Report Number : ICRR14098

IEG ICR Review
Independent Evaluation Group

1. Project Data :		Date Posted :	06/27/2013	
Country :	Central African Republic			
	Is this Review for a Programmatic Series?			Yes ● No
Series ID :				
First Project ID :	P120534		Appraisal	Actual
Project Name :	Economic Management And Governance Reform Grant Iii	Project Costs (US$M):	8.8	8.8
L/C Number:		Loan/Credit (US$M):	8.8	8.8
Sector Board :	Economic Policy	Cofinancing (US$M):		
Cofinanciers :		Board Approval Date :		09/17/2010
		Closing Date :	04/01/2011	03/30/2012
Sector(s):	Central government administration (44%); Micro- and SME finance (19%); Mining and other extractive (13%); Forestry (12%); Oil and gas (12%)			
Theme(s):	Public expenditure; financial management and procurement (31%); Regulation and competition policy (25%); Other financial and private sector development (19%); Tax policy and administration (13%); Environmental policies and institutions (12%)			
Evaluator :	Panel Reviewer :	ICR Review Coordinator :	Group :	
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2. Project Objectives and Components:

a. Objectives:

The Third Economic Management and Governance Reform Grant's overall objective, according to the Program Document, was " to improve transparency and efficiency in the management of public resources and promote private sector development through reforms aimed at : (i) strengthening budget execution and reporting as well as public procurement, and improving revenue administration to increase domestic revenue with the view to expand public investment in priority sectors; (ii) strengthening the regulatory framework in the forestry, mining and petroleum sectors so that they can continue to be a source of sustainable growth, employment and incomes; and (iii) improving the business environment by reducing the cost of doing business ". The program document also states that the grant was designed to provide fiscal space to the CAR to protect priority spending and mitigate the effects of the global economic slowdown . For the purposes of this ICR review, IEG evaluates the objectives in the following order : a) provide fiscal space to the CAR to protect priority spending and mitigate the effects of the global economic slowdown; b) strengthen budget execution and reporting as well as public procurement, and improve revenue administration to increase domestic revenue; c) strengthen the regulatory framework in the forestry, mining and petroleum sectors so that they can continue to be a source of sustainable growth, employment and incomes; and d) improve the business environment by reducing the cost of doing business.

b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?

No

c. Policy Areas:

Improve the efficiency of public finance management - This policy area had four sub areas: i) increased efficiency of budget execution procedures; ii) strengthening of planning and enforcement of the procurement law and regulations; iii) strengthening external oversight of budget execution; and iv) improved control over discretionary exemptions. These were underpinned by nine outcome indicators - 1) number of commitment plans validated and approved for priority sector ministries by end June 2010; 2) number of procurement plans adopted by priority sector ministers by end-June 2010; 3) number of eligible small and medium enterprises with which the Government settles its arrears; 4) amount of arrears payments to SMEs from the Treasury in accordance with the Arrears order; 5) fully operational public procurement regulatory authority; 6) timely publication by the court of accounts of its audit of the 2008 government accounts; 7) timely submission by the Ministry of Finance of the draft 2008 budget execution law; 8) number of tax exemptions granted by the Ministry of Finance; and 9) value of tax exemptions granted.

Strengthen the public sector and economic governance - This policy area had three sub areas: i) establishing a framework for improved tracking and control of timber production; ii) implementing the principles of the Extractive Industries Transparency Initiative (EITI); and iii) strengthening the regulatory framework of the petroleum sector. This policy area was underpinned by four outcome indicators - 1) national tracking and verification framework adopted; 2) the second EITI report covering receipts from diamonds and other minerals; 3) downstream petroleum legislation formally adopted by the Government; and 4) audit report on the use of petroleum sector revenues is published timely

Reducing cost of doing business - This policy area was underpinned by two outcome indicators - 1) reduction in the cost to start a business; 2) reduction in the cost to transfer a property value.

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

Costs: The program provided US $ 8.8 million to the Government of CAR in two tranches.

Financing: The grant was financed fully by the Crisis Response Window of IDA.

Dates: The operation was appraised in June 2010 and approved by the Board on September 17, 2010. The grant was disbursed in full. The project was restructured to extend the closing date from April 1, 2011 to March 30, 2012 to complete the outstanding conditions for the release of the second tranche.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Overall, the objectives of the program were highly relevant for CAR's economic rehabilitation and development agenda and fully aligned with the PSRP that had a pillar on promoting good governance and the rule of law, focused among other things on strengthening the public sector's ability to design and implement efficient and effective policies to realize development goals. The objectives were also consistent with the third pillar of the PRSP on rebuilding and diversifying the economy focused on transparent management of natural resources, restoring the infrastructure, supporting the growth of traditional industries such as forestry and mining, and improving the business environment. The reform actions were built around achievements in governance under previous budget support operations (EMGRG I and II). The objective of protecting priority spending was motivated by the global financial crisis, which substantially affected CAR's growth rate and restrained government's ability to mobilize resources. The grant aimed to protect priority spending programs including implementation of the Disarmament, Demilitarization and Rehabilitation (DDR) program, an expansion of public investment in infrastructure in health and education to provide basic services to the population, clearing outstanding areas for salaries and to suppliers. This was supported by the objective to improve budget execution that was expected to remove the bottlenecks to timely implementation of the priority spending programs. The focus on the private sector was a new area for the Bank's policy lending to CAR that expanded the coverage of the operation compared to the previous programs thus increasing the level of effort needed for program implementation in an already difficult operational environment.

IEG rates the relevance of objectives as **substantial**.

b. Relevance of Design:

IEG assesses the relevance of design as **modest** based on a review of both strengths and weaknesses.

Key design strengths were as follows:

- The program was built around previous policy operations, ensuring continuity in a number of important reforms especially in the area of budget execution and public financial management
- Building the operation in two tranches was an adequate response to the uncertainties and heightened political risks
- The choice of instrument was relevant given the short-term financing needs due the crisis
- The program was developed in coordination with the other donors through close consultations around the General Framework for Budget Support to the PRSP
- Extension of the program before releasing the second tranche was an adequate response to deterioration in program implementation and the overall economic policy environment.

Despite these strengths, there were weaknesses:

- Although the rationale of the program was to provide fiscal space for protecting social protection expenditures, and the program document states that the Government aims at a 5 percent real increase in priority spending (including health, education, water and sanitation, agriculture and rural development, social protection and infrastructure), the program did not incorporate policy actions and outcome indicators to underpin this objective. This is a major drawback, especially given that during program implementation major issues with allocation of budgetary resources and financial management emerged that strongly undermined the program.
- The coverage of the program was quite broad (13 prior actions and second tranche release conditions) by the standards of policy lending operations in fragile countries, even though at the preparation stage the Government showed strong ownership of the reform agenda.
- Although the causal chain, reflected in the policy matrix, in most of cases links policy actions to outcomes in a convincing manner, in some areas there is weak link between actions and outcomes (for example, it is not clear if the adoption of a Tax Procedure Manual should necessarily lead to a decrease in the number of tax exemptions granted).
- The indicators were focused more on actions rather than outcomes: e.g. there was no indicator for increases of fiscal revenues; or, the indicators for improvement in the business environment were exceedingly timid.

4. Achievement of Objectives (Efficacy):

Provide fiscal space to the CAR to protect priority spending and mitigate the effects of the global economic slowdown (negligible). The program provided US $ 8.8 million of grant funds to the Government of CAR in 2010-2012. However, there is evidence that the funds did not contribute to priority spending to the extent expected under the program. CAR experienced substantial deterioration in overall fiscal management after the elections, which followed the release of the first tranche in December 2010. In particular, the quality of expenditure reporting deteriorated which raised concerns about transparency in public spending. The computer system of the Treasury for tracking and recording fiscal expenditures became dysfunctional in 2011. The ICR reports that deterioration of the financial management system disproportionately affected priority spending (page 12). These major slippages in fiscal management were documented by the Bank team during the preparation of the 2011 PER. This, and substantially weakened overall momentum for the reforms led to a need to extend the original closing date to allow completion of the actions for the release of the second tranche. Deterioration in economic management throughout 2011 led to the withdrawal of the EU and IMF. Although the situation improved somewhat toward the end of 2011 and early 2012 which led the Bank to release the second tranche, there is no evidence that under the program the Government of CAR maintained the programmed level of priority spending.

Strengthen budget execution and reporting as well as public procurement, and improving revenue administration to increase domestic revenue (modest). In the area of budget execution procedures, the program achieved improved and timelier adoption of procurement plans by the ministries in 2010, which, however, was reversed in 2011 as a result of the overall deterioration in public financial management. 2012 saw some improvements but the overall progress is below expectations. The target value of clearing budgetary arrears to SMEs both in terms of the number of SMEs and total payments were met. However, shortfall in the monitoring and evaluation framework does not allow assessing if this achievement constitutes a real advancement in this area. In particular, it is not clear what the net changes in arrears are, as there is evidence that clearing of the existing arrears was accompanied by accumulation of new arrears, especially against the background of substantial deterioration in public financial management throughout 2011. In addition, the decline in the number of SMEs (targeted by the program) to which the Government had arrears from 252 to 240 seems to be insignificant.

In the area of strengthened external oversight of budget execution the Government submitted the draft 2008 budget execution law to the parliament with one year delay, in December 2011. In the area of control over tax exemptions, the number of tax exemptions granted to businesses by the government has actually increased instead of declining as expected under the program, from 38 exemptions in 2009 to 53 in 2011 and 45 in 2012. However, substantial progress was achieved in terms of the total amount of exemptions that declined 30 percent as opposed to an expected 15 percent decline. In spite of these changes, mobilization of domestic revenues deteriorated sharply in 2011 reflecting overall slippages in fiscal management.

Strengthen the regulatory framework in the forestry, mining and petroleum sectors so that they can continue to be a source of sustainable growth, employment and incomes (substantial). In the area of improving tracking and control of timber production the Government adopted a national tracking system and a system of verification of the legality of timber production, as expected under the program. Although the target was met, the system was not operational at the time of completion of the ICR. In the area of implementing the EITI principles, the report covering 2007, 2008 and 2009 was prepared as planned and CAR became EITI compliant in March 2011. In the area of a strengthened regulatory framework for the petroleum sector, the government has adopted the legislation and the implementing decrees reforming the downstream petroleum sector. The audit report on the use of petroleum funds expected in December 2010 was completed in September 2011.

Improve the business environment by reducing the cost of doing business (modest). In this area the Government reached the targets of reducing the cost of registering a business and the cost of transferring commercial real property by 50 percent. However these changes did not lead to an improvement of CAR's Doing Business indicators and its ranking. CAR continues to have the lowest ranking among 185 countries covered by the Doing Business. In addition, the number of new firms registered declined following these actions suggesting that there might be other binding constraints for business entry.

Macroeconomic performance (not rated): CAR's economic growth rate recovered from a slowdown in 2009, reaching three to four percent in 2010 and 2011. However, the fiscal situation deteriorated starting from end 2010 and throughout 2011, with the revenue shortfall due to the withdrawal of donors and a decline in domestic revenues, as well as major slippages in budget execution. The situation began improving only at end-2011 that resulted in the release of the second tranche in early 2012, and approval of long-delayed three-year ECF arrangement by the IMF. However, macroeconomic and fiscal developments are overshadowed by uncertainties due to the political instability that led to a short military conflict at the end of 2012 and a coup in the spring of 2013.

5. Efficiency (not applicable to DPLs):

6. Outcome:

The overall outcome rating is moderately unsatisfactory, based on IEG's rating of substantial relevance of objectives and modest relevance of design, substantial efficacy of strengthening the regulatory framework for the forestry, mining and petroleum sectors, modest efficacy of strengthening budget execution and private sector reforms, and negligible efficacy of protecting priority public spending. Although the program helped CAR to advance in a number of areas and provided strongly needed financial support to withstand the external shock, the overall achievement of objectives was severely undermined because of the government's departure from the reform path during program implementation and the reversal of many gains in budget execution and fiscal management. In addition, the achievements under the program were further undermined by political instability and military conflict that led to the overthrow of the government by rebels in March 2013.

a. Outcome Rating: Moderately Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

CAR is facing major security, political and economic challenges intrinsic to fragile countries that are further magnified by the high level of poverty, vulnerability to external shocks and political instability. The example of major policy deterioration in 2011 and its implications for economic management indicates that governance remains the most critical issue, and the reform agenda remains at risk. Furthermore, in the spring of 2013, the government of CAR was overthrown by rebels after a 3-month military conflict. There are major uncertainties regarding CAR's political and economic developments. Therefore, IEG assesses the risks to development outcome as high.

a. Risk to Development Outcome Rating : High

8. Assessment of Bank Performance:

a. Quality at entry:

The program team performed strongly in identifying the reform actions to be supported by the Bank and in developing a program that addresses client financing needs and builds on the achievements under previous programs while adding substantial value to the authorities' reform agenda. The program preparation drew on analytical work, and the team strongly cooperated with other donors. The reform agenda, however, was too broad for a fragile country facing a multitude of challenges. The main shortcoming, however, was that the program's design failed to include appropriate provisions for protecting priority expenditures. In retrospect, quantitative indicators on priority spending at a sufficiently disaggregated level could have put substantial weight on this policy area and, potentially, prevented the deterioration of expenditure management.

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

The supervision of the program was organized through supervision missions that produced two ISRs. The program benefited from the fact that the TTL was located in the country office. Identification of serious slippages in financial management that started to emerge shortly after the release of the first tranche led to a suspension of the program. Although program implementation was resumed toward the end of 2011 and deterioration of the financial management system was reversed, the ICR does not provide much evidence about the Bank supervision's assessment of the status of the program beyond implementation of the conditions for the second tranche.

Quality of Supervision Rating : Moderately Satisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The government played an important role in initiating and developing the reform agenda. This sharply contrasts with its performance during program implementation. Shortly after the release of the first tranche serious slippages in financial management emerged, and the government's focus on the remaining actions for the release of the second tranche seriously weakened. Although CAR was facing many challenges, policy deterioration can be hardly attributed to domestic or external factors beyond the government's control.

Government Performance Rating : Unsatisfactory

b. Implementing Agency Performance:

The Ministry of Finance was the implementing agency of the program. During program preparation the Ministry acted as reform champion, which, however, changed during program implementation. Among possible factors the change in high level Ministry staff could have contributed to the problem. The Ministry's performance in terms of its core functions of budget execution severely weakened during program implementation.

Implementing Agency Performance Rating : Unsatisfactory

Overall Borrower Performance Rating : Unsatisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The M&E system for the program was built on the M&E framework designed for the PRSP . All policy areas had outcome indicators and all quantitative indicators had established baseline values . The ICR diligently provided end of period values. However, there were shortcomings with a number of indicators . For example, the indicator on budget arrears focused on the amount of arrears paid during program implementation instead of targeting net arrears that would have reflected accumulation of new arrears (a major issue for 2011). The indicator on establishing the national tracking system for forestry has the formal establishment of the system as its target without focusing on actual operations, which, as of preparation of the ICR had not started yet . One of the major shortcomings of M&E was that there was no indicator on domestic revenues .

b. M&E Implementation:

The M&E arrangements placed responsibilities for collecting data on the Ministry of Finance . The Bank performed its own monitoring through missions in CAR . Implementation of M&E for the program was organized through the oversight committee that was established for previous budget support operations .

c. M&E Utilization:

The ICR does not report any utilization of the M&E system beyond monitoring program implementation .

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:

None

b. Fiduciary Compliance:

None

c. Unintended Impacts (positive or negative):

None

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Moderately Satisfactory	Moderately Unsatisfactory	Although the reforms supported by the program were mostly implemented, the objectives were not sufficiently met due to deterioration of economic management in 2011 (see Section 4 above).
Risk to Development Outcome:	Significant	High	After preparation of the ICR, CAR was hit by a military conflict that led to the seizure of power by rebel groups in March 2013. Political uncertainties pose major risks to overall economic management in CAR, including the

			achievements under the program.
Bank Performance :	Moderately Satisfactory	Moderately Satisfactory	
Borrower Performance :	Moderately Satisfactory	Unsatisfactory	The deterioration in economic governance in general and substantial weakening of public financial management in particular were the major impediments for program implementation. There is no evidence that these slippages were beyond government control.
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:

IEG agrees with the lessons highlighted in the ICR, including the usefulness of a two -tranche budget support operation in fragile countries and the importance of TA for program implementation . In addition, this operation highlights once again the challenges that the Bank is facing in implementing budget support operations in fragile countries, and the need for comprehensive analysis of the political and security situation to fully take the risks of engagement into consideration.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR provides detailed accounts and analysis on many important aspects of the program in a user -friendly fashion. However, the document does not provide an assessment of the impact of the collapse of the PFM system on program implementation in 2011.The document could have done more in reflecting on shortcomings of some of the outcome indicators.

a.Quality of ICR Rating : Satisfactory