ICR Review
Operations Evaluation Department

Report Number : ICRR11448

1. Project Data:		Date Posted :	03/11/2003	
PROJ ID:	P065128		Appraisal	Actual
Project Name :	Sac IV	Project Costs (US$M)	n.a	n.a
Country:	Guinea	Loan/Credit (US$M)	50	50
Sector(s):	Board: EP - Central government administration (36%), Sub-national government administration (27%), Health (14%), General industry and trade sector (14%), General education sector (9%)	Cofinancing (US$M)	0	0
L/C Number:	C3551; CQ243			
		Board Approval (FY)		02
Partners involved :		Closing Date	06/30/2002	06/30/2002
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2. Project Objectives and Components

a. Objectives

The project supported Guinea's poverty reduction strategy and had three main objectives: (i) more accountable and efficient use of public resources through improved public expenditure analysis and management; (ii) more effective government through decentralization of decision-making and service delivery; and (iii) improved public sector management and environment for private sector led growth through divestiture. According to the Credit and Program summary of the President's Report, improving the quality of public service delivery especially to the poor was to be the core of IDA's assistance to Guinea. A fourth objective was to help fill the financing gap.

b. Components

The first objective included improving : (a) budget formulation; (b) budget execution; (c) public expenditure auditing, monitoring and reporting. The second objective supported (a) increasing the share of non-wage recurrent budget resources allocated to lower tiers of government to at least 80 percent of the total for priority sectors; (b) making allocations directly to schools and health clinics in Conakry and Kindia; (c) increasing the resource base of the local government through fiscal transfers and local revenue mobilization; (d) encouraging citizen participation in the budget process; and (e) creating awareness and demand for performance. The third objective supported (a) the adoption of a comprehensive reform strategy for the public enterprise sector; (b) adoption of a program to mitigate the social cost of divestiture and liquidation, together with a communication strategy; (c) promulgation of a privatization law and creation of a privatization unit; (d) liquidation of eight insolvent public enterprises and (e) updating of cross-debts and adoption of measures to settle arrears and prevent their recurrence.

c. Comments on Project Cost, Financing and Dates

SAC IV was responding to a financing gap which, if not met, was expected to lead to a compression of expenditures and a negative effect on non-wage resources available at the decentralized level. The operation was a single tranche operation.

3. Achievement of Relevant Objectives:

The components related to the first and second objectives fulfilled most of their goals. Budget formulation and execution was improved with the introduction of a computer-based accounting and monitoring system, provision of training and through monitoring divergences between actual spending and budget allocations. The execution performance of the budget in 2001 was constrained by unplanned expenditures required to address urgent security issues. However, by end-October 2002, implementation attained 61 percent (ICR) and by end 2002, according to new information from the region, the execution rate reached 92 percent compared to 53 percent for 2001.

Direct transfer of resources to the sub-national level was strengthened; 80 percent of non-wage recurrent budget is now channeled to the sub-national level. Budgets are also being transferred directly to schools and primary health centers to four regions. Progress was made in ex-post financial control. Reports of the audited accounts for the 1999 and 2000 budgets have been sent to the Chamber of Accounts for certification and are expected to be submitted to the National Assembly by end 2002. An audit fund and related procedures were established. An Agreement was reached that the responsible private auditors would identify cases of misappropriation and fraud and then follow up on the application of sanctions. A national anti-corruption committee established with Bank support has developed an anti-corruption strategy and action plan. Information on local revenue mobilization is not available in the ICR.

Components in the third objective did not achieve all their goals. An institutional, legal and regulatory framework for the public enterprise sector was adopted (a privatization law was promulgated), a new privatization unit (NPU) was created, the Direction Nationale du Portefeuille (DNP) was given sole responsibility for the management and valuation of the public enterprises, including their debt burden. A social fund was established for re-training or re-employing employees affected by privatization. A comprehensive public enterprises reform law was adopted by the National Assembly and promulgated by the President. However, a complete inventory of cross-debt between government and public enterprises was not produced and the eight enterprises have yet to be liquidated.

4. Significant Outcomes/Impacts:

SAC IV contributed to macroeconomic stability: output growth rose from 2.1% in 2000 to 4.2% in 2002, inflation was kept in check, and the fiscal balance is expected to improve. The structural measures taken under SAC IV should contribute to longer term growth and poverty reduction. SAC IV deepened and broadened the Medium Term Expenditure Framework. Sector departments have realized that access to budget resources depends on having a clear strategy, monitorable objectives and a multi-year program, with accountability for timely execution and quality of service.

The transfer of resources of 80 percent of non-wage recurrent budget to the sub-national level was a significant outcome as according to the region, "Francophone Africa has little history of local government and no experience of transferring funds to the sub national level. Funds have typically been dispatched from ministries of finance to the line ministries, with Finance retaining tight control over budget allocations, with a priori approval of commitments and direct payment of expenditures. This has had a deleterious effect on the quality and timeliness of service delivery."

Transfer of resources directly to schools and hospitals has promoted transparency and efficiency in the budgetary management system. Guinea is the only Francophone African country to be piloting the direct transfer of the entire operating budget to the school/clinic level, with a view to improving the quality of services through local control.

A framework for privatization and the requisite capacity building is important since the absence of these had in the past impeded privatization.

Misappropriated funds were recovered from major enterprises and the first criminal prosecutions were launched in November 2002.

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

There are important caveats to the macroeconomic performance discussed in section 4. First the improvement in GDP growth is overstated because the growth of 2 percent in 2000 reflects the adverse impact of the border crisis which is recognized in the ICR. Second, a rate of 4.2 percent in 2002 is only marginally above the average 4% GDP growth during 1996-99. Third, the fiscal balance fell short of its target and fourth, the external current account deficit is expected to deteriorate.

There were other shortcomings. Despite the establishment of a legal and regulatory framework and the necessary strengthening of critical institutions, work on recording cross debts was delayed and the eight enterprises were not liquidated/privatized even though only a presidential decree was needed.

While improvements in budget execution rates for the non-salary recurrent budget at the local level should have improved the quality of service delivery, the overarching goal of the credit, indicators reflecting these improvements were not reported in the ICR. The region notes that surveys and beneficiary assessments were carried out. These and reports of school and clinic management committees "suggest that the desired results were attained." It would have been useful to report the main findings of these assessments and reports in the ICR.

The Legal Agreement required that in FY2001: (a) a minimum of 35 percent of total non-wage recurrent budget be allocated to the priority sectors and that a minimum of 46 percent of overall budgetary allocation of the education sector be allocated to primary education. However, it is unclear from the ICR whether these conditions were met. Annex 1 gives no information on the education sector and gives contradictory numbers for budget allocation to priority sectors. While one column of the log frame states that non-wage recurrent expenditures for priority sectors were raised from 32 percent in 2000 to 50 percent in 2001 taking into account HIPC resources, another column states that such expenditures were 32 percent in 2001 including HIPC resources.

While the Chamber of Accounts is preparing the certification of 2001 expenditures, the reliability of the certification process is questionable because the Chamber lacks core competences, is not fully staffed and lacks basic equipment. But then Guinea's first official budget was in 1988 and there was no public scrutiny of the budget process and results until 1998.

Finally, although budget formulation has improved, the key problem of revenue instability remains largely because of dependence on mining and the difficulty of accessing large areas of the national territory in 2000-2002. Revenue collection should improve with progress in improving the performance of customs, in rationalizing import regimes, especially for the mining companies, with independent verification and valuation of imports and reform of the local taxation regime.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	Key reforms in the public enterprise sector critical for fiscal sustainability and private sector development were not undertaken. This rating is preliminary and will be confirmed after the ongoing assessment of this operation is completed.
Institutional Dev .:	Substantial	Substantial	To be confirmed after the assessment
Sustainability :	Likely	Non-evaluable	The Board presentation conditions focused on budget allocations, adoption of frameworks and laws, issuance of decrees, defining procedures and less on outcomes. The impact of these reforms will be seen only in the longer-term. Low fiscal revenues will continue to impede budget management despite the focus on improving expenditure management. Bank support has been instrumental in achieving the execution rates of non-wage recurrent expenditures set out in the credit agreement and without this support it is unlikely that allocations to priority sectors will be maintained in the future. Past poor record of SACs also heightens uncertainty about the sustainability of achievements.
Bank Performance :	Satisfactory	Satisfactory	Bank performance while satisfactory can be faulted on three grounds. Regional comments are in bold. First, additional steps towards liquidation of public enterprises and implementation of a plan to clear cross-debts should have been included in conditions of Board Presentation or effectiveness. **The region notes that "it would not have been appropriate to make either a condition of effectiveness since the NPU has just been created and the DNP 's mandate clarified. ..."** However, the ICR notes on page 3 that "Government's disengagement from eight enterprises was included as a SAC IV measure because the enterprises had already been evaluated and awaited only a presidential decree to implement their liquidation/privatization." The public enterprise problem has been lingering on for the past 10 years. Second, conditions should have focused on implementation of

			reforms and not on adoption of plans, decrees. **The region notes that "..establishing the policy and regulatory framework and institutions were essential steps ."** While we agree with this statement, the SAC III was a public sector adjustment credit, and in 1992 the Bank approved a public enterprise and privatization technical assistance credit. Third, the SAC IV and AfDB financing totalled US$66 million, twice the amount of the non-wage recurrent expenditures in the priority sectors which the GOG implemented in 2001. This raises questions about the efficiency with which outcomes were achieved. Such generous budgetary support may have reduced the borrower's incentive to bring expenditures in line with revenues. The region **notes that " SAC IV privileged the priority sectors but it also financed, by special agreement, the salaries of the teachers and health workers needed to meet short term school enrollment and health coverage goals . ... Also, 2000 and 2001 presented government with unplanned but unavoidable expenditures ."** The ongoing assessment will look at this issue more in-depth.
Borrower Perf .:	Satisfactory	Satisfactory	The borrower can be faulted for little commitment to the critical area of public enterprise reform. It increased the execution rate in only the first four months of 2002 although SAC IV budget support became available in 2001.
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. A strategy in SAC IV to strengthen the entire governance system of public resources, i .e., budgetary oversight and accountability was important to ensure effective management of resources; it was more effective than a strategy narrowly targeted to civil service reforms would have been . 2. A strategy to promote broad consultation and good communication builds consensus for budgetary reforms . Such a strategy is also essential for public enterprise reform. 3. When an adjustment operation is fourth in a series of loans, the task of justification is more demanding, especially if it targets areas where the Bank has been active for 15 years. The documents (President's Report, ICR) should explain what earlier projects tried to achieve, what they did achieve and failed to achieve, and what could be expected from the new operation. 4. The adjustment operation should provide concrete performance indicators and a monitoring plan to assess whether its core objective of improving service delivery was achieved .

8. Assessment Recommended? ● Yes ○ No

Why? SAC IV should be audited as part of the cluster of loans in the 1990s addressing deep seated structural problems in Guinea, including those related to expenditure management and public enterprise reform .

9. Comments on Quality of ICR:

The ICR is satisfactory but moderately so because evidence on some key indicators and trends to assess project achievements is lacking or is contradictory (e.g., section 5). The ICR for SAC IV should also have stated more fully the objectives of SAC III, what was achieved and what was not to show how much progress had been achieved in expenditure management and should have discussed debt sustainability since Guinea is a HIPC country . **The region notes that "the ICR makes it clear that SAC III provides the foundation for SAC IV ... an assessment was made in December 1999 within the framework of the preliminary assessment of Guinea 's eligibility for assistance under the Initiative for HIPC . It has since been updated within the framework of the Decision Point Document for Enhanced HIPC Initiative ."**