

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

June 29, 2017
Report No.: AB7916

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| Operation Name | MG - Inclusive and Resilient Growth DPO |
| Region | AFRICA |
| Country | Madagascar |
| Sector | General public administration sector (50%); Central government administration (50%) |
| Operation ID | P162279 |
| Lending Instrument | Development Policy Lending |
| Borrower(s) | REPUBLIC OF MADAGASCAR |
| Implementing Agency | Ministry of Finance and Budget (MFB) |
| Date PID Prepared | June 29, 2017 |
| Estimated Date of Appraisal | |
| Estimated Date of Board Approval | December 7, 2017 |
| Corporate Review Decision | [Following the corporate review, the decision was taken to proceed with the preparation of the operation.] |

I. Key development issues and rationale for Bank involvement

1. **While Madagascar is an island nation blessed with many assets, repeated political crisis have held the country back.** Madagascar has a population of near 24 million of which 64 percent is less than 25 years of age. Agricultural lands, forest areas, and access to the sea could make it the “food basket” of the Indian Ocean, if not beyond. An unparalleled biodiversity and cultural wealth could drive tourism expansion. The workforce is relatively literate and its small - but reasonably diversified - private sector could thrive. However, repeated political crises have held Madagascar back. Over the last fifty years, all heads of state (excluding the current President) have either gained or lost power as the result of an unconstitutional event. The application of existing institutions and legal norms has been repeatedly undermined by the political networks of a few.

2. **Madagascar is poorer today than at its independence in 1960 and urgently needs more inclusive and resilient growth – its poverty rate is today among the highest in the world.** The average Malagasy is 42 percent poorer today than in 1960, the year of Madagascar’s independence. As of the latest data available (2012), only 30 percent of Malagasy live above the national and only 10 percent above the international poverty line. Poverty is not only widespread; it also runs deep: the average Malagasy consumes 32 percent less than a person living directly at the national poverty line. Close to 80 percent of Madagascar’s population lives in rural areas, and rural poverty rates are more than twice as high as urban rates. Because most of the rural poor depend on agriculture for their livelihood, they are particularly vulnerable to the frequent and severe climatic shocks that burden the country. Access to public services, including roads, electricity, health and education, is limited in remote locations.

3. **Since the return to constitutional order in early 2014, the country has put itself back on a positive development track.** The elected government that took office in 2014, after a five-year long political crisis, has made tangible progress in implementing its 2015-2019 National Development Plan (NDP). The NDP focuses on (i) improving governance and restoring the rule of law, (ii) preserving macroeconomic stability, (iii) promoting inclusive growth, (iv) supporting adequate human capital and (v) preserving natural capital and enhancement of disaster risk resilience. Macroeconomic stabilization has been supported by two consecutive IMF Rapid Credit facility (RCF) programs, followed by a six-month IMF staff-monitored program and an ongoing three-year extended credit facility (ECF) program that started in 2016. Madagascar's macroeconomic reform agenda was further supported by the World Bank's Reengagement DPO in 2014, the Resilience DPO in 2015 and the on-going 2016-17 Fiscal Sustainability & Investment programmatic DPO series. These efforts have contributed to a gradual macroeconomic recovery in Madagascar, with GDP growth expected to continue accelerating from 3.1% in 2015 to 4.2% in 2016 and 4.3% in 2017. Subject to determined further reform implementation, growth could subsequently increase to reach more than 5% by 2020.

4. **This new Inclusive and Resilient Growth DPO series helps Madagascar tackle one of its key challenges today - ensuring that the poor can benefit economically from the country's recent improved macroeconomic prospects.**

II. Proposed Objective(s)

5. **The program development objective of the proposed operation is to promote inclusive and resilient growth by improving (i) access to basic public services, (ii) access to economic opportunities in agriculture, (iii) access to infrastructure and (iv) access to finance.** The proposed operation is the first in a series of two programmatic operations aimed at supporting the government's efforts to support Madagascar's growth. It supports the "inclusive growth" pillar of the government's National Development Plan along with the "governance and decentralization", the "human capital" and the "disaster risk resilience" pillars. The macroeconomic pillar is supported through the parallel series of development policy operations focusing on fiscal sustainability.

III. Preliminary Description

6. **The first pillar seeks to help Madagascar's poor access basic public services – providing the foundation for inclusive growth.** Local health and education services, as well as social safety net programs, can help households recover from income, health and other shocks. They help the poor build up the human capital needed to access better economic opportunities. The DPO therefore aims (i) to reinforce budget transfers to the poorest local communities to strengthen their ability to deliver services, (ii) to enhance access to birth certificates, which are often gatekeepers for access to local services, and (iii) to improve the effectiveness of basic social safety net programs to assist the poorest - strengthening the coordination of the programs and establishing a dedicated centralized registry of beneficiary households.

7. **The second pillar focuses on strengthening income opportunities in agriculture, which remains to date the main sector of employment for the poor.** Close to 90% of the bottom 20%

household heads are employed in this sector. The DPO supports the implementation of a management and maintenance framework for irrigation schemes, which aims to increase agricultural productivity and resilience. The DPO also moves forward (ii) a land titling reform that ensures the land rights of the poor, creating incentives for long-term investment and using property as collateral to access credit.

8. The third pillar promotes access to infrastructure, connecting the rural communities in which most Malagasy poor live today with economic opportunities – including diversifying beyond agriculture. The pillar aims to strengthen the maintenance of the communal roads network. While the network has been degrading for many years, rural entrepreneurs – both in the agricultural and non-agricultural sector - rely on this lifeline to expand their business and achieve scale by reaching the urban markets. The pillar also strengthens electricity access, expanding the set of economic activities available to the rural poor and enhancing their productivity.

9. The fourth pillar focuses on access to finance - a key enabler for the expansion of successful micro, small and medium-sized enterprises (MSMEs) and the creation of better employment opportunities for the poor, cross-cutting across economic sectors and across urban and rural communities. A 2016 FinScope survey found that only 12% of Malagasy households had access to banking services, 17% had access to other non-bank institutions, 29% only had access to informal mechanisms to manage their finances and 41% of household were fully financially excluded. Yet these services are key to allow micro enterprises to take-off, grow in scale and create jobs for the poor. The DPO supports (i) the implementation of the recently approved electronic money (e-money) law, encouraging formal savings and payments through e-money even in remote locations without access to conventional financial services and even for those customers that cannot afford the fees associated with full bank accounts, as well as (ii) the establishment of a private credit information bureau, which will ease credit constraints for households and enterprises.

IV. Poverty and Social Impacts and Environment Aspects

10. The proposed DPO reforms aim to directly support the poor and no significant negative poverty, social or distributional effects are expected from the actions under the project. By design, the measures aim to enhance access to public services and income opportunities for Madagascar's poor. To fully assess the beneficial impact of the DPO reforms on poverty in Madagascar, the project will conduct a full Poverty and Social Impact Analysis (PSIA).

11. Broadly, these measures should benefit all genders. According to the 2013 enterprise survey, while credit usage is roughly gender-neutral, female-led companies are more likely to report credit access as a major problem (female top manager: 20.8%; male top manager: 9.3%). To the extent that a credit information bureau will ease access to loans (particularly for those that do not hold traditional forms of collateral), female-led companies may marginally benefit more. Traditional land rights and transfer rights vary by region, but mostly benefit male ownership. Land certification can benefit female land ownership and rights.

12. **The policy actions supported by this operation are not likely to have significant positive or negative effects on the environment, forests, and natural resources.** The policies addressed under the first pillar focus on institutional reforms without any expected short-term direct or indirect environmental impact. Thus, no significant adverse environmental impacts are anticipated under the project. Similarly, for the access to finance-related reforms proposed under the fourth pillars, no significant adverse environmental impacts are anticipated. The results of this proposed program under the second and third pillars, related to irrigation schemes, land reform, rural roads and rural electrification, are also unlikely to have significant effects on the environment as the focus is on maintenance of already existing infrastructures. According to the Malagasy Environment Code, all investment projects, private or public, likely to harm the environment should prepare an Environmental and Social Impact Assessment (ESIA). It is set up by decree No. 2004-167 of 3 February 2004 on Development of Investment Compatibility with the Environment (MECIE) which stipulates the requirement to prepare and an environmental and social impact assessment (ESIA). The ESIA approved by the Ministry of Environment with the environmental permit is a document required to be joined to any exploitation authorization. Therefore, any environmental and social risks and adverse negative impacts for any future or existing investments could be managed and potential impacts could be reduced in manner acceptable through the required ESIA.

V. Tentative financing

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| Source: | | (\$m.) |
| BORROWER/RECIPIENT | | 0.00 |
| International Development Association (IDA) | | 40.00 |
| Borrower/Recipient | | |
| IBRD | | |
| Others (specify) | | |
| | Total | 40.00 |

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