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Report No: 41885-MG

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

**IN THE AMOUNT OF SDR 24.3 MILLION
(US\$ 40 MILLION EQUIVALENT)**

TO THE

REPUBLIC OF MADAGASCAR

FOR A

SECOND GOVERNANCE AND INSTITUTIONAL DEVELOPMENT PROJECT

April 22, 2008

**Public Sector Reform & Capacity Building Unit (AFTPR)
Country Department 1 (AFCS1)**

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 3, 2008)

Currency Unit = Malagasy Ariary (Ar)
Ar 1790 = US\$1
US\$ 1 = SDR 0.6075

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank	IGE	<i>Inspection Générale de l'Etat</i> (General Government Inspectorate)
ANSA	African Network of Social Accountability	IGF	<i>Inspection Générale des Finances</i> (General Internal Control)
ARMP	<i>Autorité de Régulation des Marchés Publics (Procurement Oversight Authority)</i>	IMF	International Monetary Fund
BADEA	<i>Banque Arabe pour le Développement Economique en Afrique</i> (Arab Bank for Economic Development in Africa)	INSTAT	<i>Institut National des Statistiques</i> (National Statistics Institute)
BdG	<i>Bureau de Gestion</i>	ISR	Implementation Status Report
BIANCO	<i>Bureau Indépendant Anti-Corruption</i> (Independent Anticorruption Agency)	LOLF	<i>Loi Organique portant Loi des Finances</i> (Organic Finance Law)
CAS	Country Assistance Strategy	MAP	Madagascar Action Plan
CDE	<i>Contrôle des Dépenses Engagées</i> (Commitment Control)	MCA	Millennium Challenge Account
CDMAP	Capacity Development Management Action Plan	MCC	Millennium Challenge Corporation
CFAA	Country Financial Accountability Assessment	MDGs	Millennium Development Goals
CG	<i>Coordonnateur Général</i>	MECI	<i>Ministère de l'Economie, du Commerce et de l'Industrie</i> (Ministry of Economy, Trade and Industry)
CNFA	<i>Centre Nationale de Formation Administrative</i> (National Center for Administrative Training)	MIGA	Multilateral Investment Guarantee Agency
COS	<i>Conseil d'Orientation et de Suivi</i> (Oversight Committee)	Mof	Ministry of Finance
CPAR	Country Procurement Assessment Review	NGO	Non Governmental Organization
CQ	Consultant Qualification	NCB	National Competitive Bidding
CSI	<i>Comité pour la Sauvegarde de l'Intégrité</i>	NLIM	National Leadership Institute of Madagascar
CSLCC	<i>Conseil Supérieur de Lutte contre la Corruption</i>	PAP	Priority Action Plan
		PCU	Project Coordination Unit
		PEFA	Public Expenditure and Financial Accountability
		PER	Public Expenditure Review
		PGDI	<i>Programme de Gouvernance et Développement Institutionnel</i> (Governance and Institutional Development Program)
		PIC	Pôle Intégré de Croissance (Integrated Growth Poles)

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ENAM	<i>Ecole Nationale d'Administration de Madagascar</i> (National School of Administration)	PREA	<i>Programme des Réformes pour l'Efficacité de l'Administration</i> (Reform Program for the Efficiency of the Administration)
ENMG	<i>Ecole Nationale de la Magistrature et des Greffes</i> (National School for Magistrates and Clerks of the Court)	PRSC	Poverty Reduction Support Credit
EU	European Union	PRSP	Poverty Reduction Strategy Paper
FAO	Food and Agriculture Organization	QCBS	Quality and Cost Based Selection
FDL	<i>Fonds de Développement Local</i> (Local Development Fund)	RCU	Reform Coordination Unit at the Ministry of Finance
FID	<i>Fonds d'Intervention pour le Développement</i> (Local Development Fund)	ROSC	IMF Report on the Observance of Standards and codes
FM	Financial Management	SBD	Standard Bidding Document
FMRs	Financial Monitoring Reports	SME	Small and Medium Enterprises
GDLN	Global Development Learning Network	SIGFP	<i>Système Intégré de Gestion des Finances Publiques</i> (Integrated Financial Management Information System)
GDP	Gross Domestic Product	SSS	Single Source Selection
IC	International Consultant	TI	Transparency International
ICB	International Competitive Bidding	UNDP	United Nations Development Program
IDASA	Institute for Democracy in South Africa	UNICEF	United Nations Children's Fund
IFAD	International Fund for Agricultural Development	WFP	World Food Program
IFR	Interim Financial Report	WHO	World Health Organization

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MADAGASCAR
Governance and Institutional Development Project II

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Map IBRD 33439

MADAGASCAR

SECOND GOVERNANCE AND INSTITUTIONAL DEVELOPMENT PROJECT

PROJECT APPRAISAL DOCUMENT

AFRICA

AFTPR

Date: April 22, 2008 Acting Country Director: Dirk Reinermann Sector Manager: Anand Rajaram	Team Leader: Guenter Heidenhof Sectors: General public administration sector (90%); Law and justice (10%) Themes: Public expenditure, financial management and procurement (P); Macroeconomic management (S); Tax policy and administration (S); Managing for development results (S); Access to law and justice (S) Environmental screening category: Not Required
Project ID: P103950	
Lending Instrument: Technical Assistance Credit	

Project Financing Data

Loan Credit Grant Guarantee Other:

For Loans/Credits/Others:

Total Bank financing (US\$m.): 40.00 million

Proposed terms: Standard IDA terms with a 40 year maturity including a 10 year grace period

Financing Plan (US\$m)

Source	Local	Foreign	Total
BORROWER/RECIPIENT	2.00	2.00	4.00
International Development Association (IDA)	20.00	20.00	40.00
Total:	22.00	22.00	44.00

Borrower:

Government of Madagascar

Responsible Agency:

Programme de Réformes pour l'Efficacité de l'Administration (PREA), Bureau de Gestion

Lot II LA, Rue Andriamahajonoro

Ankadivato

Madagascar

Tel: 261-20-2220911

pdgi@moov.mg

www-prea-mg.org

Estimated disbursements (Bank FY/US\$m)									
FY	9	10	11	12	13				
Annual	8.00	12.00	10.00	8.00	2.00				
Cumulative	8.00	20.00	30.00	38.00	40.00				
Project implementation period: Start September 1, 2008 End: August 31, 2012									
Expected effectiveness date: September 1, 2008									
Expected closing date: August 31, 2012									
Does the project depart from the CAS in content or other significant respects? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
<i>Ref. PAD I.C.</i>									
Does the project require any exceptions from Bank policies? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
<i>Ref. PAD IV.G.</i>									
Have these been approved by Bank management? <input type="checkbox"/> Yes <input type="checkbox"/> No									
Is approval for any policy exception sought from the Board? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
Does the project include any critical risks rated "substantial" or "high"? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No									
<i>Ref. PAD III.E.</i>									
Does the project meet the Regional criteria for readiness for implementation? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No									
<i>Ref. PAD IV.G.</i>									
Project development objective <i>Ref. PAD II.C., Technical Annex 3</i>									
The development objective of the project is to improve the efficiency and transparency of government and selected public services in Madagascar in line with the Madagascar Action Plan (MAP).									
Project description [<i>one-sentence summary of each component</i>] <i>Ref. PAD II.D., Technical Annex 4</i>									
The project will enhance and further deepen previous reforms initiated under the first Governance and Institutional Development Project (PGDI I) which is scheduled to close in September 2009. The project (US\$40.0 million IDA) would be implemented over a period of four years and consists of the following six components:									
(a) Improvement of Public Expenditure Management (US\$15.0 million IDA: Funding under this component will be provided for the further improvement of the budget preparation and execution processes, including the further roll-out of the integrated financial management system (Système Intégré de Gestion des Finances Publiques, SIGFP) to the regional capitals and the strengthening of the operational efficiency of the relevant control mechanisms. The project will continue to support the procurement reforms initiated in 2004 through comprehensive training and capacity building activities. It will provide assistance to the Government to implement the comprehensive reforms of the revenue agencies (customs and tax directorates).									
(b) Strengthening the Efficiency of Government Operations (US\$9.0 million IDA: The objective of this component is to support the change management and institutional development processes in the context of the implementation of the Government's development strategy, the Madagascar Action Plan (MAP).									
(c) Rule of Law and Fight Against Corruption (US\$3.0 million IDA: Project assistance will focus on improving the operational efficiency of the judiciary, on supporting anti-corruption and conflict-of-interest activities, and on strengthening oversight by the Auditor General and by Parliament over State affairs.									

- (d) Monitoring & evaluation (US\$8.0 million IDA): The project will support the restructuring of the National Statistics Office and the World Bank contribution to a new population census.
- (e) Transparency and Social Accountability (US\$4.0 million IDA): The component aims at fostering increased implication of civil society in State affairs and at improving “social accountability” which are key objectives of the MAP.
- (f) Program Coordination (US\$3.0 million IDA): The objective of this component is to support the management and implementation of the PGDI II. This will include assistance to the Ministry of Finance to set up and manage a basket fund for public expenditure management reforms. Additional assistance will focus on the Bureau de Gestion (BdG) of the Reform Program for the Efficiency of the Administration (Programme de Réformes pour l’Efficacité de l’Administration, PREA) which was set up by the Government in 2005 to coordinate all governance related activities.
- (g) Unallocated (US\$2.0 million IDA): This amount has been set aside to cover price contingencies and to respond flexibly to additional demands emerging during the implementation of the project.

Which safeguard policies are triggered, if any? *Ref. PAD IV.F., Technical Annex 10*
 No safeguard policies are triggered

Significant, non-standard conditions, **if any**, for:

Ref. PAD III.F.

Board presentation:

- (i) Standard conditions.
- (ii) Project funding will include the financing of a limited number of government staff salaries until December 31, 2009, mainly to recruit trainers for local training institutions and technical specialists into the President’s Office, the Prime Minister’s Office, the Economic Crimes Unit and for the National Statistics Institute. These expenditures are in line with the requirements of recurrent cost financing parameters as specified in BP 6.00 of April 2004 and the relevant Guidelines of April 16, 2004. World Bank support would allow the Government to gradually integrate these recurrent expenditures into subsequent budget years.
- (iii) The project will include the retroactive financing of specific activities (refinement and deployment of the integrated financial management system, strengthening of the internal and external controls of the public finance system, implementation of the reforms in the customs and tax directorates including related training and capacity building activities, and coordination of the reforms in the Ministry of Finance and Budget). These expenditures, which do not exceed US\$1.0 million and will be subject to the application of relevant World Bank procurement guidelines, are in line with the requirements of the eligibility criteria for Bank financing as specified in OP 6.00 of April 2004.

Loan/credit effectiveness:

The following credit effectiveness conditions have been agreed with the borrower:

- (a) The Government has adopted the Project Implementation Manual, in form and substance satisfactory to the Association.
- (b) The Government has employed the independent external auditors referred to in Section 4.09 (b) of the General Conditions.
- (c) The Government has established a Reform Coordination Unit with form and functions

satisfactory to the Association and caused the Reform Coordination Unit to employ the following staff with qualifications and experience satisfactory to the Association: a reform coordinator and at least two dedicated technical officers.

The following disbursement conditions have been agreed upon with the Government:

- (i) Disbursement of the Social Accountability Grants will be subject to the recruitment of a non-state Social Accountability Grant Administrator acceptable to IDA;
- (ii) Payments made on or after January 1, 2008 for the refinement and deployment of the integrated financial management system including related training and capacity building activities, for the strengthening of the internal and external controls of the public finance system including related training and capacity building activities, for the implementation of the reforms in the customs and tax directorates including related training and capacity building activities, and for the coordination of the reforms in the Ministry of Finance and Budget, are eligible for funding under the Project, provided the total amount does not exceed US\$1.0 million.

Covenants applicable to project implementation:

Standard financial covenants as stated in the Financing Agreement Schedule 2, Section II (B) on Financial Management, Financial Reports and Audits and Section 4.09 of the General Conditions.

I. STRATEGIC CONTEXT AND RATIONALE

A. Country and sector issues

1. In the 1960s Madagascar was among the better-off African countries; it had an educated elite, strong institutions, good infrastructure, and an income per capita above the developing country average. But it lost this position after several decades of economic mismanagement. From the 1970s until the second half of the 1990s annual growth of Gross Domestic Product (GDP) averaged only 0.5 percent compared with population growth of about 2.8 percent. Per capita income declined from US\$473 in 1970 to US\$280 in 2006, placing Madagascar among the world's poorest countries.

2. Since the government of President Marc Ravalomanana took charge in 2002, it has embarked on an ambitious transformation path that has brought improvements in social, economic and governance indicators. The economy grew at an average of 5 percent per year and poverty has declined to 69 percent from its peak 80 percent in 2002. More children are in school today than ever before, with net primary enrolment rates above 90 percent, up from 70 percent in 2002.¹ The country increased its literacy rate to 70 percent in 2005, above the 61 percent average for Sub-Saharan Africa. Child mortality rates declined significantly, from 159 deaths per 1,000 live births in 1997 to 94 in 2004, and today more women give birth in health centers than ever before.² Immunization rates improved from 46 percent in 1997 to 61 percent in 2004. Rural access to safe drinking water also improved from 12 percent in 2003 to 16 percent in 2005. These positive developments offer hopeful signs that Madagascar has stepped firmly onto a path to sustained development, breaking with the history of economic mismanagement and periodic crises that impoverished the people. In December 2006 President Ravalomanana was reelected for a second term in office by a large majority of the votes.

3. In late 2006 Madagascar launched a new poverty reduction strategy, the Madagascar Action Plan (MAP). The new development strategy outlines priorities and actions aimed at achieving the national vision and the Millennium Development Goals (MDGs). The MAP is based on a set of practical actions identified as "challenges" and clustered around eight "commitments" that constitute the overall development framework. The "commitments" are based on defined goals and translated into specific projects and activities to ensure that the plan is operational. These activities are linked to clearly identified results and benchmarks. The MAP also assigns specific implementation responsibility for each activity which facilitates monitoring and evaluation.

4. The MAP sets out an ambitious agenda. The overall goal of the MAP is to reduce the level of poverty to 50 percent between 2007 and 2012 based on economic growth rates accelerating from 7 percent in 2008 to 10 percent in 2011 with the objective of achieving annual per capita GDP of USD 476 by 2012. The MAP aims at the same time to significantly improve the provision of basic public services to the population. In primary

¹ The Malagasy social data are not fully reliable. Different sources give different numbers. However, all sources confirm the positive trends.

² The rate of prenatal consultation was 80 percent in 2004, ranging from 78 percent in rural areas to 91 percent in large urban centers.

education, the completion rate is projected to be 85 percent (compared to 57 percent in 2006) through an improvement in the pupil/teacher ratio from 52:1 to 40:1 and other quality measures. In public health, the new development strategy aims to reduce infant mortality from 94 today to 47 in 2012 (per 1,000 births) through improved vaccination coverage (100 percent instead of the current 80 percent). Safe water service coverage will be increased from the current 31 percent to 65 percent by 2012. Finally, 64 percent of municipalities (compared to the current 35 percent) will be accessible for the entire year by road by 2012.

5. The achievement of the MAP objectives will require significantly higher levels of investment financed by higher levels of external assistance and domestic revenue mobilization, and private sector participation. The recent investment decision by Dynatec/Sherritt to invest over US\$2.5-3 billion over the next three years in nickel mining is already transforming the economic and social context. Significant investments are also expected in the tourism sector. As a result, the IMF growth rates for the medium term have been revised upward to 7-8% for 2007-2009 and 9-10% for 2010-2011. Investment rate estimates have also been revised up sharply to 30-35% of GDP for 2007-09 versus 22-23% previously. Over the longer term (2010-11), the investment rate is projected to be around 25-27%. While this new development will boost growth and investment in the economy, the extent to which this growth translates into broader and more inclusive benefits for the people of Madagascar will depend critically on the level of government revenues generated for the Treasury, and the transparent, effective and equitable use of public resources for improved service delivery.

6. In 2007, the Government sensitized further key actors as regards the MAP objectives. MAP meetings were held in each of the 22 regions of the country, where the regions and various stakeholders then launched preparation of their own regional MAP based on their local priorities. All stakeholders were invited to identify key constraints to attainment of the MAP commitments through the Presidential Dialogues held in late-2007 involving the participation of the key ministries, private sector, civil society and donors.

7. The institutional structure for managing the overall implementation of the MAP is currently being strengthened. This involves developing action plans for key sectors that link the activities to the MAP goals, strengthening capacity to implement these plans and identifying intermediate indicators to monitor progress toward these goals. Four technical working groups were created to mentor each MAP commitment and develop the result matrix framework and sector policy notes with the key ministries. However the quality of these notes varies amongst sectors. The government is currently finalizing the costing of the various strategic commitments in line with sector policies. The main weakness of the exercise is a consistent macroeconomic and budgeting framework which takes into account the associated resource requirements. Two key new institutions have also been put in place to support MAP implementation – the Economic Development Board of Madagascar to facilitate and promote domestic and foreign investment and the National Leadership Institute of Madagascar to build capacity in Government and other sectors of society. Finally, a new monitoring and evaluation institutional system (National Integrated System of monitoring and Evaluation or (SNISE) has been developed to ensure a timely assessment of progress in implementation. The institutional structure of this new system however still needs further refinement to clarify roles and competencies of Government entities.

8. The reform process launched by the Government of President Ravalomanana has opened up space for political and economic changes. However, there are substantial challenges ahead. A vibrant civil society that actively links associational life to the political sphere is critical to the deepening of democracy, normalization of political competition, expansion of popular voice and participation in reforms, and broadening of economic benefits; in Madagascar civil society can be described as nascent at best. Mechanisms for accountability, especially of the Executive, are still weak. Government institutions remain subservient to their leaders instead of growing regularized processes and the rule of law. The majority of the Malagasy population is not satisfied with incremental change that brings elections without broader governmental effectiveness efficiency and personal freedoms. Rather, it supports institutional reforms that ensure government accountability and that extend political and civic space for personal freedoms.

Key challenges for successful MAP implementation

9. *Improving good governance.* While recent progress on governance has been encouraging the agenda ahead is still huge. Over the years, Madagascar's governance ranking has improved according to several sources. The World Bank Institute's governance indicators, which are used by the Government to measure progress of governance reforms, place Madagascar ahead of most low-income countries, especially on controlling corruption. Madagascar's good standing is also confirmed by its 2007 Country Policy and Institutional Assessment scores: its overall score is 3.7, with the quality of public administration, accountability and transparency in the public sector rated 3.5. According to the 2007 Transparency International Corruption Perception Index, which the Government uses to assess the effectiveness of anti-corruption efforts, Madagascar's rating is 3.2, ranking it 94th of 179 countries. This is an improvement over the 2005 rating of 2.8.

10. These governance improvements are the result of the government's efforts to fight corruption and improve transparency since 2002. The country passed anticorruption and anti-money laundering legislation, adopted clear rules for public sector recruitment, and requires elected and public officials to declare their assets. It also created an independent Anti-Corruption Commission and an anticorruption agency, Bureau Indépendant Anti-Corruption (BIANCO), which has investigated allegations of corruption by public officials and spearheaded audits of large investment programs such as education and transport.

11. However, governance gains remain fragile, and the challenges ahead are formidable, especially in natural and mineral resources, where reform efforts are sometimes undermined by powerful vested interests. Also, despite recent progress, pockets of corruption remain in customs, natural resources management and some other areas. Transparency of government operations remains inadequate, and the accountability relationships between service providers, local officials and citizens remains weak. Culturally, hierarchical relationships remain predominant, particularly at the commune/local level, and thus the shift required for civil servants and elected officials to render account downwards and to disclose key information such as budgets is significant. Perceptions about potential conflicts of interest, in particular among elected officials, reflect negatively on Madagascar.

12. ***Improving public expenditure management.*** The modernization of the public expenditure management system has been a cornerstone of the Government's overall reform program. Under this program the Government introduced a modern budget framework with the annual budget for the year 2005. While this new framework still requires further consolidation, the revised Organic Finance Law (LOLF) emphasizes for the first time the concept of program budgeting that is meant to improve the link between policies and the budget as well as improve performance monitoring. In addition, simplified expenditure management procedures have reduced red tape and discretionary decision making. A modern integrated financial management system, deployed in main treasuries, captures about 80 percent of government expenditures. As a consequence of the introduction of the new system budget execution rates have gone up substantively to over 90 percent in 2006. In 2004, Madagascar also put in place a new procurement code that follows international standards. Audits of four sector ministries that was conducted in 2006 and 2008 revealed, however, that the new regulations are not yet sufficiently applied. A main reason is that the procurement units in the sector ministries and the procurement oversight authority do not have the required capacity.

13. The 2006 and 2008 Public Expenditure and Financial Accountability (PEFA) assessments confirm improvements in the capacity of the Ministry of Finance and advances in setting the needed legal framework, but it also points to a broad agenda ahead. This includes the improvement of treasury management based on improvement of treasury management notably at the sub-national level, and proper internal and external controls.

14. ***Increasing State revenues.*** Madagascar has one of the lowest levels of fiscal revenues in sub-Saharan Africa. With a tax/GDP ratio of less than 11 percent (compared to 18 percent for sub-Saharan Africa), Madagascar has enormous scope for improving its fiscal inflows. Efforts to improve fiscal revenue face two main challenges: establishing an incentive-driven fiscal framework to promote investments and reducing tariffs to adhere to regional integration agreements. The MAP sets itself a tax/GDP ratio benchmark of 15 percent to finance its MAP "commitments". The achievement of this goal requires fundamental reforms of revenue policies and administration. To date, customs has developed a consistent reform strategy, which has been implemented for the last two years. This strategy is focusing mainly on modernizing the customs administration and combating fraud and corruption. The tax administration is in the process of refining its reform strategy; it has started to address efficiency and corruption issues by replacing part of its staff and enforcing tight internal controls.

15. ***Mobilizing the public administration.*** Although the Malagasy civil service is relatively small by African standards (it employs only about 0.8 percent of the country's population or 146,000 agents in 2004), its composition, centralization and management severely compromise its performance. There is little focus on performance, and job descriptions and performance indicators are lacking or outdated. Separate personnel and payroll databases exist but no systematic reconciliation is carried out. The last payroll audit was completed in 1999. Work ethics continue to be low due to low remuneration and lacking career prospects. Government has made significant efforts to strengthen administrative efficiency: it has improved coordination, streamlined procedures, delegated more responsibilities to sub-national levels and replaced inefficient public sector managers. In

2006/7 it subjected all Permanent Secretaries and Director Generals in the civil service to a competitive recruitment process which resulted in the replacement of over 50 percent of the management personnel. To date, the government has put a priority on buttressing the technical capacity of the Ministry of Finance and priority sector ministries, such as transportation, education, and health. Significant efforts are under way to improve the government's policymaking capacity. Concerns remain, however, that concentrating power in the presidential administration has led to weak mandates in line ministries. Rebalancing power between the Office of the President and the ministries would strengthen the capacity of ministries, enabling them to support the development and implementation of national and local agendas.

16. ***Strengthening legal and judicial reforms.*** Laws and proceedings are generally transparent and accessible to the public, but there is sometimes inconsistency and unpredictability in policy implementation and application of the law, which undermines the investment climate. Access to justice is difficult and costly, especially for the poor. Corruption continues to negatively impact the efficiency of the judiciary. The impact of recent government reforms in the judiciary has been mixed: on the positive side, the backlog of cases at the lower courts was reduced in Antananarivo and in some other jurisdictions. However, little overall progress has been made with the enforcement of service standards. Also, efforts at dealing with corruption in the judiciary through the disciplinary commission in the Ministry of Justice have been not very effective. A key problem remains the resistance to change within the judiciary, as well as the lack of a consistent and credible reform strategy which is supported by all relevant stakeholders.

17. ***Improving (decentralized) service delivery.*** To improve the state's capacity to deliver services, there is a need to allocate a greater role and resources to the local governments, and increase the voice and demand for accountability on the part of local communities. Despite the early 1990s decentralization reform effort to empower communes³, Madagascar remains a highly centralized country, both administratively and fiscally. Commune competencies are limited to the basic function of administrative services and waste management and some co-financing of social services through conditional grants. Local governments manage directly only 3 percent of total public resources. Their authority to raise taxes is limited. Since 2002, the Government has begun to systematically strengthen the sub-national levels of government, in particular the 22 regions, which were created in 2004. The 2007 budget increased the share of certain taxes in favor of communes; in addition, the budget law 2008 has allocated for the first time investment resources to the regions. At the same time the Government is working on the refinement of the legal and institutional framework for decentralization. This will include the clarification of core competencies at the different levels of government and the assignment of revenue and expenditure responsibilities.

18. ***Improving social accountability.*** Increasing the transparency of government operations and the delivery of public services needs to go hand in hand with efforts to strengthen both, ability and capacity of civil society to hold government accountable. External (citizens, civil society) mechanisms of accountability can complement or even

³ Territorial administration in Madagascar comprises four main levels: regions, districts, communes and villages.

compensate for shortcomings of (internal) government accountability mechanisms, and both should be mutually reinforcing. Civil engagement provides important inputs for the improvement of local government services and for resource allocations, which are more responsive to local preferences. The Madagascar Action Plan highlights responsible (local) governance as a central commitment – as well as the important role of involving civil society as “strong players in a participatory bottom-up process” to support Government in its “supply side” (fiscal, administrative, legal) reform efforts. The World Bank, other development partners and NGOs have supported the piloting of selected tools and methods aimed to foster social accountability (e.g. community score cards and participatory budgeting at the commune level). While the results are encouraging, downwards accountability in Madagascar remains weak both because of cultural traditions (deference towards authority, a tendency to avoid the state), and a lack of information about citizens’ rights, fear of legal retribution for demanding services or information, paucity of systems which create space for public feedback and information disclosure (for example budgetary procedures), and a relatively nascent civil society sector. Building a culture of social accountability through systematic civil society engagement (including more transparency and inclusive decision making) is a gradual process that requires a concerted effort of all relevant stakeholders (civil society actors, citizens associations, NGOs, media, Government, and development partners).

19. ***Scaling-up capacity building.*** The implementation of the governance reforms will require major investments in human resources development and professional training – the institutions that are at the center of the reform process will need continuing assistance to manage and implement the complex change processes triggered by the various reforms. The focus of the Government is therefore to strengthen the ability of key institutions that are tasked to effectively manage institutional change and governance reforms, in particular the President’s Office, the Prime Minister’s Office, the Ministries of Finance, Justice and Economic Planning. In addition, many sector ministries lack systematic training in the areas of development planning, public finance as well as monitoring & evaluation. Similar problems exist at the sub-national levels of Government. Ideally, the bulk of the training should be delivered locally for reasons of efficiency. Local training institutions, however, continue to be weak and require significant upgrading. To reduce Madagascar’s dependency on costly overseas training the Government has begun to upgrade some of the key institutions and to enhance their capacity. These activities supported primarily the National School for Magistrates and Clerks of the Court (Ecole Nationale de la Magistrature et des Greffes, ENMG) the National School of Administration (Ecole Nationale d’Administration de Madagascar, ENAM), which focuses on training of higher level staff for the public sector, and the National Center for Administrative Training (Centre National de Formation Administrative, CNFA), which is responsible for the training of middle level staff for the public sector. To complement the work of these training institutions the Government has also established a National Leadership Institute of Madagascar (NLIM) that focuses primarily on behavioral changes and management support.

20. ***Coordination of reforms, monitoring & evaluation.*** Reforms are mainly coordinated by the Presidency which has assumed a significant role in “supervising” the ministries, departments and agencies. The Government is working on building an effective monitoring & evaluation system for the implementation of the MAP. This includes the development of a coherent strategy under which policy planning, service delivery and management of public

resources are matched with adequate policy analysis, evaluation, data collection, reporting and dissemination. A key element of this strategy is the new National Strategy for Statistical Development which has been prepared by the Government. This strategy includes the development of a revised regulatory and procedural framework for government statistics, integrating and coordinating all relevant government activities. Monitoring & evaluation needs, however, remain substantial. Many government institutions lack knowledge and capacity to adequately monitor and evaluate the implementation of their policies and programs. Government also intends to systematically update its key economic and social data based on a new population census. The last population census was completed in 1993; the economic, social, and administrative structure of Madagascar has profoundly changed since then. As a consequence, many of the existing baseline data is outdated.

B. Rationale for Bank involvement

21. The World Bank has provided support to the governance and institutional development reforms in the context of the Government's development strategy - initially the PRSP (2003-06) and now the Madagascar Action Plan (MAP) - through various instruments, in particular the PRSCs and the first Governance and Institutional Development Project (PGDI). The project was approved by the Board on October 22, 2003, and declared effective on March 3, 2004. It is scheduled to close on June 30, 2009. The reforms are also supported by other development partners including the European Commission, African Development Bank, France, Norway, Germany, MCA and UNDP. The IDA contribution is a SDR 25.3 million credit (including the additional financing approved in FY07) of which SDR 21.3 million (85% of the original credit) has been disbursed by April 2008. The remaining funds are fully committed. Additional Financing of \$5 million was provided in FY07 to allow for greater support to the M&E agenda.

22. The first PGDI has been a key instrument to assist Government with the implementation of the governance and institutional development agenda. Since its inception, the PGDI has consistently been rated "satisfactory" both with regard to implementation progress and to achieving the development objectives. It has also met all relevant World Bank disbursement, procurement and fiduciary obligations. The 2007 QEA review of the additional financing for the project emphasized that strong political backing and government ownership of the reform process, combined with Bank responsiveness, was the strongest contextual aspect of the additional financing and the project itself. This was reflected, among other things, in the high consistency of the project objectives with the country strategy.

23. The achievements of the PGDI are summarized in Annex 1. They include: the deployment of an integrated financial management system to improve transparency and accountability of government operations, the strengthening of the system of internal and external control of the government machinery, the design of a new procedural and institutional framework for public procurement, change management support for the key decision-makers within government and comprehensive training and capacity building activities in the areas of development planning, public financial management and procurement. Moreover, the project supported the development of a regulatory and institutional framework to improve governance and to fight corruption.

24. Given the successful implementation experience with the PGDI to date, the Government has requested the Bank's support for a second governance and institutional development project during this critical stage of the implementation of the MAP. The new PGDI should enhance and further deepen the first generation of reforms under the first project; it should also assist the Government to address some additional cross-cutting issues which are considered critical for the MAP implementation, in particular the proposed complementary support for decentralization, for the development of a public sector pay and incentive system and for the population census.

C. Higher level objectives to which the project contributes

25. The proposed project is in line with the FY07-11 Country Assistance Strategy (CAS) for Madagascar which emphasizes the importance of responsible governance and accountability as key systemic elements to create an enabling environment for growth and investment, as well as to improve services to the people. The CAS, which was presented to the Board in April 2007, also emphasizes the need to improve the monitoring & evaluation system of the Government because of the results-based nature of both the CAS and the MAP and because of the critical role of monitoring & evaluation in ensuring successful implementation of the MAP.

26. The substantial capacity building efforts under the project that include both "supply" and "demand" side, are also in line with the Capacity Development Management Action Plan (CDMAP) of the Africa Action Plan.

27. World Bank assistance to Madagascar in the area of governance and institutional development is aligned with that of other donors to provide a joint package of coordinated support around the government's MAP. The project preparation was closely coordinated with other partners to facilitate harmonization and synergy with other donors, in particular the European Commission, the African Development Bank, France, Germany, Norway and the US.

II. PROJECT DESCRIPTION

A. Lending instrument

28. The project has been designed as a Technical Assistance Credit to reflect the key objective of the project which centers around institutional development, capacity building and policy development and implementation. The Credit complements ongoing assistance under the current PRSC series which supports the implementation of the MAP and has a heavy emphasis on governance reforms (expenditure management, revenue generation, anti-corruption and decentralization).

B. Project development objective and key indicators

29. The development objective of the project is to improve the efficiency and transparency of government and selected public services in Madagascar in line with the

Madagascar Action Plan (MAP). A detailed description of the project components is provided in annex 4; the Results Framework is attached in annex 3.

C. Project components

30. The project will enhance and further deepen previous reforms initiated under the first Governance and Institutional Development Project (PGDI I), which is scheduled to close in June 2009. It builds on significant analytical work, in particular the PEFA reports of 2005, 2006 and 2008, as well as the Public Expenditure reviews in 2005 and 2007 which provide recommendations on the public expenditure reform agenda and specific recommendations for the transport, education, environment, health, nutrition and water and sanitation sectors. Additional analysis which contributed to the development of the project include the Investment Climate Assessment, and the land tenure review –both completed in FY06-, as well as the Local Development Fund (FDL) feasibility study, led by the Government.

31. The project SDR 24.3 million (IDA US\$40.0 million) would be implemented over a period of four years and consists of the following five components:

(a) Component 1: Improvement of Public Expenditure Management - SDR 8.51 million (IDA US\$14.0 million)

The objective of this component is to continue to support in a holistic manner the reform of the public expenditure management system in Madagascar. The reference point for the reform is the Priority Action Plan (PAP) which is developed by the Ministry of Finance since 2004 on an annual basis and supported by the development partners including the World Bank. The PAP consolidates all reform activities under the oversight of the Ministry of Finance. The implementation progress of this plan is evaluated regularly and jointly by the donors and the Ministry of Finance.

Funding under this component will focus on the further improvement of the budget preparation and execution processes, including the further roll-out of the integrated financial management system (Système Intégré de Gestion des Finances Publiques, SIGFP) to the regional capitals and the strengthening of the operational efficiency of the relevant control mechanisms. Funding will also be provided to rationalize the public investment process, which constitutes an important element of the public finance reform agenda. The project will continue to support the procurement reforms initiated in 2004 through comprehensive training and capacity building activities. It will provide assistance to the Government to implement the intended comprehensive reforms of the revenue agencies (customs and tax directorates).

Project funding will be provided for goods and equipment, consulting services, rehabilitation and maintenance of offices, some operating costs as well as for training and capacity building activities.

(b) Component 2: Strengthening the Efficiency of Government Operations - SDR 4.86 million (IDA US\$8.0 million)

The objective of this component is to support the change management and institutional development processes in the context of the implementation of the Government's development strategy, the Madagascar Action Plan (MAP). It builds on activities piloted under the first PGDI and will include leadership training and development for senior government officials to manage and implement far-reaching reforms. Support will also include an upgrading of local training institutions (Ecole Nationale de l'Administration Malgache, ENAM, Centre National de Formation Administrative, CNFA, Ecole Nationale de la Magistrature et des Greffes, ENMG), as well as the support for the operation of a Global Development Learning Center (GDLN) and of the National Leadership Institute of Madagascar (NLIM). In addition, this component will provide limited complementary support for some cross-cutting reforms and activities which are considered important for the MAP implementation. Such reforms include the support for the development of a consistent institutional framework for decentralization, and the reform of the public sector pay and incentive system.

Project funding will be provided for goods and equipment, consulting services, rehabilitation and maintenance of offices and training institutions, some operating costs as well as for training and capacity building activities.

(c) Component 3: Rule of Law and Fight Against Corruption - SDR 1.52 million (IDA US\$2.50 million)

The objective of the component is to assist Government in promoting transparency, accountability and good governance; and in particular, in reducing corruption. Project assistance will build on the activities initiated under the first PGDI and mainly focus on improving the operational efficiency of the judiciary, on supporting anti-corruption and conflict-of-interest activities, and on strengthening oversight by the Auditor General and by Parliament over State affairs. This will also include support for a liberalization of public disclosure regulations, a pre-condition for some of the social accountability initiatives, and assistance to establish an Economic Crimes Unit⁴, which is considered important to complement activities of the Anti-Corruption Bureau.

Project funding will be provided for goods and equipment, consulting services, rehabilitation and maintenance of offices, some operating costs as well as for training and capacity building activities.

⁴ The main function of the Economic Crimes Unit (Service de Renseignement Financier), which does not have the right to prosecute or to investigate, is to collect information and advising other government services and the judiciary on money laundering issues. It is independent from the Government and reports to the Anti-Corruption Commission.

(d) Component 4: Transparency and Social Accountability – SDR 2.43 million (IDA US\$4.0 million)

The component aims at fostering increased implication of civil society in State affairs and at improving “social accountability” which are key objectives of the MAP. The support will focus on activities that are destined to strengthen civil society’s capacity to play a meaningful role in monitoring and providing feedback on government activities. This will include activities to improve both distribution of and access to information about key activities of the Government. The project will support activities that are aimed at fostering an enabling environment for the involvement of civil society by developing processes that could eventually be replicated for more systemic use, primarily through pilots and discussions. A grant funding mechanism will be set up that would finance innovative governance activities by non-state actors that are related to the objectives of the project. These Social Accountability Grants will pilot, develop and scale up approaches that are focused on supporting civil society to monitor and provide oversight, in particular in key areas such as natural resource management, local service delivery, and public financial management.

Project funding will be provided for technical assistance, workshops, training and for the Social Accountability Grants. It also include some operating costs for the institution that manages the grant mechanism.

(e) Component 5: Monitoring & evaluation – SDR 4.25 million (IDA US\$7.0 million)

The component will support Government’s efforts to strengthen the monitoring & evaluation system that underpins the MAP. This support will focus on the improvement of the operational efficiency of the National Statistics Office (INSTAT), in particular institutional restructuring and capacity building. Additional support will be provided for the modernization of the procedural and institutional framework for monitoring & evaluation in Madagascar, in particular the strengthening of relevant activities at the level of the sector ministries and in the Prime Minister’s Office. To establish baseline data and reference points for the improvement of public services the project will support a new population census which aims at consolidating and further deepening existing statistical data which is vital for both public and private sector needs. The last census was conducted in 1993. The total costs for the census are presently estimated at well above US\$20.0 million (or approximately US\$1.00 per inhabitant) and will be funded by contributions from Government and development partners. In case the Government is not able to raise sufficient funding for a comprehensive census from the donor community it is envisaged to use the World Bank funding to conduct a partial census that would cover roughly 10 percent of the country.

Project funding will be provided for goods and equipment, consulting services, rehabilitation of offices, operating costs as well as for training and capacity building activities.

(f) Component 6: Program Coordination – SDR 1.52 million (IDA US\$2.5 million)

The objective of this component is to support the management and implementation of the PGDI II. This will include assistance to the Ministry of Finance to effectively manage donor and government funds committed to financing public expenditure management reforms. Additional assistance will focus on the Bureau de Gestion (BdG) of the Reform Program for the Efficiency of the Administration (Programme de Réformes pour l’Efficacité de l’Administration, PREA) which was set up by the Government in 2005 to coordinate all governance related activities.

Project funding will be provided for goods and equipment, consulting services, rehabilitation and maintenance of offices, operating costs as well as for training and capacity building activities.

(g) Unallocated – SDR 1.22 million (IDA US\$2.0 million)

The unallocated amount will be used to cover price contingencies and to respond flexibly to additional demands emerging during the implementation of the project activities.

D. Lessons learned and reflected in the project design

32. The project design incorporates the lessons learnt under the implementation of first PGDI which has been executed satisfactorily. These lessons include:

- Significant capacity building and institutional development support is necessary to ensure that key reforms, in particular in the area of public finance and public procurement are not only adequately designed but also fully institutionalized within the Malagasy public administration. As a consequence, comprehensive training and capacity building activities are an integral part of the various project components.
- In view of the existing capacity constraints harmonization of the reform agenda with other development partners is critical to ensure implementation progress. The project is therefore closely coordinated with other development partners. In the area of public expenditure management the project support is linked the Priority Action Plan (PAP) of the Government which is the key instrument for the coordination of the reforms and for the related donor support to the Ministry of Finance.
- Government ownership is critical to ensure that reforms, in particular in sensitive areas, are adequately designed and implemented. As a consequence the project foresees significant investments in analytical work to complement ongoing reforms,

e.g. with regard to pay policy reforms and anti-corruption activities. Given past experience under the first PGDI the new project will strengthen dialogue with all relevant (internal and external) stakeholders to improve broad-based buy-in for the intended reforms.

- In Madagascar, the combination between the existing PGDI and the budget support operations has created a lot of synergies; it has enabled the Government to respond to policy/reform changes and upcoming demands in a flexible and constructive manner. The proposed lending instrument (Technical Assistance Credit) should therefore continue to support the implementation of the policy agenda outlined by the PRSCs.

E. Alternatives considered and reasons for rejection

33. An additional financing or scaling up of the first PGDI was considered. It was felt, however, that a new project would be better suited to reflect the significant changes with regard to the implementation arrangements (see annex 6 for details) and to the scope of the project. A new project is also better suited to provide meaningful support to the Government in refining and successfully implementing its ambitious reform agenda.

III. IMPLEMENTATION

A. Institutional and implementation arrangements

34. ***Project oversight:*** Policy guidance and overall project oversight will be the responsibility of the Oversight Committee (Conseil d'Orientation et de Suivi - COS) consisting of all Permanent Secretaries of the Government and of representatives from civil society, from the private sector, from the regions and communes, and from the donor community. The Oversight Committee which is led by the Secretary of Planning meets once a year and approves the annual work plan for the project. Key policy decisions are submitted by the Oversight Committee to the Council of Ministers.

35. ***Project coordination and implementation:*** The project would have three executing agencies: i) the Ministry of Finance (MoF) through its Reform Coordination Unit (RCU), in charge of the implementation of the component 1; ii) the National Statistics Office (INSTAT), responsible for the implementation of the population census which is supported by component 5 of the project; iii) the Office of the President, through PREA/BdG (current PGDI), responsible for the implementation of all other components except for component 4 whose administration will be entrusted to an Administrator (see paragraph 37 below). However, due to weak experience of the RCU and INSTAT in managing donor funds, the financial management and procurement aspects of the entire project will be entrusted to PREA/BdG until RCU and INSTAT have satisfactory financial management and procurement capacity. For this purpose PREA/BdG will be responsible for: i) consolidation of the work programs and budgets; ii) maintenance of records and accounts for all transactions to be financed under the credit; iii) preparation of the project annual financial statements and quarterly IFRs (Interim Financial Reports), in compliance with international accounting standards and IDA requirements; iv) management of disbursements and

replenishment applications for the Account; and v) monitoring and evaluation of the various activities related to components under its responsibility.

36. RCU and INSTAT responsibilities will include: implementation of activities/components under their respective responsibilities (components 1 and 5), monitoring/evaluation of these activities/components, and production of all information (basic, technical, financial) on components 1 and 5 as required by PREA. To strengthen the financial management capacity of the RCU and INSTAT in managing/monitoring donor funds, one or two accountants from these entities will be integrated into the PREA/BdG structure for one/two years and work closely with PGDI accounting staff to get themselves acquainted with donor requirements in accounting, reporting and disbursements procedures.

37. The transfer of the financial management and procurement aspects of the components 1 and 5 to RCU and INSTAT is envisaged until December 31, 2009; it will be subject to an IDA assessment of the financial management and procurement capacity of the relevant institution. Until that time, financial management and procurement activities will be handled by PREA/BdG.

38. For the civil society fund under component 4, administration of the fund will be contracted through a competitive process to an independent administrator (NGO or other), which will report to a special committee set up for this component composed of representatives from civil society and government. A consultative process will be carried out with civil society groups to identify appropriate candidates for this committee, including representatives of both national and local level associations, NGOs and the media.

B. Monitoring and evaluation of outcomes/results

39. The results framework for the project is summarized in Annex 3. Expected outcomes include: (i) an increase in the number of indicators under the Public Expenditure and Financial Accountability Assessment (PEFA) which are rated 'B' and above; (ii) an increase in the percentage of population reporting an improvement in service delivery for selected public services, (iii) an increase in the number of social accountability initiatives successfully implemented with the participation of civil society organizations, and (iv) the completion of the population census.

C. Sustainability

40. The Government is committed to sustain the reforms also after the funding provided by the project is coming to an end. A significant part of the government budget has been set aside to maintain and further expand the new integrated financial management system, which the Government considers critical to improve accountability and transparency. Similarly, the training and capacity building activities that are developed and funded by the project will be used to update the curricula of local training institutions and will, thus systematically be integrated into future training activities. The Government is also working on a fund raising strategy for the local training institutions, which would ensure the continuation of key training activities after the closure of the project.

41. The goals and objectives supported by the project are based on a comprehensive national dialogue in the context of the development of the MAP. This dialogue integrated all levels of society and a broad range of different stakeholders. The social accountability activities support by the project (component 4) were identified and discussed in workshops and focus group discussions, inter alia in the context of a nation-wide social accountability workshop in February 2008.

D. Critical risks and possible controversial aspects

42. Some of the key benefits of the project include: (i) increased transparency and accountability of government operations based on comprehensive public financial management and procurement reforms; (ii) transformation of the annual budget into a management instrument that supports timely and accurate tracking of implementation of government policies; (iii) increased capacity at the level of civil society groups and organizations to provide meaningful input and feedback to government activities, and (iv) significantly enhanced government capacity in the areas of development planning, public financial management, procurement, and monitoring & evaluation. The project also contributes to simplifying complex administrative proceedings and to rationalizing the institutional framework within which the public administration operates. It encourages innovative methodologies (e.g. leadership development, rapid results) to improve operational efficiency of the administration.

43. The project builds on the reforms initiated under the first PGDI which has benefited from a strong sense of government ownership and a close affiliation with the Government’s core agenda. This has mitigated the risk of pursuing such a comprehensive and challenging set of governance reforms. The first project has had very satisfactory project implementation with strong ownership built across the Government. Continued ownership of and commitment to the project is expected because of its importance and its wide-ranging impact. However, there is still a risk of potential resistance to change within the administration. As a consequence, the project carries moderate risk: its implementation poses some challenges for the Government because of the complexity of the changes supported by the project activities and the substantive capacity building needs to ensure success and sustainability of the reforms. To mitigate existing risks a comprehensive project monitoring and evaluation framework (see annex 3) has been developed that will serve as a reference point for the implementation of the reform program. In addition, independent quality assurance mechanisms have been put in place to evaluate reform implementation on a regular basis and to provide regular feedback about implementation bottlenecks. Finally, the project sets out results indicators that are specific, measurable, achievable, relevant, and time-bound to ensure timely assessment of effectiveness.

Risks	Risk Mitigation Measures	Residual Risk Rating
To Project Development Objective		
Political commitment to implement the MAP and the underlying reform program is not maintained	Continued dialogue with Government to reconfirm commitment	N

Risks	Risk Mitigation Measures	Residual Risk Rating
To component results		
Stakeholders and public sector agencies are not responsive to changes; they do not sufficiently collaborate	Build internal and external support for change process through comprehensive training and capacity building; scale-up change management support if needed	N
Delays endanger the implementation of the reforms; compliance with changes to institutional and procedural framework is low	Integrate significant sensitization and change management support into the reform process; review compliance on a regular basis through independent assessments	M
Capacity (managerial, organizational, institutional, technical) to implement complex reforms is not adequate	Build into the reform program comprehensive training, capacity building, coaching and technical assistance; provide incentives for staff and managers who can act as multipliers, strengthen quality and capacity of local training institutions	M
Resistance with regard to the implementation of social accountability activities	Build into the reforms significant mobilization and awareness creation activities to ensure broad support for increased implication of non-state actors	M
Overall risk rating		Modest

44. The lifetime of the project will go beyond the current mandate of the Government. It is, however, unlikely that a change in government would trigger substantive change to the intended governance and institutional reforms as the relevant agenda was developed based on a broad participatory dialogue in the context of the MAP.

45. The progressive implication of civil society in State affairs, which is an important element of the project, might encounter some resistance from public or elected officials that consider such an approach a threat to their (vested) interest. Significant mobilization and awareness creation has therefore been built into the project to ensure broad support from all relevant stakeholders to the project activities. In addition, the administration of the fund to support civil society demand side governance initiatives will be delegated outside of PREA.

46. Due to weak capacity of the accounting profession in Madagascar and of the Auditor General's Office, financials audit may not be conducted properly in compliance with international auditing standards. To mitigate this risk, the audit of the project financial statements will be carried out by an international accounting firm, acceptable to IDA in accordance with International Standards of Auditing. The reinforcement of the accounting profession will be addressed through reforms recommended in the ROSC report to be

submitted to the Government at the end of the FY 08. The capacity problems of the Supreme Audit Institution are being addressed through the ongoing public finance reform program which is supported by the World Bank and other development partners.

E. Credit conditions and covenants

47. The following credit effectiveness conditions have been agreed with the Government
- (a) The Government has adopted the Project Implementation Manual, in form and substance satisfactory to the Association.
 - (b) The Government has employed the independent external auditors referred to in Section 4.09 (b) of the General Conditions.
 - (c) The Government has established a Reform Coordination Unit in the Ministry of Finance with form and functions satisfactory to the Association and caused the Reform Coordination Unit to employ the following staff with qualifications and experience satisfactory to the Association: a reform coordinator and at least two dedicated technical officers.
48. The disbursement of the Social Accountability Grants will be subject to the recruitment of a non-state Social Accountability Grant Administrator, acceptable to IDA;
49. Financial covenants are the standard ones as stated in the Financing Agreement Schedule 2, Section II (B) on Financial Management, Financial Reports and Audits and Section 4.09 of the General Conditions.

IV. APPRAISAL SUMMARY

A. Economic and financial analyses

50. The project is expected to significantly improve economic management in Madagascar by (i) further deploying an integrated financial management system, which allows for compilation of timely and reliable information on budget allocation, commitment and actual expenditures; (ii) consolidating public procurement reforms, (iii) reinforcing external (citizens/civil society) oversight over government operations, in particular with regard to more inclusive decision making and adequate use of public resources; (iv) strengthening coordination, monitoring and evaluation capacity to enable the consistent implementation of Government policies; and (v) building capacity of key institutions to effectively manage and implement complex change processes.

51. The project is expected to have a positive fiscal impact. The introduction of the new integrated financial management system will strengthen public financial management and control; these interventions would ultimately result in better use of public resources. The reform of the public procurement system focuses inter alia on generating more value for (public) money. Increased external oversight would ensure better public scrutiny of government activities. These activities would enable the Government to make more resources available for the provision of key social services in line with the strategic goals and

objectives of the MAP. In addition, the project would increase transparency and accountability of government operations and thus, ultimately contribute to more effective control of government activities.

B. Technical

52. The proposed project design, in particular the design of public finance reforms corresponds to financial management, ICT- and public sector standards developed in similar projects all over the world. The project also builds on significant analytical work, in particular the Public Expenditure Reviews 2005 and 2007 as well as the PEFA assessments in 2006 and 2008.

C. Institutional:

53. **Project oversight:** Policy guidance and overall project oversight will be the responsibility of the Oversight Committee (Conseil d'Orientation et de Suivi - COS) consisting of all Permanent Secretaries of the Government and of representatives from civil society, from the private sector, from the regions and communes, and from the donor community. The Oversight Committee which is led by the Secretary General of Planning in the President's Office meets once a year and approves the annual work plan for the project. Key policy decisions are submitted by the Oversight Committee to the Council of Ministers.

54. **Project coordination and implementation:** The project would have three implementation units: i) the Reform Coordination Unit (RCU) in the Ministry of Finance will be in charge of the implementation of the component 1; ii) the National Statistics Office (INSTAT) will be responsible for the implementation of the population census which is supported by component 5; iii) the Project Bureau (Bureau de Gestion, BdG) of the Reform Program for the Efficiency of the Administration (Programme de Réformes pour l'Efficacité de l'Administration, PREA) in the Office of the President will be responsible for the implementation of all other components except for component 4 which will be entrusted to an independent Administrator. PREA is headed by a National Coordinator.

(a) PREA/BdG will be responsible for: i) consolidation of the work programs and budgets; ii) maintenance of records and accounts for transactions related to all components; iii) preparation and production of consolidated annual financial statements and quarterly IFRs, in compliance with international accounting standards and IDA requirements; iv) management of disbursements for all components and replenishment applications for the designated account; and v) monitoring and evaluation of the various activities under its responsibility.

(b) The RCU and INSTAT will assure the implementation of activities/components under their respective responsibilities (components 1 and 5), monitoring/evaluation of all activities under their responsibilities, and production of all information (basic, technical, financial) on components 1 and 5 as required by PREA. The transfer of the financial management and procurement aspects of the components 1 and 5 to the RCU and INSTAT is envisaged until December 31, 2009; it will be subject to an IDA assessment of the financial

management capacity of the relevant institution. Until that time, the PREA/BdG will ensure financial management and procurement for the project.

55. The administration of the Social Accountability Grants under component 4 will be entrusted to an independent Grant Administrator (NGO or other) to be recruited through a competitive selection process.

D. Fiduciary

56. PREA/BdG is at present responsible for the implementation of the first PGDI and will continue to handle the financial management aspects of the new project (PGDI 2). In accordance with Bank policy and procedures, the financial management arrangements of PREA/BdG have been reviewed to determine whether they are acceptable to the Bank. The main conclusion of this review is that PREA/BdG continues to maintain an adequate financial management system. The financial management risk is assessed as being moderate. However, the PREA chart of accounts needs to be reviewed to reflect the components/activities to be financed under PGDI II and satisfy reporting requirements. The procedures manual of the PGDI will be consequently updated to include the new chart of accounts and models of IFRs. The content and formats of financial statements and IFRs were determined during the appraisal mission and agreed at negotiations. The review of the Chart of accounts as well as the update of the accounting manual of procedures are currently underway and will be completed prior to credit effectiveness .

57. To mitigate risks raised by the limited capacity of the Auditor General (Cour des Comptes) the audit of the PGDI II financial statements for the first three years will be carried out by an international auditing firm acceptable to IDA. This audit will be conducted in accordance with International Standards of Auditing. The auditors should be recruited prior to credit effectiveness. To strengthen their capacity, the auditors from the “Cour des Comptes” can participate in this audit assignment. The audit report will be submitted to IDA no later than six months after the end of each fiscal year. With regard to the audit of the closing period, the project may use the service of the Auditor General if its capacity is deemed adequate following IDA assessment. Regarding Madagascar, no significant problems have been encountered so far in terms of audit covenants: all audit reports related to Bank financed projects have been received in due time.

58. All procurement activities under the project will be initially carried out by PREA/PGDI. The capacity of the PREA/PGDI and the quality of the procurement staff is deemed sufficient to implement the new project. The overall project risk for procurement is moderate.

E. Social

59. The project has several potential social benefits. Greater focus on transparency and social accountability should improve the flow of resources to the local level in areas where specific pilots are being implemented; the combination of support for demand-side accountability mechanism with supply side efforts (improved budget systems for example) should lead to improvements in the quality of specific public services, as was seen in the

health sector pilot community scorecard processes. Also, building the capacity of civil society groups to engage in extracting accountability, should improve the ability of civic groups to participate in monitoring service delivery and budget execution. Finally, the successful implementation of social accountability activities can go hand-in-hand with increased legitimacy and credibility of government actors, provided they are responsive to civil society demands for greater transparency and better delivery of services.

60. Although considered to be low risk, potential social risks that the project will need to mitigate against include: the risk that specific benefits are captured by only a small number of civil society groups; the risk of repercussions if social accountability initiatives do not go hand-in-hand with the creation of a protective regulatory framework for NGOs, the media and other non-state actors; the risk that some of the decentralization reforms adversely affect the equity of investments or the degree of voice that some less visible groups may have if traditional or bureaucratic forms of local governance continue; the risk that citizen's expectations are raised to unrealistic levels; the risk that civic education is not well targeted, or not combined with specific interventions; and, finally, the risk that the enabling environment which encourages civic involvement in monitoring government services changes or becomes more hostile.

61. In order to avoid those risks, social accountability interventions will promote greater government buy-in by piloting initiatives in conjunctions with government internal supporters of "demand side" accountability. With a view to avoiding repercussions, it will be important to ensure that adequate "safeguards" such as a legal framework protecting freedom of information and of association are in place, and to carefully monitor these aspects of the pilots. Also, facilitators will be trained to proactively engage vulnerable and marginalized groups to minimize the risk of elite capture. In addition, the design of social accountability initiatives will emphasize both citizen's rights as well as responsibilities, also to help civil society engage in a dialogue with government to develop a realistic understanding of the existing constraints. Finally, the use of professional mediators can help minimize the risk of conflict.

F. Environment

62. Not applicable; the project is environmental category C.

G. Safeguard policies

Safeguard Policies Triggered by the Project	Yes	No
<u>Environmental Assessment (OP/BP 4.01)</u>	[]	[x]
Natural Habitats (<u>OP/BP 4.04</u>)	[]	[x]
Pest Management (<u>OP 4.09</u>)	[]	[x]
Physical Cultural Resources (<u>OP/BP 4.11</u>)	[]	[x]
Involuntary Resettlement (<u>OP/BP 4.12</u>)	[]	[x]
Indigenous Peoples (<u>OP/BP 4.10</u>)	[]	[x]
Forests (<u>OP/BP 4.36</u>)	[]	[x]
Safety of Dams (<u>OP/BP 4.37</u>)	[]	[x]
Projects in Disputed Areas (<u>OP/BP 7.60</u>)*	[]	[x]
Projects on International Waterways (<u>OP/BP 7.50</u>)	[]	[x]

63. The project will involve some minor rehabilitation of existing buildings, which does not require an environmental assessment.

H. Policy Exceptions and Readiness

64. Project funding for components 1, 2, 3 and 5 will include the financing of a limited number of government staff salaries until December 31, 2009, mainly to recruit trainers for local training institutions and technical specialists into the President's Office, the Prime Minister's Office, the Economic Crimes Unit and for the National Statistics Institute. These expenditures are in line with the requirements of recurrent cost financing parameters as specified in BP 6.00 of April 2004 and the relevant Guidelines of April 16, 2004. World Bank support would allow the Government to gradually integrate these recurrent expenditures into subsequent budget years.

65. To facilitate the transition from the existing PGDI I the project will include the retroactive financing of specific activities (refinement and deployment of the integrated financial management system, strengthening of the internal and external controls of the public finance system, implementation of the reforms in the customs and tax directorates including related training and capacity building activities, and coordination of the reforms in the Ministry of Finance and Budget). These expenditures, which must be incurred on or after January 1, 2008 do not exceed US\$1.0 million and will be subject to the application of relevant World Bank procurement guidelines, are in line with the requirements of the eligibility criteria for Bank financing as specified in OP/BP 6.00 of April 2004.

66. The Project Implementation and Procurement Plans have been appraised and found to be realistic and of satisfactory quality.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

Annex 1: Country and Sector or Program Background

MADAGASCAR: Governance and Institutional Development Project II

67. Good governance and institutional development are key elements of the Government's reform agenda as spelled out in the main development strategy, the Madagascar Action Plan (MAP) and its annual implementation plans (Politique Générale de l'Etat).

Government of Madagascar The Eight Commitments of the MAP

The MAP is a five-year plan that lays out the direction and priorities for Madagascar for the period 2007-2012. It outlines eight strategic commitments with strategies and actions that will ignite rapid growth, lead to the reduction of poverty and ensure that the country develops in response to the challenges of globalization and in accordance with the national vision – Madagascar *Naturally* – and the MDGs. The eight commitments of the MAP are as follows:

Responsible Governance – the goal is to create a Government that every citizen and the international community can trust and to build a civil service that will have integrity, be efficient and act totally professional in all its activities. The specific challenges of this commitment are to (i) provide sufficient security to protect people and property; (ii) strengthen the rule of law; (iii) reduce corruption; (iv) establish an efficient and effective Government budgetary process; (v) strengthen the provision of public services; (vi) decentralize the Government administration and (vii) become a learning nation.

Connected Infrastructure – this commitment emphasizes that infrastructure is essential for the country to achieve rapid development, facilitate business and trade, enable communication and ensure that the standard of living and the access to resources and global knowledge improves for all. The challenges are to (i) prioritize infrastructure development for key growth areas; (ii) efficiently move goods and people from one place to another; (iii) improve access to transport services nationwide; (iv) ensure accessible and adequate energy supply at affordable and competitive cost; (v) ensure efficient and affordable communication system; (vi) carry out better weather forecasting and warnings of potential disasters such as cyclones; and (vii) substantially improve access to drinking water and sanitation.

Educational Transformation – the goal is to create an education system with world class standards in quality and effectiveness which provides Madagascar with the necessary human resources to become a competitive nation and a successful player in the world economy. This would be achieved through (i) ensuring access of all children to developmental opportunities before official school entry; (ii) creating a successful primary education system; (iii) creating a successful lower secondary education system; (iv) improving upper secondary school and developing vocational training; (v) transforming higher education; (vi) ending illiteracy; and (vii) developing capacities and mindsets of young people through sports and civic participation.

Rural Development and a Green Revolution – the MAP recognizes that dynamic rural development through increased agricultural production is at the core of the Government's endeavors and that better infrastructure and communication networks are essential to meet this goal. The specific activities are to (i) secure land tenure; (ii) improve access to affordable rural financing; (iii) launch a sustainable green revolution; (iv) promote market oriented activities; (v) diversify rural activities; and (vi) increase the agricultural value-added and promote agri-business.

Health, Family Planning and the Fight Against HIV/AIDS – the challenge here is to ensure that the Malagache people are healthy and can contribute productively to the development of the country. This commitment focuses on (i) providing quality health services to all; (ii) eradicating major diseases (malaria, TB, STIs); (iii) fighting HIV/AIDS; (iv) implementing a highly successful family planning strategy; (v) reducing infant mortality; (vi) reducing maternal and neonatal mortality; (vii) improving nutrition and food security; and (viii) providing safe water and widespread use of hygienic practices.

High Growth Economy – the goal is to reach growth rates between 7-10% by 2012 through ensuring a diversified and strong private sector driven by local and international investment and trade. This challenge naturally covers many activities focused on the following: (i) ensure a stable macroeconomic environment; (ii) increase foreign direct investment; (iii) promote full employment; (iv) reform the banking and financial system; (v) strengthen domestic enterprises, SMEs and handicraft industry; (vi) enhance international trade competitiveness; (vii) intensively develop the mining sector; (viii) intensively promote and develop the tourism sector; (ix) intensively exploit regional opportunities; and (x) through diplomacy, strengthen economic synergies.

Cherish the Environment – this commitment lays out the goal for Madagascar to become a world leader in the development and implementation of environmental best practice, to become a green island and to cherish and protect its extraordinary environment. Local communities will be active participants and industries such as eco-tourism and organic agri-business will develop to minimize biodiversity damage and maximize benefits to the country and people. The activities focus on (i) increasing the protected areas for the conservation of land, lake, marine and coastal biodiversity; (ii) reducing the natural resource degradation process; (iii) developing the environmental reflex at all levels; and (iv) strengthening the effectiveness of forest management.

National Solidarity – the goal is to continue to forge a strong and unified national identity that promotes participation and partnership, allows people to be proud and to take full and shared responsibility for guiding the nation into the future. The specific challenges are to (i) celebrate cultural diversity, understanding and respect; (ii) build social trust and promote civic participation; (iii) promote solidarity and pride; (iv) improve support for the very poor and vulnerable populations; and (v) promote gender equality and empowerment of women.

Source: Madagascar Action Plan 2007-2012

68. The new project intends to support the implementation of the government reform strategy in a holistic manner by focusing on key reform areas that would constitute a sound system of good governance in Madagascar. These reform areas, which are derived from the Government's own development strategy (the MAP) are summarized below:

69. **Improving good governance.** When the Government took over power in 2002 corruption was pervasive: in the Transparency International (TI) Perception Index of 2002 Madagascar was rated 98 out of 102 countries. The TI ratings have improved since that time but implementation progress is slower than expected. Government strategy has focused on three areas (i) the development of an anti-corruption strategy which is supported by a broad coalition of relevant stakeholders, (ii) the improvement of the regulatory framework to combat corruption, and (iii) the establishment of an independent anti-corruption agency which will coordinate the fight against corruption.

70. Progress has been substantial in all areas. The first phase of the program (until early 2006) focused on establishing an effective regulatory and institutional framework to fight corruption and to improve governance. In this context, an independent Anti-Corruption commission (Conseil Supérieur Lutte Contre la Corruption, CSLCC, later renamed Comité pour la Sauvegarde de l'Intégrité, CSI) and an independent Anti-Corruption Bureau (Bureau Indépendant Anti-corruption, BIANCO) were set up and made operational. The Commission subsequently put forward a comprehensive anti-corruption legislation, which includes a declaration of assets of public and elected officials, and regulations to improve both investigation and prosecution of corruption cases. A specialized court (Chaîne Pénale Anti-Corruption) was established to deal with corruption cases. Additional activities focused on regulating the recruitment into the public sector, which (under the previous regime) was a key source for corruption and conflict-of-interest. In 2005, the Commission also organized with assistance from WBI an anti-corruption survey to establish baseline data and to raise public awareness about the incidence of corruption. This survey confirmed major governance problems in key services such as the police, the land titling administration and the revenue agencies. With assistance under the first PGDI the Government has begun to address these sectoral governance issues. In parallel, BIANCO investigated a significant number of corruption cases over the last few years. The Bureau also organized independent reviews in sensitive areas such as land titling and customs and procurement audits of investment activities. Later reforms focused on further strengthening the regulatory framework, in

particular with regard to whistleblower protection. Several attempts by the Commission to address conflict-of-interest of public and elected officials have been less successful, mainly due to lack of commitment and understanding. Similarly, the initially high rate of participation in the declaration of assets (over 90 percent) has constantly declined and is currently below 50 percent. Moreover, the anti-corruption survey has not triggered a larger-scale mobilization of the population in the fight against corruption, mainly due to weaknesses in communicating the results and in designing an effective mobilization strategy. As a consequence, the main challenge is to consolidate the credibility of the previous reforms by addressing “grand corruption” as well as conflict-of-interest issues. It will also be important to better mobilize non-state actors from civil society and the private sector in the fight against corruption.

71. ***Improving public expenditure management.*** When the Government of President Marc Ravalomanana came into power in 2002, it inherited a largely unfinished and non-prioritized reform agenda. While previous reforms had some impact, overall efficiency, transparency and accountability of the public finance system remained low. Key problems include complex, non-transparent, outdated and time consuming procedural arrangements with often unclear or overlapping roles and institutional responsibilities, lack of capacity as well as weak internal and external control mechanisms. In collaboration with all key donors the Government developed a priority action plans for public finance reforms between 2004 and 2008. These plans prioritize and sequence reforms that are aimed at strengthening the treasury system, the internal and external controls, the regulatory and procedural framework as well as the budget preparation process. Two independent PEFA assessments and two Public Expenditure Reviews, which were conducted jointly with the Government, provided the analytical underpinning for the reforms.

72. Reforms are currently well under way. Modern public finance regulations have been put in place and a strong link between the MAP and the annual budget has been established. The budget preparation process was revamped to allow for more time to discuss the budget and its strategic priorities. A Medium-Term Expenditure Framework was introduced to provide a forward vision of the budget. A budget framework paper was introduced in 2006 to improve decision making at the Cabinet level and quality of budget preparation by the sector ministries. Budget execution was streamlined based on the introduction of a modern computerized integrated financial management system. The new system has been deployed to all six main treasuries and all key sector ministries; it presently captures about 80 percent of government spending. The Treasury Department has been restructured and strengthened. As a consequence, budget execution rates have improved significantly. A new internal control service (Brigade de Vérification et d’Inspection du Trésor) is now operational in the Treasury. The operational effectiveness of other internal and external controls such as the General Inspection Directorate (Inspection Générale de l’Etat), the Auditor General’s Office, and the Finance Commissions of Parliament has also been improved. At the same time, the effectiveness of the commitment control system (Contrôle des Dépenses Engagés, CDE) remains weak, despite Government efforts to address existing problems. An independent audit of the CDE was conducted in 2007 to provide impetus to the reform process.

73. In the area of public procurement, new procurement regulations have been introduced which are in line with internally recognized standards. The institutional framework for public

procurement has been modernized and a new procurement oversight authority (Autorité de Régulation des Marchés Publics, ARMP) has been set up. Significant training and capacity building activities have been undertaken to ensure that the new system is adequately used and institutionalized. ARMP is monitoring the compliance with the new regulations regularly based on independent audits.

74. The preliminary findings of the recently completed 2008 PEFA assessment confirm the positive impact of the reform activities: since the last assessment in 2006 the number of PEFA indicators which are rated 'B' and above increased to 13 (from 10 in 2006) and the number of indicators which are rated 'D' decreased to 6 (from 13 in 2006). Main challenges include (i) the consolidation of public finance reforms in the area of budget execution (and reporting), (ii) the strengthening of the internal and external control institutions, (iii) the further institutionalization of the reforms at the level of the sector ministries (both national and sub-national levels), and (iii) the overall absorptive capacity for reform in the Ministry of Finance and the sector ministries.

75. ***Increasing State revenues.*** Revenue generation is among the lowest in Sub-Saharan Africa. With a tax/GDP ratio of less than 11 percent (compared to 18 percent for sub-Saharan Africa), Madagascar has enormous scope for improving its fiscal inflows. To improve revenue generation at the level of the customs directorate and to reduce endemic corruption a comprehensive customs reform action plan is now under implementation. Customs operations in key customs offices (e.g. Tamatave and Antananarivo) have been fundamentally reorganized and modernized based on the deployment of an automated data processing system (SYDONIA ++). Pre-shipment inspections by a private company have been introduced to improve transparency and reduce discretionary authority. The internationally recognized customs management system TRADENET has recently been introduced in the customs office in Antananarivo. Customs regulations have been modernized and the tariff structure has been simplified. In addition, the Government launched in 2007 with assistance from the IMF a tax reform program. This program focuses on simplifying and rationalizing the tax system and on minimizing tax exemptions. The Finance Law 2008 abolished a number of low performing taxes. In parallel, tax administration reforms are ongoing to improve the operational efficiency of the tax directorate. The majority of senior level staff has been replaced to address endemic corruption and to demonstrate a new beginning for the tax administration. Main challenge is to consolidate the ongoing reforms and to sustain the achievements through further modernization and capacity building.

76. ***Mobilizing the public administration.*** The public sector is relatively small but extremely centralized and hierarchical with little or no service delivery or performance focus. Procedural arrangements are bureaucratic and overly complex. Separate personnel and payroll databases exist but no systematic reconciliation between these databases is carried out. The last payroll audit was carried out in 1999. Ethical standards exist but are not enforced. The public sector composition is based on an outdated "model" that overemphasizes the role of support staff (nearly 30 percent of the civil servants) over technical staff. Available data also indicate that the average age structure in the public sector is relatively high. Salaries in the public sector are relatively low although management in the public sector receive significant allowances which (if consolidated) amount to a significant

salary. Support staff in the public sector is paid better than the support staff in the (informal) private sector. With assistance from the World Bank the Government has begun to address some of these issues. A baseline study for the development of a comprehensive reform of the public sector pay and incentive system has been launched and is expected to be completed in 2009. In addition, some government services are in the process of modernization (e.g. land titling) and the rules and procedures for the delivery of government services (e.g. tax collection at the local level) have been systematically strengthened. Innovative techniques such as the rapid results methodology have been used to accelerate reforms. Work is ongoing to reinforce discipline and ethical standards throughout the administration.

77. Main challenges include (i) the development of a credible strategy for the reform of the public sector, including a reform of the public sector wage and incentive system (ii) the establishment of a technical cadre (middle level specialist) that is typically a backbone of a good civil service, (iii) the introduction of service standards and performance orientation in specific services, and (iv) the enforcement of ethical standards.

78. ***Strengthening legal and judicial reforms.*** When the Government came into power in 2002, the credibility of the justice system was seriously undermined by significant corruption and inefficiencies. The judiciary was unable to provide adequate and timely services in areas that are important for the private sector; the efficiency of the courts was hampered by outdated procedures and lack of adequate resources. To address these issues, the government strategy has focused on five broad priority areas: (i) fight against corruption, (ii) expedition of legal proceedings, (iii) reform of business laws, (iv) rehabilitation of court and prison infrastructure, and (v) humanization of detention facilities.

79. Progress has been mixed: while the backlog of cases at the level of the lower courts has been substantially reduced (from more than 60,000 in 2005 to almost zero in 2008) and legal proceedings have been streamlined significant corruption (confirmed by an independent anti-corruption survey) and interference by the executive continue to negatively impact the judiciary. The Government has also modernized commercial proceedings and is in the process of establishing a specialized commercial court in the capital Antananarivo. Administrative and financial tribunals were set up to speed up the treatment of relevant cases. New service standards have been introduced at the lower courts and the monitoring & evaluation system to assess the performance of the jurisdictions has been significantly strengthened. However, it appears that the compliance with the new standards is low. Main challenge is to address the prevailing corruption in the judiciary and to improve ethical standards and behavior throughout the judicial system.

80. ***Improving (decentralized) service delivery.*** Public services remain centralized with most public resources (both financial and human) managed by the central government. At the same time, service delivery at the local levels is weak and lacks adequate resources. In health and education services some responsibilities have been shifted to administrative entities outside the capital - as a result a significant improvement of services could be observed. Scope and focus of potential de-concentration and decentralization is controversial. Similarly, the roles and responsibilities at the various levels of government (central, regional and commune level) remain unclear. The Government has strengthened the role of the regions in sub-national development since 2004. It considers the regions the

principle entry point for sustainable commune development. At the same time it intends to shift more responsibilities to the commune and village levels. Main challenges include (i) the limited capacity of the newly created regions which are not fully functional, (ii) the reluctance of the central government machinery to “let go”, (iii) the capacity constraints at the commune and village levels to plan and to provide services, (iv) the lack of availability of resources in particular for the communes and the villages, (v) the absence of a consistent regulatory framework for administrative and fiscal decentralization, and (vi) the diffuse relationship between central government, regions, and communes.

81. ***Scaling-up capacity building.*** The implementation of the governance reforms will require major investments in human resources development and professional training. This includes traditional areas such as development planning, public financial management, procurement and monitoring & evaluation. With assistance from the first PGDI the Government has launched comprehensive training programs in these areas, including activities to strengthen the ability of local institutions to deliver such training. The support under the first PGDI has yielded significant results: the operational effectiveness and the quality of existing local training institutions have been improved; the targeted institutions include the National School of Administration (Ecole Nationale d’Administration de Madagascar, ENAM), which focuses on training of higher level staff for the public sector, and the National Center for Administrative Training (Centre National de Formation Administrative, CNFA), which is responsible for the training of middle level staff for the public sector. These institutions have organized and successfully implemented ambitious training programs primarily in the areas of public finance and procurement to enable the sector ministries to adequately institutionalize the far-reaching reforms. Similarly, the National School for Magistrates and Clerks of the Court (Ecole Nationale de la Magistrature et des Greffes, ENMG) trained a significant number of new magistrates and justice personnel, which has broadened the base of a new generation of justice personnel. Regular independent assessment confirmed the overall positive impact of the capacity building activities. The main challenge is to further deepen these capacity building activities as ministries, departments and agencies continue to require assistance with the institutionalization of governance reforms. With the intended progressive de-concentration and decentralization of government activities the training activities will also need to focus on the sub-national levels of government, in particular the regions and communes.

82. Past capacity building in Madagascar also comprised non-traditional activities, in particular leadership development and managing change. Under the first PGDI significant assistance has been provided to some key institutions to strengthen their ability to effectively manage institutional change and governance reforms, in particular to the President’s Office, the Prime Minister’s Office, the Ministries of Finance, Justice and Economic Planning. These activities have resulted in the establishment of a core team of change agents who are the main drivers of the governance reform process. A key output from the team of change agents is the new development strategy (MAP) that has a clear results focus. A recently completed independent assessment of the leadership program in Madagascar confirmed the high impact of these training activities on the functioning of the government machinery. With assistance from the first PGDI the Government has also established a National Leadership Institute of Madagascar (NLIM) that focuses primarily on behavioral changes and management support. This institute has organized a series of training events that are destined

to improve understanding about the complexity of the change process initiated by the MAP, and that target specifically the senior levels in the public administration at the national and sub-national levels. Main challenge is to scale-up and further deepen these activities throughout the administration as (change) management capacity remains weak and uneven.

83. ***Improving social accountability.*** Civil engagement in achieving “responsible governance” is one of the core principles firmly anchored in the MAP. There is little consolidated information about the total number and the activities of civil society organization in Madagascar; estimates quote between 4,000 and 6,000 groups and associations, or one per 12,700 persons – low by regional standards as it compares to one per 3,400 persons in Kenya or one per 6,200 persons in Uganda. Further, there is a bifurcation of these organizations into atomized narrowly-focused rural-based groups (the country is 78% rural) which have no national representation and no role in policy dialogue or oversight, and urban based groups which often have no links to the grassroots and also tend to cater to donor interests rather than focusing on specific advocacy. Thus, overall, the capacity of these organizations and their willingness to hold Government accountable is very weak if compared to other countries. There is no functional legal framework in place that governs the creation of civil society organizations. The Government’s development strategy identifies key governance challenges and foresees a number of related activities that require active involvement of civil society. They include among others (i) the reduction of corruption, which assigns an important watchdog and whistleblower role to civil society; (ii) the establishment of an efficient and effective government budgetary process, which entails the dissemination of public finance information as well as inclusion of civil society in resource allocation, (iii) the strengthening of the provision of public services, which requires that service providers will have to meet service users’ expectations, and (iv) the development of a “learning nation”, which aims to develop “mechanisms for citizen training and participation in the governance of their local, regional and national communities”.

84. While the Government appears to be committed to creating an enabling environment for the proactive involvement of civil society there is still limited experience with bottom up social accountability mechanism in Madagascar. Based on Government request the first PGDI provided some funding to conduct pilot citizens score card exercises for a few selected health centers. These activities have led to an improved delivery of services in the selected centers, and more transparency around issues of drug pricing and the allocation of existing commune subsidies to health centers. The first PGDI is also providing technical support for activities that are aimed at improving transparency and accountability such as the participatory budgeting in the communes around Fort Dauphin (a center for mining activities), which will ensure more inclusive and transparency allocation and use of public resources and local level tracking of mining revenues. In many ways the results from these activities are generating a new level of collaboration between civil society on the one hand and public or elected officials on the other hand. The initial pilots in the health sector, for example, have now earned the Ministry of Health’s agreement to expand the pilots to provide bottom up feedback that will complement the Ministry’s own quality enhancement program (supply side reform). As a consequence, the Government intends to scale-up social accountability activities, in particular in areas with high level of investment (such as Fort Dauphin and Nosy Be) or in sectors with significant governance problems (such as forestry) to complement other ongoing reforms.

85. ***Coordination of reforms, monitoring & evaluation.*** Governance reforms are coordinated by the Presidency which has assumed a significant role in “supervising” the ministries, departments and agencies. In this context, the relevance of the Prime Minister’s Office, which is legally in charge of controlling the administration, is at question. The Government will need to clearly define the relationship between the Presidency (= defining policies and issuing broad directives), the Prime Minister’s Office (= coordinating the implementation of the policies), and the sector ministries (= implementing policies) to avoid frictions and coordination problems.

86. With support by the first PGDI the government has launched the development of a monitoring & evaluation framework including a plan for the political and administrative coordination of governance reforms. A National Strategy for Statistical Development has recently been approved by the Government, which provides the procedural and institutional framework for all statistical activities in the country. Activities are also ongoing to strengthen the operational efficiency of the National Statistics Office. With assistance from the World Bank and other donors the Government is presently conducting a cartographic survey. This survey would establish key information about the population distribution in Madagascar. Key challenges include the update and the consolidation of the statistical data on Madagascar as the current data base is outdated (the last population census was conducted in 1993).

Annex 2: Major Related Projects Financed by the Bank and/or other Agencies

MADAGASCAR: Governance and Institutional Development Project II

87. The proposed project is a core element of the Bank's CAS and its governance agenda is one of the main pillars of other donors' programs in Madagascar. The project builds on considerable Bank and donor-supported programs and seeks to integrate these initiatives as well as to complement ongoing activities in the areas of private sector development and decentralization.

88. Relevant World Bank projects include:

- The Integrated Growth Poles Project (US\$129.8 million, FY2005) is a joint IDA, IFC, Foreign Investment Advisory Service, and Multilateral Investment Guarantee Agency effort that aims to stimulate growth in three geographical regions with high potential by addressing the key bottlenecks to investment. The three poles are: Nosy Be for tourism-led growth, Fort Dauphin for mining and tourism-led growth, and Antananarivo-Antsirabe for export-led growth. The implementation status of the project is rated 'satisfactory'. PGDI II will provide complementary assistance to strengthen the capacity of regional administrations and to improve social accountability.
- The Mineral Resources Governance Project (US\$32.0 million, FY2004, additional financing US\$8.0 million, FY2007) aims at strengthening the accountability and transparency in the mining sector, at promoting key institutional reforms for the decentralized management of mineral resources and at fostering private investments. The implementation status of the project is rated 'satisfactory'. PGDI II will provide complementary assistance to strengthen the capacity of regional administrations and to improve social accountability.
- The Bank has supported through a Community Development Project (*Fonds d'Intervention pour le Développement* – FID, US\$110.0 million initially, FY2001) in Madagascar for almost 15 years. The FID has evolved from a primarily demand driven social infrastructure project into a project that has adapted a comprehensive vision of participatory development empowering communities. The first PGDI has provided complementary capacity building assistance, in particular to the sub-national levels of government. The FID project is expected to close in FY2009.
- The Local Development and Decentralization Support Project (US\$15.0 million, FY2009) aims at improving public service delivery through the financing of basic infrastructure and the provision of capacity building at local level. The project seeks to enhance the capacity of local authorities to utilize participatory and transparent planning, budgeting, implementation, and monitoring systems and to strengthen the capacity of service providers. PGDI II will complement the project by strengthening the regional administrations in core competence areas (e.g. public financial management, procurement) and by supporting the consolidation and the refinement of the regulatory and institutional framework for decentralization.

89. In the area of governance and institutional development Madagascar's principle development partners are the European Commission, the International Monetary Fund, the African Development Bank, UNDP, France, Germany, Norway and the United States. Donor coordination has been significantly strengthened over the past years with the introduction of a Memorandum of Understanding (Cadre de Partenariat) in 2006. Since then, the Ministry of Finance and the development partners that are providing budget support are better coordinating their activities and reviewing progress in the context of joint donor missions. The recommendations from these missions are used to update the reform action plans of the Government.

90. The table below provides an overview about the support to the governance and institutional development agenda by other development partners.

Governance and Institutional Development Support	MULTILATERAL DONORS														BILATERAL DONORS						
	World Bank	IMF	UNDP	EU	UNICEF	FAO	UNFPA	WFP	IFAD	BADEA	AfDB	WHO	OPEC	Global Fund	France	Germany	Switzerland	Kuwait Fund	USA (MCC)	Norway	Japan
Budget Support	H			H							H				H						
Governance	H		M	H							H				M	L	L		M	M	
Macro Management	H	H	L	M							M				H	L					

Level of Involvement: H = High; M = Medium; L = Low

Annex 3: Results Framework and Monitoring
MADAGASCAR: Governance and Institutional Development Project II

91. The Project Results Framework and the Results Monitoring Matrix are summarized below. The annex is based on comprehensive discussions with the Government and was finalized in the context of a workshop organized in January 2008.

Project Development Objective	To improve the efficiency and transparency of government and selected public services in Madagascar in line with the Madagascar Action Plan (MAP)	
PDO Outcome	Outcome Indicators	Use of results information
<p>Improved public expenditure management</p> <p>Revenue agencies' performance (customs, tax administration) increased</p> <p>Improved quality of public service provision in selected public institutions</p> <p>Improved public accountability and transparency</p>	<ol style="list-style-type: none"> 1. Number of Indicators under the Public Expenditure and Financial Accountability Assessment (PEFA) rated 'B' and above 2. Percentage increase in tax/GDP ratio 3. Percentage of population satisfied with the quality of services provided by selected prioritized public institutions. 4. 4 Number of corruption cases effectively adjudicated by the judiciary or through administrative procedures 	<p>Information will be used to guide the implementation of the Government's public finance reforms and to determine technical assistance and capacity building needs</p> <p>Information will be used to monitor the performance of revenue collecting agencies to ensure that they achieve their targets</p> <p>Information will be used to assess the performance of public services in order to target non-compliant services and to improve overall service delivery</p> <p>Demonstrate the effectiveness of measures deployed to improve accountability and transparency</p>

Intermediate Results per Component	Results Indicators for Each Component	Use of Results Information
<p>Component 1: Improvement of public expenditure management</p> <p>Budget preparation and execution improved</p> <p>Internal control mechanisms strengthened</p> <p>Compliance with public procurement regulations improved</p>	<p>1.1 Number of PEFA budget preparation and execution indicators (indicators 1 through 17) rated 'B' and above</p> <p>1.2. Number of PEFA indicators measuring the efficiency of internal control mechanisms and budget reporting (indicators 18 through 25) rated "B" and above</p> <p>1.3. Number of bids awarded under open competition</p>	<p>Demonstrate that public institutions adhere to established financial management protocols and systems</p> <p>Show if bidding of goods and services is based on the new bidding policy/documents</p>
<p>Component 2: Strengthening the efficiency of government operations</p> <p>Change management capacity and leadership quality improved</p> <p>Local training institutions (NLIM, ENAM, CNFA, ENMG, GDLN) strengthened</p> <p>Monitoring & evaluation framework for MAP implementation clarified</p> <p>Improved revenue collection and fiscal management at decentralized levels</p>	<p>2.4. Percentage of sector ministries that meet 100% of their annual work plans targets under the PGE.</p> <p>2.5 Number of students successfully completing training courses (at NLIM, ENAM, CNFA, ENMG, GDLN)</p> <p>2.6. Percentage of sector ministries timely submitting reports for incorporation into the MAP progress report</p> <p>2.7. Percentage increase in revenue generation through improvement in fiscal management in the Region of ANOSY</p>	<p>Information will be used to monitor the performance of ministries</p> <p>Demonstrate that the training institutions are graduating students with the right core competencies for public institutions</p> <p>Information will be used to refine the implementation of the MAP and to assess efficiency of reform management</p> <p>Determine effective revenue generation and management at decentralized levels</p>

Intermediate Results per Component	Results Indicators for Each Component	Use of Results Information
<p><u>Component 3: Rule of Law and fight against corruption</u></p> <p>Quality of legal and judicial services in selected areas improved</p> <p>Regulatory and institutional framework and strategy for fighting corruption further refined and implemented</p> <p>External controls strengthened</p>	<p>3.8. Reduction of the average days required to process a case at the level of lower courts</p> <p>3.9a. Frequency of bribes paid by users to obtain licenses and permits</p> <p>3.9b. Proportion of average expenditure paid by households as bribes for accessing public services</p> <p>3.10. Number of PEFA indicators measuring the external control mechanisms (indicators 26 through 28) rated 'B' and above</p>	<p>Assess turn around time of the lower courts in order to initiate corrective measures</p> <p>Use information to further improve the strategy for combating corruption</p> <p>Demonstrate that public institutions adhere to established financial management protocols and systems</p>
<p><u>Component 4: Transparency and social accountability</u></p> <p>Increased involvement of civil society in the development and monitoring of policies and programs</p> <p>Increased satisfaction of citizens with the delivery of public services (health, education) in pilot communes</p>	<p>4.11. Number of social accountability activities (e.g. community score cards, participatory budgeting) completed</p> <p>4.12. Percentage of users that are satisfied with selected public services (health, education) in the region of ANOSY and DIANA</p>	<p>Information will be used to refine the implementation of the MAP and to refine the development strategy for Madagascar</p> <p>Use information to further improve delivery of public service</p>
<p><u>Component 5: Monitoring & evaluation</u></p> <p>Improved quality and availability of demographic data for Madagascar</p>	<p>5.13. Population census 2010 completed and data published.</p>	<p>Information will be used to refine the development strategy for Madagascar, and to improve strategic planning in the public and the private sectors</p>

Intermediate Results per Component	Results Indicators for Each Component	Use of Results Information
<p>Component 6: Program Coordination</p> <p>Program of reforms timely and effectively implemented</p>	<p>6.14a. Timely submission of progress reports</p> <p>6.14b. Satisfactory rating of annual implementation progress by the World Bank and the Malagasy Government</p>	<p>Information will be used to identify program delays and bottlenecks, and to adjust program implementation strategy</p>

Results Monitoring Matrix

PDO Outcome Indicators	Baseline 2008	Target Values				Data Collection and Reporting		
		2009	2010	2011	2012	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
1. Number of Indicators under the Public Expenditure and Financial Accountability Assessment (PEFA) rated 'B' and above	13	14	17	19	21	Formal PEFA assessment every two years with annual updated	PEFA assessment	Ministry of Finance
2. Percentage increase in tax/GDP ratio ⁵	11.10	12.50	12.70	13.00	13.00	Annual	Analysis of budget documents	Ministry of Finance
3. Percentage of population satisfied with the quality of services provided by selected prioritized public institutions. The following services used as reference points are (i) land titling agency in Antananarivo, (ii) customs office in Tamatave, and (iii) lower court in Antananarivo.	Land titling agency 58%	70.00%	75.00%	80.00%	85.00%			
	Customs Office 27%	50.00%	60.00%	70.00%	80.00%	Annual	Survey	PREA
	Lower court 36%	+20%	+20%	+20%	+20%			
4. Number of corruption cases effectively adjudicated by the judiciary or through administrative procedures	190 (2007)	+20%	+20%	+20%	+20%	Annual	Review of documents from judiciary and other administrative sources	BIANCO

⁵ The increase in the tax/GDP ratio projected by the project is below the rather ambitious MAP target of 15 percent.

PDO Outcome Indicators	Baseline 2008	2009	2010	2011	2012	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component 1: Improvement of public expenditure management								
1.1 Number of PEFA budget preparation and execution indicators (indicators 1 through 17) rated 'B' and above	10	10	11	12	14	Formal PEFA assessment every two years with annual updated	PEFA assessment	Ministry of Finance
1.2. Number of PEFA indicators measuring the efficiency of internal control mechanisms and budget reporting (indicators 18 through 25) rated "B" and above	1	3	5	5	5	Formal PEFA assessment every two years with annual updated	PEFA assessment	Ministry of Finance
1.3. Percentage of bids awarded under open competition	58%	65%	75%	80%	85%		Review of procurement documents	ARMP
Component 2: Strengthening the efficiency of government operations								
2.4 Percentage of sector ministries that meet 100% of their annual work plans targets under the PGE.	50%	60%	70%	80%	90%	Annual	Analysis of annual PGE reports	Office of the Prime Minister
2.5 Number of students successfully completing training courses at NLIM, ENAM, CNFA, ENMG, GD LN IT : Initial Training CT : Continuing Training	NLIM IT : 32 CT : 7101	IT : 30 CT : 3020	IT : 30 CT : 3020	IT : 30 CT : 7220	IT : 30 CT : 7220	Annual	Review of annual reports	Training Institutions and PREA
	ENAM IT : 23 CT : 18155	IT : 155 CT : 1293	IT : 155 CT : 1410	IT : 155 CT : 1528	IT : 155 CT : 1645	Annual	Review of annual reports	Training Institutions and PREA
	CNFA CT : 80	IT : 360 CT : 140	CT : 150	IT : 350 CT : 150	CT : 150	Annual	Review of annual reports	Training Institutions and PREA
	ENMG IT : 142 CT : 700	IT : 150 CT : 950	IT : 150 CT : 1150	IT : 150 CT : 1350	IT : 150 CT : 1500	Annual	Review of annual reports	Training Institutions and PREA
	GD LN					Annual	Review of annual reports	Training Institutions and PREA

PDO Outcome Indicators	Baseline 2008	2009	2010	2011	2012	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
2.6. Percentage of sector ministries timely submitting reports for incorporation into the MAP progress report	50	60	70	80	90	Annual	Analysis of annual progress reports	MECI
Component 3: Rule of Law and fight against corruption								
3.8. Average days required to process a case at the level of lower courts	To be collected until June 2008					Annual	Progress report	Ministry of Justice
3.9a. Frequency of bribes paid by users to obtain licenses and permits in the city of Antananarivo	57% (2006)	45%	40%	30%	20%	Annual	Survey report	CSI
3.9b. Proportion of average expenditure paid by households as bribes for accessing selected public services	3.1%	2.6%	2.3%	2%	2%	Annual	Survey report	CSI
3.10. Number of PEFA indicators measuring the external control mechanisms (indicators 26 through 28) rated 'B' and above	0	1	1	2	2	Formal PEFA assessment every two years with annual updated	PEFA assessment	Ministry of Finance
Component 4: Transparency and social accountability								
4.11. Number of social accountability activities (community score cards, participatory budgeting) completed	7	10	12	14	20	Annual	Progress report	PREA
4.12. Percentage of users that are satisfied with selected public services (health, education) in the regions of ANOSY and DIANA	To be collected until June 2008					Annual	Survey	PREA
Component 5: Monitoring & evaluation								
5.13. Population census 2010 completed and percentage of data published	0%	10%	100%			Upon completion	Progress report	INSTAT

PDO Outcome Indicators	Baseline 2008	2009	2010	2011	2012	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Component 6: Program Coordination								
6.14a. Timely submission of progress reports	Yes	Yes	Yes	Yes	Yes	Quarterly	Progress report	PREA, Ministry of Finance
6.14b. Satisfactory rating of annual implementation progress by the World Bank and the Malagasy Government	Yes	Yes	Yes	Yes	Yes	Annual	Progress report	

Annex 4: Detailed Project Description

MADAGASCAR: Governance and Institutional Development Project II

92. The implementation status of the governance reform program of the Government is summarized in annex 1. The PGDI II will continue to support this reform program. It will be closely linked to the new development strategy of the Government, the Madagascar Action Plan (MAP). The new project will build on the existing support under the first PGDI; the achievements and lessons learnt are summarized below:

Box 1: PGDI I - Achievements & lessons learnt

Area	Major Outputs	Impact	Lessons Learnt
Public finance reforms	<ul style="list-style-type: none"> • Establishment of a reform coordination unit in the Ministry of Finance and Budget • Development of an integrated financial management system and deployment of the system to all key treasuries and sector ministries • Organizational restructuring of the Treasury • Establishment of an internal control cadre for the Treasury (Brigade de Vérification et d'Inspection du Trésor) • Institutional strengthening of other internal and external control mechanisms (e.g. Inspection Générale de l'Etat, Auditor General, Finance Commissions of Parliament) • Comprehensive training and capacity building support to institutionalize public finance reforms at the level of the sector ministries 	<p>More transparent, timely and accurate reporting and more effective internal control.</p> <p>Increased capacity in public financial management</p>	<ul style="list-style-type: none"> • Complementary analytical work fully owned by the government critical to inform the reforms • More time is needed to consolidate the reforms • Significant complementary capacity building and institutional development support required for the key sectors to institutionalize the reforms • Harmonization of the reform agenda should be improved; reform agenda should have a clear medium-term horizon supported by all key development partners • Improved reform coordination at the level of the Ministry of Finance critical
Procurement reforms	<ul style="list-style-type: none"> • New procurement regulations approved by Parliament • New procurement oversight authority established and operational • Comprehensive training and capacity building to institutionalize procurement reforms at the sector ministries' level 	<p>Madagascar procurement regulations are in line with international standards</p> <p>Increased capacity in public procurement</p>	<ul style="list-style-type: none"> • Need to consolidate the application of procurement regulations in the sectors • Institutional framework should be further strengthened (oversight institution, ministry and department level including deconcentrated services)
Revenue agency reform	<ul style="list-style-type: none"> • Customs reform action plan developed and implemented. Plan focuses inter alia on modernizing customs operations and on addressing corruption in the customs service 	<p>More transparent and efficient customs operations meeting revenue targets outlined in the annual budget</p>	<ul style="list-style-type: none"> • Bank role was critical to trigger comprehensive customs reforms • Project was drawn into ongoing debate about revenue agency reforms

Area	Major Outputs	Impact	Lessons Learnt
Fight against corruption	<ul style="list-style-type: none"> • Modern regulatory framework in the fight against corruption developed that includes anti-corruption framework legislation, asset declaration, strengthening of investigative authority, establishment of a specialized investigative unit to prepare court proceedings etc. • Anti-corruption Commission and Anti-corruption Bureau set up and operational • Anti-corruption survey(s) conducted and published 	Entirely new framework for the fight against corruption put in place which is regarded as an efficient instrument to address corruption in the public sector	<ul style="list-style-type: none"> • Framework needs to be further developed, in particular with regard to economic crime and conflict-of-interest issues • Continued benchmarking of impact of anti-corruption activities important to inform reform process
Strengthening of local training institutions	<ul style="list-style-type: none"> • Capacity of local training institutions significantly enhanced to deliver training in high priority areas such as development planning, public financial management and procurement • National Leadership Institute established and operational • Global Development Learning Center under construction to integrate Madagascar into the global distance learning network 	More high quality training can be organized and conducted locally	<ul style="list-style-type: none"> • Training and capacity building in the areas of development planning, public financial management including procurement and monitoring & evaluation is critical to sustain government reforms • Capacity of local training institutions is still insufficient to meet the demand
Gaps			<ul style="list-style-type: none"> • Project was drawn into social accountability activities to improve efficiency of Bank operations, in particular PIC • Project was used to improve operational efficiency of the President's and Prime Minister's Offices • Project provided complementary support to decentralization activities, in particular for regional development

93. The new project will enhance and further deepen the first generation reforms under the PGDI I in the areas of public finance, the strengthening of capacity and the improvement of public sector service delivery, the reinforcement of the rule of law and the fight against corruption, and the improvement of transparency and social accountability. It can build on significant analytical work, in particular in the area of public expenditure management (PERs, PEFAs).

94. With a lending amount of US\$40.0 million IDA PGDI II will have the following components:

Project Component 1 – Improvement of public expenditure management (US\$14 million IDA)

95. The objective of this component is to continue to support in a holistic manner the reform of the public expenditure management system in Madagascar. The reference point for the reform is the Priority Action Plan (PAP) which is developed by the Ministry of Finance on an annual basis and supported by a number of development partners including the World Bank. The PAP consolidates all reform activities under the oversight of the Ministry of Finance. The implementation progress of this plan is jointly evaluated by the donors and the Ministry of Finance on a regular basis. The support under this component reflects the Government request to incorporate revenue agency reforms and comprehensive capacity building activities at the sector ministry level into the reform agenda. It draws upon the World Bank implementation experience with public finance reforms since 1998, in particular the need to increase assistance for the institutionalization of public finance reforms at the level of the Malagasy public administration. The intended support under the new project will be closely linked to the PAP; the Ministry of Finance will be responsible for the implementation of this component.

96. The component comprises the following sub-components:

(a) ***Improving the budget preparation and execution processes (US\$6.0 million IDA)***. Support will focus on further facilitating the introduction of program budgets and on simplifying budgetary procedures. It will also strengthen the capacity of sector ministries to plan, monitor and evaluate the annual budget. Further assistance will focus on the harmonization of the existing dual budget system with the ultimate goal to fully integrate the budget preparation and execution procedures. The sub-component will continue to finance the deployment of the integrated financial management system (Système Intégré de Gestion des Finances Publiques, SIGFP) which was initiated under the first PGDI. The new system provides timely, accurate and up-to-date information on budget allocations, commitment and actual expenditures. The system is currently installed in all six main treasuries in the country; all key sector ministries are connected to the system. The system captures about 80 percent of government expenditures. With the so-called ‘regionalization of the budget’ (the delegation of budgetary authority to the 22 new regions) the government intends to build the public finance capacity of the regional administrations and to deploy the SIGFP to the regional capitals and other important centers. This new strategy will be supported by the PGDI II. Funding will also be provided to rationalize the public investment process, which constitutes an important element of the public finance reform agenda.

Project funding under this sub-component will focus on goods and equipment, in particular soft and hardware costs including the installation of a wide-area network, consulting services including specialized training and project management, rehabilitation and maintenance of offices, operating costs as well as for training and capacity building activities.

(b) ***Strengthening internal control mechanisms (US\$1.0 million IDA)***. Building on ongoing assistance provided under the PGDI I the new project will continue to

support government reforms destined to improve the operational efficiency of the institutions that provide fiduciary oversight and control. These institutions include: the General Government Inspectorate (Inspection Générale de l'Etat – IGE), the Commitment Control (Contrôle des Dépenses Engagées - CDE), the internal control cadre of the Treasury (Brigade de Vérification et d'Inspection du Trésor), and the general internal control cadre (Inspection Générale des Finances – IGF) that is not yet operational. Previous reforms helped the Government to establish an internal control cadre for the Treasury (Brigade Vérification et d'Inspection du Trésor) and improved the operational effectiveness of both IGE and CDE. At the same time, the 2006/2008 PEFA assessments and relevant analytical work revealed substantial weaknesses of the internal control system, in particular at the level of CDE. The new project will therefore continue to provide support for the internal control system, in particular the modernization of operations and capacity building activities. It is also envisaged to provide support to the Budget Discipline Commission (Conseil de Discipline Financière et Budgétaire) which is tasked to enforce fiscal and budgetary discipline but is presently non-operational.

Project funding under this sub-component will focus on goods and equipment, consulting services; rehabilitation and maintenance of offices, as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

(c) ***Institutionalizing public procurement reforms (US\$2.0 million IDA)***. The first PGDI supported Government to design new procurement regulations and a new institutional framework in line with international standards. This comprehensive reform has fundamentally changed the way public procurement was managed. A new procurement oversight institution has been established and sector ministries have begun to work with the new regulations. To further institutionalize these reforms it will be necessary to continue training, change management and capacity building activities which have already been launched under the first PGDI. These activities are mainly delivered by local training institutions. To assess impact of the procurement reforms it is envisaged to review the compliance with the new regulatory and institutional framework on a regular basis. These evaluations will be funded under the new project. In addition, the project will include assistance for the new procurement oversight institution as well as for procurement entities in the sector ministries. Project support will also focus on improving transparency and accountability of public procurement processes, e.g. through the publication of business opportunities and procurement decisions, and through improved monitoring by civil society, media and Parliament.

Project funding under this sub-component will be provided for goods and equipment, consulting services; rehabilitation and maintenance of offices, as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the

provision of office space and other material, as well as through the provision of travel costs.

(d) *Increasing performance of revenue agencies (US\$5.0 million IDA).* To generate more resources for the implementation of the MAP increased revenue performance has become a top priority of the Government. The strategy initially focused primarily on the customs directorate which received assistance to modernize its operations, to streamline its procedures and institutional set-up. These reforms which were supported by a number of development partners yielded tangible results as customs revenues and operational efficiency increased as evidenced for example by reduced time for customs clearance processes. The new project will provide assistance to consolidate these reforms, in particular provide further assistance for the modernization of customs offices, the integration of the new customs management system TRADENET with the SIGFP, as well as training and capacity building. This would complement ongoing assistance by other development partners, in particular the IMF, France and the World Customs Union. At the same time, the new project will provide support for a fundamental reform of the tax directorate. With assistance from the IMF the Government has launched a comprehensive reform of this directorate which includes policy, regulatory and institutional changes as well as related capacity building activities. To simplify the existing tax regulations a number of taxes have been abolished and the activities of the tax directorate have been refocused on areas with a high revenue potential such as the large enterprise unit. In an effort to improve its efficiency, the tax directorate has recently replaced the majority of its senior staff and introduced control measures to address corruption and low performance. The Government is in the process of developing a medium-term reform action plan which will be integrated into the overall reform plan (PAP) of the Ministry of Finance. The new project will support the implementation of the tax policy and tax administration reforms which will include modernization of equipment, rehabilitation of buildings as well as training and capacity building activities. Support under the project will also include the mobilization of (external) quality assurance which will assist Government in monitoring progress of the reform process.

Project funding under this sub-component will be provided for goods and equipment, consulting services; rehabilitation and maintenance of offices, as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

Project Component 2 – Strengthening the efficiency of government operations (US\$8.0 million IDA)

97. The objective of this component is to support the change management and institutional development processes in the context of the implementation of the Government's development strategy, the Madagascar Action Plan (MAP). This will include leadership training and

development for senior government officials to manage and implement far-reaching reforms. Support will also include an upgrading of local training institutions as well as the support for the operation of a Global Development Learning Center (GDLN) and of the National Leadership Institute of Madagascar (NLIM). In addition, this component will support cross-cutting reforms and activities which are considered important for the MAP implementation. Such reforms include the support for the development of a consistent regulatory and institutional framework for decentralization, and the reform of the public sector pay and incentive system.

98. The component comprises the following sub-components:

(a) ***Improving change management capacity and leadership quality (US\$3.0 million IDA)***. The project will continue to support change management processes in the context of the implementation of the MAP, in particular in the President's Office, in the Prime Minister's Office and in priority ministries such as education, health, transport and public works. This support will build on the experiences with the leadership and change management support under the first PGDI which provided significant assistance to building relevant capacity. The institutions supported by the first PGDI have established change management teams which design and monitor the implementation of reforms. These teams are typically attached to the Permanent Secretary of the relevant institution and include staff with competence in key areas, in particular development planning and monitoring & evaluation. These teams have developed sectoral strategies and implementation plans that are monitored both at the sectoral and cross-sectoral level (Presidency, Prime Minister's Office). The new PGDI intends to take these activities a step further and include the management levels below the Permanent Secretaries within the public administration into the change management and leadership development activities. Assistance will include leadership support (coaching and advising) of government officials by the Center for Public Leadership of Harvard University, Kennedy School of Government, in the United States. The program will focus on key leadership challenges both at the institutional and individual levels to ensure consistency and to improve efficiency of the administration. Support will also include funding for innovative change management methodologies such as the "rapid results" approach⁶ to accelerate reform implementation and to assist the Government to overcome existing procedural and institutional constraints that hamper the effective implementation of the reform program. The majority of this support will be channeled through the National Leadership Institute of Madagascar (NLIM) which was created in 2006 as a training institution and center-of-excellence for leadership development. The institute will receive funding for strengthening its operations, for the development of a fundraising strategy as well as curricula and training programs, and for the organization of

⁶ Originally developed by the private sector, the rapid results methodology has over the last few years increasingly been used in the development context, as a tool for governments to implement their policies and strategies. Rapid results initiatives are typically small projects designed to – in the short term – mirror more comprehensive activities. Under these initiatives cross-sectoral team are established to solve specific problems. They set themselves ambitious, achievable, concrete goals which they strive to achieve in short periods (typically 50, 100, 150 days). A detailed timetable is used to monitor results. Madagascar has been a pilot country for rapid results activities which have generated a lot of traction in areas such as primary health care, local revenue generation and rice production. See for details: A Leadership Approach to Achieving Change in the Public Sector: The case of Madagascar, WBI 2007.

workshops that are aimed at discussing the leadership challenges in the context of the MAP implementation. The institute complements technical training which is provided by other local training institutions.

Project funding under this sub-component will be provided for goods and equipment, consulting services; rehabilitation and maintenance of offices, some operating costs for NLIM as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants and other government consultants, through the provision of office space and other material, as well as through the provision of travel costs.

(b) *Strengthening management capacity in selected public institutions (US\$1.0 million IDA).* The project will provide targeted support to selected public sector institutions (Ministries of Planning, Education, Health, Transport, Public Works, and Agriculture) to adequately manage and decisively implement the reforms outlined in the Madagascar Action Plan (MAP). This support builds on the experience with the implementation of governance reforms under the first PGDI, which has shown that sector ministries need specialized technical assistance that is tailored to their specific needs. This assistance will include set up and support for dedicated technical teams in the targeted institutions that are tasked to monitor the reform activities. Additional assistance will be provided in the area of institutional and procedural development.

Project funding under this sub-component will be provided for goods and equipment,, rehabilitation and maintenance of offices, consulting services as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

(c) *Strengthening of local training institutions (US\$2.0 million IDA).* Local training institutions play a major role in the provision of capacity building required under this project. Under the first PGDI local training institutions have received some support, mainly to modernize their curricula and training facilities. The new project will continue to provide support in this direction to enable local training institutions to deliver high-quality training and capacity building, in particular in the areas of public finance management, public procurement, general administration, monitoring & evaluation, legal and judicial reforms. Support will be provided to the following institutions:

- National School of Administration (Ecole Nationale de l'Administration Malgache, ENAM) and National Center for Administrative Training (Centre National de Formation Administrative, CNFA). The ENAM is mainly responsible for the (basic) training of higher level staff for the civil service while the CNFA focuses on capacity building activities for middle level staff. World Bank support will be provided for the refinement of curricula and of training

material, as well as for the further qualification of trainers. Support will also include some equipment to increase the capacity of the two training institutions and to modernize their training facilities.

- National School for Magistrates and Clerks of the Court (Ecole Nationale de la Magistrature et des Greffes, ENMG). The project will continue to support ENMG capacity building activities to complement the legal/judicial reforms initiated by the Government. The support will focus on the provision of high-quality training of magistrates and other justice personnel, on some equipment and minor rehabilitation of training facilities.
- Global Development Learning Center (GDLN). The GDLN establishment has been supported by the first PGDI. The main objective of the GDLN is to use modern technology to deliver high-quality training in key development areas for all relevant stakeholders (Government, NGOs, private sectors). The new project will continue to provide assistance to the new center, in particular the development of training programs.

Project funding under this sub-component will be provided for goods and equipment, consulting services; rehabilitation and maintenance of offices, some operating costs for the GDLN as well as for training and capacity building activities. Operating costs for the GDLN will be financed on a decreasing basis. The first year, the project will cover 80% of the center's operating costs. This will be reduced by 20 percent for each of the following years. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

(d) **Supporting cross-cutting reforms. (US\$2.0 million IDA).** Financing under this component would focus on two main areas: (i) complementary support for decentralization, and (ii) the reform of the public sector pay and incentive system:

- With regard to **decentralization** the Government has continued to strengthen the role of the regions by progressively integrating deconcentrated services of the public administration under the authority of the regional Chiefs. The objective is to harmonize all sectoral activities in a specific region and to establish integrated regional development plans. To improve the delivery of public services the Government has also strengthened the role of the villages (fokotany) by formally recognizing their important administrative role. A recent constitutional amendment abolished the six autonomous provinces. To improve the availability of financial resources at the level of the local levels the Government increased the share of certain taxes (impôt synthétique, impôt foncier) in favor of the communes on the basis of the Finance Law 2007. The Government will also make operational a Local Development Fund (FDL) that would integrate financial support to the local government levels both by the Government and by the donor community under a single mechanism with harmonized procedural and institutional arrangements. However, the existing regulatory and institutional

framework for administrative and fiscal decentralization requires major adjustments to ensure that local governments are able to effectively fulfill their functions. The project would complement ongoing activities under the FDL and would provide some limited technical assistance for the review and the adjustment of this framework. It would also provide support for the regions to establish an adequate administrative and procedural framework that would integrate the relevant de-concentrated services of central government ministries with the regional administration. Additional support will be provided under component 4 to build capacity of civil society groups to improve interaction with the regional and local administrations as well as to implicate civil society proactively in policy design and implementation at the local level.

- With regard to the *public sector the pay and incentive system* the Government has requested World Bank support to develop a comprehensive strategy to reform the existing pay and incentive system for the public sector. This strategy (a formal ESW) will be prepared in FY 2009. The existing pay and incentive system is insufficient to attract skilled staff, especially at the technical levels. In some sectors, e.g. education service agents are employed on contract outside the civil service salary scale (teachers paid by parents' associations). Some crucial services are understaffed (e.g. tax administration, policy management). The public sector wage bill represents only 5.3% of GDP (2007 after 5.0 percent in 2006) which is very low compared to other countries in the region. Project support will include some limited technical assistance for the development of reform options and for the evaluation of the macro-economic impact of intended reforms.

Funding under this sub-component will be provided for equipment, consulting services, workshops; as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants.

Project Component 3 - Rule of law and fight against corruption (US\$2.5 million IDA)

99. The objective of the component is to assist Government in promoting transparency, accountability and good governance; and in particular, in reducing corruption. Project assistance will build on the activities initiated under the first PGDI and mainly focus on improving the operational efficiency of the judiciary, supporting anti-corruption activities, and on strengthening oversight by the Auditor General and by Parliament over State affairs. The activities will be closely coordinated with other development partners, in particular the EU, France and Norway.

100. The component comprises the following sub-components:

- (a) *Improving the quality of legal and judicial services (US\$1.0 million IDA)*. Project support will be provided to assist the Ministry of Justice to further deploy and enforce service standards within the court system. These standards were introduced in 2007 and are aimed at improving individual and institutional performance throughout the judiciary. Additional support will focus on enhancing the program of "model courts" which the Government introduced in 2006. Under this program a

small number (four) of courts were modernized and their procedures streamlined to facilitate access to the judicial system and to improve operational efficiency. This will include support for the reduction of the backlog of cases. In addition, the project will assist the Ministry of Justice to further strengthen internal control and oversight. Complementary support will be provided under component 4 to foster civil society oversight and monitoring of these reforms.

Project funding under this sub-component will be provided for goods and equipment, consulting services; rehabilitation and maintenance of offices, as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

(b) *Strengthening the regulatory and institutional framework to fight corruption (US\$1.0 million IDA).* The project will continue to provide assistance to the Anti-Corruption Bureau (BIANCO) and the Anti-Corruption Commission which were established in 2002 as key instruments of the Government to reduce corruption. Support includes technical advisory services as well as support for surveys and other instruments that establish and track baseline information about the incidence of corruption. The project will finance activities that are destined to improve the mobilization of non-state actors in the fight against corruption. Additional support will be provided to establish branch offices of the Anti-Corruption Bureau in the regions and to introduce a comprehensive procedural and institutional framework to address conflict-of-interest in the public sector and at the level of elected officials. This will also include a comprehensive review and a liberalization of public disclosure policy and regulations. Finally, the project will help Government establish an Economic Crimes Unit (Service de Renseignement Financier). The main function of the unit, which does not have the right to prosecute or to investigate, is to collect information and advising other government service and the judiciary on money laundering issues. It is independent from the Government and reports to the Anti-Corruption Commission. In addition, funding will be provided for the development of an adequate legal framework to strengthen monitoring roles and watchdog functions of non-state actors.

Project funding under this sub-component will be provided for goods and equipment, consulting services; rehabilitation and maintenance of offices, some operating costs for the BIANCO and the Economic Crimes Unit, as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

(c) *Strengthening external oversight (US\$0.5 million IDA).* Project support will focus on enhancing the capacity of external oversight mechanisms, in particular of the Auditor General and of Parliament. Government has made significant efforts to improve the operational effectiveness of the national audit office (Court des

Comptes). These efforts mainly focused on the preparation of timely public accounts and are starting to show concrete results. The final accounts for the years 1998 to 2005 have been prepared by the Auditor General. The draft budget execution laws for 2002, 2003 and 2004 have been submitted to Parliament and the 2005 budget execution law was validated by Parliament in 2007. It is expected that the draft budget execution law for 2006 will be for the first time submitted within the statutory timeframe to Parliament. Project support will be provided to assist the Auditor General to address existing weaknesses identified by the PEFA, in particular with regard to the methodology and the coverage of the external controls. In addition, the finance commissions of the two chambers of Parliament (National Assembly and Senate) will receive further support, in particular, to scrutinize the work of the Auditor General and to strengthen its role as an external oversight institution (analyze the reports of the Auditor General and to initiate a Parliamentary debate about the findings). Assistance will be provided for training and capacity building of the members of the Public Finance Committees, some basic equipment to enable research and preparation of reports as well as for some funds to commission studies and evaluations in the areas of public finance.

Project funding under this sub-component will be provided for goods and equipment, consulting services; rehabilitation and maintenance of offices, as well as for training and capacity building activities. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

Project Component 4 – Transparency and social accountability (US\$4.0 million IDA)

101. The main objective of this component is to create synergy between government reforms and civil society by complementing, (mutually) reinforcing and addressing shortcomings of “supply side” reforms supported by the PGDI II aimed to increase transparency, accountability, improve public services and curb corruption. It is also envisaged to pilot test and scale up successful interventions aimed to address potential inequality by ensuring that civil society is able to express priorities and to demand accountability. The project will provide support to institutionalize social accountability interventions in Government activities with a view to increasing support and ownership by both civil society and Government. This will include the creation of an enabling environment to foster civil society engagement in social accountability initiatives.

102. The activities under this component have been identified through a comprehensive participatory process: workshops and focus group discussions helped define and prioritize the different activities. A nation-wide social accountability workshop in February 2008 in Antananarivo contributed to refining the proposed interventions.

103. PGDI II will complement, enhance and expand the activities supported by other World Bank-supported operations such as the Integrated Growth Poles Project, the Mineral Resources Governance Project, the Community Development Fund (FID), and the Local Development and Decentralization Support Project. It will play a key role vis-à-vis these other projects in

providing technical and capacity building support. In addition to leveraging World Bank-supported social accountability operations, the pilot activities will further create synergies with social accountability methods employed by other development partners, including bilateral and multilateral external assistance agencies, Government initiatives, international and local NGOs, and regional training institutions such as IDASA in South Africa and networks such as ANSA (African Network of Social Accountability).

104. The component comprises the following sub-components:

(a) ***Piloting social accountability interventions:*** Entry points for pilot activities will be areas, which are considered to have the greatest potential for state-civil society synergy with regard to improving local governance and maximizing positive social impact. These areas include in particular the zones with high level of economic activities or investments such as Fort Dauphin, Moramanga and Nosy Be:

- (i) ***Strengthening the transparency in the allocation and use of local revenues generated by mining investments in Fort Dauphin and Moramanga.*** According to the MAP, the contribution of mining activities to GDP is expected to expand drastically from currently about 4% to at least 50% in 2011. Significant investments are being made in Fort Dauphin by Rio Tinto QMM, and Dynatec/Sherrit recently decided to invest about \$2.5 to 3 billion over the next three years in nickel mining in Moramanga. Putting in place an effective social accountability mechanism is a crucial step toward ensuring that the economic growth accruing from these investments translates into inclusive benefits especially for local populations directly impacted by the mining operations. In light of the significant social impacts that are already manifesting themselves during the present construction phase in preparation for the actual mineral exploitation, civil society plays a critical role in ensuring the transparent and effective use of those revenues for improved and equitable (social) service delivery. This pertains particularly to mitigating the risk of increasing inequalities between local powerful and vulnerable population groups.

In order to ensure that local citizens' priorities are taken into account in the allocation and use of revenues from mining (and other major local industry) investments, participatory budgeting initiatives have been launched in 5 communities affected by the mining investments in Fort Dauphin, in close cooperation with the SAHA initiative supported by the Swiss Government, as part of the first PGDI and the Integrated Growth Poles Project. Participatory budgeting is a social accountability method which allows citizens to actively participate in all phases of the budget cycle: budget formulation, decision making, and monitoring of budget execution/actual resource allocation. It is envisaged to consolidate and scale up these activities under the PGDI II. Participatory monitoring of mine concession agreements will be carried out, in order to increase transparency about and compliance with the content of these

agreements, especially with regard to environmental and social issues. Support under PGDI II also includes creating an enabling environment to ensure that a meaningful dialogue between mining companies, local governments and civil society can take place.

- (ii) ***Strengthening the transparency in the allocation and use of local revenues generated by tourism investments in Nosy Be.*** According to the MAP, the Government is “committed to aggressively developing and promoting tourism ... with public participation.” While tourism can positively impact the local economy through increased local tax revenues, visitor trip spending, durable goods purchases, increased Government spending, and job creation, it also involves significant risks in terms of its potential for compromising the integrity and livelihoods of local cultures by disrupting local customs, and for causing increased pollution, decline in biodiversity, water shortage, inadequate sewage and waste disposal system, deforestation, and erosion of beaches. Putting in place an effective social accountability mechanism is crucial to ensuring that the priorities of local populations are included in local budget formation and execution as well as in the management of local natural resources. PDGI II would support pilot initiatives in the area of participatory budgeting as well as build on social accountability mechanisms piloted by development partners (such as PACT) aimed to protect natural resources.
- (iii) ***Additional social accountability pilot activities*** will focus on improving local oversight in the environment sector, on improving the quality of municipal services (e.g. solid waste and tax collection) and on monitoring the introduction of service standards at the level of the lower courts. It is also envisaged to continue to support independent monitoring & evaluation activities for the health and education sectors, which would capitalize on the experience with the community score cards under the first PGDI.

Project funding under this sub-component will be provided for goods and equipment, consulting services, workshops, as well as for training and capacity building activities.

(b) Fostering an enabling environment for social accountability practices. The above mentioned pilot activities would go hand in hand with measures that create/enhance an enabling environment for meaningful involvement of civil society in monitoring local government performance. Cultural factors and fear of repercussions in the event of the expression of priorities, opinions and concerns hamper more effective civil society involvement, also due to the absence of a protective legal and institutional framework for civil society engagement. Critical elements of such a framework include (i) regulations that govern the access to information, (ii) government policies that specify the distribution of information to the general public in a way that can be commonly understood, and (iii) regulations

that protect the activities of civil society groups and associations. The project will also finance a mapping exercise that would establish a comprehensive list of non-state actors, and assess strengths and weaknesses, in particular watchdog/advocacy groups at the national and local levels.

Project funding under this sub-component will be provided for consulting services, workshops, as well as for training and capacity building activities.

(c) ***Building the capacity of civil society and Government actors.*** In addition to an enabling environment fostering civil society engagement it will be critical to ensure that citizens and civil society groups have the necessary capacity for meaningful civil engagement. PDGI II will therefore support capacity building initiatives aimed to familiarize NGOs and civil society groups with the concept of social accountability. Local NGOs and other civil society groups will be trained to be trainers and facilitators of social accountability processes. Particular attention will be paid to training of trainers and facilitators for groups that have less voice (such as women, youth, poor people, and persons with disabilities). PGDI II will also include activities to train Government officials to work more effectively with civil society, i.e. to enhance communication, facilitation and group decision making skills. This will complement other “supply side” training activities carried out under different project components.

Project funding under this sub-component will be provided for consulting services, workshops, as well as for training and capacity building activities.

(d) ***Monitoring Social Accountability Activities.*** Because many of the pilots being supported under this component are breaking new ground, and carry some risk, it will be important to measure impact and monitor changes as they evolve. This sub-component will support complementary activities to measure the impact of the various pilots including information audits to assess how access to information on budget resources or mining royalties changes at the local level over the period of the pilot, or targeted demand side governance baseline and follow-up surveys in geographic areas where multiple pilots may be being carried out.

Project funding under this sub-component will be provided for consulting services, workshops, as well as for training and capacity building activities.

105. A grant funding mechanism will be set up that would finance innovative governance activities by non-state actors that are related to the objectives of the project. These ***Social Accountability Grants (US\$1.65 million IDA)*** will pilot, develop and scale up approaches that are focused on supporting civil society to monitor and provide oversight, in particular in key areas such as natural resource management, local service delivery, and public financial management. During the first year of the implementation of the project a transparent set of criteria will be developed for awarding these grants. This will include the identification of the implementing agency for these grants which should be an independent non-state actor. This non-state actor will be selected on a competitive basis in close collaboration with relevant civil

society organizations such as the National Council for Civic Participation (Conseil National pour la Participation des Citoyens, CNPC). Project funding would be provided to cover the operating costs for the grant administrator.

Project Component 5 – Monitoring & evaluation (US\$7.0 million IDA)

106. The component will support Government's efforts to strengthen the monitoring & evaluation system that underpins the MAP. It will build on the support provided under the first PGDI. This support focused on the development of the National Strategy for Statistical Development, which has been approved by the Government in 2007. Additional assistance was provided for some key statistical baseline surveys, in particular a cartographic survey that would establish key information about the population distribution in Madagascar and is seen as the basis for a population census. This survey is ongoing and is expected to be completed in 2008. The support under the new project will focus on the improvement of the operational efficiency of the National Statistics Office (INSTAT), in particular institutional restructuring and capacity building. Additional support will be provided for the modernization of the procedural and institutional framework for monitoring & evaluation in Madagascar, in particular the strengthening of relevant activities at the level of the sector ministries and in the Prime Minister's Office.

107. The project will also support the design and implementation of a new population census which aims at consolidating and further deepening existing statistical data which is vital for both public and private sector needs. The last census was conducted in 1993. The new census will be prepared and implemented by the National Statistics Office (INSTAT) with assistance from UNFPA. It is envisaged to finalize the census in 2009 with the objective of publishing the results in 2010. The total costs for the census are presently estimated at well above US\$20.0 million (or approximately US\$1.00 per inhabitant) and are expected to be funded by contributions from Government and development partners. In case the Government is not able to raise sufficient funding for a comprehensive census from the donor community it is envisaged to use the World Bank funding to conduct a partial census that would cover roughly 10 percent of the country.

108. Project funding under this component would primarily focus on technical assistance required during the implementation of the above mentioned reforms, the modernization of the relevant government institutions, and on training and capacity building activities. It will include some operating costs for INSTAT to facilitate the census preparation and implementation. The funding for the census will include some goods and equipment. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

Project Component 6 – Program Coordination (US\$ 2.5 million IDA)

109. The objective of this component is to support the management and implementation of the PGDI II :

- Leadership and overall coordination of the reforms will be ensured by the Reform Program for the Efficiency of the Administration (Programme de Réformes pour l'Efficacité de l'Administration, PREA) which was set up by the Government in 2005 to coordinate all

governance related activities. The PREA is headed by a National Coordinator who reports to the Secretary of Planning in the President's Office. The National Coordination is supported by a Bureau de Gestion (BdG) which is responsible for the preparation of the annual work plan, for financial management, procurement and monitoring & evaluation.

- Component 1 will be implemented by the Reform Coordination Unit in the Ministry of Finance. The unit consists of a small team and is headed by a Coordinator who reports to the Secretary General of the Ministry. The project will finance some recurrent costs (salaries and operation costs) of the Reform Coordination Unit and other technical advisors who are deemed necessary to ensure adequate project implementation. The unit is in the process of establishing a 'basket fund' for public finance reforms which is linked to the overall annual reform action plan (PAP) of the Ministry of Finance. It is envisaged that – over time – the majority of the support by the development partners to the Ministry of Finance will be channeled through the basket fund.
- The grant funding mechanism under component 4 (Social Accountability Grants) will be supervised by a non-state actor which will be identified based on a competitive selection process during the first year of the implementation of the project. The main role of this entity is to analyze, approve and monitor funding proposals for the Social Accountability Grant mechanism.
- The population census under component 5 will be implemented by the National Statistics Office (INSTAT) which is in the process of establishing a coordination unit to ensure adequate preparation and implementation of the census. This unit will be supported by a technical advisor which will be provided by UNFPA.
- All other components of the project will be administered and supervised by the Bureau de Gestion (BdG) of PREA. This will include the identification of a non-state implementing agency for the Social Accountability Grants. The project will finance some recurrent costs (salaries and operation costs) of the BdG including other technical advisors who are deemed necessary to ensure adequate project implementation. Funding will also include external auditing and accounting assistance (consultants). Additional short term consultants will be recruited for the assistance to the BdG during the supervision of the project, in particular for regular independent audits of implementation progress and impact assessments. The project will also fund additional equipment and relevant training of the BdG staff.

110. US\$2.0 million of the project proceeds remain unallocated to cover price contingencies and to ensure that the project can respond flexibly to additional demands emerging during the implementation of the reform activities.

111. Project funding for components 1, 2, 3 and 5 will include the financing of a limited number of government staff's salaries until December 31, 2009, mainly to recruit trainers for local training institutions and technical specialists into the President's Office, the Prime Minister's Office, the Economic Crimes Unit and the National Statistics Office. These expenditures are in line with the requirements of recurrent cost financing parameters as specified in BP 6.00 of April 2004 and the relevant Guidelines of April 16, 2004. World Bank support would allow the Government to gradually integrate these recurrent expenditures into subsequent

budget years. Government contributions would be primarily provided in-kind, in particular through the work of civil servants, through the provision of office space and other material, as well as through the provision of travel costs.

112. A summary of the cost of the program and the financing plan is shown below:

**Table 1: Project Components by Financing Sources
(US\$ million equivalent)**

Project Component	IDA US\$m	Government* US\$m	Total US\$m
1. Reform of public finance system	14.0	1.0	15.0
2. Strengthening the efficiency of government operations	8.0	1.0	9.0
3. Rule of law and fight against corruption	2.5	0.5	3.0
4. Transparency and social accountability	2.35	0.0	2.35
- <i>Social Accountability Grants</i>	<i>1.65</i>	<i>0.0</i>	<i>1.65</i>
5. Monitoring & evaluation	7.0	1.0	8.0
6. Program coordination	2.5	0.5	3.0
7. Unallocated	2.0		2.0
Total costs	40.0	4.0	44.0

*Estimates/projections

Annex 5: Program Description
MADAGASCAR: Governance and Institutional Development Project II

REPOBLIKAN'I MADAGASIKARA
Tanindrazana – Fahafahana – Fandrosoana

**MINISTERE DES FINANCES
ET DU BUDGET**

Antananarivo, le **07 AVR 2008**

Le Ministre des Finances et du Budget

à

N° *32/08*- MFB/Mi

Monsieur Robert B. ZOELLICK
Président
Banque mondiale
1818 H Street NW
Washington DC

Monsieur le Président,

Madagascar a commencé la mise en œuvre de sa seconde génération de stratégie de lutte contre la pauvreté depuis le début de l'année 2007. Dénommée Madagascar Action Plan (MAP), cette nouvelle stratégie capitalise sur une autre échelle les réalisations du précédent Document de Stratégie de Réduction de la Pauvreté (DSRP) dont la mise en œuvre commencée en 2003 s'est terminée en fin 2006.

2. Bien que le DSRP ait permis, entre autres, la réduction du taux de la pauvreté de 70% en 2003 à 68% en 2006 grâce à un taux de croissance économique réel moyen annuel de 5,3 %, l'ampleur de la pauvreté à Madagascar requière un objectif nettement plus ambitieux pour atteindre les objectifs du Millénaire fixés par la communauté internationale. Conçu dans cette optique, le MAP prévoit donc d'escalader un niveau supérieur en fixant un taux moyen de croissance entre 8 % et 10% sur la période 2008-2012 tout en poursuivant une politique monétaire et budgétaire très stricte afin de minimiser le taux d'inflation à une moyenne de 5% par an. Le but ultime est de réduire le taux de pauvreté à 50% à la fin de l'année 2011 et de garantir aux malgaches un revenu moyen de 450 US\$.
3. L'atteinte de cet objectif ultime très ambitieux nécessite une rigueur stricte dans la gestion du pays. Conscient de cette exigence, le Gouvernement Malgache entend renforcer sa stratégie de gouvernance lancée depuis cinq ans et dont le fondement a été axé sur la performance, la transparence, la lutte contre la corruption, et la participation citoyenne. Outre l'engagement spécifique décliné dans le MAP, Gouvernance responsable (Engagement N°1), le gouvernement mettra en place des outils transversaux de gouvernance pour mieux assurer la réalisation des sept autres engagements
4. La présente lettre résume les principes fondamentaux du renforcement envisagé dans la gouvernance. Elle décrit en premier lieu les avancées atteintes durant les cinq dernières années dans le domaine de la gouvernance. La seconde partie détaillera les perspectives économiques de la période de mise en œuvre du MAP et les conséquences exigées par cette perspective en matière de gouvernance. La troisième partie présentera les éléments essentiels de la stratégie de renforcement que le gouvernement mettra en place dans les cinq ans à venir.

PARTIE I : LES ACQUIS DE LA GOUVERNANCE

5. La période de mise en œuvre du DSRP est marquée par trois faits majeurs : le renouveau de la gestion des finances publiques, la lutte effective contre la corruption et le lancement de la participation citoyenne. Ces changements constituent des tournants en la matière dans l'histoire de la gouvernance à Madagascar.
6. Pour les finances publiques, la mise en place d'un nouveau cadre budgétaire orienté vers le résultat est l'un des changements importants. La nouvelle Loi Organique sur la Loi des Finances (LOLF) adoptée en juillet 2004 a été mise tout de suite en application en 2005. Son application reste cependant partielle car un certain nombre des dispositifs nécessite une préparation préalable. Des actions sont actuellement entreprises pour permettre l'application intégrale de ces dispositifs d'ici 2010. La recherche de résultats et la souplesse de gestion introduites par la LOLF, qui sont la force principale de ce nouveau cadre budgétaire, cadrent bien avec l'esprit du MAP qui a fixé des objectifs ambitieux.
7. Le Gouvernement a aussi mis en place un nouveau code de passation de marchés publics à la même date que la LOLF. Adoptant les meilleures pratiques et de standard international, le nouveau code n'a été non plus appliqué dans son intégralité que vers l'année 2006 à cause de la durée de période nécessaire pour installer les institutions et les textes d'application du code. L'application du nouveau code depuis un an a introduit beaucoup plus de concurrence et de transparence dans la procédure de passation de marchés publics et le Gouvernement espère que son application totale permettra de faire une économie importante dans les finances publiques.
8. Un des efforts déployés par le Gouvernement pour assurer la transparence et l'efficacité des finances publiques a porté sur la mise en place d'un Système Intégré de Gestion des Finances Publiques (SIGFP). Elaboré depuis Avril 2004, le SIGFP est censé capter plus des 80 % des opérations financières de l'administration centrale et couvre actuellement six localités. La faiblesse des moyens de télécommunications et certaines imperfections dans l'architecture du système font que le SIGFP ne donne pas pleinement son plein rendement actuellement
9. Il faut mentionner qu'en plus de ces chantiers majeurs, le Gouvernement a entrepris des réformes importantes au sein des deux régies financières (la Direction Générale des Douanes et celle des Impôts). Ces réformes ont permis d'augmenter de manière substantielle les recettes de l'Etat. Cette augmentation a été plus notable pour l'année 2007.
10. La mise en place des nouvelles institutions, le Comité pour la Sauvegarde l'Intégrité (CSI) et le Bureau Indépendant Anti-corruption (BIANCO), a marqué un tournant décisif dans la lutte contre la corruption à Madagascar. Ces deux institutions mis en place en 2003 ont entrepris de rénover le cadre législatif et réglementaire existant pour sévir de manière concrète la corruption. Outre le traitement des doléances sur les cas de corruption qui lui sont parvenues, le BIANCO a aussi mené des audits sur les grands dossiers de passation de marchés publics et des audits organisationnels des services publics les plus importants. Des résultats de cette réforme commencent à être perçus mais il est vrai qu'un long chemin reste à faire.
11. Parallèlement à cette réforme, le Gouvernement a engagé beaucoup d'actions pour assainir la Justice qui constitue toujours un domaine de préoccupation majeure. En plus de l'action de formation dispensée par l'Ecole Nationale de la Magistrature et de Greffe (ENMG), un certain nombre d'expériences pilotes, mise en place de standard de services et l'informatisation des juridictions modèles, ont été menées. Des actions pour lutter contre la

corruption au sein de la Justice ont été aussi commencées. Ici aussi, il reste encore beaucoup de chemin à parcourir.

12. Conscient des limites des réformes au sein de l'administration, le Gouvernement s'est engagé depuis les cinq dernières années à mobiliser la société civile pour développer une synergie avec cette dernière en matière de veille et de vigilance contre la corruption et l'amélioration des services publics. Des actions ont été ainsi développées pour mettre en place des structures adéquates et de renforcer les organisations non gouvernementales dans ce sens. Des actions pilotes de participation citoyenne, comme le citizen score card et des enquêtes d'opinions ont été menées.

PARTIE II : PERSPECTIVE ECONOMIQUE POUR LES CINQ PROCHAINES ANNEES

13. Le gouvernement est convaincu que l'atteinte des objectifs ambitieux du MAP sera possible malgré l'importance du financement qu'il requière et une conjoncture internationale difficile. Plusieurs facteurs favorables soutiennent cet optimisme. Le premier facteur est la réalisation prochaine des deux projets miniers qui vont jouer un rôle prépondérant sur le rythme de la croissance économique globale. La contribution de l'activité de ces deux unités permettra en effet d'envisager un taux de croissance proche de la prévision du MAP.
14. D'autre part, le gouvernement estime que les efforts déployés ces dernières années pour favoriser la coopération régionale et l'intégration de l'économie malgache dans l'économie mondiale élargiront le débouché des produits malgaches sur un marché plus rémunérateur. Ceci entraînera l'augmentation de la production et la création d'emplois. L'économie malgache connaîtra non seulement une amélioration de son taux de croissance mais aussi une perspective de meilleure distribution de revenus.
15. Enfin, avec les efforts actuels de redressement du secteur énergie et de recherche pétrolière, Madagascar deviendra excédentaire en matière d'énergie d'ici cinq ans. L'excédent énergétique ne proviendra pas seulement des sources hydro-électrique et éventuellement pétrolières mais aussi du bio carburant dont le pays pourrait être un producteur important. Cette situation ne présage pas seulement l'amélioration de la production manufacturière, qui a souffert ces trois dernières années, mais surtout l'exportation éventuelle des produits excédentaires contribuant largement à l'accélération de la croissance globale du Produit Intérieur Brut.
16. Cependant ces perspectives ne changeront pas fondamentalement les caractéristiques de l'économie malgache. En effet, bien qu'une croissance exceptionnelle (taux de croissance de 8 à 10 %) par rapport aux tendances historiques soit escomptée, l'économie malgache restera dépendante des capitaux étrangers et très peu diversifiée. La dépendance vis-à-vis des capitaux étrangers affectera le secteur public qui a besoin de ressources importantes pour réaliser les infrastructures, notamment sociales, pour atteindre les objectifs du MAP rentrant dans le cadre des OMD. Mais la dépendance affectera plus substantiellement le secteur privé pour mettre en place des unités de production capables de générer les activités de production conséquentes aux objectifs de croissance économiques. Après la concentration de la production manufacturière sur les produits textiles, les produits miniers vont dominer la production globale du pays.
17. Deux points positifs sont toutefois escomptés. La demande globale engendrée par l'ampleur des activités dans les secteurs de production d'extraction et de transformation pourrait

stimuler la croissance de la production agricole (le milieu rural occupe toujours plus de 70 % de la Population) et garantira une meilleure répartition du fruit de la croissance. D'autre part, l'intensité des activités économiques intérieures permettra de générer des ressources publiques intérieures plus importantes pour suppléer le manque à gagner sur les droits de douanes et d'importation qui vont diminuer substantiellement du fait des accords régionaux de commerce. L'autre source de recettes publiques sera constituée par l'exploitation minière.

18. L'instauration de climat de confiance pour attirer les investissements surtout étrangers et une amélioration drastique de la gestion des finances publiques sont les deux conséquences majeures de ces perspectives sur le plan de la gouvernance, à la fois pour mieux gérer les ressources propres limitées et pour renforcer la confiance des partenaires techniques et financiers.

PARTIE III : STRATEGIE DE GOUVERNANCE POUR 2008-2012

19. La politique de gouvernance sera renforcée dans quatre domaines (finances publiques, fourniture de services publics et gouvernance de proximité, la lutte contre la corruption, la redevabilité sociale) et autour de trois thèmes (efficacité, transparence et participation). L'efficacité sera mesurée par les résultats atteints et le Gouvernement entend faire de la recherche de résultats son cheval de bataille pour la réalisation du MAP. La transparence et la participation sont deux objectifs complémentaires : la participation favorise la transparence et la transparence appelle la participation. La mise à la disposition de la population d'informations complètes, faciles à comprendre sera le moyen à mettre en œuvre pour atteindre ces deux objectifs
20. Les finances publiques seront la priorité de la stratégie de gouvernance du Gouvernement du fait qu'elles constituent l'instrument principal de mise en œuvre du MAP. L'amélioration et le renforcement de la gestion des finances publiques seront le cœur même de la stratégie gouvernementale. L'objectif dans le domaine est d'une part d'augmenter notablement les recettes pour faire face aux exigences financières des objectifs ambitieux du MAP et de rationaliser la gestion des dépenses pour avoir plus d'efficacité et d'impact sur la fourniture de services à tous les niveaux, notamment au niveau local, et sur la réduction de la pauvreté.
21. A cause du choix du gouvernement de prendre avantage des alliances économiques avec les pays de voisinage immédiat, et surtout du fait de l'évolution des pratiques commerciales internationales, les recettes des douanes provenant des activités commerciales internationales vont de plus en plus diminuer dans les années à venir. Madagascar se prépare dès maintenant à ce phénomène et se tourne vers l'optimisation des ressources provenant des activités économiques intérieures. Comme la plupart des pays sous développés, la Taxe sur la Valeur Ajoutée constitue principalement la source potentielle de recettes pour le futur. La TVA ne représente pas non seulement une ressource importante mais la maîtrise de sa collecte engendrera automatiquement la maîtrise de la collecte d'autres impôts comme les impôts sur bénéficiaires des sociétés et les impôts sur revenus, qui représentent à eux trois plus de 80 % de rentrées fiscales intérieures de Madagascar.
22. Pour réaliser cet objectif, le Gouvernement poursuivra l'effort de renforcement des régies financières entrepris depuis trois ans. Il s'agit donc en premier lieu de l'amélioration des services de la Direction Générale des Impôts. Après les actions supplémentaires visant la

rationalisation de la Direction de la Fiscalité des Grandes entreprises, l'effort va se concentrer sur le renforcement des directions régionales des entreprises, qui se focaliseront sur la collecte des impôts des entreprises ayant un chiffre d'affaires entre 200 millions et 1 milliard. La priorité portera sur six Directions régionales localisées dans les ex-chefs lieux de province et Antsirabe. Le renforcement des autres directions régionales dépendra du rythme de développement des activités économiques dans les régions concernées. Outre la réorganisation de l'administration des services des DRE, l'effort sera axé sur la modernisation des outils informatiques pour la gestion et suivi des entreprises.

23. Le renforcement des services de la Direction Générale des Douanes est également à poursuivre non seulement pour faciliter le commerce international mais surtout pour ce même objectif de collecte de la TVA. En effet, la rentrée de marchandises aux frontières constitue l'autre source de constitution de valeur ajoutée et le rôle des services des douanes sera désormais focalisé sur la collecte de la TVA et des taxes connexes. Le renforcement portera sur l'informatisation de la chaîne de dédouanement pour assurer sa fluidité et surtout pour sécuriser les ressources. L'action va porter sur le déploiement de Gasynet déjà opérationnel à Toamasina et à Antananarivo sur les Recettes de douanes importantes
24. Madagascar ne collecte actuellement que moins de 1% du PIB de recettes non fiscales alors que beaucoup de pays en voie de développement arrivent à faire jusqu'à 4% du PIB. Ce domaine sera la seconde piste pour l'amélioration des recettes provenant des activités économiques intérieures. Le gouvernement entend ainsi moderniser la collecte de recettes dans ce domaine, d'autant plus que l'exploitation des deux projets miniers et celle de nombreuses ressources naturelles vont s'intensifier. L'ensemble des textes régissant les taxes non fiscales sera ainsi revu et remis à jour pour consolider ces efforts et atteindre cet objectif. Mais la réforme la plus importante portera essentiellement sur la réorganisation de l'administration de collectes de ce type de taxe afin d'en améliorer le rendement.
25. La réalisation du MAP n'exige pas seulement l'augmentation des ressources financières mais nécessite aussi une bonne utilisation de ces ressources pour produire un impact réel sur la réduction de la pauvreté et la fourniture de services à la population. La rationalisation des dépenses qui constitue le second axe stratégique de la réforme des finances publiques poursuivra un double objectif : respecter l'équilibre budgétaire dans le temps pour ne pas hypothéquer la situation macro-économique du pays et assurer l'efficacité allocative et opérationnelle des dépenses.
26. Le respect de l'équilibre budgétaire sera développé à travers une politique budgétaire prudente. L'effort du gouvernement pour ce faire portera essentiellement sur le renforcement et l'amélioration de la prévision. Les expériences passées ont en effet démontré que les dérapages de l'exécution budgétaire proviennent la plupart du temps des lacunes dans la prévision. Cette lacune porte non seulement sur la masse globale au moment de la préparation du budget mais aussi sur la faiblesse des outils de gestion au cours de son l'exécution. Les actions que le gouvernement mettra en œuvre en priorité seront le renforcement du cadrage macro-économique et corolairement le cadre budgétaire à moyen terme aussi bien au niveau global que pour les secteurs les plus importants (éducation, santé, travaux publics et transport, agriculture et environnement). Ces actions seront complétées par le développement d'outils de gestion de la trésorerie, de la planification de la passation de marchés et celle des engagements.
27. Le gouvernement est convaincu que la mise en œuvre intégrale des dispositions du nouveau cadre budgétaire, le budget programme, constitue le meilleur moyen pour garantir l'efficacité

de l'allocation des ressources budgétaires et pour améliorer les impacts opérationnels des dépenses publiques. C'est pourquoi le déploiement effectif de ce cadre, qui est prévu s'accomplir au plus tard d'ici deux ans, sera la priorité du gouvernement. Les actions relatives à ce déploiement porteront sur la révision de la nomenclature budgétaire dont une grande partie du travail a été faite, la définition d'une nouvelle chaîne de la dépense conforme aux dispositions de la LOLF, y compris la révision du rôle et des institutions de contrôle interne, la définition des détails d'application des dispositions du LOLF et éventuellement la révision de certaines de ses dispositions, qui pourraient entraver l'atteinte de résultats.

28. La réalisation du MAP exige aussi que des économies soient réalisées sur tous les domaines de dépenses où cela est possible. Pour nationaliser les dépenses publiques, le Gouvernement a entrepris le processus de réforme de la gestion des établissements publics nationaux. Une étude est actuellement en cours pour faire le diagnostic de la gestion de ces établissements et un plan d'action sera élaboré d'ici mi-juin 2008 pour redresser la situation. Ce plan devra prévoir la révision des statuts de ces établissements y compris la possibilité de l'intégration de certains d'entre eux et la privatisation des certaines autres. Des économies sont aussi escomptées avec la restructuration des deux caisses de retraite des fonctionnaires (CRCM et CPR) dont les études ont été finalisées en 2007. Un plan d'action est en cours d'élaboration pour cette restructuration.
29. L'amélioration de l'allocation et des impacts opérationnels sur le terrain sera seulement théorique si la préparation et l'exécution du budget ne se rapprochent pas des usagers. Ainsi, le Gouvernement poursuivra pour les cinq années à venir sa politique de décentralisation et de déconcentration aussi bien sur le plan administratif que budgétaire. Sur la décentralisation, le Gouvernement se concentrera sur la mise en place des régions dont le rôle est d'impulser le développement économique. Sur le plan budgétaire, cette mesure va se traduire par la mise en place d'un véritable budget de régions et le renforcement de la capacité de cette entité à formuler, préparer et exécuter le budget pour servir de catalyseur au développement régional. L'objectif dans cette démarche est de se servir des régions comme un courroie de transmission de l'action du gouvernement central pour intégrer la production dans la logique du marché.
30. Dans la poursuite de cet objectif de rationalisation les impacts opérationnels du budget, le gouvernement mettra un accent particulier pour inciter une production mieux intégrée dans l'économie de marché. Pour ce faire, il mettra bientôt en œuvre une nouvelle stratégie pour rentabiliser les investissements publics. Cette stratégie qui complétera la décentralisation et la déconcentration, portera sur un meilleur ciblage des investissements publics de manière à développer les économies régionales. Ceci consiste d'abord de susciter une demande locale plus substantielle, par la génération de revenu à partir des investissements publics, en vue de relancer l'offre au niveau des producteurs les plus pauvres. Il faut ensuite à mettre en place, en même temps, les infrastructures pour créer un véritable marché au niveau de chaque région en assurant la fluidité de circulation des produits.
31. Le renforcement du rôle de la région dans ce rôle de courroie de transmission sera amplifié par une déconcentration plus poussée de l'exécution du Budget. En plus de l'effort entrepris depuis les deux dernières années pour mettre en place des directions régionales des ministères fournissant les services les plus demandés par la population (santé, éducation, eau potable...), le gouvernement a entamé dès cette année, la déconcentration des services financiers qui faciliteront l'exécution des budgets par les services déconcentrés cités plus hauts. La déconcentration des services du trésor au niveau des régions sera achevée cette année 2008 et la mise en place des circonscriptions financières au niveau de chaque région sera entamée.

vers la fin de cette année pour se terminer en 2009. Le Gouvernement mettra aussi en œuvre un plan d'action pour assister les communes et notamment les communes rurales de 2e catégorie dans l'exécution de leurs budgets, et le suivi de leurs gestions financières.

32. L'amélioration des impacts opérationnels des dépenses publiques ne sera pas aussi possible qu'avec un système de contrôle efficace de l'utilisation des fonds publics. Conscient de la faiblesse actuelle des institutions et des outils de contrôle tant interne qu'externe, le Gouvernement va lancer parallèlement avec le renouvellement du circuit de la dépense dans le cadre de la mise en œuvre de la LOLF (voir paragraphe ci-dessus), un plan d'actions pour redresser cette lacune importante. Ce plan se focalisera sur une redistribution de responsabilités le long de la chaîne de manière à alléger le contrôle interne d'une part mais aussi assurer l'effectivité de ce contrôle d'autre part. L'effort dans ce sens portera notamment sur la certification de service fait.
33. En ce qui concerne le contrôle externe, les actions vont porter essentiellement sur le renforcement de la Cour de Comptes, l'organe statutaire désigné pour l'exécution de ce contrôle au niveau de l'exécutif. Le détail de ce renforcement sera défini après un audit organisationnel de la Cour qui en déterminera le plan d'actions à mettre en œuvre. L'objectif est de permettre à la Cour d'assurer l'effectivité du contrôle des comptables publics et un examen renforcé des lois de règlement.
34. L'efficacité des dépenses publiques ne peut se réaliser qu'avec des outils de suivi adéquats et un reportage élargi au grand public. L'objectif est à la fois de garantir une transparence totale dans la gestion de fonds publics et de disposer des outils permettant le redressement rapide des erreurs, le cas échéant. Dans le cadre de ce double objectif le Gouvernement continuera sa politique d'amélioration de ses outils d'information sur les finances publiques. Le SIGFP sera d'abord déployé dans le reste des vingt deux régions qui n'en sont pas encore pourvues. Ce déploiement est programmé pour être achevé d'ici deux ans au plus tard et son rythme sera déterminé par la disponibilité de capacité technique en matière de télécommunication.
35. La modernisation du Centre d'Opération (Network Operation Center) et du Centre de Base de Données sera entreprise dans le même cadre. Parallèlement ces actions au niveau équipement, une attention particulière sera apportée sur l'amélioration du support logiciel du système afin d'augmenter sa fonctionnalité et assurer la centralisation des données en temps réel.
36. Les impacts opérationnels des dépenses publiques ne seront pas ressentis par la population si la fourniture des services sur le terrain n'est pas assurée. Dans ce sens, le Gouvernement va déployer des instruments en complément des outils mentionnés plus haut. Afin d'améliorer le service aux usagers, il mettra en œuvre des actions au niveau central et au niveau des régions. Avec l'appui des partenaires techniques et financiers, il entend renforcer la capacité managériale des ministères techniques pour garantir une allocation optimales des ressources, pour définir de normes et de standards de services demandés par la population. Cette action sera poursuivie surtout par la formation des cadres des ministères par le biais du réseau local de formation comme le NLIM, l'ENAM ou l'IMATEP. Ce renforcement des ministères techniques sera aussi assuré par la prestation d'assistants techniques ponctuels.
37. Mais le facteur principal d'un service adéquat sur le terrain sera les ressources humaines, celles qui effectuent le travail. Pour mieux motiver le personnel de sa fonction publique, le Gouvernement envisage de revoir en profondeur son système de rémunération, qui est complètement dépassé, car il date pratiquement de la période coloniale. Le détail des actions pour cette révision sera déterminé par les résultats d'une étude en cours, qui seront

disponibles d'ici un an. Le plan d'actions y afférent couvrira une période de cinq ans à partir du milieu de l'année 2009. En plus de la rémunération, le plan déterminera le système de recrutement, et l'évolution des carrières ainsi que le système de récompense et de sanctions basées sur la performance. A la fin de la mise en place de ce plan, le Gouvernement espère disposer d'une fonction publique plus efficace grâce à une meilleure répartition des ressources humaines avec une meilleure rémunération qui tient compte des ressources financières limitées du pays.

38. Le renforcement des institutions locales, notamment celles qui sont capables de suivre effectivement la fourniture des services sur le terrain est critique. C'est pourquoi le Gouvernement consacrera une attention particulière pour le renforcement des communes. Un effort particulier sera entrepris pour augmenter les ressources financières de ces dernières. En effet outre la révision des ressources propres dévolues aux communes, le Gouvernement mettra en place très prochainement un Fonds de Développement Local qui canaliserà des ressources financières pour permettre aux communes de financer les activités de développement prévues par la loi.
39. Le renforcement des communes portera aussi sur leur capacité technique par la formation et la mise en place de structure d'appui permanent à travers les services déconcentrés traditionnels ou de structures spécifiques. Les régions bénéficieront aussi d'appuis spécifiques pour leur permettre de faire face à une responsabilité accrue dans le cadre de la décentralisation et de la déconcentration. Ces appuis seront essentiellement axés à la fois sur un programme de renforcement de capacités et des assistances techniques de la part des services territoriaux décentralisés (STD), selon l'axe 2 de la Politique de la Déconcentration et de Décentralisation.
40. La lutte contre la corruption constitue un rempart supplémentaire pour rationaliser les ressources publiques, donc pour la réalisation du MAP. L'objectif du Gouvernement dans le domaine est de poursuivre les actions lancées depuis 2002 pour minimiser le détournement des fonds publics aussi bien au niveau des recettes que des dépenses ainsi que d'empêcher les profits injustifiés par l'occupation de position dans la fonction publique ou l'appareil d'Etat. L'objectif pour les cinq ans à venir sera d'abord de renforcer le cadre législatif et institutionnel pour mieux lutter les formes de corruption non cernées dans l'actuel cadre. Il s'agit notamment des délits financiers liés au blanchiment d'argent. La stratégie de lutte contre la corruption comprendra également l'élimination de conflit d'intérêt, qui permet à un haut responsable de la fonction publique de profiter de son poste pour réaliser des profits injustifiés ou de fausser la règle de la concurrence.
41. Les actions prévues par le Gouvernement pour réaliser ces objectifs seront d'apporter un appui technique et matériel aux institutions de lutte contre la corruption comme le CSI et le BIANCO. Ce renforcement consistera à déployer au niveau des régions des Bureaux de la BIANCO et la finalisation de la mise en place de l'unité SRF, une nouvelle unité pour lutter contre les crimes économiques. La stratégie prévoit aussi l'appui aux organes non étatiques pour compléter les actions de l'administration dans la lutte contre la corruption en jouant le rôle de gardien indépendant dans le domaine. De plus, un effort particulier devrait être entrepris pour renforcer le rôle de watchdog (observation) de la société civile, par des actions de renforcement des structures d'échanges et de la capacité de la société civile.
42. Le fonctionnement de la Justice doit aussi contribuer à un succès de la mise en œuvre du MAP, par l'instauration d'un climat rassurant qui incite les investisseurs tant nationaux qu'étrangers. Cet objectif sera poursuivi par la mise en place d'une législation répondant aux

besoins du développement rapide. afin d'améliorer l'environnement juridique des affaires, la réforme des textes y afférents sera menée pour les rendre conformes aux instruments internationaux, aux exigences de la mondialisation et du développement.

43. Le Gouvernement poursuivra aussi l'amélioration de l'efficacité de la Justice par la mise à sa disposition d'un budget plus conséquent pour renforcer entre autre le fonctionnement de ses services d'inspection et de contrôle. Cette efficacité se fera aussi par la simplification de l'accès de la population à la Justice et le rapprochement de la Justice aux justiciables. Ceci s'effectuera par la création de nouveaux tribunaux, la mise en place de justice de proximité intégrant dans le processus les citoyens et les sociétés civiles et par le développement des cliniques juridiques. L'accélération de l'informatisation sera poursuivie pour compléter ces actions.
44. Afin de maintenir la motivation permanente de la population dans la mise en œuvre du MAP, la Justice doit aussi accroître la confiance de cette dernière en renforçant l'intégrité de son personnel pour garantir son équité et son impartialité. Une première panoplie d'actions pour ce faire portera sur la simplification des procédures, la révision du régime des privilèges et immunités des élus et des acteurs de la justice, et l'élaboration de projet de loi sur la Haute Cour de Justice. Le Gouvernement veillera aussi à l'atteinte de cet objectif par le renforcement et le déploiement de l'application de standards de services, le développement de l'aide juridictionnelle à la population et l'extension progressive sur toutes les juridictions des actions actuellement menées dans les juridictions pilotes.
45. Enfin le Gouvernement va déployer un effort particulier pour développer des institutions indépendantes de veille et de vigilance au sein de la société civile pour l'aider à suivre, évaluer et baliser les actions de l'administration et leur impact sur le terrain. Dans ce cadre, il entend renforcer la synergie entre les réformes au niveau gouvernemental et celles de la société civile pour mieux assurer la participation citoyenne à l'évaluation des actions publiques et l'amélioration des services publics. Il est aussi envisagé de piloter et perfectionner les interventions ayant connu du succès, qui sont axées sur la réduction des inégalités, et ce, en assurant que la société civile soit capable d'exprimer les priorités et la demande de redevabilité.
46. Les actions qui seront développés dans le cadre de ces objectifs porteront d'abord sur la création d'un environnement encourageant l'engagement de la société civile et les initiatives de responsabilisation sociale, particulièrement l'amélioration de la gouvernance locale et l'optimisation de l'impact positif social. Ensuite pour assurer que les citoyens et les organisations de société civile aient les capacités nécessaires pour un engagement civique positif, le gouvernement appuiera les initiatives de renforcement de capacités visant la familiarisation des ONG et organisations de la société civile avec le concept de redevabilité sociale.
47. Les ONG locales et les autres organisations de la société civile recevront des appuis fournis par le Gouvernement pour acquérir une assistance technique pour ce faire. Une attention particulière sera prise en compte pour les groupes vulnérables qui ont moins de voix (tels que femmes, jeunes, pauvres, les personnes handicapées). La formation dans ce domaine sera aussi dispensée aux autorités administratives afin que ces derniers puissent travailler plus efficacement avec la société civile, à savoir renforcer les capacités en communication, faciliter la prise de décision en groupe.

48. Le MAP n'est pas un document figé, sa réalisation sera ajustée selon l'évolution de la situation. Dans ce cadre, la disponibilité des informations fiables est incontournable. Conscient de l'état obsolète des informations démographiques, le gouvernement a engagé depuis deux ans la préparation d'un recensement général de la population et de l'habitat. Il compte entreprendre un recensement intégral si le financement sera bouclé avec l'aide des partenaires techniques et financiers. Sinon, un recensement partiel selon les fonds disponibles sera effectué. Les travaux de recensement proprement dits commenceront cette année. Le dernier recensement remonte en 1993 et les données de ce recensement ne sont plus utilisables pour faire de bonnes projections.
49. Par ailleurs, un outil spécifique sera aussi développé pour mesurer l'évolution de la mise en œuvre du MAP afin de permettre au Gouvernement de prendre à temps les actions correctives quand c'est nécessaire et de mettre à jour les objectifs et les actions envisagées. Ce système dénommé, Système National d'Intégré de Suivi et d'Evaluation (SNISE) a pour objectif d'instaurer des mécanismes et un processus de suivi et d'évaluation du MAP aux niveaux central et régional. L'élaboration du SNISE est en cours et comprend trois étapes. La première étape consistera à faire le diagnostic de la situation existante, en termes de système d'information devant alimenter les indicateurs, ainsi que de cadre institutionnel et organisationnel. La seconde étape sera la conception du système lui-même. La dernière étape sera l'élaboration du plan d'actions pour sa mise en œuvre. On estime qu'il sera complètement opérationnel avant la fin de l'année.
50. Enfin, il est rappelé que le Gouvernement a entrepris les démarches nécessaires pour qualifier Madagascar dans l'Initiative sur la Transparence des Industries Extractives (EITI). L'engagement du Gouvernement d'entreprendre cette initiative est la garantie de son adhésion à une transparence totale dans la gestion des ressources du pays et en une bonne gouvernance sur tous les plans.
51. Les actions envisagées dans le cadre de cette stratégie seront mises en œuvre avec l'appui des partenaires techniques et financiers que le gouvernement sollicitera particulièrement lors de la réunion prévue se tenir à Antananarivo au mois de Juin prochain.

Le Ministre des Finances et du Budget



Haja Nirina RAZAFINJATOVO

REPUBLIC OF MADAGASCAR

MINISTRY OF FINANCE AND BUDGET

Minister of Finance and Budget

No. 29/08 – MFB/Mi

Antananarivo, April 2, 2008

Mr. Robert B. ZOELLICK
President
World Bank
1818 H Street NW
Washington, D.C

Mr. President,

Madagascar began implementation of its second generation Poverty Reduction Strategy since early 2007. Known as the Madagascar Action Plan (MAP), this new strategy builds on the achievements of the earlier Poverty Reduction Strategy Paper (PRSP), the implementation of which began in 2003 and ended in 2006, but takes it to another level.

2. Despite the fact that the PRSP facilitated, among other things, a reduction in poverty from 70 percent in 2003 to 68 percent in 2006 as a result of a real average annual economic growth rate of 5.3 percent, the scope of poverty in Madagascar calls for a far more ambitious objective in order to attain the Millennium Goals established by the international community. Designed from this vantage point, the MAP therefore makes provisions to move to a higher level by setting an average growth rate target of 8 percent to 10 percent for the period 2008-2012, in the context of a very strict monetary and budgetary policy in order to keep inflation at a low rate of 5 percent a year, on average. The ultimate objective is to reduce the poverty rate to 50 percent by end-2011 and to guarantee the Malagasy people an average annual income of US\$450.
3. Achievement of this highly ambitious ultimate objective calls for a strict approach to managing the country. Cognizant of this requirement, the Malagasy Government intends to strengthen its governance strategy launched five years ago, the foundation of which was built around performance, transparency, combating corruption, and citizen participation. In addition to the specific commitment set forth in the MAP, namely, responsible governance (Commitment No. 1), the Government will put in place cross-cutting governance tools in order to boost the chances of achieving the seven other commitments.
4. This letter summarizes the fundamental principles projected to strengthen governance. The first part outlines the progress made in the past five years in the area of governance. The second part provides detailed information on the economic outlook during the MAP implementation period and the

implications of this outlook for governance. The third part presents the core elements of the strategy that the Government will establish over the next five years in order to strengthen governance.

PART I: ACHIEVEMENTS IN THE AREA OF GOVERNANCE

5. The PRSP implementation period was marked by three major events: resumption of public finance management, effective efforts to combat corruption, and the start of the process of citizen participation. These changes mark turning points in the history of governance in Madagascar.
6. One of the most important changes in the area of public finance was the introduction of a new results-based budget framework. The new budget framework law [*Loi Organique sur la Loi des Finances LOLF*] was passed in July 2004 and took effect shortly thereafter (in 2005). However, its application remains partial, given that a number of provisions require advance preparation. Work is currently being done so that these provisions can be applied in their entirety by 2010. A results-based approach and the management flexibility introduced by the LOLF, which constitute the driving force behind this new budget framework, are fully consistent with the spirit of the MAP, which has set ambitious objectives.
7. The Government also implemented a new public procurement code at the same time as the LOLF. The new code, which adopted best practices and international standards, was only fully applied around 2006, owing to the period required for the establishment of new institutions and the implementing regulations to the code. Application of the new code a year ago has led to much greater competition and transparency in the public procurement process and the Government hopes that its full application will produce significant savings in the area of public finance.
8. One of the measures adopted by the Government to ensure transparency and efficiency in public finance is related to the implementation of an integrated public finance management system [*Système Intégré de Gestion des Finances Publiques SIGFP*]. Prepared since April 2004, the SIGFP is supposed to handle 80 percent of the central government's financial transactions and currently covers six regions. As a result of the lack of telecommunications resources and a number of flaws in the design of the system, the SIGFP is not currently operating at full capacity.
9. Mention should be made of the fact that in addition to this major work, the Government has undertaken a number of important reforms in two State finance agencies (the General Directorate of Customs and the General Directorate of Taxes). These reforms have led to a significant increase in government revenue. This increase was greater in 2007.
10. The establishment of such new institutions as the Committee for Preserving Integrity [*Comité pour la Sauvegarde l'Intégrité CSI*] and the Independent Anti-Corruption Office [*Bureau Indépendant Anti-corruption BIANCO*] marked a decisive turning point in efforts to combat corruption in Madagascar. These two institutions, established in 2003, have started to overhaul the current legislative and regulatory framework in order to clamp down, in a concrete manner, on corruption. In addition to handling the corruption-related complaints they receive, BIANCO has also conducted audits of major public procurement documents as well as organizational audits of the biggest public service entities. The results of this reform effort are beginning to emerge; however, it is true that much remains to be done.

11. In parallel with this reform, the Government has undertaken many activities to clean up the justice system, which remains an area of major concern. In addition to the training provided by the National School for Magistrates and Court Clerks [*Ecole Nationale de la Magistrature et de Greffe* ENMG], a number of pilot activities, the establishment of service standards, and the computerization of operations in pilot jurisdictions have taken place. Efforts to root out corruption within the justice system have also begun. Here again, much work remains to be done.
12. Cognizant of limits of reforms within the administration, the Government made a commitment five years ago to mobilize civil society with a view to developing a collaborative relationship with it in the area of monitoring and oversight of corruption and improvement of public services. Activities were therefore undertaken to establish appropriate entities and strengthen non-governmental organizations in this regard. Citizen participation pilot activities such as the citizen scorecard and public opinion surveys were carried out.

PART II: FIVE-YEAR ECONOMIC OUTLOOK

13. The Government is confident that achievement of the ambitious objectives of the MAP will be possible, despite the sizeable financing required and the difficult international economic outlook. Several favorable factors provide reason for optimism. First, two mining projects will come on stream in the near future that will have a major impact on the pace of overall economic growth. The contribution of the activities carried out in the context of these two projects will in fact make it possible to project a growth rate that is close to the MAP projection.
14. Second, it is the Government's view that the efforts made in recent years to foster regional cooperation and the integration of the Malagasy economy into the global economy will expand opportunities for Malagasy products to penetrate more lucrative markets, thereby increasing production and job creation. This will not only boost the growth rate of the Malagasy economy but also prospects for better income distribution.
15. Third, the current efforts aimed at the recovery of the energy sector and oil exploration will allow Madagascar to have an energy surplus in the next five years. The energy surplus will be attributable not only to hydroelectric and possibly petroleum sources, but also to biofuels, of which the country could become a big producer. This situation bodes well not only for higher manufacturing output, which has been in the doldrums for the past three years, but in particular for the possible export of surplus products, thereby making a big contribution to the acceleration of overall GDP growth.
16. However, these prospects will not fundamentally alter the characteristics of the Malagasy economy. In fact, although an exceptionally high growth rate (between 8 and 10 percent) compared to historical trends is expected, the Malagasy economy will remain dependent on foreign capital, with a very low level of diversification. Dependence on foreign capital will impact the public sector, which needs significant resources to carry out infrastructure work, particularly in the social area, in order to attain the MAP objectives that fall within the scope of the MDGs. However, this dependence will have a greater impact on the private sector's efforts to establish production units capable of generating productive activities that are in keeping with economic growth objectives. Mining products will be the second most dominant area of overall production in the country, after the manufacture of textiles.

17. However, two positive developments are expected. The first is that overall demand, generated by the scope of activities in the extractive and processing industries, could stimulate growth in the area of agricultural production (more than 70 percent of the population still lives in rural areas) and will guarantee a better distribution of the fruits of growth. The second is that the intensity of domestic economic activities will facilitate the generation of greater domestic public resources to make up for the shortfall in import and customs fees, which will decline significantly as a result of regional trade agreements. The other source of public revenue will come from mining activities.
18. The establishment of a climate of confidence aimed at attracting investment, particularly foreign investment, and a vast improvement in public finance management, are the two major effects of these projections from the standpoint of governance, with a view to better management of the country's limited resources and building the confidence of technical and financial partners.

PART III: GOVERNANCE STRATEGY FOR 2008-2012

19. The governance policy will be strengthened in four areas (public finance, provision of public services and local governance, combating corruption, and social accountability) and around three themes (effectiveness, transparency, and participation.) Effectiveness will be measured by the results achieved and the Government intends to make a results-oriented approach the centerpiece of MAP execution. Transparency and participation are two complementary objectives: participation fosters transparency and transparency encourages participation. To attain these two objectives, the public will have to be provided with information that is complete and easy to understand.
20. Public finance will be the priority of the Government's governance strategy given that it is the main implementation instrument of the MAP. Improving and strengthening public finance management will constitute the central thrust of the Government's strategy. The objective in this area is to boost revenue significantly in order to meet the financial requirements of the ambitious MAP objectives and to streamline the management of expenditure in order to achieve greater efficiency and have an impact on the delivery of services at all levels, particularly at the local level, and on poverty reduction.
21. Given the choice made by the Government to take advantage of economic alliances with Madagascar's immediate neighbors, and in particular trends in international trade practices, customs revenue from international trade will trend steadily downward in the years ahead. Madagascar is already preparing for this development and is shifting toward optimization of resources from domestic economic activities. As in most underdeveloped countries, the value added tax is the main potential source of future revenue. Not only is VAT a significant source of revenue, oversight of its collection will automatically lead to more effective work in the area of the collection of other taxes such as corporate income tax and personal income tax, the three of which alone account for more than 80 percent of the domestic taxes collected in Madagascar.
22. To achieve this objective, the Government will continue work that was started three years ago to strengthen State finance agencies. The first task to be tackled will be improving the units of the General Directorate of Customs. Following additional work aimed at streamlining the Directorate of

Taxation and Major Enterprises [*Direction de la Fiscalité des Grandes entreprises*], efforts will shift to strengthening regional enterprise directorates, and will focus on the collection of taxes from enterprises with a business turnover of 200 million to 1 billion. Priority will be given to six regional directorates located in the former provincial *chef-lieux* and Antsirabe. Improving the operations of other regional directorates will depend on the pace at which economic activities are carried out in the regions concerned. Other than the reorganization of management of the DRE's units, work will focus on the modernization of the computer tools used in enterprise management and oversight.

23. Efforts to improve the services of the General Directorate of Customs will also continue, not only to facilitate international trade but also for purposes of VAT collection once again. In fact, the entry of merchandise at the borders constitutes the other value added source and the role of the customs service will now be focused on the collection of VAT and related taxes. Improvements in this area will focus on the computerization of the customs clearance process in order to ensure that it proceeds smoothly and, in particular, to make resources secure. Work will focus on the deployment of Gasynet, which is already operational in Toamasina and in Antananarivo, where significant amounts of customs revenue are involved.
24. Currently, less than one percent of Madagascar's GDP is derived from non-tax revenue, compared to many developing countries where this figure is as high as 4 percent of GDP. This will be the second area of focus for enhancing revenue derived from domestic economic activities. The Government intends to modernize revenue collection in this area, especially in view of the fact that activities associated with execution of two mining projects and numerous natural resources will be stepped up. All the legal texts governing non-tax fees will therefore be reviewed and updated in order to enhance this work and achieve this objective. However, the biggest reform push will be mainly in the area of reorganization of the administration that collects such fees in order to boost revenue.
25. Execution of the MAP does not only require increasing these financial resources but also prudent use of them in order to ensure a real impact on poverty reduction and the provision of services to the population. Streamlining expenditure, the second strategic thrust of public finance reform, will seek a dual objective, namely, to have a balanced budget over time so as not to jeopardize the country's macroeconomic situation and to ensure allocation and operational efficiency in the area of expenditure.
26. Ensuring a balanced budget will be achieved through a prudent fiscal policy. The Government's work in this area will focus largely on strengthening and improving forecasting. Past experience has in fact shown that most of the time, budget execution slippage is attributable to forecasting inaccuracies. These inaccuracies pertain not only to the global amount at the time of budget preparation, but also to deficiencies in the management tools used during execution. The Government will accord priority to strengthening the macroeconomic framework and, consequently, the medium-term budget framework at the global level and for the most important sectors (education, health, public works and transport, agriculture, and the environment). These activities will be supplemented by the development of cash flow management, procurement planning, and commitment tools.
27. The Government is confident that comprehensive implementation of the provisions of the new budget framework—the programmatic budget—offers the best path to guarantee the effective allocation of budget resources and enhance the operational impact of public expenditure. For this reason, effective

implementation of this framework, which is projected to be completed within two years at the latest, will be the Government's priority. Implementation-related activities will focus on the review of budget nomenclature where a great deal of work has been done, outlining the new expenditure chain in accordance with the provisions of the LOLF, including review of the role of internal oversight and of the institutions exercising this oversight, outlining the details for application of the LOLF and possibly reviewing a number of its provisions that could impede the achievement of results.

28. MAP execution also calls for savings in all possible areas of expenditure. With a view to nationalizing public expenditure, the Government has undertaken a management reform process of national public entities. A study is currently being conducted with the aim of assessing the management of these entities and an action plan will be drafted by mid-June of 2008 to address the situation. This plan should make provisions for changing the status of these establishments, including the possibility of merging a number of them and privatizing others. Savings are also expected to be derived from the restructuring of two civil service pension funds (CRCM and CPR), the studies of which were completed in 2007. An action plan is currently being prepared with a view to this restructuring.
29. Improving allocation and the operational impact on the ground will amount to a mere theoretical exercise if the budget preparation and execution process is not brought closer to users. Over the next five years, the Government will therefore continue its decentralization and deconcentration policy in both the administrative and budgetary areas. In the area of decentralization, the Government will focus on identifying the regions to be assigned the role of stimulating economic development. From a budgetary standpoint, this approach will be reflected in the establishment of a true regional budget entity and building the capacity of this entity to formulate, prepare, and execute the budget in order to serve as a catalyst for regional development. The objective of this procedure is to use the regions as a conduit for transmitting the actions of the central Government with a view to integrating production into the market approach.
30. In pursuing this objective of streamlining the operational impact of the budget, the Government will place special emphasis on encouraging better integration into the market economy. To this end, it will soon implement a new strategy aimed at making public investments profitable. This strategy will supplement decentralization and deconcentration and will focus on better targeting public investment in such a way as to develop regional economies. This will first entail creating greater local demand by generating revenue through public investments, with a view to stimulating supply at the level of the poorest producers once again. In parallel, the infrastructure needed to create a real market in each region, thereby ensuring the unfettered circulation of products, will have to be put in place.
31. Strengthening the regional role in this transmission chain will be bolstered by a more far-reaching deconcentration of budget execution. In addition to the work done over the past two years to implement regional ministerial directorates providing the services most sought after by the people (health, education, drinking water, etc.), the Government started the process of deconcentration of financial services this year, which will facilitate budget execution by the deconcentrated units mentioned above. Deconcentration of the treasury units at the regional level will be completed in 2008 and the establishment of financial districts in each region will be started toward the end of this year, with a completion date set for 2009. The Government will also implement an action plan to assist communes, particularly rural second-tier communes, with the execution of their budgets and the monitoring of their financial management.

32. Improvement of the operational impact of public expenditure will be possible only with an efficient system to oversee the use of public funds. Cognizant of the current deficiencies of institutions and both internal and external oversight tools, the Government will launch, in parallel with the introduction of the new expenditure chain in the context of LOLF implementation (see paragraph above), an action plan to address this major deficiency. This plan will focus on a redistribution of responsibilities throughout the chain so as to ease internal oversight on the one hand, but also to ensure the effectiveness of this oversight, on the other. Work in this area will focus in particular on certification of the service provided.
33. In the area of external oversight, activities will focus mainly on strengthening the Audit Office, the statutory body appointed to carry out this oversight at the executive level. The details of this process will be provided following an organizational audit of the Audit Office, which will set forth the action plan to be implemented. The objective is to permit the Audit Office to oversee effectively the public accounting system and to conduct a more probing review of implementing regulations.
34. Effective public expenditure can take place only with appropriate monitoring tools and the provision of more information to the public at large. The objective is to guarantee full transparency in the management of public funds and to acquire the tools that permit errors to be corrected quickly, where necessary. Given this dual objective, the Government will forge ahead with its policy of improving its public finance computer tools. The SIGFP will first be deployed in the remaining 22 regions where it has not yet been introduced. This deployment is scheduled to be completed within two years at the latest, and the pace of deployment will be determined by the availability of technical expertise in the area of telecommunications.
35. The modernization of the Network Operation Center and the Database Center will take place as part of the same exercise. In parallel with this hardware-related work, special attention will be paid to improving the system's software support, with a view to enhancing its functioning and ensuring the centralization of data in real time.
36. The operational impact of public expenditure will not be felt by the people without the guaranteed provision of services on the ground. In this regard, the Government will use instruments to complement the tools mentioned earlier. In order to improve service to users, the Government will take action at both the central and regional levels. With the assistance of technical and financial partners, it intends to build the managerial capacity of the technical ministries in order to guarantee the optimal allocation of resources and to outline norms and service standards sought by the population. This action will take place largely by training senior staff in ministries through the local training network such as the NLIM, ENAM, or IMATEP. Capacity building in technical ministries will take place through the provision of specific technical assistance.
37. However, the main factor required for the provision of proper services on the ground will be human resources who, in effect, carry out the work. In order to motivate its civil service staff, the Government plans to conduct an in-depth review of its remuneration system, which is completely out of date, given that it dates back to the colonial era. Details related to this review exercise will be worked out based on the findings of a study currently in progress, which will be available in one year. The relevant action plan will cover a five-year period, starting in mid-2009. In addition to remuneration, the plan will determine the system of recruitment, career paths, and performance-based remuneration and sanctions. Once this plan has been established, the Government hopes that the civil

service will be more efficient and will have human resources who are better distributed and more highly paid, taking into account the country's limited resources.

38. Local institution building, particularly of those institutions capable of effectively monitoring the provision of services on the ground, is of critical importance. For this reason, the Government is paying special attention to the strengthening of communes. A special effort will be made to increase the financial resources of these communes. In fact, in addition to own resources received by the communes, the Government will establish, in the very near future, a Local Development Fund that will serve as a conduit for financial resources in order to enable communes to finance those development activities provided for by the law.
39. Capacity building in communes will also focus on their technical capacity acquired through training and establishment of a permanent support structure through the established deconcentrated units or specific entities. The regions will also receive specific assistance to permit them to handle greater responsibility in a decentralization/deconcentration context. This assistance will essentially revolve around both a capacity-building and technical assistance program offered by the decentralized territorial units (DTS), in accordance with the second thrust of the deconcentration and decentralization policy.
40. Combating corruption is an additional tool for streamlining public resources, and thus for execution of the MAP. The Government's objective in this area is to continue the activities started since 2002 to minimize the misappropriation of public funds in the areas of revenue collection and expenditure and to prevent persons in the civil service or State apparatus from using their positions to secure ill-gotten gains. The objective over the next five years will be first to strengthen the legislative and institutional framework to better combat forms of corruption that are not covered under the current framework. These entail, in particular, financial crimes linked to money laundering. The strategy for combating corruption will also include the elimination of conflicts of interest, which allow senior officials to derive benefit from their public office to acquire ill-gotten gains or to bend the rules of competition.
41. The projected activities of the Government to achieve these objectives will entail the provision of technical and material assistance to institutions to combat corruption, such as the CSI or BIANCO. This assistance will take the form of setting up BIANCO offices at the regional level and finalizing implementation of an ACE unit, a new unit entrusted with the mission of combating financial crimes. The strategy also provides for assistance from non-State entities to supplement the Government's activities in combating corruption by playing the role of independent watchdog in this area. In addition, a special effort should be made to strengthen the watchdog role of civil society, through activities to strengthen information-sharing entities and civil society capacity.
42. The functioning of the justice system should also contribute to the successful implementation of the MAP, by creating a climate of confidence that is attractive to both national and foreign investors. This objective will be pursued through the establishment of legislation in keeping with the need for rapid development, in order to improve the legal business climate. The relevant legal texts will be amended to bring them in line with international instruments and globalization and development requirements.
43. The Government will also continue to enhance the efficiency of the justice system by providing it with a more substantial budget in order to strengthen the functioning of its inspection and oversight

services, among others. This efficiency will also be achieved by streamlining access by the population to the justice system and bringing the justice system closer to citizens. This will be done by creating new courts, instituting an accessible justice system that includes citizens and civil society, and by developing legal clinics. Expediting the computerization process will continue as a supplement to these activities.

44. In order to maintain the momentum in the population regarding MAP implementation, the justice system must also increase confidence placed in it by enhancing the integrity of its staff in order to guarantee their equity and impartiality. To this end, an initial package of measures will focus on streamlining procedures, reviewing the system of privileges and immunities for elected officials and persons within the justice system, and preparing a draft law on the High Court of Justice. The Government will also ensure achievement of this objective by strengthening and applying service standards, organizing assistance for the people at the jurisdictional level, and the gradual extending to all jurisdictions the actions currently being carried out in pilot jurisdictions.
45. Lastly, the Government will make a special effort to develop independent watchdog and oversight institutions within civil society to help it monitor, evaluate, and track the actions of the administration and their impact on the ground. Against this backdrop, it intends to enhance synergy between government and civil society reforms, with a view to better ensuring citizen participation in the assessment of public activities and the improvement of public services. Plans are also in place to pilot and refine those interventions that have been successful and revolve around reducing inequalities, while ensuring that civil society is capable of articulating its priorities and seeking accountability.
46. The activities to be conducted in the context of these objectives will focus, first and foremost, on creating an environment conducive to civil society participation and social accountability initiatives, in particular the improvement of local governance and optimization of the positive social impact. This will then be followed by Government support for capacity-building initiatives so that familiarity with NGOs and civil society organizations can be gained, along with the concept of social accountability, in order to ensure that citizens and civil society organizations have the necessary capacity for positive civic engagement.
47. To this end, local NGOs and other civil society organizations will receive support from the Government to obtain the necessary technical assistance. Special attention will be paid to vulnerable groups who have less of a voice in society (women, young people, the poor, and the disabled). Training in this area will also be provided to the administrative authorities so that they can work more effectively with civil society by building communications skills and facilitating group decisions.
48. The MAP is not a static document; it will be modified as the situation evolves. In this context, the availability of reliable information is essential. The Government, cognizant of the obsolete nature of demographic information, started a general population and housing survey two years ago. It intends to do a comprehensive survey if funding is tied in with assistance from technical and financial partners. Failing this, a partial survey will be done depending on available funds. Survey work in the strict sense of the term will begin this year. The most recent survey dates back to 1993 and the data from this survey can no longer be used to make reliable projections.
49. Furthermore, a specific tool will also be developed for measuring trends related to MAP implementation, in order to permit the Government to take timely corrective action when necessary and to update planned objectives and actions. This system, called the Comprehensive National

Monitoring and Evaluation System [*Système National d'Intégré de Suivi et d'Evaluation* SNISE], is aimed at introducing MAP mechanisms and a monitoring and evaluation process at the central and regional levels. The preparation of the SNISE is underway and includes three phases: the first will consist of assessing the current situation from the standpoint of the information system to be used for indicators, as well as the institutional and organizational framework; the second will consist of the actual system design; and the third will entail the drafting of the action plan for its implementation. This system is expected to be fully operational before the end of the year.

50. Finally, it should be noted that the Government has taken the necessary steps to make Madagascar eligible for the Extractive Industries Transparency Initiative (EITI). The Government's commitment to participate in this initiative guarantees its complete commitment to total transparency in the management of the country's resources and to good governance in every respect.
51. The actions envisioned in the context of this strategy will be implemented with assistance from technical and financial partners, which the Government will specifically request during the meeting scheduled to take place in Antananarivo next June.

For the Minister of Finance and Budget
/S/
[Ministry Stamp]

Annex 6: Implementation Arrangements

MADAGASCAR: Governance and Institutional Development Project II

113. **Leadership and coordination.** To strengthen coordination of governance related activities the Government created in November 2005 the Reform Program for the Efficiency of the Administration (Programme de Réformes pour l'Efficacité de l'Administration, PREA) which is the key instrument to monitor and implement the Government's Good Governance Program. The PREA is headed by a National Coordinator (Coordonnateur Général - CG) who reports to the Secretary General for the MAP (Secrétaire Général à la Planification de la Présidence) in the President's Office. Political guidance and oversight is provided by the Oversight Committee (Conseil d'Orientation et de Suivi - COS) consisting of all Permanent Secretaries of the Government and of representatives from civil society, from the private sector, from the regions and communes, and from the donor community. The Oversight Committee which is led by the Secretary General for the MAP meets once a year and approves the annual work plan for the project. Key policy decisions are submitted by the Oversight Committee to the Council of Ministers.

114. **Implementing entities.** The implementing agencies for the projects are the Ministry of Finance, the National Statistics Office and the Office of the President:

(a) The **Reform Coordination Unit in the Ministry of Finance** will be responsible for the day-to-day supervision of the implementation of annual work program for component 1 of the project (improvement of public expenditure management). The unit consists of a small team of technical specialists and is headed by a Coordinator who reports to the Secretary General of the Ministry. The Ministry of Finance intends to establish a 'basket fund' for public finance reforms which is linked to the overall annual reform action plan (PAP) of the Ministry of Finance. It is envisaged that – over time – the majority of the support by the development partners to the Ministry of Finance will be channeled through the basket fund. The Bank will support the establishment of the fund and the identification of adequate financial management and procurement arrangements through the PGDI II.

(b) The **National Statistics Office (INSTAT)** will be responsible for the day-to-day supervision of the implementation of the annual work program for component 5 of the project. INSTAT is in the process of establishing a coordination unit to ensure adequate preparation and implementation of the census. This unit will be supported by a technical advisor who will be provided by UNFPA.

(c) The **National Coordinator PREA in the Office of the President** is responsible for the overall monitoring and coordination of the reforms financed under the project, including component 1, 4 and 5. The Coordinator will also be in charge of the implementation of the remaining components of the project (including initially the Social Accountability Grants). The National Coordinator is supported by the Project Bureau (Bureau de Gestion, BdG) which will ensure overall coordination of project activities and the day-to-day management of the project. The BdG has implemented the first PGDI in a satisfactory manner; it has met all relevant disbursement,

procurement and fiduciary obligations. The BdG has a number of technical staff in the areas of monitoring & evaluation, procurement, financial management and communication. This unit is responsible for: (a) consolidation of annual work programs and budget, (b) procurement, including all contracting of works, goods and services; (b) project monitoring, reporting and evaluation; (c) the contractual relationship with IDA, and (d) financial record keeping, in particular the designated Account and disbursements. The BdG operates on the basis of an annual work plan which is validated by the above mentioned Oversight Committee. A Standing Committee (Comité Restreint – CR) is available to advise the BdG on implementation issues. This Committee consists of the Cabinet Secretary, and the Permanent Secretaries of the Ministries of Finance and Budget, Planning, Civil Service, Justice, Decentralization, Territorial Administration, and Communication. It is led by the Secretary General for the MAP in the President’s Office and meets at least once every three months.

115. The transfer of the financial management and procurement aspects of the components 1 and 5 to RCU and INSTAT is envisaged until December 31, 2009; it will be subject to an IDA assessment of the financial management and procurement capacity of the relevant institution. Until that time, financial management and procurement activities will be handled by PREA/BdG.

116. The implementation arrangements might be reviewed and changed once the planned basket funding mechanism for the Ministry of Finance is fully operational to ensure effective implementation of activities under component 1 in line with the support by other development partners.

117. During the first year of the implementation of the project a non-state actor will be identified as implementing agency for the Social Accountability Grants under component 4 of the project. These Social Accountability Grants will pilot, develop and scale up approaches that are focused on supporting civil society to monitor and provide oversight, in particular in key areas such as natural resource management, local service delivery, and public financial management. The financial management and procurement activities for the Social Accountability Grants will be ensured by the Bureau de Gestion of PREA. Financial management and procurement authorities might be transferred to the Grant Administrator later on, provided he has adequate capacity.

118. At the level of the sector ministries and institutions that receive support from the project the implementation of the reforms is ensured by dedicated implementation teams. A key role of the BdG is to support these implementation teams and to facilitate their work. The teams operate on the basis of the annual work plan. They report to the BdG on a regular basis.

Annex 7: Financial Management and Disbursement Arrangements

MADAGASCAR: Governance and Institutional Development Project II

Introduction

119. In accordance with Bank policy and procedures, the financial management arrangements of PREA (Programme de Réformes pour l'Efficacité de l'Administration), of the RCU and of INSTAT have been reviewed to determine whether they are acceptable to the Bank. This review is an update since the financial management systems of PREA (i.e. the Office of the current PGDI) have already been assessed in the context of the ongoing PGDI project (additional financing). The main conclusions of the review are summarized in section IV-D of the Project Appraisal Document.

120. With regard to the RCU, the Reform Coordination Unit within the Ministry of Finance, which is in charge of the implementation of the first component (Improvement of public expenditure management) and with regard to INSTAT (the National Statistics Office) which will supervise the implementation of component 5 of this project, no financial management assessments have been carried out at this stage since it was agreed that both institutions initially will not manage funds. The transfer of the financial management aspects of the components 1 and 5 to RCU and INSTAT is envisaged until December 31, 2009; it will be subject to an IDA assessment of the financial management capacity of the relevant institutions.

121. The administration of the Social Accountability Grants under component 4 will be ensured by an independent Grant Administrator (NGO or other) acceptable to IDA and to be selected through a competitive process. No withdrawal shall be made for the Social Accountability Grant unless the Grant Administrator has been recruited. The TORs of this Administrator are subject to IDA approval to ensure the adequacy of the required profile, drawing special attention to the capacity of the Administrator to manage funds of this nature. The financial management capacity of the Grant Administrator will be reviewed in the context of the selection process. Social Accountability Grant should be made in accordance with the criteria and on terms and conditions set forth or referred to in the PIM and the provisions of Section I.D of Schedule 2 of the financing Agreement.

Summary Project Description

122. The objective of this project aims at improving the efficiency and transparency of government and public services in Madagascar in line with the Madagascar Action Plan (MAP). The proposed PGDI II includes the following components: i) Improvement of public expenditure management; ii) strengthening the efficiency of Government operations; iii) rule of law and fight against corruption; iv) transparency and social accountability, v) monitoring and evaluation; and vi) program coordination. This project of an amount of US\$40 million (IDA) is expected to be completed over a period of four years.

Country issues

123. The World Bank's CFAA/CPAR, completed in 2003, and some diagnostic works carried out over the last three years by the Bank and other donors, identified a range of weaknesses and issues hampering the performance of Madagascar's budget and expenditure management system. To address these issues, the government has developed in 2004, 2005, 2006 and 2007 in conjunction with all key development partners, a priority action plan for public finance reform.

124. While overall implementation progress of the reform program is encouraging, significant efforts remain to be done, including the followings: i) improvement of budget execution rate in priority sectors; ii) reinforcement of the capacity of the line ministries in public financial management, especially in the implementation of the new program budget structure; iii) strengthening of cash management; iv) production of the treasury accounts within the legal timeframe; v) lack of adequate number of skilled and experienced auditors at the "Chambre des comptes" commensurate with the complexity and increased number of missions to be undertaken. To mitigate risks in public expenditure management, the World Bank, through the Governance and Institutional Development Program (PGDI), and a number of donors continue to support Government's public finance reforms reflected in its annual priority action plan.

125. Regarding the accounting profession, some positive developments have been noted over the last three years. However, a number of local accounting firms continue to operate below the international standards. To improve the capacity and the competitiveness of local auditing firms, the following measures have been taken while auditing Bank/IDA financed projects: i) obligation for local auditors to enter into partnership with international accounting firms; ii) effective participation of the international accounting firm in audit fieldworks and submission of audit reports jointly signed by the local and international audit firms. An accounting and auditing ROSC is presently underway to identify clearly both issues and actions to be taken to strengthen the capacity of the accounting profession in Madagascar.

126. The use of country systems still remains risky for Madagascar due to some fiduciary weaknesses that require much more time for their solving. To address this issue, and after exchanges of views with the borrower it was agreed to (i) entrust the FM aspects of this project to PREA/BdG which has extensive experience from previous IDA project (ii) use partially the country system and (iii) establish transitional financial management system arrangements while the sector/national fiduciary systems are being strengthened.

Strengths, Weaknesses and Action Plan

127. The PREA/BdG financial management is strengthened by the following salient features:

- existence of qualified and skilled accounting staff very knowledgeable with Bank procedures;
- adequate internal control system including suitable authorization procedures, appropriate segregation of duties and responsibilities, reliable budgeting system, and adequate measures for safeguarding assets;

- use of an accounting system in compliance with generally accounting standards and IDA requirements, and providing reliable and timely information;
- appropriate documentation of the policies and procedures applied by the project, covering management of finances, accounting, procurement and financial reporting;
- use of an integrated computerized system facilitating the management of project operations and capable of producing in a timely manner all relevant information required for managing and monitoring project activities, and appraising project's overall progress towards the achievement of its objectives.

128. The main deficiencies noted in PREA/BdG financial management systems are summarized in the following table which also provides relevant measures to address them:

Significant weaknesses	Action	Date due by	Responsible
1- Chart of accounts not updated yet to reflect components/activities to be financed under PGDI 2.	Review/update of the existing Chart of accounts, accounting manual of procedures to reflect components/activities and satisfy reporting requirements.	Prior to credit effectiveness date	RAF (PGDI)
Absence of acceptable arrangement in auditing.	Recruitment of an auditing firm acceptable to IDA to carry out the annual audit of project accounts.	Prior to credit effectiveness date	The Oversight Committee in collaboration with the Project Coordinator

Institutional and Implementation arrangements (see paragraphs 34 - 38)

Budgeting

129. Budgeting arrangements for PREA/BdG are clearly documented. Each executing agency will prepare its own budget and submit it to PREA/BdG for discussion/decision-making and consolidation, with a defined calendar. The accounting software actually in place within PREA/BdG can adequately cater for the budgeting arrangements of the project.

Accounting

130. The PREA/BdG accounting system is appropriate and follows generally accepted accounting standards. It uses standard book accounts (journals, ledgers and trial balances) to enter and summarize transactions and operates on a double entry accrual principles. The books of accounts will be maintained on a computerized system. To ensure proper monitoring of

budgetary execution, PREA/BdG will provide the Budget Directorate of the Ministry of Finance with monthly statement of commitment and payment drawn under the project credit lines. PREA/BdG will be in charge of timely production of the project quarterly FMRs and annual financial statements.

131. To ensure better understanding and proper application of policies and procedures by the project staff, the current accounting manual of procedures used by PGDI will be updated to reflect the new chart of accounts as well as the model of IFRs to be produced. This procedures manual describes inter alia the outline of the project accounting system, the accounting policies to be followed, the formats of books and records, the Chart of accounts, the financial reporting, and relevant information to facilitate record keeping and maintenance of proper control over assets. The update of this manual of procedures should be completed prior to effectiveness date. To ensure timely production of financial information required for managing and monitoring project activities, PGDI will use the computerized system acquired within the context of PGDI I.

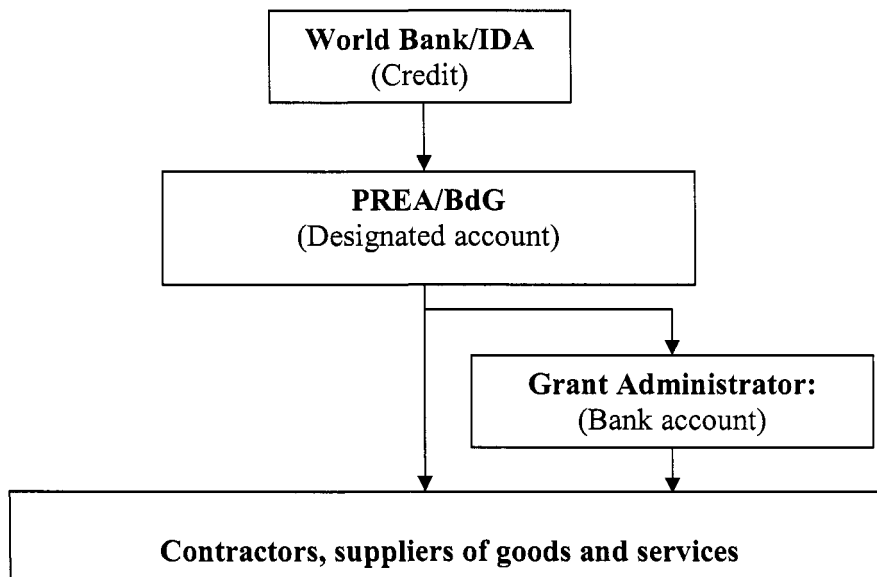
Internal Control

132. The PREA's accounting staff is qualified and has relevant experience to be completely successful in carrying out his functions. To ensure efficient use of credit funds for the purposes intended and consistent application of procedures on procurement, financial management and disbursement, the IGF/IGE will play the role of internal auditors. They will report directly to the Office of the President and the Minister of Finance. All issues identified during internal audit should be addressed quickly to improve the project performance.

133. As indicated earlier, PREA/BdG has an adequate accounting procedures manual describing clearly the lines of responsibilities and authority that exist as well as control procedures to be applied to ensure adequate internal controls. However this manual needs to be updated to include the new Chart of accounts and models of IFRs.

Funds Flow and Disbursement arrangements

134. The flow of funds from IDA is presented as follows:



Disbursement mechanisms

135. While disbursing proceeds from credit accounts, IDA may: i) reimburse the borrower for expenditures paid from the borrower's resources; ii) advance credit proceeds into a Designate account opened in a commercial bank acceptable to IDA. The accounting manual of procedures describes in details the application steps and requirements for requesting a reimbursement, a direct payment for third party, and applying for a special commitment.

Disbursement from IDA credit

136. For the implementation of PGDI II, the following bank accounts will be opened in local commercial banks under conditions satisfactory to IDA:

- **A Designated Account** to be managed by PREA/BdG. Disbursements from the IDA credit will be deposited on this account to: i) finance goods /services eligible under the credit as indicated in the Financing Agreement and; ii) replenish the bank account managed by the Grant Administrator to finance activities under sub component "Social Accountability Grants" (part of Component 4). The Designated Account would be replenished on the basis of quarterly IFRs (Interim Financial Reports) provided to IDA by PREA/BdG, justifying the payments of expenditures that are eligible for financing under the credit (see below Method of disbursement). All supporting documents will be retained by PREA/BdG and made available for review by periodic Bank supervision missions and internal/external auditors.

- A **Grant bank account** to be managed by the Grant Administrator. Denominated in local currency, disbursements from the designated account will be deposited on this account opened in a local commercial bank to ensure prompt payment of activities eligible under the sub component “Social Accountability Grants”.

Method of Disbursement

Disbursement from the Designated Account

137. The Project will use report-based disbursement arrangements. Under this disbursement method, a forecast of program expenditures will be agreed between PREA/BdG/MoF and IDA, covering a period of six months. Thereafter, the borrower may request an advance for an amount not exceeding this cash forecast. Supporting documentation for this disbursement (quarterly IFR) will be submitted to IDA and reviewed by its staff to confirm eligible expenditures during the period covered by the IFRs. The cash request at the reporting date will be the amount required for the forecast period as shown in the approved IFRs less the balance in the Designated Account at the end of the quarter. Subsequent disbursements will therefore be made in respect of this cash request. Detailed disbursement procedures will be described in the project accounting manual of procedures.

Disbursement from grant bank account

138. The amount to be advanced in this account will be determined on the basis of an annual work program and funding requirement for a period not exceeding six months. Subsequent payments will be based on submission of acceptable documentation for previous releases. The Grant Administrator will submit quarterly the following documents: i) a bank account Activity Statement, a summary of expenditures in respect of contracts subject to prior review, a summary of the use of funds by activity/category. All documents supporting expenditures will be retained by the Grant Administrator and made available for review by the PGDI staff, Bank supervision missions and the independent auditors as necessary. Detailed disbursement procedures as well as the access criteria for the Social Accountability Grants will be described in details in the project implementation manual (PIM).

Withdrawal conditions

139. With regard to disbursement conditions, no withdrawal shall be made:

(a) for payments made prior to the date of the Financing Agreement; except that withdrawals up to an aggregate amount not to exceed US\$1.0 million may be made for payments made prior to this date but on or after January 1, 2008, for eligible expenditures under category 1 and 3 of Section IV A of Schedule 2 of the Financing Agreement;

(b) from the Social Accountability Grant under component 4 of the project unless (i) the Social Accountability Grant Administrator has been recruited and (ii) the Social Accountability Grant has been made in accordance with the criteria and on terms and

conditions set forth or referred to in the PIM and the provisions of Section I.C of Schedule 2 to the Financing Agreement.

Financial reporting

140. To monitor project implementation, PREA/BdG will produce the following reports in compliance with international accounting standards:

(a) **The project financial statements:** i) Summary of Sources and Uses of Funds (by component/activities/credit category and showing all sources of funds); ii) the Accounting Policies Adopted and Explanatory Notes; iii) a Management Assertion;

(b) **IFRs:** The IFRs to be prepared by PREA/BdG, on a quarterly basis, will include financial reports, physical progress reports and procurement reports for all components. The project IFRs should be submitted to IDA within 45 days of the end of the reporting period.

141. The form and content of IFRs and annual financial statements have been determined as part of project appraisal and agreed at negotiations. Models of these reports will be presented in the project accounting manuals of procedures.

Information Systems

142. To ensure timely production of financial information required for managing and monitoring project activities, PREA/BdG will use the computerized system acquired within the context of the ongoing governance project, which in particular facilitates annual programming of activities and project resources, record-keeping (general accounting and cost accounting), financial and budgetary management and preparation of project financial statements including quarterly IFRs.

Auditing

143. The project financial statements related to the first three years of project implementation will be audited by an international private accounting firm acceptable to IDA, in accordance with International Standards of Auditing. The auditors will be required to: i) express an opinion on the project financial statements; ii) carry out a comprehensive review of the internal control procedures and provide a management report outlining any recommendations for their improvement. The audit report as well as the management letter and management responses will be submitted to IDA not later than six months after the end of each fiscal year. The auditors should be recruited prior to credit effectiveness, in conformity with the Bank procedures. The terms of reference of the audit will be reviewed by the financial management specialist of the Bank/IDA to ensure the adequacy of the audit scope, drawing special attention to particular risk areas identified during project preparation. The Project could use the service of the Auditor General for the audit of the closing period if its capacity is deemed adequate following IDA assessment.

Audit Report	Due Date
1- Project financial statements	Within six months after the end of each financial year.

Supervision Plan

144. A supervision mission will be conducted at least once every year based on the risk assessment of the project. The mission's objectives will include that of ensuring that strong financial management systems are maintained for the project throughout its life. A review will be carried out regularly to ensure that expenditures incurred by the project remain eligible for IDA funding. The Implementation Status Report (ISR) will include a financial management rating for the component.

Allocation of Credit Proceeds

145. Table 2 provides an overview about the disbursement categories and the financing percentages:

**Table 2: Allocation of IDA Credit Proceeds
(US\$ million equivalent)**

Expenditure Category	Allocation of IDA Credit Proceeds	
	US\$ million	Financing Percentage
Goods, Works, Consultants' Services and Training	33.63	100%
Social Accountability Grants	1.65	100%
Operating Costs incl. civil servant salaries	2.72	85%
Unallocated	2.00	
Total Credit Amount	40.00	

146. The proposed 100 percent financing of selected credit proceeds is in line with IDA policies under which Madagascar qualifies for such an adjustment (see the Country Financing Parameters, May 16, 2005, and updated in attachment 7 of the 2007 CAS). Any taxes and duties that would be incurred as part of the project are judged to be reasonable. The project financing parameters, which are specified in the table above, would respond to difficulties across the Madagascar portfolio in mobilizing sufficient counterpart funding in a timely manner which regularly causes project implementation delays. As the project is financing activities that are considered critical for the implementation of the overall government program (e.g. the public finance and the leadership activities) the proposed financing parameters would facilitate both a rapid and smooth implementation of intended activities. It would also reduce the transaction costs for the government team and align the project with the other projects in the Madagascar portfolio which benefit from 100 percent financing. As a signal of its commitment the government proposes to maintain a counterpart funding element for the operating costs of the project.

Financial Management Risk Assessment and Mitigation

147. The following table identifies the key risks that the project management may face, and provides the measures to be taken to mitigate these risks:

Table - Critical risks and possible controversial aspects

Risk	Preliminary Risk Rating⁷	Risk Mitigating Measures to be Incorporated in Project Design	Condition of Effectiveness (Yes/No)	Residual Risk Rating
1- INHERENT RISK				
Country level				
Delays in the production of public accounts, and audit may not be conducted in compliance with international auditing standards due to: weak capacity of the accounting profession in Madagascar, and; ii) inadequate number of skilled and experienced auditors at the “Chambre des comptes” in particular.	S	These issues are being addressed through the PFM reforms to be supported by IDA (through the second Governance and Institutional Development Project). In the meantime, the audit of the WB-financed projects will be carried out by international accounting firms or by international accounting firms associated with local auditing firms, with effective participation of the former (international accounting firm) in the fieldwork.	YES: the international accounting firm in charge of the audit of project accounts should be recruited prior to credit effectiveness date.	M
Entity level				
The use of country systems still remains risky for Madagascar due to some fiduciary weaknesses that require much more time for their improvement. However, PREA (current PGDI) responsible for the FM aspect of this project continues to maintain an adequate FM system.	M	IDA and other Development partners will continue to support the GoM priority action plan for public finance reforms including training and capacity building in the area of public financial management. While the national fiduciary systems are being strengthened, the financial management (FM) aspects of this project will be entrusted to PREA/BdG which has extensive experience from previous IDA projects in managing	NO	L

⁷ Risk Rating: H – High risk, S – Substantial risk, M – Modest risk, L – Low risk

	<p>Bank funds.</p> <p>The administration of the Social Accountability Grants will be contracted to a Grant Administrator acceptable to IDA and recruited through a competitive process</p> <p>Project financial statements will be audited annually by an international accounting firm acceptable to IDA.</p>	<p>YES: Disbursement condition: Withdrawal for the Social Accountability Grants will be subject to the recruitment of a Grant Administrator acceptable to IDA.</p> <p>YES (see below Auditing section)</p>	
<p>Project level</p> <p>The Grant Administrator may not have adequate capacity to manage IDA funds.</p>	<p>M</p>	<p>YES: Disbursement condition (see above)</p>	<p>L</p>
<p>Overall Inherent Risk</p>	<p>M</p>		<p>L</p>
<p>2- CONTROL RISK</p>			
<p>Budgeting</p> <p>No risk</p>	<p>L</p>		<p>L</p>
<p>Accounting:</p> <p>Project transactions may not be properly accounted for due to the fact that the Chart of accounts is not updated yet to reflect new components/activities to be implemented under PGDI 2.</p>	<p>M</p>	<p>Yes: the update of the procedures manual including the revised Chart of accounts is underway and should be completed prior to Credit effectiveness</p>	<p>L</p>

<p>Internal control</p> <p>No major risk</p>	<p>L</p>		<p>L</p>
<p>Funds Flow:</p> <p>Funds flow arrangements are relatively simple but risk of delayed flow of funds since the PREA/BdG staff is not familiar yet with the report-based disbursements method.</p>	<p>M</p>	<p>A training session has been organized by the WB in April 2008 to familiarize the project accounting staff with the disbursement method based on IFRs</p>	<p>L</p> <p>NO: The training session on report based disbursement method has been provided in April 2008.</p>
<p>Financial Reporting:</p> <p>Risk of delays in the production and submission of IFRs</p>	<p>M</p>	<p>The contents and formats of the quarterly IFRs have been determined during appraisal mission and agreed at negotiations.</p>	<p>L</p> <p>NO: Quarterly financial statement, reporting arrangements and formats have been agreed during project negotiations.</p>
<p>Auditing:</p> <p>Limited number of skilled and experienced auditors within the Auditor General Office.</p> <p>Capacity of local external auditors is variable.</p> <p>Overall Control Risk</p> <p>OVERALL RISK RATING</p>	<p>S</p>	<p>Recruitment of an international private auditing firm acceptable to IDA to carry out the audit of the project accounts. This audit will be performed annually and conducted in accordance with International Standards of Auditing.</p>	<p>M</p> <p>YES: The auditors should be recruited prior to credit effectiveness date.</p> <p>L</p> <p>L</p>

Annex 8: Procurement Arrangements

MADAGASCAR: Governance and Institutional Development Project II

A. General

148. Procurement for the proposed project would be carried out in accordance with the World Bank's "Guidelines: Procurement Under IBRD Loans and IDA Credits" dated May 2004, revised in October 2006; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004, revised in October 2006, and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Loan/Credit, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed between the Borrower and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

149. **Procurement of Works:** Works procured under this project would include rehabilitation of offices and other rehabilitation activities under the public finance, the capacity building and the monitoring & evaluation components. The procurement will be done using Bank Standard Bidding Documents (SBD) for all ICB and NCB and/or agreed National SBD as outlined in the Program Procurement Manual and which are consistent with IDA guidelines.

150. **Procurement of Goods:** Goods procured under this project would include information technology systems and related goods, vehicles, furniture and office equipment. The procurement will be done using the Bank's SBD for all ICB and National SBD agreed with or satisfactory to the Bank. Goods of similar nature, to the extent possible, should be grouped in much larger packages to enable wider competition. All Procurement for goods and services will follow IDA Procurement Guidelines. Direct contracting (DC) may be employed with prior approval of the Bank for purchase of specific IT equipment and will be in accordance with paragraphs 3.6 of the Procurement Guidelines.

151. **Procurement of non-consulting services:** Procurement of non-consulting services will be procured using acceptable SBD consistent with IDA guidelines. And will include various services related to the deployment of information technology systems

152. **Selection of Consultants:** Consultancy services required for the project would cover consultancies to: (i) support the implementation of public finance reforms, (ii) support the ongoing implementation of the procurement reform; (iii) support the initiation of revenue agency reform; (iv) continue to support the leadership development and capacity building programs; (v) strengthen local training institutions including the National Leadership Institute of Madagascar; (vi) support the implementation of legal and judicial reforms as well as the strengthening of the Rule of Law; (vii) support the implementation activities for key statistical surveys; (viii) design, draft bidding documents and supervision of civil works under the project; (ix) provide complementary quality assurance to the various reform activities, and (x) establish a monitoring and evaluation system for the project and for the Madagascar Action Plan. All consulting services contracts costing more than US\$100,000 equivalent for firms will be awarded through Quality and Cost Based Selection (QCBS) method. Contract for specialized assignments to cost

less than US\$100,000 equivalent may be contracted through Consultant's Qualifications (CQ) method. Least Cost selection may be employed for selecting consultants for assignments of a standard or routine nature (audits, engineering design of noncomplex works, and so forth) where well-established practices and standards exist. Single Source Selection (SSS) may be employed with prior approval of the bank and will be in accordance with paragraphs 3.9 to 3.12 of consultant Guidelines. All services of individual consultants will be procured under individual contracts in accordance with the provisions of paragraphs 5.1 to 5.4 of Consultant Guidelines. Short lists of consultants for services estimated to cost less than \$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

153. **Operating Costs:** The operating costs for this project include the incremental expenses incurred by BdG, RCU, INSTAT, GDLN, the Economic Crimes Unit, the Anti-Corruption Bureau and the Grant Administrator on account of project implementation, management and monitoring, including office supplies, vehicles operation and maintenance, communication costs, rental expenses, utilities expenses, consumables, transport, travel and accommodation, per diem, supervision costs and salaries of locally contracted staff, including – until December 31, 2009 – salaries of the civil servants of the Recipient.

154. The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the Project Implementation Manual.

Table 2: Thresholds for Procurement Methods and Prior Review

Expenditure Category	Contract Value Threshold (US\$)	Procurement Method	Contracts Subject to Prior Review (US\$)
1. Works	>500,000	ICB	All
	<500,000	NCB	All Above US\$200,000
	<50,000	Shopping	None
2. Goods	>200,000	ICB	All
	50,000-200,000	NCB	None
	<50,000	Shopping	None
		Direct Contracting	All
2. Services Firms	>100,000	QCBS	All Above US\$100,000
	<100,000	QCBS and CQ LCS	First contract All Above US\$100,000
Individual Cons.	>50,000	IC	All
	<50,000	IC	None
		SSS	All

B. Assessment of the agency's capacity to implement procurement

155. Procurement activities will be carried out by PREA/PGDI. The agency is staffed by Project Coordinator, Accountant, M&E specialists and support staff; the procurement function is staffed by two full time procurement officers and one full time procurement assistant. The procurement officers are fully dedicated to the management of procurement activities funded by the credit and possess a vast experience in handling Bank financed as well as Donor funded projects. Overall, the capacity of the PREA/PGDI and the quality of the procurement staff is deemed sufficient to continue to implement the new project.

156. Since the implementing Agency remain unchanged, an assessment of the capacity of the Implementing Agency to implement procurement actions for the project has not been carried out. The organizational structure for implementing the project and the interaction between the project's staff responsible for procurement Officer and the Ministry's relevant central unit for administration and finance were found adequate for objectives of the project.

157. The key issues and risks concerning procurement for implementation of the project have been identified and found minor and do not need corrective measures.

158. The overall project risk for procurement is Moderate.

C. Procurement Plan

159. The Borrower, at appraisal, developed a procurement plan for project implementation which provides the basis for the procurement methods. This plan has been agreed between the Borrower and the Project Team on March 18, 2008 and is available at PREA/PGDI. It will also be available in the project's database and in the Bank's external website. The Procurement Plan will be updated in agreement with the Project Team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

D. Frequency of Procurement Supervision

160. In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agency has recommended bi-annual supervision missions to visit the field to carry out post review of procurement actions.

E. Details of the Procurement Arrangements Involving International Competition

1. Goods, Works, and Non Consulting Services

(a) List of contract packages to be procured following ICB and direct contracting:

1	2	3	4	5	6	7	8
Ref. No.	Contract (Description)	Estimated Cost X \$1,000	Procurement Method	P-Q	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Expected Bid-Opening Date
A.11	Réhabilitation du Bâtiment de l'ARMP	450	ICB	No	No	Prior	May 2009
A.12	Matériels IT SIGFP	825	ICB	No	No	Prior	Jan.2009
A.13	Matériels IT SIGFP	225	DC	No	No	Prior	Nov.2009
A.21	Groupes électrogènes (81 GE)	950	ICB	No	No	Prior	Jan.2009
D.21	Matériels IT SYDONIA ++	500	ICB	No	No	Prior	May 2009
D.31	Matériels IT Centres fiscaux	1,000	ICB	No	No	Prior	July 2008
D.41	Matériels IT	700	ICB	No	No	Prior	Feb 2009

(b) ICB contracts estimated to cost above \$500,000 for works and \$250,000 for goods per contract and direct contracting will be subject to prior review by the Bank.

2. Consulting Services

(a) List of Consulting Assignments with short-list of international firms.

2.1 Firms

1	2	3	4	5	6	7	8
Ref No.	Description*	Estimated Amount \$ '000	Selection Method	Prior and Post Review	Submission and Opening Date (T)	Financial Proposal Opening Date	Contract Signature Date
Component 3 : Rule of Law and Fight Against Corruption							
Sub-Component (b) Strengthening the regulatory and institutional framework to fight corruption							
BC.311	Appui au Bianco (renforcement de capacités, enquêtes, audits)	125	QCBS	Prior	15/12/2008	15/1/2009	2/2//2009

2.2. Individual Consultants Contract

1	2	3	4	5	6	7	8
Ref No.	Description*	Estimated Amount \$ '000	Selection Method	Prior and Post Review	Submission and Opening Date (T)	Financial Proposal Opening Date	Contract Signature Date
Component 1 : Improvement of Public Expenditure Management							
Sub-Component (a) Improving the budget preparation and execution processes							
AC.31	suite du SIGFP	200	SSS	Prior		Feb.2008	11/3/2008
AC.41	2 consultants/an par entente directe (Appui au processus budgétaire, revue des dépenses publiques)	220	SSS	Prior		3/3/2009	27/10/2008
Sub- Component (c) Institutionalizing public procurement reforms							
CC.11	2 Consultants internationaux pour étude, audit, renforcement de capacités	125	IC	Prior		1/2/2009	2/3/2009
Sub-Component (d) Increasing performance of revenue agencies							
DC.11	Douanes: Intégration du TRADENET au SIGFP	200	SSS	Prior		2/3/2009	18/3/2009
DC.21	Douanes: Déploiement SYDONIA++	150	SSS	Prior		20/4/2009	4/5//2009
Component 2: Strengthening the Efficiency of Government Operations							
Sub-component (a) Improving change management capacity and leadership quality							
AC.211	Suivi de la mise en œuvre du MAP (Présidence AT)	500	SSS	Prior		10/10/2008	27/10/2008
AC.212	Vulgarisation des outils de leadership (RRI, IGL)	60	SSS	Prior		7/5/2009	18/5/2009
AC.231	Appui au NLIM: Renforcement de capacités (curricula, programmes, ateliers)	750	SSS/IC	Prior		15/1/2009	2/2/2009
Sub-component (b) Strengthening management capacity in selected public institutions							
BC.211	Appui à la réforme des Ministères prioritaires dans le cadre de la mise en œuvre du MAP	200	IC	Prior		15/2/2009	2/3/2009
Sub-component (d) Supporting cross-cutting reforms							
DC.231	Elaboration de la nouvelle politique salariale	50	SSS	Prior		12/10/2008	27/10/2008
DC.241	Recensement Général de la Population et de l'Habitat	300	IC	Prior		20/6/2009	6/7/2009

(b) **Prior review:** (a) each contract estimated to cost more than US\$100,000 per contract for Firms and US\$50,000 per contract for individuals consultants; (b) all single source selection; (c) all training; and (d) all amendments of contracts raising the initial contract value by more than 15 percent of original amount or above the prior review thresholds will be subject to IDA prior review mandatory in paragraphs 2 and 3 of Annex 1 of the Bank's Consultants selection Guidelines.

(c) **Short lists composed entirely of national consultants:** Short lists of consultants for services estimated to cost less than US\$100,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

(d) **Post review:** For each contracts for services not submitted to the prior review, the procurement documents will be submitted to IDA post review in accordance with the provisions of paragraph 4 of Annex 1 of the Bank's Consultant selection Guidelines. The post review will be based on a ratio of at least 1 to 5 contracts.

Annex 9: Economic and Financial Analysis

MADAGASCAR: Governance and Institutional Development Project II

161. The cost benefit analysis of the second Governance and Institutional Development Project aims to assess the efficiency of the project compared to the status quo. The benefits are defined as savings made from mitigating inadequate use or misuse of public resources and lowering the cost paid by households and the private sector due to corruption. The estimated costs for implementing the project consist of the initial investment and increasing recurrent cost of the targeted departments and agencies which benefit from the project.

162. The monetizing of the benefits constitutes a challenge as most effects of the projects are difficult to measure in financial terms (for example, the reforms in the judiciary, the building of a monitoring and evaluation (M&E) framework for the implementation of the MAP etc.). Some limited data on the misuse/misappropriation of public resources is available at the level of the control institutions. However, in order to capture the benefits accruing from other activities of the project, hypotheses were made of other misuses of public resources. Based on the total identified amount of misused/misappropriated public resources, it was assumed that the intervention of the project leads to an annual reduction of 10 percent in a misuse/misappropriation of Government's resources. The reduction in misuse represents the benefits of the project.

163. The estimation of the project costs, notably the incremental costs accruing to the government from maintaining the activities after the project closes, presents some difficulties. The bulk of the cost assessment is based on the project investment cost.

164. To allow a comprehensive presentation of all cost and benefits accruing from the project activities, the following analysis is divided into two sections: (i) an assessment of the benefits and cost that can be quantified and (ii) a presentation of the benefits and cost that could not be quantified.

I. Quantitative assessment of the benefits and costs

165. The economic analysis comes to the conclusion that the benefits triggered by the project interventions outweigh the costs. Although it is not possible to quantify all benefits of the proposed operation (see section II), the analysis of quantifiable factors confirms that planned investments and other additional costs generated by implementation of the project will be largely compensated over a period of ten years by the expected benefits of the project.

166. The quantifiable benefits accrued over ten years represent a net present value of US\$ 446 million. These benefits are by-and-large indirect; the beneficiaries are households, private enterprises and the administration. The overall net present value of the costs of activities amounts in total to US\$ 21 million.

1.1. Identification/quantification of benefits

167. The activities under the project that provide for the most important quantifiable benefits comprise of: (i) the continuous deployment of the integrated financial management, (ii) the

consolidation of public procurement reforms, (iii) the reinforcement of internal and external control functions of the public finance system, and (iv) the strengthening of the performance of the tax and custom administration.

168. The estimates of the benefits are based on the average annual amount of the misuse/inadequate use of public resources which are estimated to be to approximately US\$39 million per year (see table 1a below). This figure is based on data reported by the Brigade d'Inspection et de Vérification du Trésor and by the Inspection Générale de l'Etat (IGE) and is complemented by estimates of other misuses of public resources. Further estimates are based on revenue information provided by the tax and custom administration (see table 1b below).

Table 1a:
Misappropriation/misuse of public resources (in million Ariary)

	2003	2004	2005	2006	Average
Misuse reported by the IGE	4 356	171	26 054	15 014	11 399
Misuse reported by the Brigade Vérification et d'Inspection du Trésor	1 421	305	1 329	6 303	2 339
Misuse in the budget process ¹	7 467	8 744	7 554	11 475	8 810
Misuse through public procurement ²	26 399	49 243	54 373	64 531	48 636
Total	39 642	58 463	89 310	97 323	71 185
Total (in million US\$)	32,0	31,3	44,5	44,6	39,0

Source: IGE annual report, Brigade de Vérification et d'Inspection du Trésor estimates, MFB and World Bank estimates

¹ This amount is based on non salary recurrent expenditures. It is assumed that 0.8 percent have been misused or misappropriated.

² This amount is based on the public investment program. It is assumed that 5 percent have been misused or misappropriated.

Table 1b:
Strengthening of revenue collection (in million US\$)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Incremental revenue ¹	50.7	39.0	50.0	53.2	47.3	48.9	54.2	59.7	65.9	73.6	81.1
Mémo											
Incremental revenue	202,8	155,8	199,9	212,7	189,2	195,6	216,6	238,8	263,4	294,5	324,5
Tax revenues	999.4	1,155.2	1,355.1	1,567.8	1,757.0	1,952.6	2,169.2	2,408.0	2,671.4	2,965.9	3,290.4

Source: IMF

¹ This amount constitutes 25 percent of the annual supplemental revenue. It is assumed that the project activities contribute around 25 percent to the annual increase in revenue.

169. The total benefits were calculated based on an annual reduction of 10 percent of the misuse/misappropriation of public resources (table 1b) and the supplemental tax revenues are in accordance with the IMF program (table 2). It was also assumed that the reduction of the misuse/misappropriation of public resources will peak as of year 5; the same assumption was applied regarding the projects contribution to the increase in revenues. Table 2 below summarizes the evolution of benefits until 2018.

Table 2:
Net Present Value of the enhancement of transparency
and efficiency of the public finance system (in US\$ million)

Years	Nominal Benefit	Net Present Value¹⁾
2008	54,6	50,6
2009	46,8	40,1
2010	61,7	49,0
2011	68,8	50,6
2012	66,8	45,5
2013	66,8	42,1
2014	66,8	39,0
2015	66,8	36,1
2016	66,8	33,4
2017	66,8	30,9
2018	66,8	28,6
Total	699,4	445,8

¹⁾ A depreciation of 8 percent per year was used for the calculation of the NPV

170. The total benefits generated by these activities will reach a net present value of about US\$ 446 million over 10 years. A large share of the benefits will be derived from continuing to reform the customs and tax administration (around US\$340 million). It is also expected that the further roll out of the integrated financial management system and improvement of the internal/external control mechanism will have an important impact on the use of public resources. Though most treasuries are now in compliance with the law and regulations, the not yet full computerization of the treasuries still gives room for falsification of payment documents, false entries, and other misuse of the budget. It is expected that the modernization of the system and improved controls will significantly further decrease misappropriation or misuse of public resources. Procurement is another major source of misuse of public resources. The incomplete implementation of the new code has made corruption still present in the procurement process. The institutionalization of the procurement reform will continue to strengthen the procurement oversight authority and the functioning of the system.

171. These positive impacts will be reinforced by qualitative benefits; in particular improved transparency and accountability (see section 2).

1.2. Cost of activities

172. The net present value of the activities to enhance transparency and efficiency of the public finance system will be about US\$21 million (see table 3 below). These costs will include notably the investment required to further roll out the integrated financial management system to the regional capitals as well as the increased recurrent costs for the operation of such a system, procurement reforms and the investment necessary to strengthen internal/external control mechanism (initial investment and supplementary operating cost, increased staffing etc.). Another important share of the cost constitutes the project investment cost related to the customs and tax administration reforms.

Table 3:
Net Present Value activity costs of the enhancement of transparency
and efficiency of the public finance system (in US\$ million) ¹⁾

Years	Nominal Cost	Net Present Value
2008	2,6	2,4
2009	6,0	5,2
2010	5,6	4,5
2011	5,0	3,7
2012	2,7	1,9
2013	1,0	0,6
2014	1,0	0,6
2015	1,0	0,5
2016	0,9	0,5
2017	0,9	0,4
2018	0,9	0,4
Total	27,6	20,5

¹⁾ A depreciation of 8 percent per year was used for the calculation of the NPV

II. Qualitative assessment of the project's benefits and costs

173. As mentioned above, the benefits of several of the project activities are difficult to quantify. These focus on the fight against corruption, capacity building and rendering Government more accountable, in particular through a meaningful civil engagement and social inclusion.

174. More specifically, these activities include anti-corruption measures and conflict of interest activities, improvement of the operational efficiency of the judicial system, capacity building and institutional development for the Ministry of Justice, the support to the School of Magistrates (Ecole National de la Magistrature et des Greffes (ENMG)), the reinforcement of the regulatory and institutional framework to fight corruption as well strengthening external oversight. It is anticipated that these activities will have a substantial impact on the misuse of public resources, and thus result into savings and increases in investment. Important indirect benefits will be rendering the Government more accountable and improving the quality of Government's services. These benefits are further reinforced by a range of activities that support the building of a monitoring and evaluation (M&E) framework for the implementation of the MAP, the scaling up of capacity building of key public institutions and sector ministries and the development of an institutional framework for decentralizations.

175. In addition to the abovementioned activities, the project supports to a larger degree the reinforcement of external (citizens/civil society) oversight over government operations, in particular with regard to more inclusive decision making and adequate use of public resources. Given that the component seeks to support a range of activities which are to some extent still at a pilot stage, the quantification of benefits at this stage is difficult. Generally speaking, it is expected that the various activities will (i) increase the quality in the delivery of local government services and (ii) allow a more efficient and equitable use of resources at the local level.

176. The direct benefits depend on the specific nature of the different activities. For example, in the case of mainstreaming community score cards, following improved delivery of services, an increase in the utilization of the selected health facilities is expected as this occurred in the first stage of pilots. These pilots also resulted in the perception of improvements in the price of drugs, most likely because of more transparency around what drug prices should be (and thus reduction in irregular payments), increases in infrastructure, and a more efficient allocation of existing commune resources devoted to health (as communities were made aware of the earmarking of commune subsidies for health care, and this therefore created an incentive for the mayor to use these resources accordingly). It is also expected that supporting participatory budgeting will lead to transparency of commune budgets and the utilization of mine royalties and, in turn, will result in less leakage of these resources and better management of local funds.

177. One of the areas identified in the Governance and Anti-Corruption Survey as being most commonly subject to bribes for service delivery – will be addressed through the piloting of citizen report cards for municipal services (such as land titling services, or solid waste services)– an area in need of much improvement. It is expected that dissemination of information on what fees should be combined with a published evaluation of the service and supply side reforms (through the Growth Poles Project for example) will improve performance and reduce these types of extra payments.

178. Furthermore, these interventions will also generate social benefits such as income distribution effects at the local level. In particular participatory budgeting aims to achieve a more equitable and inclusive allocation and utilization of local revenues. If a fair share of the project benefits accrued to poor and other disadvantaged groups (in the form of improved access to existing basic social, health and municipal services as well as education and economic opportunities) this would contribute toward achieving the poverty reduction objective of the MAP. Other benefits generated by improved governance and service provision could include a greater sense of popularity and public support for the government on the part of citizens who are better informed and have more faith that public servants serve their interests. With the population seeing tangible evidence that their tax Aviary are being put to good use, it is also very likely that the beneficiary are more willing to pay taxes.

179. Though all the aforesaid benefits are difficult to quantify, it is expected that they will largely exceed the costs which comprise mainly of a small initial project cost (around US\$16 million) and some incremental cost once the project is closed.

Annex 10: Safeguard Policy Issues

MADAGASCAR: Governance and Institutional Development Project II

180. No safeguards policies are triggered; the environmental category is 'C'. The project provides the opportunity for public access to environmental information and effective public consultations, in particular under the transparency and social accountability component. It does not involve any exception to Bank policies.

Annex 11: Project Preparation and Supervision
MADAGASCAR: Governance and Institutional Development Project II

	Planned	Actual
PCN review	November 22, 2007	November 21, 2007
Initial PID to PIC	November 9, 2007	November 9, 2007
Initial ISDS to PIC	November 9, 2007	November 9, 2007
Appraisal	March 19, 2008	March 26, 2008
Negotiations	April 2/3, 2008	April 2/3, 2008
Board/RVP approval	May 29, 2008	
Planned date of effectiveness	September 1, 2008	
Planned date of mid-term review	September 2010	
Planned closing date	August 31, 2012	

181. *Key institutions responsible for preparation of the project.* The technical team of the Government is led by the National Coordinator of the Programme de Réformes pour l'Efficacité de l'Administration (PREA) who is supported by the Bureau de Gestion. The bureau coordinates the technical input from the sectors supported by the project. The work of the technical team is supervised by an Oversight Committee (Conseil d'Orientation et de Suivi – COS) consisting of all Permanent Secretaries of the Government and or representatives from civil society, the private sector, and from regions and communes

182. Bank staff and consultants who worked on the project included:

Name	UPI	Title	Unit
Katherine C. Heller	297781	E T Consultant	AFTCS
Andrew Osei Asibey	270286	Sr Monitoring & Evaluation Spec.	AFTRL
Karen Cecilie Sjetnan	262330	Program Officer	WBIGP
Lanto Ramanankasina	259529	Program Assistant	AFMMG
Thomas Jeffrey Ramin	254337	Sr Operations Off.	AFTRL
Gilles Marie Veuillot	245212	Sr Counsel	LEGA
Emile Louis Rene Finateu	217866	Lead Financial Management Specialist	AFTFM
Renaud Seligmann	324762	Sr. Financial Management Specialist	AFTFM
Stefanie Teggemann	217758	Public Sector Specialist	AFTPR
Noro Aina Andriamihaja	301594	Economist	AFTP1
Moira Hart-Poliquin	184507	Sr Operations Off.	WBIGP
Guenter Heidenhof	183466	Lead Public Sector Specialist	AFTPR
Sylvain Auguste Rambelison	181839	Sr Procurement Spec.	AFTPC
Gervais Rakotoarimanana	181601	Sr Financial Management Specialist	AFTFM
Laza Razafiarison	251095	Research Assistant	AFTP1

Name	UPI	Title	Unit
Surendra Agarwal	3218	Operations Adviser	AFTQK
Warren Waters	178462	Regional Environmental and Safeguards Advisor	AFTQK
Sylke Von Thadden	158291	Consultant	AFTPR
Eavan O'Halloran	148995	Senior Country Officer	AFMMG
Stefano Paternostro	105327	Lead Economist	AFTH3
Irina Luca	83564	Lead Procurement Specialist	AFTPC
Sarah Keener	22949	Senior Social Development Specialist	AFTCS
Philippe Auffret	21290	Sr Social Protection Specialist	AFTH3
Jacques Morisset	21859	Lead Economist	AFTP1
Dieudonne Randriamanampisoa	19048	Senior Economist	AFTPR
Wolfgang M. T. Chadab	15321	Senior Finance Officer	LOAFC
Suzanne Morris	10486	Senior Finance Officer	LOAFC
Sahr Kpundeh	147957	Senior Public Sector Specialist	AFTPR
Elisabeth Huybens	20635	Peer reviewer	ECCU4
Bhuvan Bhatnagar	21464	Peer reviewer	EASSO
Jesko Hentschel	76414	Peer reviewer	ECSHD
Francesca Recanatini	84567	Peer reviewer	PRMPS

183. Bank funds expended to date on project preparation:

- Bank resources: US\$94,000
- Trust funds: n/a
- Total: US\$94,000

184. Estimated Approval and Supervision costs:

- Remaining costs to approval: US\$10,000
- Estimated annual supervision cost: US\$70,000

Annex 12: Documents in the Project File

MADAGASCAR: Governance and Institutional Development Project II

1. World Bank Group Supported Transformational Leadership Program in Madagascar, Final Evaluation, January 2008, Kabell Konsulting APS Denmark
2. Troisième Recensement Général de la population et de l'habitat, Madagascar 2007-2011, Ministère de l'Economie, des Finances et du Budget, Juillet 2006
3. 3 ans et demi de PGDI, 2004-2007, Présidence de la République, Octobre 2007
4. Stratégie Nationale de Développement de la Statistique, Volumes I, II, PGDI, Mission d'Appui à l'Elaboration de la SNDS, Septembre et Décembre 2007
5. Madagascar Action Plan 2007-2012, Présidence de la République
6. A Leadership Approach to Achieving Change in the Public Sector : The Case of Madagascar, World Bank Institute 2007
7. CSC effectués dans les régions de Boeny et de la Haute Matsiatra, Rapport final des suivis, Core Team CSC, Juin 2007
8. Third Poverty Reduction Support Operation, Program Document, International Development Association, June 14, 2006
9. Madagascar – Revue de Dépenses Publiques – Réalisation du Madagascar Action Plan : Analyse pour des résultats, cinq volumes, Banque Mondiale, 28 juin 2007
10. Mesure de la performance de la gestion des finances publiques en République de Madagascar selon la méthodologie PEFA, Rapport, Mai 2006
11. Mesure de la performance de la gestion des finances publiques en République de Madagascar selon la méthodologie PEFA, Rapport préliminaire, Mars 2008
12. Madagascar – Restructuring and Additional Financing of the Governance and Institutional Development Project, Project Paper, International Development Association, May 22, 2007
13. Madagascar – Governance and Institutional Development Project (PGDI), Midterm Review, July 28, 2006
14. Governance and Institutional Development Project, Project Appraisal Document, International Development Association, October 22, 2003
15. Madagascar Structural Political Analysis as an Input for a Country Social Analysis and Country Assistance Strategy, Final Report, Prof. Richard R. Marcus and Prof. Solofo Randrianja, June 30, 2006

16. Eight Quality at Entry Assessment (QEAS), Fiscal Year 2006-2007, of the Additional Financing for the Madagascar Governance and Institutional Development Project, December 10, 2007
17. Madagascar Country Financial Accountability Assessment (CFAA), World Bank, European Union, African Development Bank, June 30, 2003
18. World Bank's Country Procurement Assessment Report (CPAR), Madagascar, December 30, 2002, revised in May and June 2003
19. Madagascar: Country Assistance Strategy (CAS), World Bank, March 7, 2007
20. Madagascar Investment Climate Assessment, World Bank, June 2005
21. Etude de faisabilité de Développement Local, J. Habas, L. Andrianasolo, C. Majerowicz, L. Ramamonjisoa, A. Randrianasolo Razanakoto, May 2005

Annex 13: Statement of Loans and Credits
MADAGASCAR: Governance and Institutional Development Project II

Project ID	FY	Purpose	Original Amount in US\$ Millions					Difference between expected and actual disbursements		
			IBRD	IDA	SF	GEF	Cancel.	Undisb.	Orig.	Frm. Rev'd
P103606	2007	MG-Sust. Health System Dev. (FY07)	0.00	10.00	0.00	0.00	0.00	9.88	-0.65	0.00
P095240	2007	MG -Pwr/Wtr Sect. Recovery and Restruct.	0.00	10.00	0.00	0.00	0.00	8.70	4.09	0.00
P074086	2007	MG-Irrigation & Watershed Project (FY07)	0.00	30.00	0.00	0.00	0.00	29.50	2.01	0.00
P090615	2006	MG-MultiSec STI/HIV/AIDS Prev II (FY06)	0.00	30.00	0.00	0.00	0.00	27.75	13.23	0.00
P083351	2006	MG-Integ Growth Poles	0.00	129.80	0.00	0.00	0.00	80.83	10.77	0.00
P082806	2004	MG-Transp Infrastr Invest Prj (FY04)	0.00	150.00	0.00	0.00	0.00	63.96	33.42	30.88
P074448	2004	MG-Gov & Inst Dev TAL (FY04)	0.00	30.00	0.00	0.00	0.00	8.68	-0.40	0.00
P074236	2004	MG-GEF Env Prgm 3 (FY04)	0.00	0.00	0.00	9.00	0.00	3.40	6.33	0.00
P074235	2004	MG-Env Prgm 3 (FY04)	0.00	0.00	0.00	0.00	0.00	19.19	7.45	0.00
P073689	2003	MG-Rural Transp APL 2 (FY03)	0.00	80.00	0.00	0.00	0.00	33.65	10.64	2.36
P076245	2003	MG-Mineral Res Gov SIL (FY03)	0.00	32.00	0.00	0.00	0.00	11.99	-4.25	0.00
P072987	2002	MG-MultiSec STI/HIV/AIDS Prev I (FY02)	0.00	20.00	0.00	0.00	0.00	1.23	-1.77	0.00
P072160	2002	MG-Priv Sec Dev 2 (FY02)	0.00	23.80	0.00	0.00	0.00	6.19	1.60	1.18
P055166	2001	MG-Com Dev Fund SIL (FY01)	0.00	110.00	0.00	0.00	0.00	11.18	-71.04	-21.04
P051922	2001	MG-Rural Dev Supt SIL (FY01)	0.00	89.05	0.00	0.00	1.23	14.12	2.14	2.14
P051741	2000	MG-Health Sector Support II (FY00)	0.00	40.00	0.00	0.00	0.00	0.51	-18.59	-1.81
P052186	1999	MG-Microfinance (FY99)	0.00	16.40	0.00	0.00	0.00	5.56	-0.34	0.82
P001568	1998	MG-Community Nutrition II (FY98)	0.00	27.60	0.00	0.00	0.00	10.51	-11.04	0.14
Total:			0.00	828.65	0.00	9.00	1.23	346.83	- 16.40	14.67

MADAGASCAR
STATEMENT OF IFC's
Held and Disbursed Portfolio
In Millions of US Dollars

FY Approval	Company	Committed				Disbursed			
		IFC				IFC			
		Loan	Equity	Quasi	Partic.	Loan	Equity	Quasi	Partic.
1997	AEF GHM	0.46	0.00	0.00	0.00	0.46	0.00	0.00	0.00
1995	AEF Karibotel	0.19	0.00	0.00	0.00	0.19	0.00	0.00	0.00
	BFV-SocGen	6.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1991	BNI	0.00	2.09	0.00	0.00	0.00	2.09	0.00	0.00
2005	BNI	6.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2000	BOA-M	0.00	0.82	0.72	0.00	0.00	0.82	0.72	0.00
2004	BP Madagascar	0.00	3.51	0.00	0.00	0.00	0.00	0.00	0.00
	CREDIT LYONNAIS1	6.37	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total portfolio:		19.76	6.42	0.72	0.00	0.65	2.91	0.72	0.00

FY Approval	Company	Approvals Pending Commitment			
		Loan	Equity	Quasi	Partic.
2001	Besalampy	0.02	0.00	0.00	0.00
2006	IDA-IFC PCG	0.01	0.00	0.00	0.00
Total pending commitment:		0.03	0.00	0.00	0.00

Annex 14: Country at a Glance

MADAGASCAR: Governance and Institutional Development Project II

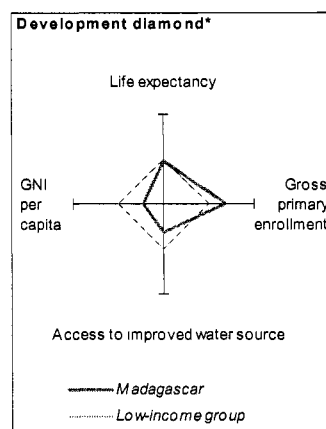
POVERTY and SOCIAL	Sub-		
	Madagascar	Saharan Africa	Low-income
2006			
Population, mid-year (millions)	9.1	770	2,403
GNI per capita (Atlas method, US\$)	280	842	650
GNI (Atlas method, US\$ billions)	5.3	648	1,562

Average annual growth, 2000-06

Population (%)	2.7	2.4	1.9
Labor force (%)	3.2	2.6	2.3

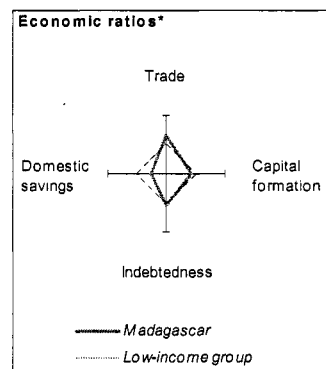
Most recent estimate (latest year available, 2000-06)

Poverty (% of population below national poverty line)
Urban population (% of total population)	27	36	30
Life expectancy at birth (years)	56	47	59
Infant mortality (per 1000 live births)	74	96	75
Child malnutrition (% of children under 5)	42	30	..
Access to an improved water source (% of population)	46	56	75
Literacy (% of population age 15+)	71	59	61
Gross primary enrollment (% of school-age population)	138	92	102
Male	141	98	108
Female	136	86	96



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

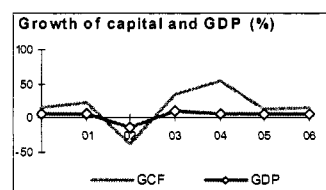
	1986	1996	2005	2006
GDP (US\$ billions)	3.3	4.0	5.0	5.5
Gross capital formation/GDP	9.0	11.6	22.5	24.8
Exports of goods and services/GDP	12.1	20.5	26.9	29.7
Gross domestic savings/GDP	5.6	6.1	8.4	13.6
Gross national savings/GDP	6.1	6.2	11.7	18.0
Current account balance/GDP	-2.5	-5.0	-10.9	-8.8
Interest payments/GDP	15	0.5	0.6	..
Total debt/GDP	919	103.3	68.8	..
Total debt service/exports	47.6	10.3	5.6	..
Present value of debt/GDP	35.8	..
Present value of debt/exports	130.8	..



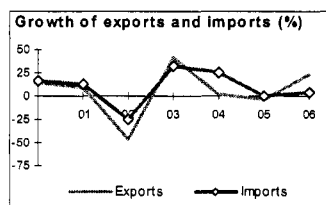
(average annual growth)	1986-96	1996-06	2005	2006	2006-10
GDP	0.9	2.9	4.6	4.9	7.1
GDP per capita	-2.0	0.0	1.8	2.2	5.1
Exports of goods and services	4.8	0.6	-4.4	23.8	4.8

STRUCTURE of the ECONOMY

(% of GDP)	1986	1996	2005	2006
Agriculture	36.8	27.2	28.2	27.5
Industry	12.9	11.4	15.5	15.3
Manufacturing	10.6	9.7	14.0	13.4
Services	50.4	61.4	56.3	57.2
Household final consumption expenditure	85.5	84.1	83.2	77.6
General gov't final consumption expenditure	8.8	9.8	8.4	8.8
Imports of goods and services	15.5	26.0	41.0	40.9



(average annual growth)	1986-96	1996-06	2005	2006
Agriculture	2.0	2.0	3.0	2.2
Industry	0.7	2.6	2.5	2.7
Manufacturing	0.2	2.5	2.5	2.7
Services	10	2.9	5.8	7.0
Household final consumption expenditure	0.8	2.8	2.6	-2.8
General gov't final consumption expenditure	-17	4.5	5.7	20.5
Gross capital formation	0.5	10.5	12.8	15.1
Imports of goods and services	2.1	7.4	0.0	3.9



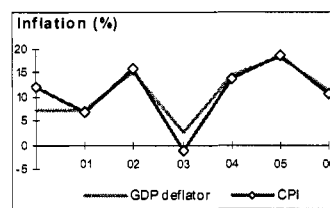
Note: 2006 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

*The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

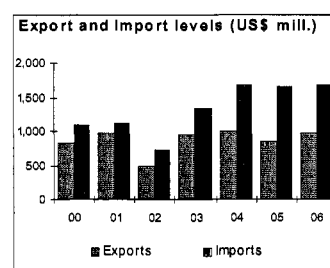
PRICES and GOVERNMENT FINANCE

	1986	1996	2005	2006
Domestic prices				
<i>(% change)</i>				
Consumer prices	14.5	19.8	18.5	10.8
Implicit GDP deflator	14.2	17.8	18.4	11.3
Government finance				
<i>(% of GDP, includes current grants)</i>				
Current revenue	13.4	10.1	11.7	12.0
Current budget balance	6.9	-4.4	0.7	0.8
Overall surplus/deficit	14	-114	-9.6	-9.4



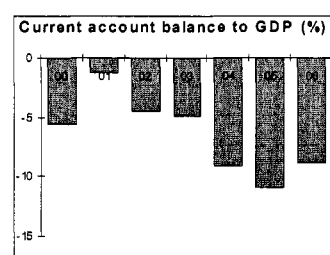
TRADE

	1986	1996	2005	2006
<i>(US\$ millions)</i>				
Total exports (fob)	321	512	857	975
Coffee	25	63	32	41
Vanilla	48	20	48	57
Manufactures	51	318	698	728
Total imports (cif)	356	758	1,652	1,684
Food	52	60	131	91
Fuel and energy	58	106	287	377
Capital goods	94	164	367	225
Export price index (2000=100)	103	89	104	117
Import price index (2000=100)	76	111	141	161
Terms of trade (2000=100)	135	80	74	73



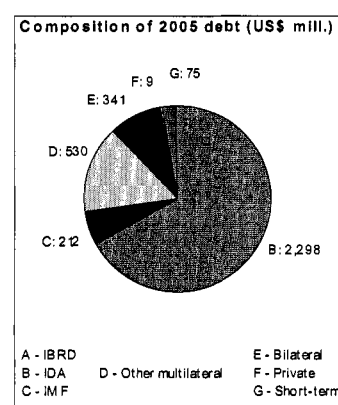
BALANCE of PAYMENTS

	1986	1996	2005	2006
<i>(US\$ millions)</i>				
Exports of goods and services	396	796	1,356	1,639
Imports of goods and services	490	998	2,067	2,256
Resource balance	-95	-202	-711	-617
Net income	-139	-158	-78	-80
Net current transfers	152	159	242	214
Current account balance	-81	-201	-548	-484
Financing items (net)	147	335	549	516
Changes in net reserves	-66	-134	-1	-32
Memo:				
Reserves including gold (US\$ millions)	41	240	498	532
Conversion rate (DEC, local/US\$)	135.3	812.3	2,003.0	2,142.3



EXTERNAL DEBT and RESOURCE FLOWS

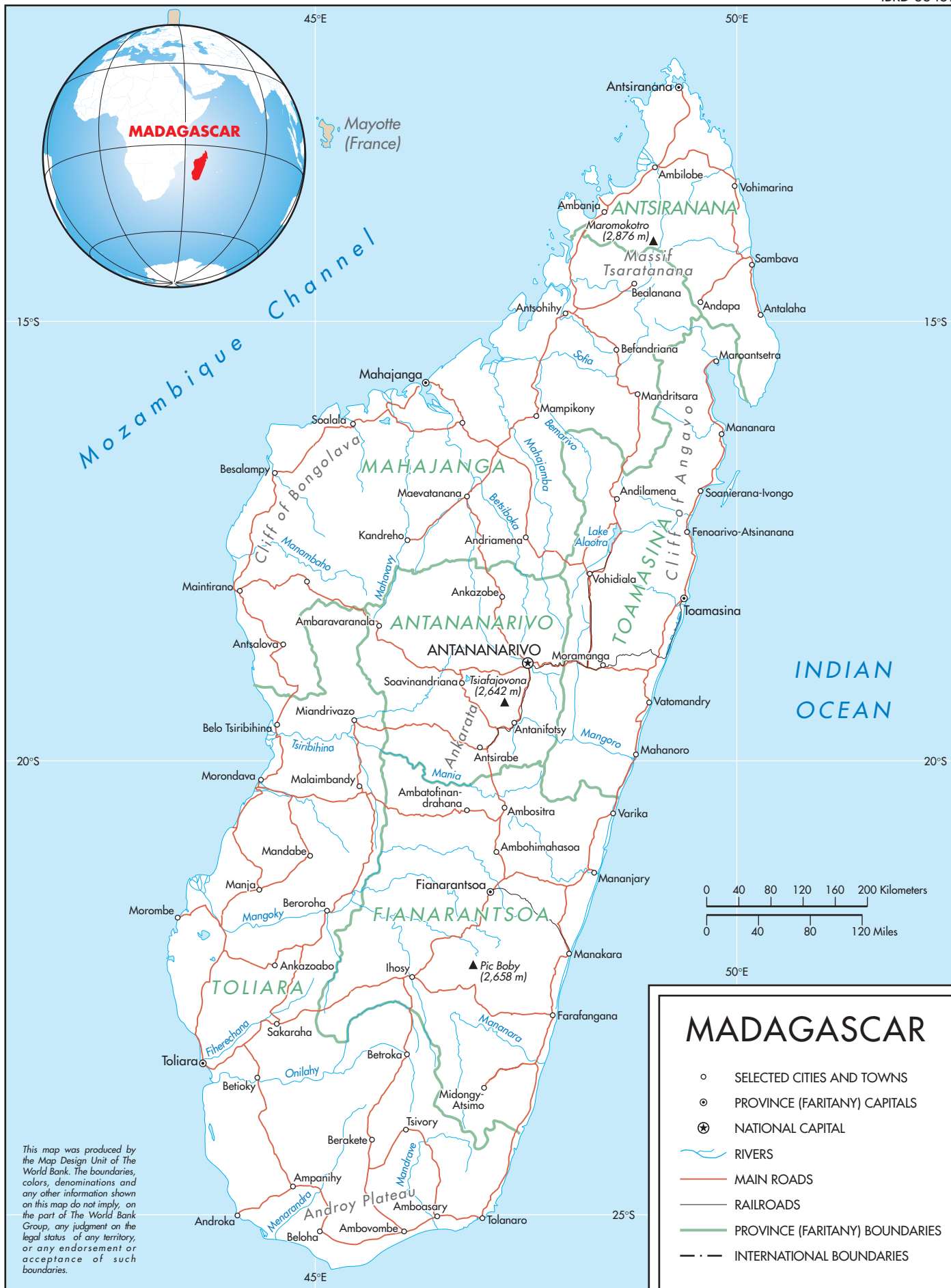
	1986	1996	2005	2006
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	2,994	4,127	3,465	..
IBRD	31	7	0	0
IDA	422	1,417	2,298	636
Total debt service	211	83	78	..
IBRD	3	5	0	0
IDA	5	17	29	28
Composition of net resource flows				
Official grants	68	202	760	..
Official creditors	154	98	212	..
Private creditors	-47	-5	-1	..
Foreign direct investment (net inflows)	14	10	29	..
Portfolio equity (net inflows)	0	0	0	..
World Bank program				
Commitments	103	60	258	15
Disbursements	95	78	221	139
Principal repayments	2	13	11	16
Net flows	92	65	209	123
Interest payments	6	9	17	12
Net transfers	87	55	192	111



Note: This table was produced from the Development Economics LDB database.

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MAP SECTION



This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

MADAGASCAR

- SELECTED CITIES AND TOWNS
- ⊙ PROVINCE (FARITANY) CAPITALS
- ⊛ NATIONAL CAPITAL
- ~ RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE (FARITANY) BOUNDARIES
- · - INTERNATIONAL BOUNDARIES