Report Number : ICRR0021413

1. Project Data

Project ID	Project Name
P109607	MG-ACGF Financial Services (FY08)
Country	**Practice Area(Lead)**
Madagascar	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-92098	31-Dec-2012	14,675,319.26
Bank Approval Date	**Closing Date (Actual)**	
05-Jun-2008	30-Jun-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	15,000,000.00	15,000,000.00
Revised Commitment	14,675,319.26	14,675,319.26
Actual	14,675,319.26	14,675,319.26

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

As per the Grant Agreement on page 7, "the objective of the project is to assist the Recipient in increasing access to sustainable financial services, particularly by micro, small and medium enterprises (MSMEs) and households in the Madagascar through the improvement of competition and diversification in the financial sector". The objective in the Project Appraisal Document (PAD) on page 6 is stated slightly differently, but the content is practically identical.

Following a level 1 restructuring on February 06, 2013, the statement of the revised objectives in the Grant Agreement (p.10) is as follows:"The objective of the project is to assist the Recipient in increasing access to sustainable financial services particularly by micro, small and medium enterprises and households, in the Recipient Territory". The statement of the objective in the restructuring paper on p. 2 is identical.

The restructuring followed the end of a political crisis (2009-2012) that provoked a blanket suspension of the entire World Bank's portfolio. When the crisis subsided, a major part of the portfolio was canceled, but this project was maintained, on condition of significantly restructuring it. While the project's objectives remained the same, the revised project canceled the intermediate outcome element of the objectives, the improvement of competition and diversification in the financial sector, as well as the set of activities that were planned to support this part of the objectives under the original project.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

Yes

d. Components

Original project

Component 1. Creating an Enabling Environment for a Sound and Inclusive Financial Sector (projected cost of US$5.8 million; actual in the amount of US$5.8 million): Identified activities to be supported by this component were to:

- Improve the Recipient's financial sector infrastructure and legal environment by: (i) assisting in the improvement of access to credit; (ii) developing an appropriate legal framework for housing finance; (iii) providing technical and legal assistance to develop legislation on private pension plans; and (iv) improving the public credit information system and removing legal obstacles to the creation of a private credit bureau; and
- Provide capacity building support and technical assistance to supervisory authorities to: (i) strengthen the monitoring and supervision of the Recipient's financial sector, particularly banking and non banking institutions; and (ii) identify and support the most appropriate and efficient structure for regulating and supervising the insurance and private sector funds.

Component 2. Improving Access to Finance and the Diversity of Financial Products (projected cost of US$6.38 million; actual in the amount of US$6.3 million): Three activities were to be funded under this component as follows**:**

- Promoting the expansion of SME financed by commercial banks by: (i) Recipient providing first loss credit coverage on portfolios of SME loans originated and held by Participating Banks; (ii) technical advisory services and training to personnel of Participating Banks; and (iii) the provision of Matching Grants in support of education and business development services to enterprises;
- Provision of assistance to the Recipient's microfinance institutions to: (i) improve their service capacity and assist in their compliance with licensing requirements; and (ii) establish sustainable training program;
- Supporting the adoption of innovative financial products and instruments through the conduct of: (i) a feasibility study on the development of mobile banking; (ii) a diagnosis and demand survey to design and disseminate rural finance products; (iii) a diagnosis of financing needs and instruments in selected priority sectors and supply chains; (iv) a demand survey on access to financial services; and (v) identification of appropriate mechanisms and options for developing long term debt and equity market;

Component 3. Project Implementation and Coordination (**projected cost of US$2.7 million; actual in the amount of US$2.7 million):** This component was to support all aspects of project implementation, including coordination, procurement and financial management.

Revised project

In February 2013 (date of revised agreement), the two original components were restructured to focus on (i) increasing MSME access to finance, and (ii) improving the capacity of microfinance institutions for greater outreach and sustainability. The third component was unchanged.

- **Component 1: Increasing MSME access to finance (projected cost of US$5.8 million; actual in the amount of US$5.8 million):** Under the revised component, the project was to finance the expansion the financing of micro, small and medium enterprises through: (i) the creation of a partial portfolio credit guarantee (PPCG); (ii) audits of the Fund, the participating financial institutions (PFIs) and the Fund manager; (iii) technical advisory services and training to PFIs and the Fund manager; (iv) legal assistance for the establishment of the PPCG Fund and the PPCG; and (v) a study on interest rates charged by banks and MFIs to MSMEs. In 2014, this component went through a level 2 restructuring allowing the funding of the following: (i) the Government's initial contribution of US$4 million to the Fund; (ii) the provision of technical advisory services and training to Participating Financial Institutions and to the Fund manager; (iii) the carrying out of audits of the Participating Financial Institutions, SOLIDIS and the Fund; and finally,(iv) the funding of a comprehensive study on interest rates charged to MSMEs.

- **Component 2: Improving the capacity of MFIs for greater outreach and sustainability (projected cost of US$6.3 million; actual in the amount of US$6.3 million):** The revised component aimed to strengthen microfinance in the Recipient's territory through: (i) the provision of capacity building support and technical assistance to the Recipient's banking and financing supervisory authority; (ii) the strengthening of microfinance institutions through training, modernizing the management information and communication systems of microfinance institutions; and (iii) the provision of support to microfinance institutions to operate in Targeted Regions, including through the provision of Matching Grants. In the context of a level 2 restructuring in August 2016, this component focused on Strengthening the Capacity of Microfinance Institutions and Other Relevant Non-Bank Financial Institutions for Greater Outreach and Sustainability. Other activities were: (i) identifying the Microfinance Institutions(MFIs) operating without a license; (ii) facilitating the MFI licensing process; (iii) strengthening on-site inspections for MFIs; (iv) improve the efficiency of the credit risk; (v) establishing a comprehensive database for supervision; (vi) assistance to drafting the regulatory text on mobile banking and agent banking, and (vii) providing training to the staff of the MFI and banking regulator, and (viii) reinforcing the capacity of MFIs and other Relevant Non-Bank Financial Institutions.

- **Component 3: Project Implementation, Monitoring & Evaluation (projected cost of US$2.7 million; actual in the amount of US$2.7 million):** This component was to provide administrative support to a project coordinating unit and the Central Bank (BCM) for project implementation and conducting monitoring and evaluation activities.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Cost: The actual project cost amounted to US$14.7 million, or 98 percent of the amount authorized at project approval.

Financing: The project was funded by an International Development Association Grant in the amount of US$15.00 million from the ACGF.

Borrower Contribution: There was no borrower contribution.

Dates: The project was approved on June 05, 2008, and made effective on November 28, 2008, with an original closing date set for December 31, 2012. On February 06, 2013, the project went through a level 1 restructuring, which brought in changes in the Project Development Objectives, the results framework, the components and cost, the grant closing date until December 31, 2016, and the reallocation between disbursement categories, including some aspects of the project implementation arrangements.

There were three other level 2 restructuring operations as follows: (i) on June 16, 2014, to make changes related to the administration of Partial Portfolio Credit Guarantee (PPCG) and the parties signing the Fund Management Agreement; (ii) on August 18, 2015, to revise again the results framework; and finally (iii) on August 15, 2016, to introduce final changes in the components and cost, extend the grant closing date until June 30, 2017, and reallocate resources between disbursement categories, and other implementation arrangements. The project was closed according to the last adopted closing term, with a delay of four years and half after the initial closing date, due mainly to the political crisis.

3. Relevance of Objectives

Rationale

Rating: Substantial

A 2013 Enterprise Survey in Madagascar revealed that there were many obstacles hindering the banks and MFIs from expanding their services to the unserved population. This project aimed to address some of those obstacles, and project objectives were highly relevant during the project implementation period until its closure. The project objectives were consistent with the current 2015-2019 National Development Plan (NDP) of the country. The second strategic pillar of the Plan devoted to macroeconomic stability and sustained development emphasized that inclusive growth has to be supported by a strong banking and financing sector. Key objectives to pursue under the plan are: (i) to strengthen the banking and financial sector; (ii) to modernize the regulation and supervision of the banking sector, and (iii) to improve access to financial services (NDP-p. 64). Similarly, the sixth objective of the WBG Country Partnership Framework (CPF) for 2017-2021 asserts the importance of improving the business environment and access to finance. Toward this objective, key actions include: (i) putting in place a plan to improve regulations, simplify processes and stronger banking facilitation, and (ii) ensuring that the IFC and the World Bank combine their financing and technical resources in nurturing a more conducive ecosystem for firm growth and finally (iii) the promotion of financial inclusion through the development of a credit bureau and a collateral registry, the modernization of the national payment system, the expansion of mobile money services, and the promotion of financial literacy and financial consumer protection (CPF, p.36).

Between the original and the revised project, there were differences in the statement and the specificity of the objectives and the activities to be implemented. While the final outcome level objective remained the same (increasing access to sustainable financial services), the intermediate outcome of the objective was removed, affecting to some extent the theory of change of the project, because targeting sustainable financial services without developing competition and diversification is more challenging and reduces efficiency in the sector. IEG accepts that the objective change at the intermediate outcome level was partly a pragmatic response to the political circumstances. However, both the original and the revised objectives at outcome level were relevant to the priorities of the borrower country, and to the World Bank's strategy in

that country as explained under the original project section. The relevance of project objective is rated Substantial.

Rating
Substantial

4. Achievement of Objectives (Efficacy)

Objective 1
Objective

"To assist the Recipient in increasing access to sustainable financial services, particularly by micro, small and medium enterprises and households in the Madagascar through the improvement of competition and diversification in the financial sector".

Rationale

The ICR did not provide an assessment of the outcome of the original project, because of the tiny share of resources (3.7 percent of disbursed amount) used to fund the activities identified under the original objective and project. This review concurs with the ICR approach and rates the performance under the original objective as negligible.

Rating
Negligible

Objective 1 Revision 1
Revised Objective

To assist the Recipient in increasing access to sustainable financial services particularly by micro, small and medium enterprises and households, in the Recipient Territory.

Revised Rationale

Theory of change

In the context of the 2008 PAD and the 2012 restructuring paper, the results framework was at the center of the project design. The results framework in the revised project was laid out in the Annex 1 of the Restructuring Paper, and was overall comprehensive. The ICR has an annex devoted the Results Chain

(Annex 6) that has most of the necessary elements, but could have been improved by showing more clearly the achieved outcomes, and the extent to which they contributed to the project objective.

The Project assumed that changes to the legal framework and policy on the public sector side, associated with support to the private sector through expanding provision of financial products and instruments for MSMEs, will create a better environment for an inclusive financial sector. Support to the private sector was done through strengthening the lending institutions (including the PPCG), technical assistance (TA) to financial institutions on lending to Small and Medium Enterprises (SMEs), financing education and business development services to enterprises, especially SMEs, and finally, providing direct support to micro-finance institutions (MFIs). This theory of change reflects established good practice on financial sector development to increase access to financial services for the financially excluded though legal reform, institutional reform, capacity building, and through financing or risk-sharing. The ICR did not discuss issues of outcome attribution or counterfactual.

Below is the assessment of project efficacy against the revised objectives, and the revised performance indicators that were maintained until the project closure.

Outputs:

Toward increasing MSMEs and households access to finance, performance against output indicators was as follows:

- The level of outstanding loans to MSMEs by participating financial institutions improved by 73%, amounting to US$58,824 against a target of US$34,000;
- The percentage of portfolio at risk - MSME - of participating financial institutions was exceeded, decreasing to 1.63%, better than the target of 4.00 percent;
- The target of dedicated MSME lending departments established in each of the participating financial institutions was achieved;
- The number of loans introduced in the Partial Portfolio Credit Guarantee (PPCG) fund by partner financial institutions was almost five times the target, reaching the number of 1928 against a target of 400;
- A mobile banking legal framework was issued;
- The number of loans extended by participating MFIs in Anosy region was exceeded by 44 percent, reaching 1,726, against a target of 1,200;
- The number of loans extended by participating MFIs in Betsiboka region was almost the double of the target, reaching 7,981,against a target of 4,000;
- The percentage of active loans to women -Microfinance- was practically achieved, reaching 54 percent, against a target of 55 percent;
    - Percentage of project-supported institutions that are reporting on this indicatory in Betsiboka region was slightly missed, reaching 56 percent, against 58 percent
    - Percentage of project-supported institutions that are reporting on this indicator in Anosy region was exceeded, reaching 52 percent , against 45 percent.

Outcome:

- Performance target related to the portfolio at risk - Microfinance- was exceed by 16 percent (4.20% against a target of 5.00%), due to: the success of TA provided to Solidis and participating financial institutions; and adequate project supervision.
- The percentage of project-supported institutions that are reporting on this risk indicator was achieved at 100 percent;
- For the loans outstanding, the target was missed, with achived performance of about 60 % of the target (US$269,002 against a target of US$450,000, and a baseline of US$190,000). However, the percentage of project-supported institutions that are reporting on this indicator was achieved. The number of licensed micro-finance institutions dropped from 30 to 25, and there has been an increasing fragility in the sector which explains underperformance in absolute terms;
- The SME loans outstanding amounted to US$496,528, against a target of US$400,000.00, exceeding the target due to successful implementation of the PPCG fund.
- The project contributed to increasing access of MSMEs and households to financial services. The PPCG' s excellent performance led to an increase in the number and volume of credits, and in the number of PFIs joining the PPCG scheme.
- The close to US$60,000 worth of lending supported by the PPCG exceeded by 55% the targeted value, while the equivalent number of loans greatly exceeded its target by 382%.
- Portfolio at risk and claims under PPCG has been contained and remained below thresholds. The capacity building delivered under the project resulted in dedicated MSME departments within MFIs to provide MSME tailored services.
- Six MFIs benefitted from improved Management Information Systems (MIS) to support their customers.
- The project created new opportunities for individuals and households to access financial services by expanding the geographical coverage of financial services with 15 new operational MFIs, and building capacity needed to provide upgraded financial services to non-corporate customers. In the two selected regions, the number of loans provided by MFIs increased by 9,707 greatly exceeding the 5,200 target, of which 54 percent was made to women.
- The new mobile banking law prepared under the project contributed to the exponential growth of adults with active mobile money accounts, which reached 54.15 per 1,000 adults in 2016. The ICR reported (p.15-16) that an analysis using data from external sources to assess the impact on financial access by households (Annex 10) shows that, in terms of financial access, the number of household borrowers at deposit-taking MFIs increased significantly during the project implementation. The number of borrowers at commercial banks grew by 71 percent from 2008 to 2016, households' outstanding deposits with MFIs greatly increased by 800 percent, and outstanding loans showed a growth close to 130 percent during the same period.

- Despite the lack of dedicated outcome indicators in the project's M&E framework, the complementary analysis conducted at completion suggests that project outputs did contribute to achieve increased access to financial services by households.

Revised Rating
Substantial

Rationale

Original project: Negligible

The outcome was insignificant as resources disbursed before restructuring was small.

Revised project: Substantial

Project outcomes included: (i) increased access of MSMEs and households to financial services, (ii) the design nd implementation of a PPCG scheme that led to an increase in the number and volume of credits, and in the number of PFIs joining the PPCG scheme, (ii) expanded geographical coverage of financial services, and (iii) while performance was under target, portfolio at risk and claims under PPCG has been contained and remained below thresholds, and (iv) the capacity building delivered resulted in dedicated MSME departments within MFIs to provide MSME tailored services.

Overall Efficacy Rating
Substantial

5. Efficiency

Given the technical assistance nature of this operation, and that the project PAD lacked a baseline comparison, a full-fledged economic and financial analysis was not considered by the ICR to assess project efficiency. Regarding the PPCG fund, simulations of the outflows and inflows for actuals (last year of project) and projections for the next four years (ICR Annex 12), show that the commissions plus revenues exceeded the administrative costs and the payment of claims. Performance of the PPCG was high, as it ended up being self-sustaining, cash positive and profitable. Component-wise, the post-exercise economic analysis of the PPCG shows a high rating for efficiency, but for other components, their implementation indicates either modest or substantial ratings. Substantial savings arose mostly from the sharp depreciation of the Ariary against the US dollar, and were utilized to complete a financial and operational audit of two major non-bank financial institutions.

The project was extended twice in an effort to reallocate resources towards more appropriate activities, and most of the resources were disbursed (98.7 percent). Reallocations occurred twice: (i) costs overrun of 3.3% of loan value caused by an underestimation of the budget for reinforcing MFIs, eliminated by transferring thereto funds from the unallocated category and move funds from Categories 3 and 4, and (ii) unwarranted expenditure but later conformed with. On the negative side, the project was closed four years and a half after the initial closing date, doubling the initial duration due to internal political crisis.

On balance, while the PPCG was efficient, other aspects of the project were not, therefore overall efficiency of the project is rated Modest.

Efficiency Rating
Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate		0	0 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The weighted and rounded aggregate result of the combined pre and post restructuring project is a Moderately Satisfactory rating. The project had moderate shortcomings.

a. Outcome Rating
Moderately Satisfactory

7. Risk to Development Outcome

Key project achievements include (i) the modernization of MFIs, with fifteen new MFI outlets fully operational in the targeted regions, (ii) the delivery of management information systems (MIS) and of the communication systems in the six selected MFIs, (iii) skilled staff that can provide relevant financial services after project closing, and (iv) the increase in number of loans provided by those MFIs. A follow-on investment lending operation (Madagascar Financial Inclusion Project) aimed at boosting access to financial services was approved by the Board in February 2018 and is expected to build on the achievements of this operation's development outcome. However, from the perspective of risk, this follow-on project, or any other project, should consider addressing the issue of competition and diversification in the financial sector more aggressively, because this will be critical in the longer term to ensure sector efficiency and sustainability.

Factors that might adversely affect the development outcome are mostly on the governance front. If the presidential election planned for the end of 2018 triggers political or social turbulence, the Malagasy economy could adjust by moving towards the informal sector. This risk has the potential to negatively affect financial inclusion, access to financial services for SMEs, and households, therefore reversing the progress of the PPCG, despite the capacity built amongst MFIs. Overall, particularly given the follow-on project, the risk of development outcome is rated as Moderate.

8. Assessment of Bank Performance

a. Quality-at-Entry

The Bank team was effective in designing a strategically-sound project, which included substantive technical assistance, and which was to be managed by resident staff. The project was strategically aligned with the country's priorities and the Bank's strategy in the borrower country. It aimed to scale up results achieved under a previous IDA microfinance project by expanding access to financial services to the majority of citizen. It was meant to provide adequate technical expertise to ensure that the identified activities would be effectively supported and implemented on the ground, even after the project closure. Finally, the fact that the project design planned that several project team members had to be based in the field contributed to ensure close cooperation among the authorities, the beneficiaries and the implementing units for the preparation and the delivery of the project. On the negative side, project preparation lacked an M&E expert that could help alleviate the M&E design shortcomings discussed under Section 9.

Implementation arrangements (including fiduciary and financial management) identified at appraisal were appropriate, as the project planned for a well-equipped PIU, headed by a Project Coordinator and assisted by experienced technical staff to manage project implementation. The assessment of risks and mitigation measures were comprehensive and covered country, sector and project-specific risks. In hindsight, political risks and Government commitment to project should have deserved more scrutiny.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

Supervision was jointly conducted by members of the project team based at headquarters and those based in the country office, including a senior specialist assisting the task team leader in daily project management. ISRs documenting the project implementation progress were in general filed twice a year, and supervision inputs included frequent in-country missions, numerous videoconferencing meetings and regular communication. The two shortcomings identified in supervision were the difficulties in providing the needed oversight of safeguards to assess the construction of an MFI branch, and the absence of corrective measures to strengthen the results framework design during restructurings. Senior Bank specialists were involved in providing technical assistance on substantive matters throughout the life of the project. The ICR reported the important role played by the Bank's technical inputs in adjusting implementation to new circumstance and challenges, and the good collaboration among the PIU, the Malagasy authorities and the Bank team, which allowed prompt corrective actions through four restructurings to resolve threats to the achievement of the development outcomes.

Following the political crisis, the OP/BP 7.30 (Dealings with De Facto Governments) was triggered and contacts with authorities were no longer authorized. However, the project supervision performance rating remained satisfactory until the period of level 1 restructuring in December 2012, when quality of supervision was downgraded. The Bank displayed good proactivity by keeping the project alive, and pursuing solutions to expedite implementation, particularly after the political crisis with the restructuring that brought the project back on track. The project refocused project interventions through greater regional concentration and integration, in line with the 2011 ISN, which recommended revising project's approach and activities and expand the outreach. Project leadership was changed twice during the lifetime of the project, but it di not affected implementation and, the ICR notes that the change in task team leadership was beneficial as it prompted a more focused relationship with the client. The new team of locally based specialists and new project leader turned around the project, and ensured that all activities are completed and all resources are disbursed.

Quality of Supervision Rating
Moderately Satisfactory

Overall Bank Performance Rating
Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

Both the original and the revised projects had an Annex 1 devoted to the results framework and monitoring. The framework was comprehensive, with PDO and intermediate indicators and sometimes with baselines, together with annual target values and final target values most of the time. The project's M&E framework had several shortcomings that are essentially attributable to the fact that the project core team did not comprise a dedicated M&E expert from appraisal onwards. Other weaknesses were: (i) the absence of an outcome indicator to measure access to financial services by households; (ii) the complexity of an overcrowded M&E system with more than 30 indicators; (iii) the formulation of some indicators that, in some cases, did not follow the project attribution line of reasoning (i.e. indicator on percentage of active loans to women while the project did not target female customers or entrepreneurs); and (iv) the absence of some baselines and targets in revised framework.

b. M&E Implementation

In the context of the 2012 level 1 restructuring, indicators were revised to be consistent with the restructured components and activities and to incorporate improved measurability and data availability, and to include mandatory sector indicators. In July 2015, a level 2 restructuring redefined some key indicators and associated targets in light of the recent major evolutions to incorporate the findings of an assessment of the microfinance sector. The strongest feature of the M&E system was that it introduced indicators that will continue to operate after the project closing, including those related to the PPCG, and the number of MFIs to be inspected by the Central Bank at minimum every two years.

During supervision, the PIU and the project team conducted several reviews aimed to improve the M&E framework. During the 2015 restructuring, most indicators were revised to be more specific and measurable, and end-targets were brought down to be more realistic. The data used for M&E purposes were all official data collected from the PIU or from independent sources such as external audits. Actual values were consistently produced bi-annually, which ensured the project had an up-to-date result monitoring framework along the project life span.

c. M&E Utilization

The M&E significantly informed the project management and all the numerous restructurings. However, the various restructurings missed the opportunity to incorporate additional indicators in the M&E framework to track activities targeted at households' access to financial services. Nevertheless, this lack of an indicator to measure access to finance by households has provided a key lesson learnt already applied to design the results framework of the reently-approved Madagascar Financial Inclusion Project.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

At appraisal, the project was classified as Category C and, after the 2012 Level 1 restructuring, as Category FI and the World Bank Operational Policy on Environmental Assessment (OP 4.01) was triggered. The project was screened for an Environmental Assessment (OP/BP 4.01) and did not trigger additional safeguards. An environmental audit, undertaken as part of regular supervision, revealed that some works – which had been authorized as "small works" under component 2- amounted to construction of an MFI branch in Betsiboka and should have been subjected to necessary safeguards. All related environmental and social safeguards were thereafter assessed and no violation was found. This review concludes that project implementation was in compliance with social and environmental safeguards. The ICR rated social and environmental safeguards as satisfactory throughout the period of project implementation.

b. Fiduciary Compliance

Financial Management: The ICR reported that the PIU provided timely and reliable information required for monitoring project implementation in line with WBG requirements. Quarterly financial monitoring reports, annual financial management supervision reports and annual audit reports were sent in a timely manner in a format and with content acceptable to the WBG. The ICR rated financial management as satisfactory throughout the period of project implementation.

Procurement: The only noncompliance occurrence was the result of a first No-Objection issued in January 2013, followed by various no-objections for the construction of a branch of an MFI in Betsiboka. The February 2013 Amended Grant Agreement revised the July 2008 Grant Agreement in section III by specifying procurement categories as Minor Works, Goods and Consultants. The Bank determined that those activities (US$ 47,277) were ineligible but since they contributed towards the PDO and had been given no objections, the Bank decided not to request their reimbursement. The ICR rated procurement performance as satisfactory throughout the period of project implementation.

c. Unintended impacts (Positive or Negative)

The ICR identified an improved access to financial services by female entrepreneurs and women in general, although no specific activities were designed to target that category of beneficiaries. The latest ISR reported that 54 percent of the lending portfolio of participating PFIs went to women.

d. Other

The ICR indicated that the WBG has become the leading development partner on financial sector development in Madagascar as the project served as an entry point for developing a solid policy dialogue on financial sector development (see para 46 of the ICR).

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of M&E	Modest	Modest	---
Quality of ICR		Substantial	---

12. Lessons

The ICR identified a number of lessons, two of which are rephrased below (i and ii), and a third lesson (iii) was formulated by IEG:

(i) In country circumstances of fragility and crisis, flexibility and selectivity in managing the Bank's portfolio and focusing on support to the private sector can facilitate the Bank's reengagement. Unlike other projects in the Bank's portfolio for Madagascar, the team kept this project open, proactively restructured it several times in response to circumstances on the ground, and shifted the project focus to private sector activities. This flexible project management during the period of political instability allowed for the World Bank's immediate reengagement after the OP/BP 7.30 was lifted. This approach proved to be the right decision in the context of this project.

(ii) This set-up of a successful Partial Portfolio Credit Guarantee offers elements of a best practice and could be replicated in other Bank's operations. Key factors that contributed to the PPCG success included the following: (i) the Government's initial contribution and the targeted TA to support financial institutions in making proper lending decisions limited adverse selection; (ii) a local fund managed by a local fund manager; (iii) an automatic guarantee that precludes the PPCG from redoing the credit analysis performed by the PFI; (iv) a silent guarantee that does not provide any incentives for borrowers to default; and (v) the mobilization of the private capital of banks and MFIs, not that of government. Furthermore, the PPCG complied with all the WB 16 Principles for Public Credit Guarantee Schemes for SMEs.

(iii) A committed World Bank team working closely with the Borrower's institutions carefully selected for their effectiveness can be key factors leading to strong project performance, even in fragile environments. This is another aspect of the first lesson. With the crisis that hit Madagascar during the period of project implementation, odds were high for this project to unravel or to be closed. It took a committed World Bank team making the right decision to keep the project alive and to undertake the needed restructurings. It took the presence of a strong PIU and a competent coordinator, under the oversight of a Banking Commission lodged in the Central Bank, to maintain the momentum of reforms despite the uncertainties in the political sphere.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is well-written, candid and focused on documenting project's results, and ratings are consistent with the Bank's guidelines. The ICR showcased the project performance in establishing a successful PPCG by providing the needed analytical context, and a related technical note. The theory of change was discussed extensively and was sound, but the results framework underpinning the theory of change presented in Annex 6 of the ICR could have been improved, and lessons learned were derived from the experience of project implementation. The following tables could have been prepared more carefully: (i) the Annex 1.A2: Intermediate Results indicators, (ii) Annex 1. B: Key outputs by components. These tables were revised and completed upon request. Overall, the quality of the ICR is rated as Substantial.

a. Quality of ICR Rating

Substantial