



1. Project Data:		Date Posted : 08/09/2004	
PROJ ID: P080345		Appraisal	Actual
Project Name: Emergency Economic Recovery Credit	Project Costs (US\$M)	50.0	52.42
Country: Madagascar	Loan/Credit (US\$M)	50.0	52.42
Sector(s): Board: PS - General agriculture fishing and forestry sector (30%), General transportation sector (30%), Other social services (20%), General education sector (10%), Health (10%)	Cofinancing (US\$M)	0	0
L/C Number: C3716			
	Board Approval (FY)		03
Partners involved :	Closing Date	12/31/2003	12/31/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
Howard Nial White	Ronald S. Parker	Alain A. Barbu	OEDST

2. Project Objectives and Components

a. Objectives

To limit and if possible reverse the crisis impact on the poor .

b. Components

The loan was import support to be disbursed against a positive list, with the countervalue from the sale of the foreign exchange to be used to contribute to the Government's priority recovery program . The dollar figures shown below refer to the total cost of the whole program (US\$ 237.7 million) since it is not possible to allocate the Bank's contribution against specific items .

Component 1: Support for the most vulnerable : US\$57.7 million

(i) (a) Education (US\$ 8.5 million): the government was to assume responsibility for primary school enrollment fees and school teacher salaries previously paid by the parents ' association (FRAM), and provide supplemental nutrition to school students; (b) Health (US\$ 12.5 million): Public health facilities were to dispense medical care and essential drugs free of charge through January 2003. The Central Drug Purchasing Agency, SALAMA, was to be recapitalized so that it would have sufficient financial backup to supply drugs to the public sector . SALAMA's payment arrears were to be cleared and the agency was to receive a supplemental transfer enabling it to replenish its drug stocks at the end of the period of free distribution to public dispensaries outside the capital. The CRESAN 2 Project would import additional types of drugs to extend the range of drugs and consumables available at SALAMA for hospital centers (e.g. for surgery and intensive care)

(ii) establishment of a social safety net (US\$ 6.5 million) through the creation of labor-intensive jobs, especially in public works

(iii) in rural development (US\$ 30.2 million): (a) support for rural farmers through payment, by the end of 2002, of the arrears of the state-owned Madagascar Cotton Company, HASYMA, vis-à-vis 17,000 small cotton producers, in order to allow them to restart their small businesses and ensure a supply of cotton for the textile industry; and, (b) support to rural communes through the payment of their annual block grant allocation (transfer of the remainder of the 2002 allocation, and compensation of rural communes through an increase of at least 30 percent in the block grant for 2003), to enable them to continue to provide essential social and administrative services

Component 2: Support for Private Sector Recovery : US\$91.5 million

(i) Payment of Government's arrears to its suppliers (US\$ 62.3 million), by providing cash-flow support to companies to which Government owed money

(ii) elimination of import tariffs (US\$ 3.1 million) on inputs used for textile and cotton production, cement, and fertilizer. This sub-component in fact represents income foregone for the Customs Administration, and does not involve any disbursement

(iii) reimbursement of VAT arrears (US\$ 26.1 million) to exporters and companies that have made new investments, with priority given to Export Processing Zone companies, which were hardest hit by the crisis

Component 3: Restoration of Public Services : US\$88.5 million

(i) rehabilitation of ruined infrastructure, and particularly of roads and bridges (US\$2.5 million) destroyed during the crisis, e.g., dynamited bridges and infrastructure affected by cyclone Kesiny . Major effort and investment was also required to repair roads (US\$ 56 million) that had already been poorly maintained before the crisis and had received no maintenance during the crisis

(ii) support for strategic public enterprises that were under management contract . This includes support to: (a) Air Madagascar (US\$ 17 million), which was on the verge of collapse . The Government decided to enter into a management contract with a reputable international consulting firm through May 2004, with the aim of restructuring the company and privatizing it within two years . The Government's financial support was intended to enable Air Madagascar to repay its debts and resume its domestic and international flights, most of which had been suspended during the crisis; (b) MADARAIL (US\$ 13 million): the northern railway , which had been idle since 2001, is key to further business development in Madagascar as it connects the industrial area of Antananarivo with the major port of Toamasina . The concessioning process had been further delayed by the crisis and therefore planned maintenance and investment works had not taken place . Government finally signed a concessioning agreement in October 2002 with a commitment for payments of US\$13 million to finance urgent planned maintenance and investment works, payment of salary arrears and a social compensation plan linked to voluntary separations

c. Comments on Project Cost, Financing and Dates

The loan was for SDR 38 million, equivalent to \$US50 million. The borrower received US\$52.42 million on account of exchange rate fluctuations .

The ICR does not discuss the workings of the financing mechanism (import support), but this issue is the sole focus of the borrower's comments appended to the ICR . All restrictions imposed by the Bank on admissible invoices (minimum of \$20,000, not more than 50% of total for hydrocarbons, and country of origin) created problems for the government, which also incurred considerable administrative cost in compiling the submission . In the event, a waiver was required on the 50% hydrocarbon limit in order for the funds to be disbursed on time .

3. Achievement of Relevant Objectives:

The objective was achieved, as shown by increased utilization of health and education services and perceived improvement of incomes by 73% of 150 communities surveyed in qualitative fieldwork .

4. Significant Outcomes/Impacts:

- Primary enrolments rose from 67% in 2000/01 to 82% in 2002/03. Target drop-out rate of less than 10% achieved
- Number of consultations in public health facilities doubled
- Rice yields increased
- Arrears to private sector paid off and VAT reimbursed
- Financial support to public enterprises adversely affected by crisis

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

The accounting arrangements for the import support imposed an administrative burden on the government at a time when there were priorities other than collecting invoices for retroactive financing of a restricted list of items . Since the loan was programmatic lending it may have been possible to apply simplified disbursement procedures . If that were not possible then the eligibility conditions should have been less stringent .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Modest	Modest	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	Subject to the caveat that the disbursement arrangements were not ideal.
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:

- Rapid response is critical in a post-crisis situation. The international community's immediate reaction was key to soften the crisis' social and economic impacts, and to avoid a severe shortfall of financing
- Emergency assistance can be provided in a programmatic manner if government has acquired credibility and has a credible reconstruction plan. The introduction of a system of good governance is a prerequisite for rapid and sustainable poverty reduction in Madagascar
- It is also necessary for the proper monitoring instruments to be in place, so that changes on the ground are observed
- Disbursement arrangements should be as simple as possible and not impose an undue burden on government

8. Assessment Recommended? Yes No

Why? To feed into OED's on-going study of emergency assistance .

9. Comments on Quality of ICR:

Satisfactory overall. The Bank's section of the ICR could have incorporated a discussion of the disbursement mechanism. There is also rather little detail on the public works (e.g. what was built and how many jobs were created)