

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

<September 22, 2014>
Report No.: AB7643

Operation Name	Madagascar Reengagement Development Policy Operation
Region	AFRICA
Country	Madagascar
Sector	General public administration sector (25%); Central government administration (25%);Public administration-Energy and mining (25%);Public administration-Transportation (25%)
Operation ID	P150503
Lending Instrument	Development Policy Lending
Borrower(s)	MINISTRY OF FINANCE AND BUDGET (MFB)
Implementing Agency	Ministry of Finance and Budget
Date PID Prepared	September 22, 2014
Estimated Date of Appraisal	
Estimated Date of Board Approval	December 16, 2014
Corporate Review Decision	[Following the corporate review, the decision was taken to proceed with the preparation of the operation.]

I. Key development issues and rationale for Bank involvement

Madagascar is endowed with many assets: a great potential for agriculture, mineral resources, abundant labor, and unparalleled biodiversity. However, Madagascar has one of the highest incidences of poverty in the world. The people living with less than USD1.25 (in purchasing power parity terms) per day were estimated to be 82 percent of the population according to the most recent Poverty, Gender and Inequality Assessment (2014). Since its independence in 1960, the country has been prone to cyclical political crisis which tend to erupt intriguingly when the economy had been growing strongly hence interrupting each growth episodes.

The country underwent almost five years of political crisis since 2009, with substantial economic and human cost. The budget for the social sectors and public infrastructure was cut drastically due to deficiency of government revenues. Overall, economic growth between 2009 and 2012 averaged only 0.6 percent per year, and with high population growth of 2.9 percent per year, income per capita in 2012 fell to its 2003 level (around USD 400). Poverty has risen even further and progresses made in the 2000s in terms of human development have been reversed.

A new government has been in place since April 2014, following an internationally-recognized election. The new government's main objective is the establishment of favorable conditions for stimulating growth and reducing poverty through improvement of governance, social service delivery and business environment. To this end, the government committed to restore confidence in public institutions and rehabilitate public finance.

The purpose of the operation is to provide support to the government in their efforts to solidify the return to constitutionality. This program is the first operation for Madagascar presented to the Board of Executive Directors after lifting O.P. 7.30 in the first half of 2014.

II. Proposed Objective(s)

The development objectives of the program are to start restoring credibility of the State, and to increase fiscal space to support higher social spending. Generally, the operation aims at providing transitional support between the end of the crisis and the development of the national poverty reduction strategy. The prior actions supported by the operation are expected to increase credibility of the State so as to foster economic recovery and to secure adequate resources directed to public spending for education and health sectors.

The proposed operation has two pillars: (A) Governance for resilient growth and (B) Enhanced fiscal space for inclusive service delivery. These two pillars support two of the three pillars of the government's General Policy, strengthening governance and increasing social service delivery. The two pillars were selected as the natural foundations for overcoming the country's main challenges to reducing poverty.

III. Preliminary Description

Under the governance for resilient growth pillar, emblematic policy reforms to bolster the credibility of the State are supported. The rules that all cabinet ministers file an asset declaration with the Independent Anti-corruption Bureau are enforced for the first time. Steps towards curtailing illegal logging and exportation of precious woods, endemic to Madagascar, are taken by establishing an interministerial committee for securing and disposing seized stock of precious woods. This committee has an executive role, equipped with tools to ensure accountability of member ministries tasked with enforcing forest laws, and is required to report to the Council of Ministers and to the public on a regular basis.

Under the enhanced fiscal space for service delivery pillar, policy reforms designed to increase fiscal space are supported, as is increasing budget appropriations to social spending. The first includes reduction in subsidies to inefficient state-owned public utilities company, orderly and measured clearance of government's arrears accumulated during the political crisis, and adoption of a public debt law, designed to ensure efficient, prudent and strategic public borrowing. In addition, the operation supports a significant increase in health and education spending in the Supplementary Budget Law of 2014.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The policies supported by this DPO are likely to contribute to poverty reduction and a positive social impact. Increasing the budgetary allocation to social spending is expected to have a direct positive impact on poverty. The measures supporting improved governance for resilient growth and regularization of arrears are expected to contribute to restoring State credibility, which should lead to higher investments from the private sector and external aid inflows, resulting in higher growth and poverty reduction. The actions designed to increase fiscal space are expected

to contribute indirectly to poverty reduction in the future, as the available resources are increasingly directed towards measures to alleviate poverty.

The restriction of illegal logging of precious woods could result in some loss of employment opportunities in the transitional period for those who are currently involved in the activity, but such loss is expected to be replaced by opportunities in sustainable forest and associated industries. Illegal logging is unsustainable, and the employments will have been lost when the supply of woods is exhausted. Improvement in JIRAMA's operation may also involve losses in employment and reduction in special privileges during the company's transformation, although it is unlikely that the poor are beneficiaries of the current situation. A better managed JIRAMA is expected to be beneficial to the poor in two ways: the State subsidies currently granted to JIRAMA can be reallocated to expenditure benefiting the poor directly and; improved service will provide access to electricity to a larger share of the population and also contribute to robust growth.

Environment Aspects

The establishment of the interministerial committee tasked with securing and disposing seized stock of precious woods is expected to have positive effects on the environment in the medium term, once its work starts to become effective in curtailing illegal trafficking of precious woods. The current situation, if left uncontrolled, will continue to cause substantial environmental and social impacts. In fact, though not as immediately devastating as large-scale clear-cutting, the selective logging linked to precious woods, now taking place mostly in Madagascar's protected areas, creates secondary effects that can be just as harmful, if not more so, to both the local environment (e.g. introduction of invasive species, increased susceptibility to fire, impaired habitat), global biodiversity (through species and possibly ecosystem loss), and local communities (cheap and dangerous labor exploitation, violation of traditional codes and local taboos, increase of prostitution and drug trafficking).

Possible though unlikely risks of the policy reform are linked to the potential perverse acceleration of trafficking linked to expectations of an upcoming widespread seizing campaign by the authorities, and to the detrimental effects of resuming trade in precious woods following the lifting of the CITES-supported embargo. Perception by timber operators that the government may soon start a widespread operation to seize stockpiles may provide an incentive to accelerate the disposal of illegally accumulated stockpiles through exports. This move could in turn send perverse signals up the chain, causing further logging in the forests. To mitigate this risk, the government, with Bank's support, undertook a pilot satellite monitoring program of vessels operating on the trafficking zones, thus cutting the chain at the export end. The program has produced important insights into the vessel traffic. Based on these findings of the pilot project, the government has requested the Bank's support to continue satellite monitoring in conjunction with coastal patrolling, and these operations have been supported under the Additional Financing to the Third Environment Program. In addition, following the CITES decision to include rosewood and ebony in CITES Appendix II made during the sixteenth meeting of the Conference of the Parties in 2013 in Bangkok, Thailand, the export of precious woods requires that the Scientific Authority of Madagascar advises that such export will not be detrimental to the survival of the species.

V. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	45
Borrower/Recipient	
IBRD	
Others (specify)	
	Total

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