

# IEG ICR Review

Independent Evaluation Group

1. Project Data:		Date Posted : 07/29/2009	
PROJ ID : P090829		Appraisal	Actual
<b>Project Name :</b> Programmatic Support For Institution Building II	<b>Project Costs (US\$M):</b>	80.00	80.00
<b>Country:</b> Afghanistan	<b>Loan/Credit (US\$M):</b>	80.00	80.00
<b>Sector Board :</b> EP	<b>Cofinancing (US\$M):</b>		
<b>Sector(s):</b> Central government administration (75%) General finance sector (15%) General industry and trade sector (10%)			
<b>Theme(s):</b> Public expenditure financial management and procurement (29% - P) Administrative and civil service reform (29% - P) Economic statistics modeling and forecasting (14% - S) Regulation and competition policy (14% - S) State enterprise/bank restructuring and privatization (14% - S)			
<b>L/C Number:</b> CH194			
	<b>Board Approval Date :</b>		12/13/2005
<b>Partners involved :</b>	<b>Closing Date :</b>	09/30/2006	09/30/2006
<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:

The objective of the series of three Programmatic Support for Institution Building (PSIB) operations, of which this is the second, was to deepen and sustain the reforms underway in the areas of public administration and fiscal management, in the context of macroeconomic stability. The implementation of the reforms was also expected to lead to better allocation of fiscal resources in the areas of human development (health and education) and private sector development (investment climate, financial sector, and 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 prior actions before Board presentation focused on four objectives : maintaining macroeconomic stability, strengthening public administration and fiscal management, enhancing human development, and promoting private sector development . There were eight prior actions for PSIB 2. They included adoption of an appropriate budget and efforts to improve the quality of the civil service through selective pay increases, strengthening of fiduciary standards for public spending, developing basic information in the health and education sectors, and limited financial sector and state -owned enterprise reform .

There were eleven indicators used to measure progress . With the exception of GDP growth, all indicators dealt with public administration and fiscal management issues, which in retrospect was the essence of the PSIB program: six of these remaining ten indicators were quantified with baselines and targets . The GDP growth indicator also was quantified .

The indicators used and their significance were as follows :

1. The percent of external aid incorporated in the budget, a measure of progress in independent budgetary policy making .
2. The government tax revenue to GDP ratio, a measure of progress in tax policy .
3. Actual budgetary spending as a percent of budgeted spending, a measure of progress in implementation capacity .
4. The quality of the budget process, measured by timeliness of preparation and review .
5. Fiduciary standards for spending, measured by the share of spending eligible for reimbursement to the Afghanistan Reconstruction Trust Fund (ARTF), of which IDA is the administrator .
6. The degree of public access to key financial information .
7. The quality of the regulatory framework for budget, financial management, procurement and audit .
8. The quality of public administration, as measured by the number of senior merit -based appointments .
9. The size of the civil service .
10. The quality of the regulatory framework for civil service, measured by applicable laws and regulations .

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

PSIB 2 was approved on December 13, 2005 for US\$80 million equivalent (grant), disbursed upon effectiveness, and closed on schedule on September 30, 2006 .

There was no cofinancing .

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

The prime focus of the PSIB program was on small steps towards improvements in public administration and fiscal management, which was highly relevant in the rudimentary conditions of public sector management, including a lack of core competencies and functioning institutions, prevailing in Afghanistan at that time . The programmatic approach, consisting of three successive budget support operations, was appropriate in the volatile environment of the country . First, institution/state building can only be achieved over time for which the programmatic approach, unlike emergency type of interventions, is ideally suited . Also, the approach provided the Bank with the flexibility needed to adjust the program as necessary, e .g. decreasing the emphasis on private sector reforms when resistance proved too strong, and gave the government the incentive to continue its reform efforts so as to ensure a predictable flow of budgetary support .

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

Maintaining macroeconomic stability.

A stable macroeconomic framework was maintained, as evidenced by the successful completion of IMF programs throughout the period of the PSIB series . As the economy continued to recover from its very low base in the early 2000s, GDP growth was estimated at 8.2 percent in 2006/07, exceeding the 8 percent target .

*Efficacy for this objective is rated substantial.*

Strengthen public administration and fiscal management.

- The share of external aid incorporated in the budget, which was a low 14 percent in the base year increased slowly to an estimated 18 percent in 2006/07, compared to the target of 30 percent, for the full PSIB program.
- Several tax measures, including introduction of road tolls, restructuring of import tariffs and tax administration improvements, combined to raise the tax to GDP ratio from a base of 4.5 percent to an estimated 7.5 percent in 2006/07, above the target of 6 percent.
- Actual budgetary spending as a percent of budgeted amounts increased from an unknown baseline to 48 percent in 2006/07 compared to a target of 50 percent for the full PSIB program.
- The quality of the budget process improved over time with the gradual introduction of a medium-term fiscal framework, which became institutionalized in 2005.
- Progress was also made towards the goal of increasing the share of spending eligible for reimbursement to the ARTF, an indication of improving fiduciary standards. The eligible share of respectively wages and other spending was 93 and 65 percent in 2006/07, compared with a target of 95 and 80 percent.
- There has been some improvement in public access to key financial information as well as in the regulatory framework for budgetary policies.
- In the efforts to improve the quality of public administration, senior merit-based appointments were 1,474 in 2006/07, compared with a target of 1,200, while the size of the public service declined from 111,000 in the base year, to 92,180 in 2006/07.

*Efficacy for this objective is rated substantial.*

Promote human resources and private sector development.

The PSIB series contained no indicators of progress in these areas and only some relatively minor prior actions. In the human resource area, these were actions to improve the information base, i.e. completion of a census of teachers, and an evaluation of health service delivery. In terms of private sector development, the prior actions included such actions as gazetting amendments to the insurance law, publication of financial statements of the Central Bank, and preparing of a list of and policies for SOEs. Reforms in these areas, however, would require commitment from ministries other than the Ministry of Finance, and this commitment was weak as was the absorptive capacity of the agencies. Essentially, the objectives in human resource and private sector development were secondary to the prime objectives of the PSIB series of maintaining macroeconomic stability and strengthening public administration and fiscal management.

*Efficacy for this objective is rated negligible.*

**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:**

Improvements in public administration and in fiscal management were the essence of the PSIB series of operations. While the intended improvements were relatively small, they were significant in the context of the rudimentary state of affairs in Afghanistan, and they were largely achieved. In rating overall outcome of the program little weight is given to the objectives of human resource and private sector development, as explained earlier.

High relevance combined with substantial efficacy, detailed in section 4 above, suggests a satisfactory outcome for the series of operations.

**a. Outcome Rating :** Satisfactory

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

The risks to the development outcomes are significant primarily for reasons which have little to do with the operation itself. The security situation in Afghanistan is volatile and has become more so in recent years . Also, the government's weak implementation capacity poses additional risks for the institutional reforms, but, unlike the risks flowing from the security situation, these risks are being mitigated gradually as a direct result of the PSIB program itself.

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

#### **8. Assessment of Bank Performance:**

The PSIB program was prepared in close collaboration with the government, specifically the Ministry of Finance, was based on solid AAA and was well integrated with the overall Bank strategy . It was complementary to other Bank operations in the country, such as the FY 03 Emergency Public Administration project which laid the foundation for the PSIB series, and the FY 05 Public Administration Capacity Building project, which focussed on complementary capacity building in the public sector to enhance the performance of procurement, financial management and accountability systems . During implementation, the dialogue between the government and the Bank was continuous on all aspects of the program . There was also good coordination with the initiatives of other donors in the area of public administration . In a few areas, such as in private sector development, the Bank overestimated the government's commitment and capacity to implement reforms.

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

**b. Quality of Supervision :**Satisfactory

**c. Overall Bank Performance :**Satisfactory

#### **9. Assessment of Borrower Performance:**

Strong support in principle for the reform program was combined with weak implementation capacity, resulting in some delays to complete some prior actions, and with vacillation on proposed private sector reforms. At the same time, the commitment from the Ministry of Finance to the reform agenda was strong, both because the Ministry appreciated the value of the reforms and because the program provided predictable Bank support.

**a. Government Performance :**Moderately Satisfactory

**b. Implementing Agency Performance :**Satisfactory

**c. Overall Borrower Performance :**Satisfactory

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

A fairly comprehensive monitoring and evaluation system was designed, but its implementation and utilization were frustrated by a generalized lack of statistical and other information . In the end, monitoring was confined to the eleven indicators discussed in section 2c above. Nevertheless, this limited monitoring proved useful enough to gauge progress made to date and delineate areas where future Bank (budget) support should be focussed.

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

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

<b>12. Ratings:</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Risk to Development Outcome:</b>	Significant	Significant	ICR uses different terminology, i.e. "substantial," for this rating
<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:**

Two important lessons, well-covered in the ICR, follow from this evaluation . First, in conflict-affected countries, such as in Afghanistan, progress in institution and capacity building is bound to be a slow and time-consuming process . Objectives need to be set at a realistic level to avoid disappointment and eventually dissatisfaction with the reform process . Second, complementarity between the DPL program and other bank lending and AAA, together with close coordination with the initiatives of other donors, will substantially increase the probability of success of the DPLs .

**14. Assessment Recommended?**     Yes     No

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

The ICR is comprehensive and covers all information needed to make an assessment of the program . It is candid and very well written, and allows for easy appreciation of the successes of and obstacles to the PSIB program in the difficult circumstances of Afghanistan . When discussing the "Achievement of Program Development Objectives," however, it confuses rating outcomes of the government's program with rating outcomes of the PSIB program . The ICR does rate achievements of the PSIB program per se, but also outcomes of the government's program including "Promoting security and the rule of law." Given that the earlier ICR for PSIB 1 was a simplified ICR, the Region should have followed the guidelines and written an ICR for all three operations, including PSIB 1.

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