

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



MADAGASCAR

PORTFOLIO REVIEW REPORT

**SOUTH REGION DEPARTMENT
OCTOBER 2007**

CURRENCY EQUIVALENTS

(October 2007)

UA1	=	US\$ 1.55665
UA1	=	EURO 1.9786
UA1	=	2806.11 Ariary

Fiscal Year

1 January - 31 December

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
ARMP	:	Public Procurement Regulatory Authority
BOA	:	Bank of Africa
CAN	:	National Locust Control Centre
CSP	:	Country Strategy Paper
HIV/AIDS	:	Human Immuno-Deficiency Virus/Acquired Immuno-Deficiency Syndrome
IGR	:	Internally-Generated Resources
IHSM	:	Institute of Fisheries and Marine Sciences
IWS	:	Improved Water Supply
MAP	:	Madagascar Action Plan
MENRS	:	Ministry of National Education and Scientific Research
MFB	:	Ministry of Finance and Budget
MGA	:	Madagascar Ariary
MGFO	:	Madagascar Field Office
MTPM	:	Ministry of Public Transport and Meteorology
NGO	:	Non Governmental Organization
OPEC	:	Organization of Petroleum Exporting Countries
PAEAR	:	Rural Water Supply and Sanitation Programme
PALMT	:	Project in Support of Control of Communicable Diseases
PIU	:	Project Implementation Unit
PRIBG	:	Project of Institutional Strengthening In Support of Good Governance
PROJER	:	Rural Young Entrepreneurs Project
PRSP	:	Poverty Reduction Strategy Paper
RYE	:	Rural Young Entrepreneur
UA	:	Unit of Account
UNICEF	:	United Nations Children's Fund
USAID	:	United States Agency for International Development
VAT	:	Value Added Tax

SUMMARY REPORT

I. Introduction

1.1. The present report aims at informing the Boards of progress made since 2005 in the implementation of operations in Madagascar, as well as at making recommendations to improve the portfolio quality so as to achieve the expected goals of the projects.

1.2. The Bank Group has been operating in Madagascar since 1977. To date, the Bank has approved 55 operations, consisting of 36 projects/programmes, 8 studies, 1 line of credit, 4 structural adjustment programmes and 1 poverty reduction budgetary support, 3 institutional supports and 2 supplementary financing mechanisms. The total amount of approvals stands at UA 563 million. The overall disbursements rate of the operations is 78%.

II. Overview of Ongoing Portfolio

A. Main characteristics of ongoing projects

2.1. The current operations portfolio of Madagascar comprises 15 ongoing projects – one of which is undergoing closure – amounting to a net total of UA 213.15 million. As Chart 1 indicates, there is a fair sectoral distribution of the operations despite a slight predominance by the water-sanitation and infrastructure sectors. This brings to the fore the issue of selectivity of the Bank's operations in the country, as well as that of the alignment of the portfolio on the objectives of Madagascar Action Plan (MAP) 2007-2012, which is the Government's new poverty reduction strategy. This issue will be addressed in the next mid-term review of the CSP.

Chart 1: Madagascar Portfolio by Sector, 2007

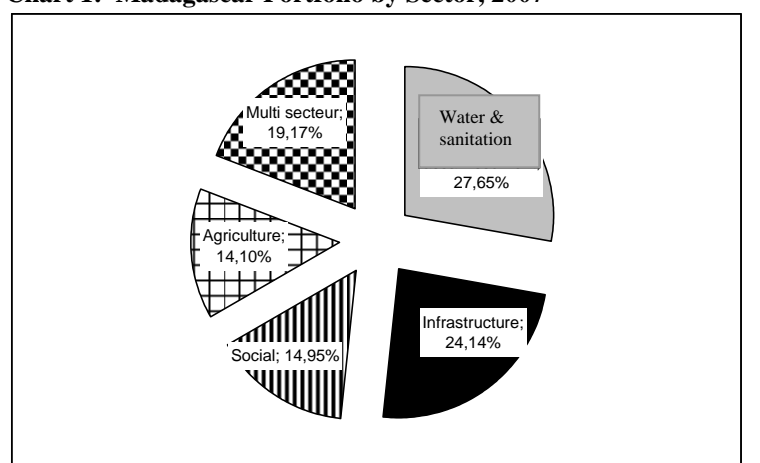


Table 1
Bank Ongoing Operations as at 15/11/2007 (in UA million)

Sector	Number of Operations	Net Amount	Distribution by Sector	Total Disbursement	% Disbursed
Water and Sanitation	2	58.9	27.65%	5.1	8.67
Infrastructure	4	51.5	24.14%	17.6	33.18
Social	3	31.9	14.95%	10.8	33.90
Agriculture	4	30.0	14.10%	20.8	69.43
Multi sector	2	40.9	19.17%	35.5	86.86%
TOTAL	15	213.1	100.00 %	89.9	42.08%

Table 2: Key Data on Ongoing Operations (updated on 15/11/2007)

Projects	Financial Data			Duration		Rating*						Status**
	Amount Approved (UA million)	Disbursements (UA Million)	Disbursement Rate (%)	Number of Extensions	Age (years)	Compliance with Conditions	Procurement	Financial Performance	Activities and Works	Impact on Development	Overall Rating	
Sub-Total Multisectoral Projects	40.86	35.49	86.86	-	2.1	3	3	3	2.5	3	2.9	-
Good Governance Institutional Strengthening	5.86	0.53	9.07	0	2.9	3	3	3	2.8	3	2.9	NPPP
Poverty Reduction Budgetary Support I	35.00	34.96	99.88	0	1.3	3	3	3	2.5	3	2.9	NPPP
Sub-total Social Projects	31.86	10.27	32.23	-	6.8	1.8	1.6	2.5	1.3	2.4	1.9	-
Education III (loan)	12.17	1.72	14.16	2	9.0	1	1	1.8	0.8	2	1.3	PP
Education III (grant)	0.50	0.02	4.39									
Health II (loan)	12.44	7.47	60.04	2 nd								
Health II (grant)	0.75	0.11	85.36	request underway	8.5	2	2	3	1.5	3	2.3	NPPP
Control of communicable diseases	6.00	0.95	15.80	0	2.9	3	2	2.8	2	2	2.3	NPPP
Sub-total Agriculture Projects	30.05	20.86	69.42	-	6.4	1.9	2.3	2.1	2.1	2.3	2.1	-
Rural Young Entrepreneurs	7.35	6.96	94.67	2	9.0	2	2	2	2.3	2	2.1	NPPP
Lower-Mangoky Irrigation Scheme	10.00	9.60	96.05	0	8.1	2	2.5	2	2	2.3	2.1	PPP
Locus Prevention and Control (loan)	5.76	3.60	62.42	1	6.6	1.7	3	2.8	2.3	2	2.3	PPP
Locus Prevention and Control (grant)	0.61	0.39	64.28									
Tuléar Fishermen Community Support	6.33	0.31	4.92	0	2.0	2	1.5	1.7	2	3	2.1	PPP
Sub-total Infrastructure Projects	51.45	17.03	33.10	-	5.6	1.5	2.0	0.9	1.3	2.2	1.6	
RN6 Road rehabilitation and maintenance	6.0	5.9	98.96	2								
Cyclone damage repairs	2.08	1.08	52.07	0	7.5	1	2	1	1.8	2	1.6	PP
RN1-repairs -II (loan)	10.1	6.63	65.59	0	5.9	1	2	1.7	2.3	2.7	1.9	PPP
RN1-repair II (grant)	0.23	0.09	38.72									
Toliara Province road (loan)	31.15	3.18	10.22	0	3.4	1.7	2	0.7	1	2	1.5	PPP
Toliara Province road (grant)	1.89	0.15	8.04									
Sub-total Water and Sanitation Projects	58.93	5.11	8.67	-	4.3	1.9	0.8	2.3	0.8	2.7	1.9	
Rural drinking water supply and sanitation programme	51.00	0.89	1.7	0	1.9	2	0.5	2.3	0.5	2.7	1.8	PP
Grand South drinking water supply and sanitation project	7.93	4.22	53.26	1	6.6	1.7	2.5	2.3	2.8	2.75	2.4	NPPP
GRAND TOTAL	213.15	88.76	41.64	-	5.03	2.0	1.8	2.1	1.5	2.5	2.0	

* Rating obtained during the last project supervision mission.

** NPP = Non potentially problem project; PPP = potentially problem project; PP = problem project

B. Assessment of portfolio performance

2.2. The overall rating of the portfolio – the average of overall ratings for each sector weighted in relation to the weight of the sector in the portfolio – is 2 (see Table 2), which is a satisfactory assessment. The average disbursement rate of the portfolio is 42%. Performances in the infrastructure sector (1.6) and the social sector (1.86) are the lowest. In contrast, the portfolio performances of the multi-sector are the best.

2.3. **Old, problem or potentially problem projects:** The Madagascar portfolio contains 4 old projects – over 8 years old – 3 problem projects and 5 potentially problem projects. Old projects are in the social and agricultural sectors. Problem projects are in the social sector (1), transport sector (1) and water sector (1). Potentially problem projects include 3 projects in the agriculture sector and two in the transport sector.

2.4. On the whole, some problems are common to the entire portfolio, such as: (i) fulfilling initial disbursement conditions, (ii) provision of IGRs, (iii) delays in the implementation of some activities, (iv) procurement problems; (v) the characteristics of the project implementation unit (PIU), namely the stability and qualification of its staff.

2.5. These problems are mainly due to: (i) inadequate capacities of executing agencies to manage the bidding preparation and invitation schedule (problem of qualifications and high mobility of staff of the executing agencies), (ii) delays in the preparation of architectural and technical designs for some projects and signing of contracts, (iii) poor contract monitoring and management (consultants, contractors and suppliers), (iv) lack of systematic monitoring of the implementation of Bank recommendations; (v) long delays by the Bank in issuing no-objection opinions; and (vi) the technical and financial fragility of local enterprises resulting in contractual time frames being exceeded.

2.6. *Special problem of availability of IGRs and VAT arrears*¹. Many projects in Madagascar suffer from unavailability of IGRs and delayed VAT payments. Two major reasons account for these difficulties: (i) failure by the project implementation unit to include adequate resources in the budget to cover the IGRs and VAT, mainly as a result of lack of planning of expenditures for the year (this concerns the problem of shortcomings in the PIU) and/or (ii) Government makes budget cuts during the financial year, and these expenditures are very often targeted first. The problem of non-reimbursement of VAT advances has the unfortunate consequence of over-invoicing by the suppliers to cover subsequent shortfalls.

III. Assessment of portfolio management capacity and aid coordination

3.1. **The Government:** During project start-up, delays ranging from 6 months to 24 months are noted in the effectiveness of loans, mainly due to delays in the preparation and approval of loan agreement ratification decrees, as well as problems encountered by the administration and

¹Loans or grants provided by the ADB or ADF cannot be used to finance taxes (customs duties or VAT) on the procurement of goods and services or works. Consequently, the suppliers are compelled to make tax pre-payments that the government subsequently reimburses. But the Government does not always honour its commitments thereby resulting in an accumulation of arrears.

implementation units in fulfilling some specific conditions. During implementation, the lack of qualification and instability of implementation units have been major obstacles to the smooth management of projects. .

3.2. **The Bank:** *The quality of supervision missions* should be improved significantly. Indeed, the number of projects for each expert is high and the need to undertake at least 1.5 supervisions per annum per project reduce the actual duration of supervision missions. Projects are often supervised within in a short period of time, thus reducing the actual time for the supervision of projects and resulting in summary physical supervision. *The obligation to include a local counterpart fund* in all projects slows down implementation of the said projects. The Bank should consider the possibility of waiving this obligation for sensitive projects. Similarly, the difficult fungibility of funds hampers reorientation activities through resource re-allocation where major obstacles impede implementation of some components.

3.3. **External aid for budget support is channelled through the Partnership Framework** – of which the Bank is a signatory together with the World Bank, the European Union, France and, in the near future, Germany. While the Bank maintains good cooperation ties with the other partners, it should reinforce its presence at the local level, which despite the opening of a country office, still needs to be strengthened.

IV. Future potential problems and lessons for the CSP and portfolio management

4.1. The major obstacles to improving portfolio management in Madagascar are outlined above. The Bank and the Government should take measures to improve the effectiveness of projects and their impact on development. The Government has undertaken a series of public finance management reforms which should improve project management. However, the planning of revenue and expenditures should be strengthened.

4.2. The Bank should pursue its institutional capacity building interventions through its good governance project. This will help to strengthen the Government's management capacities. The Bank should also consider orienting its sectoral interventions towards sectoral budget support, and thereby fall in line with the other donors, without completely abandoning its project approach.

V. Conclusion and Recommendations

5.1. While the overall performance of the portfolio is satisfactory, project management could still be improved, especially by extending the time frame of supervision missions and building the capacities of the country office.

5.2. In order to improve the implementation of Bank operations in Madagascar, the main recommendations for the Government and for the Bank are as follows:

The Government:To remove obstacles directly affecting smooth implementation:

- (i) Take appropriate steps to ensure the payment of counterpart contributions, particularly by ensuring that these expenditures are included in the budget;
- (ii) Build the capacities of the PIUs by maintaining the teams and recruiting staff with the requisite skills;
- (iii) Systematically strengthen the planning of procurement by the project implementation units, with quarterly updates.
- (iv) Strictly comply with time limits for processing documents for each stakeholder so as to accelerate contract approvals (implementation unit, control of expenditure commitments, person responsible for procurements).

To build institutional capacities:

- (v) Accelerate the strengthening of public expenditure control institutions, notably the financial control, the public procurement regulatory authority (ARMP), the Treasury staff and the IGE;
- (vi) Accelerate the implementation of the new Public Procurement Code;
- (vii) Establish an enhanced monitoring and supervision system for Bank projects within the Public Debt Department to ensure implementation of recommendations, in particular;
- (viii) Provide training in accounting, auditing of public procurements, and monitoring-evaluation;

The Bank:

- (ix) Reduce the time taken to process requests for no-objection opinions;
- (x) Ensure closer monitoring of project implementation, particularly by further involving the staff of the Country Office who could thus undertake annual supervision missions;
- (xi) Strengthen the human (procurement and disbursement professionals, etc.) and material capacities of the office to enable it play a more significant role in project supervision;
- (xii) Ensure effective implementation by the Government of recommendations in project audit reports;
- (xiii) Increase the frequency of meetings with Madagascar's authorities so as to train them in the implementation of Bank operations.

5.3. The Boards are invited to consider the conclusions of the general review of the Madagascar portfolio, and adopt the above recommendations.

Action Plan to Improve the Portfolio

Operation	Major Problems Raised	Actions required	Bodies responsible for monitoring	Deadline
GENERIC ISSUES				
1). Launch of Projects	1.1. Delays in appraisal and approval of loan agreement ratification decrees 1.2. Difficulties encountered by public administration and PIUs in fulfilling some specific conditions	1.1.1. Ensure shorter delays for ratification decrees 1.2.1. On the government side, implement required measures to comply with conditions precedent to entry into force 1.2.2. On the Bank side, ensure the conditions to entry into force are achievable.	Government Government Bank	New Projects New Projects New Projects
2). Management of the PIUs	2.1. Low capacities of PIUs 2.2. High turn-over in PIUs members 2.3. Poor management of procurement planning 2.4. Delays in architectural and technical appraisal studies and in contract signature and weakness of the monitoring and management of contracts (consultant and suppliers) 2.5. Poor effective implementation by the government of Bank recommendations	2.1.1. Recruit staff with the requisite skills 2.2.1. Build the capacities of the PIUs by retaining the teams 2.3.1. Systematically strengthen the planning of procurement by the project implementation units, with quarterly updates 2.4.1. Strictly comply with time limits for processing documents for each stakeholder so as to accelerate contract approvals 2.5.1. Establish an enhanced monitoring and supervision system for Bank projects within the Public Debt Department to ensure implementation of recommendations, in particular.	Government Government Government Government Government	On-going On-going 2008 On-going 2008
3). Availability of IGRs	3.1. Delays in counterpart contribution payments 3.2. VAT arrears	3.1.1. Take appropriate steps to ensure the payment of counterpart contributions, particularly by ensuring that these expenditures are included in the budget; 3.2.1. Pay the arrears	PIU/Government Government	On-going 2008
4). Procurement of goods and services	4.1. Poor knowledge of Bank procurement rules	4.1.1. Provide training in procurement	Government/Bank	2008

Operation	Major Problems Raised	Actions required	Bodies responsible for monitoring	Deadline
GENERIC ISSUES				
5). Bank Management	a. Time taken to process requests for no-objection opinions b. Frequency and quality of supervision mission	5.1.1. Reduce the time taken to process requests for no-objection opinions 5.2.1. Ensure closer monitoring of project implementation, particularly by further involving the staff of the Country Office and strengthening its capacities	Bank Bank	On-going On-going