ICR Review

Operations Evaluation Department

Report Number: ICRR12169

1. Project Data:		Date Posted: 09/01/2005		
PROJ ID:	P073316		Appraisal	Actual
Project Name:	Post Conflict - Economic Rehabilitation Credit	Project Costs (US$M)	37.7	37.9
Country:	Congo Republic	Loan/Credit (US$M)	37.7	37.9
Sector(s):	Board: EP - Other social services (40%), General education sector (20%), General information and communications sector (20%), Central government administration (10%), General public administration sector (10%)	Cofinancing (US$M)		
L/C Number:	C3560			
		Board Approval (FY)		2
Partners involved :		Closing Date	06/30/2003	06/30/2004

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2. Project Objectives and Components

a. Objectives

The main objective of the Post-Conflict Economic Rehabilitation Credit (PCERC) was to help strengthen economic stability and support structural reforms. More specifically, the PCERC was intended to encourage the Government to pursue policy and structural reforms needed to stabilize the economy and expand the role of the private sector, including reform of the legal and regulatory framework in key sectors, improve business incentives, and market liberalization (sic). The PCERC was also intended to help implement the privatization program, including restructuring cum privatization of all commercial banks, privatization of all forestry companies, and privatization of all key public utilities (water and electricity, telecommunications, railway, oil downstream activities). These structural reforms were expected to help pave the way for the transition from a state -controlled economy to one that is market based. In addition, the proposed PCERC also aimed at introducing greater transparency and improved governance in the management of key areas (oil and forestry resources, public funds).

The PCERC was also intended to provide immediate access to foreign exchange after the country cleared its arrears with IDA and IBRD (US$58.3 million to IDA and US$4.7 million to IBRD as of May 2001).

b. Components

1. Pursue and Deepen Structural Reforms: Finalize privatization of all commercial banks; request bids for water (SNDE) and power (SNE) companies; publicize intent to privatize railway concession (CFCO); privatize remaining downstream oil industry; adopt social action plan to support privatization; publish decrees for new forest code; adopt and publicize telecom sector policy and implementing decrees; publish decree separating posts and telecoms; telecom code and implementing decrees approved by Parliament; water and electricity codes and implementing decrees approved by Parliament; petroleum code and implementing decrees approved by Parliament; launch study to review labor code constraints; take measures to improve the investment climate .

2. Improve Governance and Transparency in Management of Country's Wealth and Public Funds: Sign formal framework agreement between national oil company (SNPC) and the government; launch audits of SNPC; publish detailed report of SNPC operations, including production and actual and forecast revenue; assess forestry tax collection and factors influencing revenue; map forest resources including protected areas; establish General Auditor's office and publish implementing decrees; launch audits of several public funds .

c. Comments on Project Cost, Financing and Dates

The credit was disbursed in a single tranche immediately following effectiveness . In conjunction with the PCERC, the Bank also provided 4 grants of US$2.9 million from the Post-Conflict Fund to assist war-affected groups. The credit closing was delayed by 12 months due to greater difficulty than envisioned in implementing the railway concession and in carrying out the audit of SNPC. The difference between appraisal and actual expenditure is due to

exchange rate variations.

3. Achievement of Relevant Objectives:

1. Pursue and Deepen Structural Reforms: Objectives in this area were not achieved.
The government privatized the 3 remaining state-owned banks, but the privatized banks remain weak and one was later re-nationalized. Privatization of the water and power companies was unsuccessful; bidders were not prepared to commit the large investments required; CFCO privatization has been unsuccessful thus far, with negotiations continuing. Telecom progress was mixed, with the PTT successfully split into 2 entities and two private cellular providers licensed. However, a regulatory authority has not yet been established, and the government reversed an earlier decision and restored the monopoly on international calls to the incumbent land -line company. Codes governing the water, electricity, petroleum distribution, and forestry sectors were approved as envisioned, but not all of the implementing regulations have yet been promulgated. A study of forest taxation was completed by the Bank and government which resulted in a number of promising recommendations, however these have not yet been implemented. The investment climate was improved by the adoption of a progressive investment code and reduction of the corporate tax rate. The ICR does not provide information on downstream oil privatization, or adoption of a Social Action Plan to support privatization.

2. Improve Governance and transparency: Objectives in this area were not achieved.
Progress in improving the transparency of information on SNPC was slow; audits of the company were made public, with a substantial delay, and the cooperation of SNPC was reluctant; while useful information was published on the government website, it remains incomplete. Only limited progress was made with respect to the forest sector in management and revenue enhancement. Progress in establishing an Auditor General and in procurement reform was negligible (sec. 5). Governance of SNPC, a major contributor to the economy, has not improved (information not provided in the ICR).

Progress toward macroeconomic stability was slow. The ICR acknowledges (p. 5) that due to delays in carrying out the SNPC audits as well as fiscal shortcomings, the Fund did not determine that sufficient progress was made to move from a staff-monitored program (SMP) to a PGRF until early 2005. A May, 2004, Fund report notes weak performance under the SMPs, the need for greater transparency in reporting oil revenues, and also regrets the opportunity missed in 2003 to use additional oil revenues to clear a significant amount of external arrears.

4. Significant Outcomes/Impacts:

- The country cleared its arrears with the Bank prior to effectiveness and subsequent disbursement.

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

- During the project period the country's progress toward macroeconomic stabilization was slow.
- The government privatized its remaining 3 state-owned banks in the absence of an adequate regulatory and bank supervision regime. One bank was renationalized and the other 2 are in poor financial condition.
- Privatization undertaken within the project was much less successful than envisioned, with backtracking on some actions. Further, the efficacy of regulatory functions was inadequate.
- Actions taken by the government to activate the Auditor General's office were inadequate (ICR, p. 7).
- Government measures to reform procurement were unsuccessful—despite the availability of Bank assistance—and public procurement is now less transparent and efficient than before project inception (ICR, p. 7).

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Unsatisfactory	Most relevant objectives were not achieved, and the relevance of the project was modest. The ICR is entirely correct (p. 9) in stating that "the privatization goals were overoptimistic, and perhaps not entirely relevant to a country emerging from a decade of civil war."
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Non-evaluable	The lack of progress on reform introduces significant uncertainties into the durability of those benefits that were achieved under this credit.
Bank Performance:	Satisfactory	Unsatisfactory	Quality at entry was unsatisfactory. It was highly unrealistic of the Bank to expect that a privatization program—especially one of this scope—could be implemented in a country with limited capacity that was just emerging from a turbulent political

			and security situation. Bank expectations in other reform areas were similarly unrealistic.
Borrower Perf.:	Satisfactory	Unsatisfactory	The Borrower did not sufficiently support the goals of the project: inadequate reform efforts on procurement and auditing and transparency of SNPC; backtracking on telecom and banking reforms; slow progress in macroeconomic management (ICR p. 5).
Quality of ICR:		Unsatisfactory	

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

7. Lessons of Broad Applicability:

- In a project initiated in the aftermath of conflict, the scope of reforms should be very limited.
- The benefits of bank and utility privatization depends on adequate regulation and enforcement.
- Privatization efforts in post-conflict countries should take into account the high levels of risk viewed by potential investors.

8. Assessment Recommended? ● Yes ○ No

Why? It would be useful to see the extent to which subsequent operations were able to push forward the reform agenda pursued under PCERC.

9. Comments on Quality of ICR:

The ICR is unsatisfactory, as the evidence presented does not support the claimed ratings. The report presents compelling evidence that the project did not achieve its objectives, it states that the project did not achieve most objectives, and yet rates outcome and Bank and Borrower performance as satisfactory. In addition to rating achievement of both components as modest, the ICR further states that the relevance of the project was limited (sec. 6 above).

The ICR states that the project objective was to provide the country with "badly needed foreign exchange" after clearance of arrears to the Bank, and that this was achieved. While this was certainly one goal of the operation, the Report and Recommendation of the President clearly states (p. 12) the objectives to be deepening structural reforms and improving governance and transparency in the management of the country's wealth and public funds.

In addition, the ICR does not provide an adequate assessment of downstream oil privatization, adoption of a Social Action Plan to support privatization, or information on the formalization of a framework agreement between SNPC and the government.