



1. Project Data:		Date Posted : 09/22/2003	
PROJ ID: P056487		Appraisal	Actual
Project Name: Mining Sector Reform Project	Project Costs (US\$M)	7.75	5.15
Country: Madagascar	Loan/Credit (US\$M)	7.75	5.15
Sector(s): Board: EMT - Mining and other extractive (79%), Central government administration (21%)	Cofinancing (US\$M)	0	0
L/C Number: C3111			
	Board Approval (FY)		98
Partners involved :	Closing Date	03/31/2002	12/31/2002
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The Mining Sector Reform Project will: (a) complete sector reforms aimed at establishing an enabling environment to both promote foreign direct investment in mining and integrate small-scale and artisanal activities into the formal economy, which would ensure a real and sustainable contribution to economic growth; (b) build institutional capacity to effectively enforce laws and regulations, administer mining titles, monitor sector developments, and make geological information available to potential investors; (c) establish capacity in the country, by means of pilot projects, to identify and address environmental as well as social impacts from mining; and (d) identify and adopt appropriate mechanisms to facilitate the development of small-scale mines and to improve the social, welfare, health, and environmental conditions of artisanal miners.

b. Components

The project components include: (a) normalization of small-scale mining (support for integrated management and TA program for small-scale mining; capacity building for the Mining Directorate; strengthening minerals laboratory etc.); (b) the development and maintenance of an environmental information system /sector environmental control and assessment; (c) institutional reform and capacity building; and (d) project coordination.

Some sub-components were scaled down because of the failure of co-financing arrangements: normalization of small-scale mining -- extension services to small-scale miners; strengthening the minerals laboratory, and support for the creation of a cutting center; institutional reform and capacity building -- geological and mining Information system.

c. Comments on Project Cost, Financing and Dates

The project cost at closure was US\$5.15 million, 34 percent less than the US\$7.75 million at appraisal, and 3 percent less than the original IDA and Government contributions. The difference is mainly due to the withdrawal of the French Cooperation commitment (US\$2.4 million equivalent) apparently due to changes in their priorities. Government contribution at US\$0.38 million was marginally higher than estimated in the MOP (US\$0.35 million).

There was a disbursement lag of six months initially due to insufficient procurement management capacity at the start of the project. A political crisis paralyzed the country during the first half of 2002, delaying progress in the project for several months, and leading to an extension in closing date by six months.

3. Achievement of Relevant Objectives:

a. Sector reforms: The project helped prepare and implement a series of laws and related regulations for the mining sector including the Mining Law of 1999 and the Law on Large-Scale Investments of 2002. The mining sector was opened up to private investment, while the government's role was reduced. Investments, exports and contributions to fiscal revenues for the sector fell short of expectations, mainly due to low commodity prices and the severe national political crisis towards the end of the project. Also, major governance issues need to be pursued to a greater extent, and decentralization of mineral resources management must take root, in order to sustain the potential interest of foreign and domestic investors.

b. Institutional Capacity: A mining cadastre was established in 2000, which operated without major delays despite the political crisis of 2002. Enforcement of new regulations was improved through creation of the National Council of Mines and Provincial Councils of Mining. Legal and institutional frameworks were reformed and compare favorably

with those in other countries. The proposed strengthening of the Geological Mining Information System was not done due to lack of parallel funding, and is expected to be carried out in the follow-up Mineral Resource Governance Project.

c. Environmental and Social Impacts of mining: Inter-ministerial regulation between the mining and environmental administrations was approved in October 2000. In the Mining Directorate, a Mining Environmental Unit with a computerized environmental MIS was established and made fully operational. Pilot environmental and socioeconomic baseline studies were carried out and standard protocols and procedures for environmental evaluation were developed.

d. Development of ASM: The project provided the government with the diagnostics for improving the managerial, technical and environmental performance of ASM. Policy designed for special reserved areas (ZAES) proved effective in preventing and managing mining "rushes", though there were shortcomings in implementation. However, unanticipated mining rushes resulted in modifying the objective from integrating ASM into traditional activities to managing mining rushes and their consequences. Also, withdrawal of parallel funding from French Cooperation resulted in the dropping of several planned ASM activities relating to laboratory and gemstone cutting facilities.

A tentative cost-benefit analysis estimates an IRR range of 90-109 percent for the project, depending on the government's ability to sustain capacity and the institutional and regulatory framework and attract private investment to the sector.

4. Significant Outcomes/Impacts:

- The project helped establish a legal and regulatory framework for the mining sector, as well as a financially sustainable mining cadastre at the provincial and national levels;
- A beneficiary survey of 100 ASM operations concluded that 80 percent had formalized their activities, 33 percent of them with direct assistance from project activities. A pilot project in the Ankazobe region led to the increase of mining permits from 16 to 206 and 37 mining operators were formalized; and
- The project helped the mining sector pioneer an effective implementation of the country's Environmental Charter and Decree on the use of environmental impact assessments (EIA).

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

- A severe national political and economic crisis during end-2001 to mid-2002 paralyzed the country and consequently, the project, until it resumed in September 2002;
- The project was demanding and complex due to the magnitude of the sector reforms and the initial lack of government capacity in procurement matters; and
- A steep decline in commodity prices at the start of the project in 1998 made investment less attractive to major mining companies, and seriously affected the projected economic impacts of the project and the overall promotion of foreign investments.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	[the ICR's 4-point scale does not allow for a "moderately sat." rating]. Relative shortfall in physical and financial targets; downsizing and reorientation of the ASM component
Institutional Dev .:	Substantial	Substantial	
Sustainability:	Likely	Likely	This assessment is subject to major governance issues being addressed and decentralization taking root, while, as noted in the ICR, the important legal and most of the regulatory framework is in place
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	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:

- From the experience of this project and others, successful reform in the sector is associated with a coherent legal framework and effective regulation by public sector mining institutions, and mechanisms that involve communities in the management of mineral resources and sharing of benefits from mining activity;
- On the other hand, enforcement of new regulations can be hindered by shortcomings in governance and institutions, even if the government is otherwise committed to policy reform; and
- Detailed baseline information and adequate institutional capacity is crucial for improving governance in a small-scale mining area through TA.

8. Assessment Recommended? Yes No

Why? The sustained impacts of the project can be better evaluated after an appropriate period of one to two years.

9. Comments on Quality of ICR:

The ICR covers all relevant issues in sufficient detail, provides adequate analysis and is well presented .