ICR Review

Operations Evaluation Department

Report Number : ICRR10833

1. Project Data:		Date Posted :	03/12/2001	
PROJ ID :	P002968		Appraisal	Actual
Project Name :	Enterprise Development	Project Costs (US$M)	91.30	71.22
Country :	Uganda	Loan/Credit (US$M)	65.60	43.92
Sector(s):	Privatization	Cofinancing (US$M)	25.70	27.30
L/C Number :	C2315			
		Board Approval (FY)		91
Partners involved :		Closing Date	12/31/1999	06/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:	

2. Project Objectives and Components

a. Objectives

The revised objectives of the Enterprise Development Program against which this project is evaluated are:

Reduce the size of the PE sector through privatization and liquidation.

Divest 85% of all parastatals to the private sector within a three-year period through increased participation of Ugandans in privatization using the stock market as the preferred method.

Improve performance and financial discipline of the remaining PEs through:

(i) improved financial oversight and monitoring of the parastatals by the Ministry of Finance, Planning and Economic Development (MFPED), and

(ii) encouraging PEs to utilize other instruments to improve their solvency ratios besides the Government subsidies (i.e., debt-equity swaps, access to external funding).

Generate a supply response from private and public enterprises by providing medium-term investment finance.

b. Components

1. Privatization and Public Enterprise Reform and Restructuring - US$32 million- replaced the TA component following the Presidential Directive of 1995 that dissolved the PERD Secretariat, and other institutions involved in privatization. This component was redesigned to support the new structure and to provide financing for project management, technical training, consultant services, and equipment and materials for the privatization and PE reform program. A small TA sub-component to the Ministry of Industry was retained as it was making a contribution in the context of Uganda's efforts to join the World Trade Organization

2. Investment Term Credit Refinance Scheme (ITCRF) Component - US $25 million -was streamlined to simplify loan disbursement procedures. Under the modified arrangements and consistent with the GOU policy on interest liberalization, there would be no cap on lending rates for sub-loans thus allowing participating banks to determine the final interest charged to the borrower.

c. Comments on Project Cost, Financing and Dates

The project originally had four main components:

1. Line of Credit -US$25 million, through the establishment of **ITCRF**

2. Technology and Management Fund (TMF) - US$11 million

3. Restructuring Fund (RF) -US$16 million

4. Technical Assistance (TA) and Project Management - US$ 11.5 million

Unallocated - US$ 2.0 million.
The RF and **TMF (**Total US $26.6 million) were canceled following mid term review in 1994 because it was felt that these were redundant. The remaining funds were reallocated to the two remaining components - which were modified. There were serious inadequacies in the initial project design. It is therefore, extremely difficult to comment on costs, financing and dates since the original project was drastically modified and budgets adjusted to reflect the modifications. In the final analysis against the appraisal cost to IDA of US $65.6 the actual was only US $43.92. The project delivered satisfactorily against its modified objectives with only a six month delay in its original closing date.

3. Achievement of Relevant Objectives:

Overall - satisfactory. The positive fiscal, socio-political, and general economic benefits outweighed the costs. Specifically:
Reduce the size of the PE sector - partially achieved.
Improve the performance and financial discipline of the remaining PEs - partially achieved.
Generate a supply response from private and public enterprises by providing medium-term investment finance through the line of credit - fully achieved.

4. Significant Outcomes/Impacts:

Conditions were created for growth and poverty reduction through private sector development. The Public enterprise sector was reduced and financial discipline in the remaining enterprises improved. There was increased availability of term finance to the enterprise sector and stronger capacity at participating banks (PBs) to manage lines of credit. There was expansion of the industrial base (investments) and employment in and tax revenue from the enterprise sector - twenty two projects were given loans for expansion and modernization; seventeen new enterprises were created; and, one divested enterprise was rehabilitated. The full impact of the line of credit on output and employment cannot be determined yet since a number of enterprises only completed their investment program over the past year.

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

During **initial** implementation
(i) lack of detailed procedures for divestiture and for use of the divestiture proceeds which led to questions of transparency and governance; and
(ii) inadequate legal and institutional arrangements of the implementing agencies. These contributed to the deteriorating quality of the privatization process.
Specific **initial** shortcomings of the Implementing Agency included:

- *lack of knowledge and procedures as to how to draft a proper sale-contract and poor contract management*
- *operational difficulties in relationship with IDA*
- *procurement quality problems*

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev .:	Modest	Modest	
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:

1. ***Strong government commitment to and leadership of the privatization program are essential to success*** - these can help overcome weaknesses in design and implementation.

2. ***Accountable leadership and strong privatization agency**,* with skilled staff empowered with appropriately defined responsibilities and authority to carry out the reform, is another key to success.
3. ***Public awareness, participation of stakeholders and consensus building are essential*** to program success.
4. ***Availability of resources to address the social cost of reform*** without which the sense of instability and uncertainty can impact negatively on the privatization process.
5. ***Capacity building facilitated by provision of training in market analysis and project planning is essential if the results are to be sustainable***. Such training should encompass the Government agencies involved in project implementation as well as the other players and actors to minimize the turnaround time and the lending risk.
6. ***Efficient communication between line ministries, implementing agencies and IDA*** are essential to ensure a smooth and efficient project implementation.

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

Satisfactory