Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 07-Jul-2020 | Report No: PIDC226883

BASIC INFORMATION

A. Basic Program Data

Country	Project ID	Parent Project ID (if any)	Program Name
Madagascar	P173932		Madagascar - Infrastructure Governance and Lifeline Connectivity Program for Results
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Does this operation have an IPF component?**
AFRICA EAST	11-Jan-2021	31-Mar-2021	No
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Practice Area (Lead)**
Program-for-Results Financing	Ministry of Finance	Ministry of Energy and Hydrocarbons (MEH), Ministère des Transports, du Tourisme et de la Météorologie, JIRAMA, Ministère de l'Aménagement du Territoire, de l'Habitat et des Travaux Publics	Energy & Extractives

Proposed Program Development Objective(s)

Provide more inclusive access to infrastructure services; enhance the financial and fiscal sustainability of infrastructure service delivery; and improve the environmental sustainability, health and safety in the electricity and transport sectors in Madagascar

COST & FINANCING

SUMMARY (USD Millions)

Government program Cost	400.00
Total Operation Cost	400.00
Total Program Cost	400.00
Total Financing	400.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	400.00
World Bank Lending	400.00

Concept Review Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

A. Country Context

1. **Development in Madagascar, a low-income country of 26 million people with a gross domestic product (GDP) of about US$14 billion (2019), was marked by a succession of deep crises and modest recoveries.** Following a prolonged period of political instability and economic stagnation over the period 2009-13, growth accelerated over the last five years to reach an estimated 4.8 percent in 2019, its fastest pace in over a decade. The return to constitutional order was instrumental to this economic revival, as it contributed to restore investor confidence, reopen access to key export markets, reinstate flows of concessional financing, and encourage structural reforms. Between 2012 – 2019, the percentage of the population living below the international poverty line of US$1.90 (2011 purchasing power parity) per day is estimated to have fallen only slowly, from 77.6 percent to 74.5 percent, and remains significantly higher than the regional average of 41 percent. According to the Human Capital Index[1], a child born in Madagascar today will be 37 percent as productive when she grows up as she could be if she had enjoyed complete education and full health. Madagascar is also highly vulnerable to natural disasters, including cyclones, droughts, and flooding.

2. **The adverse economic, social, and fiscal impact of the COVID-19 crisis in Madagascar will be very substantial in 2020, calling for renewed attention to poverty reduction and more inclusive growth towards resilient recovery.** Global trade and travel disruptions associated with the COVID-19 pandemic as well as domestic containment measures are expected to result in the first recession in Madagascar since the 2009 crisis, with GDP predicted to contract by 1.2 percent in 2020. Assuming successful containment measures, growth would recover to an estimated 4.0 percent in 2021, leaving a cumulative effect of the coronavirus outbreak after 2 years of -7.8ppt of GDP. Formal employment will be significantly impacted by contracting activity in tourism and manufacturing sectors, notably textile and apparels, while revenues from informal jobs in large urban areas affected by lockdowns will be significantly reduced. In this context, extreme poverty is predicted to increase in 2020 to 76.8 percent (US$1.9/day), undoing three years of consecutive declines. Vulnerable populations in urban areas are particularly exposed to economic hardship and poverty traps reflecting strict confinement measures.

3. **The country's development vision laid out in the National Development Plan (NDP) 2015–2019, is aligned with the multidimensional approach to development set out in the United Nations (UN) Sustainable Development Goals**

[1] Madagascar ranks 140 out of 157 economies.

(SDGs). National reconciliation, reinforcement of democratic institutions, and better management of the economy are the NDP's high-level objectives. The NDP is the Government's medium-term planning tool to progress on the overarching ambition of the General Policy of the State (*Politique Générale de l'Etat*) to transform Madagascar into a modern and prosperous nation, characterized by sound governance, strong and stable growth, and wide access to high-quality public services.

4. **Madagascar has limited fiscal space for public investment to meet its development objectives, in part because its fiscal balance is compromised by subsidies to state-owned enterprises.** Tax revenue, as a share of GDP, has historically been among the lowest in the world, reaching 10.5 percent in 2019, still well below the regional average of 18 percent of GDP. Strategies for increasing tax revenue have been elaborated and efforts are under way, but progress has been slow and the COVID-19 crisis will set the domestic resource mobilization agenda several years back. Furthermore, the Government still allocates a large share of discretionary spending to: (I) unaffordable and poorly targeted subsidies and transfers to finance the losses of state-owned Madagascar's Electricity and Water Utility (Jiro sy Rano Malagasy, JIRAMA) estimated at 1.5 percent of GDP in 2019 and (ii) inefficient and short-lived transport network rehabilitation investments that are not properly followed by maintenance policies.

5. **The scaling-up of public investment to reinforce connectivity infrastructure is at the core of the government's development strategy for post-COVID recovery.** Over the past decade, annual public investment averaged 4.4 percent of GDP and the quality of overall infrastructure as measured by the Global Competitiveness index is low hovered at 3 (on a scale of 1 to 7). To fill key infrastructure gaps, the authorities aim to increase public investment to 10 percent GDP in 2023, and infrastructure is at the core of the Government's Plan Emergence Madagascar (PEM; see below for details) as well as its post-COVID recovery strategy.

Sectoral (or multi-sectoral) and Institutional Context of the Program

6. **Madagascar urgently needs better infrastructure connectivity in energy and transport to improve people's access to markets and basic public services.** Madagascar's challenging topography, mostly characterized by thin coastlines separated by a rugged high plateau cut by deep gorges and waterfalls, complicates the establishment of regional transport infrastructure and interconnected power grids. Only 12 percent of the Malagasy population is connected to the electricity grid. Even in the larger economic centers, electricity service quality is poor, severely impairing key export-oriented industries such as garment manufacturing and seafood processing. Frequent power outages and oscillating voltage cause an average Madagascar company losses equivalent to 13.6 percent of sales per year outside the capital city of Antananarivo, by far the highest among benchmark countries.[2] Generators offer an alternative to firms that can afford it, but fuel logistics are costly and prone to shortages. More generally, limited transport connectivity leads to high costs and time for trade logistics and only 58 percent of the country's population is estimated to live in areas where agricultural goods can be delivered at affordable transport prices (<US$10 per ton).[3] The lack of a well-integrated and functional transport network impedes the efficient movement of people and goods, which depresses domestic demand in secondary cities, raises prices of essential goods, and limits opportunities to transport perishable agricultural produce and access to socio economic opportunities. Poor port access by both road and rail particularly prevents Madagascar from effectively

[2] Figure from World Bank, "Enterprise Surveys: Madagascar," 2013.

[3] The rest of the population is subject to transport costs as high as US$34 per ton, which severely curtails the domestic commerce of goods. World Economic Forum 2019. Global Competitiveness Report 2019.

participating in the global markets, while unreliable and expensive international and domestic air flights undermine the country's great potential of tourism.

7. **The infrastructure connectivity situation is even more dire in rural areas and among poor and vulnerable population.** Wealth is concentrated in the few urban areas that possess transport links to ports and other cities. As distance from the urban areas increases, industries lack the energy they need to operate and the reliable and affordable transport they need to get products to market. Rural areas have remained inaccessible and their residents impoverished. Private firms, particularly in the mining and tourism sectors, have invested in their own transport and energy systems. Today, only 5 percent of the rural population has access to grid-based electricity. The situation is even worse for the poorest Malagasies. Of the households in the bottom income quintile, more than 80% of which live in rural areas, only one percent has access to electricity. The lack of electricity is compounded by only 11 percent of the rural population having access to the road network which leaves an estimated 17 million Malagasies disconnected from both transport and electricity services.

8. **Limited connectivity not only reduces people's economic opportunities but also impedes human capital development particularly in rural areas.** In Madagascar, about 1000 out of 3,200 basic health centers (CSB) have no access to electricity services and about 900 are disconnected from the road network. It is already difficult for rural people to visit local CSB, but the limited availability of medicines and other medical supplies due to the poor road connectivity also undermines people's healthcare benefits further. The timely distribution of medical supplies and equipment is often hindered in rural Madagascar, especially during the rainy season.[4] In the education sector, there are more than 26,000 public schools in Madagascar, out of which less than 3 per cent have access to electricity and about 60 percent are disconnected from the transport network. Along with availability of teachers and school materials, rural connectivity is one constraint to reduce the repetition rate in primary education.

9. **Poor sector governance and unsustainable sector finances are at the root of the poor state of infrastructure in Madagascar.** The electricity sector is meant to have an independent, tariff-setting regulator and a commercially operating utility company, but reality falls far short. With tariffs far below cost recovery and utility decisions often driven by non-commercial considerations, JIRAMA has no resources or authority to invest in commercially optimal, long-term infrastructure. Ad-hoc, expensive emergency supply contracts with private suppliers have become the 'new normal'.[5] Government transfers, while significant, fall short of closing the cash flow gap. Barely able to maintain its existing service level, investment in access expansion has been deprioritized, leading to a decline in the grid access rate as population growth outpaced new connections. System losses are so high that one-third of power produced never reaches the customer, and due to rampant theft and non-payment, cash is eventually collected for less than half of produced power. In the transport sector, the lack of connectivity is due to insufficient public resources for investment and financially unsustainable arrangements for maintenance, increasing the network's vulnerability to extreme climate events and endangering people's lives. For instance, about US$250 million would be needed to maintain roads that are currently in good condition yet the Road Fund (FR) is currently collecting only US$30 million because of a low fuel levy rate and arrears from oil companies.

10. **In terms of the fiscal governance of infrastructure, Madagascar's suffers from poor selection, management, and implementation of public investments.** The efficiency of public investment management is assessed to be low in Madagascar[6] Main weaknesses include the absence of objective and transparent selection criteria for project, and the lack

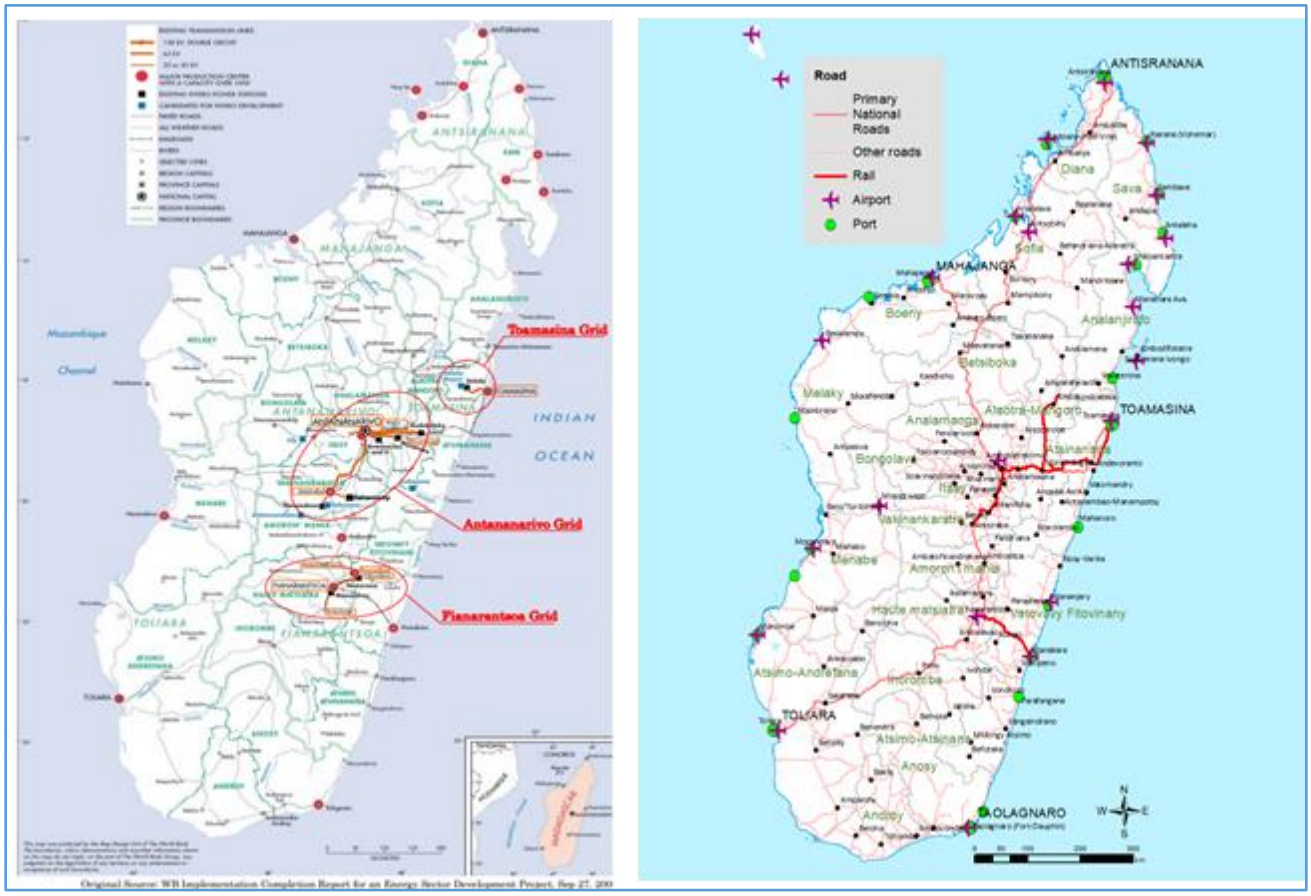
[4] Iimi and Rajoela. (2018). Transport connectivity, Medical supplies, and people's health care access: evidence from Madagascar. Policy Research Working Paper 8488. World Bank.

[5] Such emergency contracts now provide more than half of JIRAMA's electricity.

[6] According to the Public Investment Management Assessment conducted in 2019.

of information for project assessment, including estimated recurrent cost for operation and maintenance and risk analysis associated with the execution of each project. As a result, only 3 out of 10 US dollars committed to public infrastructure investments are actually spent, and often on poorly selected and executed projects. Strengthening public investment management at each step of the process is vital to fill large infrastructure gaps, including the selection of investment projects based on objective socio-economic criteria, realistic costing estimates and assessment of the government's present and medium-term financial capacity. To compensate for the lack of public resources and capacity to deliver public infrastructure investments, the Government plans to attract private financing through PPP and has started to update the PPP framework. Further, the government's capacity to assess, monitor, and manage PPPs and the associated contingent liabilities is also weak. To make visible progress with the PPP framework, existing bottlenecks needs to be addressed and transparency and management of the PPP pipeline improved.

Figure 1: "Infrastructure Connectivity Challenge" - Electricity (left) and Transport Network in Madagascar



Relationship to CAS/CPF

11. **The proposed operation would directly contribute to Focus Area II 'Promote Inclusive Growth' of the World Bank's CPF, discussed by the Board of Executive Directors in June 2017.**[7] The CPF aims to build on the current relative

[7] The CPF was approved by the Board on June 26th, 2017.

political stability to help address structural fragilities that hamper sustainable human and economic development in Madagascar. The program will support two focus areas of the CPF: (a) increase resilience and reduce fragility and (b) promote inclusive growth. Specifically, the operation is directly contributing to two key CPF objectives as follows:

(a) Reducing fiscal transfers on JIRAMA, strengthening Madarail's governance structure and cost recovery and improving financial sustainability of the road sector will contribute to *objective 5 on increasing fiscal capacity to finance priority social and infrastructure spending*;

(b) Strengthening JIRAMA's financial position and sector expansion planning will help improve access to energy, as stated in *objective 8, improved access to energy and transport,* and is supportive of the Maximizing Financing for Development approach.

(c) Establishing a safe, sustainable and resilient intermodal transport system will improve people's transport connectivity and mobility, which is also consistent with *objective 8, improved access to energy and transport*.

Rationale for Bank Engagement and Choice of Financing Instrument

12. **Program-for-Results financing (PforR) was identified as the most relevant instrument to achieve the objectives.** The choice of the PforR instrument is justified as it will support: (i) the PEM's investments and reforms to enhance connectivity as well as financial and environmental sustainability of energy and transport sectors by using and further strengthening institutional capacity including financial and fiscal management as well as fiduciary and safeguards systems to enhance program results and sustainability; (ii) achievement of verifiable outcomes and outputs, improved efficiency and strengthened governance; and (iii) channeling of funds though a rule-based and transparent mechanism. Other lending instruments were considered not a good fit for the proposed operation. Specifically, an Investment Project Financing (IPF) would not be suitable given the nature of the operation and the expenditure it proposes to support. For example, while isolated project-style approaches have, thus far resulted in limited short-term improvements of energy and transport infrastructure, these typically have limited potential for sustainable connectivity enhancements over the medium to long run. A development policy financing would not be appropriate since it would not allow earmarking of funds, which will be particularly important throughout all stages of PEM implementation to enforce payment discipline and ensure that no new financial deficits are accumulated in both power and transport sectors. Thus far, development policy operations in the energy sector have been useful to alleviate specific crisis situations but have not been able to lastingly reduce the fiscal burden of the GoM and improve transparency of transfers to JIRAMA, which will be critical for long term sustainability.

13. **The proposed PforR builds on a comprehensive dialogue on policy and regulatory reforms enshrined in recent DPFs and a suite of investment projects.**

For the energy sector, the Fiscal Sustainability and Energy DPO (P166752) supported important reforms to the energy sector investment framework, including how projects under the PDMC will be developed. The Energy Sector Operations and Governance Improvement project (ESOGIP) (P151785), approved in 2016, seeks to improve the utility's commercial, technical, and organizational performance, including through reforms to implement management information systems and revenue protection programs. Furthermore, over the past year, the WB has been in the process of steadily broadening its portfolio in the energy sector to include renewable energy development: Scaling Solar Madagascar (P166925); and Support to Hydropower IPP Development, (P153220) and Electricity Access (LEAD, P163870). As the success of these new activities will hinge on the improvement of JIRAMA's

liquidity and solvency, the proposed operation is considered a cornerstone underpinning the sustainability of the Bank's portfolio in the Malagasy power sector.

For the transport sector, the Government has already set out the series of key policies and plans to enhance sustainability of transport connectivity, such as Priority Road Investment Plan 2020-23, Road Sector Institutional Reform Strategy, and Northern Rail Network (Madarail) Revival Plan 2020-24. Rather than financing specific outputs, the proposed program will be focused on achieving its outcomes - improved access to sustainability and safe transport services.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

Provide more inclusive access to infrastructure services; enhance the financial and fiscal sustainability of infrastructure service delivery; and improve the environmental sustainability, health and safety in the electricity and transport sectors in Madagascar

PDO Level Results Indicators

14. The program focuses on three results areas:

(a) Providing more inclusive access to electricity and transport infrastructure;

(b) Enhancing the financial and fiscal sustainability of public delivery of electricity and transport services; and

(c) Improving the environmental sustainability and safety in the electricity and transport sectors.

15. The PDO-level indicators will be determined during preparation but could include:

(a) Households, enterprises and public institutions provided with new or improved access to electricity (No);

(b) Cost recovery of electricity service delivery by JIRAMA (%);

(c) MW of newly added renewable energy generation capacity (MW);

(d) Increased Rural Access Index (%)

(e) Rail traffic on Antananarivo and Toamasina (tons)

(f) Increase in road-sector revenue collected by FR (Ar);

(g) Violation of axle load control (% of total traffic on selected corridors);

(h) Number of road traffic fatalities reported in project areas (No);

(i) Resilient roads improved (km);

(j) Infrastructure projects selected for public financing based on cost-benefit analysis (number);

(k) Extent of contingent liabilities reported in national registry (from none to including PPPs, guarantees and on-lending to SOEs, financial positions of SOEs).

D. Program Description

PforR Program Boundary

16. **The PforR involves a comprehensive package of interventions for the next five years to improve infrastructure sector performance and bring it to a sustainable state.** The PforR includes the following components:

17. **Results Area 1: Providing more inclusive access to electricity and transport infrastructure.**

(a) In the electricity sector, the program aims to expand access to electricity for households, enterprises and public institutions, with a focus on rural and underserved areas.

(b) In the transport sector, the program aims to provide better road and other transport connectivity for rural and underserved areas of Madagascar.

18. **Results Area 2: Enhancing the financial and fiscal sustainability of public delivery of electricity and transport services.**

(a) **In the electricity sector**, the program will support the implementation of JIRAMA's Financial Recovery Plan, which was prepared with the World Bank support and presented to the GoM in September 2019. The plan includes a fiscal roadmap for the GoM and an operational roadmap for JIRAMA with a broad range of measures to gradually improve the financial health of JIRAMA to become a financially self-sustainable and creditworthy off-taker.

(b) **In the transport sector**, the program will support the improvement of sector governance and enhance financial sustainability in the sector, specifically by implementing a robust road asset management, including systematic prioritization of investment, timely maintenance and strengthening axle road control regulations, and increasing and diversifying road-sector revenues (fuel levy and road user charges). Strengthening axle road regulations will contribute to not only preserving the road assets but also financial sustainability of Madarai, thereby improving financial sustainability in the transport sector as a whole.

(c) **Cross-cutting, support implementation of improved fiscal planning and budgeting** for infrastructure, enhancement and implementation of the PPP framework including procurement and management of contingent liabilities.

19. **Results Area 3: Improving the environmental sustainability and safety in the electricity and transport sectors.**

(a) **In the electricity sector**, the program will support reforms to facilitate and accelerate the implementation of PPP reforms for procurement of renewable energy power plants; the implementation of new framework and tools for generation expansion planning; and the expansion of deployment of solar PV for minigrids.

(b) **In the transport sector,** the program will support the Government's efforts to improve road safety through assisting the institutional reforms to establish a road safety authority and implement the road safety strategy. The program will also support the efforts to building more climate resilience in transport infrastructure, including design of climate resilient roads, and improving rail operations, which could also contribute to environmental sustainability and safety in the transport sector, through shifting heavy bulky freight traffic from roads to rail transport.

20. **Disbursement Linked Indicators (DLIs).**

(a) **Type of indicators.** The DLIs selected for the Program will involve a mixture of output and outcome level indicators. The outputs would involve implementation of financial, governance and policy measures that are key for ensuring sustainable operation of the electricity and transport sectors. The outcome indicators would involve indicators that will measure improved connectivity, financial and fiscal sustainability, and environmental sustainability and safety.

(b) **Scope of indicators.** Table below summarizes the tentative scope of the DLIs in the three sectors and across the three results areas.

21. **Prior results. Several of outputs designed as DLIs, which are essential for the program's credibility and implementation outcomes are expected to be achieved by the appraisal of the Program. The disbursement linked results achieved before signing of the Loan Agreement will be eligible for disbursement up to a ceiling of US$ [tbc] million.**

Table 1: Preliminary scope of DLIs and the PforR Program in the Three Results Areas

#	Results Area	Global DLIs	Electricity	Transport	Fiscal Governance of Infrastructure
1	Providing more inclusive access to electricity and transport infrastructure	• n.a.	New connections as a result of: • Electrification program progress • Adoption of new framework and tools for electrification planning; • More affordable connection charges through connection policy and pricing reforms	Better connectivity as a result of: • Improved rural accessibility (%); • Increased road maintenance (km).	Progress towards the energy and transport DLIs as a result of: • Implementation of the law on public procurement
2	Enhancing the financial and fiscal sustainability of public delivery of electricity and transport services	• Transparency as a result of improved fiscal budgeting for electricity and transport sectors	Improved cost recovery as a result of: • Electricity tariff reforms; • Implementation of non-tariff measures in JIRAMA's financial recovery plan; and • Corporate governance reforms at JIRAMA.	Improved financial viability of the transport sector as a result of: • Full operationalization of FR and AR • Adoption of increasing fuel levy strategy; • Strengthening of axle load control (increasing penalty rate and increasing	Progress towards the energy and transport DLIs as a result of: • Implementation of the government's PIM strategy for 2020-24

				operational weigh stations); • Pilot toll road; • Restructuring of Madarail ownership; • Legislation of new logistic park.	
3	Improving the environmental sustainability and safety in the electricity and transport sectors	• n.a.	Development of renewable energy as a result of: • Implementation of PPP reforms for procurement of renewable energy power plants; • Implementation of new framework and tools for renewable generation expansion planning; and • Expansion of solar PV for minigrids.	Safer and more sustainable transport service delivery as a result of: • Adoption of road safety strategy; • Establishment of road safety agency; • Development of road safety database. • Adoption of climate resilience strategy in transport sector; • Resilient road investment (km).	Progress towards the energy and transport DLIs as a result of: • Updates to PPP legal framework and creation of PPP institutions

Expenditure framework:

(a) **In the electricity sector**, the expenditure framework will primarily include (i) investments in last-mile electricity access; (ii) power purchases from private sector suppliers to keep the lights on until tariffs can cover the full cost of service; (iii) investments in efficiency improvements. The expenditures under (i) and (iii) are relatively minor scale constructions/upgrades and therefore will not involve large scale safeguards impacts or large contracts. *Under (ii), the program will only finance expenditures under contracts that were procured in line with the public procurement legislation in Madagascar.*

(b) **In the transport sector**, the expenditure framework will primarily include (i) maintenance and investment expenditure in the road and rail transport infrastructure; (ii) supporting axle road control operations and infrastructure; and (iii) investments in climate resilient transport infrastructure and road safety.

(c) **For the fiscal governance of infrastructure**, the expenditure framework will include (i) investment in PIM evaluation tools and training for line ministries; and (ii) Roll-out of a more effective and comprehensive system to track and evaluate contingent liabilities and associated fiscal risks of the GoM, including for PPPs and SOEs.

(d) **Expenditures will further include TA for implementation support and capacity building** of the key agencies with significant implementation responsibility under the PforR. These expenditures may be structured as IPF component. This will be determined during preparation.

22. **Institutional and Implementation Arrangements.** The implementation of the program will be coordinated by a Program Coordination Unit in the Presidency. Implementation will be managed by a total of four implementing agencies including the Ministry of Energy and Hydrocarbons (MEH) and JIRAMA for the electricity sector; the Ministry of Land Planning and Public Works and the Ministry of Transport, Tourism and Meteorology for the transport sector; and the Ministry of Finance for the PIM and other cross-cutting areas.

23. **Results Monitoring and Evaluation:** Different agencies will have a lead role in implementations of the disbursement linked indicators of the proposed Program. The implementation oversight unit at the President's Office (see below) will have the overall responsibility for monitoring the implementation of program, based on the results framework that will be agreed as the preparation of the operation progresses. The implementation oversight unit will collect the monitoring and evaluation (M&E) information from the lead agencies and provide it to the Word Bank.

E. Initial Environmental and Social Screening

Scope of activities and type of expected associated impacts. The proposed expenditure framework is focused on financing the rehabilitation and extension of existing infrastructures to improve access and efficiency in electricity and transport sectors. In the electricity sector, the expenditure framework will also cover power purchases from Independent Power Producers (IPPs). Long-term adverse environmental and social impacts in these activities are thus not expected. While overall, environmental and social impacts are considered substantial, only the Program's limited road rehabilitation activities may entail some minor economic and physical displacements along the ROWs of selected roads, as well as labor influx, health and safety issues related to civil works including GBV and child labor issues. The potential environmental and social risks and impacts will however be site-specific and temporary as limited to the period necessary for the completion of rehabilitation works. The PforR instrument is considered suitable to support the government's PEM as, based on the screening of preliminary expected activities and the preliminary expenditure framework, it does not include any activities that are typically category A (i.e. activities that could have adverse environmental and social impacts that are large-scale, irreversible, sensitive, diverse, cumulative or precedent setting and may affect an area broader than the sites or facilities financed by the project).

24. **Assessments to be conducted during preparation:**

(a) **Environmental and social systems assessment.** As part of project preparation, the Bank team will carry out an Environmental and Social System Assessment (ESSA) for the proposed Program to examine existing environmental and social management systems within the power and road sector. The ESSA will be undertaken to confirm consistency with six *core principles* outlined in paragraph 9 of the "World Bank Policy for Program-for-Results Financing" in order to effectively manage Program risks and promote sustainable development. The Assessment will review existing regulations and policies, their legal and practical applicability at the program level, institutional capacity, and the effectiveness of implementation in practice. In addition, the ESSA will assess management capacity with regard to (a) distributional equity, affordability and gender constraints; (b) consultation processes; (c) risk of creating or exacerbating conflicts. The findings of the ESSA will be factored into the overall integrated risk assessment, which will be revised at the appraisal stage.

(b) **Follow-up on ESSA conclusions.** If the ESSA process concludes that present capacity is sufficient to deliver environmental and social benefits, that there are no significant impacts or risks, or that management capacity is sufficient to handle impacts or risks that may be involved, there would be no need to devise and agree upon measures to further strengthen environmental or social management capacity (though the World Bank and borrower may nonetheless agree to do so as a Program objective). If the ESSA process concludes that capacity-building measures are necessary to strengthen environmental and social performance, or concludes that new or strengthened measures are necessary to mitigate specific environmental or social impacts associated with the Program, specific actions would be devised with the borrower and would be provided as an input into the Program Action Plan, which would be agreed on with the borrower.

(c) **Poverty and social impact assessment.** For the electricity sector, the World Bank team will conduct a Poverty and Social Impact Assessment (PSIA) in addition to the ESSA, once the tariff trajectory is determined to assess the impact of planned tariff adjustments on the affected households, particularly the poor and vulnerable households. This analysis will inform the discussion of mitigation mechanisms (e.g. through social assistance or tariff), as necessary.

25. **Follow-up on PSIA conclusions.** The findings from the PSIA will feed into the appraisal of the supported GoM Program and will be used to advice the GoM on the design of a tariff trajectory that is consistent with the World Bank's twin goals of ending extreme poverty and boosting shared prosperity.

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