

The Ingredients of Capacity Enhancement – Three Case Studies in Telecommunications

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EXECUTIVE SUMMARY

Trying to understand what leads to capacity for development is a complex task as it ultimately attempts to isolate those factors that separate successful development from its failures. Capacity, here defined as the ability of a country to design and implement a policy reform, results from a process of change that can have different dimensions, individual, organizational or institutional.

This paper looks at capacity enhancement (CE) at the institutional (or policy) level. It uses an analytical framework to investigate three main elements (or ingredients) of capacity enhancement - a country's resources and capabilities, its institutional environment, and the existing incentive structures and pressures. The framework is applied to three country cases in the telecommunication sector trying to isolate factors for success and failure.

Analyzing the experience of telecom reforms in Mali, Mauritania and Morocco provides insights into the different constraints and conditions that countries face when trying to implement very similar reforms. It highlights the importance of clear objectives (in particular those relating to CE, which are often embedded in broader goals), a good understanding of the institutional environment, the implicit risks related to implementation and the role of successful communication and knowledge sharing to engage and empower the client. The paper tries to isolate underlying processes and behaviors that have been applied in the case studies in support of these elements and to illustrate how they fit together in a framework for CE.

To the extent that an assessment of these elements has been captured by existing diagnostic and process tools, the paper provides an overview. These tools can be quite different in nature, some provide guidance in collecting and analyzing information and data; others give guidance on process and behavior. Selective use and screening of these tools may help task teams to:

- Gather information to help formulate clear CE objectives and assess risks and constraints to successful implementation;
- Identify and support key actors and stakeholders and assess client ownership;
- Engage in dialogue, build trust and foster policy debate;
- Analyze potential impacts of reforms or reform options; and,
- Set up monitoring and evaluation systems that allow lessons of experience to be fed back into the process.

The list of tools is by no means exhaustive and their use very much depends on the sector and circumstances they are trying to address. The paper suggests that these tools and the

thinking that has gone into their design could help to better capture existing capacity and gaps, inform upstream preparation of CE activities, and mitigate risks hampering successful implementation. A sector and task specific selection, adaptation and integration of diagnostic and process tools, in particular if they were used jointly with the client, could help to generate and track information relevant for CE that would make it easier to learn from success and failures. This learning processes could not only inform Bank strategy but also contribute to broader client ownership and commitment. The paper suggests that more work should be done in this area.

1. INTRODUCTION

1. Weak performance of government institutions and organizations is at the heart of the development challenge. Too often, technically sound interventions have proven to be inconsistent with the incentives of the individuals who carry them out. And, in an environment of political risk and change, overly ambitious agendas and implementation schedules cause operations to stall.

2. How should a development assistance agency address these challenges upstream and throughout the implementation cycle? By looking at experience can we predict what will work and do we have the right guidelines and tools that will help us to achieve better outcomes?

The role of capacity in development

3. Most development assistance agencies, including the World Bank, see the development and enhancement of their clients' capacity as a key requirement for economic development and poverty reduction.^{1,2} But less agreement exists on what causes capacity development, and thus on what activities are most useful for promoting it. Traditionally, donors concentrated on improving the functioning of organizations, by adjusting their structures, systems, and strategies, and by strengthening staff and skills, focusing on issues that could be addressed through technical assistance and training.^{3,4}

4. More recently, however, growing concern about the results of reforms has created a need to analyze how organizations really function and to plan reforms within the context of wider systems and relationships—taking account of the behavior of other groups, organizations, or individuals that influence the extent to which capacity can be sustained.⁵

¹ In this paper, capacity development and capacity enhancement are used interchangeably. Capacity enhancement simply indicates that it builds on pre-existing capacity.

² See for example: <http://www.gtz.de/unternehmen/english/ez/index.html>; <http://www1.oecd.org/dac/tcnet/>; <http://www.capacity.org/>

³ Peter Morgan, *The design and use of capacity development indicators*, CIDA, December 1997, p.4. cited below as Morgan (1997).

⁴ Organizations are formalized entities that involve a cluster of people who are brought together for a common purpose. Lusthaus et al., 2002, p. 12.

⁵ See UNDP definition of capacity as “the ability to perform functions, solve problems, and set and achieve objectives. (UNDP: *Capacity for Development, New Solutions to Old Problems*, 2002, Executive summary, p.8, 2002.)

5. Douglas North referred to these wider systems and relationships as institutions or “rules of the game that shape how the organizational players and the individuals behave within a political system”. These institutions consist of formal rules—for example, those embodied in constitutions, laws, administrative procedures, organizational manuals—informal rules—norms, belief systems, and unwritten laws that lead to internally accepted modes of behavior—and the incentives and disincentives that constitute the enforcement mechanisms for these rules.⁶

6. According to this view, capacity enhancement will occur partly as a result of new patterns of behavior and new attitudes, based on formal and informal rules. It can also have different dimensions, individual, organizational or institutional. Accomplishing changes in attitudes and behavior thus requires social and group learning that involves both technical and personal change. As Morgan put it, “capacity development has to address the “softer” issues underlying behavioral change—motivation, commitment, legitimacy, initiative, values”. Thus far, these softer issues have not received much attention from development agencies and the process of how and why change occurred is rarely documented.⁷

7. Once one acknowledges the complexity of capacity enhancement in this way, however, it becomes difficult to distinguish capacity enhancement from development itself. In turn, this makes it hard either to isolate the factors that lead to capacity enhancement or to measure its outcomes. One response has been to analyze organizational performance, in terms of the effectiveness, efficiency and economic and financial viability of an organization, as a proxy for capacity development.⁸ The literature in this area has illustrated how the performance of an organization is affected by the particular institutional context and how an organization both influences and is influenced by its environment.

8. This paper builds on the literature just alluded to but it is not concerned with the performance of organizations as such. It adopts the idea that capacity may result from introducing institutional change and creating new incentives—for example by opening a market to competition—and from organizational performance—for example the performance of a regulatory agency. It looks at capacity enhancement as a result of the successful implementation of institutional (or sector policy) reform and tries to isolate and document the elements that allow for this to happen.

Scope of this paper

9. One of the factors that have been repeatedly blamed for the failure to learn from abundant experience in building capacity (in the form of training, knowledge sharing and

⁶ North defines institutions as humanly devised constraints that structure human interaction. See North, 1994, p.360.

⁷ Morgan, 1997, p. 5.

⁸ Morgan 1997, p. 2; Lusthaus, Adrian et al. *Organizational Assessment, A Framework for Improved Performance*, IDB/IDRC paper, 2002, p.9; Adrien, Anderson, Lusthaus and Murphy, *Institutional Assessment: A Framework for Strengthening Organizational Capacity*, 1995; Boschken, H. L. “Organizational Performance and Multiple Constituencies”, *Public Administration Review* 54: p. 308-12.

technical assistance) is that CE is often embedded in a larger project or task and poorly tracked or documented⁹. The main objective of this paper is to isolate critical elements that have helped or hampered successful capacity enhancement using the example of three case studies in telecommunications reform¹⁰. These elements are the formulation of clear CE, a good understanding of the institutional environment, and a realistic assessment of implicit risks and constraints in view of their potential impact on successful implementation. The paper also stresses the role of successful communication and knowledge sharing to engage and empower the client, and tries to identify processes and behaviors that have contributed to all of these elements.

10. However, none of these processes, once documented, are easily replicable and country circumstances vary. The paper therefore suggests that it may be useful to adopt a more systematic upstream approach in trying to capture and document some of the key factors mentioned above, thus making it easier to design a strategy for CE. It lists a number of diagnostic and process tools that, in particular if they were applied jointly with the client, could help to bring out the CE objectives of a given task more clearly, track progress during implementation and contribute to Bank/client learning¹¹.

Why telecommunications?

11. In principle the elements constituting successful capacity enhancement should be similar for any sector. Telecom was chosen as a first test because this is a sector where understanding seems to be well advanced as to how to sequence reforms aimed at deregulation and privatization, and also as to how to maximize the impact of reform.¹² The initial success of telecom reform is relatively easy to measure, based on increased access of the population to service, decreases in tariffs, and short-term fiscal impact. Ultimate results, however, in terms of access to information and universal service (rural access), quality of service, and longer-term development impact are rarely available in the Bank's project documentation.^{13,14} Even so, deregulating telecom and opening it up to competition tend to be seen as win-win reforms; they usually increase government revenue and create jobs, and these effects can be enhanced if reform has spillover effects for other sectors.¹⁵ More generally, information infrastructure development is seen as a key requirement for countries to improve the education and skills of their populations and to link up with the global economy; it often leads to an increase in a country's prestige.

⁹ See World Bank, Technical Assistance in the PREM Portfolio, December 2001, p.40; and World Bank, Implementation Forum, January 31, 2003, Presentation on Client Capacity Building, slide 2.

¹⁰ See Annex 1.

¹¹ See Annex 1, table 2.

¹² This understanding is reflected in Bank evaluations, the ITC strategy, and research papers. See World Bank, OED/OEG, Information Infrastructure, 2001, p.22; http://info.worldbank.org/ict/ICT_ssp.html; S. Wallsten, "Does Sequencing Matter? Regulation and Privatization in Telecommunications Reform", DEC unpublished paper, February 2002; Frew Amare Gebreab, "The Diffusion of Mobile Telecommunications in Africa", unpublished paper, May 2002.

¹³ OED/OEG 2001, p.xx.

¹⁴ Even more problematic is the evaluation of the impact of reforms on development. A book by J.P. Singh, Leapfrogging Development?, 1999, evaluates the impact of reform on development, depending on who demands telecommunications services, who supplies them, and how they are supplied. This broad analysis of the political economy of telecommunications, however, goes beyond the scope of this paper.

¹⁵ Examples have included deregulation of infrastructure in transport or energy.

Limitations

12. Being based on only three country studies in one sector, this paper may not yield broadly significant conclusions. But since the choice of these studies is based on what were found to be successful operations and best practice (Mauritania), a valuable example for country learning promoted by the Bank (Mali), and Bank strategy (Morocco), their review should lead to interesting findings. Obviously a more comprehensive picture could emerge if a similar analysis were carried out for tasks in other sectors.

13. Prepared in a very short period of time with a limited budget, it was not possible to carry out country visits to evaluate capacity enhancement as perceived by the client. As mentioned below, the client's readiness to learn is an important factor for successful capacity enhancement and team building and the creation of incentives leading to good performance are critical. A more detailed analysis of this process is recommended for future work.

2. ANALYTICAL FRAMEWORK FOR CAPACITY ENHANCEMENT

Capacity enhancement for what?

14. Capacity enhancement denotes the development of formal and informal institutions and organizations—that is, changes in the rules of the game and organizational behavior that lead to improvements in service delivery to the public and in the country's investment climate.

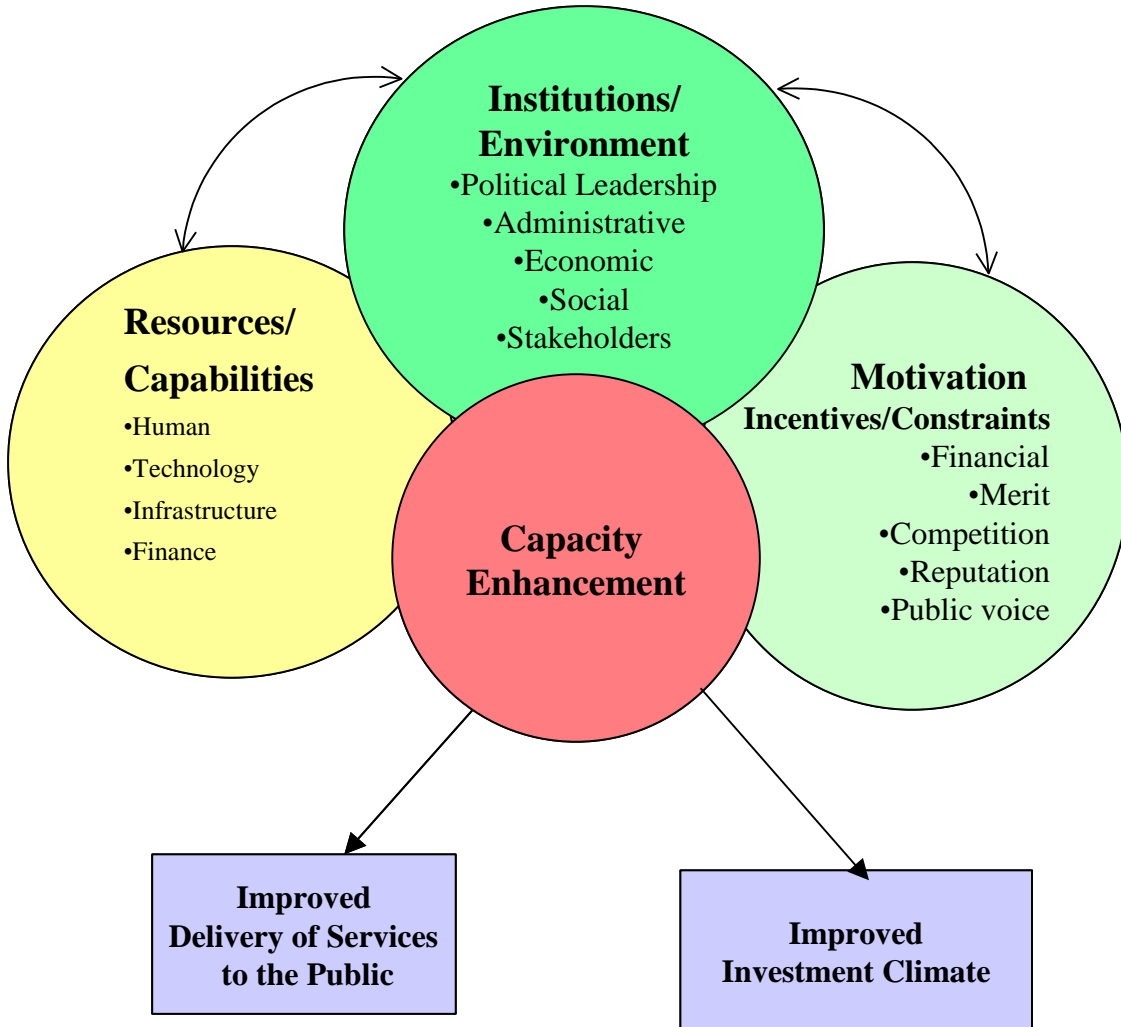
15. *The three elements of capacity enhancement.* The development of a client country's capacity depends on:

- *The country's resources and capabilities*—its endowment of infrastructure, technological and financial means, human resources and capabilities, and the combination of these elements. For example, the capacity of a country's labor force depends on workers' levels of education and on the technologies they use.
- *An enabling institutional environment*—the political leadership that underpins reforms and the administrative, economic, and socio-cultural environment that results from the formal and informal rules of society. To understand these rules, it is important to distinguish between the rule as such, i.e. a specific law or legal framework, and the attitudes of a country's leadership and society towards its enforcement. The institutional environment affects and is affected by incentives and the level of capabilities.

- *Motivation and incentives/pressures that promote and help to sustain behavioral change.* These can consist of financial benefits, professional merit, winning votes, increasing a country's reputation, rising above a competitor, or pressures by political stakeholders. They can also result from informal rules of the game, which in turn are determined by history, cultural values, and norms.

16. The implementation, for example, of a new rule on deregulation would result from the resources available (human capital and technical expertise), the adoption of the rule, and an ethical or cultural attitude of the leaders and society plus an incentive system that demands its enforcement. Chart 1 illustrates these three ingredients of capacity enhancement.

Chart 1: Ingredients of Capacity Enhancement



Resources and capabilities¹⁶

17. Judgments about which resources (physical, financial) and capabilities (human, organizational) are most critical for development have shifted over time, away from natural resources to human resources, capital, and technology. A common criticism of technical development assistance has been that it filled gaps in human and technological capabilities by supplying foreign experts and hardware, without sufficiently using and building on the resources available locally. In addition, at the policy level, there is a need to better understand existing assets and capabilities and the institutional mechanisms through which policy actions are translated into capacity development.

¹⁶ The following sections draw on Lusthaus, Adrien, 2002, p.36/37.

Institutional environment

18. One of the most important aspects of the enabling environment is a society's rules of the game.¹⁷ Administrative and political rules are embedded in constitutions, traditional and common laws, charters, and statutes. These rules are shaped by political economy variables such as the type of government (dictatorship, freely elected, conservative, liberal) and government accountability. In undertaking institutional reforms, such as opening a market to competition, it is important to understand the country's political rules, determine who has power to change them, and assess whether a critical mass of those with power are sufficiently committed to reform. As Douglas North put it, "Only when it is in the interest of those with sufficient bargaining strength to alter the formal rules will there be major changes in the formal institutional framework."¹⁸

19. Other important rules are economic rules, such as property rights, that affect the functioning of markets and the costs of transactions and can in turn lead to the development of informal rules and enforcement mechanisms. Since the analysis of economic rules is not the focus of the three case studies below, they will not be further elaborated here. Social and cultural rules, as mentioned earlier, are often the origin of informal rules of the game and thus they too can have an important impact on capacity development.

Motivation and incentives

20. If changes in the formal rules of the game are to alter the behavior of economic agents, they often need to be accompanied by changes in the incentive structure. The incentives that face those supporting or opposing reforms can be a result of informal rules of the game but they can also be a part of formal systems such as rewards or mechanisms to mobilize stakeholders. To understand how incentives work, it is important to pay attention to the capabilities and accountability of the agents who are in charge of implementing reform and to the power relations between them. Understanding these issues allows for the mobilization of existing capacity and for the tailoring of interventions to the institutional environment.¹⁹

3. A ROLE FOR THE BANK

21. From an operational perspective, how can the Bank or other development agencies affect the three elements of capacity enhancement to support sustainable reforms? And is there a way to be more systematic about designing and tracking capacity enhancement activities?

17 S. K. Datta and J. B. Nugent, "Transaction Cost Economics and Contractual Choice: Theory and Evidence", in M. Nabli and J. B. Nugent (eds.), *Institutional Economics and Development*, 1998.

18 Douglas North, *Institutions, Institutional Change and Economic Performance*, 1990, p. 68.

19 World Bank, *User's Guide to Poverty and Social Impact Analysis (PSIA)*, April 2002, page 10.

22. This chapter is based on the three case studies described in Annex 1. It seeks to identify the role of the Bank and the methods it uses in each area of capacity enhancement (see Chart 2, page 16, arrows). It also attempts to identify diagnostic and process tools available more generally in the Bank that may be useful in helping to formulate CE objectives, assess institutions, influence incentives, and simulate impact, and in feeding back those findings into policy design²⁰.

Strengthening resources and capabilities

23. The Bank has been actively involved in strengthening resources to support capacity enhancement. Knowledge of international best practices is easily available within the Bank; advisory services, thematic groups, and websites have increased its availability to Bank teams and client countries in recent years.

24. *Sharing international best practice in telecom.* Experience with policy reform in telecom is well documented and managed by the policy group (CITPO) of the Bank's Global Information and Communication Technology Group. With the help of its grant facility Infodev, CITPO has developed and published a telecom handbook and a telecom reform toolkit²¹, which task managers say is widely used for sharing knowledge with clients. CITPO keeps its clients up to date on best practices with the help of a website²² and Infodev highlights.²³ It has recently developed a benchmarking framework for regulators based on the experience in the Middle East that help policymakers create an institutional profile of regulatory agencies in order to help them get started and monitor the progress of reforms²⁴. CITPO also task-manages telecom reform projects and provides cross-support in multi-sector and other operations.²⁵

25. The OED/OEG evaluation, *Information Infrastructure—the World Bank Group's Experience*, is rich with lessons from experience and best practice.²⁶ The Rapid Response Unit of the Private Sector Development Network²⁷ provides information on a large number of papers that have been published in the area of telecom liberalization and privatization, including studies on rural access and universal service coverage. The topic of telecommunication interconnection alone received about 3,000 hits last year.

26. As illustrated below in the case studies, the successful adaptation of best practice requires a process of joint and continuous learning, where the Bank plays the role of a facilitator making best practice available, which is then customized by the client for a good fit.

²⁰ Annex 1, Table 2.

²¹ <http://rru.worldbank.org/Toolkits/telecoms/index.htm>

²² <http://info.worldbank.org/ict/policyHighlights.cfm>

²³ <http://info.worldbank.org/ict/grantsHighlights.cfm>

²⁴ Mohammad A. Mustafa, *Benchmarking Regulators*, in *viewpoint*, no.247, June 2002.

²⁵ Of the telecom examples reviewed below, only Morocco used some of the tools made available by CITPO.

²⁶ World Bank, OED/OEG, *Information Infrastructure*, 2001, p. 46/47.

²⁷ https://rru.worldbank.org/RR/Rapid_Response.asp

Knowledge adaptation

27. Telecom reform in Mali, Mauritania, and Morocco clearly shows that finding the right language and means of communications is critical for global knowledge to be applied locally. For Mauritania it was essential to put the clients abilities to learn to solve their own problems at the forefront of the CE effort.²⁸ In both Mali and Mauritania, reformers used several instruments to adapt best practice to local needs and played a facilitating role outlining options rather than providing solutions. In Morocco, quick-response briefings proved useful to get policy makers up to speed and to provide just-in-time information that supported their dialogue with government and stakeholders. Structured and detailed action plans (in Mauritania, Mali) and participatory processes, responding to specific problems, as well as cross-country learning including study tours, helped to develop the steps that were necessary to build institutions, to bring out the implications for different stakeholders, to promote peer learning and develop communities of practice. Websites and conferences prepared by all three client countries were used effectively to inspire investors' confidence, by making ample information available and assuring a transparent process.

Understanding the institutional environment²⁹

28. Notwithstanding the wealth of sector knowledge available, it is a major challenge to understand the specific constraints in each country. One of the findings emerging from the case studies is that knowledge transfer can have a great impact on behavior, but only if it is applied to the local context and combined with a strategy aimed at building stakeholder commitment and ownership and addressing risks. These commitment-building and risk mitigating strategies have been quite different in each country, but some generic lessons seem to emerge.

29. As a first step, information needs to be gathered to *understand the political, country and sector risks* that are likely to affect the outcome of reforms. In Mauritania, this analysis was undertaken as part of the country dialogue, where as in Morocco it resulted from the long-term involvement the Bank had in the country and the sector. Another important factor is the *need to understand the functioning of existing institutions* and the processes that can lead to the creation of new ones. In Mauritania, the participatory process in developing a regulatory framework and the related institutions clearly deepened the understanding of individual responsibilities and implications of the reform process. In Mali, the derailed reform process could only be brought back on track once the informal rules of the game, their implications for reforms and the Bank's firm position were fully understood. In Morocco, the Bank's strategy was to support key actors and champions of reform against forces that resisted change and still do.

²⁸ G. Nair, "Mauritania: Enhanced National Capacity in Telecommunications Sector Reforms" in Africa Region Findings no. 225, April 2003.

²⁹ Institutions referred to in this paper are defined as rules of the game (or a valued recurrent pattern of behavior), and may refer to bodies that are in charge of defining these rules (for example regulatory agencies; legislators, etc)

30. *The role of incentives.* The understanding and use of *incentives and conditionality* to influence the behavior of key actors and organizations seems critical for the design and impact of a strategy. In Mauritania, incentives were linked to the desire to improve the countries' image as an economic backwater. In Mali, only the threat to suspend HIPC and the Bank team's readiness to exit could bring the government back on the reform track. In Morocco, financial inflows associated with projects and reform minded forces in and outside the government seem to have tilted the balance towards reform, but strong forces motivated by vested interests are still presenting a threat to the sustainability of reforms. The following section briefly describes the elements of a commitment building and risk mitigating strategy and identifies analytical tools that can help to better understand these elements.

31. *Assessing risks-defining the problem.* All three country studies indicate that before knowledge and best practices can be usefully shared, it is critical to have a clear understanding of the main constraints that affect the implementation of a policy, and to have identified the supporters and opponents of reform and the underlying risks. In Mauritania the Bank team and the reformers developed a shared assessment of risks that helped to develop country specific solutions. To provide guidance to Bank and client teams, a number of tools are available in this area, such as readiness-for-reform analysis, the Country Institutional Information sheet³⁰, and risk analysis.³¹ Ideally, these tools should be used jointly with the client to support a joint learning process and a shared assessment of risks.

32. *Taking stock and understanding institutional context.* As noted above, it is important to understand the institutional context functioning of institutions that matter for the effective implementation of a policy and to identify gaps. Experience in all three countries shows that building and adjusting institutions is a long-term process and, as the OED evaluation notes, "not a one-time injection".³² The Mauritania and Mali examples suggests that successful CE support depends on a participatory process that helps to: identify existing capacity and gaps, develop options for filling those gaps, and understand possible implications for stakeholders. This also means that Bank teams and management must be willing to allow a significant amount of flexibility and sufficient time for this process³³.

33. Although none of the task teams in the three country examples relied on the use of formal Bank tools and instruments to assess existing capacity and the institutional context of reforms, it should be noted that a large number of tools in this area have been developed by different groups in the Bank, sometimes for application in a specific sector.³⁴ Screening them for guidance upstream may be useful as part of a more

³⁰ Luke Haggarty, Country Institutional Information Sheet, 2001.

³¹ See Susanne Mueller, "A Strategy and Guidelines for the Assessment and Minimization of Political Risk", at <http://www-wbweb.worldbank.org/prem/pas/capacity/biblio.htm>

³² OED/OEG, 2001, p.24.

³³ However, the Mauritania example illustrates that depending on existing capacity and willingness for reform, results can be achieved in a relatively short period of time.

³⁴ <http://www-wbweb.worldbank.org/prem/pas/capacity/understanding.cfm>; an interesting paper on the issue of assessing institutional capacity by Sue Berryman et al. can be found on the same website: <http://www-wbweb.worldbank.org/prem/pas/capacity/biblio.htm>

structured and systematic attempt to capture the institutional environment of a proposed reform. Four different types of instruments are mentioned here:

- *Capacity enhancement needs assessments*, piloted initially in the context of Community Empowerment and Social Inclusion (CESI) take stock of existing capacity by creating a baseline scenario, facilitate a process of prioritization of CE objectives and track progress towards their achievement.³⁵
- At the organizational level, *organizational mapping* tries to understand the internal behavior of organizations by creating an inventory of the actors carrying out reforms and revealing the relationships between them.
- At the project level, an *institutional assessment tool* consists of questions aimed at evaluating the effectiveness of institutions, from performance incentives to their capacity to implement policy. It was developed with respect to investment operations to improve and adjust project design.³⁶
- At the sector level, *upstream social analysis* provides an input to the CAS in the form of national, regional, or sector wide analysis of the social policy issues, including the legal, institutional, and political environment, the social priorities of the country, and key opportunities and constraints. *Social Capital Analysis* (SOCAT), a tool that analyses social capital in terms of institutions and networks and how they affect responses to policy reform, could be useful in some countries, such as Mauritania, where the existence of informal sector market channels created a comparative advantage for the country (see Annex I, para 28).

34. *Client commitment and ownership*. A careful assessment of ownership and commitment and the identification of key actors and constituencies appear to be key factors in the success of institutional change and sustainable capacity development. In Mauritania, the Bank team's effort to support a cooperative approach between ministries and to introduce the option of broadening the reform agenda to other sectors helped to bring in different stakeholders, and thus to increase sustainability.

35. Faltering commitment or strong opposing interests to reform can lead to backtracking. This is a risk, for example in the Morocco case, where in spite of deregulation and privatization, strong vested interests within the government that have threatened the success of reforms in the past, may undermine the planned removal of barriers to entry, resulting in a market duopoly that would have negative impacts on service delivery and prices.

36. Often the necessary information for such analysis is not readily available, in particular when vested interests are at play (as happened in Mali and Morocco).

³⁵ see WBI intranet

<http://intranet.worldbank.org/WBSITE/INTRANET/UNITS/WBI/0,,contentMDK:20088901~pagePK:135700~piPK:135698~theSitePK:136975,00.html>

³⁶ Both tools are discussed in PSIA guidelines, p. 17/18

Therefore, even when up-front action and initiative by the client is apparent, it needs to be carefully monitored to be sure that words are matched with deeds (Mali). Systematic approaches to assess client commitment have been developed by Haggarty and Matsuda.³⁷

37. The Bank's recent guidelines on poverty and social impact analysis provide an overview of some instruments in this area.³⁸ Tools described there include *stakeholder analysis*, which identifies people, groups and organizations that are affected by policy changes, as well as those that affect policy, including organized groups such as unions, business associations, or NGOs and unorganized groups of beneficiaries. Another tool, *ownership assessments*, examines the government's willingness to undertake and stick with reform over time. The basic output of an ownership assessment is an estimate of the location and extent of pressure that government will experience in adopting policy reform.

38. *Support of key actors—Bank style.* In the telecom reform cases studied, once the key champions and constituencies had been identified, the teams tried to support the reformers and build relationships based on trust, confidence, and respect. The Bank's role was that of a facilitator outlining options and packaging information, while respecting the clients ability to solve its own problems. The focus on two-way learning, the long-term continuity and dedication of the Bank teams in each of the countries, the time they spent with their counterparts, staff willingness to take risks, and the hands-on involvement of Bank management helped to move the reform process forward in each country. Staff continuity and long-term presence, also in the field office, were viewed as important factors in building good working relationships between the Bank and country officials, a lesson that is also highlighted in the OED/OEG sector evaluation.³⁹ It was critical for the learning experience that the Bank team and management, based on their country knowledge and sectoral expertise, encouraged the client to innovate and take responsibility for their own action, particularly in areas where proposed innovations may have generated skepticism among Bank staff.⁴⁰

Using incentives and pressures

39. Based on the analysis above, the development of a strategy that deals with the risks to successful implementation of reforms is critical. Such a strategy can consist of support for the key champions of reform (as in Morocco, Mauritania) and the careful use of incentives (development assistance, debt relief, international reputation) and pressures (suspension of project, loss of HIPC debt relief, public opinion) to motivate the supporters and opponents of reform. For example, press coverage and use of the media have been powerful means for mobilizing constituencies in Mali and Morocco; in

37 Haggarty, L. and Matsuda, Y., "Assessing Clients' Commitment to Sectoral Reforms: A Reform-Readiness Analysis", unpublished paper adapting reform-readiness analysis to SOE reform, and <http://Ints012.worldbank.org/prem/ps/iaamarketplace.nsf/075c69a32615405f8525689c0051fb88/a37fab1e36f89376852568a10083aa2c?OpenDocument>

³⁸ PSIA guidelines, page 12/13.

³⁹ OED/OEG, 2001, p. 17 .

⁴⁰ For a more detailed discussion of this point see: G. Nair, "Mauritania...", op. cit..

Morocco, the Bank has coherently taken public positions in support of sector reform, which have been used by the champions of reform to build consensus.⁴¹ In Mali, where commitment was falling victim to vested interests that had not been foreseen, the Bank's open dialogue (disseminated by the media) and readiness to exit, as well as the new Prime Minister's willingness to distance himself from vested interests, were powerful means to bring decision makers back to the table.

The importance of monitoring and evaluation

40. The choice of cases for this review provides very little evidence on the role of M&E, as only one operation, the first Morocco Telecommunications, Post and Information Technology Sector Adjustment Loan (TPI-SAL) was completed in 2000.

41. However, experience shows that when designing reform measures, early attention to monitoring and evaluation of progress in reaching desired objectives is likely to improve performance.⁴² Starting from a baseline scenario it can be useful to identify outputs and outcomes throughout the process and simulate the potential impact of reform options *ex ante*. This may help to understand obstacles, develop a menu of options and inform choices. Once agreement has been reached on a course of action, it is only by careful monitoring of the process that one can understand whether objectives are being reached. This monitoring requires the design of indicators that can be easily tracked and that help to show actual results, and can be used for *ex post* evaluation where possible. In this way mid-term corrections can be made to components that seem unlikely to achieve the desired impact, which also helps to mitigate risks.

42. Monitoring and evaluation can also promote learning and social accountability by sharing public debate during the reform process (as in Mali, Morocco). This may lead to both more ownership and sustainability.

43. For telecommunications, the OED/OEG evaluation notes that monitoring and evaluation processes in IFC telecom projects could be improved by specifying at appraisal the project's expected contribution and development impact and by tracking progress from this standpoint throughout the project cycle. It finds that the focus thus far has been on processes and inputs rather than on development outcomes. This recommendation has been taken up in the sector strategy paper⁴³, which prescribes the tracking of indicators for sector development that will make it possible to feed lessons learned back into project design. Recently, several attempts have been made to embed poverty evaluation tools in telecom operations, for example in operations in Samoa.

44. The Bank's important role and comparative advantage in informing policy and strategic discussions would clearly benefit from a comprehensive documentation of

41 The HD network has published a toolkit that helps task managers use communication as a means to disseminate information and facilitate adoption of new behaviors with reform measures. See: Strategic Communication for Development projects: A toolkit for task team leaders, June 1999.

42 Kusek, J.Z., Rist, R. Building a performance-based monitoring and evaluation system : the challenges facing developing countries, Evaluation journal of Australia, Vol.1, no.2, 2001.

43 http://info.worldbank.org/ict/ICT_ssp.html; executive summary, p.10.

lessons learned. This is particularly relevant in view of the sobering assessment by OED/OEG⁴⁴ of the state of information infrastructure in most developing countries⁴⁵.

A new approach

45. Analyzing the experiences of telecom reform in Mali, Mauritania, and Morocco brings out the different constraints that each team had to face and how they managed to build capacity (i.e. to develop formal institutions and organizations) working with these constraints. In each of these cases, a client-oriented Bank team stayed with the process, adapted knowledge from elsewhere to the specific situation, and worked to build constituencies of support for the reform. But local conditions vary and so does political will and commitment to reform within as well as among countries. To understand these conditions and to be able to mobilize continued support for the reform process, it is necessary to:

- Gather information to help formulate clear CE objectives and assess risks and constraints to successful implementation;
- Identify and support key actors and stakeholders and assess client ownership;
- Engage in dialogue, build trust and foster policy debate;
- Analyze potential impacts of reforms or reform options; and,
- Set up monitoring and evaluation systems and allow lessons of experience to be fed back into the process.

46. Although there is some logical sequencing in these steps, they need not be undertaken in a strict sequence. And not all of the steps apply to all country conditions. In most of these areas, diagnostic and process tools have been developed in different parts of the Bank, often with a specific sector in mind or a particular goal such as poverty impact evaluation or social analysis⁴⁶. Some of the tools that could be useful in the context of telecom reform have been mentioned above⁴⁷ and others are described in the PREM website on capacity building and the PSIA guidelines.

47. These tools and the thinking that has gone into their design could help to better define CE objectives, capture existing capacity and gaps and inform upstream preparation of CE activities and help to mitigate risks. A sector and task specific selection, adaptation and integration of diagnostic and process tools, in particular if they were used jointly with the client, could help to generate and track information that would make it easier to learn from success and failures. This learning processes could not only inform Bank strategy

44 OED/OEG, 2001,p.xiv.

45 The M&E tools that have been developed to monitor public service delivery, such as PETS (Public Expenditure Tracking Surveys), QSDS (Quantitative Service Delivery Surveys), Citizen Report Cards, or participatory evaluations, may not be directly applicable in telecommunications. The new PSIA guidelines refer to benefit-incidence analysis, demand/supply analysis, and organizational mapping as useful tools for poverty impact evaluation in utility reform and privatization; see PSIA guidelines page 57.

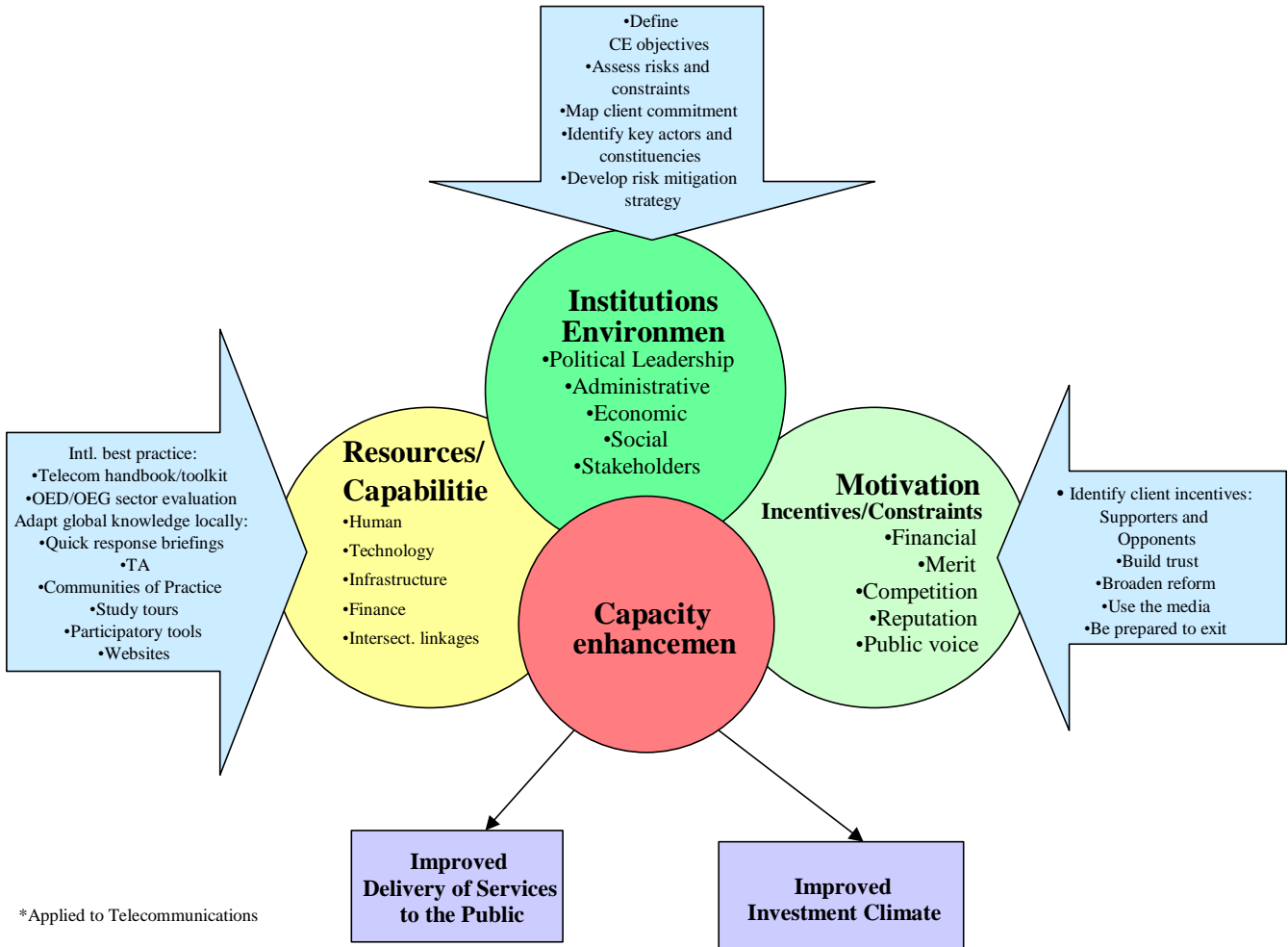
46 It is important to note that there is no perfect fit between existing tools and the issues raised above. The coverage of issues can overlap between individual tools and better integration and guidance for task managers is needed.

47 See Table 2 for Overview.

but also contribute to broader client ownership and commitment. In addition, clearer guidelines for staff on the preconditions for engagement (i.e., client readiness for reform) and triggers on which to build an exit strategy could support risk management and policy dialogue.

48. There is no doubt that initially the process of screening, integrating and adapting tools would be costly and may only be considered for certain tasks. But provided that this process would lead to good results and a better tracking of successful capacity enhancement processes, the benefits could be quite substantial.

Chart 2: A role for the Bank*



ANNEX 1: THREE CASE STUDIES IN TELECOMMUNICATIONS

1. The following case studies illustrate the different elements of capacity enhancement using the example of telecommunications reform in three countries. Table 1 at the end of this section provides an overview.

MAURITANIA

2. Mauritania is a stable country of 2.5 million people with a record of sound macro and socioeconomic policies and high literacy rates. However, its image to the world has been one of a small country without resources, of limited market potential, populated mostly by desert nomads. This negative image was compounded by Mauritania's history of slavery, its past support for Saddam Hussein during the Iran-Iraq war, and a legacy of border skirmishes with Morocco over the Western Sahara.

3. In 1998, Mauritania had only five telephone lines per 1,000 inhabitants (one of the lowest ratios in the world)⁴⁸. The Bank team saw a reform of the telecommunications sector as an important means of attracting foreign capital and spurring growth. Key decision makers in the country, including the president, were initially reluctant to liberalize the telecommunications sector, because of its potential to threaten the country's tightly managed security.⁴⁹ But in the course of discussions of Mauritania's economic prospects, as the basis for a new CAS, during a small workshop on the experience of privatization of infrastructure reform in other countries in 1997, reform came to be seen both as a magnet for foreign investment and a means for economic development, including job creation and poverty alleviation.

Objectives

4. The idea of reform was supported both by the president and the head of the Office of Posts and Telecommunications (OPT), a colonel who had traveled widely. Without any support from the Bank, the OPT prepared a plan in 1998 and set up a number of committees to implement it. The initial plan would have involved privatizing and liberalizing the sector, in that order. Though the plan was later changed, it showed at a very early stage the government's clear interest and initiative concerning the reform. Furthermore, discussions during the mission made it clear that government was not looking for money, but *for knowledge and advice*. It wanted to move ahead as quickly as possible. Ironically it was the Bank that had to persuade the government to slow down and spend more time on upstream preparation, if it wanted to build capacity and attract foreign direct investment.

Risks and constraints

5. Although the government was committed in a general sense to telecommunications reform, it faced severe constraints.

6. The country was not on investors' radar screens, had a negative image, and was viewed as risky. Mauritania had no institutions with any experience in liberalizing, privatizing, or introducing competition in this or other sectors.

48 G. Nair and S. Tintchev, "Liberalizing Telecommunications in Mauritania," Findings, Africa Region, No. 71, December 2001, p.1.

49 Incidentally, the Minister of the Interior was also in charge of Telecommunications in Mauritania.

7. The timing was poor for attracting international capital, given the East Asian financial crisis and the indebtedness of many major European telecommunications operators.

Results of the reform

8. Despite these constraints, Mauritania managed to introduce genuine competition in the sector and establish a transparent regulatory framework in little more than two years—widely regarded as a record. The government opened up the sector, and decided, contrary to its original plan, to lift exclusivity on international services for the state monopoly, before privatizing the state operator. It also established a transparent regulatory framework that became a model for the rest of Africa.⁵⁰

9. As part of the privatization process and as a signal to investors to help mitigate perceived risks, government insisted that construction of a mobile communications network be deferred for two years. This meant that the state operator and any new competitor would receive licenses on exactly the same terms and at the same time. Consequently, the successful bids on Mauritania's tenders were very encouraging. Government received \$28 million for its first mobile license in May 2000 and later \$48 million for the privatization of its main operator in February 2001. The investments generated by the new operators amounted to 10% of Mauritania's GDP in the first two years and doubled existing telecom services in the first four months of the reform program.⁵¹

Keys to success

10. As discussed in chapter 1, a critical task of the Bank is to identify the agents with sufficient bargaining strength, support them, and help to create incentives that make the change sustainable over time. The factors that contributed to Mauritania's successful reform are described below.

The key decision makers

11. *Commitment and up-front action.* The government constantly reaffirmed its commitment to the reform process over a long period and through a set of specific actions that matched its words. The influential President, the head of the state operator (OPT), and the Minister of Economic Affairs gave the Bank a clear indication of their commitment to liberalize and privatize the sector. As early as mid-1998, government had put together its own plan for privatizing the sector under OPT. Two changes, neither

50 G. Nair and S. Tintchev, "Helping Make Competition Work in Small Emerging Countries," unpublished paper, pp. 3-5.

51 The \$28 million Mauritania received for its first mobile license and the proceeds on privatization of \$48 million, equivalent to \$ 4,065 per telephone line (well above the world average of \$2,500) both set a record. In a little over a year between mid-2000 to the end of 2001 the number of telephone lines soared from 20,000 to 120,000. Also, the reform generated about 2,000 jobs in the telecom and information sector and spawned about 300 small businesses. (Nair and Tintchev , "Findings..."op.cit.p.1).

of them envisaged in government's initial plan, reinforced the perception that Mauritania was serious about transparency and reduced the risk that the process would be marred by the appearance of conflict of interest. The Minister of Economic Affairs, encouraged by the success of the first international tender for mobile services, made the decision to liberalize before privatizing, a view strongly supported by international evidence of successful reforms.

12. Government verbally communicated to the Bank on numerous occasions that it wanted to do the reform right and as quickly as possible⁵². It took the initiative in writing the law for the sector and then in January 1999, it came to the Bank for assistance. It also matched its words with deeds, including deferring mobile service for the state operator for two years to increase competition when liberalizing. In privatizing, government surrendered exclusivity for the incumbent operator in September 2000, running the risk that it might thereby receive a lower price for the incumbent operator. (Initially, it had intended to hold on to it until 2004.) This innovative and bold decision was taken by the government in spite of strong skepticism that was voiced from Bank staff outside the immediate country team, questioning the wisdom of aggressive liberalization, its motivation, and its potential impact on the privatization of the state owned operator. The decision was informed by relevant information and global practice put together by the Bank team, but ultimately reflected the Mauritanian's own analysis of risks in the reform process.⁵³

13. *Support of key actors and constituencies.* A major source of hesitation during the reform process was the Minister of Interior. His security concerns created reservations concerning certain aspects of the reform. Numerous discussions and a workshop presenting positive and negative experiences from other countries helped to address the minister's concerns about losing control, and increased the comfort level of the dialogue. A key element in this dialogue, as seen by the country director, was to refrain from exerting pressure and to allow for sufficient time to build commitment.

14. The Bank team fostered a cooperative relationship between the Ministry of Economy and the Ministry of Interior and strongly supported the governments' decision to anchor the telecom reform in the Ministry of Economy, rather than a sectoral ministry. As a result, the reform could be conceived and managed as part of a broader effort to modernize Mauritania's economy. The Minister of Economy saw that a transparent institutional process must be built to ensure a successful reform of the telecom sector, and that this could have a potential spillover effect in liberalizing other parts of the economy, creating jobs, and addressing poverty alleviation. The telecom legislation and regulatory body were designed to provide for an eventual shift towards a multi-sector regulatory body.

Client incentives and institution building

15. *Client incentives.* At the macro level, both the Bank's and the government's teams saw that a successful telecom reform could well be critical for the country's reputation

⁵² And government very swiftly signed on to the Bank's Project Preparation Facility (PPF).

⁵³ World Bank, Africa Region Findings no. 225.

and a litmus test for obtaining debt relief under HIPC. This understanding helped to reinforce commitment to the reform throughout the process and to weaken opponents, who saw the broader costs that failure would have.

16. At the micro level, the reform process had extensive implications for the balance of influence and interests within the government. These were addressed by a gradual and careful approach to institution building.

17. *The approach to institution building.* An important element of success in the reform process was a systematic approach, carefully build up over several months. That allowed for fine-tuning the strategy without deferring critical decisions. This helped create a deep understanding of the content of the law, the specific responsibilities of the different actors involved and of the implications of every institutional change. A key decision was made to first establish the rules of the game that would allow fair competition between operators and only subsequently to create a regulatory authority to administer the—by then—clearly stated rights and obligations. The teams saw that decisions concerning institutional change had to be made judiciously; moving too fast, avoiding addressing major issues, or sidelining key actors could derail both the process and the results.

18. Due to insufficient institutional capacity in early 1998, it was assumed that the state operator would be in charge of the process. For example, there was no framework to write a new law to cover the process, no decision about who would write it or decide what was in it, and no organization to regulate the process or manage it on a day-to-day basis. The Bank team made a major effort to spell out the risks of this approach in terms of conflict of interest which is likely to be perceived when a monopoly operator is in charge of corporate policy. This understanding led government to create a broader institutional framework allowing for transparency and accountability.

19. By May 1998, the government team had created two interim transitional committees both under the Ministry of the Interior: one to prepare the regulatory framework and another to coordinate the sale of the state operator. These were replaced three months later: with a project management unit headed by a member of the Ministry of the Interior, and jointly responsible to the Ministries of Economy and Interior, and by a program management unit under the Ministry of Economy.

20. The government made careful arrangements to bring other key actors on board and make them part of the reform process. In November 1998, it established an inter-ministerial committee, headed by the Minister of Economic Affairs, to be the formal policy and decision-making body for telecom and potentially also for other reforms. This was necessary as the Minister of the Interior had expressed reservations about reform and the fact that the Minister of Economic Affairs was spearheading it. The Bank spent a great deal of time discussing the concept of the appearance of conflict of interest and persuading the Minister of the Interior and the head of OPT that they would still have a role in the policy process, even if they were not in charge of specific elements of the reform as they initially envisaged. One indication of the success of this dialogue was

that in mid-1999 it was the Minister of Interior who presented the law to parliament and argued for its adoption.

21. Foreign investors, for their part, knew that six families dominated the private sector. It was thus imperative to create an institutional framework that ensured competition. This could not be done incrementally, as was eventually appreciated by all. To enhance the objective of independent regulation the option of creating a multi-sector regulatory body that could be an umbrella for other utilities was introduced. The success of the Mauritania reform has confirmed the rational of this approach and has inspired other African countries.

22. Institution building proceeded simultaneously on other fronts. Another committee was created to write the law. Over five months, the team dedicated a lot of time and energy to establishing the rules of the game. The results were reflective of a well thought out process. The law was completed in January 1999 and promulgated in mid-1999, after which a regulatory authority was created. It should be noted that the success of the law was closely linked to the clients and Bank teams efforts prior to the drafting of the new legislation to ensure broad understanding of the purpose of the reform and the issues at stake.

23. The law had many noteworthy features including the fact that it was multi-sectoral and thus more insulated from special interests, independent of any ministerial oversight, and self-financing.⁵⁴ Its success was underpinned by an intense participatory process in its drafting and the creation of a viable framework for independent regulation. This allowed the law and its related institutions to become a model of transparency and accountability in how it approached frequency, interconnection, standards, sharing of common infrastructure, and other matters.

Information and knowledge adaptation

24. *The process.* The who, what, where, how, and when of the reform, including the tradeoffs that would be needed, were matters of negotiation and were spelled out throughout the process. The Bank used project management software to work in a collaborative manner with government and spelled out 280 actions that were needed and the institutional responsibilities for each. This helped greatly to clarify and agree on what had to be done and by whom. It turned commitment from a theoretical statement of broad political support into specific realities, helping to propel the momentum of reform. It also served to highlight whose commitment was essential to do what, and made it easier to take note of vested interests and slippages when they occurred. The steps also made explicit the shifts of power that were implied by deregulation.

25. *The means.* Continuous learning, including from other countries, and communication helped to shape a successful reform. Being a latecomer to telecom reform, Mauritania was willing and able to build on other countries' experience. A two-week study tour to Bolivia and Peru helped to lay the foundation for future radical

54 G. Nair and S. Tinchev, "Liberalizing... op. cit., p.3.

changes in the Mauritians views on exclusivity. They at first believed it was important to maintain exclusivity for the main operator on international services. But their Latin American counterparts, who themselves had maintained exclusivity for their operators, told the Mauritians that they thought exclusivity was less important than they had in the past. Instead, they argued that by rebalancing their tariffs between international and local calls in one go, they could abandon exclusivity and make privatization more attractive to outside investors. This cross-country exchange later helped the Mauritians to lift exclusivity for international services in 2000.⁵⁵

26. Mauritania had no tradition of using the media as a channel to market reform. The Bank team strongly encouraged the strategic use of the print media, television, video and press conferences to widen the interest and commitment of different parties to the reform. This helped the Mauritians not only to targeted potential investors, but also all those who would have an interest in better cheaper, more competitive services. These included university students, journalists, physicians, the business community, NGOs, and small-scale entrepreneurs. The project management unit alone presented three dozen videoconferences to audiences in and outside government. Altogether, this helped to build a constituency for reform, to reduce the likelihood of serious setbacks in the process, and to keep opponents to reform at bay.

27. The government reform team also developed its own website, something that helped to convey Mauritania's efficiency, speed, modernity, and transparency. All key decisions taken on government policies and laws were published there. Government used the website to put out tenders, clarify their terms, and announce the results of bids in a manner that conveyed timeliness and openness. It also used the website interactively to communicate with investors. Also, the telecom reform process helped to pioneer a tradition of using inter-ministerial press conferences, not only to communicate internationally, but also to reinforce investor confidence and government commitment.

28. Finally, it put together a high-powered conference for 25 potential investors in Paris in April 2000. Government's ability to attract so many interested parties was already a very positive sign. At the conference, the team had key members of government discuss Mauritania's macroeconomic policies and the country's position on taxes, foreign exchange, and other issues related to the country and the telecommunications sector. This enabled the Mauritanian team to show investors that they knew they had taken the necessary steps (transparent legal framework; opening of the sector to competition; no exclusivity), that they were serious about reform, and that they were players. The team discussed many aspects of the country's history and culture, including the importance of communication in nomadic societies. To create investor confidence, they also highlighted the value of Mauritania's unique social capital, specifically its use of informal sector market channels. This included the ability of individuals to sell prepaid cards and handsets on the streets, in villages, and among friends, as well as setting up small business of their own and charging friends and neighbors to make calls. These features effectively eliminated the billing and collection costs that normally would be part of a telecommunication operator's expenses in Europe

⁵⁵ G. Nair, "Mauritania..."op. cit.

or the US. The Mauritians thereby managed to turn what investors initially perceived as a liability—working in a poor nomadic country, into a comparative advantage.

29. *The context.* To put the country on investors’ maps entailed open frank exchanges between the Bank and Mauritanian teams about how to market the country’s assets and overcome or mitigate liabilities and risks. The dialogue evolved from an understanding of what it would take for Mauritania to attract international capital and the potential tradeoffs that needed to be made. These interactions facilitated dialogue among different interest groups at various points in time, including during the writing of the telecommunications law.

Bank contribution and style

30. The Bank’s main contribution was to codify global knowledge into actionable steps that helped to close institutional gaps, while building up stakeholders’ commitment and ownership and supporting an autonomous process of local learning. This process evolved as the result of gradual knowledge transfer and adaptation to local context, which was possible only through close cooperation and active country participation.

31. Both sides acknowledged each other’s questions and anxieties. Government feared that liberalization might lead to losses of jobs, power, and market share. The Minister of Internal Affairs, whose ministry had traditionally controlled the telecommunications sector, had to be convinced that the power shifts implied by the process would not jeopardize his control over national security. Other key members were forced to accept that reforming the telecom sector would change the relationship among the private sector, civil society, and government. A mutual respect and openness between the two teams evolved over time and created a climate of trust that allowed for flexibility, compromise, and adaptation. The Mauritanian team felt that the Bank was prepared to listen rather than dictate and that it identified with government’s hopes, fears, and its strong desire not to fail. The Bank acted as a facilitator⁵⁶, did not rush the reform process, and dealt with its counterparts as equals and friends rather than as anonymous clients. It was in this context, that Mauritania appreciated the firm stance of the Bank team took on certain issues, such as the importance of proper governance of the overall reform process.

32. Finally, the Bank was up-front about the costs and benefits of necessary decisions, such as exclusivity, recognizing that it was Mauritania and not the Bank that would assume the risks of whatever decisions were made. The Bank/IFC team also did not take a narrow technocratic approach to reform and drew on the wider expertise within its various units at headquarters, while enabling the Mauritanian side to take the lead in directing their learning and adaptation.

⁵⁶ See more on what enabled the Bank team to adopt this role in: G. Nair, “Mauritania...” op.cit.

Conclusion

33. The Mauritania case illustrates a successful adaptation of global knowledge to local circumstances. By finding the right language and style, the Bank was able to bring key decision makers on board and convince them of the potential benefits reform held for the countries' economic development. A patient and gradual process of two way learning helped to build and implement new institutions such as a transparent regulatory framework. It also prepared the Mauritians to adopt a process that was likely to attract foreign investors as it was based on transparency and reflected commitment. Even more important, the support of the president and other key decision makers was critical in a highly centralized system. Unlike the two cases discussed below, incentives were of a mainly positive nature, such as the lure of HIPC and prospects for the country to attract foreign investment and create jobs. The absence of major pressures to advance reforms may have been the result of the commitment of key decision makers that kept vested interests at bay and a very favorable international context for telecom reform at the time (reflected in high license fees and revenue from the sale of assets).

MALI

34. The dialogue on telecommunications reform in Mali started in mid-1998, at the same time as in Mauritania and was supported by the same Bank team. The Bank went into Mali with higher expectations than it had in Mauritania. Given its larger market size and better name recognition, Mali appeared at the outset more attractive to investors. Its economy was more developed, it had a larger market, it was seen to have a more participatory political process, and it had a well-developed media. It had good export revenue from cotton and gold, enjoying good relations with and support from the donor community.

The reform process

35. After being approached by the government, the Bank organized a presentation to key ministers, parastatals, unions, civil servants, and representatives from the business community about what could be done in the next few years to develop the sector. At that point in early 1998, Mali was poorly equipped with only 27,000 fixed lines and one state operator, SOTELMA. The workshop generated interest and was followed by the government's invitation to the Bank to come for an identification mission. The Minister of Communications was attracted by what other countries had achieved and wanted to get on board. She seemed to understand that reform and competition had the potential to create jobs, improve the operations of the state operator, reduce tariffs, increase access, and meet a high demand for better services.

36. The commitment of the government to reform was reflected in the draft of a far-reaching telecom policy. Prepared in July 1998, the new policy envisaged total liberalization with no exclusivity and privatization of the main operator SOTELMA by 2000. It also provided for the establishment of a new legal and regulatory framework and for granting the first cellular license to a private operator during 1999. The Bank

and client teams worked closely for about one year to prepare a technical assistance loan for Mali that would have addressed two main objectives: opening up the telecom sector to competition, including issuing a cellular license, and shaping up SOLTELMA to prepare it for privatization. The new telecommunications law was adopted in September 1999.

37. By that time reform had already had been derailed when government established a joint venture subsidiary of the state operator, Malitel, to undertake mobile services without facing competition (May 1999). The joint venture included government, local and foreign private parties and local individuals with high level political connections. As a result, the capacity to execute transparent reforms was, at least initially, not built.

38. When the Bank, learned about this transaction in late 1999, it took the view that the joint venture was inconsistent with the stated policy reform program, which had been the basis of Bank assistance in this area. In particular, the creation of a new entity outside a competitive tender process and the agreed policy framework could have resulted in capturing most of the market prior to the opening of the sector to competition. This would seriously undermine and jeopardize the reform process. As a result, the Bank was not able to envisage continued support unless corrective action was taken. The media took up the issue and raised the understanding and awareness of civil society and donors, which in turn exerted pressure on the government to resume reforms. The new political leadership that came to office in February 2000 helped to put the country back on a reform path consistent with its original policy. The government prepared an updated policy statement in August 2000, which extended the scope of competitive activities to all telecommunication services.

39. A number of other elements were important for the subsequent success of the reform process: The appointment of a highly qualified project management team in late 1999 which subsequently made a conscious attempt to learn from Mauritania through inviting the Mauritanian team to exchange lessons of successful reform. Based on this exchange, the Malians developed a strong commitment to an innovative and transparent approach to opening the sector to competition. A notable innovation was the government's announcement at the June 2001 investor conference that it intended to commission and independent audit of its own technical evaluation of all bids received during the tender before the financial bids were opened. Even when skepticism was expressed in some quarters of the Bank regarding the potential risks of this approach, the government proceeded with strong encouragement from the country team and management. Subsequently, an international tender process was launched for a second national telecommunications operator which culminated in August 2002 with the award of the license to a group led by France Telecom. The Malian team conducted a highly transparent and efficient tender process, resulting in \$44 million in tender proceeds, which was a tremendous achievement for a low-income country. This completed the agreed process of opening the telecommunications sector to competition. The remaining major reform measure still outstanding is the privatization of the state operator.

40. Despite the initial appearance of more favorable conditions and more far reaching formal policy commitment, actual achievements and results of reforms were much

slower and more difficult than in Mauritania. However, the Mali experience provides an interesting example of a situation where the lack of government commitment caused reforms to a stall, but pressures by civil society and donors fostered transparency and awareness. This ultimately led to the countries' broad ownership of reforms and a successful completion of the sale of the second operator licence.

41. *Underestimating risks.* Despite its initial enthusiasm for telecom reform and a good deal of technical work—including the preparation of the legal and regulatory framework financed under the Project Preparation Facility (PPF), government's words did not translate into action.⁵⁷ Instead, government dragged its feet and backtracked on many occasions, suggesting that it was not seriously committed to reform. An unqualified head was appointed for the PMU, supported by poorly qualified staff. And government mismanaged the recruitment of consultants to put in place a legal and regulatory framework for tendering for the first private cellular license.⁵⁸ In both these cases, what might be interpreted as an issue of poor competence or skills in fact reflected inadequate commitment to a transparent reform process.

42. *Key decision makers.* Initially the Bank had discussions with two bodies: first with the Commission of Ministers, including Planning, Finance, Industry, Communications, and Energy—to link the reform to broad macroeconomic issues, including HIPC—and then with individuals involved in the telecom sector. Unlike in the case of Mauritania, a process of developing broad understanding and buy-in to the reform was not achieved across various levels of government, at least not in a sustained manner, even though the content of the reform program was the same in both cases.

43. The Mali case shows that high level political influence is only one of the elements determining success. The role of the media and labor unions, for example, was instrumental in shaping public opinion once the policy reversals associated with Malitel became known, and thereby created support for reform in Mali.

Lack of transparency and commitment

Privatization

44. To prepare the company for a privatization tender, the Bank asked for an international audit of SOTELMA. The 1999 audit of the 1998 accounts made it clear that the company was not in compliance with Mali's commercial laws. SOTELMA's assets were not clearly defined; there were problems of financial mismanagement, and other technical issues, including a lack of internal controls. The company was practically bankrupt and its privatization had to be deferred until these problems were resolved.⁵⁹

⁵⁷ An October 1999 table compiled by the Bank, listing government's performance against its commitments, indicates numerous delays.

⁵⁸ In response, the Bank wrote a letter to the Minister of Communications in February 1999 leading to the cancellation of procurement.

⁵⁹ Up to now it is unclear whether government is prepared to take the hard steps needed to do this. These would include: revamping the company's financial and accounting system; putting into place and using internal controls; insisting that the company conform to existing laws in any commercial transactions it undertakes; and registering SOTELMA's assets in the company's name.

Liberalization

45. At the same time as the government was discussing the liberalization of the telecom sector based on its new sector policy, the Minister of Communications issued its first private cellular license in a non-transparent manner.⁶⁰ Without any competition, tendering process, or financial sale, the Minister gave the license away to Malitel in May 1999, a joint SOTELMA/private venture. They included local businessmen, a private shareholder, known as SOGETEL⁶¹, and the government, with SOTELMA as a minority shareholder.⁶²

46. Malitel's license to operate would have given it a contract for 18 months of service, during which time it planned to conquer the market and preempt any future competition. The effect would have been to take away value, including assets and subscribers, from the state operator. Under the investment arrangements, the private shareholder would contribute funds and SOTELMA infrastructure, as well as other fixed and mobile assets. In fact, the company moved swiftly after receiving its license, importing equipment and hiring staff. Its plan was to begin operating on the yearly Independence Day celebrations in September 1999. During this entire time, the correspondence from the government to the Bank indicated that it was adhering to its word and continuing with a transparent process, but - unlike in Mauritania - the capacity to execute a transparent reform process was not being built.

47. The Bank learned about the transaction in November/December 1999, when the signed agreement with the joint venture was published by the press. The issuance of the license to Malitel violated the government's letter of sectoral policy and was in conflict with existing legislation⁶³. Following the disclosure, the Bank made it clear to government that it would not be associated with a non-transparent uncompetitive transaction nor one that gave away a state license for free.

Client incentives and institution building

48. Two of the most critical factors eventually turned the reform process around: the government's need to maintain good relations with the donor community, especially in view of HIPC, and an outcry from civil society and the unions.

49. *Incentives.* Mali became eligible for HIPC in September 1998. It had a reputation as a reformer in the IMF and the Bank, even though its initial progress had not been followed up with major structural reforms. It also enjoyed a lot of donor support, in part because it was perceived as having made a successful transition to democracy.

50. However, in December 1999 the country team made clear to the government that HIPC could be significantly delayed, which would have also affected Mali's relationship with other donors. Notwithstanding the substantial pressures on the Bank in Mali, the

⁶⁰ This was based on an undisclosed decision by the Council of Ministers on 11 March 1999.

⁶¹ SOGETEL is a Malian subsidiary of the French company Alcatel and owned about 80 percent of Malitel's shares.

⁶² Because Malitel was a private company, the unions would not have been part of its board of directors as they were in SOTELMA.

⁶³ Government entities were not allowed be part of a joint venture with private entities unless a law was passed to this effect on a case-by-case basis.

country team took a clear decision that was supported by higher-level management. In the end, HIPC was delayed for one year with telecom reform being one of the key and specific progress indicators that led to the delay.

51. In addition to the risk of losing HIPC, the Malian government perceived a loss of international reputation and credibility as a high price to pay. The successful experience in Mauritania contributed to the growing awareness among key decision makers that policy reforms could be successful and beneficial. It also introduced a sense of competition as the head of the regulatory agency put it, “Mali had to be at least as successful as Mauritania”.

52. Another important factor in the turnaround was the independent pressure from civil society. A relatively open society with a free press and some accountability worked to bring the Malitel deal into the open and helped to coalesce support for the Bank’s position. SOTELMA’s workers went on strike and shut down the entire telecom system for three days, when the unions asked the government to adhere to the reform process as previously agreed.⁶⁴

53. *The effect on institution building.* In 1999, the government created a project management unit (PMU), under the auspices of the Minister of Communications. Even before the Malitel crisis, the government took steps to strengthen the unit and remove unqualified staff in favor of a strong team. However, as its parent minister had signed an agreement with Malitel to issue a non-competitive license, the effectiveness of the unit was put in jeopardy until the reform course was resumed.

54. The Malitel agreement was also in conflict with the existing law.⁶⁵ At the same time, in July 1999, the National Assembly was considering a new telecom law to establish a competitive framework. The law was passed and signed only in September 1999, after the crisis had come to a head. Although providing a comprehensive set of safeguards, including a strict process of the appointment and dismissal of the director of the Regulatory Agency (AR) and professionals to key positions and oversight of the AR’s financial statements by the Supreme Court, unlike the Mauritanian legislation, the law did not provide for the independence of the regulatory body from ministerial oversight.

55. The Malitel matter illustrates quite clearly that both the new and existing rules of the game existed only formally on paper and were not supported by new enforcement mechanisms.⁶⁶ Hence, under prevailing circumstances, neither law could have worked or did work as written. What really determined events initially were incentives working to secure the interest of private and public shareholders of Malitel. Once these interests had

⁶⁴ Initially, parts of the press, which were owned by some of Malitel’s investors, pillaged the Bank in print. The Bank, in turn, had press conferences explaining its position, after which other parts of the press took its side. The unions and the public also supported the Bank’s position, fearing for the future of their own company and jobs as did the broader public, who realized they would not benefit if one monopoly were replaced by another. In Mauritania, where government is far less open and more repressive, such information would be unlikely to appear in the press and public outcries would have been met with reprisals.

⁶⁵ This was not in compliance with the existing law in two senses: by establishing a competitor to the monopoly, SOTELMA and by making the state company a shareholder in a private company.

⁶⁶ Douglas North, “Economic Performance Through Time,” *The American Economic Review*, Vol. 34, No. 3, 1994, pp.359-68.

become apparent to the donors, the public and the unions, pressures on the government helped to rectify the process and to put policies back on track.

Information and knowledge adaptation

56. Although the Bank made clear to Mali, as it did to Mauritania, the need to market its potential to investors, Mali's internalizing of the need for transparency and strong corporate governance came much later when it realized the implications of a non-transparent process. Here it is important to note that not all stakeholders operated at the same level of information. While some members of the government and the technical team were under the impression that the operation of the joint venture was not directly in conflict with the spirit of the new law, only a few had actually understood the longer term implications this venture had for opening the sector to competition. It was mainly due to the education and awareness building by the media and the Bank that perceptions changed and the need for reform was internalized. Only then did Mali take steps to overcome its loss of credibility stemming from the Malitel affair.

57. The reform process eventually moved along smoothly and transparently. It got back on track in October 2000, supported by a new political leadership that came into office.⁶⁷ The process then proceeded quite similarly to that in Mauritania: adopting a disciplined approach to CE, frequently exchanging information and tracking progress via video-conferences and e-mail exchanges, learning from other countries, marketing the country, and putting together an investors' conference. To learn about the process of institution building, the Malian team went to Mauritania to obtain information about their experience. It also visited other neighboring countries including Senegal, Burkina Faso, Cote d'Ivoire, and Morocco. On the basis of this exchange, it established a website, which it used to disseminate information concerning its transactions and decisions. It also came back with an eight-hour video from Mauritania's investors' conference and held its own in Paris conference in June 2001.⁶⁸

Bank contribution and style

58. The approach the Bank took in Mauritania and Mali was very similar, facilitated by the fact that the same team covered both countries and a strong presence in the local office. The Bank's main contributions in Mali were to offer its international technical expertise on liberalization and privatization, and to bring in the Mauritanian experience, which created a sense of competition among policy makers; it also facilitated the understanding of the population, the national counterparts and other donors of the potential impact of a derailed reform, and adroitly used incentives and pressures to counteract attempts to corrupt the process. The Bank team supported the Malian proposal to reassure investors by commissioning an external audit of the technical evaluation of the bid. Although this step was highly innovative and had met with

⁶⁷ In the meantime, the head of the state company was imprisoned and the Minister of Telecommunications was dismissed. Government cancelled its deal with Malitel's private shareholders. However, Malitel retained its license, as government was unable to pay back the company's investors. Malitel's board of directors was dismissed and it became a production unit of SOTELMA. The government hired auditors to look into Malitel's assets and insisted that any new private cellular operator be given a license on the same terms as Malitel.

⁶⁸ Govindan Nair, internal memo, 02/27/02.

resistance from other parts of the Bank, the government was convinced of the need for transparency to restore investor confidence.

59. Similar to Mauritania, the support provided by the Bank in Mali was greatly helped by the fact that the country team and senior management spoke with one voice and that the project team was highly integrated between the country office, headquarters and national counterparts. Critical support to the process was provided by the country office that provided highly qualified staff that could operate independently and fully understood the local context.

Conclusion

60. Above all, the Mali case illustrates how reforms that have been derailed can be brought back on track through the use of incentives and pressures by civil society and donors. It also illustrates the importance of the dissemination of information through the media, of team and consensus building through dialogue and cross-country consultation, and finally of high-level political commitment.

61. It demonstrates that counterparts which are supposed to build capacity may perform poorly not from a lack of skills or training, but from politicization and the perverse, but internally rational, set of incentives that flow from this situation. It is interesting to see that only when renewed commitment was ensured, the strong technical team that had been appointed to the PMU could effectively take charge of the process. Only then was Mali able to take advantage of and build on Mauritania's and the Bank's knowledge of how to reform the sector. One measure of the success of the Bank and Mali to date is that the team in place has now full ownership of the reform process. An important lesson from the Mali experience is that failed reforms risk to have high costs in terms of political credibility and, as the OED study notes, can lead to negative demonstration effect in cases where global strategic partners walk away because of a difficult enabling environment.⁶⁹ In the Mali case, the government's change of heart combined with a highly qualified technical team that was ready to learn and to take ownership of the process, even when risk were high, as well as efficient processes adopted as part of the reform package ensuring transparency and fairness during the process, helped to bring about a successful outcome.

MOROCCO

Country situation⁷⁰

62. The road to telecommunications' reform in Morocco was paved by sound macroeconomic policies during a period of structural adjustment from 1982-93. Once the economy was stabilized, government began a second phase of reforms. Here government aimed to create a credible legal framework, emphasizing the rule of law to

⁶⁹ OED/OEG 2001, p.34.

⁷⁰ This section draws on Economic Intelligence Unit, Morocco country Profile 2002, p.4/5; and World Bank President's report number P7451, 2001, p.2/3.

enhance the confidence of domestic and foreign investors in local institutions. It embarked on a privatization campaign and worked towards increasing financial sector transparency and efficiency to make access to capital fair and equitable. In addition, it created modern, open regulatory frameworks to open up key sectors such as energy and transport to foreign direct investment. The goal was to instill confidence in investors concerning Morocco's institutions and its leadership.

63. King Hassan's very strong belief that Morocco's future depended on private sector development propelled these reforms. The King wanted to push Morocco into modernity, and unlike other states in the Maghreb he looked westward rather than eastward for advice and for keys to Morocco's future. As early as 1960, he stressed the importance of the private sector. He was against single party systems, and by 1963 had created a multi-party constitutional monarchy. Throughout the 1980s and 1990s, his aim was to create an enabling environment for the private sector. He made the link between private sector growth, job creation, and the country's stability, including forestalling unrest. The latter became particularly important as political democratization and modernization, now pursued under Hassan's son, King Mohamed VI, are being accompanied by a tremendous expansion of civil society, voicing its concerns via an increasingly assertive media.

The telecom reform process

64. In 1997, Morocco's Parliament passed and promulgated a law, referred to as Law 24/96. The law liberalized the telecom sector by permitting competition and setting up an independent regulatory agency, Agence Nationale de R glementation des T l communications (ANRT). It also allowed for the privatization of the state-owned operator Itissalat-al Maghrib (IAM), which had both fixed and mobile services. By August 1999, government awarded a second mobile 15-year license to Medi Telecom, a consortium of European and Moroccan investors, for \$1.1 billion. This was one of the highest prices ever paid per inhabitant, in a region not known for attracting great investor interest. Morocco's success stemmed from having set up a transparent regulatory framework⁷¹, a bidding process, as well as its willingness to offer a license with attractive terms.⁷²

65. Before the reform, Morocco had a relatively modern and efficient telecom network, although it lagged behind other countries in the region such as Egypt and Tunisia. Between 1993 and 1997, the number of fixed lines increased from 827,000 to about 1.375 million, covering about 5 percent of the population and a relatively small number of cellular subscribers, with limited coverage of the rural areas.

66. Liberalization of the sector in 1999 brought a huge expansion in service, from 149,000 GSM customers in June to over 5 million by the end of 2001. During the same period tariffs decreased by 60 %, while telecom revenue as a percentage of GDP rose

⁷¹ Although it falls short of EU standards, it has put compliance with the high standards set out in the "acquis" within reach, provided commitment is maintained.

⁷² Bjorn Wellenius and Carlo Maria Rossotto, "Introducing Telecommunications Competition through a Wireless License: Lessons from Morocco," Viewpoint, Note No. 199, November 1999, p.1.

from 2.04 % to 4% in two years.⁷³ By mid-2002, the reform also had demonstrated its effect on poverty alleviation. Over 90 percent of the population is now covered by mobile communications' services: 66 percent are less than 34 years old and 43 percent are in the lowest income bracket or unemployed. Furthermore, call centers alone have led to the creation of 20,000 new jobs.

Keys to success

67. Keys to success were a long and sustained set of continuous actions by King Hassan II and his advisors, demonstrating clear objectives and commitment to reform⁷⁴; support from the Bank with analytical work and knowledge to the champions of reform at key junctures, using windows of opportunity, and the identification by the King of the vested interests opposed to reform and the design of a strategy to derail them.

68. *Assessing risks and constraints.* Notwithstanding the King's interest in reform, a situation had evolved where the upper and even middle levels of the public sector had a good deal of independent administrative power that could be used either to ignite or thwart reform. A certain symbiosis had evolved between the King and the public sector, which had a reputation for sometimes using its own internal regulations to undermine the King's directives. In launching his reform agenda, the King was more than aware that the power of vested interests in the public service had evolved to the point where they both created and protected non-competitive rent-seeking activities across numerous sectors, threatening to jeopardize the country's future.⁷⁵

69. To bring about the broad set of reforms he envisaged for Morocco, which included the telecom sector, the King came up with a strategy to undermine the vested interests against reform, bring his longstanding political opponents, the social democratic party, USPF, into the government, and mobilize the public to support the reforms he envisaged.

Key decision makers

70. *Support of key actors.* Throughout the 1990s, the Bank provided expertise to reformers in Morocco at key junctures to turn the tide in favor of reform. The informal interactions between Bank staff and members of the Royal Council⁷⁶ reflected a clear and mutual understanding that if reform was to stand a chance, Bank staff could not

⁷³ Implementation Completion Report, Telecommunications, Post and Information Technology Sector Adjustment Loan, June 21, 2001, p.6.

⁷⁴ It should be noted that the dualism described here between the King and some of his reform oriented advisors on the one hand and government on the other, is based on a limited number of interviews. There are indications that even within the Royal cabinet differences prevailed on the issue of liberalization.

⁷⁵ Salaries in the civil service were very low and its officers had little patronage to offer. However, the opposite was true of public sector enterprises and agencies overseen by many ministries. In these entities regulations were looser, and they had a good deal of liberty to allot houses, land, vehicles and other assets as patronage. Their clients, in many cases were influential and middle level members of key ministries whose action or inaction was often key and who thereby could use their power to undermine any reform that might destroy this cozy relationship.

⁷⁶ A reform minded sixteen-member council of advisors to the King.

limit their interactions to the formal ministries, because these were not the only decision makers and because they were often opposed to reforms.⁷⁷

71. The King used the Bank's analytical work before to mobilize the public against the small but powerful minority against reform. For example in 1994 and 1995, he had commissioned a set of confidential studies: one on education and jobs and another on the public sector, which was very critical both of the Ministry of Finance and the Ministry of Internal Affairs. Much to the surprise of the Bank, the King released these internal studies during his annual state of the union address informing civil society how a small minority was benefiting from the status quo at the public's expense.

72. The Bank's emerging strategy was to rely on a few committed individuals who benefited from support by the King. At critical times, for example during a time of intense government infighting leading up to the GSM tender, the Bank successfully supported the regulator, by providing global lessons and experience that helped to strengthen his case and led to a more balanced coverage in the press.

Lack of broad commitment

73. The move to open up the telecom sector met complex and widespread resistance. In 1994-95, telecommunications reform had been discussed in parliament, but stagnated. The legislation presented to parliament had been drafted by the Minister of Telecommunications, who also managed the state operator, widely regarded as a cash cow of patronage by the numerous ministries that benefited from it. The Minister of Privatization opposed the legislation, which he viewed as insufficiently competitive.⁷⁸

74. The Minister of Telecommunications was nominally in favor of telecommunications reform and a supporter of the President, but as a patron/client of the Minister of Finance he was in fact against reform. He did not want to disrupt the mutually beneficial relationship that existed between the ministries and state enterprises, something that would have been destroyed by competition, privatization, the rule of law and an independent regulator. The state-owned company viewed itself as untouchable and the vested interests that supported it were strong. They were determined that even if a reform brought in private companies to compete with the state operator, the reform itself would have to be diluted enough to maintain the existing relationship between the state owned enterprise and its various client ministries.

75. After almost four years of various attempts to sabotage reform by the Ministry of Finance⁷⁹, the socialists, and vocal trade unions, the telecommunications' law was

⁷⁷ The main reason for promoting these ties was that the establishment in many key ministries, including Finance and the Interior, were protective of the status quo, which benefited them, in contrast to a majority of the King's advisors in the Royal Cabinet, who were interested in reform.

⁷⁸ Interestingly enough, his ministry was one of the few without a state owned enterprise under it and hence without patronage.

⁷⁹ For example in 1996, last minute the Minister of Finance last minute funds for a study tour organized by the Bank team for the Minister of Telecommunications, Privatization, and other senior officials to visit the

passed in August 1997.⁸⁰ Elections were held in the fall of 1997, with the socialists capturing the majority vote.⁸¹ The socialist Prime Minister, a long-standing opponent of the King who had been in exile, formed a new government in February 1998.

Institution building and client incentives—liberalization

76. *Formal versus informal rules.* As a result of Law 24/96, the government created ANRT, the regulatory authority, in February 1998. The King appointed the first regulator from his own Royal Cabinet of Advisors. Although the independence of the regulator was guaranteed in the law, ARNT was not totally independent, given that its budget was determined at the beginning of every fiscal year and then allocated by the Ministry of Finance.⁸² This effectively meant that for certain expenditures, ARNT needed government approval. Also, ARNT had no power to impose intermediate penalties on violators, other than the drastic measure of revoking the license. This indirectly favored the incumbent operator.⁸³

77. Notwithstanding the new law and the creation of an independent regulator, with a “broad mandate and clear authority”⁸⁴ the new government, including the Minister of Finance, was still not keen to open the sector to competition or to privatize the state operator. The key opponents of liberalization came from within the state operator and from SEPTI (Secrétariat d’Etat Chargé de la Poste et des Technologies de l’Information), a new state secretary for posts and technology, which was set up without much of a mandate after the breakup of the Ministry of Posts and Telecommunications.

78. Consequently, it took over one and a half years to launch the first competitive tender for a private GSM operator. During this time, the Ministry of Finance exercised its financial authority and made it difficult for ARNT to cover its operating expenses until the King stepped in. One week before the tender, the Minister of Finance added a 20% VAT on to the license fee, reneging on a previous statement that he would not do so. In addition, he attempted to understate the value of the license fee in the budget, which was published in May 1999 and was also meant to discourage investors. Again,

U.S. and Chile to learn more about liberalization, privatization, and their experiences with reform of the sector.

⁸⁰ The King’s timing was strategic. The bill, known as law 24/96, was sent to parliament after the king had appointed a transitional government in July 1997, designed to last for only a few months. During this period, he replaced the old Minister of Finance with a new minister, who presented the Telecommunications law to parliament. As he was occupying his post for only a short period, he had no vested interests to protect. The Minister of Telecommunications, who was head of the state owned monopoly and was against the law, was out of town. The socialists abstained for a variety of reasons.

⁸¹ In 1997, the king allowed the leader of the socialist opposition to return from exile with a plan to hold elections, and bring the socialist opposition into government. He believed that power would chasten their ability to create political instability in the future.

⁸² Implementation Completion Report, Telecommunications, Post and Information Technology Sector Adjustment Loan, June 21, 2001, p.2.

⁸³ It is important to note in contrast the far reaching impact of the reform in Mauritania where broad commitment and a successful learning process had led to a full understanding and acceptance of the new law, and the similarities with Mali where, while the new law was considered by the National Assembly the parent minister for telecom had signed an agreement to issue a non-competitive license.

⁸⁴ Ibid.

the King had to step in over the head of the Minister of Finance. Simultaneously, the press tried to discredit ARNT in an attempt to support the state operator and to discourage investors from bidding for a second mobile telecom license.

Incentives supporting reform

79. In anticipation of the attempts that would be made to undermine reform, its champions had been working with Bank staff to put through a \$101 million sectoral adjustment loan, TPI-SAL, conditioned on a transparent tendering operation for a second GSM operator. This helped to overcome the resistance of SEPTI, which was trying to water down the licensing arrangements drafted by ANRT. Even opponents of the reform, including the Minister of Finance, found the size of the loan plus the Bank's stamp of approval enticing and did not wish to lose it.

80. In the opinion of those involved, the Bank's conditionality was a key element in moving the reform process ahead, resulting in a successful launch of the tender in July 1999, which attracted seven bidders. A mobile license was awarded to Meditel for \$1.1 billion in a process that was widely seen as open, fair, and professional, with an evaluation report of the bids published on ANRT's website. The license, in the end, had a number of features that promoted genuine competition and minimized the risks posed by the state operator's dominance.⁸⁵ The Economist wrote in May 2000: "In a heavily regulated region, Morocco's telecom sector has become a pilot for a new way of administration. The regulator, not the Ministry of Telecommunications, is in charge, and acts as an independent arbitrator."

Incentives to backtrack

81. The huge success of the transaction in terms of revenue generation⁸⁶, access and reduced prizes for telecom services turned public opinion strongly in favor of the independent regulator and against the government, which had tried to discredit the reformers in the government press. Its main arguments had been that there would be no strong demand for new services and little additional revenue from the sale and that privatization would affect employment negatively.

82. Consequently, ANRT's popularity, independence, and its youthful staff, who had no connections to existing factions in government, were viewed as threatening. Moreover, the rapid increase in access led to a significant increase in ANRT's projected revenues, to which SEPTI, the state secretariat in charge of telecommunication, now wanted to gain access.⁸⁷ The head of SEPTI was also on the board of the state operator.

⁸⁵ Meditel was allowed to build its own infrastructure and bypass that of IAM, the state operator, up to the point of interconnection, operate its own gateway for international calls after the expiration of a two year period of exclusivity for IAM, provide wireless service to other parts of the country with ANRT's approval, and have the advantages of a duopoly for four years.

⁸⁶ The Minister of Finance budget estimate for the sale of the license to a new operator was \$ 400 million compared to \$1.1 billion that were ultimately realized.

⁸⁷ At the time the amendment was being proposed, the revenue from the telecommunications' sector had increased from \$500 million to \$1.5 billion. Every operator was supposed to put 4 percent of its revenue

In November 2001, he proposed an amendment to Law 24/96 that would have made ANRT report to SEPTI, thereby reducing its authority and giving SEPTI control over the regulator's financial resources.⁸⁸ Under this arrangement, ANRT would “lose its power to make binding regulations let alone enforce them” and would “merely be an oversight body with few meaningful powers”.⁸⁹ The amendment was proposed just before the issuance of a fixed line tender, something ANRT then postponed, after which the head of ANRT resigned.

83. *External pressure.* The Bank wrote a letter of objection to government that was then leaked to the press. Among other matters, the letter noted that the amendment violated some of the conditions for the effectiveness of its recent April 2001 “Information Infrastructure Sector Development Loan”. The public took the side of ANRT and the new king; Mohammed VI⁹⁰ then stopped the amendment.

Institution building and client incentives—privatization

84. Market liberalization and the successful GSM tender accelerated the agenda for privatizing IAM: first, it prompted IAM to focus early on customer service, accelerate service rollout, reduce prices, and strengthen commercial management. Second, it generated government interest as the result of the high license fee obtained; third, it stressed the need to free IAM from public sector restrictions and facilitate its access to global capital markets through an international partner. Finally, it contained the risk that IAM's monopoly privileges would be extended in an attempt to increase the sale price.⁹¹ However, the Ministry of Finance, by then in charge of the privatization process⁹², was initially determined to ensure a long period of exclusivity to protect Maroc Telecom, something that violated WTO conditions as well as those of the new Information Infrastructure Loan that was being prepared by the Bank. A compromise was reached with the Bank and Maroc Telecom was allowed to retain exclusivity on its fixed line calls until the end of 2002.

into a universal service fund controlled by ANRT and designed to increase services to the rural areas. When the amendment was being proposed, the fund had not yet been set up and operationalized. Had the fund been in existence, it would have been collecting about \$60 million a year. Government also charged and collected an additional one percent per year of each operator's revenue to finance training in an institute under the control of ANRT. Under the proposed amendment, ANRT would have lost control over both the universal service fund and the contributions for training. The Minister of Telecommunications clearly wanted to oversee both funds and how they would be used.

⁸⁷ King Hassan died shortly after the successful GSM tender in 1999

⁸⁸ Morocco: Is the Government Messing with a Winning Formula?” from Pyramid Advisory Alerts, The Economist Intelligence Unit, 25 January 2001, p.1.

⁸⁹ “Morocco: Is the Government messing with a winning formula?” from Pyramid Advisory Alerts, The Economist Intelligence Unit, 25, January 2001, p. 1.

⁹⁰ King Hassan died shortly after the successful GSM tender in 1999.

⁹¹ World Bank, ICR SCL-44650, TPISAL, June 21st, 2001

⁹² The Ministry of privatization had been dissolved in mid-2000.

Information and knowledge transfer

85. Aside from the Bank's effective use of conditionality (TPI-SAL and Information Infrastructure Loan), the reformers felt that the Bank assisted the process greatly by supplying them with up-to-date, in-time information and data. This helped them to show how liberalization had worked elsewhere and to use global information not available in Morocco to prove that competition had not destroyed the value of the state operator or led to job losses in other countries. The reformers then publicized this information in the media to counteract the negative press that was being put out by those against reform. As the former head of the state regulator put it, "the Bank's invaluable contribution was to provide critical information on policy issues that would help to influence decision makers at the right time and to influence public opinion by standing behind the reform."⁹³ In May 1999, during a week-long visit of a Moroccan delegation, Bank staff made presentations on key issues including best practice on privatization, and gave advice on technical issues such as mobile tenders and interconnection. The technical assistance program covering some of these issues and funded by EU grants and PHRD "had a very significant impact as it was a key factor in influencing the final decision of the Moroccan government to proceed with the liberalization".⁹⁴

86. In 2000, the Bank produced a chapter on the impact of telecom on growth for the Bank study "Morocco: Sources of Growth"⁹⁵, which helped to explain the link between sector specific reform and the benefits to the general economy (for example, it estimated that the sector could generate additional employment for 70,000 people over the next four years). Remarkably, the growth forecasts included in the report actually did materialize. The Bank also supported a number of seminars and conferences to promote telecommunications' reform, and took the opportunity to speak to key members of government, and civil society.

Bank contribution and style

87. The Bank's main contribution in the Moroccan reform consisted of high-level expert advice and technical assistance for the design of a wireless license and preparation for privatization and an intense dialogue with many actors that led to a clear understanding of the issues at stake.

88. As in Mauritania, the relationship of the Bank and those supporting the reform was seen as open, cooperative, and trusting. Requests for support and information by the authorities were handled swiftly and the country dialogue included hands-on advice and support by the country director and the regional vice president. A very important factor was continuity in the Bank team, with the core team in headquarters and the country office staying in place for four years.

⁹³ Capacity building in terms of staff expertise in ANRT, on the other hand, was seen as less important in terms of Bank contributions, as other providers are able to respond to training requests faster and more effectively.

⁹⁴ World Bank, ICR No. 22420, p.12.

⁹⁵ Carlo Maria Rossotto, Rapport sur le potentiel de croissance des services de pointe, confidential draft 2000.

Outlook

89. Although the process of liberalization and privatization has been successful, it now risks backsliding in a number of key areas. As of June 2002, government had not met the liberalization timetable it agreed upon with the Bank in the TPI-SAL loan. This involves licensing two more local fixed lines and two more international licenses in 2002/3 as well as another GSM operator in 2003. The implications of non-compliance in this area are that it could lead to a permanent duopoly in both types of services, thereby running the risk of collusion. To date, government has so far agreed to issue one more fixed license, but is insisting on maintaining exclusivity for two years. Furthermore, if Meditel bids for the third license and is successful, the result would be a perfect duopoly. In addition, the government has not complied with its agreement to sell more of its shares in Maroc Telecom and is encountering delays in the award of international licenses, possibly in breach of WTO commitments.

Conclusion

90. The reform process in Morocco illustrates the fragility of institutional capacity building and the susceptibility of new rules of the game face to vested political interests and old ways of doing business. The Bank's strategy to support a few key actors and champions committed to reform, although viewed as the only option to promote change within a weak institutional environment, has made the reform process inherently fragile. The heavy dependence on the authority of the king and a small group of supporters plus the use of conditionality to move it forward at key junctures also made reform vulnerable to backsliding. However, in complex political settings, such as Morocco, the attempt to broaden ownership through dialogue, learning and a more participatory processes may not be successful.

91. A better understanding of the underlying risks and the extend of commitment or opposition to reform is clearly a first step when assessing the sustainability of reforms ex ante. However, the context in which a reform takes place, in terms of institutional set up and political will, is a changing variable that itself requires adjustments throughout the process. The Bank's emerging focus on good governance and institution building as a precondition for reforms tries to address the underlying fragility caused by weak institutions, lack of transparency, and lack of democratic processes that characterizes many developing countries. Clearer guidelines for staff on the preconditions for engagement and the triggers on which to build an exit strategy could be useful cornerstones in the effort to manage risks and adjust the policy dialogue accordingly.

TABLE 1: INGREDIENTS OF CAPACITY ENHANCEMENT⁹⁶

Ingredients of CE	Mauritania	Mali	Morocco
Assessing risks and constraints/defining the problem	<ul style="list-style-type: none"> • Mauritania’s image as a high risk economic backwater; lack of institutions; • Effect of EA crisis on FDI 	<ul style="list-style-type: none"> • Relatively less risky than Mauritania, had necessary skills and sector minister seemed committed to reform; • Strong vested interests initially not perceived; • Effect of EA crisis on FDI. 	<ul style="list-style-type: none"> • Satisfactory record of structural reforms ; • Lessons learnt from past WB telecom operations in Morocco; • Bank had good country knowledge and understanding of King’s role as a reformer; • And fair understanding of lack of broad commitment to reform and vested interests
Client commitment	<ul style="list-style-type: none"> • The key players, in particular the powerful president, the head of the state operator and the MoE were committed to reform; • Commitment demonstrated by up front action and development of own plan; swift processing of PPF; matching words with deeds; willingness to listen and change initial plan 	<ul style="list-style-type: none"> • Commitment of sector minister reflected in far reaching letter of sector policy and a draft law; • But no matching deeds ; • Attempts to undermine functioning of PMU through political appointments; • Lack of commitment from President later contributed to derailing the reform process; • Up to now no preparation of SOTELMA for privatization. 	<ul style="list-style-type: none"> • King and a small group of reformers was committed; • Ministry of Finance; Ministry of Telecommunications and social democratic leaders were opposed; • King was strategic in undermining vested interest and getting telecom Law 24/96 adopted in parliament
Bank support of key actors and constituencies	<ul style="list-style-type: none"> • Dialogue with the President, creating a vision for the country to overcome its constraints • Careful support of cooperation and dialogue between Minister of Economy and Minister of 	<ul style="list-style-type: none"> • Similar approach as Mauritania, but Bank support for reform within the government had major delays, due to mistrust following the Malitel scandal. • The Bank informed the press, the 	<ul style="list-style-type: none"> • Bank strongly supported reformers, in particular the head of ARNT; and • Designed a program to strengthen ARNT’s capacity

⁹⁶ Capacity enhancement (CE) is meant to describe progress in the development of formal institutions and organizations , i.e. changes in the rule of the game and organizational behavior that lead to improved service delivery to the public and an improvement of the investment climate.

	<ul style="list-style-type: none"> Interior to build confidence; Support to the Minister of Economy as a means to broaden reform to other sectors 	private sector and unions about the implications of government actions.	
Risk mitigation action	<ul style="list-style-type: none"> Dialogue (non-pressure) on proposed changes in strategy that would increase country's attractiveness to investors; Mapping of the implications of institutional change for key actors and power balance; Creation of inter-ministerial committee chaired Minister of Economy Advise on transparency to attract investment and marketing to inform investors. 	<ul style="list-style-type: none"> Comprehensive letter of sector development policy; Only 1.5 years into the process lack of commitment was fully apparent, and the Bank threatened to exit. HIPC delayed by one year; project suspended; After Maritel crisis, transparent process and external audit of technical evaluation of bidding process helped restore credibility. 	<ul style="list-style-type: none"> Bank designed project to support the implementation of the Law 24/96 and made transparent GSM tender a TPI-SAL condition; Bank established a close working relationship with government and ANRT.
Client incentives	<ul style="list-style-type: none"> International reputation; Revenue generation; Access to HIPC; Presidential support in centralized system; Reaching out to various stakeholders in context of PRSP and elaborating potential benefits for stakeholders. 	<ul style="list-style-type: none"> Pressures (loss of intl. Reputation and loss of HIPC, suspension of project preparation), the position of the unions opposing the governments course of action, and public opinion brought the government back on track. Favorable perceptions of reform impact fom key stakeholder (SOTELMA's workers, small service providers and private business men), Internal vested interests were powerful and not met with resistance from within the government. 	<ul style="list-style-type: none"> <i>Opponents to reform:</i> Loan proceeds; License fees; Privatization revenue; Reputation in terms of Morocco complying with high international standards and outperforming the region; Public opinion/media. (But long standing vested interest to protect state operator still pose threats to the introduction of competition and regulatory autonomy) <i>Supporters of reform:</i> As above and benefits of reform in terms of service delivery and macro-impact (unemployment, investment).
Information and knowledge adaptation	<ul style="list-style-type: none"> <i>Context:</i> acknowledging country specific risks; careful sequencing 	<ul style="list-style-type: none"> <i>Context:</i> A new PM took office as well as new Minister of 	<ul style="list-style-type: none"> <i>Context:</i> Bank tried to support implementation of Law 24/96.

	<p>of reform, making explicit the shifts in power involved.</p> <ul style="list-style-type: none"> • <i>Process</i>: Finding the right language; participatory structured action plan developed with the government; gradual, government led approach to institution building. • <i>Means</i>: Study tour to Bolivia and Peru; Multi-media out reach; websites; Video-conferences; Investor conference. 	<p>Communications; new PMU team; only after the crisis authorities internalized the need for transparency, strong corporate governance and investor confidence.</p> <ul style="list-style-type: none"> • <i>Process</i>: After the crisis a strong technical team was able to take advantage of the knowledge the Bank was offering • <i>Means</i>: Learning from Mauritania, which is viewed as a competitor; study tours also to Senegal, Burkina Faso, Cote d'Ivoire, and Morocco; Website to inform investors; Implementation process of the Manual of Procedures was amended; Investor conference 	<ul style="list-style-type: none"> • <i>Process</i>: Bank helped reformers in arguing their case and to build capacity of the regulator. • <i>Means</i>: Quick response briefings Press coverage showing Bank support for reform, counteracting negative press. • Study on growth impact of telecommunications reform helped to explain the link between sector specific reform and benefits for general economy. • Study tour did not materialize as it was Minister of Finance withheld funds.
Bank contribution and style	<ul style="list-style-type: none"> • Openness in dialogue, patience to build mutual trust; participatory approach; • active involvement of country director; • Continuity and technical excellence of Bank team. 	<ul style="list-style-type: none"> • Firm ethical stance until conflict was resolved; ready to exit; active involvement of country director • Continuity and technical excellence of Bank team 	<ul style="list-style-type: none"> • Using windows of opportunity and supporting the champions of reform; • Building of trust and support to give reformers confidence to take risks; • Involvement of MENA VP, Country Director • Continuity and technical excellence of Bank team.

TABLE 2: TOOLS FOR TELECOM

Strengthening capabilities	Telecom Handbook; Telecom Toolkit; Infodev highlights; OED/OEG evaluation; RRU
Knowledge adaptation	Quick response briefings; study tours; twinning; conferences; country debates and workshops; communities of practice; websites
Assessing risk/defining the problem	Readiness for reform analysis; Risk analysis
Understanding institutions	Organizational mapping; Institutional assessments; Social capital analysis
Client commitment, ownership, understanding incentives	Stakeholder analysis; Ownership assessment
Support to key actors	See knowledge adaptation; and participatory tools
Monitoring and evaluation	Organizational mapping; Organizational evaluation; Benefit incidence analysis; Demand/supply analysis

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