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ICR Review
Operations Evaluation Department

Report Number : ICRR11640

1. Project Data:		Date Posted : 09/22/2003		
PROJ ID:	P001555		Appraisal	Actual
Project Name :	Priv Sect Dev & C.b.	Project Costs (US$M)	35.5	not available
Country:	Madagascar	Loan/Credit (US$M)	23.8	23.1
Sector(s):	Board: PSD - Central government administration (58%), General industry and trade sector (42%)	Cofinancing (US$M)	11.7	not available
L/C Number:	C2956; CP800; CP880			
		Board Approval (FY)		97
Partners involved :	Government & private sector	Closing Date	12/31/2002	12/31/2002
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2. Project Objectives and Components

a. Objectives

To support accelerated export-led growth by: (i) increasing private sector (PS) investment and productivity through reforms in the policy and business environment; (ii) upgrading the global market knowledge, involvement, and capabilities of PS firms; and (iii) attracting FDI.

b. Components

IDA supported two programs:

The Economic Policy Reform Program, consisting of 3 components:

1. Design and implementation of reforms in the business environment and in PS incentives (market liberalization; regulatory reforms; opening to FDI);
2. Privatization, including: (i) TA and other support for the preparation, implementation, and monitoring of the privatization program; (ii) TA and other support for the establishment of the Privatization Committee and its Technical Secretariat; (iii) TA and other support for the establishment of a Privatization Trust Fund (PTF), a Social and Regional Development Support Fund (SRDSF), and an Arbitration Commission; and (iv) the establishment and funding of a Retraining Fund (RF);
3. Tax reform, including: (i) modernization of the VAT system; (ii) rehabilitation of the fiscal administration; and (iii) strengthening of the customs administration (this component was to be supervised by the Fiscal Affairs Department of the IMF).

The PS Capacity Building Program, consisting of 4 components:

1. Support services: (i) to establish a PS Support Fund (PSSF) to provide private firms and business associations access to: (i) business support services and (ii) international data and market sources, including interconnecting firms in different parts of the country;
2. TA and other support to the Competitiveness Review Committee (CRC), as a forum for dialogue between GOM and the PS;
3. Establishment of a Seminars Fund (SF) to finance seminars between GOM and PS on PS competitiveness; and
4. Establishment and operation of a FDI match-making scheme through the creation of a Match-making Fund (MMF).

After a QAG review in late 1997 (before effectiveness), which concluded that the project was too complex and recommended to reduce the number of components, the project was restructured substantially in July 1998, without changing its original development objectives and without amending the DCA, except for the reallocation of funds . The following was changed:

1. The tax reform component was dropped on the basis of: (i) the recommendation of QAG (too much complexity and lack of focus); (ii) an improved GOM/IDA dialogue in preparation of SAC-II (1999) increasingly oriented towards liberalization and privatization; and (iii) disagreement on the modalities of a bonus incentive scheme linked to tax collection. The IDA funds were reallocated to the divestiture component.
2. The MMF scheme was also dropped in July 1998, on the basis of QAG assessment and negligible success and impact (despite a pilot phase prior to appraisal which had been characterized as a complete success). The IDA financing was redirected to the PSSF.
3. The Seminars Fund was also dropped to sharpen the focus of the project and its funds redirected to the PSSF .

The total reallocation of funds amounted to US$ 2.9 million.

c. Comments on Project Cost, Financing and Dates

This project, the "Projet d'Appui Technique au Secteur Privé - PATESP" was one of three related investment projects (the others being the "Projet d'Appui Institutionnel à la Gestion Publique - PAIGEP" of US$13.8 million 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 development objective of the project was partly achieved . Over the period 1998-2001: (i) GDP growth averaged 4.8 percent; (ii) private investment as a percentage of GDP averaged 8.2 percent compared to 4.7 during 1994-97; (iii) the average public/private investment ratio declined from 1.23 to 0.97 during the same two periods; and (iv) FDI increased from US$14 million in 1997 to US$112 million in 2001. FDI was the main factor in this performance with increased investments in the EPZ and participation in the divestiture process .

Three qualifications are called for however when considering the achievement of the project's objective : (i) the important restructuring of the project, due to its original complexity, coupled with the decision to considerably narrow down its scope to fit the priorities of SAC-II (notably with respect to the divestiture program) had necessarily the effect of limiting the development impact envisaged/intended at appraisal; (ii) independently of (i), it is difficult to judge whether the good macro and PS performance of 1998-2001 can be attributed solely to the project; and (iii) the political crisis of 2002 (year covered by the project) led to a contraction in GDP of some 12 percent and to a drastic fall in FDI.

4. Significant Outcomes/Impacts:

- The companies' registration procedure was simplified;
- The mining code was liberalized;
- The key markets of telecom, petroleum, and air transport were liberalized, together with the establishment of a regulatory authority for each. In telecom, there was substantial entry into all segments, except the fixed network, with tariffs substantially lower. In the petroleum sector, the monopoly of the national company was broken into 12 private companies (distribution, logistics, refinery, transport, aviation, and other non-sector activities). In air transport, the non-regular air transport segment as well as the domestic market were fully liberalized; and
- The PSSF component was successful in providing advisory services and financial support to 809 companies, out of a total of 1532 applications, with 83 percent of businessmen surveyed acknowledging the usefulness of the scheme .

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

The divestiture program, as envisaged at appraisal (cfr. Technical Annex to MOP - Report T- 6874-MAG - paras. 15-18) has been far from being implemented as planned for a host of reasons : underestimation of issues (especially legal) at appraisal, political interference, long delays, etc. The goal was the divestiture of all PEs (120) within 5-6 years, i.e., about the period covered by the project, with a first phase covering 11 large PEs and 35 smaller ones over 18-24 months. Transactions were completed for only 17 PEs, of which 10 were liquidated. For the three largest PEs (telecom, petroleum, and air transport), on which the project (and SAC-II) concentrated, see OED's ES relating to SAC-II Section 4. As another illustration of the gross overestimation of possible achievements in privatization, suffice to note that, in June 1999, at approval of SAC-II, the same first phase of 46 PEs was slated for divestiture by June 2000 (cfr. MOP - SAC-II para. 25).

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	On the basis of Sections 3 and 5 above.

Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	However, for the divestiture component, the likelihood of sustainability will probably be as much attributable to PSD 2 (the successor project) as to PATESP.
Bank Performance :	Satisfactory	Satisfactory	The quality at entry was unsatisfactory on the basis of: (i) complexity; (ii) questionable judgment re the readiness of implementation of the privatization component; (iii) questionable judgment re some components of the PS Capacity Building program; and (iv) the inclusion of a tax reform component which was out of the scope of such a project. If anything, the PAIGEP would probably have been a more suitable vehicle for such a reform. However, Bank performance at supervision was fully satisfactory.
Borrower Perf .:	Satisfactory	Unsatisfactory	This rating is based on a lack of firm commitment and political interference which negatively affected the privatization component. The ICR rating is marginally satisfactory.
Quality of ICR :		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 case of divestiture and privatization, considerable attention should be given at preparation /appraisal to the complexity of the prospective transactions, including all their ramifications (such as titles to assets, etc.). The country lawyer (and possibly lawyers more specialized in privatization) should be involved early on in preparation and given much more say in project design.

8. Assessment Recommended? ● Yes ○ No

Why? As part of a cluster comprising the present project, SAC-I, PAIGEP, 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:

The ICR should have discussed in greater detail the status of the overall divestiture program at end 2002 since the MOP and its Technical Annex clearly explain that it was to correspond almost exactly to the project period. Without underestimating the importance of the three large PEs, the reader is left not knowing what happened to the vast majority of PEs. It would also have been useful to discuss the reasons and justification for not having an amendment to the DCA following the restructuring. An ICR should be a self-contained document providing **all** the information. The information on Actual/Latest Cost Estimates and by Procurement in Annex 2 is missing/incomplete.