



<b>1. Project Data:</b>		<b>Date Posted :</b> 09/22/2003	
<b>PROJ ID:</b> P040019		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Public Capacity Building Project	<b>Project Costs (US\$M)</b>	15.09	15.09
<b>Country:</b> Madagascar	<b>Loan/Credit (US\$M)</b>	13.83	12.99
<b>Sector(s):</b> Board: PS - Central government administration (60%), Law and justice (30%), Sub-national government administration (10%)	<b>Cofinancing (US\$M)</b>	1.26	2.53
<b>L/C Number:</b> C2911; CP919			
	<b>Board Approval (FY)</b>		97
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2001	12/31/2002
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**

The MOP stated the objective as follows . " The proposed project would assist the government in improving **economic management** and addressing selected **governance issues** , which are crucial to encourage private investors and achieve the goals of growth, and thus poverty alleviation, by : (i) contributing to a more effective government effort to identify, define, implement and monitor economic policies; (ii) helping to enhance the civil service and its capacity to perform efficiently its functions in the wake of a redefined role of the state in the economy and a far -reaching on-going decentralization process; and (iii) contributing to making effective the "rule of law" and improving the security of business transactions through the independence and increased effectiveness of the judiciary, by supporting business law reform and modernization of the judicial system ".

**b. Components**

The Credit Agreement makes it clear that there were seven components, four to achieve the first objective, i .e., to improve economic management, and three to achieve the second one, i .e., to address some governance issues .

1. Support (TA, training, and equipment) to the Technical Secretariat for Adjustment (TSA) to: (i) monitor and coordinate economic and social reform programs; and (ii) design and implement a public information campaign on the adjustment program.
2. Support to the Statistical Office to: (i) strengthen capacity with respect to national accounts; (ii) develop and implement household-welfare surveys and develop the capacity to carry them out and to monitor them; and (iii) establish a permanent unit to carry out business -cycle surveys.
3. Support to the State Secretariat for Economy and Planning (SSEP) to: (i) carry out studies on economic development strategy and projects' economic viability; (ii) to prepare sectoral strategies and PIPs and PEPs consistent with them and with the budget; (iii) to monitor projects' execution and identify obstacles to their implementation; (iv) design and prepare a quarterly publication on economic information; and (v) carry out an organizational audit.
4. Support to the Ministry of Finance and Budget (MFB) to: (i) strengthen the effectiveness of the budget as instrument of economic policy; (ii) carry out an audit of GOM's autonomous agencies; (iii) carry out an organizational audit of the Treasury; (iv) establish an efficient debt management system; (v) rehabilitate, modernize, and computerize the payroll management system; and (vi) establish a Department of Economic Forecasting and Analysis.
5. Support to the reform of the Civil Service through : (i) government-wide workshops to develop a detailed action plan for reform, including a new statute; (ii) a diagnostic study of four pilot ministries to make concrete proposals for reorganization and redeployment of staff resulting from the decentralization process; and (iii) the financing of

activities/studies resulting from the recommendations of the above -mentioned workshops.

6. Support to the decentralization process through : (i) studies on the design and implementation of the decentralization and deconcentration process; (ii) training of officials of the central and decentralized governments in the decentralization process; and (iii) provision of training, TA, and equipment in support of pilot implementation of decentralization in selected urban centers .

7. Support to the legal and judicial reform by: (i) compilation and publication of business laws, and publication of a legal periodical; (ii) reform of commercial and business laws; (iii) training and retraining of judges and other court personnel; (iv) measures aimed at streamlining the litigation process; (v) measures aimed at strengthening the effectiveness of the Ministry of Justice and of the courts; and (vi) a study on the establishment of an arbitration mechanism for disposing of commercial disputes .

The October 1998 mid-term review recommended a substantial restructuring of the project in order to simplify its design and thus facilitate its implementation, without however modifying its objectives . The restructuring became effective May 1, 1999. The ICR indicates that the restructuring was prompted by four factors : (i) successful implementation of the adjustment program (SAC- I was approved in March 97); (ii) a revision of the Constitution in July 1998; (iii) a QAG Rapid Supervision Assessment in July 1998, which concluded that the focus on development impact was marginally satisfactory, that project design, readiness for implementation, and borrower commitment were questionable, and that the project was too complex; and (iv) changes in the organization of key ministries . The restructuring consisted of the following :

1. The Statistical office component was closed because 2 sub-components (national accounts and business cycles ) were completed satisfactorily; the third one (household-welfare surveys) was transferred to the MFB component.
2. The SSEP component was closed, except for its sub -component 1 (study fund) transferred to the TSA component, because of the weaker role and poor performance of the Ministry of Planning after a ministerial restructuring .
3. The Civil Service reform component was to be closed by end 1999 (after a national seminar) for lack of political support.
4. The Decentralization reform component was closed, except for ongoing activities in the pilot urban centers, because of a change in government strategy on decentralization .
5. Under the MFB component, support to the Treasury was reoriented to its computerization instead of its reorganization.

### **c. Comments on Project Cost, Financing and Dates**

Actual financing by IDA decreased by about US\$0.8 million due to depreciation of the US dollar vis-à-vis the SDR, but GOM's contribution doubled to compensate partly for the IDA shortfall and to finance additional activities not foreseen at appraisal. The closing date was extended twice .

This project, the "Projet d'Appui Institutionnel à la Gestion Publique - PAIGEP" of US\$13.8 million" was one of three related investment projects (the others being the "Projet d'Appui Technique au Secteur Privé - PATESP of US\$23.8" and an APEX operation of US\$48.0 million) and one structural adjustment project (SAC-II) all supported by the Bank at the same time. OED reviewed the PATESP, the PAIGEP and the SAC-II simultaneously.

### **3. Achievement of Relevant Objectives:**

The objective of improving GOM's economic management capacity was not achieved, mainly because, at entry, the Bank and the Government failed to recognize that the existing fragmented structure of the central ministries constituted a major obstacle to improving policy-making. In that respect, the objectives pursued were not relevant at the time. A truly relevant objective would have been for the Bank and GOM to build a consensus around supporting a reorganization of those ministries through a merger followed by a clear definition of tasks and responsibilities and staff strengthening. Instead, the existing structure precluded the support provided by the project to be effective . Efforts were in fact largely diluted. Furthermore, in October 1998, at the time of the restructuring, the team did not seize the opportunity to redress the situation . This institutional issue was recognized by the Bank in several documents, notably in the context of SAC-II, and was solved only by the new Government after the 2002 crisis.

The objective of improving the performance of public administration was achieved only with respect to the legal and judicial reform. The resistance to civil service reform and the GOM 's decision to change its decentralization strategy prevented achieving substantial results in those areas .

In summary, the assistance provided under the project could not reach its objectives and lead to substantial results because of the absence of an adequate institutional support structure and the still hesitant commitment of the Government to some reforms.

### **4. Significant Outcomes/Impacts:**

The Statistical Office was strengthened and a Permanent Secretariat for Macroeconomic Forecasting was

established.

In public finance: (i) information on budget execution was made more readily available; (ii) the external audit of accounts was resumed; (iii) a single nomenclature for the budget and the treasury was introduced; (iv) allocations to the social sectors increased from 3 to 4.3 percent between 1996 and 2001; and (v) an improved civil service wage bill management system was established.

Achievements in the legal/judicial area included: (i) the business legal framework was substantially improved and made more transparent; (ii) a National School for Magistrates and Clerks was created; (iii) the critical importance of the judiciary was recognized (special statute for judges and increased remuneration); and (iv) the backlog of cases pending before the courts was reduced.

#### 5. Significant Shortcomings (including non-compliance with safeguard policies):

There were three related shortcomings, all occurring at entry :

(i) the failure of the Bank/GOM to pay attention to the risks inherent to the fragmented and overlapping responsibilities of the central ministries and, as a consequence, the failure to design the project around the streamlining of these ministries. This should have been an *"a priori"* for strengthening a new structure and for achieving results. The ICR notes that **"the multiple restructurings of key ministries"** [ICR emphasis] also hampered project implementation". This was a long-standing problem acknowledged in some of the Region's documents and was the most relevant objective at the time to improve economic management .

(ii) a lack of correct appreciation of GOM's commitment to delicate reforms, notably for the civil service; and

(iii) a too ambitious and complex design, combined with insufficient attention to project management /coordination.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Unsatisfactory	See Section 3. The ICR rates outcome as marginally satisfactory.
<b>Institutional Dev.:</b>	Substantial	Substantial	
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Satisfactory	Unsatisfactory	See Sections 3 and 5.
<b>Borrower Perf.:</b>	Satisfactory	Unsatisfactory	OED rating is based on: (i) a lack of firm resolve to tackle institutional issues and constraints; and (ii) vacillating commitment and performance during project implementation. The ICR rates borrower performance as marginally satisfactory,
<b>Quality of ICR:</b>		Satisfactory	

NOTE: ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

In countries with a recent democratization process and little experience in adjustment, a strong and frank dialogue should concentrate on building a consensus on reorganizing /streamlining deficient key institutions prior to strengthening them by training, TA and equipment; this is especially the case for central ministries .

Politically sensitive reforms should not be part of a project unless there is a full commitment by the Government and all stakeholders.

**8. Assessment Recommended?**  Yes  No

**Why?** As part of a cluster comprising the present project, SAC-I, PATESP, SAC-II, and PSD 2, to assess progress in reforms and poverty reduction . This would be very useful, especially given the deep political and economic crisis of 2002.

#### 9. Comments on Quality of ICR:

Generally, the ICR is of good quality. However, it would have been useful to discuss: (i) the justification for not having an amendment to the DCA following the restructuring; and (ii) the circumstances leading to two postponements in the closing date. Also, the analysis would have gained from a brief discussion of the reasons leading GOM to change its decentralization strategy and the nature of this strategy before and after .

