



<b>1. Project Data :</b>
<b>OEDID:</b> L4102
<b>Project ID:</b> P044056
<b>Project Name:</b> Structural Adjustment Loan
<b>Country:</b> Lithuania
<b>Sector:</b> Other Non-sector Specific
<b>L/C Number:</b> L4102
<b>Partners involved :</b>
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<b>Date Posted:</b> 08/09/1999

**2. Project Objectives, Financing, Costs and Components :**  
**Objectives :** To support Lithuania's structural reform program and improve GDP growth to reduce poverty over time by (i) solving the banking system's operational and under-capitalization problems, and (ii) eliminating the most serious sectoral imbalances in energy, agriculture and social security sectors . Key specific reforms include: (a) a new regulatory framework in the banking sector to foster prudent and efficient practices; (b) commercialization, institutional reform and privatization in the energy sector so as to achieve financial sustainability and efficiency gains; (c) rationalization of agricultural support mechanisms, thereby increasing the role of the private sector and opening up to international trade; and (d) improving in the law governing, and the administration of , the social insurance system while creating a framework for private sector involvement . **Financing :** US\$80 million IBRD loan  
**Costs and Components :** US\$80 million IBRD loan disbursed in two equal tranches . The loan was approved by the Board on October 15, 1996, made effective on October 18, 1996, and closed on June 30, 1998, after a 10 month delay.

**3. Achievement of Relevant Objectives :**  
 GDP growth improved to 4.7% in 1996, 6% in 1997, and an estimated 4.7% in 1998, a significant increase over growth rates of -16.2%, 1.0%, and 3.3% for the prior three years . Progress concerning structural reforms included : (i) **banking sector reforms** comprising recapitalizing the State Commercial Bank and the Savings Bank to meet capital adequacy requirements, strengthening BOL supervision and making International Accounting Standards (IAS) mandatory for all banks and requiring annual IAS audits, bringing all operating banks to full compliance with BOL regulations, liquidating an insolvent bank (Innovation Bank) and de-licensing the State Commercial Bank and merging its operations with the Savings Bank, taking steps to privatize the Agricultural Bank (the process is now nearly complete), and publicly announcing the sale of the Savings Bank, and applying deposit insurance equally to all banks; (ii) **energy sector reforms** comprising reducing consumer arrears for electricity, establishing an independent Energy Pricing Commission which approves tariffs covering admissible costs of energy companies, adopting international-standard accounting, procurement, and management procedures, and selling to the private sector numerous components of the state-owned energy companies; (iii) **agricultural sector reforms** comprising: GOL submitted to parliament an amendment to allow legal entities to own land, sales to farmers of shares in enterprises at all stages of the food processing industry, preparing an additional 23 agricultural enterprises (mostly not included in the farmer privatization program) for sale by the privatization agency, reducing budget expenditure on agricultural subsidies by 4.3% in 1997 (in real terms), and formulating a 20 percent decrease in the 1998 budget allocation, converting off-budget subsidies into a Rural Support Fund to support public investment in rural areas in a more need-based and transparent manner; and (iv) social security reforms, comprising a legal framework for private voluntary pensions, and proposals to parliament to make needed modifications in the public pay -as-you-go pension system, including a proposal to increase retirement ages needed to protect financial integrity of the system .

**4. Significant Achievements :**  
 The banking sector reforms represent a wide-ranging reform and cleaning up of a sector which had been in distress, all within a short period of time for such a substantial reform . Similarly, the energy sector and agricultural sector reforms cover a large number of steps .

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**5. Significant Shortcomings :**

Levels of support for milk prices were increased, contrary to thrust of program to reduce subsidies . There were long delays in submitting needed pension scheme reforms to parliament .

<b>6. Ratings :</b>	<b>ICR</b>	<b>OED Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome :</b>	Satisfactory	Satisfactory	Aside from lags in social security reform and several minor problems, this outcome is close to "Highly Satisfactory".
<b>Institutional Dev .:</b>	Substantial	Substantial	The "substantial rating for institutional development recognizes progress made in the banking sector, energy sector, and, to a lesser extent, in the agricultural sector. However, pension reform lags and possible future problems should not parliament approve the reforms make this a borderline evaluation.
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Highly Satisfactory	Highly Satisfactory	The Bank did a commendable job in assisting the wide-ranging reforms supported by the SAL, briefing multi-party committees on the SAL agenda, and providing substantial local office support on a continuing base to reformers . With the implementation success across the board, this merits a highly satisfactory rating.
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	Aside from shortfalls in pension reform, Borrower performance is close to rating "highly satisfactory".
<b>Quality of ICR :</b>		Satisfactory	

**7. Lessons of Broad Applicability :**

Participatory approaches to build support for reforms pay off . The participatory approach taken by the project team included having the SAL team brief multi-party committees through this period of parliamentary elections . Effective donor coordination, including (or especially) concerning technical assistance, is critical to project success .

**8. Audit Recommended?**  Yes  No

**9. Comments on Quality of ICR :**

The ICR discusses the program in a very satisfactory manner, provides substantial evidence to supports its views, and is very readable.