INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR A

PROPOSED GRANT

IN THE AMOUNT OF SDR 42.7 MILLION (EQUIVALENT TO US$60 MILLION) TO

REPUBLIC OF MADAGASCAR

FOR THE

SECOND INCLUSIVE AND RESILIENT GROWTH
DEVELOPMENT POLICY OPERATION

AUGUST 3, 2018

Finance, Competitiveness And Innovation Global Practice
Africa Region

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Republic of Madagascar

GOVERNMENT FISCAL YEAR
January 1 – December 31

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of 06/30/2018)
Currency Unit = Malagasy Ariary
US$1 = SDR 0.71094933

ABBREVIATIONS AND ACRONYMS

ADER
Agence de Développement d'Electrification Rurale
(Agency for the development of rural electrification)
AfDB
African Development Bank
CASEF
Croissance Agricole et Sécurisation Foncière
(Madagascar Agriculture Growth and Land Management Project)
CPF
Country Partnership Framework
CSBF
Commission de Supervision Bancaire et Financière
(Commission for Banking and Financial Supervision)
DPO
Development Policy Operation
DSA
Debt Sustainability Analysis
ECF
Extended Credit Facility
EDP
Economic Development Paper
EME
Etablissements de monnaie électronique (Electronic Money Establishment)
EMI
Electronic money institution
ESIA
Environmental and Social Impact Assessment
ESMP
Environment and Social Management Plan
EU
European Union
FAS
Financial Access Survey
FER
Fonds d'Entretien Routier (Road Maintenance Funds)
FSAP
Financial Sector Assessment Program
FY
Fiscal Year
GDP
Gross Domestic Product
GIZ
Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)
GRS
Grievance Redress Service
HCC
High Constitutional Court
ID
Identification Document
IDA
International Development Association
IEG
Independent Evaluation Group
IFC
International Finance Corporation
IMF
International Monetary Fund
JIRAMA
Jiro sy Rano Malagasy (State-Owned Electricity and Water Company)
MFB
Ministry of Finance and Budget
MFI
Microfinance Institution
MGA
Malagasy Ariary
MPSPPW
Ministry of Population, Social Protection and Promotion of Women
MPW
Ministry of Public Works
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
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<tr>
<td>NDP</td>
<td>National Development Plan</td>
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<tr>
<td>NEP</td>
<td>New Energy Policy</td>
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<tr>
<td>NES</td>
<td>National Electrification Strategy</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>PCB</td>
<td>Private Credit Bureau</td>
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<tr>
<td>PCR</td>
<td>Public Credit Registry</td>
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<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<tr>
<td>PFM</td>
<td>Public Finance Management</td>
</tr>
<tr>
<td>PPG</td>
<td>Public and Publicly Guaranteed</td>
</tr>
<tr>
<td>PPP</td>
<td>Public and Private Partnership</td>
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<tr>
<td>PSIA</td>
<td>Poverty and Social Impact Analysis</td>
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<tr>
<td>RCF</td>
<td>Rapid Credit Facility</td>
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<tr>
<td>SCD</td>
<td>Systematic Country Diagnostic</td>
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<td>SDR</td>
<td>Special Drawing Right</td>
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<tr>
<td>SOE</td>
<td>State-Owned Enterprise</td>
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<tr>
<td>TA</td>
<td>Technical Assistance</td>
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<tr>
<td>UNICEF</td>
<td>United Nations Children’s Emergency Fund</td>
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<td>WBG</td>
<td>World Bank Group</td>
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</table>

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Programmatic</th>
<th>If programmatic, position in series</th>
</tr>
</thead>
<tbody>
<tr>
<td>P166425</td>
<td>Yes</td>
<td>2nd in a series of 2</td>
</tr>
</tbody>
</table>

Proposed Development Objective(s)

The program development objective of this programmatic operation is to tackle the micro-foundations of inclusive and resilient growth by (i) strengthening the resilience of individuals against shocks and (ii) creating an enabling environment for economic opportunities in rural communities.

Organizations

Borrower: MINISTRY OF FINANCE AND BUDGET
Implementing Agency: CENTRAL BANK OF MADAGASCAR

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

| Total Financing | 60.00 |

DETAILS

| International Development Association (IDA) | 60.00 |
| IDA Grant | 60.00 |

INSTITUTIONAL DATA

Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial
## Results

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Baseline</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adoption of harmonized live birth notification forms</td>
<td>No (2016)</td>
<td>Yes (2019)</td>
</tr>
<tr>
<td>The new system for registering birth at local level is in place and operational</td>
<td>No (2016)</td>
<td>Yes (2019)</td>
</tr>
<tr>
<td>Number of households registered in the national social registry</td>
<td>0 (2016)</td>
<td>200,000 (2019)</td>
</tr>
<tr>
<td>Number of organizations contributing data on beneficiaries of cash transfers programs to the national social protection registry</td>
<td>0 (2016)</td>
<td>3 (2019)</td>
</tr>
<tr>
<td>Volume of transactions on e-money accounts (MGA billion)</td>
<td>MGA 1,125 billion (2016)</td>
<td>MGA 1,945 billion (2019)</td>
</tr>
<tr>
<td>Number of e-money issuers licensed by the CSBF</td>
<td>0 (2016)</td>
<td>3 (2019)</td>
</tr>
<tr>
<td>Number of private credit bureaus licensed and system development started</td>
<td>0 (2016)</td>
<td>1 (2019)</td>
</tr>
<tr>
<td>Number of land certificates issued</td>
<td>120,000 (2015)</td>
<td>270,000 (2019)</td>
</tr>
<tr>
<td><em>Fond de Peréquation</em> executes transfers to the local governments (% of planned in the FY)</td>
<td>No transfer executed (2016)</td>
<td>80 percent or more (2019)</td>
</tr>
<tr>
<td>Expenditure of the FER on communal road maintenance (percent)</td>
<td>0 (2016)</td>
<td>10 percent or more (2019)</td>
</tr>
<tr>
<td>Number of concessions and authorizations issued per year for rural areas</td>
<td>10 (2016)</td>
<td>40 (2019)</td>
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</table>
1. **INTRODUCTION AND COUNTRY CONTEXT**

1. **This Program Document proposes a second Inclusive and Resilient Growth\(^1\) Development Policy Operation (DPO) for the Republic of Madagascar** in the amount of SDR 42.7 million (US$60.0 million equivalent). The proposed operation is the second in a multi-sectoral programmatic series of two International Development Association (IDA) grants and is intended to support a reform program that tackles the micro-foundations of inclusive and resilient growth by (i) strengthening the resilience of individuals against shocks; and (ii) creating an enabling environment for economic opportunities in rural communities.

2. **The prior actions proposed under this second operation (DPO2) are consistent with the triggers identified and approved under the first operation (DPO1).** The Government has continued to implement the program over the past seven months in line with the agreement signed for the first operation in December 2017. Only some marginal adjustments and clarifications on the formulations of three prior actions have been introduced as summarized in table 1. This second operation has been scheduled to make significant advancements on key reforms initiated under the first operations while minimizing the risk of policy reversals, before the presidential election planned at end 2018.

3. **Madagascar has one of the highest rates of poverty in the world which has been deepening.** As of the latest data available (2012), 77.6 percent of the Malagasy population lives below the $1.9 international poverty line\(^2\), positioning Madagascar as the poorest country in the world where internationally comparable data are available.\(^3\) With a population of near 24 million of which 64 percent is less than 25 years of age, Madagascar has the potential to reap a demographic dividend. However, the average Malagasy is 42 percent poorer today than in 1960, the year of Madagascar’s independence. 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. The most recent poverty analyses\(^4\) show that Madagascar made little progress in improving the welfare of the poor between 2001 and 2012. The incidence of extreme poverty is higher among female-headed households, which make up one-fifth of all households.

4. **Madagascar’s high exposure to the impacts of climate change exacerbates the vulnerabilities of the poorest.** Agriculture provides the main source of income for the poorest and climate change increases the precariousness of their livelihoods.\(^5\) The country suffers annually from damages from cyclones

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\(^1\) This operation defines inclusive growth as growth that enables the poor to benefit from rising prosperity and that offers a way out of poverty. It defines resilient growth as growth that strengthens the resilience of the most vulnerable to shocks (ranging from climate-related to individual health shocks), reducing their exposure to shocks and strengthening coping mechanisms when shocks do occur.

\(^2\) Expressed in 2011 purchasing power parity.

\(^3\) Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (http://iresearch.worldbank.org/PovcalNet/home.aspx)


\(^5\) 60 percent of the households reported environmental issues (cyclone, drought, floods, and pest) as the main issue for agriculture productivity (ENSOMD 2012).
including destruction of agricultural crops and infrastructure. The South of the country is also exposed to recurrent droughts. Between 1982 and 2015, the country recorded up to 2,200 disasters with cyclones affecting the highest number of victims. Furthermore, the occurrences of cyclones, flooding and drought have increased by 3 times in the last 20 years and it is expected that these events will intensify under climate change.\(^6\) Climate models suggest that Madagascar will experience an increase in mean temperature of 1.1–2.6°C this century, as well as increases in rainfall across the island in summer and increases in rainfall in winter everywhere except the southeast coast.\(^7\) The destructive force of cyclones is also expected to increase. Farmer’s vulnerability to climate conditions is intensified by their dependency on small parcels of land that limit the possibility of surplus production, inadequate road infrastructure to access inputs and markets, and lack of safety net and access to credit in times of need.\(^8\)

5. **Despite repeated political crises and natural disasters that have held the country back, Madagascar is today on a positive development track.** Over the last fifty years, all the changes in the head of State (excluding the current President) have been preceded by a political crisis, the most recent ending in 2014.\(^9\) The enforcement of existing institutions and legal norms has been repeatedly undermined by the political networks of a few, contributing to the deepening of poverty. The Malagasy population have borne the cost of this political instability. With the relative political stability since 2014, the country has been able to engage in a series of reforms and the economy has gradually recovered, with Gross Domestic Products (GDP) growth accelerating from 2.3 percent in 2013 to 4.2 percent in 2017.

6. **A key challenge for Madagascar is to ensure that the recent positive macroeconomic developments are brought closer to the poor.** Promoting inclusive growth requires that the country continues to grow at a strong and sustainable rate and breaks with its past pattern of high growth volatility. The tertiary sector, particularly public works, and export processing zones have been the main drivers of the recent macroeconomic growth. Yet, the main sector of employment for the bottom 80 percent of households is agriculture which has performed poorly in recent years.\(^10\) Reforms are thus needed that build on the current political stability and translate economic growth into better conditions for the poor.\(^11\) These include creating income-earning opportunities for the poor (e.g. through improved access to finance and enhanced infrastructure) and connecting lagging and poor regions with stronger employment opportunities, both on-farm and off-farm. Moreover, individuals and households require support in times of frequent climatic disasters. This includes having access to social safety nets, basic public services as well as access to savings and credit to rebuild their lives after shocks occur. In addition to political stability, appropriate policy decisions are also essential to achieve inclusive and resilient growth.

7. **Recognizing this challenge, the country has been embarking on an ambitious reform program to promote the inclusiveness and resilience of economic growth – supported by this DPO series.** The Madagascar National Development Plan (NDP) 2015-19, which is being implemented through the Economic Development Paper (EDP) 2017-2019, has set out the national goal of “development through inclusive and sustainable growth, taking into account the spatial dimension”. Supporting this goal, the

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\(^7\) Tadross M, Randriamarolaza L, Rabefitia Z, Zheng KY. (2008). At the time of the study, rainfall is restricted to the southern part of Madagascar during the winter season.

\(^8\) Harvey CA et al. (2014)


\(^10\) World Bank (2016).

World Bank Country Partnership Framework (CPF) has designed its 2017-21 program around two focus areas: (i) increase resilience and reduce fragility; and (ii) promote inclusive growth. This DPO series supports the implementation of a coherent set of critical government reforms aligned with this development strategy by focusing on the micro-foundations of growth. Besides, Madagascar’s macroeconomic reform agenda has been supported by two consecutive International Monetary Fund (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, by the World Bank’s Reengagement DPO in 2014, the Resilience DPO in 2015 and the 2016-17 Public Finance Sustainability and Investment programmatic DPO series.

8. **This operation builds on the lessons learned from previous DPOs.** The 2014 Reengagement DPO focused on politically feasible reforms, that could build a momentum for future changes, as recommended by the World Development Report (2011), on Conflict, Security and Development and an Independent Evaluation Group (IEG) report on engaging with fragile states. It focused on improving transparency, better debt and arrears management, and encouraging an increase in fiscal space for social sector spending. The 2015 Resilience DPO made further inroads in transparency and fiscal management by strengthening budget reporting and an improved management of the public payroll. The 2016-2017 Fiscal Sustainability DPO series, focused on a medium-term fiscal agenda that widens the scope for public investment and service delivery by tackling more complex reforms such as fuel subsidy and pension sector reforms. Key lessons from all of these DPOs are that reforms have to balance ambition with realism, that great attention has to be paid to governance structures of sector reforms and the importance of leveraging ongoing technical assistance (TA) to sustain the dialogue. The current DPO series on inclusive and resilient growth focuses on structural reforms that are complementary to those of the previous DPOs and the stand-alone Fiscal Sustainability and Energy DPO under preparation, by supporting reforms that channel the benefits from higher fiscal space and promote growth for the poorest, and are linked to World Bank/International Finance Corporation (IFC)’s investment projects and TA.

9. **The reforms undertaken in the context of the first operation of the series have established a solid basis for achievement of the PDO.** The four laws submitted to Parliament under DPO1 on birth registration, credit bureau, land ownership and rural electrification have all been approved by the Parliament. The law on land ownership has been adjusted to accommodate recommendations from the High Constitutional Court (HCC), but these adjustments do not affect the substance of the reforms and hence the achievement of the PDO. The four decrees under DPO 1 on national social registry, e-money, transfers to local governments and governance of the road maintenance fund have all been issued and are being implemented.

10. **The implementation risks associated with this DPO series are significant.** First, with elections scheduled at the end of 2018, renewed political uncertainty could prevent the full implementation of the DPO reforms – or even lead to a roll-back of policies. These risks could also extend to reforms committed under parallel World Bank operations, such as reforms to JIRAMA (Jiro sy Rano Malagasy, the national utility company) and fuel subsidies. Second, some of the proposed reforms, for instance those focusing on enhancing transparency in the use of public funds and on securing property rights, might encounter resistance as they are potentially tackling vested interests. Third, political or climatic shocks could again destabilize Madagascar’s macroeconomic and fiscal framework. In such a scenario, the government may be forced to reduce resources devoted to poverty reduction – and some of the actions supported by this

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DPO series. Finally, the implementation of the reforms supported by this DPO series is complex, requiring collaboration across a large number of ministries and continued intense technical work. The technical capacities might be uneven within the stakeholders and pose risk for the implementation of the program. Wherever possible, this operation therefore seeks complementarities with ongoing investment projects and TA provided by the international donor community.13

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

11. Economic growth in Madagascar has been highly volatile, mirroring repeated and sustained periods of political instability. Since independence in 1960, there have been four major political crises. Periods of strong economic growth have historically been followed by a political crisis, causing economic activities to contract and resulting in sporadic growth. The private sector has cited political instability as the most important impediment to doing business. Periods of political instability have been accompanied by the expansion of the informal economy where productivity is low. The 2012 household survey (latest data available) showed that more than 90 percent of the active population were engaged in informal sector activities, of which 75 percent in informal agricultural enterprise. During periods of economic upturn, growth was largely concentrated in enclave sectors such as mining14 and economic free zones. As a result, Madagascar has neither experienced sustained nor broad-based growth, and rural poverty is estimated to be nearly twice as high as urban poverty.

12. Relative political stability since the return to constitutional order in 2014 has been associated with strong economic growth, but the poorest have been largely excluded from growth so far. GDP growth has accelerated from 2.3 percent in 2013 to 4.2 percent in 2017. Growth has largely been driven by small enclave industries, and a small but dynamic private sector. Exports for Malagasy goods and services produced under the economic free zones have been performing well. These developments are underpinned by steady growth with key trading partners (such as France and the United States), access to preferential trade agreements under the African Growth Opportunity Act, investors taking advantage of generous tax incentives, as well as relatively skilled and affordable labor. Certain agri-businesses, such as vanilla production, are experiencing a growth boom, because of high prices and strong international demand. The ongoing scale-up in public investment activities is also leading to growth in the construction industry, in urban areas. As a result, the major drivers of growth are concentrated in industrial and service sectors, which largely benefit the urban population, while the rural population remain engaged in agricultural activities that are excluded from the re-bound in the economy.

13. As the growth of the primary sector is constrained by several factors, the welfare of a significant part of the population has stagnated. The rural population largely depends on income derived from agricultural activities. However, the agricultural sector is characterized by low productivity and vulnerability to fluctuations in climatic conditions.15 Between 2014 and 2017, the growth of the primary sector averaged only 0.8 percent. In 2017, rice production (the country’s staple good) was severely affected by the drought that hit the country during the main cultivation season, contributing to a 20

13 The risks and mitigation measures are further detailed in paragraphs 110 to 117.
14 For example, when growth averaged 6.3 percent between 2003 and 2008, growth was driven mainly by two large mining projects, which are capital intensive and regionally located.
15 Between 2014 and 2017, the country has been hit by two severe cyclones and drought which coincided with the rice production season.
percent fall in total production. Improvements to agricultural productivity are also constrained by difficult access to land tenure security for small rural households, and lack of enabling infrastructure such as road connections to markets. Lack of access to electricity, and credit, limit off-farm income generation, particularly for Small and Medium Enterprises.

<table>
<thead>
<tr>
<th>Figure 1: Contributions to growth by expenditure category (%), 2014-2020</th>
<th>Figure 2: Sectoral contributions to growth (%), 2014 – 2020</th>
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<tbody>
<tr>
<td><img src="chart1.png" alt="Chart 1" /></td>
<td><img src="chart2.png" alt="Chart 2" /></td>
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</tbody>
</table>

Source: National Institute of Statistics, World Bank projection and calculation (June 2018)

14. Rising inflation in 2017 has strained the purchasing power of many households. Year-on-year inflation peaked at 9 percent at end 2017, its highest level in 7 years. The reduction in domestic rice production in 2017 led the price of rice, the main staple food, to increase by 30 percent between end 2016 and December 2017, which in turn drove-up food inflation. Food inflation accounts for 67 percent of the annual overall inflation. Higher rice prices have been mostly harmful for the poorest, where rice represents up to one third of the consumption basket.\(^\text{16}\) While higher prices offer the potential for higher income to rural producers, the net effect on welfare could be undermined by the prevalence of net buyers of rice among rice farmers. The need for cash to pay for basic household needs combined with the unavailability of an efficient rural credit market presses farmers to sell rice at low prices during the harvest season and then to buy at higher prices during the lean season.\(^\text{17}\) As a result, more than half of total profit in the domestic rice value chain are captured by market intermediaries.\(^\text{18}\) The lack of widespread social protection programs constrains the capacity of households to respond to price shocks. Inflation started to decelerate in the first quarter of 2018, falling to 7.4 percent in April.

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17 World Bank (2016).
18 According to Madagascar household and spatial analysis (World Bank 2017), traders and processors get more than half of profits.
15. **The current account deficit remained at a low level.** Significantly higher vanilla prices and growing exports of labor-intensive manufactured goods boosted export revenues in 2017, while imports also grew, driven by food and investment-related capital goods. Imports of rice increased by 190 percent following the fall in domestic production related to the drought and cyclone in early 2017. However, the current account deficit remained contained at 0.3 percent of GDP in 2017. External financing from project loans and grants have largely covered the current account deficit, resulting in a positive overall balance. The already identified external project loans and grants will remain essential for the external balance.19

16. **The strong external balance created room for the Central Bank to accumulate more foreign exchange reserves than originally projected.** Madagascar has a floating exchange rate, where the Central Bank only intervenes to manage undue volatility in exchange rates and ensure adequate levels of liquidity. In line with those objectives, the Central Bank purchased foreign exchange in the second half of 2017 to moderate the exchange rate fluctuations, which increased the import coverage of the foreign exchange reserves to four months. The exchange rate was nearly stable in nominal effective terms for the second year in a row, which implied an appreciation in real effective terms bearing in mind the inflation differential with Madagascar’s trading partners.

17. **The positive external developments made it challenging for the Central Bank to control bank liquidity.** Small-scale vanilla producers remain outside the financial system (as do about 41 percent of all households). Commercial bank reserves fell in June and July 2017, when traders bought vanilla for cash from the small-scale un-banked farmers, who continued to hold the currency. Subsequently, bank reserves increased when the Central Bank bought foreign exchange in the market. In response, the Central Bank engaged in operations to sterilize the liquidity and also increased the policy rate from 8.3 percent to 9.5 percent in 2017 to signal its commitment to contain inflationary pressures. These measures have been effective at containing core inflation (i.e. excluding food and energy) at 6.3 percent, within the government’s target range.

18. **Monetary policy formulation has been reinforced in recent years.** The Central Bank act that was updated in 2016 (i) includes a tighter limit on the access to statutory advances for fiscal deficit financing and (ii) established a monetary policy committee that is in charge of reviewing the monetary policy every 6 months to ensure consistency with the government’s macroeconomic targets and manage liquidity in the banking system.

19. **While revenue collection was broadly in line with the 2017 revised budget, there has been divergence on the expenditure side.** As a result, the 2017 deficit (cash basis) is estimated at 2.3 percent of GDP, below the revised budget projection of 4.3 percent. The gap reflects a lower than projected expenditures due essentially to delays in the disbursement and accounting of grants and externally financed investment, while planned domestically-financed expenditures were fully committed, and to delay in financial transaction for the one-off recapitalization of the national airline company, Air Madagascar.20 The fiscal deficit was financed through foreign borrowing (1.4 percent of GDP) and domestic borrowing (0.9 percent of GDP). Tax administration reforms continue to bear fruit through improved revenue collection, which increased from 10.9 percent of GDP in 2016 to 11.5 percent of GDP in 2017. While execution is below projection, expenditures also increased, from 16 percent of GDP in 2016 to 17.1 percent of GDP in 2017. Current expenditures dominate public spending, which were estimated

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19 Paragraph 25 expands on the investment projects in the pipeline.
20 As part of a strategic partnership to redress Air Madagascar, the authorities concluded in 2018 a commercial loan with the Deutsche Bank.
at 11.7 percent of GDP in 2017, including an equivalent of 1.2 percent of GDP of transfers to JIRAMA and the one-off transfer to Air Madagascar. Transfers to JIRAMA have been particularly high in 2017 as the budget had to cover the cost of the operation of thermal electricity generators to compensate for deficit of hydropower generation following the drought at the beginning of the year. Budget execution remained concentrated at the central level.

20. The 2018 budget maintains the government’s focus on securing the fiscal space necessary for essential spending. This objective is to be achieved through continuation of reforms in tax administration and control of non-priority spending. A supplemental budget for 2018 was submitted to parliament in May 2018 to account for additional transfers for JIRAMA (0.25 percent of GDP) 21, annual adjustment of wage and salaries (0.25 percent of GDP), and provisional support to export-oriented companies in financial distress (0.05 percent of GDP), compensated by higher revenue projection. With the supplement, the transfer to JIRAMA is still planned to be reduced from 1.2 percent of GDP in 2017 to 0.8 percent of GDP. The projected deficit in 2018 is 3.2 percent of GDP, of which 2.5 percent of GDP is foreign borrowing and 0.7 percent will be financed through domestic borrowing. Total revenues are projected at the equivalent of 15.7 percent, with tax revenue collection to increase by a further 0.5 percent of GDP following ongoing reforms and expanded grant inflows. Total public spending is projected at 18 percent of GDP. Disbursement of externally-financed public investments are expected to continue to ramp-up and reach 4.8 percent of GDP, close to its pre-crisis level. As the sources of already identified financing are essentially on concessional terms, the pressure on debt sustainability is expected to remain under control. Literature also points to the importance of the institutional settings for managing public investments on the capacity for scaling-up investment. 22 World Bank TA and other planned lending supports policies to ensure that the scaling-up is sustainable.

21. Madagascar’s banking sector exhibits strong financial fundamentals: the main challenge remains to develop an inclusive financial system while preserving financial stability. All banks fulfill the minimum capital adequacy requirement, with a capital to risk-weighted assets ratio of 13.6 percent on aggregate, well above the required minimum of 8 percent (December 2016). Subject to seasonal fluctuation, liquidity is ample, with banks’ overall deposits exceeding loans. To promote financial inclusion, the sector needs to utilize its high liquidity ratios to lend to Micro, Small, and Medium Enterprises – learning to identify and lend to promising borrowers, for example through the use of risk sharing facilities or the establishment of relevant financial sector infrastructure (such as a movable asset collateral registry) that can help approaching clients that might lack conventional credit history and traditional collateral. On the other hand, Madagascar’s Microfinance Institutions (MFIs) are better placed in bringing credit to the poor but the sector needs to overcome governance challenges and strengthen its capabilities. MFIs have developed alternative business models to offer account, credit and other financial services to poorly documented and low-income customers. 23 Many MFIs are exploring the use of digital technology to offer mobile financial services to their customers, which would broaden their appeal and

21 JIRAMA’s operating costs are higher than initially projected due to the rise in international oil price.
22 IMF (2017) mentions Ethiopia as an example of a low-income country that has significantly scaled-up investments in the past decade to support growth. Recently, the risk of debt distress has been increased to high due to vulnerability of exports while the ratio of debt to GDP remains low.
23 The reach of the MFI subsector has become important. According to the IMF FAS 2017, there are now 55.6 MFI depositors and 16.8 borrowers per 1,000 adults. Given a business model focused on small loans to the poor, outstanding loans remain small at 0.8 percent of GDP.
reach – but MFIs so far lack experience in this domain and a balanced approach between innovation and regulation is required among other things to optimize the impact of microfinance on poverty reduction.

22. The rapid growth of e-money – as a first step towards use of formal financial services - holds great promise for financial inclusion. According to the IMF Financial Access Survey (FAS) 2017, there are now 54.2 active mobile money accounts (and 277.3 registered mobile money accounts) per 1,000 adults – a rise of 86.9 percent relative to 2014. There are 72.3 mobile money agent outlets per 100,000 adults. Mobile money account balances stand at 0.35 percent of GDP. Still, many Malagasy businesses and households have yet to gain access to formal financial services. A 2016 FinScope survey found that only 12 percent of Malagasy households had access to banking services, 17 percent had access to other non-bank institutions, 29 percent only had access to informal mechanisms to manage their finances and 41 percent of household were fully financially excluded. According to the World Economic Forum Executive Opinion Survey 2017, access to finance was ranked the second most problematic factor for doing business (after political instability and corruption).

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

23. The medium-term economic outlook is positive, supported by export-oriented manufacturing, scaling-up of investment, and agriculture. Favorable global growth prospects are expected to maintain strong demand for Malagasy goods and services, contributing to a favorable assessment of export earnings and international reserves. The construction industry is expected to remain strong with the planned scale-up of investments, which includes rural energy projects managed by the Agence de Développement de l'Electrification Rurale (ADER). Overall crop production is estimated to have improved in 2018 compared to 2017, thanks to better climatic conditions, except in the Southeastern part of the country. The current elevated prices for rice and vanilla could encourage the expansion of agriculture productions over the short to the medium term. The reforms supported by this operation are also expected to contribute to increasing off-farm activities, where secondary income generated could act as a buffer to variations in agricultural output, which are subject to changing weather conditions. Growth is projected at 5 percent in 2018 and to average 5.2 over the following 5 years.

24. Monetary policy is expected to maintain its focus on controlling inflation while providing adequate liquidity for bank lending. Inflationary pressures are expected to slightly ease from 2018 onward, as rice prices benefit from improved yields following favorable weather conditions in late 2017/early 2018. Vanilla prices are also expected to decline over the medium-term as new cultivators enter the market, which should stabilize currency in circulation. However, these developments may be counter-balanced by higher government spending as preparations for presidential elections scheduled in late 2018 may result in an uptick of expenditures. Consequently, further rises in interest rates by the Central Bank are likely to be on the horizon, coupled with measures to manage liquidity operations.

25. Reflecting the country’s significant external financing needs, the current account deficit is projected to widen. The current account is projected at 2.2 percent of GDP in 2018 and to average 4 percent over the medium-term, as the scaled-up public and private investments drive the demand for imports. This projection holds despite the expectation that exports will continue to be favorable. Major infrastructure projects are in the pipeline, including in the energy sector, ports, airports and roads.

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24 Famine Early Warning Systems Network (February 2018).
External financing flows are expected to cover the deficit and international reserves should remain at an adequate level. The external financing projections, including the grant, remain on the conservative side. The terms of financing committed at the Donors and Investors conference in 2016 still hold.

26. **Over the medium-term, public expenditures are expected to remain roughly steady, but with a changing composition toward lower current spending and higher capital expenditures.** Public spending is projected to increase from 18 percent of GDP in 2018 to 19.6 percent of GDP in 2019, and then average 19.8 percent of GDP over the period 2020 to 2022. Public expenditures are expected to be supported by both an increase in tax revenues and higher external borrowing. Current expenditures are projected to decline from 10.7 percent of GDP in 2018 to 9.8 percent of GDP in 2019, based on the assumption that the transfer to JIRAMA falls as the utility’s operational performance improves and commitment to avoiding fuel subsidies is maintained. On the other hand, capital expenditures are projected to increase from an estimated 7.3 percent of GDP in 2018 to a projected 9.8 percent of GDP in 2019, largely due to the intended scale-up of already identified foreign financed public investment projects following the outcome of the Donors and Investors Conference in December 2016. The expenditures committed at the local government level is expected to increase following the effective operation of the national péréquation fund.25

27. **The level of external debt distress risk remains moderate.** A preliminary Debt Sustainability Analysis (DSA) undertaken in June 2018 assesses Madagascar’s risk of external debt distress to be moderate, in line with the last DSA of June 2017. The ratio of debt to GDP stood at 36 percent at end-2017, of which 70 percent is from external sources. This ratio has been declining from 41 percent in 2015, supported by favorable debt dynamics including the real appreciation of the Ariary and rising nominal GDP growth. In addition, fiscal deficit has been restrained and the government prioritized concessional borrowing. The debt to GDP ratio is projected to further decline to 35.1 percent of GDP in 2018, supported by rising nominal GDP growth, appreciating real effective exchange rate, and clearance of domestic arrears. The scaling-up in public investment is expected to drive the level of debt upward from 2019 to reach 43.3 percent of GDP in 2022. However, all the public and publicly guaranteed (PPG) external debt indicators remain under the debt burden threshold under the baseline projection, because of the large concessional element of the borrowing. Under stress test, some of the PPG debt threshold are breached but the debt service indicator remains robust. Over a 10-years horizon, the debt distress level is sensitive to one-time depreciation shock, which is equivalent to a 30 percent depreciation relative to the 2019 baseline, and a shock to exports. While total PPG dynamic is assessed to be sustainable, main vulnerabilities include large shock on GDP growth, deficient revenue collection or materialization of contingent liabilities related to State-Owned Enterprises (SOE).

28. **The macroeconomic policy framework is considered adequate for the operation, notwithstanding the downside risks to the projections.** Madagascar has a demonstrable track record in adequately managing monetary and fiscal policy in response to changing policy objectives and socio-economic conditions. For example, during the period of political instability when growth contracted and tax revenues fell, the country managed to control fiscal deficit and refrained from accumulating debt. However, macroeconomic stability has been achieved at the cost of deficient public service delivery and infrastructure provision, and buildup of arrears. More recently, relative political stability has facilitated a

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25 The national perequation fund has been created to reduce the disparities between the resources of municipalities by transferring resources from rich municipalities to the poorest ones.
more expansionary fiscal policy to support higher growth. The Central Bank has continued to implement reforms to contain inflation and maintain adequate levels of reserves, whilst advancing legislation to enhance governance arrangements. This assessment is confirmed by three recently completed reviews under the IMF ECF program.26

29. The uncertainty accompanying the upcoming presidential election and contingent liabilities related to SOEs remain the main downside risk to the projection. Risk of political instability, which has been a major constraint to sustainable growth in the past, is increasing with the preparation of the presidential election planned at the end of 2018. Political instability risks include interruption of the growth momentum, cut-off of Madagascar's access to external financing and discouraged private investments. In addition, pressure for populist policies in an election period could arise and slow down reform implementation or undermine budget management. In light of the political protest ongoing since April, the automatic pump price adjustment had to be postponed in May to preserve social stability.27 The risks related to contingent liabilities from SOEs, particularly JIRAMA, may place pressure on debt dynamics with the risk of diverting resources from much-needed social priority spending programs designed to target the poorest. Finally, Madagascar’s vulnerability to climate change is a constant risk that underscores the importance of building resilience by strengthening the foundations of growth.

26 The reviews were completed in June and December 2017, and July 2018.
27 The delay resulted in an accumulation of liabilities to fuel distributors that will be absorbed through pump price adjustments without charge for the budget.
Table 1: Madagascar: Selected economic and financial indicators: 2013-2022

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<td><strong>Real sector</strong></td>
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<tr>
<td>GDP (billions of Ariary)</td>
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<td>25,775</td>
<td>28,585</td>
<td>31,769</td>
<td>35,835</td>
<td>40,548</td>
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<td>402</td>
<td>401</td>
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<td>475</td>
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<td>Inflation, consumer prices (annual %, end of year)</td>
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<td>7.6</td>
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<td>Total revenues and grants</td>
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<td>11.8</td>
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<td>o/w: Tax Revenues</td>
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<td>9.9</td>
<td>10.1</td>
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<td>11.5</td>
<td>12.0</td>
<td>12.3</td>
<td>12.8</td>
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<td>Total spending (commitment basis)</td>
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<td>14.7</td>
<td>15.1</td>
<td>16.0</td>
<td>17.1</td>
<td>18.0</td>
<td>19.6</td>
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<td>Overall balance (cash basis)</td>
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<td>-2.4</td>
<td>-3.7</td>
<td>-2.0</td>
<td>-2.3</td>
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<td>Total public debt</td>
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<td>34.7</td>
<td>41.3</td>
<td>38.4</td>
<td>36.0</td>
<td>35.1</td>
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<td>39.0</td>
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<td><strong>Monetary accounts (annual % change)</strong></td>
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<tr>
<td>Money Supply (M2)</td>
<td>9.0</td>
<td>9.8</td>
<td>15.8</td>
<td>21.3</td>
<td>19.3</td>
<td>13.4</td>
<td>13.7</td>
<td>17.3</td>
<td>16.8</td>
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<tr>
<td>Net Foreign Assets</td>
<td>-12.7</td>
<td>17.3</td>
<td>20.9</td>
<td>37.4</td>
<td>23.2</td>
<td>9.5</td>
<td>8.8</td>
<td>17.1</td>
<td>16.3</td>
<td>12.3</td>
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<tr>
<td>Net Domestic Assets</td>
<td>8.0</td>
<td>8.3</td>
<td>11.4</td>
<td>10.8</td>
<td>14.1</td>
<td>15.1</td>
<td>15.7</td>
<td>15.4</td>
<td>15.5</td>
<td>14.2</td>
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<tr>
<td>of which: Credit to the Private Sector</td>
<td>16.7</td>
<td>18.4</td>
<td>16.5</td>
<td>8.2</td>
<td>18.4</td>
<td>14.0</td>
<td>15.4</td>
<td>15.0</td>
<td>14.4</td>
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<td><strong>External sector (%GDP)</strong></td>
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<tr>
<td>Exports of goods</td>
<td>18.1</td>
<td>20.6</td>
<td>21.0</td>
<td>21.6</td>
<td>24.4</td>
<td>23.6</td>
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<td>Imports of goods</td>
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<td>28.7</td>
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<td>31.5</td>
<td>32.2</td>
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<td>Current account balance</td>
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<td>-0.3</td>
<td>-1.9</td>
<td>-0.6</td>
<td>0.3</td>
<td>2.2</td>
<td>3.3</td>
<td>4.0</td>
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<td>4.4</td>
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<td>Foreign Direct Investment</td>
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<td>4.5</td>
<td>3.1</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
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<tr>
<td>Overall Balance</td>
<td>0.7</td>
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<td>1.0</td>
<td>2.9</td>
<td>2.0</td>
<td>0.4</td>
<td>0.3</td>
<td>1.0</td>
<td>1.0</td>
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<td>Foreign Reserves (months of imports)</td>
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<td>2.5</td>
<td>2.9</td>
<td>3.9</td>
<td>4.0</td>
<td>4.1</td>
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<tr>
<td>External debt</td>
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<td>28.4</td>
<td>26.7</td>
<td>25.3</td>
<td>25.5</td>
<td>27.8</td>
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<td>33.3</td>
<td>35.5</td>
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<td>Terms of Trade (percent change)</td>
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<td>22.3</td>
<td>17.7</td>
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<td>0.7</td>
<td>0.9</td>
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<td>Exchange Rate LCU/USD (average)</td>
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<td>2,414.8</td>
<td>2,933.5</td>
<td>3,176.5</td>
<td>3,116.1</td>
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Source: Malagasy authorities, IMF and World Bank staff calculations, June 2018
### Table 2: Balance of Payments financing requirements and sources (%GDP)

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<td>Total financing requirements</td>
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<td>9.1</td>
<td>8.4</td>
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<td>10.8</td>
<td>9.9</td>
<td>9.7</td>
<td>9.3</td>
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<tr>
<td>Current account deficit</td>
<td>1.9</td>
<td>-0.6</td>
<td>0.3</td>
<td>2.2</td>
<td>3.3</td>
<td>4.0</td>
<td>4.2</td>
<td>4.4</td>
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<td>Net repayment of private sector debt</td>
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<td>1.2</td>
<td>1.5</td>
<td>2.7</td>
<td>1.4</td>
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<td>Repayment of government debt</td>
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<td>0.7</td>
<td>0.6</td>
<td>0.4</td>
<td>0.4</td>
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<td>Gross reserves accumulation (+= increase)</td>
<td>0.9</td>
<td>3.3</td>
<td>3.0</td>
<td>1.1</td>
<td>1.1</td>
<td>1.2</td>
<td>1.2</td>
<td>0.7</td>
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<td>IMF repayments</td>
<td>-0.2</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
<td>0.4</td>
<td>0.5</td>
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<tr>
<td>Other (inc. unrepatriated export revenues)</td>
<td>4.0</td>
<td>3.5</td>
<td>3.1</td>
<td>3.7</td>
<td>3.1</td>
<td>2.5</td>
<td>2.1</td>
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<td>9.1</td>
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<td>10.8</td>
<td>9.9</td>
<td>9.7</td>
<td>9.3</td>
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<tr>
<td>Foreign direct and portfolio investment</td>
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<td>3.1</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
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<td>Budgetary support loans</td>
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<tr>
<td>IMF: RCF and ECF arrangement</td>
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<td>0.7</td>
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Source: Malagasy authorities, IMF and World Bank staff calculations, June 2018

### Table 3: Fiscal Operations of the Central Government (%GDP)

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<tr>
<td>Total revenues and grants</td>
<td>12.4</td>
<td>11.8</td>
<td>14.7</td>
<td>14.7</td>
<td>15.7</td>
<td>15.4</td>
<td>14.7</td>
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<td>Tax revenues</td>
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<td>10.9</td>
<td>11.5</td>
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<td>Non-tax revenues</td>
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<td>0.3</td>
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<td>Grants</td>
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<td>3.5</td>
<td>2.9</td>
<td>3.4</td>
<td>2.9</td>
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<tr>
<td>Total expenditure</td>
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<td>15.1</td>
<td>16.0</td>
<td>17.1</td>
<td>18.0</td>
<td>19.6</td>
<td>19.8</td>
<td>20.0</td>
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<tr>
<td>o/w: social priority spending</td>
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<td>0.7</td>
<td>0.8</td>
<td>1.0</td>
<td>1.1</td>
<td>1.3</td>
<td>1.6</td>
<td>1.9</td>
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<tr>
<td>Current expenditure o/w</td>
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<td>11.7</td>
<td>10.8</td>
<td>11.7</td>
<td>10.7</td>
<td>9.8</td>
<td>10.0</td>
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<td>Wages</td>
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<td>1.1</td>
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<td>Transfers and Subsidies</td>
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<td>4.1</td>
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<td>Interest</td>
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<td>0.9</td>
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<td>9.8</td>
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<tr>
<td>Domestically financed</td>
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<td>2.5</td>
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<td>3.4</td>
<td>3.7</td>
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<tr>
<td>Externally financed</td>
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<tr>
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<td>0.1</td>
<td>-1.0</td>
<td>0.1</td>
<td>0.4</td>
<td>0.6</td>
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<tr>
<td>Overall balance (commit. Basis)</td>
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<td>-1.3</td>
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</tr>
<tr>
<td>Arrears variation and float (++ accumulation)</td>
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<td>-0.4</td>
<td>-0.7</td>
<td>0.1</td>
<td>-0.9</td>
<td>-0.3</td>
<td>-0.2</td>
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</tr>
<tr>
<td>Overall balance (cash basis)</td>
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<td>-2.0</td>
<td>-2.3</td>
<td>-3.2</td>
<td>-4.5</td>
<td>-5.3</td>
<td>-5.0</td>
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<tr>
<td>General government financing</td>
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<td>2.0</td>
<td>2.3</td>
<td>3.2</td>
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<td>5.3</td>
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<tr>
<td>External (net)</td>
<td>1.2</td>
<td>2.2</td>
<td>0.7</td>
<td>1.4</td>
<td>2.5</td>
<td>4.1</td>
<td>4.6</td>
<td>4.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Domestic (net)</td>
<td>1.2</td>
<td>1.5</td>
<td>1.4</td>
<td>0.9</td>
<td>0.7</td>
<td>0.4</td>
<td>0.7</td>
<td>0.7</td>
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</tbody>
</table>

Source: Malagasy authorities, IMF and World Bank staff calculations, March 2018
2.3. IMF RELATIONS

30. In July 2016, the IMF Board approved a three-year ECF agreement for Madagascar, covering the period of 2016 to 2019, for an amount of SDR 220 million (equivalent to about US$295 million). This approval followed satisfactory progress under two RCF programs in 2014 and 2016 respectively and a six-month IMF Staff Monitored Program between September 2015 and end-March 2016. The arrangement under the ECF supports the Government’s program to reinforce macroeconomic stability and promote sustainable and inclusive growth. The program focuses on (i) boosting prospects for inclusive growth through scaling-up of investment and improved access to education, health care, and social protection; (ii) creating fiscal space through improved revenue generation and spending prioritization; (iii) reinforcing economic governance by strengthening public financial management (PFM) and intensifying anti-corruption measures; and (iv) strengthening macroeconomic stability by bolstering Central Bank operations and financial supervision. At the first review in June 2017, the amount of the ECF arrangement was increased to SDR 250.6 million, in light of satisfactory progress in the implementation of the program and in response to the shock that hit the country during the first semester of the year. The second review of the ECF agreement completed in December 2017 and the third review in July 2018 both concluded that the implementation of the program remained strong. The World Bank maintains a close working relationship with the IMF, with regular exchange of views regarding the consistency of the reforms agenda and the adequacy of the macroeconomic framework.

3. GOVERNMENT PROGRAM

31. In April 2017, the Government consolidated its approach to stimulating growth and reducing poverty through the 2017-2019 EDP, which synthesizes the sectoral strategies for the implementation of the NDP. The EDP details a wide-range of reforms that the Government intends to execute to address the constraints to promoting growth and reducing poverty built on macroeconomic, sectoral and structural approaches. As an enactment of the NDP, the different areas of reform included in the EDP are aligned with the pillars of the NDP.

32. Five areas of the EDP overlap with the reform areas supported by this programmatic DPO, which are (i) rural development; (ii) rehabilitation and development of infrastructures; (iii) energy development; (iv) inclusive financial system; and (v) expansion of the social protection system. This programmatic operation aims to expand the impacts of World Bank past DPOs, including the programmatic Public Finance Sustainability and Investment (P160866 and P164137) DPOs to rural population and small enterprises. These operations target improvements in public finance management performance, address some of the main constraints to private sector development, and support sustainable investment to support growth. Each reform supported by this programmatic operation is associated with and contributes to the achievement of the objectives of a specific sectoral strategy. The link between the reforms and each sectoral strategy is elaborated in Annex 5.

33. Strengthening the resilience of the most vulnerable is fundamental for improving livelihoods in the long term. Lifting the Malagasy poor out of poverty requires building livelihoods that are more resilient in the face of the many shocks – ranging from frequent climatic shocks, including hurricanes,
droughts and floods\textsuperscript{28}, to macroeconomic and health shocks – that keep on reversing their progress today. Their exposure to these shocks needs to be reduced and, when shocks do occur, coping mechanisms need to be strengthened. Literature provides several options to adapt to climate change and reduce the vulnerability of farmers to changing climate, including education, health, and extension services. In particular, the poor need greater access to social safety nets and financial services to mobilize the resources to rebuild their livelihoods after shocks.\textsuperscript{29} \textsuperscript{30}

34. Promoting inclusive growth is vital for enabling the poor to access economic opportunities – on- and off-farm-- benefiting from rising prosperity and offering a way out of poverty. For many rural poor, their land is their only significant asset and the foundation for their economic advancement. However, land tenure rights need to be secured and strengthened. Rural communities suffer from underfunded basic public services, including education and health, that would help to build up the human capital needed to access better economic opportunities. Agricultural productivity is low and has been falling in the past 50 years.\textsuperscript{31} Critical rural infrastructure is poorly operated and maintained. Half of Madagascar’s secondary roads and two thirds of tertiary roads were classified as being in “bad condition” in 2012. Only 6 percent of rural households have access to electricity, one of the lowest rates of rural electrification in the world. These infrastructure gaps prevent the rural poor from scaling up beyond subsistence farming, accessing urban markets and diversifying their sources of income.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

35. The program development objective of this programmatic operation is to tackle the microfoundations of inclusive and resilient growth by (i) strengthening the resilience of individuals against shocks; and (ii) creating an enabling environment for economic opportunities in rural communities. The proposed operation is the second in a series of two programmatic operations aimed at supporting the Government in its objective of promoting growth and reducing poverty and the development objective remains the same as in DPO1.

36. This Inclusive and Resilient Growth DPO series helps Madagascar tackle one of its key challenges today - ensuring that the poor can benefit more from the country’s continuing improved macroeconomic prospects:

- The first pillar seeks to build the foundations for resilience at the individual and household level. Repeated shocks – ranging from frequent climatic shocks, including hurricanes, droughts and floods,

\textsuperscript{28} Two major natural disaster related shocks occurred in early 2017: a severe drought and a category 4 cyclone, the strongest of its kind in 13 years.
\textsuperscript{29} A 2016 FinScope survey found that only 12 percent of Malagasy households had access to banking services, 29 percent only had access to informal mechanisms to manage their finances and 41 percent of household were fully financially excluded.
\textsuperscript{31} Agriculture employs 74.5 percent of the workforce, while contributing only 25.6 percent to GDP (World Bank World Development Indicators 2015)
to macroeconomic and health shocks – have tested the resilience of Madagascar’s poor in the past five decades leading to a reversal of the little progress that had been made in terms of poverty reduction. Limited access to social safety nets and financial services made it difficult for individuals to get through these crises and to rebuild livelihoods after shocks.

- **The second pillar focuses on enabling rural inclusion, by supporting economic opportunities in local communities.** Close to 80 percent of Madagascar’s population live in rural areas, and rural poverty rates are nearly twice as high as in urban areas. Limited access to infrastructure services and low returns on their assets – which are land, education and health – are holding the rural poor back.

37. **The DPO1 supported the first layers of reforms to achieve the PDO under both pillars.** Key reforms to strengthen the resilience of individuals against shocks included (i) a modification of the regulatory framework to allow for the retroactive birth registration as a first step for individuals to be able to access basic services; (ii) the issuance of a decree establishing a national social registry for social safety net program beneficiaries allowing for better coordination of Madagascar’s existing pilot local social safety net programs and laying the foundations for a national roll-out; (iii) the secondary regulation for implementing the 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; and (iv) the regulatory framework for the establishment of a private credit bureau (PCB) which will ease credit constraints for households and micro and small enterprises. Key reforms to support economic opportunities in rural communities included (i) the formalization of ownership rights in rural areas by preserving the legal value of land certificates; (ii) the publication of all planned and executed transfers to local governments, increasing the transparency in potentially allocating resources for better health and education services; (iii) the improvement of the governance of the road maintenance fund to strengthen infrastructure services such as communal roads; and (iv) the improvement of the governance structure of the rural electrification agency, ADER, to simplify licensing and authorization procedures for rural electrification projects, including small energy producers.

38. **The reforms promoted under DPO1 are currently under implementation. The operation supported the adoption of four laws and four decrees.** The laws on retroactive birth registration, on the credit bureau and on electricity have been promulgated. The law on land has been flagged by the HCC after Parliament’s approval. As a result, the draft law has been amended and is awaiting resubmission to Parliament. However, the changes do not affect the substance of the reforms supported by the operation. Concerning the four decrees: the one on e-money is being fully implemented. The one on social registry is being implemented and the related procurement procedures for establishing the registry are ongoing. All the information required by the decree on the publication of transfers to local governments have been communicated. Finally, the decree on the Fonds d’Entretien Routier (FER) required the publication of three items: the budget for 2018 has been published, the spending execution for 2017 is to be published in August and the prioritization guideline will be applied during the 2019 budgeting process of FER.

39. **The reforms included in DPO2 build on the achievements of the reforms under DPO1 and are a natural continuation of the previous operation.** Some of the reforms operationalize the institutional settings established under DPO1 by supporting the advancement in the implementation of the regulatory frameworks for e-money and for the PCB. Other reforms go deeper in expanding the scope of key reforms in the areas of civil registration (with the legal framework establishing a single identification number at birth and a centralized system for the monitoring of new registrations), social protection (with a new law on non-contributory social protection to strengthen the coordination and implementation of social safety
net programs), land (with a modification of the regulatory framework on Non-Titled Private Property by removing the legal uncertainty on the use of land certificates as collaterals and therefore further strengthening their legal validity), transfers to local governments (by operationalizing the National Equalization Fund to increase the transparency in the allocation of resources), rural road maintenance (by establishing the requirement for channeling a portion of FER funds to communes and financing the contribution of the poorest municipalities to road maintenance projects) and energy (by supporting the adoption of the implementation decrees of the Electricity Code approved under DPO1 and the adoption of the National Electrification Strategy (NES) that will define the approach and objectives for the expansion of electricity services).

40. **The inclusion and resilience aspects of this operation mutually reinforce each other.** First, resilience builds the foundations for inclusive growth. The poor need coping mechanisms against the frequent shocks that are today preventing them from improving their living conditions and benefiting from macroeconomic growth. Second, the poor need to be included in order to strengthen their resilience against shocks. By building up assets and access to services, they can better protect themselves against shocks and mobilize resources to bounce back once shocks do occur. Against this background, many reforms supported by the DPO include both aspects that promote inclusive growth and aspects that promote resilient growth. For instance, the reform strengthening communal road maintenance supported by this DPO will allow economic activity in rural communities to bounce back faster after hurricanes, as roads are rehabilitated faster. However, these measures will also improve average road quality and allow these communities to be more included in the overall economic growth of the country by linking them to markets.32

41. **This program builds on key findings of the World Bank Systematic Country Diagnostic (SCD) presented to the Board in August 2015, and the latest Poverty Assessment for Madagascar published in 2017.**33 The SCD recommended concentrating on the first of the World Bank Group’s twin goals of fighting extreme poverty (based on 2012 estimates), and consistent with the Africa Strategy, to work selectively and flexibly. The SCD underlined that high transport costs hinder access to markets and provide disincentives for investments. To improve agricultural productivity, the SCD emphasized the need to improve rural infrastructure, enhance land tenure security, increase human capital of the poor, strengthen provision of extension services and increase access to improved inputs (fertilizer, seeds) and credit. Moreover, the SCD emphasized how political stability and improved management of the country’s natural capital are the factors that would contribute the most to more sustainable growth. The latest Poverty Assessment also underlined that those poor who manage frequent shocks the best are those with better access to roads and electricity services as they allow them to diversify into non-agricultural activities in times of crisis.

42. **The design and preparation of the program considers the lessons learned from previous DPOs.** The Implementation Completion Reports for the Madagascar Reengagement DPO (P150503) and for the Resilience DPO (P153084) suggest maintaining linkages between the reforms supported under DPO programs and World Bank investment projects to reinforce the policy dialogue and support the implementation of challenging reforms. The World Bank is actively engaged through TA or financial assistance in all the area of reforms included in this operation. The lessons learned also include early involvement of all the stakeholders and continuing dialogue, particularly in a context of multiple actors.

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32 Similarly, many prior actions in this DPO reinforce each other. For instance, a land certificate may create incentives to invest more in the farm – but only if roads are maintained and surplus production can be brought to market.

33 Report No. 113582-MG
The incorporation of these lessons has contributed to sustaining the commitment and to keeping the design of the second operation fully aligned with the triggers identified under the first operation of the series.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar A: Strengthening the resilience of individuals against shocks

Reforming the civil registration system

43. **Rationale:** While Madagascar has a relatively high rate of birth registrations compared to other countries in the region\(^34\), registration rates continue to lag particularly among the poorest households.\(^35\) Yet, registration in the civil registry is crucial for people to have full access to essential public services (e.g. education, health and social protection), to exercise their rights as citizens (i.e. participation in elections), and it also represents a critical element towards the establishment of a national ID system. This, in turn, allows access to a wider range of services, including formal financial services.

44. **Reforms:** With the support of DPO1, a law establishing a process for retroactive registration of birth at district level has been enacted (the prior action required the submission of the draft law to parliament). The law established the legitimacy of a process for retroactive birth registrations that would benefit mainly populations living in remote areas by organizing mobile court audiences. Up to 900,000 birth certificates are planned to be delivered through this process over three years.

45. The DPO2 deepens the reform by spelling out more clearly a simplified and modernized process for registration at birth. This second legislative reform goes beyond the ad-hoc character of the first reform and extends the statutory time for registration at birth (compared to the current 12 days), allows the use of outreach services for registration (thus facilitating the procedures for those living in remote areas), assigns a unique identifier at birth and establishes a centralized system for the monitoring of new registrations.

46. **Expected results:** the reforms promoted under DPO1 and DPO2 will ultimately establish a modern national civil registration system and the related tracking systems. This will allow citizens to have easier access to essential public services across the country as first they have a more accessible birth registration system and then they will not need to request their birth certificate only at place of birth anymore, but will be able to access the relevant data across the country once the national registry is implemented. The new system will compile and consolidate data across the largely decentralized system (at the moment 1693 communes separately undertake registration in their own jurisdiction without national tracking system) and will become a critical element of a national ID system by assigning a unique identifier at birth.

47. **Support:** Support in preparing and implementing this regulatory framework has been provided by the United Nations Children's Emergency Fund (UNICEF) and African Development Bank (AfDB). UNICEF provided TA for retroactive birth registration and AfDB supported an analysis of the existing civil registry law. The World Bank has been actively involved in providing technical support in the update of the law on civil registration.

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\(^{34}\) 83 percent of births registered for 0-4 years in 2012-13 (ENSMOD 2012-2013).

\(^{35}\) The results of the census conducted in 2018 will provide a more precise count of the number of Malagasy who are (not) registered.
Prior action: The Recipient has submitted to Parliament Projet de Loi No. 021/2018 du 30 mai 2018 relative à d’État civil, revising Loi no. 1961-025 relative aux actes d’État civil, prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and laying the foundations for a centralized system for the monitoring of new registrations.

Result Indicator:
- Adoption of harmonized live birth notification forms; Baseline (2016): No; Target (2019): Yes
- The new system for registering birth at local level is in place and operational; baseline (2016): No; Target (2019): Yes

Harmonizing social protection schemes

48. Rationale: The Government, as well as multiple donors and international Non-Governmental Organizations (NGO), manage a variety of social protection schemes that have been largely uncoordinated and thus fragmented. Given the magnitude of the country’s poverty, vulnerability to climate change and disasters, as well as the constraints on financial and human resources, better and more effective coordination is needed. This is an important prerequisite for the further scale-up of Madagascar’s social protection system, which currently covers less than 5 percent of the population.

49. Reforms: DPO1 set the first layer of the reforms for the coordination of the existing social protection schemes by supporting the adoption of a decree creating the national registry for social safety net program beneficiaries. The registry plays the double role of consolidating the information on current beneficiaries and providing a list of potential beneficiaries by location, identified based on their vulnerability. The decree for the establishment of the registry was issued in September 2017 and the relevant procurement procedures are currently ongoing.

50. The DPO2 strengthens the coordination by supporting a legislative reform that institutionalizes the coordination structure for non-contributory social assistance programs and policies, and assigns the coordination function to the Ministry of Population, Social Protection and Promotion of Women (MPSPPW).

51. Expected results: The reforms will enhance a coordinated, effective and transparent approach for Madagascar’s social safety net programs under the leadership of the MPSPPW. The result of the more effective coordination would be the population of a national social registry with beneficiary data from various programs which are not yet fully coordinated. Recent data analysis of different programs showed that some beneficiaries are receiving double support while others receive nothing. A national registry, feeding from different program databases, will be able to quickly and systematically identify such overlaps and allow the Ministry to take action with program implementers to avoid them. In addition, by providing the list of potential beneficiaries of non-contributory assistance, the register will allow the provision of timely coordinated response in case of natural disasters, which are projected to increase in frequency.
52. **Support:** The World Bank financed Social Safety Net Project (P149323), including its additional financing for drought response in Madagascar’s South, supports the implementation of the social protection registry and the reforms to enhance the coordination of the country’s social safety net programs by the ministry.

- **Prior action:** The Recipient has submitted to Parliament *Projet de Loi no. 029/2017 du 11 octobre 2017 relative à la politique nationale de protection sociale relative au régime non-contributif à Madagascar*, the new law defining the legal framework for the national policy for non-contributory social protection regimes and designating its Ministry of Population, Social Protection and the Promotion of Women as the main coordinator regarding social safety net programs.

- **Result Indicator:**
  - Number of households registered in the national social registry. Baseline (2016): 0; Target (2019): 200,000
  - Number of organizations contributing data on beneficiaries of cash transfers programs to the national social protection registry. Baseline (2016): 0; Target (2019): 3

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**Promoting financial inclusion through electronic money**

53. **Rationale:** Currently, 41 percent of Malagasy households are financially excluded (Finscope 2016). Account penetration, as measured by the number of bank accounts per 1,000 adults, is low due to (i) a sparse network of bank and MFI branches, given the dispersed nature of clients across the country; and (ii) the high fees charged for traditional accounts, reflecting the relatively high cost of handling accounts for small depositors. In this environment, e-money accounts offer great promise to strengthen financial inclusion. Access to and usage of e-money accounts could provide households with a safe store of value to manage their payment needs, since they can be used at lower fees in locations not yet reached by traditional financial services. They also act as a first step towards more advanced financial services, including credit, because they require lower screening costs and are therefore more affordable than banks. Further, evidence from countries with a strong e-money presence like Kenya suggests that e-money can incentivize innovation in the banking sector, including a shift in focus to increasingly lower-income consumers. Access to such e-money accounts can also help individuals and households strengthen their resilience against shocks both in terms of self-insurance by providing a convenient and safe method of saving as well as in terms of increased participation in risk-sharing networks, by receiving a greater

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36 According to Finscope 2016, the share of financially excluded females is almost equal to the share of financially excluded males. However, when it comes to enterprises, the Enterprise Survey of 2013 indicates that female-led companies are more likely to report credit access as a major problem (female top manager: 20.8 percent; male top manager: 9.3 percent).

37 According to data from the IMF’s Financial Access Survey database, as of 2015, there were only 94 bank accounts for every 1,000 adults in Madagascar, well below the average of 171 accounts for low-income countries.
number and larger amount of remittances in times of need.38

54. **Reforms:** As part of the reforms under DPO1, the government adopted the regulatory framework required as a first step for an effective implementation of the law on e-money, which creates a framework to allow non-banks to issue e-money, thereby opening the market and promoting competition. In particular, the decree on minimum capital requirements for e-money issuers (EMEs) and two instructions from the *Commission de Supervision Bancaire et Financière* (CSBF) on the licensing process for EMEs and the operating procedures for trust accounts have been published and are being implemented.

55. The second operation of the series advances the reform by supporting the publication by the CSBF of the decisions on all e-money issuer licensing requests received by end-February 2018. This will contribute to handling transparently and expeditiously the requests from potential e-money issuers, and complying with the deadlines set to handle licensing requests.

56. **Expected results:** the establishment and implementation of the regulatory framework for e-money is meant to promote a safer and better regulated environment that, over time, will increase financial inclusion by promoting the use of e-money services while preserving the stability of the system. The operation is tracking the volume of transactions as a key objective of the reform not only to promote access to e-money accounts but also their usage. This effort goes in parallel with the promotion of a financial consumer protection framework and of a national financial education campaign to raise the awareness of the importance of using regulated financial services among citizens. An effective functioning of e-money is expected to facilitate access to credit and rapid roll-out of financial assistance in case of natural disasters, which both constitute adaptation options to climate change.

57. **Support:** The reforms are supported by an ongoing TA project on payment systems (P160684) funded by the FIRST Trust Fund that is complemented by the recently approved IDA investment lending operation on financial inclusion (P161491), aiming to promote use of e-money by digitalizing government payments and the services provided by MFIs. These projects are also providing TA to the CSBF and the Central Bank for the establishment of a regulatory framework on financial consumer protection for all financial services (including e-money) and are supporting the promotion of focused financial education campaigns for the digitalization of government payments.

Prior action: The Recipient has published decisions on all EME licensing requests received up to and including February 28, 2018.

- **Result Indicator:**
  - Volume of transactions on e-money accounts (MGA billions); Baseline (2016): MGA 1,125 billion; Target (2019): MGA 1,945 billion
  - Number of e-money issuers licensed by the CSBF; Baseline (2016): 0; Target (2019): 3

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**Enhancing access to finance through a private credit bureau**

58. **Rationale:** 82 percent of loans in Madagascar required collateral as of 2013 - a requirement that leads to the exclusion of many poor from the credit market. Under these circumstances, an individual’s...
past repayment history can serve as “reputational collateral” to induce financial institutions to accept loan applications. A credit information bureau, by collecting and sharing credit history information among participating financial institutions, but also mobile telephone data and financial transactions, the bill payment history for utilities and other services, data from fintech lenders and e-wallets companies can therefore play a key role in enhancing access to credit and financial inclusion. In addition, credit bureaus are nowadays on the forefront of new financial technologies, and value-added services they build based on mobile applications, blockchain, own digital identification, psychometrics, social scoring etc., can help the vast population of “unscorables” and “informals” in Madagascar and greatly increase their chance to become “visible” and “acceptable” to traditional and non-traditional lenders. The existing public credit registry (PCR) in place at the Central Bank is only fed by banks and MFIs, and therefore can only perpetuate credit for those clients who already have credit (and a credit history).

59. **Reforms:** With the support of DPO1, the law establishing credit information bureaus, and governing their operation, licensing, and supervision, has been enacted (the prior action consisted in the submission of the draft law to the parliament). The new law opens the way for the establishment of PCB to provide broad credit information to lenders including from alternative data sources. This in turn would enable a change in the role of the existing PCR to specifically serve the Central Bank in monitoring the credit exposures of financial institutions and strengthen financial stability. In parallel, a legal framework, including data protection arrangements for a PCB was finalized in February 2018 and is already in force.

60. **The reform under the DPO2 supports the issuance of a Request for Proposals for the establishment of a PCB. This reform ensures that a concrete implementation step is taken and that the adoption of the law lead to the expected result.**

61. **Expected results:** the reform promoted under DPO1 and its implementation promoted under DPO2 will have the ultimate results of supporting the establishment of a PCB in Madagascar. To avoid the risk of lenders not being willing to share data with a PCB, article 38 of the new law explicitly mandates all supervised entities to share information on all loans on all clients with the PCB and to inquire every time a new loan is granted, renewed etc.

62. **Support:** The IFC Madagascar Credit Reporting Project (IFC-601866) provides support for the establishment of the regulatory framework, the implementation of the new PCB and the revamp of the PCR, selection process of the provider, capacity building inside BFM fostering financial education for consumers, and promoting awareness on the role and benefits of credit reporting.

- **Prior action:** The Recipient has issued a request for proposals to license a private credit bureau.

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39 In parallel, the Government of Madagascar, with technical support from the World Bank and IFC, is working on establishing the regulatory framework on secured transactions to establish a collateral registry.

40 A similar reform has been already implemented in Morocco, where BAM has licensed 2 PCBs, and it is now refurbishing the PCR, as well as in the UEMOA region. In Morocco, where the historical pattern can show performance, since the inception of the first PCB 16 million loans regarding over 6 million borrowers’ credit history have been uploaded, credit growth has been exponential, delinquent contracts decreased from 10.5% (2009) to 4% (2016), and an increase of 37% of loans to women. This is an exceptional result if compared with the 467,826 borrowers (of which only 381,000 individuals) present in BAM’s PCR before the reform in 2007.

41 The regulatory framework for financial consumer protection has been prepared with the technical support of World Bank Group’s projects.
Pillar B: Creating an enabling environment for economic opportunities in rural communities

Helping farmers secure their land rights

63. **Rationale:** It is estimated that only 10 percent of Malagasy land is currently titled and registered. At the same time, more than 80 percent of all the poor in Madagascar currently secure their livelihoods from agricultural land. Acquiring a land title is time-consuming and expensive. Yet, unsecured land tenure rights impede farmers from making long term investments in their property, thereby adversely affecting the productivity of agriculture that has been falling in Madagascar for the past 30 years. To facilitate and accelerate the process of securing land tenure, land certificates have been introduced in Madagascar in 2005, making land ownership rights more accessible to the rural poor. However, the legal value of these land certificates compared to land titles obtained under the traditional property system – which remains in existence - has been put into question through inconsistencies in the legal framework for both forms of ownership rights. This, in turn, has created uncertainty also in the financial system that did not accept land certificates as collateral for credit.

64. **Reforms:** The first operation of this DPO series supported the submission of a new law on Titled Property, which clarifies the legal value of land certificates as permanent written proof of rights. The new law has been passed by the two chambers of the parliament, but is being currently reviewed to incorporate comments from the HCC. The new law preserves the probative value of land certificates, confirming its comparable value with land titles and will be re-submitted to Parliament in the October 2018 session.

65. Under DPO2, the reform supports the amendment of the 2006-31 Law on Non-Titled Private Property eliminating a “proof to the contrary” clause that had created legal uncertainty on the use of land certificates as collaterals and would therefore further strengthen their legal validity.

66. **Expected results:** by boosting the legal value of land certificates and by increasing the likelihood of banks being willing to accept them as collateral for accessing credit, the reform is expected to have an indirect demand effect, as it creates incentives for expanding the use of land certificates. The results indicator measures the increase in the number of land certificates issued by 2019. Moreover, the reform will also be able for the first time to tackle some vested interests related to the (more expensive and time-consuming) procedure for issuing land titles.

67. **Support:** The reform is supported by the ongoing World Bank’s Madagascar Agriculture Rural Growth and Land Project (CASEF) project (P151469) and by various projects sponsored by the European Union (EU) and the French Development Agency. Moreover, under the newly approved Financial Inclusion

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42 The 2005 reform has equipped a third of Malagasy Local Governments with local land offices that are entitled to issue land certificates, which are documents formalizing ownership rights to landholders. Since the introduction of land certificates ten years ago, 500 municipalities have issued 120,000 land certificates – compared to only 450,000 land titles issued under the previous system over the entire last century.

43 The revisions do not affect the objectives of the reforms supported under the operation.
Project (P161491), the establishment of a collateral registry, supported by a parallel IFC-funded TA for establishing a secured-transactions regulatory framework, will further contribute to support the collateral regime in Madagascar.

- **Prior action:** The Recipient has submitted to Parliament *Projet de Loi no. 024/2018 du 17 juillet 2018 portant réforme de la Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée*, an amendment to the *Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée*, strengthening, *inter alia*, the legal value of land certificates by confirming their use as collateral for accessing credit.

- **Result Indicator:** Number of land certificates issued; Baseline (2015): 120,000; Target (2019): 270,000

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**Alleviating Economic Disparities by Enhancing Budget Transfers to Local Governments**

68. **Rationale:** Close to 80 percent of Madagascar’s population lives in rural areas, and rural poverty rates are nearly twice as high as in urban areas. Access to basic public services, such as health and education, can help the poor to increase the human capital needed to access better economic opportunities. The responsibility of providing those services and the maintenance of small infrastructures are attributed to municipalities. However, those local governments in the poorest regions often do not have enough resources to maintain and provide those basic services. As of 2016, only 2 percent of public expenditures were flowing directly to local governments. To alleviate economic disparities across Local Authorities, the Government established in 2016 a National Equalization Fund (*Fond de Péréquation*) which is intended to redistribute revenues from four dedicated taxes\(^\text{44}\), collected country-wide, according to an equalization transfer formula to local governments.

69. **Reforms:** The reform under DPO1 supported the adoption of a decree requiring the publication of planned transfers and executed transfers to local government. This measure provided a first appreciation of the distribution of financial support to local communities and represented a first necessary step to increase the transparency of transfers to local governments required also for the good functioning of the Equalization Fund. To date, all the information on transfers have been published in accordance with the provision of the decree.

70. The second operation of the series supports the necessary implementing regulations for the full operationalization of the Equalization Fund which requires the definition of the pro-poor equalization formula, the eligibility criteria for the transfers and the collection of the four dedicated taxes. Once, the procedures of operation have been clarified, the fund will be managed by the existing staff of the *Fonds de Développement Local*.

71. **Expected results:** The Equalization Fund is the first fund with an explicit legal vocation to play a redistributive role, favoring under-privileged communes. Once operational, the fund’s equalization

\(^{\text{44}}\) The four taxes include (i) a share of synthetic taxes; (ii) the tax on radio and television games; (iii) the tax on audiovisual advertisements and (iv) a share of mining royalties.
formula is devised to ensure a redistributive effect (proportional to poverty/needs estimates), and to incentivize improvements in three performance areas (tax revenue, transparency, contract management and implementation). The indicator measures the capacity of the Fond de Péréquation to fully operate by executing the required transfers. The target is set at the minimum of 80 percent to take into account possible deviations from the budgeted transfers. Promoting a transparent disclosure of transfers to local governments is a particularly powerful reform, especially in proximity of a national election.

72. **Support:** The reform of the equalization fund is supported by the ongoing World Bank public sector performance project (P150116).

- **Prior action:** The Recipient has issued Décret no. 2018-472 instituant le manuel de procedures du Fonds National de Péréquation, a decree clarifying the functioning of the Fond de Péréquation, including the equalization formula, disbursement procedures and the collection of the Four Dedicated Taxes.

- **Result Indicator:** The Fond de Péréquation executes transfers to the local governments (% of planned in the FY); Baseline (2016): no transfer executed; Target (2019): 80 percent or more

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**Improving the maintenance of rural roads**

73. **Rationale:** A 2012 study found that half of Madagascar’s secondary roads and two thirds of tertiary roads were classified as being in “bad condition”. This not only makes access to markets for rural communities difficult, it also decreases substantially the competitiveness of rural products. The FER is in charge of receiving and administering funds for the maintenance of all roads within the national territory. The statute of the FER prioritizes national roads over provincial and municipal roads. Given the limitation in FER’s resources, communal roads maintenance has been persistently neglected. The management of the scarce resource has been further plagued by transparency issues.

74. **Reforms:** The DPO1 supported the enhancement in FER’s transparency to optimize the use of the scarce resource, through a decree revising the statute of FER. The decree required three items: the budget for 2018 has been published, the spending execution for 2017 is to be published by August, and the prioritization guideline will be applied during the 2019 budgeting process of the FER.

75. The reform under DPO2 aims to channel a portion of FER funds to communes, and to ease access

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45 Findings from the “Road network survey campaign” of 2012 under the World Bank Second Rural Transport Project (APL)-P073689.
46 Between 2005 and 2010, the transportation costs of a 50kg bag of rice to market increased by 42 percent (Madagascar CPF, 2017).
47 Law n. 98-026 portant réfonte de la Chartre Routière provides the definition of each type of road.
48 The financial audit of the FER in 2014 highlighted the fact that the RMF annual budgets were underestimated over several years because they did not take into account (i) the exemptions granted (exoneration or rescheduling) which significantly affect the volume of revenue through Memorandums of Understanding; and (ii) the remaining cash (34.5 percent of the balance sheet at the end of 2013, i.e. US$33 millions). In addition, its resources have been used for the purposes for which they were granted, but there are exceptions in kind of work (not maintenance works), the amount of which is US$5 million between 2010 and 2013.
to the financing for the poorest municipalities by subsidizing their mandatory contribution equivalent to 10 percent of the project costs.

76. **Expected results**: the reform proposed under DPO1 and DPO2 focuses on enhancing the transparency of the FER and on making sure that a certain amount of resources are earmarked each year for rural roads maintenance. The minimum 10 percent target set for the results indicator takes into consideration that no resources were allocated to rural roads maintenance from 2013 to 2016. Channeling money is a necessary but probably not sufficient condition. Two ways to partially mitigate this risk would be to request the Ministry of Public Work to set up an ad-hoc committee that would be in charge of bringing the local communes up to speed on administrative and technical aspects of road maintenance. Moreover, the development of a national road management policy of decentralized networks would be desirable. Adequate maintenances of rural road are expected to ease farmer’s access to inputs and market, and strengthen their resilience to climate change through higher incomes.

77. **Support**: The reform is supported by the ongoing World Bank’s Spatial analysis of Transport Connectivity and Growth Potential (P163751). Moreover, given the absence of capacity at the local level, the first two years of the maintenance program could be directly managed by the MPW/Autorité Routière de Madagascar on behalf of the communes. This transitional arrangement would give them enough time to develop a decentralized network strategy and also to build basic planning and implementation capacity at the local level. This support can be included in the preparatory phase of the proposed transport connectivity project scheduled for Board approval in Q1 FY20.

- **Prior action**: The Recipient has issued (i) Décret no. 2018-382 modifiant et complétant certaines dispositions du Décret no 2016-924, modifié et complété par Décret no.2017-855 portant Statuts du FER, a decree amending the FER’s statute to specify the annual fraction of project expenditures allocated to communal road maintenance; and (ii) a Circulaire no. 002-MFB/SG/DGB du 8 juin 2018 portant prise en charge de la contribution des communes les plus pauvres aux dépenses d’entretien des routes communales financé par le Fonds d’Entretien Routier (FER), requiring the Recipient’s Ministry of Finance and Budget to subsidize the required contribution of the poorest communes to FER projects according to the criteria indicated in the prioritization guidelines.

- **Result Indicator**: Expenditure of the FER on communal road maintenance (%); Baseline (2016): 0 percent; Target (2019): 10 percent or more.

**Promoting Rural Electrification**

78. **Rationale**: At 6 percent, Madagascar has one of the lowest rates of rural electricity access in the world. Improving access to affordable and reliable electricity services is critical for raising rural productivity to enable the adoption of modern farming and processing technologies. Electricity also creates opportunities for rural households to diversify into non-farm employment. The ADER is the agency responsible for promoting rural electrification, which it does mainly through investment subsidy schemes. However, despite providing operators with substantial capital subsidies ranging up to 70 percent of investment costs, private participation is held back by a lengthy and convoluted approval processes for licenses and
authorizations\(^{49}\) and an incoherent legal framework with overlapping mandates between the national utility, the Ministry of Energy and ADER.

79. **Reforms:** As part of the DPO1 reforms, the government included the statute and role of ADER in the revised legislative framework of the Electricity Code. The revised law confers to ADER the ability to award concession contracts when the ministry in charge of electricity provides delegation power. The new law also revises the capacity thresholds delimiting the concession and authorization regimes for energy service providers, an essential reform for a more effective and efficient process for authorizing private concessions and that can increase access to electricity services (including renewable energies) in rural Madagascar. The draft law was re-submitted to parliament following comments received from the HCC and was approved during the special session of March 2018.

80. The reform under DPO2 supports the adoption of key implementation decrees of the Electricity Code specifying (i) the mission, attributions, composition and modality of operation of the ADER; and (ii) the mission, attributions and functioning of the regulatory agency for the energy sector (*Autorité de Régulation de l’Électricité*) and (iii) the functioning of the National Energy Fund. The reforms under DPO2 also include the adoption of the NES by the Ministry of Energy. The NES will define the approach and objectives for the expansion of electricity services and further lay out its institutional and regulatory underpinnings.

81. **Expected results:** The new legislation approved under DPO1 streamlines rural access procedures by revising thresholds and simplifications regarding rural concessions. This in turn leads to a scale-up of investment in rural access though mini grids and stand-alone systems. The NES under DPO2 provides clear investment priorities following a least cost approach, meaning a sharpened focus on economically viable concession areas and generation technologies. This in turn leads to greater success rate and more efficient use of capital subsidies in competitive tenders for mini grid concessions. Hence the choice of a results indicator that measures the number of concessions and authorizations issued per year for rural areas.

82. **Support:** The revision of the regulatory framework for the energy sector is being facilitated through technical support provided by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and will in parallel be supported also by the forthcoming Madagascar electricity access project scheduled to for Board approval by the end of Q2 FY19.

- **Prior action:** The Recipient has (i) issued *Décret n°2018-384 fixant les missions, attributions, organisations et les modalités de fonctionnement de l’ADER*, and *Décret n°2018-383 fixant l’organisation, les attributions et le fonctionnement de l’Autorité de Régulation de l’Électricité*, the implementation decrees of the revised electricity law defining the institutional and financial provisions for rural electrification; and (ii) its Ministry of Energy has published the National Electrification Strategy.

- **Result Indicator:** Number of concessions and authorizations issued per year for rural areas.
  Baseline (2016): 10; Target (2019): 40

\(^{49}\) The key procedural difference between concessions and authorizations is that concessions are required for larger-scale installations and are subject to approval by the council of ministers.
83. The prior actions in DPO2 are aligned with the triggers proposed in DPO1

**Table 4: Comparison of Triggers and Prior Actions for DPO2**

<table>
<thead>
<tr>
<th>Trigger identified in DPO1 for DPO2</th>
<th>DPO2 prior action</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar A: Strengthening the resilience of individuals against shocks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>T1.</strong> The Recipient has submitted to Parliament a revision of the law n° 1961-025 « relative aux actes de d’état civil », prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and establishing a centralized system for the monitoring of new registrations.</td>
<td><strong>PA1.</strong> The Recipient has submitted to Parliament Projet de Loi no. 021/2018 du 30 mai 2018 relative à d’état civil, revising Loi no. 1961-025 relative aux actes de d’état civil, prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and establishing a centralized system for the monitoring of new registrations.</td>
<td>Slight modification in the wording of the PA to improve clarity by replacing “establishing a centralized system” with “laying the foundations of…”</td>
</tr>
<tr>
<td><strong>T2.</strong> The Recipient has submitted to Parliament a new law on the national policy for non-contributory social protection regimes to strengthen the coordinating function of the Ministry of Population, Social Protection, and the Promotion of Women regarding social safety net programs.</td>
<td><strong>PA2.</strong> The Recipient has submitted to Parliament Projet de Loi no. 029/2017 du 11 octobre 2017 relative à la politique nationale de protection sociale relative au régime non-contributif à Madagascar, the new law defining the legal framework for the national policy for non-contributory social protection regimes and designating its Ministry of Population, Social Protection and the Promotion of Women as the main coordinator regarding social safety net programs.</td>
<td>Slight modification in the wording of the PA to improve clarity</td>
</tr>
<tr>
<td><strong>T3.</strong> The Recipient publishes decisions on all EME licensing requests received by end-March 2018.</td>
<td><strong>PA3.</strong> The Recipient has published decisions on all EME licensing requests received up to and including February 28, 2018.</td>
<td>The deadline for receiving requests has been advanced to February to give sufficient time to the CSBF to formulate a...</td>
</tr>
<tr>
<td>TA4.</td>
<td>2018.</td>
<td>decision by the end of April</td>
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<tr>
<td>The Recipient has issued a request for proposals to establish a private credit bureau.</td>
<td>PA4. The Recipient has issued a request for proposals to license a private credit bureau.</td>
<td>Slight modification from “proposals to establish” to “proposal to license”</td>
</tr>
</tbody>
</table>

**Pillar B: Creating an enabling environment for economic opportunities in rural communities.**

<table>
<thead>
<tr>
<th>T5.</th>
<th>PA5.</th>
<th>No change</th>
</tr>
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<tbody>
<tr>
<td>The Recipient has submitted to Parliament an amendment to the law n° 2006-031 « fixant le régime juridique de la propriété foncière privée non titrée », strengthening the collateral value of land certificates.</td>
<td>The Recipient has submitted to Parliament Projet de Loi no. 024/2018 du 17 juillet 2018 portant réforme de la Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée, an amendment to the Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée, strengthening, inter alia, the legal value of land certificates by confirming their use as collateral for accessing credit.</td>
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<table>
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<tr>
<th>T6.</th>
<th>PA6.</th>
<th>No change</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Recipient has issued a decree clarifying the functioning of the Fond de Péréquation (equalization fund across local governments), including the equalization formula, disbursement procedures and the collection of the four dedicated taxes.</td>
<td>The Recipient has issued Décret no. 2018-472 instituant le manuel de procédures du Fonds National de Péréquation, a decree clarifying the functioning of the Fonds de Péréquation, including the equalization formula, disbursement procedures and the collection of the Four Dedicated Taxes.</td>
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<table>
<thead>
<tr>
<th>T7.</th>
<th>PA7.</th>
<th>The formulation has changed with the specification that prior action will now consist of one decree and one Circulaire to clarify the role of each ministry.</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Recipient has issued a decree amending the FER’s statute to specify the annual fraction of project expenditures allocated to communal road maintenance and requiring the Ministry of Interior and Decentralization and M2PATE to subsidize the required contribution of local</td>
<td>The Recipient has issued (i) Décret no. 2018-382 modifiant et complétant certaines dispositions du Décret no 2016-924, modifié et complété par Décret no.2017-855 portant Statuts du FER, a decree amending the FER’s statute to specify the annual fraction of project</td>
<td></td>
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<tr>
<td>governments to FER projects according to the criteria indicated in the prioritization guidelines.</td>
<td>expenditures allocated to communal road maintenance; and (ii) a <em>Circulaire no. 002-MFB/SG/DGB du 8 juin 2018 portant prise en charge de la contribution des communes les plus pauvres aux dépenses d’entretien des routes communales financé par le Fonds d’Entretien Routier (FER)</em>, requiring the Recipient’s Ministry of Finance and Budget to subsidize the required contribution of the poorest communes to FER projects according to the criteria indicated in the prioritization guidelines.</td>
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<tr>
<td><strong>T8.</strong> The Recipient has issued the decrees for implementation of the revised electricity law and the Ministry of Energy approves the NES.</td>
<td><strong>PA8.</strong> The Recipient has (i) issued Décret n°2018-384 fixant les missions, attributions, organisations et les modalités de fonctionnement de l’ADER, and Décret n°2018-383 fixant l’organisation, les attributions et le fonctionnement de l’Autorité de Régulation de l’Électricité, the implementation decrees of the revised electricity law defining the institutional and financial provisions for rural electrification and (ii) its Ministry of Energy has published the National Electrification Strategy.</td>
<td>Slight modification in the wording of the PA to improve clarity and replacing approval with publication of the NES.</td>
</tr>
</tbody>
</table>
### Table 5: DPF Prior Actions and Analytical Underpinnings

<table>
<thead>
<tr>
<th>Prior actions</th>
<th>Analytical Underpinnings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pillar A: Strengthening the resilience of individuals against shocks</strong></td>
<td></td>
</tr>
<tr>
<td><strong>PA1.</strong> The Recipient has submitted to Parliament Projet de Loi No. 021/2018 du 30 mai 2018 relative à d’état civil, revising Loi no. 1961-025 relative aux actes de d’état civil, prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and laying the foundations for a centralized system for the monitoring of new registrations.</td>
<td>Madagascar Identity Management System Assessment report (World Bank): The report highlighted the cumbersome process for birth registration and retroactive registration, leading to the necessity of easing registration processes both initial registration and retroactive registration. A comprehensive revision of the civil registration legislation was recommended.</td>
</tr>
<tr>
<td><strong>PA2.</strong> The Recipient has submitted to Parliament Projet de Loi no. 029/2017 du 11 octobre 2017 relative à la politique nationale de protection sociale relative au régime non-contributif à Madagascar, the new law defining the legal framework for the national policy for non-contributory social protection regimes and designating its Ministry of Population, Social Protection and the Promotion of Women as the main coordinator regarding social safety net programs.</td>
<td>The policy note (World Bank, 2014) and the National Social Protection Policy (2015) confirmed the institutional weakness of the Ministry in charge of social protection and the lack of coordination. They recommend a clear and robust institutional framework. Other key analytical underpinnings for this PA are the recent ASAs titled “Analyse comparative de la situation socio-economique dans le Sud de Madagascar” (Comparative analysis of the socio-economic situation in the South of Madagascar - Feb 2017) and “The deep South of Madagascar. Constraints and opportunities” (2017).</td>
</tr>
<tr>
<td>PA3. The Recipient has published decisions on all EME licensing requests received up to and including February 28, 2018.</td>
<td>The 2015 Madagascar Financial Sector Assessment Program (FSAP) recognized the importance of developing the regulatory framework on the use of electronic money. It highlighted the key role of the Central Bank in structuring and developing electronic money, in its capacity as financial sector supervisor and payment oversight authority, in cooperation with the other competent authorities and the private sector. The FSAP also recognized that the current initiatives to create the statutes of an EMI and to encourage the banks, the MFIs, and future EMIs to use agents are promoting an environment conducive to financial inclusion and should be preferred to direct government interventions. These initiatives will require an effective supervision mechanism and the enhancement of consumer protection measures.</td>
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<tr>
<td>PA4. The Recipient has issued a request for proposals to license a private credit bureau.</td>
<td>The IFC gap analysis of credit information system in Madagascar (2016) recommended a strategy, road map, and action plan to the Central Bank. The first recommendations suggested was the enabling of the legal framework (achieved under DPO1). This should be followed by the actual establishment of a PCB.</td>
</tr>
<tr>
<td><strong>Pillar B: Creating an enabling environment for economic opportunities in rural communities.</strong></td>
<td>World Bank analysis of the land sector (2014) considered the land certificate as a promising solution for securing most of rural lands at a low cost and recommended a conducive legal framework to facilitate its scaling up.</td>
</tr>
<tr>
<td>PA5. The Recipient has submitted to Parliament Projet de Loi no. 024/2018 du 17 juillet 2018 portant réforme de la Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée, an amendment to the Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée, strengthening, inter alia, the legal value of land certificates by confirming their use as collateral for accessing credit.</td>
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</table>
**PA6.** The Recipient has issued *Décret no. 2018-472 instituant le manuel de procédures du Fonds National de Péréquation*, a decree clarifying the functioning of the *Fonds de Péréquation*, including the equalization formula, disbursement procedures and the collection of the Four Dedicated Taxes.

**Madagascar vers un agenda de relance économique, 2010 (Décentralisation) – Madagascar toward an agenda of economic recovery (Decentralization):** This analytical piece makes a case on the asymmetry of repartition of means between central State and local government which forbids the later from meeting the needs of their constituencies. The lack of equitable repartition is seen as contributing to the prevalence of political and social crisis.

Madagascar Decentralization framework paper: Decentralization in Madagascar – Policy options to consider (P148650): The policy note also makes a case for fiscal decentralization. One of the policy options given as a recommendation was: to reduce geographic inequities in funding and provision of public services—bring up regions where funding and quality are low, without suppression of regions that have prospered. Devolved expenditures per capita are not correlated with regional poverty rates; indeed, the three richest regions are among the six former provincial capitals that have extraordinarily high resources per capita. Allocation becomes an arbitrary or political decision by officials at national level, and do not apply any equalization formula.

**PA7.** The Recipient has issued *(i) Décret no. 2018-382 modifiant et complétant certaines dispositions du Décret no 2016-924, modifié et complété par Décret no.2017-855 portant Statuts du FER*, a decree amending the FER’s statute to specify the annual fraction of project expenditures allocated to communal road maintenance; and *(ii) a Circulaire no. 002-MFB/SG/DGB du 8 juin 2018 portant prise en charge de la contribution des communes les plus pauvres aux dépenses d’entretien des routes communales financé par le Fonds d’Entretien Routier (FER)*, requiring the Recipient’s Ministry of Finance and Budget to subsidize the required contribution of the poorest communes to FER projects according to the criteria indicated in the prioritization guidelines.

The World Bank-financed audit of the FER recommends *(i) the development of annual programs taking into account the remaining cash and derogations, and (ii) close monitoring of debt collection from petroleum product distributors in order to develop a much more ambitious road maintenance program than in past years.*
PA8. The Recipient has (i) issued *Decrét n°2018-384 fixant les missions, attributions, organisations et les modalités de fonctionnement de l’ADER*, and *Decrét n°2018-383 fixant l’organisation, les attributions et le fonctionnement de l’Autorité de Régulation de l’Électricité*, the implementation decrees of the revised electricity law defining the institutional and financial provisions for rural electrification and (ii) its Ministry of Energy has published the National Electrification Strategy.

The Government of Madagascar’s New Energy Policy (NEP) as well as the World Bank’s latest SCD have both highlighted the need to explicitly recognize the extension of access to electricity as public service obligation, and to strengthen and streamline the institutional mandates and procedures for promoting electricity services in rural areas.

### 4.3. LINK TO CPF, OTHER WORLD BANK OPERATIONS AND THE World Bank Group (WBG) STRATEGY

84. **The proposed DPO is fully aligned with the World Bank’s new CPF for Madagascar, which will operationalize the SCD’s findings and recommendations.** The CPF that was discussed by the Executive Board of Directors on June 28, 2017, confirms the WBG commitment to investing resources over a sustained period of time in Madagascar with the overall objective of increasing the resilience of the most vulnerable and promoting inclusive growth. The WBG programs outlined in the CPF help lay the foundations for long-term institutional development by promoting equitable access to basic infrastructure and service delivery, and stimulating private sector growth. It does so through two Focus Areas: i) increase resilience and reduce fragility; and ii) promote inclusive growth. The first Focus Area seeks to increase the resilience of livelihood in rural and urban areas and to expand the state’s capacity to mobilize resources and deliver services at the local level with greater accountability. The second Focus Area aims to facilitate and support the development of economic opportunities by the private sector in rural and urban areas. As such the proposed DPO is fully aligned with the CPF and will directly support both its focus areas.

85. **Each of the proposed actions and reforms under this DPO are supported by technical assistance projects that are ongoing or under preparation.** Under the first pillar, the reform of the civil registry relies on TA provided by UNICEF on the retroactive birth registration, on an analysis of the existing civil registry law done by AfDB, and TA from the World Bank. The World Bank social safety net project (P149323) supports the reform of the new law on non-contributory social protection. The access to finance related reforms are supported by the ongoing (FIRST-funded) project on payment systems (P160684) that is complemented by a newly approved IDA investment lending operation on financial inclusion (P161491). The same lending operation will support and complement the ongoing IFC TA on the regulatory framework for the establishment of a PCB. Under the second pillar, the proposed land reform is supported by the ongoing CASEF project (P151469). The reform of the equalization fund is supported by the ongoing World Bank public sector performance project governance (P150116). Regarding access to infrastructure, on one hand the proposed reforms of rural roads will benefit from close coordination with the World Bank technical staff; on the other hand, the preparation of the implementation decrees for the law on electricity rely on technical support provided by GIZ and will in parallel be supported also by the forthcoming Madagascar electricity access project scheduled for Board approval by the end of Q2 FY19.

86. **The objectives of this proposed programmatic operation complement the World Bank past...**
DPOs, namely the programmatic PFSI DPOs. The latter seek to put in place the necessary conditions to sustain the growth momentum by ensuring that sufficient fiscal resources are available to finance priority spending, the operating environment is conducive for private investment by addressing the main constraints to business environment, and that the projected scaling-up in investment is fiscally sustainable. The fulfillment of these conditions is expected to ensure that necessary investment in infrastructures are executed and spur growth. The reforms under this operation support structural reforms aiming at building the resilience of the rural poor so that they can benefit from the growth momentum.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

87. This operation supports the implementation of the Government’s NDP and several sectoral strategies which were developed through extensive consultations. The consultations on the NDP were held in the capital and regions, inviting sector ministry experts, civil society, academia, private sector representatives as well as development partners. The formulation of most of the sectoral strategies supported by this operation also underwent the same process. The diagnostic report that recommends the reform of the birth registration legal framework involved, in addition to the stakeholders identified above, discussion panels composed of the beneficiary of civil registration service. All draft laws that have economic aspects are discussed at the Commission de Réforme du Droit des Affaires, a committee headed by the Prime Minister and involving representatives from ministries, academia and the most influent private operators’ association, ahead of the presentation in the Cabinet Council. Regarding this operation, these include the ones on land, electricity, and PCB. The preparation of the decrees supported by this operation was associated with inter-ministerial committees’ consultation, strong involvement of development partners and Civil Society Organizations (e.g. decree on social registry), and of implementing agencies (e.g. decrees on the Road Maintenance Fund and on the e-money).

88. The proposed operation is part of a program of coordinated reform dialogue with other providers of budget support. The Cadre de Partenariat, co-chaired by the Ministry of Finance and Budget (MFB) and the World Bank, provides a forum for collaboration among potential providers of budget support. The members are the AfDB, France, the European Union, and the World Bank. The preparation of this DPO reform program was closely coordinated with this Cadre de Partenariat and with the IMF, and reflects the convergence of views on what are the priorities and feasible reforms for the country at this juncture.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

89. The first reform of this DPO is about birth registration. Birth registration makes individuals more visible, and the state more accountable for provision of health, education, other services, safety nets,
and legal protection.\textsuperscript{50} The assessment conducted as part of the Poverty and Social Impact Analysis (PSIA) highlights how civil registration can have positive effects on legal entitlements and access to services. Although registration of birth does not guarantee access to education, health, social protection, or citizen participation, without a birth certificate those key development goals can be beyond reach.\textsuperscript{51} Therefore, civil registration can benefit the formalization of the economy and thus promote economic inclusion. Legal identities are in some instances the key to full participation in the formal economy, e.g., when only registered individuals are able to open bank accounts, obtain credit, purchase property, and invest in businesses. Depending on the pattern of access to a legal identity across socioeconomic characteristics, civil registration may thus reduce socioeconomic inequalities and increase political participation and accountability. While the proportion of births registered in Madagascar is high by regional standards, the proportion of children that are not registered in any way is higher among children from the poorest households, suggesting that a significant expansion of coverage would benefit mainly the poorest segments of the population.

90. There is strong evidence that social safety nets, non-contributory transfers targeted mainly to the poor, can increase the resilience of the poor and increase their opportunities. The PSIA shows how safety nets have the potential to contribute to overall economic growth by encouraging asset accumulation, addressing failures in insurance markets, creating public goods at the community level (e.g., through public works programs), and relaxing political constraints on reforms.\textsuperscript{52} In the presence of multiple schemes, unified registries potentially increase the overall impact of the social safety net architecture through various channels: reduction in administrative costs; reduction in costs associated with registration; improved targeting; reduction in opportunity costs for beneficiaries; reduction in opportunities for graft and corruption, prevention of welfare fraud and accidental transfers; and increased capability for monitoring and evaluation.

91. Promoting the use of e-money, the electronic alternative to cash, offers some promise to strengthen financial inclusion in developing countries. There are several pathways through which e-money can benefit the poor and strengthen coping mechanisms: first, lower transaction costs may contribute to expand the supply of financial services to the poor and, in the context of cash transfer programs, lead to reduced administrative costs through economies of scale. Second, opportunities to digitally audit payments may reduce opportunities for corruption and are already used to decrease leakage in cash transfer programs. Third, reductions in transfer times potentially reduce transactional risks, increase authorities’ ability to support those affected by shocks, and expand the use of transfers within private networks as a means to cope with shocks. There is also empirical evidence for benefits of the use of e-money in cash transfer programs vis-à-vis traditional means of delivery.

92. Access to credit may allow households to borrow in bad times and repay in better times, increasing resilience to shocks.\textsuperscript{53} A large number of empirical studies confirm that lack of access to credit often perpetuates poverty, and credit constraints are associated with a reduced ability to smooth consumption and/or income. Evidence from cross-country studies cited in the PSIA, shows that credit bureau coverage is associated with financial deepening and this, in turn, has positive effects on growth.

\textsuperscript{50} Harbitz & Boeke-Giuffrida, 2009.
\textsuperscript{51} Harbitz & del Carmen Tamargo, 2009.
\textsuperscript{52} Alderman & Yemtsov, 2014.
\textsuperscript{53} Morduch, 1994.
on average.\textsuperscript{54} Beck, Demirgüç-Kunt, and Levine evaluate the impact of financial development on the poor by estimating the relationship between finance and changes in both income distribution and poverty levels. They find that financial development reduces income inequality, benefits disproportionately those that are relatively poor, and alleviates absolute extreme poverty.\textsuperscript{55}

93. A large literature exists on the effects of formal tenure recognition that positively affect welfare possibly via an investment and perceived tenure security effect on agricultural productivity.\textsuperscript{56} Formalization of land ownership via registration and titling can lead to important productivity gains, increase investment in land, and increase land values.\textsuperscript{57} The prior action of this DPO, i.e. the submission of the new law on title property which preserves the legal value of land certificates as permanent written proof of rights, is likely to have a pro-poor impact to the extent that access to land certificates is faster and cheaper and this allows the poor to sell, lease out or keep cultivating their land. Moreover, regarding gender equality in land ownership, according to data collected by Agriculture Global Practice, as of February 2018, 23 percent of all land certificates issued since 2006 in Madagascar are in the name of women. The Malagasy legal framework establishes that both unmarried and married men and women have equal ownership rights to property. For married couples both must agree on who administers the marital property and the law also provides for valuation of nonmonetary contributions in terms of spousal protections.

94. The early empirical literature suggests that decentralization holds potential for poverty reduction. The PSIA further elaborates on this concept and highlights that decentralization is considered to affect poverty through two main channels: i.e. participation in public decision-making and increased efficiency in the provision of local public services. At the same time, local capture of public resources is a risk,\textsuperscript{58} and so are the exclusion of the poor in the presence of local elites and an increasing fragmentation of society. A careful reading of the empirical literature suggests that decentralization holds potential for poverty reduction but that the impact of reforms will ultimately depend on the local context and on what exactly is devolved to local authorities. For instance, expenditure authority should go hand-in-hand with revenue collection and mechanisms for popular oversight. Decentralization usually requires a strong civil society that is active at the local level, a constraint in Madagascar in the past.

95. The improvement of rural roads has a positive effect on poverty reduction via economic growth. The impact of road projects depends on the distribution of household endowments and location-specific factors. In Madagascar, poverty is positively correlated with greater remoteness from nearest major centers, particularly for agricultural households (World Bank, 2016). The Malagasy road system is vast (32,000 km of roads), yet only about 13 percent is paved. The PSIA confirms that the DPO actions are expected to have a direct pro-poor effect to the extent that access and quality of rural roads will be improved and access cost, measured in terms of traveling time, will be reduced. The amendment of the FER’s statute will give access to poor local governments to financing of municipal road maintenance funds. It will be crucial to clearly pre-determine the criteria that define a poor commune. Moreover, such communes will need to have the administrative capacity to manage funds and implement projects. By

\begin{footnotes}
\item Levine (1997, 2005).
\item Similar findings are also reported by Clarke, Xu, and Zhou (2006).
\item Lawry, Samii et al. (2016).
\item Brasselle, Gaspart et al. (2002).
\item Bardhan and Mokherjee, 2005.
\end{footnotes}
doing so, the DPO will be more likely to have a beneficial effect in terms of both poverty reduction and resilience.

96. **Promoting access to electricity in rural areas has a potential significant impact on poverty and resilience.** High-quality energy sources can help the poor save considerable amounts of money. While electricity contributes significantly to growth and poverty reduction, the Madagascar electrification system is mediocre and represents an obstacle to the economic and social development of the country. In the case of Madagascar, increased access to electricity is associated with a small but positive change in consumption. The DPO actions are expected to have positive pro-poor effects to the extent that they will increase access to electricity and improve the quality of the energy source. The overall impact will depend on the cost associated with access to electricity. The poor will likely benefit more from access to electricity via increased agricultural productivity, access to a greater variety of rural non-farm activities as well as educational and health effects if important constraints to improving productivity will be lifted. These constraints include, among other things, access to credit, to improved inputs, to extension services, security of land rights.

97. **The PSIA has placed particular attention on the gender-related impact of some of the reforms proposed by this DPO.** There is no significant gender gap in birth certification, i.e., no evidence for parents’ willingness to obtain birth certificates for girls vis-à-vis boys (or vice-versa) and, therefore, an expansion of coverage is unlikely to have any significant gender-related effects. On the other hand, the safety net programs particularly benefit women as in most cases the cash payments go to the female head of the household. Evidence shows that women invest a large part of the cash in purchases that directly benefit their children, such as more diverse food consumption, expenditures for school materials, and health related expenditures. Providing women with cash has shown to improve women’s self-esteem, decision making power and mobility – all important aspects for strengthening resilience and productive inclusion. On e-money, there is some evidence that the technology, if used to make payments within cash transfer schemes, may allow women recipients to conceal receipt of cash transfers and may thus help to improve their authority regarding household expenditure decisions. Land certificates can be issued to either a man or a woman.59 A partial solution to improve gender equality in land ownership under the new regime would be requiring issuance of at least one certificate to a woman each time a household applies for more than one certificate. Rural electrification has the potential to be pro-women to the extent that most of the burden to collect firewood currently falls on women. Electrification could empower women by freeing up a significant part of their time, therefore allowing them to participate productively in market activities. The latter is more likely to occur if many job opportunities are created in rural areas and if access to jobs in urban areas is easier. Job opportunities in rural areas and accessibility to urban jobs are likely to increase as a result of improved maintenance of rural roads.

5.2. ENVIRONMENTAL ASPECTS

98. **The country's natural resources have the potential to contribute more largely to poverty reduction and economic development.** Effective collection and management of revenues generated by

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59 Approximately 20 percent of land certificates are issued exclusively to women. For land owned by couples, the certificates are most commonly issued under the name of the man (82 percent of cases) and only in 6 percent of cases they are issued under the name of the couple. The World Bank is currently conducting awareness campaigns to promote the practice of certificates being issued under the name of both, the man and the woman.
renewable and non-renewable natural capital will be essential. The Ministry of Environment and Forests is the lead government agency for environment and renewable natural resources management. The institutional landscape for environmental and natural resources management is completed by a number of specialized non-governmental organizations. These include Madagascar National Parks, an independent non-profit association established in 1990 to manage the protected area network; the National Office of Environment created in that same year, to regulate environmental impact from economic and development activities, monitor environmental quality and develop appropriate regulations; and two foundations with complementary roles in conservation finance, the Foundation for Protected Areas and Biodiversity created in 2005 to finance conservation activities, and Tany Meva, established in 1996 to support community development around protected areas, with the objective of reducing pressures on the parks.

99. Actions supported by this operation are not likely to have major negative effects on the environment, forests and natural resources. The civil registry and social protection policies addressed under the first pillar focus on institutional reforms without any expected short-term direct or indirect environmental impact. Similarly, for the access to finance-related reforms, no significant adverse environmental impacts are anticipated. The results of this proposed program under the second pillar, related to land reform and rural roads are also unlikely to have significant effects on the environment as the focus is on maintenance of already existing infrastructures. In rural electrification, it is proposed to install new infrastructures with simple technical characteristics and the potential negative impacts are site specifics and minimum.

100. The national environmental and social framework of Madagascar is generally constituted by: (i) the National Environmental Policy: which is part of the Environment Charter whose main mission is to "reconcile the people with their environment in order to insure sustainable development ", which is law 2015-003 on January 20, 2015 on the Environment Charter; and (ii) Decree No. 99-954 on December 15, 1999, amended by Decree No. 2004-167 on February 03, 2004 on the Reconciliation of Investments with the Environment; Decree No. 6830/2001 on June 28, 2001 fixes the modalities and the procedures of public participation in environmental evaluation. This national environmental and social framework includes the obligation to prepare an Environmental and Social Impact Assessment (ESIA) and the production of Environment and Social Management Plan (ESMP) for all investment projects that may have environmental and social impacts. The ESIA with its ESMP approved by the Ministry of Environment has an environmental permit that is a required document for any operating authorization and subject to periodic inspections by Ministry technicians during the operation phase. Therefore, all environmental and social risks and negative impacts for any future or existing investment could be managed, and potential impacts could be reduced in an acceptable level through the required ESIA. This national environmental and social framework is currently strengthened by the World Bank's environmental and social operational policies on sector investment projects supported by the World Bank.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

101. The latest Public Expenditure and Financial Accountability (PEFA) self-assessment indicates a poor performance of the overall PFM system, notwithstanding significant progresses in selected area. The 2018 PEFA, covering the calendar years 2014 to 2016, ascribes a score D to 61 percent of the indicators, meaning the performance is below the basic level, and none of the indicators is assigned the score A. The PEFA identifies the lack of budget credibility as the main weakness of the Malagasy PFM due
to an overestimation of public resources that does not consider fiscal risks, and the feeble strategic and financial supervision of SOEs. The report underlines the need to strengthen the audit and control functions, and anti-corruption measures to overcome these weaknesses. On the positive side, the assessment recognizes the results from reforms in debt management, budgetary process, multi-year budget programming, access to information by the legislator and the general public, some of which benefited from World Bank support.

102. Since the previous PEFA (2014), budget transparency has improved with timely publication of budget documents and the update of the legal and regulatory framework for several areas of PFM. The budget law is published on the MFB website following the submission of the draft text to the parliament, and the Citizen’s Budget and Citizen’s Budget Execution reports are published. The Supreme Audit Institution (Cour des Comptes) started to publish its annual report in 2016. The audited final account covering 2015 has been adopted by the Parliament in July 2017, thereby catching up on the delay in auditing reports following the political crisis period. The update of the legal framework relates to public debt (2014), Public Private Partnership - PPP (2016), corruption (2016), public procurements (2017), and public investment (2017 and 2018). The law on debt and PPPs, and the texts on public investment are being fully implemented. The reform of the legal framework for corruption has empowered the anti-corruption agency which has been more active since 2017, and cases of diversion of public funds by high officials have been subjected to investigation. However, progress is slow and undermined by the general feeling of impunity due to the absence of sanction. According to the 2018 PEFA, the new Public procurement code still leaves a large margin for less competitive procurement practices. Since 2017, consultations for budget formulation have been extended to Civil Society and private sector association.

103. The Government’s PFM reform program is elaborated in the ten-year PFM Modernization Reform Strategy adopted in December 2016. The strategy builds on several diagnostics of PFM aspects including the Tax Administration Diagnostic Assessment Tool, the Public Investment Management Assessment, the Debt Management Performance Assessment, and has been updated in 2018 to take into account the findings of the 2018 PEFA. The strategy comprehensively covers all aspects of PFM and all institutions managing and controlling the use of public funds, ranging from the central government operations, to decentralized government, and all public entities. The implementation of the strategy is split into three phases of reforms. The first phase goes from 2017 to 2019 and aims to restore budgetary discipline and the supply of basic public services. Implementation is led by the MFB. A review of the first-year implementation, completed in March 2018, concludes a satisfactory progress toward the achievement of the objectives. The institutional coordination has been adjusted following this review to involve broader stakeholders, including line ministries, partners and civil society. Provided that the Government continues to commit to the reforms, the PFM is adequate to support the operation.

104. The World Bank is working with other partners to provide coordinated TA. The Public-Sector Performance Project (P150116) will help advance improvements in revenue management, improved

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60 The differences between projection and actual collection include lower than projected external grants disbursement, delay in recovery of tax arrears, and overestimation of tax revenues.

61 The Reengagement DPO (P150153) supported the adoption of the law on public debt and guarantees that has set up the layer for the institutional framework of debt management; the Resilience DPO (P153084) supported the enhancement of budgetary information transparency, including the timely publication of audited financial accounts. These operations were complemented by TA.

62 Law n°2014-012 on public and publicly-guaranteed debt; law 2016-020 on the fight against corruption and law 2016-021 on anti-corruption centers; law n°2015-039 on PPP; law n°2016-055 on public procurements; decree n°2017-094 establishing the Organisme de Coordination et de suivi des Investissements et de leurs Financements (OSCIF).
controls at the local level and performance monitoring. The IMF’s TA Center for Southern Africa (AFRITAC South) has a substantial TA program covering public investment management (through coordinated support with the World Bank), fiscal risks management, and cash and arrears management. The US Treasury has seconded an advisor to support Treasury Single Account reforms. The AfDB and the European Union are supporting civil service reforms. The EU and the IMF are also engaged in medium-term budget reforms.

105. **The latest Safeguard Assessment of the Central Bank by the IMF has been completed in March 2017.** The updated safeguards assessment found that progress had been made in implementing recommendations made in the 2015 assessment, including strengthening the legal framework and establishing an audit committee to oversee the internal and external audit process. However, delays in the publication of audited financial statements and an outdated accounting framework undermine transparency. In addition, risks in currency operations and reserves management are elevated. While the Central Bank received TA on internal audit and financial reporting in the past two years, capacity constraints have hindered progress.

106. **The proposed grant will be disbursed following the standard IDA procedures for development policy operations.** A grant in the amount of SDR 42.7 million (US$60.0 million equivalent) will be made available upon effectiveness and, provided IDA is satisfied with the implementation of the development policy financing program and the appropriateness of the Recipient's macroeconomic policy framework, disbursed as a single tranche following the submission of an acceptable withdrawal application by the government. IDA will disburse the proceeds into the treasury account US dollar-denominated account designated by the Recipient that is part of the country’s foreign exchange reserves account at the Central Bank of Madagascar. The dedicated account will be used exclusively for the proceeds of the Development Policy Financing grant. The Recipient shall ensure that upon the deposit of the grant proceeds into said account, an equivalent amount is credited in the Recipient’s budget management system, in a manner acceptable to IDA. The Recipient will report to IDA on the amounts deposited in the foreign-currency account and credited to the budget-management system within 30 days of the disbursement.

107. **The financial support provided under this operation is not intended to finance goods or services on the standard negative list.** If the proceeds of the grant are used for ineligible purposes as defined in the Financing Agreement, IDA will require the Recipient, promptly upon notice from IDA, to refund an amount equal to the ineligible expenditure. Amounts refunded to IDA upon such request shall be cancelled. At the request of the Association, an audit of the dedicated account could be carried out by the Recipient and the result of such audit will be furnished to the Association within four months of the request. Considering the limited capacity of the Supreme Audit Institution (Cour des Comptes), a legally registered, private and independent audit company meeting appropriate international standards will be contracted to perform the audit, in accordance with the Terms of Reference agreed upon with the Association. All audit costs will be borne by the Government of Madagascar.

**5.4. MONITORING, EVALUATION AND ACCOUNTABILITY**

108. **Progress on the results indicators will be monitored and evaluated jointly by the Recipient and the World Bank.** The Government has established an Economic Council team, which consists of high level officials that are responsible for spearheading and implementing the reform agenda. This team comprises of members from the MFB, the Central Bank, the Presidency and other relevant ministries. The
Government’s team is well-coordinated, and as the experience in implementing DPOs with the World Bank deepens, they are increasingly well prepared to obtain and share data to monitor implementation against the agreed results indicators. The World Bank closely follows this progress through supervision activities, and where relevant, joint monitoring activities are carried out with partners in the Cadre de Partenariat.

109. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the World Bank’s Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank’s attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank’s corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. **SUMMARY OF RISKS AND MITIGATION**

110. The overall risk rating for the operation is ‘substantial,’ with six main sources of risk that are inter-connected and that could potentially jeopardize the expected outcomes and benefits of this operation. The main risks are (i) political and governance; (ii) macroeconomic; (iii) institutional capacity for implementation and sustainability; (iv) fiduciary; (v) stakeholders and (vi) weather-related shocks and natural disasters. Measures to mitigate these risks are outlined below. The potential benefits of the proposed operation outweigh the residual risks and warrant IDA’s assistance.

111. **Political tensions and weak governance represent a high risk to some of the critical reforms proposed under this operation.** Madagascar has a long history of disruptive political transitions. The country also has deep rooted governance challenges that contribute to political fragility. Key drivers of fragility include influential networks that shift alliances to access rents, social fragmentation, growth of a trafficking economy, and a nascent system of checks and balances, as discussed in the CPF, June 2017. With the relative stability in recent years, the country has been able to make significant progress and initiate important reforms. However, the upcoming presidential election, planned for the end of 2018 may intensify some of these drivers of fragility and slowdown the reform momentum. Electoral preparations have already heightened political tensions between the party in power (**Hery Vaovao ho an’i Madagasikara**, led by President Rajaonarimampianina) and the opposition (**Tiako I Madagasikara**, party led by former President Ravalomanana, and **Miaraka Amin’ny Presidà Andry Rajoelina**, party led by former President Rajoelina). A decision from the HCC, triggered by demonstrations and an impeachment request, has led to the appointment of a consensus government in June 2018. This new government, which includes ministers from the three main parties, will be in power until the new President starts his/her term. The new Prime Minister has publicly indicated the government’s commitment to pursue reforms.

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63 Key drivers of fragility include influential networks that shift alliances to access rents, social fragmentation, growth of a trafficking economy, and a nascent system of checks and balances, as discussed in the CPF, June 2017
To mitigate the risk of policy reversal, the World Bank will continue to coordinate with the IMF and the other partners to maintain the reforms supported by this operation on the top of the ongoing policy agenda. The World Bank Public Sector Performance project (P150116) also contributes to strengthening governance in Madagascar by encouraging fiscal decentralization.

112. **Macroeconomic risks are substantial, and are closely related with the political situation.** The fiscal framework is based on an upward trajectory of growth, which is expected to contribute to higher revenues and be reinforced by a scale-up of investment activity. The needed increase in public and external financing is expected to be met largely through development partners’ support to the infrastructure spending scale-up. However, growth prospects could plummet in the event of political instability and donors’ withdrawal. Delays in reforms to JIRAMA and inadequate management of risks related to contingent liabilities could drain the public finances. To mitigate the impact of the risks, it will be important to continue SOE reforms, and to support efforts to applying monetary and fiscal policies flexibly and responsibly to respond to shocks. To advance these reforms, the World Bank maintains dialogue with the client through World Bank DPOs, TA and investment projects.

113. **The risk of the technical design of the operation is moderate.** The design requires the coordination of several different line ministries and, given the relatively tight timeline for the completion of critical reforms, a deep commitment from all the relevant stakeholders to abide to the agreed milestones is required. At the same time, each reform proposed under this operation is well supported by dedicated TA programs by the World Bank and other international partners that provides a significant risk mitigation.

114. **Institutional capacity is weak and represents a significant risk.** Weak capacity, particularly at the technical level, poses the risk that the actions supported by this program might not be implemented as successfully as expected or in the agreed timeframe, or that the capacity constraints prevent the attainment of the expected results. This operation mitigates these risks in two ways. First, it seeks to attain the strongest possible actions needed to build the reform momentum without overwhelming the capacity of the post-crisis government. Second, it is complementary to other projects and TA provided by IDA and development partners, which together constitute a more holistic support environment than one operation can offer.

115. **Fiduciary risks remain substantial, despite the ongoing implementation of PFM reforms.** While there has been progress in implementing PFM reforms, the remaining fiduciary weaknesses are significant. They are partially mitigated by continued donor assistance in PFM and public administration reforms, including the World Bank Public Sector Performance project (P150116).

116. **The reforms supported by this DPO series touch on important special interests and stakeholder risk is substantial.** This operation supports many reforms that have been so far blocked by powerful vested interests in Madagascar. If these interests resurface, the implementation of this reform agenda

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64 In Madagascar, draft laws are submitted by the relevant Ministry for approval to the Council of Government and the Council of Ministers. On approval by the Council of Ministers, the Prime Minister submits the law to the Presidents of the National Assembly and the Senate for voting on both floors. Once approved by both houses, the President enacts the law by signing it. This DPO uses the submission of laws to Parliament to assess the completion of prior actions. This formulation is based on Madagascar’s track record in passing laws as they are submitted to Parliament and respects Madagascar’s democratic process. Nonetheless a residual risk remains that laws are not passed or are modified significantly in Parliament. The World Bank team will monitor closely the Parliamentary process of the relevant laws. Decrees are submitted by the relevant Ministry for enactment by the Council of Government. As specified in the Constitution, some decrees also require approval by the Council of Ministers.
can be endangered. To mitigate this risk, the international community will need to continue close monitoring during reform implementation and maintain a coalition for change, encompassing the Malagasy public and the government.

117. Madagascar’s vulnerability to natural disasters and weather-related shocks represents another substantial risk for the operation. Madagascar ranks among the countries most exposed to droughts, floods and cyclones. Severe natural hazards present threats to public health, food security, and the government’s poverty reduction goals. The cyclone that hit the island in 2017 has provoked significant damages and several losses. The immediate necessity of responding to environmental shocks like the recent cyclone could draw scarce administrative resources away from the reform program and threaten its long-term continuity. This risk is partially mitigated by the ongoing dialogue on enhancing resilience to natural disasters, and support provided by the World Bank and other development partners to the government. For example, the World Bank is currently supporting the rehabilitation of cyclone and flood early warning systems and hydro meteorological stations nationwide and the possibility of a Catastrophe Deferred Drawdown Option (CAT DDO) for Madagascar is under discussion with the World Bank.

Table 6: Summary Risk Ratings

<table>
<thead>
<tr>
<th>Risk Categories</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political and Governance</td>
<td>High</td>
</tr>
<tr>
<td>2. Macroeconomic</td>
<td>Substantial</td>
</tr>
<tr>
<td>3. Sector Strategies and Policies</td>
<td>Moderate</td>
</tr>
<tr>
<td>4. Technical Design of Project or Program</td>
<td>Moderate</td>
</tr>
<tr>
<td>5. Institutional Capacity for Implementation and Sustainability</td>
<td>Substantial</td>
</tr>
<tr>
<td>6. Fiduciary</td>
<td>Substantial</td>
</tr>
<tr>
<td>7. Environment and Social</td>
<td>Moderate</td>
</tr>
<tr>
<td>8. Stakeholders</td>
<td>Substantial</td>
</tr>
<tr>
<td>9. Other</td>
<td>Substantial</td>
</tr>
<tr>
<td><strong>Overall</strong></td>
<td>Substantial</td>
</tr>
</tbody>
</table>
## ANNEX 1: POLICY AND RESULTS MATRIX

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Issue:</strong> Civil Registration System</td>
<td><strong>Rationale:</strong> Registration in the civil registry allows people to access essential public services (e.g. education, health and social protection), to exercise their right to vote in elections and it also represents a critical element towards the establishment of a national ID system that, in turn, allows access to a wider range of services, including formal financial services.</td>
<td>PA1: The Recipient has submitted to Parliament Projet de Loi No. 028/2017 relatif à la délivrance des jugements supplétifs d’actes de naissance dans le cadre de l’enregistrement rétroactif de naissance des enfants et des adultes dans le cadre de l’Opération Carte Nationale d’Identité, the draft law allowing for retroactive birth registration, for a period of five years, at district level.</td>
<td>PA1: The Recipient has submitted to Parliament Projet de Loi No. 021/2018 du 30 mai 2018 relative à d’état civil, revising Loi no. 1961-025 relative aux actes de d’état civil, prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and laying the foundations for a centralized system for the monitoring of new registrations.</td>
</tr>
<tr>
<td><strong>Issue:</strong> Social Protection Programs</td>
<td><strong>Rationale:</strong> The Government as well as multiple donors and international NGOs manage a variety of social protection schemes that have been largely uncoordinated and thus fragmented. Given the magnitude of the country’s poverty, vulnerability to climate change and disasters, as well as the constraints on financial and human resources, a better and more effective coordination is needed.</td>
<td>PA2: The Recipient’s Council of Government has issued Décret no.2017/844 portant création et tenue de l’annuaire des interventions et du registre des bénéficiaires dans le cadre des actions de Protection Sociale du régime non-contributif, the decree establishing a national social registry for social safety net program beneficiaries.</td>
<td>PA2: The Recipient has submitted to Parliament Projet de Loi no. 029/2017 du 11 octobre 2017 relative à la politique nationale de protection sociale relative au régime non-contributif à Madagascar, the new law defining the legal framework for the national policy for non-contributory social protection regimes and designating its Ministry of Population, Social Protection and the Promotion of Women as the main coordinator regarding social safety net programs.</td>
</tr>
<tr>
<td><strong>Issue:</strong> Electronic Money Accounts</td>
<td><strong>Rationale:</strong> Access to e-money accounts provide</td>
<td>PA3: The Recipient’s Council of Government has issued Décret no. 2017/851 portant application de la loi</td>
<td>PA3: The Recipient has published decisions on all EME licensing requests received up to and including February 28,</td>
</tr>
</tbody>
</table>
households with a safe store of value and promote the accumulation of savings. It also acts as a first step towards more advanced financial services, including credit, as they can be used at lower fees in locations not yet reached by traditional financial services. Access to such e-money accounts can help individuals and households to strengthen their resilience against shocks.

<table>
<thead>
<tr>
<th>Issue: Private Credit Information Bureau</th>
<th>sur la monnaie électronique et les établissements de monnaie électronique (EME), the decree implementing Loi no. 2016-056 and establishing the minimum capital requirements for EMEs; and the CSBF has issued: (i) instructions 002/2017 for the licensing process for EMEs; and (ii) instructions 003/2017 for the operating procedures for trust accounts.</th>
<th>2018.</th>
<th>Baseline (2016): MGA 1,125 billion Target (2019): MGA 1,945 billion Number of e-money issuers licensed by the CSBF; Baseline (2016): 0; Target (2019): 3</th>
</tr>
</thead>
</table>

**Issue: Private Credit Information Bureau**

**Rationale:** 82 percent of loans in Madagascar required collateral as of 2013, leaving many poor unable to access credit. Under these circumstances, an individual’s past repayment history can serve as “reputational collateral” to induce financial institutions to accept loan applications.

**PA4**: The Recipient has submitted to Parliament [Projet de Loi No. 024/2017 régissant l’activité et le contrôle des Bureaux d’Information sur le Crédit](https://example.com), the draft law establishing credit information bureaus.

**PA4**: The Recipient has issued a request for proposals to license a private credit bureau.

**Number of private credit bureaus licensed and system development started**

Baseline (2016): 0 Target (2019): 1

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**Pillar B: Creating an enabling environment for economic opportunities in rural communities**

<table>
<thead>
<tr>
<th>Issue: Land Rights</th>
<th>PA5: The Recipient has submitted to Parliament <a href="https://example.com">Projet de Loi No 023/2017 fixant le régime juridique de l’Immatriculation et de la Propriété Foncière Titrée</a>, the draft law on titled private property, requiring the issuance of land certificates as permanent</th>
<th>2018.</th>
<th>Baseline (2015): 120,000 Target (2019): 270,000 Number of land certificates issued</th>
</tr>
</thead>
</table>

**Rationale:** Unsecured land tenure rights impede farmers from making long term investments in their property, thereby adversely affecting the productivity of agriculture that has been falling in Madagascar for the past 30 years.

**PA5**: The Recipient has submitted to Parliament [Projet de Loi no. 024/2018 du 17 juillet 2018 portant réforme de la Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée, an amendment to the Loi n° 2006-031 fixant le régime juridique de la propriété foncière](https://example.com), the draft law on titled private property, requiring the issuance of land certificates as permanent.
<table>
<thead>
<tr>
<th>Issue: Transfers to Local Governments</th>
<th><strong>Rationale:</strong> Providing access to basic public services such as health and education at the local level can help the poor build up the human capital needed to access better economic opportunities. However, local governments in the poorest regions often do not have enough resources to maintain and provide those basic services.</th>
<th><strong>PA6:</strong> The Recipient’s Council of Ministers has issued Décret 2017/867 fixant les modalités de publication des subventions allouées aux Collectivités territoriales décentralisées, the decree requiring the publication of all planned and executed transfers to local governments.</th>
<th><strong>Fond de Pérequation</strong> executes transfers to the local governments (% of planned in the FY)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PA6:</strong> The Recipient has issued Décret no. 2018-472 instituant le manuel de procedures du Fonds National de Pérequation, a decree clarifying the functioning of the Fonds de Pérequation, including the equalization formula, disbursement procedures and the collection of the Four Dedicated Taxes.</td>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>Issue:</strong> Rural Road Maintenance</td>
<td><strong>Rationale:</strong> A 2012 study found that half of Madagascar’s secondary roads and two thirds of tertiary roads were classified as being in “bad condition”. This makes access to markets for rural communities more expensive. The FER is in charge of receiving and administering funds for the maintenance of all roads within the national territory. However, the FER is currently not able to effectively fulfill its function and, as a result, communal roads maintenance is constantly neglected.</td>
<td><strong>PA7:</strong> The Recipient’s Council of Ministers has issued Décret modifiant et complétant certaines dispositions du Décret no. 2016-924 portant statut du FER, the decree amending the FER statute to increase transparency, including to ensure (i) annual publication of a detailed budget with forecasted resources retransferred into the FER, use of retained earnings and planned expenditures for the following year; (ii) annual publication of executed expenditures for the previous year and explanations of any deviations; and (iii) publication of prioritization guidelines, including the distribution of expenditures across regions.</td>
<td><strong>Expenditure of the FER on communal road maintenance (percent)</strong></td>
</tr>
<tr>
<td><strong>PA7.</strong> The Recipient has issued (i) Décret no. 2018-382 modifiant et complétant certaines dispositions du Décret no 2016-924, modifié et complété par Décret no.2017-855 portant Statuts du FER, a decree amending the FER’s statute to specify the annual fraction of project expenditures allocated to communal road maintenance; and (ii) a Circulaire no. 002-MFB/SG/DGB du 8 juin 2018 portant prise en charge de la contribution des communes les plus pauvres aux dépenses d’entretien des routes communales financé par le Fonds d’Entretien Routier (FER),</td>
<td></td>
<td>Baseline (2016): 0 percent</td>
<td>Target (2019): 10 percent or more</td>
</tr>
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</table>
require the Recipient’s Ministry of Finance and Budget to subsidize the required contribution of the poorest communes to FER projects according to the criteria indicated in the prioritization guidelines.

<table>
<thead>
<tr>
<th>Issue: Rural Access to Electricity</th>
<th><strong>PA8</strong>: The Recipient has submitted to Parliament Projet de Loi No. 026/2017 portant Code de l’Électricité à Madagascar, the draft law replacing Loi 98.032, and establishing a legal mandate for ADER to advance rural electrification through PPP.</th>
<th><strong>PA8</strong>: The Recipient (i) has issued Decrét n°2018-384 fixant les missions, attributions, organisations et les modalités de fonctionnement de l’ADER, and Decrét n°2018-383 fixant l’organisation, les attributions et le fonctionnement de l’Autorité de Régulation de l’Électricité, the implementation decrees of the revised electricity law defining the institutional and financial provisions for rural electrification; and (ii) its Ministry of Energy has published the National Electrification Strategy.</th>
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<tr>
<td>Rationale: At 6 percent, Madagascar has one of the lowest rates of rural electricity access in the world. Improving access to affordable and reliable electricity services is critical for raising rural productivity to enable the adoption of modern farming and processing technologies. Electricity also creates opportunities for rural households to diversify into non-farm employment. However, a lengthy and convoluted approval processes for licenses and authorizations and an incoherent legal framework with overlapping mandates between different actors is holding back private participation.</td>
<td>Number of concessions and authorizations issued per year for rural areas Baseline (2016): 10 Target (2019): 40</td>
<td></td>
</tr>
</tbody>
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ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Completes Third Review of Extended Credit Facility Arrangement for Madagascar and Approves US$44.25 Million Disbursement

July 11, 2018

- This arrangement aims to support the country’s efforts to reinforce macroeconomic stability and boost sustainable and inclusive growth.
- The authorities’ efforts to enhance governance and fight corruption remain central to the success of their program.
- Reforms underway to promote financial sector development and inclusion will enhance growth.

The Executive Board of the International Monetary Fund (IMF) today completed the third review under the Extended Credit Facility (ECF) Arrangement for Madagascar. The completion of this review enables the disbursement of SDR 31.43 million (about US$44.25 million), bringing total disbursements under the arrangement to SDR 156.26 million (about US$220.02 million).

Madagascar’s 40-month arrangement for SDR 220 million (about US$304.7 million, or 90 percent of Madagascar’s quota), was approved on July 27, 2016 (see Press. Additional access of 12.5 percent of Madagascar’s quota was approved by the Executive Board in June 28, 2017, bringing Madagascar’s access under the ECF arrangement to SDR 250.55 million (about US$347.1 million) at that time. This arrangement aims to support the country’s efforts to reinforce macroeconomic stability and boost sustainable and inclusive growth.

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

“Madagascar’s performance under its economic program supported by the Extended Credit Facility arrangement has remained generally strong. Recent economic developments were favorable, and the structural reform agenda is advancing. The outlook also remains positive, with risks arising from higher oil prices, other terms of trade shocks and natural disasters.

“The authorities have continued to strengthen revenue mobilization and the quality of spending. A small, one-off reduction in the primary domestic fiscal surplus is appropriate for 2018, considering higher oil prices and the need to address social pressures. Further action will be needed to improve the quality of spending, including increased investment capacity, automatic fuel price adjustments, and sustained reforms of the public utility company (JIRAMA) to reduce its need for transfers. New tax incentives for investment should be carefully managed to safeguard revenue mobilization. These efforts will create fiscal space for high-priority investment and social spending which are central to the strategy for growth and poverty reduction.

“Reforms underway to promote financial sector development and inclusion will enhance growth. These reforms include strengthening supervision, modernizing the banking law, enhancing the monetary policy operational framework, and developing the foreign exchange market.

“The authorities’ efforts to enhance governance and fight corruption remain central to the success of their program. Completing the modernization of the legal framework by enacting draft laws on AML/CFT and asset recovery is a priority. Moreover, it is vital to develop the institutions necessary for effective enforcement. Continuing improvements in public financial management can play a key role in enhancing economic governance.”
Sir,

Since the return to constitutional order that was marked by the presidential election in late 2013, Madagascar has continued its efforts to achieve economic recovery. The National Development Plan (PND) and its Implementation Plan (PMO) have served as a basis for this process by defining the strategic focuses around which public programs are to be implemented. Similarly, the Extended Credit Facility (ECF) program with the IMF has helped initiating and accelerating reforms, particularly in the area of public finance management and fiscal framework. The main objective of the ECF is to preserve macroeconomic stability and improve the business climate.

The Government hereby reaffirms its commitment to fight poverty, to promote inclusive growth and resilience, as well as to strengthen the climate change adaptation capacity.

* * *

The vast majority of Malagasy people live in rural areas and do not benefit from technical innovations and technological developments. Due to the low road network coverage, these communities remain badly isolated. The penetration rate of telecommunication networks also remains below the targets and this situation is compounded by a low rate of rural electrification. The primary sector employs more than 75% of the population but its share in the domestic production is only 28% of GDP because of poor productivity. In particular, agriculture, including rainfed rice, is highly exposed to and affected by the negative effects of climate change. Livestock farming techniques also remain primitive and rural insecurity discourages farmers from developing their activities.

In urban areas, population growth has reached critical levels in consideration of the inadequacy of infrastructure, including housing. The phenomenon of shantytowns is becoming widespread and is causing serious problems in terms of sanitation, hygiene and health. Most of Malagasy cities and towns
are highly exposed to epidemics, which is exacerbated by climate change.

However, economic outlooks remain optimistic, with steady economic growth at an average annual rate of 5.2% on the medium term. Yet, this objective can only be achieved if agricultural production becomes more resilient, particularly given the occurrence of cyclones, silting and flooding. The primary sector accounts for a sizeable 28% of the GDP and is expected to grow at a rate of 2.5%. The growth of industries is estimated at an annual rate of about 7.0% on average and industries’ share in the GDP is about 13%. However, this performance needs to be supported by increased electricity production and growth of manufacturing exports. This said, the strength of the tertiary sector is what will contribute the most to economic growth because this sector accounts for 58% share of the GDP and is expected to grow by 5.7% per year over the medium term.

Regarding the public finance sector, management reforms have been accelerated in order to ensure effective allocation of public funds. Due to the Government’s limited financing capacity, sectoral plans and strategies have been implemented only partially. Macro-fiscal management focused initially on increasing the fiscal space through expansion of the tax base and, secondly, on promoting external financing through the improvement of financing readiness. The Government has also prioritized measures against the misappropriation of public funds, corruption and capital flight.

As regards public spending, the Government’s priorities remain the development of the social sector and strategic infrastructures. Social spending will take a large part of the budget, but the allocation to the infrastructure sector will also be prioritized to build, rebuild or rehabilitate strategic infrastructure, including roads, railways, airfields and ports. In recent years, the sector of public security, national defense and gendarmerie has also captured a growing share of the governmental budget. Indeed, banditry in urban and rural areas, thefts in the countryside, cattle theft (dahalo) and strikes have increased in recent years due to a variety of complex circumstances. In the sector of administration, several measures have also been taken to fight against corruption and to improve management of public services.

* * *

Many major challenges remain unresolved due to the magnitude of the negative legacy left by the previous socio-political crisis that have been exacerbated by the occurrence of natural disasters. Poverty has remained at a critical level reflected by the low school enrollment rate, the population’s reduced life expectancy and the constant decline in household income, due in particular to depreciation of the local currency, sub-employment and poor redistribution of wealth. The pre-election political climate marked by political unrest could also negatively impact the development process. The implementation of reforms necessary for good governance may be delayed in the same way as the digitization of administrative procedures and confidence of foreign investors may also be dampened. However, outlooks for Madagascar remain optimistic given the country’s many advantages: unparalleled biodiversity, great potential for agriculture, natural resources and abundant labor. If complementarity can be ensured between the physical and the human capital as well as good governance, Madagascar could be a prosperous country.
The Government, through its PND/PMO, is committed to implement a development program to reverse the course of increasing poverty. Several reforms are envisaged and have been initiated to achieve this objective.

Government support to basic social services at the local level is recognized as an imperative for poverty reduction and the triggering of sustained economic growth.

However, due to lack of resources, local authorities are unable to provide the social services under better conditions. The implementation of Act No. 2014-020 dated September 27, 2014, as amended by Act No. 2015-008 dated April 1, 2015, governing resources, election procedures, organization and operation of Decentralized Territorial Collectivities (CTD) empower these local authorities to create new resources according to the competency devolved to them to ensure their financial autonomy. To this end, a National Equalization Fund was created in 2016 at the level of the Local Development Fund to ensure better equity in resources transferred to CTDs. A decree clarifying the operation of this Fund has been adopted and published. This decree specifies the equalization formula, the disbursement procedures, the operationalization of the collection of the four taxes and duties dedicated to the Fund.

The current registration procedures in the Civil Registry do not facilitate communities’ access to basic social services. Indeed, the 12-day period after birth is too short to allow registration and the use of extrajudicial judgment in the courts is very complex, particularly in the most remote areas and for the most vulnerable social groups. The Government has thought over reforming the civil status legislation and has submitted to Parliament a bill allowing retroactive registration of births at the district level, for a period of five years. The revision of the Act No. 61-025 dated October 9, 1961 on civil status documents is in the process of adoption by the Parliament. This revision advocates for the extension of the legal birth registration deadline, the organization of local services to perform registration, the establishment of a unique identifier at birth and the establishment of a centralized system for monitoring new registrations.

Due to the lack of coordination within the social protection sector, it has not been possible to effectively manage the various forms of assistance intended for the vulnerable population. Leadership is still spread over various ministries and organizations. In 2015, the Government instituted the National Policy for Social Protection with the objective of reducing the number of people living in extreme poverty by 15%. The role of the Ministry of Population, Social Protection and Promotion of Women has been strengthened to ensure coordination and leadership in the sector and to facilitate the implementation of this policy for non-contributory schemes. To this end, the Government will submit a new law on non-contributory social protection, designating the Ministry of Population, Social Protection and Women as the main coordinator of the sector’s programs.

Improving access to financial services will help foster financial inclusion.

The financial sector in Madagascar is not much diversified, with very limited access to financial services for the majority of households and businesses. However, an important step was taken by setting up the Credit Bureau (CdR) and a Credit Information Bureau (BIC) to enhance the availability of financial information. The operation and control of the BIC are governed by the Act No. 2017-045 adopted by Parliament in 2017. This Act advocates for “reputational collateral” that specifically rules out the traditional collaterals required by credit institutions. The objective is to improve access to credit in the
country. A call for expressions of interest has been launched for the granting of a license to a private credit bureau.

The bank access rate remains low in Madagascar. Only 4.0% of the population holds a bank account. The important financial inclusion objective is to enable households and businesses to access and use at least one transaction account offered by a regulated payment service provider. In 2016, the Parliament passed Act No. 0201-056 governing electronic money and electronic money institutions. Its implementing decree was adopted in the Council of Government. The implementation of this Act promotes electronic money services and provides access to a transaction account for those excluded from the financial sector. In September 2017, the Banking and Financial Supervision Commission (CSBF) issued the decision on instructions on the conditions for opening, operating and monitoring the global account on electronic money and electronic money institutions (EMIs). The CSBF has committed to also publish the decisions concerning EMIs licensing applications received at the end of March 2018.

Agriculture is the core of Madagascar’s economy. Nearly 80% of the population lives in rural areas and the majority live with agriculture as their main activity.

The topic of access to land is an important issue for poverty reduction and improving the performance of the agriculture sector. It remains a bottleneck to the development of rural areas. Since 2004, the Government has initiated a process of land tenure security through the National Land Tenure Program, whose objective is to achieve adequacy between land tenure practices and the regulatory framework. An innovative land reform was launched in 2005 by creating land offices at municipal level and allowing them to issue land certificates as title of property. This reform is being strengthened to eliminate any ambiguity about the value of land certificates. Act No. 2017-046 establishing the registration and titled property regime was adopted in December 2017. An amendment to Act No. 2006-031 on the legal regime of untitled private land ownership is submitted to Parliament for adoption to strengthen the value of land certificates as collateral.

The construction and rehabilitation of roads are among the priorities for the country’s economic and social development. The Government created the Road Maintenance Fund (FER) in year 2000 to manage the funding of the maintenance of roads whether national, regional or municipal. However, constraints on FER’s financial resources over the preceding years have prevented it from allocating adequate resources for the maintenance of roads other than national ones. The Government is therefore committed to modify FER’s statute in order to increase transparency and to be more precise about the budget allocated to the other categories of roads. A decree was adopted by the Council of Ministers for this purpose and published on FER’s website. The amendment provides for the publication of the FER’s annual budget based on the road maintenance programs selected and resources projections, the use of cash balances, planned expenditures for the following year, expenditures incurred from the previous year, with explanations provided for deviations against forecasts. The Government has committed to contribute to the FER’s budget, through grants, for the maintenance of roads in rural areas where resources are the lowest. Guidelines are established to define the criteria for the selection and prioritization of communes and will be the subject of a Circular Note prepared by the Ministry of Finance and Budget.

Access to electricity services is very low in Madagascar. Only about 15% of the population has access to
electricity and this rate drops to 6% if we consider only the population living in rural areas. In 2015, the Government adopted the New Energy Policy 2015-2030 (NPE), which is part of the National Development Plan, in order to meet the country's economic, social and environmental emergency challenges. By 2030, 70% of households would have sustainable access to electricity services. To accelerate the electrification process, the legislative and institutional framework will need to be strengthened. Act No. 2017-020 was promulgated last April as a revision of the Code of electricity in Madagascar. This Act made it possible to define the institutional and financial provisions for rural electrification by promoting partnership with private operators. The decree implementing this Act is being prepared by the Ministry of Energy, Water and Hydrocarbons.

The implementation of all the actions considered under the National Development Plan will enable the Government to achieve its objectives, namely strong economic growth and poverty reduction. However, given the limited resources available, the Government is seeking financial assistance from the World Bank in the context of a budget support.
MINISTERE DES FINANCES ET DU BUDGET

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Le Ministre

Dr Jim Yong Kim
Banque mondiale
1818 H Street NW, Washington DC

Antananarivo, le 15 mai 2018

Monsieur le Président,

Depuis le retour à l’ordre constitutionnel marqué par la réalisation de l’élection présidentielle en fin d’année 2013, Madagascar poursuit les efforts de redressement économique. Le Plan National de Développement (PND) et son Plan de Mise en Œuvre (PMO) ont servi de socle à ce processus en définissant les axes stratégiques autour desquels les programmes publics doivent se réaliser. De même, le programme de Facilité Elargie de Crédit (FEC) conclu avec le FMI a permis d’initier et d’accélérer les réformes notamment au niveau de la gestion des finances publiques et du cadre fiscal. Le principal objectif de la FEC est de préserver la stabilité macroéconomique et d’améliorer le climat des affaires.

Le Gouvernement réaffirme, par la présente lettre, sa volonté de lutter contre la pauvreté, de promouvoir une croissance inclusive et résiliente ainsi que de renforcer la capacité d’adaptation au changement climatique.

La grande majorité des malagasy vivent en milieu rural et sont en marges des innovations techniques et de l’évolution technologique. La faible couverture des réseaux routiers maintient le fort enclavement de ces populations. Le taux de pénétration des réseaux de télécommunication reste également inférieur aux objectifs prévus et est aggravé par le taux d’électrification rurale insuffisant. Le secteur primaire emploie plus de 75% de la population tandis que sa part dans la production intérieure n’atteint que 28% du PIB à cause de la faible productivité. En particulier, l’agriculture dont la riziculture pluviale est fortement exposée aux effets négatifs du changement climatique est affectée. Les techniques d’élevage également restent primitives et l’insécurité rurale dissuade les paysans à développer leurs activités.

En milieu urbain, l’accroissement démographique atteint des niveaux critiques par rapport à l’insuffisance des infrastructures dont les habitations. Le phénomène de bidonvillisation se généralise et entraîne de graves problèmes en matière d’assainissement, d’hygiène et de santé. La plupart des villes malagasy sont fortement exposées aux épidémies lesquelles sont aggravées par le changement climatique.
Les perspectives économiques restent toutefois optimistes avec une croissance économique solide à un taux annuel moyen de 5,2% sur le moyen terme. Cet objectif ne pourra néanmoins être réalisé qu’à condition que la production agricole ne devienne plus résiliente, en particulier face aux cyclones, au phénomène d’ensablement et aux inondations. Le secteur primaire détient en effet une part non négligeable de 28% dans le PIB et sa croissance est prévue s’établir à 2,5%. La croissance des industries est estimée aux environs de 7,0% en moyenne annuelle avec une part dans le PIB avoisinant les 13%. Cette performance devra toutefois être soutenue par l’accroissement de la production d’électricité et des exportations manufacturières. Ce sera toutefois la robustesse du secteur tertiaire qui devra contribuer le plus à la croissance économique car ce secteur détient une part de 58% dans le PIB et est prévu croître de 5,7% par an sur le moyen terme.

Au niveau du secteur des Finances publiques, les réformes de gestion ont été accélérées afin de garantir l’efficacité des affectations des deniers publics. La capacité de financement réduite de l’Etat n’a permis de mettre en œuvre que partiellement les plans et les stratégies sectorielles. La gestion macrobudgétaire s’est alors focalisée dans un premier temps sur l’accroissement de l’espace budgétaire à travers l’élargissement de l’assiette fiscale et dans un deuxième temps à la promotion des financements extérieurs à travers l’amélioration du financing readiness. Le Gouvernement a également priorisé les mesures relatives à la lutte contre le détournement des deniers publics, la corruption et contre les fluxes de capitaux.

En matière de dépenses publiques, les priorités du Gouvernement demeurent le développement du secteur social et des infrastructures stratégiques. Les dépenses sociales prendront une grande part du Budget mais l’allocation au secteur infrastructure sera aussi priorisée afin de construire, reconstruire ou réhabiliter les infrastructures à caractère stratégique, y compris les routes, les réseaux ferroviaires, les aérodromes et les ports. Au cours des dernières années, le secteur regroupant la sécurité publique, la défense nationale et la gendarmerie a également accaparé une part de plus en plus importante du budget de l’Etat. En effet, les activités de banditismes en milieux urbain et rural, de vols dans les campagnes, des dahoal et des grèves se sont accrues au cours des dernières années à cause de phénomènes divers et complexes. Au niveau du secteur administratif, plusieurs mesures ont également été prises afin de lutter contre la corruption et d’assainir la gestion au niveau des services publics.

De nombreux défis majeurs demeurent irrésolus à cause de l’ampleur des séquelles laissées par la crise socio-politique précédente, lesquelles ont été aggravées par la survenue des catastrophes naturelles. La pauvreté est restée à un niveau critique à l’instar du faible taux de scolarisation, de l’espérance de vie réduite de la population et de la diminution continue des revenus des ménages due notamment à la dépréciation de la monnaie locale, du sous-emploi et de la mauvaise redistribution des richesses. La conjoncture politique pré-électorale marquée par des troubles politiques pourrait également pénaliser le processus de développement. Cette situation pourrait retarder la mise en place des réformes nécessaires à la bonne gouvernance telle que la démétallisation des procédures administratives et aussi détériorer la confiance des investisseurs étrangers. Toutefois, les perspectives pour Madagascar restent optimistes avec ses nombreux avantages : une biodiversité inégalée, un grand potentiel pour l’agriculture, des ressources naturelles et une main d’œuvre abondante.
Avec une complémentarité assurée entre capital physique et humain, ainsi qu’une bonne gouvernance, il serait un pays prospère.

L’Etat, à travers son PND/PMO, est déterminé à mettre en œuvre un programme de développement pour inverser le cours de l’accroissement de la pauvreté. Plusieurs réformes sont envisagées et entamées pour atteindre cet objectif.

La prise en charge par l’Etat des services sociaux de base au niveau local est reconnue comme étant un impératif pour la réduction de la pauvreté et le déclenchement d’une croissance économique soutenue.

Cependant, faute de ressources nécessaires, les collectivités locales n’arrivent pas à fournir dans des meilleures conditions ces services sociaux. La mise en place de la Loi no 2014-020 du 27 septembre 2014, modifiée par la Loi no 2015-008 du 01 avril 2015, régissant les ressources, les modalités d’élection, l’organisation et le fonctionnement des Collectivités Territoriales Décentralisées (CTD) permet à ces dernières de créer de nouvelles ressources en fonction des compétences qui leur sont dévolues afin d’assurer leur autonomie financière. À cet effet, le Fonds National de Péréquation a été créé en 2016 au niveau du Fonds de Développement Local pour assurer une meilleure équité des ressources transférées aux CTD. Un décret clarifiant le fonctionnement de ce Fonds a été adopté et publié. Ce décret a intégré la formule de péréquation, les procédures de décaissement, l’opérationnalisation de la collecte des quatre taxes et impôts dédiés au Fonds.

Les procédures d’enregistrement à l’État Civil actuelles ne facilitent pas l’accessibilité de la population à ces services sociaux de base. En effet, le délai de 12 jours après la naissance s’avère trop court pour permettre cet enregistrement et le recours au jugement supplétif auprès des tribunaux est très compliqué, notamment dans les régions les plus reculées et pour les groupes sociaux les plus vulnérables. La réforme de la législation sur l’État Civil a déjà fait l’objet de réflexion et le Gouvernement a déjà soumis au Parlement une Loi permettant d’effectuer l’enregistrement rétroactif des naissances au niveau des districts, pour une période de cinq (5) ans. La révision de la Loi no 61-025 du 09 octobre 1961 relative aux actes d’État Civil est actuellement en cours d’adoption au niveau du Parlement. Cette révision prévoit le prolongement du délai légal d’enregistrement à la naissance, l’organisation des services de proximité pour effectuer ces enregistrements, l’établissement d’un identifiant unique à la naissance et l’établissement d’un système centralisé pour le suivi des nouveaux enregistrements.

Le manque de coordination au niveau du secteur protection sociale ne permet pas de gérer efficacement les différentes aides destinées aux couches de la population vulnérable. Le leadership est encore fragmenté entre divers ministères et organismes. Le Gouvernement a institué en 2015, la Politique Nationale de Protection Sociale ayant pour objectif de réduire de 15% le nombre de la population en situation d’extrême pauvreté. Le rôle du Ministère de la Population, de la Protection Sociale et de la Promotion de la Femme est renforcé afin d’assurer la coordination et le leadership dans le secteur et faciliter la mise en œuvre de cette politique pour les régimes non contributifs. Le Gouvernement soumettra à cet effet, une nouvelle Loi sur la protection sociale non contributive portant désignation du Ministère de la Population, de la Protection Sociale et de la Femme le rôle de coordonnateur principal des programmes du secteur.
L’amélioration de l’accès aux services financiers permettra de favoriser l’inclusion financière.

Le secteur financier à Madagascar est encore peu diversifié, avec un accès aux services financiers très limités pour la majorité des ménages et entreprises. Toutefois, une étape importante a été réalisée en mettant en place la Centrale des Risques (Cdr) ainsi qu’un Bureau d’Information sur le Crédit (BIC) pour assurer une meilleure disponibilité des informations financières. Les activités et le contrôle de ce BIC sont régies par la Loi n°2017-045 adopté par le Parlement en 2017. Cette Loi préconise « la garantie de réputation » écartant de manière précise les garanties classiques réclamées par les établissements de crédits. L’objectif étant l’amélioration de l’accessibilité au crédit dans le pays. Un appel à manifestation d’intérêt a été lancé pour l’octroi d’une licence à un Bureau de crédit privé.

Le taux de bancarisation à Madagascar reste faible. Les 4,0% de la population seulement possèdent un compte bancaire. L’objectif important en termes d’inclusion financière étant de permettre aux ménages et entreprises d’accéder et d’utiliser au moins un compte de transactions offert par un fournisseur de service de paiement réglementé. En 2016, le Parlement a déjà adopté la Loi n°201-056 régissant la monnaie électronique et les établissements de monnaie électronique. Son décret d’application a été adopté en Conseil de Gouvernement. La mise en application de cette Loi permet de promouvoir les services de monnaie électronique et donner accès à un compte de transaction aux exclus du secteur financier. En septembre 2017, la Commission de Supervision Bancaire et Financier (CSBF) a publié la décision relative aux instructions sur les conditions d’ouverture, le fonctionnement et la surveillance du compte global sur la monnaie électronique et les Etablissements de Monnaie Électronique (EMEs). La CSBF s’est engagée à publier également les décisions relatives aux demandes d’agrément des EME reçues à fin mars 2018.

L’agriculture constitue le noyau de l’économie de Madagascar. Près de 80% de la population vit en milieu rural et la plupart vivent de l’agriculture comme activité principale.

La question des modes d’accès à la terre représente un enjeu important pour la réduction de la pauvreté et l’amélioration de la performance du secteur agriculture. Elle demeure un blocage pour le développement du milieu rural. Depuis 2004, le Gouvernement a engagé un processus de sécurisation foncière à travers le Programme National Foncier dont l’objectif était de mettre en place des droits fonciers de propriété foncière au niveau des communes et en permettant à ces derniers de délivrer des certificats fonciers comme titres de propriété. Cette réforme est en train d’être renforcée afin d’éliminer toute ambiguïté sur la valeur des certificats fonciers. La Loi n° 2017-046 fixant le régime de l’immatriculation et de la propriété foncière titrée a été adoptée en décembre 2017. Un amendement à la Loi n° 2006-031 portant le régime juridique de la propriété foncière privée non titrée est soumis au Parlement pour adoption afin de renforcer la valeur collatérale des certificats fonciers.

La construction et la réhabilitation de routes figurent parmi la priorité dans le développement économique et social du pays. Le Gouvernement a créé le FER (Fonds d’Entretien Routier) en l’année 2000 afin d’assurer la gestion du financement de l’entretien des routes, que ce soit nationales, régionales ou communales. Cependant, les contraintes sur les ressources financières du FER depuis ces dernières années l’empêchent d’allouer des ressources adéquates pour l’entretien des routes autres que nationales. Le Gouvernement s’est engagé de ce fait, à modifier le statut du FER afin d’accroître la transparence et d’avoir plus de précision sur le budget alloué à ces autres routes. Un décret a été adopté en Conseil des Ministres à cet effet et publié sur le site web du FER. La modification prévoit la publication du Budget annuel du FER sur la base des programmes d’entretien routier retenu et des
ressources prévisionnelles, l’utilisation des reliquats de trésorerie, les dépenses prévues pour l’année suivante, les dépenses exécutées de l’année précédente, avec une explication des écarts par rapport à la prévision. Le Gouvernement s’est engagé à contribuer au Budget du FER, à travers les subventions, pour l’entretien des routes au niveau des Communes rurales les plus faibles en ressources. Des lignes directrices sont établies pour définir les critères de sélection et de priorisation des communes et feront l’objet d’une circulaire élaborée par le Ministère des Finances et du Budget.

L’accès aux services d’électricité est très faible à Madagascar. Près de 15% de la population seulement en bénéficie et ce taux baisse à 6% si on ne considère que la population vivant en zone rurale. En 2015, le Gouvernement a adopté la Nouvelle Politique Énergétique 2015-2030 (NPE), qui s’inscrit du Plan National de Développement, afin de répondre aux défis d’urgence économique, sociale et environnement du pays. A l’horizon 2030, 70% des ménages auront un accès durable aux services de l’électricité. Afin d’accélérer ce processus d’électrification, le cadre législatif et institutionnel devra être renforcé. La loi n° 2017-020 a été promulguée au mois d’avril dernier portant révision du code de l’électricité à Madagascar. Cette Loi a permis de définir les dispositions institutionnelles et financières pour l’électrification rurale en favorisant le partenariat avec les opérateurs privés. Le décret d’application de cette Loi est en cours de préparation par le Ministère de l’Energie, de l’Eau et des Hydrocarbures.

La mise en œuvre de toutes les actions envisagées dans le cadre du Plan National de Développement permettra au Gouvernement d’atteindre ses objectifs, notamment la réalisation d’une croissance économique élevée et la réduction de la pauvreté. Toutefois, la limitation des ressources conduit le Gouvernement à solliciter l’appui financier de la Banque Mondiale dans le cadre d’un appui budgétaire.
### ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

<table>
<thead>
<tr>
<th>Prior Actions</th>
<th>Significant positive or negative environment effects</th>
<th>Significant poverty, social or distributional effects positive or negative</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operation Pillar 1: Strengthening the resilience of individuals against shocks</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>PA1.</strong> The Recipient has submitted to Parliament Projet de Loi No. 021/2018 du 30 mai 2018 relative à d’état civil, revising Loi no. 1961-025 relative aux actes de d’état civil, prolonging the time window for registering new births, organizing outreach services for birth registration, implementing a single identification number at birth and laying the foundations for a centralized system for the monitoring of new registrations.</td>
<td>No. This reform is to improve registration at birth which has been assessed not to have any impact on environment.</td>
<td>Yes, positive. While the proportion of births registered in Madagascar is high by regional standards, the proportion of children that are not registered in any way is higher among children from the poorest households, suggesting that a significant expansion of coverage would benefit mainly the poorest segments of the population.</td>
</tr>
<tr>
<td><strong>PA2.</strong> The Recipient has submitted to Parliament Projet de Loi no. 029/2017 du 11 octobre 2017 relative à la politique nationale de protection sociale relative au régime non-contributif à Madagascar, the new law defining the legal framework for the national policy for non-contributory social protection regimes and designating its Ministry of Population, Social Protection and the Promotion of Women as the main coordinator regarding social safety net programs.</td>
<td>No. This reform is to establish the role of the MPSPPW which has been assessed not to have any impact on environment.</td>
<td>Yes, positive. There is strong evidence that social safety nets, non-contributory transfers targeted mainly to the poor, can increase the resilience of the poor and increase their opportunities. An improvement in the coordination of safety net schemes is expected to facilitate the timely roll-out of the programs to the poorest.</td>
</tr>
<tr>
<td><strong>PA3:</strong> The Recipient has published decisions on all EME licensing requests received up to and including February 28, 2018.</td>
<td>No. This reform is related to the promotion of e-money which has been assessed not to have any impact on environment.</td>
<td>Yes, positive. E-money can benefit the poor and strengthen coping mechanisms through several channels: lower transaction costs, reduce opportunities for corruption and thus decrease leakage in cash transfer programs, reduce transactional risks, increase authorities’ ability to support those affected by shocks, and expand the use of transfers</td>
</tr>
<tr>
<td><strong>PA4:</strong> The Recipient has issued a request for proposals to license a private credit bureau.</td>
<td>No. This reform is to license PCB which has been assessed not to have any impact on environment.</td>
<td>Yes, positive. Access to credit may allow households to borrow in bad times and repay in better times, increasing resilience to shocks. Cross-country studies show that</td>
</tr>
</tbody>
</table>
credit bureau coverage is associated with financial deepening and this, in turn, has positive effects on growth on average.

## Operation Pillar 2: Creating an enabling environment for economic opportunities in rural communities

**PA5:** The Recipient has submitted to Parliament Projet de Loi no. 024/2018 du 17 juillet 2018 portant réforme de la Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée, an amendment to the Loi n° 2006-031 fixant le régime juridique de la propriété foncière privée non-titrée, strengthening, inter alia, the legal value of land certificates by confirming their use as collateral for accessing credit.

Yes, positive. The action is likely to have a pro-poor impact to the extent that access to land certificates is faster and cheaper and this allows the poor to sell, lease out or keep cultivating their land, and get access to credit. The pro-poor effect is likely to be stronger if the new law will be accompanied by complementary actions.

**PA6:** The Recipient has issued Décret no. 2018-472 instituant le manuel de procédures du Fonds National de Péréquation, a decree clarifying the functioning of the Fonds de Péréquation, including the equalization formula, disbursement procedures and the collection of the Four Dedicated Taxes.

No. This reform is to clarify the modalities of transfer to local government which has been assessed not to have any impact on environment.

Yes, positive. Decentralization has potential for poverty reduction through increases in the efficiency and equity in service delivery.

**PA7.** The Recipient has issued (i) Décret no. 2018-382 modifiant et complétant certaines dispositions du Décret no 2016-924, modifié et complété par Décret no.2017-855 portant Statuts du FER, a decree amending the FER’s statute to specify the annual fraction of project expenditures allocated to communal road maintenance; and (ii) a Circulaire no. 002-MFB/SG/DGB du 8 juin 2018 portant prise en charge de la contribution des communes les plus pauvres aux dépenses d’entretien des routes communales financé par le Fonds d’Entretien Routier (FER), requiring the Recipient’s Ministry of Finance and Budget to subsidize the required contribution of the poorest communes.

No. This reform targets the maintenance of already existing road network.

Yes, positive. The DPO actions are expected to have a direct pro-poor effect to the extent that access and quality of rural roads will be improved and access cost, measured in terms of traveling time, will be reduced. The amendment of the FER’s statute will give access to poor local governments to financing of municipal road maintenance funds. In addition to adequate identification of poor communes, the administrative capacity of the beneficiary to manage funds and implement projects would be determinant.
communes to FER projects according to the criteria indicated in the prioritization guidelines.

**PA8**: The Recipient (i) has issued Décret n°2018-384 fixant les missions, attributions, organisations et les modalités de fonctionnement de l’ADER, and Décret n°2018-383 fixant l’organisation, les attributions et le fonctionnement de l’Autorité de Régulation de l’Électricité, the implementation decrees of the revised electricity law defining the institutional and financial provisions for rural electrification and (ii) its Ministry of Energy has published the National Electrification Strategy.

**No.** The infrastructures developed for rural electrification are small. This law is to reinforce ADER mission to promote their current approach in rural electrification which has been assessed not to have any impact on environment.

**Yes, positive.** The DPO actions are expected to have positive pro-poor effects to the extent that they will increase access to electricity and improve the quality of the energy source. The overall impact will depend on the cost associated with access to electricity and it is likely to be stronger if complementary actions will be taken.
ANNEX 5: SECTORAL STRATEGIES

The specific strategies and interventions of the Government related to each reform area supported by this programmatic DPO are specified below:

- **The National Strategy for the modernization of the civil registration and vital statistics registration systems (2018-2027):** Madagascar has been a member of the Program on Accelerated Improvement of Civil Registration and Vital Statistics since 2015, which provides overall guidance to adopt an integral approach in addressing civil registration weaknesses. A critical step has been achieved in 2017 with the completion of the Assessment of the system of registration of civil status events and the adoption of a ten-year strategic plan to strengthen the two systems. The strategy prioritizes seven strategic orientations of which the update of the legal framework constitutes a key cornerstone. The other axis includes the establishment of a unique identifier, improvement in the information system and the registration process, and strengthening of registration coverage which are in line with the reforms supported by this operation.

- **The National Policy for Social Protection:** The Government adopted the National Policy for Social Protection in 2015 with the goal of reducing the share of the population living below the level of extreme poverty by 15 percent in 2030. The policy lays out the government’s ambitions along different dimensions of the social protection policy, including the expansion of the coverage of social safety nets, improvement in the access to basic social services (basic education, basic health services, water and sanitation and housings), protection of vulnerable people, and extension of contributory schemes to people living in remote areas and to those working in the informal sector. The coordination of stakeholders has been initiated by the establishment of a Thematic group on Social protection in 2016, involving the Malagasy authorities, partners, civil society and private sector. The reform supported in this second operation supports the strengthening of the institutional coordination.

- **The National Financial Inclusion Strategy (NFIS- 2018-2022):** The new National Financial Inclusion Strategy has been validated in February 2018 and endorsed by the Cabinet. The strategy seeks to increase the percentage of adults having access to formal financial service from 29% in 2016 to 45% in 2022 by relying on three strategic pillars: (i) financial education and consumer protection, (ii) access and use of financial services, and (iii) strengthening policies, legal and institutional framework. The formulation of the NFIS builds on the recommendations of the joint World Bank/IMF FSAP undertaken in 2015. The reforms related to the Electronic Money Institutions and credit bureau supported by the operation form integral parts of the new NFIS.

- **The New Letter on Land Policy** was adopted in 2015 to update the Land Policy adopted in 2005. The New Land Policy aims to contribute to, inter alia, the expansion of household agriculture, a harmonized and inclusive urban and rural development, the enhancement of the responsibilities and the resources of local communities, and the intensification of land securitization. The introduction of land certificates and the decentralized process for registering land ownership remain the main flagship innovations generated by the adoption of a Land Policy in Madagascar. These changes have allowed more

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65 The Civil Registration and the vital statistics registration.
66 The preceding Letter on Land Policy was adopted in 2005, to be effective for 10 years.
than 120,000 individuals to record a proof of ownership of their land through a cheaper and less cumbersome process.

- **The Declaration of the Transport Policy and Strategy in Rural Area.** The Declaration is based on the improvement in the access of the rural population to market and to socio-economic services with the aim to develop productive activities and improve income in rural areas. The strategy transfers the management and the maintenance of rural road network to local communities. The FER has been created to ensure the good quality of the road network and ensure sustained financing of road maintenance. The current regulatory framework defining the FER statute prioritizes the financing of National Road over municipal Roads. The authorities are currently updating the National Road Policy (adopted in 2001), to which the Declaration of the Transport Policy and Strategy in Rural Area is appended.

- **The fundamentals of Madagascar Decentralization Policy** are defined in the organic law n°2014-018. Decentralization in Madagascar aims to promote territorial development through increased inclusion. Since 2014, the Government has developed the institutional framework for decentralization by passing the texts defining the operating mode and resources of local communities. Transfers to government for financing investment has always been operated through the Local Development Fund, but under this scheme, transfers to local communities remained below 5 percent of total public expenditures. To reduce the inequality between local governments, the Government instituted the equalization fund in 2016. The reforms supported by this DPO aim to promote the operationalization of this equalization fund.

- **The Letter of New Energy Policy of Madagascar**, covering the 2015-2019 period, targets to increase access to electricity from 14 percent in 2010 to 70 percent of households in 2030. The NEP is oriented along five priority axes: (i) valorization of natural capital and environment preservation, (ii) access to sustainable energy for all, (iii) ensuring security and independence in energy for the country, (iv) adaptation and enhancement of the regulatory, institutional, and business environment framework, and (v) securing financing of energy needs. The policies regarding electricity supply focus on the prioritization of the extension of hydroelectric network, and the development of mini-networks and solar energy in rural areas. The Letter accredits the ADER as the implementing agency of rural electrification. The Government completed an identification of the potential small hydropower sites in Madagascar that have the advantage of being faster to develop and could easily find financing compared to larger sites, with support by the World Bank.

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67 The statute of the FER is established by the Decrét n°2016-924 portant Statuts du Fonds d’Entretien Routier.
ANNEX 6: REFERENCES


- IMF, "Selected issues: The Macroeconomic implication of the scaling-up of public investment in Madagascar,"


