



1. Project Data:		Date Posted : 06/27/2003	
PROJ ID : P055432		Appraisal	Actual
Project Name : Pfsac 2	Project Costs (US\$M)	98	98
Country : Bosnia-Herzegovina	Loan/Credit (US\$M)	72	72
Sector(s) : Board: PS - Central government administration (50%), Compulsory pension and unemployment insurance (13%), Other social services (13%), Sub-national government administration (12%), Health (12%)	Cofinancing (US\$M)	26	26
L/C Number : C3258			
	Board Approval (FY)		99
Partners involved : Netherlands, Switzerland	Closing Date	12/31/2001	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group :
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2. Project Objectives and Components

a. Objectives
The objective was to help create conditions for sustainable economic growth through the strengthening of public finances. The specific objectives were to: (i) strengthen domestic resource mobilization; (ii) introduce strategic public resource allocation; (iii) improve revenue and expenditure assignments at different levels of government, resulting in more efficient provision of public services; (iv) create an affordable safety net with a focus on poverty alleviation; (v) set up institutional and regulatory frameworks to improve transparency and accountability of government finance; (vi) strengthen country-wide policy coordination in external debt management, including a framework for sub -entity borrowing.

b. Components
(i) Harmonization of tax policies, including allocation of revenues, and coordinating tax collection between the entities. (ii) Modernization of the budget management system. (iii) Reform of intergovernmental finances within the entities. (iv) Reform of the pension and veterans benefits systems. (v) Establishment of auditing procedures and institutions. (vi) Strengthening of debt management capacity.

c. Comments on Project Cost, Financing and Dates
A Dutch grant provided US\$23 million, and a Swiss grant, US\$3 million, for a total of US\$98 million. This sum was fully disbursed. The project took one year longer than planned due to the frequent changes in governments (following elections), ethnic tensions and the need for inter -entity cooperation, protracted decision -making by the various tiers of government, and weak capacity.

3. Achievement of Relevant Objectives:
The components were carried out, and project objectives have for the most part (and to the extent possible in the still short implementation period) been realized. (i) Sales and excise tax rates are fully harmonized, and there is a common external tariff and trade regime. Legislation was passed and a mechanism set up for allocation of tax revenues, although implementation is only beginning. Mechanisms for coordination have also been set up; implementation still requires improvement. The ICR asserts that Inter-entity harmonization of tax policies and systems has resulted in higher revenues, greater efficiencies and reduced distortions. (ii) Multi-year budgeting systems have been introduced, including preparation of medium term expenditure frameworks, although implementation is only beginning, and the effective translation of sector priorities and inter -sectoral choices into the budget remains to be achieved. Capital and recurrent budgets are integrated, and substantial progress has been made towards increasing the coverage of capital expenditures. A treasury system was established at state and entity levels. (iii) Intergovernmental financial reforms clarified the attribution of revenues and led to improvements in public

service delivery. Tax exemptions were rationalized. (iv) Pension funds are financially sustainable and more efficiently and transparently administered. Steps are still needed to unify the information systems underlying the unified fund and to improve compliance with paying of pension and health fund contributions. Analysis of beneficiaries of veterans' programs has been carried out; reform of the system will be supported under another project. (v) Supreme Audit Institutions have been established at the state and entity levels and have developed considerable capacity to undertake external audits. Compliance and certification audits are being conducted and staff are being trained for performance auditing. (vi) The entities have adopted improved external debt management systems, resulting in more secure budget control and oversight (but guidelines for sub-entity borrowing have not yet been enforced).

4. Significant Outcomes/Impacts:

The reforms under PFSAC 2 are key to the broader structural reform program; in particular they provide the fiscal stability needed for reforms related to private sector development, privatization, and social sector modernization. They are also central to the re-integration of the economy and the elimination of the distortions, tax competition, and revenue losses stemming from a lack of cooperation between the entities. They have served an important political economy objective in fostering inter-entity dialogue and in providing a vehicle for the Bank and other donors to reward cooperation.

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

None.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	Some of the findings (e.g. on revenue mobilization and pension finances) are not backed up by data. The upcoming PPAR will seek to confirm these findings. In addition, the PPAR will clarify the extent to which the achievements of this project built on the reforms under PFSAC 1.
Institutional Dev.:	High	High	
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		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:

(i) Changes in laws and regulations and in institutions are only the first step toward the final goals of growth and efficiency in public finances; the fundamental test lies in implementation. The Borrower and the Bank must be aware of possible sources of vulnerability and respond promptly to emerging problems in implementation. (ii) The presence of a core team of political and technical leadership, in the midst of elections and changing ministerial cabinets, is critical to keeping reforms on track. (iii) Inter-entity and ethnic cooperation can be facilitated by external mediation, within a slow process of consensus building. This requires, inter alia, intensive supervision.

8. Assessment Recommended? ☒ Yes ☐ No

Why? This project is being assessed in a cluster with three other projects (including TA and social sectors). This will permit the evaluation of the project in the context of the fuller program of Bank assistance, and provide a chance to find the missing data. In addition the PPAR will clarify the issues raised in sections 6 and 9 of this ES.

9. Comments on Quality of ICR:

The ICR does not describe specifically how the achievements attributed to this project were additional to those of PFSAC I. For example, some of the components under fiscal harmonization and pension reform appear to be identical in both PFSACs. Moreover, additional data (e.g. on tax revenues, pension finances) would have helped substantiate the findings.