

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

Report No.: AB3419

Project Name	Governance and Institutional Development Project II
Region	AFRICA
Sector	General public administration sector (90%); Law and justice (10%)
Project ID	P103950
Borrower(s)	GOVERNMENT OF MADAGASCAR
Implementing 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
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
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1. Key development issues and rationale for Bank involvement

Madagascar plunged into a deep political and economic crisis at the beginning of 2002, mainly because of contested elections which saw the establishment of two parallel governments. Economic activity fell sharply and poverty increased. The country nevertheless recovered remarkably quickly from the political and economic turmoil: GDP growth rebounded to 9.8 percent in 2003 and continued to grow at an average rate of 5 percent per year. The main growth areas include tourism, extractive industries and agriculture. Significant foreign direct investment (FDI) are flowing into the country (4.0 percent in 2006) which mainly focus on the tourism and mining sectors; an example is the Dynatec nickel mining investment of around US\$2.5 billion (or 45 percent of GDP) over the next three years. These investments are an important input into the ambitious government reform program which is summarized in the Madagascar Action Plan (MAP).

The MAP, the Government's second generation PRSP, was formally launched in November 2006 and lays out a strategic plan for the development of the country. The MAP entails eight commitments with strategies and actions that are meant to ignite rapid growth, lead to a reduction of poverty and ensure that the country developed along the line of its vision document "Madagascar – naturally". The eight commitments include (i) responsible governance, (ii) connected infrastructure, (iii) educational transformation, (iv) rural development and a green revolution, (v) health, family planning and the fight against HIV/AIDS, (vi) high growth economy, (vii) cherish the environment, and (viii) national solidarity.

The new FY07-11 Country Assistance Strategy (CAS) for Madagascar of April 2007 broadly supports the implementation of the MAP; it particularly 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 Governance and Institutional Development Project (PGDI) has been the main instrument of the World Bank to support the governance reform agenda of the Government. Since 2003, this project has been successfully assisting Government in (i) rationalizing and modernizing budget and expenditure management, (ii) improving accountability and transparency of Government operations; and by (iii) strengthening the capacity of public institutions to deal with complex change processes. Achievements include the deployment of an integrated financial management system, the strengthening of internal and external controls, 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; as well as the development of a regulatory and institutional framework to improve governance and to fight corruption. The project is likely to be fully disbursed by the middle of next year, a year before its official closing date (June 30, 2009).

Given the successful implementation experience to date, the Government has requested the World Bank to further deepen and scale up its support for the governance agenda. It has emphasized its commitment to decisively implement second-generation governance reforms, aimed at consolidating reform achievements and at improving the transparent delivery of public services.

2. Proposed objective(s)

The PGDI II will be closely linked to the new development strategy of the Government. To emphasize the continuity of the Bank support it is proposed to maintain the same Project Development Objective (PDO) as for the existing PGDI which is “to improve the efficiency and transparency of government and selected public services in Madagascar in line with the Madagascar Action Plan (MAP)”.

3. Preliminary description

The new project will build on the existing support under the PGDI. It will enhance and further deepen the first generation reforms under the PGDI I in the areas of public finance reforms, 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. With an estimated lending amount of US\$30.0 million PGDI II will have the following components:

- A **public finance reform component** will focus on further improving the budget preparation and execution process with the objective to simplify relevant procedures and institutional arrangements (estimated volume US\$15.0m). It is also anticipated to further

strengthen the internal and external control mechanisms to provide adequate oversight. The introduction of the new procurement regulations will be consolidated through targeted support to sector ministries to better institutionalize the new regulations in the day-to-day operations. Finally, the project will provide support to the reform of the revenue agencies, in particular the tax administration to streamline and modernize its operation.

- A second component will focus on **increasing the efficiency of government operations** (estimated volume US\$10.0m). It will provide assistance to improve the delivery of selected public services (e.g. land titling, judiciary services, primary education, health and nutrition service, pension services). It will support public institutions in designing and implementing change processes. The project will also strengthen capacity development in the public sector, in particular in the areas of development planning, public financial management including procurement, and monitoring & evaluation. It will provide assistance to enhance the capacity of local training institutions to deliver in-country training. The project will support capacity enhancement at the level of the regions to complement ongoing decentralization reforms. It will scale-up the Bank's support for monitoring & evaluation through targeted assistance to improve the procedural and institutional framework for the implementation of the MAP. This will include support for key statistical surveys.
- A third component will focus on consolidating **legal and judicial reforms** as well as government activities aimed at **reducing fraud and corruption** (estimated volume US\$3.0m). This will include support for the introduction of service standards in jurisdictions throughout the country and the simplification of judicial proceedings. The regulatory and institutional framework for the fight against fraud and corruption will be further developed, e.g. by the establishment of a Serious Fraud Office to complement the existing independent Anti-Corruption Bureau. The project will also provide support for the design and implementation of new conflict-of-interest regulations.
- A final component aims at **improving transparency and social accountability** (estimated volume US\$2.0m). This will include the scaling up of support for participatory monitoring mechanisms which were initiated under the existing PGDI, including capacity building activities to sensitize civil society. The support will be closely linked to existing Bank activities under the mining and the growth-poles projects. In addition, the project will provide assistance to fundamentally reform the regulations governing access to information.

The project will be designed as an investment project which will continue to be implemented by the President's Office. It is anticipated to gradually move towards a sector-wide approach to implement public finance reforms. To this end, a technical assistance fund will be set up under which the public finance reform component would be implemented. The fund which will be initially supported by the World Bank and the European Union will be managed by the Ministry of Finance.

Some of the potential 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)

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 builds on modern methodologies (e.g. leadership development, rapid results) to improve operational efficiency of the administration.

4. Safeguard policies that might apply

No safeguards policies are triggered. The project provides the opportunity for public access to environmental information and effective public consultations, in particular under the transparency and social accountability component.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	30
Total	30

6. Contact point

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