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Report No.: PAD1547

INTERNATIONAL DEVELOPMENT ASSOCIATION
PROJECT APPRAISAL DOCUMENT
ON A
PROPOSED CREDIT
IN THE AMOUNT OF SDR 28.4 MILLION
(US\$40 MILLION EQUIVALENT)
TO THE
REPUBLIC OF MADAGASCAR
FOR A
PUBLIC SECTOR PERFORMANCE PROJECT
May 20, 2016

Governance Global Practice
Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective, March 31, 2016)

Currency Unit = Malagasy Ariary (MGA)

MGA 3,191.01 = US\$1

US\$1 = SDR 0.70981389

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ANOR	<i>Agence Nationale de l'Or</i> (National Gold Agency)
ASM	Artisanal and Small-scale Mining
ASYCUDA	Automated System for Customs Data
CA	Court of Account
CDBF	<i>Conseil de Discipline Budgétaire et Financière</i> (Financial and Budgetary Disciplinary Commission)
CISCO	<i>Circonscription Scolaire</i> (School District)
CNM	<i>Commission Nationale des Marchés</i> (National Procurement Commission)
COS	<i>Comité d'Orientation et de Suivi</i> (Steering committee)
CSO	Civil Society Organization
CPF	Country Partnership Framework
DBIFA	<i>Direction de la Brigade d'Investigation Financière et d'Audit</i> (Financial Investigation and Audit Brigade)
DGI	<i>Direction Générale des Impôts</i> (Tax Administration General Directorate)
DLI	Disbursement-Linked Indicator
DLR	Disbursement-Linked Result
DREN	<i>Direction Régionale de l'Éducation Nationale</i> (Regional Ministry of Education Office)
EITI	Extractive Industry Transparency Initiative
EEP	Eligible Expenditure Program
ESMF	Environmental and Social Management Framework
EU	European Union
FAF	<i>Fiombonan'Antoka ho an'ny Fampanandrosoana</i> (Original School Committee)
FDL	<i>Fonds de Développement Local</i> (Local Development Fund)
FEFFI	<i>Farimbon'Ezaka ho Fahombiazan'ny Fanabeazana eny Ifotony</i> (Revised School Committee; new version including parents and community)
FM	Financial Management
FMS	Financial Management Specialist
FRAM	<i>Fikambanan'ny Ray Aman-drenin'ny Mpianatra</i> (Parents' Association)
GDP	Gross Domestic Product
GoM	Government of Madagascar
ICB	International Competitive Bidding
ICT	Information and Communications Technology
ICR	Implementation Completion Report
IFMIS	Integrated Financial Management Information System
IFR	Interim Unaudited Financial Reports
IGL	<i>Indice de Gouvernance Local</i> (Local Governance Index)
IMF	International Monetary Fund
INSTAT	<i>Institut National de la Statistique</i> (National Statistics Institute)
IPF	Investment Project Financing
IT	Information Technology
ITAS	Integrated Tax Administration System

M&E	Monitoring and Evaluation
MEN	<i>Ministère de l'Éducation Nationale</i> (Ministry of Education)
MFB	<i>Ministère des Finances et du Budget</i> (Ministry of Finance and Budget)
MPMP	Ministry attached to the Presidency in charge of Mines and Petroleum
NCB	National Competitive Bidding
NFD	<i>Ny Fanjakana ho an'ny Daholobe</i> (Government for All)
NIFONLINE	<i>Numéro d'Identification Fiscale En Ligne</i> (Online Fiscal Identification Number)
NPV	Net Present Value
OCAI	<i>Opération Communale d'Appui Intégré</i> (Communal Operation of Integrated Support)
ONCD	<i>Office National de Concertation sur le Décentralisation</i> (National Coordination Office on Decentralization)
PAGI	<i>Projet d'Appui à la Gouvernance Institutionnelle</i> (Institutional Governance Support Project)
PASEC	<i>Programme d'Analyse des Systèmes Educatifs de la CONFEMEN</i> (Analytical Program of CONFEMEN Education Systems)
PB	Participatory Budgeting
PDO	Project Development Objective
PEC	<i>Plan d' Ecoles Contractualisés</i> (School Plan)
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PGDI	<i>Projet de Gouvernance et Développement Institutionnel</i> (Governance and Institutional Development Project)
PIU	Project Implementation Unit
PND	<i>Plan National de Développement</i> (National Development Plan)
POM	Project Operational Manual
PPA	Project Preparation Advance
PPL	Public Procurement Law
PREA	<i>Programme pour l'efficacité des Réformes de l'Administration</i> (Reform Program for the Efficiency of the Administration)
PRMP	<i>Personne Responsable des Marchés Publics</i> (Procurement Responsible)
RBF	Results-Based Financing
RPF	Resettlement Policy Framework
RP	Resettlement Plan
SCD	Systematic Country Diagnostic
SLC	<i>Structure Local de Concertation</i> (Local Coordination Structure)
TA	Technical Assistance
TADAT	Tax Administration Diagnosis Assessment Tool
ToR	Terms of Reference
UGPM	<i>Unité de Gestion de Passation de Marchés</i> (Procurement Management Unit)
VAT	Value Added Tax

Regional Vice President:	Makhtar Diop
Country Director:	Mark R. Lundell
Senior Global Practice Director:	Deborah L. Wetzel
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REPUBLIC OF MADAGASCAR
Public Sector Performance Project

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PAD DATA SHEET
Madagascar
Public Sector Performance Project (P150116)
PROJECT APPRAISAL DOCUMENT
AFRICA

Report No.: PAD1547

Basic Information			
Project ID P150116	EA Category B - Partial Assessment	Team Leader(s) Anne-Lucie Lefebvre	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [X] - Fragile States		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 13-Jun-2016	Project Implementation End Date 30-Jun-2020		
Expected Effectiveness Date 31-Oct-2016	Expected Closing Date 30-Jun-2020		
Joint IFC No			
Practice Manager/Manager Guenter Heidenhof	Senior Global Practice Director Deborah L. Wetzel	Country Director Mark R. Lundell	Regional Vice President Makhtar Diop
Borrower: Ministry of Finance			
Responsible Agency: PREA - Programme des réformes pour l'efficacité de l'administration			
Contact:	Roger Ralala	Title:	Chief Secretary, Presidency
Telephone No.:	261-34-05-504-87	Email:	sgap@presidence.gov.mg
Project Financing Data(in USD, Millions)			
[]	Loan	[]	IDA Grant
[X]	Credit	[]	Grant
		[]	Guarantee
		[]	Other
Total Project Cost:	40.00	Total Bank Financing:	40.00
Financing Gap:	0.00		

Financing Source		Amount			
BORROWER/RECIPIENT		0.00			
International Development Association (IDA)		40.00			
Total		40.00			
Expected Disbursements (in USD, Millions)					
Fiscal Year	2016	2017	2018	2019	2020
Annual	1.60	10.73	9.95	9.92	7.80
Cumulative	1.60	12.33	22.28	32.20	40.00
Institutional Data					
Practice Area (Lead)					
Governance					
Contributing Practice Areas					
Education, Environment & Natural Resources					
Cross Cutting Topics					
<input type="checkbox"/>	Climate Change				
<input checked="" type="checkbox"/>	Fragile, Conflict & Violence				
<input type="checkbox"/>	Gender				
<input type="checkbox"/>	Jobs				
<input type="checkbox"/>	Public Private Partnership				
Sectors / Climate Change					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %	
Public Administration, Law, and Justice	Central Government administration	25			
Public Administration, Law, and Justice	Sub-national Government administration	25			
Public Administration, Law, and Justice	Public administration-Education	25			
Public Administration, Law, and Justice	Public administration-Energy and mining	25			
Total		100			
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.					
Themes					
Theme (Maximum 5 and total % must equal 100)					

Major theme	Theme	%
Public sector governance	Other public sector governance	100
Total		100
Proposed Development Objective(s)		
The Project Development Objective (PDO) is to improve revenue management, and local service delivery nationwide and in the education sector in selected regions.		
Components		
Component Name	Cost (USD, Millions)	
Improving Revenue Management	16.80	
Improving Service Delivery Capacity of Local governments	12.00	
Improving Governance Mechanisms in the Education Sector	7.80	
Improving Controls and Performance Monitoring	3.40	
Systematic Operations Risk- Rating Tool (SORT)		
Risk Category	Rating	
1. Political and Governance	High	
2. Macroeconomic	Substantial	
3. Sector Strategies and Policies	Moderate	
4. Technical Design of Project or Program	High	
5. Institutional Capacity for Implementation and Sustainability	Substantial	
6. Fiduciary	Substantial	
7. Environment and Social	Moderate	
8. Stakeholders	High	
9. Other		
OVERALL	High	
Compliance		
Policy		
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No []
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []

Safeguard Policies Triggered by the Project	Yes	No	
Environmental Assessment OP/BP 4.01	X		
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12	X		
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Establishment of a Procurement complaint handling mechanism, Schedule 2, Section III, E		three (3) months after the Effective Date	
Description of Covenant			
By no later than three (3) months after Effective Date, the Recipient shall have established a procurement complaint handling mechanism acceptable to the Association			
Name	Recurrent	Due Date	Frequency
External auditor, Schedule 2, Section V, 1		six (6) months after the Effective Date	
Description of Covenant			
By no later than six (6) months after the Effective Date, the Recipient shall recruit an external auditor pursuant to terms of reference satisfactory to the Association.			
Name	Recurrent	Due Date	Frequency
Qualified accountant and a procurement assistant six (6) months after the Effective Date, Schedule 2, Section V, 2		six (6) months after the Effective Date	
Description of Covenant			
By no later than six (6) months after the Effective Date, the Recipient shall recruit a qualified accountant and a procurement assistant at the PREA Coordination unit pursuant to terms of reference satisfactory to the Association.			
Name	Recurrent	Due Date	Frequency
Accounting information management system three (3) months after the Effective Date, Schedule 2, Section V, 3		three (3) months after the Effective Date	
By no later than three (3) months after the Effective Date, the Recipient shall have installed an accounting information management system satisfactory to the Association.			

Conditions				
Source Of Fund		Name	Type	
IDA		Project Manual, Article IV, 4.01 (a)	Effectiveness	
Description of Condition				
The Recipient has adopted the Project Manual, in form and substance satisfactory to the Association, including separate sections on: (1) procedures for DLI-based disbursements, the DLI verification process to be followed by the Independent Verifiers and the Recipient (the "Verification Protocol") and eligibility criteria and procedures for EEPs; (2) role and responsibility of the key players, and the overall fiduciary arrangements of the Project; (3) criteria and procedures for Grants eligibility.				
Source Of Fund		Name	Type	
IDA		DLIs Verification Protocol, Article IV, 4.01 (b)	Effectiveness	
Description of Condition				
Recipient has adopted terms of reference for the DLI Verification Protocol satisfactory to the Association.				
Source Of Fund		Name	Type	
IDA		Recruitment of Independent Verifiers, Article IV, 4.01, (c)	Effectiveness	
Description of Condition				
The Recipient, through the CA, has recruited the Independent Verifiers pursuant to terms of reference acceptable to the Association and in accordance with the provisions of Section III of Schedule 2 to this Agreement, for the purpose of carrying out periodic assessments, verifications and validation of the performance of the Recipient towards achieving the DLIs.				
Source Of Fund		Name	Type	
IDA		EEP Spending Reports, Schedule 2, Section IV, B, 1(b)	Disbursement	
Description of Condition				
No withdrawal is made for payments made under Category (1) unless: (i) the relevant EEP Spending and Results Report has been submitted to, and found satisfactory by the Association; and (ii) any applicable DLI set out in Schedule 4 of this Agreement has been met by the Recipient in a manner satisfactory to the Association as reported under the relevant EEP Spending and Results Report in accordance with the terms of the Verification Protocol.				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Anne-Lucie Lefebvre	Team Leader (ADM Responsible)	Sr Public Sector Specialist	Senior Public Sector Specialist	GGO13
Lova Niaina Ravaoarimino	Sr Procurement Specialist (ADM Responsible)	Sr Procurement Specialist	Senior Procurement Specialist	GGO07

Hugues Agossou	Financial Management Specialist	Sr Financial Management Specialist	Senior Financial Management Specialist	GGO31
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Benjamina Randrianarivelo	Team Member	Sr Operations Officer	Senior Operations Officer	LLICC
Cristina Isabel Panasco Santos	Team Member	Program Leader	Program Leader	AFCS2
Enagnon Ernest Eric Adda	Team Member	Sr Financial Management Specialist	Senior Financial Management Specialist	GGO19
Furqan Ahmad Saleem	Team Member	Sr Financial Management Specialist	Senior Financial management Specialist	GGO13
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Paul-Jean Feno	Safeguards Specialist	Sr Environmental Specialist	Sr Environmental Specialist	GEN07
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Remi Pelon	Team Member	Sr Mining Spec.	Senior Mining Specialist	GEEX2	
Rondro Malanto Rajaobelison	Team Member	Program Assistant	Program Assistant	AFMMG	
Extended Team					
Name	Title	Office Phone	Location		
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
Madagascar	Analamanga	Antananarivo			
Consultants (will be disclosed in the Monthly Operational Summary)					

I. STRATEGIC CONTEXT

A. Country Context

1. **Since its independence, Madagascar has experienced recurrent political crises, which have amplified economic and social fragility and inhibited development.** The country is still recovering from the latest such episode, which lasted between 2009 and 2014 and heavily affected its economy. The instability led to the closing of numerous businesses, resulting in a total job loss of 336,000, which in turn contributed to increased poverty. The Government has been unable to reverse the trend decisively due to limited resources stemming from a decrease in revenues and the reduction of support by international donors. The public sector has been facing challenges to sustain the provision of basic services such as health care, with the closing of 10 percent of the local health centers (*Centres de Santé de Base*), and education, which has seen an increase in out-of-pocket expenditures for households.

2. **Gross domestic product (GDP) growth has been considerably lower than population growth.** In 2014, per capita income fell to its 2005 level, around US\$275.0, from US\$302.3 in 2008.¹ To reach just the 2008 level, projections show that it would take the country five years with average annual per capita GDP growth rate of 1.8 percent—or, with a population growth rate of 2.8 percent, an overall growth rate of about 5 percent.² Based on the international poverty threshold, extreme poverty increased from an estimated 68.7 percent in 2001 to 82 percent in 2012, and absolute poverty increased from an estimated 84.1 percent to 93 percent of the population in 2012.³ Rural areas, where 80 percent of the population lives, account for 86.2 percent of the poor based on the national poverty line. Disparities are also noted across regions, with the Analamanga region (which comprises the capital city) having a poverty rate of 45.4 percent compared to the Atsimo Atsinanana (South-East) region, where the poverty rate reaches 94.3 percent.

3. **Since 2014, GDP growth has recovered to hover just above population growth, but the hope for economic takeoff has not yet materialized.** The growth rate for 2015 was estimated to be 3.2 percent, revised down from the initial projections as economic activities were constrained by several exogenous shocks, such as lower commodity prices, cyclones and drought, and continued political and social instability. Year-on-year inflation has risen slightly from an average of 6 percent in recent years to 7.6 percent at the end of 2015, mainly due to higher prices of food and charcoal. Since 2014, annual foreign direct investments have averaged around US\$250 million (or 2.3 percent of GDP). This is significantly lower than the average of the five years before 2014, which has seen the investment phase of the major mining plants.

4. **Due to its enduring fragility and increasing poverty, Madagascar has not met many of the Millennium Development Goals.** Between 2003 and 2009, enrollment in primary education increased from 3.4 million to 4.3 million; however, the number has stagnated since 2009, and the enrollment rate in primary education decreased from 73.4

¹ World Development Indicators (Constant 2005 US\$).

² World Bank. 2015. *Madagascar Economic Update*.

³ ‘Extreme poverty’ = per capita consumption under US\$1.9 purchasing power parity per day and ‘Absolute poverty’ = per capita consumption under US\$3.1 purchasing power parity per day.

percent in 2010 to 69.4 percent in 2012,⁴ with less than 50 percent completing the primary cycle. At the same time, while the infant mortality rate (less than 1 year old) has improved since 1997, falling from 93 to 42 per 1,000 live births in 2013, it has since stagnated and has thus failed to reach the target of 31 per 1,000 live births by the end of 2015. Over the same period, immunization coverage, a proxy indicator for the overall performance of the health system, decreased rapidly from 80 percent in 2009 to 60 percent in 2013 and only 35 percent of the rural population currently has access to clean drinking water. Finally, poor nutrition status remains a concern as around half of the children less than 5 years old suffer from chronic malnutrition, leading to issues such as severe stunting.

5. **Due to its location and topography, Madagascar is one of the world's most exposed countries to climate hazards, such as cyclones, flooding, and drought, whose recurrence and intensity have been fortified by climate change.** In the "Global Climate Risk Index 2014", published by Germanwatch, Madagascar was listed amongst the 10 countries most affected by extreme weather events in 2012. The poor are the most impacted by natural hazards because they tend to choose lower priced lands located in disaster-prone areas and have less ability to efficiently cope with the negative social and economic impacts on their lives. Over 4 million people currently live in zones at high risk of cyclones or floods.

B. Sectoral and Institutional Context

6. **To address the country's development challenges, the Government developed a national development plan** (*Plan National de Développement*, PND), which was approved by the parliament in December 2014. The PND revolves around five axes: (axis 1) governance, rule of law, security, decentralization, democracy, and national solidarity; (axis 2) preservation of macroeconomic stability and support to development; (axis 3) inclusive growth and territorial roots of development; (axis 4) building adequate human capital for the development process; and (axis 5) valorization of natural capital and resilience to disaster risks. In particular, the PND confirms Government commitment to maintain a sound macroeconomic and public financial management (PFM), to support the provision of better services to citizens across the country and to promote economic development building on local potentialities.

Poor Revenue Mobilization Limits the Available Fiscal Space

7. **Revenue mobilization is hampered by poor tax and customs administration and inability to secure revenues from natural resources.** While tax policy, as laid out in the General Tax Code, is considered to be good practice according to the International Monetary Fund (IMF),⁵ the ratio of tax revenues over GDP, one of the lowest in the world, declined from 11.2 percent in 2011 to 9.9 percent in 2015. As highlighted in a recent Tax Administration Diagnostic Assessment Tool (TADAT) evaluation (2015),⁶ basic principles such as accuracy of taxpayers' information and knowledge of the potential taxpayer basis are not respected (see annex 8 for the TADAT indicators table). Furthermore, the performance of local revenue agencies remains low. On customs, a mirror statistics analysis for imports in 2014 shows that the customs revenue loss could amount to US\$96 million or 30 percent of

⁴ INSTAT (*Institut National de la Statistique* [National Statistics Institute]), *Enquêtes nationales de suivi des OMD à Madagascar (2012–2013)*.

⁵ IMF. 2015. *Madagascar Fiscal Policy Diagnostic*.

⁶ The tax administration scored D on the accuracy and reliability of taxpayers' information, World Bank 2015. Tax Administration Diagnosis Assessment Tool (TADAT); in cooperation with the TADAT Secretariat.

the collected customs revenues (excluding oil imports). In addition, while the country has revenue potential from natural resources, significant revenues are forgone as a result of the informal nature of artisanal and small-scale mining (ASM). For instance, if only 2 percent (equivalent to the royalty) of the gold and precious stones imported by Dubai from Madagascar had been collected, the country could have obtained more than US\$4 million in revenues in 2011 (Extractive Industry Transparency Initiative [EITI], 2014).

8. A series of reforms have been initiated to improve the tax and customs system. With the donor's technical assistance (TA), Madagascar brought its tax policy in line with international good practices. Similarly, the customs legislation has been modernized over the past few years in line with the World Trade Organization's guidelines, including the implementation of valuation agreements. Computerization and streamlining of customs operations have also been ongoing for several years. More recently, the Ministry of Finance and Budget (MFB) has begun implementing a five-year strategy of the Tax Department (2015–2019) focusing on institutional and operational reforms to improve revenue collection and simplify procedures while improving internal oversight and external relationships with clients. The customs administration has also adopted a three-year strategy (2015–2018) to strengthen the role of the customs in mobilizing additional revenues, promote trade acceleration, and reinforce the protection of citizens against potential risks.

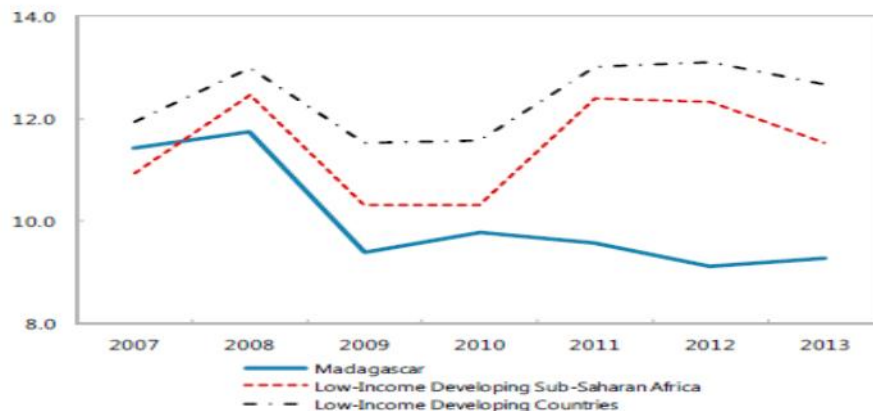
9. Reforms to address the identified challenges in the mining sector have been initiated recently. The Government has begun reforms to (a) increase the profits generated by the sector; (b) ensure the sector's contribution to the country's economic growth; (c) improve the management of social and environmental impact; and (d) improve governance, transparency, and oversight. A new mining code, along with a new petroleum code, with improvements along these lines will be submitted for adoption to the National Assembly in May 2016.

10. Development partners are supporting the reform programs of tax and customs administration. The French Cooperation finances a technical advisor to the Tax Administration General Directorate (*Direction Générale des Impôts*, DGI) and mobilizes regular TA, most recently, an assessment of the tax audit function. In June 2014, the IMF conducted an assessment of both the Tax and Customs Departments. With support from the Japan International Cooperation Agency, the customs management system has been upgraded from Automated System for Customs Data (ASYCUDA++) to ASYCUDA World. The World Bank supported an assessment of the human resources management under the Second Governance and Institutional Development Project (*Projet de Gouvernance et Développement Institutionnel*, PGDI II) in 2014. TA is also provided by the Bank to carry out the mirror statistics analysis and the reform of the streamlined customs clearance process.

11. In the mining sector, the Bank has been the main development partner for a long time. Further support will be provided through an Extractive Industry Technical Assistance Facility project to make expertise available to the Government in the context of the ongoing legal reform. Part of the support provided by the Extractive Industry Technical Assistance Facility is the development of a revised mining (and petroleum) tax regime. In addition, the Bank will provide further support through the Africa Extractive Industry Trust Fund to support the preparation of application decrees flowing from the new mining and petroleum codes and the establishment of the petroleum regulator and a potential national oil company.

12. **The priorities for the Government is to expand the tax net and broaden the tax base.** Integrating the various information management systems⁷ would allow for an efficient identification of taxpayers and risk management. In addition, improving oversight systems based on risk assessment is also paramount to reduce revenue leakages for both tax and customs administrations. Contributing to these priorities, the main needs identified in the mining sector include legal changes to set up new conditions for ASM titles as well as incentives for formalization (conducive taxation strategy, improved access to services for artisanal miners). Institutional changes are also needed mainly to reform institutions such as the National Gold Agency (*Agence Nationale de l'Or*, ANOR).

Figure 1. Tax-to-GDP Ratios in Madagascar and Other Low-income Countries (2007–2013)



Source: Republic of Madagascar: 2015. Selected Issue, IMF country report No. 15/25. International Monetary Fund.

Decentralized Entities Are Unable to Carry Out Their Mandates due to Lack of Resources

13. **Local governments have low capacity for revenue mobilization while receiving little transfers from central Government.** On the one hand, the central Government transfers only 5 percent of the total revenues to decentralized entities, while regions outside Analamanga (the region of the capital city) account for nearly 90 percent of the population of the country. Furthermore, delays in the transfer process are often noticed. On the other hand, local governments only collect 30 percent of their potential revenues due to an unclear legal framework and a lack of knowledge of the tax basis and taxpayers. For example, in the Alaotra Mangoro region, at least US\$2 million remains unpaid to local governments by the mining company because of the ambiguity on who should receive the payment. Similar situations are observed in the forestry and fisheries sectors, where poor awareness and enforcement of sectoral tax and nontax revenue legislations undermine local governments' capacity to collect revenue. The lack of resources limits the capacity of local governments to deliver services such as schools, health centers, and rural roads maintenance.

14. **In 2006, a National Decentralization and Deconcentration Policy was defined by the Government for 2006–2015.** Under this policy, different institutions were created: (a) The Local Development Fund (*Fonds de Développement Local*, FDL) (2008), to channel

⁷ There are three systems in use: the Online Fiscal Identification Number (*Numéro d'Identification Fiscale En ligne*, NIFONLINE); the Uniform System of Fiscal Recovery (*Système Uniformisé de Recouvrement Fiscal*); and the Standard Integrated Government Tax Administration System, of which only two modules are functional as well as manual processes.

additional resources to local governments for local public investment projects; in 2012, the Local Governance Index (*Indice de Gouvernance Local*, IGL) was developed as part of FDL's monitoring and evaluation (M&E) strategy to monitor its impacts, while measuring local governments' performance through six dimensions (see annex 10); (b) the National Institute for Decentralization and Local Development (*Institut National de la Décentralisation et du Développement Local*) (2011), to provide training to local government officials and staff; and (c) the National Coordination Office on Decentralization (*Office National de Concertation sur le Décentralisation*, ONCD) (2014), to support dialogue among local stakeholders and knowledge management to inform the decentralization agenda. However, these institutions were not able to carry out their mandates fully during the political crisis period (2009–2014), when financial resources remained particularly tight.

15. Following the end of the crisis and under the new PND, the Government has taken initiatives to reinvigorate decentralization efforts. In September 2014, the Government adopted a new decentralization legislation confirming the increased responsibilities of local governments for service delivery, especially in the social sectors (education and health) and in selected infrastructure areas (rural roads and other small local infrastructures such as markets and so on). The Government is also developing a new National Decentralization Policy to support local development and local service delivery. In the 2016 budget, appropriation for grants to communes have increased fivefold, confirming the Government's will to support decentralization.

16. The Bank contributed to supporting resilience at the local level throughout the 2009–2013 crisis. Local governments (Communes and *Fokontany*⁸) remained a resilience factor, having developed ways to maintain service delivery to compensate for the decreased central Government support. Under this rationale, the Bank, through PGDI II (P103950), reinforced its support to local governance in 124 local governments (out of the 1,695 existing communes). The intervention led to improvement of the communes' financial management (FM) and service delivery capacity as measured by the IGL. The model developed under PGDI II, known as the Communal Operation of Integrated Support (*Opération Communale d'Appui Intégré*, OCAI) has been largely adopted by other projects supporting local governments, covering 30 percent of the communes. The OCAI concept introduced an innovative approach through the integration of social accountability tools, revenue mobilization, and decentralized land management in one TA package implemented in close collaboration with districts.

Limited Resources and Poor Governance Undermine Critical Social Service Delivery such as Education

17. Limited public resources put a stress on households to pay more for education services. While the education sector still accounts for 21 percent of the public budget, the overall contraction of public spending reduced allocations to the sector. Between 2000 and 2010, spending on education was on average 3.1 percent of GDP; in 2012 this figure decreased to 2.75 percent of GDP. Close to 80 percent of the budget of the Ministry of

⁸ *Fokontany* refer to local structures—smaller than communes—that are both formal (existence of an administrative 'Chef *Fokontany*') and informal (neighborhoods) and under which communities are organized. *Fokontany* have an administrative mandate (keeping voters' rosters, keeping community rosters, delivering verification of residency, and so on) while also organizing the community around resolution of neighborhood-related issues (local security and so on).

Education (MEN) (domestically funded public) is allocated to salaries and little to no budget is allocated for sectoral investment. The estimates for 2010 indicate that 49 percent of education expenditures are financed by the Government, 24 percent are financed by households, and 27 percent by external funding including most of the investment. Household contributions have risen with the increased reliance on community teachers (78.4 percent of total teaching forces in 2014) to deliver education services.⁹ However, community teachers have little training (80 percent have no form of teaching qualification), and many of them have very limited knowledge and skills.

18. Slow and uneven budget execution is also a challenge in addition to the limitation in available resources. Unpredictability of availability of funds and regulation rates¹⁰ due to the cash flow problems at the Public Treasury are the main challenges affecting budget execution in the education sector. For example, during the first quarter of 2015, the MEN was allowed to engage only 4 percent of its allocation. School grants are usually treated as nonpriority expenditures, which leads to significant delays in their payment and jeopardizes the beginning of the school year. In addition, the payment of subsidies for community teachers follows a process of fund transfer among several levels of Government, which takes between 40 and 81 days. The MEN's ability to engage funds at the central level adds to the delay.

19. These issues and challenges affect service delivery in the education sector and have negative effects on education outcomes. The increased financial demand on parents affects attendance rates, especially in rural areas. At the national level, the primary school attendance rate has decreased from 79.6 percent in 2005 to 72.9 percent in 2012 (from 78.0 percent to 69.6 percent in rural areas). Analysis from the 2012 PASEC¹¹ assessment exercise indicates that there is a relationship between low education outcomes and community teachers' performance. Comparison of PASEC data in 1998, 2005, and 2012 indicates a sharp downward trend in language and math attainments. PASEC cross-country comparisons show that Madagascar had the highest scores on mathematics in 2004 and 2009, whereas its 2012 score places it among the worst performers.

20. To address these challenges in the education sector, the Government developed an interim strategy, and it is now preparing a new education strategy. The interim strategy revolves around three axes: (a) improving access to limit the decrease in school enrollment; (b) improving the quality of education to curb the decrease in sectoral outcomes; and (c) strengthening capacity at all levels and improving community participation. Through the subsidies to community teachers' salaries and school grants, the Government has made an effort to limit the decline in education outcomes. However, the management of these

⁹ Since January 2015, community teachers receive Government subsidies in addition to payments from the community.

¹⁰ Operational budgets financed by internal resources are subject to quarterly regulation rates—the maximum percentage of appropriations that can be committed by the end of each semester, the fourth quarter rate normally being 100 percent. Civil servant salaries are subject to a linear regulation (25, 50, 75, and 100 percent), but the quarterly percentages for other expenses in the operational budget, including indemnities, are subject to a nonlinear schedule that can be changed during the year.

¹¹ PASEC stands for *Programme d'Analyse des Systèmes Éducatifs de la CONFEMEN* (Program for the Analysis of Education of CONFEMEN), and CONFEMEN stands for *Conférence des ministres de l'Éducation des États et gouvernements de la Francophonie* (Conference of Education Ministers in Francophone Countries). Countries participating in PASEC include Mali, Congo DRC, Congo, Chad, Burundi, and Senegal, among others.

initiatives shows inefficiencies including nonoptimal transfer procedures and significant delays in payment.

21. **Since 2012, development partners have cautiously resumed policy dialogue while providing increased, but still limited, financial support to the sector.** The Madagascar Emergency Support to Critical Education, Health, and Nutrition Services Project (P131945) supports key education activities, including subsidies to community teachers, support to school grants, and school health and nutrition activities. The Emergency Support to Education For All Project (P132616)¹² supports strengthening the foundations of primary education by rebuilding stakeholders’ capacity and improving community participation and transparency in addition to contributing to lower costs of access to education for families. The European Union (EU) contributes to supporting community teachers’ subsidies and school grants in five regions while providing training to community teachers and school directors. The United Nations Children’s Fund collaborates with the Bank on institutional strengthening while also providing trainings to community teachers. The Japan International Cooperation Agency has initiated technical support to the development of school-based management.

22. **Going forward, strengthening sectoral governance is crucial to improving service delivery.** While the Government has made efforts to support the first and second axes of the education interim strategy and several donors have focused their support mainly on improvement of direct education inputs (school grants, academic materials, and so on), much remains to be done on the third axis on sectoral governance. In particular, support needs to be provided to (a) improving budget planning and execution, including payments of community teachers, and (b) supporting the newly defined school-based management structures.

Weak Oversight of Budget Execution and Poor Financial Accountability Undermines the Efficient Use of Scarce Public Funds

23. **Madagascar has accountability institutions and legal norms that are technically sound but do not function well in reality.** While budget laws are debated and approved by the parliament, the Court of Account (CA) has not been able to fulfill its role of maintaining accountability for the management of public finances. In particular, the submission of the audited final accounts of the Government (*Loi de règlement*) to the parliament currently suffers a four-year backlog; the CA has published a report only twice.¹³ Extra-budgetary operations represented around 20 percent of total expenditures in 2012, and budget execution diverged significantly from the voted budget law, affecting service delivery capacity. Furthermore, oversight of revenue agencies’ performance with regard to public service delivery funding needs is not addressed in a systematic way. The weak budget oversight system has further degraded over the last years as highlighted by a Public Expenditure and Financial Accountability (PEFA) auto-evaluation published in 2014 (table 1) (Full PEFA table is available in annex 9.)

Table 1. PEFA Indicators on Control

		2008	2014
P1-20	Effectiveness of internal controls for non-salary expenditure	C+	C
P1-21	Effectiveness of internal audit	C+	C

¹² This is the Global Partnership for Education grant for which the Bank is the supervising entity.

¹³ The first time was in the 1960s and the second time in 2014 under the Bank-funded PGDI II.

P1-26	Scope, nature, and follow-up of the external audit	D	D+
P1-27	Legislative scrutiny of the annual budget law	C+	D+
P1-28	Legislative scrutiny of external audit reports	D+	D

24. **An interim PFM strategy developed in July 2014 puts emphasis on budget transparency, accountability, and oversight.** Building on the 2014 PEFA self-assessment, the Government developed a 2014–2015 emergency PFM action plan. The action plan aims at addressing urgent PFM problems, including enhanced transparency, accountability, and oversight on spending, and paving the way for more in-depth PFM reforms. A 5-year PFM strategy is to be developed to address more structural reforms, such as performance budgeting, computerized systems connection, and/or control and oversight reform.

25. **While donors have supported the country’s broad PFM, little has been done with respect to reforming control and oversight mechanisms.** Support by the Bank included the implementation of an Integrated Financial Management Information System (IFMIS). It also supported strengthening the capacity of revenue agencies, control and auditing institutions (mainly through providing materials), and procurement reforms. The African Development Bank (AfDB) is engaged in PFM to support the identification of a strategy to increase the Government’s revenue. The IMF is also actively engaged in a TA program on PFM. The EU provides support on budget planning (multiyear budgeting in line ministries) and organizational audit of oversight institutions. However, no further support from the EU or other donor is expected so far to implement the recommendations of the audits.

26. **Priority reforms on PFM, particularly aspects of control and oversight, will require greater support.** The priority action plan, proposals by the IMF TA, and the upcoming PFM strategy point to the necessity and urgency to rebuild the bases of a sound PFM system and increase transparency and accountability of public expenditure. Priorities identified by the Government revolve around revenue mobilization, strengthening of budget planning, monitoring and oversight, as well as financial discipline in line ministries.

C. Higher Level Objectives to which the Project Contributes

27. **The proposed operation addresses a number of interrelated challenges that have been highlighted in the Madagascar Systematic Country Diagnostic (SCD), which will inform the forthcoming 2016–2019 Country Partnership Framework (CPF).** In particular, the SCD identifies increasing public revenues as one of the critical constraints and opportunities facing Madagascar in accelerating progress toward the World Bank Group’s goals of ending extreme poverty and promoting shared prosperity sustainably. Furthermore, the SCD also calls for improvement in public service provision by shortening the accountability chain between tax collection and the use of their proceeds, through which effective decentralization can be implemented. By seeking better revenue mobilization and management and its use toward promoting better service delivery to the population, the operation contributes to the Bank’s twin goals of reducing poverty and boosting shared prosperity.

28. **The proposed operation is also aligned with the objectives of the Bank’s Africa Strategy (2011), which puts governance and capacity for public service delivery at its foundation.** Building on the lessons learned, the Africa Strategy highlights the importance of investing in both demand- and supply-side governance to enhance accountability. Similarly,

the Bank's Governance and Anticorruption Strategy¹⁴ has the objective to build capable and accountable states by strengthening institutions and fostering transparency, participation, and accountability. The proposed project also builds on the important lessons learned from the Bank Approach to Public Sector Management 2011–2020,¹⁵ which recommends better aligning the Bank's engagement with Government priorities and focusing on problem solving of key constraints.

29. **The proposed operation will contribute in supporting the country in the realization of its PND.** The governance agenda remains a key priority for the Government. The country's PND puts among its main priority axes the implementation of macroeconomic stability and support to development. As such, increasing fiscal space, to which the project will contribute, has been identified by the Government as an important step toward the realization of its objectives (axis 2). The PND also places inclusive growth and local development among its priority axes with a view to optimize the organization and structuring of the Government to foster growth at the subnational level (axis 3). The proposed project will also support the improvement of local government capacity to deliver services. In that sense, the Government, under its development strategy, seeks to improve the management and governance of the country's natural resources to better contribute to local and national development (axis 5). The project will contribute to improving revenues from natural resources by supporting the governance of the mining sector. Finally, by supporting the governance of the education sector, the project contributes to implementing a better performing educational system as intended in axis 4 of the country's PND.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

30. The project development objective (PDO) is to improve revenue management, and local service delivery nationwide and in the education sector in selected regions.

B. Project Beneficiaries

31. **The project will benefit selected central institutions and local governments by improving fiscal space and strengthening institutional capacity to deliver services in an accountable manner.** As a result, it will have numerous direct and indirect beneficiaries across a variety of ministries and institutions. The primary beneficiaries include the upstream institutions that will benefit from the project activities, including, among others, the President's Office; the Prime Minister's Office; the Ministries of Finance and Budget (including the tax administration [DGI], the customs administration, and control institutions), Mining, and Education; and the Ministry of Interior and Decentralization and related institutions, such as the FDL, the National Institute for Decentralization and Local Development (*Institut National de la Décentralisation et du Développement Local*), the ONCD, and local governments. Primary beneficiaries will also include ministries' and agencies' staff both at the central and local levels. The final downstream beneficiaries will be the citizens who benefit from the improved services provided by those ministries and local governments.

¹⁴ World Bank. 2012. *Strengthening Governance, Tackling Corruption: The World Bank's Updated Strategy and Implementation Plan*.

¹⁵ World Bank. 2011. *The World Bank Approach to Public Sector Management 2011: Better Results from Public Sector Institutions*.

C. PDO Level Results Indicators

32. **Key PDO level results indicators include the following:**

- Increased tax revenue collection (domestic tax revenue/GDP ratio)
- Number of TADAT PO-8 indicators ‘Efficient Revenue Management’ rated B
- Percentage of communes with IGL higher than 6
- Availability of a teachers’ information management system
- Direct Project Beneficiaries (number), of which female (percentage)

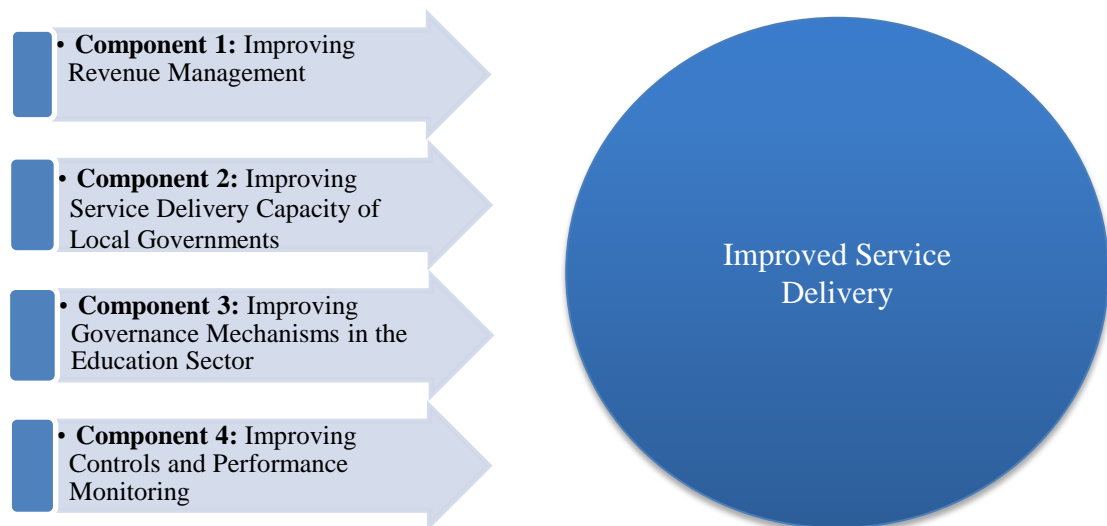
III. PROJECT DESCRIPTION

33. **The underlying logic of the project is that constrained fiscal space limits the amount of resources that can be productively channeled into the provision of vital social services.** To address these constraints, the project will support reforms for more effectively collecting revenues to alleviate fiscal pressures and will focus on improving service delivery at the local level and in the education sector.

34. **Adopting a results-based approach to public sector management, this operation will be structured to respond to four critical problems.** These include (a) poor revenue mobilization undermining fiscal space at the national and local levels; (b) weak oversight of budget execution limiting the efficient use of scarce resources and accountability; (c) limited fiscal space and incomplete decentralization preventing efficient local governments’ service delivery; and (d) limited fiscal space and poor governance undermining service delivery in the education sector.

35. **The project will be organized into four components (figure 2).** The project seeks to expand fiscal space through supporting revenue mobilization, including tax, customs, and mining under Component 1. Since the reforms supported by this component calls for behavior, mindset, organizational, and incentive changes, leadership, change management, and knowledge management will be mainstreamed across Component 1. Simultaneously, the project seeks to augment Government effectiveness in delivering services through improved capacity of local governments under Component 2 and improved governance in the education sector under Component 3. Component 4 will focus on cross-cutting areas supporting the performance of both revenue mobilization and service delivery provision, including control and oversight, transparency and accountability, and M&E.

Figure 2. Project Design



36. **Social accountability, citizens’ engagement, and beneficiary feedback mechanisms will be mainstreamed across all project components.** Building on Bank experience in strengthening social accountability in Madagascar, the project has engaged with citizens to refine the project design and implementation strategy. Going forward, the project will continue to engage with citizens to (a) contribute to the achievement of identified project results; and (b) improve sectoral governance as defined in national and sectoral policies and strategies. The engagement of civil society is mainstreamed in each of the project components and includes, among others, third-party monitoring of the achievement of disbursement-linked indicators (DLIs).

A. Project Components¹⁶

Component 1: Improving Revenue Management (US\$16.8 million)

37. **This component seeks to address a number of functional problems that limit the efficiency of revenue generation and collection in key revenues agencies (tax, customs, and mining).** These includes (a) weaknesses in revenue agencies’ capacity, as documented in recent IMF (2014 and 2015) and TADAT reports; (b) declining domestic revenues that leaves limited fiscal space for service delivery; (c) overly cumbersome controls with limited results in preventing fraud and leakages; (d) lack of efficient internal controls resulting in collusion and favoring corruption; (e) human resources and behavior challenges undermining performance; (f) insufficient transparency and accountability regarding activities and reporting; (g) limited enforcement of the mining code undermining the management of mining revenues at both the central and local levels; and (h) a high degree of informality, especially with respect to ASM.

38. **The results to be achieved through this component are** (a) the availability of improved integrated revenue information management systems and (b) enhanced operational efficiency of revenue agencies.

39. **The following intermediate indicators and/or DLIs will be used to monitor the performance of this component:**

¹⁶ Details of activities for each component are found in annex 2.

- (a) **DLI 1:** Modernization of the Integrated Tax Administration System (ITAS)
- (b) **DLI 2:** Increased rate of confirmed suspicious customs transactions related to home use at Toamasina customs office (in case of physical examination).¹⁷
- (c) **DLI 3:** Number of revenue offices¹⁸ that have been subject to an external evaluation of their performance contracts/program
- (d) Improved taxpayers' registration
- (e) Establishment of a single administrative identification number
- (f) Improved formalization of small-scale miners

40. **With respect to improving revenue management, this component will support the following activities through a combination of TA (US\$4.8 million) and results-based financing (RBF) (US\$12.0 million) (for details, please see annex 2):** (a) improvement and consolidation of taxpayers registration and identification; (b) modernization of the Integrated Tax Administration System (ITAS); (c) strengthening of audit function and control; (b) the creation of an enabling environment for performance-based management at the Tax and Customs Departments; (e) improvement of revenue collection in the mining sector; (f) improvement of accountability and transparency of revenue agencies; and (g) leadership, change, and knowledge management.

41. **The eligible expenditure programs (EEPs) to be financed under this component will include** the purchase of some of the information technology (IT) equipment's as well as software necessary for the roll-out of the ITAS (corresponding to the RBF category of a total amount of US\$12.0 million). In addition, EEPs will also finance parts of the salary of the tax administration, customs administration and selected control institutions. Finally, EEPs will include the purchase of furniture and arrangements of facilities/offices of tax and customs administration to improve the relationship with customers/taxpayers.

Component 2: Improving Service Delivery Capacity of Local governments (US\$12.00 million)

42. **This component seeks to address a number of functional problems that undermine service delivery and resilience at the local level.** These include (a) challenges in identifying and collecting revenues; (b) poor awareness and enforcement of sectoral regulations; (c) delays by the central Government in the refund of selected local taxes to regions and communes due to treasury cash flow challenges; and (d) limited management capacity challenges in M&E.

43. **The results to be achieved through this component are** (a) an improved local governance performance management system through the IGL and (b) greater efficiency of local governments' financial flow.

¹⁷ This indicator refers to the increased rate of confirmation of suspicious transactions of goods for national consumption.

¹⁸ Revenue offices representing 80 percent of revenues for each office customs and tax administration. Revenue offices include customs offices and regional tax offices.

44. **The following intermediate indicators and/or DLIs have been suggested to monitor the performance of this component:**

- (a) **DLI 4:** Improved timeliness of service delivery fiscal transfers to local governments
- (b) Improved recovery of revenue (not including grants) by local governments

45. **With respect to improving the capacity of local governments, this component will support the following activities through a combination of TA (US\$1.0 million) and RBF (US\$11.0 million) (for details, please see annex 2):** (a) providing grants to communes and strengthening of grant transfer and equalization mechanisms; (b) developing a strategy and review of legal, institutional, and technical framework of revenue collection and developing pilots to secure revenue collection; and (c) reinforcing knowledge management for local governance, including selected impact evaluations.

46. **The EEP to be financed under this component is the payment of the** local government grants to be channeled through the FDL (*Fonds de Développement Local*, Local Development Fund) to allow communes to improve their service delivery capacity (corresponding to the RBF category of a total amount of US\$ 11.0 million). These grants to communes, of an amount of US\$5000 per commune, will be used and managed based on the FDL grant manual. The Government through the FDL is already undertaking similar transfers, and appropriate management structures, legal arrangements, institutions, and Government budget lines are in place. Bank funds would come to complement the Government's fund for communal grants. The grants to communes, as per FDL manual and existing legislations would be used by communes for small scale investment falling under their legal mandates (rehabilitation of education and health infrastructure, rural roads, marketplace etc.). The identification of priority projects for which communes will use the FDL grants is undertaken through a participatory budgeting process at local level, as per FDL grant manual.

Component 3: Improving Governance Mechanisms in the Education Sector (US\$7.80 million)

47. **This component seeks to address a number of functional problems that affect budget execution and service delivery at the local level and in the education sector, including** (a) delays in the payment of key expenditures such as payment of subsidies to community teachers and school grants; (b) absence of sound budget planning that limits the ability of the MEN for implementation; (c) constrained and inefficient budget execution; and (d) limited operationalization of the revised school committees (*Farimbon'Ezaka ho Fahombiazan'ny Fanabeazana eny Ifotony*, FEFFIs) and the school plans (*Plan d'école contractualisés*, PECs) that have recently been defined by law.

48. **The results to be achieved through this component are** (a) improved budget planning, monitoring, and execution mechanisms; (b) improved efficiency in procurement and transfer of funds to the local level; (c) operational FEFFIs (in project-supported areas) and increased use of accountability mechanisms at the local level.

49. **The following intermediate indicators and/or DLIs have been suggested to monitor the performance of this subcomponent:**

- (a) **DLI 5:** Share of schools targeted by the component with an operational FEFFI, planning and implementing PECs (citizens' engagement DLI)
- (b) Percentage of FRAM teachers in the areas targeted by the component receiving subsidies with less than two months of delay

50. **With respect to improving service delivery and governance in the education sector, this component will support the following activities through a combination of TA (US\$2.3 million) and RBF (US\$5.5 million) (for details, please see annex 2):**¹⁹ (a) improving the budget planning and monitoring systems at the local and central levels, and the budget execution mechanisms for school grants and subsidy transfers (in project-supported areas); and (b) supporting the implementation of the FEFFI and the development of PECs through a combination of TA and incentive processes (in project-supported areas).

51. **The EEP to be financed under this component is** the payment of school grants (Corresponding to the RBF category for a total amount of US\$ 5.5 million). School- grants are often late due to treasury issues. The payment of the school grants through the operation will allow schools to undertake the minimum investment to keep a good quality of education services. Furthermore, it will allow the targeted schools to have the means to undertake further steps on the implementation of their PECs.

Component 4: Improving Controls and Performance Monitoring (US\$3.4 million)

52. **This component seeks to address a number of functional problems that undermine the efficient use of scarce resources.** These include (a) weaknesses in budget execution internal and external oversight and (b) lack of transparency, accountability, and participation in budget debates and management.

53. **The results to be achieved through this component are** (a) more efficient use of resources as well as reduced fraud and fund misuse resulting from improved control, oversight, and budget transparency and (b) improved leadership and sectoral dialogue.

54. **The following intermediate indicators have been suggested to monitor the performance of this component:**

- (a) Timely availability of the CA public report (process indicator)
- (b) Number of high/substantial risk audits completed by Internal Audit Departments
- (c) Semiannual public debates on the budget law²⁰, the performance of revenue agencies and project performance led by civil society organizations (CSOs) (citizens' engagement indicator)

55. **With respect to improving performance in the management of expenditures, this component will support the following activities:** (a) strengthening controls and oversight

¹⁹ The component will focus on three regions of the country—Alaotra Mangoro, Sofia, and Analamanga—to allow for sound piloting and consolidation of the proposed changes in procedural mechanisms such as payment of transfers and school-based management activities. These regions have been chosen to ensure complementarity with existing education operations financed by the Bank and/or other donors.

²⁰ Annual budget law and *loi de règlement*

mechanisms; (b) promoting transparency, accountability, participation, and media access to information; and (c) project coordination and performance monitoring.

56. **There will be no EEP financed through this component.**

B. Project Financing

57. **The proposed operation will be financed by an Investment Project Financing (IPF) credit of US\$40 million to the Republic of Madagascar.** The project will adopt a results-based approach, which will rely on three interrelated tools. First, TA support will provide the necessary knowledge and capacity and therefore will be a crucial part of each project component. Second, EEPs will provide an avenue for credit proceeds to be disbursed against incurred eligible expenditures supported by existing Government budget lines. Third, DLIs will establish a performance-based framework to measure progress in service delivery reform implementation (table 2). Success in meeting the PDOs will be evaluated through these DLIs and will make up about 70 percent of the project financing. By adopting such a results-based approach, the project will address coordination issues and create a conducive environment to mitigate political economy constraints and resistance to change by aligning incentives of different actors while focusing on measurable results. DLIs were selected in a participatory manner to match the capacity of Ministries and Departments included in the project.

Table 2. DLIs by Component

Component	DLI	Target ²¹	Amount Allocated (US\$)	Amount in SDR ²²	Payment Schedule
Component 1: Improving Revenue Management	DLI 1: Modernization of the Integrated Tax Administration System (ITAS)	DLR 1.1: Availability of the technical terms of reference (ToRs) for the ITAS	1,000,000	700,000	July 2017
		DLR 1.2: Launch of a call for tenders for the ITAS system	2,000,000	1,400,000	January 2018
		DLR 1.3: Acquisition of hardware for the ITAS	2,000,000	1,400,000	January 2019
		DLR 1.4: The ITAS is operational	1,000,000	700,000	January 2020
	DLI 2: Increased rate of confirmed suspicious customs transactions related to home use at Toamasina customs office (in case of physical examination).	DLR 2.1: >5%	500,000	400,000	July 2017
		DLR 2.2: >10%	1,000,000	700,000	January 2018
		DLR 2.3: >12.5%	1,000,000	700,000	January 2019
		DLR 2.4: >15%	500,000	400,000	January 2020
	DLI 3: Number of revenue offices	DLR 3.1: Availability of contract model type	1,000,000	700,000	July 2017

²¹ Targets will be met by December 31st of each year.

²² US\$1 = SDR 0.70981389 as of March 31st, 2016

Component	DLI	Target ²¹	Amount Allocated (US\$)	Amount in SDR ²²	Payment Schedule
	that have been subject to an external evaluation of their performance contracts/program	DLR 3.2: 2	1,000,000	700,000	January 2018
		DLR 3.3: 4	500,000	400,000	January 2019
		DLR 3.4: 6–8	500,000	400,000	January 2020
Component 2: Improving Service Delivery Capacity of Local governments	DLI 4: Improved timeliness of service delivery fiscal transfers to local governments	DLR 4.1: Stocktaking of transfers (mechanisms and delays) available to local governments	5,000,000	3,500,000	January 2017
		DLR 4.2: Availability of annual harmonized transfer program Operationalization of a common decentralization fund	2,000,000	1,400,000	January 2018
		DLR 4.3: Completion of a transfer program with tolerance threshold of 60 days on average	2,000,000	1,400,000	January 2019
		DLR 4.4: Completion of a transfer program with tolerance threshold of 30 days on average	2,000,000	1,400,000	January 2020
Component 3: Improving Governance Mechanisms in the Education Sector	DLI 5: Share of schools targeted by the component with an operational FEFFI, planning and implementing PECs	DLR 5.1: 25%	1,000,000	700,000	July 2017
		DLR 5.2: 40%	1,500,000	1,100,000	January 2018
		DLR 5.3: 60%	1,500,000	1,100,000	January 2019
		DLR 5.4: 75%	1,500,000	1,100,000	January 2020
Component 4: Improving Controls and Performance Monitoring	No DLI	n.a.	n.a.		n.a.
TOTAL			28,500,000	20,300,000	

Note: DLR = Disbursement-linked Result

C. Project Cost and Financing

58. For a detailed costing by component, please see annex 3.

Table 3. Project Cost and Financing

Project Components	Project Cost (US\$, millions)	TA (US\$, millions)	RBF (US\$, millions)	IDA Financing (US\$, millions)	% of Financing
Component 1: Improving Revenue Management	16.8	4.8	12.0	16.8	100
Component 2: Improving Service	12.0	1.0	11.0	12.0	100

Project Components	Project Cost (US\$, millions)	TA (US\$, millions)	RBF (US\$, millions)	IDA Financing (US\$, millions)	% of Financing
Delivery Capacity of Local governments					
Component 3: Improving Governance Mechanisms in the Education Sector	7.8	2.3	5.5	7.8	100
Component 4: Improving Controls and Performance Monitoring	3.4	3.4	0	3.4	100
Total Costs	40.0	11.5	28.5	40.0	100
Total Project Costs	40.0	–	–	40.0	–
Total Financing Required	40.0	–	–	40.0	–

D. Lessons Learned and Reflected in the Project Design

59. **Previous experience in Madagascar has suggested the importance of providing support at the local level to improve service delivery.** As identified by the PGDI II Implementation Completion Report (ICR), grants and capacity building of CSOs and local governments during the crisis period yielded better results than support of the central level although its impact was limited by design flaws. However, local governments and CSOs need capacity building in fiduciary management, transparency, and accountability. Experience shows that continuous and regular support is necessary for a minimum of three budget cycles to achieve lasting results). Drawing on these lessons, the project will provide support to CSOs through mainstreaming social accountability tools in the project and strengthening the role of CSOs in improving transparency and accountability in fiduciary management and service delivery. The project will also provide financial support to local governments while also working on systems to improve local revenues more sustainably with the objective of strengthening service delivery capacity at the local level.

60. **In a low-capacity and fragile environment, project implementation arrangements and organizational structures should be kept as simple as possible.** In particular, multisector interventions may involve complex levels of organizational management and can lead to confusion in the lines of authority if there is lack of clarity and coordination, affecting the overall performance of the project. Drawing on this lesson, the proposed project will be anchored in the Reform Program for the Efficiency of the Administration (*Programme de réformes pour l'efficacité de l'administration*, PREA). The PREA has been the anchoring unit of the former PGDI II project and has been in charge of coordinating all actions on public sector reform in the country. The PREA has been moved from the Prime Minister's Office to the Office of the President, showing commitment to public sector reforms at the highest level. As a result, the PREA has gained in legitimacy in its role of coordinating all public sector reforms.

61. **Experience with RBF and the program for results, in particular, suggests that such a modality can improve transparency, accountability, and citizens' engagement.** As noted by the program-for-results' two-year review, all results used as DLIs are subject to a verification protocol that involves independent Government agencies or third-party verification of the achievement of DLIs. This provides citizens with clear mechanisms to know what results Government programs are expected to achieve, how those results will be

verified, the performance of Government programs in relation to these results, and a mechanism to voice their complaints, where needed. The project will use a results-based approach with DLIs to change the incentive structure to get institutions to collaborate on solving the identified bottlenecks to achieve results and push for necessary behavioral changes.

62. **International experience in improving service delivery has shown that the beneficiaries of public services who interact the most with the provider are also those who can better uphold transparency and accountability in the delivery of these services.** Madagascar has experience in school-based management through the Original School Committee (*Fiombonan'Antoka ho an'ny Fampandrosoana*, FAF) and the FRAM that have responsibilities in supporting school supplies and payment of community teachers. Through recent legislation, the Government strengthened the role of school committees in school management, integrating parents, local authorities, and communities. The project will support the implementation and capacity building of school committees to strengthen accountability and management capacity at the school level. This draws from on international lessons on the role of school-based management in the improvement of education service delivery, the existing experience in the country, and the choice made by the Government to strengthen school-based management.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

63. **The project implementation will be led by the PREA, based within the President's Office.** The PREA will be responsible for coordinating project implementation by working closely with ministries and other project stakeholders. In particular, it will (a) manage project funds; (b) follow up on procurement; (c) monitor ministries responsible for the achievement of DLIs and related TA activities; (d) ensure compliance with the Bank's FM and procurement guidelines as well as safeguards policies; and (e) report to the Bank as necessary. The PREA director will ensure the overall project management and leadership of the project and will be supported by a team including procurement, FM, and M&E experts.

64. **The existing PREA Steering Committee, the *Comité d'Orientation et de Suivi* (COS), will act as the project steering committee.** Established in 2005, the committee is mandated to facilitate the coordination of public sector reforms and related programs and projects. Chaired by the Office of the President's Chief Secretary (*Secrétaire Général de la Présidence*), the committee will ensure interministerial coordination, facilitate consensus building around project objectives, and oversee the achievements of project results.

65. **The PREA has project implementation experience, but additional assessment is needed to mitigate potential risks.** The PREA has implemented two previous PGDIs (PGDI I and II) while also serving as the anchor unit of all donor-funded public sector reform projects. Until August 2014, it did so with the support of a Project Implementation Unit (PIU) funded by the Bank. At the technical level, the PREA is currently benefitting from international TA funded by the EU in the area of human resources and PFM. The AfDB also announced its intention to integrate the management of its current public sector project (Institutional Governance Support Project [*Projet d'Appui à la Gouvernance Institutionnelle*, PAGI]) into the PREA following the project midterm review in February 2016. The Government has indicated its interest to mainstream the management of the proposed operation into existing structures; however, considering the recent changes in PREA

institutional arrangements and the arrival of a new team, the initial risk assessment is considered Substantial. A detailed fiduciary assessment was conducted and measures to mitigate risks were proposed.

66. **The implementation of social accountability activities will be made in a spirit of cooperation and partnership between the Government, the targeted services (departments), and CSOs.** A partnership between the Government (through the PREA) and active platforms of CSOs in the targeted sectors will be considered at the very beginning of the project. All the activities described in Annex 7 will be detailed in the Project Operational Manual (POM).

B. Results Monitoring and Evaluation

67. **The PREA M&E Division will be in charge of the project M&E system.** The PREA recently established a new division to oversee the M&E of public sector programs. The PREA M&E Division will have the overall responsibility to monitor the achievement of DLIs and project results. It will work closely with sector ministries (Ministries of Finance and Budget, Mining, and Education as well as the Ministry of Interior and Decentralization) to document the achievement of results. The project monitoring system will use existing data from the responsible entities, such as the IGL, for example, to be provided with support from the focal points that have been identified within each of the targeted entities. The project will thus help reinforce monitoring capacity within each of the targeted ministries.

68. **For accountability purposes, the PREA is committed to providing regular reports to the Government of Madagascar (GoM) as well as the Bank.** The Bank will undertake regular supervision missions and ensure that key findings resulting from such visits are fully implemented to improve the overall project performance. The M&E experts will also produce semiannual reports that will be posted on the PREA website with the latest data for each indicator available to the Government, civil society, and the development partners. The engagement of civil society through communication efforts to be made by the PREA and sectors ministries will also contribute to monitoring the achievement of the proposed outcomes, intermediate results, and DLIs.

C. Sustainability

69. **Sustainability of results is likely to be ensured as a result of the Government's commitment to and ownership of related reforms in the sectors that the project touches upon.** At the strategic level, the areas of engagement of the project are fully aligned with the priorities of the Government as defined in the PND. Component 1 (Improving Revenue Management) and Component 2 (Improving Service Delivery Capacity of Local governments) are aligned with axis 2 of the PND on preservation of macroeconomic stability and support for development. Component 2 is also fully in accordance with axis 3 of the PND on inclusive growth and territorial development under effective decentralization framework. Component 3 (Improving Governance Mechanisms in the Education Sector) supports axis 4 on the development of human capital.

70. **Likewise, ongoing sectoral reform programs ensure Government ownership and commitment, which further strengthens the sustainability at the component level.** With respect to revenue mobilization, project reform momentum will be sustained by the implementation of the five-year strategy of the DGI (2015–2019), which began in January 2015. Likewise, a three-year strategy (2015–2018) was adopted in September 2014 with the

objective of strengthening the role of customs in securing additional revenues to support the country's development efforts. In the mining sector, reforms are likely to be sustained through the new Mining and Petroleum Policies that were adopted in August 2014 as well as the Government's continuing commitment to the EITI compliance. With respect to revenue management, PFM reforms introduced by the project will be sustained through a short-term (2014–2015) emergency PFM action plan with IMF support as well as a 2015–2020 PFM strategy, which the Government is currently preparing. In the service delivery sectors, reform momentum will be sustained through the preparation of a new education strategy and the ongoing Bank projects, including the Emergency Support to Critical Education, Health, and Nutrition Service Project and the Emergency Support to Education for All Project. Finally, project activities related to local governance will be sustained through 2014 decentralization legislation through which communes are formally given increased responsibilities for service provision, especially in the social sectors (education and health) and in infrastructure.

71. **In addition to being sustained by the Government's medium-term reform efforts, the project impacts will also be sustained through particular project design elements.** First, the project will rely on DLIs to address political economy roadblocks and incentivize reform efforts in key service delivery sectors. Second, by relying on significant TA financing, the project seeks to make medium-term improvements in critical IT systems and investments in human capital.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

72. **On the basis of the Bank's systematic operational risk tool, the overall risk of the project is rated as High.** This rating is based on several large and interrelated risks that may jeopardize the implementation of the project and the achievement of the PDO.

73. **Political and governance risk is rated as High.** The stability of the GoM may pose considerable risk as the country has been affected by recurrent political crises, the most recent of which ended in 2014. In addition to repeated cycles of political crisis, recent political economy analysis conducted by the Bank²³ concluded that there is limited separation of powers between the executive and legislative branches of the Government. This risk is particularly poignant since the project will be anchored with the presidency, which may pose the risk of political capture if some of the proposed actions of the project are not fully compliant with existing political interests. This risk will be mitigated through (a) ongoing policy dialogue on reforms supported by the project with a wide range of stakeholders including the private sector, (b) strengthening of leadership capacity and results orientation at the operational level, and (c) developing coalitions for change that will span hierarchies and silos and will include both public and private sectors.

74. **Macroeconomic risk is rated as Substantial.** Tax revenues have stagnated or declined over the past several years and the capacity to maintain and appropriate level public spending is strained in the face of political pressures, strikes, and shocks. Current risks to the global economy, especially in Europe, make Madagascar's economy more vulnerable, given its dependency on exports and tourism. The macroeconomic framework will be monitored

²³ The World Bank. 2010. *Governance and Development Effectiveness Review: A Political Economy Analysis of Governance in Madagascar*.

closely in cooperation with the IMF and particular attention will be given to political-economy dynamics undermining revenue collection during project preparation.

75. **Technical design risk of the project is rated as High.** The nature of the reforms supported at the sectoral level will require the coordination of multiple actors within the sectors as well as within the central Government. For instance, tackling budget execution bottlenecks in the education sector will require collaboration across several departments outside of the MEN itself and at different levels of Governments. Another risk is the technical challenges that those sectors might experience to implement the identified reforms. The coordination and technical challenges can also create delays in the achievement of the DLIs. These risks will be mitigated by further refining the projects components as the preparation progresses and engaging in selective interventions where the stakeholder buy-in is the highest. Further, coalition building and leadership development support will be targeted on bringing those actors together who need to collaborate across organizational silos, sectors, or hierarchies in results-oriented small coalitions.

76. **Institutional capacity and sustainability risk is rated as Substantial.** Given the multisectoral scope and content of the project, there are a number of capacity and sustainability risks that need to be monitored and mitigated. First, the project will be implemented by numerous Government ministries and agencies under the leadership of the PREA. The PREA has undergone an institutional reform and is now operational. It currently manages two projects including European Union and African Development Bank financed projects. The concurrent management of three large projects by the PREA presents implementation risks due to important volume of operations. However, the PREA, due to its official cross-sectoral mandate has shown a convening role across all beneficiaries. Second, working at the decentralized level both through the education sector and in supporting local governance also poses the risk of various capacity levels throughout the chain and across the different institutions. This risk is particularly relevant as the project relies on a RBF approach, which depends on effective commitment, communications, and capacity at the country level. Third, given the highly technical and complex nature of an ITAS, neither the PREA nor the beneficiary agency (DGI) has the technical capacity to finalize complex bidding documentation (ToRs, user requirements, and so on) with the minute degree of specificity required to obtain quality bids. Such a procurement process can lead to delays. These risks will be mitigated through a deeper assessment of project stakeholders' technical capacity to implement the project, which will be informed by institutional assessments and other analysis. Additionally, in order to mitigate risks, PREA staffing will be reinforced with core management (project officer dedicated to the project) and additional fiduciary staff to support the implementation of the project. The preparation of the project has been thoroughly consultative and several preparation missions, two stakeholder's workshops, and numerous meetings with Government technical staff have been arranged. Going forward, leadership and change management technical assistance will also be available under the project to facilitate problem solving and cross-sectoral dialogue and collaboration throughout project implementation. With respect to the ITAS, the project will adopt a similar practice to that of other tax modernization projects, by hiring an international consultant with both revenue administration and information and communication technology (ICT) expertise to assist the DGI with the drafting of bidding documentation and with the technical review of bids submitted for the ITAS procurement.

77. **Fiduciary risk is rated as Substantial.** The Government has indicated its intention to mainstream project management as much as possible into existing Government structures and

to promote the use of country systems. However, a recent assessment of country systems indicates weaknesses in overall country procurement, Public Financial Management System and in the existing complaints and grievances mechanism. These also include risks related to corruption and fraud in fiduciary management. The assessment concluded however that it is possible to use the country system provided that mitigation and compensatory measures are put in place. Risks will be mitigated through the implementation of the action plan proposed during the fiduciary assessment. Furthermore, the mainstreaming of social accountability mechanisms across the operation according to governance and anticorruption strategy guidance will also mitigate the risks. While weaknesses have been noticed on the overall country system, the evaluation of the capacity of PREA, which will be in charge of operational FM management has been evaluated as adequate (See also Paragraph 85).

78. **Stakeholder risk is rated as High.** The strong influence of political and economic elites and its impact on the transparency also represent a risk to the implementation of the reforms supported by the project. The Malagasy private sector has traditionally opposed the implementation of tax policies and takes advantage of existing institutional weaknesses and political patronage networks to seek exemptions. These risks will be mitigated through the ongoing policy dialogue on reforms supported by the project with a wide range of stakeholders, including the partnership with the private sector throughout the rollout of the increased tax base. In addition, the introduction of leadership and change management approaches, processes, and tools during project preparation will deepen the understanding of the stakeholders and their influence and motivation to better develop feasible strategies of engagement with different subgroups. It thus includes leadership development throughout the ranks to strengthen coalitions for change.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis:

79. **Madagascar is ill-equipped to respond to very considerable development needs (whether in the provision of infrastructure or urgently needed social services).** The post-2009 political crisis has increased the risk both to the Government's ability to (a) redress deteriorated socio-economic indicators and provide for urgently needed public services and investments and (b) maintain macro-fiscal stability. During 2013–2015, total Government expenditure represented more than 130 percent of Government revenues—resulting in a trend increase in overall budgetary deficits to an estimated 4.5 percent of GDP in 2015 and medium-term risks to the country's debt sustainability. An increased focus on domestic resource mobilization, embedded in an overarching framework that takes into consideration the need to ensure tax fairness and foster private-sector development, is thus a central policy reform supporting efforts to improve Madagascar's development perspective and the ability to respond to the increasingly urgent twin goal-related challenges.

80. **Bank value added lays in its valuable technical and financial contribution.** Revenue mobilization is a high priority for the government and is at the center of its dialogue with different donors and partners. Through this operation, the Bank provides the largest support on revenue mobilization activities among all donors. The operation will complement existing technical assistance from other partners and has been designed to support the government in actual implementation of reforms as identified and initiated through these technical assistances. Most importantly, through this operation, the Bank has also the tools to incite results achievement and ownership through the results-based financing instrument and the change management/ collaborative leadership for results tools.

81. **A narrow financial analysis of the proposed project, even under very restrictive assumptions, yields very large net present values (NPVs).** Given that a number of components and subcomponents focus on strengthening revenue mobilization, it is possible to calculate the project's NPV using a pro forma financial analysis. According to the project's Results Framework, it is anticipated that activities supported under Component 1 (Improving Revenue Management) and Component 2 (Improving Service Delivery Capacity of Local governments), mainly activity 2.2 (Improving revenue collection at local level) will result in an increase in domestic revenue collection both at the national and the local levels. The increase is projected to improve the ratio of tax to GDP from 10 percent to 12 percent over the economic life of the project. The financial analysis presented in annex 5 shows that the project's support in tax, customs, mining, and local revenue mobilization will serve as a catalyst to generate additional fiscal space for the Government. The increased revenue collection is estimated at US\$470.51 million over the assumed 10-year economic life of the project, whereas only US\$17.20 million in project resources will be allocated to these activities²⁴. Therefore, the NPV at 8 percent discount rate will reach more than US\$261.05 million in financial benefits to the Government.

82. **In addition to generating financial benefits for the Government with regard to increased tax, customs, and mining revenues, the project is also expected to generate a number of economic benefits, which will make society as a whole better-off.** As detailed in annex 5, these potential benefits include (a) improved business environment through reduction of time/costs to comply with main tax procedures; (b) improved business environment through improved stability, predictability, and transparency in relationship between tax administration and citizens; (c) reduced cost of service delivery in the education sector and increased capacity for sectoral investment; and (d) improved infrastructure at the local level with social and economic effects and increased resilience.

B. Technical

83. **The proposed project will rely on a RBF mechanism, through which funds will be disbursed on the basis of meeting-specified DLI targets.** Such a design has been deemed appropriate to support project implementation in a context where deep political economy challenges undermine reform efforts. Since Madagascar is a fragile state, the project has used a selective approach in determining areas for reform that carefully build on lessons learned from previous public sector operations in Madagascar as well as findings from diagnostics and analytical works undertaken by the Bank in collaboration with the Government and development partners. These include, among others, a recent TADAT assessment, an IMF customs audit, ongoing PEFA self-assessments, economic and sector work on social accountability, and citizens' engagement in Madagascar, as well as a background paper on leadership and change management developed by the Bank's Collaborative Leadership for Development Program. The project has also been designed in a multisectoral manner through which incremental changes can be made, which is the result of a close cooperation between the Bank's global practices as well as the IMF team. Finally, the

²⁴ The total of resources adding up to US\$17.20 million comprise all resources allocated to revenue management and revenue mobilization activities at both national and local levels. This includes the overall Component 1 as well as activity 2.2 under Component 2. Resources allocated to improvement of service delivery (Activities 2.1 and 2.3 under Component 2 as well as overall Component 3) and project and financial management (Component 4) are not included.

ongoing support provided by other partners has been taken into account to identify niches of complementarity as well as to maximize synergies between programs.

C. Financial Management

84. **The proposed FM and disbursements arrangements comply with the FM Manual for Bank-Financed Investment Operations dated March 1, 2010, and include a partial and gradual use of the country system.**

85. **The PREA will be in charge of the overall coordination of the project, including FM and reporting.** The beneficiaries' line ministries will technically manage the project's activities and ensure that their respective DLIs, if applicable, are achieved. The PREA FM capacity and system has been assessed to determine whether (a) the PREA has the adequate FM arrangements to ensure that the project funds will be used for its intended purposes in an efficient and economical way; (b) the financial reports will be prepared in an accurate, reliable, and timely manner; and (c) the project's assets will be safeguarded. While country procurement and public financial management systems show weaknesses, the assessment of PREA concluded that, at the operational level, the PREA's FM capacity and system is adequate and complies with the Bank's minimum requirements under OP/BP 10.00, subject to the effective implementation of the mitigation measures described in the paragraph below.

86. **The overall fiduciary risk of the project has been assessed as Substantial and the proposed mitigation measures are** (a) the recruitment of one qualified financial management specialist (FMS) and one accountant according to the ToRs satisfactory to the Bank; (b) audits of the project's financial statements by an independent external auditors according to the ToRs agreed with the Bank—the auditor will conduct the audit in partnership with the CA to get the latter familiarized with the audit process of donors funded project; (c) the design of an operational manual that will describe the process for verifying and validating the achievement of the DLIs and will provide clarity about the role and responsibility of implementing entities as well as the process to implement and report on project activities; (d) the installation of an information management system to record the project's transactions and produce the interim financial reports and annual financial statements in the format to be agreed with the Bank; and (e) the recruitment and appointment of a third-party verification agent depending on the nature of the DLIs to verify (CA, civil society, consultant, or audit firm).

87. **The funds flow arrangements are summarized as follows:** (a) for grants to communes, funds will be channeled through the FDL; (b) for the RBF, the funds will be transferred from the Bank to the Project Dedicated Account to be opened at the Central Bank (according to the Decree 2015-1457 of October 27, 2015) and will be used for expenditures agreed in the EEP (goods, services, non-consultant services, and operating costs, including salaries); and (c) for other activities (TA, input-, and output-based activities) not implemented following the results-based instrument, the IPF disbursement methods (advance, reimbursement, replenishment, and special commitment) will apply. More details on FM and disbursement arrangements are provided in annex 3.

D. Procurement

88. **Procurement under the proposed project will mainly involve consultancy services, minor non-consultancy services, goods, and works.** Procurement will be carried out in accordance with the Bank's Guidelines: (a) 'Guidelines: Procurement of Goods,

Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers’, dated January 2011 and revised in July 2014; (b) ‘Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers’, dated January 2011 and revised in July 2014; (c) ‘Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants’, dated October 2006 and updated in January 2011; and (d) the provisions stipulated in the Legal Agreements.

89. **Each implementing agency will be responsible for the technical aspects of the procurement with the support and oversight of the PREA.** Procurement plans will be consolidated by the PREA in coordination with, and on the basis of inputs from, the technical ministries/implementing agencies. The PREA is setting up a Public Procurement Management Unit (*Unité de Gestion des Passations de marches*, UGPM) headed by the head of Public Procurement (*Personne Responsable des Marchés Publics*, PRMP), who will be in charge of overall quality control of procurement processes for the PAGI (AfDB) and Government for All (*Ny Fanjakana ho an’ny Daholobe* NFD, EU-funded) projects. With regard to the proposed project, procurement activities will be carried out under the overall responsibility of the PRMP. The capacity assessment of the PRMP revealed that the person is technically proficient and has confirmed experience in public procurement using the National Public Procurement Code (*Code des Marchés Publics*) as well as in donors’ procurement procedures such as the AfDB and the EU.

90. **The recent procurement and FM review identified weaknesses as far as procurement is concerned.** However, the review recommended that nothing stands fundamentally in the way of the use of the National Procurement Commission (*Commission Nationale des Marchés*, CNM) to carry out prior reviews as well as post-procurement reviews on the Bank-financed project’s activities. The use of national document for National Competitive Bidding (NCB) presents a moderate risk if the borrower inserts some additional provisions called exceptions (approved by Legal Operations), which are listed in annex 3. Finally, the review recommends the use of the Procurement Integrated Management System (*Système intégré de gestion des marchés publics*) to increase transparency during procurement process.

91. **Risks/issues identified during the procurement assessment include** (a) delays in procurement processes due to weak coordination with sectoral ministries; (b) no clear system of accountability within sectoral ministries with clearly defined responsibility for procurement decisions; and (c) technical aspects of procurement (development of ToRs and technical specifications) not properly handled by the implementing agencies. The following measures are proposed to mitigate the risks for procurement management and to maintain the implementing team’s capacity: (a) a POM will be prepared and shall include, among others, a detailed description of the overall procurement arrangement and responsibility of each entity; (b) regular Bank procurement implementation support will be provided, including capacity building of the borrower staff involved in the procurement activities; and (c) basic procurement training will be provided before project effectiveness. The overall procurement risk rating for activities to be financed under the proposed project is Substantial. More details on procurement arrangement are provided in annex 3.

E. Social (including Safeguards)

92. **With regard to social safeguards, the project will not involve physical displacement of population.** However, the project triggers the Bank’s policy on Involuntary

Resettlement (OP/BP 4.12) in anticipation of unlikely land acquisition and losses of assets and revenues. Furthermore, since not all project sites could be identified before appraisal, the borrower has prepared a Resettlement Policy Framework (RPF) that outlines steps to be taken during implementation when actual sites and locations are identified. The potential adverse social impacts are expected to be minimal. On the contrary, the project will generate significant social benefits through improved service delivery capacity at the local level and, therefore, will contribute positively to livelihood opportunities. Nevertheless, if resettlements do occur in any of the subprojects, Resettlement Actions Plans or Abbreviated Resettlement Action Plans for the specific subprojects will be prepared following the guidelines of the RPF. The RPF has been reviewed, cleared, and disclosed at the Bank's InfoShop as well as in-country on March 15th, 2016.

93. **Public consultation and information disclosure.** Public consultation of affected people and communities and other relevant stakeholders have been conducted during the formulation of the RPF. The feedback from these consultations have been incorporated into the project design and the RPF document. Consultation processes included specific requirements to include women and other vulnerable groups.

94. **The PIU will be responsible for implementing the eventual Resettlement Actions Plans, including their preparation if necessary and consultations with project affected persons (PAPs) and local communities.** Regardless of the implementation arrangement of the project in place, capacity strengthening measures will be devised and aimed at mainstreaming environmental and social safeguard functions (that is, systematic subproject screening, review of ToRs and reports for the specific subproject, monitoring and reporting on implementation of mitigations measures) in subproject planning, implementation, and monitoring.

F. Environment (including Safeguards)

95. **This project is classified as Category B.** The project triggers the policy on Environmental Assessment (OP/BP 4.01) because it involves the construction and rehabilitation of social infrastructures by the communes through the grants to local governments, requiring the identification, mitigation, and monitoring of potential adverse environmental and social impacts. The potential adverse impacts are associated with implementation of Component 2 (Improving Service Delivery Capacity of Local governments), which includes new construction, rehabilitation, and expansion of the education infrastructures, health centers, marketplaces, and rural roads.

96. **Potential negative environmental impacts during site preparation and construction/extension of social infrastructures.** The potential negative environmental impacts during site preparation and construction/extension of social infrastructures mainly include (a) increased levels of dust, noise, and other emissions from civil works of rural roads, land clearing activities, and erosion risks on the quarry sites; (b) generation of wastes of social infrastructure during civil works or construction sites; (c) traffic disturbance and accident risks during rural road civil works; and (d) health and safety issues for workers and community. However, these potential impacts are expected to be small to moderate, temporary, site specific, and mostly reversible, and mitigation measures can readily be designed. Therefore, the project is proposed to be Environmental Category B.

97. **Environmental and Social Management Framework (ESMF).** An ESMF has been prepared by the borrower to ensure that activities to be financed under the project will not

create adverse impacts on the local environment and local communities and that the residual and/or unavoidable impacts will be adequately mitigated. The ESMF should conduct a deep review of the environmental and social impacts and potential risks of subprojects, which could be financed by the project. The ESMF establishes the requirements for subproject safeguard screening, impact assessment, and development of mitigation measures, including (a) the Environmental Codes of Practice (ECOP) for construction activities; (b) safeguards documentation preparation and clearance or sample of ToRs for Environmental and Social Impact Assessments (ESIAs), if needed; (c) safeguards implementation, supervision, monitoring, and reporting; (d) institutional strengthening and capacity-building programs; and (e) institutional arrangements and budget. The ESMF has been reviewed and cleared by the Bank and disclosed into the InfoShop as well as in country, on March 15th, 2016.

98. **Public consultation and information disclosure.** The affected people and communities and other relevant stakeholders were consulted during the elaboration of the ESMF. The feedback from the consultations have been incorporated into the project design and the ESMF.

G. Other Safeguards Policies Triggered

99. None.

H. Bank Grievance Redress

100. **Communities and individuals who believe that they are adversely affected by a Bank-supported project may submit complaints to existing project-level grievance redress mechanisms or the Bank's grievance redress service (GRS).** The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project-affected communities and individuals may submit their complaint to the Bank's independent Inspection Panel that determines whether harm occurred, or could occur, as a result of Bank noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the Bank's attention and Bank management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Madagascar: Public Sector Performance Project (P150116)

Results Framework

Project Development Objectives

PDO Statement

The PDO is to improve revenue management and local service delivery nationwide and in the education sector in selected regions.

These results are at | Project Level

PDO Indicators

Indicator Name	DLI	Unit of Measure	Baseline	Target Value YR1 (2017)	Target Value YR2 (2018)	Target Value YR3 (2019)	Target Value YR4 (2020)	Frequency	Data Source	Responsible	Verification Procedures
PDO INDICATORS											
1. Increased tax revenue collection (domestic tax revenue/GDP ratio)	No	Percentage	10% ²⁵	10.4%	10.8%	11.3%	11.8%	Annual	OGT, IMF report	MFB, INSTAT	Independent evaluation
2. TADAT PO-8 indicators 'Efficient Revenue Management' ²⁶ rated B	No	Number	0 All three indicators rated D	0 At least one indicator increased its rating to C	0 At least two indicators increased their rating	1 At least one indicator rated B	2 At least two indicators rated B	Annually	TADAT report	DGI, CSOs, TADAT, Secretariat	Annual TADAT self-assessment on selected TADAT indicators Full TADAT assessment early 2018.

²⁵ Baseline and target values are based on IMF estimates. Target values are agreed upon between Government and the IMF.

²⁶ TADAT PO-8 'Operational efficiency and effectiveness' includes TADAT indicators P8-22: Contribution to Government tax revenue forecasting process; P8-23: Adequacy of the tax revenue accounting system; and P8-24: Adequacy of tax refund processing.

Indicator Name	DLI	Unit of Measure	Baseline	Target Value YR1 (2017)	Target Value YR2 (2018)	Target Value YR3 (2019)	Target Value YR4 (2020)	Frequency	Data Source	Responsible	Verification Procedures
3. Communes with IGL higher than 6	No	Percentage	3	Availability of new IGL baseline	> 25	> 40	> 60	Annually	MID annual report, district reports IGL self-assessment	FDL, observatory of decentralization	Independent evaluation (sampling - 10% of communes and regions)
4. Availability of a teachers' information management system	No	Process	No	Design of the mechanism for regular data collection on teachers and launching of teacher census (establishment of the database)	Teacher census completed and setting up of mechanism for yearly updating	Yearly update of teachers' database	Yearly update of teachers' database	Annual	MEN report	MEN	Third party audit report of database
5. Number of direct beneficiaries Of which females	No	Number	0	857 20%	1663 20%	2470 20%	3277 20%	Annual	PREA M&E report	PREA	Copy of M&E report
INTERMEDIATE INDICATORS											
Component 1: Improving Revenue Management											
6. Modernization of the Integrated Tax Administration System (ITAS)	DLI 1	Process	None	Availability of the technical specifications for the ITAS	Launch of the call for tenders for the procurement of the ITAS	Procurement of the ITAS software and hardware	ITAS operational (in pilot tax centers covering 90% of tax revenue)	Annual	DGI	DGI	Independent evaluation

Indicator Name	DLI	Unit of Measure	Baseline	Target Value YR1 (2017)	Target Value YR2 (2018)	Target Value YR3 (2019)	Target Value YR4 (2020)	Frequency	Data Source	Responsible	Verification Procedures
7. Increased rate of confirmed suspicious customs transactions related to home use at Toamasina customs office (in case of physical examination).	DLI 2	Percentage	5 ²⁷	> 5	> 10	> 12.5	> 15	Quarterly (annual disbursements)	Customs statistics, TradeNet	Customs	Independent evaluation
		Payment		US\$500,000	US\$1,000,000	US\$1,000,000	US\$500,000				
8. Number of revenue offices ²⁸ that have been subject to external evaluation of their performance contracts/program	DLI 3	Number	0	Availability of performance contract model type (both for DGI and customs)	2	4	6–8	Annually	Availability of contract on MFB website	PREA, CA	Sampling of contracts, review of CA report
		Payment		US\$1,000,000	US\$1,000,000	US\$500,000	US\$500,000				
9. Improved taxpayers' registration	No	Number of active taxpayers registered in the database	200,000 (Baseline: 2015)	240,000 (Cumulative)	260,000 (Cumulative)	290,000 (Cumulative)	320,000 (Cumulative)	Annually	DGI report	DGI	Independent audit of taxpayers
10. Establishment of a single administrative identification number	No	Number of records in the database	0	Availability of ToRs for the technical specificities for the single administrative identification number annexed to the ITAS technical specifications	Adoption of the regulatory framework for the implementation of the single administrative identification number	1,000,000 Records in the database for the single administrative identification number	2,500,000 Records in the database for the single administrative identification number	Annually	Unique administrative identification number database	PREA, EDBM, CNAPS, INSTAT, DGI, MID, selected communes	Independent audit of the administrative single identification number database

²⁷ Data extracted from SYDONIA++.

²⁸ Revenue offices representing 80 percent of revenues for each office customs and tax administration. Revenue offices include customs offices and regional tax offices.

Indicator Name	DLI	Unit of Measure	Baseline	Target Value YR1 (2017)	Target Value YR2 (2018)	Target Value YR3 (2019)	Target Value YR4 (2020)	Frequency	Data Source	Responsible	Verification Procedures
11. Improved formalization of small-scale miners.	No	Number	0	Availability of the technical specifications and launch of the tender of ASM operators database	5,000 small-scale mining operators recorded in the municipal registry and in the ASM database	10,000 small-scale mining operators recorded in the municipal registry and in the ASM database	15,000 small-scale mining operators recorded in the municipal registry and in the ASM database	Annually	MPMP and ANOR databases	MPMP, ANOR, MID	Independent audit of the database
Component 2: Improving Service Delivery Capacity of Local governments											
12. Improved timeliness of service delivery fiscal transfers to local governments	DLI 4	Process	No standard available to measure acceptable delays for transfer execution	No standard available. Stocktaking of transfers (mechanisms and delays) to local governments available	Standard available. Availability of an harmonized yearly transfer program (annexed to the Budget Law - 2018) Operationalization of Decentralization common fund with the new equalization scheme including mining revenue	Completion of the transfer program with a tolerance threshold of 60 days on average	Completion of the transfer program with a tolerance threshold of 30 days on average	Semiannually Annual disbursement	Budget execution report, local government financial statements, CSO reports	ONCD, observatory of decentralization, PREA	Independent audit, impact evaluation
			Payment	US\$5,000,000	US\$2,000,000	US\$2,000,000	US\$2,000,000				
13. Improved recovery of revenue (not including grants) by local governments	No	Recovery rate in percentage	30%	> 35%	> 40%	> 45%	> 50%	Annually	Local government balance sheet database (SIFCO)	Observatory of decentralization, MFB, local governments	Sampling of local governments financial statements
Component 3. Improving Governance Mechanisms in the Education Sector											

Indicator Name	DLI	Unit of Measure	Baseline	Target Value YR1 (2017)	Target Value YR2 (2018)	Target Value YR3 (2019)	Target Value YR4 (2020)	Frequency	Data Source	Responsible	Verification Procedures
14. Share of schools targeted by the component with an operational FEFFI, planning and implementing PECs	DLI 5	Percentage of targeted schools	0	25% of schools have the FEFFI operational and a prepared PEC	40% of Schools have the FEFFI operational and a prepared PEC	60% of schools have the FEFFI operational and a prepared PEC	75% of schools have the FEFFI operational and a prepared PEC	Annually	Umbrella CSO report, MEN report and the follow-up report, FEFFIs by laws, PECs	MEN, umbrella CSOs	Third-party monitoring report (CSOs), local government report
		Payment		US\$1,000,000	US\$1,500,000	US\$1,500,000	US\$1,500,000				
15. Percentage of FRAM teachers in the areas selected by the component receiving subsidies with less than two months of delay	No	Percentage	5	> 10	> 25	> 40	> 50	Annually	SIGFP (IFMIS) , FRAM teacher, budget execution report	MEN	Verification using ICT systems
Component 4. Improving Controls and Performance Monitoring											
16. Timely availability of the CA public report (process indicator)	No	Process	No First CA report ready for publication	No	Yes upon 24 month after the end of the considered FY	Yes upon 12 months after the end of considered FY Amendment of the Budget Organic Law (<i>Loi Organique relative aux Lois de Finances</i>)	Yes up on 8 months after the end of considered FY	Annually	Availability of document	Parliament, CA	Publication on Government websites
17. High/substantial risk audits completed by Internal Audit Departments	No	Number	0	1	2	4	6	Annually	Final audit reports, internal audit activity report	Internal Audit Department	Copy of the final audit report and transmittal letter to the MFB to prove that the audits have been completed

Indicator Name	DLI	Unit of Measure	Baseline	Target Value YR1 (2017)	Target Value YR2 (2018)	Target Value YR3 (2019)	Target Value YR4 (2020)	Frequency	Data Source	Responsible	Verification Procedures
18. Semiannual public debates on the budget law ²⁹ , the performance of revenue agencies and project performance led by CSOs. (citizens' engagement indicator)	No	Number	1	1	2	2	2	Annually	Media and umbrella CSO reports	PREA, umbrella CSOs	Follow-up of CSO website and reports

Note: MPMP = Ministry attached to the Presidency in charge of Mines and Petroleum

²⁹ Annual budget law and *Loi de Règlement*.

Annex 2: Detailed Project Description

Madagascar: Public Sector Performance Project

1. Adopting a results-based approach, this operation will be structured to respond to four critical problems that impede service delivery and accountability:

- Poor revenue mobilization, including due to illegal exploitation and leakages in the mining sector, significantly undermines fiscal space at the national and the local levels.
- Weak oversight of budget execution limits the efficient use of scarce resources and further reduces fiscal space.
- Limited fiscal space and incomplete decentralization negatively affect the effectiveness of local governments in delivering services.
- Limited fiscal space and poor governance undermine service delivery in critical social sectors such as education.

Component 1: Improving Revenue Management (US\$16.8 million)

2. This component aims to strengthen Madagascar's capacity to mobilize revenues. A recent analysis by the IMF confirms that the most pressing reforms in the area of tax and customs administration are related to the enforcement of existing legislation. At the same time, the lack of transparency and compliance in the mining sector also results in revenue losses. Royalties (*'redevances'* and *'ristournes'*) are expected to represent the principal source of revenues generated by mining in the medium term. Therefore, the project seeks to improve revenues through improving tax administration and revenue collection, including in the mining sector, and improving customs administration and revenues by reducing leakages.

3. The background analysis shows that there is low revenue performance irrespective of adequate legal frameworks and existing technical knowledge, thus indicating that underlying challenges exist, concerning behavior, mindsets, organizational structures, and incentives. Since the reforms supported by the project call for individual, team, organizational, and societal changes, leadership, change management, and knowledge management activities will be mainstreamed across Component 1 to support project implementation and improve the sustainability of results.

4. The results to be achieved through this component are (a) the availability of improved integrated revenue information management systems and (b) enhanced operational efficiency of revenue agencies.

5. The following intermediate indicators and/or DLIs have been selected to monitor the performance of this component:

- **DLI 1:** Modernization of the Integrated Tax Administration System (ITAS)
- **DLI 2:** Increased rate of confirmed suspicious customs transactions related to home use at Toamasina customs office (in case of physical examination).

- **DLI 3:** Number of revenue offices³⁰ that have been subject to an external evaluation of their performance contracts/program
- Improved taxpayers' registration
- Establishment of a single administrative identification number.
- Improved formalization of small-scale miners

6. **To achieve these results, this component will support the following activities:**

- **Activity 1.1: Improving and consolidating taxpayers' registration and identification (US\$0.60 million).** To improve the tax revenue collection in the short and medium term, the project will finance the audit of the current taxpayers' single identifier number system (NIFONLINE); and TA to support the analysis of business processes; the establishment of single administrative identification numbers for taxpayers' coalition building process; and the migration of various taxpayers databases toward the NIFONLINE.
- **Activity 1.2: Modernization of the ITAS (US\$6.65 million).** The project will support the provision of TA (international consultant) to (a) elaborate a detailed ICT readiness diagnostic (considering previous IT diagnosis work financed by the Bank); (b) develop a DGI ICT modernization strategy and action plan; and (c) support the DGI with the development of targeted and customized bidding documents (for example, user requirements) for the ITAS procurement as well as assessing the quality and technical adequacy of bids received from potential ITAS contractors. The project will also support the purchase of a new ITAS and the procurement of IT infrastructures in line with the DGI's business requirements encompassing the entire tax administration life cycle for main domestic taxes. Training modules will be provided for DGI staff at headquarters and regional offices with ICT literacy and readiness to operate within the ITAS environment. Additional TA will be provided to support the DGI's communication department to design and implement outreach activities to enhance taxpayers' awareness, acceptance, understanding, and adoption of new processes and procedures resulting from the introduction of the ITAS. Finally, the project will facilitate any legal or policy changes needed to enable the change in tax collection.
- **Activity 1.3: Strengthened risk-based audit function and controls (US\$3.25 million).** This activity will include (a) TA to support central services (of Tax and Customs Departments) in managing, cross-referencing, and analyzing taxpayer data, as well as audit planning and supervising and monitoring operational services; (b) training auditors on intelligence gathering and modern risk analysis techniques; (c) revision of audit procedural manuals; and (d) M&E. More specifically, the activity will support ex post audits and strengthen risk analysis

³⁰ Revenue offices include customs offices, regional tax offices, regional Treasury offices, local mining offices, and communes.

and statistics units to gather information on fraudulent practices as well as generate and analyze relevant data to inform decision making.

- **Activity 1.4: Creating the enabling environment for performance-based management (US\$3.60 million).** This activity will strengthen the management of revenue agencies (mainly Tax and Customs Departments) and human resources by revising the internal incentive structure and establishing individual and institutional performance contracts. In particular, this activity will support revenue agencies' performance management by providing TA and training to (a) introduce performance contracts for tax inspectors; (b) develop performance management and monitoring of indicators; and (c) identify various options to change incentives and sanctions mechanisms. For the Customs Department, this activity will initially be piloted at the Toamasina Port and the Ivato Airport in Antananarivo.
- **Activity 1.5: Improving revenue collection in the mining sector (US\$1.8 million).** This activity will include (a) the provision of TA to review mining royalty collection and distribution procedures, map the roles and responsibilities of public sector institutions involved in the process and assess their capacities to fulfill their mandate (including on pricing), and provide capacity building where training needs will be identified; (b) the procurement of equipment to improve the analytical capacity of the national mining laboratory, regional MPMP offices; and the ANOR; (c) development of a strategy in ASM value chain conducive to formalization, improved revenue management, and compatible with sustainable development. This may include the development of a business plan for the establishment of a national gold refinery to be set up as a Private Public Partnerships and training on gold management for public officials; and (d) contribution to the design and procurement of a database and monitoring system for ASM operations and training mining institutions (MPMP, ANOR) and local governments (communes and regions) on improved service delivery to support the formalization of artisanal miners.

7. **The improvement of revenue mobilization and management will be supported by two cross-cutting activities.** The first one (Activity 1.6) will focus on promoting transparency and accountability of revenue management in relation to external stakeholders, while the second activity (Activity 1.7) will support leadership, change management, and knowledge sharing to support improving revenue management.

- **Activity 1.6: Improving accountability and transparency of revenue and customs agencies (US\$0.45 million).** This will include (a) TA to support the publication of service standards for the administration of revenue agencies and the completion of user surveys on revenue administration; (b) dissemination activities aimed at clarifying taxpayers' rights and obligations to support compliance; and (c) improvement of internal communication.
- **Activity 1.7: Improving leadership, change, and knowledge management (US\$0.45 million).** The project will provide TA and training in the following areas: leadership development facilitation and coalition building toward specific goals among public and private sector, consultations, technical training on knowledge capturing techniques and the art of knowledge, and South-South

exchanges.

8. **The EEPs to be financed under this component will include** the purchase of some of the IT equipment's as well as software necessary for the roll-out of the ITAS. In addition, EEPs will also finance parts of the salary of the tax administration, customs administration and selected control institutions. Finally, EEPs will include the purchase of furniture and arrangements of facilities/offices of tax and customs administration to improve the relationship with customers/taxpayers.

Table 4. Component 1: Summary of Budget Allocations and Activities (in US\$, millions)

Component 1: Improving Revenue Management		16.8	RBF	12	
			TA	4.8	
	Activity	Amount		Details	
1.1	Improvement and consolidation of taxpayers' registration identification	0.6	RBF	0	EEP: n.a.
			TA	0.6	<ul style="list-style-type: none"> • Audit of the current taxpayers' identification system (NIFONLINE) • Analysis of business processes • Establishment of a single administrative identification number for taxpayers • Migration of taxpayers' databases toward the new NIFONLINE
1.2	Modernization of the ITAS	6.65	RBF	6	EEP: 21-220-115-3-00-23-0-630-00000 21-220-115-5-00-23-0-630-00000 <ul style="list-style-type: none"> • Strengthening of fiscal governance: (a) IT equipment for the ITAS, (b) ITAS software, (c) workshops, (d) internal and external communication • Ensure national coverage of tax administration and improve tax basis: (a) improvement of taxpayers' reception rooms and (b) implementation of local tax offices 21-220-013-2-00-21-9-110-00000 <ul style="list-style-type: none"> • Salaries of tax administration staff
			TA	0.65	<ul style="list-style-type: none"> • Tax administration ICT readiness diagnostic • Tax administration ICT modernization strategy • Development of ITAS bidding documents • Training on ICT and use of the ITAS for tax administration staff • Necessary legal and policy changes enabling the use of the new ITAS in tax collection • Communication and awareness raising on the ITAS for taxpayers
1.3	Strengthened risk-based audit function and controls	3.25	RBF	3	EEP: 21-220-115-3-00-23-0-630-00000 21-220-115-5-00-23-0-630-00000 <ul style="list-style-type: none"> • Strengthening of fiscal governance: (a) IT equipment for the ITAS, (b) ITAS software, (c) workshops, (d) internal and external communication 21-220-116-3-00-23-0-300-00000 21-220-116-5-00-23-0-300-00000 <ul style="list-style-type: none"> • General Directorate of Customs: (a) improvement of customs client reception rooms and (b) procurement of IT and office equipment 21-220-013-2-00-21-9-110-00000 <ul style="list-style-type: none"> • Salaries of tax administration

Component 1: Improving Revenue Management		16.8	RBF	12	
			TA	4.8	
					05-050-005-00-3-00-05-0-100-00-(652-02-04-00-11-59) <ul style="list-style-type: none"> Salaries of control institution: Financial and Budgetary Disciplinary Commission (CDBF, <i>Commission de Discipline Budgétaire et Financière</i>) 21-220-117-2-00-21-9-110-000 Salaries of Financial Investigation and Audit Brigade (<i>Direction de la Brigade d'Investigation Financière et d'Audit</i>, DBIFA) 16-160-012-00-3-00-16-0-610-00000 Salaries of CA staff
			TA	0.25	<ul style="list-style-type: none"> Support to tax and customs administrations on analysis of taxpayers' data for risk identification purposes, audit planning, and monitoring Training of auditors on risk analysis Revision of audit procedural manuals M&E.
1.4	Creating enabling environment for performance-based management	3.6	RBF	3	EEP: 21-220-016-2-00-21-9-110-00000 <ul style="list-style-type: none"> Salaries for customs administration 21-220-013-2-00-21-9-110-00000 Salaries of tax administration 05-050-005-00-3-00-05-0-100-00-(652-02-04-00-11-59) Salaries of control institution: CDBF 21-220-117-2-00-21-9-110-000 Salaries of DBIFA 16-160-012-00-3-00-16-0-610-00000 Salaries of CA staff
			TA	0.6	<ul style="list-style-type: none"> Revision of internal incentive and sanctions structure Establishment of an individual performance contract for tax and customs inspectors Develop performance management and monitoring systems.
1.5	Improving revenue collection in the mining sector	1.8	RBF	0	EEP: n.a.
			TA	1.8	<ul style="list-style-type: none"> Review of mining royalty collection and redistribution procedures Capacity and needs evaluation and training of public entities involved in the collection process Procurement of equipment for the Ministry of Mining and the ANOR ASM formalization strategy Development of a database and monitoring system for ASM Development of a business plan for the sector institutional framework: national refinery Training and capacity building for the Ministry of Mining, ANOR, and decentralized authorities.
1.6	Improving accountability and transparency of revenue agencies	0.45	RBF	0	EEP: n.a.
			TA	0.45	<ul style="list-style-type: none"> Development and publication of service standards for revenue agencies (tax and customs) User surveys on revenue administration services Communication on taxpayers' rights and obligations Improvement of internal communication for revenue

Component 1: Improving Revenue Management		16.8	RBF	12	
			TA	4.8	
					agencies
1.7	Improving leadership, change, and knowledge management	0.45	RBF	0	EEP: n.a.
			TA	0.45	<ul style="list-style-type: none"> • TA and training: Leadership development facilitation and coalition building • Knowledge building and sharing: South-South exchanges

Component 2: Improving Service Delivery Capacity of Local governments (US\$12 million)

9. **This component aims at strengthening local government revenue management.** Local governments’ ability to mobilize their revenues, together with the unpredictability of transfers from the central Government, remains an important impediment to service delivery at the local level. The project will seek greater efficiency of local governments in the use of their resources. This will be measured through the IGL and supported by various capacity-building activities targeting the newly elected local government officials and their staff. Proven tools to improve social accountability at the local level, such as participatory budgeting (PB), the OCAI, and community scorecards, will be applied to help communes improve their IGL performance and their relationship with communities.

10. **The results to be achieved through this component are** (a) an improved local governance performance management system through the IGL and (b) greater efficiency of local governments’ financial flow.

11. **The following intermediate indicators and/or DLIs have been selected to monitor the performance of this component:**

- **DLI 4:** Improved timeliness of service delivery fiscal transfers to local governments
- Improved recovery of revenue (not including grants) by local governments

12. **To achieve these results, this component will support the following activities:**

- **Activity 2.1: Enhancing local governments’ grants mechanisms (US\$11.40 million).** At the start of implementation, the project will finance an up-front local development grant disbursement to be channeled to local governments through the FDL. Funds will be disbursed to local governments meeting FDL eligibility criteria. These grants to communes, of an amount of US\$5000 per commune, will be used and managed based on the FDL grant manual. The grants to communes, as per FDL manual and existing legislations would be used by communes for small scale investment falling under their legal mandates (rehabilitation of education and health infrastructure, rural roads, marketplace etc.). The identification of priority projects for which communes will use the FDL grants is undertaken through a participatory budgeting process at local level, as per FDL grant manual. The project will support the improvement of FDL selection criteria, to take into account the RBF approach and the

Government wants to operationalize the equalization fund. It will provide TA to revise the current legal and institutional framework. The support will also include mainstreaming procedures and building a coherent transfer mechanism for all Government and sectoral subsidies directed toward communes. The grant program will complement other grants and TA from FDL partners (Reconstruction Credit Institute [*Kreditanstalt für Wiederaufbau*], French Development Agency [*Agence Française de Développement*]). The Government will facilitate close cooperation among FDL partners to ensure good coordination of development partner's support.

- **Activity 2.2: Improving revenue collection at the local level (US\$0.40 million).** This activity will include the provision of TA to support the development of a local government revenue strategy in partnership with the Ministry of Interior and Decentralization and the MFB. The strategy will be informed by (a) a stocktaking analysis of available local revenues (land taxes, mining royalties, and so on); (b) the revision of the legal framework and strategies guiding revenue mobilization for local governments; (c) the use of mobile banking for revenue collection, which will be done in close cooperation with the Ministry of Finance to roll out single identifier numbers; and (d) piloting and scaling up of innovative approaches to secure revenue collection (the OCAI, rapid-results initiative, PB, and so on).
- **Activity 2.3: Enhancing knowledge management (US\$0.20 million).** This activity will support building knowledge to better inform the decentralization agenda. It will include (a) conducting selected impact evaluation of local governance initiatives with particular emphasis on IGL transfers and revenue collection; (b) providing TA to support decentralization and local governance think tanks (CSO and local coordination structure [*Structure Locale de Concertation*, SLC]); and (c) establishing peer-to-peer learning systems.

13. **The EEP to be financed under this component** is the payment of the local government grants, of an amount of US\$5000 per eligible communes to be channeled through the FDL (based on FDL eligibility criteria) to allow communes to improve their service delivery capacity.

Table 5. Component 2: Summary of Budget Allocations and Activities (in US\$, millions)

Component 2: Improving Service Delivery Capacity of Local governments		12	RBF	11	
			TA	1	
	Activity	Amount		Details	
2.1	Enhancing Government grants	11.4	RBF	11	EEP: 14-170-113-00-3-10/14-170-113-00-5-10 • Payment of FDL grants to communes (grants are used by communes for local investment as per FDL manual, mainly small scale local infrastructures, potentially including rehabilitation of health and education infrastructures, rural roads, market place. etc.)
			TA	0.4	• Analysis of the current legal and institutional framework on Government grants to

					communes • Revision of legislation, implementation of streamlined procedures, and building of a coherent mechanism for all Government grants to communes
2.2	Improving revenue collection at the local level	0.4	RBF	0	EEP: n.a.
			TA	0.4	<ul style="list-style-type: none"> • Stocktaking analysis of existing revenues for local government (land, mining, and so on.) • Revision of the legal framework and strategy for revenue mobilization for local governments • Introduction of ICT (mobile banking) in revenue collection • Piloting and scaling up of an innovative approach in revenue collection (RRIs, OCAI, PB, and so on.)
2.3	Enhancing knowledge management	0.2	RBF	0	EEP: n.a.
			TA	0.2	<ul style="list-style-type: none"> • Impact evaluation of local governance initiatives (IGL transfers, revenue collection, and so on.) • Support to local CSOs and think tanks on local governance including SLCs • Establishment of a peer-to-peer learning systems for local governments

Component 3: Improving Governance Mechanisms in the Education Sector (US\$7.80 million)

14. **Inefficient budget execution affects the ability of the sector to provide appropriate public services.** As with other line ministries, the MEN is required to comply with the regulation rates set up by the MFB. This has a negative impact on key expenditures such as payment of subsidies to community teachers.³¹ The payment of teacher's subsidies encounters around 2 to 4 months of delays, and the yearly transfer of school grants may encounter up to 6 months of delays. In fact, this requires sound quarterly planning and monitoring, which the MEN still finds challenging. The procurement process is also not very efficient. An evaluation undertaken by the Bank in FY2014 pointed out shortcomings in the procurement system within the MEN³² limiting the time left for procurement during the fiscal year. As a consequence, procurement actors have little incentive to engage in competitive procurement processes, increasing risks of corruption and mis-procurement, while also affecting the quality of the deliverables.

15. **School-based management has been implemented to support delivery of public services.** The FEFFIs and the PECs have been defined by law, but challenges remain with regard to their operationalization. School committees, as defined in the new decree N° 2015-707 of May 22, 2015, are expected to bring together the various actors involved in school life, including the FRAM, which until now were not involved in school grant management as

³¹ In this document, the expression community teachers and the FRAM will be used to designate teachers recruited by the community through the parent's associations.

³² Including the late yearly nomination of budget authorizing officers delaying budget execution by three months, the regulation rate limiting the capacity of the ministry to undertake engagements throughout the year, and inefficient budget preparation, which is reflected in a lack of procurement planning. Time left or procurement process and budget execution is then limited.

it was carried out by a small school committee (FAF). Thus, the school principal, members from FRAM associations, and the community are now entrusted with management of school funds. Further, school grants are to be associated with PECs focusing on improving service delivery, thus focusing on improving school performance. The FEFFI will require sitting at the same table with local stakeholders that thus far have not always worked under the same institutional structure, even if both are strongly engaged in ensuring service delivery: the FAF (current structure of school committees) and the FRAM. Furthermore, the role of the community in the FEFFI still does not seem to be clearly defined. At the same time, the aspirations around what a PEC could entail seem overambitious in the decree for the levels of funding at the school level.

16. Therefore, this component will mainly support activities to support a more efficient budget execution and strengthened school-based management to improve service delivery in the education sector. The component will focus on three regions of the country, which are Alaotra Mangoro, Sofia, and Analamanga (comprising 4,812 schools), to allow for sound piloting and consolidation of the proposed changes in procedural mechanisms such as payment of transfers and school-based management activities. These regions have been chosen to ensure complementarity with existing education operations financed by the Bank and/or other donors. Some activities, such as the teacher census, will be carried out nationally.

17. The results to be achieved through this component are (a) improved budget planning, monitoring, and execution mechanisms; (b) improved efficiency in procurement and transfer of funds to the local level; and (c) operational FEFFIs (in project supported areas) and increased use of accountability mechanisms at the local level.

18. The following intermediate indicator and/or DLIs have been selected to monitor the performance of this component:

- **DLI 5:** Share of schools targeted by the component with an operational FEFFI, planning and implementing PECs (citizens' engagement DLI)
- Percentage of FRAM teachers in the areas targeted by the component receiving subsidies with less than two months of delay

19. To achieve these results, this component will support the following activities:

- **Activity 3.1: Improving budget planning and monitoring systems and budget execution mechanisms (US\$1.6 million).** The project will finance the design/revision, piloting, and implementation of budget tools, at local (Regional Ministry of Education Offices [*Direction Régionale de l'Éducation Nationale*, DREN]) and central (Ministry) levels, to be used to inform budget decisions, monitor budget execution, and improve recording systems. Complementing the development of a Medium-term Expenditure Framework (developed under PASSOBA),³³ the project will support the establishment of a budget monitoring system at the central and local levels to improve budgeting information and inform the update of the Medium-term Expenditure Framework. The project will also support, according to existing legislation, the operationalization of the

³³ PASSOBA = *Programme d'Appui aux Services Sociaux de Base*, financed by the European Commission.

*Bureau de Contrôle Administratif et Financier (BCAF)*³⁴ at the school district (*Circonscription Scolaire, CISCO*) level and reinforce its role with regard to financial and administrative management and oversight.

- The project will also finance activities aimed at improving the efficiency of public procurement and transfer mechanisms, including payment of community teachers’ subsidies and transfer of school grants. The project will provide TA and support at the various levels of the chain to develop the procurement capacity and efficiency at central and DREN level. In particular, support will be provided for the development of procurement planning tools and capacity-building activities around procurement procedures.
- With respect to transfer mechanisms, activities will aim at improving the efficiency of the transfer to community teachers and the school grants. The project will support the identification of teachers through a census and a cleaning of the database of the community teachers, to have the appropriate information for the payment basis. Further, a mechanism for the recurrent update of the database will be put in place. In addition, the project will support a review and revision of the payment procedure for community teachers’ subsidies and school grants, looking at legal, institutional, and organizational aspects. Support from the project will also include the implementation at the local level of a software for management of community teachers, as well as piloting of procedural changes resulting from the review of the payment process for both community teachers and school grants.
- **Activity 3.2: Supporting the implementation of school committees and PECs (US\$6.2 million).** The activity will support the implementation of school committees and plans. This will include (a) stock taking of existing practices and (b) the revision, development, reproduction, and dissemination of materials and tools for school-based management followed by (c) training activities toward school committees to build management and planning capacity. The activity is coupled with an incentive process through the RBF approach.

20. **The EEP to be financed through the achievement of this component’s DLIs is the payment of school grants.**

Table 6. Component 3: Summary of Budget Allocations and Activities (In US\$, millions)

Component 3: Improving Governance Mechanisms in the Education Sector		7.8	RBF	5.5	
			TA	2.3	
	Activity	Amount		Details	
3.1	Improving budget planning and monitoring systems and	0.5	RBF	0.0	EEP: n.a.
			TA	1.6	• Development and implementation of budget planning tools at the central and DREN levels, including

³⁴ BCAF = *Bureau de Contrôle Administratif et Financier*, which represents the financial and administrative department at the CISCO level.

	budget execution mechanisms				<ul style="list-style-type: none"> training Establishment of budget monitoring system at the central and local levels Operationalization of <i>Bureau de Contrôle Administratif</i> (BCAF) at the CISCO level Development of procurement planning tools Capacity building, training on procurement procedures and procurement tools Census teachers to build a database for the payment basis, a development of a mechanism for systematic update of the database Implementation of the software for the management of community teachers Review of payment procedures for community teachers and school grants (legal, institutional, and organizational aspects) Piloting of the implementation of the changes in payment procedures.
3.2	Supporting the implementation of school committees and PECs	6.2	RBF	5.5	EEP: 81-810-305-00-3-10-65 <ul style="list-style-type: none"> Payment of school grants
			TA	0.7	<ul style="list-style-type: none"> Stocktaking of school-based management practices Development and reproduction of materials for school-based management Training activities for school committees

Component 4: Improving Controls and Performance Monitoring (US\$3.4 million)

21. **This component will focus on budget transparency and accountability.** Given the country context, improving PFM is essential to ensure effective and efficient management of the public resources with the view of maximizing progress toward the twin goals. First, the component will support the improvement of budget control, accountability, and oversight. Several reviews³⁵ have highlighted the lack of efficient controls as a major issue that affects both revenue mobilization and transparency of public spending in Madagascar. Therefore, this component seeks to address a number of critical constraints, including strengthening of the legislature's capacity to scrutinize the budget and fiscal reports, citizens' demand for good governance and Government accountability, and the accuracy and completeness of information displayed. Second, the component will support capacity development of the entities in charge of audit and control to implement a risk-based approach and apply modern control techniques. The objective is to improve the effectiveness and efficiency of controls to reduce opportunity for fraud, inefficient procurement practices and misuse of public funds as well as to create more fiscal space to improve service delivery.

22. **This component will also support the coordination and delivery of the project inputs and overall implementation.** In addition to general project management, the component will support M&E, including surveys and third-party monitoring for DLI verification, procurement, and FM.

23. **The results to be achieved through this component are** (a) more efficient use of resources as well as reduced fraud and fund misuse resulting from improved control, oversight, and budget transparency and (b) improved leadership and sectoral dialogue.

³⁵ IMF aide memoire May 2015, PEFA 2014, TADAT, and mirror statistics.

24. **The following intermediate indicators have been selected to monitor the performance of this component:**

- Timely availability of the CA public report
- Number of high/substantial risk audits completed by Internal Audit Departments
- Semiannual public debates on the budget law³⁶, the performance of revenue agencies and project performance led by CSOs (citizens' engagement indicator)

25. **To achieve these results, this component will support the following activities:**

- **Activity 4.1: Strengthening controls and oversight mechanisms (US\$0.70 million).** The project will finance activities aimed at improving the capacity of the CA; supporting internal and external risk-based audit functions; and strengthening the accountancy professions. This will include the provision of TA and training to (a) support the development of a methodology and tools to conduct financial audits in accordance with International Standards of Supreme Audit Institutions, performance audits, and forensic investigations; (b) build the capacity of supreme audit institutions' staff; (c) support monitoring and audit of EEPs; and (d) conduct and monitor the recommendation of internal and risk-based audits. Finally, the project will also strengthen the capacity of Professional Accountancy Institutions by supporting the development of strategies, guidelines, and tools as well as the provision of training.
- **Activity 4.2: Promoting transparency, accountability, participation, and media access to information (US\$0.50 million).** The project will finance activities aimed at supporting the development of 'space for dialogue' to facilitate communication between the Government and citizens on reform areas supported by the operation. This will include the implementation of 'periodic public debates workshop' at the central, regional, and local levels focusing on revenue management, civic fiscal engagement, and budget transparency. The public debates will be informed by technical reports produced by various project stakeholders (financial statements, budgets, public accounts, EITI reports, and so on). The debates will focus on public sector performance as well as on project performance, namely, the achievement of agreed-upon objectives and results (DLIs). This will include (a) training the Parliament Budget Commission/parliamentary assistants; (b) training media and CSOs in budget management; (c) supporting the development and the implementation of the 2014 Open Budget Assessment Action Plan; and (d) the provision of TA to CSOs to monitor the achievement of DLIs. This activity will complement ongoing work supported by the EU and the AfDB.
- In terms of media and access to information, the project will finance the monitoring of the 'Access to Information Charter' implementation developed by the former Madagascar PGDI II (P103950). The project will also support other access to information initiatives to be led by CSOs/media, such as the design and production of simplified documents understandable to all citizens (budget

³⁶ Annual budget law and *loi de règlement*

information/citizen budget, summarized and simplified EITI reports, communal citizen budgets in targeted local governments, and so on.)

- **Activity 4.3: Project coordination and performance monitoring (US\$1.20 million).** This activity aims at supporting the PREA to fulfill its mandate for reform coordination and leadership. In addition to general project management, this component will support procurement, FM, and M&E. This activity will include (a) providing short-term TA in the area of procurement and FM (including the development of annual audit reports); (b) monitoring the performance of reforms supported by the project, including the rollout of RRI; (c) supporting the development of a project communication strategy and dissemination tools; and (d) conducting surveys, audits, and third-party monitoring of DLIs (social accountability activities). Purchase of equipment for the PREA will also be done under this activity.
- **Unallocated (US\$1.00 million).** Unallocated funds will be included for unforeseen needs with respect to TA supporting the achievement of DLIs during project implementation.

26. There will be no EEP financed through this component.

Table 7. Component 4: Summary of Budget Allocations and Activities (in US\$, millions)

Component 4: Improving Controls and Performance Monitoring		3.4	RBF	0.0	
			TA	3.4	
	Activity	Amount		Details	
4.1	Strengthening controls and oversight mechanisms	0.7	RBF	0.0	EEP: n.a.
			TA	0.7	<ul style="list-style-type: none"> • Development of methodology and tools to conduct financial analysis in accordance with International Standards of Supreme Audit Institutions, performance audits, and forensic investigations • Training and capacity building for supreme audit institutions' staffs • Support to the implementation of internal and external risks-based audits. • TA to implement and monitor the recommendations of internal and risk-based audits • Development of strategies, guidelines, and tools for professional accountancy institutions • Support for supreme audit institutions to monitor and audit project EEPs
4.2	Promoting transparency, accountability, participation, and media access to information	0.5	RBF	0.0	EEP: n.a.
			TA	0.5	<ul style="list-style-type: none"> • Periodic public debates and workshops on revenue management, civic fiscal engagement, budget transparency, and project performance • Implementation of 2014 Open Budget Assessment Plan • Monitoring of the implementation of the 'Access to Information Charter' • Development and dissemination of citizen budget (central and local level) and simplified EITI reports

					<ul style="list-style-type: none"> • Training to CSOs and the parliament on budget management • TA to CSOs to monitor the achievement of project DLIs
4.3	Project coordination and performance monitoring - operating costs	1.2	RBF	0.0	EPP: n.a.
			TA	1.2	<ul style="list-style-type: none"> • Procurement, FM, and M&E activities of the project by the PREA • Rollout of RRI in the realization of project activities • Development and implementation of the project communication strategy • Survey, audits, and third-party monitoring of project DLIs • Purchase of equipment for the PREA
4.4	Unallocated	1.0	RBF	0.0	EPP: n.a.
			TA	1.0	Unallocated funds for unforeseen TA needs during project implementation

Annex 3: Implementation Arrangements

Madagascar: Public Sector Performance Project

Project Institutional and Implementation Arrangements

1. **The project implementation will be led by the PREA, based within the President's Office.** The PREA will be responsible for coordinating project implementation in close cooperation with ministries and other project stakeholders. In particular, it will (a) manage project funds; (b) follow up on procurement; (c) monitor ministries responsible for the achievement of DLIs and related TA activities; (d) ensure compliance with the Bank's FM and procurement guidelines as well as safeguards policies; and (e) report to the Bank as necessary. The PREA director will ensure the overall project management and leadership of the project. The director will be supported by a team, including experts with the following professional expertise: (a) procurement; (b) FM; and (c) M&E. For all safeguard aspects with FDL components, the department in charge of environmental and social impact monitoring at the Ministry of Interior and Decentralization, in collaboration with the infrastructure specialist at the FDL, will be in charge of environmental and social aspects for all infrastructure subprojects financed by the grants to local governments under Component 2.

2. **The existing PREA Steering Committee, the *Conseil d'Orientation et de Suivi*, will act as the project steering committee.** Established in 2005, the committee is mandated to facilitate the coordination of public sector reforms and related programs and projects. Chaired by the Office of the President's Chief Secretary (*Secrétaire Général de la Présidence*), the Committee will ensure interministerial coordination, facilitate consensus building around project objectives, and oversee the achievements of project results.

3. **The PREA has project implementation experience, but additional assessment is needed to mitigate potential risks.** The PREA has implemented two previous PGDIs (PGDI I and II) while also serving as the anchor unit of all donor-funded public sector reform projects. Until August 2014, it did so with the support of a PIU funded by the Bank. At the technical level, the PREA is currently benefitting from international TA funded by the EU in the area of human resources and PFM. The AfDB also announced its intention to integrate the management of its current public sector project (PAGI) into the PREA following the project midterm review in February 2016. The Government has indicated its interest to mainstream the management of the proposed operation into existing structures; however, considering the recent changes in PREA institutional arrangements and the arrival of a new team, the initial

risk assessment is considered Substantial. A detailed fiduciary assessment will be conducted once institutional arrangements are confirmed and measures are proposed to mitigate risks.

FM, Disbursements, and Procurement

Country PFM Situation and Use of Country Systems

4. **The project will be implemented in an environment where the overall country fiduciary risks, including fraud and corruption risks, are Substantial.** The Government intends to mainstream the project into existing Government structures and use the country PFM systems to reduce the multiplicity of processes, procedures, and information systems that increase workload and undermine the strengthening of country systems. A recent country PFM review identified some weaknesses that could negatively affect the smooth implementation of the project in case the country PFM system is fully used. Other risks include the number of implementing agencies, the somewhat new innovative results-based approach introduced by the project, and the audit and verification of results reported as achieved by an independent third party (civil society, CA, and other third-party entities). A number of these risks will be directly addressed as part of the design of the project, which will opt for the gradual use of the country PFM systems using a risk-based approach. Additional mitigation measures include (a) the development of the POM that will provide clarity of roles and responsibilities as well as the process to implement and report on project activities; (b) the strengthening of the control environment, as well as M&E systems; and (c) the increase of the frequency of the Bank implementation and capacity-building support.

Financial Management

5. **The PREA will be in charge of the overall coordination of the project, including FM and reporting.** The beneficiaries' line ministries will technically manage the project's activities and ensure that their respective DLIs, if applicable, are achieved. The PREA's FM system has been assessed to determine whether (a) the PREA has the adequate FM arrangements to ensure that the project funds will be used for their intended purposes in an efficient and economical manner; (b) the financial reports will be prepared in an accurate, reliable, and timely manner; and (c) the project's assets will be safeguarded. The assessment concludes that the PREA's FM system is adequate and complies with the Bank's minimum requirements under OP/BP 10.00 subject to the effective implementation of the mitigation measures described in the paragraph below.

6. **The overall Fiduciary risk of the project has been assessed as Substantial and the proposed mitigation measures include the following:** (a) the recruitment of one qualified FMS and one accountant according to ToRs satisfactory to the Bank; (b) audit of the project's financial statements by an independent external auditor according to ToRs agreed with the Bank, (the said auditor will conduct the audit in close cooperation with the CA to get the latter familiarized with the audit process of donors funded project); (c) design of an operational manual that will describe the process for verifying and validating the achievement of DLIs and will provide clarity of roles and responsibilities of implementing entities (for example, the PREA, line ministries, civil society, and others stakeholders) as well as the process to implement and report on project activities; (d) the installation of an information management system to record the project's transactions and produce interim financial reports and annual financial statements according to a format to be agreed with the Bank; and (e) the

recruitment and appointment of a third-party verification to verify the DLIs (CA with independent verification agent).

7. **Staffing.** The PREA is staffed with a temporary detached FMS specialist from the AfDB financed project anchored under the PREA. The PREA will be staffed with one permanent qualified FMS and one qualified accountant. The ToRs of these staff have been agreed with the Bank, and the recruitment process is in progress and will be completed before project effectiveness.

8. **Budgeting.** Each of the line ministries will prepare a regular budget for the part of the project pertaining to the specific ministry. Such budget information will comply with the regular annual budget preparation cycle in each of the respective line ministries. A consolidated project budget will be prepared by the PREA. The budget planning and execution procedures will be further detailed in the Manual of Operations.

9. **Accounting.** Project accounting records will be maintained on a modified accruals cash basis with disclosure of commitments in accordance with the National Accounting Standards. All information on execution will be sent to the Ministry of Finance for insertion in the SIGFP ex post. The trial balance will provide all necessary information to be used for the preparation of the interim unaudited financial reports (IFRs). The project will also install an accounting system to record the project's transactions and produce the interim financial reports and annual financial statements according to the format agreed with the Bank.

10. **Internal controls and internal audit.** Internal controls will comprise, but are not limited to, the following: (a) division of responsibilities between the PREA and implementing entities; (b) segregation of duties; and (c) periodic reconciliation of accounting and reporting data. The details on internal controls will be provided in the project manual. Regarding the internal audit, the General Directorate of Internal Audit (*Direction Générale de l'Audit Interne*) within the Ministry of Finance will be responsible for the internal audit of the project's activities. The project will provide support to strengthen the capacity of the General Directorate of Internal Audit (*Direction Générale de l'Audit Interne*).

Funds Flow Arrangements

11. **Funds flow and disbursement arrangements are as follows:**

- (a) **For other DLIs related activities including grants to communes (FDL grants),** the funds will also be transferred from the IDA to the Project Designated Account A to be opened at the Central Bank (according to the Decree 2015-1457 of October 27, 2015). These funds will be used for expenditures agreed in the EEP (goods, services, non-consultant services, and operating costs including salaries). In other words, the Bank will reimburse the Government for a share of expenditures (incurred in accordance with state budget policies and procedures) contained on the EEPs after specified results (DLIs) have been achieved and verified. Payments will be triggered by achievement of the specified DLIs. For some DLIs, the Government may need advance cash flows to be able to finance expenditures agreed in the EEP to achieve the DLIs. For these reasons, the ceiling of DA-A has been set to US\$3 million estimated to cover the project's cash needs for the DLI components for six-months. Once the DLI is achieved and verified pursuant to verification protocol, and provided the Government has furnished documentary evidence of incurred EEPs through the

EEP Spending Reports, the amount advanced will be deducted from the DLI value and the balance paid to the Government.

- (b) **The expenditure mechanism applied under EEPs satisfies Bank policies** namely, (a) expenditures are productive; (b) they contribute to the solutions with a fiscal sustainable framework; and (c) acceptable oversight arrangements are in place. Below is a brief description of EEPs as well as their minimum applicable oversight controls.

Table 8. EEPs to Be Financed

No.	Total DLI Amount (US\$, millions)	EEP Description	Budget Code	Oversight Arrangements
DLI 1	6.0	<ul style="list-style-type: none"> Strengthening of fiscal governance: (a) IT equipment for the ITAS, (b) ITAS software, (c) workshops, (d) internal and external communication. Ensure national coverage of tax administration and improve tax basis: (a) improvement of taxpayers' reception rooms and (b) implementation of local tax offices 	21-220-115-3-00-23-0-630-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		<ul style="list-style-type: none"> Strengthening of fiscal governance: (a) IT equipment for the ITAS, (b) ITAS software, (c) workshops, (d) internal and external communication. Ensure national coverage of tax administration and improve tax basis: (a) improvement of taxpayers' reception rooms and (b) implementation of local tax offices 	21-220-115-5-00-23-0-630-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries of tax administration staff	21-220-013-2-00-21-9-110-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
DLI 2	3.0	Strengthening of fiscal governance: (a) IT equipment for ITAS, (b) ITAS software, (c) workshops, and (d) internal and external communication	21-220-115-3-00-23-0-630-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Strengthening of fiscal governance: (a) IT equipment for ITAS, (b) ITAS software, (c) workshops, and (d) internal and external communication	21-220-115-5-00-23-0-630-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line

No.	Total DLI Amount (US\$, millions)	EEP Description	Budget Code	Oversight Arrangements
		General Directorate of Customs: (a) improvement of customs client reception rooms and (b) procurement of IT and office equipment	21-220-116-3-00-23-0-300-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		General Directorate of Customs: (a) improvement of customs client reception rooms and (b) procurement of IT and office equipment	21-220-116-5-00-23-0-300-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries for tax administration staff	21-220-013-2-00-21-9-110-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries of CDBF staff	05-050-005-00-3-00-05-0-100-00-(652-02-04-00-11-59)	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries of DBIFA staff	21-220-117-2-00-21-9-110-000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries of CA staff.	16-160-012-00-3-00-16-0-610-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
DLI .3	3.0	Salaries for tax administration	21-220-013-2-00-21-9-110-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line.
		Salaries for customs administration	21-220-016-2-00-21-9-110-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries of CDBF staff	05-050-005-00-3-00-05-0-100-00-(652-02-04-00-11-59)	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries of DBIFA staff	21-220-117-2-00-21-9-110-000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
		Salaries of CA staff.	16-160-012-00-3-00-16-0-610-00000	PREA, MFB, independent auditor, and CA validation expenditures ascribed to the line
DLI 4	11.0	FDL grant	14-170-113-00-3-10 14-170-113-00-5-10	Verification grant awards by the PREA, MFB, MID, FLD, independent auditor (CSO), and CA
DLI 5	5.5	School grant	81-810-305-00-3-10-65	Verification grant awards by the PREA, MFB, MEN, independent auditor (CSO), and CA

- (c) **For TA activities** (TA and input- and output-based activities) not implemented following the results-based approach, the IPF disbursement methods (for example, advance, reimbursement, replenishment, and special commitment) will apply. The disbursement will be transactions based, and an advance equivalent to four months' expenditures forecast will be made into a separate designated account (Designated Account B) opened at the Central Bank in U.S. dollars (according to the Decree 2015-1457 of October 27, 2015).
- (d) **Retroactive financing.** An aggregate amount up to US\$3.5 million (SDR 2.5 million equivalent) may be made for payments made on or after January 1st 2016 but prior to the legal agreement date, for Eligible Expenditures included in Category (1).

Figure 3. Funds Flows Diagram

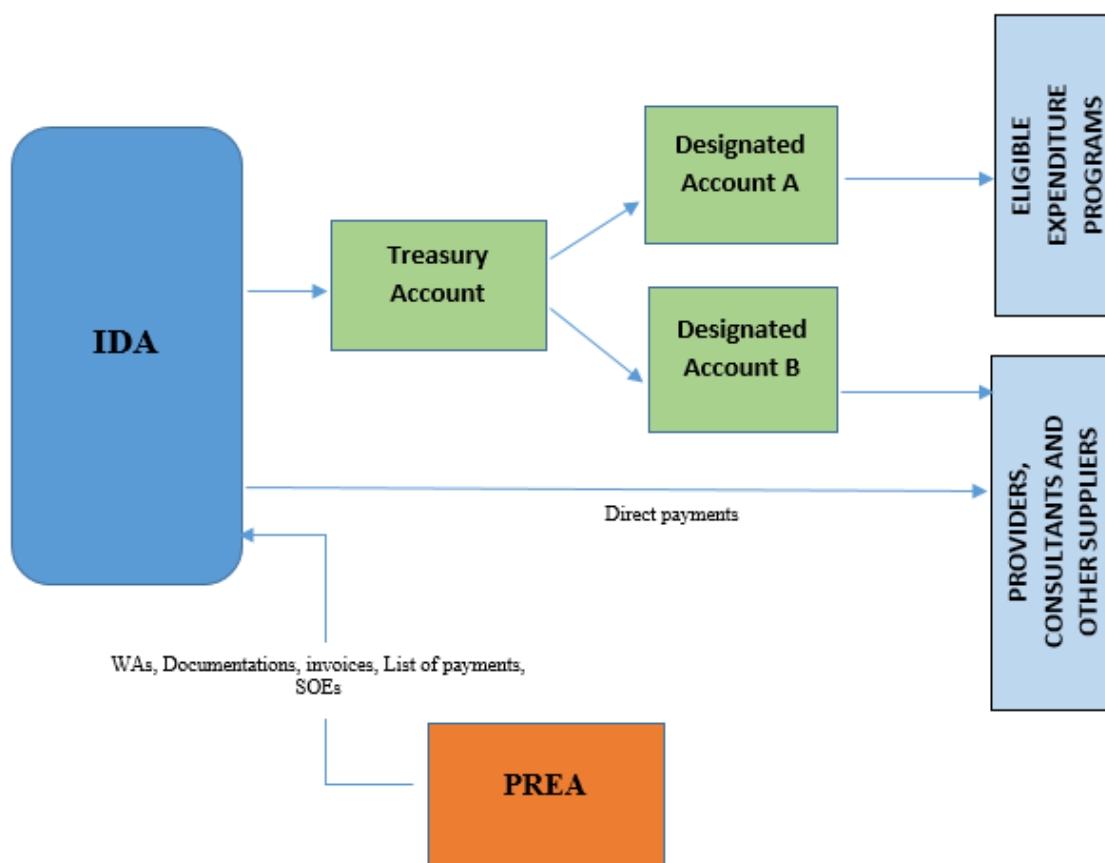


Table 9. Allocations of funds by categories

Category	Amount of the Credit Allocated (expressed in SDR)	Amount of the Credit Allocated (expressed in USD)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Eligible Expenditure Programs under Parts 1.2, 2.2 and 3.2 of the Project	20,300,000	28,500,000	100% of amounts spent in compliance with DLI amounts set out in Schedule 4 of this Agreement as reported under the EEP Spending and Results Reports for each Withdrawal.
(2) Goods, works, Training, Operating Costs non-consulting services, and consultants' services for the Project other than under Parts 1.2, 2.2, 3.2 of the Project	6,000,000	8,500,000	100%
(3) Unallocated	700,000	1,000,000	100%
(4) Refund of Preparation Advance	1,400,000	2,000,000	Amount payable pursuant to Section 2.07 of the General Conditions
TOTAL AMOUNT	28,400,000	40,000,000	

Table 10. Costing Details

	1000	TOTAL	TOT RBF	TOT TA	2016 TOT (PPA)	2016 RBF	2016 TA (PPA)	2017 TOT	2017 RBF	2017 TA	2018 TOT	2018 RBF	2018 TA	2019 TOT	2019 RBF	2019 TA	2020 TOT	2020 RBF	2020 TA
	TOTAL (US\$, millions)	40.000	28.500	11.500	1.604	0.000	1.604	11.227	8.500	2.727	9.952	7.500	2.452	9.422	7.000	2.422	7.797	5.500	2.297
1	Improving Revenue Management	16.800	12.000	4.800	0.914	0.000	0.914	3.474	2.500	0.974	4.974	4.000	0.974	4.469	3.500	0.969	2.969	2.000	0.969
1.1	Improving and consolidating tax payers' registration and identification	0.600	0.000	0.600	0.114	–	0.114	0.122	–	0.122	0.122		0.122	0.121	–	0.121	0.121	–	0.121
1.2	Modernization of the Integrated Tax Administration System (ITAS)	6.650	6.000	0.650	0.124	–	0.124	1.132	1.000	0.132	2.132	2.000	0.132	2.131	2.000	0.131	1.131	1.000	0.131
1.3	Strengthened risk-based audits and control	3.250	3.000	0.250	0.048	–	0.048	1.051	1.000	0.051	1.051	1.000	0.051	0.550	0.500	0.050	0.550	0.500	0.050
1.4	Creating enabling environment for performance-based management.	3.600	3.000	0.600	0.114	–	0.114	0.622	0.500	0.122	1.122	1.000	0.122	1.121	1.000	0.121	0.621	0.500	0.121
1.5	Improving revenue collection in the mining sector	1.800	0.000	1.800	0.342	–	0.342	0.365	–	0.365	0.365	–	0.365	0.364	–	0.364	0.364	–	0.364
1.6	Improving accountability and transparency of revenue agencies	0.450	0.000	0.450	0.086	–	0.086	0.091	–	0.091	0.091	–	0.091	0.091	–	0.091	0.091	–	0.091
1.7	Improving Leadership, change and knowledge management	0.450	0.000	0.450	0.086	–	0.086	0.091	–	0.091	0.091	–	0.091	0.091	–	0.091	0.091	–	0.091
2	Improving Service Delivery Capacity of Local governments	12.000	11.000	1.000	0.190	0.000	0.190	5.203	5.000	0.203	2.203	2.000	0.203	2.203	2.000	0.203	2.203	2.000	0.203
2.1	Enhancing local governments' grants mechanisms	11.400	11.000	0.400	0.076	–	0.076	5.081	5.000	0.081	2.081	2.000	0.081	2.081	2.000	0.081	2.081	2.000	0.081

	1000	TOTAL	TOT RBF	TOT TA	2016 TOT (PPA)	2016 RBF	2016 TA (PPA)	2017 TOT	2017 RBF	2017 TA	2018 TOT	2018 RBF	2018 TA	2019 TOT	2019 RBF	2019 TA	2020 TOT	2020 RBF	2020 TA
2.2	Improving revenue collection at the local level	0.400	0.000	0.400	0.076	–	0.076	0.081	–	0.081	0.081	–	0.081	0.081	–	0.081	0.081	–	0.081
2.3	Enhancing knowledge management	0.200	0.000	0.200	0.038	–	0.038	0.041	–	0.041	0.041	–	0.041	0.041	–	0.041	0.041	–	0.041
3	Improving Governance Mechanisms in the Education Sector	7.800	5.500	2.300	0.250	0.000	0.250	1.775	1.000	0.775	1.975	1.500	0.475	1.950	1.500	0.450	1.850	1.500	0.350
3.1	Improving budget planning and monitoring systems and budget execution mechanism	1.600	0.000	1.600	0.150	–	0.150	0.625	–	0.625	0.325	–	0.325	0.300	–	0.300	0.200	–	0.200
3.3	Supporting the implementation of school committees and PECs	6.200	5.500	0.700	0.100	–	0.100	1.150	1.000	0.150	1.650	1.500	0.150	1.650	1.500	0.150	1.650	1.500	0.150
4	Improving Control and Performance Monitoring	3.400	0.000	3.400	0.250	0.000	0.250	0.775	0.000	0.775	0.800	0.000	0.800	0.800	0.000	0.800	0.775	0.000	0.775
4.1	Strengthening controls and oversight mechanisms	0.700	0.000	0.700	0.100	–	0.100	0.150	–	0.150	0.150	–	0.150	0.150	–	0.150	0.150	–	0.150
4.2	Promoting transparency, accountability, participation, and media access to information	0.500	0.000	0.500	0.025	–	0.025	0.125	–	0.125	0.125	–	0.125	0.125	–	0.125	0.100	–	0.100
4.3	Project coordination and performance monitoring - operating costs	1.200	0.000	1.200	0.125	–	0.125	0.250	–	0.250	0.275	–	0.275	0.275	–	0.275	0.275	–	0.275
4.4	Unallocated	1.000	0.000	1.000	0.000	–		0.250	–	0.250	0.250	–	0.250	0.250	–	0.250	0.250	–	0.250

Note: PPA = Project Preparation Advance

12. **DLIs monitoring and verification mechanism.** To enable the Bank to monitor progress in releasing resources, the PREA will submit the semiannual results report on results and achievement of DLIs and the annual report, including information on the eligible expenditures. Input to the report will be provided by the implementing agencies and the PREA will be responsible for gathering all data and evidence of completion of the DLIs from the implementing agencies. The report shall be submitted to the Bank no later than 45 days after the end of the semester. Furthermore, the CA with the constitutional mandate to audit public funds will be responsible for the audit of the results reported achieved (EEP and DLIs). This will be done in accordance with the verification protocol. The ToRs for Results Verification Audit will be agreed with the Bank. The annual Results Verification Report shall be submitted to the Bank within six months after the end of the financial year and the certification of the achievement of the DLIs to be sent to the PREA will be issued at least 7 days after the end of the verification and communicate to the Bank for review and issuance of agreement to pay or account for the DLIs achieved. While the CA has the responsibility of undertaking the Results Verification Audit, its capacity to perform such an audit is limited. Therefore, an external third-party agent will be recruited to carry out the audit under the responsibility of the CA and develop long-term in-house capacity within the CA. The project will provide incentives for initiatives aiming at strengthening the CA and for effective implementation of these audits. The manual of procedures will further develop the DLIs' verification mechanism.

13. **Reporting.** The PREA will be reporting to the Bank on a quarterly basis in the form of the IFRs, the format of which has been agreed with the Bank during the negotiation. In addition, the PREA will submit the semiannual results report on results and achievement of DLIs. The IFRs and the results report will be submitted to the Bank within 45 days after the end of each reporting period.

14. **External financial audit.** The financial audit of project financial statements will be carried out by contracted auditors with the audit ToRs agreed with the Bank and under the responsibility of the CA. The audited project financial statements will be submitted to the Bank within six month after the end of the year. Disbursement under the EEP will be consolidated in the project financial statements.

15. **Conclusions of the FM Assessment.** The overall residual FM risk is considered Substantial. The proposed FM arrangements for this project are considered adequate and meet the Bank's minimum fiduciary requirements under OP/BP 10.00.

16. **Implementation support and supervision plan.** FM/PFM implementation support intensity and frequency will be in line with risk-based approach and will involve a collaborative approach with the entire task team. A first implementation support mission will be performed two months after the project effectiveness. Afterwards, the missions will be scheduled by using the risk-based approach model and will include the following diligences: (a) monitoring of the FM arrangements during the supervision process at intervals determined by the risk rating assigned to the overall FM assessment at entry and subsequently during project implementation (Implementation Status and Results Reports); (b) integrated fiduciary review of key contracts; (c) review of the IFRs; (d) review of the audit reports and management letters from the external auditors and follow-up on material accountability issues by engaging with the task team leader, client, and/or auditors (the quality of the audit—internal and external—is to be monitored closely to ensure that it covers all relevant aspects and provides enough confidence on the appropriate use of funds by recipients); and

(e) other assistance to build or maintain appropriate FM capacity and efficient internal control system.

Procurement

17. Madagascar is in the process of making major procurement reforms with the senate and parliament passing a new Procurement Code that became effective in July 2004. The main pillars of the code are transparency, efficiency and economy, accountability, equal opportunity for all bidders, prevention of fraud and corruption, and promotion of local capacity. The Procurement Code was complemented by new regulations and procedure manuals as well as standard bidding and other procurement documents. The Procurement Code defines methods of procurement and review procedures. In 2006, in accordance with the code, the Government created the Public Procurement Oversight Authority (*Autorité de Régulation des Marchés Publics*), which oversees the CNM for procurement reviews and the Regulatory and Appeals Committee (*Commission de Régulation et de Recours*) for handling norms and complaints. Finally, the code also provided for the creation of Public Procurement Management Units (*Unités de Gestion des Marchés Publics*) under the leadership of a PRMP, as well as a Tender Commission (*Commission d'Appel d'Offres*) in each ministry and in the decentralized departments of national public institutions.

18. The procurement code is largely consistent with good public and international practices and includes provisions for (a) far-reaching and effective advertising of upcoming procurement opportunities (issuance of general procurement notices for each procuring entity and their inclusion on the Public Procurement Oversight Authority website); (b) open public bidding; (c) pre-disclosure of all relevant information, including clear and transparent bid evaluation and contract award procedures; (d) clear accountabilities for decision making; and (e) an enforceable right to review for bidders when public entities breach the rules.

19. The recent fiduciary risk assessment review (April 2015) identified weaknesses as far as procurement is concerned. However, the review recommended that nothing stands fundamentally in the way of the utilization of the CNM to carry out prior reviews as well as post-procurement reviews on Bank-financed project activities. The review highly recommends the use of the Procurement Integrated Management System (*Système intégré de gestion des marchés publics*) to increase transparency during procurement processes.

20. An assessment of Madagascar's procurement system using the methodology for assessment of the national procurement tool developed by the Organization for Economic Co-operation and Development (OECD) will be carried out in 2016. The assessment would provide a set of strategic axes for a new policy implementation and capacity development strategy for public procurement in Madagascar.

Procurement Capacity and Risk Assessment of Implementing Agency

21. **A procurement capacity assessment of the PREA was carried out in July and December 2015 for the proposed project.** Each implementing agency will be responsible for the technical aspects of the procurement with the support and oversight of the PREA. Procurement plans will be consolidated by the PREA in coordination with and on the basis of inputs from the technical ministries/implementing agencies. The PREA is setting up a Public Procurement Management Unit (*Unité de Gestion des Passations de marches*, UGPM) headed by a PRMP, which would be in charge of overall quality control of procurement processes for the PAGI (AfDB) and NFD (EU) projects. With regard to the proposed project,

all procurement activities will be carried out under overall responsibility of the PRMP. A procurement assistant may be recruited to assist the PRMP, if needed during the initial stages. The capacity assessment of the PRMP revealed that the staff is technically proficient and has confirmed experience in public procurement using the National Public Procurement Code (*Code des Marchés Publics*) as well as in procurement procedures of donors such as the AfDB and the EU. She already has theoretical knowledge of the Bank’s procedures but lacks practice and experience. With continuous support from the Bank’s local procurement specialist, she will be able to apply the Bank’s procedures and guidelines with confidence. She will work closely with the PRMP of each sectoral ministry, with regard to the PREA’s overall coordination role, including procurement.

22. The overall procurement risk assessment rating is Substantial. Table 3.4 summarizes the risk assessment and corresponding mitigation measures incorporated into the project’s design.

Table 11. Procurement Risk Assessment and Risk Mitigation Measures

Key Risks	Risk Mitigation	Due Date
Risk of delays in procurement processes as a result of weak capacity at the implementing agencies in both procurement and technical aspects (ToRs, Technical specifications)	<ul style="list-style-type: none"> • Close and intense support will be provided by the Bank’s local procurement specialist during the first six months of project implementation • Timely appointment in each implementing agency of a qualified staff (focal point) to coordinate the technical aspects of procurement activities 	Procurement training session before effectiveness and one session within the six months following the effectiveness
Unclear system of accountability within sectoral ministries with clearly defined responsibilities for procurement decisions	A POM will be prepared with a detailed description of the overall procurement arrangement and responsibility of each entity.	During the PPA

23. **Other mitigation measures.** No additional mitigation measures can be identified at this point. The Bank’s procurement specialist based in Madagascar will be able to provide close supervision and hands-on support if required.

24. **Activities that fall under the results-based approach using the EEPs (except for procurable expenditures) and DLIs will not be subject to the consultant and procurement guidelines.** Investment (purchase of vehicles, computers, and IT equipment) and TA will follow the standard IPF.

Guidelines

25. Input-based procurement under the proposed project will mainly involve consultancy services, minor non-consultancy services, and goods. Procurable expenditures that fall under the EEPs will include the purchase of computers and IT equipment. Input-based procurement and procurable expenditures under EEPs will be carried out in accordance with the Bank’s guidelines: (a) ‘Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrower’, dated January 2011 and revised in July 2014; (b) ‘Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers’, dated January 2011 and revised in July 2014; (c) ‘Guidelines on Preventing and Combating Fraud and

Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 2006 and updated in January 2011; and (d) the provisions stipulated in the Legal Agreements.

Advertising Procedures

26. General procurement notices, specific procurement notices, requests for expression of interest, invitations to bid, results of the evaluation, and awards of contracts should be published in accordance with the advertising provisions in the Procurement Guidelines, dated January 2011 and revised in July 2014, and the Consultant Guidelines, dated January 2011 and revised in July 2014. For International Competitive Bidding (ICB) and Request for Proposals that involve international consultants, the contract awards will be published in UN Development Business online within two weeks of receiving IDA's 'no objection' to the contract award recommendation.

Procurement Methods

27. **Procurement of works.** There are no known works contracts to be financed under this project. Should they be identified later, they are expected to be minor works that will be procured using shopping procedures based on a model request for quotations satisfactory to the Bank.

28. **Procurement of goods and non-consulting services.** The total cost of goods to be financed by IDA is approximately US\$1,860,000. These will include vehicles, computers and IT equipment and various office equipment. The procurement will be done using the Bank's Standard Bidding Documents for all procurement under ICB. NCB may be used if the changes described at the end of this annex are included in the NCB document with prior agreement of the Bank. Contracts below US\$500,000 but above US\$50,000 equivalent per contract may be procured using NCB procedures. Contracts estimated to cost less than US\$50,000 equivalent per contract would be procured using shopping procedures based on a model request for quotations satisfactory to the Bank. Procurement from an UN Agency (UNOPS) will be considered. Direct contracting may be used where necessary, subject to the Bank's 'no objection'.

29. **Selection of consultants.** The project will finance consultant services such as technical and financial audits, TA, program impact evaluations, and capacity-building activities. Consultant firms will be selected using the following methods: (a) Quality- and Cost-Based Selection; (b) Quality-Based Selection; (c) Selection Based on the Consultant's Qualifications Selection for specialized assignment contracts to cost less than US\$500,000; (d) Least-Cost Selection for standard tasks such as financial and technical audits; (e) Selection under a Fixed Budget; and (f) Single-Source Selection with prior approval of the Bank for services in accordance with paragraphs 3.8–3.11 of the Consultant Guidelines. Individual consultants will be hired in accordance with paragraphs 5.1–5.6 of the Consultant Guidelines. Single-Source Selection of consultants would be followed for assignments that meet the requirements of paragraphs 3.8–3.11 of the Consultant Guidelines for firms and paragraph 5.6 of the Consultant Guidelines for individuals and will always require the Bank's prior review regardless of the amount. Furthermore, all ToRs, irrespective of whether the contract is under prior- or post-review procedures, will require the Bank's prior review regardless of the amount.

30. Lists of short-listed consultants for services estimated at less than US\$200,000 per contract may be composed entirely of national consultants, in accordance with paragraph 2.7

of the Consultant Guidelines as long as a sufficient number of qualified individuals or firms are available. However, if foreign firms express an interest, they will not be excluded from consideration.

31. **Training, workshops, study tours, and conferences.** Training workshops (including training material and support), conference attendance, and study tours (estimated to cost approximately US\$2,390,000) will be carried out based on approved annual training and similar activities plan. A detailed training and workshops’ plan covering the nature of training/workshop, number of trainees/participants, duration, staff months, timing, and estimated cost will be submitted to IDA for review and approval before initiating the process. The selection methods will derive from the activity requirement, schedule, and circumstance. After the training, the beneficiaries will be requested to submit a brief report indicating what skills have been acquired and how these skills will contribute to enhance their performance and contribute to the attainment of the project objective.

32. **Operational costs.** These costs financed by the project should be incremental expenses, including office supplies, vehicle operation and maintenance, maintenance of equipment, communication costs, rental expenses, utility expenses, consumables, transport and accommodation, per diem, supervision costs, and salaries of locally contracted support staff. Such services will be procured using the procurement procedures accepted and approved by the Bank.

Procurement Plan

33. The recipient has prepared a detailed 18-month Procurement Plan for project implementation that provides the basis for the procurement methods. This plan has been concluded and agreed on by the Government and the Bank project team at negotiations. It will be made available in the project database and on the Bank's external website. The Procurement Plan indicates contracts which are subject to prior review. All other contracts will be subject to post review. The Procurement Plan will be updated throughout the duration of the project at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The Procurement Plan and its updates shall be subject to the Bank’s prior review and ‘no objection’ before implementation.

Frequency of Procurement Reviews and Supervision

The Bank’s prior and post reviews will be carried out in accordance with the thresholds described in table 12 and as displayed in the approved Procurement Plan.

Table 12. Procurement and Selection Review Thresholds

Expenditure Category	Contract Value (Threshold) (US\$)	Procurement Method	Contract Subject to Prior Review
1. Goods	≥500,000	ICB	All
	<500,000	NCB	
	<200,000	Shopping	
	No threshold	Direct Contracting	All
2. Consulting firms	≥200,000	QCBS, QBS, LCS, FBS, CQS	All contracts
	<200,000	QCBS, QBS, LCS, FBS, CQS	

Individuals	≥100,000	Comparison of 3 CVs	All contracts
	<100,000	Comparison of 3 CVs	
Firms and individuals	No threshold	Single Source	All

Note: All terms of reference regardless of contract value are subject to prior review.

Table 13. Simplified Procurement Plan (with Methods and Time Schedule): Goods

1	2	3	4	5	6	7	8	10
Ref. No.	Contract (Description)	Estimated Amount (US\$)	Process Method	Prequalification (yes/no)	Dom. Pref. (yes/no)	Prior Review (yes/no)	Expected Bid-Opening Date	Comments
1	Equipment for customs administration	1,650,000	ICB	No	No	Yes	July 12, 2017	
2	Tax IT equipment for ITAS	500,000	ICB	No	No	Yes	April 3, 2017	
3	Purchase of vehicles	395,000	UNOPS	No	No	Yes	June 30, 2017	
4	IT equipment for DREN and CISCO	90,000	ICB	No	No	Yes	September 1, 2017	
5	Training materials	317,000	NCB	No	No	Yes	August 31, 2017	
	Total	2,952,000						

Table 14. Simplified Procurement Plan (with Methods and Time Schedule): Consultancy Assignments

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Prior Review (yes/no)	Expected Proposals Submission Date	Comments
1	Development of ITAS bidding documents	160,000	QCBS	Yes	May 31, 2017	
2	ITAS software development	3,000,000	QCBS	Yes	February 1, 2018	
3	ITAS implementation across the country and training	1,700,000	QCBS	Yes	September 2018	
4	Improvement of customs risk-based audit.	40,000	IC	Yes	August 23, 2017	
5	Support to the implementation of tax and customs performance-based contract	193,000	QCBS	Yes	July 1, 2017	
6	Technical assistance for the revision of	250,000	QCBS	Yes	June 1, 2017	

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost (US\$)	Selection Method	Prior Review (yes/no)	Expected Proposals Submission Date	Comments
	mining revenue sharing method.					
7	Technical assistance for the revision of ASM registration procedure	200,000	QCBS	Yes	June 30, 2017	
9	Improvement of internal and external communication on tax	170,000	QCBS	Yes	May 1, 2017	
10	Impact evaluation studies of tax and customs reforms	150,000	QCBS	Yes	May 23, 2017	
11	IGL Baseline	100,000	QCBS	Yes	May 22, 2017	
12	Teachers census	663,000	QCBS	Yes	February 1, 2017	
13	Technical assistance for the conception and improvement of planning and budget execution system in the education sector.	93,770	QCBS	Yes	April 4, 2017	
13	Technical assistance for the implementation of School committees.	25,000	IC	Yes	June 16, 2016	
14	CSO data collection and communication	100,000	IC	Yes	August 30, 2017	
	TOTAL	6,844,770				

34. In addition to the prior review supervision to be carried out from the Bank office, two supervision missions (field visits) will be conducted each year, during other project supervisions, to carry out post review of procurement actions. The procurement post reviews will be done annually and will cover the management of procurement, including staffing, filing, record keeping, and contract management. The post reviews will be carried out on a sample basis and the sample size will depend on the project procurement risk at the time of the review. In addition, post reviews of training activities (workshops, conferences, and study tours) will be conducted from time to time to review the selection of institutions/facilitators/course contents of training, justifications thereof, and costs incurred.

35. All contract amendments that raise the initial contract value by more than 15 percent of the original amount or above the prior review thresholds will be subject to IDA's prior review. All contracts not submitted for prior review will be submitted to IDA for post review in accordance with annex 1, paragraph 5, of the Bank's Consultant Selection Guidelines and the Bank's Procurement Guidelines.

Procurement Filing

36. Procurement documents must be maintained in the project files and archived in a safe place until at least two years after the closing date of the project. Procurement staff within each implementing agency will be responsible for properly filing procurement documentation.

Box 1. Madagascar NCB Exceptions

(Based on the Procurement Guidelines as revised in January 2011)

General

1. The procedures to be followed for NCB shall be those set forth in Law no. 2004-009 of July 2004 *portant Code des Marchés Publics*—the Public Procurement Law (PPL)—with the modifications described in the following paragraphs.

Eligibility

2. The eligibility of bidders shall be as defined under section I of the Procurement Guidelines; therefore, no bidder or potential bidder shall be declared ineligible for contracts financed by the association for reasons other than those provided in section I of the Procurement Guidelines. The requirement of producing a registration number (*Numéro d’Immatriculation*) for any bidder to participate in the bidding process shall not be interpreted as a prior requirement to any sort of local registration, license, or authorization.

3. The Government-owned enterprises or institutions of the Republic of Madagascar shall be eligible to participate in the bidding process, only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not dependent agencies of the borrower or sub-borrower.

Bidding Documents

4. Standard bidding documents acceptable to the association shall be used to ensure economy, efficiency, transparency, and consistency with the provisions of section I of the Procurement Guidelines.

Participation by Joint Ventures

5. Participation shall be allowed from joint ventures on condition that such joint venture partners will be jointly and severally liable for their obligations under the contract. Therefore, the ‘*Groupement Conjoint*’, as set forth in the PPL, shall not be allowed under NCB.

Preferences

6. No domestic/regional preference, or any other kind of preferential treatment, shall be given for domestic/regional bidders, and/or for domestically/regionally manufactured goods, and/or for domestically/regionally originated related services.

Applicable Procurement Method

7. Subject to these provisions, procurement shall be carried out in accordance with the ‘Open Competitive Bidding’ method (*Appel d’offres ouvert*) set forth in the PPL.

Qualification

8. Qualification criteria shall entirely concern the bidder’s capability and resources to perform the contract, taking into account objective and measurable factors. The qualification criteria shall be clearly specified in the bidding documents, and only such criteria so specified shall be used to determine whether a bidder is qualified. Qualification criteria shall be assessed on a ‘pass or fail’ basis, and merit points shall not be used. Bidders’ qualifications shall be assessed post qualification.

Fees for Bidding Documents

9. If a fee is charged for the bidding documents, it shall be reasonable and reflect only the cost of their typing, printing or publishing, and delivery to prospective bidders, and it shall not be so high as to discourage bidders’ participation in the bidding process. Bids may be submitted by electronic means only if the Association is satisfied with the adequacy of the system, including, among others, that the system is secure; maintains the integrity, confidentiality, and authenticity of the bids submitted; and uses an electronic signature system or equivalent to keep bidders bound to their bids.

Bid Validity and Extension of Bid Validity

10. The bid validity period required by the bidding documents shall be sufficient to complete the evaluation of bids and obtain any approval that may be required. If justified by exceptional circumstances, an

extension of the bid validity may be requested in writing from all bidders before the original bid validity expiration date, and it shall cover only the minimum period required to complete the evaluation and award of the contract. The extension of the bid validity requires the Association's 'no objection' for those contracts subject to prior review if it is longer than four weeks and for all subsequent requests for extension, irrespective of the period.

Bid Evaluation

11. (a) Evaluation of bids shall be made in strict adherence to the evaluation criteria declared in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms, and the manner in which they will be applied for the purpose of determining the lowest evaluated bid shall be established in the bidding documents. A weighting/scoring system shall not be used. (b) A contract shall be awarded to the qualified bidder offering the lowest-evaluated and substantially responsive bid. No negotiations shall be permitted. (c) Bidders shall not be eliminated on the basis of minor, non-substantial deviations. (d) In case of requests for clarifications, bidders shall not be asked or permitted to alter or complete their bids.

Rejection of All Bids and Rebidding

12. All bids shall not be rejected, the procurement process shall not be cancelled, and new bids shall not be solicited without the Association's prior concurrence.

Securities

13. Securities shall be in the format included in the bidding documents. No advance payment shall be made without a suitable advance payment security.

Publication of Contract Award

14. Information on contract award shall be published at least in a national newspaper of wide circulation within two (2) weeks of receiving the Association's 'no objection' to the award recommendation for contracts subject to prior review and within two (2) weeks from the award decision for contracts subject to post review. Publication shall include the following information: (a) the name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) evaluated prices of each bid that was evaluated; (d) the names of bidders whose bids were rejected and the reasons for their rejection; and (e) the name of the winning bidder, the final total contract price, and the duration and summary scope of the contract.

Contract Modifications

15. In the case of contracts subject to prior review, the Association's 'no objection' shall be obtained before agreeing to (a) a material extension of the stipulated time for performance of a contract; (b) any substantial modification of the scope of services or other significant changes to the terms and conditions of the contract; (c) any variation order or amendment (except in cases of extreme urgency) that, singly or combined with all variation orders or amendments previously issued, increases the original contract amount by more than 15 percent; or (d) the proposed termination of the contract. A copy of all contract amendments shall be furnished to the Association for its records.

Right to Inspect/Audit

16. In accordance with the Procurement Guidelines, each bidding document and contract financed from the proceeds of the financing shall provide that bidders, suppliers, and contractors, as well as their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Association, at its request, to inspect their accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Association. Acts intended to materially impede the exercise of the Association's inspection and audit rights constitute an obstructive practice as defined in the Procurement Guidelines.

Fraud and Corruption

17. Each bidding document and contract financed from the proceeds of the financing, and as deemed acceptable by the Association, shall include provisions stating the Bank's policy to sanction firms or individuals found to have engaged in fraud and corruption as defined in the Procurement Guidelines.

Debarment under National System

18. The Association may recognize, if requested by the borrower, exclusion from participation because of debarment under the national system, if the debarment is for offenses involving fraud, corruption, or similar misconduct, and further if the Association confirms that the particular debarment process afforded due process and the debarment decision is final.

Environmental and Social (including Safeguards)

37. **The project is classified as category B in the Bank's Environmental Assessment classification** due to the low size and site-specific nature of its foreseen social and environmental risks and impacts. The Environmental and Social Safeguard Policies triggered by this operation are OP/BP 4.01 (Environmental Assessment) and OP 4.12 (Involuntary Resettlement).

Social (including Safeguards)

38. **Triggering of policy on Involuntary Resettlement (OP/BP 4.12).** The project triggers the policy on Involuntary Resettlement (OP/BP 4.12) because it involves the construction, rehabilitation of social infrastructures (for example, schools, small rural roads, and market places) by the communes through the grants to local governments, requiring acquisition of lands, removal of valued trees, and restriction of access to sources of informal incomes. The potential adverse impacts are associated with implementation of Component 2.

39. **Potential negative social impacts during site preparation and construction/extension of social infrastructures.** The investments under Component 2 will focus on the improvement of the delivery of basic services and will result in improved living conditions. The subprojects include improvements to water supply, rural roads, rehabilitation of schools, market places, and administrative building offices. The main potential environmental issues associated with the project include soil erosion during road use, health and safety, land disturbance, the risk of disruption of agricultural parcels, accident risks, HIV/AIDS risks by the migrant workers, land acquisition and involuntary resettlement, health and safety risks, waste management for the schools and marketplaces, land acquisition, and noise. The potential environmental and social effects are well understood, unlikely to be significant due to their site-specific nature, and readily manageable. The proposed project requires no exceptions to the Bank's policies on environmental and social safeguards.

40. **RPF.** An RPF was prepared by the borrower to ensure that activities to be financed under the project that require involuntary resettlement in local communities are properly managed on the basis of Resettlement Plans (RPs), which are prepared and implemented in compliance with the Bank's OP 4.12. An assessment of potential social risks of subprojects will be considered for all subprojects that could be financed by the project. It contains a description of the types of social baseline studies to be prepared for RPs, including collection of gender-disaggregated data on project affected households and persons. It will also contain provisions related to the assessment and compensation of affected assets and to resettlement supervision, monitoring, and reporting (this will include gender disaggregated gender indicator tracking). The RPF has been review and cleared by the Bank and disclosed into the Bank's InfoShop and in country on March 15th, 2016.

41. **Public consultation and information disclosure.** Public consultation of the affected people and communities and other relevant stakeholders were conducted during the elaboration of the RPF. The feedback from the consultations will be incorporated into the project design and the final draft RPF. In the RPF, a public consultation mechanism will be developed for preparation and disclosure of draft RPs during the implementation phase. Consultation processes included specific requirements to include women and other vulnerable groups.

Environment (including Safeguards)

42. **Triggering of policy on Environmental Assessment (OP/BP 4.01).** The project triggers the policy on Environmental Assessment (OP/BP 4.01) because it involves the construction and rehabilitation of social infrastructures (schools, health centers, small rural roads, and marketplaces) by the communes through the grants to local governments, thus requiring the identification, mitigation, and monitoring of potential adverse environmental and social impacts. The potential adverse impacts are associated with implementation of Component 2.

43. **Potential negative environmental impacts during site preparation and construction/extension of social infrastructures.** The potential negative environmental impacts during site preparation and construction/extension of social infrastructures mainly include (a) increased levels of dust, noise, and other emissions from civil works of rural roads, land clearing activities, erosion risks on the quarry sites; (b) generation of waste during civil works or construction sites; (c) traffic disturbance and accident risks during rural road civil works; and (d) health and safety issues for workers and community. However, these potential impacts are expected to be small to moderate, temporary, site-specific, and mostly reversible and mitigation measures can readily be designed. Therefore, the project is proposed to be Environmental Category B.

44. **ESMF.** The borrower has prepared an ESMF that included a well-costed Environmental and Social Management Plan in compliance with the Environmental Law in Madagascar and OP/BP 4.01 - Environmental Assessment. The ESMF establishes the screening process or mechanism for the subprojects and includes an environmental and social screening form and a set of social and environmental clauses for contractors, meant to establish a mechanism and/or a process of (a) determining and assessing the future potential environmental and social risks and/or impacts of the subprojects under the proposed FDL as well as (b) ensuring that contractors comply with the basic core requirement of the triggered policy. It has provided a specific guideline to mitigate these negative impacts. The main mitigation measures applicable for the key subprojects have been provided in its annex. This will help eliminate or minimize adverse environmental and social impact to acceptable levels. Therefore, all these mitigation measures and plans have been budgeted for in the project financing.

45. **Public consultation and information disclosure.** Extensive public consultations were also conducted during the preparation of ESMF and the RPF to take into account the views of the local population and communities on the project design and impacts. The ESMF and the RPF have been reviewed, cleared and disclosed to the Bank's InfoShop as well as in-country on March 15th, 2016.

Other Safeguards Policies Triggered

46. None.

Monitoring and Evaluation

47. **The PREA M&E Division will be in charge of the project M&E system.** The PREA recently established a new division, which is responsible for overseeing the M&E of public sector programs. The PREA M&E Division will have the overall responsibility to monitor the achievement of DLIs and project results. It will work in close cooperation with

sector ministries (Ministries of Finance and Budget, Mining, and Education as well as the Ministry of Interior and Decentralization) to document the achievement of results. The project monitoring system will use existing data from the responsible entities such as the IGL, to be provided with support from the focal points that have been identified within each of the targeted entities. In this way, the project will help reinforce monitoring capacity within each of the targeted ministries.

48. **For accountability purposes, the PREA is committed to provide regular reports to the GoM as well as the Bank.** The Bank will undertake regular supervision missions and ensure that key findings resulting from such visits are fully implemented to improve the overall project performance. A midterm review will be carried out and the findings and recommendations will be used to improve project performance, effectiveness, and efficiency. The M&E expert will also produce semiannual reports that will be posted on the PREA website with the latest data for each indicator available to the Government, civil society, and the development partners.

49. **The engagement of civil society through communication efforts to be made by the PREA and sector ministries will also contribute to monitoring the achievement of the proposed outcomes, intermediate results, and DLIs.** The PREA will engage with civil society to seek feedback on the progress achieved toward the achievement of indicators. This will be done through the establishment of external accountability interventions.

Role of Partners

50. **The Madagascar Partnership Framework (*Cadre de partenariat*) will be the main forum to support donor coordination during program design and implementation.** The Bank is an active member of the Partnership Framework. Currently co-chaired by the Ministry of Finance and the Bank, the Partnership Framework includes the EU, the AfDB, and France. The IMF and Germany participate in the meetings as observers. The objective of the Partnership Framework is to coordinate budget support operations and monitor PFM reforms through joint reviews while also facilitating dialogue between Government and development partners. Complementary discussions on decentralization will take place within the decentralization working group co-chaired by the Ministry of Interior and Decentralization and the United Nations Development Program.

51. **Other development partners are also engaged in public sector support in Madagascar.** These engagements would complement the proposed project in different aspects of public sector performance. First, through its €17 million program NFD, the EU will support a key aspect of public sector performance, the reform of public service, which will include the reform of pay system and the establishment of a Human Resources IFMIS. The program will also support the preparation, budgeting, and medium-term planning of sectoral strategies including public finances, education, health, and other sectors upon demand.

52. **The AfDB is also engaged in the sector of PFM through the PAGI.** The project has been designed to continue on the engagement of the Bank's PGDI II and will remain a key element to complement the proposed project. The PAGI is engaged in the improvement of revenue collection through the implementation and material strengthening of revenue agencies and revenue collection chain as well as support to defining a reform strategy on revenue management and collection. The project is also engaged on key aspect of PFM performance through the development of the M&E of the Ministry of Finance. These

engagements will be set up for the proposed project, which will come as a complement, especially by enlarging the reforms at the sector level.

53. **Finally, the IMF is engaged in PFM.** Its engagement will mainly relate to strengthening budget credibility. It also aims at developing public finance transparency. Furthermore, the IMF will be engaged through TA on the revenue side through the reform of the tax and customs code with the aim of improving revenue definition, collection, and management. The IMF engagement will complement the implementation of the proposed project by providing the analytical and TA underpinning some of the areas of engagement.

Annex 4: Implementation Support Plan

Madagascar: Public Sector Performance Project

Strategy and Approach for Implementation Support

1. **As noted in the project description, the project is an Investment Finance Project with a results-based disbursement approach.** Therefore, the Implementation Support Plan has been designed with respect to this type of instrument, the multisectoral nature of the operation, and the risk profile of the country. The results-based elements of the project will be fully implemented by the borrower while the TA elements will be implemented as a classic investment project. On the one hand, the project supervision team will aim to ensure the effective and timely implementation of the project components and mitigation measures designed to address any early coordination, implementation capacity, or technical issues to ensure that the project achieves its development objectives. On the other hand, the borrower will have responsibility for overall implementation on the results-based element, with Bank support available to provide technical support, monitor performance, and risks management.

2. **Due to the multisectoral nature of the project, the project team is relatively large.** Part of the implementation support team is locally based in Antananarivo (procurement, governance, and environmental safeguards) including the task team leader, while others are based in different locations including Maputo (Education), Dakar (Tax), Marseilles (Customs), Washington, DC (Control, PFM, and Mining), and Kigali (Fiduciary). The Antananarivo-based team will collaborate with the beneficiaries to ensure the efficient and timely implementation of the project. The local team will provide continuous technical support to the project coordination unit and sectoral ministries and will carry out the technical dialogue. Regular meetings will then be undertaken with the beneficiaries. Formal implementation support missions, in collaboration with sectoral and fiduciary teams, will be undertaken semiannually. A midterm review including the multisectoral team will be undertaken jointly with the Government to review project implementation, associated TA, and result-based DLIs.

Table 15. Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate (Staff Weeks)	Partner Role
Year 1	Task management/implementation support and monitoring	Public Sector - Operations	15	–
	Technical support	PFM - Tax - Customs - Specialists	12	n.a.
	FM and procurement capacity development	FM and procurement specialists	4	
	Sector specialists	Education - Mining	12	
	Operational - FM	FM specialist	2	
	Operational - Procurement	Procurement specialist	2	
	M&E	Operations specialist	4	
	Environment and social monitoring	Environment and social specialist	4	
			US\$600,000	
Year 2–4	Task management/implementation support and monitoring	–	12	n.a.
	Technical support	PFM - Tax - Customs - Specialists	8	
	FM and procurement capacity	FM and Procurement	4	

Time	Focus	Skills Needed	Resource Estimate (Staff Weeks)	Partner Role
	development	specialists		
	Sector specialists	Education - Mining	10	
	Operational - FM	FM specialist	2	
	Operational - Procurement	Procurement specialist	2	
	M&E	Operations specialist	4	
	Environment and social monitoring	Environment and social specialist	4	
			US\$500,000 annually	
Other				

Table 16. Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task management/implementation support and monitoring	12	2-3	Country office based
Tax and customs experts	8	2-4	Within Africa Region
PFM specialist	4	1-2	Headquarters- based
Sectoral specialists for mining and education	8	2-4	Within Africa Region
Procurement	5	2-3	Country office based
FM specialist	2	1-2	Within Africa Region
Environment specialists	2	1-2	Country office based
Social specialist	2	1-2	Within Africa Region
Operations specialist	4	1-2	Consultant

Annex 5: Economic and Financial Analysis

Madagascar: Public Sector Performance Project

1. This annex is organized into two main sections:

- **Financial analysis.** Section A presents the financial analysis to estimate the financial gains from the project over a 10-year period. The project will support revenue mobilization in tax and customs, and its support through the mining sector is also expected to bring in additional resources. The decentralization component also has a focus on revenue mobilization and collection at the local level. These components and subcomponents focusing on strengthening revenue mobilization will be allocated 43 percent of project resources amounting to a total of US\$17.2 million³⁷. The analysis shows that the project's support in tax, customs, mining, and local revenues mobilization will serve as a catalyst to generate additional fiscal space for the Government. The increased revenue collection is estimated at an amount of US\$470.51 million over the assumed 10-year economic life of the project. The NPV at 8 percent discount rate reaches US\$271.48 million.
- **Economic analysis.** Section B shows the economic analysis that captures all the economic benefits of the project that makes society as whole better-off. These benefits will be assessed in qualitative terms.

2. **For the purpose of modeling, the net financial benefits will be calculated with respect to an assumed project economic life of 10 years, starting from year 0.** The investment data are derived directly from the project investment costing, and is assumed to be made over four years. Madagascar's real growth rate of GDP is assumed to be 4.5 percent per annum. The market exchange rate is MGA 3,165 for US\$1, as of February 1st, 2015. This rate will be used over the project life. It is assumed that these macroeconomic assumptions are constant over the project life.

A. Financial Analysis

3. **Component 1 (Improving revenue management) of the project will support improving revenue mobilization and management through strengthening of tax administration and customs administration and through the amelioration of the mining sector governance.** Component 1 will focus on improving internal audit and control, improving taxpayer's registration to increase the tax base, the rollout of an ITAS mainly improving the quality of control to reduce revenue leakages, improving transparency in customs management, and improving mining governance to increase formal mining exploitation and then ameliorate the potential of revenues. In addition to the support through Component 1, Component 2 (Improving Service Delivery of Local government) will also focus on improving revenue collection at the local level through a better identification of revenue potential and improved collection procedures. According

³⁷ The total of resources adding up to US\$17.20 million comprise all resources allocated to revenue management and revenue mobilization activities at both national and local levels. This includes the overall Component 1 as well as activity 2.2 under Component 2. Resources allocated to improvement of service delivery (Activities 2.1 and 2.3 under Component 2 as well as overall Component 3) and project and financial management (Component 4) are not included.

to the project's Results Framework, it is anticipated that activities supported under Component 1 and Component 2 will result in an increase in domestic revenue collection both at the national and local levels. The increase is projected to improve the ratio of revenue to GDP from 10 percent (2015) to 12 percent (2020) over the economic life of the project. In real terms, this increase in revenue collection as a percentage of GDP should amount to a total value of US\$470.51 million over the assumed 10-year economic life of the project.

Assumptions

- (a) Consistent with IMF projections, real GDP is forecast to increase by an average 4.5 percent annually over the economic life of the project, which is estimated using a 10-year horizon.
- (b) The indicator to be considered is revenue over GDP, which already includes tax (national and local taxes) and non-tax revenues (including mining royalties). However, it does not include grants and external revenues.
- (c) As a result of the project, revenue-to-GDP ratio will increase progressively throughout the life of the project. The rate is projected to reach 10.4 percent in 2016, 10.8 percent in 2017, 11.3 percent in 2018, 11.8 percent in 2019, and 12 percent in 2020 and will stay at this level for the remaining years. In 2016, the PPA of the project will be active, but the projections assume no improvements in revenues or losses on the year 2016.³⁸
- (d) Taxpayer compliance will increase across all considered categories/revenue sources during the economic life of the project.

Financial Pro Forma Cash Flow of Component 1 (Improving Revenue Management) and Component 2 (Improving Service Delivery Capacity of Local governments) (US\$17.2 million)

4. **Table 5.1 presents the pro forma financial cash flow, which shows that the project will be financially beneficial for the GoM.** The financial real NPV at 8 percent discount rate reaches US\$261.05. This is nearly 15 times the amount of the initial investment in revenue-generating activities (US\$17.2 million).

Table 17. Financial Analysis

Project Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
INFLOW										
Increased tax and non-tax revenues		28.54	29.77	31.11	54.18	56.62	59.16	61.83	64.61	67.52
OUTFLOWS										
IDA investment on tax, mining and local revenues	0.99	3.06	5.06	5.05	3.05					

³⁸ Observed changes in this ratio will need to be analyzed carefully to take into account exogenous factors non-attributable to the project.

Government financing necessary to maintain the operating costs						1.00	1.00	1.00	1.00	1.00
Net cash flow annual	(0.99)	25.49	24.71	26.06	54.18	55.62	58.16	60.83	63.61	66.52
Net cash flow cumulative	(0.99)	24.50	49.21	75.26	129.44	185.06	243.22	304.05	367.66	434.17
Annual discounted amount	(0.92)	21.85	19.62	19.15	36.87	35.05	33.94	32.86	31.82	30.81

5. **The amounts shown above are conservative estimates.** The discount rate of 8 percent is slightly above the inflation rate of 7 percent, and it is assumed that after year 4 of the project the ratio of revenue to GDP will not further increase. The proposed ratios of revenue to GDP increases are consistent with IMF projections. In addition, these estimates do not take into account the spillovers of the improvement of PFM that will drive further revenue mobilization. Both Component 1 (Improving Revenue Management) and Component 4 (Improving Control and Performance Monitoring) of the project seek to improve PFM by supporting better compliance and accountability in budget management and improved budget execution for efficient public service delivery. Through these components, the project will contribute to improve accountability of the public sector through ensuring that taxes are spent on providing public services. This is expected to improve confidence toward public institutions and is likely to have spillover effects on tax compliance and payment.

B. Economic Analysis

6. **The proposed project is most likely to yield several types of economic impacts through the interventions around its different components, including the following:**

- **Improved business environment through reduction of time/costs to comply with main tax procedures.** Through Component 1 (Improving Revenue Management), the project will help the tax and customs administration to improve institutional structures and streamline the main procedures. These activities are expected to significantly reduce compliance time and, as a result, improve the business environment, increase investment, create jobs, and increase registration in the formal sector. Ultimately, this will also bring in additional revenues and will result in efficiency gains for the Government.
- **Improved business environment through improved stability, predictability, and transparency of relationship of tax administration and citizens.** Through Component 1, the project will support both tax and customs administration in improving their relationships with citizens and companies. This includes work to improve tax control procedures and mechanisms for better predictability, transparency, and fairness. On customs, the implementation of performance contracts for both customs agents and importers is also expected to contribute to improved transparency in the management of relationships between the administration and the service users. This will reduce tax and customs revenue leakages while also improving business environment and increasing GDP by attracting and retaining both foreign and domestic investments.

- **Decreased cost of service delivery in the education sector and increased capacity for sectoral investment.** Component 3 (Improving Governance Mechanisms in the Education Sector) of the project will support improved budget planning and execution in the education sector. Through this component, the project will contribute to improving budget efficiency at the sector level through the improvement of budget planning systems, addressing bottlenecks to budget execution, and procurement. Thus, it is expected that through the project the MEN, deconcentrated sectoral entities, and schools will be able to improve local infrastructures with a decreased cost for communities. This will contribute to decreased cost of service provision
- **Improved infrastructure at the local level with social and economic effects and increased resilience.** Through Component 2 (Improving Service Delivery Capacity of Local governments), the project will support an increased revenue collection at the local level, which is accounted for in the financial analysis. In addition, the increased revenue will also contribute to improving resilience at the local level and will provide local governments with additional revenue for investment. These investments will in turn support improved economic infrastructure at the local level and will contribute to increase economic activities.

Annex 6: Behavior Change, Leadership, Coalition Building, and Organizational Knowledge Sharing for Results

Madagascar: Public Sector Performance Project

Implementing Complex Reforms: International and Malagasy Experience

1. **Increasing the fiscal space and Government effectiveness in Madagascar is a complex development challenge, requiring not only technical solutions but also changes in mindsets and behavior.** This includes increased trust, openness to change, learning and knowledge exchange, and a focus on results.

2. **Analytical work done during project preparation highlights the need to address political economy constraints, coordination challenges, and organizational culture.** Furthermore the 2015 World Development Report (Mind, Society, and Behavior) as well as experiences from past Malagasy development programs³⁹ highlight the need to focus on behavior change, improved leadership, knowledge exchange, and coalition building in addition to the technical sector work. Lessons learned from previous programs and project preparation highlight the importance of the following:

- **Diagnostics** that combine the analysis of technical and ‘people’ challenges and are updated as the context changes throughout implementation
- **Participatory design** of interventions that are flexible and incorporate experimentation, knowledge sharing, learning, and adaptation
- Broadening the **coalition of change agents** across public and private sectors
- Building trust and **protecting change agents** through smaller working groups that have more frequent contact with each other. Developing both **individual leadership and institutional capacity** for improved performance
- Focusing implementation efforts on **measurable results** instead of merely activities or broad visions
- Improving the **culture and systems for knowledge** capture, sharing, and application, both within and beyond institutions

3. **There is also the recognition that—like organizations around the world—Malagasy institutions are not making efficient use of their internal knowledge and staff capabilities.** A lack of institutional capacity is often listed as a critical factor for under-delivering on development operations and policy reforms. Institutions often underestimate the importance of capturing and learning from their own good operational practices. Leaders sometimes fail to appreciate solutions from their own organization and innovations developed at the front-lines. At the same time, Malagasy institutions may underestimate the potential to learn from relevant experiences elsewhere to strengthen reform implementation and public service delivery. Specific challenges observed in the Malagasy tax system with regard to

³⁹ Governmental Learning Retreats (2003–2004), Governance and Institutional Development Project 1 and 2 (2004–2008 and 2008–2014), and the World Bank Group-supported Transformational Leadership Program (2008).

knowledge are (a) a lack of institutional memory, exacerbated by high rates of staff and leadership turnover; (b) an insular attitude, perceiving the Malagasy case as unique, resulting in a lack of learning from international experience; and (c) high levels of distrust, which reduces the eagerness to exchange knowledge among civil servants and between the public and private sector.

Objective of Behavior Change, Leadership, Coalition Building, and Organizational Knowledge Sharing for Results

4. **The objective of this support is to strengthen capacity and incentives to facilitate the achievement of the PDO and more specifically the indicators for Component 1, which include the following:**

- (a) **DLI 1:** Modernization of the Integrated Tax Administration System (ITAS)
- (b) **DLI 2:** Increased rate of suspicious customs transactions related to home use at Toamasina customs office (in case of physical examination).⁴⁰
- (c) **DLI 3:** Number of revenue offices⁴¹ that have been subject to an external evaluation of their performance contract/programs.

5. Proposed interventions will (a) develop strong coalitions and broaden the base for change; (b) strengthen the capacity of civil servants to work in a results-oriented fashion; (c) increase operational effectiveness; (d) foster sustainability of the project's and its partners' operations; and (e) enable replication, scale-up, and institutionalization of successful models.

6. **Analysis during program preparation revealed that parts of the private sector are ready to support a fair and predictable mechanism for revenue mobilization.** There is also a desire to have citizens view taxes as a vehicle for improved provision of services. This intervention aims at developing broader support for this agenda of fairness, predictability, and service by involving both private and public sectors. It will engage them in small, cross-sectoral coalitions aimed at moving specific aspects of this agenda forward. Depending on timing and feasibility, this work may build on the ongoing public-private dialogue work around improving the business environment in Madagascar⁴² or be initiated independently.

Approaches

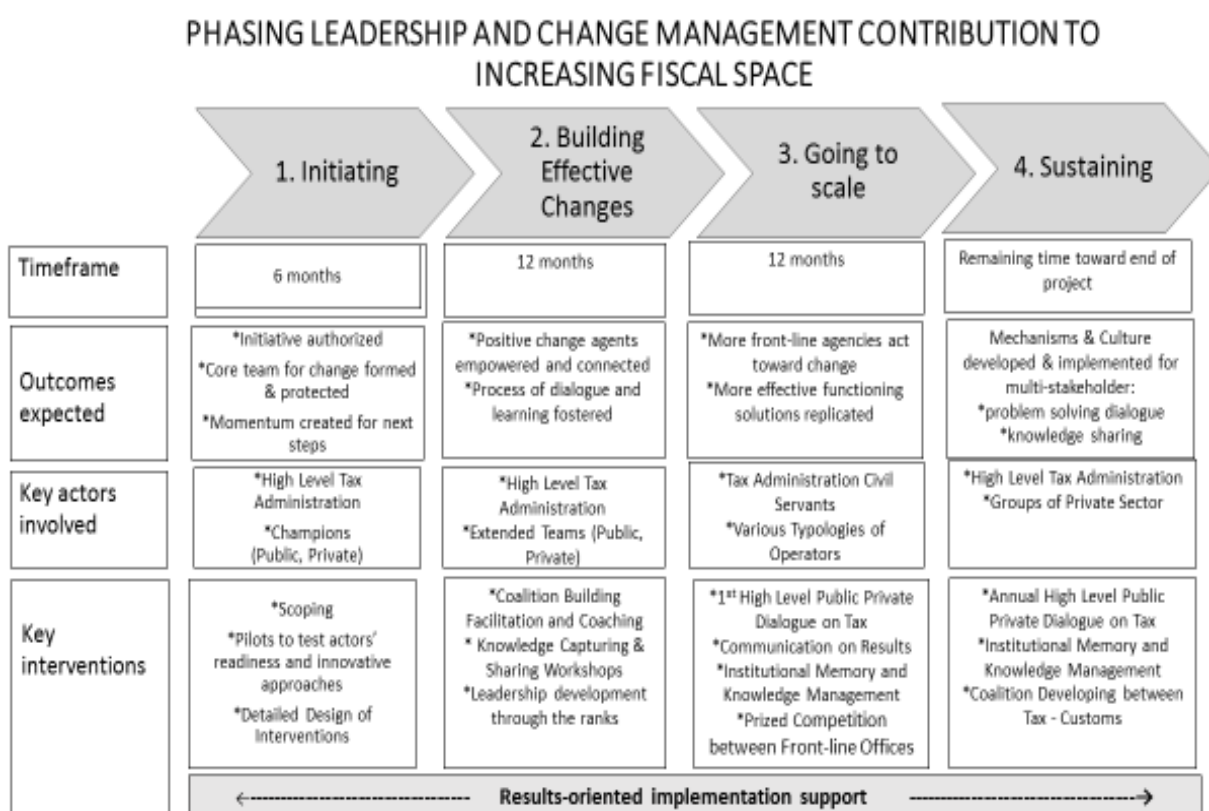
7. **The initial coalition building and knowledge interventions will focus on supporting the tax and customs administration by improving their ability to achieve the results of Component 1.** They will be paced in four phases, as shown in Figure 6.1.

⁴⁰ This indicator refers to the increased rate of confirmation of suspicious transactions of goods for national consumption.

⁴¹ Revenue offices representing 80 percent of revenues for each office customs and tax administration. Revenue offices include customs offices and regional tax offices.

⁴² Supported by the PIC II: Second Integrated Growth Poles and Corridor Project of the World Bank.

Figure 4. Phasing of Intervention for Leadership and Change Management



8. **The abovementioned support requires a deep scoping and adaptation to the emerging contexts, to focus the engagement where there is readiness to act and where crucial levers can be moved.** Thus, the initiation phase will include a scoping mission and pilot interventions to test assumptions, develop momentum, and engage an initial core constituency for change. This means, the interventions described in paragraph 9 below are indicative of the kind of work that will be done, without being prescriptive. The second phase will focus on engaging change agents to experiment and work on achieving the desired results at different levels of the system. The third phase aims at broadening the impact of the intervention and taking the solutions to scale, by harvesting the lessons of these activities and sharing them. The fourth phase will aim at institutionalizing changes to a point where they will be sustained beyond the end of the project. A common thread throughout all phases will be results-oriented implementation support.

9. The intervention is designed to support and enhance the achievement of the project DLIs (especially in Component 1) by working in four areas:

- (a) **Facilitating coalition building and dialogue between the public and private sector** by engaging change agents around issues where actors show high readiness to (i) broaden the base for change; (ii) increase the feasibility of implementation; and (iii) as the project continues, scale and institutionalize initial results
- (b) **Empowering civil servants for change** by clarifying specific goals, supporting learning by doing in small groups and leadership development through the ranks

to enable them to achieve their goals and thus increase the effectiveness of the administration

- (c) **Leveraging front-line innovation** by supporting experimentation and the capture of experience at the front lines to foster locally applicable solutions, increased ownership, and innovation
- (d) **Strengthening knowledge, learning, and institutional memory** by supporting the development of knowledge systems and knowledge culture, thus strengthening the institutional capacity of the PREA and their partners to (i) capture and share knowledge; (ii) learn from innovations and best practice; (iii) share them within Madagascar and with peer countries in Africa; and (iv) broker and share relevant experiences from elsewhere with Malagasy institutions.

10. **These interventions will use a variety of coalition building, change management, knowledge, and leadership development tools and approaches.** This may include (a) leadership development in small cohorts of peer learners from across the organizations; (b) workshops to facilitate dialogue and coalition building between the public and private sector; (c) consultations and strategic support in drafting results-oriented performance contracts and support in their achievement; (d) the development of local capacity in change management and process facilitation to support the processes on an ongoing basis; (e) technical trainings on knowledge-capturing techniques and the art of knowledge exchange; (f) the development of standardized tools to identify innovations and best practices in the public sector; (g) the rejuvenation of the knowledge management IT platform developed under the Madagascar PGDI II (P103950); (h) forging partnerships with the Global Development Learning Network through the Madagascar Distance Learning Center; and (i) South-South Knowledge Exchanges.

11. **The support will be strategically focused and adapted to local needs.** For example, targeting the highest and lowest performing parts of tax and customs. This will allow for the strengthening and spreading of good practices and innovations while at the same time dedicating attention to those who require most support to perform and achieve results. To reduce the individual risks for change agents, there is a preference for some of this work to be done in small groups and without much publicity.

12. **The interventions will remain flexible.** In the process of implementation new problems, priorities, and opportunities may surface and the context may change. Therefore, the design allows for the application of various tools of change leadership, including, but not limited to, the activities outline in this annex.

13. **Regular support.** Quarterly check-ins will be used for problem solving concerning implementation issues and for increasing knowledge sharing. These can be tapered off after the second year to a biannual frequency.

Annex 7: Citizens' Engagement and Social Accountability

Madagascar: Public Sector Performance Project

Strengthening Citizens' Engagement and Social Accountability

1. **The Malagasy Government is committed to supporting citizens' participation to enhance governance and restore the trust between the authorities and citizens.** The PND adopted by the Government in December 2014 confirms this commitment. The new decentralization laws, adopted in 2014, reflects this approach by integrating transparency, accountability, and citizens' participation in the management of public affairs. The decentralization laws call for the establishment of permanent platforms for dialogue at the local level, namely, the Local coordination structures (SLCs), which aim to strengthen the interaction of various local actors and enhance participation in local development.
2. **Madagascar's policies and strategies are in line with the new Bank directives on citizens' engagement.** Starting from 2015, the Bank seeks to integrate citizens' engagement in all Bank operations to (a) strengthen the achievement of project results and (b) contribute improving governance and social accountability in countries of focus.
3. **Madagascar has had previous experiences in mainstreaming citizens' engagement in Bank-funded projects.** Citizens' engagement mechanisms have been successfully rolled out in several Bank-funded projects in Madagascar, including in the mining sector (Mineral Resources Governance Project [PGRM] - P076245/P104983); in the public sector (PGDI II - P103950); in the private sector (Integrated Growth Poles and Corridor operations [PIC I and II] - P083351 and P113971); and in current education sector projects (the Madagascar Emergency Support to Critical Education, Health, and Nutrition Services Project - P131945 and the Emergency Support to Education For all Project - P132616).
4. **The project intends to build upon these experiences and will mainstream social accountability and citizen engagement using the following tools:** (a) definition of specific citizens' engagement indicators in the project results framework; (b) citizens or CSOs' monitoring of DLIs and of the M&E framework; and (c) development and implementation of specific social accountability activities in each project component.

Citizens' Engagement/Social Accountability Project Objectives

5. **Mainstreaming citizens' engagement and social accountability in the project will revolve around three objectives:** (a) enhancing the achievement of the project objective and results; (b) strengthening governance in targeted sectors through the implementation of permanent social accountability structures; and (c) scaling up and replicating the development and implementation of social accountability/citizens' engagement mechanisms.
6. **The implementation of social accountability activities will be made in a spirit of collaboration and partnership between the Government, the targeted services (departments), and CSOs.** A partnership between the Government (through the PREA) and active platforms of CSOs in the targeted sectors will be considered at the very beginning of the project. All the activities described in this note will be detailed in the POM.

PDO, Results Framework, and Citizens' Engagement

7. **Five specific indicators will be monitored to track citizens' engagement during project implementation.** These include one PDO indicator and four intermediate outcome indicators.

Table 18. Citizen Engagement Indicators in the Results Framework

PDO indicator	Percentage of communes with IGL higher than 6
Intermediate outcome indicators for Component 1	Number of revenue offices that have been subject to an external evaluation of their performance contract/program
Intermediate outcome indicators for Component 2	Improved timeliness of fiscal transfers (grants) to local governments
Intermediate outcome indicator for Component 3	Share of schools targeted by the component (4,812 schools) with an operational FEFFI and a PEC (citizens' engagement DLI)
Intermediate outcome indicator for Component 4	Semiannual public debates on the budget law ⁴³ on the performance of revenue agencies and on project performance led by CSOs (citizens' engagement indicator)

Citizens' Engagement/Social Accountability Activities

Increasing Transparency and Access to Information

8. **Strengthening the information access charter.** The former Madagascar PGDI II (P103950) supported several initiatives to improve the transparency of public institutions in Madagascar. Since then the Government was unable to approve the access to information legislation, the project supported the development of an 'Access to Information Charter'. This charter was signed by 239 public entities. The proposed project will monitor, through surveys, the application of the 'Access to Information Charter' mainly by public financial management institutions principles in order to improve budget transparency (revenue and execution). This will be done in close cooperation with CSO platforms.

9. **Dissemination of project information.** Sharing the information related to Bank-funded projects is one of the recommendations emerging from the Madagascar 2015 portfolio review. Because access to the Internet remains limited in Madagascar, the project will seek opportunities to work in close cooperation with national and local media to broadcast information on the project. This will allow citizens and CSOs to follow the evolution of the projects activities.

10. **The project will also support other access to information initiatives to be led by CSOs/media.** This will include, for example, the production of simplified documents understandable to all citizens (for example, budget information/citizen budget) or summarized and simplified EITI reports for citizens (Component 1). The *Dinika* program funded by the EU already supported the production of the citizen budget at the national level. The project will focus on the communal citizen budgets in targeted local governments (Component 2).

⁴³ Annual budget law and *Loi de Règlement*.

Strengthening External Control Mechanism, Accountability, and Transparency of Actors

11. **The quality of services provided by the Government, as well as the noncompliance with service standards agreed upon with selected departments, is a major source of concern for Malagasy citizens.** Several diagnostic tools evaluating the performance of existing systems and policies—such as PEFA, TADAT, the Country Policy and Institutional Assessment, and Open Budget Index—have been used by the Government to identify reform priorities. However, recommendations made by the various assessments are seldom implemented, undermining service delivery performance.

12. **To better respond to citizens’ expectation with regard to service delivery and help sectors focus on key priorities, the project will develop different tools to monitor the performance of targeted sectors at the start of implementation.** These tools include client satisfaction surveys in targeted sectors or departments, such as the PREA (project beneficiary agencies), Customs and tax (taxpayers), and selected local governments (communities and citizens).

13. **The exercise will be repeated throughout the life cycle of the project by a consortium including CSOs and research institutions (universities and academic institutions).** Citizens Report Cards or other innovative approaches involving the use of ICT tools (Internet, SMS, and social networks) will be used to monitor service delivery performance and beneficiary satisfaction. Performance monitoring will focus on (a) transparency of the use of public resources; (b) service delivery; (c) perception of corruption surveys; (d) compliance with project objectives and results; and (e) compliance with sectoral service standards. These tools will be used in the sectors targeted by the project.

14. **The project will also support monitoring the implementation of the FEFFI.** Citizens are already involved in school management through the FRAM and the newly established school management committees or the FEFFIs. The FEFFI includes broad community representations, teachers, and parents. Current education projects are currently strengthening the capacity of these structures by (a) providing FM information and training to public schools; (b) promoting participatory management of school funds (and other grants) by FRAM implication and the FEFFI; and (c) supporting the development of PECs. The project will support transparency and accountability of school management through (a) improving communication between the FEFFI and the PEC; (b) developing participatory monitoring evaluation of the FEFFI-targeted areas; and (c) collaborating with the ‘Listening to Madagascar’ initiative to collect information on school management’s performance. Information gathered will be used for public debates at local levels or will serve as means of questioning and/or sensitizing the concerned actors.

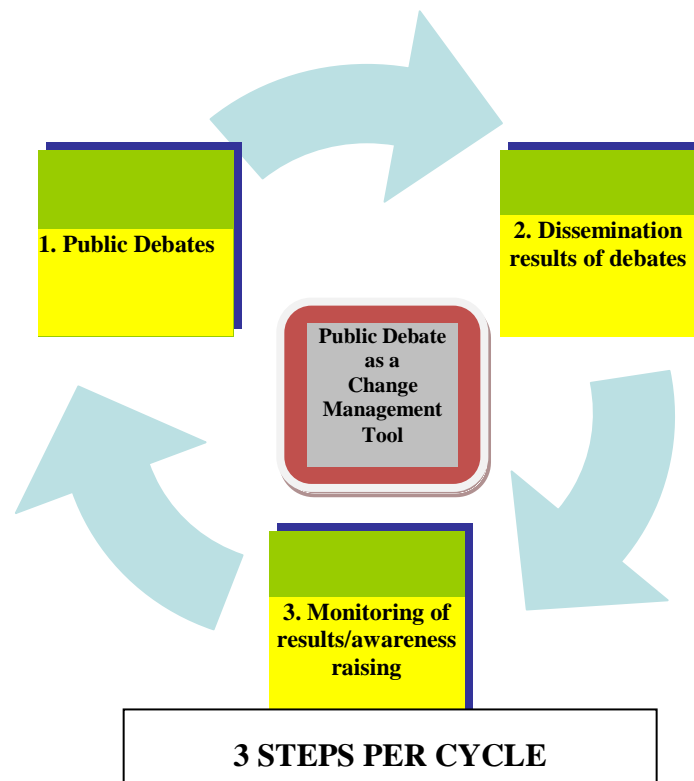
Enhanced Participation of Citizens, CSOs, and Media

15. **Development of ‘space for dialogue’.** The project aims to support the development of public fora to facilitate communication between the Government and citizens. Two specific activities will be supported: (a) implementation of ‘periodic public debates’ and (b) support to the operationalization of the SLCs.

16. The public debates will be informed by technical reports produced by various project stakeholders (financial statements, budgets, administrative accounts, EITI reports, and so on) to inform policies. The debates will also focus on project performance in targeted sectors, namely, the achievement of agreed-upon objectives and results.

- **Frequency of debates:** Debates should be conducted every six months.
- **Theme:** Use the same theme for each debate.
- **For each debates (y and y+1)” phase:**
 - Gather information;
 - Debate on results achieved from the previous action plan;
 - Adopt new action plan or revised action plan; and
 - Establish a Steering Committee or Observatory.

Figure 5. Steps for Implementing Citizen Engagement



17. **Strengthen the implementation of SLCs.** The project will contribute to the implementation of the SLC by supplying the necessary TA, such as the (a) production of SLC guidelines; (b) provision of trainers/coaches to support the implementation of the SLC; and (c) provision of TA to support the coordination of the activities at the local level.

18. **PB.** From 2004 to 2015, about 200 local governments rolled out PB activities. PB activities were supported by the Government, through the FDL and in cooperation with the Bank and the Swiss Inter-cooperation constitute. The project will continue supporting scaling-up of PB in regions and communes targeted by the project. It will be done in close cooperation with the Madagascar PIC II project adopting a similar approach. The project will explore the integration of the ‘local structures of dialogue’ in the PB process.

Table 19. Summary of Social Accountability Activities per Component

Component	Specific Activities, Citizens' Engagement, Transparency, and Social Accountability	Actors
Component 1: Improving Revenue Management	<ul style="list-style-type: none"> User surveys for revenue agencies 	Consortium National Academia-CSO Platform
Component 2: Improving Service Delivery Capacity of Local governments	<ul style="list-style-type: none"> PB process 	FDL with communes
	<ul style="list-style-type: none"> Communal citizen budgets 	FDL and BP Network
	<ul style="list-style-type: none"> Supporting the implementation of the SLC of targeted zones 	ONCD (Technical Assistance)
Component 3: Improving Governance Mechanisms in the Education Sector	<ul style="list-style-type: none"> Participatory management: operationalization of FEFFIs and PECs in targeted communes. 	MEN National CSO platform in Education
Component 4 : Improving Controls and Performance Monitoring	<ul style="list-style-type: none"> Participatory assessment of targeted stakeholder (PREA, MEN, MID, MPMP, FDL, FEFFI) 	Consortium Academia-CSO
	<ul style="list-style-type: none"> Survey to monitoring of the application of 'Access to Information Charter' 	Consortium National CSO Platform
	<ul style="list-style-type: none"> Training and collaboration with media for the dissemination of information related to the project 	PREA (Project coordination) Consortium National CSO Platform
	<ul style="list-style-type: none"> Training of civil society and media on budget and principles of PFM 	Consortium National CSO Platform with Consultant
	<ul style="list-style-type: none"> Public debates and periodic exchanges on the monitoring of public expenditures, revenue mobilization, and project performance. 	Consortium National CSO Platform
	<ul style="list-style-type: none"> Survey to monitoring DLI 	CSO Platform

Annex 8: Madagascar Summary of 2015 TADAT Scores

Madagascar: Public Sector Performance Project

Indicator	Scores 2015	Summary Explanation of Assessment
POA 1:⁴⁴ Integrity of the Registered Taxpayer Base		
P1-1. Accurate and reliable taxpayer information	D	The taxpayer registration database contains adequate information except filing obligations information. Verification of the identity of taxpayer information against third-party information is not robust. There is no evidence of documented procedures or audit reports to assess whether measures are taken to ensure the accuracy of information in the taxpayer database.
P1-2. Knowledge of the potential taxpayer base	C	The DGI does not have an annual national compliance program that specifies initiatives to detect unregistered legal entities and individuals. Compliance interventions are not necessarily directed toward detecting unregistered taxpayers.
POA 2: Risk Management		
P2-3. Identification, assessment, ranking, and quantification of compliance risks	C	Intelligence gathering and research activities to identify and build knowledge on compliance risks are limited. The process used to assess, rank, and quantify compliance risks does not follow a structured risk management process.
P2-4. Mitigation of risks through a compliance improvement program	C	The mitigation of assessed risks to the tax system through a comprehensive compliance management program that is premised on a systemic and robust risk management process is in its early stages of development.
P2-5. Monitoring and evaluation of compliance risk mitigation activities	C	Quantification of compliance impact from mitigation activities is partially monitored and evaluated.
P2-6. Identification, assessment, and mitigation of institutional risks	C	A less structured and formalized process is in place to identify, assess, and mitigate institutional risks.
POA 3: Supporting Voluntary Compliance		
P3-7. Scope, currency, and accessibility of information	C	Generic information on the main areas of taxpayer obligation and entitlements is available to the public. The information is generally current with respect to the law and administrative routines and the taxpayers can obtain information and advice through different information channels.
P3-8. Time taken to respond to information requests	D+	Service delivery standards exist for internal use but performance against these standards is not published for the taxpayers' information and use. Less than 50 percent of responses to taxpayer and intermediary written requests for information and advice are done within 30 days.
P3-9. Monitoring of taxpayer perceptions of service	C	Different methods are used to obtain feedback from taxpayers. However, perception surveys are not conducted systematically. Consultation with taxpayers and/or intermediaries is mainly initiated by the DGI and carried out on an ad hoc basis.
POA 4: Filing of Tax Returns		
P4-10. On-time filing rate	D	On-time filing is low across all core taxes and the

⁴⁴ Performance Outcome Area.

Indicator	Scores 2015	Summary Explanation of Assessment
		filing-related information provided to the assessment team is unreliable. Notwithstanding, just over a half of active company income tax and personal income tax taxpayers file on time, 61.9 percent for value added tax (VAT), and on-time filing rates are too low for PAYE withholding (44.6 percent).
POA 5: Payment of Obligations		
P5-11. Timeliness of payments	C	A low percentage of the VAT (55.6 percent by value) is paid on time but this statistic needs to be qualified—the taxpayer registration database is unreliable (POA 1), the compliance improvement strategy and program is in its early stages of development (POA 2), and there is general inattention to on-time updating of returns filed (POA 4).
P5-12. Stock and flow of tax arrears	C+	The level of tax arrears is relatively high compared to collection from core taxes.
POA 6: Ensuring Accuracy of Reporting		
P6-13. Use of tax audits and other initiatives to detect and deter inaccurate reporting	C	Lack of integration between existing IT systems has a negative impact on the design and management of the tax audit program. Further, non-audit initiatives are not used to address risks associated with inaccurate reporting.
P6-14. Coverage of automated information cross-checking.	D	There is no usage of automated cross-checking of third-party information against taxpayer's declarations.
P6-15. Monitoring the extent of inaccurate reporting	D	The DGI does not undertake studies to estimate the extent of inaccurate reporting. No analytical models or methodologies have been used to monitor tax revenue losses resulting from inaccurate reporting by taxpayers.
POA 7: Tax Dispute Resolution		
P7-16. Existence of an independent, workable, and graduated dispute resolution process	A	Taxpayers can make appeals through a graduated process, and the procedure for raising objections within the DGI provides independent scrutiny of auditors' decisions. Public information about the process is made available to the taxpayer through various channels.
P7-17. Stock and flow of dispute cases	C+	The DGI routinely monitors the value of tax under dispute. The number of dispute cases on hand has consistently remained high over the past three years relative to the 2011 base.
P7-18. Time taken to resolve disputes	D	The DGI does not meet the 30-day TADAT standard within which tax disputes should be resolved.
P7-19. Dispute outcomes are acted upon	C	The DGI responds to dispute outcomes on an ad hoc basis. There are few examples of subsequent policy and process changes.
POA 8: Operational Efficiency and Effectiveness		
P8-20. Achievement of tax revenue outcomes	D	The DGI failed to achieve the collection targets for all three years (2012–2014).
P8-21. Use of efficient collection and reporting systems	D+	The legal mandate exists for withholding at source, third-party reporting, and inter-agency information sharing. The third-party information collected is of limited use for effective auditing due to the fragmentation in IT inter-connection between the DGI headquarters and the control (audit) division at the operational level. Pre-filing of income tax returns has not been introduced. Filing and payment frequency is distinguished on the basis of the size and revenue

Indicator	Scores 2015	Summary Explanation of Assessment
		contribution of different taxpayer segments only for income taxation. E-filing is applicable for all major taxes (income tax, VAT and IRSA) but available to and assessable mostly by large taxpayers. E-payment facilities have not been made available to all taxpayer segments.
P8-22. Efficiency of processing and accounting systems	D	Processing and accounting systems remain poor and are manifest in the long lead time taken to reconcile tax payment receipts and taxpayer account balances (five days on average). The processing of TVA refunds is legally mandated to be completed within 60 days from the date that a refund request is received by the DGI (doubles the TADAT standard of 30 days).
POA 9: Accountability and Transparency		
P9-23. External oversight of the tax administration	D	Although the relevant institutions are in place, there is no effective oversight of the DGI's financial and operational performance, including investigations related to wrongdoing and maladministration. Limited resources prevent a systematic approach and there is no evidence of annual audits or investigations conducted within the review period (2012–2014).
P9-24. Level of internal controls	C+	The DGI has an internal audit unit that is responsible for internal controls which provides assurance on some of its operations. The SBI also has powers to conduct investigations of maladministration and allegations of corruption but plays no leadership role in developing integrity policies.
P9-25. Public perception of integrity	D	Although a number of measures are in place and some are planned to solicit feedback from the public, no survey or study has been conducted to measure the level of public confidence in the tax administration.
P9-26. Publication of activities, results, and plans	C	An annual report for the Ministry of Finance includes limited information about the DGI's activities and is presented to the parliament and made public. A strategic plan and an annual operational plan are developed but these have not been made public for the current period.

Annex 9: PEFA Indicators, 2008 and 2014

Madagascar: Public Sector Performance Project

	Indicator	2008 Score	2014 Score
A. PFM OUTTURNS: Credibility of the Budget			
P1-01	Aggregate expenditure outturn compared to original approved budget	D	D
P1-02	Composition of expenditure outturn compared to original approved budget	A	C+
P1-03	Aggregate revenue outturn compared to original approved budget	B	A
P1-04	Stock and monitoring of expenditure payment arrears	C+	NR
B. KEY CROSSCUTTING ISSUES: Comprehensiveness and Transparency			
P1-05	Classification of the budget	A	A
P1-06	Comprehensiveness of information included in budget documentation	C	C
P1-07	Extent of unreported Government operations	C+	D
P1-08	Transparency of inter-Governmental fiscal operations	B	C
P1-09	Oversight of aggregate fiscal risk from public sector entities	D+	D
P1-10	Public access to key fiscal information	C	C
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
P1-11	Orderliness and participation in the annual budget process	A	B
P1-12	Multiyear perspective in fiscal planning, expenditure policy, and budgeting	C+	D+
C(ii) Predictability and Control in Budget Execution			
P1-13	Transparency of taxpayers' obligations and liabilities	B	B
P1-14	Effectiveness of measures for taxpayer registration and tax assessment	B	B
P1-15	Effectiveness in collection of tax payments	D+	D+
P1-16	Predictability in the availability of funds for commitment of expenditures	B+	D+
P1-17	Recording and management of cash balances, debt, and guarantees	B	C
P1-18	Effectiveness of payroll controls	D+	D+
P1-19	Competition, value for money, and controls in procurement	C	D+
P1-20	Effectiveness of internal controls for non-salary expenditure	C+	C
P1-21	Effectiveness of internal audit	C+	C
C(iii) Accounting, Recording, and Reporting			
P1-22	Timeliness and regularity of accounts reconciliation	D+	D+
P1-23	Availability of information on resources received by service delivery units	D	D
P1-24	Quality and timeliness of annual financial statements	C+	C+
P1-25	Quality and timeliness of in-year budget reports	D+	D+
C(iv) External Scrutiny and Audit			
P1-26	Scope, nature, and follow-up of external audit	D	D+
P1-27	Legislative scrutiny of the annual budget law	C+	D+
P1-28	Legislative scrutiny of external audit reports	D+	D
D. DONOR PRACTICES			
D-1	Predictability of direct budget support	A	n.a.
D-2	Financial information provided by donors for budgeting and reporting on project aid	B+	D
D-3	Proportion of aid that is managed by use of national procedures	D	D

Annex 10. The Local Governance Index

Madagascar: Public Sector Performance Project

1. **The IGL is a composite index that has been developed in a participatory manner by the FDL and tested in a sample of local governments since 2010.** The IGL was built to give local governments a framework and guiding standards of good governance for local governments while also allowing the FDL to determine its criteria of grant disbursement. The index helps describe and analyze the level and quality of local governance at the municipal level. After being tested and corrected, the IGL has been the subject of a national validation and is currently a reference for the FDL in its communes of intervention.

2. **The IGL has proved itself to be (a) a tool for reflection and self-assessment** allowing for actors of local development in the course of actions to improve the quality of their governance standards and deliver better public services to citizens; (b) a learning process for local governments and communities due to its participative approach, allowing also for better citizens' engagement and local empowerment; (c) a communication and M&E tool for the Government in the development, implementation, and monitoring of decentralization and local development policies; and (d) a decision-making process, through which the needs of each local government are better understood and adequate means to address them are identified. The IGL serves as a basis for the redistribution of Government grants to local governments through the FDL.

3. **The IGL is built around the six main dimensions of good governance,** including (a) participation, (b) inclusion/equity, (c) transparency and accountability, (d) rule of law, (e) efficiency, and (f) cross-sector integration. Each of these dimensions comprises different subcomponents, which in turn are subdivided into indexes or parameters as described in table 10.1. The IGL is an aggregate score from 0.00 to 10.00. However, the score can be broken into the six main dimensions of good governance.

4. Table 10.1 shows all dimensions of the IGL and the corresponding subcomponents and indicators.

Table 20. The IGL Dimensions and Indicators

DIMENSIONS	Indicators to Be Measured
A. Participation	
A1. Vision and development plan	<ul style="list-style-type: none"> • Existence of a vision and strategic development plan (communal development plan, territorial management plan, and so on) • Participative approach in the identification of challenges, solutions, planning, and implementation of actions
A2. Leadership and partnership	<ul style="list-style-type: none"> • Mayor's leadership (communal governance, proactivity in partnership building, local resources mobilization) • Mobilization capacity (citizens, private sector, state)
A3. Space for dialogue	<ul style="list-style-type: none"> • Existence of platform of dialogue between citizens, local authorities, and deconcentrated technical services (level of organization, decision making, complaints, and grievance processes)
B. Inclusion/Equity	
B1. Gender/women participation	<ul style="list-style-type: none"> • Participative approach in budget elaboration • Participation in major decisions (local social contracts [<i>Dina</i>], local taxation, investment priorities, and so on) • Women in executive local positions and local municipal committees

B2. Inclusion of vulnerable groups	<ul style="list-style-type: none"> • Existence of support programs to vulnerable groups⁴⁵ • Identification and implementation of municipal projects serving vulnerable groups
C. Transparency and Accountability	
C1. Citizen access to information and citizens' engagement	<ul style="list-style-type: none"> • Access to information on <ul style="list-style-type: none"> ○ Health: immunization, malaria, HIV/AIDS, and so on ○ Education: school management, school canteen ○ Infrastructures: water, sanitation, solid waste ○ Agricultural and farming techniques (immunization schedule and so on) ○ Disaster risk management
C2. Citizen access to local budget information	<ul style="list-style-type: none"> • Information on municipal budget and administrative accounts through public display and posting in municipal offices or use of other communication channels such as public speeches (<i>kabary</i>)
C3. Citizen access to procurement information	<ul style="list-style-type: none"> • Access to information on procurement operations at municipal level (equipment, construction firms/individuals, furniture)
C4. Transparency of municipal decision process	<ul style="list-style-type: none"> • Access to the proceedings of decisions taken by the municipal council • Existence of standard of services • Existence of anticorruption mechanisms⁴⁶
D. Rule of Law	
D1. Application of laws	<ul style="list-style-type: none"> • Respect for human rights • Compliance with existing legislation
D2. Application and compliance with financial and procurement processes	<ul style="list-style-type: none"> • Capacity of municipal staffs • Existence of control mechanisms (internal and external) • Compliance with management procedures in the implementation of municipal projects
D3. Application of accounting procedures and financial orthodoxy	<ul style="list-style-type: none"> • Compliance with FM and accounting procedures • Capacity of municipal staff • Existence of control mechanism
E. Efficiency	
E1- User's satisfaction on civil registry services	<ul style="list-style-type: none"> • Access to civil registry services, • Public display of standard delivery time and cost of civil registration services. • Integrated information system
E2- Access to basic social services	<ul style="list-style-type: none"> • Basic education: primary and middle-school • Basic health centers : CSB I and II • Water and Sanitation: access to clean water • Security: Level of security • Land management: access to and satisfaction on decentralized land management services.
E3- Efficiency and financial performance	<ul style="list-style-type: none"> • Financial efficacy/efficiency in the use of public resources (budget execution rate). • Financial performance on local taxation: recovery rate of Land taxation, tax on built properties, royalties, synthetic tax.
F. Cross-sector integration	
F1- Integration of sectoral aspect in the development plan.	<ul style="list-style-type: none"> • Integration of 10 sectors: health, education, water/sanitation/solid waste, transportation and roads, governance/municipal services, rural and agricultural development, environment, culture/youth/sports, security, energy/electricity.

⁴⁵ Orphans, elderly people, disabled people, undernourished children, single parent women, poor families, and so on.

⁴⁶ Asset declaration, a ground and access plan, badges, a bulletin board, idea boxes, ethics code for mayors, public display of the cost of municipal services, materials for anticorruption sensitization, and so on.

Annex 11. Map of Madagascar

