

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA62674

Project Name	Public Sector Performance Project (P150116)
Region	AFRICA
Country	Madagascar
Sector(s)	Central government administration (25%), Sub-national government administration (25%), Public administration-Education (25%), Public administration- Energy and mining (25%)
Theme(s)	Other public sector governance (100%)
Lending Instrument	Investment Project Financing
Project ID	P150116
Borrower(s)	Ministry of Finance
Implementing Agency	PREA - Programme des réformes pour l'efficacité de l'administration
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	25-Mar-2016
Date PID Approved/Disclosed	24-Mar-2016
Estimated Date of Appraisal Completion	25-Mar-2016
Estimated Date of Board Approval	13-Jun-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

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. To reach even the 2008 level again, projections show that it would take the country five years with average annual GDP growth of 5 percent. 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. 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 Analamanga region (which comprises the capital city) having a poverty rate of 45.4 percent compared to Atsimo Atsinanana (South-East) region, where the poverty rate reaches 94.3 percent.

3. The government has managed, however, to maintain macroeconomic stability throughout the latest crisis and since. Since 2014, GDP growth has recovered to hover just above population growth, but the hope for economic take-off has not yet materialized. The growth rate for 2015 is 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 end-2015, mainly due to higher prices of food and charcoal. Since 2014, annual foreign direct investments have averaged around US\$250 million since 2014. 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 (MDGs). 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 percent in 2010 to 69.4 percent in 2012, 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.

Sectoral and institutional Context

5. Given its fragile context, weak institutional capacity, and significant governance challenges, Madagascar has a number of interrelated sectoral/institutional issues that need to be addressed, including, inter alia, the following:

- 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

II. Proposed Development Objectives

The Project Development Objective (PDO) is to improve revenue management, and local service delivery nationwide and in the education sector in Selected Regions.

III. Project Description

Component Name

Improved Revenue Management

Comments (optional)

This component will support the following activities through a combination of TA and results-based financing (RBF): (a) improvement and consolidation of taxpayers registration and identification; (b) modernization of the 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.

The eligible expenditure programs (EEPs) will include the roll-out of the ITAS, the salary of the tax and customs administration and selected control institutions, as well as furniture and arrangements of facilities/offices.

Component Name

Improving Service Delivery Capacity of Local Governments

Comments (optional)

This component will support the following activities through a combination of TA and RBF: (a) 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.

The EEP to be financed under this component is the payment of the local government grants to be channeled through the FDL to allow communes to improve their service delivery capacity.

Component Name

Improved Governance Mechanisms in the Education Sector

Comments (optional)

This component will support the following activities through a combination of TA and RBF: (a) strengthening the budget planning and monitoring system at the local and central levels; (b) improving budget execution mechanisms in procurement and the management of subsidy transfers for community teachers and school grants; and (c) supporting the implementation of the FEFFI and the development of PECs through a combination of TA and incentive processes. The EEP to be financed under this component is the payment of school grants.

Component Name

Improving Controls and Performance Monitoring

Comments (optional)

This component will support the following activities: (a) strengthening controls and oversight

mechanisms; (b) promoting transparency, accountability, participation, and media access to information; and (c) project coordination and performance monitoring. There will be no EEP financed through this component.

IV. Financing (*in USD Million*)

Total Project Cost:	40.00	Total Bank Financing:	40.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
BORROWER/RECIPIENT			0.00
International Development Association (IDA)			40.00
Total			40.00

V. Implementation

A. Institutional and Implementation Arrangements

6. The project implementation will be led by the PREA, based within the President's Office. The PREA will be responsible to coordinate 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.

7. 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.

8. The PREA has project implementation experience, but additional assessment is needed to mitigate potential risks. The PREA has implemented two previous Governance and Institutional Development Projects (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 (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.

B. Results Monitoring and Evaluation

9. The PREA M&E Division will be in charge of the project M&E system. The PREA recently

established a new division responsible 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.

10. 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

11. 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.

12. 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 Tax Department (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.

13. 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.

VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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