

# Findings

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Good Practice  
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## Madagascar: Private Enterprise Development

*The objectives of the Financial Sector and Private Enterprise Development (APEX) project which began in 1990 and spanned ten years were as follows: (i) complement the government's ongoing restructuring efforts of the economy through provision of funds for investment and reconstitution of permanent working capital in industry and all other productive sectors; (ii) help, in coordination with the IMF and the Public Sector Adjustment project, to improve the efficiency of the financial sector, including expanded term resource mobilization; further interest rate liberalization and deepening the competition in the financial sector through a number of monetary policy instrument changes; (iii) strengthen institutions operating in the financial and small and medium enterprise (SME) support sector; and (iv) expand employment opportunities.*

### Impact on the ground

- The line of credit was able to provide sixty-one medium- and long-term loans totaling \$33 million to forty-nine enterprises throughout Madagascar. Of these forty-nine, twenty-five were new enterprises.
- Repayment rates for loans to enterprises under the APEX line of credit remained high — by project completion, only five loans representing 3.46 percent of outstanding loan portfolio were in arrears.
- The system of bank-by-bank credit ceilings was modified in 1994, and subsequently abolished to promote competition among banks.
- Auctions were introduced to enable the Central Bank to manage liquidity in the banking system.
- The Central Bank improved the availability of information. Since 1990, the results of the Treasury bill auctions have been made immediately available to participants; from 1998, these have been published in the press.
- Two public banks, which accounted for some 60 percent of bank deposits, were privatized in 1998 and 1999. Privatization has reduced the fiscal impact of possible future bank failures.
- The improved management of public banks and state divestiture have contributed to increased efficiency in the system as reflected in reduced intermediation margins and a downward pressure on interest rates.
- The communication and motivation campaign to make the APEX line of credit better known to potential beneficiaries was carried out; however, the prevailing unstable economic conditions limited its impact.
- Three entrepreneurs received scholarships to study abroad; 175 entrepreneurs received in-country training to improve their knowledge of accounting and management information systems.

## **Lessons learned**

- Flexibility in project design and in responding to changing country circumstances are crucial to achieving positive outcomes. Building policy reform conditions into an investment loan proved a reasonable proposition in this instance.
- Long-term commitment by the government and key actors such as the Central Bank and the Ministry of Finance are key to responding to changing circumstances. Thus, changes in monetary policy instruments and of monetary policy could be introduced even in a period of economic instability.
- Continued dialogue between the Bank and the IMF leading to complementary interventions, is critical for financial sector reform. Other key donors also need to participate actively — as did the European Union and the Government of France, in this case, with regard to privatization.
- Providing adequate funds for staff retrenchment associated with the Bank privatization program was a significant measure.

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*This article is sourced from the concerned Implementation Completion Report and the OED's Evaluation Summary. For more information, please contact Yvonne D. Jones: [Yjones@worldbank.org](mailto:Yjones@worldbank.org)*

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