Report Number : ICRR12635

IEG ICR Review
Independent Evaluation Group

1. Project Data:		Date Posted : 06/06/2007		
PROJ ID :	P070917		Appraisal	Actual
Project Name :	Privatization Technical Assistance Project	Project Costs (US$M):	23.29	5.85
Country :	Bosnia and Herzegovina	Loan/Credit (US$M):	19.80	4.35
Sector Board :	PSD	Cofinancing (US$M):	None	None
Sector(s):	Central government administration (88%) General information and communications sector (3%) General energy sector (3%) General transportation sector (3%) Solid waste management (3%)			
Theme(s):	State enterprise/bank restructuring and privatization (34% - P) Regulation and competition policy (33% - P) Legal institutions for a market economy (33% - P)			
L/C Number :	C3531			
		Board Approval Date :		06/26/2001
Partners involved :	None	Closing Date :	08/31/2004	08/31/2006

Evaluator :	Panel Reviewer :	Group Manager :	Group :
Khalid Siraj	Chad Leechor	Ali Khadr	IEGCR

2. Project Objectives and Components:

a. Objectives:

To help accelerate large scale privatization through the tender sale of state -owned enterprises. Specifically, to: (a) assist in the tender sale of state-owned enterprises: (b) help prepare the legislative and regulatory framework for divesting utility and other monopoly companies; (c) render holding companies and large enterprises privatizable by "unbundling" them and performing preparatory steps for their sale; and (d) help bring voucher privatization to a successful conclusion by assisting in setting up a transparent and regulated market place for future shareholders .

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):

Tender sale of enterprises : (Original cost: $10.56 million; actual cost: $1.83 million). Privatization using tender process was envisaged for 45 SOEs - 27 in Federation of Bosnia and Herzegovina (the Federation) and 18 in Republika Srpska (RS). The project supported the hiring of experts to assist in the sale of SOEs to strategic local and foreign investors.

Utility Privatization : (Original cost: $0.60 million; actual: $0.65 million). A variety of public utility companies were to be privatized under a special privatization program (communications, water, gas, district heating, waste collection and disposal companies, railways, etc.) by supporting: (a) preparatory work (legislative and regulatory framework, sector strategy, relevant sector policies, restructuring/business plans, etc.); and (b) actual sale to strategic investors.

TA with unbundling, concessions and insolvency procedures : (Original cost: $1.88 million; actual: $0.24 million). This component supported the sale of enterprises that, in their current form, were unlikely to attract buyers, through : (a) "unbundling" and other preparatory steps; (b) review of concession agreements for attracting private sector investors; and (c) applying insolvency legislation and accelerated procedures.

Capital Market Development : (Original cost: $2.05 million; actual: $0.10 million). Assistance was to be provided in: (a) facilitating the completion of voucher privatization; (b) creating a regulatory framework and standards required for trading of securities; and (c) strengthening of supervision and enforcement capacity for the capital market.

Institutional Support was provided for strengthening capacity in the privatization agencies and PIUs. (Original cost: $7.00 million; and actual: $ 3.03 million).

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

Project implementation fell far short of its targets. Only 22% of the credit was actually disbursed. The closing date was extended twice for a total of two years. These extensions were made in light of a perceived improvement in the country's privatization climate, a high priority given to the privatization program, and the expectation to use project outcomes for the preparation of a new DPL.

3. Relevance of Objectives & Design:

The project's development objectives were and remain consistent with Bank strategy. The 2000-02 CAS emphasized the need to foster private sector development through the acceleration of privatization. The Bank supported this objective through a package of activities including PTAC. However, the project design was only marginally relevant as it : (a) was over-ambitious, unwieldy and covered an unmanageably wide range of sectors and types of activities; (b) was based on a poor design (e.g., the privatization process lacked prequalification of bidders and negotiations prior to actual bidding, making it difficult for the government to manage the privatization process); and (c) failed to take into account the complex workings and inter-relationships of the various government agencies and the legacy of a slow decision-making process, known at the time of preparation.

The project was prepared in FY2001 before the new guidelines on results took effect. The PAD provided only two quantitative outcome indicators while there were four distinctly different components. It did not recognize the risks of low commitment and ownership. In addition, the full operational requirements and ramifications of the project were not analyzed.

4. Achievement of Objectives (Efficacy):

Tender sale of enterprises : Privatization of only five SOEs was achieved against the target of 45. (The governments preferred to privatize SOEs outside the scope of PTAC). *Ratings: Negligible*

Utility Privatization : Some preparatory and diagnostic work was carried out in the Federation and RS, but little progress was made in the selected sectors on legislation, regulatory environment, or actual sale. Only in RS was legislation passed to enable telecommunication privatization to proceed. The tender process was completed after the closing date. *Rating: Negligible*

TA for unbundling, concessions and insolvency procedures : The unbundling of three out of four expected companies was completed, but the formal process could not be completed until specific changes to permit this were incorporated in the Privatization Law, which was done after the credit closing. *Ratings: Modest*

Capital Market Development : Very little was achieved. The Federation did not use the credit for this purpose while RS used some funds for strengthening the capital market. *Rating: Negligible*

The ICR notes that PTAC did have some positive institutional development impact on the Privatization Agencies and PIUs.

5. Efficiency (not applicable to DPLs):

PTAC was not very cost-efficient considering the negligible outcomes (paragraph 4) and the expensive supervision by the Bank ($1.2 million, equivalent to 28% of the amount of credit disbursed). ERR was not included in PAD, but some benefits, mostly qualitative, were stated. Revenue from sale of enterprises amounted to only 10% of book values against 50% expected at appraisal. Other qualitative benefits (savings through lower subsidies and unemployment compensation, additional tax revenues, better enterprise governance, etc.) were also negligible.

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:

PTAC achieved few of its objectives (paragraph 4) and was not very cost-efficient (paragraph 5). However, it did contribute to some positive effects in terms of institution-building (paragraph 5). It may also have contributed to the recently improved environment for privatization of SOEs in the country.

a. Outcome Rating : Unsatisfactory

7. Rationale for Risk to Development Outcome Rating:

The project's development outcome is negligible, but seems sustainable. The privatization already done is irreversible. The institutional capacity created by the project is also likely to be maintained.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

Quality at entry suffered from major flaws, including: (a) a poor and over-ambitious design based on an under-estimation of the difficulties in implementing such a large project in a complex political and institutional environment; (b) a failure to seek firm government ownership (the project was prepared in six months by the Bank); and (c) a failure to recognize the importance of an appropriate legal and regulatory framework as a precondition for privatization, and of the project's social ramifications.

The Bank's supervision was intensive through regular supervision missions and close monitoring of project activities. Concerted efforts were made to establish the Borrower's commitment and fiduciary matters were handled satisfactorily. However, the project was never flagged at risk, was not downgraded to an unsatisfactory rating until mid-2004. Additionally, no effort was made to scale down the project scope at an early stage when it became evident that there was, at best, lukewarm support from the government for the project.

a. Ensuring Quality-at-Entry: Unsatisfactory

b. Quality of Supervision : Moderately Satisfactory

c. Overall Bank Performance : Unsatisfactory

9. Assessment of Borrower Performance:

The project suffered from the borrower's lack of political will and ownership. In addition, the borrower: (a) did not provide adequate assistance in overcoming cumbersome approval procedures; (b) delayed the provision of counterpart for funding on project activities for some time; and (c) delayed payments to some consultants. Legal covenants were complied with.

The implementing agencies performed their technical functions (procurements, financial management, coordination) adequately, but they did not take an active part in resolving sensitive issues with the government and other agencies.

a. Government Performance : Unsatisfactory

b. Implementing Agency Performance : Moderately Satisfactory

c. Overall Borrower Performance : Unsatisfactory

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

M&E was effectively carried out. Progress against outcome indicators was tracked. ICR reports that M&E systems are reliable and continue to be used to monitor progress on the overall privatization agenda as well as providing project-related data. (PAD was prepared using earlier logistical framework, without baseline and annual targets).

a. M&E Quality Rating : Substantial

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

No safeguard issues were identified in PAD. The Bank paid adequate attention to environmental problems of enterprises being privatized. The social aspects were beyond the scope of this project and were expected to be addressed through other Bank-supported operations. There was no issue concerning fiduciary matters.

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Moderately Unsatisfactory	Unsatisfactory	The unsatisfactory quality at entry is given more weight
Borrower Performance :	Unsatisfactory	Unsatisfactory	
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:

Design of projects particularly those supporting major structural changes in the country (such as mass scale privatization in Bosnia & Herzegovina) should strike a balance between what is needed to be done and what can be delivered given the capacity of the country. In assessing capacity, in addition to institutional capacity, the country's political economy should be give more weight.

In countries known to have a complex government set-up and a slow decision-making process, the number of government agencies with direct involvement in the project should be minimized.

Active involvement of the borrower in preparation of the project contributes to better project ownership by the borrower.

Structural reforms (legislation, regulatory framework, sector reforms, etc.) are prerequisites for privatization and should be done before TA is provided for the actual privatization of individual enterprises.

14. Assessment Recommended? ○ Yes ● No

15. Comments on Quality of ICR:

The ICR is comprehensive, consistent and candid. Based on relevant data, it identifies major factors contributing to the failure of the project while also noting some positive developments. The ratings are generally quite realistic.

Reviewer's Disclosure: Even though the names of the reviewer and one of the two sector managers at appraisal are similar, the reviewer is not the same person or in any way related to the sector manager.

a.Quality of ICR Rating : Satisfactory