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IMPLEMENTATION COMPLETION REPORT  
(IDA-37160)

ON A

CREDIT

IN THE AMOUNT OF US\$ 50 MILLION

TO THE

REPUBLIC OF MADAGASCAR

FOR AN

EMERGENCY ECONOMIC RECOVERY CREDIT

June 29, 2004

## CURRENCY EQUIVALENTS

(Exchange Rate Effective June 29, 2004)

Currency Unit = Malagasy Franc (MGF)

US\$ 1 = 10,432MGF

## FISCAL YEAR

January 1 – December 31

## ABBREVIATIONS AND ACRONYMS

AGOA	-	Africa Growth Opportunity Act
CAS	-	Country Assistance Strategy
CISCO	-	School district
CPI	-	Consumer Price Index
CPIA	-	Country Policy and Institutional Assessment
CRESED	-	Credit for Strengthening the Education System in Madagascar
CRESAN	-	Credit for Strengthening the Health Sector
DCA	-	Development Credit Agreement
EBFs	-	Extra-budgetary Funds
EERC	-	Emergency Economic Recovery Credit
EFA	-	Education for All
EPZ	-	Export Processing Zone
EU	-	European Union
FID	-	Community Development Fund
FDI	-	Foreign Direct Investment
FMG	-	Malagasy Franc
FRAM		Parent-Teacher Association
GDP	-	Gross Domestic Product
GEFB		Free Enterprise Business Association
GOM	-	Government of Madagascar
HIPC	-	Heavily Indebted Poor Countries
IATA	-	International Air Transport Association
IDA	-	International Development Association
IFC	-	International Finance Corporation
IMF	-	International Monetary Fund
INSTAT	-	Institut National de la Statistique Malgache
MEFB	-	Ministry of Economy, Finance and Budget
MENRS	-	Ministry of Education and Scientific Research
METFP	-	Ministry of Technical and Vocational Training
MOH	-	Ministry of Health
MOP		Memorandum of the President
MOU	-	Memorandum of Understanding
NGO	-	Non-Governmental Organization
NNP	-	National Nutrition Policy
PGDI	-	Good Governance and Institutional Development Program
PIP	-	Public Investment Program
PIU	-	Project Implementation Unit

PRGF	-	Poverty Reduction and Growth Facility
PRSP	-	Poverty Reduction Strategy Paper
QAG	-	Quality Assurance Group
RMF	-	Road Maintenance Fund
SALAMA	-	Central Drug Purchasing Agency
STA	-	Technical Secretariat for Adjustment
TSA	-	Treasury Single Account
UNDP		United Nations Development Programme
VAT	-	Value Added Tax
WB		World Bank

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Country Director:	Hafez Ghanem
Sector Manager:	C. Sanjivi Rajasingham,
Co-Task Team Leaders:	Wolfgang Fengler, Susanne Holste
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**MADAGASCAR**  
**Emergency Economic Recovery Credit**

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<i>Project ID:</i> P080345	<i>Project Name:</i> Emergency Economic Recovery Credit
<i>Team Leader:</i> Susanne Holste	<i>TL Unit:</i> AFTTR
<i>ICR Type:</i> Core ICR	<i>Report Date:</i> June 29, 2004

## 1. Project Data

*Name:* Emergency Economic Recovery Credit *L/C/TF Number:* IDA-37160  
*Country/Department:* MADAGASCAR *Region:* Africa Regional Office

*Sector/subsector:* General agriculture, fishing and forestry sector (30%); General transportation sector (30%); Other social services (20%); Health (10%); General education sector (10%)

*Theme:* Social risk coping (P); Rural services and infrastructure (P); Infrastructure services for private sector development (P); Health system performance (S); Education for all (S)

### KEY DATES

	<i>Original</i>	<i>Revised/Actual</i>
<i>PCD:</i> 08/16/2002	<i>Effective:</i> 12/11/2002	12/11/2002
<i>Appraisal:</i> 10/03/2002	<i>MTR:</i> 11/01/2004	11/01/2004
<i>Approval:</i> 11/14/2002	<i>Closing:</i> 12/31/2003	12/31/2003

*Borrower/Implementing Agency:* GOVERNMENT OF MADAGASCAR/MINISTRY OF ECONOMY AND PLAN  
*Other Partners:*

STAFF	Current	At Appraisal
<i>Vice President:</i>	Callisto E. Madavo	Callisto E. Madavo
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## 2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

*Outcome:* S  
*Sustainability:* L  
*Institutional Development Impact:* M  
*Bank Performance:* S  
*Borrower Performance:* S

*Quality at Entry:* QAG (if available) ICR  
S  
*Project at Risk at Any Time:*

### 3. Assessment of Development Objective and Design, and of Quality at Entry

#### 3.1 Original Objective:

##### **3.1.1 Background**

3.1.1 Following a contested presidential election in December 2001 between the incumbent president Didier Ratsiraka and the mayor of Antananarivo, Marc Ravalomanana (see the box below), a general strike ensued that was to paralyze economic and social activity for six months. This crisis interrupted a period during which Madagascar had achieved high and sustained growth averaging 4.5 percent in the second half of the 1990s., and reaching 6 percent in 2001, led largely by private investment, and particularly by textile activities in the Export Processing Zones (EPZ). Textile activities grew at an average rate of 24 percent between 1999 and 2001. In 2001, the sector employed 110,000 people; by the end of 2003, employment had returned to its pre-crisis levels. . This period also coincided with implementation of the World Bank-financed Structural Adjustment Credit (SAC) and the IMF-financed Poverty Reduction and Growth Facility (PRGF).

3.1.2 The crisis had a particularly severe impact on growth and private investment, causing foreign direct investment (FDI) in particular to falter, thereby adding to a sharp drop in export revenues and long-term financing. Government finance was hard hit, with domestic revenue collection falling from 11.6 percent to 6.9 percent. A detailed sector analysis was carried out to determine what the direct impacts of the crisis might have been if assistance had not been forthcoming (Annex 9).

3.1.3 The economic collapse and resulting stoppage of many public social services caused widespread social distress. Rural incomes of communities located far from markets fell by as much as 50 percent due to lower farm-gate prices and a sharp reduction in informal sector activities in villages. Poverty headcount index rose as high as 80 percent. School dropout rates increased as much as 14 percent during the 2002 school year, and health service utilization declined by 36 percent in rural areas and 14 percent in urban areas. Especially worrisome was the decline in assisted birth rates (-16 percent) and prenatal care for pregnant women (-9 percent).

The country experienced a severe 6-month political and economic crisis that brought the economy to a complete standstill and jeopardized the foundations of the previous growth period. Damage occurred on several levels: (i) *regarding infrastructure*, the crisis coincided with a cyclone that damaged the road network in Toamasina Province; fifteen key bridges were also destroyed during this period. International air traffic was severely curtailed along several regional routes, inflicting heavy financial losses on the national airline; (ii) *public finance* was compromised by the suspension of treasury bond trading in February 2002. Foreign banks froze Madagascar's assets abroad and the domestic foreign exchange market was suspended due to the temporary emergence of two rival Central Bank factions, both attempting to conduct business abroad, including continuing to issue payment orders; (iii) *all economic activity*, including foreign trade, came to a nearly complete halt. In the EPZ sector, most foreign textile firms left the country, leaving more than 80,000 workers without jobs. As Mr. Ravalomanana's domestic support increased, his control of the country widened and foreign governments that initially had taken a neutral position began recognizing him as the legitimate President. In early July 2002, Mr. Ratsiraka left the country, thereby putting an end to the crisis.

3.1.4 In July 2002, the Government presented a short- and medium-term recovery plan to the donors and partners in Paris at the “*Friends of Madagascar*” meeting. Its priority recovery program was designed to achieve macroeconomic stability, rebuild physical assets, and restore economic and social activities. The

international community demonstrated its strong support for this reconstruction and development program, underlining the importance of adhering to the principles of good governance, promotion of a strong private sector, and poverty reduction. The overall recovery program implemented between August 2002 and December 2003, and financed by both Government funds and donor support, was estimated at around US\$540 million. Within this larger recovery program, Government identified a number of priority actions that were of the utmost short-term importance in terms of aiding the most vulnerable, restarting productive sectors and re-establishing public services for an estimated US\$237.7 million. The EERC, which was intended to close in December 2003, was designed to support these priority activities.

### **EERC Original Objective**

**3.1.5 The overall objective of the project was to limit and if possible reverse the crisis impact on the poor**, in the wake of the social and political crisis resulting from disputed presidential elections in December 2001. **The credit would address urgent financing needs until mid-2003**, by providing complementary funding for activities that could not be financed through other instruments (such as ongoing projects, already planned lending, other donor financing or the Government's own resources) through quick-disbursing liquidity and the financing of a positive list of imports<sup>3</sup> deemed necessary for the country's short-term recovery program and at the same time ensuring macro-economic stability.

3.1.6 Counterpart funds (domestic currency equivalent) under the Credit were released and provided budgetary resources enabling the Government to implement its recovery program. Details of the priority program are provided in Annex 8.

3.1.7 The scope of the program was clear: a targeted recovery program for a post-conflict situation. The objective was fully in line with the Government's identified emergency measures which were aimed to: (i) support the most vulnerable; (ii) assist private sector recovery; and (iii) restore public services. The Government's strategy consisted of getting the economy back on track and mitigating the social impact of the crisis on the poorest segments of the population by adopting a priority economic and social program as part of its overall recovery plan.

3.1.8 The objective of the EERC also reflected the priorities identified in the Bank's Interim Country Assistance Strategy (I-CAS), which were to limit and, if possible, reverse the impact of the crisis on the poor. The I-CAS proposed three instruments in response to the crisis: (i) portfolio restructuring, (ii) new lending (including the Emergency Credit), and (iii) policy advice on structural reforms to minimize the impact of future crises. The mix of instruments was particularly effective in supporting the government's reconstruction program in consultation with the other development partners<sup>4</sup> See I-CAS, Section 5.. The EERC and the I-CAS supported the recovery strategy, and common indicators were chosen for both instruments.

<sup>1</sup> in the second half of the 1990s.

<sup>2</sup> Textile activities grew at an average rate of 24 percent between 1999 and 2001. In 2001, the sector employed 110,000 people; by the end of 2003, employment had returned to its pre-crisis levels.

### *3.2 Revised Objective:*

Not Applicable

### *3.3 Original Components:*

3.3.1 The EERC financed part of the Government's priority recovery program of US\$ 237.7 million; hence, the amounts for the different components do not reflect the actual amounts financed by the project.

3.3.2 **Component 1: Support for the most vulnerable: US\$57.7 million.** This component was designed to support Government policy aimed at population groups most affected by the crisis. This component consisted of the following sub-components:

(i) *free access to social services :*

- **Education** (US\$ 8.5 million): the government was to assume responsibility for primary school enrollment fees, suspending those fees as of September 2002, assuming the burden of public primary school teacher salaries previously paid by the parents' association (FRAM), and providing supplemental nutrition to school students with assistance from the CRESED project;
- **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, reanimation);
- (ii) *establishment of a social safety net* (US\$ 6.5 million) through the creation of labor-intensive jobs, especially in public works, to reach specific population groups.
- (iii) *in rural development* (US\$ 30.2 million):
  - **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,
  - **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.

3.3.3 **Component 2: Support for Private Sector Recovery: US\$91.5 million.** This component sought to restore private sector confidence and to re-start investment in order to consolidate economic recovery. This component consisted of the following sub-components:

- (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 EPZ companies, which were hardest hit by the crisis.



**3.3.4 Component 3: Restoration of Public Services : US\$88.5 million.** This component, which sought to restore land transportation (a particular priority of the Government) as well as air transportation, consisted of the following sub-components:

(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:

- *the national airline, 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;
- *the northern railway concessioning company, MADARAIL* (US\$ 13 million). The northern railway (Antananarivo – Antsirabe; Antananarivo – Toamasina – Lac Alaotra), 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.

### *3.4 Revised Components:*

**3.4.1 The components were not revised during project implementation.** The replacement of the supplemental nutrition sub-component by the provision of school supplies to school students was not registered as a revision of the project's components. The appropriateness of supplemental nutrition is still being studied by Government.

### *3.5 Quality at Entry:*

**3.5.1 Quality at entry** was not assessed by the Quality Assurance Group. **This ICR finds that the quality at entry was satisfactory** because (i) project objectives were consistent with the Government's priorities for economic and social recovery; (ii) the project design incorporated experience and lessons learned from similar post-conflict situations; and (iii) the project was flexible enough to account for institutional constraints and risks.

**3.5.2 Project preparation** was highly participatory and brought together all relevant ministries and representatives from private sector entities. The formulation of the priority action program was arrived at through a series of consultative meetings and arbitrations. This process was particularly valuable because it brought together representatives of the new Government and long-standing civil servants who had not much interacted since Government had come into power. The detailed sector gap analysis of potential post-crisis impacts guaranteed that no possible consequences were overlooked while also ensuring that no duplication existed with programs of other development partners. In the interest of coherence in the Bank's portfolio, a decision was made to use the same performance indicators for the EERC and the I-CAS.

**3.5.3 Consistency with the I-CAS.** The EERC, because it was part of the Interim-CAS prepared by Bank staff shortly after the crisis, was fully consistent with it and built directly on its objectives. The joint Board

presentation on October 17, 2002 of the I-CAS, portfolio restructuring, EERC and Rural Transport Project demonstrated the country team's commitment to the delivery of a comprehensive post-crisis assistance program. Since it built upon the Government's program, which enjoyed donor support, the EERC was aligned with other donors' projects.

**3.5.4 Risk Assessment.** The MOP (paragraph 42) contained a realistic assessment of the key risks affecting the operation<sup>5</sup>. Apart from the risk of the Borrower's institutional weakness and poor implementation capacity, which was deemed substantial, the other risks were rated modest and mitigated by the readily forthcoming development assistance and pro-active government actions to restore investor confidence. The latter included a comprehensive program on good governance, including the creation of an anti-corruption council.

A number of risk-mitigating measures helped avert some of these risks. First, the Government called for an early parliamentary election in order to reconfirm its legitimacy. This effort was supported by UNDP, EU and several bilateral partners who provided technical and financial support to the Government for the preparation of those elections to ensure that they were fair and transparent. Secondly, in order to ease its tight budgetary situation, the Government took measures to improve revenue collection and cut non-priority expenditures, and successfully mobilized additional budget support from the African Development Bank, the EU, France, Japan, Mauritius, the World Bank and the IMF – who helped the Government in updating the PRGF. Thirdly, to mitigate the significant risk of inadequate administrative capacity and weak governance, the Government devised a program to streamline and improve budgetary procedures and launched an anti-corruption campaign.

As the Project's Environmental category was "C", no Bank's safeguard policies were involved.

<sup>3</sup> The positive list of imports includes: construction materials such as cement and raw materials; medical supplies and pharmaceuticals; commodities such as petroleum, fuel products and metals; agricultural inputs and fertilizers, other than pesticides; and transport machinery.

<sup>4</sup> See I-CAS, Section 5.

<sup>5</sup> The MOP discussed key risks, which were identified as: (i) renewed political instability following the December 2002 parliamentary elections that were intended to consolidate the government's legitimacy; (ii) insufficient financing of the program, which could have resulted in macro-instability and social unrest; (iii) a lack of private sector confidence which would have delayed economic recovery, and (iv) the inability of government to carry out the proposed program and reforms due to institutional weakness and poor implementation capacity.

## **4. Achievement of Objective and Outputs**

### *4.1 Outcome/achievement of objective:*

**4.1.1 The overall project outcome is rated satisfactory.** The project achieved its objective, which was to limit and, if possible, reverse the impact of the crisis on the poor. This Credit, which was presented as a package with the I-CAS and the Rural Transport Project, was very important for the Country's economic recovery after the crisis in 2002: the choice of instrument, an Emergency Credit, was adequate as a rapid reaction was key for the operation's success. The Credit was prepared in a highly participatory manner, and was well targeted, since it responded to the most important and urgent needs at that time, especially through the creation of a social safety net; free access to health and education services; and rehabilitation of destroyed infrastructure. This budget support constituted also a critical test of the new government's commitment and capacity to manage public funds transparently and effectively. Overall, it achieved its stated objectives even though there is room for improvements in the Project's monitoring process.

The project had a positive impact on poverty reduction, as most of the project's outcome indicators<sup>6</sup> were

met: in education sector, the available data for net enrollment rate was 82% for the primary school in year school 2002/2003, and the drop-out rate during the same period was less than 10%; in health sector, health consultations and number of health facilities offering assisted birth, as well as number of assisted births increased compared to their pre-crisis level. Regarding the income development of rural households in 2003, it was positive given the economic importance of rice cultivation in rural areas as rice yields increased and producer prices were relatively favorable; lastly, the relative price of rice to essential goods over the period from November 2002 to March 2004 showed an improvement. It can therefore be concluded that the rural terms-of-trade (i.e. price of farm produce relative to basic manufactured consumer items) returned to its pre-crisis range. Data on the availability of basic medicines was not available. The performance of the EPZ sector is promising and post-crisis recovery has been extremely encouraging, with exports to the United States under the Africa Growth Opportunity Act (AGOA) in 2003 (\$196 million) exceeding their pre-crisis levels of 2001 (\$178 million) by 10 percent<sup>7</sup>. Employment has recovered to its pre-crisis levels<sup>8</sup>; and a total of 59 enterprises with an estimated investment of MGF 460,000 million and employing 28,400 workers were recorded for 2002 and 2003<sup>9</sup>.

Disbursements under the project were subject to presentation of documentation for eligible imports costing more than US\$20,000 equivalent, with a proviso that the aggregate amount of any one category of imports could not exceed fifty percent (50%) of the amount of the Credit. Disbursements during the first six months were lower than forecast because imports were slow to pick up after the crisis. In order to avoid jeopardizing the timely implementation of the Government's priority program, the April 2003 supervision mission therefore recommended that Bank management increase the ceiling for petroleum-related disbursements to 85 percent. Management agreed to this proposal and disbursements accelerated thereafter. The credit was fully disbursed by July 16, 2003 and closed as scheduled on December 31, 2003.

Risks identified in the MOP did not materialize during project implementation.

4.1.2 On the macroeconomic level, the economy emerged in 2003 from the economic slump of 2002 with real GDP growth estimated at 9.8 percent, reflecting the impact of transport rehabilitation activities and the rebound of tourism following the recovery of the national airline, although it was still below the 2001 performance<sup>10</sup>. Agriculture rebounded with a good rice harvest<sup>11</sup>, while the textile sector, growing at a rate of 33 percent, saw both employment and export levels increase to their pre-crisis levels. It can be assumed that domestic investment increased due to a significant rebound in public investment related to reconstruction activities and support to the public sector. Private investment also increased slightly, but it had also declined less during the crisis than the public sector<sup>12</sup>. Renewed growth was accompanied by a small increase (1 percent) in the consumer price index, while interest rates remained stable and exceeded the inflation rate throughout the year<sup>13</sup>.

4.1.3 **Overall macro-economic performance was mixed, however.** By the program's end, the overall fiscal deficit was larger due to revenue losses equivalent to 0.5 percent of GDP for the last four months of 2003 following the detaxation of a range of capital and consumer goods<sup>14</sup> introduced in the last quarter of 2003 and a slippage in budgetary expenditures<sup>15</sup>. The current account balance also increased due to a smaller-than-expected recovery of exports and an increase in imports in the last quarter of 2003<sup>16</sup>. Balance of payments outcomes reflect the widening current account gap resulting from increased imports and the Central Bank's attempts to avoid a sharp depreciation of the MGF. International reserves amounted to 3.1 months of imports, compared to 4.1 months in 2002 and 3.3 months in 2001.

- <sup>5</sup> The MOP discussed key risks, which were identified as: (i) renewed political instability following the December 2002 parliamentary elections that were intended to consolidate the government's legitimacy; (ii) insufficient financing of the program, which could have resulted in macro-instability and social unrest; (iii) a lack of private sector confidence which would have delayed economic recovery, and (iv) the inability of government to carry out the proposed program and reforms due to institutional weakness and poor implementation capacity.
- <sup>6</sup> See details in Annex 1.
- <sup>7</sup> Source: US Department of Trade.
- <sup>8</sup> Employment in 2001 was 110,000. Source: GEFP.
- <sup>9</sup> Source: INSTAT.
- <sup>10</sup> See Macroeconomic indicators evolution in Annex 11.
- <sup>11</sup> Rice production increased from 2 603 985 tons in 2002 to 2 868 000 tons in 2003.
- <sup>12</sup> Public investment decreased from 7,3% to 4,8% of GDP before reaching 5.8% in 2003. Private investment decreased from 11.2% to 9.5% from 2001 to 2002 and reached 10,2% of GDP in 2003.
- <sup>13</sup> Despite a substantial increase in the credit to the public sector, the low inflation rate was low, due to a good rice harvest that contributed to a decline of food prices by over 10%, the appreciation of the Malagasy franc against USD which lowered the oil bill, reflecting in the improvement of terms of trade during the first three quarters of 2003.
- <sup>14</sup> The de-taxation exempted the goods from all tariffs and VAT.
- <sup>15</sup> Annex 11 on Macroeconomic Indicators.
- <sup>16</sup> Imports increased from 6,781 to 9,606 billions of Malagasy Francs, while exports increased from 4,809 to 6,931 billions of Malagasy Francs between 2002 and 2003.

## 4.2 Outputs by components:

A synthesis of the project's implementation, monitoring and most recent status, by sub-component, is presented in Annex 8.

### 4.2.1 **Supporting the most vulnerable** (US\$ 57.7 million). *This component has an overall rating of 'satisfactory'.*

**In the health sector**, all planned disbursements were made except for the component on the expansion of the standard drug list.

*Assistance to the Central Drug Purchasing Agency (SALAMA).* SALAMA was recapitalized in October 2002, and its arrears in connection with outstanding drug invoices for 1999, 2000 and 2001 were paid as documentation of drug deliveries for those years, allowing payment of those arrears, was transmitted to the Ministry of Health. This inflow of funds provided SALAMA with sufficient working capital to buy drugs and resume its activities. This sub-component is rated satisfactory.

*Fee waiver for health facilities (drugs and services) and drug restocking upon resumption of cost recovery.* Because the Government decided to temporarily suspend users' participation fees after the crisis in order to allow people to use public health facilities (and, indeed, to encourage them to do so), it directly financed SALAMA's drug purchases which were distributed free of charge to patients by public health facilities. This helped boost the number of visits to public health centers. Cost recovery was initially scheduled to resume in January 2003, but the Government decided to push back the deadline to October 2003. Thus, the fee waiver system was in effect for more than one year. This led to an unexpected increase in the use of drugs, and stocks occasionally ran out as the volume of drugs distributed was four times higher than normal. Drug restocking resumed in November 2003. This sub-component is rated highly satisfactory.

*Extension of the standard drug list.* This initiative aimed to extend the drug and medical consumable list available at SALAMA to allow hospitals to expand the scope of services delivered. Since this was a new process in the country, it took a long time to the relevant technicians (surgeons, anesthetists, other specialists) to agree on standardized technical specifications as well as on the quantities of the products to be purchased. Once the list was finalized it took even more time for the UNICEF Supply Center in Copenhagen to identify the suppliers and to quote the corresponding prices. When the order was ready, the Health Project's funds in the relevant category were exhausted and a reallocation plus a 22 million supplemental Credit had to be negotiated. This too took a lot of time. The reallocation was finally approved and the order is scheduled for this coming July. This sub-component is rated unsatisfactory.

**In the education sector**, the disbursement rate is satisfactory. Planned activities were achieved with minor changes in one sub-component concerning the distribution of supplemental nutrition. The component is rated satisfactory.

The government's decision to *apply fee waivers and provide free school supplies* reduced households' school charges and boosted enrollment for the 2002-2003 school year. Government support was not evenly distributed throughout the country, however. Urban schools received most of their allocations and school supplies on time, whereas remote rural schools had not received theirs by the target date of November 2002. Consequently, parents of pupils in some rural schools were asked to continue paying school fees and for their children's supplies.

*Funds for teachers' salaries* were transferred to the CISCOS and 8,000 teachers whose salaries were usually paid by the parents' association (FRAM) benefited from that financial support.

Finally, regarding *supplemental nutrition* for students, procedural delays in launching the bids and a

change in Government's priorities led to a re-allocation of the intended funding towards the purchase of educational books.

**The social safety net** is rated highly satisfactory, as more labor-intensive jobs were created than originally planned. Indeed, the implementation unit, FID, managed to establish a very efficient collaboration with faith-based and non-faith associations that identified and executed labor-intensive public works projects in urban and rural areas. A total of 685 contracts were completed, as against 375 contracts projected and salaries totaling FMG 29 billion were paid. Following up on the creation of the safety net, Government has formulated a social protection strategy and a strategic approach to the mitigation of the frequent crises that affect the country.

**In rural development:** *HASYMA's arrears vis-à-vis small cotton farmers* were cleared for the planned amount; in fact, payments were made ahead of schedule and *rural communes received their 2002 allocations* from the State's budget. In 2003, there was a net increase of block transfers to communes but the actual amount disbursed was 20 percent less than expected. These allocations covered the communes' operational costs and investment expenses. Although the funds reached the communes, delays in receiving them perturbed the execution of activities.

#### **4.2.2 Support to the private sector (US\$ 91.5 million).** *This component is rated satisfactory overall.*

*Reimbursement of VAT to enterprises.* Results were mixed. Although there was a reduction of over 80 percent of projected VAT reimbursement, the actual volume of VAT arrears as of March 2004 had increased by 15 percent, leaving enterprises with an unpaid balance of FMG 75 billion for the years 2002 and 2003. Despite these arrears, companies improved their cash flow and the pre-crisis level of employment (i.e., 100,000 employees) in EPZ alone was attained in January 2004, showing that the EPZ sector has recovered from the crisis.

*Elimination of import tariffs.* Government's decision to re-start the economy by means of tax breaks such as reduced import taxes on cotton production inputs, fertilizer and cement yielded positive results. In fact, the elimination of import tariffs did not result in loss of earnings for Customs. On the contrary, there were actually surplus revenues due to Customs' exceptional effort to collect remaining arrears, proceeds from disputed goods, etc., to compensate for the loss of earnings.

*Reimbursement of Government's suppliers' arrears.* All Government's arrears to its suppliers were cleared in a timely manner, in accordance with the implementation plan. This prompt reimbursement provided financial relief to Government service providers in the form of a fresh infusion of cash enabling them to recover after the crisis.

#### **4.2.3 Restoration of Public Services (US\$ 88.5 million).** *This component is rated satisfactory overall.*

The Government's focus on supporting strategic public enterprises and rehabilitating destroyed infrastructure was successfully implemented. Funds were transferred and outputs for each sub-component showed positive results.

*Assistance to the national airline* successfully boosted the financial situation of the company, which was close to bankruptcy. Air Madagascar was able to prepare for the creditors' conference at which it presented its business plan for achieving profitability over the medium term. As a result, its creditors agreed to forgive 50 percent of the debt owed in order to support the recovery strategy. Due to this debt waiver and the injection of cash from credit proceeds, Air Madagascar was able to start paying off its remaining debt,

rejoin IATA, and thus resume its international and domestic flights.

*Assistance to the Northern railway.* Government supported priority activities of the railway, which was concessioned in October 2002 to MADARAIL. Salary arrears totaling FMG 21 billion were paid and FMG 18.1 billion were spent on the social compensation plan (including severance pay, housing allowances, medical coverage and reintegration funds) linked to voluntary departures. Government co-financing of the priority investment program amounted to FMG 49 billion that enabled the railway line, which had been inoperative since 2001, to reopen.

*Rehabilitation of destroyed infrastructure.* The reconstruction of dynamited bridges had been already completed by October 2002 with support from the European Union. Roads damaged by Cyclone Kesiny were rehabilitated by the end of 2002. Government has declared road rehabilitation and maintenance a key development priority and is instituting reforms to allow for a sustainable development and management of the sector.

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<sup>14</sup> The de taxation exempted the goods from all tariffs and VAT.

<sup>15</sup> Annex 11 on Macroeconomic Indicators.

<sup>16</sup> Imports increased from 6,781 to 9,606 billions of Malagasy Francs, while exports increased from 4,809 to 6,931 billions of Malagasy Francs between 2002 and 2003.

#### *4.3 Net Present Value/Economic rate of return:*

Not applicable.

#### *4.4 Financial rate of return:*

Not applicable.

#### *4.5 Institutional development impact:*

4.5.1 The credit did not include an explicit institutional development objective. The Government program was implemented through existing project units, such as CRESAN, CRESED, and FID, or through commercial entities such as Air Madagascar and MADARAIL.

The project was a budget-support credit, and the public expenditure for the whole recovery program could be monitored from various departments within the Government (the General Secretary of the Ministry of Finance, the Public Debt Department, the PIU). Regarding the monitoring system that supported the EERC and I-CAS, the team mainly used other Bank's projects reports and surveys on the beneficiaries, especially for health and education sectors.

### **5. Major Factors Affecting Implementation and Outcome**

#### *5.1 Factors outside the control of government or implementing agency:*

5.1.1 The social stability and security in the country was a major factor outside the control of government that affected the project's implementation and outcome. The project's proceeds contributed to avoid the risks of further troubles by putting in place specific actions which helped the population to face the post-crisis situation.

#### *5.2 Factors generally subject to government control:*

5.2.1 Government's full participation in project preparation ensured that funding was made available exclusively for priority actions. The funds were allocated to items for which the credit was intended. Most of the planned activities were implemented in a timely manner.

The Government also succeeded in its policy to achieve a stabilization of the macroeconomic situation.

#### *5.3 Factors generally subject to implementing agency control:*

5.3.1 The implementing agency was fully qualified to manage the collection and processing of documentation of eligible imports. The agency realized early on that it could not rely solely on the import declarations available in Antananarivo, and therefore organized regular missions to the main port of Toamasina.

#### *5.4 Costs and financing:*

**5.4.1 Program costs were correctly assessed at time of preparation and there was no funding shortfall for priority activities.**



## 6. Sustainability

### 6.1 Rationale for sustainability rating:

6.1.1 **Although the project's main objective was a time-bound contribution to the Borrower's priority recovery program, the overall sustainability of the project is likely.**

6.1.2 In the **health sector**, SALAMA's operation is sustainable, as this entity is now on sound financial footing, with a renewed and well-functioning cost recovery system (now called "*Fanome*"). The fee waiver system has been extended in the form of an exemption mechanism for the very needy. The following measures and dispute settlements granted substantial relief to their beneficiaries, thus promoting the recovery of the targeted sectors: payment of HASYMA's debt to cotton growers; VAT reimbursement to EPZ companies; payment of Government's arrears to its suppliers; payment of Air Madagascar's creditors; payment of MADARAIL's staff salary arrears and financial of its social coverage plan.

6.1.3 In the **education sector**, the program is still ongoing. The school fee waiver is being made the general rule, since the Government's "Education For All" Plan was endorsed by donors in October 2003, resulting in a 38 percent increase in the education budget for fiscal 2004. School supplies will be covered by HIPC and debt relief after completion of the Program Review and Strategy Development (PRSD) exercise. Teacher and student numbers are now being assessed for educational planning purposes, especially with regard to the budget for teachers' salaries. Finally, a national policy on supplemental nutrition is being developed: the Government intends to set up a food fund in each school by allocating a certain amount of cash per student that the school will manage.

6.1.4 Government has also set up a permanent **safety net** operation that will benefit the poorest segments of society through labor-intensive public works schemes and revenue-generating activities. To this end, a Coordination Office has been created and the program is to be sustained by funds managed by the FID.

6.1.5 Concerning the **cotton sector**, HASYMA has enough credit to pay small cotton producers for this year. The company is now undergoing privatization which, if done properly, could sustain the system.

6.1.6 Budgetary allocations to **communes** are on track: planned transfers from the Ministry of Budget to the Ministry of Decentralization have occurred. The challenge will be improving monitoring, especially regarding true beneficiaries, and the criteria for budget allocation to communes, especially if rural communes are to receive priority attention.

6.1.7 **Import tariff waivers** are still in effect, and Government has made an effort to identify eligible goods more precisely, in order to ensure that they consist of materials and inputs that are beneficial to investment. Lost income for 2004 totals FMG 40 billion so far. The Government has to ensure better tax collection to fill this gap.

6.1.8 The sustainability of **physical asset reconstruction** (roads and bridges, priority investments for MADARAIL) is assured.

6.1.9 **Air Madagascar** was able to avert bankruptcy and has posted positive results for the last two years. The challenges remaining for the airline are: (i) to complete the State's disengagement, as the main mission of the international consulting firm was to get the company into better shape for its privatization; (ii) to operate in a more competitive environment in order improve service quality, especially with regard to airfares, which are still high.

6.1.10 In the **railway sector**, additional financing has been made available under the Bank's transportation program to fully cover the social benefits of workers laid off between 1996-2000, i.e., well before the concessioning. MADARAIL has expressed concern that the waiver of import duties for trucks, but not for rolling stock, give the trucking industry an unfair advantage. A request to expand the waiver was denied by the Government. The railway's activities are proceeding as planned and it is expected to be commercially viable.

6.1.11 Regarding **overall macroeconomic stability, social welfare spending and private sector support**, further commitments are required from the Government to ensure the sustainability of the recovery program. Completion of activities undertaken under the project would require: (i) continued strong commitment to project objectives on the part of the Government; (ii) continued donor support to the Government; and (iii) capacity building and technical assistance to make the Administration more efficient.

#### *6.2 Transition arrangement to regular operations:*

6.2.1 **Because the Emergency Economic Recovery Credit was designed as budget support, no transitional arrangements were planned.**

## **7. Bank and Borrower Performance**

### *Bank*

#### *7.1 Lending:*

7.1.1 **Performance in identification, preparation and appraisal was highly satisfactory.** During project preparation, the Bank adopted a highly participatory approach involving all relevant ministries and entities. In addition, the project design drew on lessons learned from similar operations in other countries. Despite a very uncertain environment, the Bank task team showed responsiveness to clients' need in rapidly formulating a relatively simple, quick-disbursing operation aimed at supporting the transition. The team pre-appraised and negotiated the credit in October 2002, and the first installment was disbursed in December 2002, undoubtedly contributing to the ongoing stabilization effort.

7.1.2 Regarding the choice of instrument, the Bank opted for an emergency credit (OP 8.50) as speed of preparation and disbursement was crucial. The EERC provided the most flexible and timely instrument to help mitigate the then existing social crisis and support economic recovery. It also presented a critical test of the newly established government's commitment to manage public funds transparently and effectively. The proceeds of the credit (US\$50 million equivalent) were disbursed in thirty installments, between December 06, 2002 and July 2003 upon presentation of the documentation of eligible imports. The accounts of the credit were to be audited at project completion by an independent auditor acceptable to the Bank.

#### *7.2 Supervision:*

7.2.1 **Supervision was satisfactory.** The skills mix was adequate and follow-up was performed regularly. The Bank maintained a close dialogue with the authorities and the PIU in order to deal with any difficulty arising during implementation. During the implementation period, Bank staff intervention was in fact needed, especially regarding the documentation required for disbursements under the Credit. Project team interventions were carefully planned and linked to benchmarks or events in project implementation (e.g., a delayed decision on supplemental nutrition, or expansion of the standard drug list, etc.). Two supervision

missions occurred within less than a year. Preparation Status Reviews (PSRs) were done in January, April and November 2003, and were satisfactory.

7.2.2 Bank staff invested considerable time and energy in the project, building a good working relationship with the Borrower and the implementing partners. The country office followed the project on an ongoing basis and played a key role in implementation assistance. This continuous support and assistance was key, especially when dealing with difficulties.

### *7.3 Overall Bank performance:*

**7.3.1 Overall, the quality of Bank involvement at the various stages of the operation is rated satisfactory.** The project addressed key problems and was well prepared. The Bank's team reacted quickly so as to allow rapid project effectiveness. During implementation, the flexibility of the Bank team accelerated payments so that the credit could be mobilized as quickly as possible to provide timely funding for the Government's priority program. .

### **Borrower**

#### *7.4 Preparation:*

**7.4.1 Borrower performance during preparation was satisfactory.** The Borrower collaborated closely with the Bank in designing the project and the relevant ministries and agencies were consulted. The Government showed a high level of commitment to the project and took the lead in allocating the funds to its economic and social recovery program priorities.

#### *7.5 Government implementation performance:*

**7.5.1 The Borrower carried out most of the actions required by the Bank, and gave adequate support to projects funded under the Credit.** The Borrower showed flexibility in responding to various requests, although it experienced some difficulties with decision-making and coordination, causing delays, for instance, with regard to the supplemental nutrition and drug list extension issues. Nevertheless, Government performance during implementation was satisfactory.

#### *7.6 Implementing Agency:*

**7.6.1 The performance of the implementing agency was satisfactory.** The PIU was initially a very small but well-organized unit, and proved to be efficient in seeking acceptable solutions to problems encountered during project implementation (e.g., locating import documents for eligible goods and renegotiating the aggregate amount so that a particular eligible import could exceed 50 percent of the Credit), keeping track of Credit proceeds and providing support to the Government. Projects were implemented effectively and efficiently. The external audit has concluded that financial management generally followed the agreed terms and that project management's checks and procedures were acceptable. The PIU remained focused on administrative details essential to project implementation without being much aware of the overall objectives.

### *7.7 Overall Borrower performance:*

**7.7.1 Overall, Borrower performance and involvement at the various stages of the operation are rated satisfactory.**

## 8. Lessons Learned

8.1.1 The main lessons that can be drawn from the project experience are summarized below:

1. ***Rapid response was critical in such 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.

2. ***A simple and clear monitoring system is key.*** In such situation, the challenge is to combine the quick-disbursement process with adequate tracking of the use of credit proceeds. Cumbersome administrative procedures slow the process and undermine the impact on beneficiaries. **Each entity's responsibilities must be clearly defined**, especially for a better monitoring process. At the same time, the origin, objective and expected results of the credit should be communicated to beneficiaries. When those beneficiaries can be easily identified (e.g., large companies), such communication and follow-up on the project's results and/or impacts is easy, but this issue becomes more problematic if they are "small farmers", or "students", etc.

3. ***EERC can provide budgetary support in a programmatic manner if*** (i) 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; and (ii) the proper monitoring instruments are in place. Performance indicators that are agreed-upon between the Bank and the Borrower are then helpful to both parties. The FOFIFA/Cornell initiative was essential to program monitoring.

4. ***A participatory approach is crucial*** for the Project's success to enhance Government's commitment. This is true at every stage of the project, from its inception to its closure. This approach facilitates especially dialogue and cooperation during the project's implementation.

5. ***Involvement of NGOs can be very valuable in project implementation***, especially due to their proximity to the population and their better knowledge of needs. Government allowed the participation of faith and non-faith based associations in the project which greatly enhanced the effectiveness of the safety net operation.

6. ***Objectives of emergency project should be realistic and pragmatic.*** The challenge is to find the right balance between challenging objectives and limited implementation capacity of a country that just emerged from crisis. In this particular case, Government and the Bank focused on priority needs and chose implementation arrangements that made full use of potential partners.

## 9. Partner Comments

*(a) Borrower/implementing agency:*

1. Following the 2002 sociopolitical crisis, the Malagasy Government submitted an economic recovery plan to its main donors. Since the short-term impacts of the crisis on the population were so serious, the Government decided to implement an Economic and Social Recovery Program to meet the most urgent needs of the Nation. This program will continue through July 2004.

2. In order to implement this program, the Malagasy Government solicited assistance from the International Development Association (IDA) in the form of an Economic Recovery Emergency Credit, which was granted in the amount of SDR 38 million.

### Project Execution

3. This credit is noteworthy in that the funds were granted to the Borrower in the form of import financing. In this connection, the Credit Agreement defined a list of five (5) eligible import categories:
- (i) building materials and raw materials;
  - (ii) medical supplies and pharmaceutical products;
  - (iii) basic products such as hydrocarbons;
  - (iv) fertilizers and agricultural inputs; and
  - (v) transportation equipment.
4. Thus, the Borrower was required to produce documentation for imports valued in excess of “the exchange value of US\$ 20,000” to accompany fund withdrawal applications (WAs). The first WA was submitted on December 06, 2002.
5. Acceptable import documents included, among others, (i) certificates of origin of goods; (ii) bills of lading; (iii) invoices; and (iv) customs statements. The General Directorate of Customs made these documents available.
6. It should be pointed out that invoice amounts, in order to be accepted as vouchers, needed be higher than US\$ 20,000. Moreover, the portion allotted for hydrocarbons was not allowed to exceed 50 percent of requests.
7. The Credit Agreement set a deadline -- June, 30, 2003 – for submission of the last WA. This meant that, by that date, the Borrower had to have presented import documents corresponding to a total amount of SDR 38 million.
8. The deadline for submission of WAs to the World Bank was met; import documents totaling SDR 38 million (US\$ 50 million) were produced on time.
9. A deposit account for the IDA funds was opened at the Central Bank. This account received funds totaling US\$ 52,420,440.61.
10. The use of the US\$ 50 million under in the Economic Recovery Plan is broken down in the table in Annex 1 See Annex 12 of this ICR..
11. All payments related to the “Support to Public Enterprises” component were made in accordance with the provisions of the Government’s policy letter on Economy and Social Recovery dated October 17, 2002, with the exception of the State’s financial participation in Air Madagascar’s capital increase, which amounted to US\$ 7 million. These payments break down as follows:

Companies	Amount disbursed	Use
AIR MADAGASCAR	US\$ 10 million (FMG 67 billion)	Payment of financial obligations and re-start of AIR MADAGASCAR operations
RNCFM	US\$ 5.68 million (FMG 38.1 billion)	Payment of FMG 20 billion in salary arrears to RNCFM agents, and financing of RNCFM social plan for FMG 18.10 billion
MADARAIL	US\$ 8.24 million (FMG 50,439 billion)	Payment of MADARAIL priority investments
HASYMA	US\$ 3.4 million (FMG 23 billion)	Payment of arrears to HASYMA

12. With regard to the balance of US\$ 7 million still owed to AIR MADAGASCAR under the arrangement for State financial participation in the airline's capital increase, the Public Treasury is still awaiting a call for capital from AIR MADAGASCAR, which has not yet been forthcoming. Air Madagascar has been advised that the sum of US\$ 7 million is available to it in the course of 2004 to support all its investment and overhaul programs, which were developed as a function of this funding availability.

#### Problems encountered

13. Problems arose during the production and the collection of vouchers (import documents) for Withdrawal Applications (WA), because few invoices exceeded US\$ 20,000, because imports had difficulty resuming their regular pace after the crisis. Import volumes were still very limited.

14. As import documents from provincial customs facilities take time to reach the archives in Antananarivo, it proved necessary to go directly to the provincial facilities. Difficulties also arose here, however, as archival storage is not always conducted in a uniform manner in such facilities.

15. Of the eligible import categories, 'hydrocarbons and their by-products' was the largest in terms of both tonnage and value. The Credit Agreement had stipulated that WAs for hydrocarbons could not exceed 50 percent of credit proceeds. As the June 30, 2003 deadline approached, a request for non-objection was therefore submitted to IDA so that the 50 percent ceiling on hydrocarbon WAs could be exceeded and invoices totaling more than US\$ 16 million accepted. The deadline could otherwise not have been met.

16. Many import documents had to be discarded because the countries of origin of the goods were not on IDA's list of acceptable suppliers.

#### Lessons learned

- define the threshold for invoice amounts on the basis of the country's socio-economic situation at the time the agreement is signed ;
  - extend the list of import categories to other goods ;
  - adopt a more flexible stance towards non-eligible countries (i.e., consider mitigating circumstances for some countries) ;
- review task distribution in *monitoring* works.

#### *(b) Cofinanciers:*

Not applicable.

#### *(c) Other partners (NGOs/private sector):*

Not applicable.

## **10. Additional Information**

## Annex 1. Key Performance Indicators/Log Frame Matrix

### Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR <sup>1</sup>	Actual/Latest Estimate
(i) Primary and secondary school enrollment rates at the beginning of the new school year (September/ October)	Target: 95% of the children enrolled in first to third grade in June 2002 school year to continue schooling in 2002/2003 school year	Net enrolment rate for the primary level was 82% in year school 2002/03, vs. 70% in 2001/2002, and 67% in 2000/2001.
(ii) Drop-out rate during the 2003 school year	08/30/2003: Target: Primary school drop-out rate less than 10% during the year Actual: Enrollment 111% of that of previous school year	For the year school 2002/03: CP1: 9.8% (first year in primary school) CP2: 2.7% (second year) CE: 7.8% (third year) CM1: 7.1% (fourth year) CM2:-NA (fifth and last year in primary school)
(iii) Number of health consultations in formal health facilities	08/30/2003: Target: available data 116/week and facility (December 2002) Actual: 08/30/2003:	Number of health consultations in public health facilities has increased by 100%, mainly thanks to the fee waivers.
(iv) Number of health facilities offering assisted birth and number of assisted birth	Target: available data 81% of health facility sample (December 2002) Actual:	Slightly the same number of assisted births in public health facilities.
(v) Availability of basic medicines	08/30/2003: Target: January 2002 level of availability (i.e., 89%) of 16 basic drugs in 100 health facilities visited. Actual: 74% of health facility in sample have list of basic medicines available.	N/A
vii) Qualitative assessment of income development of rural households	08/30/2003: Target: Focus group discussions in 72 communities—visited during the crisis—report significant rise in rural incomes compared to crisis period. Actual: 73% of 150 communities visited state that their income situation in November 2002 (post crisis) is better or at least the same as during the crisis period (June 2002).	Rice yields increased to 2,350 kg/ha. Producer prices were relatively favorable at FMG 1,012/kg on average. Given The economic importance of rice cultivation in rural areas, this is a strong indication that income development of rural households in 2003 most probably has been positive.
(viii) Rural terms-of-trade (i.e., price of farm produce relative to basic manufactured consumer items). Basic consumer items in the basket would include salt, sugar, lamp petroleum and vegetable oil.(	08/30/2003: Target: Same relative price as in pre-crisis period. Actual: Although they recovered in the post-crisis period, rural terms-of-trade in Nov/Dec 2002 were about 20% lower than in Nov/Dec 2001.	The relative price of rice to PPN over the period Nov. 2002 to March 2004 shows a further improvement of 16%. Given that in November 2002 the price ratio was still 20% lower than before the crisis, it can be concluded that with the further improvement of 16%, the price ratio is back in its pre-crisis range.

## Output Indicators:

Indicator/Matrix	Projected in last PSR <sup>1</sup>	Actual/Latest Estimate
Recapitalize SALAMA with FMG 12 billion	08/30/2003: Target: 10/20/02: Transfer from the Government budget to SALAMA Actual: 10/28/02: transfer done	Transfer done.
Payment of SALAMA arrears	Target: Transfer from the Government budget to SALAMA: 11/10/02: FMG 4.4 billion 01/31/03: FMG 5.9 billion Actual: 12/23/02: FMG 7 billion 2003: 3.3 billion	Transfer done.
Drug fee waiver totaling FMG 20 billion (HIPC financing)	08/30/2003: Target: 10/17/02: list of required drugs sent to SALAMA 12/15/02: drugs are imported by SALAMA Actual: Drugs totaling FMG 17.9 billion in value were imported; additional FMG 5 billion for serum was allocated.	FMG 17.9 billion received by SALAMA. FMG 2.1 billion not paid because of non-adherence to administrative procedures. FMG 5 billion as a supplemental was allocated for serum.
Service fee waiver totally FMG 6.5 billion (HIPC financing)	08/30/2003: Target: Service fee waiver for FMG 6.5 billion. Actual: Transfer of 5.6 billion was made.	Transfer done.
Restocking at beginning of cost recovery for FMG 13.5 billion (HIPC financing)	08/30/2003: Target: Payment of invoices to SALAMA by the Ministry of Health. Actual: Payments will be made from government budget and not HIPC. Amount was adjusted to 13 billion; only FMG 1 billion have been spent, with the remainder expected starting in late September.	FMG 13 billion completely cleared
Extension of standard drug list for FMG 22.1 billion (financing under CRESAN)	08/30/2003: Target: 11/30/02: bids launched 01/30/03: CRESAN financing Actual: Because of procurement delays, orders will be placed directly with UNICEF; delivery expected shortly.	Purchase expected to occur as soon as \$22 million supplemental is obtained.
Education fee waiver for FMG 20 billion (HIPC financing)	08/30/2003: Target: 10/24/02: transfer from the Gov't budget to DIRESEB 11/07/02 transfer from DIRESEB to CISCOS 11/15/02: transfer from CISCOS to schools Actual: Transfer from government to CISCO end 2003. Survey May 2003: 90% of schools reported having received funds.	Transfer to CISCO for all primary schools was done at the beginning of the school year 2003/2004.
School supplies totaling FMG 6.5 billion (HIPC financing)	08/30/2003: Target: 10/31/02: school supplies to CISCOS 11/15/02: school supplies transferred by	All primary schools had received about 0.7 textbooks per student and per subject (ratio) by the end of the 2002/2003 school year.



	<p>CISCOS to schools Actual: School supplies received in only 50% of cases. Book delivery for Tana and Fianar still ongoing.</p>	
Education - FRAM salaries for FMG 3.5 billion (HIPC financing)	<p>08/30/2003: Target: 10/24/02: transfer from Government budget to DIRESEB 11/07/02 transfer from DIRESEB to CISCOS 11/15/02: transfer from CISCOS to schools Actual: FRAM teachers were paid FMG 450,000 each.</p>	<p>Funds for salaries were transferred to CISCOS. 8000 FRAM teachers are paid out of the regular education budget.</p>
Creation of labor-intensive jobs for FMG 44 billion (FMG 10 billion from HIPC, FMG 34 billion from FID) )	<p>08/30/2003: Target: 10/01/02: establishment of a Coordination Office 10/16/02: Program definition and launch 11/15/02: 20 contracts signed between DIF and NGOs / associations 06/30/03: 125 contracts signed; FMG 15 billion paid to workers for 1.9 million work days Actual: 10/01/02: office established 10/16/02: program launched 12/20/02: 120 contracts signed; FMG 30 billion spent. No information available on HIPC activities</p>	<p>685 contracts were completed for a total of FMG 38 billion.</p>
Arrears to 17,000 small HAYSMA farmers	<p>08/30/2003: Target: 10/31/02: agreement between BOA and the Government 11/30/02: payment of farmers by BOA for FMG 13 billion Actual: 10/31/02: agreement signed 11/15/02: payment made</p>	<p>Payment made.</p>
Support to rural communes: 2002 and 2003 allocation	<p>08/30/2003: Target: 10/17/02: 2nd transfer to communes from the Government budget for FMG 13.9 billion 06/30/03: transfer of FMG 161.2 billion. Actual: 10/30/02: transfer of FMG 13.9 billion made. Additional transfers not for total of FMG 161.2 billion, but for only FMG 30 million, plus FMG 10 million per commune.</p>	<p>Transfer fully completed.</p>
Private sector recovery: Reimbursement of VAT	<p>08/30/2003: Target: Cumulative reimbursement through 10/15/02: FMG 51.3 billion 12/15/02: FMG 40 billion 06/30/03: FMG 74.9 billion Actual: 12/20/02: FMG 130 billion paid 2003: FMG 71 billion paid</p>	<p>Regarding dates of reimbursement, 2002 arrears were reimbursed. Arrears for 2003 were paid throughout 2003 and in the first two months of 2004.</p>
Private sector recovery: Elimination of import tariffs (textile inputs, cement, fertilizer)	<p>Target: 10/31/02: import tax moratorium for items on the positive list 01/03/03: import tax restructuring in the 2003 Budget Law for items on the</p>	<p>At the end of December 2003, customs registered surplus revenues of FMG 94.5 billion against projections, thus canceling out lost earnings. (Source: Mr. José from</p>

	<p>positive list</p> <p>Actual: 12/20/02: moratorium granted and cost now estimated at FMG 60.8 billion instead of estimated FMG 20.8 billion.</p> <p>07/31/03: customs receipts higher by FMG 134 billion, offsetting lost customs revenue</p> <p>05/03: government grants comprehensive import tax exemption.</p>	Customs Department)
Private sector recovery: Supplier arrears (2001)	<p>08/30/2003:</p> <p>Target:</p> <p>10/15/02: FMG 373 billion</p> <p>12/15/02: FMG 47 billion</p> <p>Actual: 10/15/02: FMG 373 billion</p> <p>12/15/02: FMG 47 billion</p> <p>06/30/02: additional payments for 2002 arrears</p>	Arrears 2001 and 2002 were cleared.
Restoration of public services: Air Madagascar	<p>08/30/2003:</p> <p>Target: 12/10/02: transfer of FMG 67 billion (US\$ 10 million)</p> <p>1st semester 2003: Transfer of FMG 33.6 billion (US\$ 5 million)</p> <p>2nd semester 2003: Transfer of FMG 13.4 billion (US\$ 2 million)</p> <p>Actual:</p> <p>12/02/02: paid US\$ 3 million</p> <p>12/06/02: paid US\$ 5 million</p> <p>12/09/02: paid US\$ 2 million</p> <p>Outstanding US\$ 7 million will be transferred once 2002 accounts have been closed.</p>	<p>US\$ 10 million were paid;</p> <p>The transfer of US\$ 7 million has not yet occurred, pending a stakeholder meeting to be held once the 2002 accounts are audited (which is supposed to happen soon).</p>
Restoration of public services: Rehabilitation of Northern Railway - salary arrears	<p>08/30/2003:</p> <p>Target:</p> <p>10/11/02: payment of 1 billion</p> <p>12/15/02: payment of FMG 20 billion</p> <p>Actual:</p> <p>10/11/02: payment made</p> <p>12/15/02: payment made</p>	Payment made.
Restoration of public services: Rehabilitation of Northern Railway - social plan	<p>08/30/2003:</p> <p>Target: February, 2003: full payment of FMG 18.1 billion</p> <p>Actual:</p> <p>06/30/03: full payment made</p>	Payment made.

<sup>1</sup> End of project

## Annex 2. Project Costs and Financing

Project cost by Component (in US\$ million equivalent)

<b>Components</b>	<b>Activities</b>	<b>Costs US\$ (million)</b>
COMPONENT 1	Supporting the Most Vulnerable	57.7
COMPONENT 2	Assisting Private Sector Recovery	91.5
COMPONENT 3	Restoration of Public Services	88.5
<b>TOTAL</b>		<b>237.7</b>

### **Annex 3. Economic Costs and Benefits**

N/A

## Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
			Implementation Progress	Development Objective
<b>Identification/Preparation</b> N/A				
<b>Appraisal/Negotiation</b> October 2002	6	Economists		
	1	Financial Management		
	1	Education		
	1	Health		
	1	Rural development		
	1	Procurement		
	1	Legal		
	1	TTA		
<b>Supervision</b> 2002 December	1	Economist	S	
	1	Financial Management		
	1	Education		
	1	Health		
	1	Rural development		
	1	Private Sector		
	1	Legal		
	2	TTA		
2003 September	1	Economist		
	1	Financial Management		
	1	Education		
	1	Health		
	1	Rural development		
	1	Private Sector		
	1	Legal		
	2	TTA		
<b>ICR</b> 12/23/2002		CO-TTL (2); ECONOMIST (3); HEALTH SPECIALIST (1); RURAL DEV. SPECIALIST (1); EDUCATION SPECIALIST (1); TTA (1)		S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation	---	---
Appraisal/Negotiation	39.8	216,466
Supervision	9.8	34,394

ICR	3.5	9,758
Total	53.2	260,618

## Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<u>Rating</u>				
<input type="checkbox"/> <i>Macro policies</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Sector Policies</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Physical</i>	<input checked="" type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Financial</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Institutional Development</i>	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Environmental</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
 <i>Social</i>					
<input type="checkbox"/> <i>Poverty Reduction</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Gender</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input checked="" type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Private sector development</i>	<input type="radio"/> H	<input type="radio"/> SU	<input checked="" type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Public sector management</i>	<input type="radio"/> H	<input checked="" type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA
<input type="checkbox"/> <i>Other (Please specify)</i>	<input type="radio"/> H	<input type="radio"/> SU	<input type="radio"/> M	<input type="radio"/> N	<input type="radio"/> NA

## Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

### 6.1 Bank performance

#### Rating

- |                                      |                          |                                    |                         |                          |
|--------------------------------------|--------------------------|------------------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Lending     | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Supervision | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall     | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |

### 6.2 Borrower performance

#### Rating

- |  |                          |                                    |                         |                          |
|--|--------------------------|------------------------------------|-------------------------|--------------------------|
| <input type="checkbox"/> Preparation                           | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Government implementation performance | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Implementation agency performance     | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |
| <input type="checkbox"/> Overall                               | <input type="radio"/> HS | <input checked="" type="radio"/> S | <input type="radio"/> U | <input type="radio"/> HU |



## **Annex 7. List of Supporting Documents**

- Memorandum and Recommendation of the President on a Proposed Credit to the Republic of Madagascar, October 23, 2002
- Development Credit Agreement, Credit Number 3716-MAG, November 15, 2002
- Aide Mémoire, Mission de la Banque mondiale en République de Madagascar du 2 au 16 octobre 2002
- Aide Mémoire, Mission de la Banque mondiale en République de Madagascar du 16 octobre 2002
- Aide Mémoire, Mission de la Banque mondiale en République de Madagascar du 16 au 23 décembre 2002
- Aide Mémoire, Mission de la Banque mondiale en République de Madagascar du 1 au 4 septembre 2003
- Rapport relatif à l’audit externe du Crédit d’Urgence de Redressement Economique (CURE), Groupement Mazars Fivoarana/  
Mazars & Guérard, 18 février 2004

## Additional Annex 8. Implementation, monitoring, and most recent status of the EERC

### Component 1: Support for the most vulnerable: A) Health

Activity	Cost (FMG billion)	Sources of financing	Disbursement	Implementation plan	Status of reform
		Budget	PPTE	CRESAN	Effective Rate
<b>Assistance to the Central Drug Purchasing Agency(SALAMA)</b>					
<i>a) Re-capitalization</i>	12.0	12.0			12.0 10.3 100% 100% October 20, 2002: Transfer from the government budget to SALAMA Transfer done on October 28, 2002.
<i>b) Arrears repayment</i>	10.3	10.3			Transfer from the government budget to SALAMA November 10, 2002: FMG 4.4 billion Jan 31, 2003: FMG 5.9 billionFirst payment of FMG 7 billion was made in 2002; the remainder of FMG 3.3 billion was transferred in 2003.
<b>Fee waiver for health facilities (until October 2003)</b>					
<i>a) Drugs</i>	20.0		20.0		22.9 114% October 17, 2002: list of drugs sent to SALAMA mid-December: drugs are imported by SALAMADrugs valued at FMG 17.9 billion were received. FMG 2.1 billion were not paid because waiver was declined due to non-adherence to administrative procedures. In addition to the initial amount, there was a supplemental amount of FMG 5 billion for the purchase of reagents and serum.
<i>b) Services</i>	6.5		6.5		5.0578%November 30, 2002: 1st transfer to hospitals (Phagédís) January 31, 2003: 2nd transfer to hospitals The final amount was adjusted to FMG 5.6 billion, instead of FMG 6.5 billion. Of the 5.6 billion planned transfer to Phagédís (to help district pharmacies managed by NGOs to collect a 6% margin on the value of drugs sold, in compensation for revenues lost during the period of free drug distribution), only FMG 4.05 billion were transferred due to non-adherence to administrative procedures. Anti-tuberculosis drugs totaling FMG 500 million and X-ray film developer totaling FMG 500 million were also purchased.
<i>c) Restocking at beginning of cost-recovery</i>	13.5		13.5		1396%December 30, 2002: payment of invoices to SALAMA by the Ministry of Health. Adjusted to FMG 13 billion, and completely cleared in November 2003. The Government delayed the reinstatement of cost-recovery by nearly a year, extending the reinstatement date from January 2003 to October 2003.
<b>Extension of standard drug list (e.g.: for surgery and reanimation)</b>	22.1			22.1	00Bids launched by November 30, 2002  January 30, 2003: CRESAN financing Bids were delayed. It was then suggested that drugs should be supplied directly by UNICEF in order to eliminate the need for bidding. There was a significant initial delay due to questions about the details of the medical consumables. Once the order was finalized, there was insufficient cash in the CRESAN account because of all the ongoing commitments. Therefore, the purchase of consumables by UNICEF will occur as soon as the supplemental \$22 million is obtained.
<b>TOTAL</b>	<b>84.4</b>	<b>22.3</b>	<b>40.0</b>	<b>22.1</b>	

## B) Education

Activity	Cost FMG billion	Sources of financing	Disbursement	Implementation Plan	Status of reform
		Budget	PPTE	CRESED	EffectiveRate
Fee waiver	20,0		20,0		15.8
School supplies	6,5		6,5		6,579%
					<p>100%October 24, 2002: Transfer from the government budget to DIRESEB</p> <p>November 7, 2002: transfer from DIRESEB to CISC0s</p> <p>November 15, 2002: transfer from CISC0s to schools</p> <p>October 31, 2002: school supplies to CISC0s</p> <p>November 15, 2002: school supplies transferred by CISC0 to schoolsCredits were totally transferred to CISC0s at the end of 2002. In 2003, schools would have received a significant portion of these credits had there not been numerous cash management problems at the CISC0 level that delayed these transfers.</p> <p>Survey April/May 2003: 90% of surveyed schools had received all or part of the funds to be allocated to them. According to the MINESEB report, 79% of funds were transferred to schools. A new evaluation may be undertaken by MENRS in June 2004 to assess all transfers to schools.</p> <p>School supplies were financed up to the initial amount of FMG 6.5 billion.</p> <p>Funds for salaries were transferred to CISC0s.</p> <p>As there were important delays in launching the bids for supplemental nutrition, <b>for 2003 the fund was used to finance additional purchases of educational books for all primary grades.</b> Supplemental nutrition will be financed by the government's budget in 2004 and the GOM is preparing a school nutrition strategy.</p>
Salaries (FRAM)	3.5		3.5		<p>3.5100%October 24, 2002: Transfer from the government budget to DIRESEB</p> <p>November 7, 2002: transfer from DIRESEB to CISC0</p> <p>November 15, 2002: transfer from CISC0 to schools</p>
Supplemental nutrition	27.0			27.0	<p>27.0100%November 2002: call for bids</p> <p>Daily distribution for all primary students in 11ème, 10ème and 9ème as of March 2003</p>
<b>TOTAL</b>	<b>57.0</b>		<b>30.0</b>	<b>27.0</b>	

### C) Social safety net

<i>Activity</i>	<b>Cost FMG billion</b>	<b>Sources of financing</b>	<b>Disbursement</b>	<b>Implementation plan</b>	<b>Status of reform</b>
		PTE	FID	Effective	Rate
<b>Creation of labor-intensive jobs</b>	44.0	10.0	34.0		<p>October 1, 2002: Establishment of a Coordination Office</p> <p>October 16, 2002: Program definition and launch</p> <p>November 15, 2002: 20 contracts signed between DIF and NGOs/associations</p> <p>June 30: 125 contracts signed; FMG 15 billion paid to workers for 1,943,000 person/days</p> <p>December 31, 2003: 250 contracts signed; FMG 29 billion paid to workers.</p> <p>Of 767 signed contracts, 685 were completed for a total of FMG 38 billion and 4,066,847 person/days. FID expressed a desire to evaluate the project's profitability and efficiency, although disbursements and finished contracts have shown satisfactory results.</p>
<b>TOTAL</b>	<b>44.0</b>	<b>10.0</b>	<b>34.0</b>		

### D) Rural development

<i>Activity</i>	<b>Cost FMG billion</b>	<b>Sources of financing</b>	<b>Disbursement</b>	<b>Implementation plan</b>	<b>Status of reform</b>
		Budget	Effective	Rate	
<b>Payment of arrears to 17,000 small farmers (HASYMA)</b>	13.0	13.0	13.0	100%	<p>October 31, 2002: agreement between BOA and the Government</p> <p>November 30, 2002: payment of farmers by BOA</p> <p>The total amount of FMG 13 billion was paid to the farmers. BOA's advance was totally reimbursed by the government.</p>
<b>Support to rural communes</b>					
a) <i>Transfer to communes</i>	15.3	15.3	15.3	100%	1st transfer already completed
b) <i>Rest payment of 2002 allocation</i>	13.9	13.9	13.9	100%	<p>October 17, 2002: 2nd transfer to communes from the Government budget</p> <p>Transfer occurred at the end of October 2002.</p>
c) <i>Increase of transfers 2003</i>	161.2	161.2	131.4	80%	<p>2 June 30, 2003: transfer to communes from the Government budget</p> <p>Transfers started in February 2003: for each commune, FMG 30 million, supplemental grants for recurrent expenditures and a commitment of FMG 10 million for investment expenditures.</p>
					131.4 billion were transferred for 2003
<b>TOTAL</b>	<b>203.4</b>	<b>203.4</b>			

## Component 2. Assistance to private sector recovery

Activity	Cost FMG billion	Sources of financing	Disbursement	Implementation plan	Status of reform
		Budget	Effective	Rate	
Reimbursement of VAT	228	228	Checks: 75.2  Non-cash transfers: 113  Total: 188.2	33%  50%  82.5%	<p>Cumulated reimbursement until October 15, 2002: FMG 51.3 billion</p> <p>December 15, 2002: FMG 40 billion</p> <p>1st semester 2003: FMG 136.7 billion</p> <p>For 2002, arrears total FMG 108 billion instead of 91.3 billion and the figure for 2003 is FMG 155 billion instead of 136.7 billion. There is an increase of 15% in arrears in March 2004 for the years 2002 and 2003.</p> <p>For 2002, checks issued amount to FMG 34.5 billion and for 2003, FMG 40.7 billion. There were also non-cash transfers of FMG 51.7 billion (2002) and FMG 61.3 billion (2003). This gives a clearance of FMG 86.2 billion for 2002 and FMG 102 billion for 2003 or an execution rate of 94% in 2002 and 75% in 2003 compared to indicators set out in the implementation plan, if non-cash transfers are included.</p> <p>The outstanding amounts according to the latest arrears data are estimated at FMG 22 billion (2002) and FMG 53 billion (2003). Regarding dates of reimbursement, 2002 arrears were reimbursed on [____]. Arrears for 2003 were paid through 2003 and in the first two months of 2004.</p> <p>At the end of December 2003, customs registered surplus revenues of 94.5 billion against projections, thus canceling out lost earnings.</p> <p>Arrears for 2001 and 2002 were cleared. Payments for 2002 were made at the end of May and at the end of June, 2003.</p>
Elimination of tariffs for imports (textile inputs, cement, fertilizer)	60.8	60.8			<p>October 31, 2002: import tax moratorium for items on the positive list</p> <p>March 2003: Import tax restructuring in the 2003 Budget Law for items in the positive list</p>
Supplier arrears (2001)	420.0	420.0			<p>October 15, 2002: FMG 373 billion</p> <p>December 15, 2002: FMG 47 billion</p>
<b>TOTAL</b>	<b>708.8</b>	<b>708.8</b>			

### Component 3: Restoring public services

Activity	Cost (FMG billion)	Sources of financing	Disbursement	Implementation plan	Status of reform
		Budget	PPTE	Others	EffectiveRate
<b>Air Madagascar</b>	114.0	114.0			<p>6759% December 10, 2002: Transfer of FMG 67 billion (US\$10 million) to Air Madagascar</p> <p>1st semester 2003: Transfer of FMG 33.6 billion (US\$5 million) to Air Madagascar</p> <p>2nd semester 2003: Transfer of FMG 13.4 billion (US\$2 million) to Air Madagascar</p> <p>Funds equivalent to US\$ 10 million were paid:  December 2: US\$ 3 million  December 6: US\$ 5 million  December 9: US\$ 2 million  These US\$ 10 million were used to prepare the creditors' conference and to re-start the company (IATA membership and international flights)  The transfer of US\$ 7 million has not yet occurred, pending a stakeholders' meeting to be held once the 2002 accounts are audited (which is supposed to occur soon). The meeting may take place in mid-2004.  If stakeholders decide on a capital increase, the Government will allocate the US\$ 7 million.</p>
<b>Rehabilitation of Northern Railway</b>					
(a) <i>Salary arrears</i>	21.0	17.0	4.0		<p>2095% October 11: Payment of FMG 1 billion</p> <p>December 1, 2002: Payment of FMG 20 billion  FMG 20 billion were transferred in the third week of December. The Treasury received arrears totaling FMG 19.997 billion.</p>
(b) <i>Social plan</i>	18.1	18.1			<p>18.1100%  February 2003: full payment</p> <p>FMG 18.1 billion were available in the PASERP account at the Treasury as of June 2003.  Severance pay, housing allowances, medical coverage and reintegration funds are all covered in that social plan.</p>
(c) <i>Priority investments</i>	49.0	49.0			<p>49  100% December 1, 2002: Transfer of FMG 35 billion for 2002 priority investments to MADARAIL</p> <p>2nd semester 2003: Transfer of FMG 14 billion for 2003 priority investment to MADARAIL</p> <p>MADARAIL received FMG 35 billion, which it used to purchase 7 rail engines and some spare parts and to perform some rehabilitation.</p> <p>The remaining FMG 14 billion was received in December 2003.</p>
<b>Reconstruction of 16 dynamited bridges</b>	3.2			3.2	<p>3.2100% October 15, 2002: all works have been completed (these are temporary repair works for the next two years; definitive repairs are estimated at FMG 15.4 billion)  Accomplished before December 2002.</p>

<b>Reconstruction of road and bridges damaged by the cyclone (Kesiny)</b>	12.8			12.8	12.8100%October 15, 2002: all works have been completed Accomplished before December 2002.
<b>Road maintenance</b>	321.4	47.0	52.4	222.0	Implementation as defined by Ministry of Public works Funds disbursed and activities completed.
<b>TOTAL</b>	<b>539.5</b>	<b>245.1</b>	<b>56.4</b>	<b>238.0</b>	

## Additional Annex 9. Direct Crisis Impacts in selected Sectors:

### Main Risks and Government Strategy/Actions

<i>Sector</i>	<i>Direct crisis impacts</i>	<i>Crisis Consequences if No Action taken</i>	<i>Government Strategy/Actions</i>
Agriculture/ Rural	<ul style="list-style-type: none"> <li>drop in farm prices for traditional products</li> <li>anti-locust campaign halted</li> <li>harvest collection disrupted (no credits for collectors)</li> <li>several agro-businesses ceased production</li> </ul>	<ul style="list-style-type: none"> <li>productivity decrease and lower output due to diminished use of agricultural inputs and decayed infrastructure</li> <li>locust invasion leading to widespread harvest losses</li> <li>bankruptcy of agro-business</li> </ul>	<ul style="list-style-type: none"> <li>a. anti-flooded out</li> <li>b. tax e seed distrib established</li> <li>c. repay cotton and</li> </ul>
Education	<ul style="list-style-type: none"> <li>teaching interrupted, teacher absenteeism, urban school drop-out</li> <li>inability of families to pay for school supplies</li> </ul>	<ul style="list-style-type: none"> <li>failure of students to return to school for lack of family income</li> <li>parents cannot finance school supplies for following school year</li> </ul>	<ul style="list-style-type: none"> <li>a. fee w 2002/2003</li> <li>b. supp (nutrition,</li> </ul>
Health, HIV/AIDS, nutrition	<ul style="list-style-type: none"> <li>availability of basic medicines and immunization down, health utilization down (15%)</li> <li>delayed epidemiological assessment of STD/HIV/AIDS and delayed effectiveness of anti HIV/AIDS project</li> <li>retail price increases for basic foodstuffs</li> </ul>	<ul style="list-style-type: none"> <li>low demand for health services due to lower household revenues</li> <li>increased risks of (i) communicable diseases; (ii) infant and maternal mortality; (iii) spread of HIV/AIDS</li> <li>breakdown of generic drug system</li> <li>increased food insecurity</li> </ul>	<ul style="list-style-type: none"> <li>partia (medicines HIPC</li> <li>prior necessary effectiveness</li> <li>SAL</li> <li>socia FID, AGE</li> </ul>
Industry	<ul style="list-style-type: none"> <li>150,000 additional unemployed (of which 100,000 in the EPZ)</li> <li>delays in VAT reimbursement</li> </ul>	<ul style="list-style-type: none"> <li>lack of investor confidence</li> <li>further bankruptcies of indebted firms</li> <li>slow economic recovery, leading to low investment levels</li> </ul>	<ul style="list-style-type: none"> <li>a. prom public/priv policy</li> <li>b. guar</li> <li>c. tax b arrears to j</li> </ul>
Public sector	<ul style="list-style-type: none"> <li>revenue collapse until July 2002 and public investment program at standstill until August 2002</li> <li>treasury bond trading suspended</li> <li>intergovernmental financial circuits interrupted</li> <li>foreign exchange trading suspended by Central Bank until August 2002</li> </ul>	<ul style="list-style-type: none"> <li>fiscal shortfall not financed, leading to cuts in basic social services and/or inflation/depreciation</li> <li>internal revenues remain low</li> <li>absorption of public sector cannot be increased in the short run</li> <li>net withdrawal of treasury bonds by private banks</li> </ul>	<ul style="list-style-type: none"> <li>a. prom</li> <li>b. illeg: governanc</li> </ul>
Tourism	<ul style="list-style-type: none"> <li>95 percent decline in tourist travel in 2002 until September</li> </ul>	<ul style="list-style-type: none"> <li>slow restoration of overseas confidence</li> <li>Air Madagascar's difficulties limit tourist travel</li> </ul>	<ul style="list-style-type: none"> <li>a. budg</li> <li>b. colle ongoing</li> <li>c. emer agreed upc for all proj absorptive</li> <li>d. backi central Ba</li> <li>e. budg communit</li> </ul>
Transport, trade	<ul style="list-style-type: none"> <li>petroleum price in blockaded areas increased 500%</li> <li>23 bridges destroyed in crisis and due to cyclone Kesiny</li> <li>lack of routine maintenance of roads, railways</li> </ul>	<ul style="list-style-type: none"> <li>slow reconstruction of vital infrastructures</li> <li>underfunding of road maintenance work, leading to further decay of infrastructure</li> <li>delays in finalizing concession of Northern Railway</li> <li>increased isolation of rural communities</li> </ul>	<ul style="list-style-type: none"> <li>a. prom private/pub</li> <li>b. manz Madagascar</li> </ul>



- |  |  |  |
|--|--|--|
|  | <ul style="list-style-type: none"><li>▪ Air Madagascar halted most services</li><li>▪ External trade down 50 percent</li></ul> |  |
|--|--|--|

## Additional Annex 10. Priority Actions and Programs in the Recovery program

(October 2002 -July 2003)

Objectives	Activities	Costs (US\$ million)	Sources of financing
<u>Support for the Most Vulnerable</u>	<i>Health:</i> a) Waiver of cost recovery b) Recapitalization of SALAMA and arrears payment c) Extension of standard drug list	12.5	General budget; HIPC funds; World Bank's Health project
	<i>Education:</i> a) Fee waiver (public); b)Salaries for privately paid teachers (FRAM)	8.5	General budget HIPC funds; World Bank Education project
	Social safety nets: <i>labor intensive job creation</i>	6.5	General budget; HIPC funds; World Bank Community Development Fund
	Rural Development: a) Support for rural farmers b) Support to communes	30.2	General budget
	<b>SUB-TOTAL</b>	<b>57.7</b>	
<u>Assist Private Sector Recovery</u>	Reimbursement of VAT	26.1	General budget
	Reimbursement of supplier arrears	62.3	General budget
	Elimination of tariffs for imports (textile inputs, cement, fertilizer)	3.1	General budget
	<b>SUB-TOTAL</b>	<b>91.5</b>	
<u>Restoring Public Services</u>	Air Madagascar	17	General budget
	Rehabilitation of Northern Railway	13	General budget
	Reconstruction of destroyed bridges and roads	2.5	EU project; World Bank Community Development Fund
	Maintenance of roads	56.0	General budget; EU project; World Bank Transport Projects
	<b>SUB-TOTAL</b>	<b>88.5</b>	

**TOTAL**

**237.7**

## Additional Annex 11. Macroeconomic Indicators

### Annex 11: Macroeconomic indicators

Table 1:  
Madagascar: Key Macroeconomic Indicators  
(in percent of GDP, unless otherwise indicated)

	2000	2001	2002	2003 (MoP)	2003 ICR
GDP growth, percent p.a.	4.8	5.9	-12.7	7.8	9.8
CPI inflation, e.o.p., percent per annum	8.7	4.8	13.5	6.2	0.3
Gross Investment	16.2	17.9	14.3	14.8	16
Gross National Savings	9.4	12.9	7.7	9.7	11.1
Current Account Balance*	-5.7	-3.1	-6.1	-5.8	-7.5

\* After 2001: not including post-crisis program financing

Source: Ministry of Finance, IMF, World Bank

Table 2:  
Government Financing, 2002 and 2003  
(as % of GDP)

	2002 (originally planned)	2002	2003 (MoP.)	2003 ICR
Revenues and grants	17.1	10.2	14.5	14.4
Tax	12.2	7.7	10.3	10
Non-tax	0.3	0.3	0.3	0.3
Expenditures	21.3	15.7	17.1	18.2
Current, non-interest	8.1	7.1	7.9	9.2
Interest	1.8	2.2	1.9	2.8
Capital expenditure	11.2	4.8	6.8	5.8
Change in arrears	-0.3	-0.7	-0.6	-0.8
Overall balance (cash basis)*	-5.4	-6.2	-3.3	-4.6

\* Not including, or prior to, post-crisis  
program financing

Source: Ministry of Finance, IMF, World Bank

Table 3.  
Balance of Payments and the External Financing Needs  
(US\$ million)

	2001	2002		2003	
		MOP	REV	MOP	REV
Exports (goods and services)	1,316.50	759.10	729.52	1,026.80	1,123.29
Imports (goods and services)	1,462.10	1,020.80	*1,028.72	1,414.00	1,556.81
Current Account Balance*	-59.10	-242.10	-270.86	-320.40	-270.98
Capital and Financial account					
Capital (project) Grants	112.80	52.30	59.50	84.00	89.39
Foreign Direct Investment	93.10	21.60	8.52	41.00	12.75
Overall balance	24.95	-132.30		-37.13	

**In Percentage of GDP**

	2001	2002		2003	
		MOP	REV	MOP	REV
Exports (goods and services)	29.1%	16.7%	16.0%	18.8%	20.5%
Imports (goods and services)	32.3%	22.4%	-22.6%	25.0%	28.5%
Current Account Balance*	-1.3%	-5.3%	-5.9%	-5.9%	-5.0%
Capital and Financial account					
Capital (project) Grants	2.5%	1.1%	1.3%	1.5%	1.6%
Foreign Direct Investment	2.1%	0.5%	0.2%	0.7%	0.2%
Overall balance	0.6%	-2.9%		0.0%	

MINISTRY OF ECONOMY, FINANCE,  
Antananarivo April 20, 2004  
AND BUDGET  
SECRETARIAT GENERAL  
DIRECTORATE GENERAL OF TREASURY  
DIRECTORATE GENERAL OF PUBLIC DEBT

( Credit Agreement n° 3716 MAG date November 15, 2002 for an amount of SDR 38,000,000 )

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ACTIVITY SECTOR	AMOUNT PLANNED	PAYMENT SCHEDULE	PAYMENT MADE
			Amount Disbursed
RNCFM	FMG 20.00 billion (US\$ 3 million)	<u>1st semester 2003</u> Payment of FMG 33 billion (US\$ 5 million)  <u>2nd semester 2003</u> Payment of FMG 13.4 billion (US\$ 2 million)  <u>December 01, 2002</u> Payment of FMG 18.10 billion (US\$ 3 million)	FMG 20,000,000,000
MADARAIL	FMG 18.10 BILLION (US\$ 2.68 million)	<u>February 2003</u> Payment of FMG 18.10 billion (US\$ 2.68 million)	FMG 18,100,000,000
	FMG 49.00 billion (US\$ 7.30 million)	<u>December 01, 2002</u> Payment of FMG 35 billion (US\$ 5.10 million)	FMG 35,000,000,000 (Euro 5,135,998. 30)
		<u>2nd semester 2003</u> Payment of FMG 14 billion (US\$ 2.20 million)	FMG 15,438,951,705 (Euro 2,144,001. 07)
HASYMA	FMG 23. 00 billion (US\$ 3.40 million)	<u>October 31, 2002</u> Contract between BOA and Government	FMG 13,000,000,000
		<u>November 30, 2002</u> Payment for producers by BOA	FMG 10,000,000,000

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