1. Project Data:  Date Posted: 04/27/2015

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<tr>
<th>Country:</th>
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<td>Theme(s):</td>
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</table>

Prepared by: Pia Schneider  Reviewed by: Robert Mark Lacey  ICR Review Coordinator: Lourdes N. Pagaran  Group: IEGPS2

2. Project Objectives and Components:

a. Objectives:

According to the Development Credit Agreement (2003), the Project Development Objective (PDO) was: "to support the Borrower’s policy of the promotion of private-sector led growth through: (a) improving the investment climate; (b) supporting parastatal reform in the telecommunications, energy, finance, transport, and mining sectors, and (c) improving mining competitiveness in the Katanga region."

The PDO as stated in the Project Appraisal Document (2003) was different: "to increase the competitiveness of the economy, and thereby contribute to economic growth."

Additional Financing in the form of an IDA Grant of XDR 37.5 million (US$ 60 million equivalent) was approved in 2008. The Financing Agreement for the Additional Financing contains a PDO similar to that of the 2003 Credit Agreement: "to support the Recipient’s policy of the promotion of private-sector led growth through improving the investment climate and supporting parastatal reform." The outcome targets remained unchanged.

This Review is based on the development objectives as stated in the 2003 Credit Agreement.

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

No

c. Components:

The project financed the following activities:
1: Improving the Investment Climate. (Appraisal: US$36.10 million; Revised: US$59.02 million; Actual: US$63.76 million). This component was to: (i) help put in place business dispute resolution mechanisms and facilitate the dissemination of legal information; (ii) promote financial intermediation by strengthening capacity at Congo’s Central Bank (BCC), by facilitating the liquidation of three defunct state-owned banks (Congolese Bank for External Trade - BCCE, African Continental Bank - BCA, and New Bank of Kinshasa - NBK), and by facilitating DRC’s membership into the African Trade Insurance (ATI) agency; (iii) build the capacity of the Ministry of Mines to adequately implement the 2002 Mining Code; and (iv) facilitate dialogue between the Government and the private sector.

2: Implementing Parastatal Reform. (Appraisal: US$71.69 million; Revised: US$93.13 million; Actual: US$101.54 million). This component was to: (i) help set-up and/or strengthen regulatory authorities in the telecommunication, transport and energy sectors; (ii) facilitate Government’s divestiture from public enterprises in the telecommunication, transport, energy, financial and mining sectors; and (iii) facilitate the staff severance process at Gecamines, Transport and Post (SCPT), and the three defunct state-owned banks.

3: Initiatives for Economic Development in Katanga Region. (Appraisal: US$7.41 million; Revised: US$6.94 million; Actual: US$6.81 million). This component was to increase the competitiveness of the economy of Katanga, the leading mining region. After the restructuring of the parastatal Gecamines, Katanga was expected to attract private investment in mining. This component was to create new economic opportunities for workers retrenched from Gecamines. It was to finance: (i) workers departing from Gecamines to undertake economically viable activities through matching grants; (ii) technical assistance to help identify investment opportunities and upgrade skills and capacity of Small and Medium Enterprises (SMEs) around an emerging private mining industry; and (iii) facilitate Gecamines’ transfer of social services to municipalities.

4: Project Coordination and Implementation Arrangements. (Appraisal: US$7.13 million; Revised: US$16.64 million; Actual: US$13.8 million). This component was to finance project implementation and equipment. Initially, the project was to be implemented by the Central Coordination Office (BCECO) and the Ministry of Mines for mining related issues. However, once ready, the steering committee for public enterprise reform (COPIREP) would take over from BCECO.

The first two components were amended in 2008 when Additional Financing was approved to help finance the costs of scaling up activities and to support the reform agenda of the newly elected government:

Component 1: Activities added were: (i) supporting the growth of microfinance institutions (MFIs), and strengthening their oversight by the Central Bank in order to promote small and medium-sized enterprises (SMEs); (ii) developing a National Payments System (NPS) to strengthen financial intermediation; and (iii) supporting the process of DRC’s adherence to the Organization for Harmonization of Business Laws in Africa (OHADA). It also was to support ongoing activities, such as continuing the work on simplification of business registration and licensing, and extending commercial courts (Matadi, Goma, Bukavu, Mbuji Mayi, and Kisangani).

Component 2: Additional Financing was used to: (a) finance the National Railway Company (SNCC) stabilization contract and development of a concession plan; and (b) facilitate the SNCC staff severance process and retrenchment plan.

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

Project Cost, Financing and Borrower Contribution:

- Actual project cost was higher than the appraised amount due to expanded activities funded by additional financing and higher borrower contributions.
- The project was financed by an IDA Credit of XDR87 million (US$ 120 million) of which XDR83.25 million (US$117 million) was disbursed (95.6%). The undisbursed amount of XDR3.85 million has been reimbursed to the Bank. In 2008, Additional Financing in form of an IDA Grant was added in the amount of XDR 37.5 million (US$60 million) that disbursed XDR33.5 million (US$51.6 million) or 89.4% of the appraised amount. The remainder XDR4 million was cancelled.
- Actual borrower contribution was US$10.45 million, almost triple the appraisal estimate of US$3.83 million. Inter alia, the borrower financed management contracts for the State Aviation Company (RVA) and the Commercial Company for Transport and Ports (SCTP).

Dates: There were five Level-2 restructuring. Outcome targets were not revised during these restructuring.

- April 2004: to clarify funding arrangements for DRC’s participation in the African Trade Insurance (ATI) agency, and to extend the closing date by one month to April 30, 2010.
March 2008: additional funding of US$ 60 million toward the original pledge to finance a scale up of activities under the first component to other commercial centers and additional activities (see above).

February/March 2009: the World Bank Inspection Panel received two Requests for Inspection related to the retrenchment program for Gecamines. Some of the participants in the Voluntary Departure Program at Gecamines lodged complaints. December 2009: the Inspection Panel received a third Request for Inspection from former employees of liquidated public banks. In response, the Bank developed a Management Action Plan (MAP) providing entitlement to free health and education to the families of former Gecamines employees.

April 2010: to extend the closing date of the original credit from April 30, 2010 to December 31, 2012 to align it with the closing date of the Additional Financing approved in 2008.

December 2012: to extend the closing date to June 30, 2013 to make up for time lost due to disruptions caused by election-related political instability from mid-2011 to January 2012. Activity under the Management Action Plan related to the Inspection Panel requests was transferred to the Bank funded Primary Health Care Project (P126088), which had become effective on November 30, 2012.

June 2013: to extend the closing date to June 30, 2014 to allow completion of the Management Action Plan, and the modernization of the National Payments System.

The project closed on June 30, 2014, four years and three months later than the originally scheduled date of March 31, 2010.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

High

The objective of promoting private-sector led growth was highly relevant in DRC at project appraisal and remained relevant at closing. Since 2010, the country’s economic growth has exceeded the average for Sub-Saharan Africa by 2 percentage points, growing at an annual average of 7%. Economic growth in 2013 was projected to reach 8%, and future prospects remain broadly positive. At appraisal, the project objective was highly relevant to the Bank’s Transition Support Strategy which aimed to rebuild effective public institutions and policies and encourage private sector investment. At closing, the objective is relevant to the Bank’s FY13-FY16 Country Assistance Strategy which - under the second pillar - seeks to boost competitiveness to accelerate private-sector-led growth and job creation, and address bottlenecks related to the investment climate. The objective also supports the government’s 2011 Poverty Reduction Strategy which emphasizes private sector-led growth. The objective is aligned with the pillars of IFC’s post-conflict initiative in DRC, which has evolved around combined advisory and investment operations focused on (i) improving the investment climate; (ii) proactive project mobilization and developing key investment projects to promote high-growth sectors; and (iii) expanding support to the SME sector.

b. Relevance of Design:

Modest.

The project design was relevant to the country context where the Government had committed to introduce legal changes to improve the investment context and reform the state-owned enterprises. The three components and activities were plausibly and logically linked to project objectives. Activities were designed to complement each other. Stimulating the economic development of the Katanga Region was needed for successful integration of the staff expected to be laid off at Gecamines. However, the design was too ambitious for a context of weak implementation capacity and political fragility. The state-owned enterprises (SOEs) needed large investment capital (e.g. to modernize their infrastructure) that the project was not designed to provide, and that could not be mobilized from private sources. Design also underestimated the true magnitude of the SOEs’ decay. It underestimated the need for adequate financial compensation to retrenched workers from SOEs, and for effective pension systems to support the retrenchment of elderly staff who were still working. These weaknesses triggered three Requests for Inspection.

4. Achievement of Objectives (Efficacy):

The overarching objective to which the project aimed to contribute is "To support the Borrower’s policy of the
promotion of private-sector led growth”. However, no information is provided on the growth-effect of the private sector reforms supported by the project.

The project has three specific objectives:

**Objective 1: Improving the Investment Climate - Substantial**

**Output**
- Over 3,000 legal texts are available on line, as well as 10 pieces of legal literature, and 87 Supreme Court of Justice judgments. DRC is connected to the Global Legal Information Network. Target met.
- The Family Law is being amended to make it easier for women to register businesses, and open bank accounts. This bill is awaiting approval in the second house of the National Assembly.
- Commercial courts of Kinshasa and Lubumbashi rendered 430 judgments in 2012 surpassing the target of 50 per year. Seven commercial courts established under the Project are fully operational. Target met.
- The Organization for Harmonization of Business Laws in Africa (OHADA) National Commission was established by Decree No. 010/13 on 23 March 2010. DRC’s membership in OHADA aims to ensure a secure commercial environment through harmonized and modern business laws. The project supported the rehabilitation and furnishing of the Commission’s premises, as well as technical assistance for the Commission. Target met.
- 500 magistrates have received training in OHADA laws by 2012. Target met.
- 50 university professors across several universities were trained in OHADA laws and materials were provided to their universities. However, the project did not monitor whether the OHADA training curriculum has been established in 3 universities.
- New privatization laws were entered into the Congolese gazette. Target met.
- There is 100% commercial bank compliance with prudential regulations as per IMF assessment. Target met.
- Three defunct state-owned Banks (Congolese Bank for External Trade - BCCE, African Continental Bank - BCA, and New Bank of Kinshasa - NBK) were liquidated as planned.
- The National Payment System was not installed and will be completed under another project.
- Two of 149 microfinance institutions had reached operational self-sufficiency by 2012 not meeting the target of five. The number of clients reached by the microfinance sub-sector increased from 100,000 in 2006 to 1.05 million in 2012 surpassing the target of 300,000. About 38% of microfinance clients are women.

**Outcomes**
- The average length of time to register a company fell from 155 days in 2006 to 16 days in 2014 surpassing the target of 78 days in 2011.
- DRC is rated by the World Bank’s “Doing Business 2015” among the ten economies in the world that improved the most across three or more areas measured in 2013/14. DRC was particularly recognized for significant improvements in ease of starting a business, getting credit, protecting minority interests, getting electricity, and paying taxes. Several processes related to the investment climate became more efficient, such as: (i) obtaining a construction permit (which used to take 117 days and cost US$3,149, and now takes 30 days at a cost of US$1,602); (ii) creating a business (which needed 11 procedures and took 155 days at a cost of US$440 minimum, and which now takes three procedures and three days and costs US$170); (iii) export processing procedures were reduced from 44 to 13 days and their cost decreased from US$3,155 per container to US$1,930.
- Total domestic credit to the private sector increased from 2.8% of GDP in 2006 to 18.1% in 2012, surpassing the target of 4.8% of GDP by 2011. In December 2011, the indicator stood at 13.3% and the target was surpassed.
- Total savings deposited in the financial sector increased from 6.1% of GDP in 2006 to 33.9% in 2012 surpassing the target of 10.4% of GDP by 2011. By December 2011, total savings had already reached 26.8% of GDP and had surpassed the target, which was not adjusted.

**Objective 2: Supporting parastatal reform in the telecommunications, energy, finance, transport, and mining sectors. Substantial**

**Output**
- Inventories of the National Railway Company (SNCC) assets and liabilities were completed by 2014. Target met.
- An agreement on the settlement of SNCC public debts has been reached, commercial debts are identified. Target met.
- By Decree Number 12/031 of October 2012, the Government provided a framework for resolving SOE financial obligations that were deemed to be beyond SOEs’ capacity to meet.
• Overall 10,654 Gecamines workers were retrenched surpassing the target of 10,000 and saving the company from bankruptcy. Gecamines has reduced its salary arrears from 31 months to 3 months, and its staff costs from 133% of turnover in 2003 to 30% of turnover by 2012. To continue the recovery, however, Gecamines still needs to retire about 6,000 workers, for which it needs US$121 million for compensation.
• The retrenchment program for SNCC railway workers was completed. This was reformulated as a retirement program, and carried out in two phases, one in September 2009 (2,268 individuals), and the other in July 2013 (1,618 individuals). Their contribution to the National Institute for Social Security in the amount of US$ 0.8 million was made. SNCC nonetheless remains in a precarious condition with stagnant business turnover and severe cash-flow constraints.
• Transport and Post (SCPT) staff was reduced from 4,496 (140% of turnover) to 1,672 (51% of turnover). However SCPT did not restructure its operations due to a prolonged debate over splitting postal from telecommunications activities. Salary arrears date back several years.
• The project facilitated paying terminal benefits for departing employees at GECAMINES (10,654 individuals), SNCC (3,886 individuals), SCPT (4,950 individuals), and at the three defunct state-owned banks, BCA, BCCE, and NBK (3,480 individuals). This program was accompanied by training in different livelihoods for the departing staff to facilitate a smooth transition into their new life. Some retirees petitioned the Inspection Panel, and while Bank Management disputed the grounds of the petition, the Bank financed the Government’s provision of health benefits to 22,155 individuals and education benefits to 11,500 children.

Outcomes:
• Five SOEs have some private sector involvement in 2014 either through public/private partnership, management contract or other arrangements, almost meeting the target of six.
• Gecamines currently has 26 mining partnerships with private sector companies surpassing the target of three.
• Returns on Investments for each of the targeted state owned enterprises increased from minus 21% in 2002 to minus 3.1% in 2012 not meeting the target of plus 2% for 2009.
• The net fiscal contribution from state-owned enterprises increased to US$300 million in 2012 surpassing the target of US$10 million for 2009. Gecamines contributed about 84% of the total fiscal contribution in form of joint-venture signing bonuses and related charges.
• Annual Foreign Direct Investment (FDI) in mining, transport, energy, telecom and financial sectors increased from US$200 million in 2002 to US$3.3 billion in 2012, surpassing the target of US$1 billion for 2009. FDI growth was mainly in service and industry sectors. However, FDI inflows are influenced by several factors exogenous to the project, giving rise to an attribution issue. For example, DRC attained the completion point of the Highly Indebted and Poor Countries initiative (HIPC) in July 2010. This resulted in cancellation of 83% of its external debt (US$10.8 billion), which created fiscal space for the country to stabilize the economy, and sent a strong signal to investors about DRC’s growing fiscal viability, and hence a promising investment destination that would attract FDI.

Objective 3: Improving mining competitiveness in the Katanga region - Modest

Output:
• In Katanga, the project supported micro-projects for 1,569 individuals.
• 79 associations of voluntary departures from agricultural projects in the Lubumbashi, Likasi, and Kolwezi basin benefited from training from agricultural consultants.
• Reinsertion activities were provided to 3,289 individuals in 231 micro-projects.
• Studies were conducted on the restructuring of Gecamines’ medical network and schools,

Outcomes:
• The ICR presents no evidence of increased competitiveness of the economy of Katanga.
• Gecamines’ social services were not transferred to municipalities. This was postponed to the next phase.

5. Efficiency:

Modest

At Appraisal, the net present value of the project was estimated at US$31.5 million at a discount rate of 12 percent. The corresponding internal rate of return was estimated at 18.4%. The following benefits were expected: (i) the creation of at least 970 jobs through the matching grant supported SMEs in the Katanga region, and the creation of additional jobs through a multiplier effect; (ii) the positive impact on government income was estimated to be US$ 14.1 million resulting from increased corporate taxes and taxes on incremental wages.

At completion, the Economic Rate of Return (ERR) is estimated at 22 percent for the SOE reform which included
a large staff retrenchment program that reduced the losses of SOEs (see Section 4 above). However, the improvement was insufficient to bring the SOEs to profitability. There is no evidence that the project has created any jobs.

The project was extended by a total of four years to implement originally planned project activities and those supported by the Additional Financing. There were delays in implementation related to political fragility and weak government capacity that affected the efficient use of project funds. Delays were also related to overcoming vested interests among those whose power was threatened by the reforms. There were multiple decision makers and inadequate funding for planned activities. Installing the National Payment System could not be completed. Only a small number of associations of retirees were given funds in the Katanga region, and no broad scale economic development program was undertaken. Design weaknesses triggered three requests with the Inspection Panel which contributed to delays and increased transaction costs (for example, related to identification of beneficiaries, health clinics and schools and management of these benefits).

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

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<td>ICR estimate</td>
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* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Relevance of the project objective is rated High and that of design Modest. The first two objectives of improving the investment climate; and supporting parastatal reform in the telecommunications, energy, finance, transport, and mining sectors were Substantially achieved. However, improving the mining competitiveness in the Katanga region is rated Modest. Efficiency is rated Modest. Moderate shortcomings in design and efficiency and in one of three objectives lead to a Moderately Satisfactory Outcome rating.

a. Outcome Rating: Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The government has shown strong ownership for the reforms, and has continued simplifying regulations and processes. There has been no attempt at policy reversal. The legal framework for SOE transformation into commercial entities is firmly in place. However, the transformation process has been slow, due to the complexity of the issue and insufficient capacity, which creates a moderate risk. Investment climate reforms will continue to be coordinated by the Steering Committee for Investment and Business Climate (CPCAI), the National Agency for Investment Promotion (ANAPI), and the proposed Special Economic Zones Regulatory Authority. SOE reforms will continue to be coordinated by the Steering Committee for Public Enterprise Reforms (COPIREP). The World Bank and IFC will continue supporting reforms through the policy dialogue and accompanying investments. Nevertheless, the risk to promoting private sector led growth is considered to be significant. The unstable security situation in the Eastern part of DRC may undermine political stability and inhibit private sector investors.

a. Risk to Development Outcome Rating: Significant

8. Assessment of Bank Performance:

a. Quality at entry:

In preparing the project, the Bank conducted broad-based public consultations with civil society, unions, and government officials on state-owned enterprises (SOE) in 2001 and 2002. The team drew lessons from past experience in DRC and elsewhere, including maximizing buy-in through civil society consultation, combining reforms of pivotal SOEs with investment climate enhancements, and taking account of the impact of failed
SOE banks on the banking sector. Bank support was timely given the Government's need to implement critical reforms and address issues such as salary arrears in SOEs. The project was prepared rapidly (within 11 months) despite addressing a diverse set of activities. However, several studies and audits were left to be carried out during project implementation. As a result, the team could not adequately gauge the size of the task ahead, which led to unrealistic expectations about the time and efforts to generate profitability in SOEs. The Bank was overly optimistic regarding the SOE reforms given the weak capacity and political fragile environment. The team could have been more selective by restricting SOE-specific interventions to transformative SOEs and cross-cutting issues. The team should have conducted an analysis on the social effects of retrenchment programs triggered by SOE structuring. Such an assessment and related design measures could have prevented the three requests to the Inspection Panel. There were weaknesses in the M&E framework (see Section 10).

Quality-at-Entry Rating: Moderately Unsatisfactory

b. Quality of supervision:

The Bank team collaborated with the IFC especially on investment climate issues, and with other external partners and agencies. The team was proactive and flexible in addressing issues as they arose. It focused on technical work when there was the political impetus for reforms waned, and pressed the case for legislation when the opportunity was there. Supervision was conducted regularly by a team with appropriate expertise and clear action plans. The task team leader was based in Kinshasa as of 2007 and supported day-to-day implementation, although the Borrower's ICR (p. 4) identified the lack of timely attention by IDA to requests for non-objection as a constraint.

The additional financing was processed in 2008 without adjusting project objectives, closing dates, or the project monitoring framework. Following three Requests for Inspection in 2009 (see Section 2d above), the Bank supported the Government in addressing the issues raised. The Bank team amended the project in 2012 to accommodate the recommendations made by the Management Action Plan which was approved by the Inspection Panel. Actions included (i) extending health benefits through an NGO to 22,155 eligible family members, and (ii) providing education benefits to 11,500 children up to the end of secondary education, which were later transferred to another Bank project, and (iii) the reinstatement of rights for all retrenched workers to the pension system. However, in view of the project's evolving focus, with greater emphasis on SOE reforms and related outcomes, a restructuring in 2012 could well have been justified. The team could have also been more proactive in addressing M&E design weaknesses and to include target values in line with the new closing dates (see Section 10 below).

Quality of Supervision Rating: Moderately Satisfactory

Overall Bank Performance Rating: Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

The Government recognized the need for substantial reforms of SOEs, which were poorly managed, loss-making, heavily indebted, had several years of salary arrears, and constituted a major drag on the economy. Several legal measures aimed at improving the investment climate and extending financial inclusion were taken, and the Government sought the Bank's assistance for their implementation. The Government organized public consultations on the proposed reform measures under the aegis of the Presidency. Trade unions were critical partners in the reform process and specific attention was paid to consultations with them. The Government also implemented other important measures, including joining OHADA, adhering to the New York Convention, and passing SOE divestiture laws. It had to overcome at times strong resistance against these reforms, which increased the amount of time it took to implement them. The reform momentum significantly waned during the 2003-2006 power-sharing Government of former belligerents, and only resumed after the November 2006 elections. Some important laws were only passed from 2009 onwards. Disputes over the presidential election outcome caused political instability from mid-2011 to January 2012 and delayed project implementation.
b. Implementing Agency Performance:

In a post-conflict environment with very little capacity, the Steering Committee for Public Enterprise Reform (COPIREP) and the Steering Committee for Improving the Investment and Business Climate (CPCAI) facilitated project implementation, and communication between Government units. They conducted analytical work, drafted legislation, and diligently followed-up on its passage in Parliament, all of this in a politically fragile environment with weak governments. They worked in politically difficult situations in which vested interests, faced with the loss of their privileges threatened the reform process. COPIREP handled a large volume of transactions: 895 service contracts, 206 contracts for goods, and 68 contracts for works. CPCAI's diligent work has earned DRC the recognition of being one of the leading investment climate reformers in the 2015 "Doing Business" Report. However the Borrower's ICR (p. 40) identified the CPIREP's dual role as an advisory body to the Government and implementing agency for the Bank as a constraint. There were initial challenges in fiduciary management, including both financial management and procurement, though these were ultimately addressed (see Section 11b below).

Implementing Agency Performance Rating: Moderately Satisfactory

Overall Borrower Performance Rating: Moderately Satisfactory

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

a. M&E Design:

The original M&E design included three outcome indicators: (i) foreign direct investment (FDI) in the mining, transport, energy, telecom and financial sectors reaches US$ 1 billion per year by 2009 from the current US$200 million; (ii) return on assets for each targeted enterprise increases from an average of minus 2.1% to an average of plus 2% by project closure; and (iii) a net annual increase in the fiscal contribution of parastatals of US$10 million. Baseline values were determined. However, not all indicators would adequately measure the project’s contribution to expected outcomes. For example, indicators such as FDI inflows and SOE profitability would be useful in tracking progress, but they are influenced by several factors exogenous to the project, giving rise to attribution issues.

b. M&E Implementation:

After initial difficulties, the implementing agencies adequately implemented the M&E system. After the project’s scope shifted from focusing on individual SOE-specific interventions to creating an enabling environment for SOE reforms (e.g. divestiture framework, cross-debt resolution, etc.), the M&E framework was not updated to capture the change in project focus. Expected outcomes were not adjusted. Two new indicators were added in 2008 with the Additional Financing and target values identified until 2011. Nonetheless, target values were not updated in any of the five restructurings, although the closing date was extended by a total of more than four years, and several target values had already been met by 2011.

c. M&E Utilization:

The data generated by the project M&E system is relevant to measuring progress of the reforms being championed by CPCAI and CPIREP. The M&E system is now embedded in these institutions thus ensuring a degree of sustainability. However, the production of timely SOE data remains a challenge.

M&E Quality Rating: Modest

11. Other Issues
a. Safeguards:

The project's environmental status was rated as Category B. Environmental Assessment (OP 4.01) was the only safeguards policy triggered. Environmental issues were mostly related to ensuring proper waste disposal in the enterprises targeted for reforms. An environmental audit was carried out for GECAMINES, which resulted in recommendations for improving its environmental compliance. A similar study at Somika, a private mining company, made a number of recommendations including the need for closely monitoring the quality of underground water which supplies Lubumbashi. However, the Bank deemed the emerging sectoral projects as better placed to deal with the environment issues in their respective sectors. The ICR contains no statement to the effect that OP 4.01 was complied with.

b. Fiduciary Compliance:

**Financial Management.** The migration of the project's financial management function from the Central Coordination Office (BCECO) to COPIREP was completed in 2006. Transition issues were largely related to the initial absence of an internal audit manual at COPIREP, inadequate utilization of the accounting software (TOMPRO), delays in payment of invoices, and weaknesses in the analysis of the variances between budgeted and actual expenditures. The ICR (page 8) reports that, for a time following the transition, the accounting system was not properly organized and financial information not readily available. There was also one case of ineligible expenditures, which was resolved. According to the ICR (page 8), by project closure, these issues had been addressed and financial management was consistently rated as satisfactory in supervision reports. The ICR does not discuss external audits of the project accounts, and it is therefore unknown whether or not external auditors' opinions were unqualified.

**Procurement.** There were instances of procurement delays and stale transactions which were resolved by strengthening COPIREP's procurement unit. Challenges to bids for the National Payment System caused delays and this task to be transferred and completed under another project. There were no recorded cases of misprocurement.

c. Unintended Impacts (positive or negative):

d. Other:

<table>
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<tr>
<th>12. Ratings:</th>
<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement/Comments</th>
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<td><strong>Outcome:</strong></td>
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<td><strong>Risk to Development Outcome:</strong></td>
<td>Moderate</td>
<td>Significant</td>
<td>The continuing security risk is a significant obstacle to private sector led growth.</td>
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**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 most important lessons drawn by the ICR concern the preparation and implementation of retrenchment programs. When the Bank supports SOE retrenchment in the absence of a functional social assistance and pension system, intervention could advantageously be paired with social insurance and pension reforms, especially where staff reductions are a significant element.

The project provides several lessons that highlight the relevance of carefully preparing retrenchment programs when restructuring SOEs. These lessons include:

- Set up reinsertion activities (e.g. training, job insertion programs etc) for retrenched workers such that these activities are ready to be launched when the retrenchment process starts.
- Conduct rapid surveys to help identifying alternative reinsertion mechanisms.
- Allow flexibility in design of reinsertion activities to adapt to changes in the economic environment.
- Consider payments in tranches, creating partnerships with financial institutions, providing training on money management, etc.
- Conduct rapid surveys to track poverty patterns and social impact immediately and up to 5 years after retrenchment.

The summary of the Inspection Panel Case in the ICR (p. 43) identifies additional important legal lessons from retrenchment programs, including the requirement for individualized payment calculations to be duly audited and certified and officially mandated by the Government through formal legal opinions.

An additional lesson is that Monitoring and Evaluation systems need to be revisited and adjusted in the light of evolutions in project context. In this case, the M&E framework was not adequately updated during project restructuring and extensions, nor did it fully reflect changes in project focus.

14. Assessment Recommended?  ● Yes  ○ No

Why?

The project provides interesting lessons for IEG's evaluation of industrial competitiveness and job creation. Lessons from the SOE restructuring and retrenchment program could also be portrayed in a Learning Product on mitigating the social impact of SOE reforms through retrenchment programs.

15. Comments on Quality of ICR:

The ICR is satisfactory in its presentation of evidence. The analysis and discussion could at times be more critical, especially with regards to clarifying operational issues. The ICR collected additional information from various reviews of the literature to assess the efficacy of this project despite the weak M&E design. The ICR is concise and consistent with guidelines. It contains a good summary of the Inspection Panel Case in Annex 6 with important lessons for future retrenchment programs. There was no clear statement of compliance with safeguards policies or discussion of external auditing of project accounts.

a. Quality of ICR Rating: Satisfactory