

IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted : 06/11/2007	
PROJ ID : P060785		Appraisal	Actual
Project Name : Hn Economic & Fin. Management Project	Project Costs (US\$M):	20.90	22.35
Country: Honduras	Loan/Credit (US\$M):	19.00	20.16
Sector Board : PS	Cofinancing (US\$M):		
Sector(s): Central government administration (100%)			
Theme(s): Administrative and civil service reform (20% - P) Regulation and competition policy (20% - P) Other accountability/anti-corr uption (20% - P) Public expenditure financial management and procurement (20% - P) State enterprise/bank restructuring and privatization (20% - P)			
L/C Number: C3414			
	Board Approval Date :		09/12/2000
Partners involved :	Closing Date :	08/31/2004	09/30/2006
Evaluator :	Panel Reviewer :	Group Manager :	Group:
Rene I. Vandendries	Jorge Garcia-Garcia	Ali Khadr	IEGCR

2. Project Objectives and Components:

a. Objectives:

The Economic and Financial Management Project (EFMTAC) was the third IDA operation in support of Honduras' long-term public sector modernization strategy which had been initiated in the mid -1990s. The specific objectives of this technical assistance credit were focused on : (i) improving the transparency and accountability for the use and allocation of public resources; (ii) developing budgetary planning and evaluation capacity in key agencies; (iii) promoting institutional restructuring in the telecommunications, port, and postal service sectors; and (iv) strengthening the technical capacity of the regulatory entities .

While the development objectives of the project did not change during implementation, adjustments were made in the project development indicators and in the intermediate outcome indicators to facilitate monitoring and evaluation of progress.

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

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

There were six main components to this project, as well as one additional component to support the project implementation unit.

1. Strengthen public financial management through institutional improvements, and especially through a complete redesign of the integrated financial management information system, SIAFI .
2. Reorganize the Comptroller General's office .
3. Improve human resource management in the public sector .
4. Develop performance evaluation capacity .
5. Strengthen public procurement .
6. Consolidate regulatory reform .

In addition to the above, the project would provide support and strengthen the operational capacity of the project coordinating unit.

About two years into implementation, on June 1, 2003, important revisions were made in these components at the request of and in agreement with the borrower . Component no. 5 (public procurement) was dropped because the IDB had a large project in place to deal with the issue . The scope of and allocations for components no. 3 (human resource management) and no. 4 (performance evaluation capacity) were reduced significantly in view of slow progress and borrower resistance to reform . The function of the Comptroller General's office was replaced by the Tribunal Superior de Cuentas (Supreme Audit Court). A new component was added in support of administrative reform, which had become a priority of the new Government .

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The credit was fully disbursed and covered about 90 percent of project costs, the remainder being provided by the borrower . There were major delays in implementation, involving three extensions of the closing date and a cumulative delay of 25 months.

3. Relevance of Objectives & Design:

The objectives of the Economic and Financial Management project were relevant . They addressed urgent issues in public sector management and the link between those issues and macro stability and private sector growth was strong and clear . On the other hand, the design of the policies was not always realistic . The strong commitment of the Executive Branch of Government to some of the reforms (e.g. civil service reform) proved insufficient to overcome the inertia and opposition sourced in strong vested interests .

4. Achievement of Objectives (Efficacy):

In some areas good progress was made . The integrated financial management information system (SIAFI), which had originally been designed with support from an earlier IDA operation but proved unworkable, was completely redesigned and rolled out within the Central Administration . It has greatly improved the Government's ability to control and manage public expenditures, even though shortcomings remain . This is probably the primary achievement of this credit and is expected to be the basis for other reforms to come . The Tribunal Superior de Cuentas was created as a result of this credit and transformed into an effective institution : strategic planning and capacity improvements have been introduced and the institution has already made some headway in addressing corruption . In the area of regulatory reform, the institutional and regulatory framework has been improved in two services sectors: telecom, and water and sanitation; in other sectors progress has been limited primarily because of opposition of vested interests .

Progress in the areas of developing planning and performance evaluation capacity, and in administrative reform, was limited to a few agencies . Inertia precluded wider success .

Finally, in the area of improved human resource management in the public sector, efforts were made at the technical level to lay the basis for civil service reform, but nothing was achieved as a result of an impasse on the passage of civil service reform legislation through Congress .

5. Efficiency (not applicable to DPLs):

N.A.

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

Rate Available?

Point Value

Coverage/Scope*

Appraisal	%	%
ICR estimate	%	%

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

6. Outcome:
 On balance, and in view of the importance of the improved SIAFI, the outcome of the credit is rated moderately satisfactory.
a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:
 Major obstacles to reform in Honduras are the ever-present tensions between the Executive Branch of Government and Congress which delay passage of reform laws, and the strength of vested interest groups both in Government (teacher's unions) and in the private sector. These factors will continue to act as a drag on the reform process and jeopardize the sustainability of achievements .
a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:
 The project was well-focused on important structural aspects of Honduras' public sector modernization agenda . In the difficult and slow-moving Honduran institutional context, however, it was overly ambitious .
 The supervision effort was intense and closely coordinated with the activities of other donors, especially with the IDB. IDA was flexible and adjusted the implementation schedule and focus of the operation in accordance with Government priorities and capacities .
a. Ensuring Quality -at-Entry: Moderately Satisfactory
b. Quality of Supervision : Satisfactory
c. Overall Bank Performance : Moderately Satisfactory

9. Assessment of Borrower Performance:
 Project implementation was affected by two changes in government administration which, in the Honduran context, resulted in changes in government counterparts . This contributed substantially to the 25-month delay in implementation. The tense relationship between the Executive Branch of Government and Congress meant that several necessary legal reforms were not passed by Congress : this was the direct reason for the absence of progress in a number of areas and implies unsatisfactory performance by the Government .
a. Government Performance : Unsatisfactory
b. Implementing Agency Performance : Moderately Satisfactory
c. Overall Borrower Performance : Moderately Unsatisfactory

10. M&E Design, Implementation, & Utilization:
 The M&E mechanism was based on reports by major executing agencies and IDA supervision missions . But the original monitoring indicators were inadequate and were adjusted during project implementation . The prime achievement in this area was the development of SIAFI throughout the Central Government and decentralized institutions, which allows for improved transparency in recording and reporting of the Government's economic activities and establishes a framework to ensure accountability .
a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Satisfactory	
Risk to Development Outcome:	Significant	Significant	
Bank Performance:	Satisfactory	Moderately Satisfactory	While the project was the appropriate follow-up to earlier projects, the design was not always realistic. As noted in the ICR, both the time frame for implementation and the project scope were overly ambitious.
Borrower Performance:	Moderately Satisfactory	Moderately Unsatisfactory	Borrower performance is rated moderately unsatisfactory by IEG because the delays in project implementation and the absence of progress in several areas were the result of borrower practices, inertia, and resistance to reform, not of exogenous factors.
Quality of ICR:		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

13. Lessons:

The main lesson, as stated in the ICR, is that in a difficult environment such as Honduras, with limited implementation capacity and tense political relations between different branches of government, projects in support of inherently long-term public sector modernization efforts must be realistic and modest .

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR presents all necessary information . It could have been more explicit in distinguishing between the lack of change in project development objectives versus the changes in project components and the changes (adjustments) in project development indicators .

a. Quality of ICR Rating : Satisfactory