ICR Review
Operations Evaluation Department

Report Number : ICRR11851

1. Project Data:		Date Posted :	07/28/2004	
PROJ ID :	P065790		Appraisal	Actual
Project Name :	Dj - Fiscal Consolidation Credit	Project Costs (US$M)	10	10
Country :	Djibouti	Loan/Credit (US$M)	10	10
Sector(s):	Board: EP - Central government administration (36%), Compulsory pension and unemployment insurance (25%), Telecommunications (13%), Power (13%), General industry and trade sector (13%)	Cofinancing (US$M)		
L/C Number :	C3593			
		Board Approval (FY)		02
Partners involved :		Closing Date	12/31/2002	10/31/2003
Prepared by :	Reviewed by :	Group Manager :	Group :	
Michael R. Lav	Lily L. Chu	Kyle Peters	OEDCR	

2. Project Objectives and Components

a. Objectives

Support Djibouti's efforts to achieve fiscal sustainability through structural and institutional reforms .

b. Components

1. Implementation of a viable macroeconomic framework . The project focussed on improving budgetary management by clearing domestic payment arrears . 2. Contain the public wage bill. 3. Implement a parametric reform to improve the viability of the existing pay as you go pension system . 4. Strengthen the financial management of the key public enterprises providing infrastructure services and begin a process leading to sector liberalization and privatization.

c. Comments on Project Cost, Financing and Dates

The project cost US$10 million financed by an IDA credit in two equal tranches . The project was appraised in November, 2001, approved by the Board on December 20, 2001, made effective on March 1, 2002, and closed on October 31, 2002, 10 months behind schedule.

3. Achievement of Relevant Objectives:

1. An audit quantified arrears at US$ 163 million which is being settled by a 10 year work-out, with priority given to repayment to private creditors (with highest priority to small-scale private creditors), government employees, pension funds, and public enterprises. Measures to limit accumulation of new arrears have been put into place . 2. Civil service employees were identified through a census and the data base reconciled with Ministry of Finance payrolls, with ghost employees removed (although the ICR does not identify how many). 773 post-retirement age employees were removed from the payroll. The Ministry of Finance computerized the payroll, and is committed to supporting this computerization in the future with funding for databases management software and IT equipment . 3. Parliament approved a reduction in pension benefits . Government set up the National Council of Social Security (CNSS) to oversee the two pension funds (one for private sector, one for civil service).However, there are overlaps and inconsistencies which need to be ironed out . 4. Four agencies to be audited . The audit for Djibouti Telecom was satisfactory, and government has now prepared a new law liberalizing the telecommunications market and abolishing Djibouti Telecom's monopoly position by 2005. The water and electricity agencies have been audited .

4. Significant Outcomes/Impacts:

Fiscal practice was improved by reforms to settle outstanding arrears and reduce the likelihood of recurrences . Pension system reforms increase the sustainability of the macro framework .

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. The project's components (clearance of arrears, pension reform, wage control, public enterprise reform) would all

contribute to a satisfactory macroeconomic framework, but the latest reference to macroeconomic management is the footnote in the President's Report of the PRGF discussion by the IMF Board on November 28, 2001. This, for a project closed in 2003. More macroeconomic information should have been generated by monitoring the project and this should have been reported in the ICR, to ensure that the objectives of implementation of the project's components remained relevant. 2. Containing the public wage bill - 1000 ex-combatants were not removed from the payroll. although EU will pick up this component. 3. The airport (AID) was privatized before it could be audited, and its assets may well have been undervalued in privatization process . 4. There has been little follow-up to the audits which were prepared for the water and electricity agencies .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	The failure to follow through on the audits for water and electricity agencies as called for in the President's Report, and the failure to even audit the airport are significant shortcomings. The failure to remove 1000 ex-combatants from the payroll is also notable, although the political rationale given is convincing, while helping to arrange for the EU to pick up this component is constructive.
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Technical assistance can be important in promoting successful adjustment operations provided adequate lead time is provided. In this case, the PARARE project proceeded this fiscal consolidation credit by an adequate period of time to allow important elements of its work program to be effectively harvested by the adjustment operation . 2. Adjustment credits in capacity-poor environments demand very thorough monitoring and evaluation mechanisms .

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is clearly written. However, while it provides much helpful information on project implementation, there are significant shortcomings which make project impact more difficult to assess . The ICR lacks a discussion of macroeconomics including fiscal balances and GDP growth. In addition, details on the scale of component adjustments would have been helpful. For example, concerning civil service reform, there is no data in the ICR on the percentage reduction in payroll represented by the removal of ghost employees from the payroll or the transfer of the 773 employees over the retirement age. The ICR also does not give perspectives on cost savings associated with the pension reform supported by the project. These shortcomings make it more difficult for the reader to assess the impact of the project. The useful annex III of the President's report could have been updated and used in the ICR . Finally, the President's Report (page 14) states that US$ 2 million of Government transfers to the OPS would be invested in term deposits at a local branch of a strong foreign bank, but the ICR does not confirm that this was done .