	45.10	41.47	47.88	50.03	50.14	49.23
Gross savings (% of GNI)	22.96	14.29	12.50	17.82	15.05	19.99	22.24	21.06
Tax revenue (% of GDP)	..	..	..	..	..	..	..	..
Revenue, excluding grants (% of GDP)	..	..	..	..	..	..	..	..
Central government debt, total (% of GDP)	..	..	..	..	..	..	..	..

Source: DDP Data as of June 18, 2009

Slovak Republic, 2004-2007

Series Name	2004	2005	2006	2007
GDP growth (annual %)	5.16	6.55	8.50	10.42
GDP per capita growth (annual %)	5.10	6.46	8.41	10.30
GNI, PPP (current international $) (Millions)	78,254.64	83,540.00	93,511.42	103,733.87
GNI per capita, Atlas method (current US$)	6,590.00	8,190.00	9,740.00	11,720.00
Inflation, consumer prices (annual %)	7.55	2.71	4.48	2.76
Agriculture, value added (% of GDP)	4.07	3.97	3.91	2.86
Industry, value added (% of GDP)	35.06	35.32	34.63	35.99
Services, etc., value added (% of GDP)	60.88	60.70	61.45	61.15
Gross fixed capital formation (% of GDP)	23.97	26.54	26.49	26.09
Gross savings (% of GDP)	23.05	20.19	20.16	23.02
Official exchange rate (LCU per US$, period average)	32.26	31.02	29.70	24.69
Exports of goods and services (% of GDP)	74.46	76.25	84.43	86.47
Imports of goods and services (% of GDP)	77.16	80.84	88.26	87.50
Current account balance (% of GDP)	(7.81)	(8.36)	(7.05)	(5.47)
Total debt service (% of GNI)	..	..	..	..
External debt stocks (% of GNI)	..	..	..	..
Gross savings (% of GNI)	23.28	21.06	20.94	24.05
Tax revenue (% of GDP)	15.82	14.91	13.84	14.14
Revenue, excluding grants (% of GDP)	33.96	30.62	30.07	29.10
Central government debt, total (% of GDP)	45.04	36.26	41.85	31.33

Source: DDP Data as of June 18, 2009

Appendix 3: Basic Data Sheet

FYR of MACEDONIA

PUBLIC SECTOR MANAGEMENT ADJUSTMENT CREDIT (CREDIT NO. 3628 MK)

Key Project Data *(amounts in $ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	15.0	15.0	100
Loan amount	15.0	15.0	100

Project Dates

	Original	*Actual*
Initiating memorandum	02/15/2000	09/22/2000
Negotiations	01/15/2001	02/25/2002
Board approval	03/01/2001	04/09/2002
Signing		05/05/2003
Effectiveness		05/19/2003
Closing date	06/30/2004	06/29/2004

Staff Inputs (staff weeks)

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation	165.7	442.8
Appraisal/Negotiation	included above	included above
Supervision	18.45	51.8
ICR		
Total	184.15	494.6

Mission Data

Stage of Project Cycle Month/Year	*No. of Persons and Specialty (e.g., 2 Economists, 1 FMS, etc.)*		*Performance Rating*	
	Count	*Specialty*	*Implementation*	*Development*
Identification/Preparation				
October 2001	*14*	TTL, 3 FMs, 2 Civil Service, 4 Health, 2 Social Protection, 2 Procurement		
Appraisal/Negotiation				
February 2001		TTL		
October 2001		TTL		
Supervision				
July 2002		TTL	S	S
January 2003	*4*	TTL, Health, Civil Service, Procurement	S	S
March 2003	*4*	TTL, Health, Civil Service, Budget	S	S
May 2003	*4*	TTL, Procurement, Audit, Health	S	S
October 2003	*6*	TTL, Procurement, Audit, Civil Service, Health, Social Protection	S	S

PUBLIC SECTOR MANAGEMENT ADJUSTMENT LOAN 2 (LOAN NO. 4734 MK)

Key Project Data *(amounts in $ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Total project costs	30.0	30.0	100
Loan amount	30.0	30.0	100

Project Dates

	Original	*Actual*
Initiating memorandum	05/01/2002	03/24/2003
Negotiations		03/29/2004
Board approval	12/26/2002	05/13/2004
Signing		07/23/2004
Effectiveness		07/16/2004
Closing date	11/01/2005	06/14/2005

Staff Inputs (staff weeks)

Stage of Project Cycle	*Actual/Latest Estimate*	
	No. Staff weeks	*US$ ('000)*
Identification/Preparation	91.8	543.5
Appraisal/Negotiation	included in above	included in above
Supervision	52.7	152.4

Mission Data

Stage of Project Cycle Month/Year	Count	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.) Specialty	Performance Rating Implementation	Performance Rating Development
Identification/Preparation				
January 2003	*3*	TTL, civil service health		
March 2003	*3*	TTF, civil service health		
May 2003	*4*	TTL, procurement, auditing, health		
October 2003	*6*	TTL, civil service, procurement, auditing, health, social protection		
January 2004	*7*	TTL, civil service, procurement, auditing, health (2), social protection		
Appraisal/Negotiation				
February 2004	*7*	TTL, civil service procurement,		
March 2004	*1*	auditing, health (2), social protection TTL		
Supervision			S	S
September, 2004	*7*	TTL, civil service, procurement,		S
February, 2005	*3*	auditing, health (2), social protection TTL, procurement health		
April, 2005	*1*	TTL	S	S

SLOVAK REPUBLIC

PUBLIC FINANCE MANAGEMENT PROJECT (LOAN NO. 7178 SK)

Key Project Data *(amounts in US$ million)*

	Appraisal estimate	*Actual or current estimate*	*Actual as % of appraisal estimate*
Borrower	1.09	0.63*	57.80
IBRD	5.44	4.88	89.71
Total	5.51	5.51	100.00

*The borrower amount is an estimate of counter-part financing through June 30, 2006, based on data from the December 2006 audit report. It may not include all amounts spent by government on project-related activities

Project Dates

	Original	*Actual*
Initiating memorandum	03/14/2000	06/05/2001
Negotiations		04/01/2003
Board approval	03/06/2001	06/10/2003
Signing		08/04/2003
Effectiveness		09/04/2003
Closing date	01/01/2007	01/01/2007

Staff Inputs (staff weeks)

Stage of Project Cycle	*Staff Time and Cost (Bank Budget Only)*	
	No. of Staff Weeks	*USD Thousands (including travel and consultant costs)*
Lending		
FY00	22	100.46
FY01	40	175.15
FY02	15	73.09
FY03	39	208.93
FY04	—	12.36
FY05	—	0.00
FY06	—	0.00
FY07	—	0.00
Total:	**116**	**569.99**
Supervision/ICR		
FY00	—	0.27
FY01	—	0.44
FY02	—	0.29
FY03	—	1.33
FY04	18	79.40
FY05	13	48.77
FY06	8	49.62
FY07	—	0.36
Total:	**39**	**180.48**

Appendix 4: World Bank Staff Interviewed on FYR of Macedonia and Slovak Operations

FYR of Macedonia

Public Sector Management and Adjustment Credit (July 1998)

Pradeep Mitra	Consultant
Pascle Kervyn de Lettenhove	Senior Financial Management Specialist
Helga Muller	Chief Administrative Officer

Public Sector Management and Adjustment Loan (May 2004)

Orsalia Kalantzopoulos	Country Director
Cheryl Gray	Director
William Dilinger	Lead Public Sector Management Specialist
Sandra Bloemenkamp	Special Representative, S.E. Europe
Debbie Wetzel	Lead Economist and Sector Leader, PREM
Michael Lav	Consultant

Slovak Republic

Public Sector Management Loan

Cheryl Gray	Director
Helga Muller	Chief Administrative Officer
Sandra Bloemenkamp	Special Representative, S.E. Europe
Deborah Wetzel	Lead Economist and Sector Leader, PREM
Ingrid Brockova	
Ronald Myers	Sector Manager
Roger Clarke	Retired
Bernard Myers	Senior Public Sector Management Specialist
Clay Wescott	Consultant

Appendix 5: FYR of Macedonia Officials Interviewed on Public Sector Management Adjustment Credit and Public Sector Management Adjustment Loan

Aleksandar Ugrinovski	State Advisor
Trajko Spasovski	Head, Public Internal Financial Control Department, Ministry of Finance
Markus Repnik	Country Manager, World Bank
Suzana Peneva	Head, EU Harmonization and International Finance Department, Ministry of Finance
Kristina Pavlovska	Head of Division, EU Harmonization and International Finance Department, Ministry of Finance
Maja Bogdanovska	Treasury Head, Treasury and Budget Department, Ministry of Finance
Verica Prokovik	Budget Head, Treasury and Budget Department, Ministry of Finance
Rita Gligorievska	Public Procurement Bureau, Ministry of Finance
Georgi Trenkoski	Director, Health Insurance Fund
Janez Jelnikar	Director, Health Insurance Fund
Arlinda Idrizi	Economic Officer, Embassy of Netherlands
Marija Risteska	Centre for Research and Policy Making
Bert van Selm	Resident Representative, International Monetary Fund
Mito Naumonski	State Audit Office
Kaliopi Petkovska	State Audit Office

Appendix 6: Slovak Officials interviewed on the Public Finance Management Project

Section of the State Reporting

Mr. Andrej Hajdúch – Director, State Treasury System Methodology Department
Mr. Andrej Solár – Director, Intrastate and international legal affairs unit

Debt and Liquidity Management Agency

Mr. Daniel Bytčánek – Director
Mr. Tomáš Kapusta – Director, Debt Management Department
Mrs. Alena Delinčáková – Director, Risk Management Department

Institute of Financial Policy

Mr. Viktor Novysedlák – Director, Department of the Tax Revenues and Fiscal Analysis
Mr. Stefan Kiss- Director Structural Polices

Budgetary Section of the Ministry of Finance

Mr. Radovan Majerský – Director General of the Budgetary Section
Mr. Alexander Cirák – Director, Department of the Public Administration Budgeting

State Treasury

Mr. Dušan Jurčák – Director of the State Treasury

MESA 10 (Think Tank)

Mr. Ján Marušinec
Professor Peter Mederly (former consultant to Education Ministry)

Mr. Juraj Rencko: Former Adviser to the Minister of Finance

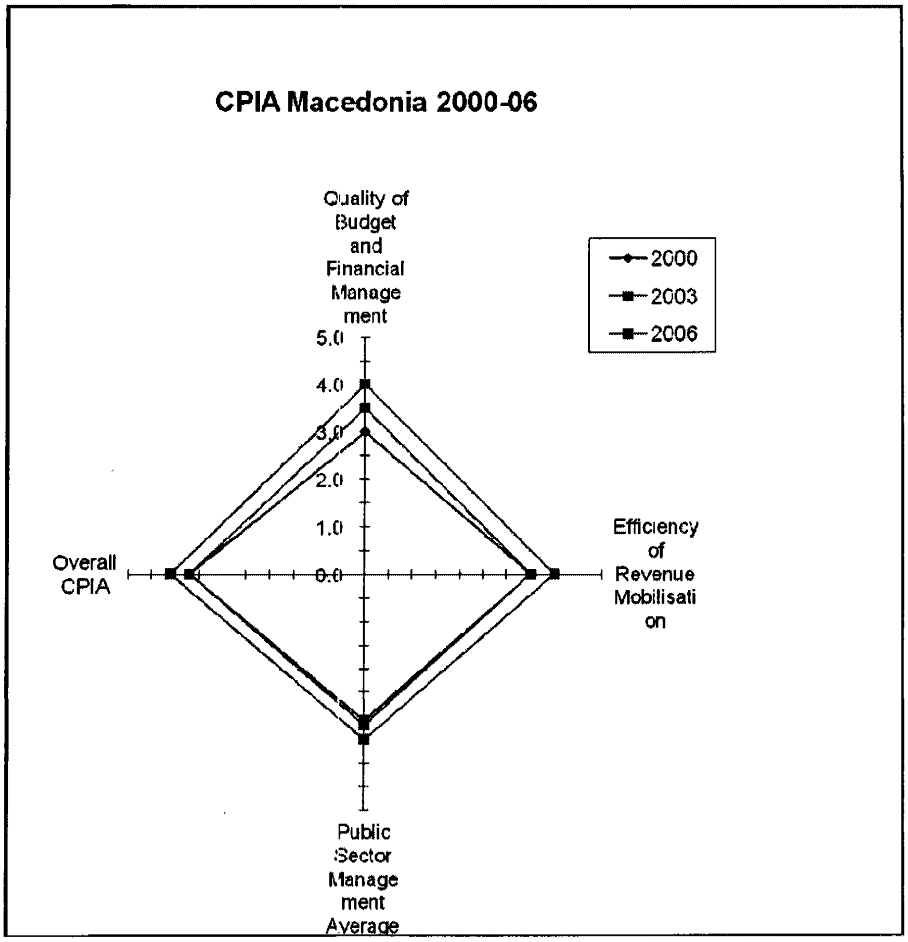
Appendix 7: Country Policy and Institutional Assessment: FYR of Macedonia and the Slovak Republic

Table 6. FYR of Macedonia and Slovak CPIA Indicators

	FYR of Macedonia				Slovak Republic			
	Quality of Budget and Financial Management	Efficiency of Revenue Mobilization	Public Sector Management Average	Overall CPIA	Quality of Budget and Financial Management	Efficiency of Revenue Mobilization	Public Sector Management Average	Overall CPIA
2000	3.0	3.5	3.1	3.7	4.0	3.5	3.7	3.9
2003	3.5	3.5	3.2	3.7	4.0	4.5	4.1	4.4
2006	4.0	4.0	3.5	4.1	4.5	5.0	4.6	4.7

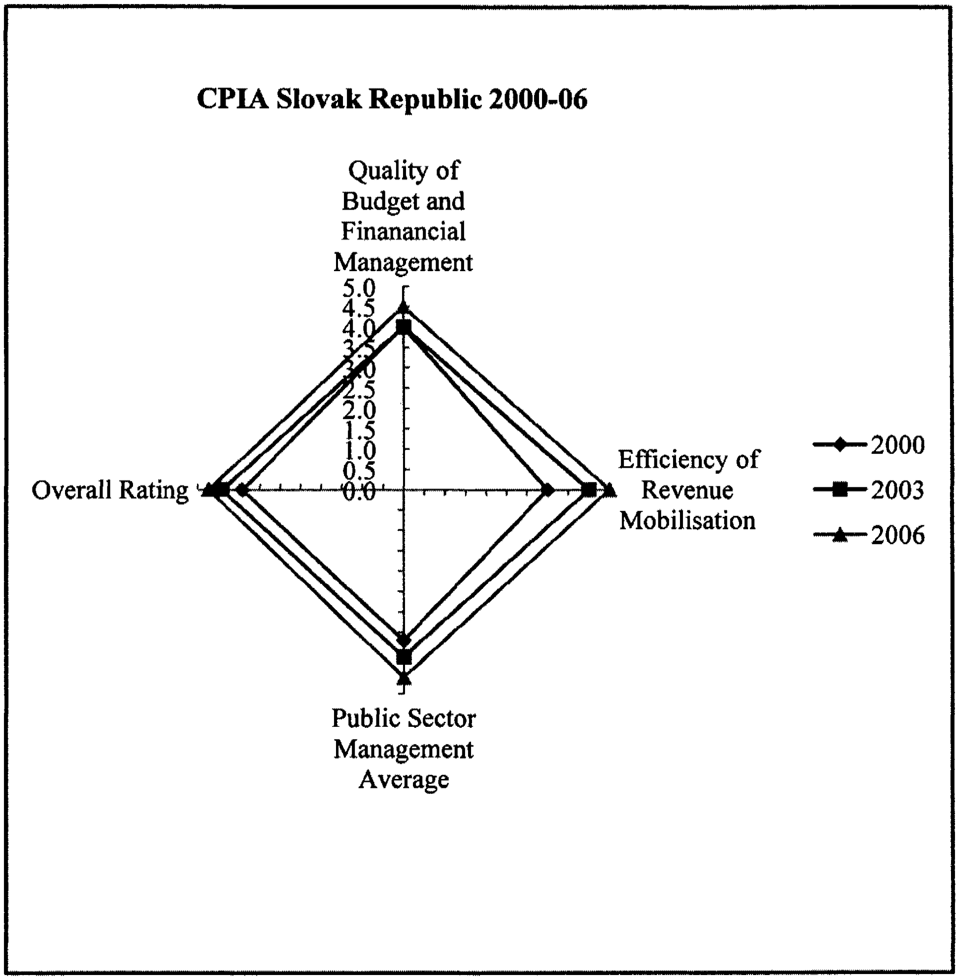
Source: World Bank Database

Figure 1. CPIA for FYR of Macedonia, 2000-06



Source: World Bank Database

Figure 2. CPIA for Slovak Republic, 2000-06



Source: World Bank Database

References

Burnside, Craig and David Dollar. 2000. "Aid, Policies and Growth". *American Economic Review*. 90(4): 847-868

International Monetary Fund. 2009. Former Yugoslav Republic of Macedonia: 2008 Article IV Consultation Staff Report; Public Information Notice on the Executive Board Discussion; and the Statement by the Executive Director for the former Yugoslav Republic of Macedonia. IMF Country Report No. 09/60. Washington, DC. International Monetary Fund.

_______. 2008. Former Yugoslav Republic of Macedonia Staff Report for the 2008 Article IV Consultation, Information Annexes; and Statement by the Executive Director for the former Yugoslav Republic of Macedonia. IMF Country Report No. 09/60.Washington, DC. International Monetary Fund.

_______. 2008. Melecky, Martin and Evgenij Najdov. *Comparing Constraints to Economic Stabilization in Macedonia and Slovakia: Macro Estimates with Micro Narratives*". Policy Research Working Paper, No: 4691. Washington, DC. International Monetary Fund.

_______. 2007. Slovak Republic: Article IV Consultation-Staff Report; and Public Information Notice on the Executive Board Discussion. IMF Country Report No. 07/226. Washington, DC. International Monetary Fund.

_______. 2006. Former Yugoslav Republic of Macedonia: Staff Report for the 2006 Article IV Consultation 2006 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for the Former Yugoslav Republic of Macedonia. IMF Country Report No. 06/334. Washington, DC. International Monetary Fund.

_______. 2005. Slovak Republic: 2004 Article IV Consultation-Staff Report; and Public Information Notice on the Executive Board Discussion. IMF Country Report No. 05/71. Washington, DC. International Monetary Fund.

World Bank. 2008. *Public Sector Reform: What Works and Why?* An IEG evaluation of World Bank Support. Washington, DC. The World Bank.

_______. 2007. Implementation Completion and Results Report (IBRD-71780) on a Loan in the Amount of Euro 5.0 Million (US $ 5.45 Million Equivalent) to the Slovak Republic for a Public Finance Management Project. Washington, DC. The World Bank.

_______. 2006. Development Policy Lending Retrospective, Operations Policy and Country Services. Washington DC. The World Bank.

_______. 2005. Implementation Completion Report (SCL-47340 TF-54252) on a Loan/Credit/Grant in the Amount of US $ 30 Million to the Former Yugoslav Republic of Macedonia, For a Public Sector Management Adjustment Loan 2 (PSMAL2). Report No. 34473 MK. Washington, DC. The World Bank.

_______. 2004. Implementation Completion Report (TF 24367, TF26287, TF-36280) on a Credit in the Amount SDR 12.1 million (US$ 15.0 million equivalent) to the Former Yugoslav Republic of Macedonia for a Public Sector Management Adjustment Loan (PSMAC). Report# 29426 .Washington, DC. The World Bank.

_______. 2003. Country Assistance Strategy for the Former Yugoslav Republic of Macedonia. Washington, DC. The World Bank.

_______. 2003. Project Appraisal Document on a Proposed Loan in the Amount of Euro 5.0 Million (US 4 5.45 Million Equivalent) to the Slovak Republic for Public Finance Management Project. Washington, DC. World Bank.

_______. 1998. Joint Country Assistance Strategy of the World Bank Group for the Former Yugoslav Republic of Macedonia. Washington, DC. The World Bank.

_______. 1998. Public Expenditure Handbook, Washington DC. The World Bank.