Public Disclosure Authorized

Report Number : ICRR0020833

1. Project Data

Project ID	Project Name
P133226	LB Fiscal Management Reform 2
Country	**Practice Area(Lead)**
Lebanon	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-83000	31-Mar-2017	5,200,000.00
Bank Approval Date	**Closing Date (Actual)**	
14-Apr-2014	31-Dec-2016	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	5,200,000.00	0.00
Revised Commitment	5,200,000.00	0.00
Actual	2,200,323.73	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Loan Agreement (p. 4), the project's objectives were "to strengthen the Borrower's capacity in fiscal policy analysis, debt management, and budgetary allocation of public resources; enhance the efficiency of the Borrower's financial management systems; and tighten the control environment for more effective use of the Borrower's public resources."

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

No

c. Will a split evaluation be undertaken?

No

d. Components

The project had two components. The ICR does not provide actual project costs by component.

1. Macro-Fiscal Analysis and Public Debt Management (appraisal, US$ 0.968 million), comprised of two subcomponents. The first subcomponent, Macro-Fiscal Analysis, was intended to deliver long-term, systemic capacity building to expand the scope and depth of operations to transform the Macro-Fiscal Department (MFD) into a self-reliant policy analysis unit within the Ministry of Finance (MoF). Activities were to include upgrading empirical modeling and testing; revisiting and upgrading the Medium-Term Fiscal Framework on a regular basis, leading to the preparation of a Medium-Term Budget Framework (MTBF); preparing a Budget Framework Paper to be incorporated as part of the annual budget preparation cycle; and developing an institutionalized macro-fiscal training program. The second subcomponent, Public Debt Management, was intended to consolidate capacity, expand the scope/functions, and strengthen operational aspects of the Public Debt Directorate (PDD). Activities were to include debt management strategy development and cost-risk analysis; debt management strategy implementation; organization and staffing of PDD; reporting, both external and internal, and the establishment of a dedicated investor relations function; management of contingent liabilities; and a review of the legal framework for debt management.

2. Public Expenditure Management (appraisal, US$ 3.248 million), comprised of four subcomponents. The first, Expenditure Programming and Budget Preparation, was to revisit the institutional framework of the budget directorate, design a new organizational structure, and implement this restructuring to align the functions of the directorate with the new draft budget systems law passed in 2001. The second, Budget Execution, was to provide technical advisory support and training for the MoF to enhance budget execution processes and practices, especially treasury and cash management, transition to centralized Treasury Single Account operations, enhance commitment controls and liquidation, and improve accounting practices and reporting based on new budget classification and a new chart of accounts. These activities were to be complemented through strengthening of information technology systems, eventually leading to completion of a bidding package for procurement of a modern Integrated Government Fiscal Management Information System. The third, Public Procurement Reforms, was to support ongoing public procurement reform initiatives for modernizing and improving the transparency of budget execution and preparation functions, including: supporting the development of a website platform for procurement; revising procurement manual and standard bidding documents; and strengthening the Central Tender Bureau (CTB) and other stakeholder capacity through specialized training on procurement international best practices. The fourth, Internal Control and Internal Audit, was to initiate new internal control and internal audit processes within MoF on a pilot basis. Activities were to include a consolidation of existing diagnostic reviews, establishing an MoF interdepartmental control and audit working group, piloting an operational internal audit function within MoF, and raising awareness, knowledge, and training for civil servants.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The ICR does not provide information on actual project costs by component. Actual total costs are reported at US$ 2.2 million.

Financing: The project was to be financed by a US$ 5.2 million loan from the International Bank for Reconstruction and Development. Retroactive financing was provided to support the establishment and staffing of the Project Management Unit in the MoF prior to Board approval. Actual disbursement was US$ 2.2 million. According to the Project Team, the project closed ahead of schedule due to low performance and the intention of all parties to seek a new engagement, but the loan was not cancelled.

Borrower Contribution: The project did not envisage or receive counterpart financing.

Dates: The project was approved on April 14, 2014 and became effective on December 23, 2015. The ICR does not explain the lengthy gap between approval and effectiveness; the Project Team later added that the delay was due to the country's political deadlock, with the executive branch and parliament not meeting in the absence of an occupant of the presidency. The project closed on December 31, 2016, three months earlier than the planned closing of March 31, 2017.

3. Relevance of Objectives & Design

a. Relevance of Objectives

At the time of appraisal, Lebanon was emerging from a period of fragility and political instability. Management of public finances was weak, and budget laws had not been approved since 2005. Public accounts had not been closed in two decades, and budgetary processes and practices were characterized by continuing major shortcomings and lack of transparency (ICR, p. 1). Public debt was a key constraint for future economic growth and social progress. This project followed on the Emergency Fiscal Management Reform Support Implementation Project (US$ 3.85 million, 2009-2013), which comprised a number of interlinked measures in budgeting processes and practices as well as debt and aid management. The current government's Policy Statement commits to addressing fiscal problems and submitting a draft general budget law, though dealing with the repercussions of the Syrian refugee crisis has displaced many other priorities. The Bank's Country Partnership Framework for Lebanon (FY 2017-2022) contains an overarching theme of governance, highlighting macroeconomics and fiscal management as significant constraints with cross-cutting sectoral impact. The project's objectives are therefore substantially relevant to country conditions, government strategy, and Bank strategy. However, it could be argued that the objectives were inappropriately ambitious given the uncertainty surrounding prerequisite policies and legislation, including the absence of a budget law, and overall political instability and paralysis.

Rating
Substantial

b. **Relevance of Design**

The project's planned activities were plausibly and logically linked to intended outcomes. Capacity in fiscal policy analysis was to result from support to the MoF to expand its scope and depth of operations, focusing on capacity to perform analysis and make decisions, including development of policy papers and scenario analysis. Capacity in debt management was to result from the establishment of a fully functional and empowered PDD that would prepare and implement a debt management strategy, as well as negotiate borrowings on behalf of the government. Improved budgetary allocation of public resources would be enhanced through the implementation of an MTBF in line departments, resulting in better alignment of planning and budgeting. Efficiency of financial management systems would be increased through the implementation of International Public Sector Accounting Standards, better cash management, a timely allocation process, improvement procurement practices, and eventually, adoption of a modern Government Fiscal Management Information System. Internal controls were to be tightened through establishment of an internal audit function to reduce risks of improper utilization of public funds, fraud, waste, and corruption.

However, in a fragile and politically unstable environment, the project spread its focus across too many activities, many of which were dependent on high-level political action and institutional reforms that may or may not have been forthcoming. Furthermore, some of the planned activities (cash management and movement toward a Treasury Single Account, for example) were not directly related to the results framework. The choice of loan instrument was not appropriate for a project requiring significant policy shifts; Development Policy Financing may have been more appropriate, but was not possible in the absence of an approved budget (ICR, p. 5).

Rating
Modest

4. Achievement of Objectives (Efficacy)

Objective 1
Objective
Strengthen the Borrower's capacity in fiscal policy analysis

Rationale
Efficacy is assessed against one outcome indicator: a Budget Framework being developed and submitted for Cabinet discussion prior to the issuance of the budget call circular. Toward this outcome, 661 staff were trained, of whom 59% were female, exceeding the target of 60 trained staff (half of whom were to be female) (the project's results framework defines staff training as an outcome indicator, but it is more appropriately situated as an output indicator). All MFD staff and other MoF officers received recurrent training on macro-

fiscal themes, but there is no information provided on learning outcomes or determination of whether trainees used what they learned to improve their work. Staff turnover remains high, and skills sets are insufficient (ICR, p. 11).

As a result, an MFD team produced three short analytic papers on subsidies to the Lebanese Power Company, the impact of tax increases, and other subjects. The team also identified possible impact assessment studies on trade agreements and the electricity sector, but these have not been finalized. Most importantly, although a draft MTBF was developed and published in-house, and three line ministries were engaged, the longer-term process of converging the MTBF into an official Budget Framework paper to be submitted to the Cabinet was not achieved.

Overall, although staff received training, limited evidence is provided on effective use of that training, and the ICR states that skill sets remain insufficient. There was limited production of fiscal policy analysis to indicate that Substantial capacity was developed in this area. Achievement of this objective is therefore rated Modest.

Rating
Modest

Objective 2
Objective
Strengthen the Borrower's capacity in debt management

Rationale
Efficacy is assessed against one outcome indicator: domestic borrowing plans being formulated and published on an annual basis by the PDD. Toward this outcome, hands-on work with PDD staff was performed by local and international consultants. Back-office and middle-office functions of the PDD are well established, and the front office has recently been set up. An upgraded version of a Debt Management and Financial Analysis System (DMFAS) has been adopted and installed. A High Debt Committee has been nominated but has met only once in the last two years. A new debt management law has been drafted.

As a result, an annual borrowing plan was developed and published. Quarterly auction calendars were developed and published in coordination with Lebanon's Central Bank. A Medium-Term Debt Management Strategy for 2014-2016 was approved by the High Debt Committee and published. The strategy for 2017-2021 is published but not yet approved. Data from the DMFAS is being used to produce quarterly analytical reports that include risk exposure indicators for outstanding debt. PDD is working on a first annual report that is to contain detailed information about outstanding debt and risk, as well as an analysis of debt management strategy implementation. However, the debt-to-GDP ratio rose from 134% at the time of project inception to 148% in 2016.

Overall, many processes improved, including updated debt management strategies, auction calendars taking

into account cash needs, adoption of the DMFAS, better coordination with the Bank of Lebanon, adoption of the debt management law, and redesign of the quarterly report. These improved processes are all signs of improved capacity. The adverse change in debt-to-GDP is too high-level an indicator to measure capacity, as it is affected by many externalities; once external conditions improve, the improved debt management processes should help to better manage the debt-to-GDP ratio. Achievement of this objective is therefore rated Substantial.

Rating
Substantial

Objective 3
Objective
Strengthen the Borrower's capacity in budgetary allocation of public resources

Rationale
Efficacy is assessed against one outcome indicator: line ministries having detailed budgets prepared on time according to Medium-Term Fiscal Framework guidelines. Toward this outcome, a draft decree for a Budget Directorate Organization was prepared and, after many iterations, approved by the Civil Service Body. The *Shuraa* Council did not endorse it, however, and retention of qualified staff remains a significant challenge.

As a result, the MFD produced three Medium-Term Fiscal Frameworks (budget years 2015, 2016, 2017) and pilot MTBFs for 2014-2017, 2015-2018, and 2016-2020, but this remained an internal task, without submission to or approval by the Council of Ministers. Three line ministries were engaged in an explanation of the process, but no further activities were undertaken. Basic issues of budget credibility and predictability have not been addressed or resolved. A draft budget system law was reopened, but technical discussions with the Budget Director have been prolonged, and very limited progress has been made. There has still been no government-ratified budget since 2005.

Overall, there is negligible evidence of increased capacity translated into results. It is true that the target for overall staff trained on macro-fiscal themes according to the training program was exceeded (see discussion under Objective 1). However, there is no measure of the quality of the training (for example, exams passed by trainees, or evaluations of job performance before and after training was delivered). The type of training is not mentioned and, given the scale and complexity of activities, the target of 60 persons trained was modest. With regard to this objective, progress along the PDO indicator would have required extensive training specifically for budget preparers of line ministries; however, there was limited provision for such training. In addition, intermediate indicators aligned to the PDO indicator were not included in the results framework. Achievement of strengthened capacity for budgetary allocation of public resources is therefore rated Negligible.

Rating
Negligible

Objective 4
Objective
Enhance the efficiency of the Borrower's financial management systems

Rationale
Efficacy is assessed against one outcome indicator: MoF financial statements having been issued in compliance with IPSAS cash standards. Toward this outcome, a planned procurement package for a fiscal management information system was not completed. According to the ICR (p. xi), the MoF decided to proceed with its own procurement. The CTB staff was trained, and 12 new employees have been hired and retained. Study tours were conducted to Italy and Turkey, exposing staff to established public procurement systems. A CTB portal was developed, but it remains in test mode. The Office of the Minister of State for Administrative Reform developed standard bidding documents, but the project did not develop complementary documents.

As a result, a draft decree to implement the Chart of Accounts was completed, but the MoF has not integrated it into its information technology system. Shadow accounts for the financial statements were prepared. However, IPSAS--based financial statements are not being prepared. The number of inactive administration accounts with the Treasury was reduced from 37 to zero. Agreement has been reached on abolishing intermediate accounts, and ministerial instructions for the abolishment of linked accounts were developed in May of 2015. The MOF has taken a number of steps toward reducing cash collected by the Beirut Accounting and Cashiers Office and other offices where revenues were collected in cash, including issuing instructions to limit the size of cash receipts. However, no data are available on the actual reduction in cash collected. A directive for mandatory payments of all transactions above three million Lebanese pounds (US$ 2000 equivalent) through bank electronic transfers was approved and is now being implemented. No progress was made on streamlining the approval process for liquidation payments (ICR, p. xi). No data are available on reduction in average time of liquidation payments.

Although the target was not reached for the single PDO-level indicator relevant to this objective, modest progress was made along other efficiency dimensions of the financial management system, including streamlining of accounts and reduction in cash transactions. Achievement of this objective is therefore rated Modest.

Rating
Modest

Objective 5

Objective

Tighten the control environment for more effective use of the Borrower's public resources

Rationale

Efficacy is assessed against one outcome indicator: an annual Internal Audit Report being issued by the MOF, approved by the relevant authority as defined by decree. Toward this outcome, an internal audit unit was not established as planned, although a core team of six staff received some limited training. Six MoF staff received training on public sector internal audit from France and Turkey.

As a result, the annual Internal Audit Report has not been issued. A decree on internal audit was prepared but returned from the Civil Service Board with objections. Although some limited outputs were achieved relevant to this objective, outcomes are minimal, and achievement is therefore rated Negligible.

Rating

Negligible

5. Efficiency

The Project Appraisal Document (pp. 22-23) states that, because the project focused on technical assistance and capacity building, it was not possible to quantify a precise economic rate of return. It states that there were expected (but not specified) fiscal savings to be gained from improved public resource management. The ICR does not perform or mention an economic or financial analysis. Implementation inefficiencies were severe. There was no project manager in place for two-thirds of the implementation period. Progress on deliverables was slow. Some of the implemented activities were not related to the project's development objectives. Most of the project's planned activities, including some that were prerequisite for others, could not be implemented due to the extreme political deadlock in the country. Project efficiency is therefore rated Negligible.

Efficiency Rating

Negligible

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

	Rate Available?	Point value (%)	*Coverage/Scope (%)

Appraisal	0	0 ☐Not Applicable
ICR Estimate	0	0 ☐Not Applicable

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

6. Outcome

The project's objectives were aligned with country context, Bank strategy, and government strategy, but they may have been overly ambitious in an environment of political instability. Relevance of objectives is therefore rated Substantial. Design was Modestly relevant, given the absence of political and legislative prerequisites for reform, and some mismatch between planned activities and the stated objectives. Of the project's five objectives, one was Substantially achieved, two were Modestly achieved, and two were Negligibly achieved. Efficiency was Negligible. Taken together, these ratings are indicative of major shortcomings in the project's preparation and implementation, and therefore Outcome is rated Unsatisfactory.

a. Outcome Rating

Unsatisfactory

7. Rationale for Risk to Development Outcome Rating

The MoF has requested continued Bank support for public financial management reforms. The ICR (p. 20) reports that, while political instability and uncertainty remain, there is a consensus among stakeholders on the strong need for reform. The PDD and MFD are fully operational, though staff turnover and institutional empowerment continue to pose significant risk. Some local consultants hired by the project are now embedded in various directorates. However, the political environment remains highly challenging, posing substantial risk to even the small outcomes achieved by the project.

a. Risk to Development Outcome Rating

Substantial

8. Assessment of Bank Performance

a. Quality-at-Entry

The predecessor project's implementation experience contributed to the background analysis supporting the project. Lessons learned included the need for flexibility to mitigate the risk of delays resulting from political

deadlock. However, some key elements of political and economic context were not adequately taken into account; in particular, achievement of the project's objectives was reliant on significant policy shifts and decrees whose dependence on political factors should have been anticipated. The choice of instrument was not optimal (see Section 3b). Target-setting was not realistic in the context of reforms that required basic elements such as approval of a budget law, moving toward a Single Treasury Account, and transitioning from a purely cash management function to an accounting function. Some risks were appropriately assessed as High, including the risk that the MoF would not have adequate absorptive capacity and staffing, institutional uncertainty and unpredictability, and weak donor coordination; mitigation measures were specified, but ultimately inadequate to accommodate political instability. Some of the key performance indicators were not relevant and aligned with the objectives, and/or were not measurable (see Section 10a).

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

Supervision missions were conducted as required, every six months, and aides-memoire were regularly prepared. Implementation Status and Results Reports realistically rated project implementation and progress toward achievement of development objectives. The project team effectively monitored fiduciary compliance. The team attempted to support the MoF and project implementation unit as challenges arose, and it provided informal quality control for project reports. However, as project activities continued to be impacted by political uncertainty and indecision, restructuring was not considered.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

9. Assessment of Borrower Performance

a. Government Performance

The government stated continuing commitment to the reform process. However, the project was hampered by executive and legislative branch paralysis resulting from the absence of a President of the Republic; a rarely-convening Cabinet; and overall conflicting priorities within the government. The absence of a voted budget by the Parliament since 2005 made reforms less relevant and impactful; for example, discussion of a Medium-Term Fiscal Framework or preparation of cash plans remained a theoretical exercise in the absence of an approved budget law. The ICR (p. 8) observes that project activities were most productive when the priorities of political leaders and administrative staff were aligned, but more often, activities were hampered by distrust and micromanagement of project affairs.

Government Performance Rating
Unsatisfactory

b. Implementing Agency Performance
Overall financial management arrangements for the project were adequate, and there were no issues with flow of funds. Most procurement staff were held over from the predecessor project. However, one year into implementation, the project manager resigned, causing significant delays and contributing to ongoing capacity shortcomings. The MoF did not appoint a full-time project manager for the remainder of the project period. High staff turnover negatively impacted work programs. IT capacity was weak. Procurement delays due to high-level micromanagement produced lags of more than three months in processing contracts for international consultants.

Implementing Agency Performance Rating
Moderately Unsatisfactory

Overall Borrower Performance Rating
Unsatisfactory

10. M&E Design, Implementation, & Utilization

a. M&E Design
The Project Appraisal Document (p. 19) stresses that no country systems were in place to monitor public financial management reforms, and therefore the project's reliance on existing data sources would be limited. The project management unit was to be responsible for data collection and preparation of quarterly progress reports. Most of the key outcome indicators were not relevant, not aligned with the development objectives, or not measurable. This produced gaps in the results chain. For example, the first objective, improving capacity for fiscal policy analysis, was achievable only through extensive collaboration between the MFD, line ministries, and budget department; however, the only intermediate outcome indicator related to this objective was training of fifteen staff on macro-fiscal themes, insufficient to support the outcome indicator of preparation of a Budget Framework Paper. Analogous issues are observable with the results chains governing most of the other objectives. Furthermore, many of the indicators were of poor quality, requiring only yes/no answers.

b. M&E Implementation
The ICR does not directly assess M&E implementation, but from the efficacy discussion it is apparent that data on project indicators were collected and reported.

c. M&E Utilization
The ICR does not provide information on use of M&E data and analysis for project implementation or policy development.

M&E Quality Rating
Modest

11. Other Issues

a. Safeguards
The project was rated Environmental Category C. No safeguard policies were triggered.

b. Fiduciary Compliance
The project complied with fiduciary covenants during implementation. Internal control arrangements were in place, and adequate financial management systems and records were maintained. Procurement oversight during supervision was satisfactory (ICR, p. 9). The ICR does not provide information on project audits.

c. Unintended impacts (Positive or Negative)
The ICR (p. 16) reports some unintended outcomes, but these are reported here as achievements in Section 4.

d. Other
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12. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Unsatisfactory	Unsatisfactory	---
Risk to Development Outcome	Negligible	Substantial	Although Outcome is rated Unsatisfactory, some project outcomes are reported in Section 4. The political risk to those outcomes is Substantial.
Bank Performance	Moderately Unsatisfactory	Moderately Unsatisfactory	---
Borrower Performance	Unsatisfactory	Unsatisfactory	---

Quality of ICR	Substantial	---

Note
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 ICR (pp. 18-20) reports extensive lessons emerging from the project, including:

In a politically volatile and uncertain environment, project implementation may be impacted by policy shifts and other unpredictable events that will require adapting the project's approach towards achieving the objectives. In this case, the absence of a budget law rendered progress along most project dimensions merely a theoretical exercise.

Government commitment to a dedicated and well-functioning project implementation arrangement is critical to implementation success. In this case, the absence of a project manager for the majority of the project period caused severe delays and bottlenecks, opening the project to micromanagement.

Simplicity is the best approach in a fragile, politically complex environment. In this case, focus was spread across too many ambitious components, given the challenging overall context.

14. Assessment Recommended?

No

15. Comments on Quality of ICR

The ICR is straightforward, concise, candid, and adherent to established guidelines. It unusually clearly delineates the project's theory of change and results chain. It uses graphic illustration effectively to demonstrate several key information areas (project timeline and results framework gap analysis). However, it contains neither an economic or financial analysis, nor a discussion of the reasons that such an analysis was not appropriate for this project. Some data that are relevant to the efficacy discussion are included only in the "recommendations" section (pp. 19-20). Actual project costs by component are not provided (Annex 1).

a. Quality of ICR Rating

Substantial