



<b>1. Project Data:</b>		<b>Date Posted :</b> 01/19/2005	
<b>PROJ ID:</b> P074124		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Social Assistance Special Financing	<b>Project Costs (US\$M)</b>	10.00	9.99
<b>Country:</b> Serbia and Montenegro	<b>Loan/Credit (US\$M)</b>	10.00	9.99
<b>Sector(s):</b> Board: SP - Other social services (40%), General public administration sector (20%), Compulsory pension and unemployment insurance (20%), General industry and trade sector (20%)	<b>Cofinancing (US\$M)</b>	4.34	4.10
<b>L/C Number:</b>			
	<b>Board Approval (FY)</b>		02
<b>Partners involved :</b> Canada, Netherlands, Sweden	<b>Closing Date</b>	12/31/2002	04/30/2004

<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
Pierre M. De Raet	John H. Johnson	Kyle Peters	OEDCR

**2. Project Objectives and Components**

**a. Objectives**

The Grant was financed by the Trust Fund for the Federal Republic of Yugoslavia (since 2/4/2003 known as Serbia and Montenegro) with the Republic of Serbia as beneficiary . The objectives were to:

- 1) promote a more market-oriented labor relations framework to facilitate initial restructuring and eventual job growth;
- 2) support interim steps to improve the equity of the safety net, and help develop the policy framework for a more coherent safety net in the coming years; and
- 3) support policy development to lay the ground for more comprehensive reforms of the social insurance system .

**b. Components**

The Grant supported the following policy agenda of the Serbian Government :

- 1) reforming the Labor Law to promote greater flexibility, encourage labor market turnover and reduce high labor restructuring costs;
- 2) adjusting the tax base for social contributions in order to minimize avoidance and promote a market -oriented compensation structure for workers;
- 3) undertaking interim adjustments of the social welfare system in order to address inequities in targeting cash transfers in a fiscally prudent manner;
- 4) supporting initial steps to improve the policy framework for the system of transfers and services to the poorest, through establishment of a number of social welfare policy working groups; and
- 5) initiating policy development towards a more comprehensive overhaul of the current pension and health systems .

**c. Comments on Project Cost, Financing and Dates**

The Grant was subdivided into three portions : (i) US9.2 million disbursed upon effectiveness as budgetary assistance in support of policy conditionalities taken prior to approval of the Grant by the Regional Vice -President; (ii) technical assistance (TA), training, and equipment to assist in developing several social policies; and (iii) TA and other support to a PMU (existing within the Ministry of Privatization) responsible for managing the various TA activities . Both the Swedish and Dutch grants were fully utilized, but the Canadian grant only partially, as the second tranche of the Canadian aid came only in late 2003. The Closing date was extended twice to 12/31/2003 and to 4/30/2004 to

accommodate delays in TA activities .

### 3. Achievement of Relevant Objectives:

1) The objective of promoting a market-oriented labor relations framework was achieved : (i) first by amending the existing Labor Law by extending the tax base to non -wage allowances; reducing labor taxation rates to stimulate labor demand; and rationalizing entitlements to severance payments; (ii) second by adopting in December 2001 a new Labor Law compatible with market economies; (iii) by preparing, under the TA component, several draft laws on labor and employment to lay the foundation for medium -term reforms; and (iv) by preparing a National Employment Strategy, which was adopted by the Government in 2004.

2) Equity of the safety net was improved by interim measures : (i) de-linking social assistance and child allowance benefits from wages and indexing them to the cost of living on a trial basis (later made permanent); and (ii) introducing a uniform republic-wide eligibility threshold, thereby removing inequities . In addition, with the support of TA, the first representative household living standards and poverty survey covering 6,500 households was carried out, thereby providing the basis for analyzing poverty trends and evaluating the poverty -reduction impact of assistance programs. Progress was achieved in developing a coherent safety net policy for the medium term by preparing an action plan for the transformation of residential institutions, improving social statistics, drafting a new Family Code, and developing a monitoring system for the PRSP .

3) In the area of social insurance system, institutional changes were introduced first, followed by preparatory work, under the TA component, to formulate a pension reform strategy that led to the adoption of a new Pension Law in December 2001 rationalizing the different pension systems and improving their financial sustainability . In the area of health and health insurance, the TA helped prepare several health reforms subsequently supported by three Bank-financed operations (Health; SAC I; and SOSAC).

### 4. Significant Outcomes/Impacts:

1) The budget support provided under the Grant and bilateral assistance redressed inequities in social protection by financing social assistance payments to some 250,000 families/beneficiaries, including pension arrears to 150,000 pensioners.

2) The reform measures created some fiscal space by eliminating pension arrears and broadening the tax base .

3) The TA was effective in developing reform strategies in the social areas, in drafting important new pieces of legislation, and in preparing several reforms supported by SAC I (January 2002), the outcome of which was judged satisfactory and its sustainability likely .

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

1) As indicated in the ICR, it proved to have been an error to entrust an existing PMU in the ministry of privatization with the responsibility of managing and coordinating all TA activities falling under three very different ministries, thereby causing delays, poor communications, and conflicting views on priorities and operational matters .

2) Combining a quick-disbursing grant component with a slow-disbursing technical assistance component proved to be a design flaw which contributed to the project's significant closing delay.

3) Canadian cofinancing agreement was not concluded until twelve months after the start of implementation, further delaying the project.

4) The sustainability of the project is threatened by stated intentions of the recently-elected Government to reverse the project's labor market reforms.

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

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

### 7. Lessons of Broad Applicability:

Cofinancing arrangements should be agreed prior to Bank' s approval, including financing, TORs, and implementation.

**8. Assessment Recommended?**  Yes  No

**Why?** To assess medium-term progress in moving to a market-based economy and the development impact of the measures supported by this operation .

### 9. Comments on Quality of ICR:

The ICR is satisfactory. However, it is deficient in not having sought the view of the three cofinancing bilateral

agencies, which might have lent additional useful insights . It would also have been interesting to have a discussion of the fiscal impact of the measures undertaken in 2001 and subsequently, notably in relation to the labor market and the social safety net.