

IEG ICR Review
Independent Evaluation Group

1. Project Data: Date Posted : 01/29/2010

PROJ ID : P078673	Appraisal	Actual
Project Name : Poverty Reduction	US\$M):	
Project Costs (US\$M):	20.0	20.0
Support Credit (PRSC)		
Country : Armenia	Loan/ US\$M):	
Loan /Credit (US\$M):	20.0	20.0
Sector Board : EP	US\$M):	
Cofinancing (US\$M):		

Sector (s): General public administration sector (40%)
General agriculture fishing and forestry sector (20%)
General finance sector (20%)
Health (10%)
General education sector (10%)

Theme (s): Tax policy and administration (20% - P)
Regulation and competition policy (20% - P)
Rural services and infrastructure (20% - P)
Public expenditure financial management and procurement (20% - P)
Environmental policies and institutions (20% - P)

L/C Number : C3999

Board Approval Date : 11/18/2004

Partners involved : Closing Date : 12/31/2005 12/31/2005

Evaluator :
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2. Project Objectives and Components:

a. Objectives:

This operation was the first of a series of four single tranche Poverty Reduction Support Credits (PRSCs)

intended to support policy and institutional reforms in furtherance of Armenia's Poverty Reduction Strategy

Paper (PRSP). The PRSC program had four main development objectives : (i) consolidating macroeconomic

□ discipline and strengthening governance; (ii) sharpening competition and entrenching property rights; (iii)

mitigating social and environmental risks; and (iv) modernizing the rural economy. The PRSC's contributions

towards these objectives were to be monitored through 36 outcome indicators (6 each for objectives one and

two, 15 for objective three and 9 for the fourth objectives). From PRSC III onwards, the list of the monitoring

indicators was narrowed down to 24 (4, 3, 13 and 4 respectively for the four objectives).

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):

The PRSC I supported actions in 11 different policy/institutional areas:

Objective I : Macroeconomic Consolidation and Governance

1. Maintaining macroeconomic stability.
2. Reforming public administration including strengthening of tax and customs administrations and improving governance in irrigation and drainage .
3. Improving public management including budget management system and financial reporting and public procurement system.

Objective II : Sharpening Competition

4. Promoting competition including liberalization in key services and regulatory reform in state owned utilities .
5. Entrenching property rights through promotion of secured transactions, confidence in the banking system and insurance markets.

Objective III : Mitigating Social and Environmental Risks

6. Improving social protection and social risk management .
7. Raising the quality of education .
8. Controlling risks in health.
9. Reducing risks in natural resource management for sustainable livelihoods .

Objective IV : Modernizing the Rural Economy

10. Stimulating farm incomes; and
11. Developing rural infrastructure.

The PRSC I was based on 7 prior actions were completed ahead of PRSC I and included 13 triggers

for
continuing support through PRSC II .

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

PRSC I was approved on November 18, 2004 for US\$20 million, fully disbursed and closed on schedule on December 31, 2005. The financing provided through the PRSC I amounted to about a third of the total IDA lending during that period; large enough to attract serious attention from the government but not so large as to crowd out investment lending needed to complement the PRSC supported reforms . The PRSC I processing schedule fitted well with the government's budget cycle . However, as PRSC disbursements were a rather small share of total government expenditures (less than 2 percent), the timing of the IDA disbursements was not a critical consideration in this case .

There were no formal co-financing arrangements. IDA financing was, however, complemented by significant technical assistance provided by a number of multilateral and bilateral donors including in particular IMF, EU, USAID, DFID, SIDA and the Japanese PHRD.

3. Relevance of Objectives & Design:

The objectives of the PRSC I were on the whole well -aligned with Armenia's Poverty Reduction Strategy Paper (PRSP) as well as with the Bank's country assistance strategy . Building upon the impressive gains made by Armenia over the previous decade in transitioning to a market economy and in restoring growth and macroeconomic stability, the PRSCs rightly focused on consolidating those gains while deepening the reforms and protecting the poor. The program enjoyed strong ownership by a government with a good track record of delivering on its promises. The program also enjoyed broad support from the civil society and the NGOs based upon the extensive consultations undertaken by the government during preparation of the PRSP .
 Notwithstanding some differences between the PRSC and the Government's PRSP (e.g. attention given to the problem of high unemployment, inclusion of civil aviation reforms), the relevance of the objectives is rated as substantial .

To a large extent, the PRSC I design was a continuation of the public and private sector reforms initiated under the preceding Structural Adjustment Credits (SACs), complemented by a sharper focus on the efficiency of rural development and social sector expenditures . This was appropriate given the respectable record of SACs in delivering results in Armenia, the large unfinished agenda of second generation reforms, and the importance placed in the PRSP on rural poverty and non -income poverty. The PRSC design was also well integrated with other lending and analytical activities supported by the Bank under the CAS . In many areas (e.g.,

education, health, irrigation and utilities), the PRSC provided support for policy /institutional reform, while the investment operations in those areas provided financing for infrastructure and technical assistance . Similarly, the Bank's AAA work in many cases (e.g., Public Expenditure Review, Poverty Assessment and Transport Sector Review) played an important role in informing the design of the reform measures under the PRSCs .

While the PRSP provided the broad framework for the PRSC I design, commendably, it was not taken as a straitjacket; in some areas where the analytical work by the Bank identified additional critical constraints to development (e.g., monopolistic functioning of the civil aviation sector), the PRSC leverage was used to raise awareness of the issue and to build a constituency for reform . Another commendable feature of the PRSC design was that it did not shy away from taking on board reforms which although badly needed (e.g., reform of the tax and customs administration, control of illegal logging), faced opposition from powerful vested interests . The PRSC I documentation should however have been more candid in recognizing the high -risk/high-reward nature of those reforms as well as in setting more realistic expectations and outcome targets in those areas .

The PRSC I design would have also benefited from greater care and selectivity in choosing the outcome indicators; the dropping of some one third of the initially chosen indicators after PRSC II is illustrative of the scope for improvement in that respect . On the positive side, for the most part, the chosen indicators had well-defined baseline and target values thereby facilitating a robust judgement on the PRSC performance and achievements.

Overall, the relevance of the PRSC I design is rated as substantial .

4. Achievement of Objectives (Efficacy):

Objective I : Macroeconomic Consolidation and Governance

1. Maintaining macroeconomic stability.

During the PRSC period (2004-08), economic growth averaged 11.8 percent per annum, well above the PRSC target of 6 percent. At an average of 1.5 percent of the GDP, the fiscal deficit remained well below the projected average of 2.4 percent. Although the average annual inflation of 4 percent exceeded the 3 percent target. Overall, Armenia successfully maintained its impressive track record on the macroeconomic front. Not surprisingly, Armenia also met the targets of the IMF's PRGF covering 2005-08.

A worrisome aspect was, however, the increasing dependence of the economy on remittances, leaving it vulnerable to external shocks as happened in 2009 in the aftermath of the global economic crisis (In

2009, remittances shrunk by a quarter, GDP contracted by 8 percent, fiscal deficit increased to 5 percent, and inflation rate rose to 6.5 percent).

2. Reforming public administration

After initial stagnation, the tax ratio increased from 14 percent in 2004 to 16.4 percent in 2008-- above the targeted 16 percent. (The PRSC documents are inconsistent on the target, putting it at 17 percent in some places). Nevertheless, notwithstanding this increase, the overall progress in strengthening the tax and customs institutions was only modest at best. Several of the institutional reform initiatives supported under the PRSCs (e.g. introduction of a self-assessment system, streamlining of the large taxpayer unit, and direct trader input) were slow to take off and are still to be fully mainstreamed. The slow progress reflects in part the inherent complexities of the underlying institutional reforms but more importantly, the apparent push back from the vested interests. According to the ICR, the common perception is that the tax administration has improved -- but not significantly. Support under the PRSC has put in place some of the infrastructure needed for improved performance and reduced corruption, however, reaping those benefits will require continued strong political support over several years.

As part of the prior actions for PRSC I and triggers for PRSC II, irrigation and drainage responsibilities were consolidated as a step towards greater cost recovery. However, in the absence of any information on the status of the targeted increase in cost recovery from 50 percent in 2003 to 70 percent in 2007, it is assumed that this increase has not materialized.

3. Improving public management

Adoption of the GFS 2001 budget classification system in 14 state budget agencies has led to greater budget transparency and accountability, allowing the legislature greater understanding of the government programs. Introduction of the medium-term economic framework linked to the PRSP has also improved budget planning and expenditure control. In contrast, only limited gains have been made in improving financial reporting and in modernizing public procurement systems. Although internal audit offices have been set up in all ministries and most central government agencies, the quality standards remain low due to capacity and mandate problems. In particular, PRSC expectations regarding improved financial reporting by the State Non-Commercial Organizations (SNCOs) have not been met. The PRSC I goal of a functioning external audit system also remains unmet. (It should be noted however that this goal was dropped ahead of PRSC II because it was considered too ambitious). Introduction of e-procurement to reduce corruption and increase transparency has also moved slower than planned and is unlikely to be mainstreamed before

2010, significantly behind the PRSC I target of 2007. The issue of single source procurement also remains a challenge; the ICR reports some progress in this regard but provides no information on whether the PRSC target (reducing the share of such procurement from 80 percent in 2003 to 20 percent in 2006) is being met.

Better than expected achievements under the first performance area coupled with significant shortfalls in the other two areas suggest an overall efficacy rating of modest for the first objective.

Objective II : Sharpening Competition

4. Promoting liberalization in key services

Notable gains were made in liberalizing the telecommunication sector in line with the PRSC objectives . Facilitated by the new regulatory policy under the 2005 telecommunication law, Armenia was able to bring in three mobile telephone companies and about 40 internet service providers. The number of mobile phone subscribers has jumped from about 200,000 in 2004 to about 1.6 million in 2008. Internet services are also now widely available. As a milestone for PRSC IV, the government has also taken steps to adapt the procedures for allocation of radio frequencies to conform to the ITU procedures .

Good progress was also made in promoting commercialization of the Armenia Railways -- initially through managerial and operational autonomy and later on through concessioning to a private operator, selected through an international tender prepared with the Bank assistance . The PRSC results matrix did not include any indicators as to the service quality, usage and /or financial sustainability of the railway service . The ICR also does not include any information in those regards and therefore while the changes in the sectoral set-up are clearly in the right direction, it is not possible to make a definitive judgement as to their economic and social impacts.

Not surprisingly, the progress was harder to come by in reforming the Civil Aviation sector given the strong vested interests opposed to changes in the status quo . The Bank made a sensible decision to persevere with the reform agenda even when it meant going at a slower pace and rephrasing the related triggers . The achievements so far include the "Open Skies" agreement with the US as well as initial steps for liberalizing the air services to the European Union . Although in terms of the actual results (in terms of service frequency, connectivity and prices), the gains so far are negligible, the sensitization of the various stakeholders to the issues involved together with the moves for opening up competition to the US /EU markets, augers well for progress in the coming years .

Lastly, good progress was made in strengthening the regulation of public utilities (energy, irrigation, drinking water and telecommunications). As envisaged under the PRSC, The Armenia Public Services, Regulatory Commission (PSRC) effectively oversaw the implementation of the financial rehabilitation plans and ensured regular reporting of the performance data . The PRSC included specific targets only for water

supply (PRSC I noted that quantitative indicators for other utilities were to be specified at appraisal but apparently this was never followed through). Monitoring data for water supply indicates steady improvement

in that regard with actual achievements surpassing the PRSC targets (from 18 hours for Yerevan Water

Supply Company in 2004 to 18.7 hours in 2007 compared to a target of 18.5 hours; and for the Armenia

Water Supply Company from 5 hours in 2004 to 11.9 hours in 2007 compared to a target of 5.6 hours.

However, water losses remained high : 83.6 percent in 2006 compared to a target of 80.7 percent.

□5. Entrenching property rights

Substantial progress was made over the PRSC period in improving the regulatory and institutional arrangements for secured transactions, modernizing the banking sector governance, and in improving the

regulation and supervision of the insurance industry . Benefiting from the greater confidence in property rights and in oversight of the banking and insurance industries, all three outcome indicators met or exceeded the targets set at the beginning of the PRSC program : bank loans to private sector increased

from 6.3 percent of the GDP in 2003 to 17.4 percent in 2008 (target 15 percent), private sector deposits as

a share of GDP rose from 11.4 percent in 2003 to 12.8 percent in 2008 (target 11.5 percent), and insurance

premiums more than tripled from US\$4.5 million in 2003 to US\$15.2 million in 2008 (target US\$15 million).

Regrettably, another outcome indicator --volume of short-term rural lending by the microfinance institutions

increasing from US\$8 million in 2003 to US\$12 million in 2008--was dropped from the results matrix after

PRSC II and no information is available in the ICR about its current status .

Notwithstanding the less than envisaged progress in reforming the civil aviation sector, the overall achievements under objective II are considered substantial .

Objective III : Mitigating Social and Environmental Risks

6. Improving social protection and social risk management

Over the PRSC period, Armenia made major strides in reducing poverty : the shares of the poor and very

poor fell from 34.6 percent and 6.4 percent in 2004 to 25 percent and 3.8 percent respectively in 2007, largely meeting the targets set in the PRSC -- especially considering that the baseline poverty estimates

were underestimated in the PRSC (29 percent and 5 percent respectively for 2003). Unquestionably, the

sustained high growth over this period was a major contributor to these results . However, the PRSC support

for better targeting of the family benefits program and for a three -fold increase in pension payments between 2003 and 2008 were also important factors in poverty reduction and in improving the living standards of the poor and the vulnerable . The ICR points out that in the absence of pension payments, the

share of the poor in 2007 would have been 31.2 percent rather than 25 percent and the share of the very

poor 11.7 percent instead of 3.8 percent. Similarly, the family benefit program had a major impact on decreasing the poverty gap and poverty severity : The coverage of the very poor receiving family benefits

increased from 40.6 percent in 2004 to 64.6 percent in 2007, almost meeting the target of 70 percent.

No

quantitative data is available in the ICR on the share of the benefits from the family program leaking to the non-poor. Plausibly however, good progress has also been made in that regard .

The empirical evidence and the analysis provided under the PRSC on the effectiveness of the social protection programs were reportedly important factors in assuring continuing government support to these programs. The progress made in designing a multi -pillar pension system should also be helpful in promoting the longer-term sustainability of the system .

7. Raising the quality of education

Budget allocations to the education sector increased from 2.1 percent of the GDP in 2003 to about 3 percent in 2008 thereby allowing the average teacher salaries to be almost doubled between 2005 and 2008 -- substantially exceeding the targets set under PRSC I . Good progress also was made in devolving financial and operational autonomy to schools . However, there is no information in the ICR on whether or not these changes have meant better managed schools, better motivated teachers and, most importantly, better educational outcomes . Primary net enrollment rate appear to have stagnated at the 2003 level of 93 percent. No information is available on completion rates or on learning achievements . The ICR also does not provide any information on trends in the non -salary and capital expenditures and whether or not the envisaged increases of 28 percent and 37.3 percent respectively have actually materialized . Although some progress was made in trimming the teaching cadre (by redundancy of 6000 teachers), the pupil/teacher ratio remains low at 14 and the targeted increase to 16 has not materialized. The early child education has also been slow to take off and little progress has been made towards the coverage envisaged under the PRSC (30 percent of the relevant age -cohort overall and 50 percent from the poorest quintile). Clearly the results framework for this component was not well thought through and focused primarily on inputs rather than outcomes. Based on the information provided in the ICR, the results under this component appear modest at best.

8. Controlling risks in health,

Performance in this area is also mixed . Overall budget allocations to the health sector increased from 1.2 percent of the GDP in 2002 to 1.5 percent in 2008. This was below the 1.9 percent share envisaged under PRSC II but nevertheless quite respectable considering that the GDP grew at almost twice the 6 percent rate assumed during conception of the PRSC program . Within the health sector budget, the share of Primary Health Care (PHC) services increased from 33.4 percent in 2003 to 35.6 percent in 2007 far below the 42.3 percent target set out under PRSC I .

According to the ICR, significant, though slower than anticipated, progress was made in improving the

efficiency of the hospitals through rationalization of the hospital structure and through reforming of the payment system. The number of hospitals contracted by the State Health Agency was reduced from 135 in

2003 to 115 in 2006 compared to the end-program target of 94. The savings from closing of the redundant facilities and reduction in redundant staff were shifted towards the expansion of the polyclinic system (out-patient services) to provide free/subsidized services to the poor . Despite these changes, the utilization

of the PHC services by the two bottom quintiles has remained essentially unchanged at 3.5 percent compared to the PRSC target of 15 percent for 2009. Vaccination coverage of children has also declined

from 93.4 percent in 2004 to 88.3 percent in 2006. The ICR notes that the indicators in the policy matrix for

measuring the system efficiency (bed and physician ratios) are considered inappropriate and have been

replaced by other (unspecified) indicators in the context of the IDA -financed Health System Modernization

Project. In the absence of any information on the alternative indicators, the resulting efficiency gains remain, however, a question mark.

Two other planned initiatives in the health area -- adopting a framework for private health insurance and a

program for control of non-communicable diseases-- were postponed in light of the ongoing efforts in pensions reforms and in PHC reforms.

Finally, and most importantly, little progress seems to have been made in improving the health status of the

population. In particular, the infant mortality rate and the maternal mortality rate, the two indicators included

in the policy matrix have shown little improvement and remain well above the average OECD rates, targeted

by the PRSC. While these disappointing results may in part reflect data problems as well as unavoidable

lags between inputs and results, they also suggest the need for a more critical scrutiny of the health sector

dynamics in Armenia and better understanding of the results chain .

9. Reducing risks in natural resource management for sustainable livelihoods;

The PRSC program helped bring the issue of illegal logging to the attention of the key decision makers in

Armenia and raise public awareness around the issue . Not surprisingly, given the opposition from the vested interests, the progress was slower than expected . Adoption of a national forestry policy and establishment of a multi-agency monitoring committee, under the chairmanship of a senior minister is

a major step towards controlling illegal logging . The committee will however require sustained support and

high level political backing if it is to deliver on its mandate . The ICR also reports progress in putting in

place a legal basis for establishing community forest management for better control over use of the forest resources. But this remains a pilot initiative at this stage requiring many years of support to show results .

Although under PRSC I the government had also agreed on a schedule for strengthened Environmental

Impact Assessment and supervision, this was abandoned during PRSC II due to lack of government

commitment.

Substantial achievements in improving social protection and risk management coupled with mixed performance in the other three areas lead to an overall efficacy rating of modest for the third objective.

Objective IV : Modernizing the Rural Economy

10. Stimulating farm incomes

The PRSC actions focused on three areas : strengthening and expanding use of agricultural extension services, expanding use of improved seeds by putting in place a new Seeds Law covering seeds certification procedures, and promoting the use food quality and phytosanitary standards . PRSC I proposed

nine indicators to monitor the results of these actions . PRSC III revised and trimmed down these to four

indicators presumably because the initial indicators were difficult to measure and had unrealistic targets .

Based on an independent survey the percentage of farmers using the advisory services grew from 24 percent in 2004 to 61 percent in 2008 exceeding the 45 percent target. The cost recovery from the users of

advisory services also increased significantly from 5 percent in 2003 to 22 percent in 2008 although it failed

to meet even the revised target of 30 percent (the original target was 40 percent for 2007). Following enactment of the new Seeds Law, by 2008, 10 percent of the seeds sold were certified (compared to a

revised target of 30 percent and the original target of 80 percent); the ICR notes however, that this percentage is expected to increase sharply in the coming years . Due to inter-agency coordination problems

as well as inadequate analytical underpinning, the system for enforcing food quality and phytosanitary

standards is still in the design stage, suggesting that even the revised target (15 percent of the agricultural

produce tested and certified in 2009) was highly overoptimistic. (The original target was for 70 percent of

the produce to be tested and certified by 2007).

Between 2003 and 2006, value added in the rural economy grew on average by more than 7 percent per

annum. With multiplicity of interventions in support of the rural economy underway during the PRSC period,

it will be a mistake to ascribe this performance to the PRSC . Nevertheless, the robust performance of the

rural economy would suggest that the policy /institutional changes promoted under the PRSC were in the

right direction and it is unfortunate that the PRSC achievements in this area are being masked by overly

optimistic targets.

11. Developing rural infrastructure.

The PRSC successfully supported the diagnostic and planning work for improving rural infrastructure services as well as creation and monitoring of standards for these services . Priority for implementation was

given to improving rural roads and expanding use of natural gas by rural households . The share of the rural

households using gas increased steadily from 35 percent in 2005 to 49 percent in 2007--close to the 52 percent target set for 2008. The performance vis-a-vis the rural roads has however lagged (in 2008 over 60 percent of rural roads needed reconstruction compared to a PRSC target of 50 percent) due to unavailability of the expected financing from the US's Millennium Challenge Corporation because of country eligibility considerations.

Given the mixed progress in both performance areas, the overall efficacy against the fourth objectives is rated as modest .

5. Efficiency (not applicable to DPLs):

ERR)/Financial Rate of Return (FRR)
 a. If available, enter the Economic Rate of Return (ERR) 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:

As noted in section 3, the relevance of the PRSC I was substantial . As to the efficacy, while significant progress was made in sharpening competition, the progress along the other three objectives was only modest leading to an overall outcome rating of moderately satisfactory for the operation. This rating reflects in large part the overly ambitious targets set for the PRSC program without adequate recognition of the long gestation periods needed for complex institutional reforms or the likely push back from vested interests to maintain the status quo . With more realistic program targets for reforms in tax and customs administration, civil aviation, illegal logging, health and for the rural economy, outcome would have merited a fully satisfactory rating .

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The heavy dependence of the economy on remittances makes Armenia vulnerable to external shocks as happened in 2009 in the aftermath of the global financial turmoil . The unsettled political situation as well as the likelihood of continuing push back from the vested interests also pose a significant threat to sustaining

and

□ enlarging the gains from the past reforms . The continuing high unemployment rate is another potentially destabilizing factor. Offsetting these risks is the demonstrated capacity of the government to design and implement prudent policies and programs in a sustained fashion . The broad based support for the PRSP agenda is another hopeful sign . Government commitment to sustaining the reform program is expected to remain strong as evidenced by a new series of Bank -supported DPOs already underway . Notwithstanding the temporary difficulties facing Armenia at this stage, the medium to longer term prognosis for Armenia remains encouraging with risks to development outcomes rated as moderate .

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

The Bank did an outstanding job in building a trusting partnership with the government through sound professional advice and exceptional client responsiveness . By all accounts the Bank advice was highly valued by the clients as well as other donors active in Armenia . The Bank also did a good job in integrating the PRSC program into the Bank's overall assistance strategy for Armenia and assuring that the client remained in the "driver's seat". Continuity of key staff and a generous task budget were also important factors in enhancing the effectiveness of the Bank support to the client . Ready availability of the country office staff for hands on assistance and advice was also a plus .

The Bank should have, however, done a better job in designing the results framework for the program by greater selectivity in the choice of monitoring indicators as well as through more realistic target -setting. To an extent this shortcoming reflected the state of the art in this area at the time PRSC I was prepared . Overall, the Bank performance is rated satisfactory .

- a. Ensuring Quality -at-Entry :Satisfactory
- b. Quality of Supervision :Satisfactory
- c. Overall Bank Performance :Satisfactory

9. Assessment of Borrower Performance:

Building upon the very considerable experience gained in interacting with the Bank during the preceding structural adjustment credits, the government did a commendable job in ensuring that the PRSC design responded to the PRSP prepared by the Armenian Government . The senior levels of the government showed strong commitment and support for the program and were responsive to the issues and concerns raised by the Bank team during the design and implementation of the program . The interest and support from

the senior levels of the government also meant that the PRSC implementation enjoyed generally good support from the various implementing agencies . The government also used the PRSC effectively to strengthen dialogue between the core ministries and the operational ministries and agencies . The government performance could have been even better had it paid more attention to systematic monitoring

and utilization of the results indicators .

a. Government Performance :Satisfactory

b. Implementing Agency Performance :Satisfactory

c. Overall Borrower Performance :Satisfactory

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

The M&E design for the PRSC program benefited from close linkage to that for the underlying PRSP . However

the design could have been more selective in the choice of the indicators . Also while the M&E design did a

commendable job in providing baseline and target values for most of the indicators, the target values were

unrealistic in many cases. As a result, good many of the selected indicators had to be dropped after PRSC II and

the target values also had to be revised in several cases . As noted in the ICR in some cases, the chosen

indicators suffered from weak causal links (e.g., share of the private sector in the GDP as an indicator of

□ progress on "sharpening competition").

Monitoring of the progress in program implementation was done by the Bank by ascertaining compliance with

triggers for PRSC II. Monitoring of the results was to be done in the context of the overall monitoring of the

PRSP and through quarterly monitoring reports produce by the implementing agencies . The incomplete and

stale data on many of the indicators reported in the ICR suggests that these efforts were not as effective as they

should have been. The quality of the results framework analysis reported in the ICR data sheet leaves much to

be desired and suggests that not enough attention was paid to collecting, analyzing and using the data on

results indicators in a systematic fashion .

The M&E quality is rated modest for design but negligible for implementation and utilization, leading to an overall

rating of negligible.

a. M&E Quality Rating : Negligible

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

The safeguards and fiduciary issues appear to have been handled in a business like fashion in compliance with

the relevant Bank policies and guidelines . There were no unintended positive or negative impacts .

12.

12. Ratings :	ICR	IEG Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	See comments in sections 3,4 and 6
Risk to Development	Moderate	Moderate	The ICR rates the risk significant in the short term and low for medium to long term.
Outcome :			
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:

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 broadly concurs with the lessons outlined in the ICR but would like to highlight the following two lessons in particular:

First, a sound PRSP, prepared in a participatory manner and owned by the government is a critical input for a successful PRSC program. However, it should not be treated as a straightjacket and the PRSCs should not shy away from supporting difficult actions that go beyond the PRSP but are critical to sustained growth . Such an approach should, however, only be used in cases where; (i) there is robust analytical basis for supporting the proposed reforms; and (ii) there are important constituencies within the government and outside who are keen to use the leverage of the PRSC to change the status quo .

Second, the weak results framework and inadequate M&E still remain an important constraint to realizing the full potential of the PRSCs. Assuring a pragmatic design up front and a systematic follow through during the implementation should continue to be the priority agenda for the task teams .

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR provides a thorough and candid assessment of the experience in designing and implementing the PRSC program. It is well written and soundly argued . Unavoidably, in a number of areas it suffers from the unavailability of relevant empirical data . Its ratings on the outcomes are also a bit on the generous side .The ICR could have also been more explicit in assessing and rating the specific contribution of PRSC I . These are however minor flaws and the overall quality of the ICR is considered satisfactory .

a. Quality of ICR Rating : Satisfactory

