

# IEG ICR Review

Independent Evaluation Group

| 1. Project Data:  |                               | Date Posted : 06/12/2009 |               |
|---|-------------------------------|--------------------------|---------------|
| PROJ ID : P074801   |                               | Appraisal                | Actual        |
| <b>Project Name :</b> Development Support Credit IV/Development Policy Lending  | <b>Project Costs (US\$M):</b> | 200                      | 375           |
| <b>Country:</b> Bangladesh  | <b>Loan/Credit (US\$M):</b>   | 200                      | 375           |
| <b>Sector Board :</b> PS  | <b>Cofinancing (US\$M):</b>   |                          |               |
| <b>Sector(s):</b> Power (35%)<br>Central government administration (35%)<br>Banking (18%)<br>General industry and trade sector (12%)  |                               |                          |               |
| <b>Theme(s):</b> Public expenditure financial management and procurement (25% - P)<br>Regulation and competition policy (25% - P)<br>State enterprise/bank restructuring and privatization (24% - P)<br>Administrative and civil service reform (13% - S)<br>Export development and competitiveness (13% - S) |                               |                          |               |
| <b>L/C Number:</b> C4312  |                               |                          |               |
|   | <b>Board Approval Date :</b>  |                          | 09/27/2007    |
| <b>Partners involved :</b>  | <b>Closing Date :</b>         | 03/31/2008               | 03/31/2008    |
| <b>Evaluator :</b>  | <b>Panel Reviewer :</b>       | <b>Group Manager :</b>   | <b>Group:</b> |
| Michael R. Lav  | Rene I. Vandendries           | Ismail Arslan            | IEGCR         |

## 2. Project Objectives and Components:

### a. Objectives:

The Development Support Credit (DSC) program sought to support government programs aimed at poverty reduction, but with differing points of emphasis over time. Initially the DSC program (under DSCs I and II) supported implementation of the Government's poverty reduction strategy, as expressed in the Interim PRSP, and alongside the IMF's Poverty Reduction and Growth Facility (PRGF). DSC I and II focussed on acceleration of pro-poor growth, promoting good governance, human development, women's advancement, and ensuring social protection. DSC III and DSC IV continued support for the Government's reform agenda but in the context of the then new Poverty Reduction Strategy Paper (PRSP), and moved governance-related reforms to the

center, seeking especially to strengthen core governance and sector governance reforms . In addition to governance, DSC III and DSC IV supported measures to accelerate growth by improving the investment climate . DSC IV also had two supplemental financing, both intended to enable the Government to follow through on the DSC program despite new financing requirements which emerged unexpectedly, the first relating to extensive flooding in 2007, the second to also address the adverse impact of these floods but also to offset the increased costs of international prices of oil and food, and, in addition, the impact of a severe cyclone which struck the country on November 15, 2007 and inflicted very large social, human, and economic costs .

**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 prior actions for the DSC series were well defined and supported the focus of each of the operations . These were under the headings of broad-based governance, macroeconomic framework, SOE reforms, and energy sector reform for each of the four DSCs . In addition, for DSC I, there was a prior action for public administration, for DSC III, public expenditure and revenue mobilization and trade liberalization, and for DSC IV trade liberalization and revenue administration . DSC I had 5 prior actions all of which were completed, DSC II had 7 prior actions, of which 6 which were completed and one (corporatization of at least two power distribution companies) was only partially completed. DSC III had 7 prior actions, of which all were completed, as were all 7 prior actions in DSC IV.

The main policy areas were:

(A) Macroeconomic:

(1) Ensuring macroeconomic stability

(B) Core Governance

- (2) Improving the transparency and efficiency of public expenditure and financial management
- (3) Strengthening and modernizing revenue mobilization
- (4) Establishing and operationalizing an independent Anti-Corruption Commission
- (5) Enhancing the performance of the judicial system
- (6) Improving the efficiency of the public administration (civil service)

(C) Improving the Investment Climate

- (7) Improving governance and efficiency of the financial system
- (8) Improving the business environment and competitiveness
- (9) Reducing the state role in SOEs and strengthening their financial performance
- (10) Addressing governance constraints to energy infrastructure
- (11) Improving the availability and enhancing the efficiency of telecommunications services .

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

DSC IV was approved on May 29, 2007 for US\$200 million, disbursed on effectiveness, and closed on schedule on June 30, 2008. In addition, a first supplemental for US \$ 75 million was approved on September 27, 2007, disbursed on effectiveness on October 17, 2007, and closed on schedule on May 31, 2008, and a second supplemental for US\$ 100 million was approved on January 10, 2008, disbursed on effectiveness on February 10, 2008, and closed on schedule on June 30, 2008. The amounts shown in section 1 above under "appraisal" are for the original amount of the credit, while those shown under "actual" include the supplementals.

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

The program objectives and design were highly relevant . The objectives were an integral part of the Bank's strategy as it was evolving from the FY 03 CASPR to the FY06 CAS which restated the objectives of DSC III and built on its successful implementation in making governance the central focus of the Bank's assistance strategy . While the DSC series was coherent, DSC III played a key role in enhancing the emphasis on core governance

issues in line with the same increasing emphasis in the Bank's overall assistance strategy, while maintaining support for the successful macroeconomic policies of the series . Taking advantage of close relations with the technocratic Caretaker Government (CTG) which was in power during 2007 and 2008, DSC IV and its two supplemental financing supported intensified reforms but again within the identified policy areas .

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

All but one of the prior actions were fully complied with, while one was partially complied with . This good record contributed to the program's achievements and outcomes . The overarching objective of poverty reduction was achieved, as poverty was reduced by more than one percentage point per year, falling from 57 percent in the early 1990s to 40 percent in 2005, the latest year for which official data are available . It is likely that poverty reduction continued along the same lines from 2005 to 2008, since GDP growth maintained its good record, averaging more than 6 percent during 2003 to 2008 with growth of 6.6 percent, 6.4 percent, and 6.2 percent in 2006, 2007, and 2008, respectively.

##### (A) Macroeconomic:

(1) Ensuring macroeconomic stability - GDP growth has accelerated from 4.2 percent in 2002 to between 5.3 and 6.6 percent from 2003 to 2008 with inflation at less than 10 percent and, fiscal deficits of less than 4 percent of GDP, and public debt declining from 52.7 percent of GDP in 2002 to 44 percent of GDP in 2008 (target was less than 50 percent). The revenue to GDP ratio has increased to more than 11 percent, the target, to 11.4 percent in 2008. Efficacy is rated *high*.

##### (B) Core Governance

(2) Improving the transparency and efficiency of public expenditure and financial management - A new public procurement system has been implemented also supported by two IDA investment projects . Before the new system was implemented, 40 percent of contracts took longer than 12 months to be awarded. There are still problems implementing the new system, but they are being addressed by an extensive training program . By DSC IV, only 10 percent of contracts took longer than 12 months to be awarded. The Medium Term Budgetary Framework is being used by 20 ministries. Efficacy is rated *substantial*.

(3) Strengthening and modernizing revenue mobilization - Although revenue mobilization has improved as stated above, core reforms of the National Bureau of Revenue (NBR) have lagged, largely due to a lack of appropriate leadership in NBR and stubborn internal resistance . Efficacy is rated *modest*.

(4) Establishing and operationalizing an independent Anti-Corruption Commission (ACC). The ACC was established and began operating under DSC III and its operations were enhanced under DSC IV . However, with the end of the CTG in 2008, the anti-corruption drive faltered, in response to pressure from the political parties, which had considerable leverage since important bilateral donors insisted that elections be held on schedule in December, 2008, and the political parties refused to participate until ACC initiatives were abandoned . Efficacy is rated as *modest*.

(5) Enhancing the performance of the judicial system - The key objective here was the separation of the judiciary from the executive branch, an important step in creating the framework for an improved judicial system . It should be noted that this was a priority of the CTG and so the extent to which this reform can be attributed to the DSC series is unclear. Other judicial reform efforts have been less successful, but not a central focus of the DSC series, and, for example, much remains to be done to improve the operation of the civil justice system . However, in terms of the DSCs, efficacy is rated *substantial*.

(6) Improving the efficiency of the public administration (civil service). Little has been done to improve the civil service. The DSC program documents note numerous issues to be addressed, such as wage compression, lack of a merit-based wage system, staff development and training, and others . There were strong political forces and little support in government or other stakeholders for addressing these issues, and, despite informal efforts to promote interest in reforms, the Bank was unable to move forward on this objective . Efficacy is rated as *negligible*, since credit has already been given above (see (4)) for improvements in financial management and procurement.

##### (C) Improving the Investment Climate

(7) Improving governance and efficiency of the financial system - The strengthening and enhanced independence of Bangladesh Bank (BB) has been an important step in this direction, and although BB is not

fully independent, BB does now have purview over the Nationalized Commercial Banks (NCBs), which now play a decreased role with only 30 percent of total financial sector assets, compared to 47 percent in 2002. Efficacy is rated *substantial*.

(8) Improving the business environment and competitiveness - Trade reforms including the elimination of almost all quantitative restrictions and the gradual but steady reduction of nominal and effective protection have been important. However, Bangladesh still has one of the most heavily protected economies in South Asia . It is still ranked low in competitiveness with the Global Competitiveness Index published by the World Economic Forum putting Bangladesh at 98th place out of 122 countries, well below India, Sri Lanka, and Pakistan . Formal and informal constraints on investment (including through the Board of Investment) are a continuing impediment. Efficacy is rated, on balance, as *substantial*, largely because of progress on trade reform .

(9) Reducing the state role in SOEs and strengthening their financial performance - Three large state-owned jute mills were closed, and manufacturing sector SOE losses have been contained, though with an unfortunate blip in 2007 during DSC IV implementation. A large number of workers have been terminated (over 25,000 from the jute mills alone), given redundancy allowances, and retrained . Efficacy is rated *substantial*.

(10) Addressing governance constraints to energy infrastructure - The Bangladesh Energy Regulatory Commission (BERC) has been established and is operating (playing a lead role in setting tariffs, issuing licenses, and providing regulatory oversight), and most progress here is attributable to DSC IV under the CTG . While the BERC still faces obstacles, it is beginning to operate more effectively . By contrast, little if any progress has been made towards establishing an improved pricing policy, especially for petroleum products, so that the Bangladesh Petroleum Corporation is still at risk of and does in fact generate large deficits, although at least these are budgetized . Efficacy is rated as *modest*.

(11) Improving the availability and enhancing the efficiency of telecommunications services . The Bangladesh Telegraph and Telephone Board (BTTB) was restructured into the Bangladesh Telecommunications Company (BTC). LTD, but only as part of DSC IV, by the CTG, though as noted in the ICR, the new elected government has not yet ratified the relevant ordinance which achieved the reform, although this is now (June, 2009) under consideration by the Parliament . At this point in time, efficacy under DSC IV is rated *substantial*.

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

N.A.

#### 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:

IEG's rating scale assigns an outcome rating of satisfactory if there were minor shortcomings in the operation's achievement of its objectives or in its relevance . An outcome rating of highly satisfactory requires that there were no shortfalls in achievement of objectives . Given the relevance of the objectives and the outcomes as discussed above, the outcome rating for DSC IV is satisfactory . Macroeconomic performance has been very good. Public expenditure and financial management have improved, revenue mobilization has been strengthened to some extent, the Anti-Corruption Commission was established though sustainability is an issue, the judiciary has been separated from the executive branch of government, the independence of Bangladesh Bank has been enhanced, trade tariffs have been reduced, SOE losses have been contained, some governance constraints to the energy sector have been addressed, and a new organization governing telecommunications is now in effect.

#### a. Outcome Rating : Satisfactory

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

Bangladesh's good track record in many of the areas above, including macroeconomic management, SOE and financial sector reform, suggests that most of the reforms implemented under the DSCs will not be reversed. However, several are in serious jeopardy with a high risk of reversal, such as the ACC, where progress has already been negated. Therefore, on balance, a rating of *moderate* for risk to development outcome rating is appropriate.

**a. Risk to Development Outcome Rating** : Moderate

## 8. Assessment of Bank Performance:

Bank performance has been satisfactory. Bank staff have done good analytical work which clearly identified needed reforms and engaged senior officials in detailed discussions on reform program options and desirable objectives. While covering a broad range of objectives, in most areas specific reforms were identified which were indeed of central importance for a sustained development effort. Task management was effectively handled, and senior management played important roles from time to time.

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

**b. Quality of Supervision** :Satisfactory

**c. Overall Bank Performance** :Satisfactory

## 9. Assessment of Borrower Performance:

Borrower performance varied. The Ministry of Finance played a key operational role and provided highly satisfactory impetus and management of the macroeconomic and other core components of the program. The leadership of the CTG initiated many reform proposals supported by DSC IV and worked assiduously to implement them. However, some line ministries and other central agencies did not fully support implementation of the program. More importantly, the new government has not supported the ACC and has withdrawn many of its initiatives, and its lack of action of corporatization of the BTC raises concerns about the future of this reform. Some implementing agencies such as NBR have not supported DSC objectives, while others such as BEREC have pushed the reform agenda.

**a. Government Performance** :Highly Satisfactory

**b. Implementing Agency Performance** :Satisfactory

**c. Overall Borrower Performance** :Satisfactory

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

Monitoring and Evaluation has played a key role in the satisfactory outcomes of the DSC series. The macroeconomic framework has been keyed to the IMF's PRGF which was generally successful, M&E design was carefully handled by Bank staff in coordination with the Ministry of Finance. Detailed and frequent tracking of the implementation matrix and of its components allowed for mid-course changes were needed. The utilization of the M&E is apparent by the successful formulation and implementation of the DSC series. An important aspect of M&E implementation and utilization was the role played by the resident economists in the Dhaka office who were in charge of supervision.

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

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

There were no safeguard or fiduciary issues raised by this operation .

| Ratings                            | ICR                              | IEG Review              | Reason for Disagreements /Comments   |
|------------------------------------|----------------------------------|-------------------------|--|
| <b>Outcome</b>                     |                                  |                         |  |
| DSC I                              | Satisfactory                     | Moderately Satisfactory | Shortfalls in financial sector, SOE reforms, and energy sector reforms.  |
| DSC II                             | Satisfactory                     | Moderately Satisfactory | DSC II note that the ICR for DSC II gave a rating of "Satisfactory", while Table C in the ICR for DSCs I-IV gave an ICR outcome rating of "Moderately Satisfactory". Table C appears to be in error. The IEG review for the ICR of DSC II gives the reason for the divergence between Satisfactory and Moderately Satisfactory as shortfalls in fuel price adjustments, financial restructuring of the power sector, and operational restructuring of the petroleum and natural gas sectors. |
| DSC III                            | Satisfactory                     | Satisfactory            |  |
| DSC IV                             | Highly Satisfactory              | Satisfactory            | IEG methodology requires no shortfalls for a rating of Highly Satisfactory. As noted above, there were shortfalls in energy pricing, improving the efficiency of public administration (civil service), implementing the work of the ACC, and strengthening and modernizing the NBR.   |
| <b>Risk to Development Outcome</b> |                                  |                         |  |
| DSC I                              | Moderate (likely sustainability) | Non-Evaluable           | Unclear if Government commitment strong enough to resist political and labor union pressure.   |
| DSC II                             | Moderate (likely sustainability) | Likely sustainability   |  |
| DSC III                            | Moderate                         | Moderate                |  |
| DSC IV                             | Moderate                         | Moderate                |  |
| <b>Bank Performance</b>            |                                  |                         |  |
| DSC I                              | Satisfactory                     | Satisfactory            |  |
| DSC II                             | Satisfactory                     | Satisfactory            |  |
| DSC III                            | Satisfactory                     | Satisfactory            |  |
| DSC IV                             | Satisfactory                     | Satisfactory            |  |
| <b>Borrower Performance</b>        |                                  |                         |  |
| DSC I                              | Satisfactory                     | Satisfactory            |  |
| DSC II                             | Satisfactory                     | Satisfactory            |  |
| DSC III                            | Moderately Satisfactory          | Moderately Satisfactory |  |
| DSC IV                             | Highly Satisfactory              | Satisfactory            | Government performance, especially concerning its leadership and the Ministry of Finance, was highly satisfactory. Performance in some of the line ministries and agencies was not Highly Satisfactory.  |
| <b>ICR Quality</b>                 |                                  |                         |  |
| DSC I                              |                                  | Satisfactory            |  |
| DSC II                             |                                  | Satisfactory            |  |
| DSC III                            |                                  | Satisfactory            |  |
| DSC IV                             |                                  | Satisfactory            |  |

| 12. Ratings:    | ICR                 | IEG Review   | Reason for Disagreement /Comments  |
|-----------------|---------------------|--------------|--|
| <b>Outcome:</b> | Highly Satisfactory | Satisfactory | IEG methodology requires no shortfalls for a rating of Highly Satisfactory. As |

|                                     |                     |              |   |
|-------------------------------------|---------------------|--------------|---|
|                                     |                     |              | noted above, there were shortfalls in energy pricing, improving the efficiency of public administration (civil service), implementing the work of the ACC, and strengthening and modernizing the NBR.   |
| <b>Risk to Development Outcome:</b> | Moderate            | Moderate     |   |
| <b>Bank Performance :</b>           | Satisfactory        | Satisfactory |   |
| <b>Borrower Performance :</b>       | Highly Satisfactory | Satisfactory | Government performance, especially concerning its leadership and the Ministry of Finance, was Highly Satisfactory. Performance in some of the line ministries and agencies was not Highly 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:**

1. The Bank needs to do much more targeted and tailored engagement and communications with stakeholders, apart from the Government. The need is to deepen and broaden support for reforms, both to make further progress and to avoid slippage. The Bank needs to have staying power in supporting key reforms and staying engaged with the government and key stakeholders.
2. It is important to keep the overall program simple and focused on a few critical reforms. Reforms such as public administration and civil service can take a long time to implement and may need to be supported by a variety of Bank assistance. The appetite and support for such reforms needs to be carefully assessed and understood by all parties.
3. With limited implementation capacity, reform programs need to be tailored to achievable objectives. By and large, the DSC series is a good example of this.

**14. Assessment Recommended?**     Yes     No

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

The ICR is clearly written and presents a good deal of information and thoughtful analysis. The tracking of implementation is generally quite good. The political and social context offered by the author are most useful. There were two shortcomings. First the omission of mention of public administration and civil service reform as an objective. Second, there are a few inconsistencies, especially the optimistic assess given the ACC in the text, contrasted with the more sober evaluation given under PDO 7 on page xvi. Aside from these shortcomings, the ICR is of good quality, further enhanced by the thoughtful borrower comments provided under section 7, which is further evidence of GOB, or at least MOF, engagement and support. The lessons developed and presented in section 6 are indeed thoughtful and a useful guide for future operations.

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

