



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 30-Mar-2018 | Report No: PIDC24340



BASIC INFORMATION

A. Basic Project Data

Country Madagascar	Project ID P166425	Project Name MG - Second Inclusive and Resilient Growth DPO (P166425)	Parent Project ID (if any) P162279
Region AFRICA	Estimated Board Date Jul 12, 2018	Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Development Policy Financing
Borrower(s) Ministry of Finance and Budget	Implementing Agency 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

Total Financing	45.00
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DETAILS

Total World Bank Group Financing	45.00
World Bank Lending	45.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

- Madagascar has one of the highest rates of poverty in the world.** 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. As of the latest data



available (2012), only 30 percent of Malagasy live above the national and only 10 percent above the international poverty line. 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 analyses¹ 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. **Despite repeated political crisis have held the country back, Madagascar is today on a positive development track.** Over the last fifty years, all the changes in the head of State (excluding the current President) have been preceded by a political crisis. The application of existing institutions and legal norms has been repeatedly undermined by the political networks of a few. The Malagasy population have borne the cost of this political instability. The elected government that took office in 2014, after a five-year long political crisis, has made tangible progress stabilizing the economy and restarting growth. This has been supported by two consecutive International Monetary Fund (IMF) Rapid Credit Facility (RCF) programs, followed by a six-month IMF staff-monitored program and an ongoing three-year Extended Credit Facility (ECF) program that started in 2016. Madagascar's macroeconomic reform agenda was further supported by the World Bank's Reengagement DPO in 2014, the Resilience DPO in 2015 and the 2016-17 Public Finance Sustainability & Investment programmatic DPO series. These efforts have contributed to a gradual macroeconomic recovery in Madagascar, with real Gross Domestic Product (GDP) growth expected to reach 4.3 percent in 2018.

3. **A key challenge for Madagascar is to ensure that these 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 agriculture². Yet, reforms are also needed that translate the current political stabilization and economic growth into better conditions for the poor³. 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.

Relationship to CPF

4. **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

¹ 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.

² World Bank, 2016. Shifting Fortunes and enduring poverty in Madagascar.

³ World Bank, 2016, Poverty and Shared Prosperity 2016: Taking on Inequality report



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)

5. 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

6. **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. The proposed operation is the second in a series of two programmatic operations.

D. Concept Description

7. **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.
8. **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 regulatory 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. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

9. **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.

Environmental Impacts

10. **The policy actions supported by this operation are not likely to have significant positive or 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 the energy sector, the environmental and social impacts of ADER's anticipated activities are expected to be moderate, site-specific, and manageable to an acceptable level with generic mitigation measures.

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APPROVAL

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Approved By

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