



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Jun-2018 | Report No: PIDA24693



BASIC INFORMATION

A. Basic Project Data

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|--------------------------------|----------------------------|--|------------------------------|
| Country | Project ID | Project Name | Parent Project ID (if any) |
| Madagascar | P166425 | MG - Second Inclusive and Resilient Growth DPO (P166425) | P162279 |
| Region | Estimated Board Date | Practice Area (Lead) | Financing Instrument |
| AFRICA | 09-Aug-2018 | Finance, Competitiveness and Innovation | Development Policy Financing |
| Borrower(s) | Implementing Agency | | |
| Ministry of Finance and Budget | Central Bank of Madagascar | | |

Proposed Development Objective(s)

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

Financing (in US\$, Millions)

SUMMARY

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|------------------------|-------|
| Total Financing | 60.00 |
|------------------------|-------|

DETAILS

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| Total World Bank Group Financing | 60.00 |
| World Bank Lending | 60.00 |

Decision

The review did authorize the team to appraise. Negotiations will be conditional on all prior actions being met. Provided negotiation condition is completed and the IMF and Government of Madagascar reach agreement to conclude the Third Review of the ECF program, the amount of the operation could be increased to US\$60 million.



B. Introduction and Context

Country Context

1. **Madagascar has one of the highest rates of poverty in the world and poverty has been deepening.** As of the latest data available (2012), 77.6 percent of the Malagasy population live below the \$1.9 in 2011 PPP international poverty line, positioning the country as the poorest country in the world where internationally comparable data are available.¹ With a population of near 24 million of which 64 percent is less than 25 years of age, Madagascar has the potential to reap a demographic dividend. However, the average Malagasy is 42 percent poorer today than in 1960, the year of Madagascar's independence. Poverty is not only widespread, it also runs deep: the average Malagasy consumes 32 percent less than a person living directly at the national poverty line. The most recent poverty analyses² show that Madagascar made little progress in improving the welfare of the poor between 2001 and 2012. The incidence of extreme poverty is higher among female-headed households, which make up one-fifth of all households.

2. **Madagascar's high exposure to the impacts of climate change exacerbates the vulnerabilities of the poorest.** Agriculture provides the main source of income for the poorest and climate change increases the precariousness of their livelihoods.³ The country suffers annually from damages from cyclones including destruction of agricultural crops and of infrastructures. The South of the country is also exposed to recurrent drought. Between 1980 and 2015, the country recorded over 50 cyclones and 14 floods with high number of victims. Furthermore, the occurrences of cyclones, flooding and drought have increased by 3 times in the last 20 years and it is expected that these events will intensify under climate change.⁴ Climate models suggest that Madagascar will experience an increase in mean temperature of 1.1–2.6°C this century, as well as increases in rainfall across the island in summer and increases in rainfall in winter everywhere except the southeast coast.⁵ The destructive force of cyclones is also expected to increase. Farmer's vulnerability to climate conditions is intensified by their dependency on small parcels of lands that limits the possibility to make surplus of production, inadequate road infrastructure to access inputs and markets, and lack of safety net and access to credit in times of need.⁶

3. **Despite repeated political crises and natural disasters that have held the country back, Madagascar could be on a positive development track.** Over the last fifty years, all the changes in the head of State (excluding the current President) have been preceded by a political crisis, the most recent ending in 2014.⁷ The application of existing institutions and legal norms has been repeatedly undermined by the political networks of a few, contributing to the deepening of poverty. The Malagasy population have borne the cost of this political instability. With the relative political stability since 2014, the country has been able to engage in series of reforms and the economy has gradually recovered, with Gross Domestic Products (GDP) growth accelerating from 2.3 percent in 2013 to 4.2 percent in 2017.

¹ Source: PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/home.aspx>)

² World Bank (2016). "Recent Trends and Analytical Findings on the Causes of Madagascar's Persistent Poverty." It uses household survey data from EPM 2001, 2005, 2010, and ENSOMD 2012. Also see World Bank (2014). "Face of Poverty in Madagascar: Poverty, Gender, and Inequality Assessment." The next household survey is expected to take place in 2018, following the census.

³ 60 percent of the households reported environmental issues (cyclone, drought, floods, and pest) as the main issue for agriculture productivity (Ensomd 2012).

⁴ USAID (2016). Profil of climate change risk. Madagascar.

⁵ Tadross M, Randriamarolaza L, Rabefitia Z, Zheng KY. 2008 Climate change in Madagascar; recent past and future. Washington, DC: World Bank. At the time of the study, rainfall is restricted to the southern area during the winter season.

⁶ Philosophical Transactions of the Royal Society B: Biological Sciences (2014). Extreme vulnerability of smallholder farmers to agricultural risks and climate change in Madagascar

⁷ The country experienced political crisis in 1972, 1991, 2001-2002, and 2008-2013.



4. **A key challenge for Madagascar is to ensure that the recent positive macroeconomic developments are brought closer to the poor.** Promoting inclusive growth requires that the country continues to grow at a strong and sustainable rate and breaks with its past pattern of high growth volatility. The tertiary sector, particularly public works, and export processing zones are the main drivers of the recent macroeconomic growth. The main sector of employment for the bottom 80 percent of households is agriculture⁸. Yet, reforms are also needed that translate the current political stabilization and economic growth into better conditions for the poor⁹. These include creating income-earning opportunities for the poor (e.g. through improved access to finance and enhanced infrastructure) and connecting lagging and poor regions with stronger employment opportunities, both on-farm and off-farm. Moreover, individuals and households require support in times of frequent climatic disasters. This includes having access to social safety nets, basic public services as well as access to savings and credit to rebuild their lives after shocks occur. In addition to political stability, appropriate policy decisions are also essential to achieve inclusive and resilient growth.

Relationship to CPF

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

C. Proposed Development Objective(s)

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

Key Results

7. **The proposed operation is the second in a series of two programmatic operations aimed at supporting the Government in its objective of promoting growth and reducing poverty.** The operation supports reforms related to civil registration, social protection and the financial sector to build the foundations for resilience at the individual and household level. The DPO also supports reforms on land, local government transfers, road maintenance and energy to increase the ability of rural communities to be included and benefit from Madagascar's recent positive macroeconomic developments.

⁸ World Bank, 2016. Shifting Fortunes and enduring poverty in Madagascar.

⁹ World Bank, 2016, Poverty and Shared Prosperity 2016: Taking on Inequality report



D. Project Description

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

- **The first pillar seeks to build the foundations for resilience at the individual and household level.** Repeated shocks – ranging from frequent climatic shocks, including hurricanes, droughts and floods, to macroeconomic and health shocks – have tested the resilience of Madagascar's poor in the past five decades leading to a reversal of the little progress that had been made in terms of poverty reduction. Limited access to social safety nets and financial services made it difficult for individuals to get through these crises and to rebuild livelihoods after shocks.
- **The second pillar focuses on enabling rural inclusion, by supporting economic opportunities in local communities.** Close to 80 percent of Madagascar's population live in rural areas, and rural poverty rates are nearly twice as high as in urban areas. Limited access to infrastructure services and low returns on their assets – which are land, education and health – are holding the rural poor back.

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

E. Implementation

Institutional and Implementation Arrangements

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



de Partenariat.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

11. **The project has conducted a full Poverty and Social Impact Analysis (PSIA), highlighting the pro-poor impact of the proposed DPO program.** By design, all measures supported by this DPO aim to improve the conditions of Madagascar's poor. Birth registration makes individuals more visible, and the state more accountable for provision of health, education, other services, safety nets, and legal protection. There is strong evidence that social safety nets, non-contributory transfers targeted mainly to the poor, can increase the resilience of the poor and increase their opportunities. Promoting the use of e-money, the electronic alternative to cash, offers some promise to strengthen financial inclusion in developing countries. Access to credit may allow households to borrow in bad times and repay in better times, increasing resilience to shocks. A large literature exists on the effects of formal tenure recognition that positively affect welfare possibly via an investment and perceived tenure security effect on agricultural productivity. The early empirical literature suggests that decentralization holds potential for poverty reduction. The improvement of rural roads has a positive effect on poverty reduction via economic growth. Promoting access to electricity in rural areas has a potential significant impact on poverty and resilience.

12. **The Poverty and Social Impact Analysis (PSIA) has placed particular attention on the gender-related impact of some of the reforms proposed by this DPO.** There is no significant gender gap in birth certification, i.e., no evidence for parents' willingness to obtain birth certificates for girls vis-à-vis boys (or vice-versa) and, therefore, an expansion of coverage is unlikely to have any significant gendered effects. On the other hand, the safety net programs particularly benefit women as in most cases the cash payments go to the female head of the household. Evidence shows that women are investing large part of the cash in purchases that benefit directly their children, such as more diverse food consumption, expenditures for school materials, and health related expenditures. Providing women with cash has shown to improve women's self-esteem, decision making power and mobility – all important aspects for strengthening resilience and productive inclusion. On e-money, there is some evidence that the technology, if used to make payments within cash transfer schemes, may allow women recipients to conceal receipt of cash transfers and may thus help to improve their authority regarding household expenditure decisions. Land certificates can be issued to either a man or a woman.¹⁰ A partial solution to improve gender equality in land ownership under the new regime would be requiring issuance of at least one certificate to a woman each time a household applies for more than one certificate. Rural electrification has the potential to be pro-women to the extent that most of the burden to collect firewood currently falls on women. Electrification could empower women by freeing up a significant part of their time, therefore allowing them to participate productively to market activities. The latter is more likely to occur if many job opportunities are created in rural areas and if access to jobs in urban areas is easier. Job opportunities in rural areas and accessibility to urban jobs are likely to increase as a result of improved maintenance of rural roads.

¹⁰ Approximately 20 percent of land certificates are issued exclusively to women. For land owned by couples, the certificates are most commonly issued under the name of the man (82 percent of cases) and only in the 6 percent of cases they are issued under the name of the couple. The World Bank is currently conducting awareness campaigns to promote the practice of certificates being issued under the name of both, the man and the woman.



Environmental Aspects

13. **The country's natural resources have the potential to contribute more largely to poverty reduction and economic development.** Effective collection and management of revenues generated by renewable and non-renewable natural capital will be essential. The Ministry of Environment and Forests (MEF) is the lead government agency for environment and renewable natural resources management. The institutional landscape for environmental and natural resources management is completed by a number of specialized non-governmental organizations. These include Madagascar National Parks (MNP), an independent non-profit association established in 1990 to manage the protected area network; the Office National pour l'Environnement (ONE) created in that same year, to regulate environmental impact from economic and development activities, monitor environmental quality and develop appropriate regulations; and two foundations with complementary roles in conservation finance, the Foundation for Protected Areas and Biodiversity (FAPB) created in 2005 to finance conservation activities, and Tany Meva, established in 1996 to support community development around protected areas, with the objective of reducing pressures on the parks.

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

G. Risks and Mitigation

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

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APPROVAL

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Approved By

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| Country Director: | Coralie Gevers | 28-Jun-2018 |
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