Report Number : ICRR12676

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted :	08/13/2007	
PROJ ID :	P050439		Appraisal	Actual
Project Name :	Privatization & Utility Sector Reform	Project Costs (US$M):	95.3	35.6
Country:	Uganda	Loan/Credit (US$M):	48.5	31.7
Sector Board :	PSD	Cofinancing (US$M):		
Sector(s):	Central government administration (52%) Other social services (48%)			
Theme(s):	Regulation and competition policy (50% - P) State enterprise/bank restructuring and privatization (50% - P)			
L/C Number:	C3411; CB007			
		Board Approval Date :		08/24/2000
Partners involved :		Closing Date :	01/31/2006	01/31/2006

Evaluator :	Panel Reviewer :	Group Manager :	Group:
James Sackey	Ismail Arslan	James Sackey	IEGCR

2. Project Objectives and Components:

a. Objectives:

The objective of the project was to improve the quality, coverage and economic efficiency of commercial and utility services, through privatization, private participation in infrastructure (PPI), and an improved regulatory framework. This was to be achieved by: (i) divestiture and restructuring of the remaining 42 public enterprises (PEs) operating in industry, commerce, services and utilities; (ii) increased private sector participation in the provision of infrastructure, including telecommunications, electricity, water and sewerage, and rail transport; and (iii) strengthening of the regulatory framework and institutions.

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

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

The project had four components:

Part A: Capacity Building for Privatization (Appraisal cost: US$71.7m; Appraisal IDA financing: US$25.5m; Actual IDA disbursement: US$16.4m). The component supported (i) the strengthening of the technical, legal, accounting and investment banking capacity of the Government of Uganda's (GOU's) department and agencies responsible for privatization; (ii) the carrying out of programs designed to mitigate the social impact of labor retrenchment; (iii) the carrying out of a communication program designed to strengthen public confidence in the transparency of the GOU's divestiture procedures and convince the public of GOU's commitment to use a sound and appropriate method for the privatization of the remaining PEs; (iv) the designing and carrying out of the overall communications strategy for the project; and (v) the preparation of comprehensive environmental audits and remedial plans for the PEs scheduled for privatization.

Part B: Strengthening Financial Oversight of PEs (Appraisal cost: US$2.0m; Appraisal IDA financing: US$1.9m; Actual IDA disbursement: US$1.6m). The component supported the carrying out of financial oversight of PEs with a view to (i) improving financial discipline in the public enterprise sector and facilitating the settlement of cross arrears between GOU and the PEs and among the PEs; and (ii) reducing budgetary subsidies to the PEs.

Part C: Utility Sector Reform (Appraisal cost: US$9.0m; Appraisal IDA financing: US$9.0m; Actual IDA disbursement: US$5.4m). The component supported (i) the design and carrying out of reforms in the utility sector to improve the quality of, and increase access to, telecommunications, electricity, water and sewerage, and rail transport services; (ii) the finalization of the design and operation of new sector structures in the telecommunications, electricity, rail transport and water and sewerage services; and (iii) the preparation of proposals for regulatory reforms in the electricity, railways, and water and sanitation services.

Part D: Project Management (Appraisal cost: US$9.4m; Appraisal IDA financing: US$8.9m; Actual IDA disbursement: US$8.4m). The component supported the training of staff in (i) privatization policies, procedures and regulation; and (ii) project planning, accounting, auditing, procurement and other project management skills.

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

The appraisal total cost of US$95.3m included US$0.9m for the refund of PPF and US$2.3m for price contingency. Estimated IDA financing at appraisal of US$48.5m also included these two items. Actual IDA disbursement totaled US$31.7 million, or 70 percent of IDA credit at approval date. The ICR did not provide estimates of actual total cost at project completion nor of the government's contribution (although the information was obtained from the Region by IEG). The lower IDA disbursement is explained partly by the greater GOU/PE contribution to financing components such as the retrenchment cost of labor.

Two amendments were made to the DCA. The first amendment, dated November 19, 2002, (i) added a second Special Account specifically for severance payments, (ii) created a new category of expenditure for audits, (iii) reallocated funds to fully cover PPF expenditures, and (iv) revised aggregate procurement amounts for national competitive bidding (NCB) and national shopping (NS). The second amendment dated February 23, 2005 reallocated US$5.5m of IDA resources to a new component (Part E of Schedule 2 of the DCA) to backstop a Letter of Credit Facility to facilitate the concessioning of the Uganda Electricity Distribution Company Ltd (UEDCL). The component allowed for IDA disbursement to the L/C issuing bank in the event of a repayment default by UEDCL. It also provided for the closing date of the component to March 31, 2013, at which time a supplementary ICR covering activities associated with the new component would be prepared. The project's original closing date of January 31, 2006 was retained for all other components and the undisbursed and uncommitted balance of US$ 10m was cancelled.

3. Relevance of Objectives & Design:

Relevance of Objectives.

The objective of the project was substantially relevant because it responded to the focus of the Government's development strategy (as contained in the PRSP) to create an environment for economic growth and structural transformation so as to support poverty reduction. Utility sector reform and privatization had been identified as priority measures of the Bank's assistance strategy to help GOU improve the economy's competitiveness and increase growth. The objectives of the project carried forward the reforms initiated in previous years and contributed in meeting the CAS objective of poverty reduction through broad-based economic growth led by the private sector.

Relevance of Design.

The design of the project was highly relevant in that it tackled the key unfinished policy agenda issues associated with the reforms initiated by earlier IDA assistance by providing capacity-building and financial support for the divestiture and restructuring of the remaining 42 public enterprises (PEs); and supporting the strengthening of financial oversight service and utility sector reforms. The monitoring and evaluation (M&E) system was well-designed, directly linked to the sub-objectives of the project, and identified specific performance indicators for output and outcome associated with IDA assistance. The M&E also provided for regular collection of enterprise level data that was used for monitoring progress of the project. A major limitation, on the other hand, was the absence of detailed and consistent cost data to assess the cost effectiveness of the reform process. No beneficiary survey was undertaken.

4. Achievement of Objectives (Efficacy):

The Results Framework for the project defined two categories of outcome benchmarks for assessing the achievement of project objectives: (i) sector-related CAS goals; and (ii) component outputs/outcomes (Annex I of the PAD and Annex 1 of ICR).

(i) **Sector-related CAS goals** :*Substantially achieved* **.** The goal was to promote a broad-based private sector-led growth of the economy, complemented by an increase in the private investment to GDP ratio . GDP growth averaged 5.4 percent per annum during 2001-2005, slightly below the 7 percent benchmark set in the CAS. The ratio of private investment to GDP was almost on target, at 16.9 percent in 2004 (available data), compared to the target of 17 percent. Although the PE sector (at the onset of the reforms in the 1990s) counted to 150 parastatals and accounted for about 25 percent of the formal labor market and contributed about 10 percent of GDP, the 24 PEs privatized (and those restructured) could not possibly have been responsible for a substantial part of the growth of GDP during 2001-05. IMF analysis points to the dominant role played by construction and service activities in growth for Uganda during this period. The reform program may have, however, improved the investment environment as the Uganda Investment Authority confirmed that the largest foreign direct investments have been those resulting from the privatization process.

(ii) **Component outputs** : The three main expected direct outcomes of the project were :(a) completion of the privatization program leading to reduced fiscal transfers; (b) achievement of private participation in infrastructure leading to improved access and cost reduction; and (c) an improved regulatory framework and utility sector reforms supporting productivity increases and service quality . In terms of the privatization, 24 PEs were privatized and 6 liquidated by 2006 (Borrower Draft ICR states 28 privatized and liquidated), compared to the benchmark of 42 by June 2005.The privatization program experienced government interference on procedures mainly through divestiture strategy reversals, which caused delays in the completion of transactions .Benefits for retrenched workers, however, were paid in a timely fashion and environmental audits were carried out for all PEs before the completion of each transaction. The program of privatization was unable to reduce subsidies to the PE sector, which increased as noted by the ICR because of weak financial returns from reformed PEs, the indebtedness of infrastructure PEs and their need for government guarantees. The outcome of the privatization effort is therefore rated ***modest.***

Efforts to improve private sector participation in infrastructure were on target, albeit with some delays and is rated as ***substantial*** *.* The outcome of reforms of the power, telecommunications and the railways sectors were mixed . While the coverage of power increased by 8 percent by 2006 (compared to the target of 7 percent by 2005), power losses continued to rise to 36 percent by 2005 (compared to the target of 25 percent for June 2005 and a benchmark of 34 percent in 1999). Substantial improvements, however, were observed with respect to telecommunications . Fixed and mobile lines per 1000 people increased to 56 in 2004, compared to the target of 20 in 2005. But progress in the water and railways sectors lagged as private sector participation remained limited . Traffic volume (tonnes hauled/GDP) in railways did not achieve the target of 150 for June 2005.

Progress made in the reform of the regulatory environment in promoting competitive cost structures for industry by the privatized public enterprises and utility companies is rated ***modest.***The project aimed at establishing four sectoral regulatory agencies in communication, electricity, transport and water and sewerage sectors, but only two (the Uganda Communications Commission and the Electricity Regulatory Authority) were established by project closure. Furthermore, while by close of the project an effort was underway to establish the regulatory institution for transport, it was decided that the water and sewerage sector would continue to be regulated by the line ministry responsible for the sector. In effect, the design of the project in this area was over-ambitious and failed to recognize the capacity constraints and time required to build consensus in reforms of this kind .

5. Efficiency (not applicable to DPLs):

Because of data limitations, the ICR could not calculate the NPV and the ERR using the original appraisal methodology for all components. Instead, the NPV and the ERR were calculated at project completion for components of the project related to severance payments and redeployment support for retrenched workers, which accounted for about 63 percent of total project costs (including both IDA and GOU). The estimated ex-post NPV is US$114m for a 12 percent discount rate and ERR of 76 percent, compared to appraisal NPV of US$8.6m and ERR of 14.9 percent respectively for similar components. The large disparity between the appraisal and ex-post estimates of NPV/ERR could be explained by the poor quality of data at appraisal relative to those generated by the monitoring system set-up for the project (especially the Retrenched Employees Tracer Study and the Privatization Impact Assessment). Financial rates of return were not calculated.

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

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	14.9%	63%
ICR estimate	Yes	76%	63%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

The project had a *moderately satisfactory* outcome in that privatization and promotion of private sector participation helped improve the business environment and attracted FDI which likely supported the higher investment/ GDP ratio during 2001-05 necessary for sustained high growth. The reforms of utilities (power, telecommunications, water and transport), although with mixed outcomes, laid the foundation for an improved economic environment. Similarly, the establishment of institutions to support a competitive business environment, albeit at a slow pace, helped to create a transparent and accountable business environment .

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

The risk to policy reversal remains *significant* because of the political sensitivity to reforms associated with privatization and the dislike for cost recovery mechanisms in low income countries . This assessment differs from the ICR assertion that privatization is by nature generally irreversible . Instead, utilities, such as water and sewerage, are often thought of as necessities that need to be provided at no cost to the consumer . As such, reforms that aim at cost recovery usually run the risk of political interference, especially during periods of economic crises . These risks explain the slow rate of the privatization program during the second phase (2001-06) and the difficulties encountered in establishing the regulatory institutions, although the public campaign system helped .

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

There was no QAG quality at entry assessment. IEG notes that the Bank built a good team,composed of the right skills, that produced a project design built on the lessons of the previous IDA operation . The project was developed in a participatory manner and identified and resolved the key issues affecting the sector . A drawback of Bank performance was the slow start in project implementation which resulted from delays in project effectiveness and subsequent nullification of pre-effectiveness procurement actions. Bank performance during supervision was satisfactory and provided substantial opportunity between the Bank and GOU for policy dialogue and fine-tuning of implementation processes. There was continuity of task-team-leaders and the role of the Country Office and location of the TTL in the field was beneficial. The delay in the mid-term Review (conducted a year before project closure) limited its effectiveness as a tool to retrofit project implementation .

a. Ensuring Quality -at-Entry: Satisfactory

b. Quality of Supervision : Satisfactory

c. Overall Bank Performance : Satisfactory

9. Assessment of Borrower Performance:

While Government performance was satisfactory at project preparation, it somehow deteriorated at the start -up of the project. During 2001-02, there was no substantial disbursement of the proceeds of IDA assistance as a result of the slow start in procurement of goods and services, stemming from continued interference by GOU of the privatization procedures brought about by strategy reversals in the divestiture program . The departure of key technical staff in 2002 and the lengthy procurement procedure to replace them led to further delays in several privatization transactions. The performance of the implementing agencies was satisfactory . For example, the Privatization Unit built a useful database of information which assisted in monitoring the performance of the PEs . The Project Management Unit diligently monitored the compliance of PEs with respect to audited accounts, budget and operating plans, and issuance of periodic reports .

a. Government Performance : Moderately Satisfactory

b. Implementing Agency Performance : Satisfactory

c. Overall Borrower Performance : Satisfactory

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

M&E Design

The M&E system was well-designed to provide detailed key performance indicators of output and outcome for the project (Annex 1 of PAD) and for the monitoring of the performance of PEs and tracking of the privatized PEs . The design identified the areas of responsibility of various implementing agencies and sources for information, specifying the links from objectives to outputs and to outcomes .

M&E Implementation .

The key performance indicators were regularly updated by the Project Coordinating Unit (PCU). The Parastatal Monitoring Unit consistently gathered data on the performance of PEs . Two surveys were conducted over the period of project implementation: a privatization impact study in 2005; and a retrenchee tracer study.

M&E Utilization

The input and output indicators collected through the M&E system were used to monitor the progress of project implementation both by GOU and the Bank. A weakness of the system was the failure to gather the cost data necessary for monitoring cost effectiveness and rate of return assessment .

a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

The project largely complied with safeguard and fiduciary requirements . But while compliance with environmental safeguards was rated satisfactory overall, the assessments and decommissioning plans revealed that the tasks involved in some of the PEs in the mining sector were beyond their capacity, resources and mandate of the project and the implementing agency (the National Environmental Management Authority). At project closure, the Ministry of Energy and Mining was required to take over the responsibility for the mining enterprises as they were still not privatized.

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	The project only partially met the outcome targets specified at appraisal with respect to the quality, coverage and economic efficiency of commercial and utility services. All the public enterprises identified for privatization were not privatized and therefore the expected expansion in quality and coverage resulting from private sector participation did not materialize (see paragraph 4). Only two of the three regulatory institutions were established and this was accomplished close to project closure, yielding no evidence of their potential benefit.
Risk to Development Outcome:	Moderate	Significant	Given the history of policy reversal and political interference during project implementation, the slow rate for privatizing and establishing regulatory reform of the utilities, and the prevailing dislike for cost recovery mechanisms for utilities such as water in Uganda, the risk to development outcome remains significant.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

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:

In addition to the lessons learned outlined in the ICR, the following could be considered :

- For projects that have lost critical start-up time, it would be useful to accelerate a mid-term review to allow sufficient time for retrofitting of implementation schedules and to guide decisions on requests for extension. This will help avoid a situation in which a number of outstanding activities at project closure would be required to be completed with unidentified funding sources.
- Policy reversal and interference are highly likely in reforms characterized by political sensitivity. In such cases, it may be useful to (i) seek stakeholder consensus through participatory means; (ii) clearly define an adequate legal environment through appropriate legislation and enforcement; and (iii) deal with difficult issues transparently and up-front.

14. Assessment Recommended?

○ Yes ● No

15. Comments on Quality of ICR:

The ICR was well written and frank in its assessment. It could have benefitted from better access to cost data so as to allow adequate discussion of the economic analysis of the project. The disparity between the Government's assessment of how many PEs were privatized and liquidated and that contained in the ICR needed to be resolved.

a.Quality of ICR Rating : Satisfactory