



1. Project Data:		Date Posted : 06/06/2007	
PROJ ID : P054217		Appraisal	Actual
<b>Project Name :</b> Financial System Infrastructure Modernization Project	<b>Project Costs (US\$M):</b>	18.20	5.20
<b>Country:</b> Algeria	<b>Loan/Credit (US\$M):</b>	16.50	3.50
<b>Sector Board :</b> FSP	<b>Cofinancing (US\$M):</b>		
<b>Sector(s):</b> Payment systems securities clearance and settlement (50%) Telecommunications (45%) Banking (5%)			
<b>Theme(s):</b> Other financial and private sector development (67% - P) Standards and financial reporting (33% - S)			
<b>L/C Number:</b> L7069			
	<b>Board Approval Date :</b>		07/26/2001
<b>Partners involved :</b>	<b>Closing Date :</b>	07/02/2005	06/30/2006
<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>Group Manager :</b>	<b>Group :</b>
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## 2. Project Objectives and Components:

### a. Objectives:

To put in place a more efficient enabling infrastructure for basic financial services, primarily by modernizing the interbank payment system for large-value transactions and by developing norms and standards for future low-value payments systems, including an electronic clearing house .

### 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 consisted of four (4) components:

**Component 1:** Payment Systems/PS Component including: (i) the Real Time Gross Settlement (RTGS) applications system development; (ii) the computer network equipment and operating software; (iii) technical assistance and training in the RTGS systems and regulations, low-value payment systems and electronic clearing, and payments systems management; (iv) initial subscription to the Society of Worldwide Interbank Financial Telecommunications (SWIFT) service; and (v) studies to identify appropriate participant fees, interface standards and processing rules for the clearing and settlement . The cost at appraisal was US\$4.80 million vs the actual cost of

US\$2.70 million.

**Component 2:** Bank of Algeria (BA) Information Systems (BAIS) Component including: (i) technical supporting infrastructure for the RTGS system; (ii) computer hardware and software for the BA's internal information systems; and (iii) technical assistance and training for the RTGS system and BA's information systems . The cost at appraisal was US\$4.50 million which was not utilized due to the cancellation of the component (see (d) below).

**Component 3:** Supporting Telecommunications Infrastructure (STI) Component including: (i) high capacity and secure telecommunications optical ring network linking BA's HQ with its regional offices and with commercial banks throughout Algeria; (ii) telecommunications hardware and software for BA's internal and external telecommunications and information systems networks; and (iii) technical assistance and training for telecommunications engineering, security audits, technical specifications, and operations . The cost at appraisal was US\$8.10 million vs the actual cost of US\$ 1.70 million.

**Component 4:** Project Management Support (PMS) Component, including technical assistance and training, and a small amount of equipment to strengthen the capabilities of the Project Management Unit (PMU) (Comite Technique) to implement the project. The cost at appraisal was US\$0.6 million vs the actual cost of US\$0.2 million.

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

There were no changes in the original project design and implementation arrangements . However, after more than 2 years of delays, the implementation progress of Component 2 was downgraded to **unsatisfactory** which prompted a restructuring of the project and Board approval of the (restructured) project in August 2005. As part of the restructuring, the loan portion for Component 2 was cancelled with the BA deciding to finance the component from its own resources. One of the objectives of the restructuring was to make up for some of the delays and ensure that the major components could be completed and the Project Development Objective (PDO) substantially achieved within an abbreviated timeframe.

The cancellation of US\$11.3 million or 68.5 percent of the original loan amount of US\$16.5 million was due to substantial cost savings from: (i) the choice of a less expensive and better-performing technology for the Telecommunications Component; and (ii) the decision of the BA to undertake the modernization of the information system using its own funds. At the end of the project, the program cost was US\$5.2 million, which may not have been reflected the actual cost of project, a cost-savings of about 71.4 percent from the original loan of US\$18.2 million.

The closing date of the project was extended by one year, from June 30, 2005 to June 30, 2006 due to procurement delays.

### **3. Relevance of Objectives & Design:**

**Relevance of Objectives** . The project objectives were consistent with the 1996 CAS targets by improving the financial system infrastructure that was important for the functioning of a healthy and self -sustaining financial system within a private sector-led economy. The Project was also an integral part of the strategy and plan of the Government and the BA to: (i) integrate Algeria into the global financial architecture through the modernization of the country's payment and electronic clearing systems; (ii) improve the monitoring of liquidity in the banking system; and (iii) lay the foundation to develop a nascent financial market essential to attract new entrants in the Algerian financial sector.

**Relevance of Design** . The design of the project at entry was appropriate . The RTGS, BAIS, and the STI (Components 1, 2, and 3) all were necessary to build a modern payment infrastructure in Algeria . The risk and mitigation strategies were important elements in the project design and the former centered mainly on the lack of specialized capacity, lack of commitment and cooperation between different stakeholders, and potential deterioration of the economic, political, and social environment . Despite these strategies, the project design was ineffective in coping with the unpredictable explosion in the development of the type of technologies used in the project and with the normal challenges in a country that was coming out of a long conflict, thus causing major delays in the implementation process. On the other hand, the strength of the project design was in its participatory framework . The BA, Ministry of Finance (MOF), and the Ministry of Posts and Telecommunications (MPT) were actively involved in all aspects of the project design . The continuous involvement and dialogue in the design process contributed to the project team's ability to maintain an on-going link between the stakeholders who often had diverging views and the objectives the project was designed to achieve .

#### 4. Achievement of Objectives (Efficacy):

Overall, the efficacy of the Project is substantial . The PDOs were achieved, and the targets were reached within an implementation timeframe much shorter than initially planned and at a much lower cost than estimated .

**Component 1: Payment System - RTGS is rated substantial** . Within 9 months of its inauguration, the RTGS had already captured 90 percent of the interbank market, much higher than the 70 percent originally estimated, enabling settlement of transactions on other financial markets e .g. the stock exchange and money markets, possible. Achievements of the specific objectives under Component 1 included: (i) the launching of the RTGS in February 2006; (ii) the transfer of funds between banks to manage their settlement positions with other banks or with the BA; (iii) real time information on the status of accounts allowing the optimization of Treasury operations; (iv) the rapid processing of large commercial payments and the reduction in delays from about 5-15 days to 1 day; and (v) efficiencies in monetary policy and liquidity management in the Algerian banking system .

**Component 2: BA Information Systems /BAIS is rated substantial** . All the supporting systems for a proper functioning of an RTGS system have been put in place allowing for an effective process of all functions of the BAIS including: (i) the selection of the vendor to implement the Information System Improvement Strategy; (ii) improvement in debt management, and payment and clearing reconciliation; and (iii) adoption of international accounting standards (IAS). While the loan component cancellation was unexpected at the project design stage, nevertheless, the outcome turned out to be positive as the authorities were able to achieve the desired objectives within a simplified structure, shorter timeframe, and at a lower cost .

**Component 3: Supporting Telecommunications Infrastructure /STI is rated substantial** . As a result of the implementation of the telecommunications infrastructure : (i) commercial banks were able to switch from the SWIFT to the BA's private network; (ii) Government was able to modernize the payments for low value transactions and establish a clearing house with the BA and the commercial banks; (iii) net settlements of batches of low value transactions and cash settlements of securities transactions on the stock exchange were being processed; and (iv) standards and regulations consistent with international best practice were being developed to ensure that low -value systems could interface and be integrated with the RTGS .

**Component 4: Project Management Support /PMS is rated modest** . After several replacements (3 times) of the Project Director (PD), a new PD was appointed in mid-2004 giving momentum to an earlier slow implementation process. With the strong commitment and support from BA's top management and a very proactive response from all the stakeholders, the new PD was able to place the implementation process back on track and help achieve its objectives .

#### 5. Efficiency (not applicable to DPLs):

As per the ICR, there was no actual rate of return that can be attributed for this type of project . From a cost-effectiveness perspective, the Project was an achievement due to the choice of a technology more efficient and less expensive than expected at the onset of the project . In addition, a portion of the cost was expected to be recovered through user fees and tariffs . The BA had finalized the formula for cost recovery mechanism and a fee structure consistent with international best practice, to be charged to the participant institutions . At the time of the ICR, the BA was still awaiting the approval of its Governor to initiate the user fees .

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		%	%
ICR estimate		%	%

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

#### 6. Outcome:

The network has been put in place (RTGS) and has been tested successfully, with the telecommunications infrastructure linking the BA with its regional branches and with the commercial banks . The back-up for the network (firewall, anti-virus protection, etc.) and oversight of the RTGS has been installed and tested, and the management of funds and the speed of transactions have improved significantly . In addition, the increased access to finance and financial services offered by the commercial banks, as a result of the overall outcome of the Project, has a lasting positive impact on poverty reduction and social development . Combining relevance (Section 3), achievement of PDOs (Section 4), and efficiency (Section 5), IEG concurs with the ICR's rating of the outcome as satisfactory .

**a. Outcome Rating :** Satisfactory

## 7. Rationale for Risk to Development Outcome Rating:

The PDOs have been achieved and the RTGS has become an integral part of the BA on a permanent and highly sustainable basis. The BA is now able to process all payment transactions in a secured manner . With increased security policy, more experience gained in operating the payment system, and the continuous upgrading of the system with the development of new technology, the already low risk to the project outcome will be reduced even further.

**a. Risk to Development Outcome Rating :** Negligible to Low

## 8. Assessment of Bank Performance:

Overall, the Bank's performance is rated as **satisfactory** given the satisfactory and moderately satisfactory assessment of the quality at entry and quality of supervision, respectively .  
At quality of entry, QAG assessed that "the payment system has been very well designed taking into account best international practice" thus rating the operation as satisfactory in all categories with the exception of the Bank's inputs as moderately satisfactory. IEG concurs the same rating . However, the moderately satisfactory rating of the quality of supervision is due to the extensive delays in effectiveness and the procurement process which off-tracked the project resulting in the downgrading of the implementation performance (IP) to unsatisfactory by the Bank supervision team after the mid -term review of December 2004. Nevertheless, the downgrading allowed the two stakeholders to agree on a "critical path" to get the project back on track . The decision of the BA to nominate a new Director for the PMU also contributed to the new start .

**a. Ensuring Quality -at-Entry:**Satisfactory

**b. Quality of Supervision :**Moderately Satisfactory

**c. Overall Bank Performance :**Satisfactory

## 9. Assessment of Borrower Performance:

Overall, the borrower's performance is satisfactory .

Government's performance is satisfactory . With substantial delays in project implementation, the GoA, nevertheless, remained fully committed to the development objectives, broadening its commitment to include the processing of large and small value payments, as well as supporting the banking sector's role in economic and private sector growth. Despite the difficulties and delays experienced during the implementation of the telecommunications component, the personal involvement of the governor of the BA in the signing of the protocols defining the responsibilities and obligations under the implementation and operations of the network, proved to have had a key impact and reflected on the GoA's commitment .

The implementing agencies' performance is satisfactory . The BA effectively managed the project: (i) establishing a strong PMU charged with implementing the project to achieve the PDOs and resolve timely implementation issues; (ii) setting up a Steering Committee to oversee and address key implementation issues, and provide advice and courses of action to the Governor of the BA, as appropriate; (iii) forming a Consultative Committee to advise the PMU on payments system activities and issues; (iv) establishing close links between the BA and the CPI on the implementation of the electronic clearing house; (v) appointing an auditor acceptable to the Bank to carry out an annual audit under terms of reference and accounting standards acceptable to the Bank;

(vi) carrying out project implementation and monitoring in accordance with the project implementation plan (PIP); (vii) coordinating data collection from commercial banks; (viii) making appropriate budget provisions; and (ix) championing the project by the Governor of the BA who proved to be a formidable asset in the resolution of issues and bottlenecks.

The PMU, on the other hand, initially encountered major delays in the implementation process among which was the frequent replacement of the Project Director /PD (3 times). However, the project gained momentum with the appointment of the last Project Director in mid -2004 who was able to put the implementation back on track and helped the Project achieve its development objectives in a shorter time frame and at a substantial reduction in costs.

**a. Government Performance** :Satisfactory

**b. Implementing Agency Performance** :Satisfactory

**c. Overall Borrower Performance** :Satisfactory

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

The M&E was modest overall.

**M&E Design** - While the project was to be carried out by the BA in accordance with a detailed Project Implementation Plan (PIP), the design of the M&E had major flaws among which included the slow reaction and resolution to the delays in project implementation, the unexpected cancellation of the BAIS component (although BA's own resources somewhat resolved this issue), the constant development of the type of technologies used in the project, the frequent replacement of the project director, and the lack of an ex -ante measurement of the project's potential economic rate of return--all suggesting that the M&E design may have been flawed in collecting the right data, given the project objectives, and the already available data which could have anticipated these developments .

**M&E Implementation** - Significant efforts were undertaken during project supervision to : (i) make sure that the data collection mechanisms were put in place; and (ii) gather the relevant information as the Project began to yield results. The various stakeholders were kept focused on the key performance indicators, i .e., growth in the utilization of the RTGS system and the amount of large -value payments processed in the system .

**M&E Utilization** - The M&E indicators were instrumental to decision -making, in particular when the Project was restructured. The initial RTGS-related indicators were retained at the MTR, as they reflected both the centrality of this component to the Project and the focus on ensuring that the improvements to financial flows would be measured. In the same vein, the indicators related to the telecommunications component (Component 3) were essential in managing other implementation risks of the Project .

**a. M&E Quality Rating** : Modest

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

From the onset, the Project did not present any potential safeguard or fiduciary compliance issue . The implementation process took place without any significant deviations or request for waivers from the Bank's safeguards and fiduciary policies and procedures . As for unintended impacts, the Project did not have any unintended positive or negative outcomes /impact.

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Risk to Development Outcome:</b>	Negligible to Low	Negligible to Low	

<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Performance :</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		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:**

Among the lessons learned are: (i) the financial, economic, and political environment under which a development project is to operate is a key set of considerations in the achievement of development objectives, as well as in priority-setting and sequencing of components, and considerations in technical, infrastructure, and human resource support; and (ii) the consideration and calculation of risks (e.g., risk to achievement, risk to development, etc.) in a project and its eventual success requires a comprehensive understanding of the financial, economic, and technical conditions, as well as a strong commitment from and personal involvement of key stakeholders.

**14. Assessment Recommended?**     Yes     No

**15. Comments on Quality of ICR:**

The ICR is satisfactory . The strength of ICR is its candor in assessing the different aspects of project performance. It is well-organized and presents considerable information on all important components of the Project . However, there are two areas in which it is deficient:

- The ICR's discussion of M&E is weak. It should have been more specific in the discussion of M&E .
- The ICR provides insufficient information on the project's economic /financial rate of return.

**a.Quality of ICR Rating :** Satisfactory