Ex post evaluation – Namibia

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Sector: Road transport (21020)
Project: CP sectoral budget financing in the transport sector (BMZ no.: 2006 65 349), complementary measure (CM) (BMZ no.: 2008 70 030)
Implementing agency: Ministry of Works and Transport

Ex post evaluation report: 2018

		Project (Planned)	Project (Actual)	CM (Planned)	CM (Actual)
Investment costs (total)	EUR million	7.05	7.05	1.10	1.10
Counterpart contribution	EUR million	0.00	0.00	0.00	0.00
Funding	EUR million	0.00	0.00	0.00	0.00
of which budget funds (BMZ)	EUR million	7.05	7.05	1.10	1.10

*) Random sample 2016

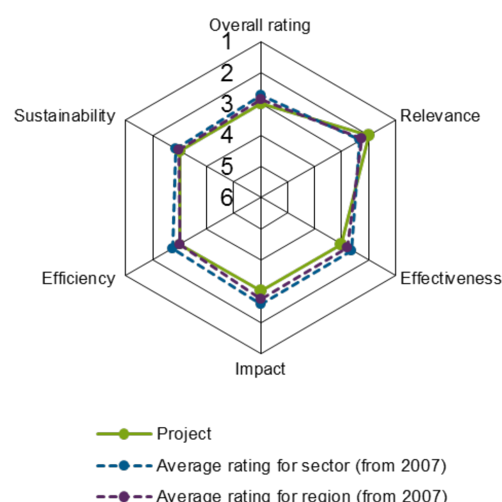
Summary: The aim of the FC measure "Sectoral budget financing in the transport sector, phase I" was to support the Namibian government as part of a sector-wide approach in road transport. The project aimed to continue and improve the sectoral reforms, which are regarded as exemplary in Africa. Referring to the project as sectoral budget financing is misleading as the funds could not be paid into the national budget due to legal hurdles in Namibia. Instead, they were paid as a loan to the subordinate state institution, the Road Fund Administration (RFA). Otherwise, the project shares all of its attributes with a policy-based loan: it supports the partner's policy, which was set out in a policy matrix along with the political progress to be achieved during implementation. The indicators agreed in the matrix acted as triggers for payment of the second tranche amounting to EUR 3 million, whereby the total loan amount was EUR 7.05 million.

Objectives: The aim of the FC measure was to support the coherent, efficient and poverty-oriented management of the subsector (outcome level). On the whole, the aim was to contribute to implementing the Namibian development strategy, which was geared towards economic development and poverty alleviation (Vision 2030) (impact level).

Target group: The project's target group included all vehicle users, consumers of transport services and people active in the sector.

Overall rating: 3

Rationale: Although, at over 6 years, it took significantly longer than originally planned to fulfil the triggers for disbursement of the second financing tranche, the goals were ultimately achieved. Compared to the rest of Africa, the road network in Namibia is very well developed and an important asset for economic development. In planning and technical terms, maintenance is well managed. However, a lack of financing means that the necessary maintenance measures are not carried out to the requisite extent, which has a negative effect on sustainability. Measures including labour-intensive road construction have been applied to combat poverty in northern Namibia. The huge increase in public debt in Namibia is a source of concern.



Highlights: Taking into account the partner country's debt situation, policy-based financing is a logical tool for motivating the partner and providing them with the financial freedom to pursue their willingness to reform. In certain circumstances, quantitative goals can be better suited as disbursement conditions than the more qualitative triggers used in this case.

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Rating according to DAC criteria

Overall rating: 3

Ratings:

Relevance	2
Effectiveness	3
Efficiency	3
Impact	3
Sustainability	3

General conditions and classification of the project

Although described as sectoral budget financing, the project's design has much more in common with the relatively new financing instrument of policy based loans (PBLs). In contrast to budget support in the past, a PBL is not issued on a grant basis to finance the partner's national budget, but (as the name suggests) instead it is issued as a loan incorporated into the national budget. Unlike budget support, the recipients of PBLs tend not to be countries with a low level of development, but are usually more advanced partner countries, whose public financial management is rated as effective and transparent. Unlike the majority of (general) budget support projects in the past, there is therefore no need to focus on the development of public financial management and public accounting as a way of combating the fiduciary risks resulting from payments into the national budget. Similar to sectoral budget support, the aim of a PBL is to support a particular reform process undertaken by the partner government – in this case a change to the Namibian transport sector – both in financial terms and through accompanying political dialogue. The reform objectives and the next steps for their implementation are recorded in a policy matrix. Selected steps in the reform process act as performance indicators (triggers), the achievement of which releases the payment for the next performance-based tranche of a PBL. In this context, PBLs are normally combined with Technical Cooperation (TC) measures and/or complementary measures, which are used to support the local reform process. In many cases, specific projects also receive FC financing either at the same time or at a slight delay. The purpose of this financing is to support the implementation capacity of specific measures at a local level, as this area has been identified as an almost persistent problem during the evaluation of budget support programmes. A PBL can therefore be seen as a kind of advanced version of (sectoral) budget support and should be observed in the context of other related measures.

Deviating from the original plan, the loan evaluated here could not be paid into the national budget via the Namibian Ministry of Finance acting as the executing agency because this approach was not compatible with Namibia's legislation. Instead the loan was paid to the Namibian Road Fund Administration (RFA) and recorded in its balance sheet. The RFA is a lower-level state institution that manages certain income generated by road tolls and state contributions for the road sector. The RFA budget is not consolidated with the Namibian state budget. Due to the change in the recipient of the payment, the project was reclassified from sectoral budget support to basket funding; however, the project was still referred to as budget support even after the change. It also retained all of the attributes of a PBL as described above.

Relevance

At the time of the project appraisal in 2007, the background situation for a PBL-like project (like the one evaluated here) was generally positive. The reform process in the road sector introduced by the Namibian government at the end of the 1990s, which was based on the "White Paper on Transport Policy" (1995), resulted in the institutional separation of the Ministry of Transport as the policymaker, the Road Fund Administration as the body responsible for financing the road network, and the Road Authority (RA) as the entity responsible for managing road construction. The reforms were regarded as an example of best practice in the region and are also considered a success on an international scale. This model is still exemplary to this day, even when compared to many industrial countries. With the completion of these institutional reforms, the Namibian government set a credible precedent for its willingness to reform, one of

the most important prerequisites when awarding a PBL. Like budget support, PBLs are seen as being an ideal instrument for implementing the declarations from the High Level Fora on Aid Effectiveness in Paris (2005) and Accra (2008). As the “owner” of the reforms (ownership), the partner is the driving force; the donors provide collective support for the partner's goals (alignment and harmonisation). If, however, the partner lacks willingness to reform and the donors attempt to force their ideas for reform into the political dialogue, this normally leads to disappointing results – as demonstrated in countless budget support evaluations. After all, “reforms can't be bought.”

Despite the success of the completed institutional reforms, the responsible ministry was confronted with major challenges as it was barely able to fulfil its core duties of monitoring and controlling the subordinate state sector organisations of the RFA and RA. One of the causes of this was the shortage of staff in the ministry's transport department, where over half of the planned positions were vacant. The staff present often lacked sufficient qualifications and were over-worked due to staff shortages. Furthermore, the sectoral authority's administrative practices and maintenance of the road network were highly inefficient. Nevertheless, the road sector was perceived to be relatively efficient compared to other African countries during the project appraisal. This perception was particularly influenced by the fact that the staff situation at the RA had been significantly improved by the employment of CIM staff (CIM has since become GIZ) and that the performance of the construction industry was rated as positive. Due to the sector's strong foundation of knowledge gained from previous projects and the positive appraisal of Namibian public financial management, the fiduciary risks of a PBL project were assessed as being relatively low. Based on the positive reform efforts and considering the challenges described, the project was designed as a cooperative programme with GTZ (now GIZ) and embedded into a comprehensive FC programme from 2009 onwards. This FC programme also contained FC projects related to labour-intensive road construction. The GTZ programme aimed to ensure the sustainable planning, organisation and financing of the road sector, and in this context addressed the staff shortages described above.

The project evaluated here appeared to be the ideal addition to the other measures in the DC programme because it supported the goals set out by the Namibian government in 2004 for its Vision 2030 at an overarching political level. In Vision 2030, the government outlined its willingness to alleviate poverty – one of the outcomes pursued by the labour-intensive road construction concept embedded in the DC programme – to create “safe and cost-efficient” overland transport, to provide a suitable road network in all areas, to maintain the value of existing infrastructure, and to promote Namibia's potential as a transit country. These goals were then described in more detail in various national development plans, such as NDP4 (2012/13–2016/17) and most recently in NDP5 (2017/18–2021/22). Namibia wanted to push forward with the expansion of the main road network and the labour-intensive road construction projects in the country's poor northern regions. It managed to achieve this goal within this context. Furthermore, the project's orientation towards poverty alleviation and economic development was in line with the priorities of German and international development cooperation.

The underlying results chain remains coherent from today's perspective. The project was based on the two following chains of cause and effect: (i) economic development: efficient road management → improvement to the underlying economic conditions in the transport sector → reduced transport costs and times → improved commercial conditions and reduction of prices for exports and imports; (ii) poverty alleviation: creation and operation of roads in poor regions → reliable transport links → access to markets and social services → increased income and improved participation in society and politics.

In essence, the PBL-like project was suitable for advancing the already outstanding reform process. The FC financing was split into two tranches. Upcoming phases of the reform process agreed in a policy matrix were embedded as triggers in the form of implementation agreements for payment of the PBL's second tranche. This approach aimed to generate an incentive for expediting political decisions to improve the sector's efficiency. At the same time, the complementary measure provided important technical advice for the reform. The aim of supporting the continuation of sector reforms would not have been achieved with a FC project approach.

This generally positive assessment of the relevance is limited by the fact that the first tranche of the PBL financing package only made up 3.3% of the Namibian transport budget, while the second tranche only made up 2.6%. The anticipated contribution to covering the shortfalls in the transport sector was therefore low. However, the political weighting was also supported by other FC projects. At the time of the project appraisal, German FC was active in multiple individual projects with a financing volume of EUR 44 million

in total related to the refurbishment of roads and labour-intensive road construction work in Namibia. Commitments from other bilateral and multilateral donors amounted to a total of EUR 51.2 million. At the time the project evaluated here was designed, other donors – particularly the EU and AFD from France – expressed an interest in co-financing the policy-based sectoral financing. Were these donors to have been involved, it would have created huge leverage for the relatively low German FC contribution. Yet this did not happen, for a variety of reasons; the donors eventually completely withdrew from the sector over the course of the project.

One negative aspect worth highlighting is that the PBL could not be paid into the national budget as originally planned. Instead, it was paid directly to the RFA, otherwise it would have had an adverse effect on the transparency of Namibia's debt situation.

To summarise, the relevance is still rated as good because the PBL project is regarded as an innovative, policy-based form of financing, which is able to avoid some of the weak points of budget support. It also complemented the parallel project approach for TC and FC in the road sector.

Relevance rating: 2

Effectiveness

The objective of the FC measure was to ensure coherent, efficient and poverty-oriented management of the sub-sector; this is assessed using the following indicators.

Indicator	Status PA / Target value	Ex post evaluation
1) The financial plan or another political document includes an opinion on the existing shortfalls and planned financing concept in the sub-sector. The budget planning mechanisms in the sub-sector organisations are now stronger. The mid-term plan for the road sector is of a higher standard.	The ministry is planning a road financing workshop / Target value not quantified.	Goal achieved with strong cooperation from GIZ.
2) A donor coordination system has been implemented. The first joint annual review concerning spending, income and priorities for the sector has been held by the ministry and its donors; mechanisms for further reviews have been defined.	Consultant selected to prepare for the reviews / Target value not quantified	Goal achieved
3) Staff and institutional capacities at the sub-sector organisations have been assessed and reinforced.	Capacities are insufficient / Not quantified	Goal partially achieved.
4) The sub-sector organisations' monitoring mechanisms have been reinforced. Existing performance indicators have been revised and standardised indicators have been introduced for the sub-sector organisations.	Preparations underway for deployment of consultants / Target value not quantified	Goal achieved with strong cooperation from GIZ
5) The ministry's accounting and auditing processes have been checked by internal audit and strengthened.	Not achieved / Target value not quantified	Goal partially achieved

To support the categorisation of these rather ambiguously formulated goals, it is important to add that they have been described in more detail in five implementation agreements for the PBL. These agreements also act as triggers for the payment of the PBL's second tranche:

1. Evidence concerning the priorities in the road sector, particularly in view of shortfalls and road tolls.
2. Joint annual review with all donors in the sector
3. Submission of performance reports from the RA and RFA to the responsible ministries, who then evaluate the reports and respond within a suitable period of time
4. Evidence of clear progress in relation to the introduction of meaningful indicators for measuring and assessing progress in the transport sector (key performance indicators)
5. Submission of a satisfactory audit report on the ministry's accounting and bookkeeping.

While all triggers were ultimately achieved, the process took a lot longer than anticipated. The second tranche was not paid out until over 6 years after the first tranche, with the last of the five triggers being reached at the end of 2013. Originally, the triggers were expected to be reached in just 2 years.

Although the goals (described in more detail in the form of triggers) were ultimately achieved and a range of regulations and requirements were developed and led to improvements in administrative efficiency, the lengthy period indicates that the PBL only had a limited steering effect on policy. The aforementioned TC projects played an important role in making sure that the eventual outcome was actually achieved. These TC projects supported the sector reforms and had the same objectives as the PBL. The resulting problem of attributing responsibility should not be regarded as negative as it is typical for PBLs, particularly when they are incorporated into a large DC programme with mutually supportive components and common objectives – as has been the case for this project since 2009.

The FC's complementary measure consisted of five technical consultancy services, which aimed to improve the efficiency of the sector in accordance with the aforementioned indicators. All five of these tasks were performed to a satisfactory extent, though only three of the resulting improvements have actually been implemented into administrative regulations.

The effectiveness was increased by coordinating the FC measure with the joint DC programme launched in 2009.

On the whole, developments in the sub-sector were positive during the project term, as confirmed by the following figures: (i) the length of the classified road network grew by 6,227 km between 2009 and 2016; (ii) 8,520 km of road was built or extended in the same period; (iii) the volume of traffic increased by 58%; (iv) the tonnage of transported cargo increased by 37%.

Based on the target achievement and the positive development of the sub-sector, the effectiveness was rated as satisfactory despite delays, which indicate a somewhat subdued reform pace and the limited incentive effect of the PBL.

Effectiveness rating: 3

Efficiency

In the project evaluated here, no relationship can be established between the inputs used and the output and outcome achieved for the assessment of efficiency. The reason for this is that, while the size of the inputs is known, Namibian partners and other donors also made significant parallel contributions to improving the road sector. A general assessment of the production efficiency of the Namibian road sector as a whole also cannot be carried out as part of the ex post evaluation because this would be very complicated, requiring a transport model to be created for an international comparison of construction costs for specifically defined road types in identical ambient conditions. With regard to general allocation efficiency in the sector, it can be argued that this was at a reasonable level thanks to the PBL and the improvements

it supported. However, allocation efficiency was also restricted because some new construction projects[1] were implemented in the sector at the request of politicians without any transport-relevant or economic studies. These projects were financed with state funds, which could have been invested in other places with better economic returns in certain circumstances.

As a result of the delays to the payment of the second tranche, as described above, the term of the FC measure was extended from 24 to 73 months. The reasons for this were: i) the partner's lack of clarity regarding the details for implementing a policy-based loan; ii) the appointment of a new Minister of Transport and fluctuating management; iii) staff shortages; iv) the Transport Minister's personal and political concerns regarding the implementation of one of the implementation agreements.

With reference to the PBL as the instrument, it can be assumed that it is a more efficient way of supporting sectoral policy than implementing individual projects, which are able to address specific development issues in a more selective way and/or at a local level. Additionally, the transaction costs involved in a PBL are comparatively low as a PBL supports whatever the partner is aiming to achieve anyway. This is supported by statements from individual employees, who say that the time needed is restricted mainly to the annual coordination meetings – relatively short compared to a project approach. Any further reduction of transaction costs resulting from the diminished need for donor coordination did not apply to this case because no other donors were involved in the PBL.

The sector's efficiency as a whole is limited by the staff shortages in the partner organisations. Even though the staff situation at the sector organisations has improved since the project appraisal, there are still a number of vacancies, primarily in the RFA, where 19% of posts were still unoccupied in 2015. The standard of staff qualifications at the subordinate state agencies is also less than optimal in some cases, which, for example, led to the RA only implementing 84% of the budgeted funds in 2015.

Overall, efficiency is rated as just about satisfactory.

Efficiency rating: 3

Impact

The objective at impact level was to contribute to the implementation of the Namibian development strategy, which was geared towards economic development and poverty alleviation. No indicators were defined for the achievement of this goal. Even though the results cannot be accounted for in the project evaluated here, the general trends (at the very least) will be used as indicators for the impact assessment.

In terms of economic development, Namibia recorded high average growth rates of 4.5% in the period from 2006 to 2016. However, growth has been on a heavy downturn since 2014, even recording a negative rate for temporary periods. The gross domestic product per capita rose sharply from USD 4,029 (nominal) in 2008 to USD 5,749 before falling to USD 4,415 by 2016 (World Bank data). However, this fluctuation was also caused by exchange rate movements; the IMF still calculates rising per capita incomes at constant exchange rates from the year 2000.[2] In general, Namibia's road network is regarded as an important plus point for investors. It is considered the best network in Africa.[3] In the World Economic Forum's Global Competitiveness Report 2017/2018, it was lauded as such on multiple occasions.[4] In view of this situation, it appears plausible that the road sector, and thus indirectly the project evaluated here, made a positive contribution to economic development.

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[1] These projects include: 1) the link road to Windhoek airport, 2) Windhoek – Okahandja, 3) Windhoek – Rehoboth, 4) Walsfis Bay – Swakopmund, and 5) Omuthiya – Ongwediva.

[2] IMF Press Release No. 18/69, February 28, 2018, https://www.imf.org/en/News/Articles/2018/02/28/pr1869-imf-executive-board-concludes-2017-article-iv-consultation-with-namibia.

[3] See, for example, PwC Namibia, Business and Investment Guide Namibia, 2016, p. 17, https://www.pwc.com/na/en/assets/pdf/business-and-investment-guide-for-namibia.pdf

[4] See article in the Namibian dated 13 February 2018: https://www.namibian.com.na/174413/archive-read/Namibias-roads-ranked-the-best-in-Africa and World Economic Forum Competitiveness Report 2017/18, https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018

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With regard to poverty, we can say that Namibia still suffers from high levels of inequality (GINI Index 61). Although the poverty rate fell significantly during the 2000s, the latest data from 2009 shows that it is still over 28% (national poverty line). When it comes to alleviating poverty by investing in the road sector, the investments in the labour-intensive road construction work in rural northern regions are of primary relevance; these investments are financed by both the Namibian government and FC.[5] According to studies by the Namibia National Planning Commission between 2001 and 2011[6], poverty rates in northern Namibia fell at an above-average rate. Even though no causal link to the road construction projects can be established, it is at least plausible that infrastructure contributes to alleviating poverty.

To sum up, we can therefore assume that the expansion and improvements to the road sector also generated positive economic and social effects.

Impact as a whole is therefore rated as just about satisfactory.

Impact rating: 3

Sustainability

An important criterion for the sustainability of the effects in the road sector is the condition of the roads and the associated road maintenance.

From the country's independence onwards, the condition of Namibia's roads deteriorated on an ongoing basis. It took until 2012 for this trend to be reversed. Between 2009 and 2015, the RFA's income from user fees increased by 57% in real terms. Nevertheless, this increase was only enough to counterbalance the erosion of the roads caused by the fast-paced expansion of traffic. The rise in income is not high enough to make up for the backlog or keep roads in an optimum condition. According to the RA's estimates, annual expenditure would have to increase by over 50% to achieve an optimum maintenance scenario that keeps users' transport costs to a minimum. If the backlog in road maintenance is to be dealt with in the next 10 years, funding would have to more than double. There are four reasons for these deficits: (i) the fuel levy, which makes up roughly 60% of road usage fees, was only adjusted in line with inflation once up to 2015, leading to significant losses in income for the RFA in the amount of 19% (2009–2016); (ii) just 57% of funds for road construction stem from road usage fees, the rest is financed from the national budget; (iii) there is a politically driven preference for new roads over road maintenance and (iv) some new construction projects are oversized, tying up the funds needed for maintenance and refurbishment (see footnote 1).

On the other hand, it is important to note that the RA managed the RFA funds received as PBL funds according to sustainable criteria. Only the ministry's projects tend to be political and are less sustainable. Overall, the sector continues to be notoriously under-financed despite the improvements and is still a long way from full user financing.

The second important criterion for the sustainability of the effects of a reform-supporting PBL is maintaining the government's willingness to improve the situation. Although the government still expresses its willingness to make changes, reforms take a long time to complete and often are not comprehensive enough, a factor which is reflected in more than just the low political status accorded to road maintenance.

One critical aspect related to the PBL is Namibia's debt situation, which has deteriorated dramatically since the project appraisal, especially in recent years. While gross public debt in relation to gross domestic product was 24.8% in 2014, it had risen to 46.5% in 2017. These figures do not include the debts recorded at institutions that are not consolidated with the national budget – in other words, they do not include the PBL evaluated here either. Following its consultations with Namibia in February 2018, the IMF not only criticised the rising debt rate, which it expects to keep growing over the coming years; it also criti-

[5] FC projects: labour-intensive road construction II to IV with a total sum of EUR 20 million. The Namibian partner contributed a similar amount. The data available cannot be used to determine which funds were also used for rural roads.

[6] Republic of Namibia, National Planning Commission: Namibia Poverty Mapping, p. 12 onwards; www.npc.gov.na/?wpfb_dl=225

cised the lack of transparency generated by this type of shadow budget.[7] The PBL also contributed to this situation, even if this outcome was not intended.

For this reason, sustainability is rated as just about satisfactory.

Sustainability rating: 3

[7] IMF Press Release No. 18/69, February 28, 2018, https://www.imf.org/en/News/Articles/2018/02/28/pr1869-imf-executive-board-concludes-2017-article-iv-consultation-with-namibia.

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Notes on the methods used to evaluate project success (project rating)

Projects (and programmes) are evaluated on a six-point scale, the criteria being **relevance, effectiveness, efficiency** and **overarching developmental impact**. The ratings are also used to arrive at a **final assessment** of a project's overall developmental efficacy. The scale is as follows:

Level 1	Very good result that clearly exceeds expectations
Level 2	Good result, fully in line with expectations and without any significant shortcomings
Level 3	Satisfactory result – project falls short of expectations but the positive results dominate
Level 4	Unsatisfactory result – significantly below expectations, with negative results dominating despite discernible positive results
Level 5	Clearly inadequate result – despite some positive partial results, the negative results clearly dominate
Level 6	The project has no impact or the situation has actually deteriorated

Rating levels 1-3 denote a positive assessment or successful project while rating levels 4-6 denote a negative assessment.

Sustainability is evaluated according to the following four-point scale:

Sustainability level 1 (very good sustainability): The developmental efficacy of the project (positive to date) is very likely to continue undiminished or even increase.

Sustainability level 2 (good sustainability): The developmental efficacy of the project (positive to date) is very likely to decline only minimally but remain positive overall. (This is what can normally be expected).

Sustainability level 3 (satisfactory sustainability): The developmental efficacy of the project (positive to date) is very likely to decline significantly but remain positive overall. This rating is also assigned if the sustainability of a project is considered inadequate up to the time of the ex post evaluation but is very likely to evolve positively so that the project will ultimately achieve positive developmental efficacy.

Sustainability level 4 (inadequate sustainability): The developmental efficacy of the project is inadequate up to the time of the ex post evaluation and is very unlikely to improve. This rating is also assigned if the sustainability that has been positively evaluated to date is very likely to deteriorate severely and no longer meet the level 3 criteria.

The **overall rating** on the six-point scale is compiled from a weighting of all five individual criteria as appropriate to the project in question. Rating levels 1-3 of the overall rating denote a "successful" project while rating levels 4-6 denote an "unsuccessful" project. It should be noted that a project can generally be considered developmentally "successful" only if the achievement of the project objective ("effectiveness"), the impact on the overall objective ("overarching developmental impact") and the sustainability are rated at least "satisfactory" (level 3).