

1. Project Data:		Date Posted : 03/30/2010	
PROJ ID : P110167		Appraisal	Actual
Project Name : Transitional Support Credit	Project Costs (US\$M):	200	200
Country: Bangladesh	Loan/Credit (US\$M):	200	200
Sector Board : EP	Cofinancing (US\$M):		
Sector(s): Central government administration (50%) General industry and trade sector (25%) Law and justice (13%) Aviation (6%) Telecommunications (6%)			
Theme(s): Public expenditure financial management and procurement (25% - P) Debt management and fiscal sustainability (25% - P) Export development and competitiveness (24% - P) Judicial and other dispute resolution mechanisms (13% - S) State enterprise/bank restructuring and privatization (13% - S)			
L/C Number: C4422			
	Board Approval Date :		06/17/2008
Partners involved :	Closing Date :	06/30/2009	06/30/2009
Evaluator :	Panel Reviewer :	Group Manager :	Group :
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2. Project Objectives and Components:

a. Objectives:

The Transitional Support Credit (TSC) sought to support the policy and institutional reform program of the Caretaker Government (CTG) which came to power in January, 2007 for a period of two years. The program objectives for TSC focused on:

1. Macroeconomic stability and enhanced growth
2. Strengthening institutions for improving public financial management
3. Strengthening institutions of accountability and improving the business regulatory environment, and

4. Improving the performance of State-Owned Enterprises.

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 eight prior actions for the TSC were well defined and supported its objectives . The government strengthened fiscal management, established a Supreme Judicial Commission for the selection of High Court and Appellate judges, prepared an ordinance on the public's right to information, took action to operationalize the Regulatory Reform Commission and otherwise streamline business regulations, approved in principle a draft Public Resource and Budget Management Ordinance (PRBMO), approved an action plan to separate the accounts and audit functions of public financial management, approved the corporatization of Biman Bangladesh Airlines and, in principle, an ordinance constituting the Bangladesh Telegraph and Telephone Board as a public limited company, and adopted a new policy on export competitiveness which enhanced the role of bonded warehouse facilities .

The main policy areas of TSC were :

- (A) Macroeconomic:
 - (i) support broad-based, long term economic growth
 - (ii) strengthen export competitiveness
- (B) Public Financial Management:
 - (i) institute a framework to ensure a responsible budgetary stance
 - (ii) improve oversight in public financial management
- (C) Improve Governance and Reduce Corruption :
 - (i) strengthen institutions of accountability - the judiciary and the Right-to-Information
 - (ii) improve the business regulatory environment
- (D) Improve the performance of SOEs:
 - (i) Biman airways
 - (ii) Bangladesh Telephone and Telegraph Board

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

TSC was approved on June 17, 2008 for US\$200 million, disbursed on effectiveness, and closed on schedule on June 30, 2009.

3. Relevance of Objectives & Design:

The program objectives and design were highly relevant . The TSC built on reforms supported by DSC I-IV, which included accelerated pro-poor growth, good governance, human development, women's advancement, and ensuring social protection, but with DSC III and IV focused on improved governance as the central objective and added emphasis on private sector development . The program was grounded in the FY03 CASPR and the FY06 CAS. Since the CTG was only intended to be in power for two years and was transitional to an elected government which would come into power after two years, a transitional support credit was appropriate .

4. Achievement of Objectives (Efficacy):

All eight of the prior actions for the TSC were achieved as the government :

1. Improved fiscal balances through improved revenue mobilization and reductions in expenditure, while changes in administered prices and fortuitous reversals of world price increases improved the fiscal position of the SOEs
2. Enhanced the independence of the judiciary as the Government established a Supreme Judicial Commission for the selection of High Court and Appellate Division judges and took all steps needed to

- implement the separation of the executive from the judiciary
3. Took steps to improve transparency by preparing a draft ordinance on Right -to- Information
 4. Established an electronic registry of regulations and took steps to ensure that its agencies have adopted a majority of the recommendations in the Reform Action Plan
 5. Approved in principle a draft Public Resources and Budget Management Ordinance (PRMBO) 2008
 6. Approved an action plan to separate the accounting and audit functions of public financial management
 7. Through the Council of Advisors approved corporatization plans for Biman Airways and creation of a public limited company from the Bangladesh Telegraph and Telecommunication Board, and
 8. Adopted a new policy on export competitiveness .

(A) Macroeconomic:

(i) Support broad-based, long term economic growth - GDP growth continued to be strong, at 6.2 percent in FY08 and 5.9 percent in FY09, as the economy proved resilient to world economic declines . The overall fiscal deficit remained manageable though with a small increase from 3.1 percent of GDP in FY07 to 3.6 percent of GDP in FY08 and FY09. Revenue mobilization was bolstered by a successful tax forgiveness program . However, further increasing revenues will require substantial and more difficult structural reforms . SOE losses in energy and fertilizer were contained partly as a result in the fall of world crude oil prices in the face of which, however, government did not lower domestic administered prices . The target to stabilize public debt at the baseline of 45.5 percent of GDP was more than achieved as the ratio declined to 44.8% in FY09. Losses of fertilizer and energy SOEs/GDP were targeted to further decline from the baseline of 2.3 percent of GDP and did in fact diminish to 0.9 percent of GDP in FY09. High Achievement.

(ii) Strengthened export competitiveness - The bonded warehouse facility for export production was extended to firms that have principal or subsidiary export units that are 100 percent export oriented with annual exports exceeding US\$1 million, and have annual imported inputs for export production exceeding US\$0.5 million. The new facility is fully available to exporters and is being used by them as has been confirmed by interviews with key exporters . However demand for the facility has been less than foreseen due to world market conditions, an exogenous factor . Substantial Achievement.

(B) Public Financial Management:

(i) Institute a framework to ensure a responsible budgetary stance through preparation of a Public Resource and Budget Management Ordinance (PRBMO) with quantitative targets for public borrowing and domestic and foreign debt levels and with regular reporting to the Parliament --the objective was to improve the consistency of budgetary outcomes (public borrowing, domestic and foreign debt levels) with those specified in the PRBMO. Unfortunately, the final PRBMO which is now a law omits the hoped for quantitative targets, so that it is not possible to measure consistency . However, the Government does report regularly to the Parliament, and actual fiscal performance continues to be good . Modest Achievement.

(ii) Improve oversight through preparation and implementation of an action plan to separate the accounts and audit functions of public financial management, to be measured by the enhancement of quality and timeliness of audit reports and a reduction in the gaps between international standards of accounting and auditing and current country practice . The ICR notes that there has been no follow-through on an action plan to improve quality and timeliness of audit reports, and there is a significant backlog . It also states that current practices in accounting and auditing remain where they were at the start of the TSC operation . Negligible Achievement.

(C) Improve Governance and Reduce Corruption:

(i) Strengthen institutions of accountability

(a) Judicial Reform: The objective was to fully separate the judiciary from the executive, building on prior actions to separate the lower judiciary from the executive, through establishing a Supreme Judicial Commission for selection of High Court and Appellate Division judges, appointment of at least 200 judicial magistrates, and with appointments to the Supreme Court made in accordance with the ordinance establishing the Supreme Judicial Commission . The number of judicial magistrates approved has exceeded the target of 200. However, the Ministry of Law continues to wield significant administrative and financial control over the judiciary because an independent secretariat has yet to be established in the Supreme Court, In fact, the ordinance establishing the Supreme Judicial Council lapsed on 26 February, 2009, and the old process of executive appointments to the High Court Division and promotions to the Appellate Division was re-instituted, thereby reversing progress . In addition, a

Parliamentary Standing Committee on Law has recommended that executive magistrates be given similar powers as judicial magistrates, undermining the authority of the judicial magistrates . Negligible Achievement.

(b) Concerning the public's right to information, the RTI Act was passed and commissioners appointed, but rules and regulations have yet to be promulgated to operationalize the RTI . Modest Achievement.

(ii) Strengthen the business regulatory environment - The Regulatory Reform Commission made 135 recommendations, of which 46 have been implemented, and nine partially implemented . The time taken to register a business has declined from 74 days in FY07 to 44 days in FY09, time taken to export was reduced from 28 days in FY07 to 25 days in FY09, time taken to import was reduced from 32 days in FY 07 to 29 days in FY09, and the time taken to register a property declined from 425 days in FY07 to 245 days in FY09. An online registry of regulations has been established . Substantial Achievement.

(D) Improve the performance of SOEs:

Beyond the two specific reforms identified in the PDOs, GOB also improved price policy reforms as part of the prior conditions and has subsequently implemented them, which has had a substantial impact on fiscal management: The two reforms specified as PDOs were fully implemented -- Substantial Achievement.

(i) Biman airways - This SOE has been corporatized and finances improved as the US\$ 78 million loss in FY08 was converted to a modest surplus of US\$ 10 million in FY09, while passenger load factors (percent) increased from 64 in FY 08 to 73 in FY09.

(ii) Bangladesh Telephone and Telegraph Board - This was transformed into a public corporation and efficiency improved (lines per employee increased from 109 in FY07 to 135 in FY09), although net profits decreased from Tks. 218 million in FY07 to Tks. 42.7 million in FY09. This decline, however, was in the face of much increased competition .

5. Efficiency (not applicable to DPLs):

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 and moderately satisfactory if there were moderate shortcomings in the operation's achievements or in its relevance .

The TSC was clearly relevant and well designed to meet its objectives . The prior conditions were met and most of them proved to be important in enhancing performance, although the judicial reform prior condition (establishment of a Supreme Council) was reversed subsequently . Concerning the TSC's objectives, support for broad-based economic growth had high achievement . This was a very important objective, and received substantial support from the Bank in terms of close consultations, timely if informal policy notes, and other ESW . The bonded warehouse facility for non-RMG exporters is being used by some exporters, although it has not yet had the expected impact because of depressed world market conditions . Strengthening the business regulatory environment, another important objective, had substantial achievement, as did the objective to improve SOE performance. The objective concerning the framework to ensure a responsible budgetary stance achieved, on balance, substantial achievement . Although quantitative targets were not implemented, regular reporting to Parliament was implemented, and actual performance continues to be very good . Offsetting this positive record, the lack of progress, and, indeed, reversal of progress concerning Judicial reform was clearly a disappointment,

and rates negligible achievement, as does the achievement of the objective to improve accounting and auditing, while implementation of the reform to improve the public's right to know is rated as having had only modest achievement. On balance, in view of progress in macro-economic management, the bonded warehouse facility, and the framework to ensure a responsible budgetary stance weigh heavily, so that despite the shortfall in judicial reform and accounting and auditing, the project merits an outcome rating of moderately satisfactory .

a. Outcome Rating : Moderately Satisfactory

7. Rationale for Risk to Development Outcome Rating:

As the ICR notes, there is a significant risk to the development outcome rating because of the risk that the elected government will further undermine the achievements of the TSC . This is already apparent in the lack of progress or even reversals to date, especially in judiciary reform .

a. Risk to Development Outcome Rating : Significant

8. Assessment of Bank Performance:

Bank performance was satisfactory . The Bank saw a window of opportunity to support needed reforms in the context of the CTG, selected in full consultation with CTG a set of high priority objectives from a reform agenda that was fully owned by the CTG, and worked closely with the government to implement the reform despite lack of a supervision budget . While the objective of improving export competitiveness might have been pursued more aggressively during supervision, this concern is offset by the strong effort extended in other areas, especially macroeconomic management . And, concerning judicial reform, there appears to have been little additional that the Bank could have done to save this reform . Overall, this was clearly a high risk but high potential reward operation, tackling extremely difficult reform agendas head -on. Even though, in the event, important components were not implemented, the Bank was fully justified in pursuing this operation. The fact that it has not turned out better is the result of actions by the elected government which followed the CTG and which could not have been clearly foreseen when the operation was launched .

a. Ensuring Quality -at-Entry:Satisfactory

b. Quality of Supervision :Satisfactory

c. Overall Bank Performance :Satisfactory

9. Assessment of Borrower Performance:

Assessment of Borrower Performance is made more difficult because of the change in government from the CTG to the elected government in the course of project implementation . Borrower performance under the CTG was satisfactory, but borrower performance concerning the elected government was certainly less than satisfactory, especially concerning judicial reform and auditing and accounting, as well as perationalizing the Right to Information Act which were all well within the purview of government to pursue, yet, there were some shortfalls in implementation.

a. Government Performance :Moderately Satisfactory

b. Implementing Agency Performance :Moderately Satisfactory

c. Overall Borrower Performance :Moderately Satisfactory

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

The project's M&E design as presented in the project document appears to have heavily focussed on macroeconomic and fiscal performance, which are indeed important . In this area, M&E was indeed very good .

While PDO indicators in other areas were indeed tracked, to the extent possible, M&E for other objectives do not appear to have been as well covered. The project document is almost silent on other aspects of monitoring design, and discussion of M&E in the ICR is sparse. While the outcomes, therefore, are well documented, it is not clear that the implementation and utilization of M&E in the course of project implementation was well addressed.

a. M&E Quality Rating : Modest

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

There do not appear to be any issues regarding safeguards or any fiduciary issues .

12. Ratings:	ICR	IEG Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	IEG methodology prescribes a rating of moderately satisfactory where there are moderate shortfalls in achievement of objectives. Given the lack of achievement of objectives in auditing and accounting and judiciary reform, an outcome rating of moderately satisfactory is appropriate .
Risk to Development Outcome:	Significant	Significant	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Performance :	Satisfactory	Moderately Satisfactory	The shortcomings in achievement noted in the moderately satisfactory rating for outcome are largely attributable to shortfalls in Borrower Performance.
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:

1. The Bank should be fully engaged during transitional governments where there appear to be windows of opportunity for significant reforms. This may well be a rare opportunity to pursue important reforms. However, reforms supported by such operations will be managed by subsequent governments, and so such operations would frequently be high risk operations. Nevertheless, this is an appropriate focus for Bank supported operations.
2. The Bank must continue to maintain a dialogue with political parties, including those in opposition, and with other key opinion makers in a more institutionalized manner to ensure continuous and better assessment of public support for reforms.
3. While the Bank was right to seize the window of opportunity to support wide -ranging reforms by the CTG through a stand-alone operation, far-reaching governance reforms are better supported using a programmatic series of budget support operations. However, given the limited time frame for the CTG, such a series was not possible in this case.

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR is well documented and offers a great deal of material needed for a solid evaluation . In presenting this material, it offers important insights into what went right and where there were shortfalls . However, when converting this important factual information into assessments, the ICR tends to weight much more heavily the achievements and not pay adequate attention to the shortfalls . Nevertheless, the ICR is of fully satisfactory quality.

a.Quality of ICR Rating : Satisfactory