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OPERATIONS EVALUATION DEPARTMENT

APPROACH PAPER

REPUBLIC OF MADAGASCAR: COUNTRY ASSISTANCE EVALUATION

Country Background

1. Madagascar is among the poorest countries, with a per capita income of US$290. About 70 percent of the population live below the poverty line. Yet, Madagascar has not always been as poor as it is today: In 1970, it had a per capita income of US$402. This decline reflects the inward-looking policies during the 1970s, until the first half of 1980s, and their aftermath. These policies consisted of extensive state interventions in all sectors, nationalizations, protectionism, and an unfriendly environment for private and foreign investments. Beginning in the mid-1980s, reform efforts started to reduce state intervention and liberalize the economy. But these reforms were piecemeal and hesitant, until the mid-1990s. The 1990s were also a period during which the country embarked on a transition to democracy, resulting in political factionalism, and different views on reforms. Between 1990 and 1996, GDP growth was only 0.6 percent annually.

2. In 1996, reform efforts resumed. By 1997, Madagascar had committed itself to creating an environment favorable for private and foreign investment. This period also coincided with the trade preferential agreement of the African Growth Opportunity Act (AGOA) and the "Everything but Arms" (EBA) initiative of the EU, both of which gave preferential treatment to Madagascar's exports. The combined effect of reforms and market access started to pay off: during 1997–2001, annual growth averaged 4.6 percent, outpacing population growth of 2.8 percent, for the first time in decades. Moreover, some structural changes started to take place in the economy. For example, non-traditional exports increased, doubling the ratio of export to GDP. However, while this growth benefited the urban poor, poverty in rural areas increased somewhat. Furthermore, in 2002, growth and poverty were adversely affected by the political crisis following contested Presidential elections, during which two parallel governments were established. GDP declined by 13 percent, critical infrastructure was destroyed, key social services were discontinued, and export activities virtually stopped.

3. International recognition of the new Government in July 2002 ended the political crisis. The new Government rallied the donors around its reconstruction and development program. The Government also started undertaking a series of measures/reforms to stabilize the economy, jumpstart economic activities, improve governance, and repair the physical and social damage resulting from the crisis. As a result, the economy rebounded in 2003 and to a lesser extent in 2004 (because of the impact of two cyclones), as business confidence started to be restored. Madagascar reached its enhanced HIPC completion in October 2004. The challenge ahead for Madagascar is to unleash and make the best use of the country's enormous growth potential, given its rich natural resource endowment.

Bank Assistance Program

4. The CAE will review the Bank's assistance to Madagascar since 1997, when Madagascar shifted its development paradigm to private sector led growth and integration to the world economy, and the Bank's lending started to double. Since FY97 to date, the Bank has approved 29 credits for Madagascar with a total commitment of US$1.4 billion. The Bank's assistance for FY97–99 had four objectives: (i) broad-based growth led by private, foreign investment; (ii) human capital development focused on basic education and health, and rural infrastructure; (iii) the strengthening of the public sector's capacity to deliver quality services and create an enabling environment; and (iv) natural resource management to reduce soil degradation and develop eco-tourism potential. Following the political crisis of 2002, the Bank responded by an Interim CAS covering the period from late-2002 to mid-2003. The main objectives of the Interim CAS were to assist private sector recovery, restore public services, and limit the negative impact of the crisis on the poor. Following Madagascar's first PRSP in 2003, the FY03 CAS focused on improvements in governance, rural poverty, and service delivery. In implementing this strategy, the CAS emphasized the following principles: impact on rural poverty, capacity building and governance at the center of all operations, and continued emphasis on environment.

Approach to Evaluation

5. The CAE will evaluate the extent to which Bank's major strategic objectives were relevant and achieved. The CAE will review the progress in achieving these objectives based on relevant indicators of performance, as defined in the 1997, 2002 Interim, and 2003 country assistance strategies. The CAE will also review the Bank's major products and services (lending, economic and sector work, advisory services, and aid coordination) in terms of their relevance, quality, timeliness, impact, and sustainability. Finally, the CAE will assess the Bank's relative contribution to the attainment of the objectives, taking into account external factors, the Government performance, and the interventions of other donors. At the same time, OED will also undertake an assessment of the two SACs and TA projects. In parallel with the CAE, OEG will provide a Country Evaluation Note. The CAE will also draw, to the extent possible, on the findings and recommendations of already completed and ongoing OED evaluations of the PRSP Process, HIPC, Trade Assistance, Community Driven Development, Social Funds, Public Sector Capacity Building in Africa, and Natural Disasters, as well as OED assessments of education and environment projects.

6. The CAE will address key issues under three strategic objectives, as summarized below. In addition, the CAE will review how effective the Bank's strategy has been in responding to the aftermath of the political crisis, with a view to helping economic recovery and protecting vulnerable groups. The CAE will also evaluate the extent to which the Bank's objectives were aligned with those of the PRSP, Bank's programs modified and coordinated accordingly with other partners.

Good Governance

- The 2003 CAS noted that "until 2001, very little public sector reform had taken place," and that "there were too few checks and balances on financial operations of the government." In its assistance strategy and operations, to what extent did the Bank pay attention to improving public sector financial and expenditure management? Are recent improvements in this area sufficient to justify a major shift to programmatic lending?

- Have governance concerns been a key part of Bank's assistance? How effective has the Bank's assistance been in this area?

Broad Based Growth

- How effectively did the Bank contribute to Madagascar's macroeconomic stability? How successful was the Bank's strategy in helping Madagascar attract foreign investment, and in stimulating domestic private investment?

- How "broad" was Madagascar's growth? What could the Bank have done in terms of its assistance strategy and instruments, for economic growth to have a greater impact, particularly on the rural poor?

- Farmers in Madagascar are caught in a vicious circle of decreasing productivity, resulting in exploitation of fragile lands (including deforestation), leading to declining productivity. How effective was the Bank's assistance in addressing this complex interaction between low agricultural productivity and environment?

- Did environmental considerations receive a central place in the Bank's operations in various sectors? To what extent were intersectoral synergies taken into account?

- The Bank has had an important role in helping strengthen environmental institutions, and develop innovative biodiversity conservation schemes. To what extent have these interventions been successful in managing Madagascar's natural resources?

Human and Material Security

- Could the Bank's social sector projects have had a larger nation wide impact? How was the Bank's assistance to social sectors reoriented and redesigned for better outcomes? What have the results been so far, particularly progress toward meeting the MDGs?

- Rural isolation is one of the most important causes of rural poverty in Madagascar. To what extent did the Bank's rural sector strategy contribute to reducing rural isolation and integrating farmers to domestic and world economy?

- There are wide regional differences in poverty in Madagascar. Were the Bank-financed investments, particularly those in social sectors and infrastructure, targeted to the poorest districts? Were the CDD-type operations effective instruments for targeted poverty alleviation? Has sustainability been an issue?

- Madagascar has one of the highest incidences of natural disasters in the world, disproportionately affecting the poor. How effective have the Bank's interventions been in responding to such disasters? Was there enough emphasis on prevention and mitigation?

CAE Output and Timetable

7. The CAE will be sent to CODE in FY06, in line with the planned Madagascar CAS, which is currently scheduled to go to the Board in the first quarter of FY07. The main mission will be in September/October 2005. The peer reviewers are Sudhir Shetty (PRMPR) and Fareed Hassan (OEDCR).