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| 1. Project Data: | | Date Posted : 06/20/2003 | |
| PROJ ID: P041280 | | Appraisal | Actual |
| Project Name: Public Enterprise Restructuring and Privatization Support Project | Project Costs (US\$M) | 35.71 | 7.08 |
| Country: Togo | Loan/Credit (US\$M) | 30.0 | 6.60 |
| Sector(s): Board: PSD - Central government administration (57%), General information and communications sector (17%), Other social services (14%), General finance sector (10%), Law and justice (2%) | Cofinancing (US\$M) | 5.71 | 0.25 |
| L/C Number: C3045; CQ039 | | | |
| | Board Approval (FY) | | 98 |
| Partners involved : Government | Closing Date | 06/30/2002 | 06/30/2002 |
| Prepared by : | Reviewed by : | Group Manager : | Group: |
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2. Project Objectives and Components

a. Objectives

The overall objective was to assist Togo in carrying out its divestiture and private sector development program . The specific objectives were:

- (i) to reduce the size of the Public Enterprises (PE) portfolio by supporting privatization and the restructuring of PEs remaining in the State portfolio;
- (ii) to reform the Post and Telecommunications (PT) sector to improve access, price, and diversity of services via increased competition and to develop an efficient low cost and high quality postal network; and
- (iii) to support institutional reform and capacity building in the financial sector by complementing policy reform that was to be implemented in a follow-up Financial Sector Adjustment Credit (FINSAC) and by promoting a microfinance sector.

b. Components

There were four components, three with sub-components:

- (a) Public enterprise restructuring and privatization consisting of : (i) strengthening capacity for carrying out the privatization program; (ii) preparing and implementing a program designed to restructure selected PE to improve their performance; (iii) carrying out a public information campaign on the program; and (iv) implementing a program to facilitate the retrenchment of redundant staff .
- (b) PT consisting of: (i) establishing and operating a regulatory body for the telecom sector; (ii) establishing a frequency spectrum management system; (iii) preparing strategies and policies to increase competition in the telecom sector; (iv) implementing a pilot program to test the feasibility and viability of telecom services by small -scale private operators to improve service in underserved areas; (v) providing services for the privatization of Togo Telecom; (vi) preparing and implementing a program to improve access to information technologies; (vii) improving the performance of Société des Postes du Togo (SPT), the postal agency; (viii) preparing and implementing a program to diversify and expand the coverage of postal services; and (ix) rehabilitating SPT's mail sorting center and

selected post offices .

(c) Financial sector consisting of: (i) preparing and implementing a program to improve the performance and efficiency of the sector, including the restructuring, privatization, and sale of selected public financial institutions; (ii) strengthening the capacities for the supervision and coordination of the activities of microfinance institutions (MFI); (iii) disseminating information and best practices among MFIs; (iv) strengthening the capacities of the Comité National de Coordination (CNC) to enhance cooperation between the Government and MFIs; (v) strengthening the institutional and planning capacities of the Fédération des Unions de Coopératives d' Epargne et de Crédit (FUCEC); and (vi) strengthening the legal and judicial system to improve the security, predictability, and enforceability of contractual transactions .

(d) Project management consisting of strengthening the capacity of the Unit é de Coordination du Projet (UCP) to coordinate the overall implementation of the project .

c. Comments on Project Cost, Financing and Dates

Actual project costs and disbursements fell far short of estimates because implementation was considerably impaired by a rapidly deteriorating political and economic situation following contested elections held a few months after Board approval. The Prime Minister, who had shown great commitment to project objectives and had participated personally in preparation and negotiations, was no longer in place at effectiveness in September 1998. The political and economic instability led to the accumulation of arrears to the Bank and, as a result, to several suspensions of disbursements by IDA. As an indication of the negative impact they had on project implementation, suspensions occurred three times during the life of the project for a total of 40 percent of the implementation period . Also, as a result of the change in leadership and policy environment, transparency in the implementation of the privatization program was considerably flawed, with the government resorting often to direct negotiations instead of competitive bidding. In the case of the port of Lomé, the privatization process was so fraught with problems that the Bank cancelled the portion of the Credit assigned to this privatization, i .e., US\$ 95,012. At closing, total disbursements amounted to only 22 percent of the Credit. The Credit closed on June 30, 2002, the original date.

3. Achievement of Relevant Objectives:

The overall objective and most of the specific objectives were not achieved .

(a) Privatization and restructuring of PEs: only 14 percent of the number of PEs in the portfolio was privatized against 86 percent planned, while some PEs scheduled for privatization were withdrawn by the Government to be restructured instead. Only the sub-component in support of retrenchment was successful but limited in size due to the small number of PEs privatized .

(b) PT: the objective for the telecom sector was largely achieved : the sector was liberalized with the removal of Togo Telecom's monopoly and a regulatory authority was established and operational by 1999. SPT was reorganized and its financial situation improved but the objective of signing a management contract with a private operator did not materialize.

(c) Financial sector: only one out of seven financial institutions was privatized, leaving State ownership at 67 percent for banks and at 70 percent for non-bank financial institutions by project completion .

4. Significant Outcomes/Impacts:

The only significant outcomes/impacts of the project are the following :

(i) the benefits to the consumer deriving from the liberalization of the telecom sector : access was increased, tariffs were lowered, service penetration was increased, and the access cost to mobile telephony was considerably reduced.

(ii) the management of the country's foreign debt was transferred by SNI (Société Nationale d'Investissement) to the Treasury.

(iii) a Business and Securities Registry (Registre du Commerce et Créances Mobilières) was created.

(iv) the harmonization of Togo's business laws with OHADA legislation was achieved and the enforceability of the latter over the territory of Togo ensured .

(v) the number of micro-finance institutions increased from 17 in 1998 to 127 in 2002.

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

The major shortcoming in terms of outcome is the Government's loss of credibility with respect to commitment to privatization, transparency in dealings with the private sector, both foreign and domestic, and governance in general .

Although the project was carefully prepared, the fact of having three different ministries, each with its coordinating unit, plus an overall coordinating unit (although the scheme was modified soon after effectiveness) may have been too much of a burden for Togo's institutional capacity .

The Borrower failed to comply fully with Section 3.02 of the DCA providing for the Borrower to adhere strictly to Bank's guidelines on procurement and consultants' services, as specified in Schedule 3.

| 6. Ratings : | ICR | OED Review | Reason for Disagreement /Comments |
|-----------------------------|----------------|----------------|---|
| Outcome : | Unsatisfactory | Unsatisfactory | See remark under Sustainability |
| Institutional Dev .: | Modest | Modest | |
| Sustainability : | Unlikely | Likely | Although the outcome of the project as a whole is rated unsatisfactory, a limited number of sub-components achieved their objectives and are likely to be sustainable. As a result, the project sustainability is rated likely (see Section 4 above). |
| Bank Performance : | Satisfactory | Satisfactory | Greater caution could have been exercised at appraisal regarding the political risks, given the impending elections. |
| Borrower Perf .: | Unsatisfactory | Unsatisfactory | |
| Quality of ICR : | | Exemplary | |

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 countries with uncertain economic performance and fragile institutions, extra caution at preparation /appraisal should guide the complexity and scope of operations, whether investment or adjustment, even if it means for the Bank to expend more resources over a longer period of time to achieve the end result . In those cases, a series of limited successes is better than attempting to attain all the desirable goals at once, with all the attendant risks . This is particularly the case when the appraisal team is faced with impending elections with uncertainty as to the results .

8. Assessment Recommended? Yes No

Why? As part of a cluster covering the adjustment operations in Togo . The audit should pay particular attention to the attitude of the authorities (past and present) vis-à-vis transparency in bidding procedures, selection of service providers, contract negotiations, privatization transactions, and governance in general .

9. Comments on Quality of ICR:

The ICR is well thought out, well structured, and well written . It is comprehensive, complete, and provides, where necessary, the background information required to understand the issue at hand . The annexes are complete .