Impact Evaluation: Institutional Support to Governance

Concept Note

28/06/2021
1. Introduction and Context of Evaluation

The Independent Development Evaluation function (BDEV) is launching an impact evaluation on the Bank’s Institutional Support to Governance as part of its 2020 Work Program approved by the Board of Directors. The overall direction for the African Development Bank Group’s (AfDB or the Bank) governance interventions in its regional member countries has been successively provided by the Governance Strategic Directions and Action Plan 2008-2012 (hereafter referred to as GAP I), the GAP II (2014-2018), the Policy on Program-Based Operations (2012), the Bank’s Ten Year Strategy 2013-2022, and the new Strategy for Economic Governance in Africa (SEGA, 2021-2025).

SEGA is part of the broader economic governance and reform agenda, which is critical to the Bank’s five key priorities. It represents an opportunity for the Bank to refine its operational focus on governance issues in light of contemporary economic realities in Africa. The core objectives of SEGA are to: (i) ensure a sound management of public resources at the national and sub-national levels in order to achieve or maintain macroeconomic stability and the delivery of the High 5s; (ii) foster structural transformation by enabling a competitive private sector and level playing field for all enterprises; (iii) increase transparency, accountability, and inclusion in policy-making and service delivery; and (iv) fight corruption in the public and private sectors.

Institutional support to governance refers to projects designed to support Regional Member Countries (RMC) or Regional Economic Community (REC) institutions in the economic and financial governance area. It includes support for strengthening public financial management (including audit, procurement, debt management, and public finances) as well as the business enabling environment and decentralization. BDEV last evaluated Institutional Support Projects in the governance sector in 2013, covering 170 ISPs approved over the 2002-2012 period.

In contrast, this impact evaluation will undertake a deep dive into a single ISP, to provide evidence for the impact of institutional support while highlighting its potential role as an amplifier of the impact of Bank projects in governance sector. It will measure the impact of the project by comparing the treatment group which received the intervention with a control group which did not.

This note provides an overview of the proposed evaluation and aims to inform initial consultations with the relevant stakeholders within the Bank.

2. Problem Statement

An “Africa governed by transparent, accountable and responsive governments and strong institutions, capable of driving inclusive and sustainable growth,” as stipulated in the GAP II (2014-2018) and the new Bank’s governance strategy SEGA (2021-2025), will be a key factor for the development of Africa. According to the economics literature, economic institutions are essential to achieving development goals. They influence not only the structure of economic incentives in society but also help to allocate resources to their most efficient uses by determining who gets profits, revenues and residual rights of control (Acemoglu et al., 2005). In other words, economic institutions influence not only the level of economic growth, but also its quality (i.e., the distribution of wealth, of physical capital or human capital).

Despite recent progress in terms of economic governance in Africa, highlighted by several reports including “Doing Business”, the Bank’s Country Policy and Institutional Assessment
(CPIA), and the Ibrahim Index of African Governance, poor economic institutions (property rights, market failures, macroeconomic management, lack of human capital, etc.) remain a major challenge responsible for Africa’s poor state of economic health. In this context, institutional support to strengthen institutions in the governance area can significantly improve economic institutions at the country level. However, rigorous evidence on what works in the sector is in short supply (World Bank, 2013).

3. Project selection criteria

The IDEV evaluation team defined selection criteria for the project to be evaluated in collaboration with the ECGF and RDTS departments. These criteria are divided into general criteria and specific criteria.

**General criteria**

- To be useful and fill the knowledge gap, the project must be located in a Transition State.
- The project must include: Technical Assistance, Capacity Building and Provision of Equipment (computers, software, etc.).
- In order to observe its impact, the project must be completed before 2018.
- The project must cover at least one of the following themes: Public Finance Management, Audit, Procurement, Corruption, Business Climate, Money laundering and illicit flows.

**Specific criteria**

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<th>Inclusion Criteria</th>
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<td>1. Clear identification of end-beneficiaries (in PCRs and PCRENs)</td>
<td>Exclusion of projects with a global score of less than 2 on a 3-point scale or less than 3 on a 4 point scale in the PCR</td>
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<td>2. Size of the project loan/grant</td>
<td>Projects under UA 1 million are excluded</td>
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<td>3. Scale of development impact and additionality</td>
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<td>4. Innovative Project Design and mainstreaming of cross-cutting issues such as Gender, Poverty reduction, Youth employment, etc.</td>
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<td>5. Ability to clearly identify a control group that did not benefit from this project</td>
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<td>6. Replicability of project design in other RMCs</td>
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4. Public Finance Modernization Support Project (PAM-FP) in DRC

According to the criteria defined above, and after engagement with ECGF, RDTS and country teams, this evaluation will focus on the Bank-funded “Public Finance Modernization Support Project (PAM-FP)” located in Democratic Republic of the Congo (DRC), which is a Transition State. The project was approved in 2012 and completed in 2017, and was implemented in 3 out of 26 provinces, which ensures the possibility of identifying a control group. The project was funded by ADF grant for UA 10 Million. The objective of the project was to improve the capacity of provincial entities to mobilize domestic resources. The main components of the project are:

**Component 1:** Support the modernization of tax administrations in the regions of Kinshasa, Katanga, Tshopo, Ituri.
(i) The main activity associated with this component was the construction of 4 administrative buildings of the Directorate-General for Taxes (DGI), and the reorganization of the central tax administration, through the modernization of certain Tax Centers (CDI) and Synthetic Tax Centers (CIS).

(ii) The capacity building of the staffs of the tax administrations on tax collection.

**Component 2:** Improve the allocation of resources and the efficiency of public finance management in the three provinces, namely: Kongo-Central (Bas-Congo), Maniema, and the Province of Tshopo (Province Orientale), through the establishment of a minimum platform for local public finances. The activities associated with this component were:

(i) Institutional strengthening of the Public Finance Reform Steering Committee (COREF) by providing it with a building for their experts and office furniture and equipment;

(ii) The operational establishment of a computerized expenditure chain in accordance with the provisions of the new Expenditure Procedures Manual and its connection to that of the Central Government;

(iii) The implementation of a computerized payroll

(iv) Acquisition of computer equipment for the benefit of the provincial structures of the targeted provinces

(v) Capacity building of civil servants to use new systems and software in order to improve the resource mobilization;

**Component 3:** is dedicated to project management: the establishment of the project coordination unit (Kinshasa), the recruitment and training of staff, the recruitment of technical assistance and the external audit of the project accounts.

The project benefited from lessons learned from previous projects such as the “Multi-sectoral Institutional Support Project” (PAIM) and “Institutional Support Project for the Economic Recovery and Reunification Support Program” (PARER) on: the need for a high degree of beneficiary participation to define needs and the proper identification of risks by taking appropriate measures to mitigate these risks. The project proposed an integrated and systemic approach attempting to respond to urgent needs and, at the same time, to structurally improve the supply of qualified staffs in public administration.

Also, the key performance indicators of the project are as follows:

(i) Improved capacity of Tax Centers across three (3) provinces;

(ii) Eight (8) Modernized Synthetic Tax Centers;

(iii) Increase in own revenue;

(iv) Implementation of the expenditure chain in 3 provinces;

(v) Computerization of the payroll system in three (3) provinces;

(vi) Adoption of the institutional framework in three (3) provinces;

(vii) Application of budgetary or fiscal procedures;

(viii) Training 162 provincial public administration officers to use the computerized provincial financial management system wisely and efficiently

5. Evaluation Objectives & Audiences

The overall objective of this evaluation is to provide the Bank’s Board and Management with credible estimates of the effects attributable to institutional support to governance, useful lessons and potential areas for improvement to inform the implementation of the Bank Group Strategy for Economic Governance in Africa (2021-2025) approved by the Board in February
2021. To do so, we will prioritize the external validity of the results as much as possible. The following themes will be explored by the evaluation:

i) Accountability in the management of public resources;
ii) Transparency of economic institutions;
iii) Strengthening macroeconomic management (domestic resource mobilization, tax compliance, tax payment...);
iv) Enhancement policies and their effectiveness;
v) Reinforcement of civil servants' skills; and
vi) Economic, social and institutional impact of governance.

The evidence from the evaluation will target the following stakeholders:

i. **Internal stakeholders**: Board members, Senior management, key Bank departments, including the Governance and Public Financial Management Coordination Office (ECGF), Transition States Coordination Office (RDTS), and Country and Regional Offices.

ii. **External stakeholders**: RMCs, RECs, OECD, private sector, civil society organizations (CSOs), pan-African networks and institutions, development agencies, academic & research institutions and, think tanks.

6. **Scope and Key Questions**

The project aims to modernize the tax administration and bring it closer to users in the targeted provinces. The economic literature that will be mobilized as part of this study will therefore revolve around the modernization of tax administration and its impact on various variables of interest.

6.1. **Modernization of tax administration (definition, instruments)**

The “modernization” of the tax administration is a process of bureaucratic change (Leroy, 2008). It refers to the objectives declared by the public authorities to accredit the idea of improving services to citizens, users, and taxpayers. It aims to adapt public action to new economic, social, financial and legal issues.

The modernization of the tax system requires an acceleration of the reform of the tax administration, which requires significant investments in human resources and computerization. It also implies greater efficiency in the organization and use of the technical assistance that is essential to support these reforms. The success of a modernization project requires appropriate material and financial resources and expertise in project management support (Bodin, 2012).

The modernization of public finances implies an idea of progress, which can use several instruments or take various forms:

- Technical form (computerization of systems)
- Structural form (reorganization of public services missions)
- Functional form (staff training, work standards, etc.)
- Financial (cost efficiency, etc.)

The target audience for the modernization of public finances includes:

- Civil servants (strengthening their skills),
- Users (improvement of the service relationship, public service charters),
• Taxpayers (the guarantees of their rights, remedies, but also the transparency of public management).

The expected benefits are of several types:
• Strengthening taxpayers' tax compliance by improving the service offered,
• Increased efficiency of administration thanks to productivity gains,
• Contribution to the dissemination of information technologies and,
• The improvement of transparency.

6.2. The state of the literature

Mobilizing revenue is a way for governments to create fiscal space, provide essential public services, and reduce foreign aid and single resource dependence. Therefore, raising more domestic revenue is a priority for most Sub-Saharan African countries (Drummond, Daal, Srivastava, & Oliveira, 2012). The literature on the impact of institutional support projects is scarce, but some available evidence suggests that public finance modernization can improve a broad range of development outcomes.

Bertinelli et al (2019) and Nur-Tegin (2008) showed that corruption deters tax compliance and negatively affects resource mobilization. The authors state that the primary reason firms go underground is uncontrolled bureaucracy and rampant corruption rather than tax rates. Akinboade (2015) in the context of Cameroon found that the perception that the tax system is corrupt discourages registration and filing compliance. When there are too many compliance hurdles, the probability of filing compliance is reduced. However, a fair and static system encourages filing and registration compliance. In addition, a clear and consistent tax system promotes filing compliance. Everest-Phillips (2009) reports that in Nigeria, the federal government estimated in 2004 that it collected only around 10% of taxes due, and half the revenue collected is believed to then be lost or embezzled. Corruption increases the costs of doing business and imposes a tax on entrepreneurial activity. In addition, the African Development Bank pointed out that low compliance levels, tax evasion, and difficulties with tax administration represent major challenges for domestic revenue mobilization in the East African Community (EAC) (AfDB, 2011).

Okunogbe and Pouliquen (2018) showed that technology enhances State capacity by increasing resource mobilization and its productivity. Alm et al. (1992) set up laboratory experiments to study how compliance responds to uncertainty about tax policies and enforcement, which may stem from a lack of information, frequent changes and ambiguity of the tax code, as well as non-uniform training of tax auditors. They argue that uncertainty induces taxpayers to report more income. Sudhir and Talukdar (2015) also showed that IT adoption has a positive impact on productivity and transparency. Djawadi and Fahr (2013) employed controlled experimentation to investigate the impact of citizens’ trust in authorities on tax compliance. They found that tax compliance is higher when trust is built between the taxpayers and authorities through transparency in the management of public expenditures.

6.3. Key questions

The project in DRC aimed to bring taxpayers closer to the tax administration by building infrastructure, providing equipment and building the capacity of public officials. Therefore, based on the literature, the indicative list of key evaluation questions is as follows:

i) Did the project increase resource mobilization?
ii) Did the project improve tax compliance?
iii) Did the project reduce unofficial payments (corruption)?
iv) Did the project increase the productivity of the public finance administration?
v) Did the project increase transparency in public finance management?
vi) Are there spillover effects or unexpected effects of the project across the provinces?

Each question will be divided into sub-questions to address all potential outcomes at provincial, firm and citizen levels. The final list of questions will be finalized after the scoping mission in DRC. Overall, the evaluation will address the questions of all stakeholders, to enhance its ability to inform policy and decision making at all levels.

7. Timeline and major milestones

The evaluation team will be led by Eric Kere (Senior Evaluation Officer, BDEV.2), and Jeannot Ngoulma (Evaluation Consultant, BDEV.2) will support him. The internal peer reviewers are Andrew Anguko (Chief Quality and Methods Advisor, BDEV.0), Girma Kumbi (Chief Evaluation Officer, BDEV.2), Amadou Boly (Assistant to the Chief Economist & Vice President, ECVP.0), and Seydou Coulibaly (ECNR). Jayne Musumba (Principal Knowledge Management Officer, BDEV.3) will lead knowledge and communications, supported by Aminata Kouma (Evaluation Knowledge Assistant, BDEV.3) and Olive Bonga (Communications Consultant, BDEV.3), while overall guidance will be provided by Madhusoodhanan Mampuzhasseril (Division Manager, BDEV.2).

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<th>Date</th>
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| 15/05/2020 – 31/05/2021 | Scoping Mission  
  • Desk review of key project documents (evaluation team)  
  • Arrange field visits (evaluation team, IDEV)  
  • Confirm and finalize evaluation questions, evaluation design and methodology (including sampling strategy), and draft an approach paper (will serve as an inception report) (evaluation team).  
  • Seek Evaluation Reference group’s comments on approach paper (IDEV) |
| 20/06/2021 | Final Approach Paper (evaluation team) |
| 20/06/2021 - 30/08/2021 | Data collection firm selection |
| 01/09/2021 - 10/10/2021 | Start to End – Field Data Collection (evaluation team) |
| 20/11/2021 | Final Technical Report (including review by ERG)  
  (Evaluation team, IDEV) |
| 15/01/2022 | Final Summary Report (including review by ERG)  
  (Evaluation team, IDEV) |
| 20/03/2022 | Dissemination and Learning Workshop (IDEV) |

References


