Report Number : ICRR0021267

1. Project Data

Project ID	Project Name
P146248	Deposit Insurance Strengthening Project
Country	**Practice Area(Lead)**
Serbia	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-83400	30-Jun-2016	200,000,000.00
Bank Approval Date	**Closing Date (Actual)**	
25-Feb-2014	31-Dec-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	200,000,000.00	0.00
Revised Commitment	199,998,300.62	0.00
Actual	173,086,001.06	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Fernando Manibog	John R. Eriksson	Christopher David Nelson	IEGFP (Unit 3)

2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) is "to strengthen the financial and institutional capacity of the Project Implementing Entity, so as to enable it to meet its deposit insurance and bank resolution obligations and serve as a core part of financial sector safety net." (Schedule 1, page 7 of the Loan Agreement dated July 10, 2014) Both the Project Appraisal Document (PAD) and the Implementation Completion & Results Report (ICR) state exactly the same objective, but cites specifically the Deposit Insurance Agency (DIA) as the Project Implementing Entity that is referred to in the PDO.

The DIA is an autonomous legal entity responsible for: (i) insuring deposits and paying out insured amounts, in accord with the Deposit Insurance Law; (ii) managing assets transferred during bank resolution procedures; (iii) administering bankruptcy or liquidation for banks, insurance companies and leasing companies; and (iv) organizing the investor protection fund. The DIA, the National Bank of Serbia (NBS) and the Ministry of Finance (MoF) comprise Serbia's financial safety net aimed at limiting the financial and economic impact of problematic banks.

In case of bank failures, deposit insurance covers depositors up to EUR 50,000 per bank. Covered depositors include individuals, entrepreneurs, and micro, small and medium-sized legal entities. The payments are covered by the Deposit Insurance Fund (DIF), which is funded mainly through premiums collected from banks. These DIF-held funds are used in resolution cases that are legally permissible under the Deposit Insurance Law. At present, the premium is 0.6 percent of insured deposits on an annual basis. The DIA is seeking to achieve a DIF equivalent of at least 5 percent of total insured deposits.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had two components. Component 1 utilized the quasi-totality of the project funds and was results-based, i.e., disbursements were linked to the achievement of disbursement-linked indicators (DLI). The much smaller Component 2 comprised of technical assistance activities.

Component 1: Strengthening the financial capacity of the DIA (EUR 144.23 million at appraisal; EUR 143.23 million actual)

Component 1 was intended to strengthen the financial capacity of the DIA to meet its deposit insurance and bank resolution obligations. As a results-based component, disbursements were made upon achievement of the following six DLIs, as verified independently by an audit firm:

DLI 1 – Increased premiums paid by banks
DLI 2 – Back-up funding for DIF has been secured through a stand-by facility with the government.
DLI 3 – The independence of DIA's governance bodies has been improved (as explained below).
DLI 4 – The information to enable DIA to fulfill its mandate is being shared.
DLI 5 – DIA's recovery of assets from bankrupt and liquidated banks has been improved.
DLI 6 – The information base on state-owned banks has been improved to enable early detection and timely intervention.

The concrete results under each of these DLIs are discussed in Section 4 on Efficacy.

Component 2: Strengthening the institutional capacity of the DIA (EUR 0.71 million at appraisal; EUR1.71 million actual cost)

While Component 1 focused on DIA's financial capacity, Component 2 was aimed at strengthening DIA's institutional capacity to meet its deposit insurance and bank resolution obligations. The Borrower was initially reluctant to use loan funds for technical assistance (TA). However, the TA needs proved to be greater than initially appraised, and the component was increased from EUR 0.71 million at appraisal to EUR 1 million, by re-allocating an additional EUR 1 million at the April 2016 restructuring. The Component financed consulting services to help improve the following: (i) DIA's governance; (ii) information-sharing among safety net providers and DIA's ability to utilize that information; (iii) DIA's management of recoveries it made as the administrator of bankrupt banks; and (iv) the Ministry of Finance's oversight of state-owned banks. One international and 18 local consultants were hired to support the DIA; four became permanent employees of the DIA. Component 2 also supported the modernization of the bank resolution framework.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost. The project cost at appraisal and at closing is the same at EUR 144.94 million, according to Annex 3 of the ICR. The PAD estimated Component 1 at EUR 144.23 million. During the April 2016 restructuring, EUR 1 million was reallocated from Component 1 to Component 2 to provide additional resources for the technical assistance activities.

Project Financing. The World Bank financed the entire project cost through IBRD Loan No. 83400.

Borrower Contribution. The Borrower did not make any contribution.

Dates. The project was approved on February 25, 2014 and made effective nine months later on November 26, 2014. A midterm review was carried out on November 30, 2015. The project was restructured on April 20, 2016 to extend the closing date and reallocate funds from Component 1 to Component 2, as indicated above. Another restructuring was done on May 30, 2017 to extend the closing date a second time. Compared to the original closing date of June 30, 2016, the project closed 18 months later on December 31, 2017.

3. Relevance of Objectives

Rationale

The project was approved at a time when Serbia was facing major economic challenges, having slipped into recession with the 2008 financial crisis as well as negative GDP growth in subsequent years. During that period, the state's role remained a major factor in the economy, thus hindering the completion of the country's transition to a market-based economy. The global financial crisis, in particular, hit the Serbian banking system severely and weakened its performance for many years afterwards. The banking sector experienced low profitability, stagnant or declining credit availability, and a high level of non-performing loans (NPLs). For example, NPLs as a proportion of gross loans increased from 11.8 percent in 2008 to a peak of 23 percent in 2014, brought about by the general economic slowdown, increased unemployment levels, and the depreciation of the local currency. Three small banks with partial government ownership failed in 2012 and 2013, leading to the depletion of the Deposit Insurance Fund (DIF). The serious situation in the Serbian banking sector highlighted the need for fiscal consolidation.

It was in this context that the project was appraised, with objectives that were focused on recapitalizing the DIF and strengthening the capacity of the Deposit Insurance Agency (DIA) and the Ministry of Finance (MOF). The PDO is consistent with the Government's reform priorities as stated in its Fiscal Strategy for 2014 and Projections for 2015 and 2016. Moreover, the PDO is closely in line with the European Union's reform requirements for accession; the project's timely approval in February 25, 2014 immediately followed the official start of EU accession negotiations on January 21, 2014.

The PDOs were also closely aligned with the objectives of the Bank's 2012-2015 Country Partnership Strategy (CPS) for Serbia, which sought to promote a more stable financial sector and improve the investment climate in the country.

The PDOs continue to be relevant to the current Country Partnership Framework (CPF) for FY2016-FY2020. The CPF continues to highlight the poorly performing banking sector (paragraph 13, page 3) where difficulties have emerged despite being well-capitalized and liquid. Consequently, the CPF has two Focal Areas, and Focus Area 2 ("To promote private sector growth and economic inclusion") specifically aims at strengthening the banking system, among other over-arching goals. One explicit CPF objective (among 6 objectives) under Focus Area 2 is "to assist in creating a more stable and accessible financial sector." (paragraph 62, page 17)

Rating
High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To strengthen the financial and institutional capacity of the Project Implementing Entity, so as to enable it to meet its deposit insurance and bank resolution obligations and serve as a core part of the financial sector safety net.

Methodological Note:
The assessment of efficacy will be based on a unified objective, i.e., there would not be a separate assessment of a "financial strengthening" as a distinct objective from an "institutional strengthening" objective, because the activities that support the institutional strengthening objective are integral parts of the financial strengthening activities. For example, an institutional strengthening activity is to share information among Serbia's providers of a financial safety net, for which consultants were hired to achieve the financial strengthening goal of equipping the DIA with appropriate information that would enable it to fully fulfill its mandate. Another example is the provision of consulting services (an institutional strengthening activity) to support improvements in DIA's governance bodies (a financial strengthening goal). Put in another way, the process of achieving of the financial strengthening outcomes includes the institutional strengthening activities along its results chain, and treating them as separate objective would risk double-counting of results.

Rationale

Theory of Change

The PAD (Annex 1) presented a Results Framework that focused on delineating the indicators for development outcomes and intermediate results. Annual targets and institutional responsibilities for collecting data on performance were specified. Although useful in practice for monitoring, the PAD's Results Framework had the shortcoming of not really analyzing the causal chain between inputs, outputs and outcomes. As presented, the wrong impression is given that each indicator can stand alone and can thus be monitored individually, when in reality the institutional strengthening indicators had a strong linkage with the ability of the key financial sector agencies to deliver the desired financial safety net in Serbia.

The ICR provides a more causally linked presentation of the results chain; hence the project's theory of change is more readily apparent. Through the implementation of specific financial and institutional strengthening interventions, a specific set of actions are concretized (i.e., the project's outputs, which in the case of this project are indicators that were linked to disbursements, or the DLIs). The combined effect of these actions results directly in: (i) endowing DIF with adequate resources such that DIA is able to meet its deposit insurance and bank resolution obligations; and (ii) equipping DIA with enhanced institutional capacity to manage financial resources and fulfill its mandate within Serbia's financial safety net. In addition to project outcomes, longer-term outcomes (beyond the scope of the project) were also outlined, including (i) stronger confidence in the financial system; (ii) reduced chances of systemic failures of small banks; and (iii) increased domestic savings and growth.

Nonetheless, while better conceptualized and presented, the ICR's Project Results Chain (Figure 1, page 6) and its underlying theory of change still had the minor shortcoming of not analyzing whether the project's activities were the right ones (i.e., other important activities were not neglected), and whether they were also of an adequate scale and timing. In the absence of this kind of analysis, it is much more difficult to identify the specific factors that could explain the project's successful performance (or to which the performance could be attributed), and derive relevant lessons accordingly.

In sum, while the project's Results Framework and theory of change are basically sound, the foregoing qualifications need to be kept in mind when assessing the project's outputs and outcomes, as discussed below.

Outputs
The project's outputs correspond to the achievement of intermediate actions that lay the groundwork, and form the substantive basis, for achieving the financial strengthening outcomes targeted for DIA. Moreover, each of these intermediate results were linked to specific levels of disbursement, in line with the results-based design of the project. Consequently, each of these intermediate results was designated as a Disbursement-Linked Indicator (DLI), for which the concrete results are delineated below. In substance, given the significant behavioral and procedural changes that materialized, these are not mere outputs but really constitute intermediate outcomes.

DLI 1 – Increased premiums paid by banks

In 2014 and 2015, an extraordinary annual premium of 0.2 percent of insured deposits was established to restore DIF's financial capacity, with the aim of increasing DIF funding up to a target level of 2.5 percent of insured deposits in 2016, based on the deposit level as of December 31, 2013. In 2016, the original extraordinary premium of 0.2 percent was not phased out; instead, the DIA increased the premium from 0.2 percent to 0.6 percent of insured deposits, with the aim of doubling the target DIF funding level to 5 percent (from the original 2.5 percent) of insured deposits by 2025. That oroginal target level of 2.5 percent of insured deposits was reached in 2017. Three disbursements were made under this DLI totaling EUR 50.87 million based on verified collection of premiums in line with agreed premium rates.

DLI 2 – Back-up funding for DIF has been secured through a stand-by facility with the government

Back-up financing was made available in the government's budget so that the DIF could provide access to financial resources in case of further bankruptcies, specifically EUR 200 million for 2014 and EUR 50 million for 2015. The DIF has a back-up facility with the EBRD in the amount of EUR 100 million. The DIF does not have an official government guarantee or stand-by facility with the government. Two disbursements were made under this DLI, in the total amount of EUR 10.9 million.

DLI 3 – The independence of DIA's governance bodies has been improved.

Governance of the DIA was strengthened through changes in the DIA's Managing Board. In 2014, one independent Board member was added. In 2015, three more independent Board members were added while reducing the Board representation of public authorities to only two appointees by the Ministry of

Finance and the National Bank of Serbia. With the verification of a Managing Board that is independent in the majority, two disbursements were made under this DLI for the total amount of EUR 17.8 million.

DLI 4 – The information to enable DIA to fulfill its mandate has been shared.

The sharing of key information between the DIA and NBS regarding problem banks improved coordination, which had been unsatisfactory and required improvement if DIA was to fully carry out its mandate. This indicator also required the establishment of a Financial Stability Committee that regularly met every quarter and included the Minister of Finance, the NBS Governor, the Chairperson of the Securities Commission, and the DIA Director. Upon verification of regular meetings by the Financial Stability Committee and sharing of key data on problem banks, four disbursements were made under this DLI for a total amount of EUR 16.44 million.

DLI 5 – DIA's recovery of assets from bankrupt and liquidated banks has been improved.

In line with its mandate, the DIA improved its collection of receivables from banks under bankruptcy and in liquidation, and recoveries were deposited in banks that were important to the financial system. Based on verified recoveries of at least EUR 110 million, three disbursements were made under this DLI for a total amount of EUR 10.89 million.

DLI 6 – The information base on state-owned banks has been improved to enable early detection and timely intervention.

Prior to the project, the DIF had been depleted by failures of three banks that had government stakes. Better information available to the MoF and DIA on state-owned banks led to improvements in the early detection of problems and timely interventions. Three disbursements were made under this DLI for a total amount of EUR 36.33 million, based on verified asset quality reviews conducted in 2014 on the state-owned banks. The reviews collected financial information, asset quality data, and other information required for supervision purposes in ensuing years.

Regarding institutional strengthening, the TA proved to be very beneficial. The Borrower consequently wanted to deepen the engagement, especially on strengthening the institutional and financial capacity of the DIF and to ensure that implemented reforms are sustainable. Although the government was initially reluctant to use loan funds for TA, the ICR (paragraph 46, page 16) reports that "the TA was influential and highly appreciated by the authorities", with the DIA and MOF indicating "that they 'benefitted tremendously from the project' and that it helped the DIA 'to resemble a modern institution'."

It is important to note that the Bank was proactive and instrumental in institutional strengthening capacity toward implementing reforms. The Bank team reviewed and provided comments on the Deposit Insurance Agency Law, the Deposit Insurance Law, and the Law on Bankruptcy and Liquidation of Banks and Insurance Companies. The review and comments were coordinated with the IMF and the EBRD. The revisions of those laws served as important foundations for strengthening the DIA and clarifying its responsibilities. The most important changes that were introduced included the following: (I) expanding the resolution mandate of the National bank of Serbia, while separating supervision and resolution functions; (ii) refocusing DIA's mandate on deposit insurance; (iii) making key changes to DIA's governance and the insurance premiums; and (iv) moving the monitoring of state-owned banks to the Ministry of Finance.

Outcomes

The project has resulted in (i) the recapitalization of the Deposit Insurance Fund (DIF) and (ii) increased contributions via premiums from member banks, both of which have led to continuous growth of the DIF. From a baseline of zero on December 31, 2013, cumulative inflows into the DIF reached 2.5 percent of insured deposits by June 30, 2016. As of 31 December 2017, the DIF balance was EUR 392.25 million, equaling 3.4 percent of the insured deposits compared to the December 31, 2013 baseline. Cumulative inflows into the DIF exceeded targets, in part because the temporary arrangement of having a high premium rate of 0.6 percent was maintained.

The project's overall achievements were high, notably in terms of strengthening the financial capacity of the DIA. However, measuring the extent to which DIA's institutional capacity was strengthened is more difficult given the limitations of the relevant PDO indicator, which could not be tested unless there were actual bank failures, as discussed in Section 9(a) on Monitoring and Evaluation design. Taking these considerations into account, the overall Outcome rating is Substantial.

Rating
Substantial

Rationale

Overall Efficacy Rating
Substantial

5. Efficiency

The PAD did not include financial or economic analyses since discounted measures of project worth (EIRR, NPV) are not applicable this type of project, which at its core is to recapitalize a depleted DIF and strengthen DIA and other key institutions in managing deposit insurance in Serbia. The ICR (Figure 3, page 14) made an effort to assess economic efficiency by comparing how the DIF balance and deposit coverage would develop with and without the project. With the project's interventions, the DIF balance of about EUR 300 million and insured deposits of at least 2.5 percent were reached in 2016, whereas without the project, the DIA would have taken until 2018--or two years more--to reach those levels.

With respect to value for money as a measure of project efficiency, the DIF had to be replenished urgently to bolster the stability of Serbia's financial sector. In practice, this meant that the project funds of EUR 143.23 million was transferred into the DIF soon after project effectiveness, thus demonstrating value for money since (i) the financial support was well timed and (ii) it achieved quickly the goals of effectively replenishing DIA's depleted fund balance and maintaining confidence in the financial system. If there had been delays by building the DIF solely through private contributions over a longer time period, there would have been negative effects on financial sector stability and the DIF’s ability to pay depositors in the event of another bank failure.

The project's administrative and implementation aspects were also efficient overall. The DIA and Bank team members remained mostly the same, with the TTL who designed the project being also responsible for implementation. Disbursements were largely made in 2015 soon after project effectiveness. The project's extension by 1.5 years (to allow completion of the capacity building activities under the TA component) had a negligible effect on overall project efficiency given its small size relative to the financial strengthening capacity component.

Efficiency Rating
Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The project's development objective is highly relevant to the financial sector consolidation and strengthening goals of the Government's strategy and the Bank's Country Partnership Strategy. The project's efficacy is substantial, as evidenced by its success in re-capitalizing the DIF and strengthening the capacity of DIA, the National Bank of Serbia, and the Ministry of Finance in achieving that outcome and, more broadly, in more effectively managing deposit insurance in Serbia. Efficiency is also substantial, given the achievement of targeted performance levels in 2016, compared to a projected delay of two years without the project's interventions.

a. Outcome Rating
Satisfactory

7. Risk to Development Outcome

Although the project achieved its development objective, some risks to its outcomes remain:

Financial Risks. The possibility that several medium-sized banks or one large bank could fail cannot be discounted fully. If this occurs, the DIF could be depleted again. Another global financial crisis could severely weaken the DIA once more. These are innate risks to financial institutions. The extent of DIF's obligations to pay depositors when banks fail would depend on the ability of the National Bank of Serbia to supervise the banking sector effectively and also implement timely, corrective actions when necessary. The back-up facility with the European Bank for Reconstruction and Development (EBRD) is also an important instrument to mitigate this risk.

Political and Governance Risks. If one of the five banks with continued government ownership fails, politically-driven decisions could prevail. This already occurred in 2012 and 2013 when three state-owned banks failed due to corporate governance problems and faulty risk management, which resulted in the depletion of the DIF. Out of 29 banks in Serbia, the 5 that are still state-owned continue to be plagued by losses as well as non-performing loans that are higher than private banks. Although the project strengthened (i) MOF's oversight of state-owned banks and (ii) the updating and alignment of NBS' supervision framework with international standards, the possible exertion of political influence cannot be entirely excluded, which would negatively affect the DIA's financial performance.

Institutional Risks. Sustainability is likely for the strengthened institutional capacity of the DIA and MOF, since this was provided for in the amendment of the sector's legal framework. However, as in the risks mentioned above, political economy changes and political interference cannot be entirely discounted, which could weaken the institutional achievements under the project.

There are no identifiable social, environmental or technical risks to the development outcome.

8. Assessment of Bank Performance

a. Quality-at-Entry

Although the project was processed quickly given the urgent issues faced by Serbia's financial sector, project preparation was thorough and satisfactory. Specific actions were linked to disbursements, which was a good design aspect given the importance of delivering comprehensively on those indicators in order to achieve the PDO. As an analytical underpinning for formulating those disbursement-linked indicators (DLIs), the Bank carried out an unofficial assessment of the extent to which the DIA meets the Core Principles of the International Association of Deposit Insurers. This assessment found that DIA was not compliant with five core principles: (I) governance; (ii) information-sharing among the providers of a financial safety net; (iii) recoveries; (iv) funding; and (v) early detection and timely intervention. The DLIs were designed to specifically address these areas of non-compliance. The implementation arrangements were also well designed and eventually proved to be effective.

One minor shortcoming is that the results framework, although well designed as a monitoring instrument, did not really analyze direct causality between project activities and outcomes, and attribution to the Bank's interventions. The PAD's six lines (paragraph 36, pages 9 and 10) only cited the responsibilities for data collection. The scope of the TA component also seemed to be less well formulated, thus delaying implementation and necessitating two extensions of the project's closing date. This tentativeness, however, was brought about by the government's initial reluctance to use loan funds for TA, as well as the rapidly changing conditions in the financial sector at the time of appraisal.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

During the project implementation period, there was several major changes in Serbia's political economy: there were three different governments, two Ministers of Finance, and changes in DIA's management. These led to significant implementation challenges that at times posed reputational risks for the Bank. For example, concern was raised regarding the conduct of DIA Directors, which eventually led to a revamp of the entire DIA Board of Executive Directors.

Nonetheless, supervision and reporting were satisfactory. The Task Team Leader was the same from the design up to the implementation stages. The Bank team was highly proactive and flexible when necessary, according to the DIA and the MOF, citing implementation support as having been effective and customized to their needs. Annex 2 of the ICR indicates that supervision was most intensive during FY2015, the year of project appraisal and approval.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The PAD's Annex 1 (page 16) provides a good basis for project monitoring. However, as discussed in Section 4 above on Efficacy, there was no foundational discussion of the project's theory of change that analyzes causal chains and attribution. Moreover, while the first PDO indicator is appropriate (i.e., cumulative inflows into the DIF equivalent to 2.5 percent of insured deposits since January 1, 2014), the second PDO indicator is not. As stated, the indicator is for DIA "to perform its legally mandated technical functions in any future bank failures in which DIF resources are utilized." However, as stated, DIA's improved capacity cannot be measured unless it were tested by an actual bank failure. A more appropriate and measurable indicator would be improved compliance with the Core Principles of the International Association of Deposit Insurers, or an internationally accepted set of norms and standards for deposit insurance.

b. M&E Implementation

The DIA as the implementing agency was tasked with, and did regularly provide, data to assess progress in achieving the PDO. The Bank regularly obtained from DIA the necessary information on intermediate results indicators, which were later verified through the semi-annual missions to provide field implementation support.

c. M&E Utilization

Results from monitoring activities were used to assess progress in achieving the PDO. No course corrections were needed based on the information received, since the outputs (including the DLIs) were implemented satisfactorily, and the intermediate and final outcome indicators were being consistently achieved during project implementation.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was assigned a Category C for the purposes of OP 4.01 on environmental assessment.

b. Fiduciary Compliance

The ICR (paragraph 52, page 17) indicates that "Implementation with regard to fiduciary policies was smooth." The ICR did not raise any issues.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Satisfactory	Satisfactory	---
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---

12. Lessons

The following are the main lessons that can be derived from the project's implementation experience (derived from the ICR, pages 18-19, with some paraphrasing):

Combining results-based financing and technical assistance can be effective for implementing reforms and building capacity in a sustainable manner. In this project, the disbursement-linked indicators (DLIs) provided the impetus and financial incentive to implement reforms, while the specifically tailored technical assistance activities proved to be useful in supporting the implementing agency, the Deposit Insurance Agency (DIA), in achieving the targets of each of the DLIs.

Corporate governance reforms are essential for addressing the depletion of deposit insurance funds. Corporate governance challenges in three state-owned banks that failed were largely responsible for the depletion of the Deposit Insurance Fund (DIF) in Serbia. The DIA itself had suffered from corporate governance problems in the past. As a result of this project, the DIA cites the following as its most important achievements: (i) the appointment of independent board members to the DIA's Managing Board; (ii) the appointment of an Executive Director; and (iii) the creation of a Board of Directors with delineated responsibilities.

World Bank operations can be instrumental in capitalizing deposit insurance funds. The project was the first World Bank operation that re-capitalized a depleted deposit insurance fund, thus demonstrating a novel way of engaging in the financial sector and responding to crises. This was achieved by extending OP 10's requirements on "productive use" to include an "expenditure into a fund" as an eligible expenditure. While three other World Bank operations have built on this project's success and have been approved (i.e., the Bulgaria-Deposit Insurance strengthening Project; Bosnia and Herzegovina-Banking Sector Strengthening Project; and Serbia-State Owned Financial Institutions Strengthening Project), further guidance is required on whether such operations should always be designed with Disbursement-Linked Indicators.

The close and strong collaboration between the World Bank, the International Monetary Fund, and the European Bank for Reconstruction and Development proved instrumental in ensuring that substantial but difficult reforms were indeed being implemented. The project was part of a broader review of bank resolution and deposit insurance that involved the World Bank, the IMF and EBRD. This joint effort included a broader regulatory reform of the set of financial laws that were passed by the Parliament in February 2015 and are being applied as of April 1, 2015. The World Bank, IMF and EBRD ensured that the programs were closely aligned and coordinated and often conducted missions jointly.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR was succinct and written clearly. It was results-focused and did a better job than the PAD in presenting at least diagrammatically the project's underlying theory of change (as distinguished from its monitoring framework during implementation). The ICR made an effort to discuss the counter-factual, mainly in the efficiency section, by plausibly drawing out potential results without the project. The report presentation and substance were in compliance with OPCS requirements for the preparation of ICRs.

a. Quality of ICR Rating

Substantial