

APPENDIX M: DEVELOPMENT POLICY LENDING

The LICUS Initiative suggested that while development policy lending (DPL) is not always appropriate in all fragile-state contexts, it could be under two business models—the *post-conflict or political transition* and *gradual improvement* business models. When successful, DPL can potentially deliver larger, country-wide benefits by stabilizing government during a transition, alleviating liquidity pressures in a cash-strapped environment, supporting institution building, and fostering harmonized donor support for a focused set of policy and institutional actions. According to the OPCS Note on Development Policy Operations in Fragile States (World Bank 2005f), where revenue collections are weak, the stability of state institutions and improvements in service delivery will require budgetary support, as well as a rapid donor response, in order to maintain momentum.

DPL was introduced in 2004 and its use in LICUS has so far been minimal—two approved DPL operations (in Lao PDR) and nine more in the pipeline for fiscal 2005–06. Adjustment lending, which DPL replaces, has also been limited, with only nine operations approved during fiscal 2002–05. This limited experience reveals better outcomes associated with post-conflict transitions (Democratic Republic of Congo, Kosovo, Timor-Leste); government commitment was an important success factor. At the same time, the Financial Management Adjustment Credit in Lao PDR faced weak compliance and government resistance to reforms, which produced *unsatisfactory* outcomes. In design, programmatic single-tranche operations have also performed better than multiple-tranche loans by avoiding second-tranche release delays caused by difficulties in fulfilling release conditions (the Financial Management Adjust-

ment Credit experienced a one-year delay).

A review of adjustment operations approved during fiscal 2002–04 and evaluated by IEG¹ suggests a direct relationship between outcomes and institutional quality (table M.1). While unsatisfactory outcomes are few,² they tend to be identified with countries that have lower CPIA ratings.

While the experience of adjustment operations approved during fiscal 2002–05 is similar to that of investment projects, there is a notable difference in borrower performance (tables M.2 and M.3). The stronger link with CPIA in adjustment operations can be explained in part by their heavier reliance on budgetary and financial management procedures of partner countries and agreement on overall development objectives.

Similarly, a review of recent adjustment and investment lending in LICUS³ suggests that investment lending has fared somewhat better in overall outcome attainability and institutional development impact. While 44 percent of adjustment operations (4 out of 9) resulted in unsatisfactory results,⁴ similar outcomes are found in only 18 percent (4 out of 22) of investment projects.

Table M.1: Mean CPIA, by IEG Outcome Ratings

Outcome mean	Mean	Standard deviation	Obs.
Highly satisfactory	3.93	0.41	4
Satisfactory	3.71	0.43	41
Marginally satisfactory	3.67	0.41	30
Marginally unsatisfactory	3.55	0.07	2
Unsatisfactory	3.25	0.30	6
Total	3.67	0.43	83

Source: IEG and World Bank databases.

Table M.2: Performance and CPIA in Adjustment Lending (fiscal 2002–05)

Overall borrower performance	Mean CPIA	Standard deviation	Obs.
Highly satisfactory	4.00	0.26	3
Satisfactory	3.69	0.44	71
Unsatisfactory	3.43	0.17	9
Total	3.67	0.43	83

Source: IEG and World Bank database.

Table M.3: Performance and CPIA in Investment Lending (fiscal 2002–05)

Overall borrower performance	Mean CPIA	Standard deviation	Obs.
Satisfactory	3.78	0.35	9
Unsatisfactory	3.76	0.66	7
Total	3.77	0.49	16

Source: IEG and World Bank database.

Recent experience suggests that while there may be a *prima facie* argument for providing budget support in post-conflict countries, their higher dependence on institutional quality and good borrower performance will require a more cautious approach when considering DPL in LICUS, as compared with non-LICUS, as well as careful design and additional monitoring. As suggested by Koeberle and Stavreski (2005), “budget support is most appropriate for

countries with a good track record, strong ownership of the reform program, a reasonably sound policy and institutional framework, and commitment and sufficient capacity to allocate resources effectively and in accordance with development priorities.” Indeed, most of the Poverty Reduction Support Credits (PRSCs) to date have gone to countries in the top two quintiles of the CPIA distribution. Therefore, careful consideration of the appropriateness of DPL in countries with no obvious political or post-conflict turnaround and weaker government ownership and reform consensus will be particularly important.

This does not necessarily imply, however, resorting to free-standing investment projects. Approaches such as SWAs may also be considered as they too address the limitations of fragmented project approaches and provide benefits similar to budget support operations, while allowing for additional safeguards through the use of various financing modalities (budget support, pooled and project financing) within a common program, as well as common policy dialogue and joint monitoring against one set of targets and indicators.⁵ At the same time, SWAs may not be an approach of choice, given their long-term view, when the goal is alleviating short-term cash needs, for instance. The choice of assistance modalities will be a complex one, particularly in fragile environments. The pros and cons of different options should be weighed (box M.1) in light of country conditions.

Box M.1. Projects versus Budget Support: Pros and Cons

Projects can facilitate implementation and monitoring, both in terms of the Bank’s ability to ensure quick project implementation and to collect the necessary data to report on project progress.

Common criticisms of the project approach include: (i) fragmented environment that is not conducive to the formulation of a unified long-term reform program by the government; (ii) parallel implementation mechanisms that fail to facilitate, or even undermine, longer-term institutional development; (iii) increased transaction costs associated with duplication of effort necessary to meet different procedural requirements and multiple donor missions; and (iv) mis-

alignment of donor funds with the government’s budget cycle and the often off-budget aid flow that limits the predictability of aid flows.

Benefits associated with budget support and SWAs include: (i) increased predictability of funds; (ii) greater efficiency of budgetary programming and spending; (iii) capacity development; (iv) greater ownership on part of the government; and (v) being in line with current Bank strategy, as embodied in the Comprehensive Development Framework.

In very poor governance environments, the Bank may find it difficult to monitor and control the use of resources provided through budget support and SWAs.

APPENDIX N: THE CHALLENGES OF ENGAGING CIVIL SOCIETY ORGANIZATIONS IN LICUS

From its Angola, Guinea-Bissau, and Togo case studies, the World Bank report on engaging civil society organizations (World Bank 2005d) concluded that:

- In Angola, extensive donor presence during the conflict led to a significant yet uncoordinated rise of civil society organizations (CSOs) dominated by high-capacity international NGOs.
- In Guinea-Bissau, several NGOs support the CSOs that were created by the citizens to counteract a weak state and other problems, but do so project by project, lacking the resources and capacity to build institutions and ensure sustainability.
- In Togo, neither government nor civil society is able to provide minimal social services because of a repressive state and drastic donor cutbacks, enabling fraudulent NGOs to take advantage of poor communities.

The study found that financing CSOs project by project was especially problematic in the rapidly changing environments of conflict-

affected and fragile states, because it gave the organizations limited opportunity to develop capacity, specialization, strategic planning, and long-term investments in beneficiary communities. Competition for scarce resources made CSOs donor-driven, with accountability focused upward to donors rather than downward to citizens. The report's main recommendation was for donors to shift from the project-by-project approach of supporting CSOs to a more sustained engagement, with less ad hoc project funding and one-time training events and more systematic cooperation and commitment, including partnering and funding the long-term institutional development of CSOs.

To understand the challenges of working with civil society organizations in LICUS better, the Participation and Civic Engagement Group and CPR Unit are piloting a Civil Society Assessment Tool. On May 25, 2006, the Bank and Inter Action hosted a joint workshop on CSOs in fragile states. The results from the workshop are expected to provide input to the OECD-DAC work on service delivery in fragile states.

Sources: World Bank 2004c, 2005d.

APPENDIX O: THE WORLD BANK'S ECONOMIC AND SECTOR WORK IN LICUS

There has been an increase in the number of economic and sector work (ESW) products in fiscal 2003–05 compared with fiscal 2000–02 for both LICUS and non-LICUS LICs. While the increase in the number of ESW products was 60 percent in non-LICUS LICs, it was 166 percent in LICUS (table O.1).

The 2002 LICUS Task Force Report noted that a minimum set of good practice ESW should be feasible, even in countries where there is no or little government interest. This “minimum set” of ESW includes core diagnostic ESW such as Development Policy Reviews (DPRs), Poverty Assessments (PAs), Integrative Fiduciary Assessments (IFAs), and Institutional and Governance Reviews (IGRs).¹ Country Financial Accountability Assessments (CFAAs) and Country Procurement Assessment Reports (CPARs) can be integrated into the IGR where a separate exercise may be difficult.

Yet there are some LICUS without a single

core diagnostic ESW product (minimum or otherwise) over fiscal 2003–05: Afghanistan, the Central African Republic, Comoros, Haiti, Liberia, Myanmar, the Solomon Islands, and Zimbabwe. Overall, countries with 3 or more core diagnostic reports have increased from 2 to 10 (5 times) among LICUS, compared with an increase from 8 to 20 (2.5 times) among non-LICUS LICs (table O.2).

While the administrative budget for ESW in LICUS has more than doubled since the LICUS Initiative, one-fourth or more of LICUS do not have any ESW being conducted in Sector Boards such as Education; Environment; Health, Nutrition, and Population; Social Development; Social Protection; Transport; Urban Development; and Water Supply and Sanitation (table O.3). This lack of ESW in important Sector Boards in several LICUS raises some questions about the effectiveness of future Bank assistance.

Table O.1: ESW Products

Product	LICUS (25)		Non-LICUS (34)	
	Fiscal 2000–02	Fiscal 2003–05	Fiscal 2000–02	Fiscal 2003–05
Core diagnostic reports	17	43	67	112
Other diagnostic reports	3	29	17	105
Advisory reports	22	52	126	158
Not assigned	23	49	141	188
Total	65	173	351	563

Source: World Bank database.

Table O.2: Core Diagnostic ESW Reports by Country

Country	Fiscal 2000–02	Fiscal 2003–05
Post-conflict LICUS		13
Afghanistan		
Angola		CFAA, CPAR, IFA
Burundi		CFAA, CPAR
Democratic Republic of Congo		CFAA, CPAR, PER
Guinea-Bissau		PER
Republic of Congo		PER
Timor-Leste	CFAA, CEM	CPAR, PA, PER
Non-post-conflict LICUS		30 (29)
Cambodia	PA	CFAA, CPAR, PER
Central African Republic		
Comoros		
Haiti	CPAR	
Kosovo	PA	CEM, CFAA, PER, PA
Lao People's Democratic Republic	CFAA, CPAR, PER	CEM
Liberia		
Myanmar	CEM	
Nigeria	CFAA, CPAR, PER, IGR ^a	CFAA, CPAR, PA
Papua New Guinea	PA	CPAR, PA, PER
São Tomé and Príncipe		CEM, PA
Solomon Islands		
Somalia		CEM
Sudan		CEM (2)
Tajikistan	PA, CEM	CFAA, CPAR, PA, PER
Togo		CPAR, DPR, PA
Uzbekistan	CPAR	CEM, CFAA, PA, PER
Zimbabwe		
LICUS (25)	16	43 (42)
Non-LICUS LICs (34)	66 (56)	111(99)

Source: World Bank database.

Note: CEM = Country Economic Memorandum, CFAA = Country Financial Accountability Assessment, CPAR = Country Procurement Assessment Report, DPR = Development Policy Review, IFA = Integrative Fiduciary Assessment, IGR = Institutional and Governance Review, PA = Poverty Assessment, PER = Public Expenditure Review. The IGR has also been included in the list of LICUS core diagnostic reports because the 2002 LICUS Task Force report identified it as an essential piece of ESW for LICUS.

Table O.3: Number of Countries Covered by a Sector Board's ESW Product, Fiscal 2003–05

Sector Board	LICUS	Non-LICUS
Economic policy	15	29
Education	6	18
Energy and mining	8	12
Environment	3	11
Financial management	8	25
Financial sector	6	23
Gender and development	4	12
Global information/communications technology	0	2
Health, nutrition, and population	5	20
Operational services	2	3
Poverty reduction	9	23
Private sector development	11	24
Procurement	10	21
Project finance and guarantees	0	1
Public sector governance	10	20
Rural sector	10	16
Social development	3	10
Social protection	6	10
Transport	1	9
Urban development	1	9
Water supply and sanitation	0	11

Source: World Bank database.

APPENDIX P: PERFORMANCE OF ACTIVE PROJECTS

Projects in 25 LICUS Evaluated by QAG

Quality Assessment Group (QAG) assessments show a decline in quality at entry for projects in LICUS assessed in fiscal 2000–03. Quality of supervision, however, shows a marked improvement from a low of 61 percent before fiscal 2000 to 85 percent for fiscal 2000–03 (table P.1).¹ The percentage of projects in LICUS rated satisfactory for quality at entry and quality of supervision for fiscal 2000–03 are comparable to the percentage of projects rated satisfactory in non-LICUS LICs. However, projects in non-LICUS LICs show an improvement in both ratings over time, while projects in LICUS show a decline in quality at entry.

Composition of the LICUS Portfolio

Over fiscal 2000–05, the Bank had 104–137 active projects per year in the 25 LICUS. Over the same period, the Bank had 465–510 active projects per year in the non-LICUS LICs. Table P.2 illustrates the percentage of projects rated as problems on development objectives and implementation progress and the percentage of projects and commitments “at risk” for the active portfolio for each year during fiscal 2000–05 and the average for two time periods: fiscal 2000–02 and 2003–05.

Table P.1: QAG Ratings for Active Projects

	Time period	Quality at entry		Quality of supervision	
		Number of projects	Percent satisfactory	Number of projects	Percent satisfactory
LICUS	Fiscal 1997–99	12	92	36	61
	Fiscal 2000–03	30	84	13	85
Non-LICUS LICs	Fiscal 1997–99	89	79	212	70
	Fiscal 2000–03	76	84	90	84

Source: World Bank database.

Table P.2: Project Performance of the Active Portfolio

	Fiscal year						Average	
	2000	2001	2002	2003	2004	2005	Fiscal 2000–02	Fiscal 2003–05
Post-conflict LICUS								
Number of projects				39	50	57		49
Net commitments				1,569	2,942	2,840		2,450
Development objective (% problem)				10	0	7		5
Implementation progress (% problem)				13	0	7		6
At risk (%)				41	20	21		26
Realism (%)				44	0	42		32
Non-post-conflict LICUS								
Number of projects				84	74	80		79
Net commitments				2,200	2,369	2,829		2,466
Development objective (% problem)				11	12	10		11
Implementation progress (% problem)				20	22	15		19
At risk (%)				30	31	24		28
Realism (%)				68	78	68		72
LICUS								
Number of projects	105	105	117	123	124	137	109	128
Net commitments	2,510	2,220	3,098	3,790	5,340	5,471	2,609	4,867
Development objective (% problem)	14	12	7	11	7	9	11	9
Implementation progress (% problem)	13	12	10	18	13	12	12	14
At risk (%)	27	26	32	33	27	23	28	27
Realism (%)	71	63	32	59	55	58	53	57
Non-LICUS LICs								
Number of projects	517	521	500	497	488	481	513	489
Net commitments	32,873	34,762	34,130	34,267	33,697	33,529	33,922	33,831
Development objective (% problem)	6	5	5	7	7	8	6	7
Implementation progress (% problem)	10	9	11	9	11	13	10	11
At risk (%)	15	12	18	14	16	19	15	16
Realism (%)	78	87	67	81	85	76	76	80

Source: World Bank database.

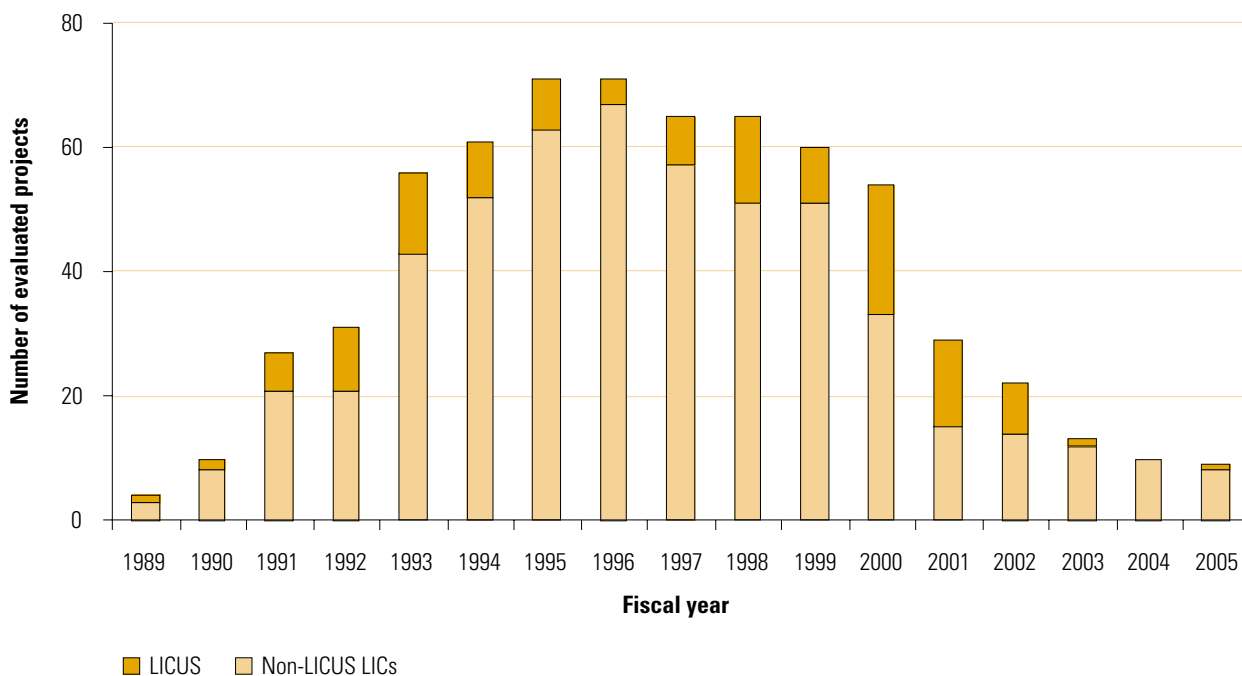
APPENDIX Q: PERFORMANCE OF CLOSED PROJECTS AND LESSONS IN LICUS

This appendix first presents the trends in project performance in the 25 countries categorized as LICUS by the Bank in fiscal 2005 based on ICR Reviews conducted by IEG for 129 projects that *closed* over fiscal 2000–05. All ICR Reviews in IEG’s ICR Review and Tracking Database for projects in each of the 25 LICUS that were evaluated by July 2005 were also assessed for implementation experience (107 total). The most frequently noted significant outcomes, shortcomings, and lessons from these projects are presented in tables Q.2–Q.4.

Composition of the 2005 Closed LICUS Projects Evaluated by IEG

IEG evaluated 1,672 closed projects from fiscal 2000 to June of fiscal 2006. This evaluated cohort includes 129 projects approved in the 25 LICUS and 529 projects approved in non-LICUS LICs (the approval years are given in figure Q.1). In nominal net commitment terms, the LICUS cohort covers \$3.3 billion and the non-LICUS LIC cohort covers \$31.6 billion. Table Q.1 illustrates the IEG ratings for the exiting LICUS and non-LICUS cohorts.

Figure Q.1: Approval Years of Evaluated Projects



Source: World Bank database.

Only two projects that were approved after the LICUS Initiative had been evaluated by IEG as of June 2006. Both were rated satisfactory on outcome. Project performance of the LICUS cohort (approved prior to the initiative, but exited after it began) has shown an improving trend, from 58 percent for projects exiting in fiscal 2003 to 82 percent for projects exiting in fiscal 2005. In contrast, the percentage of projects rated satisfactory on outcome for the non-LICUS LICs increased from 70 percent in fiscal 2003 to 77 percent in 2005 (figure Q.2, table Q.1).

QAG has argued in its fiscal 2004 ARPP that

the improving trend in outcome ratings in LICUS over fiscal 2002–04 is due to improved Bank performance. Ratings for Bank performance were found to be significantly correlated (positively) to outcome ratings.

The net disconnect has been higher for the LICUS cohort than for non-LICUS LICs for all years over fiscal 2000–05, except for 2003 (table Q.1). The net disconnect has, however, declined over time for both the LICUS and non-LICUS LICs and was about 6 percent for LICUS and 4 percent for non-LICUS LICs for projects exiting in fiscal 2005.

Figure Q.2. Percentage of Projects Rated Satisfactory on Outcome by IEG

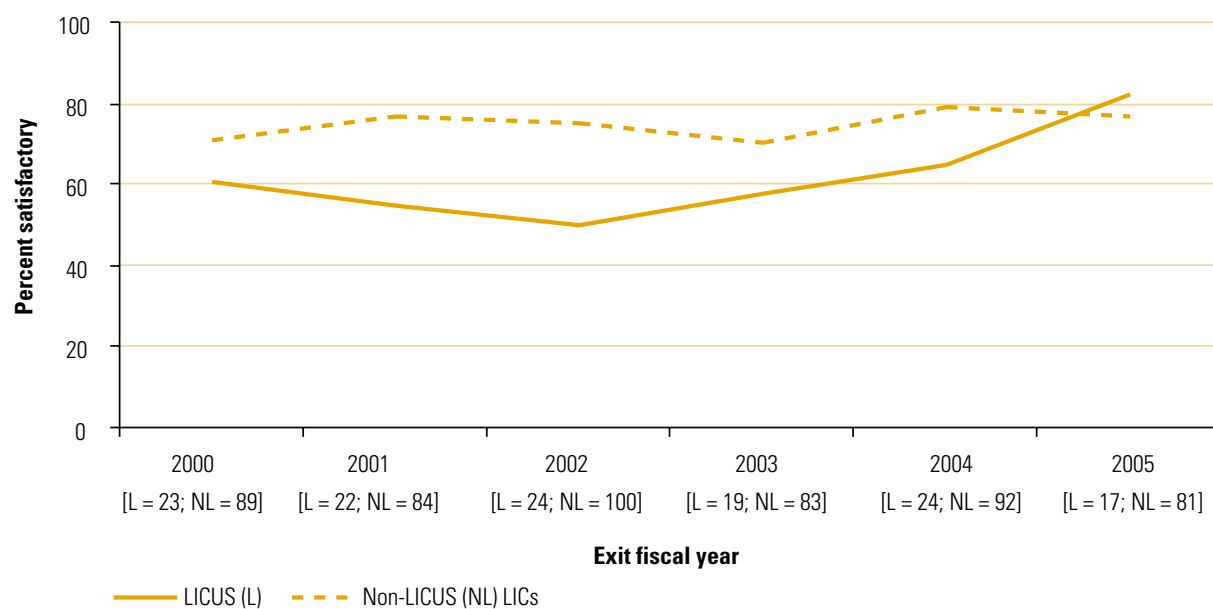


Table Q.1: Performance of Projects That Exited and Were Evaluated by IEG Between Fiscal 2000 and 2005 for LICUS and Non-LICUS LICs

	Exit fiscal year							
	2000	2001	2002	2003	2004	2005	2000–02	2003–05
LICUS cohort								
Number of projects	23	22	24	19	24	17	69	60
Net commitments	751	669	468	695	266	420	1,888	1,381
Outcome (% satisfactory)	61	55	50	58	65	82	55	68
Sustainability (% likely)	41	38	32	44	43	67	37	50
Institutional development impact (% substantial)	35	18	14	32	22	59	22	36
Bank overall performance (% satisfactory)	83	59	54	79	63	76	65	72
Borrower overall performance (% satisfactory)	61	50	33	53	67	76	48	65
Net disconnect (%)	17	27	23	11	9	6	22	8
Non-LICUS LICs								
Number of projects	89	84	100	83	92	81	273	256
Net commitments	4,774	4,412	6,496	4,927	5,625	5,347	15,682	15,899
Outcome (% satisfactory)	71	77	75	70	79	77	74	76
Sustainability (% likely)	63	72	75	70	77	80	70	76
Institutional development impact (% substantial)	42	49	40	46	53	63	43	54
Bank overall performance (% satisfactory)	73	74	75	72	75	78	74	75
Borrower overall performance (% satisfactory)	64	77	74	70	75	72	72	72
Net disconnect (%)	11	17	20	20	8	4	16	11

Source: World Bank database.

Note: (i) Exit fiscal year denotes the year in which the project leaves the World Bank's active portfolio, normally at the end of disbursements—percents exclude projects not rated. (ii) The data for fiscal 2005 exits represent a partial lending sample and reflect all IEG project evaluations through June 2006. The processing of the remainder of the fiscal 2005 exits is ongoing and is expected to be completed by the end of fiscal 2006.

Table Q.2: Outcomes of Closed Projects in LICUS

	Outcome	Examples
1	Increased amounts of physical infrastructure constructed or rehabilitated (schools, health facilities, roads, power grids, water and drainage works)	<p>The Lao PDR Southern Province Rural Electrification Project connected 51,805 provincial households (exceeding the target of 50,000) through grid extension, and the GEF-supported off-grid component provided electricity to 6,097 households (32% greater than the target of 4,600), mainly through solar home systems and microhydropower. It thereby achieved an electrification ratio in the project provinces of 42%, exceeding significantly the appraisal target of 20%.</p> <p>Angola’s Social Action Project supported the construction of significant amounts of physical infrastructure: 232 schools; 66 health clinics; 338 water and sanitation facilities; 38 productive and 9 economic subprojects. The output was simple but efficient and cheaper than that funded by other organizations.</p>
2	Improved quality of and access to social services	<p>While Uzbekistan’s First Health Project experienced difficulties with some of its components, its objective of improving the quality and cost effectiveness of primary health care services was substantially achieved through the construction, consolidation, and rehabilitation of rural medical centers (SVPs); the upgrading of services (clinical, primary and preventive care, child health services, reproductive health, emergency care, and the provision of drugs, medical supplies, logistical support); and health promotion, including communications equipment, technical assistance, and training. Rehabilitation and equipment of SVPs improved the availability of key primary health care services, with the population’s appreciation of these services (proxy for quality) evident in the dramatic increases in use of services offered (prenatal services, vaccination rates) as well as in the results of a survey.</p> <p>Despite data inconsistencies and difficulty in attributing outcomes solely to this project, Timor-Leste’s Health Sector Rehabilitation and Development Project laid the groundwork for strengthening the quality and quantity of basic primary health care at the district level. The project’s objective to provide high-priority primary care via contracted NGOs, improve the supply and logistics of essential drugs, rehabilitate and equip health centers, and strengthen administrative/technical capacity at district and central levels was substantially achieved. Outpatient utilization rates were very encouraging (0.75 visits per capita in 2000 versus 2.13 visits in 2004; target was 2.5 visits), indicating a growing appreciation and trust of government health services by the population as well as the greater availability of health centers.</p>
3	Increased community participation	<p>The Comoros Pilot Agricultural Services Project was restructured at midterm, adding the third and new objective of reinforcing the capacity of local communities and producer groups. While neither of the two original objectives was fully achieved, results from demand-driven productive investments showed significantly increased revenue-generating capacity of small farmers and financing productive investments increased producers’ incomes by at least 25 percent. Sixty-one producers’ organizations were established as legal entities, and members received training and are fully functioning; 60 private extension agents were trained and 58 subprojects were approved and financed (116 percent of the target), involving about 1,000 farmers in various crop and livestock production initiatives. The actual cost of the project was \$2.1 million, making this a cost-efficient learning exercise.</p> <p>By financing activities to carry out participatory rural appraisals (PRAs), the objective of Cambodia’s Northeast Village Development Project—to introduce a decentralized, participatory poverty-</p>

Outcome	Examples
	<p>focused rural development planning system, starting at the village level with the formation of Village Development Committees (VDCs)—was substantially achieved. The targeting process was satisfactory, VDCs were elected in 120 targeted villages, village-level PRAs were completed, and village action plans were formulated according to the priorities of the villagers. Training was provided to each community and their VDCs, and operation and maintenance committees were organized in participating villages. The objective to gain experience in managing such programs needed by the Cambodian government was also substantially achieved. Technical guidelines on subproject implementation and operations and maintenance were developed, tested, and revised during project implementation, and lessons learned were disseminated through national and provincial-level workshops.</p>
<p>4 Advances in institutional development</p>	<p>Cambodia’s Disease Control and Health Development Project resulted in enormous strides in planning, budgeting, and elaboration of specific implementation strategies in all three national disease programs. Health management agreements were set up in all 11 provinces and have become the basis for a realignment of the health system, with national centers responsible for technical direction and strategy and provinces for managing implementation. Substantial capacity building in management and technical areas and effective leadership elevated the National AIDS Office from “a collection of small and scattered donor-supported pilot schemes to a cohesive national program” (ICR) within the Ministry of Health that could spearhead the national response with complete national ownership. Substantial investment in monitoring and evaluation through surveys, surveillances, and outreach programs provided a foundation for and commitment to evidence-based decision making.</p> <p>Tajikistan’s Institution Building Technical Assistance Project helped the government develop a legal basis for privatization. The project conducted training in privatization procedures and had substantial progress in privatizing small-scale enterprises (95 percent privatized) as well as medium- and large-scale firms (95 percent corporatized and 30 percent privatized). A plan for privatization of the cotton processing and marketing organization was prepared, technical assistance was provided for privatization of 22 cotton ginneries, and MOA was provided with the required legal framework to initiate the farm restructuring program, including land access rights, transfer of these rights, and implementation of farm restructuring. The project also saw: a new banking law implemented, more efficient payment clearing, training in implementing new prudential regulations, a new accounting system, and on-site supervision of banks. Significant progress was made in privatization, the legal basis for private property, and the skills of officials working in these areas. The banking sector was strengthened as a result of a new banking law, better bank supervision, and a payment-clearing system that reduced clearing time from four days to one. Twenty-two state-owned cotton ginneries were prepared for privatization, and a large number of enterprises were privatized.</p>
<p>5 Increased economic stabilization and improved financial management</p>	<p>Guinea-Bissau’s Economic Management Credit supported the introduction of prior authorization of expenditure commitments by the Ministry of Economy and Finance and partial integration of recurrent and capital budgets; financed audits of public expenditure procedures identifying</p>

(Continues on the following page.)

Table Q.2: Outcomes of Closed Projects in LICUS (continued)

Outcome	Examples
	<p>actions to strengthen budgetary management; trained staff in West African Economic and Monetary Union (WAEMU) procedures; and enacted a comprehensive tax reform consistent with WAEMU countries. The country’s economic management improved by taking several steps: increasing the budgetary revenue/GDP ratio by about 5 percentage points to 15.4 percent of GDP during the same period; improving the current primary balance/GDP ratio by almost 4 percent to 5.5 percent of GDP from 1993 to 1997; liquidating or placing under tender 17 public enterprises and transferring 7 to private management; facilitating accession to the WAEMU; improving technical skills of civil servants in key ministries; and improving the informational and financial management of the civil service.</p> <p>The Democratic Republic of Congo’s Economic Recovery Credit aimed to support economic stabilization and structural reforms to lay the basis for recovery within the I-PRSP strategy. The 2003 budget was adopted with improved estimates for public and capital expenditures, the budgeting process was streamlined, communications on fiscal data between the Treasury and the Central Bank were improved, and expenditure tracking systems were created to trace spending to ultimate beneficiaries, particularly to assess poverty reduction expenditures. The independence of the Central Bank was confirmed by a new charter; an audit of the operations of the Central Bank was completed; new legislation was prepared for financial institutions; audits and strategies were completed to determine the liquidation, privatization, or restructuring of several public and private banks; and a financial sector strategy was adopted. With assistance from other donors, the project permitted the DRC to reestablish relations with the international donor community and regain its creditworthiness, due to the clearance of arrears to the Bank and the IMF.</p>

Source: ICR Reviews from the ICR Review and Tracking Database.

Table Q.3: Shortcomings of Closed Projects in LICUS

	Shortcoming	Examples
1	Weak or irrelevant monitoring and evaluation	<p>In Timor-Leste's Community and Local Governance Project, there was inadequate tracking of project outputs, with certain basic output indicators identified by the project—such as number of O/M committees formed—remaining unmonitored. While the project emphasized gender considerations in its design, it failed to prepare gender-disaggregated information concerning the project's beneficiaries. Another aim of the project was to reduce poverty, with a subcomponent set to specifically measure poverty impact, yet no such measurement was undertaken.</p> <p>One of the four revised project objectives in Togo's Lome Urban Development Project sought to alleviate urban poverty. The project design assumed that the beneficiaries would primarily be the urban poor, yet it failed to include indicators to monitor and measure the impact on the poor, resulting in insufficient analysis of whether and to what extent the objective had been achieved.</p>
2	Insufficient understanding of the political environment: project too complex/ambitious for local circumstances and extent of political resistance	<p>In the Comoros Emergency Economic Recovery Credit, although the Bank had identified the risk that the reconciliation process could stall or be reversed, the measure to guard against this risk was only modest. By only requiring stakeholders to express their commitments to the reconciliation process ex ante, the Bank seemed to have seriously underestimated the extent of mistrust and political disagreements between the varying levels of government. This lack of understanding on the Bank's end further spurred on political instability, resulting in limited achievements of the credit's objectives.</p> <p>The Bank overestimated the borrower's ability to carry out Nigeria's Primary Education Project in deteriorating economic and social circumstances. The large-scale cascade model—whereby tertiary institutions would train trainers, who would train education officers, who would train teachers—that was created for teacher training on textbook use and student assessment was too complex and proved impossible to implement in the context of the Nigerian situation. Certain regional initiatives linked to the project could not be carried out because of the highly centralized nature of Nigeria's military government, and extensive governance problems undermined project implementation.</p>
3	Unclear/inappropriate project design, procedures, or poverty targeting at appraisal	<p>The design of São Tomé and Príncipe's Health and Education Project was flawed. Baseline indicators and quantifiable objectives were not established, and the planned interventions were not clearly linked to stated objectives. The health infrastructure investments, which represented more than half of total project costs (the exact percent is not given in the ICR), were highly inefficient. Constructed drainage canals collapsed during the project's first five years, resulting in their total replacement and project extension. Drainage was, however, not even the correct intervention—as the vector involved prefers small accumulations of clean water—and the number of reported cases of malaria increased approximately 40 percent from 1995 to 2000. Despite the project's heavy emphasis on infrastructure, infrastructure specialists were not included on Bank supervisory teams until September 2000.</p> <p>Tajikistan's Post-Conflict Reconstruction Project had an ambiguous project objective, which was treated differently in different project-related documents. The legal agreement cited the objective as addressing specific post-conflict reconstruction needs in order to restore assets and productivity. According to the MOP and Bank ICR, the objective was to implement the Peace Agreement. And in the borrower ICR, the objective was stated as providing assistance and creating favorable conditions for economic growth in the project area.</p>

(Continues on the following page.)

Table Q.3: Shortcomings of Closed Projects in LICUS (continued)

	Shortcoming	Examples
4	Procurement problems caused by weak ownership, insufficient training on Bank procedures, political interference, and delays in government formation	<p>The borrower did not comply with IDA procurement guidelines in Haiti’s Road Maintenance and Rehabilitation Project, which resulted in the formal declaration of 19 contracts as misprocured and the suspension of disbursements from the Credit.</p> <p>In Angola’s Lobito Benguela Urban Environmental Rehabilitation Project, key project management and procurement decisions were regularly deferred for months because of inadequate communication between the project’s management, implementing entities, and IDA.</p>
5	Overestimation of government and local support, capacity, and commitment to project implementation	<p>Papua New Guinea’s Emergency El Nino Drought Response Project overestimated the country’s institutional capability as well as the commitment to adopt participatory principles. The Bank worked on the false assumption that participating provinces would have the recurrent financial resources to support the project activities. The project’s components demanded provincial and district authorities to adopt a more participatory approach to subproject selection and management, yet the two provinces involved demonstrated little eagerness or institutional capacity to do this.</p> <p>Unexpected on the Bank side, despite the clearly distinct roles of the federal and state governments, Nigeria’s federal government was unwilling to involve local communities in the design of the Small Towns Water Project and failed to devolve ownership to local government and communities. The federal government’s unwillingness to pass on completed facilities inhibited the creation of local agreements to operate and manage them. In opposition to the design’s intentions, the project further deepened the gulf between the local and federal governments, increasing the mistrust of the former.</p>
6	Delays in implementation and audits	<p>Project implementation for Nigeria’s Water Rehabilitation Project was slow from the start. The first civil works contract was not awarded until approximately 30 months after the date of project effectiveness. This was caused by persistent delays in the design and preparation of bidding documents.</p> <p>While planned in the project design, Kosovo’s Emergency Farm Reconstruction Project did not become effective in time for the first cropping season after the 1999 conflict. The project experienced delays in establishing effective institutional arrangements for implementing the project between the three principal parties (IDA, UNMIK, and FAO).</p>
7	Difficulty in recruiting counterpart staff and heavy dependence on expatriates because of lack of incentives for locals, causing high attrition rates and little institutional memory	<p>The impact of training on MOH capacity and service quality remained limited in Guinea-Bissau’s Social Sector Project, as most of those trained under the project left government service because of the war and low pay relative to donors, NGOs, and other countries. Some staff quit after training when they did not receive expected promotions. Lao PDR’s District Upland Development and Conservation Project experienced difficulties in its education initiative because of Department of Education tardiness in providing adequate incentives to non-formal education workers in the villages.</p> <p>Little capacity was built in the district and provincial agriculture offices, and there was low commitment because of the lack of incentives to cooperate. As a result, the project had problems recruiting provincial and district officers for relocation to the isolated villages and applying existing expertise where it was most needed.</p>

Source: ICR Reviews from the ICR Review and Tracking Database.

Table Q.4: Lessons from Closed Projects in LICUS

1. Projects must be especially flexible in an evolving context of fragile and changing circumstances, with continuous reappraisal to see whether they are still practicable and subsequent restructuring to respond appropriately to new conditions. Conducting rigorous social and economic evaluations can help make important midcourse changes in project design and implementation.
2. In countries with uncertain economic performance and fragile institutions, the Bank should be particularly vigilant in creating objectives realistically calibrated and focused, taking into account the stability of the political system, degree of administrative capacity, and extent to which the government owns the project's objectives. While this may mean the Bank expends more resources over a longer period to achieve the end result, a series of limited successes is better than attempting to attain all desirable goals at once, with all the attendant risks. This is particularly the case when the appraisal team is faced with impending elections with uncertain results.
3. Roles and responsibilities should be clearly articulated when different units are in charge of administration and execution to minimize conflict and disagreements over the use of funds and execution of contracts.
4. Especially in risky circumstances, projects should contain minimal conditions of effectiveness, and conditions that establish satisfactory accounting and financial management systems should be formulated as conditions of Board presentation.
5. Before project effectiveness, the Bank should make an intensive effort to identify clear benchmarks and indicators that are easily measurable by the implementation agencies to make it easy to assess whether implementation is working well; monitoring indicators should reflect incremental stages of achievement and be adapted as necessary during project implementation.
6. The Bank's sustained support is critical to achieving overall development impact and can contribute to developing a strong working relationship with local authorities while attracting other donors to the area.
7. Before agreeing to hire project directors, who may have networks of connections and obligations that conflict with their project-related obligations and may be hard to remove, the Bank should ascertain that these directors can be replaced in their role easily and quickly (even if they retain their position in the public sector).
8. Extensive training of local staff in the Bank's procurement policies and financial management procedures should be planned in the project's design and conducted before start-up to build project implementation capacity and ensure timely disbursement in low-capacity environments. Procurement irregularities can be eliminated if procurement audits are done after the first year of project implementation.
9. Rather than one large project spanning multiple sectors in a country with limited implementation capacity, multiple small loans can be useful instruments to introduce significant reforms on a minor scale in difficult countries and enable learning before scaling up good-practice outcomes.
10. Human Resources should not limit its focus to training; issues such as incentives, career development, public/private partnership, and decentralization also need to be addressed.

Source: ICR Reviews from the ICR Review and Tracking Database.

APPENDIX R: COUNTRY ASSISTANCE EVALUATIONS AND CAS COMPLETION REPORT REVIEWS

Five Country Assistance Evaluations (CAEs) are available for the 25 LICUS. They assess the pre-LICUS Initiative period (1986–2002) and rate all but one country program as moderately unsatisfactory or unsatisfactory (see table R.1). The main reasons are for the unsatisfactory ratings are as follows:

- **Poor assessment of political and governance constraints.** In Haiti, the Bank’s objectives were consistent with major economic problems, but relevance was limited by the failure to give highest priority to resolving the political and governance problems that undermined economic development. The poor assessment of political constraints has resulted in excessive optimism on the Bank’s part, for example, in Papua New Guinea. In Zimbabwe during 1998–2000, when there were clear signs that the Bank’s strategy was not working, the Bank continued to appraise and approve new projects, as well as negotiate the third Structural Adjustment Credit, with poor results.

- **Inadequate assessment of priorities/timing.** In Zimbabwe, the Public Expenditure Reviews at the end of 1995 came too late to inform the design of the Structural Adjustment Credits, and although many analytical products were completed during the 1990s, there was no substantive analytical work on poverty. In Papua New Guinea, the Bank’s attention was inconsistent, with a period of intense activity followed by inactivity. In Cambodia, projects in the areas of agricultural and rural development were not immediately supported despite their importance.

Country Assistance Strategy Completion Report (CASCR) Reviews in Fiscal 2005 LICUS

Of the four IEG CASCR Reviews available thus far for LICUS, and that covered at least part of the period since the start of the LICUS Initiative, three were rated moderately unsatisfactory or unsatisfactory and one was rated moderately satisfactory.

Table R.1: Country Assistance Evaluations for Fiscal 2005 LICUS

Country	CAE date	Period	Outcome	Sustainability	Institutional development impact
Cambodia	11/16/2000	1992–99	Moderately satisfactory	Uncertain	Substantial
Haiti	02/12/2002	1986–2001	Unsatisfactory/highly unsatisfactory	Unlikely	Negligible
Papua New Guinea	03/06/2000	1989–99	Unsatisfactory	Modest	Uncertain
Solomon Islands	03/31/2005	1992–2002	Moderately unsatisfactory	Unlikely	Negligible
Zimbabwe	05/21/2004	1990–2000	Unsatisfactory	Unlikely	Negligible

Note: The CAE and the ratings are for the Pacific member countries group, and not for the Solomon Islands in particular.